

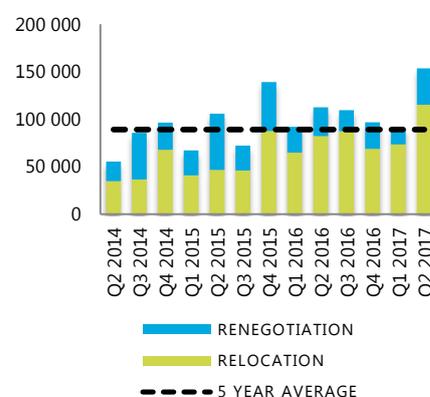
PRAGUE OUTLOOK

MARKET UPDATE Q2 2017

Office market

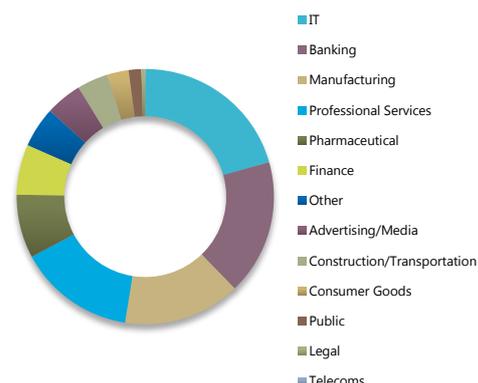
- Total demand in the second quarter of 2017 amounted to record-breaking 153,500 sqm, representing an increase of 45% compared to the previous quarter and a year-on-year increase of 36.9%.
- The largest volume of signed leases in Q2 was recorded in Prague 4 (36%), followed by Prague 8 (21%) and Prague 7 (10%).
- Renegotiations accounted for 25% of the total transactional volume in the second quarter 2017, which is 7% more than in the first quarter of 2017.
- The largest deal of the second quarter was the prelease of Moneta Money Bank (21,500 sqm) in BB Centrum A in Prague 4, followed by the renegotiation of KPMG Czech Republic (11,044 sqm) in KPMG Office Centre in Prague 8 and renegotiation of Honeywell (9,989 sqm) in The Park in Prague 4.
- Once again, the IT sector was responsible for the largest share of the total volume of transactions (18.4%), followed by banking (15.3%) and manufacturing (13.2%).
- In the second quarter 2017, the vacancy rate decreased by 0.8% and reached a level of 8.6%. Prague 10 recorded the highest rate of vacant space (13.9%), whereas the lowest vacancy rate was recorded in Prague 9 (6.9%).
- During the last three months, the construction of Five (13,400 sqm) was completed in Prague 5, following the completion of the first building of project Rustonka (11,300 sqm). At the end of the second quarter 2017, the total office stock amounted to 3,253,900 sqm. Approximately 327,800 sqm of office space is currently under construction of which 155,000 sqm is expected to be delivered during this year (of which 31,600 sqm has already been completed).
- Prime headline rents in the city centre of Prague remained stable at 20.00 EUR per sqm per month. Rents within the inner city varied between 14.50 – 15.50 EUR per sqm per month and rents in the outer city between 13.00 – 14.50 EUR per sqm per month.

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 Q2 2017



Source: Knight Frank Research / Prague Research Forum



Agent's View

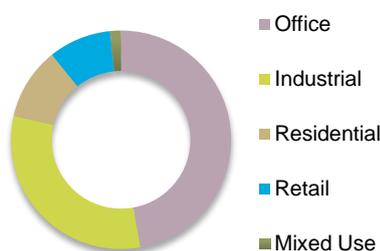
The record-breaking volume of transactions in the second quarter goes hand in hand with the long-term falling vacancy rate. When considering the lack of newly completed projects, potential tenants are facing a very limited choice on the market. This situation, on the other hand, is in favour of the landlords and we are already seeing a slight decrease in offered incentives and flexibility in negotiations. Potential tenants are therefore often looking for more affordable alternatives, such as sublease or fully-fitted offices after former tenants," says **Matěj Baranek**, office agency consultant at Knight Frank



Skanska finished construction of Five in Prague 5. The building was fully occupied before the completion and later sold to German real estate fund TRIUVA.

FIGURE 3

Volume of transactions by sector in Q2 2017



Source: Knight Frank Research



Commentary

"The investment market remains in great shape even in the second quarter. Though it lags behind Q1 in terms of volume an increase can be seen in the year-on-year comparison and therefore 2017 is expected to be a very strong year once again. The current strong demand for commercial buildings creates a strong pressure on prices due to new international investors, low availability of products and comparable investments, and the continuing effect of cheap money. The strong demand from local investors for smaller projects up to EUR 10 million has a similar effect and consequently prices are under pressure across markets and regions. In general, we expect an increase in the proportion of office transactions in the total volume of 2017. Given the recent and most significant transactions in the retail sector, we can expect a decrease in retail volume for the remainder of the year," states **Lukáš Kalina**, Associate Director within Knight Frank

Investment market

- Investment volumes reached EUR 532 million for the quarter as of end Q2 2017, representing a decrease of 60% compared to the previous quarter and at the same time an increase of 7% in year-on-year comparison. The total volume does not include hotel transactions. The most significant transactions being the sale of industrial area Logicor Park Prague Airport, office building River Garden I, residential portfolio in Písnice and shopping centre Central Most.
- The office sector dominated this quarter and was responsible for 47% of the total investment volume. Besides the above mentioned acquisition of River Garden I, there was the sale of IBC, Euro & Astra Palace and Futurama Business Park – building F.
- The lowest share of the total volume belongs to retail sector with only one deal closed – the above mentioned sale of Central Most. EPG Global Property Invest purchased the building from Avestus Capital for EUR 49 million.
- The largest industrial transaction was the sale of Logicor Prague Park Airport which was acquired by the Chinese state-owned company China Investment Corporation as a part of European logistics division Logicor owned by an American investment company Blackstone. The industrial sector accounted for 31% of the total investment volume in Q2 2017.
- Prime industrial yields are currently 6.00%. Prime office yields stand at 4.75%. Retail yields for prime shopping centres dropped 4.75% and for the prime high street properties 3.75 - 4.00%.

Selected investment transactions in Q2 2017

Date	Property name	Sector	Price	Size sq m
Q2	River Garden I	Office	EUR 57m	19,300
Q2	Central Most	Retail	EUR 49m	18,000
Q2	IBC	Office	EUR 50m	24,000
Q2	Residential portfolio Písnice	Residential	EUR 54m	over 700 flats
Q2	I.P.Pavlova 5	Office	Confidential	7,000

Source: Knight Frank Research / Real Capital Analytics



COMMERCIAL RESEARCH

Renata Pražáková, Research Analyst
+420 224 217 217
renata.prazakova@cz.knightfrank.com

LEASING

Pavel Novák, Head of Agency
+420 224 217 217
pavel.novak@cz.knightfrank.com

CAPITAL MARKETS

Ryan Wray, Head of Capital Markets
+420 224 217 217
ryan.wray@cz.knightfrank.com