Czech Real Estate Market Outlook 2025

December 2024

Annual real estate market outlook for the Czech Republic

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Constrained new office supply will drive prime rents in central areas up next year. The industrial market normalises after the COVID-boom, returning to historical average levels of vacancy and take-up. Retail may be supported by further improving consumer demand. Residential prices and rents will continue rising.

- The Czech investment market is recovering, with stable yields, strong domestic buyers, and limited new supply driving tighter vacancies and steady or rising rents.

CZECH INVESTMENT MARKET & ECONOMY

The Czech investment market showed signs of recovery in late 2024, with growth in both deal numbers and larger lot sizes in negotiations. Expected deal closures by year-end or early 2025 are likely to surpass last year's volumes, boosting investment activity further into next year. Domestic buyers maintain dominance with over 80% market share, a trend expected to continue into 2025. Domestic capital benefits from limited competition as international investors remained broadly absent. Also, more attractive pricing of the older assets combined with the knowledge of the market are key drivers of activity. Domestic real estate funds also profit from increasing inflow of capital due to decreasing interest rates on other investment products. We may see international capital being attracted by prime industrial assets.

We assume yields will be broadly stable, the more longer term development will depend on the pace of interest rate cuts. Some trophy assets may achieve yields below prime. ESG considerations also increasingly impact pricing levels as investors price in potential capex expenditures for ESG retrofits.

Czech economic growth is set to accelerate, with GDP projected to grow by 2.5% in 2025, driven by increased consumer spending and real wage growth. Inflation is expected to stay near the 2% target, while unemployment should remain below 3%, fuelling wage pressures.
Key risks to this outlook include a slow German recovery and geopolitical tensions impacting supply chains.

Outlook

2024 & Outlook 2025 Prime Yields

Offices	5.50%	↔
Shop. Centres	6.25%	↔
Retail Parks	6.00%	↔
High Streets	5.00%	↔
Industrial	5.00%	↔
Investment volume		↑
Prime office rents **€29.50 sq m / month**		↑
Industrial rents **€7.00-7.50 sq m / month**		↔
Prime high street retail rents **€225 sq m / month**		↔

OFFICE MARKET

In Prague, the lowest-ever new office supply is expected next year, pushing prime rents in central areas higher. While vacancy rates have risen slightly as occupiers rationalise space and renegotiate leases, limited new supply over the next two years is likely to reduce vacancy rates. Occupier demand will be boosted again next year

by several large deals by corporates and institutions and built-to-own transactions.

INDUSTRIAL MARKET

Industrial demand and vacancy rates have normalised to pre-COVID levels, with slight rent decreases expected in select locations. We assume vacancy rates increase marginally further during 2025. Occupier demand may be supported by improving consumer spending, which feeds into e-commerce. Industrial production has declined in 2024 and only a modest recovery of 1.8% is expected in 2025. The automotive industry, a leading sector in the economy, is facing also many challenges.

RETAIL MARKET

The retail sector is expected to benefit from further improving consumer sentiment, supported by wage growth, low unemployment and lower inflation. A key challenge will be the modernisation and ESG retrofitting of the ageing shopping centre stock in the country. Rents are expected to remain broadly stable. Construction activity of retail parks with less than 5,000 sq m of GLA in smaller municipalities will continue unabated.

RESIDENTIAL MARKET

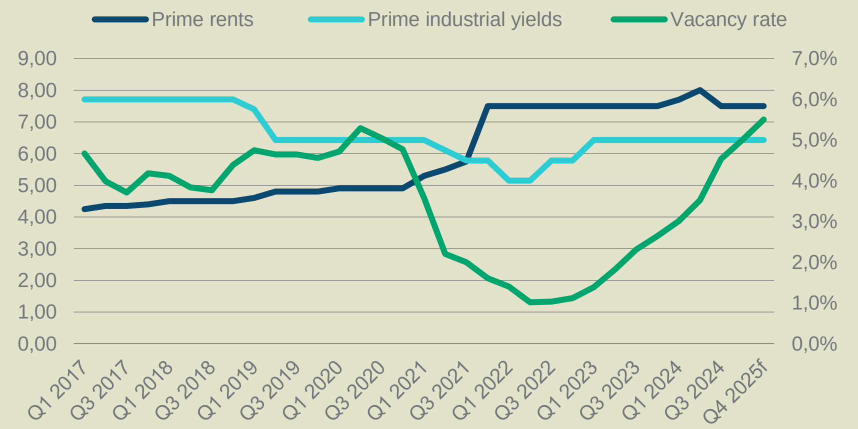
The prices of newly built apartments are forecast to continue rising in 2025, supported by the improving mortgage market. Mortgage rates may not fall significantly; however, buyers seem to have accepted the new financing cost level. Delayed demand from the last two years is now boosting sales and prices, all against a backdrop of lower supply levels. Rents are also on an upward trajectory and forecast to grow between 5-10% per annum.

- Capital expenditures for modernising and retrofitting older assets to meet ESG requirements will be a key topic for owners and investors, specifically in the office and retail sector. Also, some of the industrial assets older than 10 years may be ripe for improvements. The expenditures may not always be recoverable through increased rent but ensure than property values are maintained and not degraded.

  We anticipate growth in sectors with strong demand fundamentals, such as senior and student housing or data centres which are expected to gain increased investor focus.

Industrial & Logistics Market Indicators

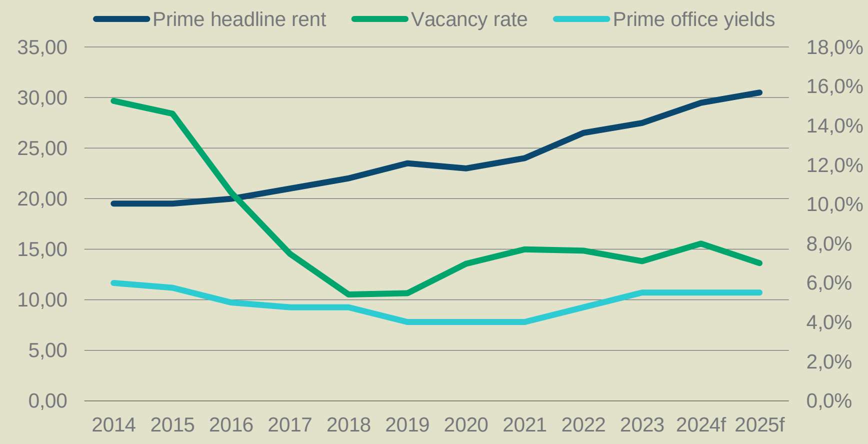
€/sq m/month, %



Source: Knight Frank Research

Office Market Indicators

€/sq m/month, %



Source: Knight Frank Research, Prague Research Forum

If you have any questions about our research or you would like some property advice, we would love to hear from you.

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