

Czech Republic Retail, H2 2016

Further market growth expected in 2017!

▲ High Street Prime Rent
€215/ sq m/ month

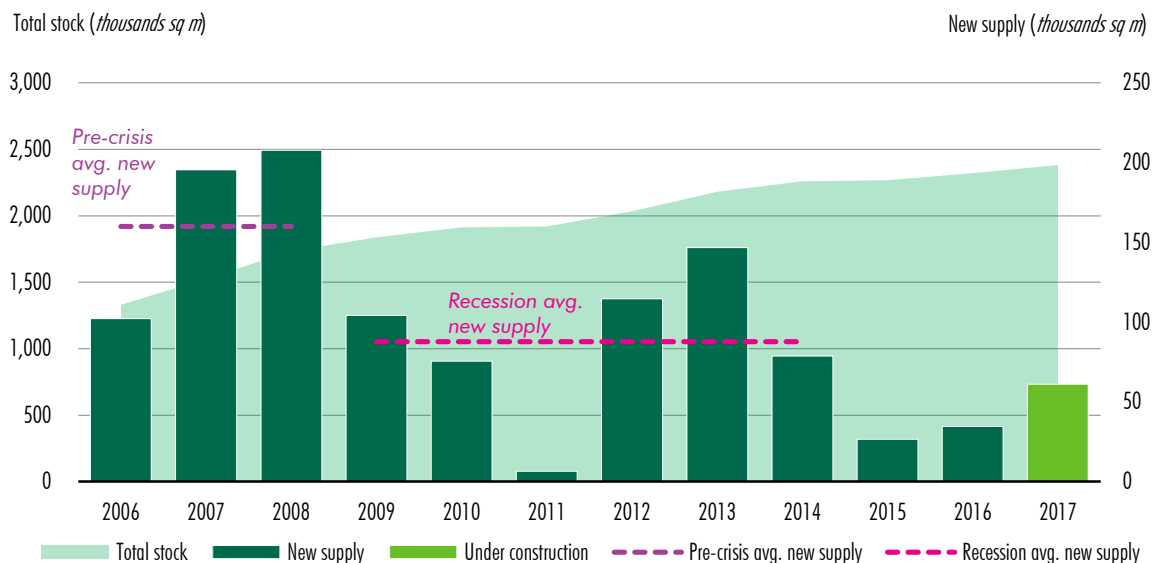
▲ Shopping Centre Prime Rent
€125/ sq m/ month

▼ HS Prime Yield
3.75%

▼ SC Prime Yield
5.00%

*Arrows indicate change from previous half.

Figure 1: Growth of shopping centre stock



Source: CBRE Research, H2 2016

H2 2016 SUMMARY

- Oxford Economics monitored a slight slowdown in retail spend which increased by 4.6% y-o-y in 2016. This trend is predicted to continue in 2017 with forecast growth of 2.7% y-o-y.
- Dynamic changes on the high street market caused by shifts to better locations, ongoing extension and also the offer of newly refurbished space.
- The number of new retailers who entered the Czech market increased 47% y-o-y in 2016.

- Newly implemented Electronic record of sales should increase the transparency of the market.
- Trading restriction were introduced on selected public holidays.
- The shopping centre stock increased by 1.5% thanks to two new completion in the regions: Galerie Prerov and Aupark Hradec Kralove. We expect a further increase of 2.6% in 2017.
- The Prime high street and shopping centre rents grew by 8% and 9% respectively. This trend will continue in 2017.

RETAIL MARKET

The Czech retail market has become very stable and relatively easy to predict partly thanks to limited development. Newly implemented Electronic record of sales should increase the transparency of the market.

The speed of GDP growth in Q4 2016 had slightly increased compared to the previous quarter, however the annual results showed a slight slowdown of the Czech economy with 2.4% growth y-o-y (Oxford Economics). We can expect similar GDP growth in 2017. The positive economic situation was supported by low unemployment rate and an increase in private consumption, which was reflected in favourable household income conditions. According to the Czech statistical office the overall trade excl. retail sales of automotive fuel increased by 5.2% y-o-y (1-11/2016). The most dynamic segment remained e-commerce with growth of 22.1% y-o-y which has already doubled its sales since 2010.

SHOPPING CENTRE STOCK AND DEVELOPMENT

The total shopping centre stock increased by 1.5% thanks to two new openings in H2 2016 and exceeded the level of 2.3 million sq m. The newly opened shopping centres were Galerie Prerov with 13,700 sq m and Aupark Hradec Kralove with 20,900 sq m.

The shopping centre density increased to 218 sq m / 1,000 inhabitants. The most saturated regions in the country outside Prague are Liberecky and Olomoucky regions with more than 250 sq m / 1,000 inhabitants. Density in Olomoucky region increased by 9% y-o-y. On the contrary the lowest is in Vysocina region with 55 sq m / 1,000 inhabitants. A similar situation is on the city level where Liberec and Olomouc exceeded the level of 1,300 sq m / 1,000 inhabitants. The third most saturated regional city became Hradec Kralove where we monitored an increase of more than 30%. The lowest density remains in Usti nad Labem. Currently there are three shopping centres under

construction with expected opening in 2017.

Two in the regions – new Crestyl development Central Jablonec and expansion of IGY Ceske Budejovice by CPI. The biggest delivery of new modern shopping centre space will be in Prague thanks to expansion of Centrum Chodov developed by Unibail-Rodamco.

PRAGUE HIGH STREET IN DETAIL

Thanks to ongoing increase of interest Prague high street has been facing a lot of changes in 2016. We monitor a significant investments on Prague high street, e.g. on Na Prikope, 28. rijna, Parizska and Haviska street and expect that this trend should continue in 2017. Even more dynamic were changes on tenants market caused mainly by shifts to better locations and also the offer of newly refurbished space. On Wenceslas Square Levis moved to the lower part with higher footfall and Foot Locker will open the flagship store on ca 1,500 sq m in the former Promod premises. The refurbishment referred mainly to adjacent high street arcades and malls, it helped for example Galerie Myslbek and Cerna Ruze to bring new attractive tenants, such as Cremieux or Le Premier. As the high street has been continuously expanding there have been new transactions seen in non-prime location but with high potential such as Rytirska street where Preciosa opened or 28. rijna where Tiger and others are finalizing transactions. There is a big interest from food & beverage retailers who frequently occupy the non-prime locations on high street. The reason is high rent on prime location and technical limitations of some historical buildings.

Within the luxury high street on Parizska street some retailers moved to better locations. Moreover we monitored exchanges of brands within their portfolios, for example Breitling or Patek Philippe. The high demand and scarcity of prime space increase the prime rent sharply. Moreover we monitored transaction above 300 EUR/ sq m/ month on small units (below 100 sq m). Also in many transactions the retailers are again paying the keymoney.

NEW ENTRIES AND EXITS

The macroeconomic results and retail market stability increase the confidence and interest of retailers to enter the Czech Republic.

The number of new retailers who entered the market in 2016 increased by 47% y-o-y. Most in the first half of the year.

Within the European brands which dominated (with 86% total share) the most frequent countries of origin were Italy, Switzerland, Poland, Spain and UK. Almost 60% of new brands were from luxury fashion and accessories sector, e.g. Tous,

Max&Co., Piquadro, Breitling and more. A significant proportion within non-luxury brands had a kids segment – Hamleys, Imaginarium, Crocodilino or Cool Club.

RENTAL LEVELS

The prime shopping centre rents growth by 9% y-o-y and grew to 125 EUR/ sq m/ month in Prague. In regions the prime shopping centre rent remained stable with 65 EUR/ sq m/ month. Further increase by approx. 8% y-o-y rose the high street prime rent to 215 EUR/ sq m/ month.

Figure 3: Retail market key figures

	Prague	Regions
Total shopping centre stock* (sq m)	743,000	1,559,000
Space under construction (sq m)	40,700	20,300
Prime high street rent (€/ sq m/ month)	215.0	70.0
Prime shopping centre rent (€/ sq m/ month)	125.0	65.0
Prime retail park rent (€/ sq m/ month)	12.5	11.0

Source: CBRE Research, H2 2016
*annual adjustment of SC 's sizes

Figure 4: Under construction and planned shopping centres

	Project name	City	Year	GLA (sq m)	Developer
Under construction	Central Jablonec	Jablonec nad Nisou	2017	11,300	Crestyl
	Centrum Chodov	Prague	2017	40,700	Unibail-Rodamco
	IGY Ceske Budejovice	Ceske Budejovice	2017	9,000	CPI
Planned	Borislavka	Prague	2018	10,000	KKCG
	NC Kralovo Pole	Brno	2018	7,600	Bainbridge
	Palac Stromovka	Prague	2018	13,000	Lordship
	Avion Shopping Park Brno	Brno	2020	13,200	Inter IKEA
On hold	Nova Palmovka	Prague	2016	8,000	Metrostav

Source: CBRE Research, H2 2016

OUTLOOK

In 2017, three new shopping centres are scheduled to be completed. Besides these openings, we expect three new shopping centres to start construction: Borislavka, Palac Stromovka in Prague and extension Avion Shopping Park in Brno.

As there is a limited space for new developments, we see many expansions of existing schemes to be in preparation phases across the country such as at Avion Shopping Park Brno.

Moreover we expect to monitor more and more

refurbishments of existing shopping centres as refurbishments could assist in increasing the performance of the scheme.

Owners are increasingly interested in new trends and innovations which could be implemented in the shopping centre (e.g. new ways to attract customers, digital marketing, parking systems) and we expect this trend to continue through 2017.

Positive economic growth and overall market sentiment both have a positive impact on rental growth. In 2017, we expect the prime rent to grow further as there is hardly any prime space available. Further, we also expect to see average rents grow.

CONTACTS**Richard Curran**

Managing Director

+420 224 814 060

richard.curran@cbre.com

Katarína Brydone

Director – Head of Retail

+420 221 711 091

katarina.brydone@cbre.com

Walter Woelfler

Senior Director - Head of Retail CEE

+43 1 533 40 80-97

walter.woelfler@cbre.com

Klara Bejblova

Associate Director – Head of Research & Consulting

+420 221 711 007

klara.bejblova@cbre.com

Veronika Tebichova

Associate Director – Head of Retail Agency

+420 221 771 031

veronika.tebichova@cbre.com

Tomas Beranek

Associate Director – Head of High street Retail & T-rep

+420 224 814 060

tomas.beranek@cbre.com

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Definitions

SC SIZE – Small Traditional SC (5,000 – 19,999 sq m of GLA), Medium Traditional SC (20,000 – 39,999 sq m of GLA), Large Traditional SC (40,000 – 79,999 sq m of GLA), Very Large Traditional SC (GLA of 80,000 sq m and above); based on ICSC definitions

PRIME RENT – typical 'achievable' open market headline rent (can be hypothetical) for a unit of a 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. For traditional SCs and high street, prime rents are for units of 100-150 sq m; for retail parks, prime rents are for units of 300-500 sq m.

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