Q1 2022 | Slovakia

Market Overview

Accelerating success.

Macroeconomic overview

Russian invasion in Ukraine is anticipated to have a major impact on the Slovak economy, reducing the economic growth and putting pressures on budgetary expenditures.

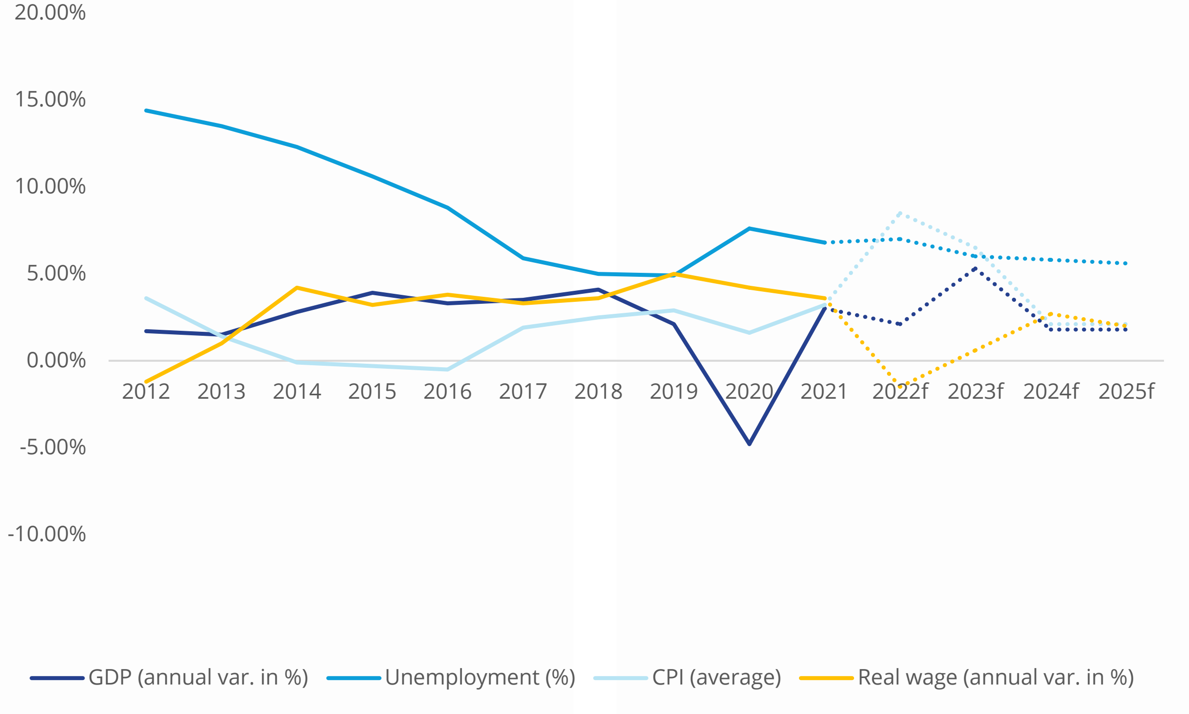
In March, the Ministry of Finance has revised its prognosis anticipating economic growth to reach 2.1% in 2022 (down from the original forecast of 3.5%). Projections for 2023 stayed unchanged at 5.3%.

The invasion is expected to result in decreasing exports to Russia, lowering demand in the EU. Rising energy prices will translate into accelerating inflation (anticipated to almost double reaching 8.5% in 2022), which will in turn have a negative impact on household consumption.

From the industry point of view, significant shortages in components are expected with employment levels growing only slightly (unemployment projected to reach 7.0% for the year).

Should Russia decide to cut its oil and gas supplies, recessional scenario might be possible.

Key economic indicators



Source: Ministry of Finance SR, Colliers

Investment market overview

Top 3 investment transactions

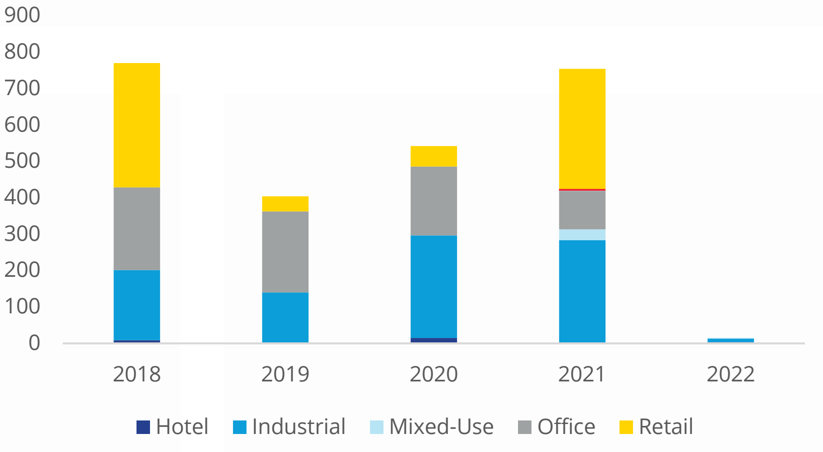
Property	Sector	Sale Price	Buyer
future VGP Park Bratislava II	Land (Industrial)	Not disclosed	VGP Group
Old Bridge	Land (Mixed use)	Not disclosed	Penta Investments
Booster Areal Belusa	Industrial	€10 mil	Arete Invest

Source: Colliers, Real Capital Analytics

Seven investment transactions with a total volume of around €15.35 mil were recorded in Slovakia during the first quarter of the year (excluding confidential and pending deals). The largest proportion (65%) was attributed to transactions within the industrial sector, followed by 24% in the hotel sector, further 11% involved mixed use developments. Investment volumes of most of the transactions remained confidential. Two deals involved the sale of the land plots intended for I&L and mixed-use projects.

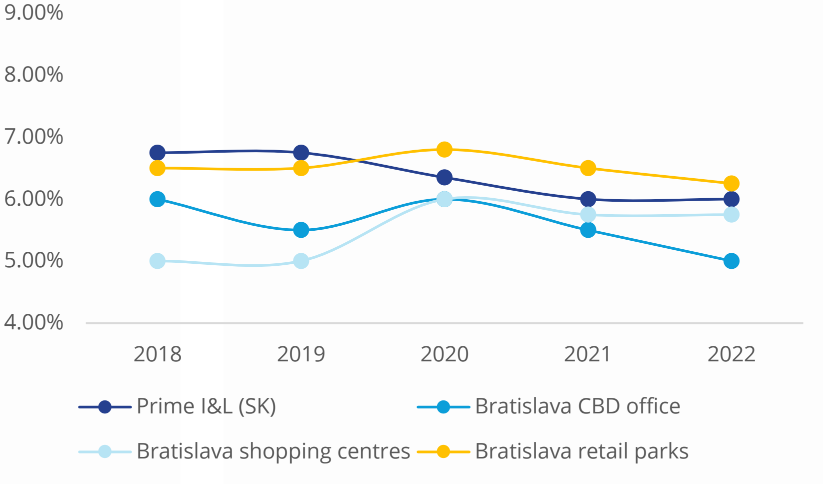
Investment volume (€000,000)

*excluding pending and confidential transactions



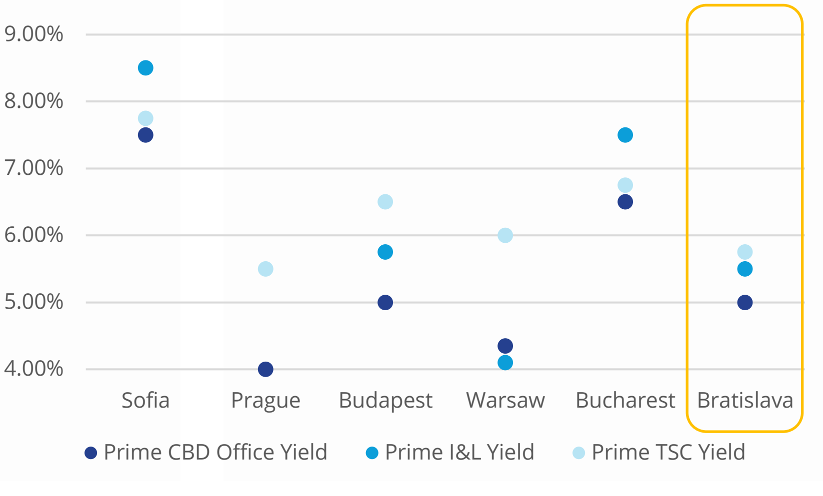
Sources: Colliers, Real Capital Analytics

Prime yields development (%)



Source: Colliers

Investment volume (€000,000)



Source: Colliers

Prime yields

Bratislava office yields compressed by 0.50% reaching 5.00% and 6.50% level for CBD and periphery projects accordingly. Industrial yields in Bratislava region landed at 5.5% (0.25% drop), with the country average stabilizing at 6.00%. Retail segment remained stable in terms of the traditional shopping centres generating 5.75% yield, whilst the indicator for specialized schemes decreased by 0.25% to 6.25%.

Outlook

Lack of core product in the market remains apparent, driving investors towards alternative asset classes including student accommodation, senior living and entertainment facilities.

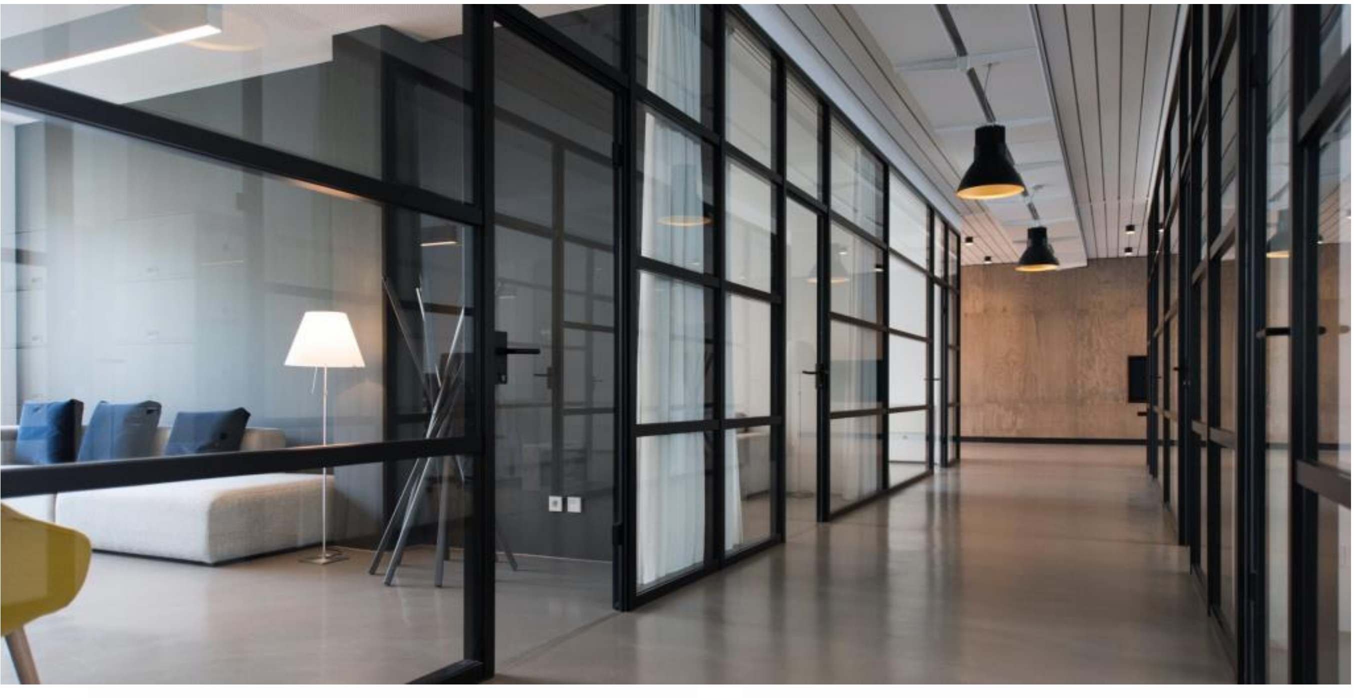
In terms of the traditional sectors, logistics and retail parks continue to attract significant investor interest. The same is true for the residential developments in both Bratislava and the regional capitals. Projects in the early stages of development enabling to secure assets upon completion become more attractive.

Rising inflation and further projection of steep increases in the price levels further drive investors to lock more capital into the real estate projects.

Real estate prime net initial yields

5.00%	5.75%	6.25%	6.00%
Bratislava CBD office	Bratislava Shopping centres	Bratislava Retail parks	Slovakia Industrial

Bratislava Office Market overview



Supply and vacancy

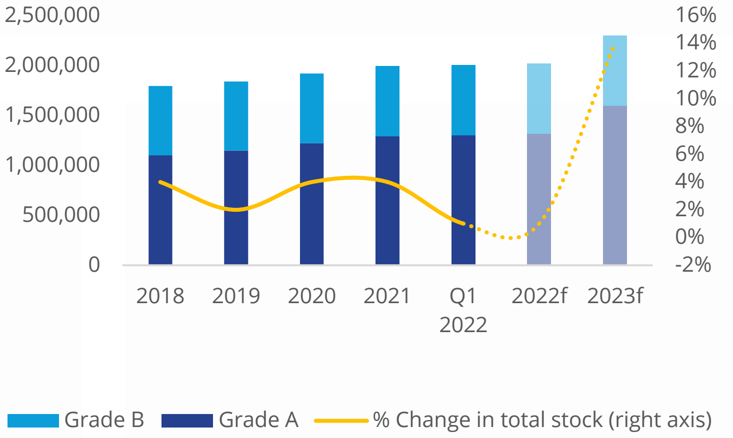
In Q1 2022 total stock of grade A and B office premises in Bratislava was recorded at the level of slightly above 2.00 mil sqm. 65% of the office spaces are classified as grade A and 35% as grade B. Most of the modern office spaces are located in CBD and City Centre areas of the city (31% and 25% accordingly), the same districts continue to be the main hubs for the new development schemes.

One new office building, Omnia BC with 11,160 sqm (fully leased) was added to the market in Q1 2022. Total office stock under active construction in the city amounts to approximately 305,000 sqm with one project (14,000 sqm Lakeside Park II) expected to be delivered in 2022.

37 buildings with an area of around 645,300 sqm (32% of the total stock) are certified with either LEED, BREEAM or WELL.

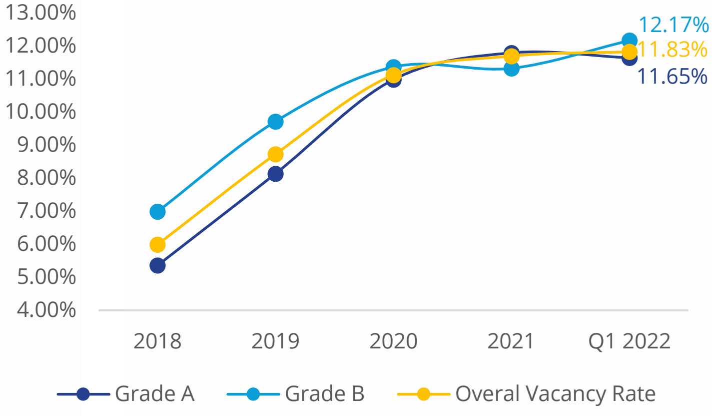
Vacancy rates increased slightly to 11.83% in Q1 2022. 11.65% of grade A premises were recorded as vacant, while the vacancy rate for grade B offices was equal to 12.17%.

Bratislava modern office stock development (sqm)



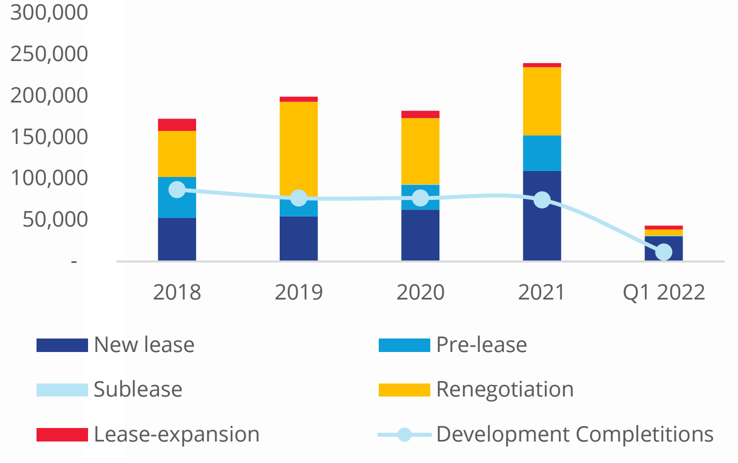
Sources: Bratislava Research Forum, Colliers

Vacancy rate development



Sources: Bratislava Research Forum, Colliers

Gross take-up and development completions (sqm)



Sources: Bratislava Research Forum, Colliers

Top 3 Office leasing transactions

Property	Let area	Transaction
Omnia BC	5,000 sqm	New lease
Panorama Business 2	2,800 sqm	New lease
Digital Park II+III	2,330 sqm	Lease expansion

Sources: Bratislava Research Forum, Colliers

Demand

In Q1 2022 total take up for Bratislava office premises equalled to 43,110 sqm. Majority of transactions involved new leases (69%), followed by renegotiations (17%), lease expansions (11%), pre-leases (2%) and subleases (1%).

Most of the transactions during the quarter (in terms of the sqm leased) were recorded within the IT sector (26%), followed by finance, banking and insurance sector (22%) and professional services sector (19%).

The largest number of transactions (49) was recorded in the segment of less than 199 sqm office premises, while most of the take up in terms of the total area (14,862 sqm) was attributed to transactions sized 1,000-4,999 sqm.

There are currently around 29,000 sqm of sub-lease space being offered on the market. Most of the players are looking to sublease 1 for 1, i.e. for the same rental level and lease length.

Rental rates

Prime headline rents in Bratislava's CBD remained stable at €16.50 sqm/month, while the average rent level increased slightly from €13.50 sqm/month to €14.00. The corresponding rent figures for the periphery locations were recorded at €11.40 sqm/month for prime headline rents and €10.50 sqm/month as an average.

Outlook

In line with the whole real estate industry, Bratislava's office market is greatly impacted by continuously rising construction costs. Landlords aim to have longer leases of 72-84 month (compared to the previous average of around 60 months) to accommodate for higher incentives and depreciation costs. Even older schemes with a higher vacancy are seeking to increase headline rents to compensate for increased prices of fit outs.

Vacancy is seen to stay stable, as the completion of both of the office buildings within the Eurovea II project is being pushed back to 2023. Vacancy increases are thus expected during the next year further exacerbated by relocation of IBM to the New Apollo project.

Industrial Market overview

Supply and vacancy

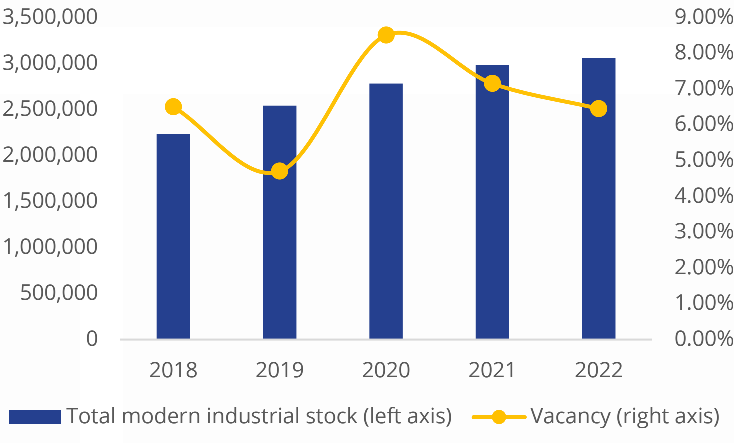
In Q1 2022 supply of class A industrial premises in Slovakia amounted to around 3.06 mil sqm with the majority of stock (49%) located in Bratislava region. Other popular locations include the Western part of the country strategically located and well connected by D1, D2 and R1 highways.

Slovak industrial market is dominated by five largest players CTP, P3, Prologis, CNIC Corporation and GLP. Together these companies hold around 64% of the total market share. Even higher industry concentration is expected once the dominant players complete projects listed in the pipeline.

Around 233,866 sqm of additional industrial premises are currently under active construction in the country. Most of the projects are located in Trnava (53%), Bratislava (29%) and Trencin (13%) regions. Around 67% of the projects involve speculative development.

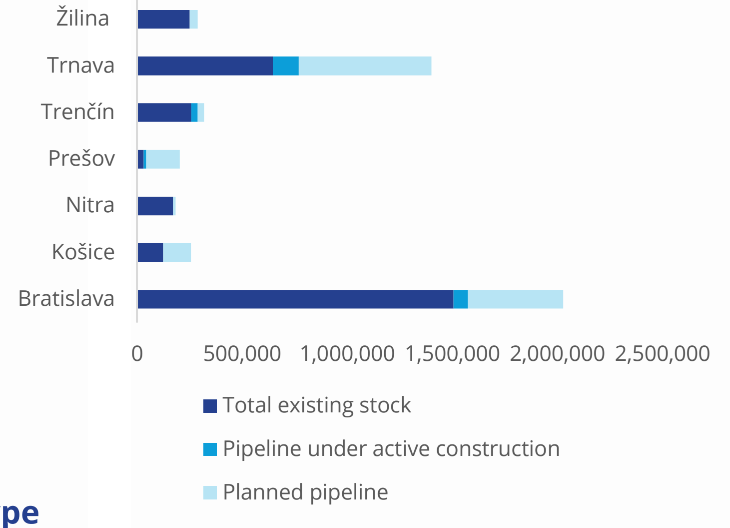
Compared to the previous quarter, vacancy rates decreased slightly to 6.45%. The trend of increased occupancy is expected to continue during the upcoming quarters.

Modern industrial stock ('000 sqm) and vacancy (%) development



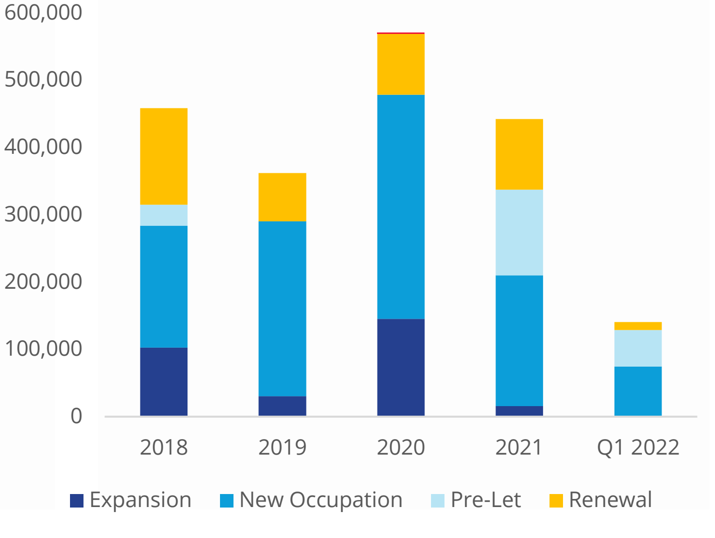
Sources: Colliers

Modern industrial stock and pipeline by region



Sources: Colliers

Gross take-up by transaction type



Sources: Colliers

Top 3 industrial leasing transactions

Tenant business sector	Let area	Transaction
Producer, electronics	44,313 sqm	New lease
Distribution, retail	33,414 sqm	Pre-lease
Distribution, retail	15,000 sqm	Pre-lease

Sources: Colliers

Demand

Occupational activity during the first quarter of the year was equal to around 140,600 sqm, with most of the demand attributed to Trnava (43%), Bratislava (37%) and Kosice (10%) regions. Majority of transactions (in terms of the volume) were represented by new occupations (53%), followed by pre-leases (39%) and renewals (8%).

The highest demand was attributed to the tenants from the distribution sector (specifically 3PL, packaging and retail players), followed by production sector (namely, automotive, electronics, packaging and others).

Rental rates

Prime rental rates across the country increased slightly to €3.9 – €4.5 sqm/month for warehouses and €3.2 – €4.0 sqm/month for logistics and distribution premises. Highest rental rates of €4.0 – €4.6 sqm/month for warehouses and €3.5 – €4.3 sqm/month for logistics and distribution were recorded in Bratislava region.

Outlook

Both landlords and tenants are facing a situation of significantly increased costs. As inflation spikes and construction materials become missing/more difficult to source, future lease agreements, which were previously conducted for 2-3 month, are now shortened to 2-3 weeks, reflecting the maximum time suppliers are able to hold prices. Even though exceptions are possible for very large clients, they are uncommon. This, in turn, translates into upwards pressure on rental rates.

Trnava region (specifically Sered area) remains an exception, where the market stays tenant oriented due to substantial proportion of speculative development.

Overall, regardless the increasing uncertainty, market activity is still strong, as investors are becoming more used to the rapidly changing conditions. General sentiment of the future development of the situation remains positive.

Retail Market overview

Supply and vacancy

During the first quarter of 2022, retail stock in Slovakia amounted to around 1.9 million sqm of gross leasable area, with traditional shopping centres having the largest share of supply (approx. 70%). In terms of distribution, the capital city of Bratislava is a clear leader, accommodating around 35% of all retail premises in the country.

There are two major projects under construction across the country due for delivery in 2022. The first one is the extension of the Eurovea shopping centre, waiting to bring further 25,000 sqm to the capital's modern retail stock. Another scheme – Promenada Nitra, is located in the city of Nitra and planned to be commissioned in April 2022. Additional ongoing engagement includes a revitalization of Danubia shopping center in Petržalka district of Bratislava planned by Czech investment company Star Capital Investments.

In terms of the specialized retail stock, Slovak developer KLM Real Estate plans to build 20-30 retail parks across the country. In 2022 construction is due to start in Pezinok, Chorvasky Grob, Banska Bystrica, Zvolen, Sala and Svidnik. The main tenants are expected to be large discounter non-food chains, such as Pepco, KiK and TEDi.

For more information

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