

Prague Office MarketView

Q3 2014

CBRE Global Research and Consulting



NEW SUPPLY
0 sq m



TAKE-UP (EXCL. RENEG.)
41,600 sq m



VACANCY RATE
14.0%



PRIME RENT
19.50 EUR/sq m/month

LIMITED NEW SUPPLY IN Q3 CAUSED DECREASE IN VACANCY RATE. WITH STRONG NEW SUPPLY PLANNED FOR Q4, WE EXPECT THIS TREND TO BE JUST SHORT-TERM.

Q3 2014 Hot Topics

- No new modern office space was added to the market in Q3 2014.
- 41,600 sq m of modern office space was newly leased in Q3 2014.
- 55% of total leasing activity was made up by renegotiations, new occupations accounted for 33%.
- Vacancy rate decreased by 0.6 p.p. q-o-q and increased by 1.1 p.p y-o-y to 14.0%.
- 284,800 sq m is under construction, of which only 16% is pre-leased.

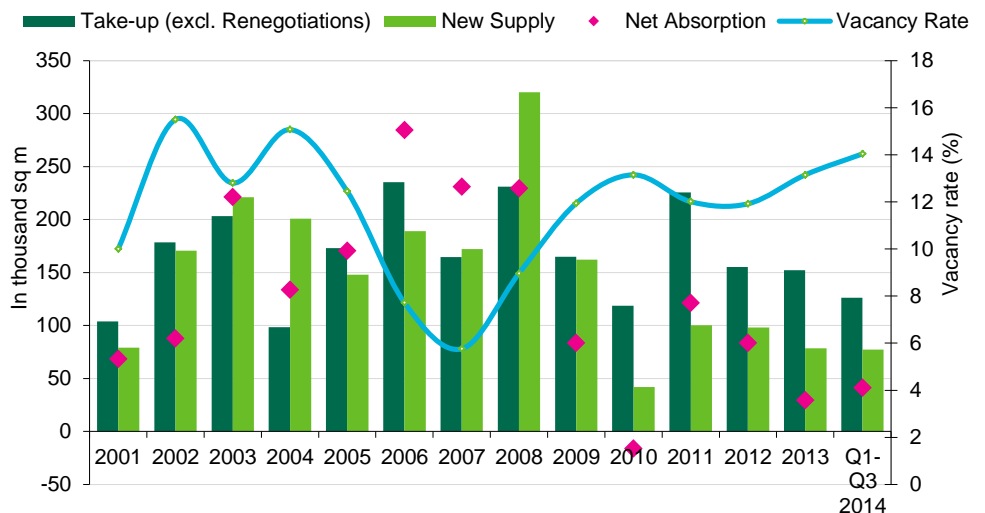
After strong second quarter of 2014, we experienced a slowdown in new development when no office buildings were added to the market. Although due to the new supply expected in Q4 2014, this slowdown is temporary. With nine projects under construction with expected completion by 2014 year-end we anticipate 103,600 sq m to be added to the market in a single quarter making a total of 180,600 sq m for the year. This will be the largest new supply in the past six years. Notable new completions for Q4 are BB Centrum Delta (32,500 sq m), ArtGen (22,000 sq m), The Blox (16,300 sq m) and Quadrio (16,200 sq m).

The total amount of space under construction currently stands at 284,800 sq m.

Newly leased space in Q3 2014 exceeded 41,600 sq m, representing a 23% increase compared to Q2 2014.

Leased space (including renegotiations) accounted for 93,100 sq m, representing a 50% increase compared to the previous quarter.

Chart 1: Prague Office Market Trend



Source: CBRE Research, PRF

Notable transactions of Q3 2014 included the renegotiation of Česká pojišťovna (32,200 sq m) in two buildings in Prague 4, the renegotiation of ExxonMobil (8,600 sq m) in Atrium Flora in Prague 3 and the new lease of NCR Česká republika (3,700 sq m) at River Garden II in Prague 8.

In terms of the vacancy rate, Prague

experienced a slight decrease from 14.6% in Q2 to 14.0% in Q3 2014. This was mainly caused by limited supply in the city and postponement of few completions for Q4 2014. As a result, we expect an increase of vacancy rate levels at the end of this year in line with the longer trend.

Prime headline rents in Prague remained stable in Q3 2014.

Table 1: Prague Office Market Q3 2014 Figures

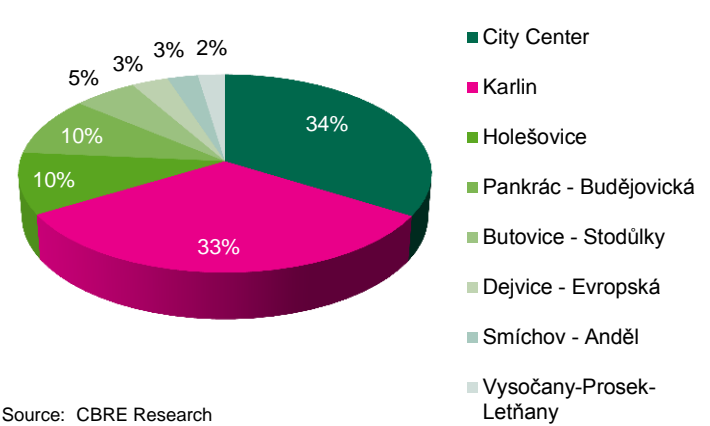
	City Centre	Inner City	Outer City
Total stock (sq m)	544,000	1,516,200	903,600
Vacant space (sq m)	95,600	199,800	120,700
Vacancy rate (%)	17.6	13.2	13.4
New supply (sq m)	0	0	0
Take-up (excl. renegotiations) (sq m)	12,800	23,200	5,600
Total leasing activity (sq m)	13,000	70,700	9,400
Net absorption (sq m)	10,900	8,000	-10,000
Space under construction (sq m)	37,600	190,300	56,900
Prime rents (EUR/ sq m/ month)	18.50 - 19.50	15.00 - 17.50	13.00 - 14.50

Source: CBRE Research, PRF

Prague Office Hubs Performance

Pankrác-Budějovická (565,800 sq m) and the City Centre (545,000 sq m) remain the largest office hubs in Prague. In terms of vacancy, Chodov-Opatov (2.5%) and Pankrác-Budějovická (5.7%) have the lowest amount of vacant space on a long-term basis, whereas Holešovice (26.6%) and Vysočany – Prosek - Letňany (24.6%) have the highest. In terms of take-up (excluding renege.), the largest amount of space leased in Q3 2014 was in the City Centre (12,800 sq m), followed by Karlín (12,300 sq m) and Holešovice (3,800 sq m). The highest amount of space under construction is in Pankrác-Budějovická (89,300 sq m), followed by Butovice-Stodůlky (56,900 sq m).

Chart 2: Net Take-up in Prague Office Hubs, Q3 2014

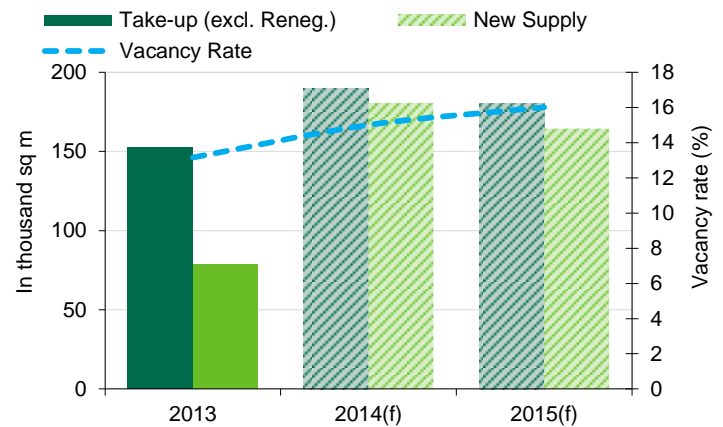


Source: CBRE Research

Outlook

- Rapid growth of Prague office stock is expected to continue again in Q4 2014.
- In 2014, we expect 180,600 sq m of newly built office space to be completed (including space already completed in Q1-Q3 2014) and another 181,200 sq m is scheduled for completion in 2015 and 2016.
- As a result of high new supply, the vacancy rate is expected to increase by 1-2 p.p. over the next eighteen months.

Chart 3: Prague Office Market Trend - Outlook



Source: CBRE Research

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Definitions

Stock – modern office space in class A and B buildings
 Vacancy Rate – a ratio of vacant office space to total stock
 Total Leasing Activity – office space that has been let, pre-let, sold or pre-sold to tenants or owner-occupiers given period, includes renegotiations
 Take-up – office space that has been let, pre-let, sold or pre-sold to tenants or owner-occupiers given period, excludes renegotiations
 Prime Rent – typical ‘achievable’ open market headline rent (can be hypothetical) for a unit of standard size commensurate with demand in each location, of highest quality and specification and in the best location in a market at the survey date. It does not need to be identical to any of the transactions, particularly if the deal flow is very limited or made up of unusual one-off deals
 Service Charge – includes all applicable services and utility costs, excluding directly measured electricity consumption
 Sublease – space currently leased by a tenant, who needs to dispose of such space in order to lower its occupancy costs
 Net Absorption – represents the change in occupied stock within a market during the survey period
 Office Hub - office space located in a particular area, usually feature similar characteristics such as rental levels. Circa 80% of the Prague office stock is included in 9 primary hubs.

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