# The Czech investment market continues to grow

Slovanský dům, Prague 1 – sold by Invesco

***The investment market in the Czech Republic is continuing to grow. About 1.85 billion euros made its way into Czech real estate up to the end of November. In the third quarter of 2014 alone the total investment volume exceeded 833 million euros, which is 53% more than in the same period last year. This was followed by another roughly 300 million euros in October and November, according to the DTZ consulting company. While the 3rd quarter was dominated by industrial investments, the last quarter of 2014 has so far seen retail in the lead, with the sale of the large shopping centres AFI Palác Pardubice, Slovanský dům, Galerie Butovice and Futurum Hradec Králové. Arkády Pankrác and Palladium in the centre of Prague are also waiting for new owners.***

## Retail investments rule the market

"Several significant transactions were concluded in October and November and more should follow by the end of the year. In addition to the already-concluded sales of **Palác Pardubice** (Atrium RE), **Galerie Butovice** (Valad) and the sale of the portfolio of three Freeport outlet centres in Europe, including the **Freeport Fashion Outlet in Hatě**, the completion of the acquisition of other shopping centres both in Prague and in the regions can be expected. Thus there will be a considerable strengthen-

Futurum Hradec Králové acquired by Meyer Bergman for EUR 87,6 mil.

**SELECTED INVESTMENT TRANSACTIONS IN Q1–Q4/2014**

| Q | Property | City | Sector | Vendor/Prodejce | Purchaser/Kupující | Price (mil. EUR) | Source of capital |
|---|---|---|---|---|---|---|---|
| Q1* | Fashion Arena Outlet Center | Prague 10 | retail | TK Development & LMS Outlets | Meyer Bergman | 71.5 | GB |
| Q1 | Qubix | Prague 2 | office | S+B Property | REICO | 34.5 | CZ |
| Q1 | Centrum Florenc | Prague 8 | office | DEKA | ZFP Investments | 34 | CZ |
| Q1 | City Palais | Prague 1 | mixed use | M&A RealConsult | private investor | 46.5 | AT |
| Q1 | Bang & Olufsen | Kopřivnice | industrial | Bang & Olufsen | Palmer Capital | 11.5 | GB |
| Q1* | Praha City Center | Prague 1 | office + retail | GLL Real Estate Partners | Tristan Capital Partners | 51 | GB |
| Q1 | Palác ARA | Prague 1 | office + retail | Lordship | ECE European City Estates | 18 | AT |
| Q1 | Prague Modletice D1 Park | Prague | industrial | Centaurus Logistics S.á.r.l. | Prologis | x | USA |
| Q1 | D1 Nupaky Logistics Zone | Prague | industrial | Kilcullen + Mosaic Property | CTP | 9.5 | CZ |
| Q2 | Havlíčkova Plaza | Prague 1 | office + retail | FIM Group | VIG Fund | x | AT |
| Q2 | Burzovní palác | Prague 1 | mixed use | Pramerica | VIG Fund | 27 | AT |
| Q2* | Four Seasons | Prague | hotel | Avestus | Northwood Investors | 80 | USA |
| Q2* | City Tower | Prague 4 | office | Proxy – Finance | PPF | over 100 | CZ |
| Q2* | Palác Křižík | Prague 5 | office | Cecopra | Generali (ČP) | 75 | CZ |
| Q2 | Euro-Astra Palace | Prague 1 | retail/office | Avestus | Mint (private investor) | 42 | x |
| Q2 | Balabenka | Prague 8 | office | Skanska | CIB | x | CZ |
| Q2 | Westpoint Distribution Park | Prague 6 | industrial | Immofinanz | Central Group | x | CZ |
| Q3* | Panattoni Park Prague Airport | Prague 6 | industrial | Panattoni | Blackstone (Logicor) | x | USA |
| Q3 | Sconto Brno | Brno | retail | Standard Life | Sconto | x | AT |
| Q3 | Tulipan Park Prague Phase I | Prague 6 | industrial | Standard Life | Segro | x | GB |
| Q3* | River Garden I | Prague 8 | office | HB Reavis | IAD (PRF) | 53 | SK |
| Q3 | Diamant | Prague 1 | retail/office | Mustela | GLL Real Estate Partners | x | DE |
| Q3* | Rudná Business Park | Prague West | industrial | Heitman | Prologis | 80–100 | USA |
| Q3 | Technopark Pardubice | Pardubice | x | Technopark, k.s. | Conseq | 6.65 | x |
| Q3 | Vinohradská 8 | Prague 1 | office | ČEZ | HB Reavis | x | CZ |
| Q3* | VGP/Tristan portfolio | CR | industrial | Tristan Capital/VGP | PointPark Properties/TPG | 523 | CZ/USA |
| Q4 | Galerie Butovice | Prague 5 | retail | ING Real Estate Finance | Valad CE (VCERP) | x | x |
| Q4 | Polygon House | Prague 4 | office | CPDP II | Mint Investments | 20 | CZ |
| Q4 | D8 Logistics Park | Prague | industrial | AFI Europe/ProDelta | CTP | x | CZ |
| Q4 | Riverview | Prague 5 | office | Skanska Property | Invesco | x | USA |
| Q4* | AFI Palác Pardubice | Pardubice | retail | AFI Europe | Atrium RE | 83 | x |
| Q4 | United Farms | CR | agro-realty | United Farms | CPI Property Group | 43.5 | CZ |
| Q4* | Slovanský dům | Prague 1 | retail/office | Invesco | FID Group (Russian investor) | x | Russia |
| Q4* | Freeport Fashion Outlet | Hatě/Znojmo | retail | x | x | x | x |
| Q4* | Futurum Hradec Králové | H. Králové | retail | TK Development, Heitman, GE Capital | Meyer Bergman | 87.6 | GB |
| Q4* | Atrium (portfolio) – 72 assets | CR | retail | Atrium European Real Estate | Peakside Capital Advisors | 70 | x |
| Q4 | BB Centrum Alfa | Prague 4 | office | Invesco | Passerinvest Group | 29 | CZ |

*The main transactions, Zdroj/Source: BW

"Investors will then continue to look for opportunities in the logistics segment and portfolios of warehouse properties and prime office properties in Prague. Important shopping centres attract large foreign institutional investors with their scope. Large local players from the Czech and Slovak republics have also remained active, as is evident by the acquisition by **IAD Investments** in the third quarter or **Mint Investments** and **Passerinvest Group** in the fourth quarter, which invested into **office buildings**," Šindelářová said. Investment transactions for more than 300 million euros were concluded during the course of October and November. **Invesco** (Riverview, Prague 5) and Slovakia's **HB Reavis** (Vinohradská 8, Prague 1) were also purchasing.

## The 3rd quarter under the sign of logistics

Investments for a total of 833 million euros were realised in the third quarter, which is 53% more than in the same period last year and more than twice than in the previous quarter. It was also the strongest quarter since the 3rd quarter of 2011. Property in a volume of more than 1.515 billion euros was traded in the first nine months of the year, which is 62% more than in the same period of 2013. Investments in the 3rd quarter were dominated by the sale of logistics complexes and, above all, by the **VGP / Tristan Capital Partners portfolio of logistics parks (523 million euros)**, while other significant transactions in this segment were the sale of **Rudná Business Park**, **Panattoni Park Prague Airport** and **Tulipan Park Praha**. The latter two were sold as part of multinational portfolios. Thus the acquisition of warehouse and industrial properties posted an 83% share in the third quarter and 48% over the first nine months of 2014. Thanks to the acquisition of the **Diamant** building in the centre of Prague by GLL Real Estate Partners, multifunctional property had a 9% share in the overall volume. The sale of office property represented 29%, followed by the strongest segment of logistics. The most important transaction in the office sector was the sale of **River Garden I** in Prague 8 to IAD Investments.

ing in this segment," stated Lenka Šindelářová, a DTZ analyst.

An important transaction in this quarter in the Czech Republic is also the sale of the multifunctional **Slovanský dům** complex, including 22,000 m² of retail and office space. The tenants include, for example, Nike, Ralph Lauren, Versace Jeans, Cerruti, Geox, Galliano, Trussardi Jeans, Blue Willi's, the ECE development company and Panattoni. The American company Invesco sold the lucrative complex on Na Příkopě, Prague's most expensive shopping street, to FID Group for an unspecified amount. In 2006 the Americans paid Sachsen Fond 89.7 million euros for it with a yield of 5.8%. According to DTZ it is the largest transaction of Q4 so far. The last month of the year began with the sale of the **Hradec Futurum shopping centre**. **Meyer Bergman**, which already acquired the Fashion Arena Štěrboholy outlet centre in the Czech Republic at the beginning of the year, added it to its portfolio for 87.6 million euros. The company is currently investing in Germany, Great Britain, France, Northern Europe, the Czech Republic and Poland. The centre, with a multiplex cinema, Tesco hypermarket and 110 shops on 28,250 m² of space

Polygon House, Prague 4 – acquired by Mint Investments for EUR 20 mil.

In the third quarter **American investors** had an overwhelming predominance on the Czech market (79%) and the same held true for the first nine months (49%), with German investors coming a distant second with an 8% share in the third quarter of 2014. Private real estate companies and investment companies purchased the most.

## The market is heading to two billion

Thanks to the strong activity of investors in the third and fourth quarters and the volume of transactions under negotiation that could be concluded by the end of the year, DTZ estimates that investments into real estate could reach as much as 2 billion euros. "This would be the third best result ever after the record years of 2007 and 2011." JLL also expects a similar result. **The value of investments** in the Czech Republic **exceeded 1.85 billion crowns at the end of November**, while a transaction volume of more than 2 billion euros is expected for the entire year. Under the assumption that the ongoing transactions will be completed at the beginning of 2015, the coming year will start off with a bang," stated Robert Paulson, a Senior Investment Analyst in JLL.

D8 Logistics Park (Prague) acquired by CTP from AFI Europe

JLL assumes that **core plus** products will appear in the centre of interest and will follow the developments on the **prime real estate** market. "The continuing influx of capital and its increasing volume accompanied by a gradual decrease in yields will lead to the better liquidity of core plus products and subsequently also secondary products," added Dušan Šťastník, the Associate Director of JLL's Investment Department.

DTZ expects the investors' interest in the retail and logistics segments to continue. In the coming year the total investment volume should also exceed the long-term average from the last ten years and could exceed 1.5 billion euros (without factoring in the expected sale of the CTP Invest portfolio, which would change the aforementioned amount to a great extent).

Palladium, Prague 1 (Shopping centre & Offices) is waiting for its buyer (Union Investment is looking)

underwent significant reconstruction two years ago. Heitman, GE Capital and TK Development figured in the role of the sellers. The last transaction of the year, so far, is the sale of the **portfolio of 72 properties by Atrium European Real Estate**. The investment amounted to 70 million euros. In the Czech Republic Atrium owns the Prague shopping centre under the same name (Atrium Flora). In October it also purchased **Palác Pardubice** from AFI Europe, which was the company's second large transaction in the CEE following the acquisition of Focus Mall in Bydgoszcz in Poland. And it seems that they are not finished investing in the Czech Republic. According to sources close to the transaction, the company is in the final phase of the acquisition of the Prague shopping centre **Arkády Pankrác** (32,000 m²). As BW already informed this September, the French investor Unibail-Rodamco is selling a 75% share in the centre.

The owners of shopping centres in the Czech Republic are gradually putting more products on the market. Thus there could be transactions coming up in **Mladá Boleslav**, **Karlovy Vary** or in **Brno**. **Prague's Palladium** is also waiting for new owners in the near future. According to market sources, the German Union Investment fund is buying the multifunctional complex with 19,500 m² of offices and a shopping mall with an area of 40,000 m² in the city centre. The current owner Hannover Leasing paid 530 million euros for it seven years ago. If the transaction will be completed before the end of the year, it will be the largest transaction of 2014.

Thus the Czech Republic is following the Europe-wide trend. Since the beginning of the year investors in Europe have purchased shopping centres or retail parks for 32 billion euros, which means a 47% increase, year-on-year. So far the most real estate transactions in the retail segment have taken place in Germany and in Great Britain, though Southern Europe has also seen a rapid increase in transfers of shopping centres. According to DTZ the volume of investment into retail reached a total of 51 billion euros. In 2015 it should be no less than 61 billion euros. According to Adrian Powell, the head of the Retail Department in DTZ, retail properties are a permanent guarantee of high yields for investors. "Investors are literally fighting over quality shopping centres, in part due to this fact. And this will continue in the future," added Adrian Powell.