

16. Property Market

The Czech Republic investment market performed well in 2018, boosted by sales of assets such as CTP Portfolio or Forum Nová Karolína, with the investment volume totalling EUR 2.6 bln. Strong demand across all investment sectors continued from 2017. We monitored four individual transactions with a volume of above EUR 100 mln and a combined value of EUR 0.9 bln which accounted for approximately 34% of total investment volume.

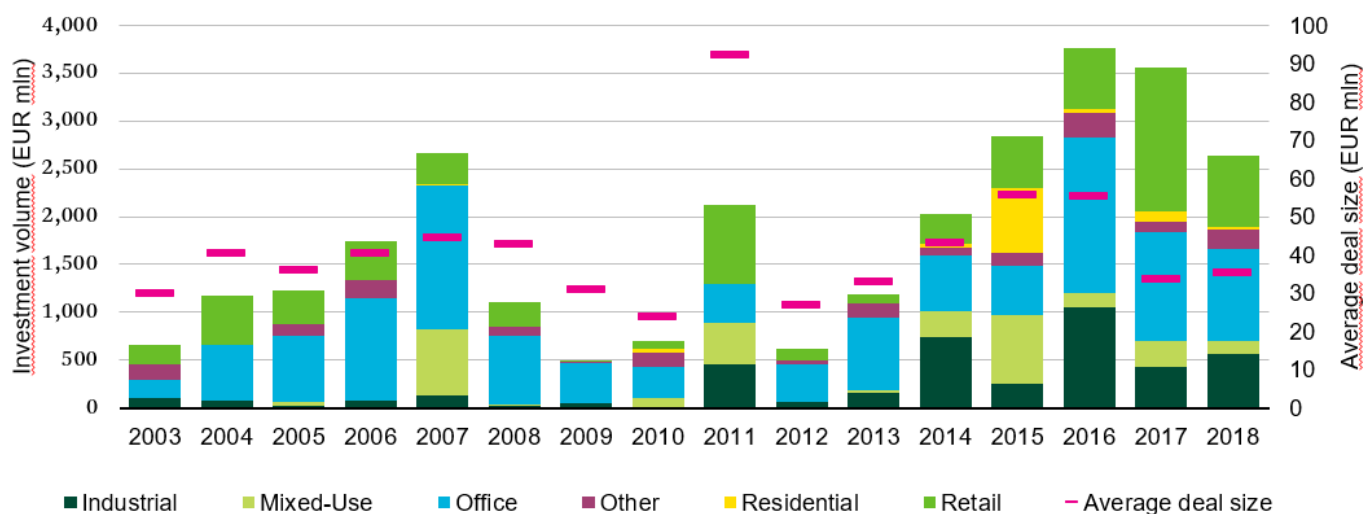
While 2017 saw the largest share of investments in retail sector, mostly due to the sale of CBRE GI retail portfolio, Olympia Brno and OC Letnany transactions, in 2018 majority of transactions were in office sector, with transactions like Trimaran & City Element, Metronom Business Park and Visionary.

In 2018, the office sector dominated with approximately 36% share of total investment volume, followed by the retail sector (29% share) and the industrial sector (21% share). Activity from local capital continued to grow. Whereas in 2017 local investors were behind 30 % of the capital traded, in 2018 the Czech investors spent more than EUR 1.6 bln and had the largest (61%) share on the total investment volume. The German investors were the second most active and spend ca. EUR 570 mln, followed by the investors from Austria and France, having shares of 3% and 2% only, respectively.

Prime yields decreased slightly in 2018, with the only exception of high street yield remained stable at 3.5%. Industrial prime yield decreased by 25 bps to 5.50%, prime office yield decreased by 35 bps at 4.50%. Shopping centre yield also decreased by 25 bps at 3.5%.

The positive market sentiment is expected to continue in 2019 and CBRE forecast that approximately EUR 2.1 bln worth of assets will change hands. CBRE forecasts prime yields to remain stable relatively stable.

Property Turnover by Segment, 2018

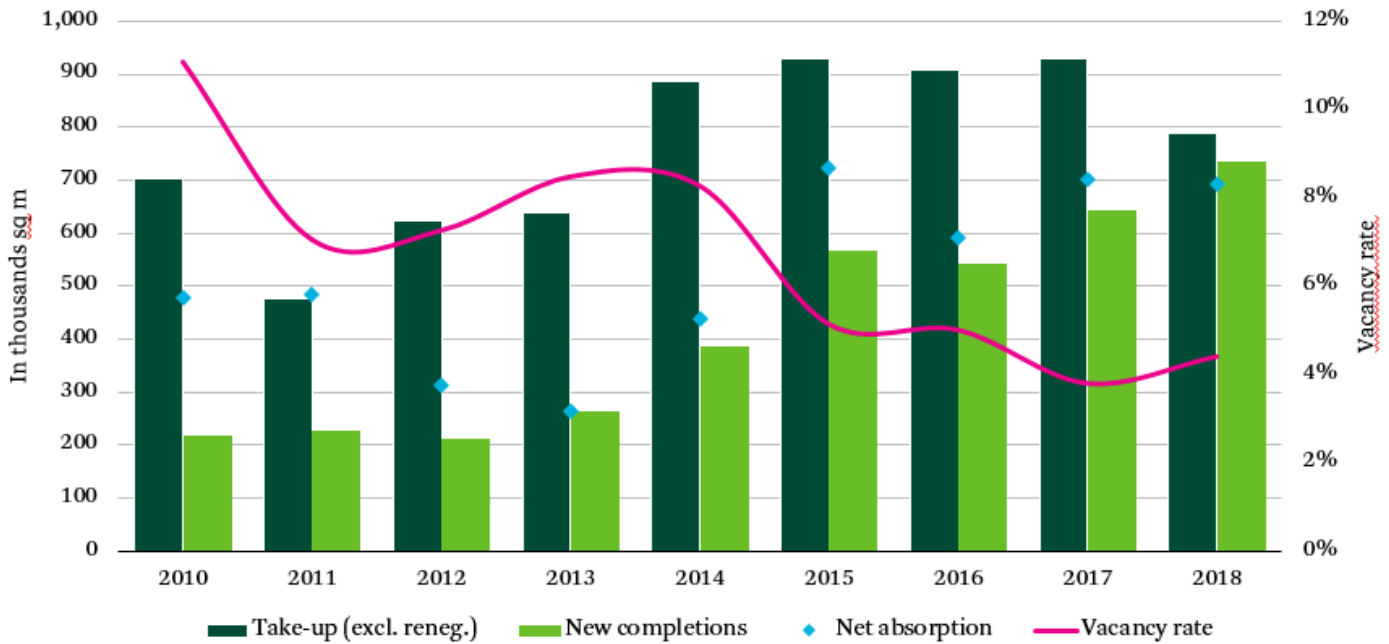


Source: CBRE Research, 2019

INDUSTRIAL AND WAREHOUSE LEASING MARKET

The Czech Industrial Market is consisted of approximately 7.7 million sq m of modern A-class warehouse space. Almost 75% of total modern warehouse space in the Czech Republic is situated in four major regions – Greater Prague, Plzen, South Moravia and Moravia-Silesia region. On the other hand, South Bohemia and Zlin region are regions with very low amount of modern warehouse space.

Industrial Market Trend, 2018



Source: CBRE Research, Industrial Research Forum, 2019

Czech industrial market started to develop in 2005. The peak of delivered warehouse space to the market was recorded in 2007. Total leasing activity (TLA) reached 1,355,200 sq m in 2018, slightly slowing down after highest ever recorded in 2016. The 2018 take-up (excluding renegotiations) amounted to 789,300 sq m decreased after 2017 volumes.

Over the years tenant requirements for larger premises are now slowing down. There were 5 concluded transactions over 20,000 sq m in 2018. There were 8 such transactions in 2017 and in 2016 there were 9 of such transactions conducted.

New completions amounted to 735,900 sq m over the entire year. This is the highest amount since 2008. Vacancy rate increased slightly to 4.4%. Over the last 12 months, the vacancy rate has been fluctuating around the level of 4.1%. We further expect the vacancy rate to remain stable with no major changes, no matter of very high new supply expected this year.

Rental Levels

Average level of headline rents increasing slightly during the year 2018, due to increasing construction costs and lack of available space. Banks and investors generally look for longer lease lengths, landlords are under continuing pressure from tenants to provide shorter leases.

Unit size	Headline Rental level (EUR/ sqm/ month)
500 - 1,000	4.5 – 6.3
1,000 - 5,000	3.8 – 4.6
5,000 - 10,000	3.6 – 4.1
more than 10,000	3.25 – 3.8

Source: CBRE Research, 2018

Typical lease term on the market is 3-5 years for logistics companies, 5-7 years for production companies and 7-10 years for built-to-suit production and logistics. However, in existing A-class projects might be seen shorter lease terms and in newly constructed halls 7 or 10 years (or even longer) lease term is not an exception. As for early terminations, penalty of notice is determined by a clause in the lease agreement. Usually, a lease is guaranteed by Mother Company or by bank guarantee and in some rare cases by a rental deposit of 3-6 months' rent. Indexation is according to HICP EU. Typical incentives include 1-6 month rent free depending lease conditions.

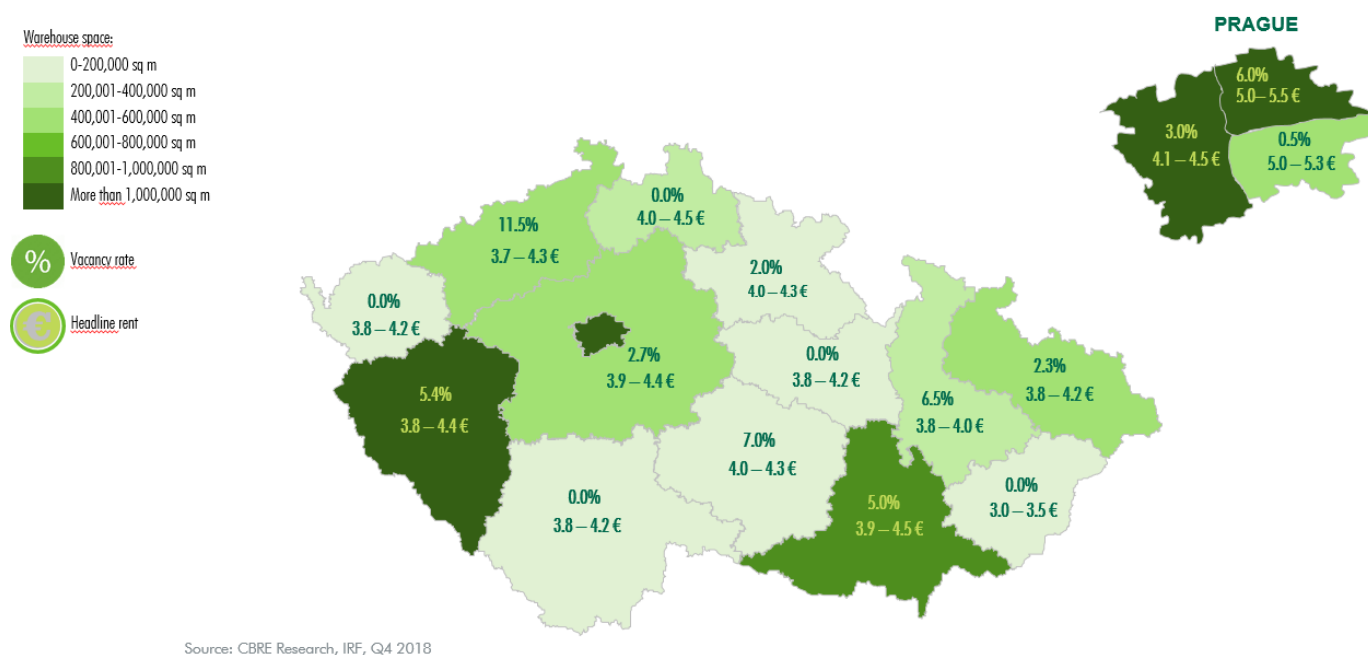
For internal repairs are responsible tenants, while external, structural and common areas are landlord's responsibilities. Service charges are paid above the rent on average around EUR 0.60 sq m/month and include building insurance, property taxes, 24h security, landscaping, property management, maintenance of common part of the property (including snow removal), maintenance and inspections of buildings and equipment. Minimum pre-lease size of 5,000 sq m is required for built-to-suit warehouse.

Czech Industrial Market Figures, 2018

	Total CZ	Greater Prague	Pan-regional CZ
Total Stock* (sq m)	7,726,200	2,979,100	4,747,000
Total leasing activity (sq m)	297,400	155,200	142,200
Space under construction (sq m)	433,900	107,600	326,300
Vacancy rate (%)	4.4	3.9	4.6
Existing vacant space (sq m)	336,800	116,900	219,900
Rent** (EUR/sq m/month)	3.20-4.30	3.50-4.30	3.20-4.25
Net absorption (sq m)	145,800	38,800	107,000
New completions (sq m)	172,100	43,900	128,200

Note:* Total stock represents sum of warehouse/ industrial space and adjacent office space. ** Average net effective rent for unit 5,000 sq m

Source: CBRE Research, Industrial Research Forum, 2019



OFFICE MARKET

The office market is concentrated predominantly in Prague, where 3.47 mln sq m of modern office space is currently monitored. Outside of Prague, modern office stock is concentrated mainly in Brno and Ostrava. Brno modern office stock currently totals 583,000 sq m and Ostrava modern office stock comprises 213,400 sq m.

Rent is paid usually in EUR, quarterly in advance and indexation is applied annually according to HICP EU index. Effective rents are reduced due to incentives provided by landlords. These incentives typically include 1 month rent free period per each year of lease and fit-out contribution between 80 and 150 EUR per sq m of the net area, depending on location and occupancy. In Prague, as well as in regional cities, the typical lease term is 5 years. Sometimes a break option after 3 years (subject to paying 6-month penalty) is applied. As for early terminations, tenants either have to pay the entire remaining amount of rent, plus service charges or they can agree a specific penalty with the landlord.

Last update: February 2019

Fact Sheet No.16 – Property Market
Prepared by CBRE

The deposit is usually 3-month rent plus service charges plus VAT. Service charges range between 75-125 CZK/sq m/month + VAT covering common area operating costs, maintenance, cleaning & repairs, property tax and building insurance. Tenants pay for individual electricity consumption.

Office Market Indicators, 2018

	Prague City Centre	Prague Inner City	Prague Outer City	Brno	Ostrava
Total stock (sq m)	568,300	1,897,000	1,009,900	583,400	217,900
Vacant space (sq m)	23,800	88,200	65,600	56,000	19,600
Vacancy rate	4,2%	4,7%	6,5%	9,6%	9,0%
New supply (sq m)	13,400	120,700	22,700	64,400	4,500
Total leasing activity (sq m)	71,400	312,400	136,100	59,200	25,700
Space under construction (sq m)	18,000	245,100	87,000	75,200	10,000
Prime rents (EUR/ sq m/ month)	21.00- 22.00	15.00 – 16.50	13.50 – 14. 50	15.00	13.50

Source: CBRE Research, Prague research Forum, Regional Research Forum, 2019