

# PRAGUE OUTLOOK

## MARKET UPDATE Q1 2018

### Office market

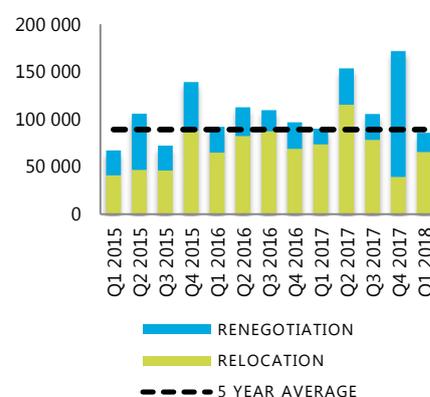
- Total demand in the first quarter of 2018 amounted to 85,700 sqm, representing a decrease of 51% compared to the previous quarter and year-on-year decrease of 19%.
- The largest volume of signed leases in Q1 was recorded in Prague 1 (28.7%), followed by Prague 4 (25.3%) and Prague 8 (18.8%).
- Renegotiations accounted for 24% of the total transactional volume in the first quarter 2018, which is the same amount as in the fourth quarter of 2017.
- The largest deal of the first quarter was the renegotiation and expansion of Albatros Media (3,100 sqm) in Na Pankráci 30 in Prague 4, followed by the pre-lease of HubHub (2,700 sqm) in Palác ARA in Prague 1 and renegotiation of Fio banka (2,500 sqm) in Millennium also in Prague 1.
- The IT sector was responsible for the largest share of the total volume of transactions in the first quarter of 2018 (14.7 %), followed by professional services (13.2%) and pharmaceutical sector (13.1%).
- In the first quarter of 2018, the vacancy rate decreased by 1.1% and reached a level of 6.2%. The highest rate of vacant space was recorded in Prague 3 (11.1%), whereas the lowest vacancy rate was recorded in Prague 2 (3.6%).
- During the last three months, the construction of four buildings was completed: Nekázanka 11 (5,600 sqm) and Mango Building (3,300 sqm) in Prague 1, City West A1 (9,300 sqm) in Prague 5 and Visionary (20,000 sqm) in Prague 7.
- The total modern office stock in Prague currently stands at 3,357,500 sqm. Approximately 334,200 sqm of office space is currently under construction.
- Prime headline rents in the city centre of Prague slightly increased and varied between 20.00 and 21.50 EUR per sqm per month. Rents within the inner city stood between 15.00 – 16.50 EUR per sqm per month and rents in the outer city between 13.50 – 15.00 EUR per sqm per month.



### Agent's View

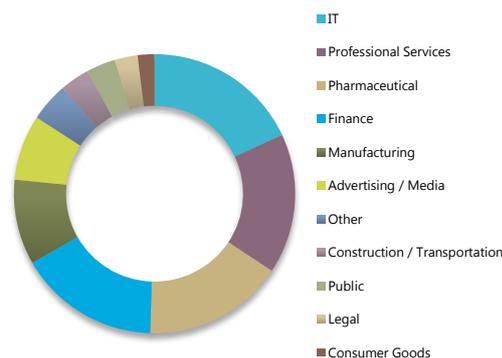
"Despite the significant drop in number of office transactions in comparison to the previous quarter, we can still witness a strong demand for office space, especially in "popular locations" such as Prague 8 and Prague 1. One of the factors behind the decline of demand is currently insufficient supply on the market. We find ourselves in a period where the market is eagerly awaiting completion of new development projects which will be available at the end of 2018 and during 2019. After that the market should slow down and we will once again see an increase of vacancy. It will also be very interesting to watch further development of co-working as it has expanded noticeably this year and became a significant player on the office market," says **Ondřej Šimek**, office agency consultant at Knight Frank

FIGURE 1  
Quarterly take-up in Prague [sq m]



Source: Knight Frank Research / Prague Research Forum

FIGURE 2  
Take-up by sector [sq m] in Q1 2018



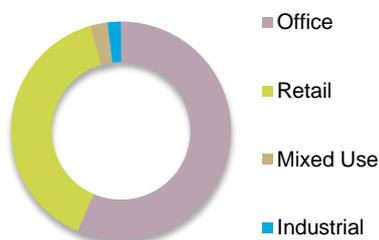
Source: Knight Frank Research / Prague Research Forum



Skanska commenced construction of project Praga Studios in Prague 8. The building will offer approx. 10,600 sqm of office space.

FIGURE 3

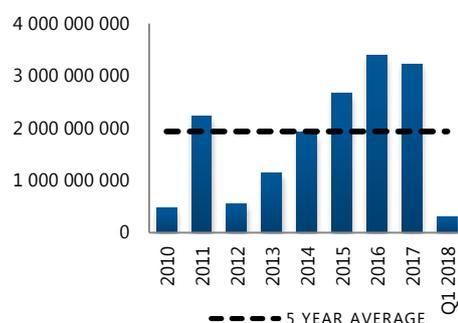
## Volume of transactions by sector in Q1 2018



Source: Knight Frank Research

FIGURE 4

## Total volume of transactions (2010-Q1 2018)



## Commentary

"Q1 2018 in terms of the total volume of investment transactions marks a slow start to the new year. The main reason being the relatively low average value of individual transactions closed in Q1. However with transactions that are already in negotiations and which we currently register, we expect that the volume of investments in 2018 will come close to 3 billion EUR. Of which, according to our estimates, more than 80% will be concluded in the office and retail sectors. Due to continued high demand, there may be a further slight yield compression, especially in the office sector," states **Josef Karas**, Senior Consultant within Knight Frank Capital Markets Team.

## Investment market

- Investment volumes reached EUR 302 million for the quarter as of end Q1 2018, representing a decrease of 64% compared to the previous quarter and at the same time a decrease of 71% in year-on-year comparison. The total volume does not include hotel and residential transactions.
- There were 17 transactions concluded in Q1 2018, the largest being the acquisition of office building Praha City Center which was sold to Amundi. Other significant transactions of Q1 2018 were the sale of shopping centre OC Šestka and My Národní.
- Overall, the largest share of the total investment volume in Q1 2018 belongs to office sector with 56%. Besides the above mentioned sale of Praha City Center, there were the sale of Brno Business Park I & II and Oregon House.
- The second largest share belongs to retail sector, which accounted for 39% of the total investment volume of Q1 2018. The most significant transactions were the sale of OC Šestka, My Národní and Atrium Hradec Králové.
- The lowest share of the total volume belongs to the industrial sector with only one transaction concluded – the sale of industrial area Vyškov.
- Prime industrial yields are currently sub 6.00%. Prime office yields stand at 4.75%. Retail yields for prime shopping centres at 4.75% and for the prime high street properties yields at 3.50%.

## Selected investment transactions in Q1 2018

Date	Property name	Sector	Price	Size sq m
Q1	Praha City Center	office	EUR 64m	17,638
Q1	OC Šestka	retail	EUR 39m	27,300
Q1	My Národní	retail	EUR 37m	12,000
Q1	Brno Business Park I & II	office	confidential	34,949
Q1	Oregon House	office	EUR 26m	14,330

Source: Knight Frank Research / Real Capital Analytics



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