

# CZECH REPUBLIC Office Market Snapshot

Third Quarter | 2018



## MARKET INDICATORS

### Market Outlook

Prime Rents:	Upward rental pressures in inner city locations reflected rather in incentive changes.	▼
Prime Yields:	Prime yields reached historical minimums in Prague and can further sharpen in regions.	▲
Supply:	New supply remains strong, with secondary locations along metro stations becoming more attractive.	▼
Demand:	Demand still high, no signs of the market slowing down.	▼

### Prime Office rents – September 2018

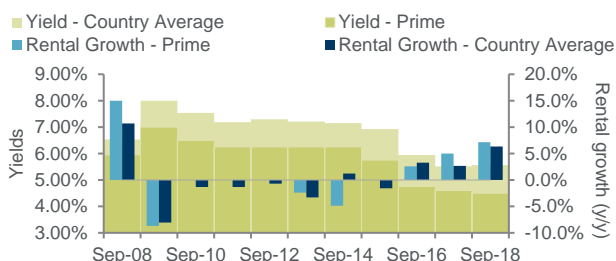
LOCATION	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Prague	22.50	270	29.3	7.1	1.9
Brno	14.50	174	18.9	7.4	4.7

### Prime Office yields – September 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	6.50	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 3.0% in 2018, which is one of the fastest rates in the EU. On the other hand, lowered eurozone activity, global trade concerns and labour shortages pose significant risks to further growth. However, the Czech office market seems to be unaffected by economic threats, yet is showing positive figures on both the supply and demand sides.

## Occupier focus

The occupiers' demand remains strong, the market is very well capable of absorbing the new supply and the vacancy remains relatively low. Despite continuous upward pressure on rental rates, landlords rather diminish incentives.

Occupiers still focus on facility amenities, layout flexibility, easy access to the location and general comfort of their work place. With WeWork securing their first location in the Czech Republic and other flexible operators expanding, co-working becomes the fastest growing sector of Prague's office market.

While there are limited opportunities for new office development in traditionally attractive prime locations in the city centre of Prague, some secondary locations show a higher potential, especially along metro stations (Smíchov City in Prague 5, Rustonka and Rohan City in Prague 8 or Kolbenova in Prague 9).

## Investment focus

Investment activity slowed down in the office market in Q3 2018, but a few larger office transactions are expected to be closed in Prague by the end of the year. The interest of both local and international investors continues to be significant and there is still some space for yield compression. With a higher saturation of the office market with modern stock, some investors are looking for redevelopment of older projects into new types of real estate.

## Outlook

Rising productivity in dynamic sectors such as ICT and professional, scientific and technological industries support the positive outlook of the economy. No significant changes are expected on the office market: any possible economic crises will potentially have only a temporary impact on the office market, with stable rental rates.

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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	25,100	4.4%	22,000	59,800	18,000
Prague (IC)	1,869,000	95,800	5.1%	83,300	215,800	234,400
Prague (OC)	1,009,900	90,700	9.0%	23,400	87,400	88,200
<b>Prague (Overall)</b>	<b>3,447,200</b>	<b>236,700</b>	<b>6.1%</b>	<b>128,700</b>	<b>363,000</b>	<b>340,600</b>

Source: Prague Research Forum, Cushman & Wakefield, Q3 2018

## Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
River Garden I	Prague (IC)	ADP Employer Services ČR	8,000	Renegotiation
Dm	Prague (CC)	WeWork	5,800	New occupation
Trimaran	Prague (IC)	Undisclosed	4,400	New occupation
Oasis Florenc	Prague (IC)	J&T Services ČR	3,850	Renegotiation & expansion
Factory Office Centre	Prague (IC)	Group M	3,725	Renegotiation

Source: Prague Research Forum, Cushman & Wakefield, Q3 2018

## Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Dům odborových svazů	Prague	ČMKOS / SIKO	n/a	39.00
Prague Marina Office Centre	Prague	Lighthouse / CDKK Marina	6.50%	38.00

Source: Cushman & Wakefield, Q3 2018

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