

# Prague

## City Report

Q4 2020



# Economy & Investment

-6.8%



GDP Growth  
2020F

3.2%



Inflation  
December 2020 y-o-y

3.5%



Unemployment rate in Prague  
December 2020

+1.7%



Average Monthly Salary  
Growth in Q3 2020

€13,128



Purchasing power per capita  
p.a. in Prague (2019)

+0.4%



Industrial production  
November 2020 y-o-y

Source: Oxford Economics, Czech Statistical Office, MB Research

## Economy

- Based on Oxford Economics, Czech GDP is currently forecasted to fall 6.8% in 2020. A sharp surge in infections after Christmas and slow roll-out of the vaccination programme has resulted in a cut in 2021 GDP growth forecast to 2.9% from 3.2%. The vaccination programme is expected to get on track by Q2 2021, ushering in an economic recovery. Growth is set to continue into 2022, with GDP forecast to grow 6.2% next year.
- Consumption will make up a large share of the fall in GDP in Q4 2020. Hampered by both the second wave and the containment measures, consumer confidence remained subdued in December. Retail sales fell 5.3% in November, a much smaller fall than during the spring lockdown, but there is not expected a consumption recovery before Q2 2021.
- Two bright spots stand out in the economy after an estimated 4.6% q/q fall in output in Q4 2020 – industrial production and exports, buoyed by the recovery in world trade and demand in south-east Asia. Industry suffered a temporary blip in November with most of the Eurozone under lockdown, but production expectations and order books improved in December. Oxford Economics expects industrial production grew by 3% q/q in Q4 2020. Equally, exports of goods continue their momentum, growing further 0.5% m/m in November to stand 12% above pre-pandemic levels. The growth in goods export is robust across categories, with machinery and transport equipment, manufactured goods and chemicals posting the largest contributions.
- The Czech National Bank kept the policy rate unchanged at 0.25% at its December meeting. Despite inflation moving into the target range (2±1%), the bank is eyeing up its first interest rate hike by end-2021. The Czech Republic is set to benefit from the EU Next Generation fund (NGEU), with estimate of funding at CZK215bn (4.5% of 2019 GDP) in 2021-25. This should offset some of the permanent income losses from the current recession.

## Prime Yields

5.25%



Shopping Centre

4.25%



Office

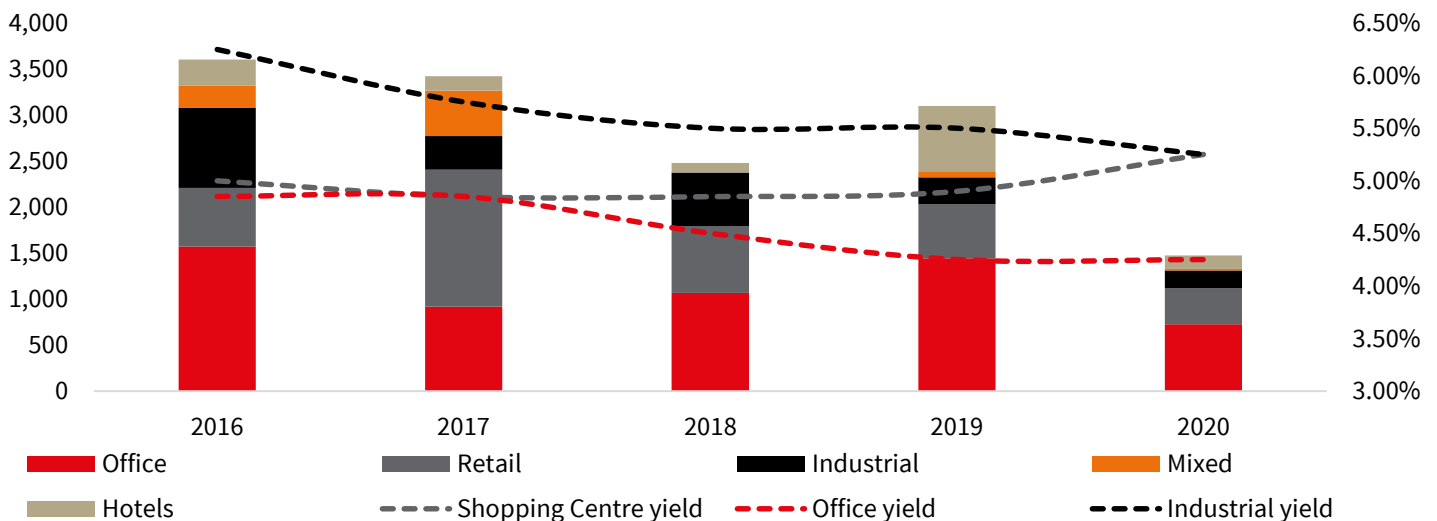
5.25%



Industrial

- Total investment volume across all real estate sectors in Q4 2020 amounted to €497 million, which represented an increase of 107% q-o-q and a decrease of 33% y-o-y. This y-o-y decrease was predominantly caused by the global Covid-19 pandemic and by lower average deal size. The number of transactions in Q4 2020 was very similar as in Q4 2019, however, average deal size was lower by 21%.
- Office sector was the most active as it produced 62% of the total investment volume. This share was mainly generated by three transactions: Churchill Square in Prague 2 sold by Penta Investment for €153 million to a joint venture of CFH and Českomoravská Nemovitostní; followed by the new J&T Bank headquarters (Rustonka 4) located in Prague 8, which transacted from Gramexo to J&T Bank for €75 – 80 million and IBC in Prague 8 sold by Mint Investments to Generali for ca. €70 million.
- Retail sector recorded a market share of 17% of the total investment volume. The largest transactions included Velký Špalíček shopping centre situated in Brno city centre acquired by the Roman Catholic Diocese of Brno from Generali for approximately €30 million and two Mitiska retail parks in Prague and Litvínov purchased by Immofinanz from Mitiska REIM as part of a portfolio deal for €26 million.
- Industrial & Logistics sector market share stood at 8% of the total Q4 2020 investment volume in the Czech Republic and witnessed only two transactions: City Park Hostivař in Prague 10 sold by CODECO for ca. €15 million to RIMO Holding and Starzone/Black Pine Portfolio located in Pardubice divested by Redstone for approx. €25 million and purchased by J&T.

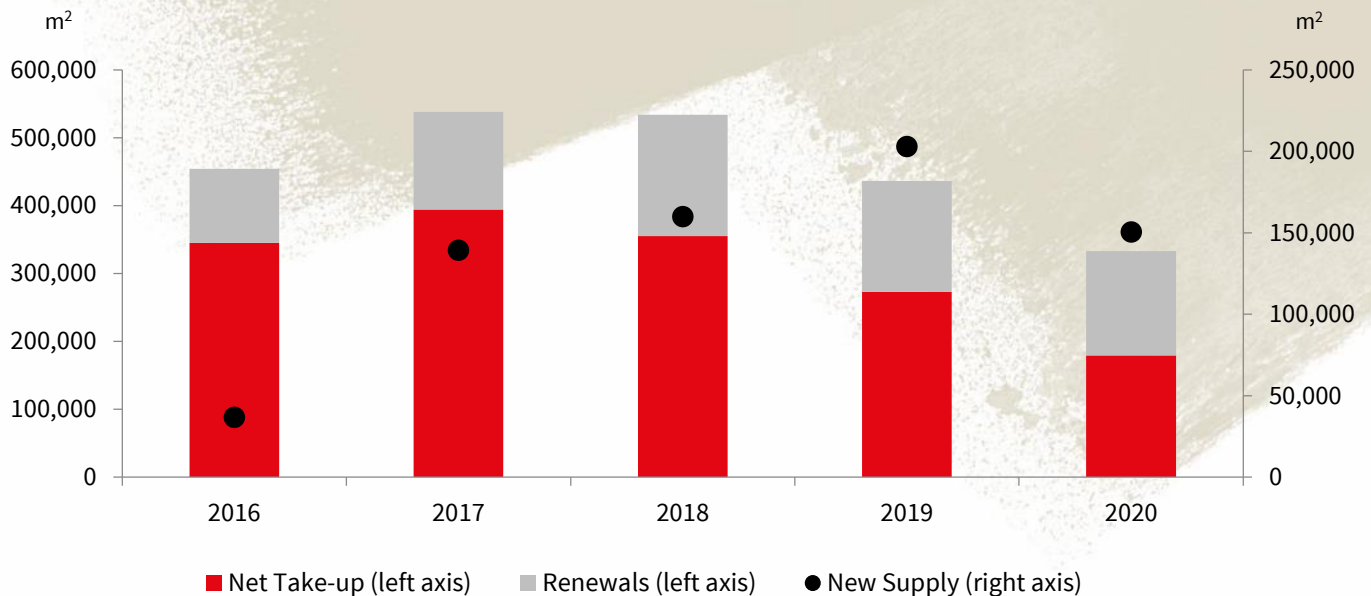
## Czech investment volumes (exluding residential, in €bn) and yields



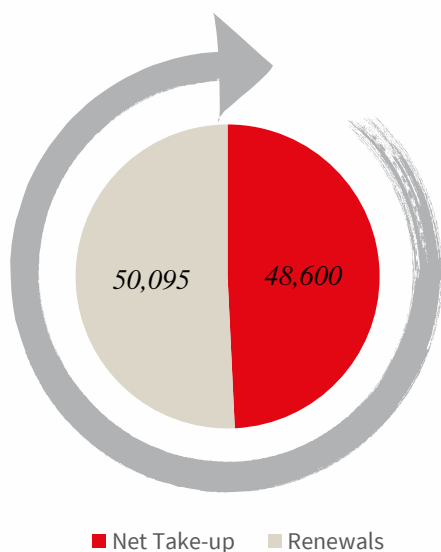
Source: JLL Research, February 2021

# Office Market

## Office Demand and New Supply 2016 – 2020

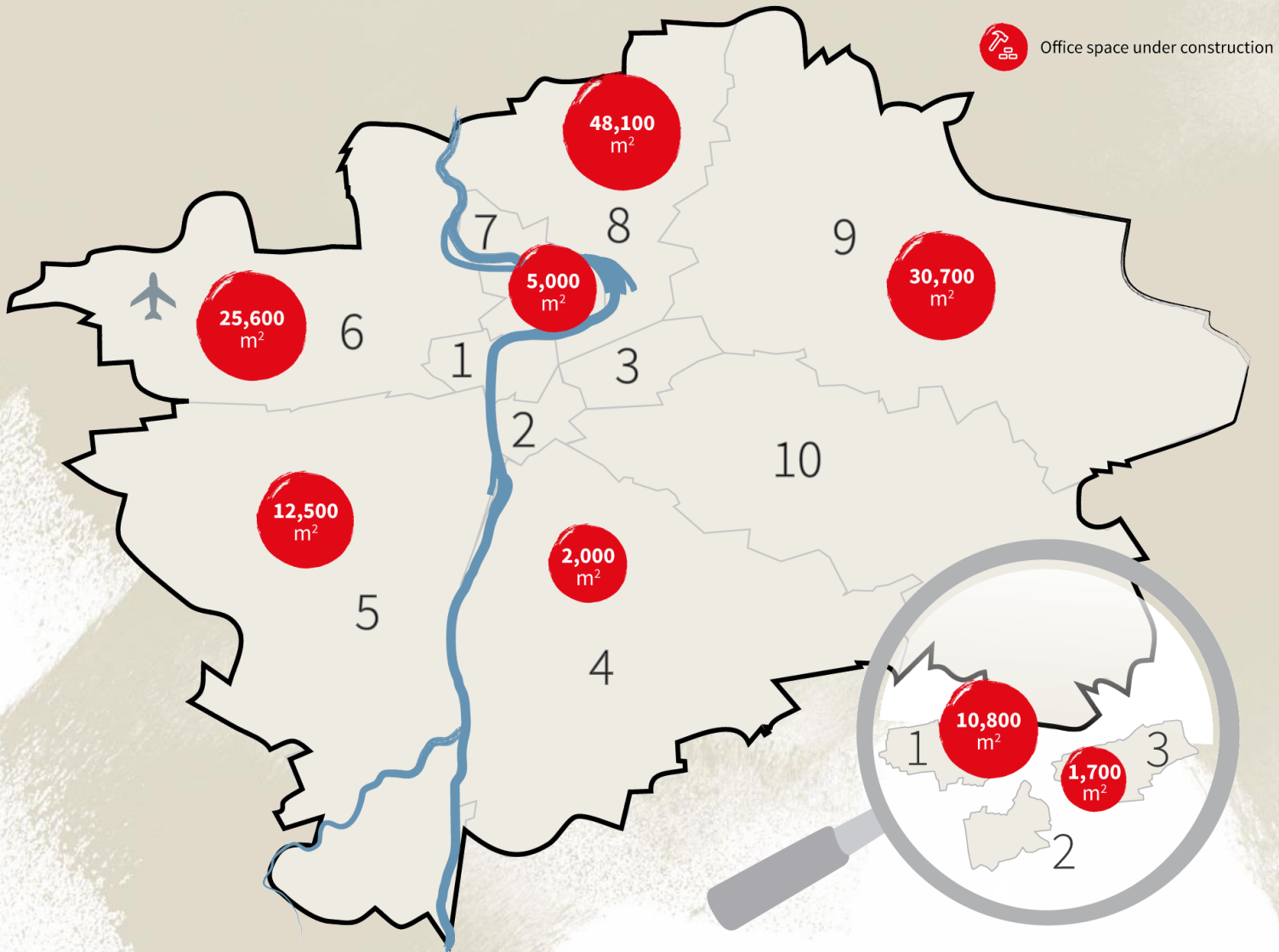


## Q4 2020 Demand (m²)



- At the end of Q4 2020, the total modern office stock in Prague increased to 3,747,000 m<sup>2</sup>. In Q4 2020, one office building totalling 19,700 m<sup>2</sup> was completed in Prague. This represents the refurbishment of Bubenská 1 in Prague 7 by CPI Group. Overall, the total new supply reached 150,600 m<sup>2</sup> in 2020.
- The slow down of construction activity continued during Q4 2020 with 136,400 m<sup>2</sup> currently under construction (-50% below the 5-year average) with expected completion of this amount between 2021-2022. The total new supply for 2021 is estimated to reach the level of 98,100 m<sup>2</sup> which would be the lowest annual new supply since 2016.
- The last quarter of the year is traditionally strong in terms of leasing activity which was again confirmed by Q4 2020 results. Nevertheless, economic slowdown and uncertainty has been reflected in below average volumes. Gross take-up underperformed against the 5-year average, decreasing by 16% and reached 98,700 m<sup>2</sup> of leased office space. However, on a quarterly basis it shows an improvement of 18%. Year-on-year, gross take-up decreased by 33%.
- Net take-up, which excludes renewals, was 39% below the 5-year average and amounted to 48,600 m<sup>2</sup> (+61% q-o-q and -45% y-o-y).
- Despite the current situation on the market, positive net absorption kept the vacancy rate stable, compared to the last quarter, at 7.0% in Q4 2020.
- In Q4 2020, prime headline rents in the city centre remained stable, oscillating at a level of €21.00 – €22.00 m<sup>2</sup>/month.

## Office Space Under Construction



### Q4 Key Leasing Transactions

Property	District	Size (m <sup>2</sup> )
Hagibor 05	Prague 10	7,800
Gen	Prague 7	6,300
Florentinum	Prague 1	5,200
Kavčí Hory Office Park	Prague 4	4,800

### Core Office Locations Prime Headline Rents

Location	Headline Rent (€/m <sup>2</sup> /month)
City Centre	21.00 – 22.00
Anděl	14.50 – 16.00
Pankrác	14.50 – 16.90
Karlín	15.00 – 17.00

# Retail Market

## Timeline of COVID-19 measures impacting the retail sector (December 2020 - February 2021)

<b>3 Dec:</b> Reopening of stores, restaurants and services, including on Sundays. Rule of one client per 15 m <sup>2</sup> in shops. Restaurants can work on ½ capacity with maximum 4 people at one table. Opening hours set from 6 am to 10 pm.	<b>18 Dec:</b> Bars, restaurants, hotels, sports facilities closed. Shops and services remain open including Sundays, providing 1 client per 15 m <sup>2</sup> . Curfew is back from 11 pm to 5 am. Compensation programs Covid-Accommodation II, Covid-Rent and Covid-F&B for hospitality, retail and F&B sectors approved to cover for losses for the period Oct-Dec.	<b>16 Dec</b> Voluntary antibody testing for population launched in CZ. <b>27 Dec:</b> Vaccination launched in CZ with frontline health workers to be followed by chronically ill and people aged 80+. <b>27 Dec:</b> Closure of all shops but groceries, pharmacies, flower shops, pet shops, laundries, household goods, drugstores, optics, tobacco and news stands, petrol stations. Curfew extended from 9 pm to 5am.	<b>7 Jan:</b> All schools except for first and second class of ordinary schools remain closed. <b>15 Jan:</b> Registration web for vaccination of people aged 80+ launched. <b>19 Jan:</b> Stationary shops, children shoe shops and children clothing shops reopened. All other measures remain in place.	<b>21 Jan:</b> State of Emergency prolonged till Feb 14. <b>28 Jan:</b> The more contagious UK variant of Covid-19 confirmed in 6 out of 14 Czech regions. <b>4 Feb:</b> Vaccine by Astra Zeneca arrived in CZ. <b>8 Feb:</b> Nearly 350,000 people in CZ have received at least one dose of coronavirus vaccine. Approx. 93,000 people were fully vaccinated with 2 doses. Out of that, health workers account for more than 50%.
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3 Dec

18 Dec

16 - 27 Dec

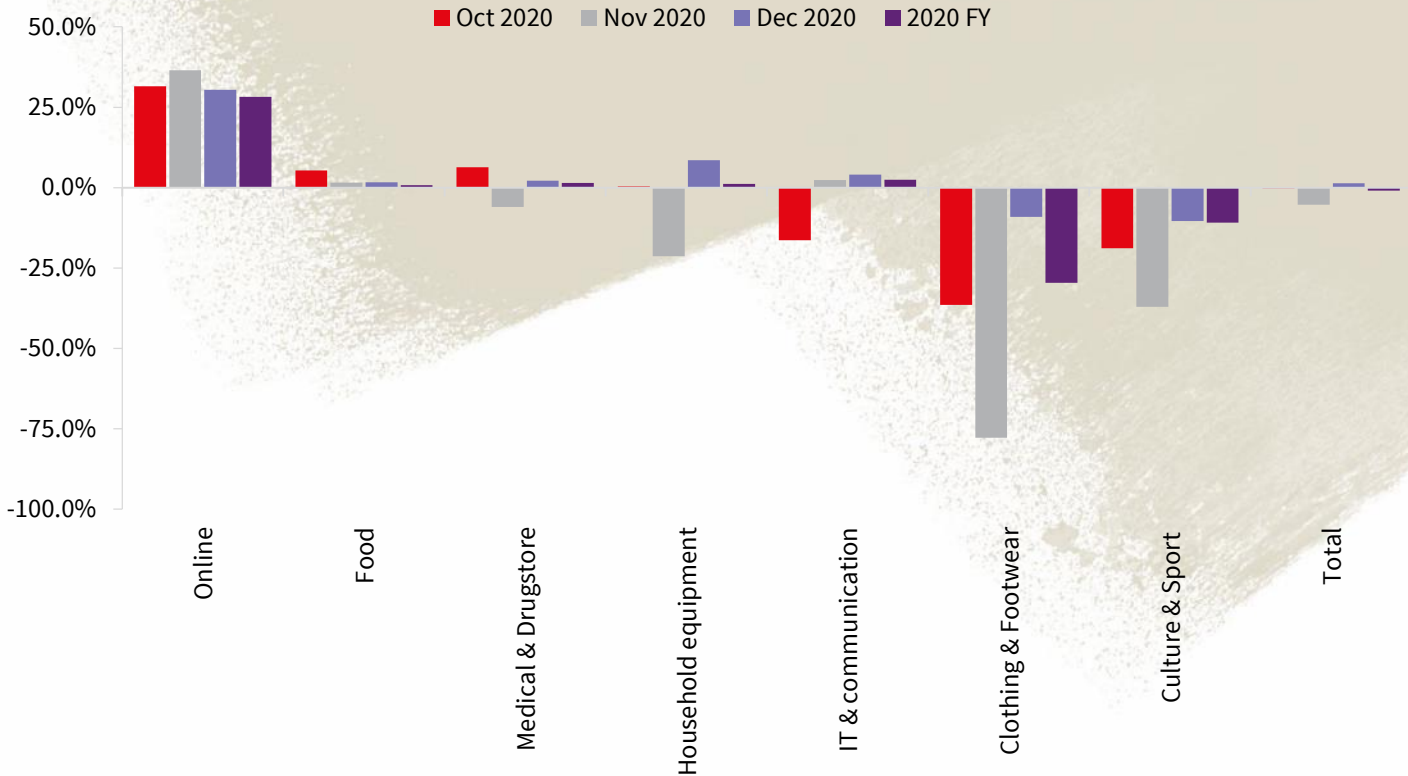
7 - 19 Jan

21 Jan - 8 Feb

- A spark of optimism which appeared during summer months after successful dealing with the first wave of the pandemic vanished with the second wave of infection flooding the country since early autumn. Brief reopening of stores, restaurants and hotels in the beginning of December did not last long and all hopes for return to some normality even though with some restrictions proved premature. Business and consumer confidence declined in November with slight increase in December, though in January the confidence further decreased. Despite launch of vaccination at the end of December expectations for rapid recovery are now modest as speed of rollout of vaccine is slowed down by delays in deliveries from producers. In addition, there is a threat of more contagious UK mutation of Covid-19 which was already confirmed in the country.
- Long-lasting closure of shops and home-office when people did not need to spend for their business attire took its toll on two premium Czech retail brands. Pietro Filipi filed for bankruptcy in early February. Blažek, another premium Czech retail brand, filed for bankruptcy already at the end of December.
- Total retail stock in the country stood at 3.7 million m<sup>2</sup> of GLA with shopping centres representing 70% of the modern stock, followed by retail parks with 26%. No new shopping centres were completed in 2020, though modern retail area was enlarged by completion of several retail parks totaling over 40,000 m<sup>2</sup>. The largest schemes delivered in 2020 include Retail Park Zálabí of 9,500 m<sup>2</sup> and Retail Park Okružní of 9,000 m<sup>2</sup>. Long expected opening of the first Primark store located in the Flow Building on Wenceslas square was further delayed to 2021. The largest project in the pipeline for 2021 include Aventin Jihlava shopping centre which once completed, should provide 21,000 m<sup>2</sup> of retail area.



## Retail Sales Growth by Category (% change, y-o-y)



Source: Czech Statistical Office, 2021

- In the last quarter of 2020, retail sales remained subdued due to the second wave of Covid-19 and consequently newly reintroduced anti-coronavirus measurements. The worst hit month in that respect was November when sales dropped overall by -5.30% y-o-y. In December, with reopening of shops in the beginning of the month the situation marginally improved (+1.4% y-o-y), yet some categories remained below 2019 levels, namely Clothing & Footwear (-9.10%) and Culture & Sport (-10.4%).
- For the entire year 2020 retail sales fell by 0.9% y-o-y, with Clothing & Footwear being the most struggling category with decline approaching 30% y-o-y. Other four categories (food, medical & drugstore, household equipment and IT) showed only marginal annual improvements.
- E-commerce is thus the only category which showed a significant double-digit growth throughout the entire year 2020 and can be pronounced the winner of those extraordinary market conditions. Overall, online sales in 2020 grew by 28.2% when last three months of 2020 showed a steady growth of over 30%.

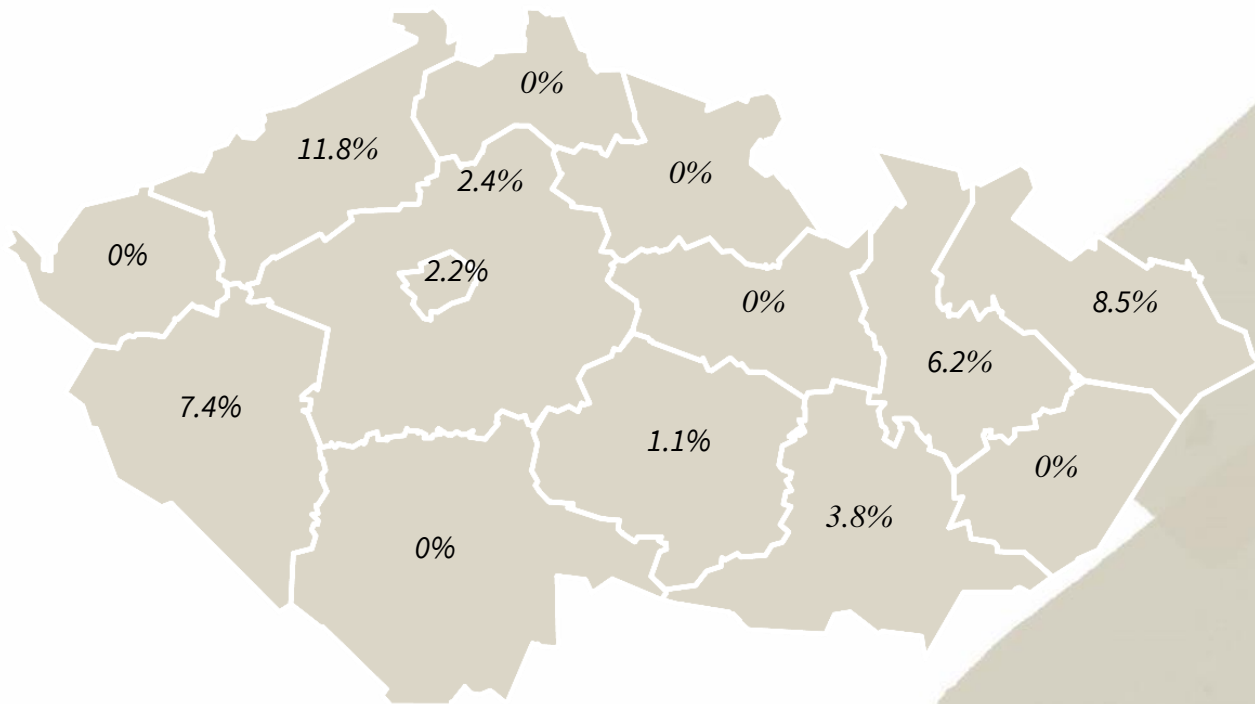
- Due to continued constrain of business caused by the pandemic, pronouncing itself in closure of shops, decline of consumer confidence and lack of tourists, prime headline rents decreased both in shopping centres and on high street in Prague in Q4 2020. In shopping centres, prime rent for a 100 m<sup>2</sup> notional unit stood at 150 EUR per m<sup>2</sup> per month whilst on high street, 210 EUR per m<sup>2</sup> per month for a notional 100 m<sup>2</sup> unit was recorded.

### Prime rents in Prague (€/m<sup>2</sup>/month)

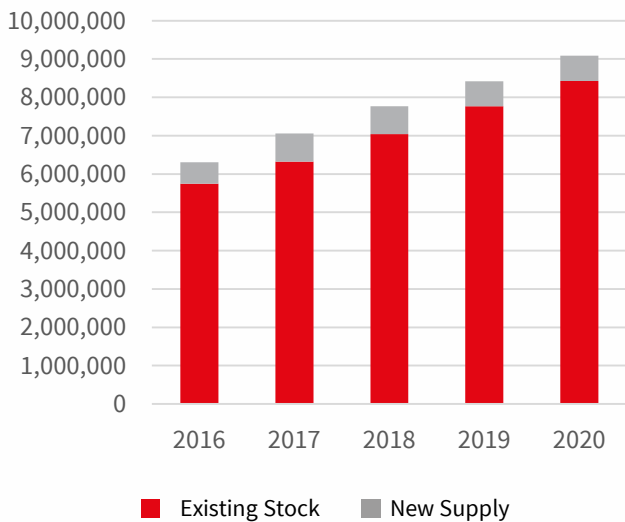


# Industrial Market

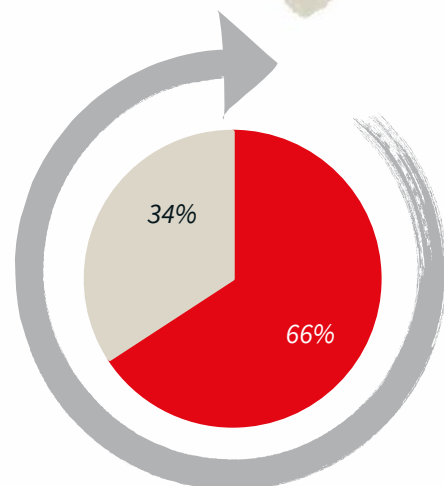
Vacancy Rate in the Czech Republic in Q4 2020: 4.2%



Stock & New Supply (m<sup>2</sup>)

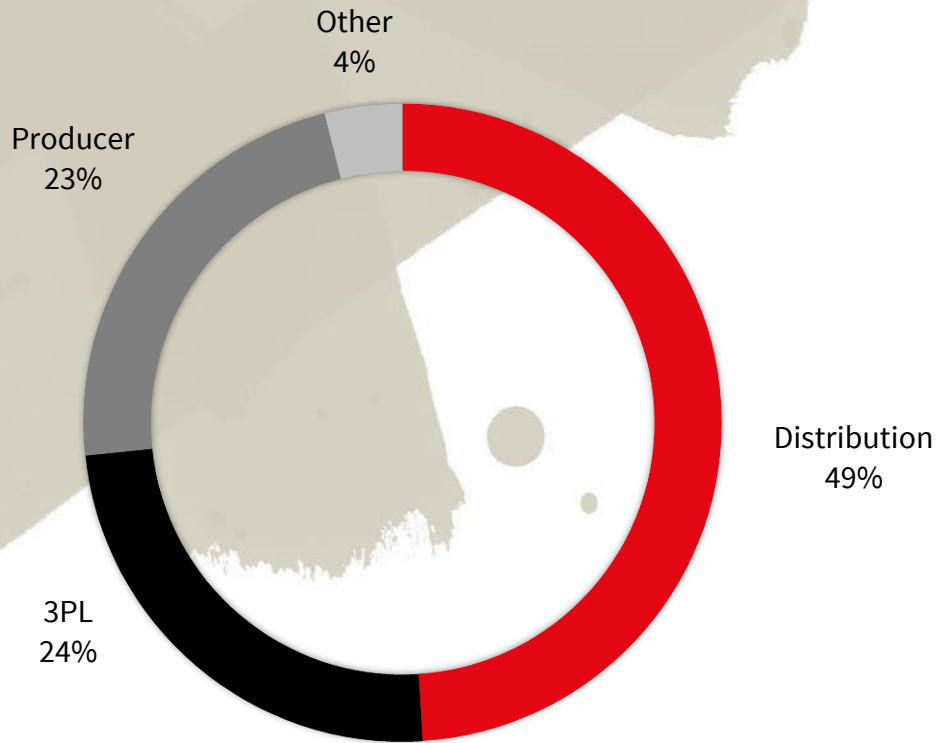


Gross Demand (m<sup>2</sup>) in Q4 2020





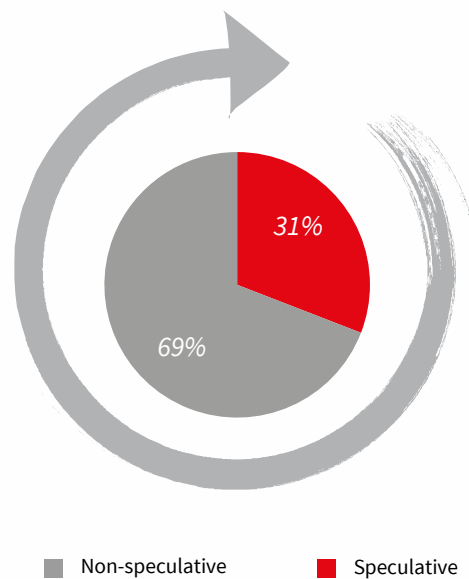
### Net Take-up by Sector in Q4 2020



### Major Completions in Q4 2020

Property	Region	Size (m <sup>2</sup> )
CTPark Ostrava	Ostrava	49,800
Archan Park – Brandýs nad Labem	Greater Prague	14,600
Pilsen West Industrial Park	Pilsen	12,500
CTPark Mladá Boleslav	Central Bohemia	8,200

### Industrial Space Under Construction in Q4 2020



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