Q2 2022 | Slovakia

Market Overview

Accelerating success.

Macroeconomic overview

In the first quarter of 2022 Slovak economy grew by 3.1% and reached pre-pandemic levels of the respective period in 2019. Even though foreign demand decreased, economy was mainly driven by higher household consumption and corporate investment. The recovery, however, is expected to be significantly slowed down by the Russian invasion in Ukraine, high oil prices and disruptions in the supply chains.

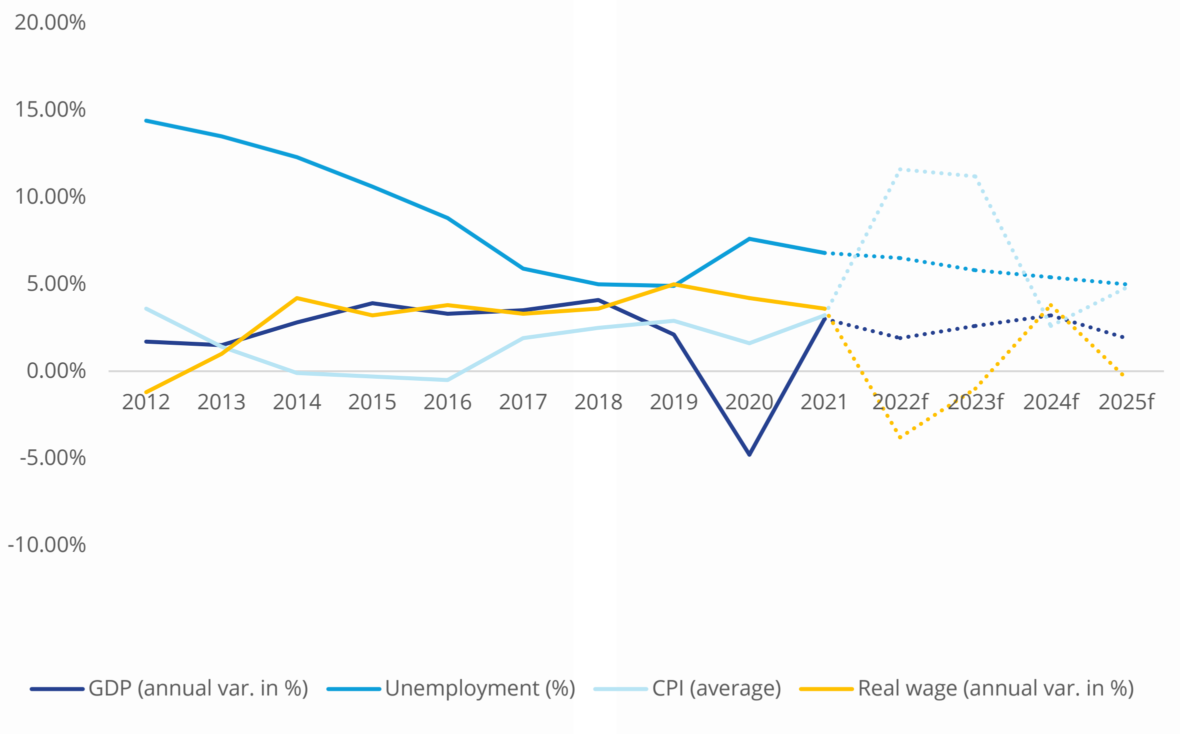
In May, the Ministry of Finance has revised its prognosis anticipating economic growth to reach 1.9% in 2022 (down from the March forecast of 2.1%). Projections for 2023 were also cutback to 2.6% (as opposed to 5.3% projected in March).

Unemployment levels declined slightly to 6.7% as of Q1 2022. Overall figure for the year is projected to equal 6.5% with further decreases expected in the following years (5.8%, 5.4% and 5.0% in years 2023, 2024 and 2025 respectively).

Inflation spiked to 13.2% in June with an annual figure forecasted at 11.6% for 2022. Inflationary pressures and seen to remain during 2023 (estimated at 11.2%) before dropping back to 2.6% and 4.8% in 2024 and 2025.

From the industry point of view, automotive production declined by 23.5% year on year. The fall is mainly attributed to shortages of chips and components made in Ukraine.

Key economic indicators



Sources: Ministry of Finance SR, Colliers

Investment market overview

Top 3 investment transactions

Property	Sector	Sale Price	Buyer
Optima Shopping Centre	Retail (TSC)	€118 mil	Palm Corp s.r.o.
Pradiaren 1900	Office (CBD)	€70 mil	RSJ Group (50% partner buyout, price reflects 100% valuation)
Booster Areal Belusa	Industrial	€10 mil	Arete Invest

Sources: Colliers, Real Capital Analytics

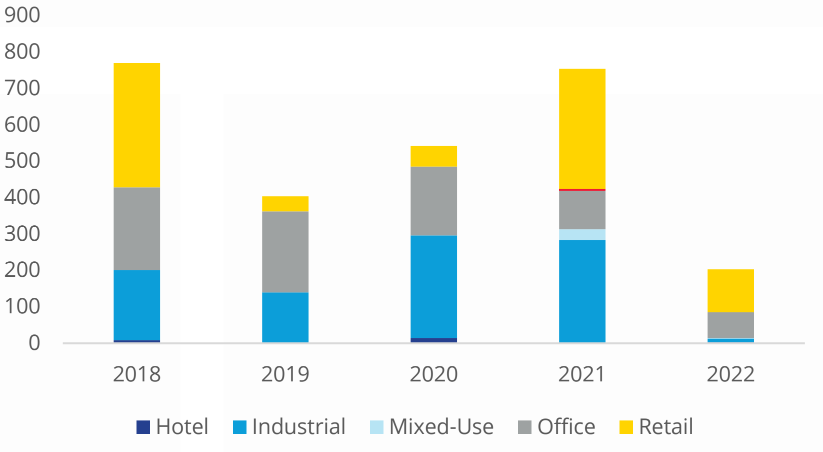
18 investment transactions with a total volume of around €203.35 mil were recorded in Slovakia during the first half of the year (excluding confidential and pending deals).

Notable investments involved an acquisition of Max retail portfolio by Supernova Privatstiftung (confidential), sale of the shopping centre Optima in Kosice to Palm Corp s.r.o. (€118 mil), and 50% partner buyout of CBD business centre Pradiaren 1900 by Czhech investor RSJ Group (€70 mil).

In addition, a divestment of Penta's real estate portfolio to the newly established Alto Real Estate company, owned by the former Penta partner, Mr. Oravkin took place. Total volume is estimated at €400m (transaction involved change of ownership only and was excluded from the investment volumes analysis).

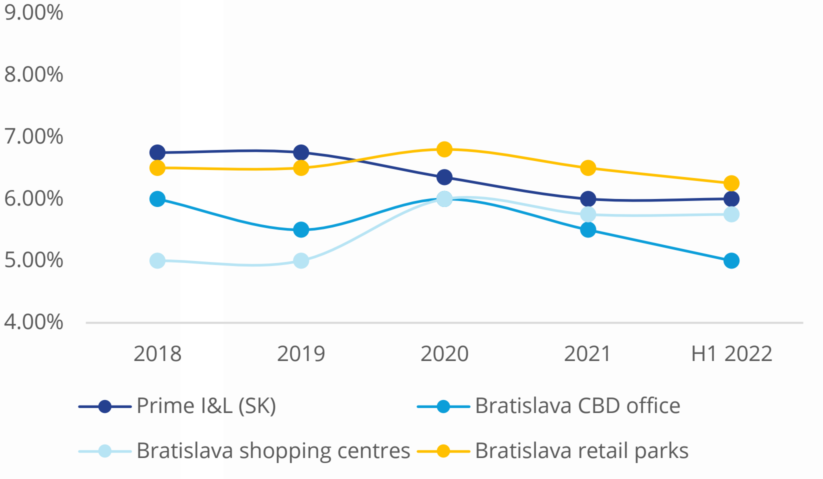
Investment volume (€000,000)

*excluding pending and confidential transactions



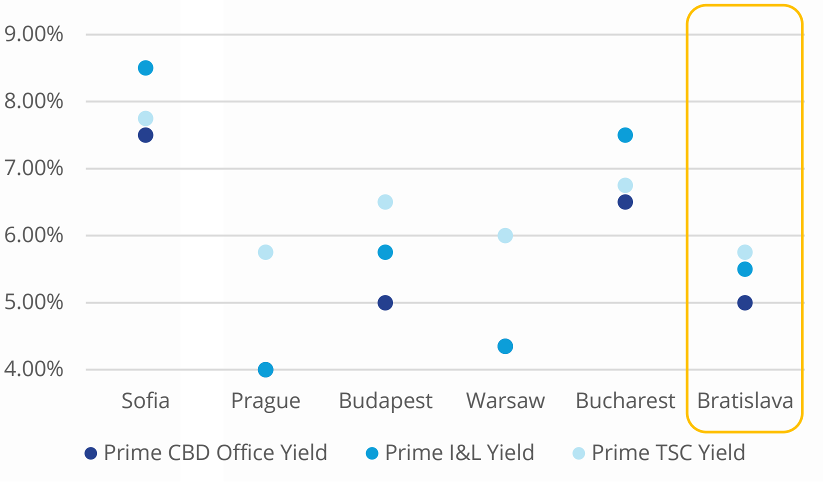
Sources: Colliers, Real Capital Analytics

Prime yields development (%)



Source: Colliers

Prime yields development in CEE (%)



Source: Colliers

Prime yields

Yields for all asset types remained stable.

Bratislava's office yields were estimated at 5.00% for CBD projects, while retail projects generated 5.75% and 6.25% for traditional and specialized schemes accordingly.

Industrial yields in Bratislava region were recorded at 5.50% with the country's average estimated at 6.00%.

Outlook

I&L and retail properties across the country remained the most sought-after investment product. Interest for the residential segment also stayed considerable with offices and traditional shopping centres lagging behind.

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

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

Real estate prime net initial yields

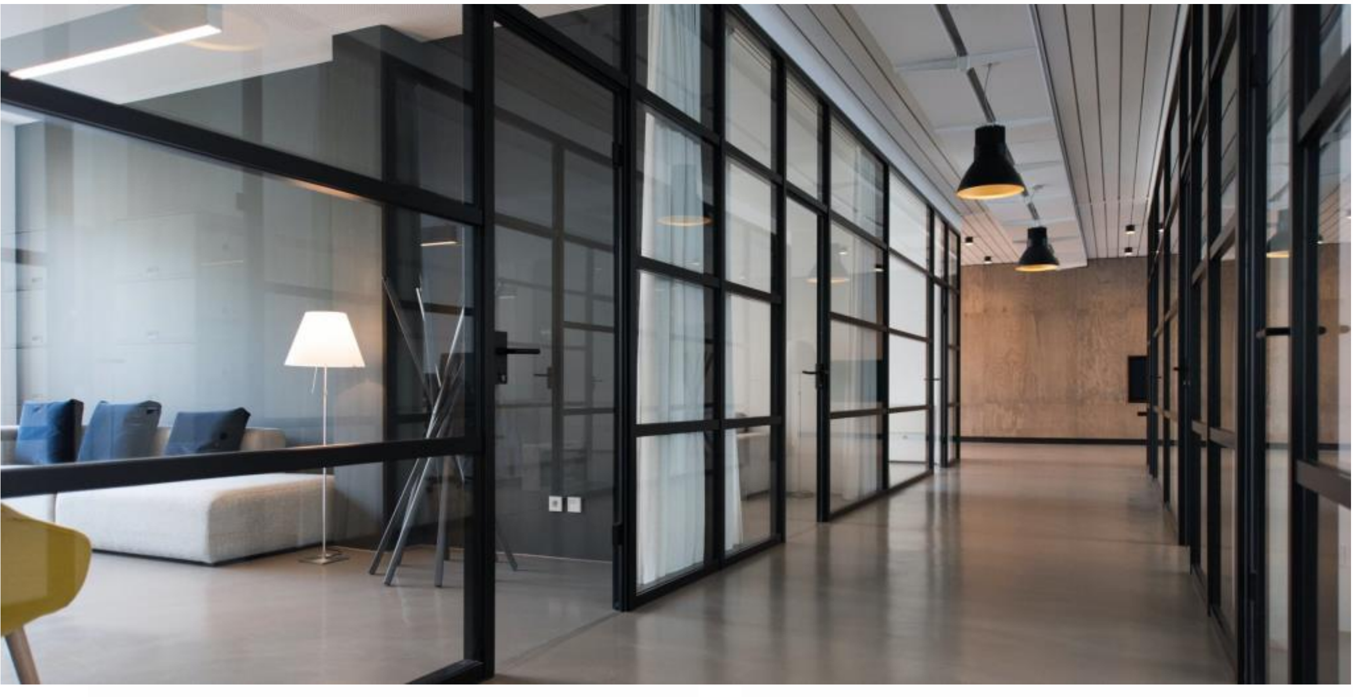
5.00%
Bratislava
CBD office

5.75%
Bratislava
Shopping centres

6.25%
Bratislava
Retail parks

6.00%
Slovakia
Industrial

Bratislava Office Market overview



Supply and vacancy

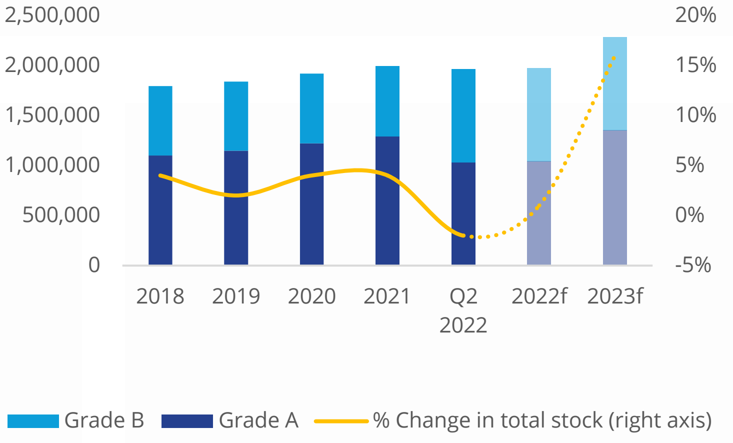
In Q2 2022 total stock of grade A and B office premises in Bratislava was recorded at the level of around 1.96 mil sqm. 16% of the office spaces are classified as grade A+, 37% as grade A and 48% as grade B. Most of the modern office spaces are located in CBD and City Centre areas of the city (32% and 23% accordingly), the same districts continue to be the main hubs for the new development schemes.

One new office building, NIDO, with a total area of 3,436 sqm was added to the market in Q2 2022. Total office stock under active construction in the city amounts to approximately 301,500 sqm with one project (14,000 sqm Lakeside Park II) expected to be delivered by the end of 2022.

38 buildings with an area of around 661,300 sqm (34% of the total stock) are certified with either LEED, BREEAM or WELL.

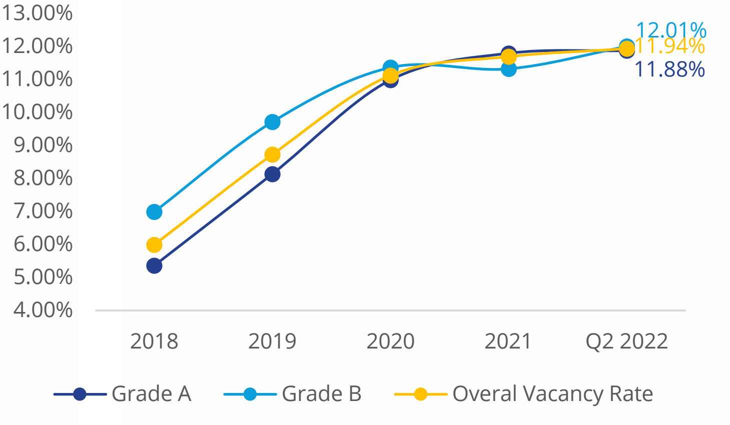
Vacancy rates increased slightly to 11.94% in Q2 2022. 7.66% of grade A+ premises were recorded as vacant, while the vacancy rate for grade A offices was equal to 13.66% and 12.01% for grade B.

Bratislava modern office stock development (sqm)



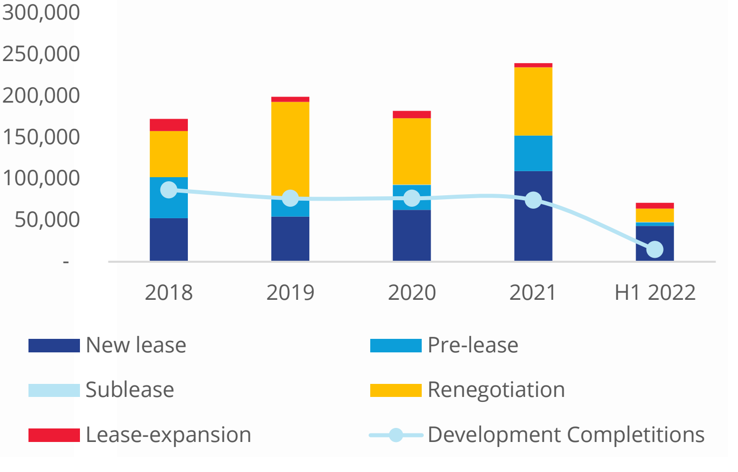
Sources: Bratislava Research Forum, Colliers

Vacancy rate development



Sources: Bratislava Research Forum, Colliers (grade A vacancy includes a cumulative vacancy for grade A+ and grade A properties)

Gross take-up and development completions (sqm)



Sources: Bratislava Research Forum, Colliers

Top 3 Office leasing transactions

Property	Tenant name (sector)	Let area	Transaction type
Lakeside Park II	Innovatrics (IT)	2,540 sqm	Pre-lease
Digital Park I	Wustenrot (Finance, banking and insurance)	2,310 sqm	New lease
City Business Center III	Whitestein Technologies (IT)	2,086 sqm	Renegotiation

Sources: Bratislava Research Forum, Colliers

Demand

In Q2 2022 total take up for Bratislava office premises equalled to almost 27,900 sqm. Majority of transactions involved new leases (47%), followed by renegotiations (33%), pre-leases (12%) and lease-expansions (8%).

Most of the transactions during the quarter (in terms of the sqm leased) were recorded within the IT sector (32%), followed by professional services sector (21%) and finance, banking and insurance sector (15%).

The largest number of transactions (39) was recorded in the segment of less than 199 sqm office premises, while most of the take up in terms of the total area (9,846 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, with the average rent level estimated at €14.00 sqm/month. 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

Room for speculative development in Bratislava's office market is very limited. Increasing construction costs force landlords to further push for the extended lease terms (84 to 120 months) in order to ensure the ability to spread higher expenditures over time and offer tenants better contributions.

Vacancy rates are seen to increase further, mainly due to the new operational realities, where tenants are testing blended concepts and looking to reduce the size of their premises. Our experts see those decreases to amount to 20-30% of the total leased space with more emphasis being placed on the shared workplace and social and collaboration areas.

Industrial Market overview

Supply and vacancy

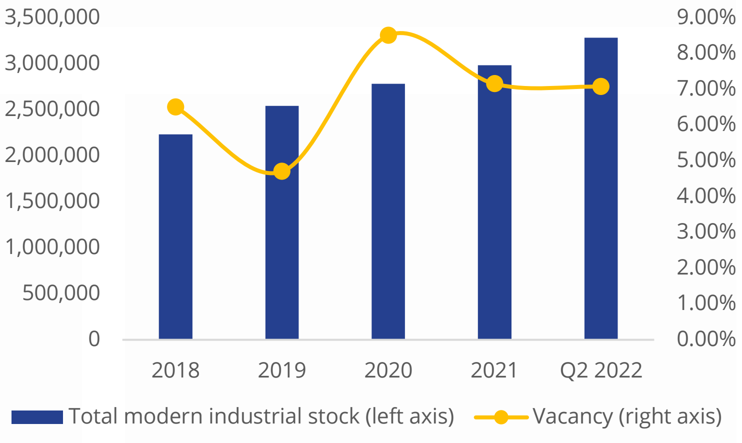
In Q2 2022 supply of class A industrial premises in Slovakia amounted to around 3.28 mil sqm with the majority of stock (47%) located in Bratislava region. Other popular locations include the Western part of the country strategically located and well connected by D1, D2 and R1 highways.

Slovak industrial market is dominated by five largest players CTP, P3, Prologis, CNIC Corporation and GLP. Together these companies hold around 61% of the total market share. Even higher industry concentration is expected once the dominant players complete projects listed in the pipeline.

Around 182,675 sqm of additional industrial premises are currently under active construction in the country. Most of the projects are located in Trnava (44%), Bratislava (22%) and Trencin (17%) regions. Around 51% of the projects involve speculative development.

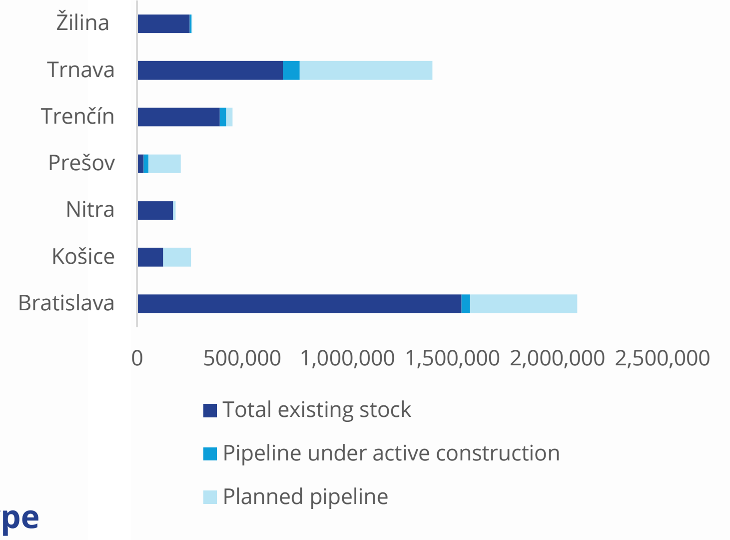
Compared to the previous quarter, with a completion of several projects in pipeline, vacancy rates increased slightly to 7.07%.

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



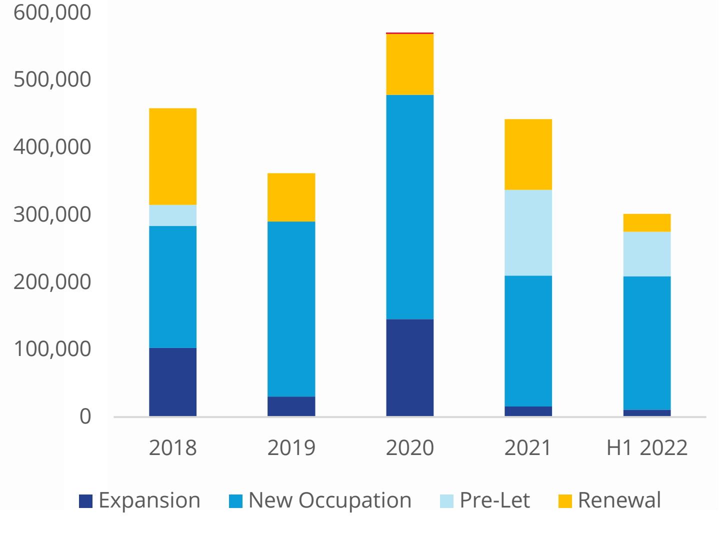
Source: Colliers

Modern industrial stock and pipeline by region



Source: Colliers

Gross take-up by transaction type



Source: Colliers

Top 3 industrial leasing transactions

Property	Tenant name (sector)	Let area	Transaction type
Mountpark Sereď	Samsung (Distribution, Electronics)	18,542 sqm	New lease
P3 Lozorno	Moebelix (Distribution, e-commerce)	13,000 sqm	New lease
Panattoni Plavecký Štvrtok	IKEA Components (Producer, Retail)	12,000 sqm	New lease

Source: Colliers

Demand

Occupational activity during the first quarter of the year was equal to around 161,000 sqm with most of the demand attributed to Bratislava region (80%). Majority of transactions (in terms of the volume) were represented by new occupations (77%), followed by renewals (9%), pre-lets (8%) and expansions (7%).

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

Rental rates

Prime rental rates across the country stayed stable at €3.9 – €4.5 sqm/month for warehouses and €3.2 – €4.0 sqm/month for logistics and distribution premises. Rental increases were apparent on the regional level in Bratislava, Kosice, Presov and Trencin regions. As usual, highest rental rates of €4.0 – €4.6 sqm/month for warehouses and €3.8 – €4.3 sqm/month for logistics and distribution were recorded in Bratislava region.

Outlook

With rising construction costs, Slovak industrial market becomes increasingly landlord oriented. Rent levels keep going up and landlords lose their ability to offer rent guarantees. The highest rental increases are apparent in new developments. Some of the older schemes with substantial vacancies still offer more competitive rental conditions, however, the trend is seen to revert fairly soon as inflationary pressures persist.

Speculative development remains, representing over a half of the projects currently under construction. Larger scale international investors and developers are looking to seize an opportunity to take advantage of the relatively lower costs (seen to keep increasing in future), whilst local players with more limited resources are focused on build-to-suit schemes.

The Volvo Cars automotive group has announced its intention to build the company's third automotive plant in Slovakia near the city of Kosice. The investment in the operations specializing in production of electric vehicles is estimated at €1.2 billion with the manufacturing planned to start in 2026. Exact details of the arrangement are yet to be disclosed, nevertheless increase in market activity within the region is expected in both short and long term (starting from conversions of building permits for land).

Retail Market overview

Market overview

During the second 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.

One shopping centre - Promenada Nitra, located in the city of Nitra, was commissioned in April 2022. Another retail development – extension of the Eurovea shopping centre with a total area of 25,000 sqm, is currently under construction in Bratislava.

Further 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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