

SLOVAKIA

Industrial Market Snapshot

Second Quarter | 2019



MARKET INDICATORS

Market Outlook

Prime Rents:	Stable growth of prime rents will continue in the short term as headline rents in Bratislava grow.	▼
Prime Yields:	We believe that the increase in industrial yields will occur later than expected.	►
Supply:	New development is planned outside of traditional locations as new developers enter the Slovak market.	▼
Demand:	New demand stems mainly from e-commerce sector and logistics providers with automotive industry cooling its property demand amid production woes.	►

Prime Industrial Rents – June 2019

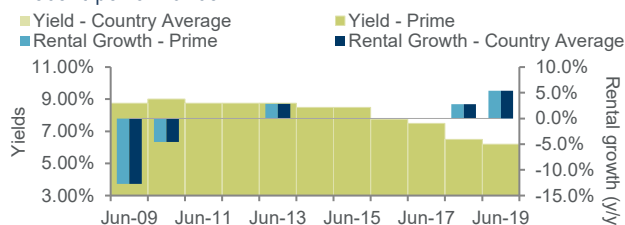
LOGISTICS LOCATIONS	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Bratislava	3.90	46.8	5.25	5.4	1.6

Prime Industrial Yields – June 2019

LOGISTICS LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Bratislava	6.20	6.50	6.50	9.00	6.20

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

In terms of macroeconomic fundamentals, economic expansion of Slovakia is likely to moderate this year. The GDP growth forecast has been revised down to 3.5%, still ranking among the top three countries in the eurozone. Consumer confidence has held steady, resulting in 1.3% CPI growth compared with the previous quarter. Industrial production has slowed down mainly due to European demand for metals as well as machinery and equipment. The automotive industry was not able to maintain above-average revenue growth from previous periods, causing stagnation in year-on-year export growth. Total employment in industry is stagnating, while employment in construction is continually growing.

Occupier focus

No major leases were signed in Q2. However, new deals are expected as new stock emerges. P3 Bratislava Airport, which will add 89,000 sq m of GLA to the market, is nearing completion. Another newly announced project, VGP Park Bratislava, will add 250,000 sq m of industrial space to the Bratislava market. More than 180,000 sq m of new stock is planned in Kosice. Pipeline also includes new development in Piestany, Trenčín, Zvolen and Kosice-okolie districts. The latest industrial construction includes the Sihot industrial park in Trenčín region (164,000 sq m GLA) and the VGP Zvolen industrial park (53,000 sq m GLA).

We register demand for land near planned exits from the planned roads D4 and R7. We perceive Chinese enterprises' efforts to invest in Slovakia, especially in the southern regions where development has been cautious in the past, looking to utilize easy access to the Hungarian market and economically advantageous shipping on the Danube towards the Western European markets.

Investment focus

Industrial prime yields stabilized after a significant long-term contraction that narrowed the spread against other asset classes. Office property investment outpaced the industrial sector in 2018, however, total investment reached € 746.5 million in 2018, up 62% from previous year. We expect this appetite to extend to 2019, driving purchase prices up.

Outlook

We expect speculative development to decrease in the near future, as now the new standard for the pre-leased area share on total GLA for new projects should amount to at least 50%, as opposed to 30-40% in the previous years. We expect that this is one of the leading factors that will reduce vacancy rates. Demand growth is still expected to be the highest in e-commerce, logistics and automotive producers, although carmakers failed to maintain the exceptional growth dynamics from last year and will need to tackle the issue of demand shift in favour of electric vehicles.

We believe that the increase in industrial yields will occur later than expected, targeting 2021. Rental levels remained stable so far, however, the 4 EUR/sq m/month prime rent threshold should be reached in the second half of the year. The Slovak industrial centre of gravity should continue to cautiously shift towards east with two planned projects in Kosice and a robust pipeline in Kosice-okolie district, including Cestice industrial park.

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