Q1 2023 | Czech Republic

Investment Market Overview

Czech investment overview

Did we make the successful step into 2023?

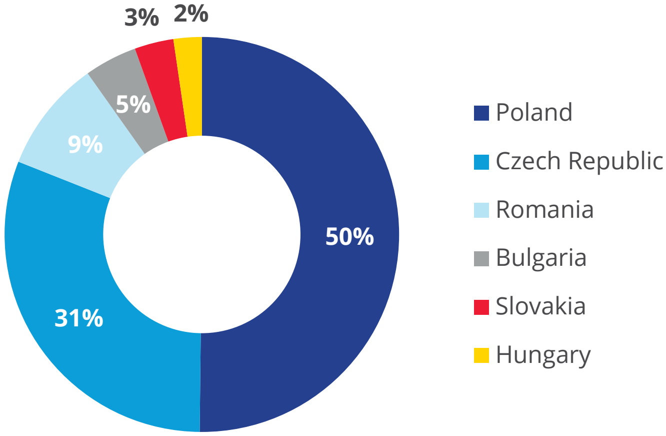
Despite the market feeling more comfortable already, a considerable period of uncertainty is still ahead of us, and the commercial real estate investment market can still move in any direction, as increases of interest rates by the national bank or unyielding inflation are still on the table. The trend of lower investment volumes which started around H2 2022 translated into the Q1 of the current year.

Surprisingly, the investment volume in Q1 2023 reached approximately €400 million, which is the largest amount since the successful Q1 2022 where were accumulated transactions of several high-valued office properties in Prague.

The largest transaction responsible for over 50% of the Q1 investment volume was a disposal of the Trei retail portfolio, composed of tens of retail parks and convenience shopping-focused schemes. This was acquired by Plan B Investments; a local group of private investors and the sale was discussed on the market for the whole previous year. Other transactions from the retail sector were not reported. The rest of the accumulated volume was split mainly between traditional asset classes of offices, industrial and residential. Although the number of transactions is still lower across the classes, we can see the focus of investors aimed at value-add assets or fully opportunistic acquisitions. Many of the transacted assets will eventually undergo major refurbishments, or expansions, will be completely repurposed or were only acquired because of the land.

As for the buyer's origin, the CEE locals traditionally dominated the share of volume with 89%. We identified 9 active investors from CEE (respectively only from the Czech Republic), with another three investors based across Europe. No investor from Asia or America closed the deal during Q1. The institutional investors, which were buying from time to time on the Czech market during the last years are now seen more on the other side of the transaction. This is probably a result of their effort to solidify their portfolios towards energy efficiency and sustainable operations. This may prove difficult to implement for some local properties. Where the assets do not fit such policies, they are passed to some opportunistic local investor, in most cases.

Comparison of investment volumes in CEE
(2022, in € billions)



Sources: Colliers CEE Investment Scene Report

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Did yields soften again?

Pricing is still a big question mark, especially as the prime properties are not on the market and the benchmark move is questionable. Yet mainly due to the situation in the financing, we decided to move the prime yield for offices outwards by 25 basis points to 5.25%. Other prime benchmarks for prime yields for shopping centres, high streets and industrial assets were left unchanged at the quarterly review. Looking ahead, we see space for yield adjustments in the office and industrial sectors, but the upcoming six months will be decisive for the market.

Prime properties, if they come to the market at all in 2023, will probably hold their price high even in comparison to the levels before the current crisis. With obvious necessities for prime property, such as higher WAULT, stable tenants and mint property conditions, such properties (new A-class offices or well-connected logistics schemes) will probably tick all the boxes regarding ESG compliance easily and these non-financial aspects can nowadays impress even the most conservative investors.

Core plus and value add can prove to be even wilder markets in terms of pricing expectations as many of the assumptions on both sides of the transaction can prove completely unrealistic due to current economic and market conditions.

Prime office yield

5.25%

Y//Y: +1.25%

Prime industrial yield

4.75%

Y//Y: +0.75%

Prime retail yield – High street

4.00%

Y//Y: +0.25%

Prime retail yield – Shopping centres

5.75%

Y//Y: +0.25%

Prime retail yield – Retail parks

5.75%

Y//Y: +0.25%

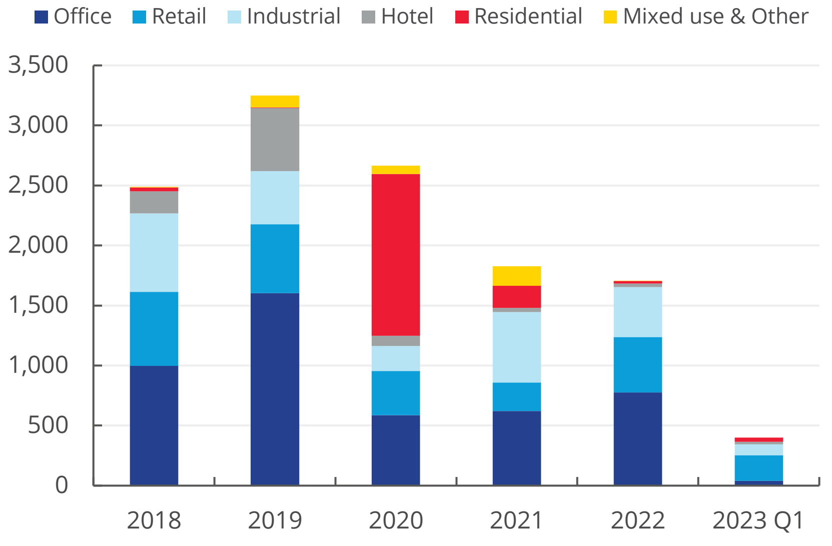
Prime residential yield

3.30%*

Y//Y: -0,10%

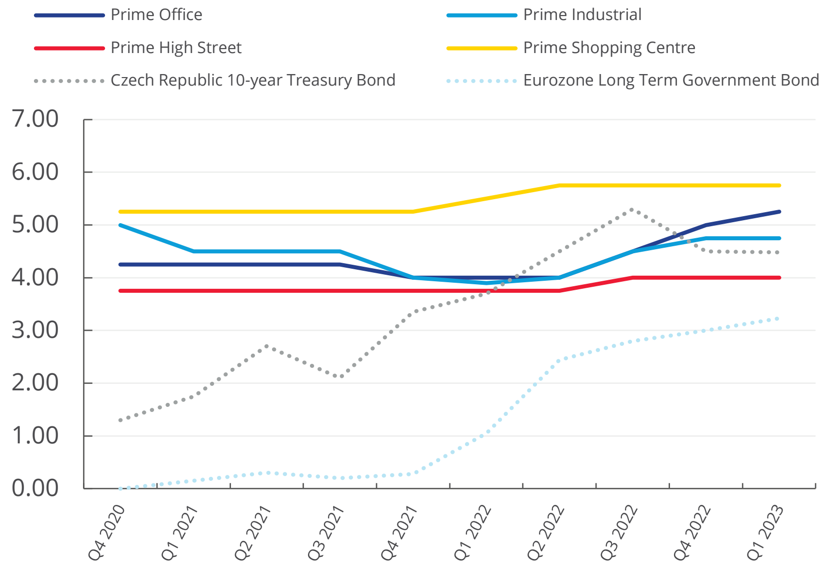
* - Considered for a single standard apartment in a new building with average rent and average sale price.

Investment volume
(in € millions)



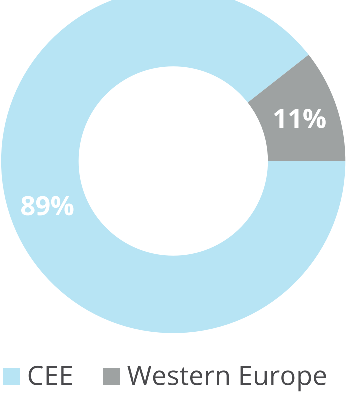
Source: Colliers

Prime yields development
(%, last ten quarters)



Sources: Colliers, ECB, Oxford Economics

Source of capital
(2023 Q1)



Source: Colliers

Czech investment overview

Top transactions of Q1 2023

Property	Sector	Price	Buyer
Trei Portfolio	Retail	€220 million*	Plan B (CZE)
CBPI Park Liberec	Industrial	€31 million*	Crowdberry (CZE)
Solitaire	Office	€30 million*	Acord (CZE)

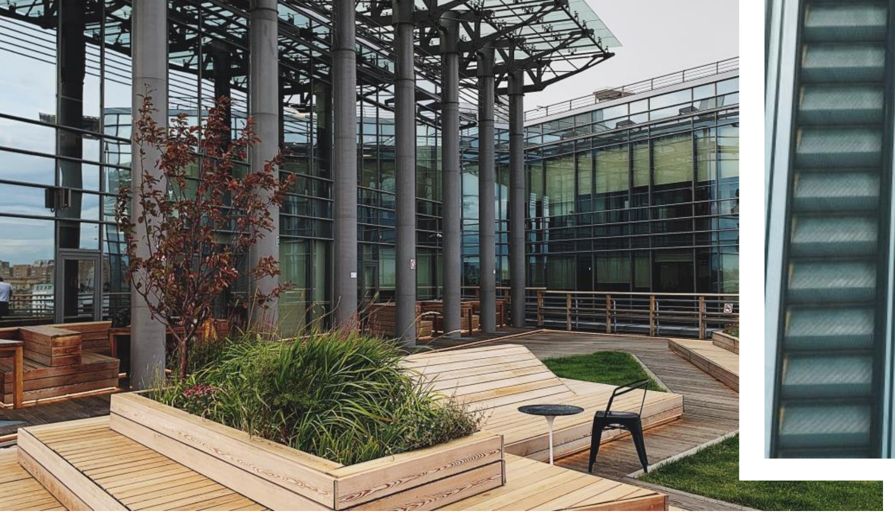
* - Price estimation

Source: Colliers

What 2023 will be like for real estate investments?

Despite the relatively successful Q1, our expectations for the rest of 2023 remain conservative. The annual volume should probably not exceed €1.5 billion but will be above €1.0 billion. Unless some prime product or surprising cross-border portfolio rewrites the books completely. But this event is in our view unlikely. The shortage of core and core+ products has constrained the market for years and this fact already increased investor interest in alternative assets - brownfields, ongoing projects or enriching the landbanks for future purposes as some of the weaker investors could fall into difficulties.

Czech and CEE investors will continue to dominate the leaderboards of volume and activity as a reminder, that local knowledge, market relationship and a careful approach are essential in regional submarkets. Global and European investors are already present on the market and will continue to carefully consider possible acquisitions yet finding any "off the shelf" investment could prove difficult. Although the change will come inevitably, we expect the market to pick up the pace approximately 12 months from now in early 2024. The fact is that by the time that happens; the price expectancy should already have normalised.



Macroeconomic overview

The Czech economy GDP forecast for 2023 is now at -0.7%, according to Oxford Economics. A series of growth downgrades in forecasts for the Czech economy continued in the first quarter, owing to a combination of continuing weak consumer spending, persistent inflation (where we albeit may be seeing the light at the end of the tunnel), weakening retail sales, high interest rates weighing on the economy and households, and worsened outlook overall for financing and Eurozone amid the looming banking crisis. We are looking at GDP growth of around 2.3% for the year 2024.

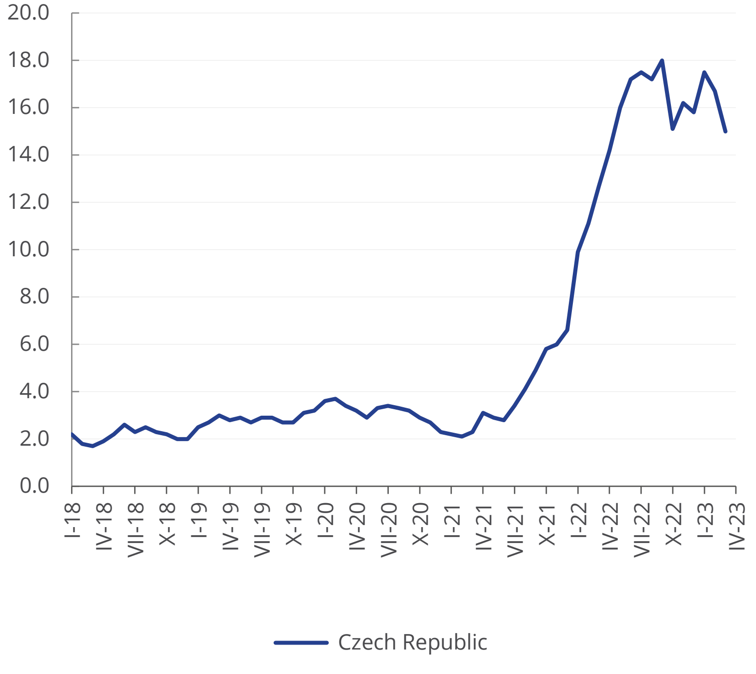
Weak activity in the economy was ongoing in Q1 2023. Consumer spending remains low and does not show many signs of recovery. Consumer confidence surveys remained deeply in the negative territory in Q1 2023 and are not likely to recover much through Q2. Retail sales seemed slightly more upbeat in expectations at the end of January but in the end performed weakly in Q1. Industrial production fell in January but increased slightly in February presenting a mixed batch of results in Q1. The industrial confidence indicator presents a similar story, staying negative for most of Q1, as both industrial actors and consumers expect negative development in the sector for now.

The weak growth and activity is co-generated as an effect of the policy rates of the Czech National Bank. The hawkish policy of the CNB, originally fashioned to hastily combat high inflation, may now see results that will encourage CNB to turn the tide and ease rates in the second part of the year. Private investment was falling q/q at the end of 2022 and we expect the situation to be no better when results come in for Q1 2023. The high rates are still especially apparent in the rate of issuance of mortgages – down 54% y/y in February.

In the end though, it is not just weak results and demand in the economy but also deflationary pressures, that will persuade the CNB to get on the road to lower rate territory. Inflation seemed to be easing slightly at the end of Q1 2023, reaching 15% y/y in March. At the end of 2022, forecasts pointed towards much stronger easing of price pressures during Q1. While that did not materialise yet, maybe now we've finally reached the point where inflation might really ease after all, helping to appease the central bankers.

As for the labour market, the situation remained stable with little change during Q1. The unemployment rate was 3.7% in March, down 0.2% m/m. In 2022, nominal wages grew by almost 8%. In reality though, real wages (when adjusted to inflation) decreased by 6.7%, significantly decreasing the purchasing power of consumers. The start of the year saw the first small increase of real wages, but still far below the levels in 2021.

Inflation rate
(Y/Y, %, 2018 –2023)



Source: Czech Statistical Office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