

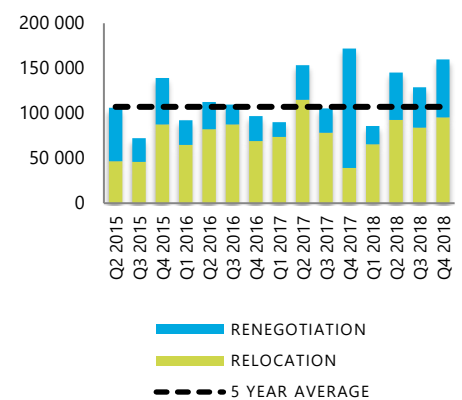
PRAGUE OUTLOOK

MARKET UPDATE Q4 2018

Office market

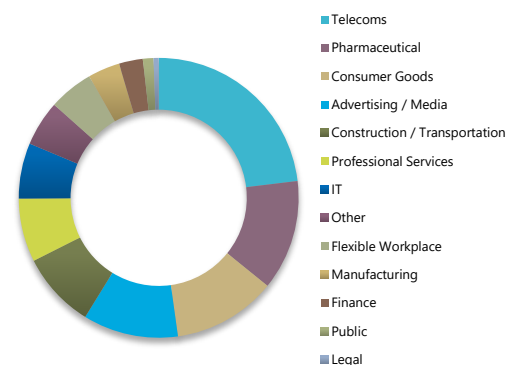
- Total demand in the fourth quarter of 2018 amounted to 159 800 sqm representing an increase of 22.9% compared to the previous quarter.
- The largest volume of signed leases in Q4 was recorded in Prague 4 (34.7%), followed by Prague 8 (18.2%) and Prague 5 (12.8%).
- Renegotiations increased to 40.3% of the total transactional volume in the fourth quarter of 2018. Compared to the third quarter 2018 it is an increase of 4%.
- Pre-completion lease of FTV Prima (11,800 sqm) in newly refurbished Centrum Vinice in Prague 10 is the largest deal of the fourth quarter of 2018. Another significant transaction is the pre-completion of Edward Lifesciences (5,300 sqm) in Praga Studios in Prague 8.
- Telecoms with 19.5% became the most active sector in the total volume of transactions, followed by pharmaceutical sector (10.7%) and consumer goods sector (10,1%). Total annual take-up reached 519,200 sqm which represents decrease of 3.5% year-on-year.
- During the Q4 vacancy decreased by 0.9 percentage points and reached a level of 5.1%. Prague 5 (7.4%) and Prague 3 (6.2%) offered the most vacant offices whereas the lowest vacancy rates were recorded in Prague 2 (2.4%) and in Prague 10 (3.6%).
- During the Q4 a total number of 28,500 sqm of modern office space was delivered to the Prague market. The completed buildings were: the project City Element (7,600 sqm) and the reconstruction of the BB Centrum A (20,900 sqm).
- Total modern office stock in Prague currently stands at 3,475,100 sqm and approximately 214,800 sqm is planned to be completed in 2019. Further 134,000 sqm of offices is under construction with planned completion in 2020-2021.
- 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.

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 Q4 2018



Source: Knight Frank Research / Prague Research Forum

Agent's View



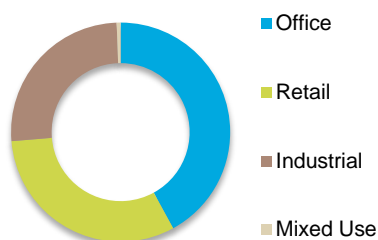
"The logical consequence of the extremely positive market environment of the last few years is a slight cooling of the market in 2019. The hunger for expansion and recruitment is close to the top and may be hitting its limits. In addition, many companies have recently rented premises already taking future expansion into account. This may result in an increase of subleases. The factors are compounded by rising labour costs in the Czech Republic. Despite this, the low vacancy rate will continue to contribute to rising prices, which has so far been covered in the decline of the level of incentives provided to tenants. We do not expect significant fluctuations unless there is a change in the overall economic situation" says **Pavel Novák**, director of office agency in Knight Frank.



SB Gruppe completed construction of project City Element in Prague 4. The building will offer approx. 7,600 sqm of office space.

FIGURE 3

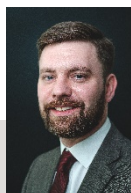
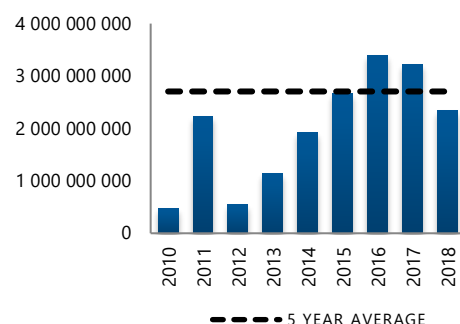
Volume of transactions by sector in Q4 2018



Source: Knight Frank Research

FIGURE 4

Total volume of transactions (2010-2018)



Commentary

"Looking towards 2019 we expect to see the impact of Korean Capital on transaction volumes; followed by German and US capital, and of course Czech capital. Yields will remain stable in the retail and office sector; but we predict yield compression specifically in the retail park and secondary industrial sectors as well as the hospitality sector. Finally, we expect to see the emergence of the Private Rented Sector among institutional investors; this sector is extremely popular in the UK, Germany and other mature western markets and Knight Frank are increasingly registering new enquiries for such product in the Czech Republic." states **Ryan Wray**, Director of Knight Frank Capital Markets.

Investment market

- Investment volumes reached EUR 1,148 billion for the total Q4 2018, representing an increase of 451% compared to the previous quarter and an increase of 32% in the year-on-year comparison. The total volume does not include hotel and residential transactions.
- The most significant transaction of the fourth quarter was the acquisition of CTP industrial portfolio, which was sold to Deka Immobilien. The total price of the transaction reached EUR 460 million. This transaction represented 40% of the total investment volume of the fourth quarter 2018.
- Overall, the largest share of the total investment volume in 2018 is accounted for by the office sector with 42%. The most significant transactions include the sale of Metronom Business Center, which was sold to REICO (investment fund of Česká Spořitelna).
- The retail sector accounted for 32% of the total investment volume of 2018. The most significant deal in this sector was the sale of Forum Nová Karolína in Ostrava, which was also sold to REICO.
- Prime industrial yields are still 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 2,342 billion representing a decrease of 31% compared to the previous year.

Selected investment transactions in Q4 2018

Date	Property name	Sector	Price	Size sq m
Q4	Forum Nová Karolína	Retail	EUR 209 m	58 500
Q4	CTPark portfolio	Industrial	EUR 460 m	429 990
Q4	Forum Karlín	Office	EUR 52 m	15 000

Source: Knight Frank Research / Real Capital Analytics



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