

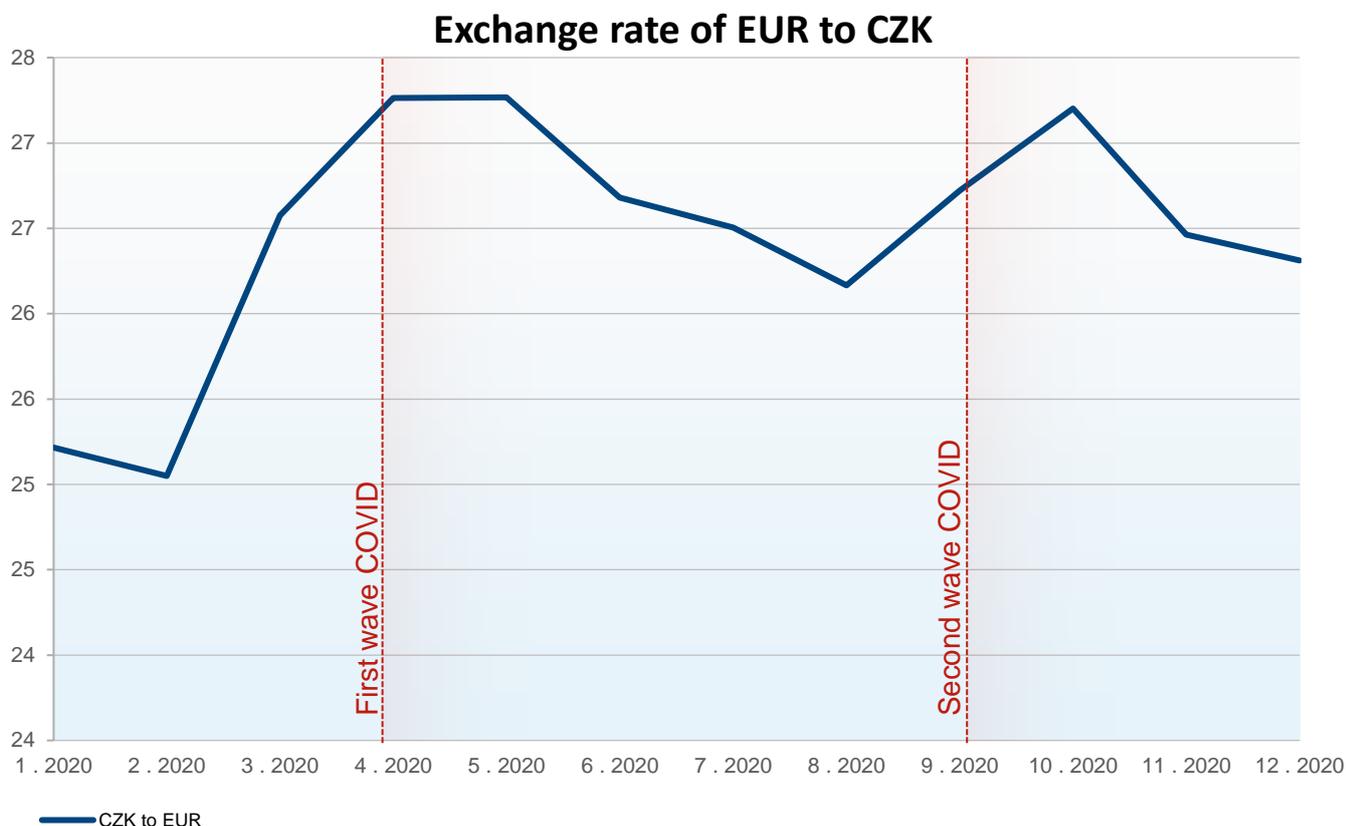


CZECH REPUBLIC

INVESTMENT OVERVIEW

QUARTER 4 | 2020





MACROECONOMIC OVERVIEW

The Czech Republic is in a state of emergency from the first half of October until now. Although the first wave of COVID was managed well in the spring, the second wave is a completely different story. By the end of 2020, the Czech Republic has some of the worst numbers of new cases internationally. With the EU approval of new vaccines in late December, the government has begun distribution to the most endangered population groups and key medical staff. Shortly after this they outlined the first draft of vaccination plans, yet the details can change rapidly. GDP is expected to fall by almost 7% in 2020 and is expected to rise by 3.2% in 2021, mainly during the second half of the year.

Unemployment is rising slowly, but with a rate of 4% in December 2020, it was still one of the lowest in the EU. It is expected that the unemployment rate will continue to increase, mainly as a result of the impact on the travel, hospitality and food and beverage sectors.

The Government budget for 2020 ended in deficit by approximately 367 billion CZK. A similar scenario is already approved for 2021 with a planned deficit of 320 billion CZK. The result of 2020 is the worst deficit in Czech history, almost doubling the deficit from 2009 and the GFC. The forecasted development of inflation is currently stable between 2% and 3% for 2021. Rates from the Czech national bank have been kept at minimal levels since May 2020. As for the residential market, in contrary to public belief, mortgage rates fell under 2.0% during 2020 and these extremely cheap loans are currently encouraging clients to invest in the residential sector, despite the continued strong increase in pricing. A record total volume of approved mortgages in 2020 is only proof of this trend.

FIGURE 1: Czech GDP compared to Eurozone

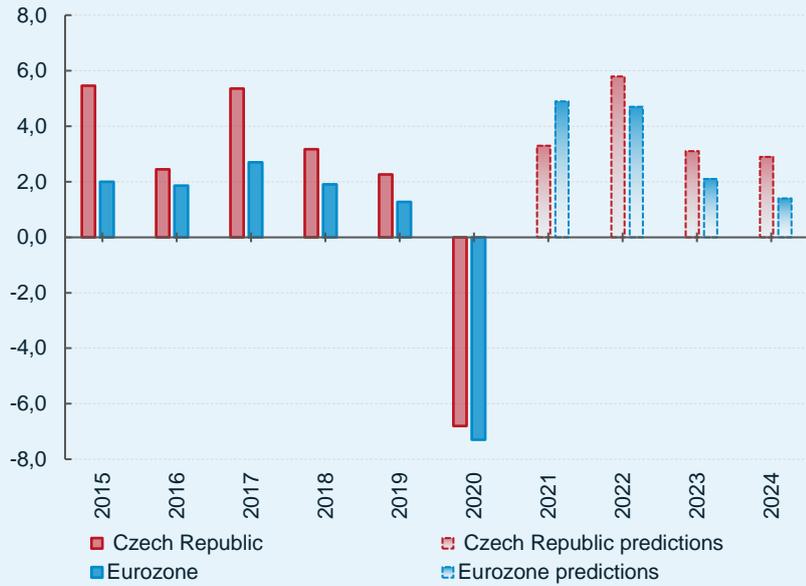


FIGURE 2: Unemployment rate

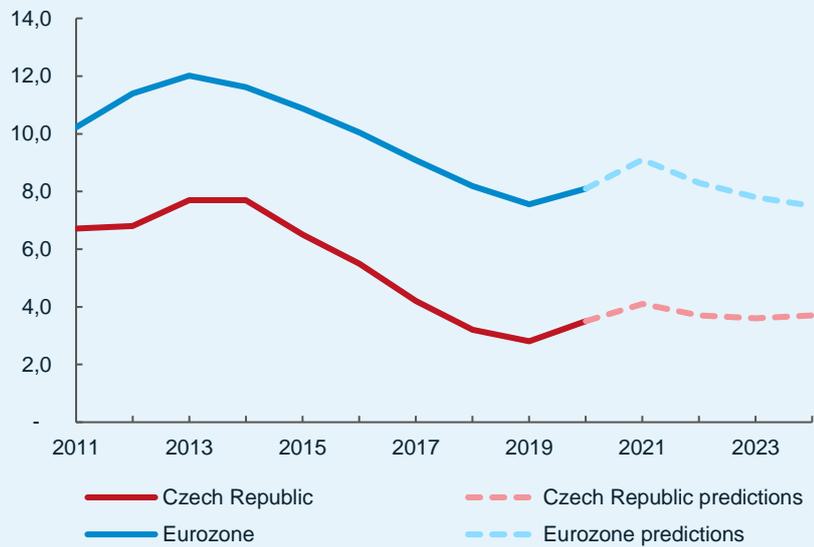
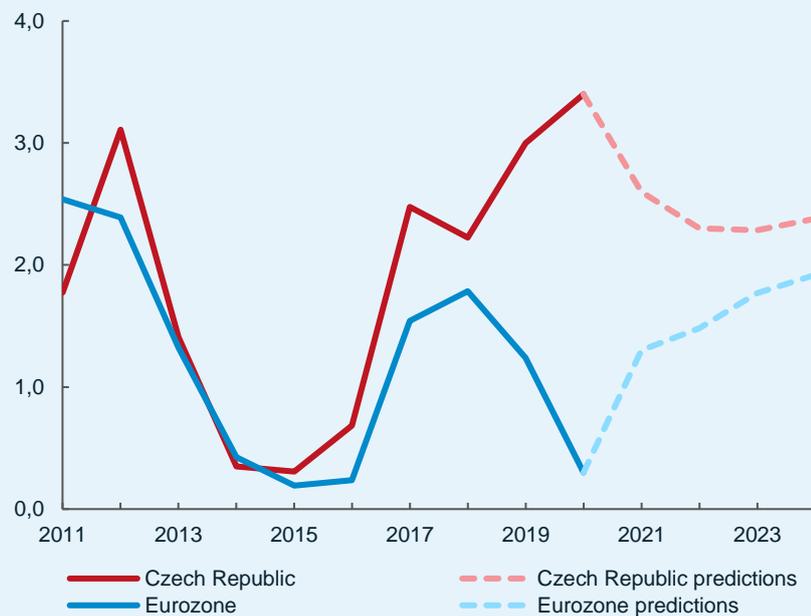


FIGURE 3: Consumer Price Index



Q4 OVERVIEW

Although the Czech Republic spent Q4 in a state of emergency, with borders being more closed more often than open towards the year's end, the Czech real estate investment market finished on less than record breaking results but, considering the challenging year, it was far from being bad.

Total investment volumes for 2020 reached €2.66 billion. This figure is a decrease of ca. 16% YoY but it is still above the 10-year average. This volume was heavily supported by the Residomo transaction from the first quarter which represented ca. 50% of the total annual volume. Without, it would have meant the lowest volume since 2013 and a YoY decrease of over 55%. The lower levels of activity is also visible from number of deals, when just 47 transactions took place, almost half of the number we were used to from the last four years.

Total investment volumes for the fourth quarter reached approximately €535 million with 19 transactions, mostly in the office and retail sectors. The biggest transaction of fourth quarter, and biggest office transaction of the year, was closed at "five minutes to midnight" as Penta sold Churchill Square office project (or buildings Churchill I and II) to Českomoravská Nemovitostní (ČMN) in a joint venture with Corporate Finance House

Group (CFH). With this transaction, ČMN becomes one of the largest office landlords in Prague. The volume for these two core assets was a reported €153 million. Other significant deals of the quarter included the sale of the new J&T Bank building within the J&T Group for €75 million, and the sale of IBC by Mint Investments to Generali for €68.5 million.

Other sectors were also active with transactions and especially regional retail parks still in the spotlight, due to their high levels of occupancy and relatively cheap service and management costs. Immofinanz, ZDR Investments and DRFG are among the most active buyers.

Yields

Although we see continued, pent up demand, we also recognize the level of caution from investors and therefore an easing on the pressure on pricing, but not in terms of discounts. Yields for high street retail properties and shopping centres remained on their levels from last quarter, despite limited transactional evidence. For offices and industrial assets, current prime yields are corresponding with closed transactions.

OUTLOOK

As the finalisation of the Arete portfolio sale was pushed into 2021 along with the announced acquisition of the recently completed Parkview office building by DEKA from Skanska, we already have a solid start to 2021.

We see ongoing demand for Core and Core+ product, but investors do not fear any opportunity with longer WAULTs and solid tenants. We see more and more investments into commercial real estate by private groups and companies who were not among investors in the past, but now they seek some vehicles to invest their capital with low risk.

Two sectors that look promising for investors are the industrial and residential sectors. With rental housing on the rise and

developers looking to increase the development of rentable product, several investors such as Zeitgeist and Mint are already aiming at BTR projects or joining forces with developers to build tailor made projects for future acquisition. The industrial sector is also in very high demand but suffers from a lack of available product as the Czech market is largely controlled by developers who are long term holders of their assets.

FIGURE 1: Investment volumes in the Czech Republic (€ millions)



FIGURE 2: Share of capital per region of buyers and sellers in 2020

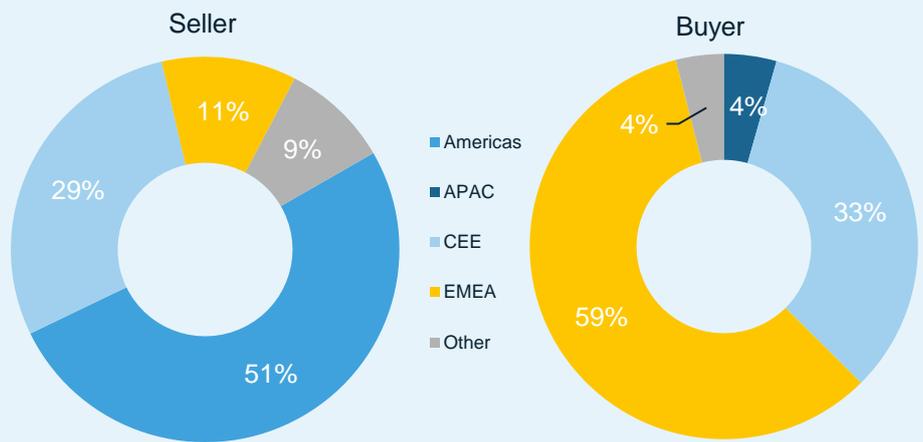
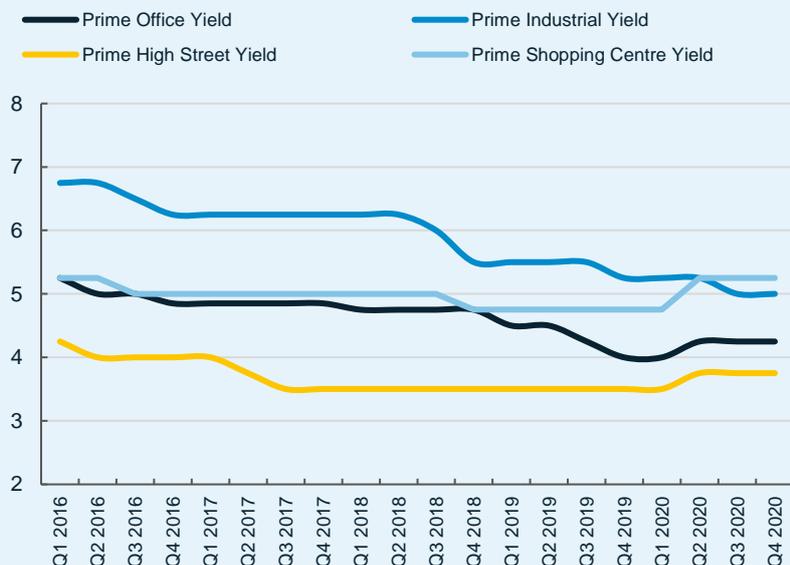


FIGURE 3: Prime gross yields (%)



Sources: Figures 1 – 3: Colliers International

FOR MORE INFORMATION

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