

**AREMD SURVEY: LIQUIDITY IS PUSHING
THE PRICES (OF ALL TYPES)
OF REAL ESTATE UP**

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In 2017, we expect a growing demand for residential property, accompanied by a gradual rise in prices.

The disappointing situation in Prague associated with the disproportionately long construction permit process continues, which will slow construction and lead to a decrease in new apartments offered by development companies.

The key and most discussed event is the release of the CNB's exchange rate commitment and the subsequent potential increase in interest rates.

Another important fact that will influence the real estate market in 2017 will be the adoption of the Real Estate Brokerage Act, which will also introduce mandatory qualification requirements for real estate agents.

In the traditional survey conducted by the ARTN in early 2017, we focused on the main prospects and trends in the past year of 2016, and also in the following period. We asked you what we can expect in individual real estate market areas and related economic sectors: What events

will have a crucial impact on the real estate market? In what sectors of the real estate market can we expect the largest increase in new projects? What will investors target? The structure of survey respondents and authors of the Trend Report has comprised and connected experts from diverse areas of the real estate market to ensure that Trend Report 2017 is the most complex and objective news report on the real estate market once again, for the tenth time. The renowned agency GfK Czech helped with the results of the survey again.

There is a consensus among experts on the issue of the most important trends this year – especially in the anticipation of the influx of new investors into the Czech Republic and the growing interest from private equity funds.

Other factors include the release of the exchange rate by the CNB (with which we have been living for several weeks), a more conservative LTV and LTC, and an overall moderate increase in the cost of real estate financing. The preparation of the Metropolitan Plan and the possible shift and acceleration of the currently prolonged issuance of building permits will also play an important role. Many experts also expect higher levels of brownfield revitalization.

Overall, it is assumed that the moderate increase in residential property prices will continue, especially in economic centers such as Prague and Brno, where new development is failing to meet the demand. The same applies to quality commercial real estate, whose prices are stimulated by the overpressure of "investment" finances.

WHICH REAL ESTATE MARKET AREAS WILL MAKE THE BIGGEST CHANGES?

Respondents believe that the residential market will undergo the biggest change, followed by real estate financing and the investment market. Compared to forecasts made a year ago, we are seeing the relatively biggest change in real estate financing.

In the residential market, despite the increase in (mortgage) financing prices, the demand outweighs the supply, and prices will continue to grow. Free public resources and the rising popularity of real estate as an alternative investment option will also play an important role.

In 2017, the office market will offer a significantly higher number of completed projects than it did in 2016. We expect a slight overall increase in the vacancy of office space, as well as an increase in the highest rent. Tenants' emphasis on quality will continue to grow. The main reason for this is the increase in the originality of the employee environment, which is not seen in many fields.

The retail market will remain stable in the following year. Most experts expect to see a strengthening trend of the reconstruction and modernization of existing premises. New construction is only taking place in a limited range.

The investment market will be likely affected most by the strengthening of the koruna, the effect of free capital and the still relatively inexpensive financing, for which there are not enough investment opportunities. Overall, experts expect to see further growth in 2017 and in the next period.

The conservative approach of banks to lending money and raising interest rates are the most commonly mentioned effects on the real estate financing. It is also necessary to take into account the already released crown exchange rate, the rising inflation and other bank regulators.

"The pressure on the price of new apartments given by the minimum number of approved projects will be enormous and will continue to increase. Unsatisfied demand is shifting to the market with old real estate and panel block apartments. There are local unbelievably absurd extremes, where the price of a "panel block" apartment exceeds the price of a flat in new projects. The efforts of politicians, institutions, associations, etc. to preserve Prague is returning to citizens like a boomerang in the form of inaccessible housing prices, both in sales prices and subsequently in rental prices."

Jan Řežáb, JRD

"In addition to the construction of new projects, there will be an increasing number of "renewed" old buildings, and their offer as modern B Class offices at a reasonable price."

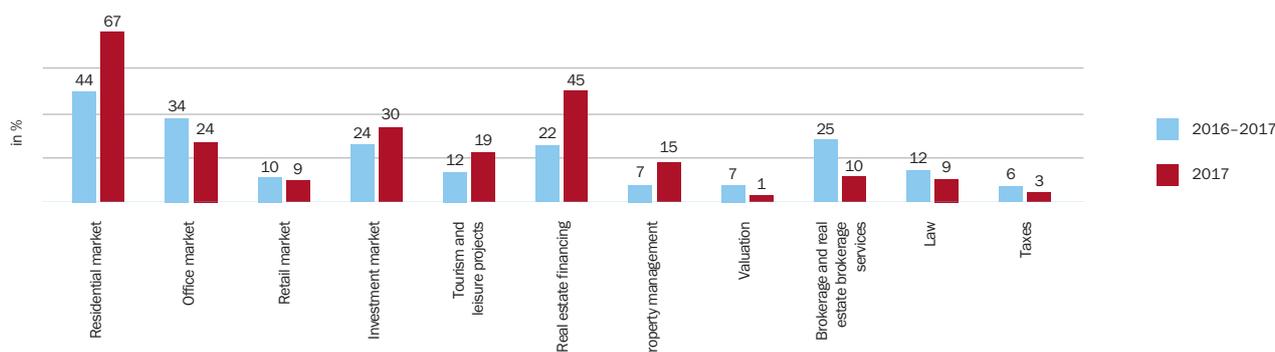
Jan Fical, Arridere

„Rekonstrukce, respektive repositioning starších center, nahradí dosud dominující nový development.“

Martina Jůzová, Česká spořitelna

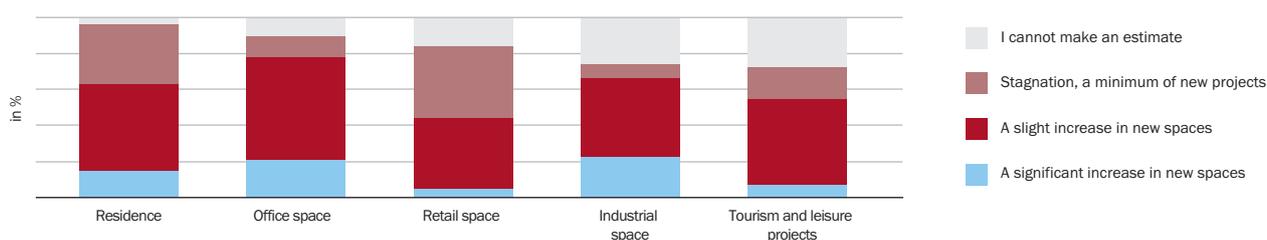
GRAPH Areas of the Czech real estate market that will undergo the greatest change in 2017.

Source: průzkum AREMD



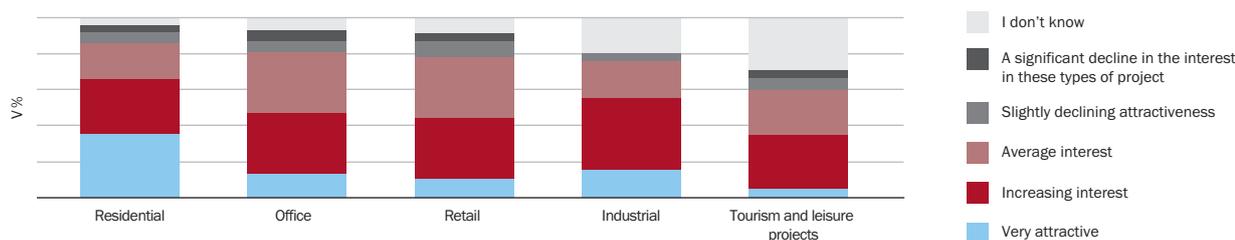
GRAPH Increase in new projects in 2017 in individual real estate market sectors.

Source: průzkum AREMD



GRAPH Types of real estate according to attractiveness for investors in the period of 2017-2018.

Source: průzkum AREMD



In connection with providing the highest possible comfort to tenants, commercial buildings will continue to improve their services. Quality property management, with regard to the limited supply and competitive market, is becoming increasingly important. Experts also mention the growing popularity of BIM (Building Information Modeling).

THE ECONOMY HELPS DEVELOPMENT

The good condition of the economy will have a positive effect on the whole real estate market. Respondents expect the largest increase of new projects in the residential, office and industrial sectors. The slow and difficult process of obtaining a territorial decision / building permit, the lack of suitable land, and, in the case of retail projects, the significant saturation in the market, will continue to hinder significant growth.

On the other hand, strong export and the weak crown contribute to the industrial real estate market, where growth is expected in 2017. According to respondents, tourism represents unfulfilled potential.

THE MOST ATTRACTIVE RESIDENTIAL SEGMENT

According to respondents, the residential segment will remain the most attractive segment among real estate segments for another two years. The industrial sector is the second most promising.

Regarding the future development of rents and prices in individual sectors, more than half of respondents believe that the prices of new apartments will increase by more than 5%. In terms of rents, the view is slightly more conservative, with a third of respondents expecting an increase by more than 5%. The development of office, retail and industrial space rent is expected to stabilize, with a tendency towards moderate growth. An increase in rental prices is expected primarily in top real estate.

WHAT IS PRAGUE LACKING?

The next part of the expert interview focused on what is preventing Prague from becoming a developed European metropolis that is considered a quality place to live by its inhabitants. The respondents agreed on the aspect of safety in all parts of the city and transport infrastructure. This concerns a better system of parking facilities and their sufficient capacity, the modernization and

"I predict an interest in creative, active and qualified property management related to other additional services such as project management, asset management and office equipment, all with respect to the satisfaction of tenants and their employees..."

Zdenka Klopalová, Knight Frank

"A comprehensive concept with a clear vision that will strengthen the development of a modern concept of the city, easy and affordable mobility throughout the city and ample public space with active use, is essential."

Daniela Opletalová, Bird & Bird

development of a suburban railway network, traffic regulation or the inefficiency of Prague's administration in the distribution of its resources.

According to experts, other points for improving the quality of life in Prague include the emphasis on the necessary revitalization of Wenceslas Square. Furthermore, better management of public spaces and green areas in the city and neglect of the construction of new public buildings in the field of culture or sports. Another mentioned aspect is a clear vision and long-term concept in the development of the city.

WHAT IS INHIBITING THE REAL ESTATE MARKET?

In terms of the real estate market itself, respondents most often mentioned the long and complicated decision-making processes in the area of legislation, the lack of a clear concept for city development, and the vague development of the Metropolitan Plan. According to some respondents, however, weak local investors and a lack of high-quality new projects also play an important role.

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