

PRAGUE OUTLOOK

MARKET UPDATE Q4 2017

Office market

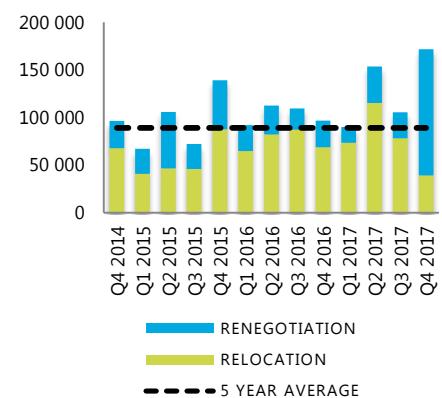
- Total demand in the fourth quarter of 2017 amounted to 169,800 sqm, representing an increase of 61% compared to the previous quarter and a year-on-year increase of 72 %.
- The largest volume of signed leases in Q4 was recorded in Prague 4 (19.4%), followed by Prague 9 (15.1%) and Prague 1 (12.3%).
- Renegotiations accounted for 23% of the total transactional volume in the fourth quarter 2017, which is 6 % less than in the third quarter of 2017.
- The largest deal of the fourth quarter was the pre-lease of Deloitte (13,100 sqm) in Churchill I in Prague 3, followed by the renegotiation of IBM (6,900 sqm) in The Park building 2 in Prague 4 and pre-lease of WMC (5,300 sqm) in Visionary in Prague 7.
- Once again, the IT sector was responsible for the largest share of the total volume of transactions in 2017 (18.1%), followed by professional services (16.5%). Total annual take-up reached 540,800 sqm which represents an increase of 30.5% when compared to the previous year.
- In the fourth quarter 2017, the vacancy rate decreased by 0.2% and reached a level of 7.5%. Prague 10 recorded the highest rate of vacant space (13.3%), whereas the lowest vacancy rate was recorded in Prague 8 (5.2%).
- In the fourth quarter of 2017, the construction of five buildings was completed: Palác Špork (6,600 sqm) was completed in Prague 1, Main Point Pankrác (22,000 sqm) and Pankrác Prime Office Building (7,500 sqm) in Prague 4, Aspira Business Centre (16,400 sqm) in Prague 5 and AFI Karlín (17,900 sqm) in Prague 8. Overall, a total number of 136,000 sqm of office space was delivered on the market in 2017.
- The total modern office stock in Prague currently stands at 3,342,100 sqm. Approximately 308,700 sqm of office space is currently under construction of which 203,400 sqm is expected to be delivered in 2018.
- Prime headline rents in the city centre of Prague slightly increased and stood between 20.00 and 21.00 EUR per sqm per month. Rents within the inner city varied 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

"The decreasing vacancy goes hand in hand with strong demand – the existing office stock in attractive locations is almost fully occupied except for last few remaining units. Companies with requirements for larger office space are thus forced to focus on planned projects and projects under construction. Even then, the situation is in favour of developers - by the end of 2017, projects under construction have been contractually occupied by more than 42%, with another significant share of already reserved spaces. For tenants, it is very important to begin to search for new office premises well in advance, otherwise they can face a lack of options for their decision-making" says Pavel Novák, Head of Office Agency at Knight Frank

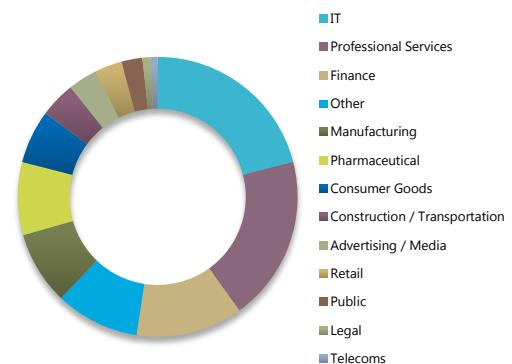


FIGURE 1
Quarterly take-up in Prague [sq m]



Source: Knight Frank Research / Prague Research Forum

FIGURE 2
Take-up by sector [sq m] in 2017



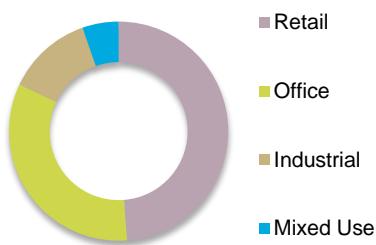
Source: Knight Frank Research / Prague Research Forum



AFI finished construction of project AFI Karlín in Prague 8. The building will offer 17,900 sqm of office space and was occupied by almost 80 % at the time of completion.

FIGURE 3

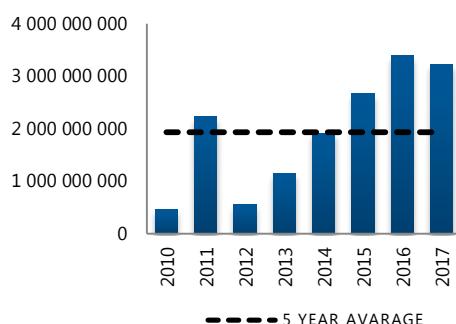
Volume of transactions by sector in 2017



Source: Knight Frank Research

FIGURE 4

Total volume of transactions (2010-2017)



Commentary

"The 2017 investment volume shows the continuing trend of high demand for real estate investment, which significantly exceeds the offer of high quality properties for sale or newly completed projects. Due to the high transaction volumes of recent years, 2018 may be influenced to a certain extent by the fact that many properties have recently been bought by new investors who will not be looking to sell those properties in the near future. Nevertheless, prime properties transactions show further yield decrease across all sectors," states **Lukáš Kalina**, Associate Director within Knight Frank Capital Markets Team.

Investment market

- Investment volumes reached EUR 846 million for the quarter as of end Q4 2017, representing an increase of 58% compared to the previous quarter but at the same time a decrease of 57% in year-on-year comparison. Overall, the total investment volume in 2017 amounted to EUR 3,224 billion which represents a difference of just -4.7% therefore nearly matching the record level of the previous year. The total volume does not include hotel and residential transactions.
- There were 25 transactions concluded in Q4 2017, the largest being the sale of Stage Capital industrial portfolio, which was sold to CBRE Global Investors. Other significant transactions of Q4 2017 were the sale of Vinice, Corso IIa, Škodův Palác, Palác Anděl, Avion Zličín and 50% share of Metropole Zličín.
- Overall, the largest share of the total investment volume in 2017 belongs to retail sector with 49 %. The most notable retail transactions of 2017 were the sale of Olympia Brno shopping centre and the sale of shopping centre Letňany.
- The office sector accounted for 33% of the total investment volume of 2017. The most significant transactions were the sale of Palác Euro Astra, Blox and office complex Avenir Business Park.
- As mentioned above, the Stage Capital industrial portfolio transaction was closed in Q4 2017. This acquisition was not only the largest transaction of Q4 2017 but also the largest industrial transaction in 2017. The industrial sector was responsible for 13% of total investment volume in 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 at 3.50%.

Selected investment transactions in Q4 2017

Date	Property name	Sector	Price	Size sq m
Q4	Stage Capital Industrial Portfolio	industrial	EUR 125m	-
Q4	Metropole Zličín (50% share)	retail	EUR 120m	55,000
Q4	Vinice	office	confidential	20,600
Q4	Corso IIa	office	confidential	12,400

Source: Knight Frank Research / Real Capital Analytics



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