

# PRAGUE OUTLOOK

## MARKET UPDATE Q3 2017

### Office market

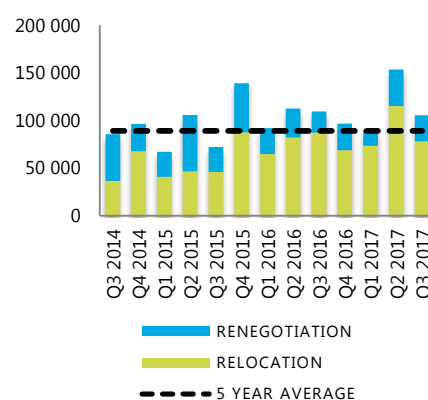
- Total demand in the third quarter of 2017 amounted to 105,500 sqm, representing a decrease of 30.9% compared to the previous quarter and a slight year-on-year decrease of 4.9%.
- The largest volume of signed leases in Q3 was recorded in Prague 8 (30.7%), followed by Prague 7 (17.2%) and Prague 1 (16.7%).
- Renegotiations accounted for 29% of the total transactional volume in the third quarter 2017, which is the same amount as in the second quarter of 2017.
- The largest deal of the second quarter was the new lease of Amazon (12,500 sqm) in the first phase of project Rustonka R1 in Prague 8, followed by the renegotiation of Czech News Center (7,800 sqm) in A7 Office Centre in Prague 7 and renegotiation of Mazars (2,600 sqm) in IBC in Prague 8.
- Once again, the IT sector was responsible for the largest share of the total volume of transactions (24.1%), followed by professional services (12.6%) and other companies (12.3%).
- In the third quarter 2017, the vacancy rate decreased by 0.9% and reached a level of 7.7%. Prague 10 recorded the highest rate of vacant space (14.0%), whereas the lowest vacancy rate was recorded in Prague 8 (4.9%).
- In the third quarter of 2017, the construction of Drn (7,700 sqm) was completed in Prague 1, following the completion of two buildings of project Waltrovka – Mechanica 01 (15,100 sqm) and Mechanica 02 (11,400 sqm) in Prague 5. At the end of the third quarter 2017, the total office stock amounted to 3,279,700 sqm. Approximately 333,200 sqm of office space is currently under construction of which 153,900 sqm is expected to be delivered during this year (of which 65,600 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.



### Agent's View

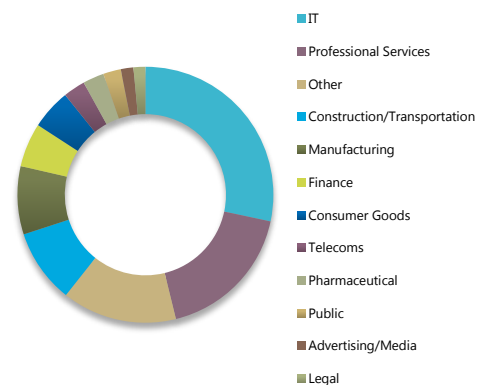
"We can see a certain parallel between the Prague office and residential markets which are both currently experiencing unprecedented conditions. As a result of the strong economy, demand for buying residential flats or houses in Prague is increasing (either for own use or for investment). The slow approval and construction processes are not able to keep up with the demand which has led to enormous price rises. From the point of view of the office market, it is also the case that for attractive projects we register three or more potential tenants for a particular unit, while office units in less attractive projects (i.e. with worse access, limited supply of daylight, etc.) remain vacant. However, due to the strong demand even the lower category projects are nowadays quickly leasing up. In some cases, we can see a slight increase of the headline rent for new office projects – this a logical result of the current market situation" says **Martin Ducháč**, 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 Q3 2017



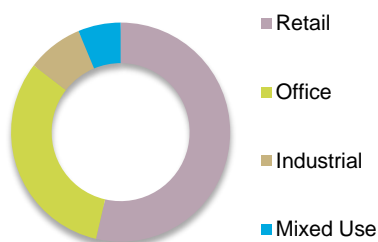
Source: Knight Frank Research / Prague Research Forum



Sebre finished construction of Drn in Prague 1. The building will offer 7 655 sqm of office space.

FIGURE 3

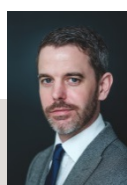
## Volume of transactions by sector in Q1-Q3 2017



Source: Knight Frank Research



Shopping centre Arkáda in Prostějov was sold through tender to Tisor Investment Fund. The sale of the building was mediated by Knight Frank.



## Commentary

"Q3 investment volumes are showing a significant year-on-year increase which overall will contribute to another year with annual volumes above €3 billion. All sectors remain in high demand with only availability of stock limiting volumes from increasing even higher. The recent Van Graaf transaction has lowered once again the quoted prime yield for Prague 1 high street properties. We continue to see that prices are under pressure across both markets and regions," states **Stuart Bloomfield**, Director within Knight Frank Capital Markets Team.

## Investment market

- Investment volumes reached EUR 529 million for the quarter as of end Q3 2017, representing only a slight decrease compared to the previous quarter but at the same time an increase of 33% in year-on-year comparison. The total volume does not include hotel and residential transactions. The most significant transactions being the sale of department store Van Graaf, office building Blox and shopping centre Královo Pole.
- The retail sector dominated this quarter and was responsible for 55% of the total investment volume. Besides the above mentioned acquisitions of Van Graaf department store and shopping centre Královo Pole in Brno, there was the sale of shopping centre Central Kladno, shopping gallery OC Haná and shopping centre Arkáda in Prostějov.
- The second largest share of the total volume belongs to office sector with 44%. In addition to Blox, there was the sale of Avenir Business Park and Oasis Florenc.
- No industrial transaction was closed in the third quarter of 2017.
- Prime industrial yields are currently 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 dropped to 3.50%.
- Overall, the volume of investment transactions in 2017 reached 2.35 billion. The retail sector is dominating the annual figures with a share of 54% of the total investment volume in 2017. Followed by the office sector at 32%, industrial at 8% and mixed use at 6%.
- We expect that that the total volume of investment transactions in 2017 will once again surpass EUR 3 billion.

## Selected investment transactions in Q3 2017

Date	Property name	Sector	Price	Size sq m
Q3	Blox	office	EUR 68,5m	20,000
Q3	Van Graaf	retail	undisclosed	12,000
Q3	CT Retail Portfolio (19 properties)	retail	EUR 40m	-
Q3	Arkáda Shopping Centre	retail	confidential	10,000

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