

# CZECH REPUBLIC Office Market Snapshot

First Quarter | 2018



## MARKET INDICATORS

### Market Outlook

Prime Rents:	Slow increase both in central and inner-city locations is expected during 2018.	▼
Prime Yields:	Prime yields reached historical minimum in Prague and can further sharpen in regions.	▲
Supply:	Office market pipeline is strong in the following period.	▼
Demand:	Inner city locations gain attractivity with the overall strong demand and positive absorption.	▼

### Prime Office rents – March 2018

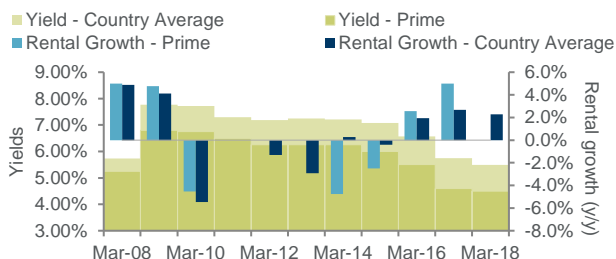
LOCATION	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ. FT YR	1YR	5YR CAGR
Prague	21.00	252	29.3	0.0	0.0
Brno	14.00	168	19.5	3.7	4.0

### Prime Office yields – March 2018

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Prague	4.50	4.60	4.60	7.00	4.50
Brno	6.50	6.50	7.25	9.50	6.50

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

### Recent performance



## Overview

GDP growth reached 4.5% in 2017 and the Czech economy continued to grow at the beginning of the year, although a temporary slowdown is expected with forecast set at 3.5% for 2018. Service sector remains the driving force of growth especially in Prague and Brno. However, all the sectors are struggling with lack of qualified labor, with Prague's unemployment rate being one of the lowest across all European cities. This might reduce the attractiveness of Prague to international companies looking to outsource.

## Occupier focus

The vacancy continued to decrease in the first quarter and reached 6.2% in Prague at the end of March 2018. The tight labor market makes the inner city more attractive for companies which relocate back from the more distant city locations following their economic recovery. Companies focus also on facility services, flexibility and comfort of the work places.

Co-working networks in Prague, such as HubHub, Business Link and Work Lounge extend to new locations and help the new business branches to develop. At the same time, the largest European centre of Impact Hub has been opened in Brno in January.

Development of new office buildings concentrates in traditionally active areas, such as Prague 4, 5 and 8 with current trend of building up free spaces within inner city locations (i.e. Visionary, Churchill I, Masaryk Station, Smíchov City or Rohan City).

## Investment focus

Several transactions occurred in Prague and Brno office markets, with the total volume of office investment about €170m, but the investment opportunities are diminishing with prime yields at historical minimums.

## Outlook

Poor demographics and migration of high skilled workers to other EU countries causing labour scarcity will be the main risk to growth prospects of the Czech economy. Nevertheless, rising productivity in dynamic sectors such as ICT and professional, scientific and technical activities should support the positive outlook of the economy.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Prague (CC)	563,800	34,600	6.1%	24,600	74,200	20,200
Prague (IC)	1,812,400	88,700	4.9%	45,800	311,000	227,100
Prague (OC)	981,300	83,900	8.6%	15,300	129,800	86,900
<b>Prague (Overall)</b>	<b>3,357,500</b>	<b>207,200</b>	<b>6.2%</b>	<b>85,700</b>	<b>515,000</b>	<b>334,200</b>

Source: Prague Research Forum, Cushman & Wakefield, Q1 2018

## Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Nekázanka 11	Prague (CC)	Omnipol	5,500	Pre-lease
Palác Ara	Prague (CC)	HubHub Czech Republic	2,700	Pre-lease
Millennium	Prague (CC)	Fio Banka	2,500	Renegotiation
Na Pankráci 30	Prague (IC)	Albatros	2,400	Renegotiation
Park-View Office Center Motol	Prague (OC)	Ministerstvo vnitra	2,200	New occupation

Source: Prague Research Forum, Cushman & Wakefield, Q1 2018

## Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Prague City Centre	Prague	Tristan Capital Partners / Amundi	5.95	63.50
Brno Business Park	Brno	Immofinanz / Infond	n/a	n/a
Oregon House	Prague	M7 Real Estate / BH Securities	7.60	25.75
BB Centrum Villas	Prague	Revetas Capital Advisors / PasserInvest	n/a	n/a
Prague Office Park	Prague	Immofinanz / n/a	n/a	n/a

Source: Cushman & Wakefield, Q1 2018

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