

CZECH REPUBLIC Office Market Snapshot

Fourth 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 – December 2018

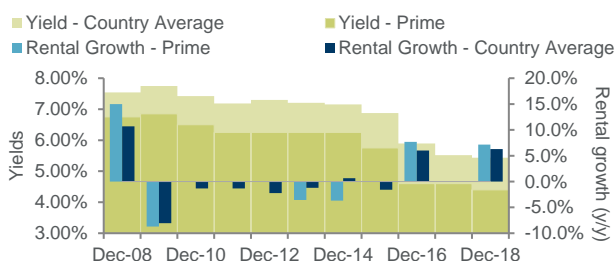
LOCATION	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Prague	22.50	270	28.6	7.1	2.1
Brno	14.50	174	18.4	7.4	3.9

Prime Office yields – December 2018

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10-YEAR	
	Q	Q	Y	HIGH	LOW
Prague	4.40	4.50	4.60	7.00	4.40
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 is forecast at 2.8% in 2018. This is a slightly lower yearly figure which stems from unchanged export combined with strong domestic demand for both imported and domestic products. Robust domestic consumption is expected to continue in 2019. Strong and sustained growth enabled expansive fiscal policies while maintaining a surprising fiscal surplus of 1.5%. On the other hand, lowered eurozone activity, global trade concerns, and labour shortages pose significant risks to further growth.

Occupier focus

Prague office market currently faces the lowest vacancy rate in history at 5.1% at the end of 2018 thanks to a strong occupiers' demand despite continuously high new supply (around 350,000 sq m of office space under construction). This, in turn, creates further pressure on rental rates, which grew by 10% compared to those in 2017.

Demand structure in occupier sectors has changed over the last years: while IT companies still drive demand significantly, advertising and media companies became the second largest contributor in 2018. The highest growth in demand was recorded for flexible workspace providers.

While development opportunities in the city centre of Prague are limited, other office hubs have witnessed major expansion along underground routes. For this reason, we expect the supply to even increase in the next two years.

Investment focus

Investment activity was generally slower in the Prague office market in 2018 in comparison with the previous year due to a lack of product. A few large office transactions picked up at the end of the year. Interest from both local and international investors continues to be considerable, evidenced by further yield compression. With the growing saturation of modern stock, some investors are looking for redevelopment opportunities to transform older projects into new types of real estate.

Outlook

Investment started rising in 2017 and more than doubled in 2018, boosting productivity. 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	23,800	4.2%	12,100	70,200	18,000
Prague (IC)	1,896,900	88,600	4.7%	66,800	282,600	234,400
Prague (OC)	1,009,900	65,800	6.5%	49,600	135,600	88,200
Prague (Overall)	3,475,100	178,200	5.1%	128,500	488,400	340,600

Source: Prague Research Forum, Cushman & Wakefield, Q4 2018

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Centrum Vinice	Prague (OC)	FTV Prima	11,800	Pre-lease
DOCK IN FOUR	Prague (IC)	Undisclosed	5,500	Pre-lease
Praga Studios	Prague (IC)	Edwards Lifesciences CR	5,300	Pre-lease
Argo Alpha	Prague (OC)	České aerolinie	4,800	Renegotiation & expansion
Dynamica	Prague (OC)	Strabag	4,700	New occupation

Source: Prague Research Forum, Cushman & Wakefield, Q4 2018

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
City West B1	Prague	Cimex / Patria rezidenční fond	6.10%	69.00
Forum Karlín	Prague	North-Line / Amundi Czech Republic	n/a	n/a
The Orchard	Prague	Hartenberg Holding / BH Securities	n/a	n/a

Source: Cushman & Wakefield, Q4 2018

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