

Czech Republic Investment Market

savills



Quarterly Statistics

Investment Volume

€199M

Q4 2022: €376 million
YoY change: -47%

Domestic Capital

€193M

Q4 2022: €147 million
YoY change: +31%

Office Yield

5.25%

Q4 2022: 5.00%
YoY change: +25 bps

Industrial Yield

5.25%

Q4 2022: 5.00%
YoY change: +25 bps

Retail Yield

6.50%

Q4 2022: 6.50%
YoY change: none

Economic Indicators¹

GDP Growth

-0.2%
(in Q4 2023, YoY)

2023 -0.4%
2024 Forecast: 1.2%

Inflation

6.9%
(in December 2023)

2023: 10.7%
2024 Forecast: 3.1%

Policy Rates

4.0%
3M EURIBOR*

2023: 3.4%
Q4 2024 Forecast: 3.4%

Unemployment

3.7%
(in December 2023)

2023: 2.6%
2024 Forecast: 2.8%

Gross Monthly Salary

€1,553
(national median)**

Q3 2022: €1,424
YoY change: +7.1%

¹) Based on the data available on 01/02/2024 (Data source: Czech Statistical Office, Czech National Bank, Ministry of Finance)

*) Q4 2023 average

**) in Q3 2023

Investment market highlights

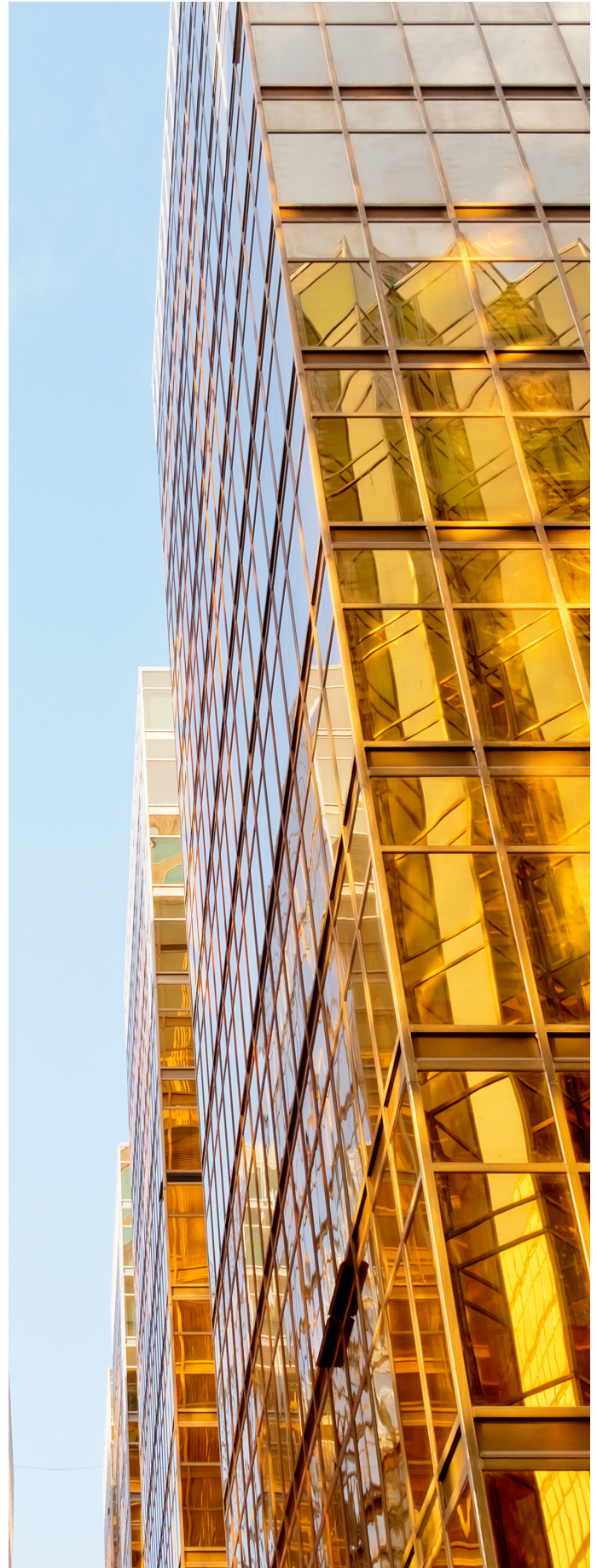
- At just over €1.25 billion of transaction volume in 2023, investment activity was 50% lower than the preceding 10-year annual average and 29% down y-o-y. The investment volume in the real estate market has not been this low since 2012.
- In addition to the decline in investment volume, the number of transactions also fell as 41 deals were recorded in 2023 (18% down y-o-y). In the absence of larger transactions – only two deals over €100 million were completed in 2023 – investor activity largely focused on the €5-€25 million bracket.
- For the first time in six years, retail was the strongest performer for volume. The sector's investment volume for 2023 hit almost €513 million, 5% above the five-year annual average and 19% up y-o-y. However, activity was subdued across the other core sectors. Annual office investment came to €344 million in 2023, which was down 56% y-o-y and 62% below the five-year average. The most notable decrease in transaction volume was observed in the industrial segment, where annual volume slumped to €132 million, the weakest outturn on record since 2012, a 68% drop y-o-y and 72% below the five-year average.
- Czech investors maintained the pivotal role in the market and over the whole of 2023 generated 81% of the total transaction volume.

Quarterly market statistics

Key Market Indicators	Total Investment Volume	Domestic Capital	Prague Investment Volume
Current quarter	€199 million	€193 million	€150 million
Previous quarter	€317 million	€226 million	€194 million
YoY movement	-47%	+31%	-11%

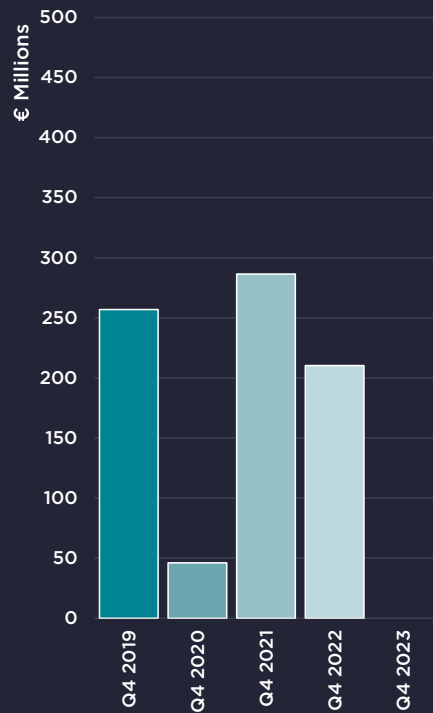
Annual market statistics for 2023

Key Market Indicators	Total Investment Volume	Domestic Capital	Prague Investment Volume
Total for the year	€1.25 billion	€1 billion	€597 million
YoY movement	-29%	+8%	-39%

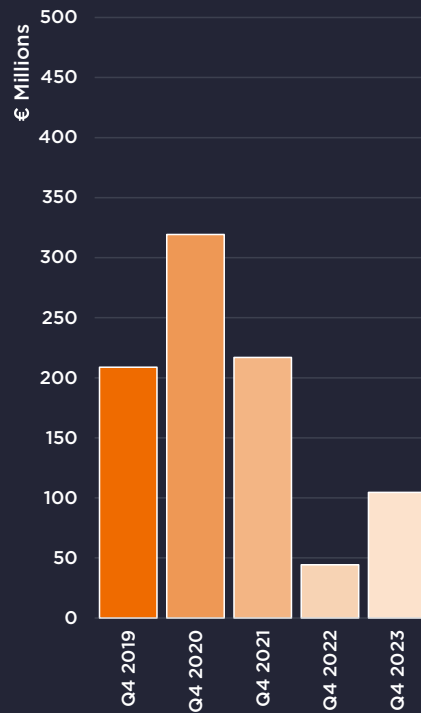


Transaction Volumes

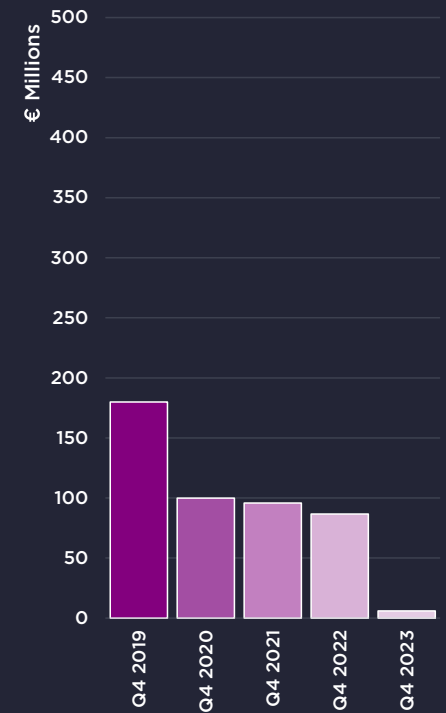
Industrial Sector



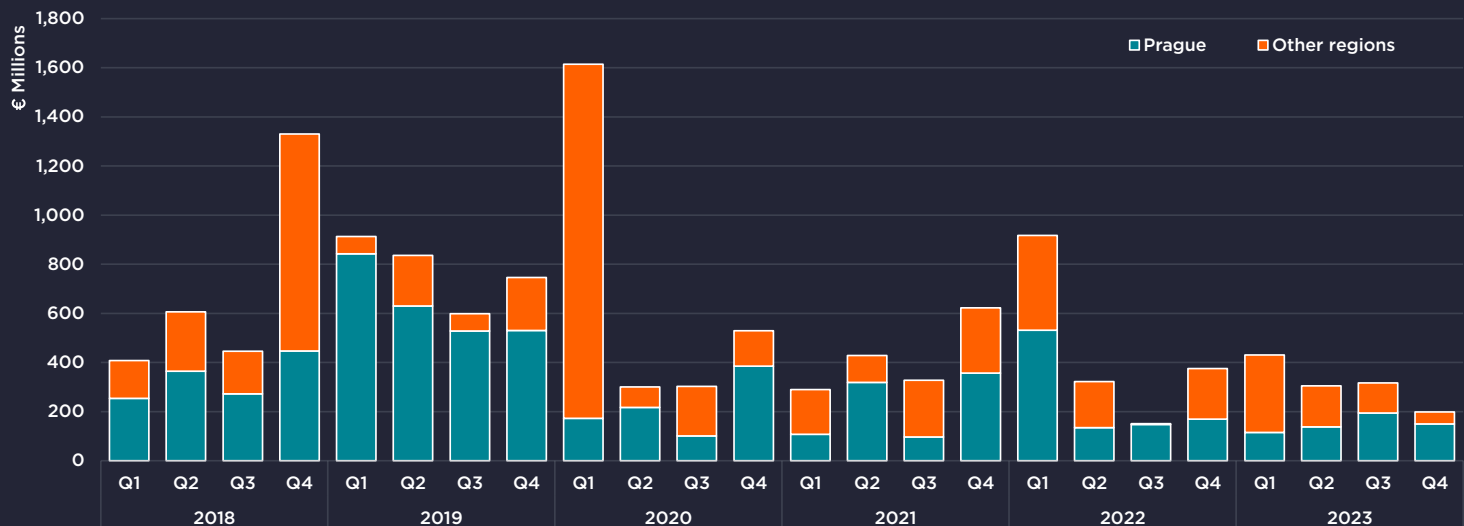
Office Sector



Retail Sector



Investment Volumes in Prague vs. Regions



Market Review **Q4 2023**

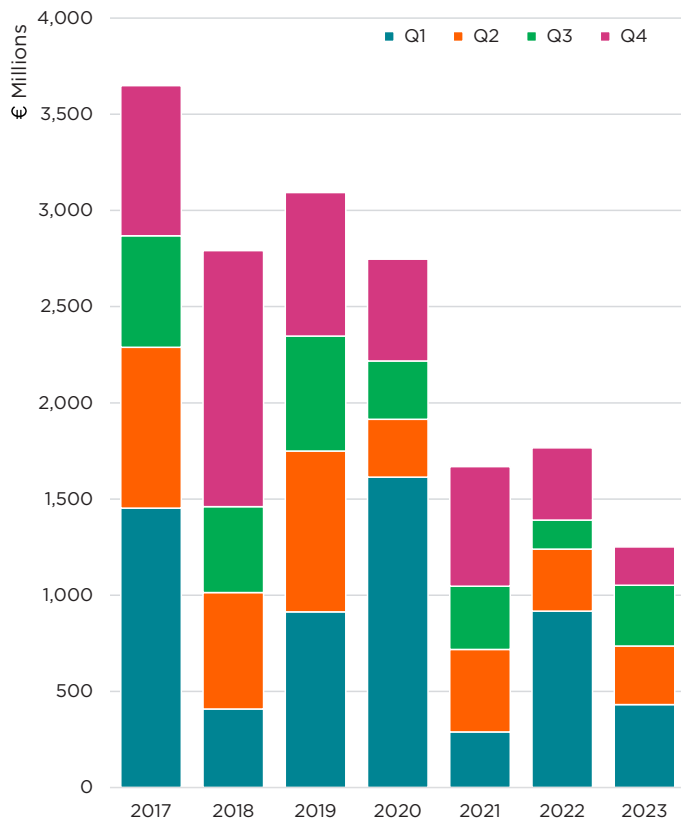
Investment Activity

- The final quarter of 2023 saw the weakest transaction volume in the year. Around €197 million was invested in commercial real estate in the Czech Republic, a decrease of 47% compared to the same quarter of 2022 and 72% below the fourth quarter five-year average.
- Seven single assets and one portfolio were sold during Q4 2023. These eight transactions represented only half of the deals closed in the previous quarter and also y-o-y. None of the transactions concluded in Q4 exceeded €50 million.
- The four largest assets that changed hands in Q4 2023 were located in Prague and accounted for €150 million (76% of the quarter's volume). The regional investment activity slumped to €49 million, the lowest volume generated outside of Prague since Q3 2022 and far below the long-term average.

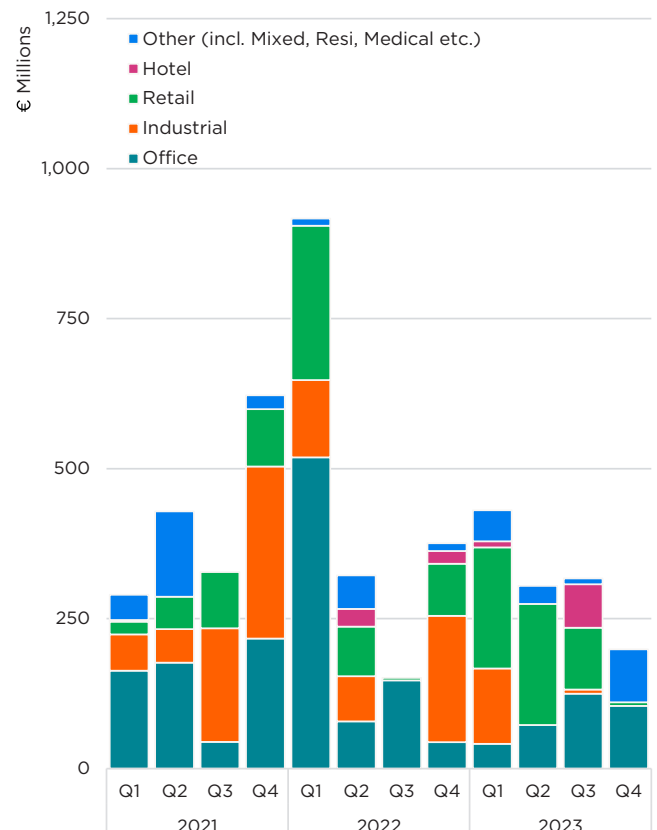
Real Estate Sectors

- While the first two quarters of 2023 were strongly dominated by retail asset sales, activity in the second half of the year was driven by office investments.
- The office sector accounted for 53% of activity in Q4 – the highest share since Q1 2022. The sector's investment volume of €105 million was down 16% q-o-q and 30% below the long term trend.
- Meanwhile, the strong run for retail volume came to an abrupt end in Q4, with volume of €6 million representing just 6% of Q3's level and being 95% below long-term trend. This mostly reflected an absence of any larger deals that were synonymous with the heightened activity in the first half of 2023. Looking into 2024, there are some notable retail transactions either agreed or in legal and so the retail sector is likely to also be a key to investment volumes in 2024.

Transaction Volumes



Investment Volume by Sector



Market Review Q4 2023

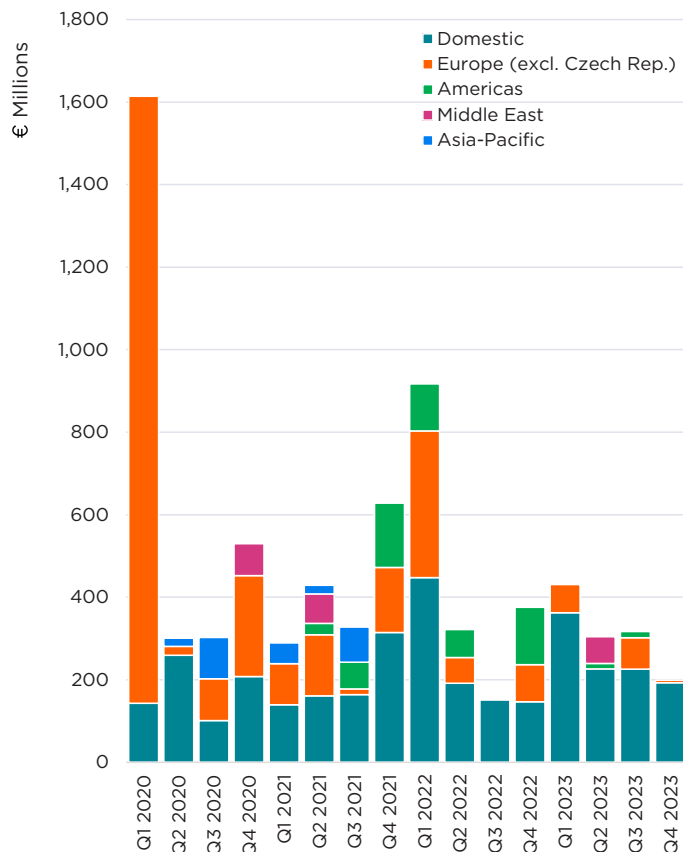
Source of Capital

- Having transacted seven out of the eight transactions this quarter, investment from domestic investors accounted for 97% of the Q4 volume and totalled almost €193 million. Despite being 15% down compared to the Q3 level (and 16% below the 12-quarter average), the domestic transaction volume in Q4 2023 was 31% higher y-o-y.
- The volume of cross-border investment recorded in Q4 2023 was negligible. European investors contributed the remaining 3% of the total investment in the quarter by acquiring a portfolio of supermarkets. Investors from other continents have remained inactive in Q4 2023.
- Overall transaction activity is anticipated to pick up in the second half of 2024, driven by the expected stabilization of inflation and interest rates and growing confidence in the economy and real estate markets. The substantial presence of local capital is expected to prevail again in 2024 as domestic funds continue to attract positive inflows.

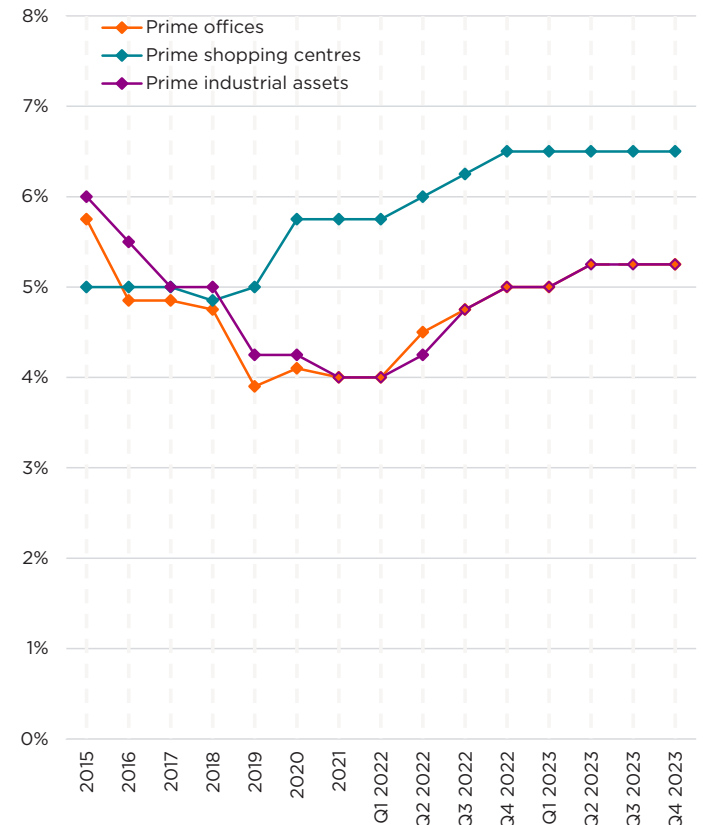
Yields

- After moving out 25 bps to 5.25% in the first half of 2023, prime office yield (for properties of the best quality and location) remained unchanged for three consecutive quarters.
- Prime logistics yield followed exactly the same path, also closing 2023 at 5.25% (unchanged from Q2 2023). For 2024, yields for industrial & logistics assets at the prime end of the market are expected to remain broadly flat.
- Prime shopping centre yields have maintained stability for five quarters in a row, still standing at 6.50% in Q4 2023.
- Despite some market expectations about ECB reducing interest rates in H1 2024, it is very probable that financing costs will remain elevated throughout the entire year. Consequently, we do not expect to see any significant yield compression in the next 12 months.

Source of Capital



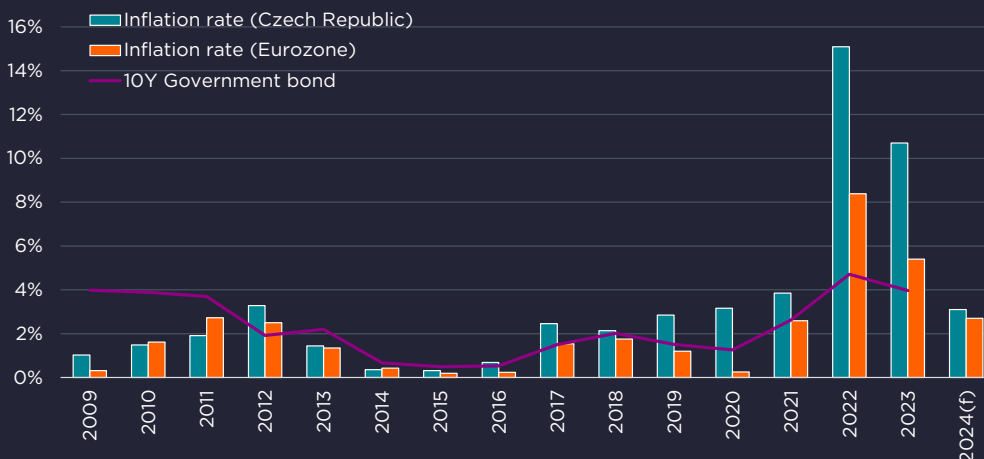
Yields



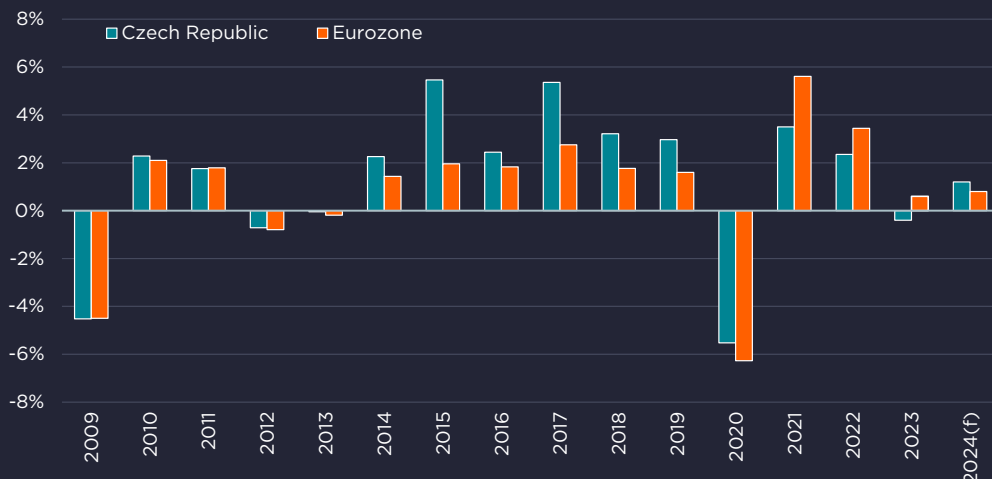
Macroeconomic highlights¹

- **GDP GROWTH:** According to preliminary estimates, GDP fell by 0.4% for the full year 2023 and in Q4 2023 contracted by 0.2% y-o-y. In 2024, the economy is forecast to grow by 1.2%, mainly due to renewed growth in household consumption, export markets and private investment.
- **INFLATION:** In December 2023, consumer prices rose by 6.9% y-o-y and the pace of growth further slowed compared to the previous two months. The average inflation rate for the full year 2023 was 10.7% and is projected to fall to between 2.6% and 3.4% in 2024.
- **UNEMPLOYMENT:** In line with usual seasonality, the share of unemployed people increased to 3.7% in December 2023, reaching the same level as in December 2022. The Czech Republic still has the lowest unemployment rate in the EU27.
- **RETAIL SALES:** Retail sales increased by 0.9% year-on-year in November 2023 and rose for the first time after 18 months of decline. The overall increase was driven by sales of non-food goods (+1.0% y-o-y) and fuel (+3.0% y-o-y). However, food sales continued to decline (-0.7% y-o-y).

Inflation Rate and 10Y Government Bond ¹



GDP Growth ¹



3.1%

CPI INFLATION
2024 PREDICTION
(10.7% IN 2023)

1.2%

GDP GROWTH
2024 PREDICTION
(-0.4% IN 2023)

3.7%

NATIONAL
UNEMPLOYMENT
(IN DECEMBER 2023)

€1,553

GROSS MONTHLY SALARY
(NATIONAL MEDIAN IN
Q3 2023)

+0.9% YoY

RETAIL SALES
(IN NOVEMBER 2023)

4.0%

3M EURIBOR
(Q4 2023)

6.6%

3M PRIBOR
(Q4 2023)

¹ Based on the data available on 01/02/2024 (Source: Czech Statistical Office, Czech National Bank, Ministry of Finance)

Used Terms

INVESTMENT or TRANSACTION VOLUME includes the total value of all commercial properties transacted for >€5 million during the specified period of time. The transactions are included regardless of the asset's quality, sector, occupancy status, and for both asset and share deals. Forward sale agreements are counted as at signature date, not at construction completion. Ownership transfers that take place between related parties are not included in the total investment volume.

YIELD is the gross yield applied to the property's NOI, prior to any deductions for taxes, transaction expenses and any other deductions made by the purchaser.

NOI is the annual Net Operating Income of the property, defined as the gross rent minus any non-recoverable costs.

PRIME OFFICE YIELD reflects the gross yield that a modern Grade 'A' office building in Prague would transact for in an open market, arm's length transaction process. A Grade 'A' office building is broadly defined as one that is fully leased under at least a typical market length lease (5+ years), with reputable tenant(s), of new / recent build quality, with a high standard of BREEAM/LEED certification, and being in a core central location / sub-market.

PRIME RETAIL YIELD reflects the gross yield that a prime shopping centre in Prague would transact for. Prime shopping centre is defined as one that is modern (recently refurbished, extended or built), with a wide supra-regional catchment, with consistently strong turnover and footfall, and an array of national and internationally recognised brands.

PRIME INDUSTRIAL YIELD reflects the gross yield that a Grade 'A' industrial property would transact for. A Grade 'A' industrial property is defined as a high quality, recently/newly built warehouse, flexible in layout and with a sufficient number of loading docks, located along a major highway, which is fully leased under long-term (5+ years) agreements with reputable tenant(s), and which complies with at least minimum ESG requirements.

PRIME RESIDENTIAL YIELD relates to a centrally located, new purpose-built residential building in Prague with more than 50 apartments, intended for leasing. The residential yield stated in our publications is not representative of sales of individual apartment units.

YEAR-ON-YEAR (y/y or YoY) is the percentage or volume change compared to twelve months or four quarters previously.

As data quality and accuracy is important to us, some figures may change even retrospectively due to regular revisions.



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