

BNP PARIBAS REAL ESTATE GUIDE TO INVESTING IN CZECH REPUBLIC 2019

In collaboration with:



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Wilsons



**BNP PARIBAS
REAL ESTATE**

Real Estate
for a changing
world

DO YOU KNOW...



INNOVATION POTENTIAL

Prague was ranked as the 10th most innovative city in the World by CTA in its 2018 global ranking. Czech Republic also has a great and long history in innovations. Czechs stood behind inventions of the contact lenses, sugar cubes, industrial production of nano fiber and many other.



GREAT TOURISM POTENTIAL AND QUALITY OF LIFE

Prague was rated the 7th best destination by Tripadvisor in 2018. Given its numerous attractions, historical and cultural heritage as well as F&B offer the tourism sector in Czech Republic is booming. The Prague airport recorded last year a new record with 16.8 million passengers. For the second time in a row, the tourism sector in the Czech Republic had a record-breaking year. In 2018 over 21.3 million people visited the country, which marks an increase of more than 6% year-on-year.



SKODA WINS NEW TERRITORIES

Skoda is one of the longest-standing car manufacturers in the world. The iconic Czech brand has been a part of the world leader Volkswagen Group since 1991. In 2018, for the fifth consecutive year, Skoda has achieved a record number of deliveries which rose by 4.4%. The brand is widely recognizable not only in Europe, but also on the growing markets of China and Russia.



BUSTLING HIGH STREET CLUSTER

Prague has the best high street in the CEE region. In the historical heart of the city, just one step off the Old Town Square, along a quiet Parizska street, you can find numerous premium and luxury world renowned brands such as Cartier, Louis Vuitton, Jimmy Choo, Tiffany&Co., Hermes, Prada, Salvatore Ferragamo and Fendi among others. Mass market retailers occupy more busy Na Příkopě and Václavské Namesti streets.

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OUR TEAM



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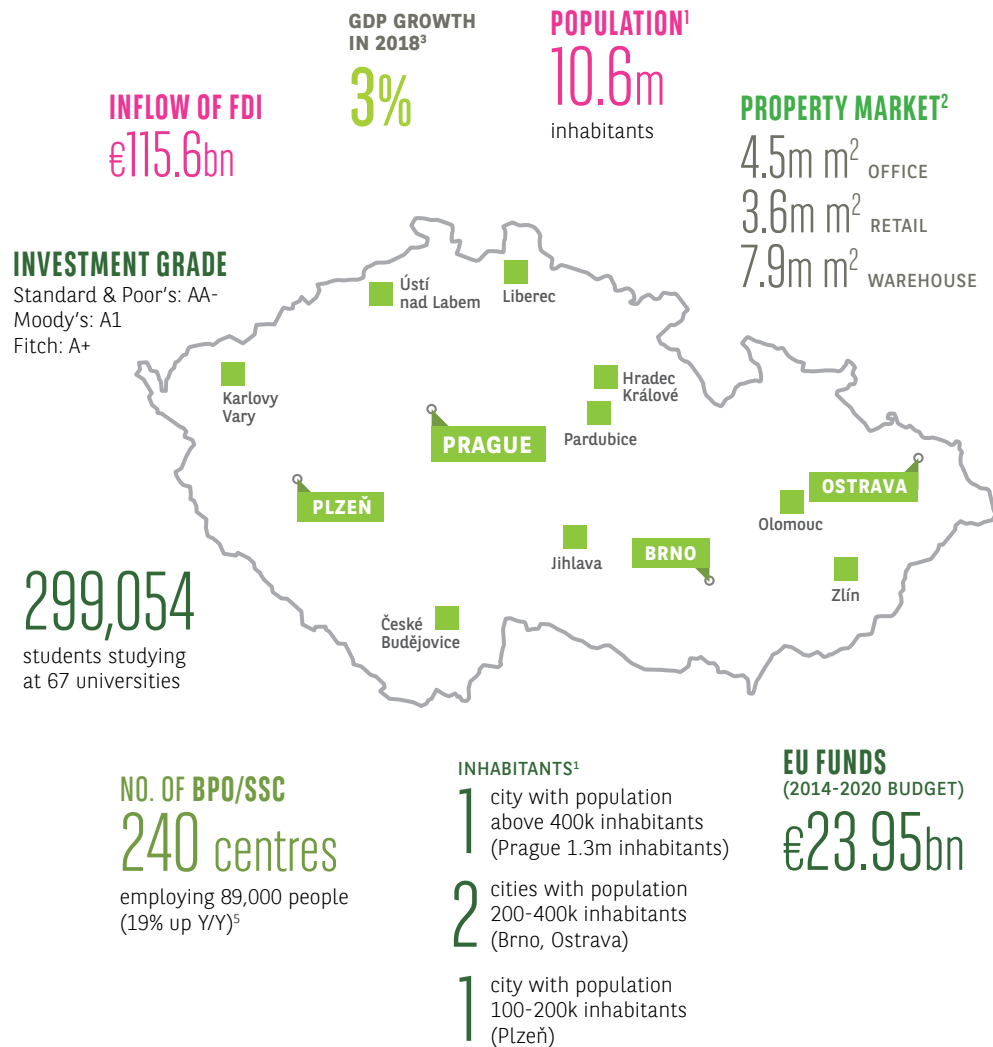
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BNP Paribas Real Estate is part of the BNP Paribas Banking Group

CZECH REPUBLIC

BY NUMBERS



FOREWORD

Stable and mature market in the centre of Europe

The Czech Republic is perceived as a stable and mature market with low investment risk but still providing a pricing spread to Western European markets.

Despite projected slower economic growth for the coming years in line with global economic expectations, the Czech economy will still outperform the European and Eurozone growth rates. Within the context of the booming European e-commerce sector, the strategic location of the Czech Republic makes it an attractive logistics hub for supplying European countries. Strong domestic demand benefits both the retail and logistics sector. Excellent quality of life, the infrastructure and a skilled workforce attract international business to the country, and especially to its capital, creating strong demand for the office sector.

The deep and active pool of domestic investors is unique in the CEE context and inherently supports further inflow of foreign equity fuelled by the liquidity the local buyers bring. Rental growth has been contributing to asset value appreciation. Prime rents are also likely to continue rising during 2019.



ERIK DRUKKER

Country Head
BNP Paribas Real Estate
Czech Republic

CZECH REPUBLIC OVERVIEW

TOP 6 REASONS

TO INVEST IN CZECH REPUBLIC

Stable and mature market still offering attractive pricing spread to Western Europe with a unique strategic location in the heart of Europe.



1

WELL ESTABLISHED PROPERTY MARKET

Rental growth prospects in all commercial real estate sectors on the back of robust occupier demand.

2

MATURE INVESTMENT MARKET AND A HEALTHY FINANCIAL SECTOR

Strong domestic investor base and considerable demand from foreign buyers seeking both low risk and capital appreciation. The Czech banking sector is healthy and provides attractive lending conditions.

3

STABILITY & HIGH QUALITY OF LIFE & SECURITY

The Czech Republic is highly rated for its stability and security and it is ranked 7th for quality of life in the Global Peace Index.

4

WELL SKILLED WORKFORCE

The 299,054 students studying at 67 universities, with 72,057 graduates per year and a strong technical education, provide an excellent base for investors in high value add sectors such as R&D and IT.

5

STRATEGIC LOCATION AND WELL DEVELOPED INFRASTRUCTURE

Strategic location in the heart of Europe with great access to Western and Eastern markets.

6

STRONG FDI INFLOW & LOW INVESTMENT RISK

Lowest investment risk and the highest share of FDI per capita in the CEE supported by prospects of strong economic growth well above the EU average.

CZECH REPUBLIC OVERVIEW

CZECH REPUBLIC

BIG FOUR

PRAGUE

THE CITY BENEFITS FROM ITS STRATEGIC POSITION IN THE HEART OF EUROPE, BUSINESS INFRASTRUCTURE, SKILLED LABOUR AND HIGH QUALITY OF LIFE.

Prague is the economic, cultural and political centre of the Czech Republic. It is home to numerous historical sights which makes it one of the most popular tourist destinations in the CEE region. Prague ranks as one of the most important and developed regions, even within the entire EU.

Apart from the main state authorities, most of the financial institutions and foreign enterprises are based here, ensuring Prague comprises 25% of the country's GDP.

1.3m

Population¹

2.0%

Unemployment rate¹

99,000

Students¹

€1,538

(39,371 CZK)
Average gross salary¹

KEY FACTS

	OFFICE	RETAIL	WAREHOUSE
Total modern stock (sq m)	3.4m	1.1m	2.82m
Prime headline rents city centre (€/sq m/mth)	21–22	210–220*	4.5
Prime yield (%)	4.50–4.75	3.25*	5.50–5.75

*High street.
Source: BNP Paribas Real Estate. 1. Czech Statistical Office.



Relatively lower costs as compared to other EU cities have encouraged many international companies to base their European headquarters in Prague.

The city offers excellent infrastructure, including one of the best public transport systems in Europe underpinned by a comprehensive metro system (more than 65 km long) and a good tram network. The Prague ring road completion has also been approved, and the city has a good rail-road and air transport system which connects it to other parts of Europe.

Prague is a national centre of education and has the highest number of grammar schools and secondary technical schools of all the regions.

Since the country's accession to the EU in 2004, GDP per capita in the city soared by 75%, and today, expressed in Purchasing Power Standards, it exceeds the EU average by over 80%.

The property market in Prague is mature and stable with good provision of high quality stock of modern office, retail and warehouse space. The Czech Republic's capital has seen significant interest both in prime office assets and prime high street locations supported by strong rental growth. Because of its attractiveness to tourists, the hotel market has been booming lately and attracting investor demand as well.

CZECH REPUBLIC OVERVIEW

BRNO

Brno has the highest per capita number of university students in the country making it an attractive destination for investments in the IT, R&D and technology sectors.

KEY FACTS

	Total modern stock (sq m)	Prime headline rents city centre (€/sq m/mth)
OFFICE	570,000	14.50
RETAIL	305,000	50–60
WAREHOUSE	1,053,000*	4.5

Source: BNP Paribas Real Estate

*South Moravia regional industrial stock

379,500

Population¹

4.3%

Unemployment rate
(Brno city)²

€1,176

(30,099 CZK)
Average gross salary in the
South Moravia region¹

PLZEŇ

Plzeň and the Plzeň region benefit from their close proximity and easy connection to Germany attracting a number of companies to the region seeking links with the German market. The Plzeň region is one of the most sought after logistics hot spots in the country and a major production base mainly in electrical engineering and automotive.

OSTRAVA

Ostrava has been undergoing intensive transformation. For investors, it provides a deep labour pool from the populous Ostrava conurbation. Governmental incentives have attracted numerous investments to the many industrial zones of the region.

290,400

Population¹

5.4%

Unemployment rate²

€1,099

(28,137 CZK)
Average gross salary in the
Moravia-Silesia region¹

KEY FACTS

	Total modern stock (sq m)	Prime headline rents city centre (€/sq m/mth)
OFFICE	213,000	11.50
RETAIL	292,300	35–45
WAREHOUSE	557,700*	3.60–4.00

Source: BNP Paribas Real Estate

*Moravia-Silesia regional industrial stock

170,900

Population¹

1.9%

Unemployment rate
(Plzeň city)²

€1,172

(29,998 CZK)
Average gross salary in the
Plzeň region¹

KEY FACTS

	Total modern stock (sq m)	Prime headline rents city centre (€/sq m/mth)
OFFICE	50,000	9–10
RETAIL	204,600	30–40
WAREHOUSE	1,248,500*	3.80–4.25

Source: BNP Paribas Real Estate

*Plzeň regional industrial stock

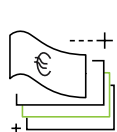


Ostrava

CZECH REPUBLIC OVERVIEW

OFFICE MARKET

OVERVIEW



21-22

Prime rent
(€/m²/month)

4.50-4.75% ▼

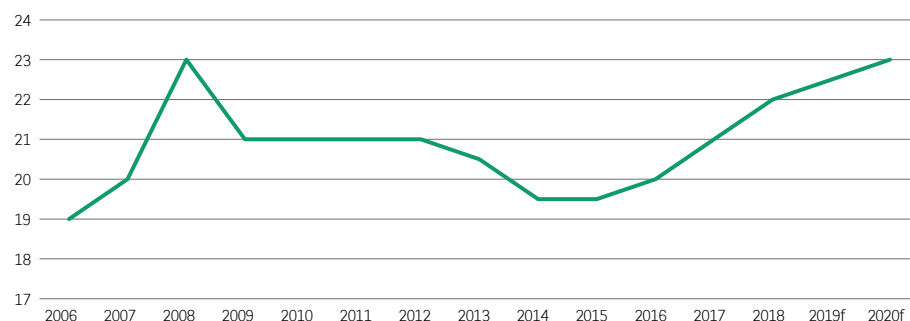
Prime yield

The office market in Czech Republic is heavily dominated by the capital city. Prague has seen declining vacancy rates in recent years as a result of robust occupier demand and subdued supply. Vacancy rates are currently close to historical record lows. In 2018, around 131,000 sq m of office space were completed in Prague, and this year more than 200,000 sq m will be added to the market although a large part of this is pre-leased already and the re-

maining available space will be absorbed quickly by the market upon completion. Developers are moving more and more outside the established office zones into areas such as Holešovice in Prague 7, Prague 6 and Prague 9 Vysočany, as the supply of prepared development land with permits is limited in established office zones. There are several large scale mixed-use projects on former brownfields which are currently at the planning stage and could be launched soon. The office sector in Prague is still capable of absorbing new office supply as on a per capita basis, it ranks lower than its CEE neighbours, not to speak of the Western capitals.

Occupier demand is likely to remain strong in 2019 as companies aim to relocate to higher quality premises to get a competitive advantage

PRIME RENTS DEVELOPMENT 2006-2020F (€/SQ M/MTH)



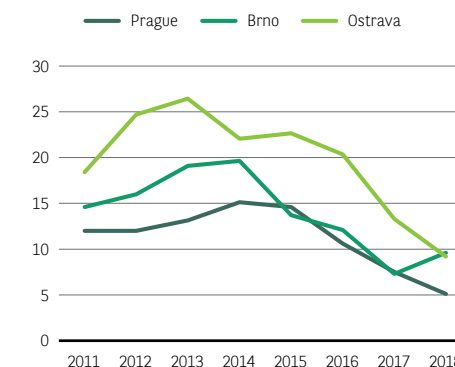
Source: BNP Paribas Real Estate, f - forecast

in the fight for talent in a tight labour market. Offices, their location, design, services and amenities have become a major HR tool.

As companies are expanding and moving to new A class premises, redevelopment and redesign of older stock has great potential.

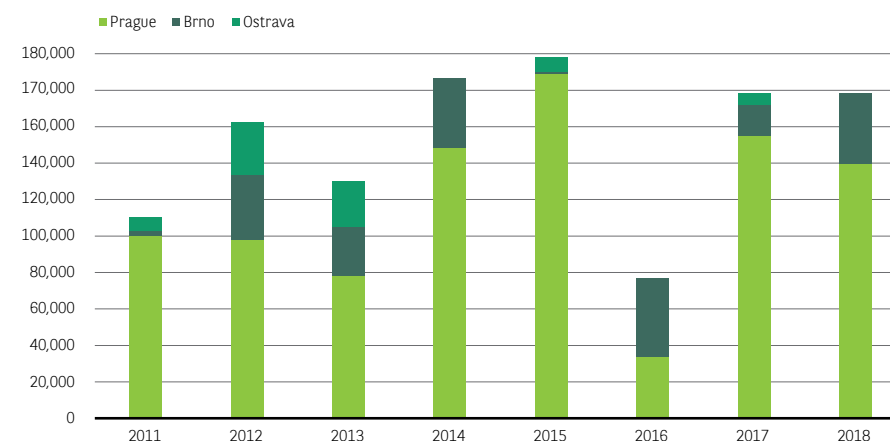
Offices were the most traded asset class last year. Sourcing prime product may become challenging. With rising interest rates, investors will be turning their focus to searching for the yield in the coming year and this may also benefit regional office markets offering a yield spread to the capital.

VACANCY RATES PRAGUE, BRNO, OSTRAVA (%)



Source: BNP Paribas Real Estate

ANNUAL SUPPLY PRAGUE, BRNO, OSTRAVA (SQ M)



Source: BNP Paribas Real Estate

CZECH REPUBLIC OVERVIEW

INVESTMENT MARKET OVERVIEW

The Czech investment market is mature with a large and strong pool of domestic investors. Last year Czech buyers stood behind more than 60% of the total investment volume of EUR 2.6 billion. Czech investors' activity provides also liquidity and potential for exit to international investors.

Offices were the most traded asset class in 2018 (44%) followed by retail (29%) and industrial (22%). The most significant office investment transactions were the acquisition by Allianz Real Estate of Trimaran and Element office buildings in Prague 4 from S+B Gruppe for EUR 110 million, followed by the purchase of Metronom Business Center located in Prague-Butovice by REICO from HB Reavis for EUR 90 million.

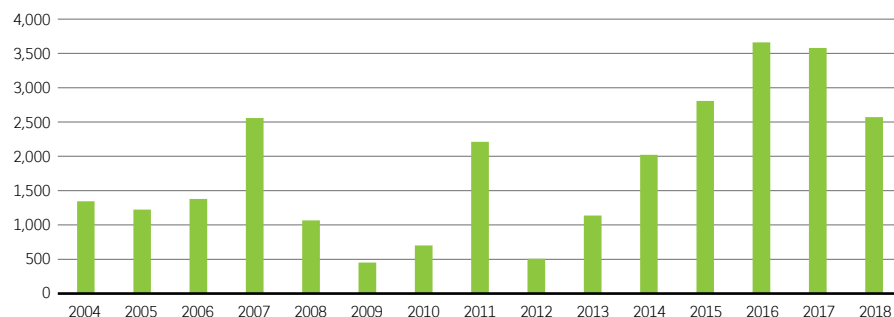
The significant volume in the industrial and logistics segment was to large extent boosted by one transaction, which at the same time was the

largest deal of the year. It was the acquisition of three CTP logistics parks by the German fund DEKA for nearly EUR 460 million.

In the retail sector the largest transaction was the purchase of Forum Nova Karolina in Ostrava by the Czech investor Reico for EUR 209 million. Another Czech player, CPI Property Group, has acquired the Futurum shopping centre in Hradec Kralove. Czech domestic investors also were involved in a considerable number of deals on small, regional shopping centres, retail parks and supermarkets.

We anticipate continued strong investor demand in 2019, the volume of capital seeking opportunities to be placed into remains large. Rental growth will continue to support capital values across all sectors this year. With anticipation of rising interest rates, investors may be turning their focus on their search for the yield.

INVESTMENT VOLUME (€M)



Source: BNP Paribas Real Estate

RETAIL MARKET OVERVIEW



3.25-3.50%
High street yield



4.25-4.50%
Shopping centre yield



4.5%
Retail sales growth in 2018f



135bn CZK
E-commerce sales (+17% y-o-y)

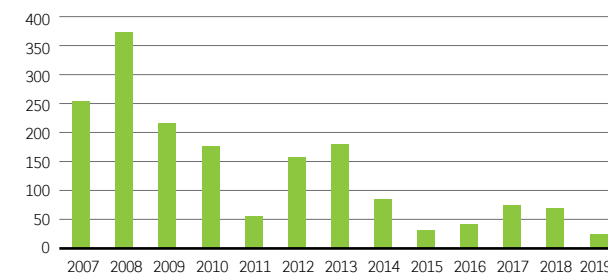
The Czech retail sector benefits considerably from booming consumer spending and rising retail sales. Prime rents continued rising in 2018 and are also likely to do so in 2019. New supply will reach historically low level in 2019. With limited supply of new construction projects, the key trends are refurbishments, extensions and remodelling of existing assets.

The Prague prime high street has a unique position in the retail hierarchy. It has seen sustained rental growth over recent years and rental levels are forecast to continue rising. The high street has close to a zero vacancy rate. Prague has the

most diverse retail offer in the CEE in terms of numbers and a variety of luxury brands.

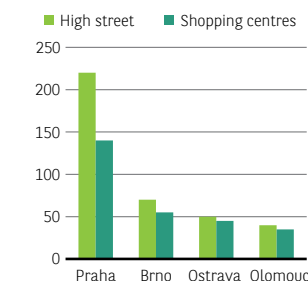
High street assets are in strong demand from investors. Due to limited availability of stock and rental growth prospects, high street properties are a great form of wealth preservation for both institutional investors and HNWIs. Rental growth has contributed to rising capital values of prime shopping centre assets. There is also a great potential for value add and core plus investors in the retail sector to increase the value of the retail assets by active management, remodelling and re-leasing, adapting these centres to the current customer requirements.

ANNUAL SUPPLY (THOU. SQ M)



Source: BNP Paribas Real Estate

PRIME RENTS (€/SQ M/MTH)



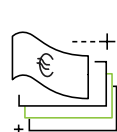
Source: BNP Paribas Real Estate

INDUSTRIAL MARKET

OVERVIEW

The industrial market benefits from booming e-commerce and occupier demand is expected to remain strong this year. Key constraints for a further significant expansion of this sector remain the availability of labour and land as well as the rising costs of both construction and labour. Leasing activity concentrates around the Greater Prague area that traditionally takes the largest share of take-up; additionally, north-

ern and western regions benefit greatly from their proximity to Germany and Western markets. The vacancy level of existing storage capacities remains low at around 4%. Rents could still be under upward pressure this year fuelled both by strong demand and rising construction costs.

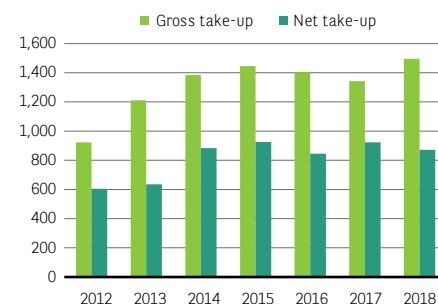


4.50
Prime rent
(€/m²/month)



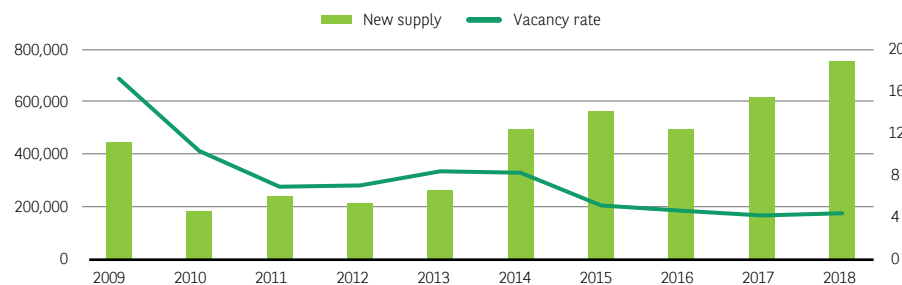
5.50-5.75%
Prime yield

GROSS AND NET ANNUAL TAKE-UP (THOU. SQ M)



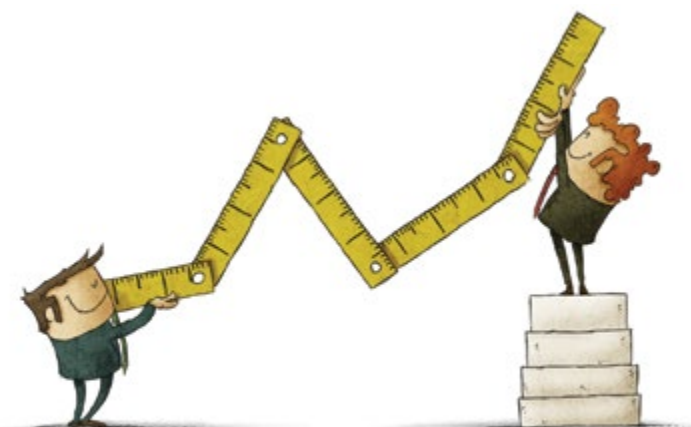
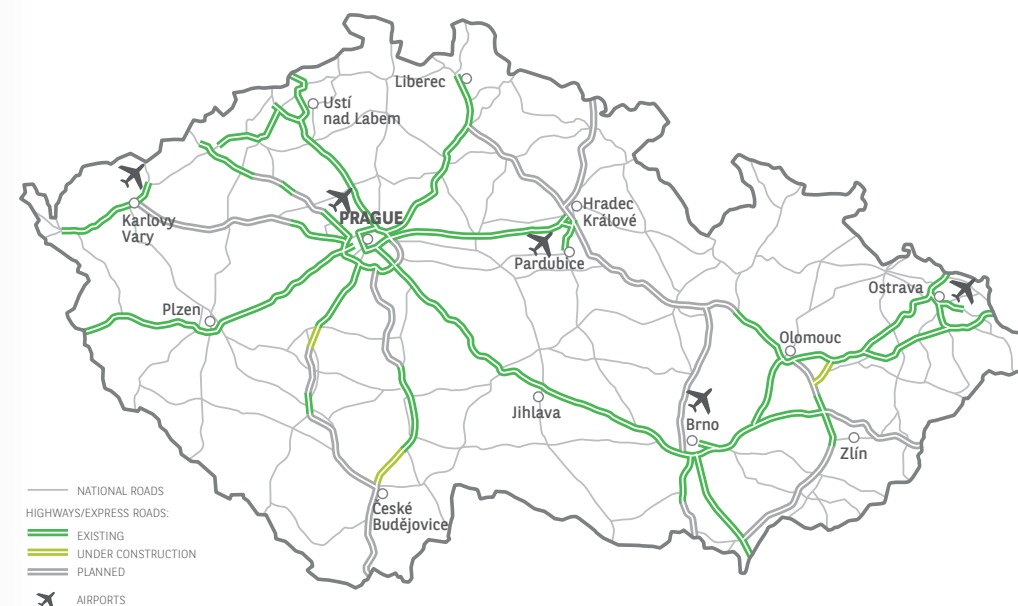
Source: BNP Paribas Real Estate

VACANCY RATE, SUPPLY UNDER CONSTRUCTION (% , SQ M)



Source: BNP Paribas Real Estate

MAP OF ROAD INFRASTRUCTURE IN CZECH REPUBLIC



CZECH REPUBLIC ECONOMIC OVERVIEW

STRONG DOMESTIC DEMAND EXPECTED TO REMAIN FIRM



MICHAŁ DYBUŁA
Chief Economist
BNP Paribas Poland
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Economic overview and outlook

The Czech economy underperformed its Central European regional peers in 2019 with GDP growth likely to have slowed to below 3%. This is no surprise and, more importantly, not dramatic news. The combination of prudent fiscal policy, with the overall budget surplus continuing to rise, and the tighter monetary policy pursued by the Czech National Bank put a brake on the pace of economic expansion last year. Moreover, weaker headline GDP growth has been largely down to deteriorating net exports (trade balance), i.e. a largely statistical effect. Weaker net exports were driven both by a stronger currency, reflecting the impact of the CNB undoing the koruna peg in 2017, and - more importantly - by solid domestic demand. Consumer spending has been growing by approximately 3.5%, while investments accelerated to about 9%.

As a result of the domestic economy's resilience, the labour market has retained its strength with unemployment falling to all-time lows and wage growth speeding up to about 8%. All that has been supporting robust household income and spending, which are also expected to remain firm in the quarters to come. According to the latest forecasts of the Czech National Bank, GDP growth will accelerate to around 3% both this year and next.

Obviously, risks are plentiful, but as in the case of Poland, they are mostly of an external nature. For the exports-oriented Czech economy, where foreign sales of goods and services account for nearly 100% of the country's GDP, external demand is clearly of key importance for the overall pace of economic activity. An emerging slowdown in the eurozone economies is certainly not good news. The cyclical deceleration in global growth, combined with continuing threats of



trade wars, geopolitical uncertainty, social tensions in France, and risks of a disorderly Brexit are major factors that may harm the otherwise robust outlook for the Czech economy over the next quarters.

Fortunately though, over recent years, Czech policymakers have created themselves the space to accommodate the impact of a less benign external environment. With public debt below 35% of GDP and the fiscal balance running a growing surplus, the government could, if necessary, loosen the budget belt and stimulate demand. Likewise, the Czech central bank, which delivered a bold tightening cycle with the policy rate rising from basically zero to 1.75% over the course of just six quarters, could ease the monetary stance without being immediately confronted with the limitation of zero-bound short-term interest rates.

The ample policy space both on the fiscal and monetary side suggests that achieving trend-like economic growth rates of 3% in the coming years is clearly feasible. Such growth would further raise the Czech per capita GDP, already the highest in Central Europe, towards the levels of the most developed countries on our continent. To sustain the steady pace of real convergence, the Czech Republic, as any other economy, will need to master its long-term challenges, however. Those, in particular, pertain to the availability of skilled labour and technological progress, in light of the country's strong industrial base, huge dependence on exports and the need to maintain external competitiveness.

KEY LEGAL TERMS

In 2014 the Czech civil law underwent recodification to make it more flexible and less formalistic. However, real estate is still one of the areas which is highly regulated. As there are a few numbers of aspects to consider when acquiring, leasing or disposing of property, below we summarize some of the most important issues on the real estate market.



TITLE REAL ESTATE

Under Czech law the following assets are considered real estate:

- land;
- underground structures with an independent purpose of use (e.g. subway);
- temporary constructions;
- residential and non-residential units; and
- engineering networks.

The recodification of the Czech civil law brought a new principle to real estate under which buildings form a part of the land on which they are located as opposed to the previous regime where they were separate. Therefore, buildings usually are owned by the person who owns the land and cannot be transferred separately from the land.

RESTRICTIONS ON BUYING PROPERTY

There are no restrictions on acquisition of a real estate by a foreign entity. However, some of the documentation must be presented in the Czech language. Therefore, foreign entities are usually assisted by legal counsel.

VARIOUS TYPES OF REAL ESTATE INTEREST

Land is usually held by means of ownership, where the owner generally has an unlimited title to dispose of the real estate. Co-ownership by multiple persons is also common. The law further recognises accessory co-ownership, where ownership of one real estate is dependent on ownership of another real estate (that is, where a person transfers one asset, the other is transferred automatically as well). Finally, residential and non-residential premises (units) can be part of a co-ownership regime, where the owner of each unit is also a co-owner of the communal areas of the real estate in, or on, which the premises are located.

Recently a right to build was implemented in the Czech Civil Code which allows a person to locate its buildings on another person's land. The right to build is a separate real estate, however the building forms a part of this right and therefore cannot be disposed of separately.

SHARE DEAL VS. ASSET DEAL

Any real estate in the Czech Republic is typically acquired via:

- direct purchase (asset deal) or
- acquisition of shares in the company holding the real estate (share deal).

The acquisition of real estate via a share deal is used more often due to tax implications as such transfer is not subject to real estate transfer tax (4% of the price or 75% of its deemed value as determined by an expert). The disadvantage of the share deal is that the buyer also acquires the company with all its liabilities.

With an asset deal, real estate is transferred upon the registration of the purchase agreement in the Real Estate Register. The registration takes about a month, however the purchaser is registered as the owner of the real estate as at the date of filling the relevant application with the Cadastral Office.

Share deals generally become effective upon execution of the share purchase agreement. Subsequent registration of the agreement with the Commercial Register is necessary but does not affect the transfer of the shares. When transferring shares in a joint stock company, the shares must be endorsed and handed over to the purchaser.

PROTECTION OF HISTORIC MONUMENTS

Buildings with historical, artistic, scientific, technical or other significant value can be protected by the Act of Protection of Monumental Heritage. Owners of buildings which were declared a historic monument have additional obligations especially regarding maintenance and repairs of the building. Any construction works are subject to special restrictions.

Further, apart from historic monuments, historical centre or landscapes may be protected as a heritage reservation or heritage zone. Development in such areas is restricted and is subject to approval from the local heritage authority.

REAL ESTATE REGISTER

Ownership, easements, mortgages and pre-emptive rights require registration in the Real Estate Register. Therefore, a person does not become the owner of real estate in an asset transaction immediately upon signing the purchase agreement, but only after the registration of his ownership right in the Real Estate Register, even though the effect of the registration is valid retroactively from the date that the application for the registration was filed with the appropriate Cadastral Office.

The Real Estate Register includes the Collection of Deeds which contains documents presented during registration of any right in the Real Estate Register such as past title deeds, geometrical plans or easement agreements. The Collection of Deeds is public, therefore anyone may request a hard copy of the document from the Collection of Deeds. This should be taken into account when drafting any agreement which will be registered in the Real Estate Register and parties tend to limit the inclusion of confidential information.

Each title deed also contains information on pending registration proceedings. This information is important when acquiring a property, as the right registered in the Real Estate Register have priority based on when the relevant applicant was filed with the Cadastral Office.

Title insurance can be used during real estate transaction as the state does not guarantee that the person registered in the Real Estate Register is the legal valid owner of the real estate. However, any person acting in good faith on the information registered in the Real Estate Register is generally protected even if the entry does not correspond with the actual legal state.

NEED TO KNOW

ENVIRONMENTAL LAWS AFFECTING THE INVESTMENT PROCESS

Liability for environmental damage is generally based on the polluter pays principle, which means that the damage must be compensated by the one who has caused it. In certain cases, this can result in the buyer being liable, for example, if it acquires polluted real estate and does not clear it or allows the pollution to spread.

Areas with proven environmental pollution are listed in a publicly available register of contaminated sites. The purchaser's liability is usually addressed in sale contracts by requiring the seller to provide a warranty that the real estate is not polluted and that the applicable environmental legislation has always been observed.

Environmental surveys are normal in the acquisition of property where there is a risk of environmental liability. These can include facilities operating with hazardous materials, land in certain protected areas or property or area where pollution has been detected in past.

PLANNING AND DEVELOPMENT

Three levels of permits are generally required:

- Zoning decision that allows the placement of the building in specific area.
- Building permit that may be substituted by a certificate issued by a chartered surveyor approving the specific technical conditions for the construction of the building.
- Occupancy permit that is issued after the construction works are finished and allowing the use of the building.

Depending on the nature of the building, some or all of the above consents may not be required (for example, certain minor constructions do not need any of the above).

RESTITUTION CLAIMS

Restitution is a process under which property nationalised under the previous political regime is returned to the original owner or their successors. The original owners of real estate that was confiscated during the previous regime (or their heirs) were allowed to request to owners or users of the relevant real estate to return the real estate after the change of the political regime.

In principle, property is to be transferred to its previous owners provided that they prove their previous ownership of the property according to the legal regulations. However, there are some exceptions when the property cannot be returned (e.g. plots of land on which buildings were built after their confiscation). In such case the previous owner may acquire certain state-owned land in exchange or be entitled to monetary compensation.

All the time limits for raising new restitution claims have expired but claims made in past are still pending. The Land Authority produces informative non-bidding confirmation whether or not restitution claims are pending in relation to individual real estate.

An owner is prohibited from transferring property that is subject to restitution proceedings until the issuance of the final decision on the restitution claim. Breach of this prohibition results in a null and void transfer agreement.

BUILDING PROCESS

Planning (zoning) decisions or consents are issued by the respective building authorities in zoning proceedings. A zoning decision or consent is generally valid for two years, during which an application for a building permit has to be filed. This period may be extended.

A building permit must be obtained from the applicable building authority via building proceedings. A building permit is generally valid for two years, during which time the construction needs to start. This period can also be extended.

Third parties affected by a construction project can submit objections against the proposed project, which subsequently have to be settled by the building authority. If a third party has filed objections and these have been denied, it can file an administrative appeal against the zoning decision or the building permit. If this appeal is denied, the third party can further file a court action against the zoning decision or the building permit.

The Czech Republic is unfortunately known for its lengthy permitting process. However, the Czech Ministry of Interior is preparing a reform of the building code to deal with this issue. The proposal includes shortening the building process to a year by speeding the decision process and stipulating a deemed consent with the application if the decision is not reached within 30 days. Zoning permit, building permit and the process of environmental impact assessment should all be merged into 1 proceeding.

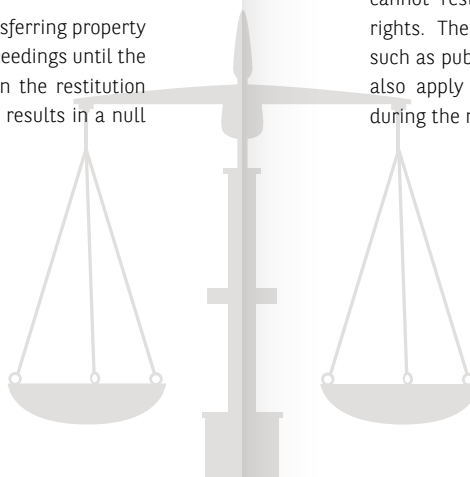
LEASES

The Civil Code generally allows parties to negotiate the terms of a lease and to digress from the statutory regulations. An exception to this is a residential lease, where the parties cannot restrict a tenant's statutory rights. The general legal principles such as public order and good morals also apply and cannot be breached during the negotiation of leases.

(I) TERM

Leases can be concluded both for definite and indefinite periods of time. Commercial leases are usually concluded for a definite period of time, with often one or both parties having a contractual option to extend the lease term. Similarly, parties can agree on break options, allowing termination prior to the expiry of the agreed lease term.

There is no statutory right to renew a lease. However, if a tenant continues to use the premises after the expiry of the lease term without the landlord requesting him to vacate the premises, the lease is automatically extended for up to one year.



NEED TO KNOW

(II) RENT REVIEW

Except for residential leases, the statutory regulations not expressly provide for an option for either party to ask for a rent review. However, parties can agree on such a review and its conditions.

With commercial leases, indexation of rent based on consumer price indices is common. Usually, the index for the Eurozone (MUICP) or for the Czech Republic (Czech CPI) is used, depending on the currency of the rent.

Obligations of tenants under commercial leases are usually secured by a security deposit or by a bank guarantee. In most cases, the amount of such security is calculated by a reference to the amount of the rent and service charge payments. With tenants from international groups, corporate guarantees issued by parent companies are also used.

(IV) SUBLEASE AND ASSIGNMENT

Subletting or assignment of the lease by the tenant usually requires landlord's consent in commercial leases. Sometimes, landlords agree with exceptions to this prohibition on subletting to other members of the tenant's group, as sharing the occupation with such companies would also legally constitute a sublease.

With a corporate merger or demerger or in the case of a transfer of the tenant's business, the lease automatically passes to the legal successor of the original tenant. This also applies to all related rights, including lease securities. Landlords usually strive to limit such transfers by requiring break options in the case of:

- Mergers.
- Demergers.
- Transfers of business.
- Change in ownership of the tenant if it is a company.

(III) FORM OF LEASE

There are no general formal requirements to execute a lease. A lease agreement can be executed in any form and also tacitly, simply by the parties acting in a way that makes it apparent that a lease has been concluded.

Although residential leases require a written form, a landlord cannot raise any claim against the tenant if this form is not met.

(V) MAINTENANCE AND REPAIRS

Under statutory regulations, the tenant can only perform the general day-to-day maintenance; other maintenance or repairs are covered by the landlord. This is often modified in commercial leases so that the landlord only takes care of structural repairs and the tenant provides for any other maintenance and repairs.

In commercial leases, the tenants are usually required to insure their property in the leased premises and to be insured against business risks, including insurance against liability for damage. The real estate is usually insured by the landlord as its owner, whereas the costs of the insurance are passed through to the tenants by means of service charge payments.

Structural improvements to leased premises do not form a separate object under the law and are, therefore, owned by the landlord. However, tenants are usually allowed to tax depreciate the improvements performed by them. Unless agreed otherwise, the landlord must compensate the tenant for the improvements left in the premises at the expiry of the lease.

(VI) TERMINATION

If the tenant does not fulfil its obligations (such as payment of the rent) voluntarily, the landlord can:

- Satisfy its claims from the lease security (if any).
- Terminate the lease.
- Bring an action against the tenant before a court.

Although there are statutory termination grounds (such as non-payment of rent), these are usually modified in lease agreements. Standard agreed termination grounds include:

- Non-payment.
- Change of business operation.
- Subletting or assignment without the landlord's consent.
- The tenant's insolvency.
- Breach of other tenants' obligations.

A lease can continue during insolvency proceedings against the tenant, although landlords usually terminate commercial leases with such tenants. However, under the insolvency legislation, it is not possible to terminate a lease only due to non-payment after bankruptcy of the tenant has been declared by a court. The tenant's insolvency administrator can terminate a lease subject to a three month notice period.

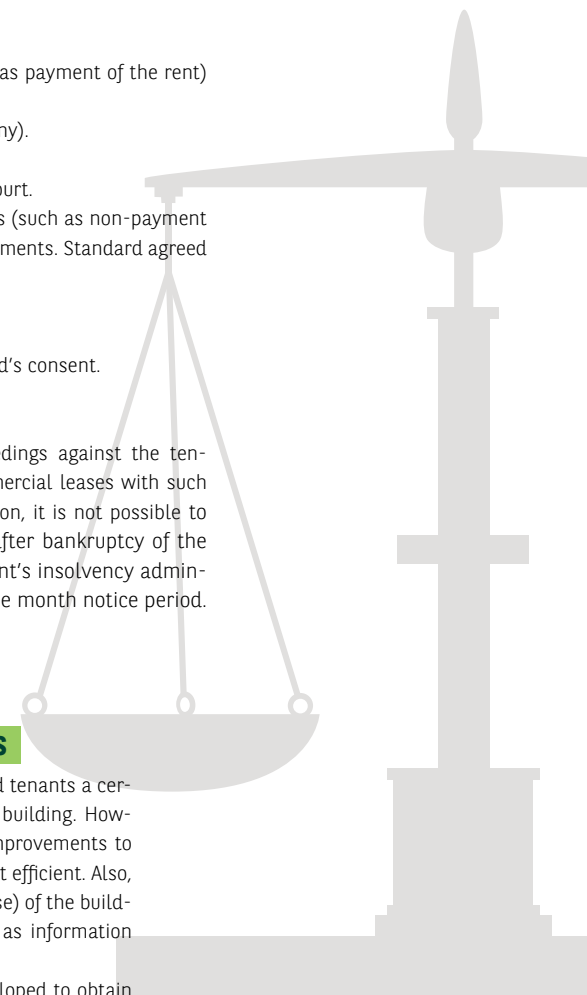
ENERGY PERFORMANCE REQUIREMENTS FOR BUILDINGS

Sellers and landlords must give buyers and tenants a certificate on the energy consumption of the building. However, there is no obligation to carry out improvements to the building if its energy consumption is not efficient. Also, a bad rating does not prevent the sale (lease) of the building, therefore, this obligation only serves as information for the buyer.

New commercial projects are usually developed to obtain a Leadership in Energy & Environmental Design (LEED) or Building Research Establishment Environmental Assessment Methodology (BREEAM) certification. Subsequently, owners of such projects require the fulfilment of LEED or BREEAM related obligations from tenants.

EXPERT

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NEED TO KNOW

Acquisition – specification of Czech law

How can real estate be held?	<ul style="list-style-type: none"> • Sole ownership • Co-ownership • Accessorial co-ownership • Flat- co-ownership
What rights over real estate property are required to be registered?	Generally, any rights in rem over real estate such as ownership, right to build, mortgages, pre-emptive rights, easements must be registered.
What property documentation do you need to register?	The relevant document on basis of which the right in rem over real estate (e.g. title deed, easement agreement) is established must be presented to the Real Estate Register. The signatures of all parties to such agreement must be notarized and on one document.
Are there nationality restrictions on land ownership?	There are currently no general limitations on ownership of real estate by foreign entities. However specific limitations can follow from economic sanctions imposed by the EU, United Nations or other international organisation of which the Czech Republic is a member.
Who usually produces the documentation in real estate transaction?	In case of a share deal, the buyer usually presents the first draft of the share purchase agreement on basis of the due diligence, while in case of an asset deal, the seller often produces the first draft of the purchase agreement.
What are the main usual documents in real estate acquisition?	<ul style="list-style-type: none"> • Heads of terms / LOI / reservation agreement • Due diligence • Preliminary / framework purchase agreement • Final purchase / registration agreement
Are commercial lease provisions freely negotiable?	The regulations generally allows parties to negotiate the terms of the lease and to digress from the statutory regulations. An exception to this is a residential lease, where the parties cannot restrict a tenant's statutory rights. The general legal principles such as public order and good morals also apply and cannot be breached during the negotiation of leases.
Is there a maximum term for commercial leases?	No, the leases may be concluded for both definite and indefinite period. However, if the lease is concluded for more than 50 years it shall be deemed an indefinite lease term with corresponding termination grounds after the lapse of the first 50 years of the term.
How are commercial rent reviewed?	Except for residential leases, option for either party to ask for the rent review is not stipulated in the legal regulation. However, in commercial leases, the parties usually agree on rent indexation using a consumer price index, either for the Eurozone (MUICP) or the Czech Republic (CPI) depending on the currency of the rent.
What are usually the basic obligations of the landlords?	<ul style="list-style-type: none"> • Delivery of the premises • Maintenance of the subject of the lease in a condition suitable for the purpose of the lease • Ensuring undisturbed use of the subject of the lease by the tenant • Maintenance and repairs of structural parts of the building, the building's technologies and the common spaces • Insurance of the building, taxes
What are usually the basic obligations of the tenants?	<ul style="list-style-type: none"> • Payment of rent, service charges and directly consumed utilities • Use of the subject of the lease as a diligent manager for the agreed purpose • Provision of security • Day-to-day maintenance and repairs of the subject of the lease • Civil liability insurance, asset insurance

KEY FIGURES*

BNP PARIBAS REAL ESTATE



* As of 31/12/2018

BNP Paribas Real Estate has local expertise on a global scale through its presence in 36 countries with more than 180 offices and 5,400 employees. BNP Paribas Real Estate is a subsidiary of BNP Paribas.

As regards Czech Republic, BNP Paribas Real Estate provides services in respect of Capital Markets, Property Management, Transaction, Consulting and Valuation. Furthermore, all departments are supported by the Research and Consultancy Team, which provides knowledge regarding real estate markets, thus enabling BNP Paribas Real Estate clients to make the most suitable long-term business decisions.

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