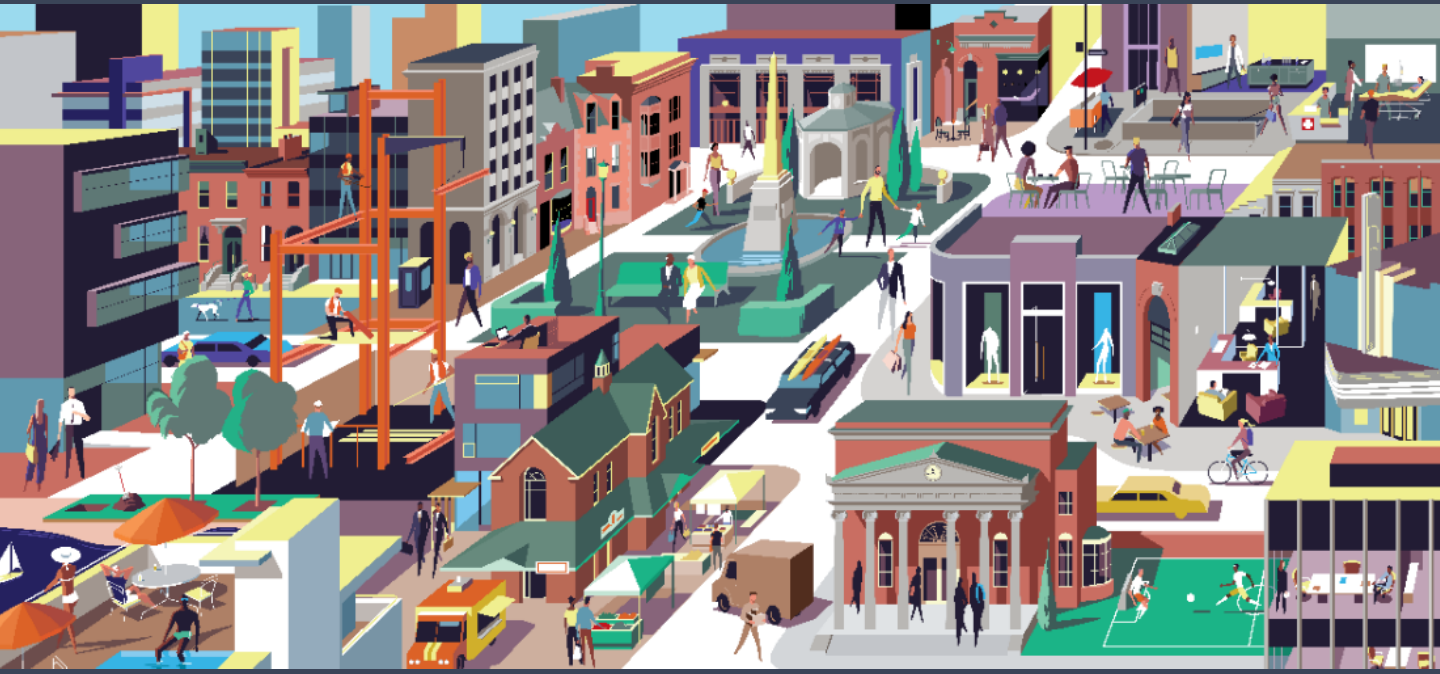
Avisource Q1 2021 Czech Republic | Investment Market Tracker



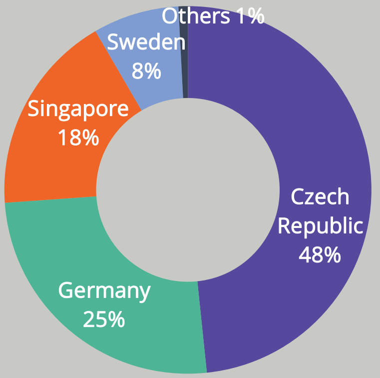
HIGHLIGHTS

- Prime Industrial Yields have converged with Prime Shopping Centre Yields as investor demand focuses upon logistics product; further compression is anticipated
- Retail parks have proved to be Covid-resilient and become the preferred retail format in the sector
- Deep domestic capital resources continue to dominate as they account for almost half of the total investment volume

PRIME YIELDS

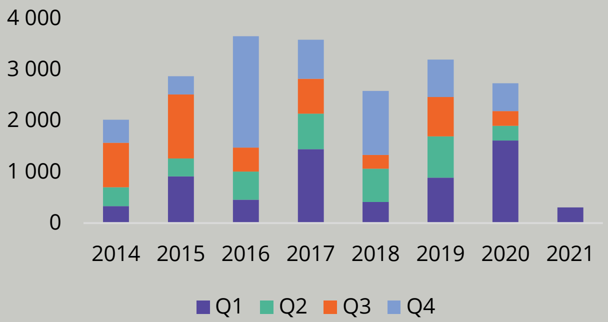
OFFICE	INDUSTRIAL	SHOPPING CENTRES	HIGH STREET
4.00%	4.50%	5.50%	4.25%

Investors activity by origin
Q1/2021, %



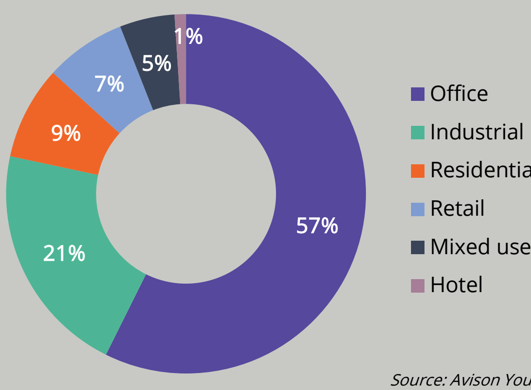
Source: Avison Young

Investment volume by quarter
€ million



Source: Avison Young

Investment volume - Shared by sector
Q1 2021, %



Source: Avison Young

Investor news

- German real estate investor Peakside Capital has completed the disposal of the last of its properties in its portfolio of 72 retail assets in the Czech Republic. The properties were sold between 2015 and 2021 via 38 independent transactions.
- The development groups KPD Group and Exafin commenced negotiations with investors on the sale of seven retail parks across the Czech Republic. Two parks have already changed owner. Retail Park Okružní (České Budějovice) was sold in Q4 2020 and Retail Park Poděbradská (Prague) at the beginning of this year.
- The British retail chain Tesco continues to sell its larger shopping centres in the Czech Republic. It now plans to allocate another five commercial properties for sale from its portfolio, including its domestic headquarters at Eden shopping & office centre in Prague 10.

Transactional Performance

In the first quarter of 2021, the impact of the Covid pandemic on the investment market was still evident, with dampened investment volumes and transactions highly limited in the retail and hospitality sector.

Total investment volume in real estate exceeded €300 million, down by 82% y/y and 46% q/q. Volumes were dominated by office transactions (57%), followed by industrial assets (21%) and residential (9%). Czech buyers took a 48% share on volume followed by German funds (25%).

Among the most significant transactions closed this year was the acquisition of the Nová Karolina Park office building in Ostrava by the Czech company RT Torax Group. The value of the transaction was not disclosed but is estimated at €80 million. This was followed by the acquisition of the Parkview office building in Prague by Deka Immobilien for €77 million. In the industrial sector Cromwell European Real Estate Investment Trust acquired the Arete CEE II Fund portfolio in the Czech Republic and Slovakia for €113.2 million; the Czech transaction value was estimated at €54 million (allocated).

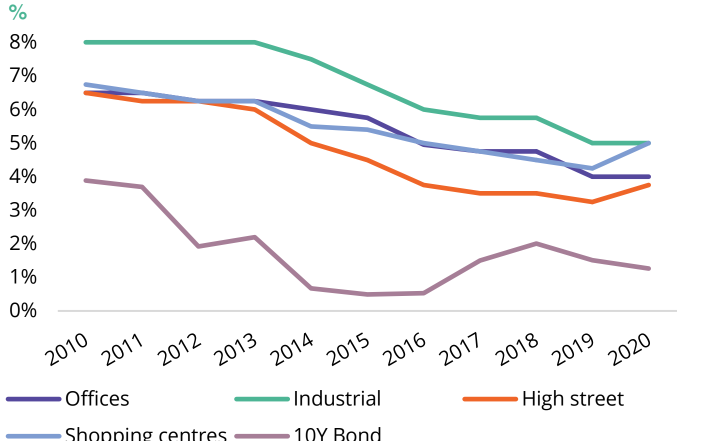
Investor demand for real estate remains strong, especially for logistics, residential and office assets in premium locations, as confirmed by transactions in this quarter. There has also been an increase in demand in retail parks, which, unlike shopping centres, have shown greater resilience during the pandemic.

Prime yields have compressed in the industrial sector but have increased in shopping centres and the high street segment.

Ryan Wray, Principal Czech Republic

"The market has slowed dramatically due to the current Covid restrictions. Investor demand remains strong and there is a shortage of product. But investors have adjusted their approach to certain asset classes. There is a greater focus on the supply and demand dynamics of micro-markets and a Property's resilience to shocks in occupier demand. In-depth local market research and knowledge will be the differentiator between those acquisitions that are deemed "good" or "bad" in 5 years from now".

Prime yields evolution 2010 - 2020
%



Source: Avison Young, CNB

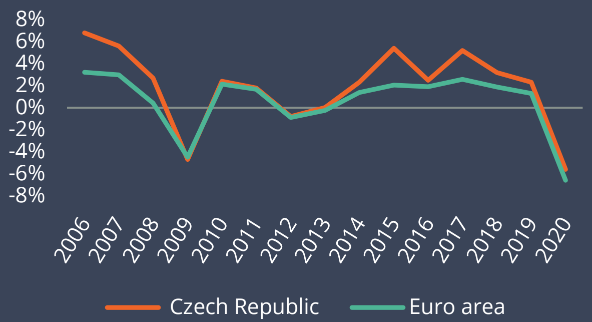
Significant investment deals in Q1 2021

PROPERTY NAME	CITY	SECTOR	PURCHASER	PRICE (€m)
Nová Karolina Park	Ostrava	Office	RT Torax Group	80 (estimated)
Parkview	Prague	Office	Deka Immobilien	77
Arete Portfolio	multi-city	Industrial	Cromwell Euro REIT	54 (allocated)
Unicity	Plzen	Residential	Heimstaden Bostad	23

Economic Overview

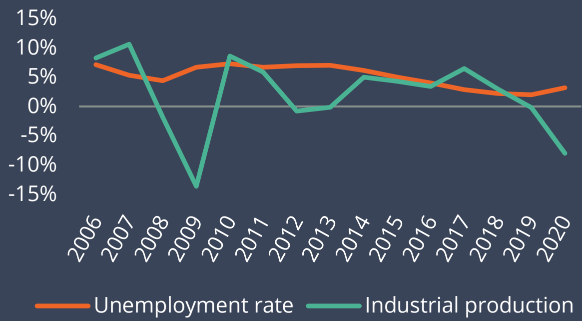
- The first quarter of 2021 was again affected by the Covid-19 pandemic. The strictest coronavirus measures to date have come into force since the beginning of March 2021, including limited movement of persons between districts.
- According to the Czech Statistical Office, the Gross Domestic Product (GDP) of the Czech economy fell by 5.6% in real terms in 2020, which was the deepest decline in the history of the independent Czech Republic.
- At its meeting on 24 March 2021, the Board of the Czech National Bank kept interest rates at the current level. The basic interest rate thus remains at 0.25 percent. A rate hike is expected in the second half of this year at the earliest.
- In 2020, CPI reached 3.2%. In February 2021, it was 2.9%. For 2021, we expect average CPI to be 2.5%.
- The Czech currency remained sensitive to the domestic development of the pandemic. The koruna has been falling steadily since mid-February this year, when it was the strongest since the onset of the pandemic sitting below 26 CZK/EUR. Subsequently, however, the trend reversed due to the deteriorating epidemiological situation. For most of March 2021 the koruna remained close to 26.15 CZK/EUR compressing again towards the end of the month to 26.05 CZK/EUR.
- The unemployment rate reached 4.2% in March 2021, falling by a tenth of a percentage point month on month. The unemployment rate is expected to rise in the coming months. However, government employment measures should further dampen sharper escalation of unemployment.
- In Q1 2021 Czech industrial production values were significantly affected by the lockdown. Modest year on-year growth was expected but production fell by 2% month-on-month in February 2021, which is a 2,6% year-on-year decrease compared to February last year. However, a recovery in production and output is expected to commence in the second half of April.

GDP (at constant prices 2015)
%, y/y



Source: CSU, Avison Young

Unemployment rate, Industrial production
%, y/y



Source: CSU, Avison Young

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