

# Czech Republic Investment Market



## ECONOMIC OVERVIEW

- Czech economy expanded by 2.5% in 2019, slightly slower than in 2018 (2.9%). Further deceleration to around 2% is expected in 2020, primarily due to weakening household consumption, which is currently the main economic driver.
- Unemployment rate stayed the lowest in the EU, falling back to 2.0% in December 2019. During 2019, unemployment in the Czech Republic most probably reached its lowest point and in 2020 is forecast to slowly climb to around 2.3%.
- Average nominal wage growth in 2019 is expected to reach 7.0%, following a 7.6% growth recorded in 2018. In 2020, wage growth is projected to decelerate to 5.6%.
- Inflation rate reached 2.8% in December 2019, well above the 2% ČNB target, but still within the tolerance band. The annual average inflation rate for 2019 reached 2.8% (slightly above 2018).

## INVESTMENT MARKET HIGHLIGHTS - 2019

- Total investment volume in 2019 reached €2.96 billion, showing a 6% y-o-y increase. There were six large transactions that accounted for 34% of the total volume. Transactions below €100 million remain the most common and accounted for 66% of 2019's volume.
- Commercial properties with a value of €2.36 billion were traded in Prague alone, representing 80% of the countrywide investment activity.
- For the fourth consecutive year domestic buyers continued to drive acquisitions, accounting for 36% of total transaction volume.
- Similar to most years, the office sector made up the largest share of the annual investment volume (46%). In a first for the Czech market, and as a sign of the growing interest in alternative investments, hotels made up the second largest share of the market with 19%. Retail assets accounted for only 18% of the total.

## Czech Investment market in 2019



**€2.96 billion**  
Total investment volume in 2019  
(+6% y-o-y)



**3.90%**  
Prime office yields



**4.25%**  
Prime industrial yields



**5.00%**  
Prime shopping centre yields

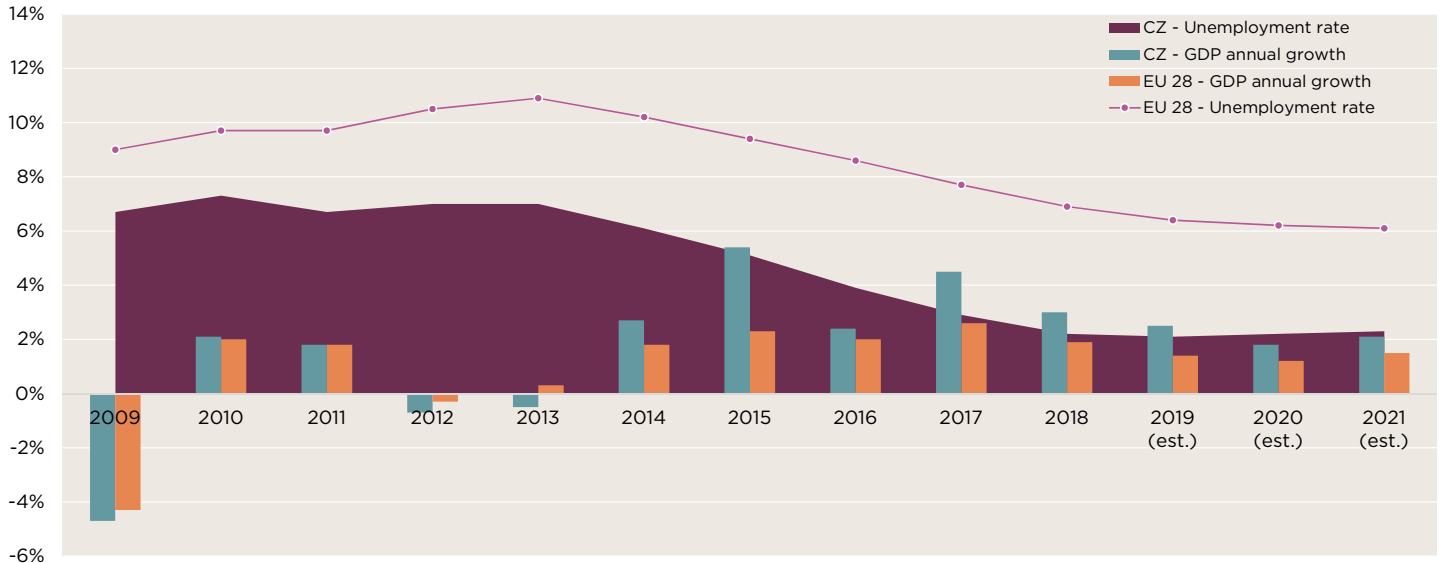


**4.00%**  
High street retail yields

Sources: Oxford Economics, Czech Statistical Office, Savills Research

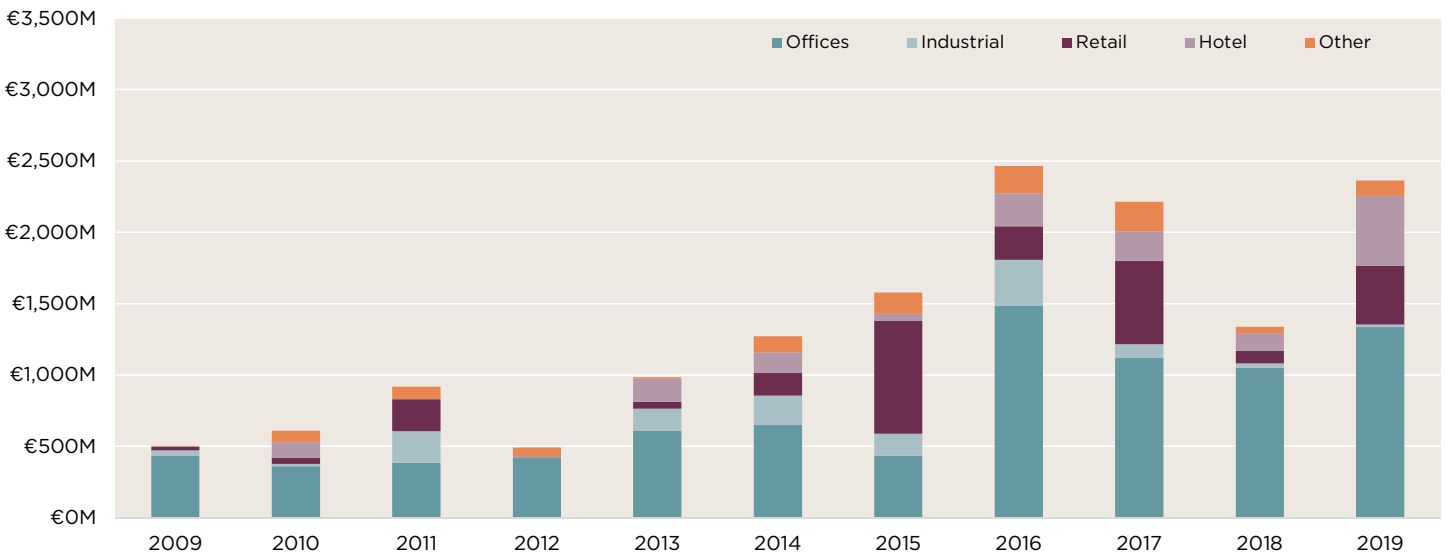
CZECH REPUBLIC UNEMPLOYMENT	GDP GROWTH	GROSS MONTHLY SALARY	CPI INFLATION
<b>2.1%</b> AVERAGE ANNUAL RATE (2019)	<b>2.0%</b> 2020 FORECAST	<b>€1,337</b> COUNTRY AVERAGE, Q3 2019	<b>2.8%</b> AVERAGE ANNUAL RATE (2019)

### Unemployment rate and GDP growth



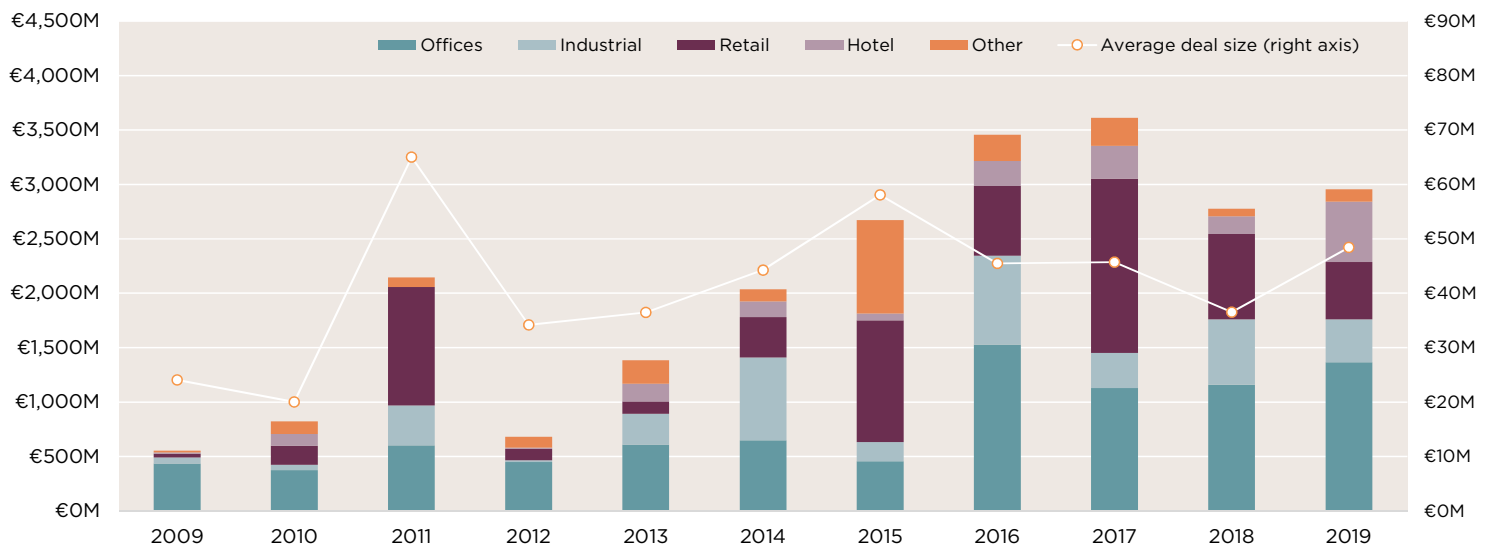
Source Oxford Economics

### Total investment volume - Prague



Source Savills

### Total investment volume - Czech Republic



Source Savills

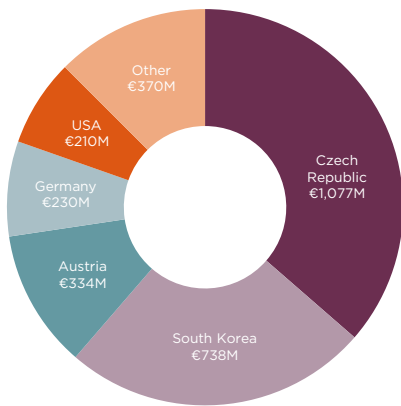
**BUYERS BY NATIONALITY IN 2019**

- Domestic buyers dominated investments into commercial real estate in the country in seven out of the past 10 years. Their 2019 share of 36% was well below the previous year (59%), reflecting a drop in the total number of closed transactions. The average transaction size amongst Czech investors, however, increased from €30 million in 2018 to €35 million in 2019.
- South Koreans showed strong, renewed interest in the Czech Republic from mid-2018 onwards. In 2019, South Korean buyers accounted for 25% of the total deal volume via five of the largest transactions of the year.

**OUTLOOK**

- Despite limited product availability, the Prague office sector will continue to be the most targeted in 2020.
- In a search for higher yields, investor interest in offices is also likely to increasingly extend to secondary assets around Prague and even to the larger regional cities like Brno or Pilsen. Regional retail parks and shopping centres will continue to appeal to a mostly domestic investor base.
- Total annual investment volume is forecast to exceed €3 billion in 2020, being significantly boosted by a uniquely large transaction in the residential (private rented) sector which is, apart from this portfolio, almost non-existent in the Czech Republic.

**2019 INVESTMENT VOLUME BY BUYERS' NATIONALITY**



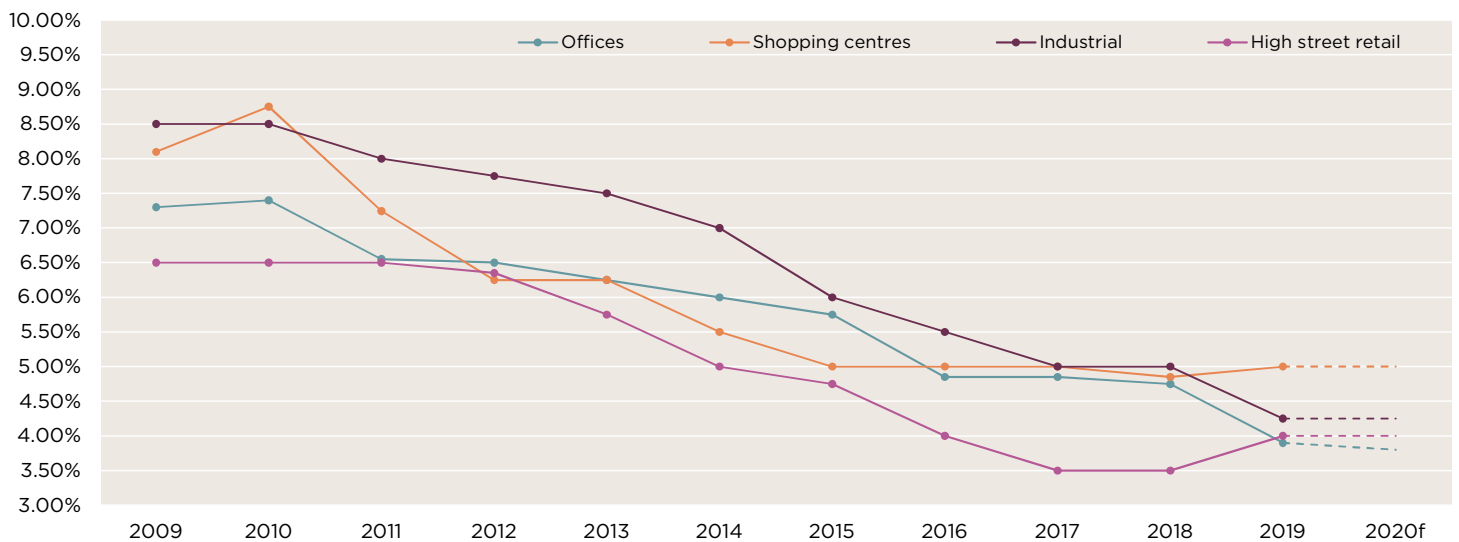
Source Savills

**SELECTED INVESTMENT DEALS OF 2019**

PROPERTY	SELLER	BUYER	PRICE
WALTROVKA (offices, Prague)	Penta	GLL on behalf of LB Asset Management / Hanwha Investment & Securities (South Korea)	€253 million
DRN (offices, Prague)	SEBRE	KGAL Investment Management (Germany)	€102 million
RUSTONKA (offices, Prague)	J&T	Hana Financial Group (South Korea) & White Star Real Estate	€164 million
DIAMANT (high-street retail/offices, Prague)	GLL	BMO (Canada)	€82 million

“ Compared to Western European markets, yields in the Czech Republic are still markedly higher making the Czech Republic more attractive for investors and institutions seeking better returns without the need to take on a disproportionate amount of additional risk. The Czech market can deliver this favourable risk-reward trade-off, having established itself as a mature market based on strong economic fundamentals. ”

**Prime yields**



Source Savills



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