MARKETBEAT

SLOVAKIA

Industrial Q1 2021

	YoY Chg	12-Mo. Forecast
8.78% Vacancy Rate	▲	▼
€4.00 Prime Rent, PSM	▬	▲
6.00% Prime Yield	▼	▼

(class A stock only)

ECONOMIC INDICATORS Q1 2021

	YoY Chg	12-Mo. Forecast
2.9% Real GDP	▼	▲
8.0% Unemployment Rate *(March 2020)*	▲	▼
3.6% Industrial Production *(seasonally adjusted)*	▲	▲
0.8% CPI	▼	▲

Measurement: Yoy change estimates, unless indicated otherwise.
Source: Moody's, ÚSVaR

ECONOMY: Prolonged Lockdowns Weighed On the Economy, but Pent-up Demand Should Accelerate Upcoming Recovery

The prolonged restrictions introduced due to the second wave of the COVID-19 pandemic weighed on the real output of Slovakia, resulting in a 5.2% contraction of GDP in 2020. The gradual easing in the second quarter of 2021 along with the continued government support is expected to contribute to the rebound in GDP growth, mostly driven by pent-up demand and maintained low borrowing costs. Slovakia's heavy focus on manufacturing is both a blessing and a curse, as the industrial sector is proving to be shielded from the direct impacts of the pandemic. Housing market has been bolstered by lower interest rates together with buyers, whose economic situation was not negatively affected by the lockdown, looking for more living space as commuting times matter less. With the assumed reopening of the economy in the later first half of 2021, a sharp rebound in spending should prop up consumer-oriented businesses.

SUPPLY & DEMAND: With the Number of Speculative Projects Rising, Vacancy Reaches New Highs

Total industrial stock grew by 8% year-on-year as the adoption of online shopping accelerated the built-to-suit development for e-commerce companies seeking to expand their distribution centres. The total leasable space under construction was more than 263,100 sq m, which represents more than 45% year-on-year increase and more than 9% of the existing stock. There are currently 10 buildings under construction, 8 of which are in the Western Slovakia. Much of the industrial space under construction has already been pre-leased.

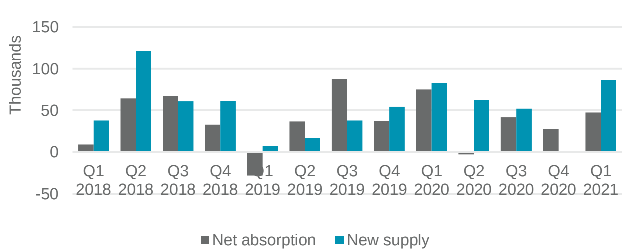
Vacancy rate increased by 1.14 percentage points to 8.78%, mainly due to newly built speculative stock. Quarterly net absorption reached 47,700 sq m and was positive in all four main regions. Total quarterly take-up recorded a 3.5% year-on-year growth, reaching 138,200 sq m. About a third of leased space consisted of renegotiations. The demand outlook in the industrial property sector remains positive since it's the most liquid segment of real estate in Slovakia.

PRICING: Competitive Development Landscape Tames Rental Levels While Yields Sharpen

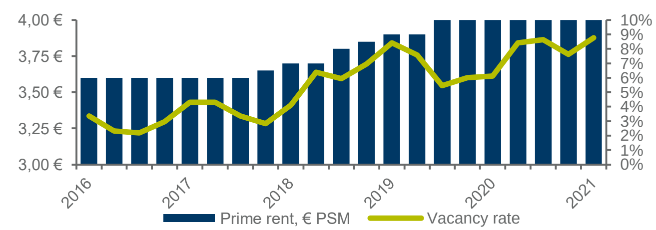
After the investment "de-risking" period, which largely benefited the industrial property sector, a partial rotation back towards other segments of real estate is anticipated in 2021. The assumed shift from unknown risks to known risks, as well as the easing of government restrictions support the ongoing negotiations which now indicate revival of investment activity across the commercial real estate landscape.

Prime industrial and logistics properties have consistently offered comparatively higher returns than those generated in the neighbouring countries while showing low volatility during the current cycle. Strong covenant remains key to pricing and combined with longer WAULT to break/expiry, our EOY outlook for prime logistics yields is optimistic at around 5.75% or lower. The main risk in logistics is the possibility of decreasing effective rents as some tenants may ask for incentives in return for longer leases. So far in 2021, we saw the completion of the sale of the Arete Invest CEE II sub fund to Cromwell European REIT which comprises of 11 industrial properties in the Czech Republic and Slovakia, and the acquisition of Immopark Žilina, which consists of existing buildings and land for further development in a strategic location near Žilina airport, by CTP. Leasing market grows organically with the needs of the market and the most common asking rent is 3.95 euros per sq m per month. With the recent influx of new leasing demand into logistics and distribution, we can see a rise in the prime rent this year, however, all will depend on the pricing strategies of the key landlords, especially in the current competitive environment within the main industrial hubs. There are still some pending vacancies, but these don't affect the wider pricing levels.

SPACE DEMAND / DELIVERIES (SM)



OVERALL VACANCY & PRIME RENT



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MARKET STATISTICS

SUBMARKET	INVENTORY (SM)	AVAILABILITY (SM)	OVERALL VACANCY RATE	CURRENT QTR TAKE-UP	YTD OVERALL TAKE-UP(SM)	UNDER CONSTRUCTION (SM)
Bratislava Region	1,438,700	101,800	7.08%	89,100	89,100	94,700
Western Slovakia	1,117,400	111,500	9.98%	31,900	31,900	132,200
Central Slovakia	120,400	27,000	22.46%	16,700	16,700	25,000
Eastern Slovakia	136,900	6,600	4.84%	500	500	11,200
SLOVAKIA TOTALS	2,813,400	246,900	8.78%	138,200	138,200	263,100

The data is based on class A, non-owner occupied leasable stock.

KEY CONSTRUCTION COMPLETIONS Q1 2021

PROPERTY	REGION	AREA (SM)	OWNER
P3 Bratislava Airport DC - A	Bratislava region	65,297	GIC (P3)
Mountpark Sered - E	Trnava region	25,760	Mountpark

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