

18. Property Market

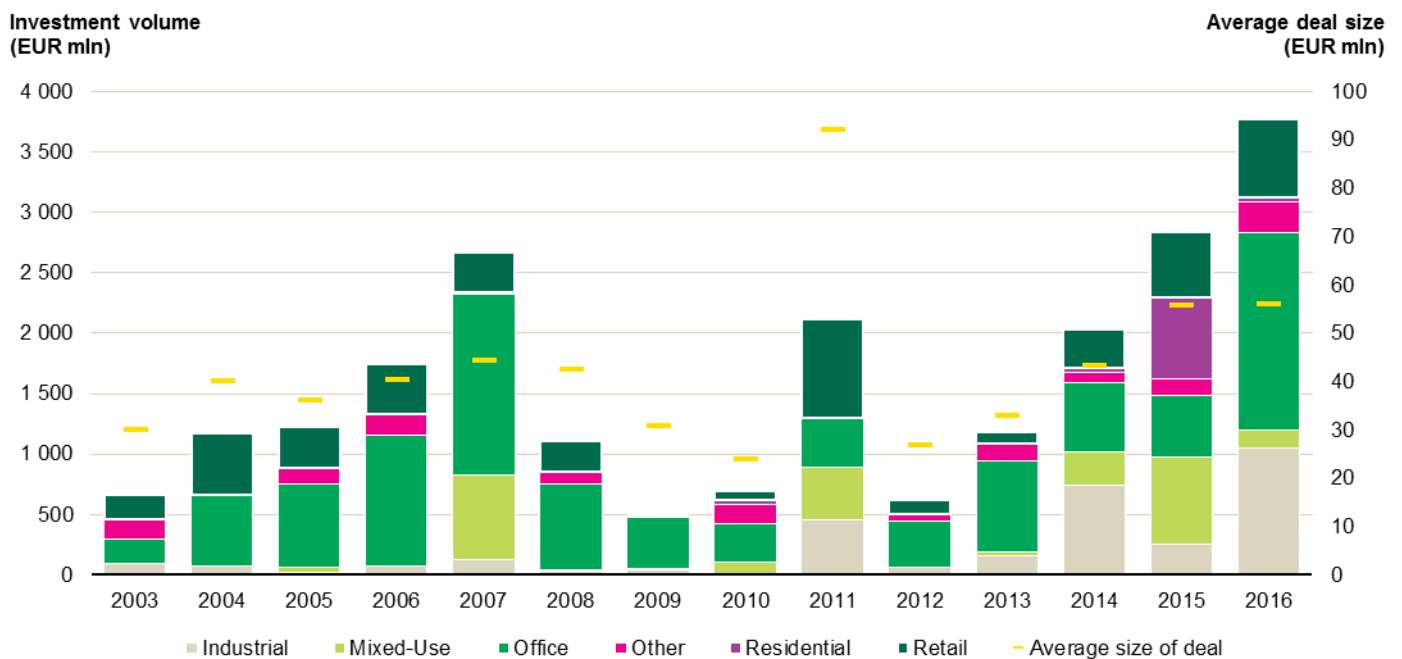
Czech property market developed significantly over the last 15 years. Strong demand across all investment sectors continues. In 2016, the highest volume of transactions ever has been recorded in the Czech Republic. The total investment volume in 2016 amounted to EUR 3,767 mln, boosted by sale of the P3 Logistics Parks business. We monitored seven individual transactions with a volume of above EUR 100 mln and a combined value of more than EUR 2 bln which accounted for approximately 55% of total investment volumes in 2016. While 2014 was considered as the year of industrial investment and 2015 is marked as a year of retail investment, in 2016 is marked as a year of office investment.

In 2016, the office sector dominated with more than a 43% share of total investment volume, followed by the industrial sector (28% share) and the retail sector (17% share). Activity from locally raised capital continued to grow. Whereas in 2015, local investors were the third most active on the market, in 2016 Czech investors dominated with almost a 32% share of the total investment volume, followed by Singaporean and German capital accounting for 27% and 12%, respectively.

Following strong investor demand across all sectors, yield compression has continued across the board in 2016. Office and High Street Prime Yields dropped by 75 bps, whilst Retail and Industrial Prime Yields decreased by 50 bps throughout year.

The positive market sentiment is expected to continue in 2017 and CBRE believe that the EUR 3 bln boundary could be exceeded once again. CBRE continue to forecast further downward pressure on prime yields, however the speed of yield compression will slow.

Property Turnover by Segment, 2016

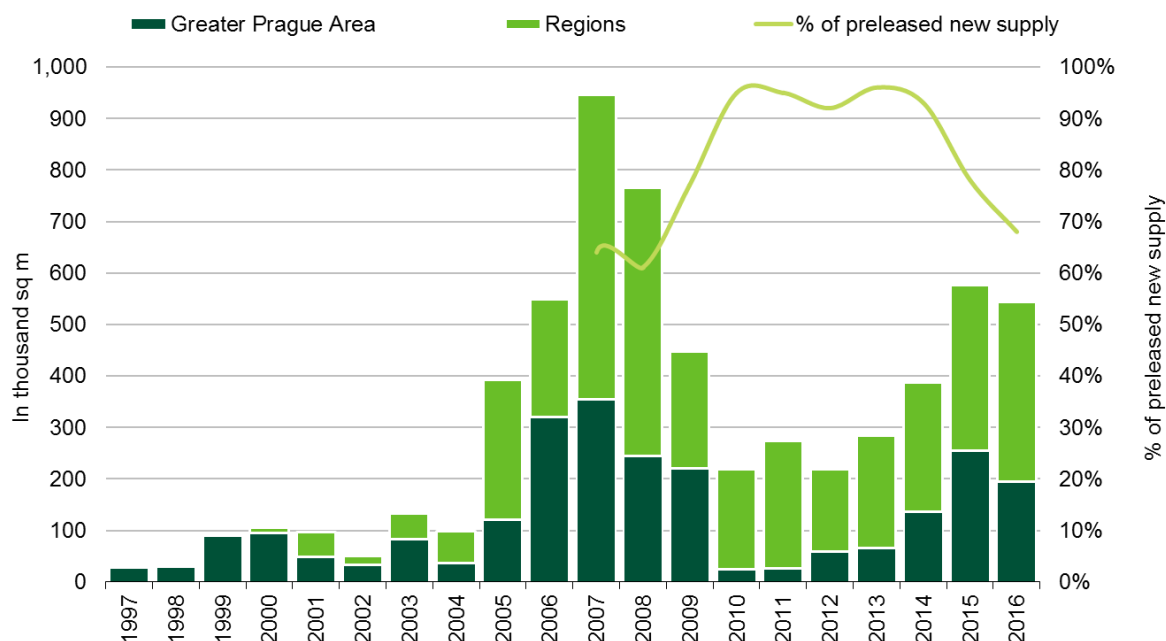


Source: CBRE Research, 2017

INDUSTRIAL AND WAREHOUSE LEASING MARKET

The Czech Industrial Market is consisted of approximately 6.31 million sq m of modern A-class warehouse space. Almost 80% of total modern warehouse space in the Czech Republic is situated in four major regions – Greater Prague, Plzen, Brno and Ostrava. On the other hand, South Bohemia and Zlin region are regions almost without almost any modern warehouse space.

Industrial Market Trend, 2016



Source: CBRE Research, Industrial Research Forum, 2017

Czech industrial market started to develop in 2005. The peak of delivered warehouse space to the market was recorded in 2008. The global economic recovery contributed to record-breaking figures on the Czech industrial market in terms of leasing activity. 2016 total leasing activity (TLA) was the highest ever recorded while 2016 take-up (excl. renegotiations) decreased by 6% compared to 2015. Tenant requirements for larger premises are constantly increasing. This is also proved by the number of concluded transactions over 20,000 sq m. There were 16 such transactions in 2016, while in 2014 and 2015 there were 9 and 14.

Moreover, new completions amounted to 543,400 sq m over the entire year. This is the second highest amount since 2008. Vacancy rate decreased to 5.0% to its lowest level since 2006. The trend of decreasing vacancy is still on the table but on the other hand, speculative construction is decreasing due to a very high demand.

Rental Levels

Average headline rents slightly decreased at EUR 3.15 – 4.25 sq m/month. Rents are stable in most regions and while banks and investors generally look for longer lease lengths, landlords are under continuing pressure from tenants to provide shorter leases.

Unit size	Effective Rental level (EUR/ sqm/ month)
500 - 1,000	4.5 – 6.25
1,000 - 5,000	3.75 – 4.5
5,000 - 10,000	3.5 – 4
more than 10,000	3.25 – 3.75

Source: CBRE Research, 2016

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.

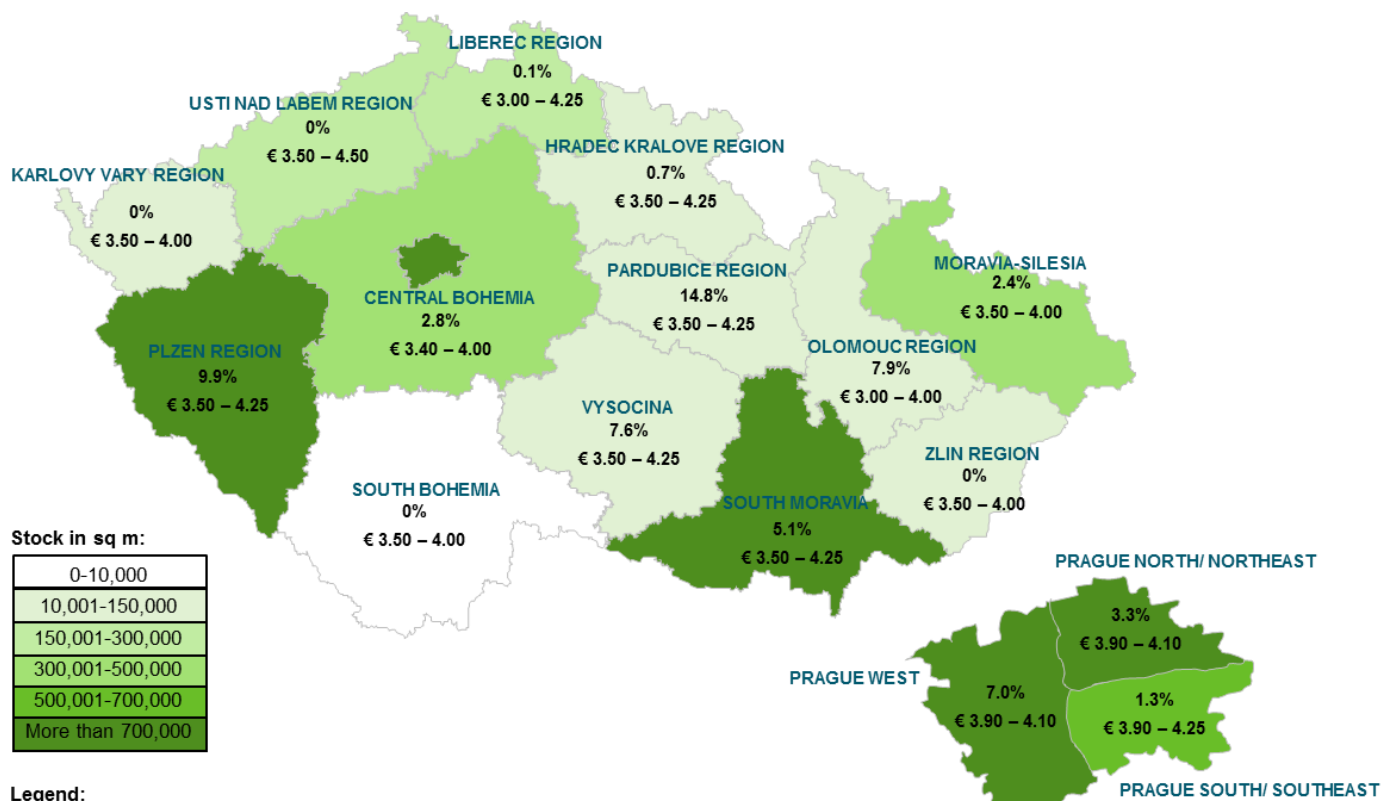
For internal repairs are responsible tenants, while external, structural and common areas are landlord's responsibilities. Service charges are paid above the rent on average around EUR 0.60 sq m/month and include building insurance, property taxes, 24h security, landscaping, property management, maintenance 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, 2016

	Total CZ	Greater Prague	Pan-regional CZ
Total stock (sq m)	6,263,800	2,478,000	3,785,800
Vacant space (sq m)	297,300	87,000	210,300
Vacancy rate (%)	4.75%	3.51%	5.55%
New supply (sq m)	501,200	161,300	339,900
Take-up (excl. renegotiations) (sq m)	880,300	314,800	565,500
Total leasing activity (sq m)	1,455,600	675,700	779,900
Net absorption (sq m)	565,800	234,500	331,300
Space under construction (sq m)	482,100	130,400	351,700
Net Effective Rents* (EUR/ sq m/ month)	3.20-4.25	3.20-4.25	3.20-4.25

Source: CBRE Research, Industrial Research Forum, 2017

*Note: 5,000 sq m unit



Stock in sq m:

0-10,000
10,001-150,000
150,001-300,000
300,001-500,000
500,001-700,000
More than 700,000

Legend:

4.8 % ... Vacancy rate
 € 3.50 – 4.00 ... Headline rent for standard industrial/ logistics property in EUR/sq m/month (2,000 – 5,000 sq m)

Source: CBRE Research, IRF; Q4 2016

OFFICE MARKET

The office market is concentrated predominantly in Prague, where 3.217 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 525,000 sq m and Ostrava modern office stock comprises 208,400 sq m. In general, the office market in regional cities (with the exception of the cities mentioned above) is driven by demand.

Rent is paid quarterly in advance and indexation is done annually according to HICP EU index. Effective rents are usually reduced due to various incentives typically offered by landlords. Incentives typically include: 1-2 month rent free period per year of lease and fit-out contribution between 150 and 200 EUR per sq m of the net area. In Prague, as well as in regional cities, the typical lease term is 5 years with a break option after 3 years (subject to paying 6-month penalty). Compared to the rest of Europe and mainly Western European countries this is still considered to be a short period time (typical lease term starts at 10 years). As for early terminations, tenants don't get any option to end their lease term earlier unless they pay the entire remaining amount of rent, plus service charges.

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, 2016

	Prague City Centre	Prague Inner City	Prague Outer City	Brno	Ostrava
Total stock (sq m)	560,300	1,703,200	945,000	525,000	208,400
Vacant space (sq m)	65,300	168,400	104,900	63,363	41,000
Vacancy rate	11.7%	9.9%	11.1%	12.0%	19.7%
New supply (sq m)	1400	25,500	6,457	43,300	7,700
Total leasing activity (sq m)	61,700	251,900	100,800	63,800	12,600
Space under construction (sq m)	27,300	220,600	77,600	44,300	11,000
Prime rents (EUR/ sq m/ month)	18.50 - 19.50	15.00 – 16.50	13.00 – 14. 50	13.00	11.50

Source: CBRE Research, Prague research Forum, Regional Research Forum, 2017

BROWNFIELDS

A brownfield is an abandoned, neglected or possibly contaminated property, either land plot or building, that cannot be used effectively without undergoing a process of regeneration. Brownfields are sites that remain disused following the discontinuation of industrial, agricultural, residential, military or other activities.

Since 2007, the Research Study for Brownfield Localisation in the Czech Republic (<http://bit.ly/J1jEY4>) has mapped 2,800 brownfields with a total area of more than 14,000 hectares, though this figure is continually being updated. The stated number of brownfields is not final; it is reckoned that there are up to four times more brownfields in the Czech Republic than those mentioned in the research study.

However, in order for it to be possible to offer brownfields to potential investors, it is naturally necessary to first locate such sites. A key element in locating brownfields in the Czech Republic is the extensive Research Study, whose preparation was commenced in close cooperation with the country's regions in 2005 and ran for more than two years. Progressive mapping, detailed description and subsequent publication of information on the location of brownfields in the National Brownfields Database (<http://bit.ly/1bzBtbB>) contribute to increasing awareness of the given issue while strengthening interest in renewal of brownfields and thus to regional development and protection of the environment. The National Brownfields Database is a continually updated listing of sites that are suitable for renewal (regeneration or revitalisation) and subsequent reuse.

The records of brownfields throughout the Czech Republic serve primarily for the offer of suitable locations for investors for business and as a foundation for compiling statistics and the related setting of priorities for individual regeneration programmes. This facilitates investors' orientation in the selection, classification and comparison of sites according to a full range of criteria, as well as selection of properties with the possibility to obtain state aid. Entering of new records into the National Brownfields Database can be done independently by property owners upon establishing an individual user account, or via CzechInvest (<http://bit.ly/1aRtQc4>).

The operator of the National Brownfields Database is CzechInvest. The issue of brownfields is one of the key long-term aspects of the agency's work. For more information please visit <http://www.brownfieldy.cz/>.

Brownfield overview

Past usage of site	No. of sites	Percentage	Total area	Average area of site
Agriculture	1,057	30	2,452.50 ha	2.32 ha
Industry	1,231	35	4,941.95 ha	4.02 ha
Civic amenities	556	16	448.11 ha	0.81 ha
Military	211	6	3,265.43 ha	15.48 ha
Residential	148	4	89.71 ha	6.06 ha
Tourism	51	1	62.80 ha	1.23 ha
Other	258	8	24,594.55 ha	95.33 ha
Total	3,512	100	35,855.05 ha	N/A

Brownfield ownership

Type of ownership	Number of sites	%
Private	2,280	65
Public	569	16
Unresolved	663	19
Total	3,512	100

Infrastructure record

External connection	Number of sites (incl. renewal)	%
Satisfying access road	1,355	38
Electricity	1,268	36
Canalisation	964	27
Drinking water	1,196	34
Gas	794	23
Telecommunications	746	21
Existing or possible environmental abuse	991	28
Total (incl. renewal)	7,314	N/A

Source: CzechInvest, 2017