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Q3 2021 | Czech Republic

Investment Market Overview

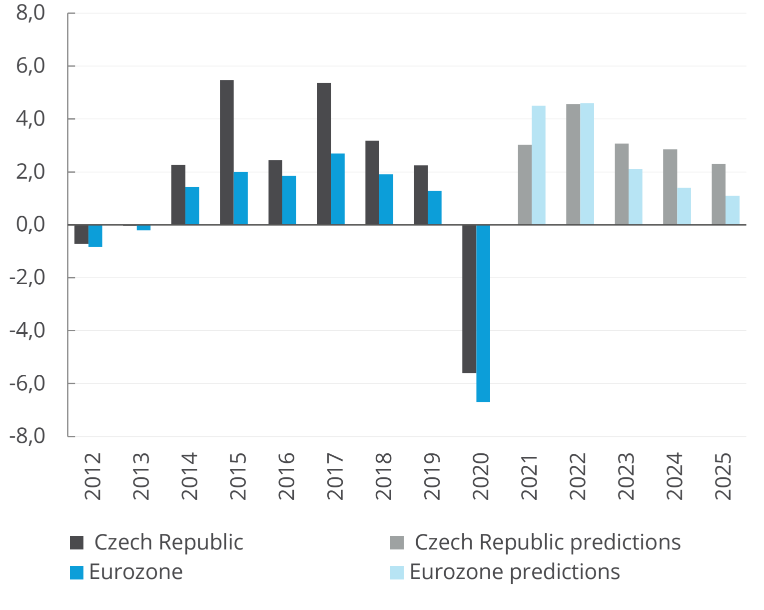
Macroeconomic overview

While the Czech Republic saw a recovery and further release of tight pandemic restrictions throughout Q3, the main story at the end of the quarter signalled significant uncertainties stemming from continuous supply chain shortages and unexpected levels of inflation. We saw two increases of policy rates by the Czech national bank in the third quarter, first at the beginning of August and second at the end of September, altogether by 100 bps, to fight the inflationary pressure.

As reported by Oxford Economics, the GDP growth forecast for 2021 is set at 3.1%. This reflects consumer spending driving growth and demand rotating towards services. The third quarter saw a significant boost to the economy with continuous re-opening, and partially functioning tourism in Europe, as finished vaccinations rates grew (Czech uptake currently at 56% of total population). While the delta variant spread, sparking fears of what could come in Autumn, the numbers of hospitalised patients proved significantly skewed towards unvaccinated parts of the population, showing the high efficiency of the vaccine preventing economy-wide closures. The vaccination uptake growth ran out of steam at the end of the summer, and large parts of the elderly population still remain unvaccinated.

The supply chain issues stay troubling, partially worsening the outlook. Industrial production surpassed pre-pandemic levels of production in the beginning of Q3, only to be set back by supply issues and increasing energy prices. While there is high capacity to produce, the expectations and orders are decreasing, especially in manufacturing, reflecting the conditions in the market. In this environment, producer prices rose by 9.3% y-o-y in August. Consumer spending and retail sales performed well in the beginning of Q3, but consumer confidence is progressively worsening. Together with high energy prices and higher rates, we might expect more cautious consumers this winter. This will further slowdown the gradual release of excess savings from households (est. CZK350bn) over 2022.

Gross domestic product
(%)



Sources: Colliers, Oxford Economics

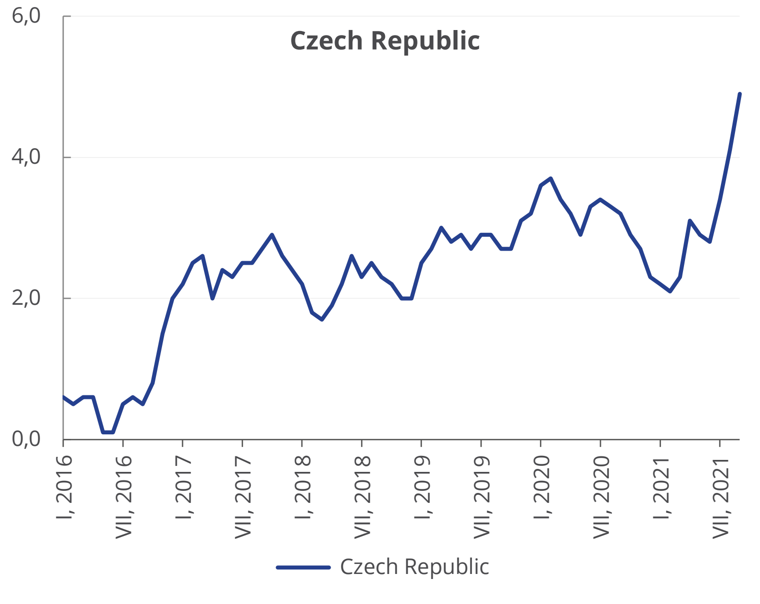
Macroeconomic overview

Inflation also plays a large role in the current uncertainty. The problem stems from the fact, that the current hikes – to 4.9% headline inflation – are based on broader-based and more robust inflationary pressures than was previously expected in the post-pandemic situation. The main factor in inflationary pressures in Q4 will be continually rising energy prices (service price hikes will likely be a one-off occurrence). While the eurozone monetary policy are yet to raise rates, the Czech national bank has unprecedentedly raised policy rates by a further 75 bps in September – the largest increase since 1993. This should help to moderate inflation in 2022 but it may also slow down GDP growth and make the government debt harder to service – which is apparent from the adverse reaction of the government officials to the rate increase. The current predictions see Czech inflation reach up to 6% by the end of 2021.

GDP also remains adversely affected by continuous labour shortages, even as market expectations seem to turn to increasing unemployment at the end of the year. Unemployment kept decreasing throughout Q3, to 3.6% in August. However, as political approaches are negative towards economic migration to mitigate the shortages, the economy is set to perform below potential and labour shortages will likely persist.

The election results show a comfortable majority in Parliament for the SPOLU coalition and the coalition of Piráti and STAN. While the president's health kept decreasing, his hospitalisation threatens to prolong the negotiation of a new government. It remains to be seen what the role and legacy for the most successful single party, ANO, of prime minister Andrej Babis, will take in the new political arena in the country. As they finish their government tenure amid a worsening situation of COVID-19 infections, the new government will face a challenge to break the worsening epidemic trends in the country and prevent further widespread lockdown restrictions.

Headline inflation
(%)



Sources: Czech statistical office

Top 3 Transactions of Q3 2021

Property	Sector	Sale Price	Buyer
P3 APEX CZ Portfolio	Industrial	€85.5 mil.	CGL
Logistics Park Nošovice	Industrial	Confidential	Exeter
Mint Living Vysočanský mlýn	Residential	€47 mil.	Mint Group

Sources: : Colliers

Q3 briefly

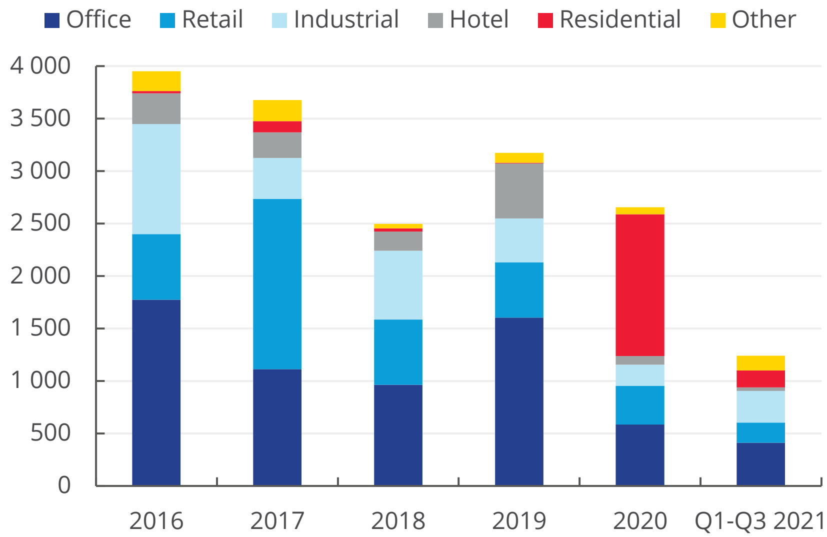
One of the most anticipated periods of recent years is finally behind us and, in some perspective, it could sound like déjà vu. Elections, Covid, soaring energy prices and rising inflation. We will not comment on politics and the current mood in the general population, but recent events will surely have an impact on the country's economy. We can hope that the Czech Republic is better prepared for another winter with the pandemic and that the Czech population will not be subject to another lockdown or any sort of crisis, as some other countries in Europe are already warning about.

As for real estate investment in the Czech Republic, the third quarter of 2021 was again active with deals of a similar volume and number as the second quarter. We still lack larger transactions of over €100 million, which used to bolster the annual market volumes, but instead we are seeing new investors, which were perhaps not around a few years back. In addition, local capital is targeting other countries such as Poland, Germany and Italy, driven by the shortage of opportunities, not the loss of investor appetite to invest, in the Czech Republic.

Transaction volumes in Q3 reached €446 million in 29 transactions. The largest share of the volume was taken by industrial & logistics, which are still one of the most sought-after asset types. The second biggest share was residential assets, followed by acquisitions in the retail sector. Offices, which are usually the main driver of activity and volume, came short this quarter with €58 million in 6 transactions.

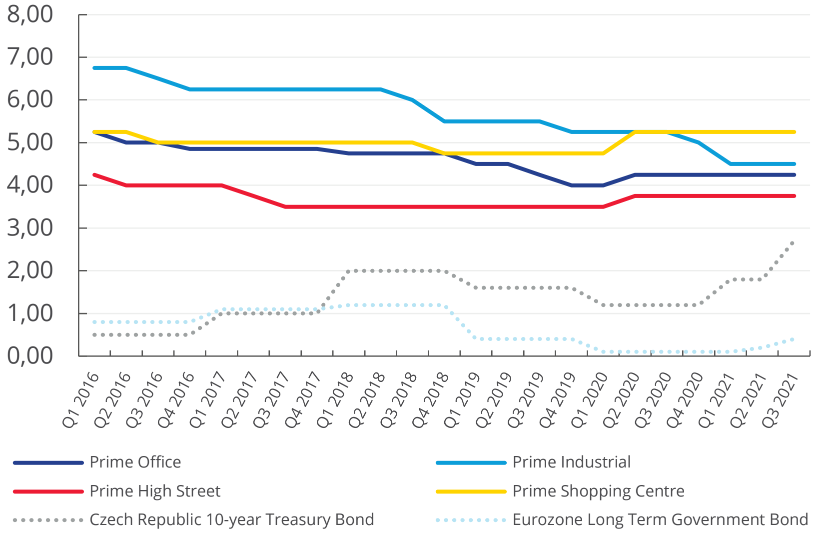
The largest transactions of Q3 were therefore a different mix than usual. The largest transaction was the Czech part of the pan European, P3 APEX portfolio, with properties in Prague, Hradec Králové, Turnov and Předlice. This deal accounted for almost €86 million, the buyer was the Chinese investor group - CGL. The second largest transaction was the sale of Logistics Park Nošovice, part of the Consens portfolio, to American fund – Exeter, with a price tag just a few million short of the largest deal.
The largest non-industrial transaction happened in Prague, when Mint Investment acquired another asset for their residential fund with the forward purchase of 200 rental units in the new project, Vysočanský Mlýn in Prague 9. The residential sector is proving it can no longer be considered an alternative class and has constant and increasing demand from investors.

Investment volume
(in millions €)



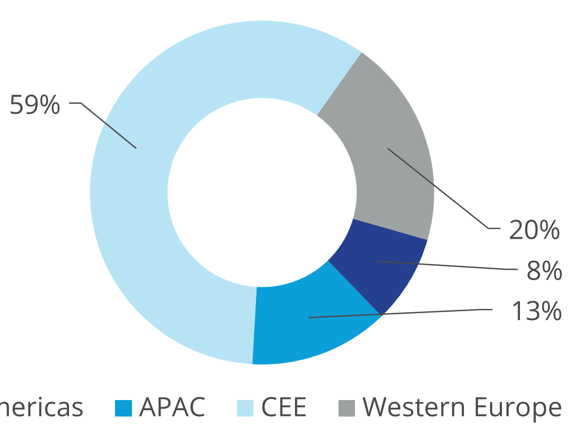
Sources: Colliers

Prime yields development
(%)



Sources: Colliers, Oxford Economics

Source of capital
(Q1-Q3 - %)



Sources: Colliers

2021 YTD

The current volume stands at €1.24 billion for first three quarters of 2021. It represents an increase of 50% year on year, with the exclusion of the exceptional transaction of Residomo portfolio during 2021. The largest share of the current YTD volume belongs to offices with 33%, followed by industrial with 24% and retail with 16%.
The most active investors were from the CEE region, with a 59% share of total volumes. Investors from the rest of Europe and APAC region were responsible for the majority of the remaining volume.

Prime yields

With the increasing transaction count, we still believe current prime yields correspond with the prices on the market and we see no urge to adjust them in the short term. Demand for industrial properties is still strong, but also lack a significant number of opportunities. Residential prices are still on the rise, but the opportunities in the PRS segment are still limited and competition is strong. Opportunity for the easing of prices could be seen in specific high street properties or hotels, yet investors remain cautious in these sectors.

Outlook

With 2021 rapidly coming to an end, we expect some pressure on the closure of ongoing deals, or some good, last minute opportunities. A number of interesting deals were announced after the end of the quarter and again it looks like office will be back amongst the most wanted, as these deals will form a good base for the final quarter. In addition, several older A and B class office buildings are on the market representing a good opportunity for value-add strategies. The volume of €1.5 billion we estimated earlier this year is likely to be surpassed and our current expectation is that it will reach approximately €1.75 billion. We will also closely monitor the political environment as times may get harder before they get better, and a stable, unified government is something that is required to lead us through anything that is about to come.

Current prime yields

Offices
4.25%

Industrial
4.50%

Residential
4.00%

Shopping Centres
5.25%

High Street
3.75%

Retail Parks
6.00%

Country-specific indicators

Population	30.06.2021	10.70 million
Currency	CZK	Czech Koruna
FX Rate EUR-CZK	Q3 Average	25.496
FX Rate USD-CZK	Q3 Average	21.629
Consumer Price Index	2021f	3.0%
Unemployment	September 2021	3.5%
Industrial production	Y/Y change (September 2021)	7.9%
Retail sales volume	Y/Y change (September 2021)	4.5%
Euribor 3 months	29.10.2021	-0.553%
Pribor 3 months	27.10.2021	2.180%
Sovereign rating	2021	Aa3 / AA- / AA (stable)

Sources: Colliers, Oxford Economics, CNB, CSO

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