

PRAGUE OUTLOOK

MARKET UPDATE Q3 2018

Office market

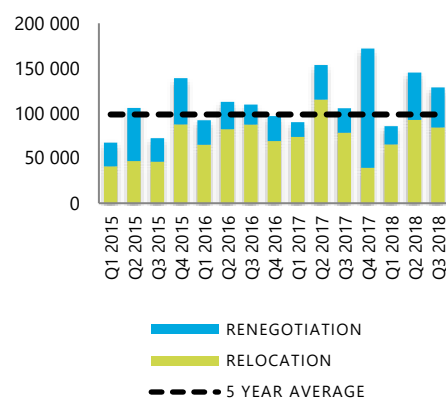
- Total demand in the third quarter of 2018 amounted to 128,700 sqm, representing a decrease of 11% compared to the previous quarter and a year-on-year decrease of 2%.
- The largest volume of signed leases in Q3 was recorded in Prague 8 (26.4%), followed by Prague 4 (22.5%) and Prague 7 (16.5%).
- Renegotiations accounted for 35% of the total transactional volume in the third quarter of 2018, which is 1 % less than in the second quarter.
- The largest deal of the third quarter was the renegotiation of ADP Employers Services (8,000 sqm) in River Garden I. in Prague 8, followed by the new lease of WeWork (5,800 sqm) in Drn in Prague 1.
- The IT sector was responsible for the largest share of the total volume of transactions in the third quarter of 2018 (17.6 %), followed by professional services (12.5%) and the financial sector (11.3%).
- In the third quarter of 2018, the vacancy rate decreased by 0.6% and reached 6.1%. The highest rate of vacant space was recorded in Prague 5 (9.6%), whereas the lowest vacancy rate was recorded in Prague 2 (2.5%).
- During the last three months a total number of 38,200 sqm of modern office space was delivered to the Prague market. The largest completed projects were Palmovka Open Park complex (23,000 sqm) in Prague 8 and AFI Vokovice (12,200 sqm) in Prague 6.
- Total modern office stock in Prague currently stands at 3,447,200 sqm. Approximately 340,600 sqm of office space is currently under construction with planned completion by 2020.
- Prime headline rents in the city centre of Prague varied between 21.00 and 22.00 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

"The current situation on the Prague office market means that tenants need to start to consider their office relocation or renegotiation in a timely manner. There is currently almost 100% occupancy of offices in the centre of Prague and there are plenty of tenants looking for space. This often means that tenants have to settle for lower quality offices or reassess their criteria and move from Prague 1 to the wider city. Tenants also often have to wait for new premises and may be forced to overcome the temporary time period between their lease expiry and new occupation through home offices or utilising the numerous co-working centres that have sprouted like mushrooms across the city," says **Martin Ducháč**, senior office agency consultant at Knight Frank.

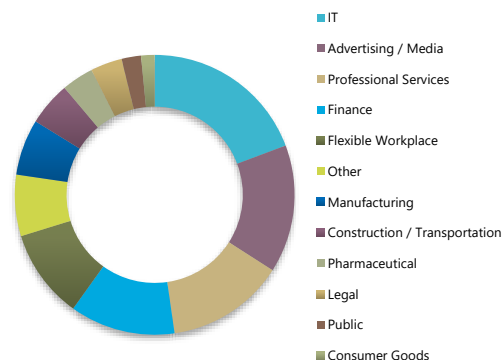


FIGURE 1
Quarterly take-up in Prague [sq m]



Source: Knight Frank Research / Prague Research Forum

FIGURE 2
Take-up by sector [sq m] in Q3 2018



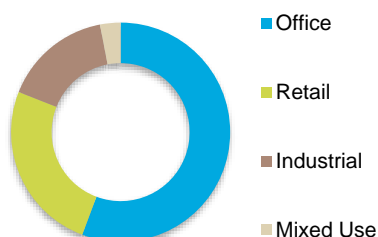
Source: Knight Frank Research / Prague Research Forum



Crestyl commenced construction of project DOCK IN FOUR in Prague 8. The building will offer approx. 20,400 sqm of office space.

FIGURE 3

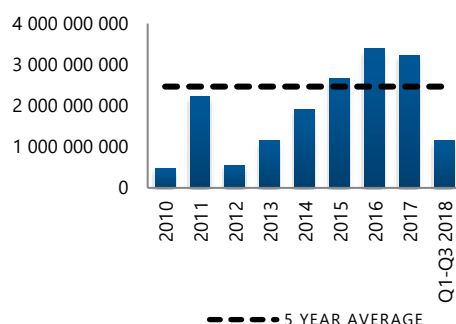
Volume of transactions by sector in Q3 2018



Source: Knight Frank Research

FIGURE 4

Total volume of transactions (2010-Q3 2018)



Commentary

"Q3 was a relatively quiet quarter compared with the previous quarter and the year with just a few smaller transactions completing and nothing above EUR 40m. However, the underlying levels of investor appetite remain strong for the Czech market and we are aware of several large transactions underway in all sectors which will significantly increase the annual volumes. There were also several high-profile new sales launched in the quarter, mainly in the office sector that will define the early part of 2019 meaning we should see another strong start to the new year," states **Stuart Bloomfield**, Director within Knight Frank Capital Markets Team.



Investment market

- Investment volumes reached EUR 194 million for the quarter as of end Q3 2018, representing a decrease of 71% compared to the previous quarter and at the same time a decrease of 64% in the year-on-year comparison. The total volume does not include hotel and residential transactions.
- The most significant transactions of third quarter was the acquisition of Czech retail park portfolio, sold by Czech developers KPD Group and Exafin. The price of the transaction reached one billion Czech crowns.
- Overall, the largest share of the total investment volume in Q3 2018 belongs to the office sector with 56%. The most significant transactions were the sale of Rosmarin, Dům odborových svazů and Technopark.
- The second largest share belongs to the retail sector, which accounted for 25% of the total investment volume of Q3 2018. Besides the above mentioned sale of KPD Group and Exafin retail park portfolio, there was also the sale of Galerie Písek.
- The largest transaction of the industrial sector was the sale of M7 Real Estate industrial parks, one of them is situated in Hungary and two in the Czech Republic.
- 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%.
- Overall, the volume of investment transaction in 2018 reached EUR 1,15 billion. The office sector is dominating the annual figures with a share of 58% of the total investment volume in 2018. Followed by the retail sector at 32%, industrial at 9% and mixed use at 1%.
- We expect that the total volume of investment transactions in 2018 will reach EUR 2,5 billion.

Selected investment transactions in Q3 2018

Date	Property name	Sector	Price	Size sq m
Q3	Dům odborových svazů	Office	EUR 38,5m	12,000
Q3	Rosmarin Business Center	Office	EUR *20m	20,400
Q3	Technopark	Office	EUR *12m	6,800

*estimate

Source: Knight Frank Research / Real Capital Analytics



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