Slovakia on investor’s radars

“The Slovak market continued to demonstrate growth in 2015. The investment market witnessed another exceptionally strong year with almost € 600 million deployed in more than 20 transactions and welcoming a number of first time buyers to the country, a trend expected to continue for the foreseeable future. The office and industrial markets also showed improvements reflecting the improving economic conditions coupled with positive consumer and business confidence. The decision by Jaguar Land Rover to set up a major new production facility in Nitra will provide a further boost to the economy. The regional office markets, particularly Kosice are finally emerging and in the case of Kosice, we believe that it has the potential to follow the model set by Brno in the Czech Republic. Positive sentiment is also exhibited in the retail sector where record yields have been paid recently for the shopping centre Central in Bratislava. A number of occupiers have expanded recently and there was also a number of new market entrants to Slovakia. The market has been supported by very favourable banking conditions with both developers and investors benefitting from attractive financing conditions.”

Colliers International

is a leader in global real estate services, defined by our spirit of enterprise. Through a culture of service excellence and collaboration, we integrate the resources of real estate specialists worldwide to accelerate the success of our partners. We represent property investors, developers and occupiers in local and global markets. Our expertise spans all property sectors—office, industrial, retail, residential, rural & agribusiness, healthcare & retirement living, hotels & leisure.
Contents

Economic overview 4
Investment 6
Office 8
Industrial 10
Retail 12
Economic overview

> The strong performance of the Slovak economy has prompted the international credit rating agencies to rank Slovakia as one of the strongest credit risks in the region. The relevant ratings for Slovakia are defined generally as having a strong capacity to meet its financial commitments. Standard & Poor’s Ratings Services raised its long-term foreign and local currency credit ratings of Slovakia to A+ from A on July 2015. It also confirmed A-1 for short-term credit ratings; with a stable outlook.

HDP

> Slovakia remains one of the few high growth economies in Europe. GDP growth accelerated to 4.2% in Q4 2015, according to the flash estimate of the Slovak Statistical Office. Growth in the economy is partly being driven by the strong performance of exporters. However, investment and higher levels of consumption are increasingly contributing to these strong forecasts.

> Consumer spending is likely to be the main factor driving economic growth this year, supported by continued improvements in the labour market and increased real household income due to low energy prices. Robust confidence ensures steadily rising demand and both business and consumer confidence are now at much higher levels than two years ago.

> Slovakia is expected to continue to be a growth leader for the foreseeable future, well ahead of the EU average. FocusEconomics Forecasts expects GDP stable at 3.1% for 2016 as well as 2017.

GDP (annual var. in %)

Unemployment (% of active population)

Inflation (HICP, annual variation in %)

Source: Statistical office of Slovak Republic/Focus Economics
Industrial production

> In December 2015 industrial production grew by 8.2% y-o-y. Industrial production was boosted by a growth rate in manufacturing of 10.3%. FocusEconomics Forecast panelists expect industrial production to increase 4.7% in 2016.

Foreign Direct Investment (FDI)

> Slovakia’s membership to the EU, coupled with its skilled but relatively low labour costs and competitive infrastructure have proven attractive to a number of foreign investors. Significant FDI projects continue to choose Slovakia as a preferred location for their footloose commercial and industrial projects. Jaguar Land Rover confirmed in December 2015 that it has selected Nitra as the location for a new automotive plant. Construction of the 1 billion GBP investment has already started and the first cars are expected to be produced from 2018.

Inflation

> Harmonized consumer prices declined 0.5% annually in December 2015. The National Bank of Slovakia (NBS) expects harmonized consumer prices to fall 0.3% on average in 2015, before rebounding to a 1.0% increase in 2016.

Gross Income & Unemployment

> The unemployment rate fell to the lowest level in over six years in Q3 2015 and reached 11.3%. The high availability of skilled labour has been one of the factors that has contributed significantly to the continued economic success of Slovakia. The number of unemployed in Slovakia is the lowest since 2009, and it is expected to continue decreasing.

> The average nominal monthly wage of an employee in economy of the Slovak Republic amounted to €861 in Q3 2015.

Expenditure

> Household expenditure has been stimulated by real income growth and low interest rates. Short-term borrowing is becoming more common, which has also helped to further fuel consumer spending. Retail sales grew in 2015 by 2.8%, this indicates an increase of consumption of households.
Investment

> New investor interest in Slovakia has never been so high. In 2015, new institutional investors including Blackstone, Reico, Lonestar, CTP and TPG joined other recent entrants to the market in 2013/2014.

> Still more new institutional investors are expected to transact in 2016 along with increasingly active existing local investors. Improving macro-economic figures and confidence in Slovakia, together with the availability of good quality stock at realistic pricing is stimulating transactions.

> Confidence in the market is likely to be further boosted by the announcement in December 2015 of the € 1 billion investment of Jaguar Land Rover, the Eurozone’s continued drive to supporting the economy through quantitative easing and the resultant low interest rates, supporting the availability and cost of bank debt.

> We now consider prime yields to stand at 7% for offices, 6.25% for shopping centres and 8% for logistics space.

**Total Investment Volume (mil €)**

![Graph showing total investment volume from 2007 to 2015](source: Colliers International/RCA)

**Office Prime yield (%)**

**Industrial Prime Yield (%)**

**Retail Prime Yield (%)**

Source: Colliers International
**Prognosis**

> Following on from the significant transaction levels of 2013-2015, we expect 2016 to be another very strong year with the current interest expected to lead to a number of significant transactions.

> Office development remains dominated by strong local groups and is mainly focused on Bratislava. Regional cities such as Košice and Banská Bystrica are increasingly viewed as strong options for companies seeking to move their non-core activities and/or to take advantage of a very strong HR source, particularly in Kosice where the city is becoming well known as an IT hub in the region.

> On the back of an improving retail market, many investors are also looking for shopping centre schemes, particularly those capable of achieving upside through more efficient asset management.

> In logistics, even though wider Bratislava/Senec/Lozorno represent the key locations, there are other regional cities that have evolved into important logistic hubs, including Žilina and Košice. Ružomberok and Banská Bystrica have also begun to develop underpinned by demand from smaller local distribution companies. Future investment in infrastructure/highways and the current trend of portfolio sales is likely to steer investment in logistics across new locations across Slovakia.

> Overall the investment market is generally improving across all segments and there has been a notable increase in the number of investors ready to invest in Slovakia.
Office

Supply

> By the end of the 2015, total office stock of A and B Grade quality in Bratislava amounted to more than 1.54 million m². Almost 58% of the space is represented by A-class office space and more than 42% by B-Class office space. At the end of 2015 the stock was affected by closure of Apollo Business Center I (app. 37,000 m² was deducted from the stock).

> The new supply of modern office buildings in Bratislava had gradually fallen since 2008 (app. 70 thousand m²). The only project delivered to the Bratislava market in 2015 was the first phase of Twin City project by HB Reavis, around the main bus station (16,000 m²).

Demand & Vacancy Rate

> The overall vacancy rate for Bratislava has decreased to 8.76% from 11.24% in the previous year. This drop was a result of stronger leasing activity and weaker new supply delivery in recent year. Looking at the A and B Grade separately, the vacancy rate of A Grade offices was 8.38% and B Grade was 9.27% at the end of 2015. The lowest vacancy rates recorded were in Bratislava II (7.19%), followed by Bratislava IV (7.50%). The highest vacancy rate was recorded in Bratislava III at more than 16.92%. Vacancy rates are expected to increase in 2017 - 2018 due to new and pipeline projects and tenants vacating older properties.

> Gross take-up in 2015 amounted to more than 220,000 m² including renegotiations (37%). The demand was mainly driven by the IT & Telecom sector (33%), followed by Professional Services (20%) and Manufacturing (12%). The Inner City, comprised predominantly of Bratislava 2, remains a strong centre for tenant activity within Bratislava. The structure of demand is expected to remain stable and most of the transactions will continue to be below 500 m².
Rents

> In 2015, the majority of rentals for Grade A office space in Bratislava ranged between €10 and €13 m²/month (headline), with occasional top levels of €15 m²/month achieved for smaller areas in the prime locations. Large anchor tenants are still able to secure effective rents below €10 m²/month for Grade A office space in many cases.

> In respect of B Grade premises, the years between 2009 and 2015 were also relatively stable in terms of headline rents that hovered around the €9 – 12 m²/month. Significant contributions were also offered by B Grade developers/owners and hence the effective rent were lower than this.

Prognosis

> Over the next two years app. 270,000 m² of new office space is planned for delivery, levels that are similar to pre-crisis times. The success of new projects is contingent upon project’s location and by the entire building concept, including the flexibility of the space, the amenities in the project and its surrounding area. The immediate environment, traffic connections, parking possibilities and the building’s relationship with the environment (i.e. green buildings) are all factors that are important.

> Landlords of older C class properties are often transforming the use of the buildings to, for example, residential functions. In the case of B class properties, we would typically expect the buildings to undergo a complete refurbishment in order to attract and retain potential tenants.

> Following the recent trend of companies such as CSOB and Johnson Controls to house their operations under one roof, a number of similar demands are in progress. Due to the specific requirements of these companies, in some cases, this demand will be satisfied by pre-leases/pre-sales.

> Modern work profiles supported by new technologies and connectivity enable companies to adapt to alternative working concepts and enhance the use of office premises. Workplace Solutions and Change Management are increasingly sought after skills that help companies to understand wider trends in employment and optimise the usage of their office space to enhance the productivity and satisfaction of employees.
Development of industrial and logistics premises in all major markets in Europe was positive in 2015 and this trend is noticeable in Slovakia as well. Slovakia has reinforced its position in the automotive industry and remains attractive for both suppliers and logistics companies. The market also experienced stronger investment activity in industrial and logistic premises.

**Supply**

At the end of 2015, total modern industrial supply of A Grade premises in Slovakia equalled to 1,494 thousand m². The Bratislava region remains the most popular locality for industrial premises, with approximately 80% of all Slovak industrial premises situated in this region. Other regions like Kosice, Zilina, Trnava and the area along the Vah River are becoming interesting localities as well.

While there has been no significant change in the market share, the largest developer share of total industrial stock is ProLogis (33%), followed by Pointparks (9%) and HB Reavis (8%), in addition Czech developer CTP has also entered the market in 2015 and has 8% of all modern A Grade industrial premises in Slovakia.

**Demand & Vacancy Rate**

In 2015, demand was driven mainly by 3PL (42%), followed by the automotive sector (29%) and retail sector (22%). Total occupational market activity figures in 2015 accounted for 278,000 m², due to stronger new occupation activity (66% of all transactions), renegotiations represented approximately 21% of all transactions in 2015.

The industrial vacancy rate decreased from 6.5% at the end of 2014 to 3.2% at the end of 2015. Vacant industrial space
totalled 47,000 m² in 2015. The highest share of vacant space within existing stock was located in the Zlina region with a vacancy rate of 5% (7,000 m²). In total figures, the largest amount of vacant space is in the Bratislava region (40,000 m²) with a vacancy rate up to 4%.

**Rents**

> Headline rents for logistic premises ranged between €3.65 m²/month and €4.30 m²/month.

**Prognosis**

> Industrial supply will increase in the upcoming months following the delivery of properties in both Western and Eastern Slovakia where there is currently more than 188,000 m² under construction.

> In 2016, due to the low vacancy rate, we expect the construction of tailor-made halls, and also speculative constructions in known locations as well as the re-generation of existing brownfields. Jaguar Land Rover confirmed in December 2015 that it has selected Nitra as the location for a new automotive plant. Constructions have already started and the first cars are expected to be produced from 2018.

> Key factors for new logistics locations include good access from the highway and high technical standards. The location of production plants are additionally contingent upon the availability of skilled labour and the possibility of obtaining state incentives.
Retail

General

> The retail market and retail sales has been boosted by the strong economic growth in Slovakia together with the reduction of unemployment and the rise in real wages.

> The year 2015 was the first since the crisis when retail projects in Slovakia registered a significant increase in interest from tenants to expand. We also recorded a number of new single tenant operators who have successfully entered the market in Slovakia. These included amongst a number of others for example; Tiger, Stary Mlyn, sports retailer Decathlon, fashion brands Tiger of Sweden, Gaastra, Silvian Heach and a complex portfolio of brands of Poland’s LPP including fashion labels like Reserved, Cropp, House, Mojito and Sinsay.

> The new retail chains Malina and Delia have opened smaller food stores, mostly in Bratislava, over the past year. The stores are located in residential zones or business centers. Similar concept, Foody operates mostly in Eastern Slovakia.

> After 20 years, the DIY retail chain Baumax, left the Slovak market and its premises were taken over by the German chain Obi.

> New shopping centers opened in 2015 were focused on the regional cities. These included, Trnava, City Arena, a shopping mall - with a football stadium (29,000m²), Forum in Poprad (23,000m²) and Galeria in Lučenec (10,500m²). Some smaller retail parks were opened in cities where other shopping opportunities are limited.

Retail Stock / Pipeline in Regional Cities (thousand m²)

![Retail Stock / Pipeline in Regional Cities](image)

Tradional SC Stock in Regional Cities (m²/1,000 inhabitants)

![Tradional SC Stock in Regional Cities](image)
Prognosis

> We expect that owners will need to continually redesign, refurbish, remodel and re-negotiate with occupiers, as the retail evolution delivers new challenges including new trends, new competition and especially new customers’ behaviour. As part of this trend, Aupark in Bratislava completed its reconstruction in Q4 2015 using Urban Chic design. The energy saving regime and certification BREEAM lists Aupark among the most energy efficient shopping centres in the world.

> There remain a number of unexploited development opportunities and pipeline projects in Slovakia. These include Slnecnice (Bratislava) and Eperia (Presov) which are both in advanced pre-leasing stages.

> New potential development is expected to focus more on convenience based shopping schemes in under saturated local areas. In smaller and less demanding regional towns, that lack existing retail schemes retail parks 2,000–4,000 m² in size are expected.

Retirement Stock in Bratislava (thousand m²)

Source: Colliers International

Retail Stock in regional cities H1 2015 (thousand m²)

Source: Colliers International

New arrivals in 2015

DECATHLON  GAASTRA  SILVIAN HEACH  TIGER OF SWEDEN

TIGER  BAUHOUSE  OBI
502 offices in
67 countries on
6 continents

United States: 140
Canada: 31
Latin America: 24
Asia Pacific: 199
EMEA: 108

€ 1.75 billion in annual revenue

160 million m² under management

16,300 professionals and staff

About Colliers International

Colliers International Group Inc. (NASDAQ: CIGI; TSX: CIG) is a global leader in commercial real estate services with more than 16,300 professionals operating from 502 offices in 67 countries. With an enterprising culture and significant insider ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include brokerage, global corporate solutions, investment sales and capital markets, project management and workplace solutions, property and asset management, consulting, valuation and appraisal services, and customized research and thought leadership. Colliers International has been ranked among the top 100 outsourcing firms by the International Association of Outsourcing Professionals’ Global Outsourcing for 10 consecutive years, more than any other real estate services firm. For the latest news from Colliers International, visit www.colliers.com, or follow us on Twitter: @ColliersIntl and LinkedIn. To see the latest news on Colliers International in Slovakia visit www.colliers.sk

Copyright © 2016 Colliers International.

This document has been prepared by Colliers International for advertising and general information only. Colliers International makes no guarantees, representations or warranties of any kind, expressed or implied, regarding the information including, but not limited to, warranties of content, accuracy and reliability. Any interested party should undertake their own inquiries as to the accuracy of the information. Colliers International excludes unequivocally all inferred or implied terms, conditions and warranty arising out of this document and excludes all liability for loss and damages arising there from. This publication is the copyrighted property of Colliers International and/or its licensor(s). © 2016. All rights reserved.