

	YoY Chg	12-Mo. Forecast
5.60% Vacancy Rate	▼	▲
€4.00 Prime Rent, PSM	▬	▲
5.25% Prime Yield	▼	▼

(class A stock only)

ECONOMIC INDICATORS Q1 2022

	YoY Chg	12-Mo. Forecast
3.3% Real GDP	▲	▲
6.7% Unemployment Rate <i>(March 2022)</i>	▼	▼
0.2% Industrial Production <i>(seasonally adjusted)</i>	▼	▲
9.4% CPI	▲	▼

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

ECONOMY: Russo-Ukrainian War Further Aggravates Inflation and Supply Chain Continuity

The beginning of the year was marked by the Russian invasion of Ukraine which caused various obstacles to the Slovak economy. Not only did it push inflation up to double digits to 10.4% during March (ŠÚSR), the highest in 17 years, but also the prices of the three most important items for Slovak households - food, housing, and energy - rose at a double-digit rate. It is mainly because Russia is the main exporter of gas to Slovakia, and together with Ukraine they account for nearly 30% of the global wheat trade. As Russia is also the main exporter of various types of metals essential for construction, the prices of new development projects are predicted to rise. The situation is also aggravated by the shortage of skilled workers. But with the arrival of over 340,000 refugees from Ukraine, this brings a significant amount of workforce suitable for the service sector or manufacturing as well as new potential customers mostly in the retail sector. According to ŠÚSR, retail sales in Slovakia recorded 14.5% year-on-year growth in March, maintaining double-digit growth for the third month in a row. With the sanctions imposed on Russia and the outflow of companies from its territory, there are opportunities for companies to relocate to Central Europe, which would have a positive impact on the economy – lower unemployment associated with new jobs and therefore possible positive impact on GDP. According to the National Bank of Slovakia, GDP is predicted to grow in the range of 2-3% in the optimistic war scenario. This is assuming that the conflict will be resolved in the coming weeks. In a worse case, in which the war would last for a longer period, there is a risk that the growth of the Slovak economy will stop temporarily.

SUPPLY & DEMAND: We Saw a Record Quarter With Substantial Take-up and Plunging Vacancy Rates

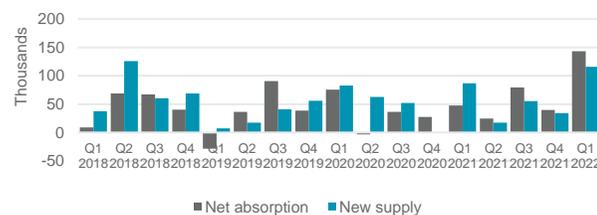
This quarter was remarkable for the industrial sector as net take-up reported a new record of 198,900 sq m. In addition to that, total take-up reached a five-year high of 211,500 sq m of leased space, representing a 53% year-on-year growth. This indicates a continuously growing demand for logistics and distribution, mainly due to the thriving e-commerce sector, as well as automotive, which is one of the strongest sectors in Slovakia. The total industrial stock grew by 7% year-on-year after the completion of four industrial parks with a total amount of 116,000 sq m. All of them are located in Western Slovakia, which confirms the attractiveness of this region and the opportunities it provides.

The vacancy rate declined fourth quarter in a row by more than 1 pp to 5.6%, the lowest since 2020. This was driven mainly by strong take-up, which was also responsible for one of the highest net absorptions, reaching 143,100 sq m. However, we do not rule out the possibility of the vacancy rate surging higher in the near term since the majority of the stock to be delivered within the next 12 months is speculative. There are currently 21 buildings under construction, 15 of which are situated in Western Slovakia. Total leasable space under construction surpassed 408,000, representing yet another record. This confirms the ongoing desire of developers to expand as the demand in the industrial property sector keeps growing since it's the most liquid segment of real estate in Slovakia.

PRICING: Vast Demand and Rising Construction Costs Should Lead to the Increase in Prime Rent Soon

In the shadow of uncertainty regarding the war in Ukraine associated with a large number of the world's biggest companies abandoning or scaling back their operations in Russia, investment activity has decelerated in all sectors, not excluding the industrial sector. Due to the increasing costs of materials used in construction, the cost of new development projects is increasing and the delivery times of buildings are also being moved from 6-12 months to 12-15 months. Together with a strong pipeline associated with a continuously growing demand for logistics and distribution, mainly due to the thriving e-commerce sector, we see intense pressure on rents. Despite all this, prime rents remained stable in the first quarter at 4 EUR/sq m but we expect them to climb to 4.10 already during the next quarter with the prospect of further growth in the second half of the year. The situation in the automotive industry is still challenging and continues to be affected by external factors, such as the pandemic situation in the world, which varies from country to country, and the associated supply chain disruption. In addition to the lack of chips, there is also a lack of wire harnesses and other components manufactured in Ukraine, which leads to weekly forced shutdowns of major car manufacturers. In terms of prime yield, it remained at 5.25% from the previous quarter and should stay at the same level in the first half of the year as nothing indicates otherwise.

SPACE DEMAND / DELIVERIES (SM)



OVERALL VACANCY & PRIME RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SM)	AVAILABILITY (SM)	OVERALL VACANCY RATE	CURRENT QTR TAKE-UP	YTD OVERALL TAKE-UP(SM)	UNDER CONSTRUCTION (SM)
Bratislava Region	1,514,500	85,200	5.63%	101,900	101,900	161,600
Western Slovakia	1,241,400	59,400	4.79%	78,300	78,300	160,100
Central Slovakia	252,600	25,900	10.25%	8,900	8,900	25,000
Eastern Slovakia	145,900	6,200	4.22%	22,500	22,500	60,700
SLOVAKIA TOTALS	3,154,300	176,700	5.60%	211,500	211,500	407,500

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

KEY CONSTRUCTION COMPLETIONS Q1 2022

PROPERTY	REGION	AREA (SM)	OWNER
VGP Park Bratislava E	Bratislava	57,000	VGP
SIHOŤ PARK SO2	Trenčín	31,000	SISBAN HOLDING
VGP Park Bratislava H	Bratislava	20,700	VGP
CTPark Trnava TRN14b	Trnava	7,200	CTP

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