

CZECH REPUBLIC Office Market Snapshot

Second Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Slow increase in central and inner-city locations is expected to continue in 2018.	▼
Prime Yields:	Prime yields reached historical minimums in Prague and can further sharpen in regions.	▲
Supply:	Office market pipeline is strong.	▼
Demand:	Attractiveness of inner city locations increases due to the strong demand and positive net absorption.	▼

Prime Office rents – June 2018

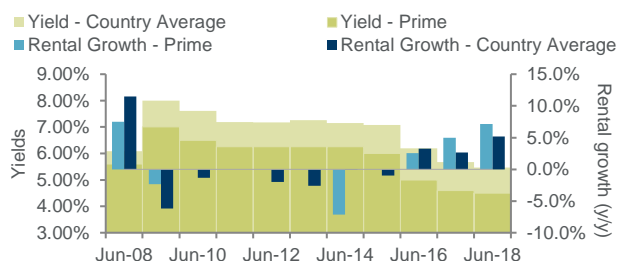
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ. FT YR	1YR	5YR CAGR
Prague	22.50	270	29.4	7.1	1.4
Brno	14.00	168	18.3	3.7	4.0

Prime Office yields – June 2018

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10-YEAR	
	Q	Q	Y	HIGH	LOW
Prague	4.50	4.50	4.60	7.00	4.50
Brno	6.50	6.50	7.00	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 it is forecasted at 3.1% in 2018 due to lowered eurozone activity and trade concerns, especially regarding US tariffs on imports of cars from the EU. Service sector remains the driving force of growth especially in Prague and Brno. However, all the sectors are struggling with a shortage of qualified labour, with Prague's unemployment rate being one of the lowest across all European cities.

Occupier focus

The vacancy rate slightly increased recently and reached 6.9% at the end of June 2018 in Prague. The inner city remains an attractive location, but lacks available modern office spaces, causing further increase in headline rents. Occupiers also focus more on facility amenities, layout flexibility, easy access to the location and general comfort of their work place.

Demand for flexible lease terms is growing both in Prague and Brno office markets, with new co-working operators emerging and the existing ones (HubHub, Regus) expanding.

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. Churchill I, Rústonka, Green Point, Masaryk Station, Smíchov City or Rohan City).

Investment focus

Investment activity continued in second quarter despite prime yields at historical minimums. Most of the office properties that recently changed hand are in Prague, totalling over €300m in transaction volume. Relatively low availability of prime office properties is shifting the interest to secondary ones, which in turn compresses respective yields.

Outlook

Labour scarcity owing to unfavourable demographics and lack of migration of high skilled workers to EU countries 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 technological industries 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)	568,300	32,200	5.7%	13,200	37,700	18,000
Prague (IC)	1,846,000	101,500	5.5%	83,400	128,900	206,800
Prague (OC)	994,600	103,000	10.4%	48,600	63,900	89,000
Prague (Overall)	3,408,900	236,700	6.9%	145,200	230,500	313,900

Source: Prague Research Forum, Cushman & Wakefield, Q2 2018

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
City West B2 & B3	Prague (OC)	Siemens s.r.o.	23,200	Renegotiation
Bubenská 1	Prague (IC)	WPP	16,300	Pre-lease
Palmovka Open Park 3	Prague (IC)	Undisclosed	3,700	Pre-lease
Palmovka Open Park 3	Prague (IC)	CCS Česká společnost pro platební karty	3,300	Pre-lease
DOCK IN THREE	Prague (IC)	Undisclosed	3,100	Pre-lease

Source: Prague Research Forum, Cushman & Wakefield, Q2 2018

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Metronom	Prague	HB Reavis / REICO	n/a	89.10
Visionary	Prague	Skanska Property / CA Immo	n/a	68.00
Explora Business Centre	Prague	Avestus Capital Partners / Golden Star Group	6.75%	53.70

Source: Cushman & Wakefield, Q2 2018

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