

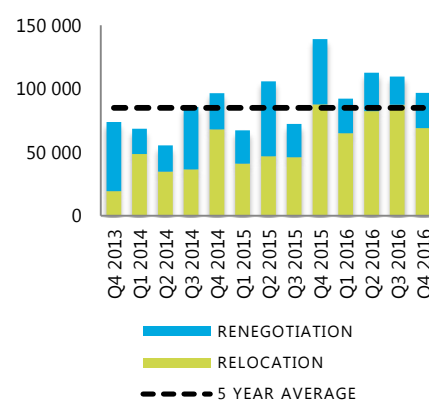
PRAGUE OUTLOOK

MARKET UPDATE Q4 2016

Office market

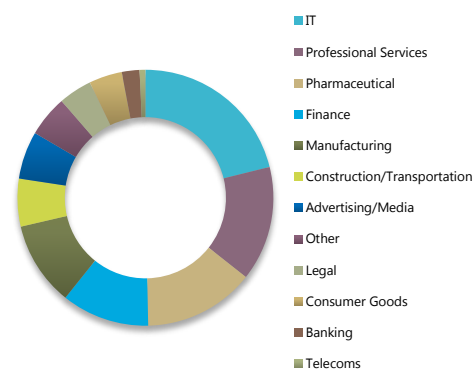
- Total demand in the fourth quarter of 2016 amounted to 98,300 sqm, representing a decrease of 11.5% compared to the previous quarter and a year-on-year decrease of 39.5%. Total annual take-up reached 414,400 sqm which represents a decrease of 7.7% when compared to the previous year.
- The largest volume of signed leases in Q4 was recorded in Prague 5 (29%), followed by Prague 4 (27%) and Prague 8 (11%). Full year figures clearly show that the largest amount of office space was leased in Prague 5 (116,100 sqm - 28%) and the largest number of transactions took place in Prague 1 (148 overall).
- Renegotiations accounted for 30% of the total transactional volume in the fourth quarter 2016, which is 10% more than in the third quarter of 2016. The share of renegotiations for the full year 2016 amounted to 13%.
- The largest deal of the fourth quarter was the renegotiation of Seznam.cz (13,400 sqm) in Palác Křižík I and Palác Křižík II in Prague 5, followed by the expansion of MSD (4,500 sqm) in Five in Prague 5 and the new occupation of Huawei (2,800 sqm) in Greenline Kačerov in Prague 4. The most notable transaction of the year was a pre-lease to Johnson & Johnson in Mechanica 01 in Prague 5 (15,100 sqm).
- The IT sector was responsible for the largest share of the total volume of transactions in 2016 (18%), followed by professional services (12.3%) and the pharmaceutical sector (11.9%).
- In the fourth quarter 2016, the vacancy rate decreased by 1.1% and reached a level of 10.6%. Prague 7 continues to record the highest rate of vacant space (15.7%), whereas the lowest vacancy rate was recorded in Prague 8 (8.5%).
- Overall in 2016, a total of 33,400 sq m of office space was delivered to the Prague office market representing the lowest annual supply ever recorded. At the end of the fourth quarter 2016, total office stock in Prague amounted to 3,208,400 sqm and there is approx. 171,300 sqm of office space under construction with scheduled completion in 2017. In Q4 2016, construction of the ČSOB HQ II (30,000 sqm) in Prague 5 and AFI Vokovice (12,100 sqm) in Prague 6 were commenced.
- Prime headline rents in the city centre of Prague remained stable quarter on quarter, with rents oscillating around 19.50 EUR per sqm per month. Rents within the inner city varied between 14.50 – 15.50 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 2016



Source: Knight Frank Research / Prague Research Forum

Agent's view

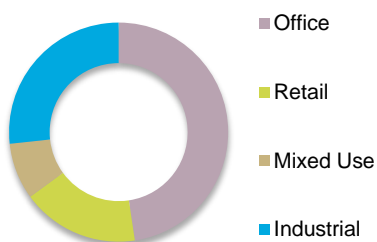
Strong demand of companies for new offices continues. The percentage of vacant office space gradually decreased since the first half of 2015, from the then 17.06% to the current 10.60%. Even if we take into account the planned development for 2017, the market begins to feel the limited supply of quality office space in desirable locations. Further development depends on the macroeconomic situation and the related demand of companies for new offices including their appetite for expansion. We consider the current situation on the market in terms of demand and supply to be balanced and therefore healthy.



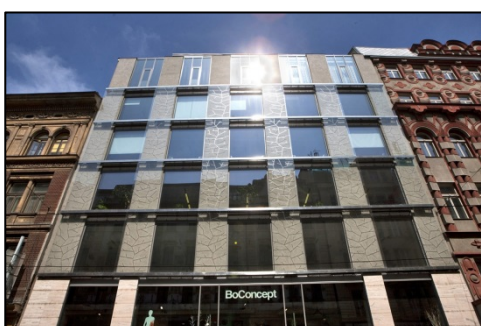
AFI launched construction of AFI Vokovice in Prague 6. The project will offer approx. 12 100 sqm of office space.

FIGURE 3

Volume of transactions by sector in 2016



Source: Knight Frank Research



Myšák Gallery was sold through tender to KOH-I-NOOR. The sale of the building was brokered by Knight Frank.

Investment market

- Investment volumes reached EUR 1,960 billion for the quarter as of end Q4 2016 which is more than the previous nine months combined. Overall, the total investment volume in 2016 amounted to EUR 3,384 billion and became the highest volume of transactions ever recorded in the Czech Republic. The total volume does not include hotel and residential transactions.
- The office sector dominated this year with a share of 48% of the total investment volume. There were 14 transactions concluded in Q4 2016, the largest being the sale of office complex The Park which also became the largest office transaction of 2016. Other significant transactions of 2016 were the sale of: Florentinum, BB Centrum A and B, Enterprise and River Garden II + III.
- The retail sector accounted for 17% of the total investment volume of 2016. The most notable transactions of Q4 2016 were the sale of shopping centre Šestka to Wood & Company.
- Regarding industrial sector, the acquisition of P3 European portfolio by GIC, Singapore's sovereign wealth fund became the largest industrial deal of 2016 and the largest property deal of the whole year. The industrial sector was responsible for 27% of total investment volume in 2016.
- Regarding yields, there is still an ongoing trend of yield compression across all sectors. Prime industrial yields are currently 6.25%. Prime office yields dropped to 5.00%. Retail yields for prime shopping centres currently stand at 5.00% and for the prime high street properties 3.75 - 4.25%.

Commentary

Prague is experiencing unprecedented demand for prime office and retail premises; this is driven by the quality of Prague's high street which is unrivalled in the CEE region and the robust performance of the Prague office market, again a shining star in the CEE region. We expect yields to harden throughout the first 3 quarters of 2017 as pent up demand fights to access the limited supply of institutional product available on the market.

Selected investment transactions in Q4 2016

Date	Property name	Sector	Price	Size sq m
Q4	Florentinum	Office	EUR 283m	56,500
Q4	Myšák Gallery	Mixed-use	Confidential	7,400
Q4	The Park	Office	EUR 360m	116,000
Q4	Šestka	Retail	EUR 27m	27,900
Q4	Enterprise Office Center	Office	EUR 122m	30,000
Q4	River Garden II + III	Office	EUR 84m	25,999

Source: Knight Frank Research / Real Capital Analytics



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