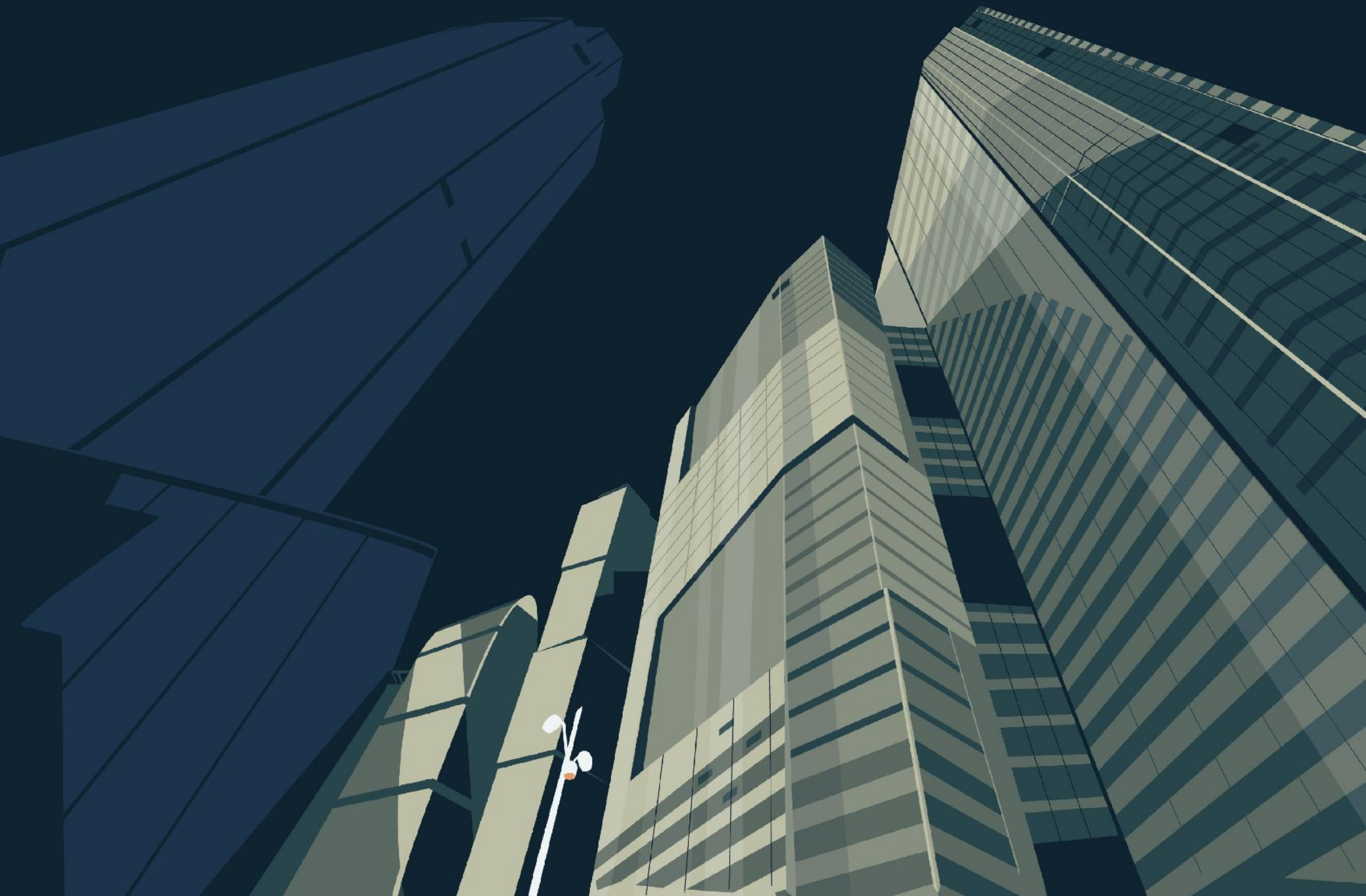
CZECH REPUBLIC

INVESTMENT OVERVIEW

QUARTER 2 | 2020



MACROECONOMIC OVERVIEW

After several months of uncertainty on a daily basis, we can now see and feel certain levels of clarity and stability. With most of the government issued restrictions lifted, only a few limitations remain, but still having an impact on several business sectors, mainly tourism and hospitality.

In line with Oxford Economics forecasts, we expect Czech GDP to fall by more than 5% in 2020. The Q-o-Q economic decline in Q1 was severe, and with the most severe lockdown issued in April, Q2 Q-o-Q is forecast to be even worse. We believe these numbers will soften towards the year end and recover during 2021.

Czech Republic entered the lockdown with very healthy labour market, therefore rise of unemployment rate to current level of 3.7% which was reported in July by Ministry of Labour and Social Affairs, is not a significant issue like in other countries of the Eurozone. It was largely possible thanks to generous government stimulus package, where country paid part of salaries and companies did not have to lay off their crucial workforce. Slight continuing rise is expected towards the end of H2.

The Czech Republic is already considered as one of the most suitable locations for manufacturing operations in Europe. However, the Czech reliance on car manufacturing and deep integration into various supply chains may be the current number one vulnerability, as was seen with the unprecedented drop in industrial production during Q2 months, in line with the pandemic outbreak in Germany. Consumer spending was bolstered with the end of restrictions, but further policy response to fostering economic recovery should be the current priority.

FIGURE 1: **Czech GDP compared to Eurozone**

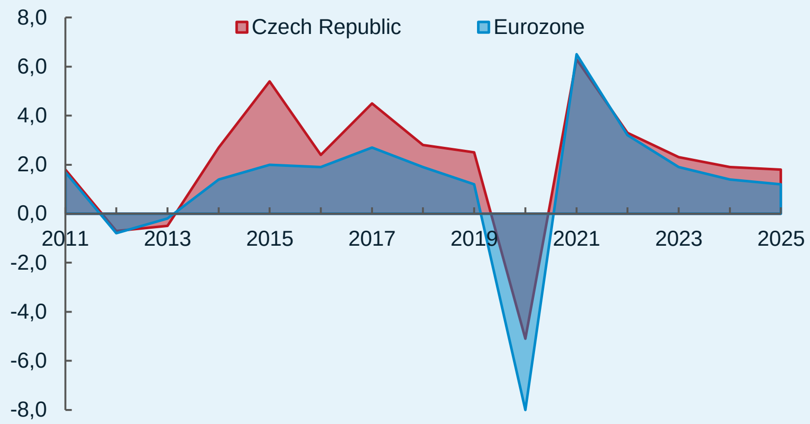


FIGURE 2: ***Unemployment rate***

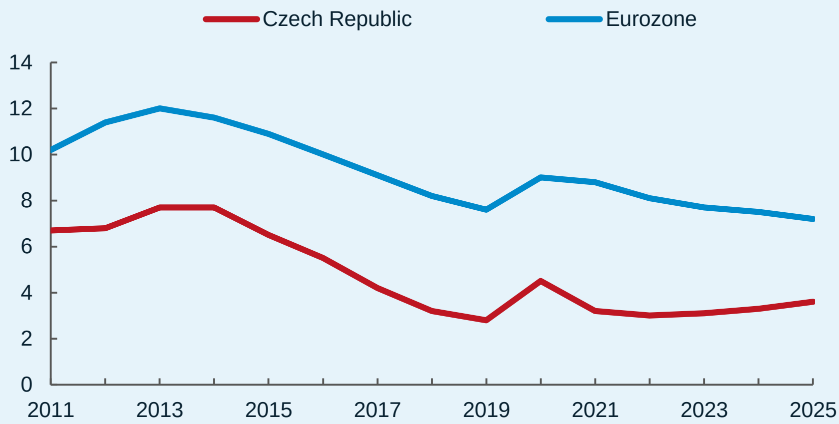
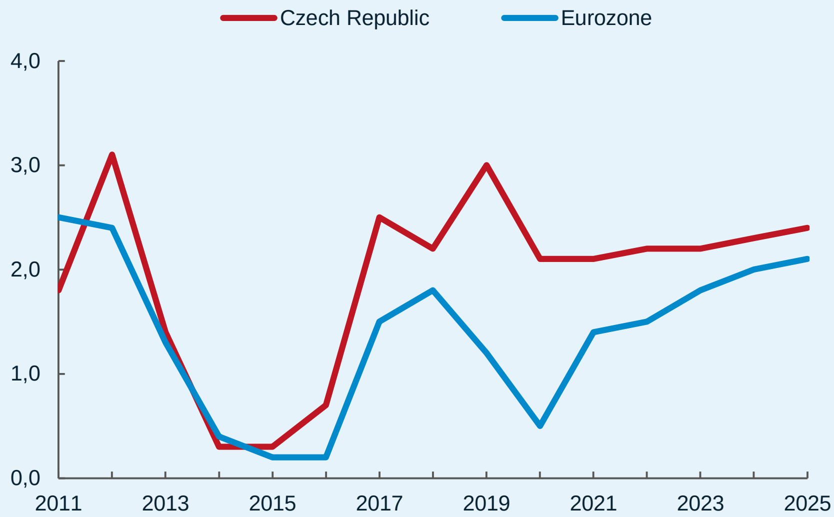


FIGURE 3: **Consumer price index**



Sources: Figure 1: Oxford Economics, Colliers International | Figure 2: Colliers International, Oxford Economics | Figure 3: Colliers International, Oxford Economics

Q1 OVERVIEW

The second quarter of 2020 could be described as a waiting game with April and most of May under severe lockdown restrictions. This had a particular impact on business travel, which remains in effect for some investors and subject to border openings and related conditions. These have effectively limited property viewings and the operational abilities of many investors. The quarter ended with a volume of EUR 284 million, a 60% decrease Y-o-Y. In the latter part of the second quarter, other significant transactions were announced, mainly from the office sector, with appetite from both domestic and international capital for this asset class. The two largest office transactions in the capital city were acquired by Czech investors. PSN bought City Empiria, the third tallest building in the country, from Generali for an estimated EUR 80 million as they follow up on their deal in previous quarter. Českomoravská Nemovitostní (ČMN) acquired another modern asset for their portfolio with the acquisition of City West buildings C1 and C2 from CFH Group. The C1 building is occupied by Vodafone. As for the industrial and retail sectors which were relatively quiet during Q1, we recorded several successful transactions, most notably the sale of the recently refurbished shopping centre Čestlice by Ahold to HSTN Holding for over EUR 40 million.

Yields

Despite limited transactional evidence, we have softened prime yields for High Street properties by 25 bps to 3.75% and Shopping Centres by 50 bps to 5.25%. For offices we applied a 25 bp shift outwards to 4.25% although we expect core assets with strong covenants and long WAULT's to remain in demand at least from some of the core investors. Prime Industrial & logistics yields remained stable at 5.25%, although we could see some compression if the right logistics product was to come to market.

OUTLOOK FOR FUTURE

For the first half of the year, the investment volume totalled ca. EUR 1.95 billion, boosted by the EUR 1.3 billion Heimstaden/Residomo deal, resulting in a YoY increase of 9.6%. Without this transaction, the transaction volume would have been down by ca. 60% YoY. Although it is difficult to predict how the remainder of the year will unfold, based on current estimated we expect transaction volumes to be lower than 2019 by 30-40%. However, as borders reopen, we do expect activity to pick up towards the end of the year with an increasing volume of capital allocated to real estate looking for opportunities across the spectrum.

FIGURE 1: **Investment volumes in the czech republic (€ millions)**

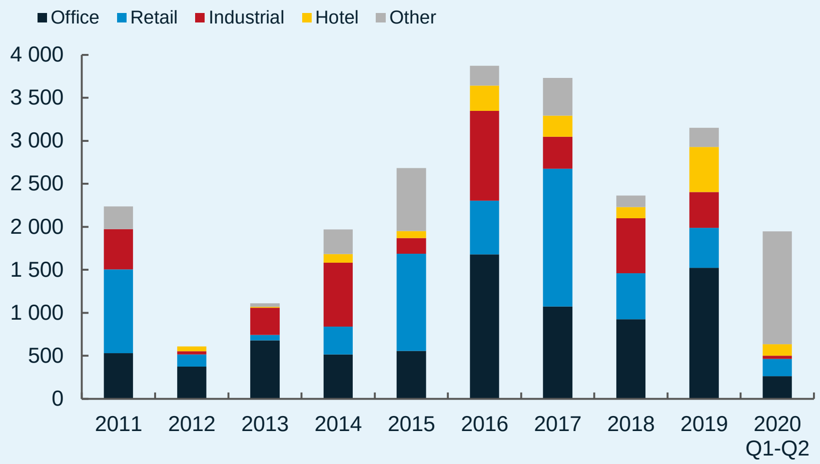


FIGURE 2: **Investment share per country origin of buyers and vendors in H1**

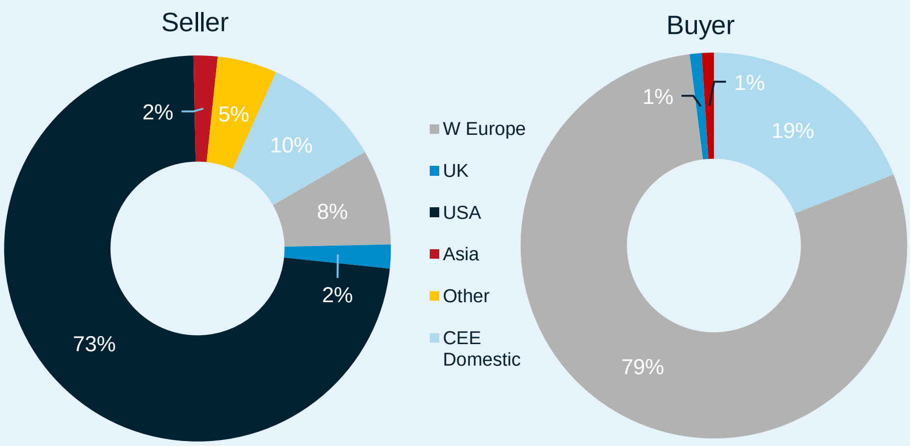
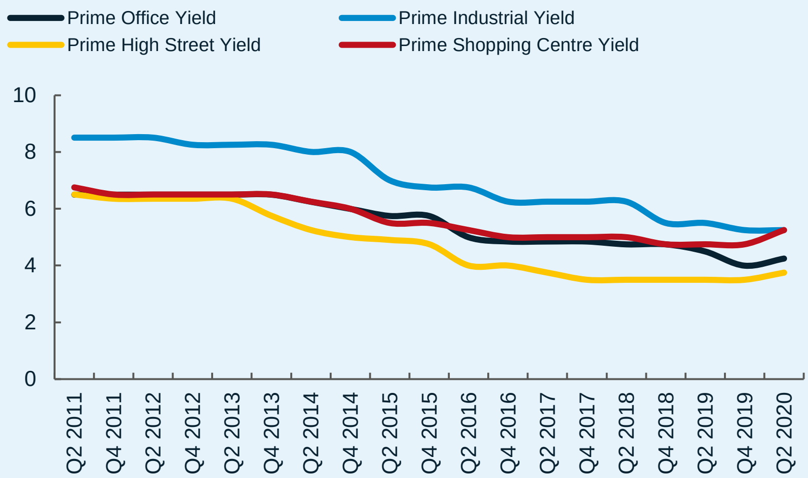


FIGURE 3: **Prime yields (%)**



Sources: Figures 1 – 3: Colliers International

FOR MORE INFORMATION

CEE CAPITAL MARKETS

Andy Thompson | Director | Czech & Slovak Republics
+420 731 151 279
andy.thompson@colliers.com

Tomáš Szilágyi | Senior Associate
+420 774 470 371
tomas.szilagyi@colliers.com

MARKET RESEARCH

Josef Stanko | Research Analyst
+420 728 175 024
josef.stanko@colliers.com

Theodor Pokorný | Analyst
+420 608 813 288
theodor.pokorny@colliers.com

Na Příkopě 859/22
Slovanský dům B/C
110 00 Praha 1