MARKETBEAT

SLOVAKIA

Industrial Q3 2022

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
3.15% Vacancy Rate	▼	▼
€4.25 Prime Rent, PSM	▲	▲
5.25% Prime Yield	▼	▲

(class A stock only)

ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
1.4% Real GDP	▲	▲
6.1% Unemployment Rate *(August 2022)*	▼	▼
-1.1% Industrial Production *(seasonally adjusted)*	▼	▼
13.8 % CPI	▲	▼

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

ECONOMY: Domestic demand once again as the driving force of the economy

Rising interest rates, conflict in Ukraine, persisting supply chain issues and high fluctuations in energy prices are challenges anyone has to navigate through these days. Rising inflation, which is expected to reach 12.4% in 2022, is no longer driven only by rising energy or oil prices but extends to most goods and services. Almost 60% of the average consumer basket has seen a year-on-year price increase of 5% or more, which should impact the purchasing power, retail spending and investment activity. Despite the inflation pressures, domestic demand remained the main driver of economic growth in past months, offsetting lower exports and decreasing investments. Although there is a significant economic slowdown, the economy should grow by 1.8% in 2022, according to the latest estimate of the National Bank of Slovakia. The performance of the economy in 2023 depends mostly on future energy prices and interest rates as well as its impact on both companies and the general public. Steps taken by the EU and the local government to address soaring energy prices might limit the negative impact on the economy. The situation in the labour market, like in other countries, remains optimistic and shows signs of overheating. In the 2nd quarter, 16,000 people found employment, almost half of which were refugees from Ukraine. Unemployment keeps on falling and reached 6%.

Increasing interest rates and rising bond yields are creating pressure on yields investors are willing to pay for commercial real estate. Although we see a yield increase already taking place in more mature markets, prime yields remain stable in Slovakia. Across all segments, in the case of more risky assets, yields are rising just mildly up to 25 bps. Further yield increase is expected in 2023 and might already materialize in Q4 2022.

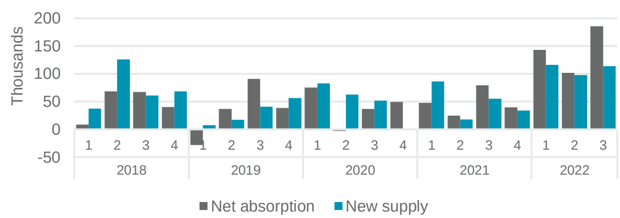
SUPPLY & DEMAND: Industrial sector powering ahead with no signs of stopping

The industrial sector did everything but slowed down. Once again, it exceeded expectations and kept growing at a rapid pace, borne by the delivery of 113,500 sq m split into 5 buildings across all regions. Another 21 buildings with a total area of 305,900 sq m are underway. Speculative construction accounted for 45% of the development pipeline indicating that developers are more prone to commence build-to-suit projects. In addition, the built-to-own concept is gaining interest among developers. In this quarter, the growth rate of construction material costs slowed down and their availability improved allowing developers to deliver new assets in no more than 12 months. Despite the uncertain situation and rose of headlines in almost all submarkets, we are witnessing ongoing high demand. Driven by the need to secure the production and supply of car parts and components, demand consists mostly of 3PL and automotive sector. Therefore, take-up even surpassed the previous quarter and amounted to 204 800 sq m, representing a 154% increase over the five-year average of the same quarter. Net take-up figures of 161,900 (79% of total leased space) illustrate strong interest in new spaces. Presumably, the highest number for net absorption in the last decade (186,600 sq m) only underlines that demand is powering ahead. Consequently, the vacancy rate was pushed down over 2 pp quarter-to-quarter to a value of 3.15% implying market cycles have shifted from tenant to developer market.

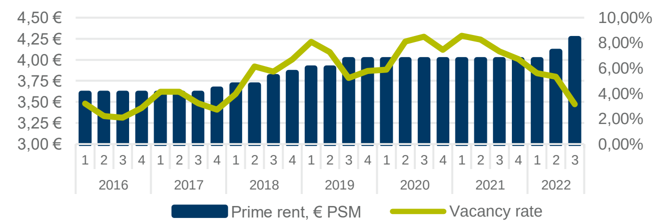
PRICING: Short-term upward movement of rents and yields

A combination of increased construction costs, elevated energy prices, unceasing demand, and low vacancy resulted in a substantial increase in headline rents across submarkets. Consequently, prime rent rose to 4.25 EUR/sq m/month. Further rent growth is not only possible but inevitable. It is backed by numerous ongoing deals on both existing and future development. In general, developers are searching for new opportunities for land acquisitions to ensure the growth of their portfolios (for the next period). Accordingly, we see increased interest in lands in Eastern Slovakia and previously unattractive locations. Despite upward pressure on yields, prime yield remained at 5.25% with the possibility of growth in Q4.

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	1,598,000	35,900	2.24%	122,600	330,600	134,900
Western Slovakia	1,314,900	24,600	1.87%	70,000	216,500	81,400
Central Slovakia	278,600	29,200	10.48%	9,600	23,100	39,000
Eastern Slovakia	179,800	16,400	9.12%	2,600	30,800	51,000
SLOVAKIA TOTALS	3,371,300	106,000	3.15%	204,800	601,000	305,900

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

KEY CONSTRUCTION COMPLETIONS Q3 2022

PROPERTY	REGION	AREA (SM)	OWNER
VGP Park Bratislava A	Bratislava	43,300	VGP
Log Center R7 1	Trnava	30,200	Go Asset
CTP Park Presov PRP1	Presov	24,400	CTP Invest
VGP Park Bratislava H2	Bratislava	10,600	VGP

LUKÁŠ BRATH
Research Analyst
+421 (0) 904 325 358
lukas.brath@cushwake.com

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