

Avisource

Q2 2022 | Czech Republic Investment market tracker

Highlights

- Investor appetite has remained unchanged for premium logistics and residential assets. Investors are taking a more cautious approach towards office and retail assets despite their strong performance.
 - Total investment volumes in Q2 2022 amounted to more than €283 million, across 19 transactions. The total investment volume decreased by 39% y-o-y, and by 68% q-on-q, mainly due to a strong Q1 which included some deals from finalised from year end 2021.
 - Offices recorded the largest share of the quarterly volume with 33%, followed closely by retail assets, accounting for 31% of the total volume.
 - The cost of debt finance in Czech crowns means Czech crown denominated transactions are highly unlikely to take place in the remaining year 2022.
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Prime yields



OFFICE

4.25%



INDUSTRIAL

4.00%



SHOPPING CENTRES

5.25%



HIGH STREET

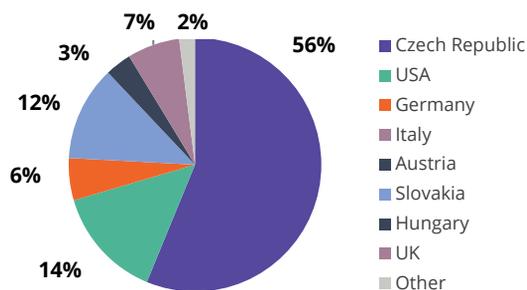
4.25%



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Investors activity by origin

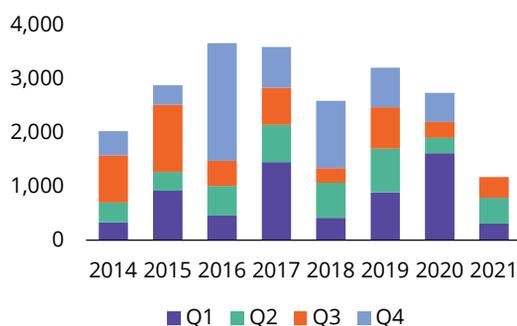
Q2 2022



Source: Avison Young

Investment volume by quarter

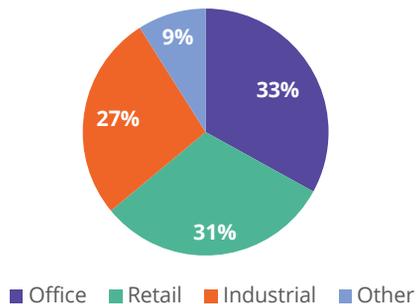
€ million



Source: Avison Young

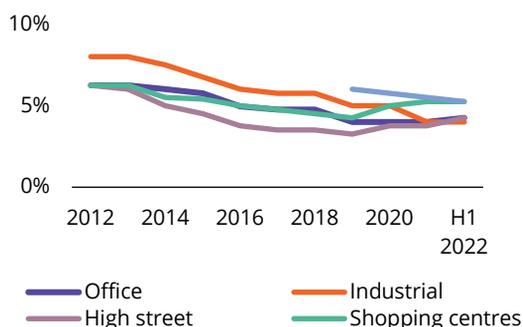
Investment volume - shared by sector

Q2 2022



Source: Avison Young

Prime yields evolution 2010 - Q2 2022



Source: Avison Young

Investment market overview

Transactions that proceeded from the end of 2021, moved into H1 2022, so even though the war in Ukraine and the record-breaking inflation impacted all the CEE markets, it didn't reflect in the total investment volumes in Q2 2022 to a great extent.

In Q2 2022, total investment volumes reached ca €283 million, comprising 19 transactions. The total investment volume decreased by 39% compared to the previous year, and by 68% q-on-q, largely due to the strong first quarter that carried over some investment activity from 2021.

Transactional volumes were dominated by the retail sector (33%), followed by office deals (31%) with transactions in the industrial sector accounting for 27%.

Czech investors were the most active on the market throughout Q2 (56%), followed by US and Slovakian investors, accounting for 14% and 12% of transactional activity respectively.

Significant transactions closing in Q2 included the sale of Tesco's retail property portfolio consisting of 18 properties in the Czech Republic and Hungary, sold to Adventum, of which four assets were located in the Czech Republic: OC Fontána in Karlovy Vary, OC Galerie in Ostrava, OC Silesia in Opava and retail park Chrudim.

In the office sector, notable transactions included the sales of Red Court and Green Point. The disposal of Loxxes industrial site in Bor, acquired by CTP Invest, a neighbouring developer and owner of the CTPark Bor, accounted for the largest industrial transaction. The acquisition of Grandhotel Nabokov in Mariánské lázně by Česká hotelová, for ca €23 million, accounted for one of the largest hotel transactions since the pandemic began.

In terms of pricing, we have seen some upward shifts, and there is a growing delta between sellers' and buyers' expectations. The residential and logistic sectors will remain the most sought-after asset classes, with retail parks and supermarkets also expected to perform very well over the remainder of 2022 and onwards.

We expect to see investment volumes further decreasing in the second half of the year due to the rising uncertainties and caution around interest rates further impacting valuations.

„Liquidity remains strong as there is a large volume of equity available and an ongoing lack of suitable high-quality product to buy. Sellers still maintain Q4 2021 pricing expectations, yet buyers are more careful, financing costs have rocketed, and the economic headwinds predict turbulent times. This creates reluctance to offer property and inactivity on the market. We expect a sit-and-wait approach prevalent among investors until the end of 2022.“

Lukáš Kalina, Capital Markets Director

Significant investment deals in Q2 2022

Property name	Sector	Purchaser	Price (€m)
Tesco retail portfolio	Retail	Adventum	61,5
Red Court	Office	BlackBird RE	27+ (estimated)
Grand Hotel Nabokov	Hotel	Česká Hotelová	23 (estimated)
Hagibor Delta	Residential	Invesco	50 (estimated)

Economic overview

The Czech economy is dealing with ongoing inflation and a prediction of a rather weak growth as a result of it, severed by low unemployment rate and commodity prices. We anticipate that in 2022 growth will stay around 2.2% with a slight improvement in 2023. In May, the unemployment rate decreased to 3.2%, further aggravating the situation in the labour market. As a result of inflation, wages increased nominally in Q2 2022, while the real wages of most workers decreased.

In May, inflation reached 16%, one of the highest rates in the EU. This pressure will affect consumer spending, as real wages fall and encourage a drop in consumer confidence. A headline inflation can be expected to decline only very gradually over the year, especially because high energy prices already significantly affected industry.

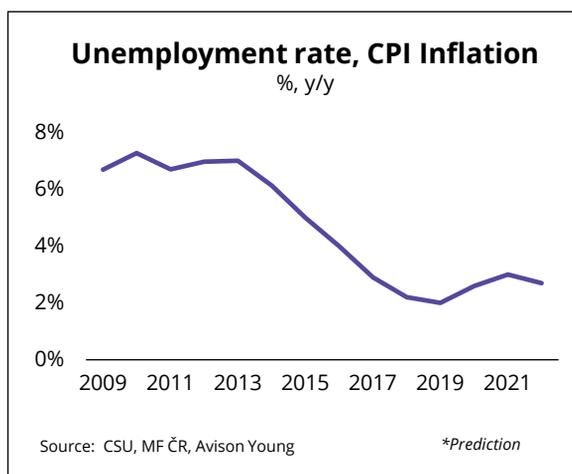
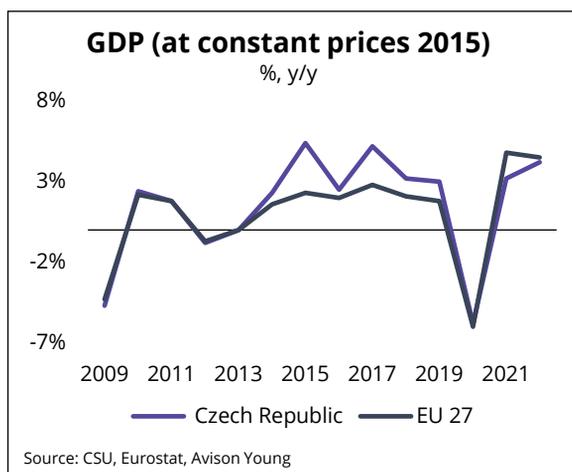
Real GDP growth would slow significantly this year and economic activity would even fall slightly y-o-y in the second half of the year due to rising financial costs and reduced real incomes, which would hamper all economic activity. However, GDP growth is forecast to accelerate to over 3% in 2023, surpassing its pre-pandemic level.

The Czech National Bank raised the two-week repo rate to 7% (while in June 2021 it stood at 0.5%). This year's double-digit inflation will thus decline in the first half of next year, with the rapid rise in interest rates so far contributing substantially. Inflation is projected to decline towards 4.5% y-o-y in 2023, supported by well anchored inflation expectations as well as a stronger domestic currency and more stable energy prices.

According to the ČSÚ, consumer prices increased by 0.4%, month-on-month. This development came from price growth in almost all consumer basket divisions except 'transport'. The year-on-year growth of consumer prices amounted to 17.2% in August, which was 0.3 percentage points down on July this year.

The Czech koruna's exchange rate against the euro reached an average value of CZK 24.64/EUR in Q2. The CNB's interventions played a significant role in this. Compared to last year's 2nd quarter, the koruna's exchange rate against the euro was stronger by 3.9% and remained almost unchanged quarter-on-quarter.

With the estimated high inflation rate for 2022 and with rising energy costs we expect a leapfrog increase in occupier costs in 2023 after indexation clauses and service charge reconciliation will take effect.



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