Czech Republic and Slovakia
Real estate markets profiting from the search for yield
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With interest rates extremely low, real estate remains an attractive asset class. Although property yields have decreased sharply, real estate still offers relatively attractive returns compared to alternative investments. Banks are financing and competition is strong, so investors and developers generally face little problem in securing loans at very low interest rates.

Commercial property boom in 2016
CEE markets have benefited from the search for yield and banks’ increased willingness to finance. According to CBRE, in 2016 the volume of transactions on the Czech commercial real estate market jumped by about EUR 1bn to around EUR 3.7bn. Slovakia’s commercial property market is significantly smaller than the Czech Republic’s, but nevertheless the volume of transactions nearly doubled year on year in 2016, to approximately EUR 850m. This represented record investment levels in both markets.

Major transactions each worth more than EUR 100m accounted for over half the total volume in the Czech Republic in 2016. The strongest demand came from foreign investors, from Asia in particular, but also from Germany. About 30% of the total was attributable to local investors. The final quarter last year was especially strong. Transactions reached an all-time high of over EUR 2bn, with a large proportion of the increase accounted for by the sale of the Czech portion of the PointPark Properties (P3) industrial portfolio to GIC (formerly known as the Government of Singapore Investment Corporation). The strong demand for Czech real estate continued in the first quarter of this year. A transaction volume of around EUR 1.4bn was achieved, supported by three big transactions in the retail sector.

Last year retail properties accounted for roughly half of all transactions on the Slovakian real estate market, on the back of solid private consumption. The stand-out deal was the sale of the Central shopping center for around EUR 175m. The Slovakian portion of P3’s portfolio may have accounted for around EUR 100m of the total transaction volume. In the first quarter 2017 investment activity slowed down to below EUR 100m.

Prime yields already down sharply, rents largely stable
Prime yields have continued to fall in both markets, and reached all-time lows at the end of 2016/beginning of 2017. In the Czech Republic prime office yields stood at 4.9%, shopping center yields at around 5% and those for industrial and logistics properties at about 6.5%.

In Slovakia, demand for retail properties accounted for the lion’s share of investment. There was a relatively large fall in prime shopping center yields, to 5.75%. Prime office yields were around 6.75%, and those for logistics and industrial real estate reached about 7.50%.

Rents in all three segments were quite stable in both countries, although there were slight increases in Prague’s premium office segment and in top shopping center rents in both capitals.

Solid economic growth bolstering property markets
Economic growth in both the Czech Republic and Slovakia is significantly higher than that of the eurozone. Real GDP in the Czech Republic rose by approximately 2.3% in 2016, and the economy is expected to pick up more speed in 2017 and 2018, with growth of 2.6% and 2.5% respectively; domestic demand – in particular private consumption – and exports will be the main growth drivers. Slovakia’s economy is growing even more quickly: real growth was a good 3% last year, and is forecast to rise still further, to 3.4% in 2017 and 3.7% in 2018. This year, a steady increase in private consumption and rising investment will be the main factors behind stronger growth, while real net exports are expected to make a significant contribution in 2018.

Both real estate markets characterized by transparency...
JLL’s biennial Global Real Estate Transparency Index classifies both the Czech and Slovakian property markets as transparent. In the latest ranking, the Czech Republic came 20th and Slovakia 29th; the UK market was rated as the world’s most transparent at number one.

...and still relatively attractive yields
Prime property yields in both countries are still higher than those in Austria. However, scope for further yield compression has deteriorated. The development of the two countries’ markets will mainly be shaped by interest rate developments and in turn by the relative attractiveness of properties. In-depth risk-return analysis is more important than ever at this stage of the real estate cycle, a consideration that property investors and developers as well as financing banks must bear in mind.

Sincerely,
Karla Schestauber
Slovak Republic

Country snapshot
Population: 5.5 mln
Median age: 40.1 years
Currency: Euro
Form of government: Parliamentary Republic
President: Andrej Kiska (since June 15, 2014)
Prime Minister: Robert Fico (since April 4, 2012)
Central Bank Governor: Jozef Makuch (since January 12, 2010)

Electoral system:
Unicameral Parliament consisting of:
National Council: 150 members elected by proportional representation, for a 4-year term.
President: directly elected by absolute majority popular vote in a two-round voting system (if needed) for a 5-year term
Administrative division: 8 regions, capital city (Bratislava).

Main political parties
Ruling parties: Direction Social Democracy (Smer-SD), 49 seats; Bridge (Most-Hid), 15 seats; Slovak National Party (SNS), 15 seats.
Opposition parties: Freedom and Solidarity (SaS), 20 seats; Ordinary People and Independent Personalities – New Majority (OLaNO-NOVA), 17 seats; People’s Party – Our Slovakia (LSNS), 14 seats; We Are Family (SME-Rodina), 8 seats; Minorities / Independents, 12 seats.

Next elections
The next parliamentary election is due in March 2020; the next presidential election is scheduled for March 2019. Regional elections will be held in late 2017.

Country Business Snapshot
International Rankings:
Ease of Doing Business Index (2017): 33rd out of 190 countries
Global Competitiveness Index (2016–17): 65th out of 138 countries
Corruption Perception Index (2016): 54th out of 176 countries

Taxation:
Corporate Tax Rate / Personal Income Tax / VAT: 21% / 19% and 25% (based on income) / 20%

Special Economic Zones (SEZ) – Import into and export from these zones is free of VAT, customs and clearance:
Namestovo, Gbelany, Teplicka

Potential Sectors for investments:
Research & Development, Tourism, High-tech, Automotive and Machinery
Czech Republic

Country snapshot
Population: 10.6 mln
Median age: 41.7 years
Currency: Czech Koruna (CZK)
Form of government: Parliamentary Republic
President: Milos Zeman (since March 8, 2013)
Prime Minister: Bohuslav Sobotka (since January 17, 2014)
Central Bank Governor: Jiri Rusnok (since May 25, 2016)

Electoral system:
Bicameral Parliament consisting of:
Chamber of Deputies: 200 members elected by proportional representation, for a 4-year term
Senate: 81 members elected by absolute majority in a two-round runoff voting system, for a 6-year term (with one third renewed every two years)
President: directly elected by absolute majority popular vote in a two-round voting system (if needed) for a 5-year term
Administrative division: 13 regions and one capital city (Prague)

Main political parties
Ruling parties: Czech Social Democratic Party (CSSD), 75 seats; Action of Dissatisfied Citizens (ANO), 54 seats; Christian and Democratic Union – Czechoslovak People’s Party (KDU-CSI), 30 seats.
Opposition parties: Communist Party of Bohemia and Moravia (KSCM), 33 seats; Tradition Responsibility Prosperity (TOP 09), 36 seats; Civil Democratic (ODS), 26 seats; Dawn of Direct Democracy (UPD), 7 seats; Minorities/Independents, 20 seats.

Next elections
The next parliamentary election is due in October 2017; the next presidential election is scheduled for 2018.

Country Business Snapshot
International Rankings:
Ease of Doing Business Index (2017): 27th out of 190 countries
Global Competitiveness Index (2016–17): 31st out of 138 countries
Corruption Perception Index (2016): 47th out of 176 countries

Taxation:
Corporate Tax Rate/Personal Income Tax/VAT: 19%, (5% min.)/15% (+ 7% solidarity contribution for high-earning individuals)/21% (10% min.)

Special Economic Zones (SEZ) – Import into and export from these zones is free of VAT, customs and clearance:
Ostrava, Cheb, Prague, Pardubice, Hradec Kralove

Potential Sectors for investments:
Automotive, Business support service centres, Energy and Environment, High-tech mechanical engineering, IT services, Aerospace

*) At the beginning of May the Prime Minister unexpectedly announced his decision to submit his Government’s resignation. He later reversed his decision and asked President Zeman to dismiss the finance minister. The political turmoil was still not solved at the time of editorial dead line.
Slovakia: Stronger Economic Growth Driven by Automotive Sector

The economy is expected to grow by 3.4% in 2017, slightly up from 3.3% in 2016, accelerating further towards 3.7% in 2018, boosted by larger investment and production in the automotive industry. The Slovak economy, a small, open one, stands to benefit from the expected recovery in global trade. That said, the main growth driver will shift temporarily from net exports to domestic demand in 2017 as strong investment in the automotive and public sectors will increase imports, sending the current account (C/A) into a deficit. The C/A deficit will start to narrow again from 2018 onwards, when new car production capacities again turn exports into the main GDP growth engine.

A further reduction may be prevented by structural issues, such as regional disparities, low internal mobility and the large proportion of long-term, unskilled unemployed workers. All these factors add to rising wage pressure. Nevertheless, reflation will slow after an oil-driven sharp rise in consumer prices at the turn of the year. However, average inflation may stay below 2% throughout 2017 and 2018. In contrast to most other eurozone countries, energy prices will not contribute significantly to price growth as further cuts have been made to regulated heating prices, and gas and electricity prices which are set by the government have been left unchanged.

Investment to recover, further growth in household spending

Investment growth will be supported by both public and private-sector projects in 2017. Public investment will benefit from new highway construction projects financed by new EU funds and by PPP. The automotive sector will dominate corporate investment, led by the new Jaguar Land Rover plant. The residential market is expected to peak in 1H17 as a new central bank regulation implemented in March 2017 may slow mortgage growth.

Household spending will also contribute to growth in domestic demand, supported by tight labor market conditions. Unemployment could test all-time lows below 9% by the end of 2017.

Economic growth – strong differences between regions

Economic growth is not evenly distributed and is driven mostly by the Western and North-Western regions of the country. This increases regional disparities in the labor market. The shortage of labor in some Western Slovakian districts means it is impossible to fill vacancies, while most of the Eastern and Southern districts have unemployment rates in excess of 10%, or sometimes even 20%. The low mobility of local workers that is due, among other things, to extremely high levels of home ownership (above 90%) and a virtually non-existent rental market increases wage pressure and the need to import workers from abroad. Unit labor costs have been growing for the last 12 quarters in a
row and the number of foreigners in the Slovak labor market has almost doubled in last 2 years, accounting for 1.6% of workforce. Slovakia imports mostly poorly-qualified workers who find jobs in the Western areas of the country.

At the same time, Slovakia remains a net exporter of workers with more than 10% of Slovaks of working age, mostly from the east of the country, now working abroad. These trends are unlikely to change in coming years. The new Jaguar Land Rover facility to be built in Nitra (scheduled to start production in 2018) will further exacerbate the shortage of skilled workers in the Western part of the country, increasing pressure to import laborers from other regions (mostly from abroad) and driving up wages.

### Rising protectionism is the main threat to growth

The main risk to the positive economic outlook comes from rising geopolitical threats. General elections are scheduled in several major European economies led by Germany (#1 destination for Slovak exports), the Czech Republic (#2), France (#4) and Italy (#8). Our baseline scenario does not include any substantial policy changes after the elections. We do not expect the fallout from Brexit to affect Slovakia until after 2018. Great Britain remains the second most important market for Slovak cars. The main geopolitical threat is posed by President Trump’s protectionist policies, which could slow down the global trade recovery.

### Fiscal drag to continue, but government considers easing the debt brake

Fiscal policy is likely to be tightened, with the budget deficit declining to a new historical low of 1.3% of GDP in 2017. However, the fiscal goal can hardly be considered ambitious: the improvement will be driven exclusively by economic growth. The fiscal drag should accelerate in 2018 and afterwards. The government still aims to balance the budget in 2019. Public debt should decline towards 50% of GDP by 2019, remaining close to the upper limit of the debt ceiling, which from 2018 onwards will begin to fall by 1 pp per year from its current level of 50% of GDP.

The debt brake puts pressure on the government to run a tight fiscal policy which runs contrary to the coalition’s desire to speed up highway construction. The issue here is financing as all EU funds for transport infrastructure projects have already been allocated and the debt brake makes financing from the public budget almost impossible. As a result, the governing coalition started discussing potential amendments to the debt brake law including exempting investment, canceling the planned decline in the debt brake level and/or shifting from gross to net debt. However, the coalition does not have the required constitutional majority in parliament to pass such amendments and all opposition parties refused their support, so far. The government is likely to seek an agreement with independent MPs and some of the opposition parties. If the debt brake rule is loosened, we expect a small increase in sovereign spreads.

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**Slovakia: Macroeconomic data and forecasts**

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (EUR bn)</td>
<td>70.6</td>
<td>72.7</td>
<td>74.2</td>
<td>75.9</td>
<td>78.7</td>
<td>81.0</td>
<td>84.0</td>
<td>87.7</td>
</tr>
<tr>
<td>GDP per capita (EUR)</td>
<td>13,083</td>
<td>13,445</td>
<td>13,701</td>
<td>14,016</td>
<td>14,507</td>
<td>14,917</td>
<td>15,469</td>
<td>16,154</td>
</tr>
<tr>
<td>Real GDP (% chg.)</td>
<td>2.8</td>
<td>1.7</td>
<td>1.5</td>
<td>2.6</td>
<td>3.8</td>
<td>3.3</td>
<td>3.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Inflation (CPI) %</td>
<td>3.9</td>
<td>3.6</td>
<td>1.4</td>
<td>−0.1</td>
<td>−0.3</td>
<td>−0.5</td>
<td>1.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Unemployment rate %</td>
<td>13.5</td>
<td>14.0</td>
<td>14.2</td>
<td>13.2</td>
<td>11.5</td>
<td>9.6</td>
<td>8.5</td>
<td>7.7</td>
</tr>
<tr>
<td>Current account/GDP %</td>
<td>−5.0</td>
<td>0.9</td>
<td>1.9</td>
<td>1.1</td>
<td>0.2</td>
<td>−0.7</td>
<td>−1.1</td>
<td>−0.7</td>
</tr>
<tr>
<td>FDI/GDP %</td>
<td>2.8</td>
<td>3.2</td>
<td>−0.3</td>
<td>−0.6</td>
<td>0.0</td>
<td>−0.6</td>
<td>1.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Budget balance/GDP %</td>
<td>−4.3</td>
<td>−4.3</td>
<td>−2.7</td>
<td>−2.7</td>
<td>−2.7</td>
<td>−1.7</td>
<td>−1.3</td>
<td>−0.7</td>
</tr>
<tr>
<td>Public debt/GDP %</td>
<td>43.7</td>
<td>52.2</td>
<td>54.7</td>
<td>53.6</td>
<td>52.5</td>
<td>51.9</td>
<td>51.5</td>
<td>50.3</td>
</tr>
<tr>
<td>Foreign debt/GDP %</td>
<td>78.3</td>
<td>75.5</td>
<td>82.1</td>
<td>90.2</td>
<td>85.4</td>
<td>91.1</td>
<td>91.5</td>
<td>91.3</td>
</tr>
</tbody>
</table>

Source: UniCredit Research
Czech Republic: Stable economic growth

In 2016, GDP growth slowed to 2.3%, halving from the 2015 booming dynamic largely on a drop of fixed capital formation. Final consumption remained the main driving force with net exports also adding to growth. For 2017 and 2018, we expect stronger growth rates of 2.6% and 2.5% respectively. This is deemed to be close to the potential growth rate, which remains rather low against a backdrop of low productivity growth, the low and decreasing unemployment rate and poor management of public infrastructure projects.

The economy should benefit from the ongoing recovery of global trade which is set to extend through the remainder of 2017. Hence, we expect exports to accelerate to 4.2% in 2017, which should be sufficient for net exports to provide a positive contribution to GDP growth. A risk on the horizon stems from the car market in Europe, which is probably approaching the point of saturation after three years of expansion. A slowdown in demand for cars could hit the most important sector of Czech industry. Private consumption is expected to remain the most stable component of GDP growth, as the inflationary spike, which is just beginning, will be offset by nominal wage acceleration.

CPI started to accelerate in late 2016, largely driven by the volatile items of food and motor fuels but signs of demand-side pressure have emerged as well. The March CPI hit 2.6% yoy, overshooting the central bank’s 2% target. The overshooting is however set to remain modest with average inflation reaching 2.6% yoy in 2017 and 2.1% yoy in 2018.

**CZK is back in a managed float regime**

In April, the CNB exited the FX intervention regime, which for more than three years had prevented the Czech koruna from appreciating past 27 against the euro. The koruna strengthened only moderately just after the exit and we do not expect its significant appreciation further down the road. What prevents the trend is the fact that the CNB has accumulated FX reserves on a scale equivalent to 70% GDP, leaving other economic actors with a huge liquidity surplus in CZK but a shortage of foreign

**Overheating comes from the labor market**

The clearest signal of an incipient overheating of the economy comes from the labor market. In 4Q2016, total employment grew by a 2.2% yoy. Real wages added 3.6% yoy on average in 2016, the strongest growth since 2007. Unemployment continued its downward trend, reaching 4.8% in March, the lowest number since the end of 2008. The number of job vacancies has lately exceeded 150,000, last seen in 2008. Labor shortage has become a widespread problem for businesses. We see the wage pressure continuing through 2017, which will also push inflation higher.
currencies. In its latest inflation report, the CNB acknowledged a need for tighter monetary conditions, which should, according to its model assumption, be delivered by a combination of CZK appreciation (of an undisclosed magnitude) and higher interest rates (three 25bp hikes until 2H18). The exit from interventions is viewed as the first step in the CNB policy of tightening monetary conditions. When this step will be followed by policy rate hikes depends on the extent of CZK appreciation.

Low interest rate environment bolsters housing investments

Having fallen for most of 2016, mortgage rates reached an all-time low of 2.13% in November. By the end of 2016, cheap lending and the expectation of an early reversal of the downward-trend for interest rates had led to strong growth in mortgage lending of almost 9% yoy, with the stock of total housing loans reaching 23.8% of GDP in December, a yoy increase of 1p.p. This went hand in hand with a sharp yoy increase in housing prices. In Prague, the prices paid for new flats jumped by 9.3% yoy in 4Q16. The heated residential housing market led the CNB to introduce a number of restrictive rules on mortgage lending within its macro-prudential policy for 2017. An incipient reversal in mortgage rates has indeed become apparent by now. We expect a slight up-trend in rates to continue through 2017.

Healthy financing positions, both externally and internally

In 2016, the current account hit a surplus for the third year running and for the first time exceeded 1% of GDP. The surplus arose on the back of a positive trade balance. Government finances also broke a record in 2016 with the highest budget surplus in modern history. This was attributable not only to a strong economic performance and more efficient tax collection, but also to lower public-sector investments. We expect public finances to remain sound throughout 2017 and 2018.
Strong demand for office space – new construction picking up again

The office markets in the Czech Republic and Slovakia are mainly focused on the respective capital cities, Prague and Bratislava, although there are also notable regional office markets in the Czech cities of Brno and Ostrava.

At the end of 2016, there was a total of around 3.4 million m² of modern office space in Prague and more than 1.6 million m² in Bratislava.

New construction in both cities was relatively modest last year, at about 35,000 m² in Prague and 70,000 m² in Bratislava. This was lower than the record levels in previous years – even at the height of the financial crisis, there was significant growth in the supply of office space, as projects already under construction were completed, rather than postponed. As a result, vacancy rates in both capitals rose sharply in the course of the crisis and rents dropped considerably.

The office market in both countries has recovered well thanks to an economic upturn and the fall in construction.

Bratislava actually leads the way in Central and Eastern Europe in terms of office space density per capita, followed by Warsaw and Prague, although it still lags far behind cities such as the nearby Austrian capital, Vienna.

The density of office space per capita in Prague and Bratislava is low compared with major West European cities. However, both are at the upper end of the scale in comparison with other capitals in Eastern Europe.

### Office space per capita, 2016

<table>
<thead>
<tr>
<th>City</th>
<th>m² per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zurich</td>
<td>24.21</td>
</tr>
<tr>
<td>Geneva</td>
<td>20.01</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>15.81</td>
</tr>
<tr>
<td>Munich</td>
<td>14.62</td>
</tr>
<tr>
<td>Copenhagen</td>
<td>10.01</td>
</tr>
<tr>
<td>Milan</td>
<td>9.66</td>
</tr>
<tr>
<td>Hamburg</td>
<td>7.64</td>
</tr>
<tr>
<td>Paris</td>
<td>7.63</td>
</tr>
<tr>
<td>Vienna</td>
<td>5.97</td>
</tr>
<tr>
<td>Bratislava</td>
<td>3.69</td>
</tr>
<tr>
<td>Warsaw</td>
<td>2.67</td>
</tr>
<tr>
<td>Prague</td>
<td>2.65</td>
</tr>
<tr>
<td>Budapest</td>
<td>1.86</td>
</tr>
<tr>
<td>Sofia</td>
<td>1.36</td>
</tr>
<tr>
<td>Moscow</td>
<td>1.30</td>
</tr>
<tr>
<td>Bucharest</td>
<td>1.26</td>
</tr>
<tr>
<td>Zagreb</td>
<td>1.15</td>
</tr>
<tr>
<td>Kiev</td>
<td>0.64</td>
</tr>
<tr>
<td>Belgrade</td>
<td>0.42</td>
</tr>
<tr>
<td>Istanbul</td>
<td>0.34</td>
</tr>
</tbody>
</table>

Source: Immobilien Rating

### Strong increase in new take-up

New letting rose significantly in Prague last year, while the level of new construction activity was very low. Similarly high rates of new take-up are also on the cards this year. Sustained economic growth is having a positive impact on demand for new office space. However, new construction is also expected to increase this year, and around 170,000 m² of new space could come onto the market in 2017 as a whole.

Bratislava also saw record-breaking new letting rates in the office segment in 2016, although new construction was higher than in Prague. The project pipeline in the Slovakian capital is well stocked, and a year-on-year increase in new construction, to more than 100,000 m², is a distinct possibility.
In Bratislava, average vacancies were slightly above 6.5% – well below those in Prague – and even lower in the city center.

**Rents generally stable**

Apart from a few small corrections, top rents in Prague and Bratislava were largely stable in 2016. Rents in both cities fell – in some cases significantly – during the global economic and financial crisis. This trend has not only stopped, but reversed slightly, with an uptick in rents seen in Prague’s premium office segment.

Top office rents in the Czech capital were around EUR 20/m²/month at the end of 2016, and a slight increase over the course of 2017 cannot be ruled out.

Top rents for offices in Bratislava were far lower than in Prague at the end of last year, at around EUR 15/m²/month. At present, rents in the Slovakian capital are expected to remain generally stable.

**Markets in the Czech Republic and Slovakia shaped by strong interest from investors**

The Czech Republic and its capital Prague have always been a hot spot for investors in CEE, but Slovakia has constantly lagged behind other major East European cities in the rankings. Nevertheless, investors have never totally lost interest in this very small market.

In both the Czech and Slovakian markets, as in others in Central and Eastern Europe, there are already signs of a glaring shortage of suitable properties. As a result, the decline in prime yields over the past several quarters could continue, albeit at a considerably slower pace. This is reflected in the emergence of transactions outside the two capital cities and the preferred prime locations.

**New projects 2016/2017 (selection)**

<table>
<thead>
<tr>
<th>Office project</th>
<th>Gross lettable area m²</th>
<th>Status</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twin City B+C</td>
<td>45,000</td>
<td>completed</td>
<td>Bratislava</td>
</tr>
<tr>
<td>Rosum</td>
<td>22,000</td>
<td>completed</td>
<td>Bratislava</td>
</tr>
<tr>
<td>Nova Palminovka</td>
<td>16,700</td>
<td>on hold</td>
<td>Prague</td>
</tr>
<tr>
<td>Palac Narodni</td>
<td>7,600</td>
<td>under construction</td>
<td>Prague</td>
</tr>
<tr>
<td>Classic 7 Business Park Phase III</td>
<td>6,500</td>
<td>completed</td>
<td>Prague</td>
</tr>
</tbody>
</table>

Source: Immobilien Rating

**Slight drop in vacancy rates**

Due to exceptionally high demand, vacancies in the office segment in both Prague and Bratislava fell last year.

The average vacancy rate for offices in the Czech capital fell from about 14.5% at the start of 2016 to a little over 10.5% at year-end.

**Office vacancy rates in Europe in % 2016**

![Office vacancy rates in Europe in % 2016](image)

Source: Immobilien Rating

**Office vacancy rates 2007–2016**

![Office vacancy rates 2007–2016](image)

Source: Immobilien Rating

**Prime office rents 2007–2016**

![Prime office rents 2007–2016](image)

Source: Immobilien Rating
Both the Czech Republic and Slovakia are sought-after locations for logistics facilities in the CEE region. This is mainly due to automotive clusters, which play an important role in both countries, while online retailer Amazon also operates a large, new distribution center near Prague from which goods are delivered to customers across Europe.

In Slovakia, the majority of industrial and logistics locations are in the greater Bratislava area. In the Czech Republic, such space is concentrated in the area around Prague, as well as in a number of logistics hubs elsewhere in the country, including in the regions surrounding Brno and Pilsen. Locations with good transport links close to the German-Czech border also have potential assuming further growth of the e-commerce sector.

At the end of 2016, there was slightly less than 2.5 million m² of industrial and logistics space available in the region around Prague, and forecasts suggest that around 130,000 m² of new space will be built this year. Bratislava had around 1.4 million m² of industrial and logistics space at the end of 2016, which will be supplemented by about 130,000 m² of new space in the region surrounding the city this year.

Falling vacancy rates
Vacancy rates at logistics facilities in Prague and Bratislava have fallen sharply in the past few years due to steady demand, and stood at around 3.5% in the Czech capital at the end of 2016. This should remain unchanged until the end of 2017 due to steady demand.

Vacancy rates in the industrial and logistics market around Bratislava were even lower at the end of last year, at about 2.75%. Stable demand means the rate should remain low this year as well.

Rents generally stable
After remaining stable for the past few quarters, monthly rents for logistics properties in Prague averaged around EUR 3.70/m²/month at the end of 2016. Rents in Bratislava have also remained virtually unchanged, and the average of about EUR 3.60/m²/month at the end of 2016 was only slightly lower than in the Czech capital.

Achievable rents always depend on the size of the property in question, and smaller premises are often more expensive than very large units. With vacancy rates low and demand set to remain high, rents are expected to largely move sideways until the end of 2017.

The automotive and e-commerce sectors will continue to drive the industrial and logistics property market in the Czech Republic and Slovakia in 2017. We could also see a renewed increase in speculative construction. In the Czech Republic, it is important to secure suitable land for the construction of new space in good time. Generally speaking, smaller, city-center warehouses and distribution facilities are growing in importance. The rise of Europe-wide online retail trends, such as offering same-day delivery, is also unstoppable in CEE markets, even though online retailing still accounts for a relatively small proportion of total retail sales.
Retail properties: Small increase in space, strong interest from investors

Slovakia:

No new shopping centers opened in 2016

A strong economic environment and stable retail revenues have been behind a continuous improvement in the consumption and investment climate in Slovakia, a situation which is set to continue in 2017.

Slovakia currently has around 1.2 million m² of shopping center space. While approximately 125,000 m² of additional space came onto the market in 2014 and 2015, there were no new center openings anywhere in Slovakia in 2016.

The country’s shopping center market is closely centered on the capital, which accounts for 42% of the total. In terms of market share, Bratislava is followed at a considerable distance by the regional cities of Kosice (approx. 12%), Zilina (8%) and Nitra (7%).

New shopping center openings in Slovakia (selected) 2014–2016

<table>
<thead>
<tr>
<th>Shopping Center</th>
<th>Lettable area m²</th>
<th>Opened</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bory Mall</td>
<td>~ 54,000</td>
<td>2014</td>
<td>Bratislava</td>
</tr>
<tr>
<td>SC Dituria</td>
<td>~ 10,000</td>
<td>2014</td>
<td>Levice</td>
</tr>
<tr>
<td>City Arena Trnava</td>
<td>~ 24,000</td>
<td>2015</td>
<td>Trnava</td>
</tr>
<tr>
<td>Forum Poprad</td>
<td>~ 23,000</td>
<td>2015</td>
<td>Poprad</td>
</tr>
<tr>
<td>Galeria Lucenec</td>
<td>~ 11,000</td>
<td>2015</td>
<td>Lucenec</td>
</tr>
</tbody>
</table>

Source: Immobilien Rating, RegioPlan

*) Only lettable space > 10,000 m²

Shopping center market in Slovakia largely saturated, only a few regions still undersupplied

The market for shopping centers in Bratislava and a number of secondary regions is saturated. Competition is high and the threat posed by online retailers is growing. As a result, there is a tendency in the capital towards renovation, optimization (as seen in the recent refurbishment of the SC Aupark and Avion Shopping Park) and, in some cases, expansion of existing centers, rather than construction of new ones.

Outside Bratislava, developers are focusing on cities where the availability of shopping center space is still low, such as Presov and Banska Bystrica. The largest new openings outside the capital in recent years include City Arena in Trnava (24,000 m²) and Forum Poprad (23,000 m²) in the city of the same name.

Shopping center projects – few new ones in the pipeline, major uncertainties surrounding planned developments

There are a number of shopping centers planned in Slovakia. Many of them pre-date the economic crisis and have been put on hold, in some cases new plans are being drawn up, while in others their status/progress is unknown. At the time of writing, the only notable...
shopping center project currently under construction was in Presov (Eperia, 22,000 m²); building work is due to start on another in the city in 2017 (Forum Presov, 31,000 m²).

For all of the other projects listed above, it is unclear whether they will come to fruition, or the scheduled start of construction will be put back. Particular attention should be paid to Stanica Nivy, which is part of the Twin City development project featuring office, retail and leisure space including restaurants. The shopping center is earmarked for construction in Bratislava’s newly renovated bus station. According to the developer, the new center will offer around 70,000 m² of lettable space, making it the second largest in the country. But it remains to be seen whether it will be built at all and, if so, on the scale indicated. It is also unclear how the market will respond to a new mega mall.

**Prime yields declining, rents stable or increasing slightly, and hardly any vacancies in 1A centers**

Vacancy rates at shopping centers in Bratislava have declined slightly due to the absence of new developments coming onto the market in 2015 and 2016, and are currently between 3% and 10%. Due to the modernization of various established shopping centers and rising demand for space, the rate is likely to remain unchanged in 2017. At the end of 2016, shopping center rents were between EUR 9–70/ m²/month, depending on store size and sector. There were slight increases in top rents at 1A shopping centers and for smaller spaces. At year-end 2016, prime yields had declined to 5.75% in the face of high demand from tenants and investors for well-established shopping centers. Yields are likely to remain stable.

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### Shopping center projects in Slovakia (selected), under construction/planned

<table>
<thead>
<tr>
<th>Shopping Center</th>
<th>Lettable area m²</th>
<th>Scheduled opening</th>
<th>Status</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eperia</td>
<td>~22,000</td>
<td>2017/18</td>
<td>under</td>
<td>Presov</td>
</tr>
<tr>
<td>Forum Presov</td>
<td>~31,000</td>
<td>2018/19</td>
<td>planned</td>
<td>Presov</td>
</tr>
<tr>
<td>Stanica Nivy/Twin City</td>
<td>~70,000</td>
<td>2019/20</td>
<td>planned</td>
<td>Bratislava</td>
</tr>
<tr>
<td>Promenada Living Park</td>
<td>~23,000</td>
<td>2019/20</td>
<td>planned</td>
<td>Nitra</td>
</tr>
<tr>
<td>Laugaricio – Extension (E)</td>
<td>~15,000</td>
<td>n.a.</td>
<td>planned</td>
<td>Trenčín</td>
</tr>
<tr>
<td>Aupark – Extension (E)</td>
<td>~8,000</td>
<td>n.a.</td>
<td>planned</td>
<td>Bratislava</td>
</tr>
</tbody>
</table>

Key: (E) Extension; *) Construction work scheduled to start in 2017

Source: Immobilien Rating, RegioPlan
The market for high streets in Bratislava is underdeveloped

Due to a lack of supply and low attractiveness, many retailers, including luxury brands, instead prefer modern shopping centers where the footfall is high. In addition, the city center is in direct competition with better-established shopping streets in nearby Vienna, Budapest and Prague. Bratislava’s busiest high street is Obchodna ulica, and certain luxury brands can also be found on Laurinska ulica. Exacerbated by already high vacancy rates, top rents have dropped somewhat and are currently between EUR 20/m² and EUR 40/m²/month. Prices are expected to remain stable in 2017. Prime yields for prime shopping streets increased year on year and currently stand at 7.25%.

Czech Republic:
Well-developed market with slowdown in amount of new space and strong interest from investors

The Czech retail property market is well developed and largely saturated. Strong economic data, increasing retail revenues and real wages and buoyant consumer confidence are driving interest in retail properties among investors and tenants alike.

Total shopping center space in the Czech Republic amounts to around 2.3 million m², about 42% of which is in the capital, Prague. The days of major new additions of space at shopping centers serving multiple regions are over for now. In 2014, about 100,000 m² of new shopping center space*) came onto the market. New building activity centered on the city of Teplice, which saw the amount of modern retail space double in one fell swoop with the addition of Galerie Teplice and OC Fontána. In Prague itself, the only new openings included OC Luziny after comprehensive remodeling and the mixed-use Quadrio project.

In 2015 and 2016, growth slowed significantly and just three new shopping centers with a total of around 60,000 m² were added to the market: OC Central Kladno, Aupark in Hradec Kralove and the relaunched Galerie Prerov.

New shopping center openings in the Czech Republic (selected), 2014–2016

<table>
<thead>
<tr>
<th>Shopping Center</th>
<th>Lettable area m²</th>
<th>Opened</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Galerie Teplice</td>
<td>~ 22,000</td>
<td>2014</td>
<td>Teplice</td>
</tr>
<tr>
<td>OC Fontana</td>
<td>~ 20,000</td>
<td>2014</td>
<td>Teplice</td>
</tr>
<tr>
<td>Centrum Pivovar</td>
<td>~ 17,500</td>
<td>2014</td>
<td>Decin</td>
</tr>
<tr>
<td>OC Luziny</td>
<td>~ 16,000</td>
<td>2014</td>
<td>Prague</td>
</tr>
<tr>
<td>OC Fryda</td>
<td>~ 15,000</td>
<td>2014</td>
<td>Frydek Mistek</td>
</tr>
<tr>
<td>Quadrio (Mixed Use)</td>
<td>~ 8,500</td>
<td>2014</td>
<td>Prague</td>
</tr>
<tr>
<td>Central Kladno</td>
<td>~ 26,000</td>
<td>2015</td>
<td>Kladno</td>
</tr>
<tr>
<td>Aupark</td>
<td>~ 21,000</td>
<td>2016</td>
<td>Hradec Kralove</td>
</tr>
<tr>
<td>Galerie Prerov – Relaunch (R)</td>
<td>~ 13,000</td>
<td>2016</td>
<td>Pírro</td>
</tr>
</tbody>
</table>

Key: (R): Relaunch; Source: Immobilien Rating, RegioPlan

As far as future projects are concerned, as in other European cities, activities will be dominated by the modernization of older centers and extensions to existing, high-performing developments. This will be borne out by the scheduled completion of three projects in 2017 with a total of 80,000 m²: around 85% of this amount is attributable to the Centrum Chodov extension in Prague and the IGY Centrum relaunch and expansion in Ceske Budejovice.

Focus of shopping center projects in Prague on expansion, mixed-use projects and urban development zones

Predicting the increase in space in the next two to three years is difficult, as it is still unclear whether larger projects outside Prague (such as Arena Pilsen and Aupark Brno) will go ahead. Activities in the capital in the near future will be restricted to the Galerie Butovice expansion and the installation of retail space in mixed-use projects that also include residential and office space. Urban development zones designated by the city around old railway stations, such as Zliskov Rail Station and Smichov City, are significant new potential locations for shopping centers in Prague. No details on scheduling and/or the size of prospective projects were available at the time of writing.

Shopping center density in Prague significantly higher than in Vienna (516 m²/1,000 inhabitants), ratio higher still for some secondary cities

Before the economic crisis, the Czech Republic was one of the first CEE countries to catch the attention of various shopping center developers, leading in some cases to overproduction relative to population in a number of cities and regions.

At present, shopping center density in Prague is around 737 m² per 1,000 inhabitants. The figure is even higher in Liberec (1,097 m²/1,000 inhabitants), Olomouc (912 m²/1,000) and Ceske Budejovice (826 m²/1,000).

New shopping center openings in the Czech Republic (selected), 2014–2016

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Vacancy rates in Prague’s shopping centers have remained stable recently, and averaged 5.5-6% at the end of 2016. Shopping centers in B-locations and/or with pent-up demand for investment are increasingly having to contend with higher vacancy rates and/or increased pressure on rents. The amount of empty space in 1A shopping center locations is negligible.

Monthly rents at shopping centers in Prague were stable at year-end 2016, while those in top locations were trending upwards. Rents ranged from EUR 8-60/m²/month depending on unit size and sector. In isolated cases, rents for smaller spaces (<100 m²) can reach up to EUR 125 EUR/m²/month or more.

Prime yields in Prague’s shopping center segment had declined by 0.5 percentage points year on year to 5% at year-end 2016, due to strong interest from investors. At this low level there is only little scope for a further decline.

Shopping streets in Prague in greater demand than ever, prime locations in short supply and highly sought after

Supported by a strong international tourism sector, the Czech capital is an exceptionally popular retail location. The city has a good reputation among local and international retailers and is often cited as the place to be among CEE/SEE capitals (except Moscow). The best-known and most expensive high streets in Prague include Na prikope, Wenceslas Square and Pariska ulice. In recent years, numerous individual buildings have been renovated on these shopping streets, resulting in an overall increase in the location’s attractiveness for retailers and shoppers. Adjacent streets have also benefited from this development and are in turn helping to extend central Prague’s high-street segment. Future projects (including the 15,000 m² mixed-use Savarin project extending the Na prikope and Wenceslas Square shopping zone, as well as the renovation of the Masarykovo nadrazi station) will further intensify competition for premium locations.

As a result of high demand for retail space, rents have risen constantly in recent years, to around EUR 150-215/m²/month at year-end 2016. Top rents can reach up to EUR 300/m²/month, with new tenants paying key money in individual cases. Prime yields for high street locations fell sharply year on year in 2016, to around 3.8%, and are remaining stable for now.

Shopping center projects in the Czech Republic (selected), under construction/planned

<table>
<thead>
<tr>
<th>Shopping Center</th>
<th>Lettable area m²</th>
<th>Status Under construction/under construction</th>
<th>Scheduled opening</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centrum Chodov (E)</td>
<td>~ 40,000</td>
<td>Under construction</td>
<td>2017</td>
<td>Prague</td>
</tr>
<tr>
<td>Central Jablonec</td>
<td>~ 11,300</td>
<td>Under construction</td>
<td>2017</td>
<td>Jablonec nad Nisou</td>
</tr>
<tr>
<td>IGY Centrum (R+E)</td>
<td>~ 29,000</td>
<td>Under construction</td>
<td>2017</td>
<td>Ceske Budejovice</td>
</tr>
<tr>
<td>Arena Pilsen</td>
<td>~ 35,000</td>
<td>Project 2018/19</td>
<td></td>
<td>Pilsen</td>
</tr>
<tr>
<td>Galerie Butovice (E)</td>
<td>~ 15,000</td>
<td>Project 2018/19</td>
<td></td>
<td>Prague</td>
</tr>
<tr>
<td>Palac Stromovka (Mixed Use)</td>
<td>~ 14,500</td>
<td>Project 2018/19</td>
<td></td>
<td>Prague</td>
</tr>
<tr>
<td>Borislova (Mixed Use)</td>
<td>~ 10,000</td>
<td>Project 2018/19</td>
<td></td>
<td>Prague</td>
</tr>
<tr>
<td>Aupark Brno</td>
<td>~ 31,500</td>
<td>Project</td>
<td>2020</td>
<td>Brno</td>
</tr>
<tr>
<td>Avion Shopping Park (E)</td>
<td>~ 13,000</td>
<td>Project</td>
<td>2020</td>
<td>Brno</td>
</tr>
<tr>
<td>Forum Nova Karolina (E)</td>
<td>~ 39,000</td>
<td>Project</td>
<td>n.a.</td>
<td>Ostrava</td>
</tr>
</tbody>
</table>

Key: (E): Expansion; (R+E): Restructuring and expansion
Source: Immobilien Rating, RegioPlan
Contacts:

**Bank Austria Real Estate & Public Sector**
International Real Estate Finance  
Anton Höller  
Tel: + 43 (0)50505 – 55980  
anton.hoeller@unicreditgroup.at

Commercial Real Estate  
Karl Mayerhofer  
Tel: + 43 (0)50505 – 55305  
karl.mayerhofer@unicreditgroup.at

**UniCredit**
Contact for international clients for CEE region  
Lukasz Motyl  
Tel: + 43 (0)50505 – 55142  
lukasz.motyl@unicredit.eu

**UniCredit Bank Czech Republic and Slovakia**  
Tomas Prochazka  
Tel: + 420 (955) 961 – 306  
tomas.prochazka2@unicreditgroup.cz

**Immobilien Rating GmbH (IRG)**
Market Research  
Alexander Stögbauer  
Tel: + 43 (0)50601 – 51904  
alexander.stoegbauer@immobilienrating.at

Helmut Schneider  
Tel: + 43 (0)50601 – 51863  
helmut.schneider@immobilienrating.at

**UniCredit Bank Czech Republic and Slovakia**
UniCredit Research  
Lubomir Korsnák  
Tel: + 42 12 4950 – 2427  
lubomir.korsnak@unicreditgroup.sk

Jiří Pour  
Tel: + 42 0955 960 – 717  
jiripour@unicreditgroup.cz

**UniCredit**
International and Political Affairs  
Luca Ranieri  
Tel: + 39 06 6707 – 6979  
luca.ranieri@unicredit.eu

Authors:

**Bank Austria**
Real Estate & Public Sector  
Karla Schestauber  
Tel: + 43 (0)50505 – 54784  
karla.schestauber@unicreditgroup.at

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Acquisition & Development Financing
Residential
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