MARKETBEAT

SLOVAKIA

Industrial Q2 2021

	YoY Chg	12-Mo. Forecast
8.40% Vacancy Rate	▲	▬
€4.00 Prime Rent, PSM	▬	▲
5.75% Prime Yield	▼	▼

(class A stock only)

ECONOMIC INDICATORS Q2 2021

	YoY Chg	12-Mo. Forecast
11.2% Real GDP	▲	▼
7.8% Unemployment Rate *(June 2020)*	▲	▼
3.6% Industrial Production *(seasonally adjusted)*	▲	▲
2.0% CPI	▼	▲

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

ECONOMY: Pent-up Demand Accelerated Recovery in the Second Quarter

The Slovak economy should reach the pre-crisis level in the second half of this year. According to the National Bank of Slovakia, the economy should grow by 4.5% this year, and the growth should accelerate to 5.9% in 2022. Foreign demand, which was driving the economy, should weaken slightly due to shortages of components. The global shortage of semiconductors has adversely affected, in particular, motor vehicle production. Production in the industrial sector was thus unable to meet growing demand. However, the growth of industrial production remains strong compared to the first wave of the COVID-19 pandemic as the global trade operates without major restrictions. The consumption shift from services to goods further supported by the large amount of excess savings reinforced industrial sector's critical role in the pandemic. This year's growth might be jeopardized by a low vaccination rate which currently lags behind neighbouring countries, staying far below the 60% threshold needed for gaining herd immunity. This might lead to a possible reintroduction of anti-pandemic measures and additional lockdowns, affecting the projected growth.

SUPPLY & DEMAND: With the Number of Speculative Projects on the Rise, Vacancy Is Unlikely to Shrink

Total industrial stock grew by 6% year-on-year while 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 343,300 sq m, which represents more than 94% year-on-year increase and more than 12% of the existing stock. There are currently 13 buildings under construction, 9 of which are situated in the Western Slovakia.

Vacancy rate decreased by 0.30 percentage points to 8.40%. Majority of the vacant stock is in new speculative properties built since 2019. Quarterly net absorption reached 24,900 sq m and was positive in all four main regions. We do not rule out the possibility of vacancy rate surging higher in the near-term since the majority of the stock to be delivered within the next 12 months is speculative.

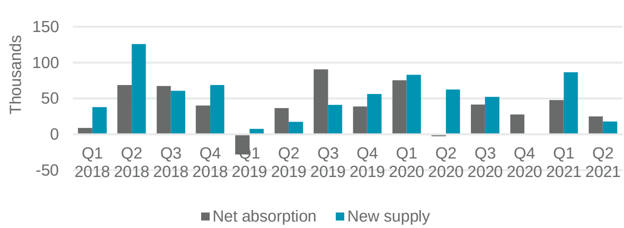
Total quarterly take-up recorded a strong 22% year-on-year growth, reaching 146,300 sq m. Almost 75% of total take-up was in the Bratislava region, while only 4.4% was in the Central and Eastern Slovakia. Pre-leases saw a significant increase and represented about 42% of take-up in the second quarter.

PRICING: Competitive Development Landscape Tames Rental Levels While Yields Sharpen

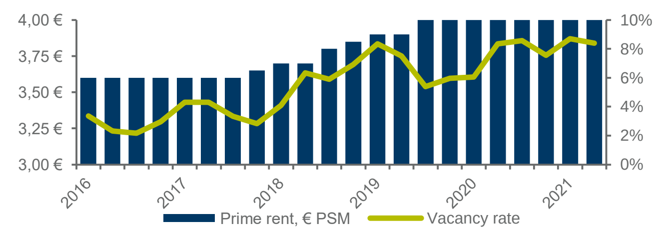
The assumed shift from unknown risks to known risks, as well as the easing of government restrictions supports the ongoing negotiations which now indicate tightening yields across the commercial real estate landscape. Prime industrial and logistics properties in Slovakia have consistently offered comparatively higher returns than those generated in the neighbouring countries while showing low volatility during the current cycle, which led to a steep decrease in prime industrial yield in 2021. Strong covenant combined with longer WAULT to break/expiry remains key to pricing. While we are quoting the current prime yield at 5.75%, we see a potential for a decrease to 5.25% since several ongoing transactions are aiming to attack more aggressive pricing territory.

In the case of well-located class A industrial properties, rents of around 4 euros per sq m should still be expected for large leases lasting 5 years or more. In the segment of city logistics within Bratislava, the headline rent can exceed 5 euros per sq m. With the recent influx of demand into logistics and distribution, we might see a rise in the prime rent this year, however, the speed of construction in the range of 6 to 12 months and the availability of land in the hands of experienced developers allows a flexible response to the market needs and at the same time reduces the pressure on rental growth.

SPACE DEMAND / DELIVERIES (SM)



OVERALL VACANCY & PRIME RENT



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CUSHMAN & WAKEFIELD

MARKET STATISTICS

SUBMARKET	INVENTORY (SM)	AVAILABILITY (SM)	OVERALL VACANCY RATE	CURRENT QTR TAKE-UP	YTD OVERALL TAKE-UP(SM)	UNDER CONSTRUCTION (SM)
Bratislava Region	1,447,800	88,100	6.09%	108,900	198,100	85,700
Western Slovakia	1,147,800	118,500	10.32%	30,900	62,800	192,000
Central Slovakia	124,500	26,700	21.44%	-	16,700	25,000
Eastern Slovakia	135,900	6,500	4.78%	6,500	7,000	40,600
SLOVAKIA TOTALS	2,856,000	239,800	8.40%	146,300	284,500	343,300

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

KEY CONSTRUCTION COMPLETIONS Q2 2021

PROPERTY	REGION	AREA (SM)	OWNER
Prologis Park Bratislava - DC 16A	Bratislava	9,068	Prologis
CTPark Trnava – TRN9A	Trnava	8,649	CTP Invest

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