

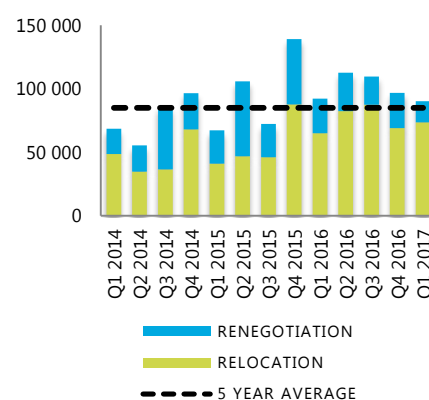
PRAGUE OUTLOOK

MARKET UPDATE Q1 2017

Office market

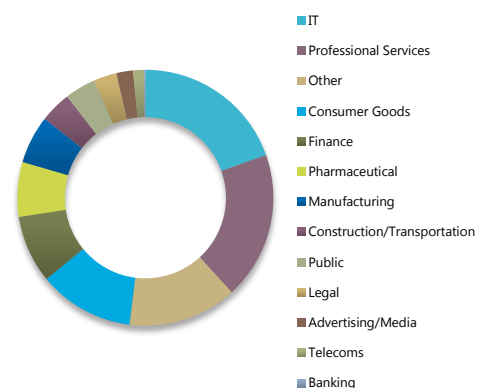
- Total demand in the first quarter of 2017 amounted to 90,100 sqm, representing a decrease of 8.5% compared to the previous quarter and a year-on-year decrease of 3.0%.
- The largest volume of signed leases in Q1 was recorded in Prague 4 (35%), followed by Prague 5 (16%) and Prague 8 (15%).
- Renegotiations accounted for 18% of the total transactional volume in the first quarter 2017, which is 12% less than in the last quarter of 2016.
- The largest deal of the first quarter was the new lease of PGRLF (2,600 sqm) in Oasis Florenc in Prague 8, followed by the renegotiation of Carrier Refrigeration Operation Czech Republic (1,800 sqm) in Hadovka Office Park in Prague 6 and renegotiation of Rossman (1,600 sqm) in Gemini in Prague 4.
- The IT sector was responsible for the largest share of the total volume of transactions (17%), followed by professional services (16%) and consumer goods (10%).
- In the first quarter 2017, the vacancy rate decreased by 1.1% and reached a level of 9.4%. Prague 7 continues to record the highest rate of vacant space (14.8%), whereas the lowest vacancy rate was recorded in Prague 9 (6.7%).
- During the last three months, the construction of DOCK IN TWO (6,900 sqm) was completed in Prague 8. At the end of the first quarter 2017, the total office stock amounted to 3 219 900 sqm. Approximately 343 000 sqm of office space is currently under construction of which 144 600 sqm is expected to be delivered during this year. In the first quarter, the reconstruction of Telehouse (20 000 sq m) was commenced.
- Prime headline rents in the city centre of Prague increased to 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.

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 Q1 2017



Source: Knight Frank Research / Prague Research Forum



Agent's View

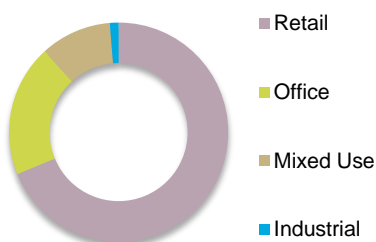
"The positive economic climate leads to expansion of companies which creates strong demand for office space. At the same time, a small amount of office space was completed last year. These two factors have led to a steady decline in vacancy across Prague. In some districts, such as Karlín, we are already witnessing a surge in demand. Thus landlords are toughening rental conditions and it is assumed that this trend will prevail until the end of 2017, during which developers will deliver a significant amount of new office space on the Prague market," says **Ondřej Kolín**, office agency consultant at Knight Frank



BPD development launched reconstruction of Telehouse in Prague 6. The project will offer approx. 20 000 sqm of office space.

FIGURE 3

Volume of transactions by sector in Q1 2017



Source: Knight Frank Research



Futurama Business Park – Buildings A, B & C was sold through tender to Caerus Investment Management. The sale of the building was mediated by Knight Frank.



Commentary

"Q1 2017 has been a fantastic start to the year and there was a clear dominance of retail properties transacted. Knight Frank expect 2017 to be another record year in terms of investment volumes and anticipate a resurgence of transactions in the core-plus office and retail segments as investors search for higher yields and the availability of core stock is limited," states **Stuart Bloomfield**, Director within Knight Frank Capital Markets Team.

Investment market

- Investment volumes reached EUR 1,321 billion for the quarter as of end Q1 2017 which is the largest volume of transactions that has ever been recorded in the first quarter. The total volume does not include hotel and residential transactions. The figure is made up of 22 transactions, the largest being the sale of Olympia Brno shopping centre to Deutsche EuroShop for EUR 374 million.
- The retail sector dominated this quarter and was responsible for 69% of the total investment volume. Besides the above mentioned acquisition of Olympia Brno, there was the sale of OC Letňany and the CBRE Global Investors portfolio including three properties in Czech Republic – Zlatý Anděl in Prague, OC Nisa Liberec and Olympia Plzeň Shopping Centre and Retail Park.
- Regarding logistics, there were only two deals closed in the first quarter 2017; the "Carrier" industrial area and Karlovarská Business Park, both situated in Prague.
- The largest office transaction was the sale of Futurama Business Park - buildings A, B & C to Caerus Investment Management. Knight Frank were exclusive sales agents acting on behalf of Invesco Real estate (IRE) a global real estate investment manager. Other significant office transactions were the sale of: Na Příkopě 33, Smíchov Gate and Argo Alpha.
- Regarding yields, there is still an ongoing trend of yield compression across all sectors. Prime industrial yields are currently 6.00%. Prime office yields dropped to 4.75%. Retail yields for prime shopping centres currently stand at 5.00% and for the prime high street properties 3.75 - 4.00%.

Selected investment transactions in Q1 2017

Date	Property name	Sector	Price	Size sq m
Q1	Olympia Brno	Retail	EUR 374m	85 000
Q1	Futurama Business Park (A,B,C)	Office	Confidential	19 259
Q1	Na Příkopě 33	Office	Confidential	21 999
Q1	OC Letňany	Retail	EUR 245m	67 029
Q1	Karlovarská Business Park	Industrial	EUR 17m	20 000

Source: Knight Frank Research / Real Capital Analytics



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