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# **Master's Thesis**

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Title of the Master's Thesis:

**Strategic framework for Commercial Real Estate Investment in CEE region. The Case of Commercial Real Estate in Prague, Czech Republic.**

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### **D e c l a r a t i o n   o f   A u t h e n t i c i t y**

I hereby declare that the Master's Thesis presented herein is my own work, or fully and specifically acknowledged wherever adapted from other sources. This work has not been published or submitted elsewhere for the requirement of a degree programme.

Prague, August 24, 2015

Signature

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**Title of the Master's Thesis:**

Strategic framework for Commercial Real Estate Investment in CEE region. The Case of Commercial Real Estate in Prague, Czech Republic.

**Abstract:**

The goal of this thesis is to show on the real case study how to open successful shopping centre in Prague. For this I have analysed the industry, identified key success factors and future trends, prepared the CEE market outlook and compared the situation in CEE capitals. Then I moved to the case study for opening SC Bubny in Prague 7. I have made PESTLE analysis, described the project and its current situation, analysed the catchment area, competitors and created a customer profile according to demographic situation in the catchment area. Based on the research and trends I have made a concept for SC Bubny, including the size of the SC, leasing plan, events and services that should be offered and then assessed its profitability and prepared valuation. As a result I have received potentially successful shopping centre with good profitability ratios and a framework for opening a SC in Prague.

**Key words:**

Commercial real estate, shopping centre, investment, CEE

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## **List of Abbreviations**

CBRE - CB Richard Ellis  
CNB - Czech National Bank  
CZSO - Czech Statistical Office  
CEE - Central Eastern Europe  
CNB – Czech National Bank  
C&W - Cushman & Wakefield  
CRE - Commercial Real Estate  
DCF - Discounted Cash Flow  
EU - European Union  
GDP - Gross Domestic Product  
GLA - Gross Leasable Area  
JLL - Jones Lang LaSalle  
OECD - The Organization for Economic Cooperation and Development  
SC – Shopping Centre  
SEE - South Eastern Europe  
S&P - Standard's and Poor  
TIC - Total Investment Costs  
UR - Unibail-Rodamco

## Introduction

Commercial Real Estate industry became very attractive in the CEE region in the last decade. More and more international companies are entering the market and looking for opportunities in different sectors of CRE. I see big potential in this industry and for that reason, I have chosen this topic for my thesis to understand how the market works, what are the success factors, trends in the industry and the situation in CEE region. The scope of the whole CRE market is very broad and exceeds the size of the thesis therefore I focus on one particular category of commercial property, shopping centres, in this paper. In order to write this thesis, to get the full picture and to get more knowledge in the industry I have done extensive secondary data research about the key success factors for the SC, especially reading the reports and surveys from CRE professional service companies such as DTZ, C&W, CBRE, Collier International, JLL and others. Additionally, I have visited many workshops organised by Unibail-Rodamco, where specialists shared their experience and knowledge about the industry. In my thesis I have summarised all the knowledge received and then applied them on the real project. The main goal of the thesis is to show on the real case study how to open successful shopping centre in Prague.

Before moving to the research I would like to guide you through the thesis structure and explain what is my added value in this paper. Firstly, I talk about situation on CRE market, identify main stakeholders and interest groups; explain the important aspects of investment in SC, talk about different categories of yields and risks and show how it can be used in property valuation. Moreover, I demonstrate two highly used by experts valuation methods according to the Red Book standards, which is the book referred to by most valuers of commercial property. Afterwards the outlook of CEE market is done, comparing the countries according to certain criteria such as population, number of shopping centres in the country and in its capital, total GLA and GLA per capita. I show examples of 5 largest shopping centres in each capital to have the understanding of the retail format and its sizes. Eventually, I summarise the data about the investment volumes on each market and yields in the industry. This comparison analysis shows the most attractive countries in the region for CRE investment.

After extensive analysis I have chosen Czech Republic and particularly Prague for investing into commercial property due to its stable economic situation, rising purchasing power of customers, high transparency and potential for further development in retail. I make a case study demonstrating on a real project in the centre of Prague how to open a successful shopping centre taking into account all the factors identified in the research. In the case study initially I make a PESTLE analysis of Czech Republic especially the macroeconomic indicators since CRE has the tendency to react significantly to the economic changes. At first I look at political situation, analyse in details economic situation in the past and the outlook for the following years, check the legal requirements and taxation affecting the industry, look at how culture affects the shopping behaviour of Czech citizens, explore the technological innovations that may affect the operations of the industry and investigate the environmental concerns when developing a shopping centre.

In the part 7, I move to the Bubny SC, which will be situated in Prague 7. There are big plans of modernizing the area now occupied by the old train station Bubny. On the plot of 27 ha



according to plan soon will rise modern apartments, office buildings and SC. Unibail-Rodamco, leading European CRE company has recently bought a plot of land 3.7 ha on the territory of Bubny project for development of SC. Opening is planned for 2019. Prague 7 is the only area in Prague, which doesn't have a high saturation of SCs and recently was not touched by Retail Projects. For that reason, Bubny project has caught my attention and I have decided to concentrate on it in the thesis. UR has allowed me to use the project for my thesis. In the paper I have made a complex case study of SC Bubny, providing the information about the location, catchment area, identifying all the future development projects in the area. I have looked at demographics situation in the catchment area and created a customer profile in SC Bubny. Further, I have conducted the completion analysis, looked in details at competitors located in close proximity to SC Bubny. Based on the market analysis and theoretical research about trends and success factors I have created the full concept for the SC Bubny including detailed leasing plan, services and events and design of the SC. For the leasing plan I have used the popular brands present not only in Czech Republic but also abroad, looked for the tenants that could be attracted to SC Bubny in order to differentiate from competitors. Leasing plan provided full information about each tenant size, rent they would pay for it and where it would be situated on the floor map. In the final part I have conducted the financial analysis predicting the rent roll for SC Bubny, its annual income, investment costs, made DCF model for valuation of SC Bubny and looked at ROI and IRR indicators. In the end the conclusions for the thesis have been drawn.

I have fully developed the SC Bubny concept based on market analysis and previous research and UR specialists assisted me with useful advices, assessed the realism of my assumptions and provided feedback. From my side I have brought fresh ideas and did the market analysis, competition analysis and looked at the market outside of Czech Republic to innovate the tenant mix. The only information provided by UR was the catchment area analysis, construction shape of the building and floors and assistance with estimating the total costs. The rest of the case study is fully based on my assumptions. Due to sensitivity of information, the facts regarding catchment area are strictly confidential and no disclosure is allowed without approval of UR company.

## 1. Categories of CRE

**Commercial Real Estate (CRE)** is a non-residential property used for profit-making purposes, generating rental or other income and having potential for capital appreciation.<sup>1</sup> Even though the purpose of generating income is the same for many properties in commercial real estate it is important to differentiate between different categories in order to understand what affects the market and which models are used for making profit. The general model is that investor owns the building and earns money by leasing the space to one or several tenants and collecting the rent from them. Depending on the type of property the conditions, prices, rental period and other criteria may differ significantly. Therefore CRE market is divided into several categories:

- Retail Properties

To this category belong shopping centres, retail parks, and shops. This type of property is the most affected by the location and the retail mix. Unlike the other types of properties, in the retail the success of the whole shopping centre will depend on the tenants occupying it. This kind of property is the most complex in terms of management. Additionally, it is directly affected by the economic situation since the income of the retail property investor depends on the success of the businesses which rent the space and the success of the tenants depend on the welfare of population. All the factors affecting the success of the retail property I will analyse further in this paper.

- Office Buildings

The name of the category quite clear and doesn't require any particular definition. The leasing contract in this type of real estate is generally long-term, usually for three up to ten years. Therefore it doesn't demand a lot of daily management. The significant costs come during the releasing period, *including brokerage charges, downtime, and the considerable amount of fit-out work that needs to be done to accommodate new tenants.*<sup>2</sup>

- Industrial Properties

Industrial real estate is warehouses, manufacturing, laboratories and similar examples. They are often located outside of the cities, where the land will be cheaper and with the access to road communication. Very often it is requiring the accessibility to trucks roads and other heavy machinery. *Industrial properties tend to have more stable returns than office, hotel, or retail properties.*<sup>3</sup>

- Hotels and Tourist properties

*"Hotel and tourist properties include resort, hotels, motels, convention and airport "*. The typical lease is very different from the other CRE types and in general lasts only few days. It is hard to predict the cash flow in this sector since the occupancy rate changes very often and depends a lot on the season. The factors affecting the success of the hotels and tourist properties are not only economic conditions of the country it is situated in but also the economic conditions of the foreign countries as the income is mainly coming from the

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<sup>1</sup> MILLER, Kimberly C. *Commercial real estate: background and issues* [online]. Hauppauge, N.Y.: Nova Science Publisher's, vi, 233 p.[cit. 2015-04-09]. ISBN 978-161-7283-543. p.4

<sup>2</sup> Ibid, p.5

<sup>3</sup> Ibid,p.5

international visitors. In general, trends in the tourism industry affect the certain type of Hotel property a lot.<sup>4</sup>

- Multifamily Housing and Apartment Units

This is unlike previous category is a residential property. It regularly consists of certain number of apartments exclusively for rent. The whole building has one or several owners, which are keeping the property for income generating purpose. The property has greater number of tenants leasing the flats for short-term period (six month up to two years) .

The problematic of the whole commercial real estate market is very broad and exceeds the frameworks of one diploma thesis therefore in my paper I will concentrate only on one segment of CRE – Retail properties, particularly Shopping Centres.

## 2. Shopping Centre market and stakeholders

Since the main focus of this thesis is Shopping centres it is important to make clear definition of it.

Shopping centre defined as a *grouping of shops and services with a minimum of Gross Leasable Area (GLA) of 5,000 sq. m, conceived, built and managed as one entity.*<sup>5</sup>

**Gross leasable area** is the area on which tenants pay rent; it is the area that produces income.

If we look at the shopping centre from the initial phase till the very last moment there are many players involved in the process. There are always investor, developer, owner and shopping centre operator. Some of the companies do all three functions, others divide the functions and it is either the developer finds the investors or investor looks for the company who will build the centre for them. After the Shopping centre is done the operator is hired responsible for keeping the space occupied, looking for new tenants, negotiating the terms, maintaining the building, providing services to the customers and corporate partners etc.

Additionally there are many commercial property and real estate service adviser companies like CBRE, DTZ, JLL, Cushman & Wakefield, Colliers International or Knight Frank, who are very often hired for particular project or service. It can be the valuation of the property required by the seller or by investor, can be shopping centre management, leasing or others. They can be providing services to all stakeholders on the commercial real estate market such as developers, investors or tenants. Further important stakeholders on the commercial property market are banks, financial institutions, state and law institutions issuing the legislations affecting the real estate market.

Last but not the least stakeholder group is tenants, businesses renting the space in the shopping centre and generating income of the property. When talking about tenants, I often mention the term ***anchor tenant***, it is the larger store with name reputation, which generates higher footfall and attracts customers and other tenants to the shopping centre. Examples of anchor tenants could be Zara, H&M, M&S, Sportissimo and other well-known brands. It is

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<sup>4</sup> MILLER, Kimberly C. *Commercial real estate: background and issues* [online]. Hauppauge, N.Y.: Nova Science Publisher's, vi, 233 p.[cit. 2015-04-09]. ISBN 978-161-7283-543. p.5

<sup>5</sup> ISCS. [online]. [cit. 2015-04-09]. Available at: <http://www.icsc.org/research/references/c-shopping-center-definitions>

often necessary to have a lease commitment from an anchor tenant before starting to build the shopping centre. Many financial institutions require it before giving the loans.

Overall opening of the shopping centre is very complex process, involving very large number of stakeholders and taking long time especially when nowadays it is not enough anymore to build a simple box with divided spaces and supermarket as an anchor tenant and to be sure that it will succeed. The customers became more demanding, the saturation higher and the competition stronger. Therefore in order to differentiate and to do well it requires certain design, architecture, to follow all technological innovations, to offer customers unique retail mix, premium services and many other elements which will be specified in this thesis.

### 3. Investing into shopping centres

#### 3.1. Yields

From the initial definition of commercial real estate we know that the main purpose of shopping centre is to generate profit therefore in this chapter I will explain how the profits are generated, how the investor can predict them, what are the relations between risk and yield, what different categories of yields are used on the commercial real estate market and how it can be used in the valuation of the shopping centre.

One of the most used term when discussing investment into commercial property is yield. It is used in valuation of commercial properties, for market analysis and for property comparison. In this paper I will use yields when will be comparing countries in CEE and in valuation. In valuation process it is important to specify which type of yield is used because different result of valuation can occur depending on the applied yield. Different methods of valuation can use different yields. Additionally, the purpose of valuation will affect the choice of the appropriate yield.

**Yield** is " *the rate of return that adequately compensates the investor for the risks taken.*"<sup>6</sup> It is calculated based on comparing the return on an alternative form of risk-free investment and plus additional appropriate risk on particular asset. Generally speaking, the yield is – a desired rate of return and very much depends on the risk taken. The higher the risk, the higher is the yield. Bellow we can see the general equation of yield

$$Yield = \frac{Annual\ Income}{Price\ or\ Market\ Value\ of\ an\ asset} \times 100\%$$

But all the investors treat the risk differently and their opinion on it may vary. The significance of the risk factors varies over time and differs from property to property and market to market. However, some risk factors are universal. Therefore, I have taken a transcript from RICS guidance note to name the main ones:

Risk factors, which must be treated in respect to the yield:<sup>7</sup>

#### 1. Risk free rate of Investment

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<sup>6</sup> *Valuation of investment properties - a frame of reference for the yield* [online]. In: . [cit. 2015-07-15]. Available at: <https://www.ejendomsforeningen.dk/media/176672/Valuation1.pdf>

<sup>7</sup> RICS, guidance note "Discounted Cash Flow for commercial properties [online]. [cit. 2015-07-09]. Available at: <http://www.rics.org/cz/knowledge/professional-guidance/guidance-notes?pn=1>

## 2. Market Risk

- Liquidity upon sale
- Failure to meet market rental expectation
- Locational, economic, physical and functional depreciation through structural change
- Legislative change

## 3. Specific Risk

- Tenant default on rental payment (covenant risk)
- Risk of failure to re-let (void risks)
- Costs of ownership and management
- Differing lease structure (e.g. rent review structure, lease breaks)

Changes in any category of risks mentioned above will affect the yield level. However, the yield can be different even at the same market depending on the category of yield we are talking about. Hence, it is crucial to understand the differences between various categories of yields.

### **Prime vs. Secondary yield**

We can see often in the reports or professional literature the terms prime or secondary yield.

**Prime yield** - is the yield for the prime shopping centre category.

**Secondary yield** is the yield the secondary category of shopping centre.

The secondary yields are generally higher than the primary yields due to higher risks. The division of the shopping centre to certain categories depends on location, condition of the SC, type of ownership, contract terms and other factors.

Example of prime shopping centre will be the newly built project situated in the centre of Prague with access to public transportation, preferably on metro line, having good design and architecture and popular brands in it. Example of secondary shopping centre will be some project on outskirts of Prague, which needs renovation and not so popular among customers.

Apart from primary and secondary yields the following sub categories of yields can be recognised worldwide:

**Initial Yield** - is the initial annual net income at the date of transaction or valuation. Expressed as a percentage of the sale price or market price of an asset.

$$\text{Initial yield} = \frac{\text{Annual Net Income}}{\text{Sale Price or market price}} \times 100\%$$

**Reversionary Yield** - Estimated Rental Value (ERV) for a property divided by its sale price or market price. ERV is the *open market rent that a property can be reasonably expected to attain given its characteristics, condition, location and local market conditions*.<sup>8</sup>

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<sup>8</sup> DeClaron, *financial reporting for property investors* [online]. [cit. 2015-07-14]. Available at: <http://www.claron.com/property-stock-reports.php>

$$\text{Reversionary yield} = \frac{ERV}{\text{Sale Price or market price}} \times 100\%$$

**Equivalent yield** is a weighted average of the initial yield and reversionary yield and represents the discount rate applied to all income flows, producing a present value equal to the capital value of the investment. The income reflects current actual rents and costs and current levels of rental values; it is the IRR where cash flow changes are allowed for implicitly.<sup>9</sup>

**Equated yield** is the discount rate or internal rate of return which when applied to the income expected over the life of the investment produces a present value that is equal to the capital outlay i.e. an equated yield is the overall internal rate of return (IRR) required by investors for investing in a particular property.<sup>10</sup>

**Exit yield** is used in DCF appraisals and represents the capital value of the investment property at the end of the period of analysis (exit value) expressed in percentage terms.

Very often in the valuation process the yields can be taken from the market looking at similar assets and generally posted by real estate consulting companies. But in any case, final decision to which shopping centre investor wants to invest and what will be required rate of return will depend on the personal preferences of the investor and his attitude to risk. Nevertheless, for us it was important to understand the relations between risks and yields in order to use in market comparison and in valuation of the shopping centre.

### 3.2. SC valuation methods

Every shopping centre has to be valued to understand the market price of it even if the owner is not planning to sell it at that moment. Valuation is needed for managerial purposes also and should be done on regular basis at least once a year. Most valuers rely on the valuation standards published in The Red Book by Royal Institute of Chartered Survey. According to RICS:

**Market Value** is “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”<sup>11</sup>

For Valuation of Shopping centre 2 approaches are common: Direct Capitalization or Discounted Cash Flow Method.

- Direct Capitalization - Based on applying a yield to a rent, this is the most traditional and widely used approach to value most income producing buildings
- DCF – this method creates an explicit cash flow over a given time period (typically 5-10 years)

#### Direct Capitalisation

<sup>9</sup> Valuation of investment properties - a frame of reference for the yield

<sup>10</sup> Ibid.

<sup>11</sup> RICS. The Red Book [online]. [cit. 2015-07-09]. Available at: <http://www.rics.org/cz/knowledge/professional-guidance/redbook/red-book-2014-infull/>

In the **capitalization method** we use the **equivalent yield**, the discount rate applied to all projected income and income flows, producing a present value equal to the capital outlay of the investment. It reflects current rents, costs and market rental values expected from the investment and is an IRR or weighted average yield expected where cash flow changes are allowed for implicitly. Growth in rental value over the period to reversions is therefore not included.

The capitalization model determines the value based on the expected net operating income of the property for a stabilized year (phase 1) and a yield which reflects a risk free rate of investment, a market risk and non-market or unsystematic risk factors which are risk factors associated with the individual asset (phase 2). In addition, adjustments for special matters are made in the value determined (phase 3).

We can see in table 1 value calculation based on the capitalisation model.

**Table 1-The capitalisation method**

<b>Phase 1</b>
<i>Rental Income(Market rent)</i>
<i>Other Rental Income</i>
<i>- Operating costs</i>
<i>Net Operating Income</i>
<b>Phase 2</b>
<i>Yield (%)</i>
<i>Value Of property before adjustments</i>
<b>Phase 3 - Adjustments:</b>
<i>Adjustment to actual rent</i>
<i>- Deduction for vacancy</i>
<i>Return on deposits</i>
<i>- Maintenance backlog</i>
<i>Property value</i>

Source: Author based on example in Valuation of investment properties - a frame of reference for the yield

## DCF method

The DCF method makes a forecast of the flows for the calculation period and estimates an exit value at the end of the same period by dividing the CF of the last year +1 by the exit yield. The calculation period can vary from 5 to 10 years, depending on e.g. the length of the lease contracts. It is interesting to note that the DCF analysis estimates a property present value in the same way investment analysis for other assets does: based on expected future cash flows.

Then both Cash Flows and Exit value are discounted using the appropriate discount factor, which reflects the time value of money given a specific discount rate. The discount factor is thus used to calculate the present value of future cash flows. Depending on the objective of the valuation, different yield rates may be applied to different portions specified in the cash-flow analysis

***In the end sum of discounted PV of Cash Flows and PV of Exit value gives us the Property Value.***

In this process it is important to understand how to predict correctly the future cash flows for the shopping centre.

### **Step1. Prediction of Gross Income**

The starting point in the valuation is the prediction of the Gross Income. *Gross income is the money received by the owner of the property, the landlord, from the tenant(s), and from any other source, such as parking revenues or vending machine income.*<sup>12</sup>

Over the long run most of the Shopping centres aren't one hundred per cent occupied so when calculating the Gross Income the Vacancy Rate should be taken into account. It will reduce the gross income by an amount, usually expressed as a percentage.

$$\text{Vacancy loss} = \text{Vacancy Loss} / \text{Gross Income}$$

### **Step 2. Net Income**

Even if the investor predicts 100% occupancy, he understands that many losses may occur such as tenants won't meet their contractual lease obligation and won't pay the rent, certain percentage of the tenants will default, whether because of a failed business or some other reason. Also market conditions might change and it affects the situation. Therefore, in order not to overestimate the income Investors must also consider a collection loss amount. The standard number is about 5 % but it can vary depending on the market and particular lease in place. When investors have more experience in the industry they can estimate the number by looking at the similar projects, preferably located in the same market and having similar size.

Collection loss factor can be expressed in ratio form as follows:

$$\text{Collection loss (doubtful debtors)} = \text{Collection loss} / \text{Gross Income}$$

Then the Gross income is adjusted by this number.

Following with deduction of operation expenses such as management fess and service charges we get the Net Rental Income.

### **Step 3. Capex deduction.**

The following step is predicting all the capital expenditures during the period chosen for valuations. The shopping centre might require some renewal and refurbishment, which should be taken into account. After deducting the Capex we will get the Cash Flow after works and lettings.

The whole process of predicting the Cash Flow is summarised in the table below.

**Table 2 - CF calculations**

<i>Minimum Guaranteed Rent</i>
<i>-Vacancy rate</i>

<sup>12</sup> GRABEL, Gary. Wealth opportunities in commercial real estate: management, financing and marketing of investment properties [online]. Hoboken, N.J.: Wiley, 2011, xvi, 424 p. [cit. 2015-04-09]. ISBN 978-111-8115-749.p.21



<i>Other Income</i>
<i>Gross Rental Income</i>
<i>-Doubtful debtors</i>
<i>-Net service charges</i>
<i>-Property management fees</i>
<i>-Non rechargeable expenses</i>
<i>Net Rental Income</i>
<i>-Capex</i>
<i>CF after works and letting</i>
<i>Total acquisition cost (GMV)</i>
<i>Total Acquisition Cost at exit (GMV)</i>
<i>Standard transfer cost at exit</i>
<i>Net Cash Flow</i>

Source: Author based on the Red Book

#### 4. Factors influencing success of SC and its price

To understand what makes the SC successful I have conducted the research to identify the main factors, which are making SC profitable and attractive to tenants and customers. The research was made based on the articles about the SC, reports of consulting companies, customer surveys, theory in the Red Book for Valuers, advices of specialists from leading CRE companies and my own observations.

- Location:

Location is one of the most important elements. First of all it is the business that can't be moved, therefore determining the location is very important. Starting from choosing the country where it will be located, to the region to the particular spot in the city. The location choice will be determined by many factors such as PESTLE analysis of the country and region, catchment area with particular number of citizens in it and their purchasing power, access by all means of transport, distance from city centre, infrastructure of the area, competition around and others. According to statistics in Europe people are willing to travel up to 30 minutes to the shopping centre.<sup>13</sup> The customers who come to shopping centre by foot shouldn't have difficulties to find it and the road to it should be clean and pleasant. Drivers should be offered secured parking areas. And public transport connection must be in place. Very often it is the first determinant of success. Example of perfect location is the SC Palladium, which is situated in the very city centre of Prague and generates the highest footfall in the city. Negative example of location is SC Sestka in Prague 6. Even though there is no much competition in the area due to poor public transportation in the area the success of the SC is doubtful. Additionally, the plans of green metro line extension were including the metro stop next to OC Sestka but later it was changed and the line is ending on Motol metro

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<sup>13</sup> CBRE: Customers are interested in sSC shopping centres and high street. CBRE. [online]. 24.06.2014. [cit. 2015-04-11]. Available at :[http://www.cbre.cz/cz\\_en/news\\_events/news\\_detail?p\\_id=16919](http://www.cbre.cz/cz_en/news_events/news_detail?p_id=16919)

line. This has negatively affected the SC Sestka and its investors. There are many other factors but this is the most crucial.<sup>14</sup>

- Type of property

On the same plot of land very different property could be build and it will affect its profitability. It will depend a lot on its total GLA, number of parking slots, warehouse, entrances, access to metro or bus stop, access to disable people. Also age and condition of the property will influence the price of the asset. According to the research the SC has to be refurbished on regular basis. Additionally, it will depend on which technologies and material used in interior and exterior of the property. More environmental and energy saving shopping centres are preferred by tenants. Moreover, the number of floors it has is additional factor. According to research people in Central Europe don't like multilevels and the optimal height of the shopping centre not counting the parking is 2-3 floors.<sup>15</sup> Eventually, design and architecture affects the property value. All of those factors could be very subjective and evaluated differently by stakeholders but certainly it should be taken into account.<sup>16</sup>

- Tenant mix

Renting the space in the shopping centre to different brands is the main source of income in commercial real estate, therefore tenants affect directly the profitability of the shopping centre. Even before building the SC in the phase of planning the owner of the shopping centre should already agree with certain amount of tenants regarding the lease contract to ensure that the space will be occupied by solvent businesses.

When the contracts with anchor tenants are in place it is easier to attract additional tenants to the shopping centre because they are more certain about the footfall and can predict what would be the customer profile based on the tenants who already signed the lease contract. The number of tenants and the length of the lease contract with them will affect the success of the shopping centre directly. Additionally, the owner should monitor the sales of the tenants, because it affects their ability to pay the rent to the landlord. Seeing if the customers can't meet their obligations in advance is crucial for the owner. Especially if the lease contract has sales based rent, which will be presented as a fixed percentage of tenant's sales.

Furthermore, people are following their favourite brands so for the owner it is always important to make the offer, which will be different from the competitors. Particularly, to have in the SC several anchor tenants which I have mentioned earlier, the major or prime tenants, which are generating the footfall. Those tenants can be from sectors such as fast fashion, grocery or furniture. Very often it is international companies such as Zara, H&M, Marks and Spencer, Mango, Sportissimo or other well-known names. Those brands are very demanding when choosing the shopping centre and regularly go to the top SCs in the city. The image of the brand is very important; therefore international players don't want to be present in a poorly managed SCs. Very successful strategic action is to build on exclusivity and to bring some strong brand as a first to the market. It is very common among the international commercial real estate companies since they have the well-known name and

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<sup>14</sup> DVOŘÁK, Jan. *Nákupní centra v ČR*. Praha, 2014. BAKALÁŘSKÁ PRÁCE. VSE

<sup>15</sup> Cushman & Wakefield

<sup>16</sup> WYATT, P. *Property Valuation*. 2. vyd. Chichester: Wiley-Blackwell, 2013. ISBN 978-1-119-96865-8.

clear advantage in negotiation. They look at the brands they have successfully operating in their shopping centres in the foreign markets and then propose to those brands expansion to the foreign countries by offering the space in their shopping centres. Example of such entry was Michal Kors in Centrum Chodov in Prague. Instead of opening the first store in the downtown of Prague it was open in the shopping centre located little bit further. It is a good example when the company could say “first in the Czech Republic Michal Kors store “opened up in our shopping centre, which proves the success of the SC.

In order to offer the best retail mix the shopping centre should have clearly defined target group. For example families with kids prefer going to the shops, which offer collections both for grown-ups and for kids. Such examples as Zara, H&M, Gap and others. The retail offer should be complex and to have certain percentage of the SC space dedicated to each category such as fashion, accessories, home decor, health and beauty, kids, sport, jewellery, groceries, books, electronics, music, footwear and leather shopping, food, services, dinning and leisure.<sup>17</sup>

## 5. New trends in the industry.

Apart from obvious success factors for shopping centre mentioned above, there are new trends which have developed recently in the industry and can't be ignored by the shopping SC operators if they want to do well and to have the leading position.

Nowadays, people pay more and more attention to **dinning offer and leisure** and they don't go to the SCs only for shopping anymore. It becomes the activity where they spend their free time, meet friends and family.<sup>18</sup> All kinds of leisure are brought to the shopping centres: cinemas, ice-rinks, mountaineering walls, ski-resorts, casinos, kids play centres, spas and fitness centres. Good examples are the aquarium in the Forum Istanbul, Kidzania concept in Dolce Vita Tejo, Lisbon and ski resort in the Dubai SC. *Libraries, conservatories, educational areas, quiet rooms – many initiatives are being tried to bring real life to shopping in order to bring shopping to life.*<sup>19</sup>

Food courts are also seen as essential part of the SC. But the perception of fast food courts is changing. It is not anymore just a “plastic “food hall with couple of tables and several cafes where you can grab a sandwich or burger. People want to be offered something more interesting, international, they care more about what they eat and want to have a choice. Hence, it is important to have **exclusive dinning offer** with modern design of dinning areas. The trends of healthy lifestyle can be seen everywhere. So the food court should also offer fresh salad bars and more healthy options. In some shopping SCs in Czech Republic dinning reaches 10-15% of total GLA.<sup>20</sup>

Customers are also demanding in terms of **services**. The visitor of the shopping centre should feel welcomed. Hence, it is important to pay attention to sSC details such as cloakroom,

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<sup>17</sup> Unibail Rodamco Skill seminars

<sup>18</sup> C&W. SHOPPING CENTRES & E-COMMERCE SURVIVAL OF THE FITTEST [online]. In: . [cit. 2015-07-30]. Available at: <http://www.cushmanwakefield.com/en/research-and-insight/2014/survival-of-the-fittest-in-the-digital-world/>

<sup>19</sup> JLL. Retail 2020. The New Retail Rulebook [online]. 2014 [cit. 2015-04-11]. Available at

: [http://www.jll.eu/emea/en-gb/Documents/Retail-documents/Chapter%209\\_Retail2020\\_Retail%20Rulebook.pdf](http://www.jll.eu/emea/en-gb/Documents/Retail-documents/Chapter%209_Retail2020_Retail%20Rulebook.pdf)

<sup>20</sup> C&W. SHOPPING CENTRES & E-COMMERCE SURVIVAL OF THE FITTEST

services for moms with kids, help with carrying bags to the car, free parking etc. Shopping centre should offer clean bathrooms, rest areas, free wi-fi, lockers for bags, power stations, concierge services and many others. It can be done even with low costs. The fact that services became very important is proven by the relatively new practice of certifying the shopping centres with the stars. Shopping SCs are trying to provide the best services in order to be certified by the international rating agencies and to get 4 or 5 stars/ rating. This practice came from the hotel industry and became quite popular within the shopping SCs.<sup>21</sup>

The **architecture and design** of the SC itself is also playing a key role. Customers aren't satisfied anymore with boring boxes. They appreciate creative ideas of architects and use of new technologies. Shopping SC from the outside should attract the attention of potential customers passing by. According to new trends people like to see a lot of natural light and plants in the shopping centres. Population becomes more environmental conscious and appreciate the detail such as energy saving technologies, plants on the surface of the building and other environmental elements. The halls in the SC should be spacious, air-conditioned and well-lighted.<sup>22</sup>

Following the modern technologies is additional important element. People appreciate the **digitalization** of the shopping SC.<sup>23</sup> Such elements as well-developed informative webpage, interactive store map, mobile application, wi-fi and store locator are not seen as anything extra anymore. It is more of a must in order to be seen as an attractive shopping centre.

Another detail, which attracts customers, is **events**. In order to create higher footfall shopping centres started to organize events for kids and grown-ups. It can be done during holiday seasons and weekends.

Additional tool to attract customers is creating the **loyalty program**. The customers having extra benefits when are enrolled for loyalty program have the feeling of exclusivity and the shopping centre management gets extra information about their visitors.

Eventually shopping centre should be viewed as a product and therefore should be done **marketing, promotion etc**. Very often when the owner of the SC doesn't have required skills and expertise in the area it is a good idea to hire a property management company who will be taking care of most of the operational tasks.

Summarizing, in the future SC customers want to see the new ideas and a more sophisticated execution of those ideas. Consumers want emotion, they want local and global, they want ethical, they want smooth seamlessness, they want great design. They want to feel welcome and comfortable in the shopping centres. Shopping centre operators would have to integrate leisure, service and digitalization, introduce more pop-up retail, organise cross-activity promotions and loyalty programs to encourage customers to stay longer.<sup>24</sup> The question is which of the shopping centres will be able to meet that demand and which ones will be left behind.

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<sup>21</sup> Unibail-Rodamco report

<sup>22</sup> C&W. SHOPPING CENTRES & E-COMMERCE SURVIVAL OF THE FITTEST

<sup>23</sup> JLL. Retail 2020. The New Retail Rulebook [online].

<sup>24</sup> Top 10 Global Consumer Trends For 2015 [online]. [cit. 2015-07-29]. Dostupné z: [http://tedam.ticaret.edu.tr/wp-content/uploads/2015/07/Top\\_10\\_Global\\_Consumer\\_Trends\\_For\\_2015.pdf](http://tedam.ticaret.edu.tr/wp-content/uploads/2015/07/Top_10_Global_Consumer_Trends_For_2015.pdf)

## 6. Commercial property market outlook in CEE countries

By OECD definition to CEE region belong the following countries: Albania, Bulgaria, Croatia, Serbia, Slovenia, Romania, Estonia, Latvia, Lithuania, Czech Republic, Hungary, Poland, Slovakia.<sup>25</sup> However in my paper I won't focus on Albania, Bulgaria, Croatia, Serbia and Slovenia (SEE) since they account at the moment for quite low numbers in terms of investment volumes and are less attractive due to several political barriers and transparency issues.

CRE industry is growing. There are more and more investments flowing into the sector yearly. According to EREII study last year the volume of investment in the commercial real estate market in Europe climbed to 166 billion Euros, the greatest amount since 2007.<sup>26</sup> Out of it CEE region had a number of 7.9 billion, which was 27% increase compare to the year 2013 when the number of investments reached 6.2 billions. If we compare the countries Poland was the most attractive to the investors and had a share of 41% in the region, followed by Czech Republic (25%), Romania (16%), Slovakia(8%), Hungary(7%) and SEE markets(3%).<sup>27</sup> The breakdown of volumes for 2014 can be seen bellow in table 3.

Table 3 - Investment Volumes in CEE, 2014

Country	2014 Volumes (€ million)
Poland	3200
Czech Republic	2000
Romania	1300
Slovakia	610
Hungary	580
SEE	200

Source: Author based on JLL. *CEE Investment Market Pulse 2014 Report*.

As we can see from increasing numbers and according to recent discussions there is a high potential of CEE countries due to positive trend in economic indicators, which are developing faster than in western countries and many foreign investors demonstrate interest to that region.<sup>28</sup> Before choosing some particular country to invest the relative comparison using different methods are used. I have chosen for comparison several indicators such as population, cars ownership, number of existing shopping centres, prices of rent, total gross leasable area and stock per 1000 inhabitants. Important is also to see the numbers from the capitals since they have the highest concentration of SCs due to higher purchasing power of customers, higher population and attractiveness for tourists, and are generally the main targets for investments. As a benchmark I have chosen the EU average. Table 4 summarizes conducted research.

<sup>25</sup> OECD, available at: <http://stats.oecd.org/glossary/detail.asp?ID=303>

<sup>26</sup> CBRE. Investments in European Commercial Real Estate Increase by a Third. [online]. [cit. 2015-04-11]. Available at :[http://www.cbre.cz/cz\\_en/news\\_events/news\\_detail?p\\_id=16630](http://www.cbre.cz/cz_en/news_events/news_detail?p_id=16630)

<sup>27</sup> JLL. *CEE Investment Market Pulse 2014 Report*. 2015.p.1

<sup>28</sup> Ibid

**Table 4 - CEE countries comparison**

Country/City	Population (Thousands)	Car ownership (Cars per 1000 inhabitants)	Total GLA(m2)	Total number of SCs	GLA (m2) per 1000 inhabitants	Rent in Prime SC(units of 200m2)
Czech Republic	10520	422	2193002	92	261	20-30
Prague	1245	n/a	850398	33	723	40-60
Poland	38538	433	8400000	370	218	40-48
Warsaw	2504	n/a	1124200	36	449	60-75
Hungary	9969	302	1312500	58	112	20-60
Budapest	1706	n/a	771500	25	443	60-80
Slovak Republic	5410	503	1540000	66	219	25-50
Bratislava	417	630	378636		908	50-85
Latvia	2074	285	742000	29	358	5-25
Riga	659	n/a	615000	16	933	15-40
Lithuania	3310	511	1127381	36	341	10-20
Vilnius	559	n/a	574300	14	1027	12-30
Estonia	1337	413	n/a	n/a	n/a	n/a
Tallinn	400	n/a	542200	18	1355	12-45
Romania	19043	160	2620000	48	137	25-30
Bucharest	1678	n/a	938000	12	379	60-65
EUROPE	502711	473	122857030	4950	260	n/a

Source: Author based on numbers from research by DTZ, JLL and Cushman and Wakefield<sup>29</sup>

As we can see from the table 4 most of the capitals are above the average in terms of GLA per capita. The capitals of Estonia, Lithuania and Latvia are oversaturated. Number of shopping SCs in Prague is also quite high.

### Czech Republic

Czech Republic is attractive market for development of commercial real estate in CEE region despite quite high saturation. GLA per 1000 inhabitants in Czech Republic is 261m2 and Prague in particular has 723m2 per 1000 citizens. It is more than in Paris, Munich or London. In those cities the number doesn't exceed 400m2 per 1000 citizen, even though the customers there have higher purchasing power.<sup>30</sup> The reason for such popularity among the investors and developers is stable economic environment, very well-developed infrastructure, relatively high purchasing power of inhabitants in the region, big number of tourists and other factors.

The yields in commercial real estate in Czech Republic according to JLL are 6% in office sector, 7% for prime logistics 5.25% for high street and 5.5% for prime retail.<sup>31</sup>

<sup>29</sup> DTZ. *European Retail Guide-Shopping Centers* [online]. 2013[cit. 2015-04-11]. Available at: [http://www.dtz.dk/files/other/Markedsrapport/dtz\\_european\\_retail\\_guide\\_-\\_shopping\\_centres\\_march\\_2013.pdf](http://www.dtz.dk/files/other/Markedsrapport/dtz_european_retail_guide_-_shopping_centres_march_2013.pdf)

JLL. *Budapest City Report* [online]. 2014[cit. 2015-04-11]. Available at: [http://www.jll.hu/hungary/en-gb/Research/Budapest\\_City\\_Report\\_Q4\\_2014.pdf?fd2f0e5-843d-46ef-9eed-f7d418f678c9](http://www.jll.hu/hungary/en-gb/Research/Budapest_City_Report_Q4_2014.pdf?fd2f0e5-843d-46ef-9eed-f7d418f678c9)

<sup>30</sup> CBRE. Q1 2015 Czech Republic Property Investment.

<sup>31</sup> JLL. *Prague City Report Q4*. [online]. 2014 [cit. 2015-04-24]. Available at: [http://www.jll.cz/czech-republic/en-gb/Research/Prague\\_City\\_Report\\_Q4\\_2014.pdf?ac9d1713-559d-4bea-9b6d-663580bcce58](http://www.jll.cz/czech-republic/en-gb/Research/Prague_City_Report_Q4_2014.pdf?ac9d1713-559d-4bea-9b6d-663580bcce58)

The volume of real estate investments in the Czech Republic reached EUR 557M in 2014.<sup>32</sup> Prague comes first but interest in regions is growing as well due to lower prices and higher yield. Prime yield for regional shopping centres is 7%. For example, in Hradec Králové, shopping centre Futurum was purchased by Meyer Bergman for EUR 87.6 million from Heitman, GE Capital and TK Development. In the same period, a transaction worth EUR 83 million was finalized in Pardubice where Atrium European Real Estate bought the AFI Palace Pardubice shopping centre from AFI Europe.<sup>33</sup> In Prague the largest real estate transaction in 2014 was the sale of Fashion Arena Sterboholý for 71.5 million Euros.<sup>34</sup> In first quarter of 2015 volume of investments amounted already for EUR 899 million thanks to 6 transactions, the average of which was EUR150 million. In 2015 the sale of palladium for EUR 570 million to Union Investment was the largest single asset transaction in the history of central Europe commercial real estate. The year 2015 is expected to record increase in the investments in retail sector and to exceed the volumes of EUR 1 billion.<sup>35</sup>

## Poland

Poland is considered the most attractive country in CEE region in terms of investments in shopping centres. One of the reasons is that polish citizens prefer SCs to high street shopping. The total number of shopping SCs is 370, 36 of them in Warsaw. Total GLA in Poland is around 9million m2. In Warsaw 1.2 million m2. GLA per capita in Poland is 218, 449 in Warsaw. Prime shopping centre rent (for unit of 200m2) – 40-48 Euros/m2/monthly. In Warsaw 60-75 Euros/m/monthly. Yields in retail are 5.5%.

In year 2013 there were 1.3 billions invested into Retail Commercial Real Estate. The largest single transaction by some margin was the acquisition of Silesia City Centre by a consortium of investors led by Allianz Real Estate for over €400 million. The market was dominated by acquisitions of strong shopping centres in regional cities including Atrium European Real Estates' acquisition of Galeria Dominikanska in Wroclaw for approximately €152 million and Inter Ikea making its entry into the Polish market with the acquisition of Wola Park in Warsaw. In addition Invesco Real Estate purchased Galeria Kazimierz, Krakow for over €180 million, an investor not seen in the Polish market in recent years. In year 2014 there were many other shopping SCs open such as the 75,000 sq.m Atrium Felicity centre in Lublin, Galeria Sidlce (34,000 sq.m) and Galeria Bursztynowa in Ostrołęka (27,000 sq.m)<sup>36</sup>

Table 5 demonstrates the 5 main shopping centres in Warsaw to understand what are the sizes and formats of the properties.

<sup>32</sup> CUSHMAN&WAKEFIELD. Marketbeat retail snapshot: Czech Republic. Prague, 2014.

<sup>33</sup> CBRE. *We expect the retail sector to dominate the Czech market in 2015* [online]. [cit. 2015-07-09]. Available at: [http://www.cbre.cz/cz\\_en/news\\_events/news\\_detail?p\\_id=17961](http://www.cbre.cz/cz_en/news_events/news_detail?p_id=17961)

<sup>34</sup> CBRE. *Investments in European Commercial Real Estate Increase by a Third* [online]. [cit. 2015-07-09]. Available at: [http://www.cbre.cz/cz\\_en/news\\_events/news\\_detail?p\\_id=16630](http://www.cbre.cz/cz_en/news_events/news_detail?p_id=16630)

<sup>35</sup> CBRE. Q1 2015 Czech Republic Property Investment.

<sup>36</sup> CUSHMAN&WAKEFIELD. EUROPEAN SHOPPING CENTRE DEVELOPMENT REPORT - APRIL 2014 [online]. [cit. 2015-07-09]. Available at: <http://www.cushmanwakefield.com/en/research-and-insight/2014/european-shopping-centre-development-report-april-2014/>

**Table 5- Shopping centres in Warsaw**

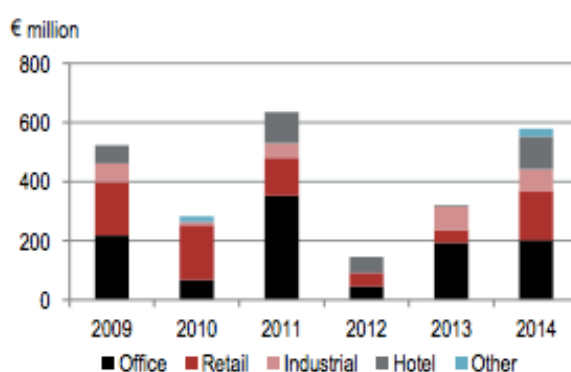
SC	Opening	GLA (m2)	Number of stores	Key tenants	Footfall in thousands per Annum
Arkadia	2004	103000	230	Carrefour, Leroy Merlin, Cinema City, Zara, Holmes Place, Peek & Cloppendurg, C&A	21000
Wola Park	2002	73000	190	Auchan, H&M, C&A, Reserved, ZARA, MultiKino	10500
Centrum Janki	1999	68000	99	Real, Leroy Merlin, Saturn, Cinema City, H&M	6200
Zlote Tarasy	2007	64000	220	Carrefour, Van Graff, M&S, Zara Home, Zara, Almi Décor	20400
Galeria Mokotow	2000	63000	260	Carrefour, Cinema City, Holmes Place, Zara, H&M, Peek & Cloppenburg.	13500

Source: Author based on JLL and C&W research.

## Hungary

Hungary is the third most developed country after Poland and Czech Republic in CEE. At the main time the saturation of the market is not that high yet compare to the previous two. Therefore, investors from abroad bringing high amounts into the country. In Hungary investments in 2014 reached almost 600 million euros. The market became that attractive due to the improving economic conditions and cheaper prices than in Poland in Czech Republic for prime assets.<sup>37</sup> The most notable transactions were in office sectors. Retail sector is the second largest after the office one. On the image 1 we can see that there was sharp decrease in investments volumes in 2012 but in 2013 and 2014 the situation has improved and we can see the positive trend.

**Image 1- Annual Investment Volumes (%)**



Source: JLL Research, February 2015

The prime office yields are 7.3% and retail – 7.25% . The total GLA in Budapest in 2014 was 771 500 in 25 properties. The shopping centre density is 443m2/per 1000 inhabitants.

<sup>37</sup> JLL. *CEE Investment Market Pulse 2014 Report*. 2015.p.3



Outside of the capital the total GLA is 541000m<sup>2</sup> in 33 centres. Typical shopping SC rent ranges between 20-60 euros/m<sup>2</sup>/month in less popular shopping SCs. The prime downtown high street rents are about 50-150 euros/m<sup>2</sup>/month. In the prime shopping SCs 60-80 euros/m<sup>2</sup>/month.

## Slovakia

Slovakia has recorded an improvement in the economy in year 2014 and analysts predict the GDP growth of 2.7% in 2015 and 3.4 in 2016. That positive trend has affected the investments into Commercial Real Estate market as well. The number in 2014 was more than 610 million euros and was the highest since 2005. *The largest dealt was the sale of Eurovea by Irish developer Ballymore group to a private investor.*<sup>38</sup>

In general retail market in Slovakia is quite saturated, it has more than 900m<sup>2</sup> of GLA per 1000 inhabitants. Therefore, there is lower potential in terms of development. Investors are more considering rebuilding or redesigning the shopping centres. In 2014 there weren't many shopping centres and retail parks opened compare to year 2013. The total GLA is 1.54 million m<sup>2</sup>. In 2014 there was Bory SC opened by Slovak investment group Penta in Bratislava. The SC has 54000m<sup>2</sup> of GLA.<sup>39</sup> Similar to other countries, the highest demand for shopping centres is in the capital, Bratislava. Below we can see the largest shopping centres in the capital.

**Table 6 - Shopping centres in Bratislava**

SC	Opening	GLA (m <sup>2</sup> )	Number of stores	Key tenants
Avion	2002/2008/2012	103000	170	Zara, Peek & Cloppenburg, H&M, M&S, C&A, Celio, , Next, Intersport, Sports Direct
Eurovea	2010	59000	200	Peek & Cloppenburg, H&M, New Yorker, M&S, Guess by Marciano, Cerruti, Penny Black, Tommy Hilfiger, Gant
Aupark	2001/2007	55400	205	In C&A, Calvin Klein, Pull&Bear, Marionnaud, L'Occitane, MAC, Timberland, Mc Gregor,
Central	2012	36000	150	C&A, New Yorker, Liu Jo, Geox, Salamander, Deichmann, Humanic, , Mango
Bory SC	2014	54000	196	H&M, C&A, LPP Group, Mango, Terranova, Lindex, IMAX

Source: Author based on Cushman&Wakefield<sup>40</sup>

## Latvia

The boom of CRE investment in Latvia was in 2007 and amounted for almost EUR 450 million but the crisis has changed the situation significantly and the number dropped to less than EUR 100 million during the years 2008-2010. Fortunately, in the last five years the investors showed again the interest in Latvia tanks to overall development of the Baltic

<sup>38</sup> JLL. CEE Investment Market Pulse 2014 Report. 2015.p4

<sup>39</sup> JLL. Bratislava city report. [online]. 2014 [cit. 2015-04-11]. Available at: [http://www.jll.sk/slovakia/en-gb/Research/Bratislava\\_City\\_Report\\_Q4\\_2014.pdf?5a5405db-21d0-4cea-a4af-997af7f64ad0](http://www.jll.sk/slovakia/en-gb/Research/Bratislava_City_Report_Q4_2014.pdf?5a5405db-21d0-4cea-a4af-997af7f64ad0)

<sup>40</sup> C&W Global Cities Retail Guide. [online]. [cit. 2015-04-11]. Available at: <http://cwglobalretailguide.com/slovakia/>

region, recovery of the Latvian economy and joining of euro zone in 2013. In first quarter of 2015 the total investments in CRE in Latvia reached EUR 65 million with the main transactions in the retail sector.<sup>41</sup> Most likely what attract the investor to the market is the higher yields due to slightly higher risk than in the other CEE countries. Prime shopping centre yield in Riga is 7.5% , office yield 7.5% and industrial yield is 9%.<sup>42</sup>

Compare to other countries in the CEE the saturation of retail in Latvia and particularly in Riga is quite high and amounts for 933 m2 per 1000 inhabitants. At the same time the average price of rent is relatively low and correlates between 15-40 euros per m2 in the prime shopping centres for the retail unit of 150-350 m2. For the reason of high saturation shopping centre development is mainly the expansion of existing SCs. For the future the expansions of SC Orio and SC Alfa is planned.<sup>43</sup>

Looking at the main shopping centres in Riga we can tell that tenant mix is very similar to the one in other CEE countries with the international brands of INDITEX group, H&M, Mango and similar in place but the footfall is slightly lower in SC of Riga. Hopefully planned modernising of some of the projects will improve the situation.

**Table 7 - Shopping centres in Riga**

SC	Opening	GLA (m2)	Number of stores	Key tenants	Footfall in thousands per Annum
Alfa	2000	56500	180	Zara, H&M, Pull and Bear, Bershka, Lindex, Seppala, inamon	9300
Spice	2000	40000	152	Rimi, Jyst, LIDO, Zara, Pull and Bear, Bershka, NewYorker	9250
Domina Shopping	2003	42000	170	Prisma, Apranga, Marks & Soencer, NewYorker, United Colors of benetton.	5000
Riga Plaza	2009	47000	150	Prisma, Fantasy Park, MultiKino, Mango, Zara, Peek & Cloppenburg	n/a

Source: Author based on information from the individual SC websites

## Lithuania

Lithuania experienced similar situation as Latvia when the economic crisis discouraged the investors during 2008 but in recent years due to positive economic development the investments volumes has experienced growing trend. During 2014 investments has increased 25% compare to previous year and reached EUR 300 million. The most popular sector is offices accounting for 56% of the total transaction volumes but retail comes second and has

<sup>41</sup> *The Baltic course magazine* [online]. [cit. 2015-07-15]. Available at z: [http://www.baltic-course.com/en/good\\_for\\_business/?doc=86954](http://www.baltic-course.com/en/good_for_business/?doc=86954)

<sup>42</sup> <https://onedrive.live.com/view.aspx?resid=1A7C08DFE245A4BE!420&ithint=file%2cpdf&app=WordPdf&authkey=!ACLMWLWJUW2J7Uc>

<sup>43</sup> Colliers International. *Real Estate Market Overview 2015* [online]. [cit. 2015-07-15]. Available at: [http://www.liaa.gov.lv/files/liaa/attachments/baltic\\_states\\_real\\_estate\\_market\\_overview\\_2015\\_digital.pdf](http://www.liaa.gov.lv/files/liaa/attachments/baltic_states_real_estate_market_overview_2015_digital.pdf)

the number of 22%.<sup>44</sup> The yields in Vilnius are lower compare to Riga, which is representing the lower risk for investors. In office sector the yield is 7%, in retail also 7% and in industrial market 8.75%.<sup>45</sup>

The situation with the shopping centre in the capital is improving, new SCs are opening. In 2014 the shopping centre space has grown by 4.1% that to the opening of 3 new SCs with total GLA of 22620 m<sup>2</sup>. The total GLA in 2014 has reached 574300 m<sup>2</sup>. For the following 2015 and 2016 5 new projects are in pipeline in Vilnius and 2 in Kaunas and Klaipeda with the total GLA over 100000 m<sup>2</sup>.

The rent prices in Vilnius are lower than in neighbouring Baltic countries, it correlate between 13 and 22 Euros/ m<sup>2</sup> for the retail unit of 150 -350 m<sup>2</sup> .<sup>46</sup>

From the table 8 demonstrating main SCs in Vilnius I can say that on average the size of the SCs are higher in Lithuania than in other Baltic countries.

**Table 8 - Shopping Centres Vilnius**

SC	Opening	GLA (m <sup>2</sup> )	Number of stores	Key tenants	Footfall in thousands per Annum
Akropolis	2002-2004	95000	219	Maxima, Elektromarkt, Lindex, Monton, Kristiana, Cipolino	13500
Ozas	2009	62000	166	Prisma, FatnasyPark, Multikino, Peek&Cloppenburg, Reserved, Vero Moda	n/a
Panorama	2008	50000	155	Rimi, Aparanga, Kristiama, BMS Megapolis, NewYorker, lindex, Pull&Bear	n/a
Europa	2004	17000	80	Maxima, Miyako, Mexx, GANT, Etam, Reserved, Salamander	n/a
BIG	2006	15600	69	Maxima, Seppala, Avieta, Danija	n/a

Source: Author based on DTZ European Retail Guide<sup>47</sup>

## Estonia

Total Investment in Estonian CRE market has reached EUR 240 million in 2014. The largest volumes were in industrial sector with 34% of total investments, followed by retail 29%. In 2015 the number is expected to be higher than the previous year. Only in first quarter of 2015 the number has already exceeded EUR 150 million. Sectorwise office and retail are predicted to dominate in 2015 with the yields around 7% in both. Yield in industrial sector is more than 8%

In 2014 several shopping centres were refurbished such as Lasnamäe Centrum and Ülemiste shopping centre. Also the new shopping centre in Põhja - Tallinn city district of Tallinn was

<sup>44</sup> Colliers International. *Real Estate Market Overview 2015* [online]. [cit. 2015-07-15]. Available at: [http://www.liaa.gov.lv/files/liaa/attachments/baltic\\_states\\_real\\_estate\\_market\\_overview\\_2015\\_digital.pdf](http://www.liaa.gov.lv/files/liaa/attachments/baltic_states_real_estate_market_overview_2015_digital.pdf)

<sup>45</sup> *The Baltic course magazine*

<sup>46</sup> Colliers International. *Real Estate Market Overview 2015*

<sup>47</sup> DTZ. *European Retail Guide-Shopping Centers* [online]. 2013[cit. 2015-04-11]. Available at: [http://www.dtz.dk/files/other/Markedsrapport/dtz\\_european\\_retail\\_guide\\_-\\_shopping\\_centres\\_march\\_2013.pdf](http://www.dtz.dk/files/other/Markedsrapport/dtz_european_retail_guide_-_shopping_centres_march_2013.pdf)

opened. By the beginning of 2015, the stock of Tallinn retail space had increased by approximately 28,900 m<sup>2</sup> since the beginning of 2014, to a total of 542,200 m<sup>2</sup>. In 2015 is planned to be completed the development of the Mustamäe leisure shopping centre and the Viimsi Centre in Viimsi (Tallinn's neighbouring municipality). The new shopping centre will be more focusing on leisure and entertainment activities for their customers. Additionally, new international brands such as Massimo Dutti, H&M and River Island continue to enter the market.<sup>48</sup> The rent in prime shopping centres in Tallinn ranges between 12 and 45 Euros depending on the size of the retail unit. Below in Table 9 we can see 5 largest SCs in Tallinn.

**Table 9 - Shopping centres in Tallinn**

SC	Opening	GLA (m <sup>2</sup> )	Number of stores	Key tenants	Footfall 1000 per Annum	Turnover (Euros/m <sup>2</sup> /year)
Roccca al Mare	1998	53300	165	Prisma, Vero Moda, Monton, New Yorker	6400	2420
Kristiine Keskus	1999	42500	170	Prisma, Marks&Spencer, Zara, Sportland, Euronics	7100	2400
Jarve Keskus	2000	41800	108	Selver, Aat, Rademar, Huppa, DenimDream	n/a	n/a
Ulemiste	2004	37500	160	Rimi, Lindex, Mustang, New Yorker, Promod	4800	2533
Viru Keskus	2004	26300	100	Kaubamaja, Vero Moda, Promod, Terranova	11000	4753

Source: Author based on DTZ European Retail Guide<sup>49</sup>

## Romania

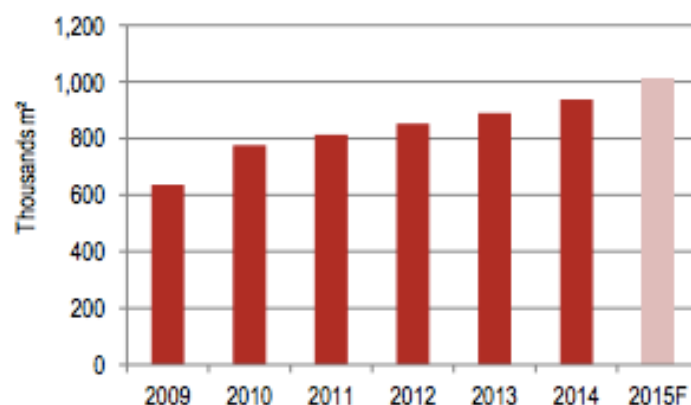
Romania has a big potential in CEE region mainly due to high number of population and a significant projected increase in purchasing power in the medium to long-term. The volumes of investments in 2014 has reached 1.3 billions which is 283% increase compare to 2013. Retail transactions accounted for 41% of total volume. The majority deals were in Bucharest. Promenada SC from Raiffeisen Evolution was the largest single asset transaction in Bucharest ever and had a number of 148 million euros.

Two retail projects were build in Romania in 2014. First was shopping City Targu Jiu (27000m<sup>2</sup>) by South-African Investment fund, NEPI. The second was Auchan Drumul Taberei (20000m<sup>2</sup>) in the west of Bucharest. The total GLA in Romania is 2.62 million m<sup>2</sup>. The retail area in Bucharest accounts for more than 35%, approximately 938000m<sup>2</sup>. The further development is planned for year 2015 as you can see from the Image 2 below.

<sup>48</sup> Colliers International. Real Estate Market Overview 2015

<sup>49</sup> DTZ. *European Retail Guide-Shopping Centers* [online]. 2013[cit. 2015-04-11]. Available at: [http://www.dtz.dk/files/other/Markedsrapport/dtz\\_european\\_retail\\_guide\\_-\\_shopping\\_centres\\_march\\_2013.pdf](http://www.dtz.dk/files/other/Markedsrapport/dtz_european_retail_guide_-_shopping_centres_march_2013.pdf)

**Image 2- Modern Retail Stock in Bucharest**



Source: JLL

Many international retailers have entered the market and plan the further expansion in Romania. In 2014 the most attractive fashion retailer was H&M, which has 38 stores across Romania. H&M considers the market in Romania the most profitable in terms of revenue in the whole CEE region. Other international brands such as Inditex group, Ecco, CCC Shoes and others are also expanding in Romania.

The yields in retail properties in Romania are 7.75%.<sup>50</sup> Prime shopping centre rents are 60-70euros/m2/monthly.<sup>51</sup> From the table 10 we can see that SC in Bucharest tend to be larger than in neighbouring countries.

**Table 10 - Shopping centres in Bucharest**

SC	Opening	GLA (m2)	Number of stores	Key tenants	Turnover (Euros/m2/year)
Sun Plaza	2010	76500	170	Cora, Cinema City, H&M, Marks&Spencer, Hervis, Humanic	n/a
Afi Palace Cotroceni	2009	75000	250	Real Hypermarket, H&M, Stefanel, Guess, Pure Fitness, Cinema City	318
Unirea Shopping Center	2000	43293	281	Zara, New Yorker, Pull&Bear, Stradivarius, H&M, Body Shop	462
Baneasa Shopping city	2008	43000	220	H&M, inditex, Peek&Cloppenburg, Nine West, New Look, iStyle	698
Bucuresti SC	1999	30000	140	Mega Image, Zara, Mango, H&M, Tina R, Body Shop, Sephora, Hollywood Multiplex	533

Source: Author based on JLL, Bucharest city report 2014

<sup>50</sup> JLL. CEE Investment Market Pulse 2014 Report. 2015.p.4

<sup>51</sup> JLL. Bucharest city report. [online]. 2014 [cit. 2015-04-11]. Dostupné z: [http://www.jll.ro/romania/en-gb/Research/Bucharest\\_City\\_Report\\_Q4\\_2014.pdf?cdaf7989-1835-45f8-b155-546518a75ad6](http://www.jll.ro/romania/en-gb/Research/Bucharest_City_Report_Q4_2014.pdf?cdaf7989-1835-45f8-b155-546518a75ad6)

## **7. Case Study of SC Bubny in Prague, Czech Republic**

In the previous parts we have looked at the theoretical framework of shopping centre industry, its general success factors, new trends and the situation in CEE countries. The Czech Republic market outlook showed that the market saturation is quite high but there is still potential for shopping centres of high quality. It is proven by growing number of investment coming into the industry. In this part I have concentrated on the Czech market and have applied the theoretical framework to the real project. I have chosen Bubny shopping centre in Prague 7 for the case study. On the example of this project I have demonstrated how commercial real estate companies developing the concept of successful shopping centre in the very initial phase and evaluate its potential profitability and market price. All the important aspects of developing a successful shopping centre have been taken into account.

Firstly, I have made a PESTLE analysis of Czech Republic to see the detailed situation on the market and predictions for the future. In political analysis I have looked at transparency index, political stability of the country, grey economy, level of corruption, relations with neighbouring countries, EU integration and level of criminality. In macroeconomic analysis I have used the data from Czech Statistic Office, Eurostat and Czech National Bank to see the trends of macroeconomic indicators and their development in time. Additionally for some indicators I have used the European average of 28 countries to see the situation of Czech Republic compare to other countries in European Union and also compared the number to the ones in neighbouring countries in CEE region. To see the development of economics for the following 4 years I have used the predictions of Business Monitor International generated using the best-practice techniques of time-series modelling and casual/economic modelling such as vector autoregressions and decomposition methods. In the social analysis I have looked at the specification of Czech consumers in terms of buying behaviour, their hobbies and lifestyle which could affect the operation of the SC. In technological environment I have considered briefly the digitalisation aspect in Czech Republic. Legal factors were studied mainly the ones directly affecting shopping centre business, such a property taxation in Czech Republic. In environmental analysis I have explained, which environmental certification successful shopping centre should obtain and how it could be done.

After conducting PESTLE research I have moved to the market analysis directly related to SC Bubny, starting from explanation of the project and its current status, moving to catchment area and location analysis, following with competition analysis of the SC directly located in the closer proximity of SC Bubny. Based on market research, pestle and theoretical trends I have identified what are the main aspects SC Bubny should include in order to succeed and I have developed a concept that was later presented to UR company, the owner of the land. The concept was fully based on my assumptions and I had no information about the exact plans of the UR company regarding the project. The concept includes detailed leasing plan, services, events, design and architecture, layout plans and financial valuation of the project. The only information provided by UR was the catchment area population and the shape of the floors layout that could be built on the available plot of land. Additionally, I have taken the base for the investments costs from the official report of the UR company.

## 7.1. PESTLE Analysis

### Political Environment

One of the reasons why Czech Republic is attractive to the foreign investors is political stability. Political advantage of the Czech Republic is membership in the European Union, World Trade Organization and International Monetary Fund and good external relations, which give more investment opportunities. The Czech commercial, accounting and bankruptcy laws are compatible with EU standards. Additionally, it has a democratic system of government based on parliamentary democracy and free competition among political parties. The President is elected by Parliament for a term of five years at a joint meeting of the lower and upper houses.<sup>52</sup>

Czech Republic Real Estate Market is classified as transparent by JLL. In the Transparency Index for 2014, the Czech Republic ranked 24th, making it the second-highest ranking CEE country after Poland. Similar to Poland, Czech Republic scores especially well in the depth of market data. The IPD (Investment Property Database) has also been presenting an annual performance indicator for the Czech Republic since 2010, increasing transparency<sup>53</sup>

**Table 11 - Global Real Estate Transparency Index 2014**

Rank	Market	Transparency Level
1	United Kingdom	Highly Transparent
5	France	
7	Netherlands	
9	Finland	
10	Switzerland	Transparent
11	Sweden	
12	Germany	
15	Belgium	
16	Denmark	
17	Poland	
18	Spain	
19	Norway	
21	Austria	
22	Italy	
23	Portugal	
24	Czech Republic	
25	Hungary	
30	Romania	Semi-transparent
32	Slovakia	

Source: Author based on JLL transparency index<sup>54</sup>

<sup>52</sup>Embassy of the Czech Republic in the Hague [online]. [cit. 2015-07-10]. Available at:

[http://www.mzv.cz/hague/en/general\\_information\\_on\\_the\\_czech/political\\_system/index.html](http://www.mzv.cz/hague/en/general_information_on_the_czech/political_system/index.html)

<sup>53</sup> UNICREDIT., *Commercial Real Estate in Czech Republic* [online]. In: . [cit. 2015-07-09]. Available at:

[https://www.bankaustria.at/files/201303\\_E\\_Real\\_Estate\\_Czech\\_Republic.pdf](https://www.bankaustria.at/files/201303_E_Real_Estate_Czech_Republic.pdf)

<sup>54</sup> JLL. *Global Real Estate Transparency Index 2014* [online]. [cit. 2015-07-16]. Available at:

<http://www.jll.com/greti/rankings>

Nevertheless, there is still some portion of grey economy and when analysing the reports we should take into consideration that actual retail sales might be higher than stated. These potential corruption factors have recently been highlighted by BMI as a risk. A survey conducted by the Centre for Public Opinion Research (CVVM) in April 2014 found that around three quarters of Czech citizens believe the majority or almost all government officials are corrupt. (CTK).<sup>55</sup>

In general, Czech Republic has good political and business relations with all the neighbouring countries. But one of the potential risks is ongoing political unrest in neighbouring Ukraine and Russia since it might negatively affect the relations of countries and discourage the investment opportunities as well as potential undesirable tourist impact. Czech Republic has always been popular tourist destination for Russian and Ukrainian visitors and decrease in tourism from them can affect the sales in retail and consequently the profitability of the shopping centres. According to Czech Statistical Office there was a decline in number of tourists in 2014 from Russia and Ukraine due to political unrest and economic crisis in both countries.<sup>56</sup> The predictions for upcoming years should be taken into account when considering investment, since the decrease in tourists can affect the retail sector. The size of the impact depends on the shopping centre location. Obviously, the city centre area is affected more.

Last but not least, what makes Czech Republic a good place for shopping centre investment is the low criminality level. According to BMI Crime and Security Index, it has the fourth place out of 30 Emerging Europe countries with a score 79.1 out of 100. *BMI's Operational Risk Index quantitatively compares the challenges of operating in 170 countries worldwide. The index scores each country on a scale of 0-100, with 100 being the lowest risk state. The entire index consists of 20 sub-index scores and 79 individual surveys and datasets, which all contribute to the headline score. A full methodology can be found at back of the report.*<sup>57</sup> The risk of a terrorist attack occurring in the Czech Republic is also low.<sup>58</sup>

## **Economic Environment**

In macroeconomic analysis, I am looking at the following indicators: GDP, Inflation Rate, Unemployment Rate, Average Salary, Retail spending, Exchange rate, Foreign Direct Investment, Interest Rate and Long term government bond yields. I have used the data from Czech Statistic Office, Eurostat and Czech National Bank to see the trends of macroeconomic indicators and their development in time. Additionally for some indicators I have used the European average of 28 countries to see the situation of Czech Republic compare to other countries in European Union and also compared the number to the ones in neighbouring countries in CEE region. To see the development of economics for the following 4 years I have looked at the predictions of Business Monitor International generated using the best-

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<sup>55</sup> BMI., *Czech Republic Retail Report Q4 2014* [online]. [cit. 2015-07-09]. Available at: <http://www.reportlinker.com/p0139379/Czech-Republic-Retail-Report-Q4.html>

<sup>56</sup> *Tourism unit city of Prague* [online]. [cit. 2015-07-10]. Available at: <http://cestovniruch.praha.eu/jnp/en/statistics/index.html>

<sup>57</sup> BMI., *Czech Republic 2015*

<sup>58</sup> BMI. *Czech Republic 2015* [online]. [cit. 2015-07-10]. Available at: <http://www.bmiresearch.com/czech-republic>



practice techniques of time-series modelling and casual/economic modelling such as vector autoregressions and decomposition methods.

## **GDP**

First of all, I analyse **Gross Domestic Product** to see the economic activity in the Czech Republic for the last seven years and how it has changed between the years. In order to compare the performance with other countries of European Union I have chosen the Volume index of GDP per capita in Purchasing Power Standards (PPS), *which is expressed in relation to the European Union (EU28) average set to equal 100. If the index of a country is higher than 100, this country's level of GDP per head is higher than the EU average and vice versa. Basic figures are expressed in PPS, i.e. a common currency that eliminates the differences in price levels between countries allowing meaningful volume comparisons of GDP between countries. Please note that the index, calculated from PPS figures and expressed with respect to EU28 = 100, is intended for cross-country comparisons rather than for temporal comparisons.*<sup>59</sup>

GDP per capita in PPS in Czech Republic was 82, meaning that it is under EU average. But the situation is better than in neighbouring countries. Slovakia (75), Poland (67), Hungary (66), Romania (55), Lithuania (73), Latvia (64) and Estonia (73).<sup>60</sup> If we look at the table below we can see that it is quite stable for the past 7 years and always has the number slightly over 80.

**Table 12 - GDP**

Year		2007	2008	2009	2010	2011	2012	2013	2014
<b>GDP Volumes (billions CZK)</b>	Czech Republic	3831,8	4015,3	3921,8	3953,7	4022,4	4047,7	4086,3	4266,1
<b>GDP per capita in PPS - Index</b>	Czech Republic	84	82	83	81	83	82	82	83
	EU average (28 countries)	100	100	100	100	100	100	100	100
<b>Real GDP (%)</b>	Czech Republic	5,5	2,7	-4,8	2,3	2,0	-0,8	-0,7	2,0
	EU average (28 countries)	3,1	0,5	-4,4	2,1	1,7	-0,50	0	1,3

Source: Author based on statistics from Eurostat.

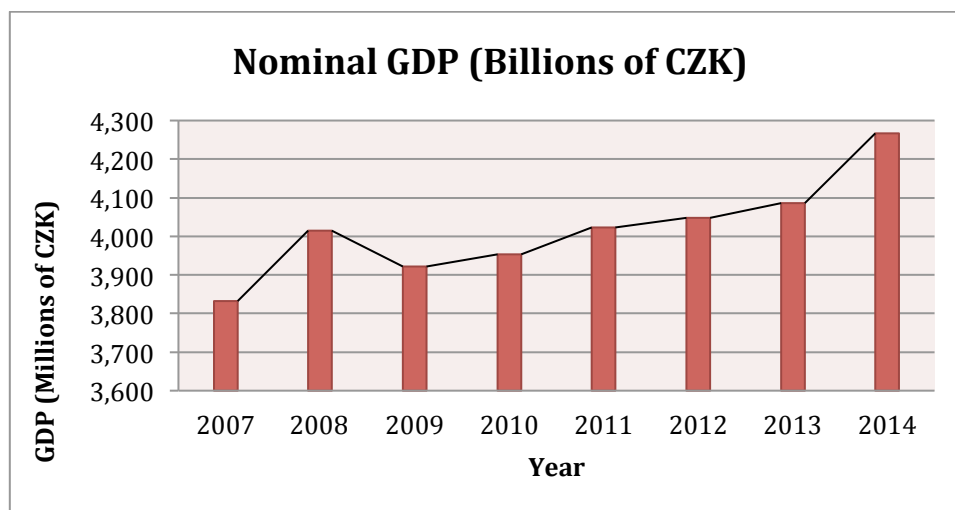
In order to have absolute numbers and to see the total volume of GDP in the Czech Republic I have included Nominal GDP into my analysis. We can see from the Graph 1 the positive trend in the development of Nominal GDP. After crisis in 2009 the GDP has been constantly growing, which indicates the improvement of economic situation in Czech Republic. And analysts are predicting stable growth for the following 4 years.<sup>61</sup>

<sup>59</sup> Eurostat [online]. [cit. 2015-08-23]. Available online: [http://www1.enviroportal.sk/pdf/indikatory/0086/8626/AB\\_HDP\\_ob.pdf](http://www1.enviroportal.sk/pdf/indikatory/0086/8626/AB_HDP_ob.pdf)

<sup>60</sup> Eurostat

<sup>61</sup> BMI

Graph 1 - Nominal GDP



Source: Author based on statistics from Eurostat.

We can see the similar situation at the Real GDP growth rate. In 2009 the crisis has significantly affected the economy and led to a 4, 8% drop and also the GDP has experienced the recession in 2012-2013. But in 2014 the GDP position strengthened and now we can see the growth of Real GDP in the Czech Republic of 2%. It is higher than the EU average, which was 1.3%.<sup>62</sup> Moreover, it is higher than western countries such as Spain, France, Italy, Belgium, Netherlands and Germany. In CEE region most of the countries had a Growth of Real GDP, some of the countries had it slightly higher than Czech Republic. For example, Slovakia has 2,4% increase of real GDP, Hungary 3,6%, Romania 2,9%, Slovenia 2,6%, Latvia 2,4%, Lithuania 2,9% and Estonia 2,1%. All those positive numbers mean that CEE region economy becomes more stable and developing with each year. In 2014 foreign demand contributed significantly to the y-o-y growth rate; the other important components were domestic demand for investment goods and final consumption of households.<sup>63</sup> For the following year Czech National Bank predicts the GDP growth rate to exceed 2%. In specific, GDP rate should reach 2.6 % in 2015 and 3.0 % in 2016. BMI also predicts stable yearly growth of GDP around 3% for the following 5 years.<sup>64</sup>

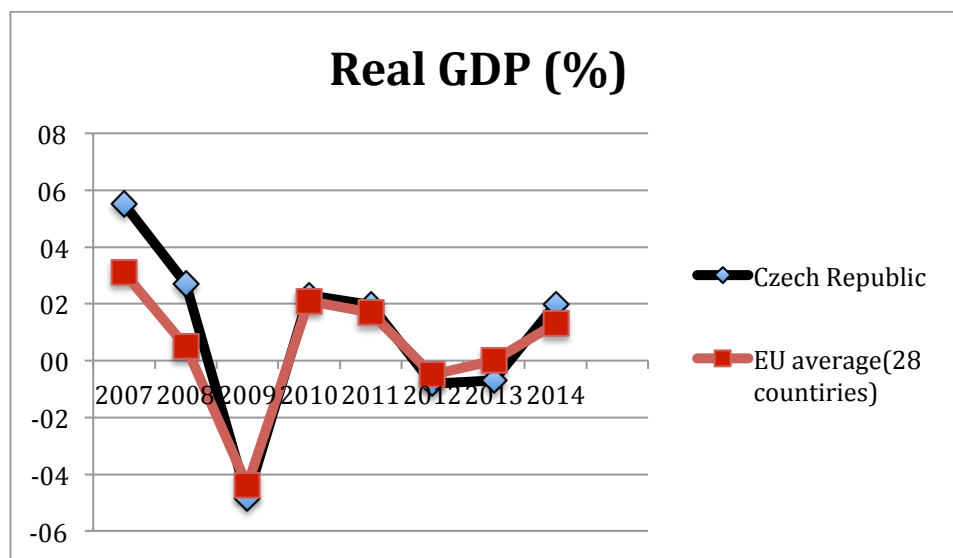
In general we can see that the growth of real GDP in the Czech Republic correlates a lot with EU average due to significant EU integration of Czech Republic.

<sup>62</sup> European Commission [online]. [cit. 2015-07-10]. Available at: <http://ec.europa.eu/eurostat/guip/themeAction.do>

<sup>63</sup> CZSO [online]. [cit. 2015-07-10]. Available at: <https://www.czso.cz/>

<sup>64</sup> CZECH REPUBLIC RETAIL REPORT Q3 2014 [online]. 2014. [cit. 2015-05-06]. ISSN 2040-9176. Available at: [www.businessmonitor.com](http://www.businessmonitor.com)

Graph 2 - Real GDP



Source: Author based on statistics from Eurostat

## Inflation

Another important indicator for macroeconomic analysis is the **inflation rate** – annual average rate of change in prices. In my analysis I will use Harmonized Indices of Consumer Prices (HICP) used for international comparisons of consumer price inflation.

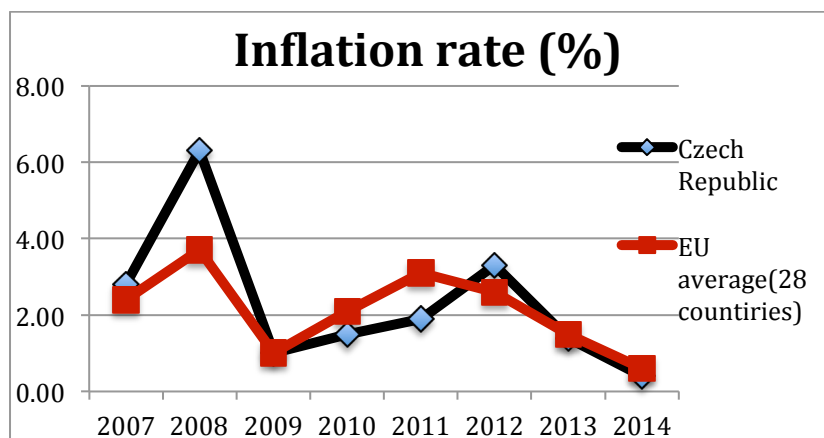
We can see that in the Czech Republic the highest inflation was in year 2008, which was mainly due to increase of VAT and groceries prices increase. Another increase of VAT was in year 2010 from 19 % to 20 %, which also had affected the inflation. Nevertheless, the last two years we can notice from the graph 3 that the inflation has mostly been on a downward trajectory since 2012 after it reached its pick at 3,3 % and its level is slightly below the EU average, which is a positive sign and no extreme prices changes are expected. In year 2014 the inflation rate slowed down due to stable prices in leisure, tourism, and transportation. Other categories had very little increase in prices. And categories such as post services and telecommunication had decrease in prices.

Table 13 - HICP

Year		2007	2008	2009	2010	2011	2012	2013	2014
HICP - Inflation rate (%)	Czech Republic	2,80	6,30	1,00	1,50	1,90	3,30	1,40	0,40
	EU average (28 countries)	2,40	3,70	1,00	2,10	3,10	2,60	1,50	0,60

Source: Author based on statistics from Eurostat.

Graph 3 - Inflation Rate



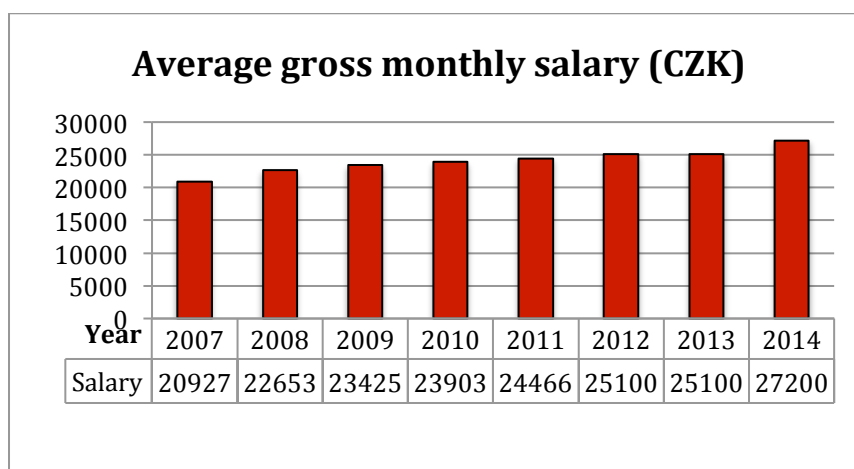
Source: Author based on statistics from Eurostat

## Salary

In order to see how inflation rate affecting the purchasing power of population and if the financial wellbeing is improving I have looked at the average gross monthly salary in Czech Republic and we can see that each year it is increasing. Currently the average gross monthly salary is 27 200 CZK. The nominal increase of salary in 4<sup>th</sup> quarter of 2014 compare to year 2013 was 2, 3% and the real increase 1, 9%. According to the graph below the total increase of average salary in year 2014 was 8, 4% and was the highest during the last 7 years. Due to low inflation it significantly increases the purchasing power of population. Median of salaries in Q4 of 2014 was 22 847 CZK, which is 647 CZK higher than the average. Female's median was 20 552 CZK and male's median 24 847 CZK.

Additionally for the following 4 years the low population growth is predicted which is likely a result of emigration of many of the young adult population to EU member countries. But the slow growth in households combined with the increase in GDP creates increase in spending power per capita.

Graph 4 - Average Gross Monthly Salary in Czech Republic



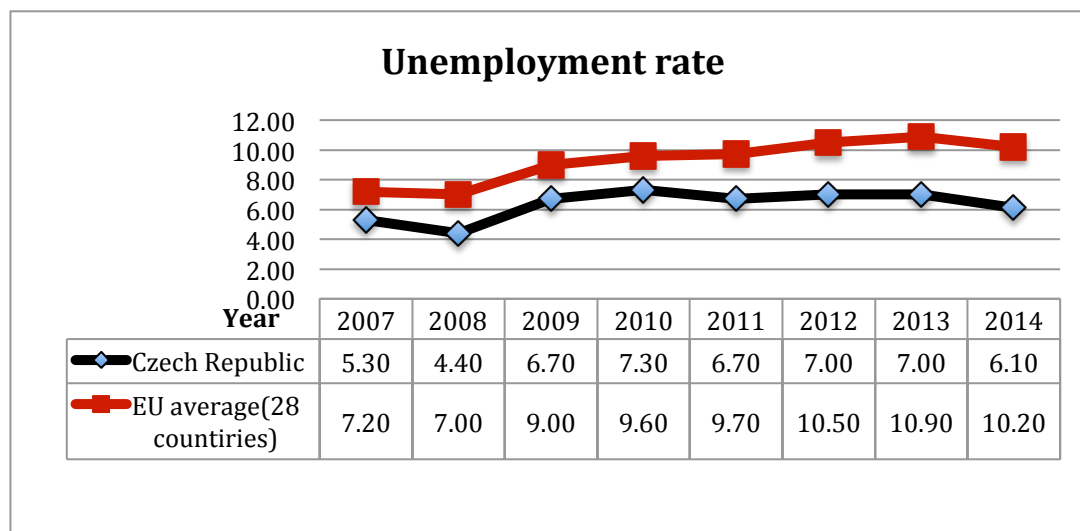
Source: Author based on data from CZSO<sup>65</sup>

<sup>65</sup> [https://www.czso.cz/csu/czso/prace\\_a\\_mzdy\\_prace](https://www.czso.cz/csu/czso/prace_a_mzdy_prace)

## Unemployment

Additionally to increase in salaries the unemployment rate has decreased in year 2014 by 0, 9%. The highest decrease was in Prague as a result of rising number of offices of international companies opening up in the capital of Czech Republic. As we can see from the graph below the unemployment rate in Czech Republic is always lower than the EU average. The EU28 unemployment rate in 2014 was 10, 2%. In fact, out of the whole European Union, Czech Republic had the third lowest unemployment rate after Germany and Austria in 2014.<sup>66</sup> For the year 2015 unemployment rate is predicted at 6, 9%.<sup>67</sup>

Graph 5 - Unemployment rate in Czech Republic



Source: Author based on data from CZSO and Eurostat

## Consumer Spending

This indicator perhaps is the most important for the commercial real estate since it reflects the changes in the economy which directly affect the profits of the tenants in the shopping centres and the revenues of the shopping centre owner. As can be seen from the table bellow total household spending in retail will increase from 2047 billions of CZK in 2014 to 2487 billions of CZK in 2018, meaning that an average customer will be spending 19046 CZK monthly when in 2013 this number was 15 477 CZK. This number represents almost 25% increase in yearly spending over 5 years which is significant improvement and it will attract a lot of new brands to enter the retail market of Czech Republic creating opportunity to build new retail spaces.

Table 14 - Total household spending 2011-2018

Total household spending 2011-2018								
	2011	2012	2013	2014	2015f	2016f	2017f	2018f
Total Household spending, CZK bn	1,998	1,970	1,993	2,047	2,139	2,254	2,366	2,487
Total household spending, % of GDP	52.29	51.42	51.72	51.92	51.76	51.53	51.03	50.75
Total household spending, CZK per capita	188236	184322	185727	190415	198249	209397	217711	228557

<sup>66</sup> Eurostat [online]. [cit. 2015-08-18]. Available at: <http://ec.europa.eu/eurostat/documents/2995521/6581668/3-30012015-AP-EN.pdf/9d4fbadd-d7ae-48f8-b071-672f3c4767dd>

<sup>67</sup> Macroforecast [online]. [cit. 2015-08-18]. Available at: <http://www.mfcr.cz/macroforecast>

Source: Author based on data from Eurostat and BMI

To see the break of retail spending by sectors I have used the data from Eurostat and predictions by Business Monitor International. According to it, as shown in the table below, Czech consumers spend the most on housing and utilities; it took 26,5 % of all spending in 2014. The food and beverage sector is the second largest and accounts for 14, 7% of retail spending. It is interesting to note that the portion of expenditures in the housing sector is significantly higher in the Czech retail market than in some of its Central European neighbours. Spendings on housing and utilities are forecasted to increase throughout the projection period to 27, 1% of total market spend in 2018 indicating the real opportunity for this sector. Recreation and culture expenditure represents the third largest segment, which shows that Czech consumers pay very high attention to quality of life and their leisure. The largest decline is predicted to be in alcohol drinks and tobacco sector expenditures, which reflects the trend of healthy lifestyle. Additionally, it seems the Czech consumer will increase their focus on personal health and well being demanding higher quality of products.

**Table 15 - Retail Sector Spending %, 2011-2018**

<b>Retail sector spending %, 2011-2018</b>								
<b>Sector,% total</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015f</b>	<b>2016f</b>	<b>2017f</b>	<b>2018f</b>
<b>Food and non-alcoholic drinks</b>	14.7	14.8	14.8	14.7	14.5	14.4	14.2	14.0
<b>Alcoholic drinks and tobacco</b>	9.2	9.3	9.2	9.2	9.1	9.0	9.0	8.9
<b>Clothing and footwear</b>	3.1	3.1	3.1	3.1	3.0	3.0	3.0	3.0
<b>Housing and utilities</b>	26.5	26.4	26.4	26.5	26.7	26.8	27.0	27.1
<b>Furnishing and home</b>	5.3	5.3	5.3	5.3	5.3	5.3	5.2	5.2
<b>Health</b>	2.5	2.5	2.5	2.5	2.5	2.6	2.6	2.6
<b>Transport</b>	9.3	9.3	9.3	9.3	9.3	9.3	9.4	9.4
<b>Communications</b>	3.0	3.0	3.0	3.0	3.1	3.2	3.2	3.3
<b>Recreation and culture</b>	9.4	9.4	9.4	9.4	9.5	9.5	9.5	9.5
<b>Education</b>	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7
<b>Restaurants and hotels</b>	7.7	7.7	7.7	7.7	7.7	7.7	7.6	7.6
<b>Personal</b>	8.6	8.6	8.6	8.6	8.6	8.6	8.7	8.7

Source: Author based on data from Eurostat and BMI

**Table 16- Retail Sector Spending, CZK bn, 2001-2018**

<b>Retail Sector Spending, CZK bn, 2011-2018</b>								
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015f</b>	<b>2016f</b>	<b>2017f</b>	<b>2018f</b>
<b>Food and non-alcoholic drinks</b>	294	292	294	301	311	323	336	349
<b>Alcoholic drinks and tobacco,</b>	184	182	184	188	195	204	212	221
<b>Clothing and footwear</b>	61	60	61	63	65	68	71	74
<b>Housing and utilities</b>	529	520	527	543	570	605	638	674
<b>Furnishing and home</b>	106	104	105	108	113	119	124	130
<b>Health</b>	50	49	49	51	54	58	61	65
<b>Transport</b>	186	183	186	191	199	211	221	233
<b>Communications</b>	60	59	60	62	66	71	76	82
<b>Recreation and culture</b>	188	185	188	193	202	214	225	237

<b>Education</b>	13	13	13	13	14	15	16	17
<b>Restaurants and hotels</b>	154	152	154	158	164	172	180	189
<b>Personal, insurance and other</b>	172	170	172	177	185	195	205	216

Source: Author based on data from Eurostat and BMI

Growing GDP, quality of life and increase in housing sector will create a demand for household goods giving opportunities for new retailers to enter the market. As the demand in housing and utilities increases, it is a logical next step that spending on the internal furnishings of homes would also rise and it is predicted to reach 130 billion of CZK in 2018. Within the household goods sector, the furniture and furnishings and household textiles are the main categories that will grow. Average rate of growth in these categories will be 10.3% from 2015 to 2018.

The fashion sector in the Czech Republic will grow in line with overall GDP upturn but fails to be a star performer in the retail sector. Its share of total income is projected to decline from 3, 1% in 2014 to 3% in 2018. But the absolute values are increasing and the spending in clothing and footwear will grow from 63 billion of CZK to 74 billion of CZK in 2018. The higher progress according to analysts will be in the clothing sector, not the footwear sector, indicating that the investment in the clothing sector has greater potential. The growth in absolute numbers is the result of higher per-capita income of the Czech consumers. Also the rising wealth of population will likely impact the demand for middle class "branded" clothing and footwear.<sup>68</sup>

### **Exchange rate**

The fact that Czech Republic doesn't have the euro currency creates risk for currency fluctuations; therefore it is important to follow the exchange rate development.

As we can see from the graphs below there are very big volatilities in the currency rates, which are hard to predict. We can see as an example from the graph 6 very rapid escalations in USD price in 2015. It jumped from 20 CZK per 1 USD to 25, 6 CZK within half year. Even though now it is decreasing there are still instabilities and potential threats for investors.

Euro correlates around 27, 5 CZK for the past half-year as can be seen from Graph 7, however, there is a risk of fluctuations and therefore very often in Czech Republic leasing contract terms are in Euros to avoid the currency risk. Commercial real estate is the industry that will very much depend on the fluctuations of the currency.

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<sup>68</sup> BMI. CZECH REPUBLIC RETAIL REPORT Q3 2014

**Graph 6 - USD/CZK exchange rate 2006-2015**



Source: CNB

**Graph 7 - EUR/CZK Exchange Rate 2006-2015**



Source: CNB

## Foreign Direct Investment

If we look at the Foreign Direct Investment intensity, the Czech Republic has been a popular destination for the foreign investors since the 1990 thanks to its advantageous geographical location combined with reliable infrastructure, availability of suppliers, financial stability, availability of financing, investment incentives, skilled workforce and high educational level. The total amount of FDI in 2012 has reached EUR 103 billions and country had the second highest stock of total FDI (cumulative FDI 1993–2012) per capita in CEE in 2012 and the highest profitability of FDI among EU New Member States (NMS) in 2012.<sup>69</sup> The level of FDI in 2013-2014 remained stable around 100 billions of EUR (see table 14). Most of the FDI flowing into the Czech economy originates in the EU. The top countries of origin of FDI coming to the Czech Republic are Netherlands, France, Germany and Austria.<sup>70</sup>

Most of the foreign direct investments are coming into in manufacturing sector and the services sector (banking, real estate activities, trade). The top three service sectors were financial and insurance activities, wholesale and retail trade, and real estate activities

*While the dynamics of the inflow of FDI decreased after 2008 due to the financial crisis, and later largely to the recession experienced by the country between 2011 and mid-2013 and the*

<sup>69</sup> KPMG-Investment-in-the-Czech-Republic-2014 [online]. [cit. 2015-05-08]. Available at: <https://www.kpmg.com/CZ/cs/IssuesAndInsights/ArticlesPublications/Factsheets/Documents/KPMG-Investment-in-the-Czech-Republic-2014.pdf>

<sup>70</sup> CNB [online]. [cit. 2015-07-10]. Available at: <https://www.cnb.cz/en/>



*economic problems of the Eurozone, the Czech Republic was still No. 2 according to inward FDI per capita among all Central and Eastern European countries in 2012. Czech Republic remains attractive for the investors because it creates stable high profitability as indicated by the KPMG report.*

**Table 17 – Foreign Direct Investment 2008-2014**

FDI –Czech Republic 2008-2014							
Year	2008	2009	2010	2011	2012	2013	2014
<b>CZK M</b>	2189455	2311197	2409580	2404151	2600877	266874	2791386
<b>EUR M</b>	81302	87330	96152	93184	103455	97311	101703

Source: Author based on data from CNB

According to WEF GCR 2013–14 report The Czech Republic had the best scores among EU NMS in the following indicators which explains its attractiveness for the investors.<sup>71</sup>

**Table 18 – Czech Republic Global Rank**

Indicator	Global rank	Within the NMS group
Quality of overall infrastructure	37	3
Quality of railroad infrastructure	22	2
Quality of air transport Infrastructure	21	1
Quality of electricity supply	20	1
Local availability of specialised research and training services	26	1
Internet access in schools	24	3
Health	14	3
Individuals using the Internet (%)	28	3
Exports as a percentage of GDP	12	4
Local supplier quantity	25	1
Local supplier quality	21	1
Value chain breadth	24	1
Production process sophistication	32	1
Capacity for innovation	26	1
Quality of scientific research institutions	26	3
Company spending on R&D	32	1

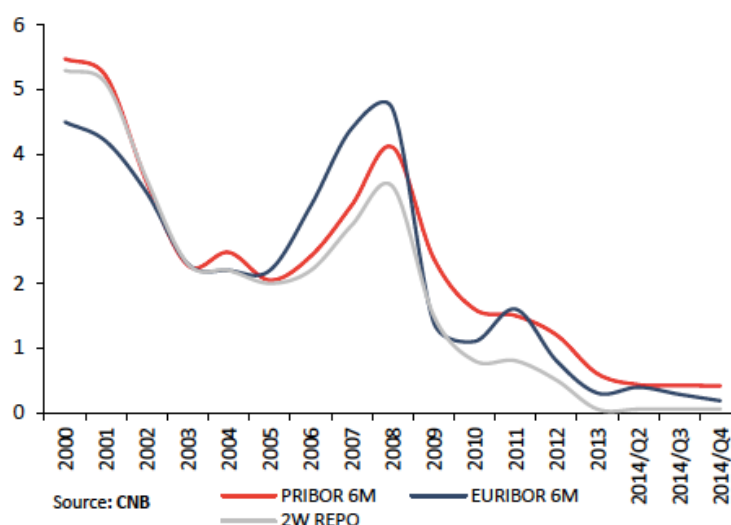
Source: Author based on WEF GCR 2013–14 report

## Interest Rate

There was no change recorded with regard to the interest rates in 2014/Q4. The 2W Repo Rate still remains at the level of 0, 05 % (for more than 2 years), the discount rate stays at 0, 05% and the Lombard rate at 0, 25%.

<sup>71,44</sup> IMD (2013): World Competitiveness Yearbook 2013 published by the IMD World Competitiveness Center

**Graph 8 - 2W Repo, Pribor 6M, ERIBOR 6M, %**



Source: CNB

### Long term government bond yields - %

In the table below the data regarding long term government bond yields are presented, which are *calculated as monthly averages (non seasonally adjusted data)*. They refer to central government bond yields on the secondary market, gross of tax, with a residual maturity of around 10 years.<sup>72</sup> We can see that the yields in Czech Republic are lower than in the neighbouring CEE countries which reflects the fact that it is less risky and more stable return can be expected. So Czech Republic is the better place for conservative investors who prefer less risky investments.

**Table 19 - Long term government bond yields**

Long-term government bond yields										
GEO/TIME	2014M 06	2014M 07	2014M 08	2014M 09	2014M 10	2014M 11	2014M 12	2015M 01	2015M 02	2015M 03
EU (27 countries)	2,26	2,14	1,99	1,87	1,77	1,68	1,49	1,25		1,26
Czech Republic	1,55	1,49	1,38	1,21	1,10	0,87	0,67	0,35	0,40	0,35
Hungary	4,50	4,33	4,73	4,59	4,21	3,70	3,62	3,18	3,07	3,29
Austria	1,65	1,47	1,28	1,22	1,10	0,98	0,81	0,54	0,44	0,37
Poland	3,54	3,34	3,36	3,10	2,72	2,54	2,55	2,21	2,20	2,33
Romania	4,48	4,16	4,21	4,09	3,90	3,66	3,68	3,14	2,83	3,01
Slovenia	3,13	3,16	3,09	2,66	2,63	2,54	2,11	1,75	1,32	0,99
Slovakia	2,73	2,07	1,81	1,57	1,39	1,38	1,22	1,22	1,21	1,19

Source: Author based on data from Eurostat

Furthermore, Czech Republic has manageable levels of public debt and deficits, has stable and healthy banking sector, which hasn't experienced such great issues during the crisis of

<sup>72</sup> Eurostat

2008 like many other countries in EU. Due to current excess of liquidity of Czech banking sectors the financing needs of both domestic and foreign investors can be easily met.<sup>73</sup>

### Prague Economic outlook

We have looked in details into the economic situation of the country as a whole and now I would love to concentrate on the capital. If we look at the regions in Czech Republic, the capital city Prague is the most developed. Out of 10, 5 million of citizens of Czech Republic 1, 2 million live in Prague and over 6 million visit it for business or tourism purposes. It has 671 335 passenger cars registered. Average Gross monthly salary in Prague is 33437 CZK, which is 23% higher than CZ average. Prague has only 2 % unemployment rate and if we look at the table 12 we can see that Prague significantly contributes to the GDP of the whole country.

**Table 20 - GDP Prague**

MACROECONOMIC INDICATORS		2007	2008	2009	2010	2011	2012	2013	2014
<b>GDP</b>	<i>CZK mil.</i>	864 789	966 414	1 027 527	1 001 432	1 016 179	1 002 326	999 916	1 016 162
<b>Per capita</b>	<i>CZK</i>	730 658	807 732	838 605	805 686	811 822	809 671	803 988	816 350
<b>CR average = 100</b>	<i>%</i>	213,9	217,6	217,8	215,5	216,0	211,3	208,7	210,0

Source: Author based on data from Czech Statistic Office

We can see that Prague contributes the most to the economic development of the country. Not surprisingly, the infrastructure is better developed in the capital and the most important institutions have their offices in Prague. It also dominates in FDI statistics. Prague alone was the host territory for more than 50 % of FDI activities of the whole country.

### Economic summary

To summarise, I would like to say that Czech Republic economy is very well developed overall. After analysing all the indicators and comparing it to other European countries I can say it has better position than many other countries in Europe in terms of low inflation and relatively low unemployment rate, especially with the increasing salary and stable GDP growth. It has lower foreign direct investment intensity but in my opinion it is only matter of time since more and more investors become interested in CEE region and in Czech Republic particularly. We could see through the analysis that in the past Czech Republic faced similar challenges as all the European countries. Due to strong European integration the economic indicators correlate a lot with average of EU and drops in GDP could be seen in 2012 and 2013. But starting 2014 the situation has improved and for the following four years specialist predicts the economic growth.

Despite the recent recession Czech Republic is one of the most stable markets in CEE region and has the largest economy after Poland. Increases in household wealth, rising disposable incomes, lower interest rates and easier access to credit have underpinned the growth in consumption. The average household income will increase resulting into higher retail spending and will have a positive effect on commercial real estate creating opportunities for

<sup>73, 54</sup> KPMG.Investment-in-the-Czech-Republic-2014

investments. The strongest areas of growth are forecasted to be personal wellbeing and housing. Increasing purchasing power and higher accent on the quality of life will create opportunities for new middle-class brands. Education and communication sector will also experience the increase in number of sales.

### **Social Environment**

Social factors directly affect the sales in the Shopping centres. Companies planning to invest into SC in Czech Republic should study the social aspects of Czech customers in order to offer them the shopping centre, which will suit the best to their needs.

Looking at **demographics**, The Czech Republic has a population of 10.19 million, with an annual growth rate of approximately -0.12%. The majority of Czech citizens are between the ages of 15-64 (70.2%), while 13.5% are between the ages of 0-14, and 16.3% are 65 years and older which means that Czech Republic has aging population.

Households in the Czech Republic tend to be quite small and can be attributed to a number of factors including a relatively low birth rate, a high divorce rate, having fewer children later in life, children leaving home as younger adults, and longer life expectancy. In 2010, 33.2% of Czech households were single-person, 34.2% were couples without children, 25.2% were couples with children and 7.4% were single-parent or other households.

The Czech Republic is a fairly homogeneous population with 90.4% of citizens identifying as Czech, while 3.7% of citizens identify as Moravian, 1.9% as Slovak, and 4% as other.<sup>74</sup>

Regarding **consumer behaviour and attitude to shopping centres**, according to CBRE study customers in Eastern Europe prefer large shopping centres. The most frequent occupiers are fashion, entertainment and convenience. On average Czech citizens shop 30 times a year, while European average is 39 times a year and they are willing to travel 16-30 minutes while on average European customers travel 6 to 15 minutes. The Czech consumers are very price-sensitive, which is proven by the fact that the most important factor for visiting a shopping centre according to CBRE study remains, above all, the price. Another important factor is cleanness, followed by shopping convenience together with security. Hence, price, cleanliness, convenience and security are therefore on the top of the list of factors that consumers expect to be present across all countries in all kinds of shopping centres. Diverse tenant mix, parking capacities and personal security are following the list of important factors.<sup>75</sup>

*Interestingly, unlike the typical European customer, the Czech customer searches for products and information about products on-line far more often but still go to offline shops to buy.*<sup>76</sup> Very big importance in Czech republic play the comparing prices websites such as Heureka.cz , Srovnovaccen.cz and similar.

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<sup>74</sup> INTERNATIONAL MARKETS BUREAU. *MARKET ANALYSIS REPORT*. 2012. Available at: <http://www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-region/europe/comparative-consumer-profile-the-czech-republic-hungary-and-poland/?id=1410083148620>

<sup>75</sup> CBRE: Customers are interested in SC shopping centres and high street. CBRE. [online]. 24.06.2014. [cit. 2015-04-11]. Available at: [http://www.cbre.cz/cz\\_en/news\\_events/news\\_detail?p\\_id=16919](http://www.cbre.cz/cz_en/news_events/news_detail?p_id=16919)

<sup>76</sup> Ibid

As expected, younger age groups appreciate the social aspects of shopping centres much more than older groups. They see shopping centres as a place to meet friends and to spend free time, therefore they appreciate the presence of entertainment centres such as cinemas, bowling and others as well as free Wi-Fi zones. This group tends to use public transport more and are therefore less concerned with parking.<sup>77</sup>

For both European and Czech customers, the improvement of their shopping centres is mostly associated with renovation, refreshed tenant mix and extension of shopping areas. Therefore they tend to visit more the shopping centres, which have been recently modernised and refurbished.

As the Shopping Centre Index study proved, the most frequently represented categories of occupiers are fashion (56%), entertainment (18%) and convenience (9%). In addition, the survey has proven that the size of individual units in shopping centres must be well balanced. For example small units within 200 m<sup>2</sup> form 32% of the floor area, units between 200 and 500 m<sup>2</sup> form 25%, 500 to 1,000 m<sup>2</sup> 22% and units larger than 1,000 m<sup>2</sup> form 22%.<sup>78</sup>

Additionally Czech consumers pay attention to branded products. It is proven by studies that people spend more on discounted branded products than on private-label items in supermarkets.

When it comes to hobbies, gardening remains a popular free time activity and many Czech citizens having flat in the city, will also have country house outside of the city. Therefore, shopping centres located next to main roads leading outside of the cities can expect higher traffic during the weekends. Czech citizens also like hiking and outdoors sports, therefore sport shops are popular in the country.

Additionally, do it yourself, especially when it comes to repairing a house is very typical in Czech Republic. Shops offering tools for this hobby might have a potential in the shopping centre.

Czech people also like breeding animals, especially dogs, therefore pet shops in the shopping centre might attract the attention of the population.

Regarding families, it is typical for mothers to stay home with kids till the age of 3 so we can expect a lot of mothers on prolonged maternity leaves having free time which they could spend in the shopping centres if the facilities for kids such as playgrounds are provided.<sup>79</sup>

When it comes to grocery shopping, lots of people prefer going to hypermarkets and pay attention for the quality and the freshness of the products.<sup>80</sup> Also consumers become more health consciousness frequently choosing foods with health-related claims, such as reduced fat or calories.<sup>81</sup>

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<sup>77</sup> CBRE: Customers are interested in SC shopping centres and high street

<sup>78</sup> Ibid

<sup>79</sup> My Prague Sights [online]. [cit. 2015-07-10]. Available at: <http://www.my-prague-sights.com/czech-republic-culture.html>

<sup>80</sup> SANTANDER,. CZECH REPUBLIC: REACHING THE CONSUMER [online]. [cit. 2015-07-10]. Available at: <https://en.santandertrade.com/analyse-markets/czech-republic/reaching-the-consumers>

<sup>81</sup> INTERNATIONAL MARKETS BUREAU. MARKET ANALYSIS REPORT. 2012.

## Technological Environment

Czech Republic has very well developed technological environment, with many international companies having their IT and software design offices in Prague and Brno. Czech Republic has well-educated IT specialists and wide Internet coverage. In Prague many companies offer complex digital solutions such as mobile phone applications, web development and others. This aspect will be beneficial for the SC digitalisation.

## Legal

When looking at the legal environment in the Czech Republic I won't analyse in details all the legal requirements to set up the company, labour and accounting requirements and all kinds of corporate and individual taxes since it is not the focus of this paper but rather concentrate on specific rules applied to CRE such as real estate taxation, which should be considered by investors or any support by government to foreign investments.

Looking at the legal side we can point out that Czech Republic is providing the incentives to foreign direct investments, in line with EU law, but it is mainly to the manufacturing industry, technology centres and business support services. No restrictions are imposed on import or export of capital.<sup>82</sup> The incentives which could be potentially used in the commercial sector is the law regarding job creation, when the Cash grants will be provided to an employer creating new jobs in a region where unemployment is more than 50 % above the national average. The subsidy amounts to CZK 200,000 per new job.<sup>83</sup>

Based on the general accounting framework Czech GAAP applies. Financial statements must be prepared and published annually. Publicly traded companies must apply IFRS. Joint Stock Companies must prepare audited financial statements if their accounting value of assets exceeds CZK 40 million; net annual turnover more than CZK 80 million or the average number of employees exceeds<sup>50.84</sup> According to Czech accounting requirements, the assets value more than CZK 40000 can be depreciated for tax purposes using straight-line, accelerated or extraordinary depreciation method. Buildings are usually depreciated over 30 up to 50 years. Moreover, gains from the sale of an asset are taxed at a regular corporate income tax rate. .

The tax base for income tax will differ for resident and non-resident companies. Company will be considered a resident if it is incorporated or managed and controlled in Czech Republic. Residents are taxed on worldwide income and non-residents are taxed on Czech-source income. The Income tax applied will be 19% as stated in the table 19.

Most important tax rates are summarized in the table 19.

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<sup>82</sup>DELOITTE,. Taxation and Investment in Czech Republic 2014 [online]. [cit. 2015-07-10]. Available at: <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-czechrepublicguide-2014.pdf>

<sup>83</sup>KPMG.Investment-in-the-Czech-Republic-2014

<sup>84</sup>DELOITTE.Taxation and Investment in Czech Republic 2014

Table 21- Czech Republic taxation

Czech Republic Quick Tax Facts for Companies	
Corporate income tax rate	19% (5% for some types of funds, etc.)
Branch tax rate	19%
Capital gains tax rate	0%/19%
Basis	Worldwide basis
Participation exemption	Yes
<b>Loss relief</b>	
– Carryforward	5 years
– Carryback	No
Double taxation relief	Yes
Tax consolidation	No
Transfer pricing rules	Yes
Thin capitalization rules	Yes
Controlled foreign company rules	No
Tax year	Calendar year or fiscal year
Advance payment of tax	Yes
Return due date	First day of fourth month/seventh month after end of tax year
<b>Withholding tax</b>	
– Dividends	15%/35%
– Interest	15%/35%
– Royalties	15%/35%
– Technical service fees	15%/35%
– Branch remittance tax	No
Capital tax	No
Social security	34%
Real estate tax	Varies
Transfer tax	4% (transfers of real estate)
VAT (standard rate)	21%

Source: Deloitte<sup>85</sup>

Tax not specified in the table 19 is a real estate tax. Formally, it is divided into two kinds of taxes – land tax and buildings tax and should be paid by 31<sup>st</sup> of May each year. The tax payer in most cases is the owner of the building or in certain agreements the lessee of the space.

Generally the tax is calculated as rate multiplied per m2 of building land, which is land which has not yet been built up but on which a building / structure should be built based on an already issued building permit or similar decision / legal act provided that this building / structure will be subject to the real estate tax after its finishing; Buildings will be taxed based on the built-up area or floor area in m2.

Tax rates are the following:

- CZK 1.00 per m2 in the case of building lands;

<sup>85</sup>DELOITTE, Taxation and Investment in Czech Republic 2014

- CZK 0.10 per m<sup>2</sup> in the case of built-up areas, courtyards and other plots of land not mentioned above
- CZK 10.00 per m<sup>2</sup> of the built-up / floor area in the case of other buildings / structures used for business activity

The buildings tax rates listed above shall be increased by CZK 0.75 per each additional above-ground floor if the area of such floor exceeds 2/3 of the built-up area of the building / structure.

The land tax rates and buildings tax rates listed above are further multiplied by coefficients which are dependent on the number of inhabitants of particular municipality in which area the particular plot of land / building / structure is located. The coefficients are as follows:

- 1.0 in municipalities having up to and including 1,000 inhabitants;
- 1.4 in municipalities having from 1,001 to 6,000 inhabitants;
- 1.6 in municipalities having from 6,001 to 10,000 inhabitants;
- 2.0 in municipalities having from 10,001 to 25,000 inhabitants;
- 2.5 in municipalities having from 25,001 to 50,000 inhabitants;
- 3.5 in municipalities having from 50,001 inhabitants and in Františkovy Lázně, Luhačovice, Mariánské Lázně and Poděbrady
- 4.5 in Prague.

In addition, each municipality may issue a decree based on which:

- The coefficients listed above are either increased by one category or decreased by one to three categories; Prague may increase the coefficient maxISCy to 5.0; or
- It determines so called local coefficient equal to 2, 3, 4 or 5 which would be applicable to all plots of land / buildings / structures of one category (e.g., gardens or non-residential premises used for business activity) located in the territory of the municipality.<sup>86</sup>

Additionally when selling an asset a real estate tax of 4% applies to a combination of the purchase price and expert valuation.<sup>87</sup>

Environmental taxes are assessed based on consumption of gas, solid fuels and electricity.

### **Environmental Analysis**

In many countries in European Union and Czech Republic is not an exception, the construction of shopping centre isn't always met positively by the society as many people and organisations are concerned about its environmental impact. Very often NGOs try to stop the process by complaining about construction and bringing complications for investors as the legislation process becomes costly. Such examples were protests against construction of Eden shopping centre in Prague 10 or Arkady Pankrac in Prague 4. Therefore, when building a shopping centre companies should think in advance about its environmental impact and to develop it inline with sustainability requirements. The Czech property market has recently

<sup>86</sup> CFE. *Real Estate Tax in Czech Republic* [online]. [cit. 2015-07-10]. Available at: <http://www.cfe-eutax.org/taxation/real-estate-tax/czech-republic>

<sup>87</sup> DELOITTE. *Taxation and Investment in Czech Republic 2014*



been witnessing a growing number of developments striving for environmental certifications according to reports of JLL.<sup>88</sup>

Nowadays, there are several organizations, which are assessing the environmental performance of the shopping centres and can provide the certification.

Building Research Establishment Environmental Assessment Method (BREEAM) is the most widely used sustainable construction certification framework in Europe. It sets the standard for best practice in sustainable building design, construction and operation. It encourages designers, clients and others to think about low carbon and low impact design, minimising the energy demands created by a building before considering energy efficiency and low carbon technologies. *Buildings are evaluated from eight aspects: building, management, energy, transport, water, materials, waste, land use, ecology and pollution, while the weighting of criteria varies by the location in which the assessed building is located. Evaluated building obtains credits, according to which is included in that category and obtain a certificate -pass, good, very good, excellent or outstanding.* In the Czech Republic 15 projects received a certificate and others are still being prepared.<sup>89</sup>

Hence, when building a shopping centre in Czech Republic the company should think about sustainability and to make a development according to international standards and to obtain a highest rating possible.

In Prague the latest example of shopping centre with focus on the environment is Centrum Černý Most. It has received the Very Good certification from BREEAM. Materials and construction technologies were chosen in line with the sustainable development policy to minimize impact on the environment not only during the construction phase but also during the operation. It was the first shopping centre in Prague putting charging stations for the electric vehicles in the parking

## **7.2. Bubny project overview**

In the area of Prague 7 between metro stops Nádraží Holešovice and Vltavská the land of 25ha will be redeveloped into urban mix project. At the place of former railway station Bubny according to plan the following years should be the modern area with apartments, offices, shopping SC, hotels and possibly hospital and a university. Out of the total area 3.7ha of land belong to shopping centre operator. The construction will start in the near future and there is not official plan in place yet. The area marked on the map below is exactly the place where the project will be located.

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<sup>88</sup> JLL. *Number of Green Developments Growing Rapidly in the Czech Republic* [online]. [cit. 2015-07-10]. Available at: <http://www.officefinder.cz/press-releases-number-of-green-developments-growing-rapidly-in-the-czech-republic.html>

<sup>89</sup> EIA. *BREEAM* [online]. [cit. 2015-07-10]. Available at: <http://www.rceia.cz/en/breeam-en>

**Image 3 - Map of Bubny project**



Source: Author based on Uzemni studie<sup>90</sup>.

For now according to visualisation the project should look approximately as demonstrated on the images below.

**Image 4 - Bubny area plan**



Source: Orco development group

### **7.3. Location and catchment area analysis**

Very big advantage of the project is location. It is close to the city centre of Prague. Only 5-10 minutes by public transport to the main tourist attraction. It is less than 3 kilometres away from main bus and train stations and on the same red metro line. Bus station Florenc is only 1 stop away by metro from the shopping SC and train station 2 stops. The SC will have access to metro station Vltavská situated on the red line C. Also it has major tram interchanges. Holešovice area is well served by the tram lines 1, 12, 14, 25, 54 at the moment but with the

<sup>90</sup> *Uzemni studie pro Prahu* [online]. [cit. 2015-08-18]. Dostupné z: <http://arnika.org/uzemni-studie>

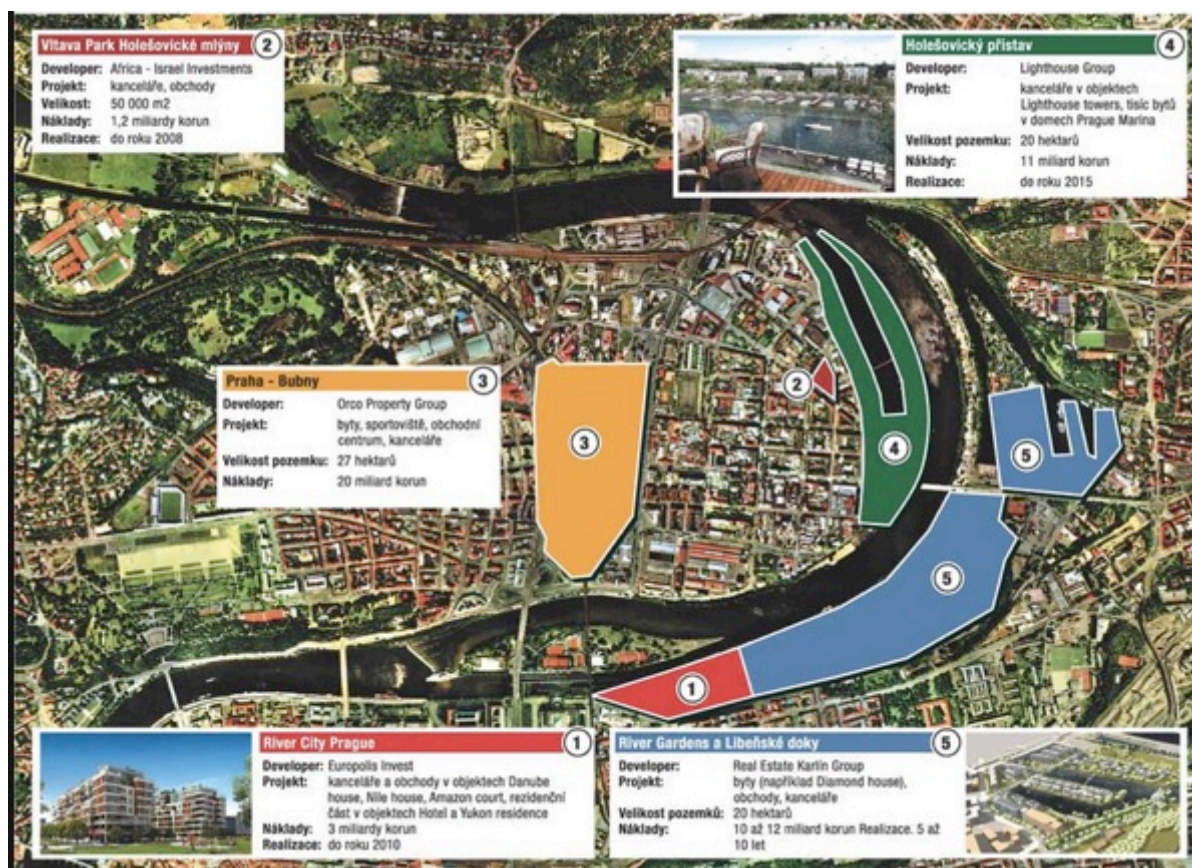


development of area more tram lines are expected to be implemented. Nádraží Holešovice is one of Prague's railway stations, which mainly connect Prague with north of Czech Republic and northwest Bohemia. Also it has several international lines to Dresden, Berlin, Hamburg, Vienna and Budapest. Additionally, the new tunnel Blanka will be open not far from the shopping SC, which will make transportation by car to Bubny even faster. So in terms of public transportation SC Bubny is fully covered and could be very convenient for both local residents and tourists. Another location advantage is proximity to Holesovice markets, where lots of exhibitions and events are organised during the weekends and high concentration of visitors which could be also potential customers of the SC Bubny.

At the moment Prague 7 is considered an industrial area but there are positive changes coming. Several upscale residences such as Prague Marina and office buildings such as Art Gen have been recently built in the area. More projects are in plan in Holešovice area and in neighbouring Karlin. To understand how the neighbourhood will look like in the near future I have looked at the development projects planned for the following 10 years. The image 5 demonstrates the modern parts of the catchment area.

The orange area is the project Bubny. 5 minutes ride from it, the red area, is modern office buildings standing on the bank on the river Vltava and upscale residence River Diamond. The big blue area is the place where 5 luxury residences are in plan. Particularly, River Diamond, Rezidence Vltava, Rockit city and Docks. On the green zone we can see already finished project of Prague marina residence and yacht club.

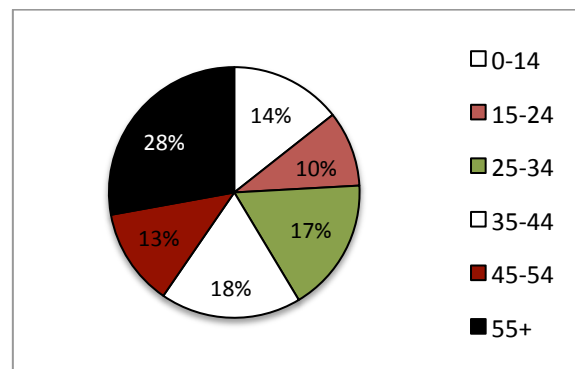
Image 5 - Development projects in Prague



Source: Author based on separate projects webpages

At the moment the catchment area of the Bubny SC is 1,15 million of inhabitants, out of which 210 thousand are within 10 minutes, 500 thousand from 10 to 20 minutes and 440 000 from 20 to 30 minutes.<sup>91</sup> The average income in the catchment area is 32 910 CZK Gross per month, which 29 % above the national average.<sup>92</sup> But with the development of luxury residences more people with higher income are expected to move to the area and the statistics about the average purchasing power of potential customers will change as a result. Analysing the demographic in the catchment area in terms of age, the majority of residents is older than 55 (28%) and the second largest group is 35 up to 44 years old (18%) (see figure 1) but same as in case of purchasing power It is expected to change in the following years. Still we can make a conclusion that families with kids represent the main target group.

**Figure 1 - Customer age profile**



Source: Author based on CZSO

#### **7.4. Competition Analysis**

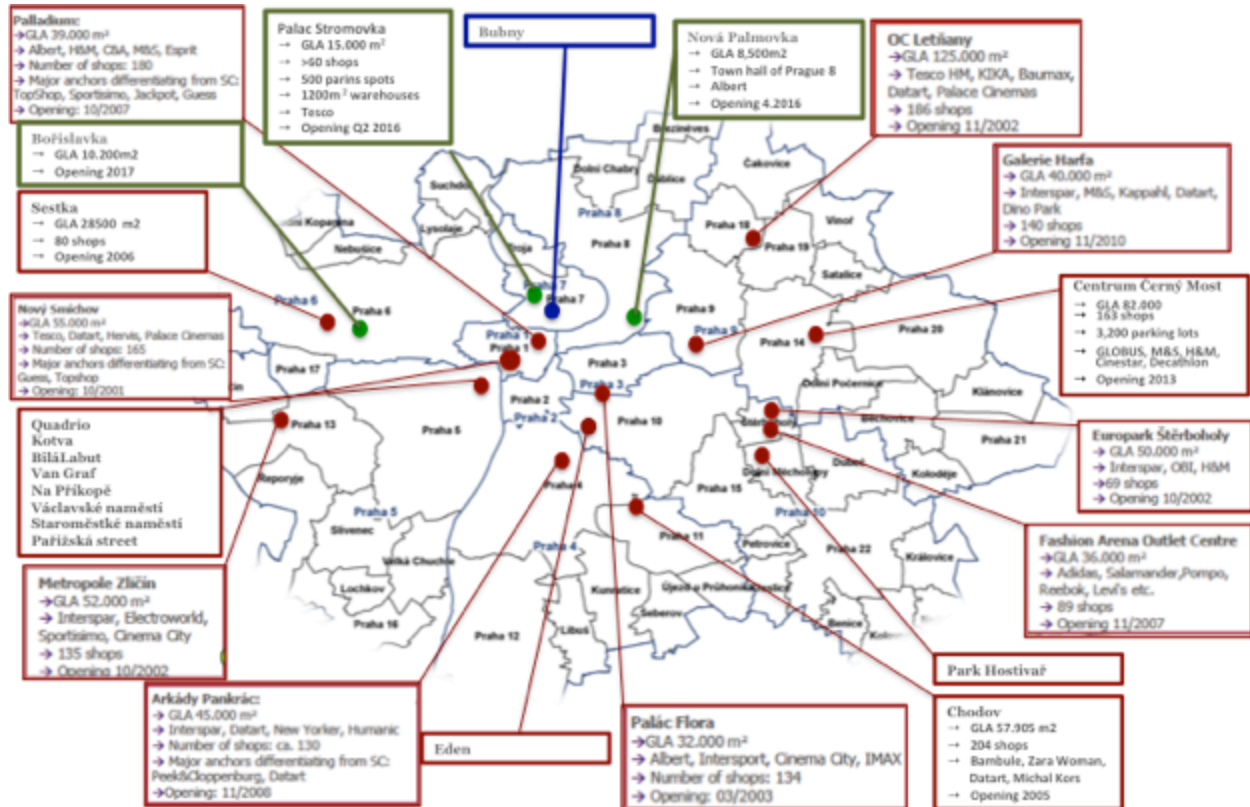
Based on the location analysis we can see that there is good potential in the area for the shopping SC but important to see the supply side and the commercial density.

Image 4 demonstrates the map of shopping centres in Prague. The SC were compared based on location, GLA, number of shops, parking capacity, anchor tenants and the year of opening, I have marked the existing centres with the red dots, analysed project Bubny with the blue one and the pipelines with the green colour. On the map below you can see the dispersion of shopping centres in Prague, but for closer competition analysis I have chosen the ones situated directly in the closer catchment area of the SC Bubny.

<sup>91</sup> The data about catchment area are strictly confidential and can't be disclosed without UR approval

<sup>92</sup> CZSO

Image 6- Map of Shopping centres in Prague



Source: Author based on information from the shopping centre webpages

As we can see despite the high saturation in Prague there are no existing shopping centres operating in the area of Prague 7,8 so the competition is not that high yet. The closest shopping centres to Bubny project are OC Šestka in Prague 6 and Galerie Harfa in Prague 9, Palladium, Quadrio, Kotva and other smaller department stores and high streets in Prague 1. Not surprisingly, the absence of shopping offer in Prague 7 and 8 has attracted the investors and there are several projects which are planned in the following years, particularly Palac Stromovka, Nova Palmovka, and Borislavka. In order to see if there is any potential threat for investor of the shopping centre Bubny and if the new project can overcome the competition in the area I have studied the above-mentioned shopping centres more thoroughly. In the analysis I have looked at their size, tenants present, if they are having some differentiating offer, services offered, events organised and design and architecture side.

**Palac Stromovka** is in the final stage of development already. The project is a multi-functional shopping and office project. The upper floors of the building will be leased as an office centre with a total of five floors over 7,500 m<sup>2</sup>. The size of retail area is relatively small and has GLA of 15000m<sup>2</sup>. It will take 3 floors of the building. The retail mix consists of 60 shops, the anchor tenant is the Tesco hypermarket. The project will have 500 indoor parking slots. Initial opening was planned for 2016 but now the date has moved to the first quarter of 2017. Below we can see the picture of the project. What catches the attention is that it is covered with the green plants, which is corresponding with the environmental standards of CRE and bringing *more nature to the area*.



**Image 7 - Palac Stromovka**



Source: Palac Stromovka web page

**Bořislavka centre** will be situated on the newly opened metro station on Evropska street leading from Dejvice to the airport. The space will be mainly the office building and only 3 floors under ground and 1 ground floor will be dedicated to retail. The total space of retail will be 10200 m<sup>2</sup>. Approximate visualisation of the project can be seen below.

**Image 8- Borislavka**



Source: Borislavka web page

**Nova Palmovka** is also multi-functional project. GLA of retail will be 8500 m<sup>2</sup>. Approximately 30 shopping units are planned. One of them will be supermarket of 2500 m<sup>2</sup>. The rest will be office spaces. It will have 180 parking slots and should be open in the end of 2016.

### **OC Šestka**

The shopping centre was open in 2006 in Prague 6 with GLA of 28500 m<sup>2</sup>. It has 1030 parking spots for free. In year it went through the refurbishment mainly in the dining area. The main target customers are families with kids.

Also they have changed the concept of the shopping centre recently and started to pay more attention to entertainment in shopping SC Šestka. They are trying to acquire new customers by making special events targeting families with kids. After making festivals such as Na letadla zblizka and others in 2014 the footfall has increased by 12% compare to the previous year. Target group of the shopping centre is families with kids. It is clear from retail mix,

shopping centre services and events organised. Even the webpage is having the separate section – for kids.

*The anchor tenants* in the SC are Intersport, H&M, Etam, New Yorker, Humanic, DM, Datart, Albert Hypermarket, Pompo, Bena pregnant fashion.

*Services* that SC offers include wireless internet, view over the airplanes at airport through binoculars from the roof car park, children corner and jungle gym for children, toboggan run leading from the 1st floor to the ground floor, changing rooms for parents with babies, self-service shoe cleaner, worn-out clothes recycling container, money exchange, carwash and bus services to Dejvicka. Additionally SC issues the magazine Moje Šestka, which is available in printed, online version and in mobile application.

The disadvantage of the SC is the fact that It is standing in isolation apart from the tram or metro lines in the middle of green field but the SC doesn't offer any differentiating factor compare to others such a unique tenant and also doesn't stand out with large size. Moreover, initial positioning of the shopping centre wasn't clear and even when the rebranding was done In 2014 the customers already had some perception about the mall.

## **Palladium**

Shopping centre is situated in the very centre of Prague and has a big advantage in terms of location. The GLA is 39000 m<sup>2</sup>, total number of shops is 180 and the SC offers 900 parking slots for 50 CZK per hour. Because of constant flow of tourists the SC has a relatively high footfall of 14 million visitors annually. It also has its own magazine in printed version and online, both for free.

*Major tenants* are Albert, TopShop, H&M, Guess, Intimissimi, Mango, Pietro Filipi, Sportisimo, A3 Sport, Adidas concept store and others. Palladium has big number of tenants providing services such as banks, Vodafone, hairdresser, manicure, packing and others. Additionally, retail mix offers so called affordable luxury brands and quite a lot of jewellery shops, meaning that the target customer has above average income.

*Services* offered are Wi-fi, loyalty program Sphere card, kids playground, car wash and exchange. The events are more in the form of art exhibitions, completions or special discounts for customer.

*The dinning offer* is a mix of both fast-food chains such as KFC, Burger King, McDonald and more expensive restaurants such as El Emir, Old Prague Czech Restaurants, Running sushi. It also has a healthy offer Nude bar, Ugova Salaterie, Frutisimo and separate cafeterias Starbucks, Paul and others. Soon the new restaurant Vytopena will be open, which surprises the customers with the "railway" service.

Interesting fact about Palladium is that they are offering more levels than all the SCs in Prague, specifically 5, 2 of them are underground. The fact that people don't like multilevels was solved with the long escalator right in front of the main entrance leading directly to the food court on the last floor. Target group of the palladium is mainly tourists visiting Prague and professionals working in city centre.

## **High streets in Prague 1**

Competition coming from the city centre area would consist not only of the Palladium but also from the high streets such as Na Příkopě and Pařížská offering international brands and smaller SCs such as Kotva, Van Graf, Slovanský dům and Quadrio.

**Pařížská** is mainly offering luxury fashion and jewelleries such as Prada, LV, Cartier, D&G and similar. They have their own niche customer with higher income therefore it shouldn't be the threat to Bubny since based on the average income in the catchment area SC should have different positioning.

**Na Příkopě** would be the closer competition. There are popular brands such as Zara, Mango, H&M, Berska, Benetton, Hugo Boss and similar are situated on that pedestrian street. It has high number of footfall both tourists and residents of Prague. The disadvantages are limited parking, big lines in the shops and fitting rooms due to high number of visitors and no services such as babycare and others provided. Not mentioning the lack of events and different entertainment offers.

**Quadrio** is situated right on top of the metro station Narodni trida and offers only 8500m2 of GLA. Has very good public transportation connection but parking is very problematic in the area. Next to Quadrio is situated the largest hypermarket in the city centre called Tesco. The project offers retail spaces, offices and residential units. Retail part offers 60 shops. It has lots of tenants in service categories such as banks, travel agency, hair salon, tailor, nail lounge, insurance company and money exchange. The fashion offer is very limited and mainly smaller units such as Cara, Calzedonia and Storm. The largest tenants are Sephora, Luxor book store, Polpo restaurant by Kogo, Billa, Sparkys, CCC shoes and bags, DM and Euronics. Interesting design element is Franz Kafka moving statue in front of the entrance.

**Van Graff** and **Kotva** are multibrand department stores, which are also having concept different from Bubny project.

In general the competition to the shopping centre Bubny from high streets and SCs in Prague doesn't come from one particular project but from the area offering many shopping destinations as a whole. Nevertheless, it has its limitation such as parking difficulties, no special facilities such as rest areas, wifi, charging stations and services for babies that could be provided in shopping centre. Also SC has its advantage when the weather is bad.

### **Galerie Harfa**

Galerie Harfa was open in Prague 9 in 2010 and has 49000 m2 GLA, 140 shops on 3 floors. It offers customers 1600 parking lots for free. *Anchor tenants* are Albert, Mark&Spencer, Datart, Humanic H&M, Several shops for kids such as Bambule, Lego wear, Cartoon land, little things and others. At the moment on the rooftop the Dinopark is located, which is attracting lots of kids and their parents.

*Dinning offer* has 10 fast food choices including 2 healthy offers Yobar and Frutisimo, 6 cafeterias and 2 more upscale restaurants.

*Services* provided are daycare center Bambule, worn-out clothes recycling containers, storage cabinets, shoe cleaners, wristbands for kids with the phone number of parents on it in case the child gets lost, coffee machines, recharging stations for cars, kitchen for the use of customers.



Additional services such as carwash express, laundry and tailor shop, money exchange, fotocenter, UPC and mobile providers are offered by tenants. Galerie Harfa also issues its own magazine.

Additionally, *entertainment* such as children playground, interactive music corner where visitors can try to play music instruments, monkey's gym for pre-schoolers, 5D cinema, adventure golf, billiard centre and gym are in place.

*Events* organised at the moment are stylist for free every Tuesday, children Tuesdays, make up artist every Thursday evening, summer cinema on the roof during the weekends. In the past there were various events organised such as burgerfest on the rooftop, ice-skating arena in winter, X box tournament, different photo galleries and others. Based on the services provided, events thematic and retail offer I can draw conclusion that the main target group is families with kids.

Image 9- Galerie Harfa



Source: Galerie Harfa webpage

Image 10 - Galerie Harfa



Source: Galerie Harfa webpage

Based on the analysis I can state that Bubny SC will consider as competition only Palladium , Na Příkopě area and Galerie Harfa. The rest of the SC are not large enough to threaten the position of SC Bubny and also don't have any strong differentiation. Other SC are located further from the SC and won't be direct competitors.

### 7.5. Leasing Plan

The leasing plan has been prepared taking into account the analysis of the competition, customer profile, and data from the macro analysis such as retail spending and income levels in the catchment area. Total size of the shopping centre is planned with accordance to the land available to the company, which is 3.7ha. Also, I have considered new trends in CRE industry identified in the previous parts such as consumers in CEE prefer larger shopping centres, dinning and leisure in the shopping centre should be minimum 10-15% of the total GLA, services and entertainment should be in place. I have also chosen the location of particular tenants bearing in mind rules that anchor tenants should be further from the entrance to the SC in order to make customers go through the SC and potentially buy things impulsively in the other shops. The size of the retail units was done according to the theory, which says that for

SC to function well it should combine the retail units of different sizes. Particularly, SC units should be approximately in those ratios<sup>93</sup>:

**Table 22-Retail unit ratio**

Size of Retail Unit (m2)	% of total GLA
Less than 200	32%
200-500	25%
500-1000	22%
More than 1000	22%

Source: Author based on research in theoretical part

Also social analysis has identified that for Czech consumers the price, differentiated mix, offer for pets, gardening, outdoor and sport clothes are fundamental in the SC. Therefore, I have included the tenants from those categories in the leasing plan. From the Economic analysis was clear that consumer spending were predicted to increase in household & living goods, fashion and food. Moreover, with the increase of income demand for branded clothes is rising too. All of those important factors from the research have been taken into account in the leasing plan. To have differentiating offer I have analysed the market outside of Czech Republic to see which brands are popular in Europe and around the world, which are not present in the local market. I have checked in the news if those brands are expanding in Europe and if Czech Republic is in their list.

As a result, according to the plan SC Bubny will have 5 floors including the underground floor and the roof. Total GLA of shopping SC will be around 60 000 m2. The tenant mix will have approximately 160 shops of different size, 26 out of them will be anchor tenants. GLA of each floor will be approximately 16 500 m2. To meet the needs of customers coming to SC by car 2400 parking slots will be provided situated in the basement of SC and on the roof.

Main target customers will be families with kids therefore all the retail mix and entertainment will be done to attract them. The SC Bubny wants to be the first place, which will come up when the families want to have some leisure and shopping with kids. Therefore, huge part of the Bubny project is dedicated to the first cinema in Prague 7 and all the services are adjusted to the mothers with kids of all the ages.

Tenants from the same categories have been clustered to make the shopping experience for customers easier. Different clusters will be situated on the different floors. The basement of the shopping centre will have the parking and a car wash. The ground floor will include supermarket and tenants from categories household & living, books and gifts, health & beauty, electronics, some shops for toys, services, cafeterias and others. The 1<sup>st</sup> floor will be dedicated to categories fashion, shoes, lingerie, jewellery & watches, accessories & glasses, and others. On the 2<sup>nd</sup> floor categories of children goods and sport will be concentrated. The last floor will include dinning and leisure. Table 23 below demonstrates the categories of

<sup>93</sup> CUSHMAN&WAKEFIELD. SHOPPING CENTRES & E-COMMERCE SURVIVAL OF THE FITTEST [online]. In: . [cit. 2015-07-30]. Available at: <http://www.cushmanwakefield.com/en/research-and-insight/2014/survival-of-the-fittest-in-the-digital-world/>

tenants that will be present in SC Bubny and what space they occupy in it. As can be seen Fashion, All for Kids, Dinning and Leisure are the largest categories

**Table 23 - Leasing plan. Tenant categories**

Tenant Category	Total size (m2)	% of total GLA
Pets	250	0,4%
Fashion:	14789	24,65%
Bags & Footwear	2682	4,47%
Accessories&Glasses	804	1,34%
Sport	4192	6,99%
Electronics	1712	2,85%
All for Kids	7424	12,37%
Household&Living&Gifts	4677	7,80%
Jewelerry&watches	900	1,50%
Books&Gifts	450	0,75%
Services	3910	6,52%
Health&Beauty	1571	2,62%
Lingerie	823	1,37%
Restaurants&Cafes	5132	8,55%
Food	4000	6,67%
Entertainment	6200	10,33%
Others:	734	1,22%
Total:	60000	100%

Source: Author

As can be seen from the detailed plan of the **ground floor** on Image 9 it will include supermarket and tenants from categories household&living, books and gifts, health&beauty, electronics, some shops for toys, services, cafeterias and others.

The main entrance to the SC will be from the side of Vltava facing the city. Additional entrances will be from underground parking and from the metro. In front of main entrance there will be spacious area with the reception in the middle of it. There will be fountain observable from all the floors of the SC behind the reception. Area in front of the main entrance and around fountain won't be occupied by the tenants but left for different expositions and events that will be organised in the future. On the map on Image 9 the area of the reception indicated with the number 30 and fountain 49. Additionally there will be two restrooms on the floor, cloakroom, and other services. As can be seen from the detailed floor plan the biggest part of the floor will be occupied by the supermarket, which will have 3500m2. Next to the supermarket will be 2 anchor tenants from the household&living category, which are at the moment not present in Czech Republic but having plan for expansion. Hence, SC Bubny is planning to get an exclusivity by having the first Zara Home and Habitat in the Czech republic. Additionally, there will be more shops from that category on the floor such as Butlers, Potten&Panen, Tescoma, Rituals and Tchibo. SC Bubny will have many stores from that category due to the fact that according to statistics in CZ consumer spendings are rising the most for products for home. Additionally, SC will be

situated in the catchment area where many new residential projects will be developed and new inhabitants of the Prague 7 and 8 will be focusing on decoration of their brand new apartments.

In front of the supermarket there will be smaller retail units of 50-200m<sup>2</sup> dedicated to services such as laundry, banks, flowers, insurance company, post office, clothing repairs, pharmacy, telephone companies, stationery and others.

Also, on the ground floor will be several health & beauty stores such as Body shop, Loccitane, Yves Roche and first in Europe Bath and Body works shop and anchor tenants from categories of toys, electronics and others such as Sparkys, Electro World, Apple store and Book store.

Image 10 -Leasing plan. Ground floor



Source: Author

The 1<sup>st</sup> floor will be dedicated to groups fashion, shoes, lingerie, jewellery & watches, accessories & glasses and others. The main Anchor will be the Primark shop which will occupy the space of more than 3000 m<sup>2</sup> on two floors. The shop will be the first in Czech Republic and will perfectly suit price sensitive Czech consumer profile. At the moment the closest Primark shop is situated in Dresden and many customers from all around Czech Republic go shopping to Primark to Germany. Another tenant, which will be unique for Czech Republic is Uniqlo, offering the goods for the whole family.

Looking at the 1st floor map we can see that anchor tenants will be situated in the opposite corners of the shopping centre and close to escalators. Fashion shops are clustered on the floor according to the price categories of goods. Primark has very low prices therefore if the customers start at this shop and go further in the corridor to Zara direction prices in the shops will be increasing. Fashion shops such as Stefanel, Pietro Filippi, Armani, Calvin Klein and others targeting customers with higher income will be kept as far from it as possible not to mix it and to have clear positioning. Shoe tenants will be situated mainly on the left side between Primark and Uniqlo. In the middle of the floor in unit 22 will be cafeteria so the customers can have a break in it and enjoy coffee and some snacks. In the middle of the corridor will be the relaxing areas with chairs and plugs for the electronics.

The Blue triangle shows that the space will be empty and won't be occupied by any shop. This will be done to increase the spread of the natural light coming through the glass roof on the last floor and to save the energy.

Image 11- Leasing plan -1st floor



Source: Author

2<sup>nd</sup> floor will be dedicated to sport and kids. From the map on Image 8 we can see that some of the brands are the same as on the first floor such as Primark, Zara, M&S. Those anchor tenants occupy 2 floors but on the 2<sup>nd</sup> one they will have categories for kids and their moms while on the first one it will be fashion. Apart from kids fashion on this floor will be toys,



strollers and other good for kids. The store called Babiez will offer the largest choice of goods for pregnant woman and new-born babies. It will be the second shop in Czech Republic. The first one was open on Letnany. On the left side we can see the shop called Petit Bateau popular in Europe but at the moment not present in Prague.

The left side of the SC will be dedicated to sports with big anchors such as Sports Direct, Sportisimo and A3 sport and smaller units such as Alpine pro, Nike, Timberland and others.

Apart from retail on the 2<sup>nd</sup> floor will be situated children room Time out where parents could leave their kids for a while. Next to children's room will be situated lockers where the bags could be left and also charging lockers for electronics with chargers for all kinds of the phones.

Image 12- Leasing plan. 2nd floor



Source: Author

On the last floor the big part will be occupied by the first in Prague 7 cinema to attract families with kids. Next to it will be Video Game centre and Premium Gym. This will be done to meet the demand of Czech consumer for entertainment, high quality life and healthy lifestyle which was identified by the survey in the social analysis.

In the front part of Bubny the dinning plaza will be situated. Part of it will be covered under the glass roof and part of the tables will be situated on the terrace with no walls, but covered with the glass roof to protect customers from the rain. People dinning outside can have a view to the city of Prague. The area will have lots of light and greenery. In the middle of dinning plaza, playground for kids will be provided with little dinning tables. The choice of the tenants for dinning plaza is described in the part dinning experience right below the Image 12.

Image 13- Leasing plan. 3rd floor 3 (Roof)



Source: Author

### Differentiating dinning experience

According to trends in Czech Republic the focus on healthy lifestyle is increasing as well as attention to what we eat. Therefore, in SC Bubny I am creating unique dining experience through differentiating and qualitative dinning offer breaking the perception of traditional food court, where most of the shopping centres provide absolutely the same offer mainly American fast food chains. In shopping centre Bubny food court will be in a form of dinning plaza offering fresh products from different cuisines satisfying the preferences of any

customer. Dinning plaza will be combining different types of dinning options such as restaurants for longer stays, self-service restaurants, quick snacks dinning, coffee places and common food court. The target dinning space is 8% of the total GLA so approximately it will be 5100 m2. Bubny dinning plaza will be providing the offers of wide variety of cuisines to satisfy the most demanding customers. Hence, I have made a research and prepared a selection of potential tenants to include into leasing plan by categories. The choice was based on several criteria such as uniqueness of concept, high quality food, number of visitors in the currently existing restaurants and credibility of the owner. The best would be if the restaurant had already well-established chain so the previous business experience and financial liquidity would make the expansion to the SC more realistic.

The main dinning anchor will be the concept of fresh **Meditereanian** market, where people could choose between, pizza, pasta, seafood or salad corners. All the dishes will be prepared in front of the customers with high quality products and they could ask for adjustment of the ingredients. Unique selling point of such a concept is fresh, healthy and high quality products. There are several potential tenants who could meet the requirements. One of them is **Eataly**, which is having 5 restaurants around the world and has announced the plans of entering the Czech market by 2020. The concept is popular around the world and their restaurants are always full of customers. The first restaurant could be opened in the SC Bubny. Second potential tenant is similar concept successfully operating in Germany and Austria **Vapiano** Restaurant, which has more democratic price policy compare to Eataly and is already well-known by the Czech citizens often traveling to neighbouring countries. On the Czech market the most similar concept at the moment is **Wine and Food Market**. The Restaurant like this would occupy approximately 1000 up to 1500 square metres. Additionally, they often organise events attracting the customers such as wine degustation, cooking shows, kids cooking classes and others. Show of making home made pasta loved by kids is done on daily basis.

Image 1 – Eataly



Source: Google images

Image 2-Vapiano



Source: Google images

The Italian corner could be fully covered by above-mentioned Eataly, Vapiano or WFM. But in case negotiations for bringing new chains to Czech Republic don't succeed, as a plan B, several operating on the Czech market tenants could occupy the space. Particularly *Collosum*, *Pasta Fresca* or *Pastacaffe*. Coloseum has a chain of Italian restaurants around Prague and quite high brand awareness. Pasta Fresca and Pastacaffe are restaurants of Ambiente group who has extensive business experience and variety of successful gastronomy projects.



For the **Asian** cuisine SC Bubny will offer self-service more quick dinning and also high-end restaurants. For the self-service food I have chosen newly-open place ***Crazy wok*** offering different combinations of noodles made in front of customer, ***Asian Ramen Japanese*** soups chain which is having tens of restaurants world-wide and could potentially expand to Prague or Indian ***Masala*** restaurant having at the moment four restaurants in Prague.

Also the dinning should be exotic and entertaining, therefore SC Bubny is planning to attract the tenants by having some unique idea behind the concept and proving the life shows. One of the most suitable tenants according to research will be a chain of dim sum called **Din Tai Fung** having their restaurants all around the world but at the moment is not presented in Europe but considering expansion opportunities. Apart from delicious and exotic food, one of the uniqueness of the concept is the open glass kitchen where the Chiefs are making the show of cooking famous dumplings and entertaining the customers. The tenant is approximately 500 square metres.

**Image 3-Din Tai Fung**



Source: Google images

For the kids the show of Rock Candy making could be provided by the candy shop **Viva 4 you**, at the moment having the store at Old Town square.

**Czech cuisine** will be represented by one of the famous restaurants: Kolkovna, Sokolovna, Local, Potrefena husa or Vinohradsky Parlament. Vegetarian offer will include either the best-rated vegetarian restaurant in Prague called ***Maitrea/Lehka Hlava or Beas or Loving Hut chains***. French **Bakery** with lunch offers will be offered either by Paul chain or by Le Carrousel, newly open café focusing on fresh bakery and healthy food.

**Healthy Salaterie and Fresh Juice bars** will be situated on several floors of SC Bubny and will include *Frutissimo*, *Ugova Salaterie* and Fresh cube if they consider plans for expansion.

Fast Food chain offers which are still demanded by certain group of customers will be offered in a form of *McDonalds* and *KFC* but will also include more healthy *Bageterie Boulevard* and *Express Sandwich*. Also dinning plaza will offer Habanero Mexican grill, some Middle Eastern restaurant, Sushi place and Burger restaurant.

Apart from the dinning plaza on each floor of the SC cafeterias will be situated where customers could rest from exhausting shopping. Moreover, on the ground floor several gourmand stores will be located such as *Wine shop, Tchibo store, Chocolate museum* attractive for kids *and Viva 4 you Candy store* with their Rock Candy shows.

#### **7.6. Services in the SC Bubny**

From the social analysis of Czech Republic we have identified that for Czech consumers security, cleanness and differentiated retail mix are the most important aspects in the shopping centre. Services is another factor, which is appreciated by the consumers according to the research. Differentiated retail mix was fully covered in the previous section in the leasing plan. Therefore in this section I will focus on security, cleanness and services, that will be provided in the SC Bubny.

In the SC in order to provide the feeling of safety for the visitors, security staff will be trained for the unexpected events that could occur in the SC as fire, terrorist attack, robbery and others. All the personnel will go through the training of how to behave in case of event happening. For the families to feel safe in the SC on the information desk the wristbands could be borrowed for the kids, where the phone number of the parent would be written. If a kid gets lost, the SC staff will contact parents. Additionally, in case of medical issues, first aid will be provided and medical aid assistance could be asked for at the reception.

Cleanness of the SC will be controlled on daily basis according to check list. High cleaning standards will be maintained in the centre especially in the restrooms and dinning areas. In the food court sinks with soap and hand sanitizers will be installed for personal hygiene of the customers.

Shopping centre will be targeting 4 star awards so customer services will be inherent part of Bubny shopping experience. Since the target customers are families with kids, services for little ones and their parents are included in the SC. Particularly, enlarged parking slots for families closer to the entrance, opportunity to borrow a stroller at the reception or kiddy car for some limited period of time. In the supermarket a kiddy car will be with a trolley for easy shopping. For the parent comfort the family room where woman can breastfeed the child or find baby changing facilities will be in place. Also parents can ask the personnel in the family room to warm up baby bottles or food for their beloved children. In the restrooms kids will feel comfortable by having their special sink and toilet. Additionally, if parent would like to have some private time for their calm shopping they could leave the kid up to 12 years old in the kids room, which will have specialised babysitters and even access to the terrace. Loyal customers will be able to sign up for the kids club to enjoy specialised events and services such as kids discounts, learning activities and others. During food time children could play with each other on the playground in the dinning area.

Digitalisation, as discussed in the theoretical part, is a relatively new trend in commercial real estate. The check list of digital services will include informative webpage dedicated to the Bubny SC which will be providing details about future events, shopping map, services, opening hours, contacts etc. Moreover, Facebook, Twitter, Instagram, Foursquare and other social networks will have the page dedicated to Bubny as well. In the shopping SC itself the interactive digital map will be available for easy access to the stores and free Wi Fi provided.

Smartphone users will be able to download for free the app with all the information about SC including navigation. For the heavy users of phones, when they run out of battery on their device they can either charge it on the charging stations or leave it in the charging locker. The innovation that could be implemented is the charging plug right on the tables in the dinning area in cooperation with restaurants.

Regardless of which kind of transport the visitor uses to come to the SC he will always find the parking space since the parking slots not only for cars but also for bikes, motorcycle and scooters will be available. Visitors would be also able to find electric car chargers, compressors and car wash on the parking lot. For the customers to have a safety walk on the parking lots separate pedestrian areas will be drawn so they can easily reach their car even if they have a supermarket trolley. When entering a parking lot in order to find a spot fast visitors can use car park space indicators, showing the direction to the free parking. The solution to the constant issue of losing the spot where the car is parked, QR code on the parking lot could be scanned with a phone and the Bubny mobile app will show the visitor where he parked the car on the way back. For less mobile visitors specialised parking will be implemented and wheelchair could be borrowed. Customers using taxi would be able to stop next to the entrance on the taxi stand and on the way back to catch a taxi at the same place. To the public transportation users easy access to the metro station or bus stop will be provided.

Bubny SC management will pay attention to environmental aspect not only in the building materials and shopping centre design but also in the services provided. For example, worn out clothes containers, recycling trash bins and donation system in the SC.

Additional 4 star experience will be reached by having loyalty program for the customers, showing welcome attitude with the reception at the main entrance, drinking water fountains around the SC, opportunity to leave clothes in the cloakroom and bags in the luggage room. Tired visitors will be able to take a break and to rest in the relaxing zones with TV, magazines and fresh newspapers. Ladies will be able to enjoy a special make up corner in the restrooms and Bubny SC magazine, which will be issued monthly. Any lost items will be taken care of and brought to the lost and found room. Additionally, photo service, gift wrapping and copy service will be found in Bubny.

Members of loyalty program will be able to enjoy the premium services. They will always receive first information about future events, special discounts and new shops. Also they could use the help of shop assistant or bag carrier for an hour if they book it in advance. When buying above certain amount in total, the service of home delivery of bags can be ordered at the reception when presenting the receipts.

### **7.7. Events in SC Bubny**

Events in SC Bubny will be one of the tools of attracting customers and will be mainly focusing on families with kids and will include kids theatres, learning classes for kids, cooking classes, art competitions, life music events, dancing classes, thematic events during holidays such as Easter and Christmas.

In general events will be according to the seasons and in connection with other happenings in Prague. For example, during the Prague Proms life music events could be organised in SC

Bubny. During Christmas and Easter season markets will be open in SC to bring the atmosphere of holidays to the customers. During Hockey championship, streaming of matches will be available in the man's corners and customers buying for certain amount in the shops could win tickets for the matches. Since the Czech customers are big sport fans the events connected to sport such as squash tournaments, beach volleyball should attract the customers to the SC Bubny. Price sensitivity of Czech customers results in great success of sales events, therefore once in a season mass sales actions will be organized in cooperation with the tenants.

### **7.8. Financial analysis**

To see if we can consider after all the assumptions regarding size, tenant mix and others SC Bubny potentially successful I have predicted roughly the financial performance and done the DCF model to see the market price of SC Bubny. Also I have compared the TIC costs with the income and calculated the Return on Investment and Internal Rate of Return for the planned project. All the numbers, apart from total investment costs, are based fully on my assumptions and market comparison. Total investment costs were predicted with the help of specialists from UR.

#### **Costs**

According to official data from UR report the land of 3.7 ha was acquired from ORCO development group for the price 22 million Euros. The future costs for investment, which will include construction, audit, fees and others for the SC of 56 000 m<sup>2</sup> are estimated at 193 million euros.<sup>94</sup> For SC Bubny I have calculated construction costs at 205.7 million EUR by dividing UR predicted costs by the 56 000 m<sup>2</sup> and then proportionally multiplying it with 60 000m<sup>2</sup> which is my assumption for SC Bubny.

Additional costs include opening marketing expenses and lease incentives such as rent free periods and step rent. Rent incentives were calculated separately for each unit (see table 28 in the attachment). *Rent free periods*, the period when the business unit is already taken by the tenants but no income is generated yet, was predicted based on the unit size. During this period the tenant takes care of architecture and design of the shop. The business unit is regularly handed to the tenant as empty concrete walls with required electricity cables and lightning in place. All the additional costs of construction inside of the shop are already responsibility of a tenant. For smaller units the period needed for construction is shorter and is on average 2 month. For large one it is 4 month. Based on this assumption the cost of rent-free period was calculated individually for each tenant. *Step rent* is a discount on rent during the period when SC doesn't operate on its full potential. Usually the first 2 years, apart from short period after opening, the footfall is low and therefore SC owners tend to provide the discounts on rent about 20% first and second year 10%. This is the regular practise in the industry till the SC gets the awareness and reaches its highest potential. Those discounts are called step rent and are also calculated below. (see table 28 in the attachment). *Opening marketing expenses* including communication and promotion before opening, big opening event with invitation of celebrities and presents for customers were estimated with the help of

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<sup>94</sup>UR. *HALF-YEAR RESULTS 2014* [online]. In: . [cit. 2015-08-18]. Available at: [http://www.info-financiere.fr/upload/CNS/2014/07/FCCNS127453\\_20140723.pdf](http://www.info-financiere.fr/upload/CNS/2014/07/FCCNS127453_20140723.pdf)

specialist from UR around 1million Euros. Summarizing all the above-mentioned expenses TIC will be roughly 238,8 million Euros. The number will be further used for cash flow predictions in DCF model, calculation of ROI and IRR.

**Table 24 - TIC**

<b><i>TIC</i></b>	<b><i>238816883</i></b>
Land costs	22000000
Construction Investment	205715000
Opening Marketing Expenses	1000000
Rent-free period	3951140
Step rent	6150743

Source: Author based on the information provided by UR specialists

## **Income**

I have calculated the Base Income as a minimum guaranteed rent which all tenants will pay yearly in total for the units occupied minus loss due to vacancy. The rent was assumed based on the market prices for the prime shopping centre in Prague. However, the rent differs depending on the space occupied, category of tenant and negotiation power of tenants. For example, anchor tenants such as Zara, M&S, Primark and others have the negotiation power and are able to negotiate lower prices because they are aware of the fact that owners of SC have interest in leasing the space for them because they bring the footfall and good reputation to the SC. SC operators always try to sign the first contracts with anchor tenants to have differentiating aspect, which later helps them in negotiations with the rest of the tenants.

Rent is also affected by the profitability of the business per square metre. For instance, occupants are divided into category such as Banks, Jewelleries, Clothes and Footwear, Services, Food and Leisure based on their profit margin. Tenants such as Banks and Jewelleries usually are occupying smaller space but having high profit margin so the rent for this category is higher and represents usually 50 – 80 euros m2. Clothes and Footwear is very individual and is according to negotiation with the tenant but on average ranges from 12 to 60 EUR per m2. Categories such as Services have to be presented in the SC for the customer comfort but are very labour intensive and regularly not able to pay high price for the rent. Therefore, they have special conditions provided by the owners and their rent in SC Bubny starting at 33 EUR per m2 for smaller units. Food and leisure is also favoured by the owners since they bring the footfall but regularly are occupying large units and pay lower rent. The investment cost into entertainment tenants is usually very high but income is low. As a stand-alone project it is not very attractive for the SC investors but since it is bringing the positive externality to the other tenants by attracting higher number of visitors the SC favours leisure tenants. The summary of the rent prices in SC Bubny for the different categories are summarised in the table 25. According to those assumptions I have calculated the income for SC Bubny, which resulted monthly in 1 697 225 Euros and annually 20 336 700 Euros. The full calculation can be seen in the attachment. This minimum Guaranteed rent is used in Cash Flow predictions and for the ROI calculation.

**Table 25 - Rent Assumptions**

Key occupancy cost assumptions						
Profit margin category	Banks	Jewelleries	Clothes and Footwear	Services	Food	Leisure
Size of Unit	Rent in EUR per m2					
less than 100	80	70	60	33	33	32
100-200	70	60	50	30	28	27
200-500	60	50	45	28	25	25
500-1000	55	55	25	20	20	19
1000-1500	25	20	18	19	19	18
1500-3000	22	19	15	16	14	12
More than 3000	16	14	12	14	12	10

Source: Author

**DCF model**

The DCF was predicted for 5 years starting the first year the income is generated to see the inflows and outflows of money when the project starts and to see if the investment costs will be covered. Even though the numbers are rough it gives at least the picture of the level of the income that could be expected. The risks for this project were taken into account in the discount rate so the numbers are more realistic. Additionally, for the DCF model I am using several assumptions:

- Total investment costs are not spread over the years but are rather taken as if it was an acquisition cost in the beginning of the year 1. This is a regular practice in the valuation of development projects in CRE and done for the simplification. When developing a SC first investment might be done 10-15 years prior to any income generated and therefore CFs would need to be predicted for 20-25 years and become very unrealistic. Hence, in my DCF model total acquisition costs amounted for more than 22 million Eur and are stated as an acquisition cost.
- The Rental Growth Rate is based on Consumer Price Index, because very often it is stated in the lease contract that the rent can increase with the inflation. I have taken the predictions of CNB of 2%.<sup>95</sup>
- Loss of base rent due to vacancy is predicted at 3%.
- At the end of year 5 for the valuation purposes the exit value of the SC is calculated by dividing the 6 year CF after works and lettings by the exit yield of 6.21%. The standard transfer tax and costs are estimated at 6%.
- Next assumptions are related to the discount rate. I have calculated it as a multiple of 10 years government bond yield in Czech Republic, construction risk, tenancy risk and liquidity risk. The risks are higher because the project is in the initial phase of its development and it brings the higher number of the discount rate. The number are stated in the table 26 bellow

<sup>95</sup> *Trade Economics* [online]. [cit. 2015-08-18]. Available at: <http://www.tradingeconomics.com/czech-republic/consumer-price-index-cpi/forecast>

**Table 26 - Key assumptions for DCF**

Government bond 10 years	0,91%
Construction risk	3,00%
Tenancy risk	3,00%
Liquidity risk	1,30%
<b>Discount rate</b>	<b>8,2%</b>

Source: Author

Considering all of those assumptions I have calculated the DCF, which can be seen in the table 27.

**Table 27 - DCF Model**

<i>Item</i>		<i>Investment costs</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	<i>Exit</i>
<i>Base Rents</i>	+		20366700	20774034	21189515	21613305	22045571	
<i>Loss of base rent due to vacancy</i>	-		611001	623221	635685	648399	661367	
<b><i>Minimum guaranteed rents (MGR)</i></b>			19755699	20150813	20553829	20964906	21384204	
<i>Rent incentives</i>	-		8338450	2015081	0	0	0	
<i>Sales Based Rent</i>	+		0	0	0	0	0	
<i>Pay parking income</i>	+		150000	150000	150000	150000	150000	
<i>Other Income</i>	+		0	0	0	0	0	
<b><i>Gross Rental Income(GRI)</i></b>	=		11567249	18285732	20703829	21114906	21534204	
<i>Doubtful debtors</i>	-		101834	103870	105948	108067	110228	
<i>Non rechargeable expenses</i>	-		244400	249288	254274	259360	264547	
<i>Property management fees</i>	-		916502	934832	953528	972599	992051	
<i>Other non-recoverable charges</i>	-		0	0	0	0	0	
<b><i>Net Rental Income(NRI)</i></b>	=		10304514	16997742	19390079	19774881	20167379	
<i>CAPEX: maintenance work</i>	-		203667	207740	211895	216133	220456	
<b><i>CF AFTER WORKS AND LETTING</i></b>	=		10100847	16790001	19178184	19558748	19946923	20345861
<i>Total Acquisition cost(TIC)</i>	-	228715000						
<i>Total Acquisition Cost at exit (GMV)</i>	+						327894622	
<i>Standard transfer cost at exit</i>	-						19673677	
<b><i>NET CF</i></b>		-228715000	10100847	16790001	19178184	19558748	328167867	
<b><i>DISCOUNTED CF</i></b>			9334917	14340228	15137895	14267626,46	221237839	

Source: Author

The first step in my DCF model was calculating the MGR for 5 years by subtracting from the base rent the loss due to vacancy. Then I added the other income such as income from parking. For the benchmark I have used the SC Pankrac to see the income from parking there and then adjusted it to the size and number of parking slots in SC Bubny. The annual income from parking is 15 000 euros without indexation for 5 years. Next step in order to have gross

rental income was taking into account the rent incentives which were mentioned earlier, which are in total for 2 years were more than 10 million euros.

To calculate the net rental income I deducted the doubtful debtors, non-rechargeable expenses and property management fees. Those numbers are taken as percentage of base rent and are estimated using the method of comparison to similar properties managed by UR in Prague. The values are the following:

- The doubtful debtors are only 0.5% as an economic situation in Czech Republic is stable and no big risks are expected.
- Non-rechargeable expenses are 1.2%
- Management fees are 4.5%

After estimating all the DCF and exit value I made the sum of it to see the market Value of SC Bubny and got the number of approximately 273,3 million EUR. The Gross Market Value of SC Bubny per m<sup>2</sup> is 4 572 euros, which is very good number for Prague market. If, at some point SC will be sold for this price, this would be considered as a successful transaction. Return on Investment which was calculated by dividing the base rent for first 12 month by total investment costs is 8.61%. The IRR is 12.6%.

After the financial analysis, I can say that SC Bubny would be a profitable project with positive financial results in case the situation on the market doesn't change. The investors can expect stable profit and be sure that the total investment costs will be covered and SC will have very high return on investment of 8.61%



## Conclusion

In the thesis I have conducted the research studying CRE and its development in CEE region. The analysis has shown that 2 most attractive countries for investment into CRE in CEE Region are Poland and Czech Republic. They have well-developed infrastructure, stable political and economic environment, increasing indicators in terms of economic growth and opportunities for new projects despite high saturation of shopping centres. Czech Republic has demonstrated very good results in transparency, especially in terms of market data availability. Hence, foreign investors entering the market should not be afraid of the limitation of data access and high level of shadow economy. Moreover, Czech Republic has very low criminality index and risk of terrorist attack occurring. Additionally, economic analysis has shown that Czech Republic has demonstrated outstanding economic results in terms of high GDP growth, low inflation rate, decreasing unemployment rate, increasing salaries and spending per capita. Consumer spending in Czech Republic has increased by 25% over the last 5 years creating opportunities for new brands to enter the market and consequently increasing demand for new retail spaces. Prague is the best developed out of all Czech Regions. Salaries in Prague are 23% higher than the CZ average, which gives much stronger purchasing power to its inhabitants. It has very low unemployment rate of 2% and it contributes the most to economic development of the whole country. It is one of the most popular tourist destinations in Europe and over 6 million people visit Prague for business and tourism yearly. Therefore Prague is the attractive city for the commercial property investment and that's why I chose it as a good example in the case study of my thesis.

The main goal of the thesis was to show on a real project how to open a successful shopping centre, which I have demonstrated on the Bubny project. To summarize, the research has shown that in order to succeed in CRE company should do very detailed market investigation in terms of political environment, macroeconomics, social factors, environmental concerns in the country, analyse all the urban plans in the area, identify all the existing and future projects, study the competitors to identify their strength and weaknesses. After the market research confirms that nothing threatens the SC in that particular location the unique shopping centre concept should be prepared. First, catchment area within 30 minutes should be studied to identify the target customer profile and the transportation availability in the area. Secondly, the construction plan should be done with accordance to social environment in the area showing what size of the shopping centre is preferred by population, how many floors it can allow, how many parking slots will be needed etc. Next step is to prepare action leasing plan to see what tenants to target to rent the space in the shopping centre. This is very important part of the process because the tenants are the main source of income and also differentiation aspect. Hence, the company should make sure that they bring brands attractive to their target customers and also different from the competitors. They should do their best to attract the brands not only already present on the market but also from abroad in order to have unique SC. Moreover, categories of tenant should be well balanced and to include all sectors especially not to forget dining and leisure categories because according to all the trends customers are more attracted to the SC which can provide entertainment. However, the shopping centre owners should be careful with it because entertainment tenants very often occupy large spaces but pay low rent. So the financial analysis should be conducted to see

how much of footfall the leisure tenant could bring to cover the opportunity costs of renting the space for higher price. The entertainment and dining occupants shouldn't cannibalise the profitability of the SC so tenants should have very good credit history and be well-established business on the market. Services and events are other important elements, which should be properly planned because customers become more demanding and they expect very high quality from the shopping centre. Services and events should be adjusted to the target customers of the shopping centres. Design and architecture should demonstrate the environmental concerns. SC should be developed in line with environmental requirements and try to obtain sustainable construction certification such as BREEAM. Also, customers prefer to see in internal architecture modern and clean lines, plenty of natural light, greenery, spacious corridors and innovations. Last but not least SC should be managed on daily basis by professional dedicated teams having the expertise in the area. If all of those criteria are met very likely the SC will have a chance for success even if the market saturation is high because customers prefer going to new and refurbished shopping centres.

That framework was fully implemented in developing a concept for shopping centre Bubny and my ideas and assumptions were presented to the UR Company and feedback from the specialist was provided. In the positive scenario for the investor SC Bubny should bring stable profit each year and to cover the investment costs with the ROI of 8.61%, which is very flourishing number for CRE market. The Market Value of SC Bubny if investor decides to sell it was estimated at a price of 276,9 million EUR.

My personal goal to understand how the commercial property market works, what is the situation in CEE and what is the potential of the industry was fully met and I will definitely implement the knowledge gained when writing this thesis in my future career. Moreover, this thesis can be used by CRE companies to get fresh ideas when opening a shopping centre and to make sure they have included all the aspects as well as by students interesting in the industry for better awareness of the processes in CRE.

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