

CZECH REPUBLIC Office Market Snapshot

Third Quarter | 2019



MARKET INDICATORS

Market Outlook

Prime Rents:	Upward rental pressures in inner city locations reflected rather in incentive changes.	▶
Prime Yields:	Prime yields reached historical minimums in Prague and can further sharpen in regions.	▲
Supply:	New supply remains strong, with secondary locations along metro stations becoming more attractive.	▼
Demand:	Occupier's activity slowing down due to persistently tight labour market.	▲

Prime Office rents – September 2019

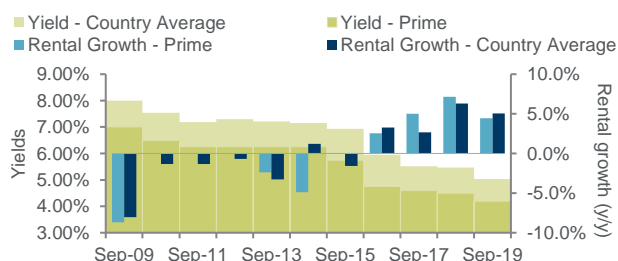
LOCATION	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Prague	23.50	282	29.6	4.4	3.8
Brno	15.00	180	18.9	3.4	4.6

Prime Office yields – September 2019

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10-YEAR	
	Q	Q	Y	HIGH	LOW
Prague	4.20	4.20	4.50	6.85	4.20
Brno	6.25	6.25	6.50	9.50	6.25

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

Decelerating investment activity and persistent trade uncertainty led to GDP growth forecasts of 2.6% in 2019 and 1.9% in 2020. Meanwhile, Moody's has raised Czech credit rating for the first time in 17 years from A1 to Aa3, citing the country's strong budget performance and low debt. Office stock growth has been slowing down recently even though there are still more than 300,000 sq m of office space under construction. Also, total of 17 office buildings should be completed within 2019, which is the record high number. Office pipeline will remain strong for the next three years, which poses a risk of oversupply due to continuously decreasing demand.

Occupier focus

Demand for offices in Prague has been sinking since the beginning of 2019, while YTD take-up was the lowest since 2015. Professional services and IT have been driving most of the demand for office space, while the activity of flexible space providers came to a halt last quarter. Significant new supply and lower leasing activity has resulted in a faster growing vacancy rate; the rate exceeded 5% again in Q3 2019. However, office location still plays a very important role, and differences in the speed of leasing of available space are large among individual office hubs. Newly completed projects in the very attractive city centre of Prague 1 or Karlín in Prague 8 can be pre-leased up to 100% upon opening. Contrastingly, some office projects in Prague 4 and 5 may struggle to find new tenants. Despite the existence of some exceptional offices, prime rents remain stable at 23.50 €/sq m/month in the city centre. We have also seen an upward movement of prime rents in some inner-city locations.

Investment focus

Several major office investment transactions were closed in the third quarter of 2019, most notably the sale of DRN building to German AM KGAL and the sale of River Garden I to German AM Warburg HIH, signalling the aggressive return of western buyers to the market. Local investors share decreased to about 25% since the beginning of the year, mostly due to large Korean and German investments. Local real estate funds are increasingly priced out of the market due to record level yields international money can pay.

Outlook

The demand for office space is stable from local and multinational companies, which consider Prague as a great option for relocation. The demand might diminish the risk of oversupply caused by the continuously high office pipeline. Although, these companies still face a significant lack of labour due to the low unemployment. No recession seems to be anywhere close, but the office market is probably entering a slower phase.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Prague (CC)	577,264	20,956	3.6%	10,796	33,552	17,777
Prague (IC)	1,958,828	93,119	4.8%	56,276	217,302	231,627
Prague (OC)	1,060,084	68,568	6.5%	18,123	50,580	69,993
Prague (Overall)	3,596,175	182,643	5.1%	85,195	301,435	319,397

Source: Prague Research Forum, Cushman & Wakefield, Q3 2019

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Luxembourg Plaza	Prague (IC)	ExxonMobil Business Support Center Czechia	15,400	Renegotiation and expansion
Oasis Florenc	Prague (IC)	Wargaming	2,700	Renegotiation and expansion
The Park	Prague (OC)	Danone	2,100	New occupation
Telehouse	Prague (IC)	YIT	1,900	Pre-lease
Anděl Park	Prague (IC)	Carl Zeiss	1,800	Renegotiation and expansion

Source: Prague Research Forum, Cushman & Wakefield, Q3 2019

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Drn	Prague (CC)	SEBRE / KGAL	n/a	n/a
Blox	Prague (IC)	CFH Group / Českomoravská nemovitostní	5.00	77.00
Palmovka Open Park 3 & 4	Prague (IC)	Metrostav / Immofinanz	5.50	76.40

Source: Cushman & Wakefield, Q3 2019

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