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New Year, New Opportunities

And a new edition of the SMART magazine. I find it hard to believe that the first issue was published in 2010, so we are celebrating a ten-year anniversary! For ten years, we have been doing our best to bring you the latest news, any relevant data, and interesting real estate trends. We intend to continue in our efforts also in the future!

The world has changed quite a bit in the course of the past decade. It has become even more digitalised, maximising the speed of communication. Unfortunately, the amount of information available on-line is so vast that sometimes it is hard to tell what to trust, and we are often surprised by all the possibilities. Some of these novelties are enough to drive you mad. One of the less-crazy trends of the past years is the sharing of everything, including apartments or offices. This issue of our magazine takes a closer look at the trend in several articles. One of them summarises the results of our new study of the hotel market – we have analysed the influence that sharing apartments has on the hotel and residential market in the centre of Prague. Another article deals with the legal aspects of the increasingly popular use of coworking spaces.

Another article that deals with the topic of coworking is our Workplace Advisory article, where we analyse, among other things, various aspects of different generations working together, and we look at their workplace requirements. In fact, this is also one of the latest trends: there is a shortage of manpower, companies are fighting to get employees, and workspace is beginning to be part

of their HR strategies. The Deloitte office in Prague is a good example. It was designed to meet various requirements: employee experience (the HR aspect), client experience (the business aspect), and digital transformation (organisational optimisation). You will find more on page 4.

Another trend that has had a strong influence in the past few years is stressing the importance of environmentally friendly production and striving to minimise its impact on humans and nature. This is definitely a well-meant, good and rational trend, as long as it does not become a new religion. In the “Construction Industry Icon” section, we present the Copenhagen waste incineration plant which, apart from using a number of new technologies, also serves as a ski slope for the local inhabitants.

To conclude, I would like to mention an article that looks back on the latest edition of the prestigious contest called Best of Realty. This year, we became the partner of the competition's new category, the Hall of Fame. The aim of the contest is to acknowledge personalities who have dedicated their lives to real estate and really made a difference in this field. The first person to enter this virtual Hall of Fame was Serge Borenstein, the developer who was, above other things, responsible for the successful, highly appreciated transformation of Prague's Karlín into a prestigious and lively part of town. Congratulations again!

I wish you a successful start of the twenties!



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Information Service Q4 2019

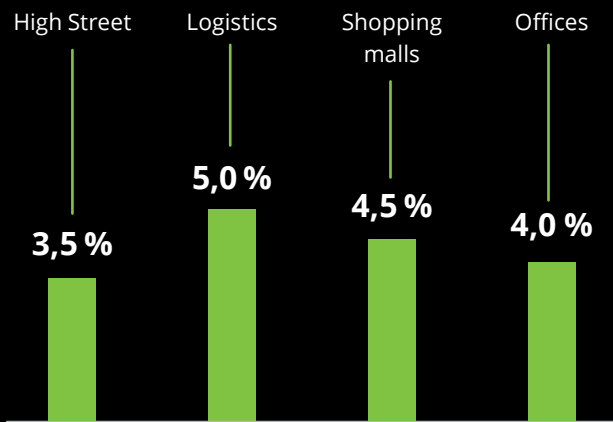
REport

Key data, transactions monitoring, interactive Prague property map and more of real estate in publications at deloitte.cz/REport

Macroeconomic Data

<div><div></div><div>GDP Grew by 2.5% year-on-year</div></div>	<div><div></div><div>2,0 % Was the general unemployment rate</div></div>	<div><div></div><div>Industry Dropped by 3.4% year-on-year</div></div>
<div><div></div><div>2,35 % Was the average mortgage interest rate for citizens</div></div>	<div><div></div><div>Inflation rate reached 2,8 %</div></div>	<div><div></div><div>Construction production grew by 2,7 %</div></div>

Yields – Q4 2019, Prague

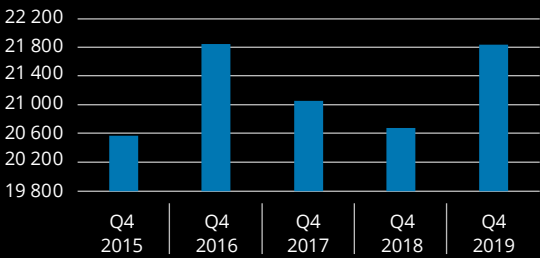


Rents – Q4 2019, Prague

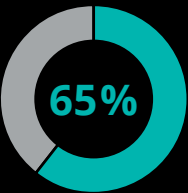
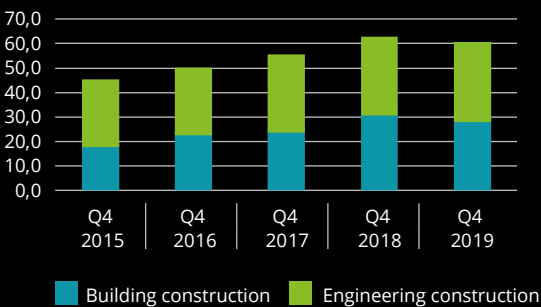


Development

Number of issued construction permits at quarter-end



Volume of new contracts at quarter-end in CZK billion



Proportion of the value of public contracts at construction companies

CZK 2.47 million
The value of an average mortgage provided in CZ in Q4 2019

55,8%
of all newly offered Prague apartments in September 2019 had a 2+kk layout (2 rooms and a kitchenette).

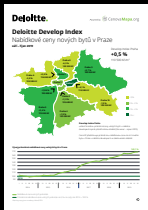
Realty

CZK 110 500 per sq m

Average offer price per square metre in Prague apartments

CZK 60 700 per sq m

Average transaction price per square meter of an apartment in the Czech Republic



Develop index



Real index

Selected transactions



One of the most environmentally friendly office buildings in the world, **Praga Studios**, was purchased by CBRE Global Investors for approx. EUR 55 million from the Skanska Real Estate developer.

Photo: Skanska



For an undisclosed amount, Catalyst Capital purchased the shopping and community centre **Olympia Olomouc** with a sales area of 32,000 square meters. The seller was the German company Commerzbank.

Photo: K4 Architects & Engineers



The SEBRE developer finalised the sale of the office building **DRN** at Národní třída for approx. EUR 100 million. The buyer was the German investment company KGAL.

Photo: KGAL

Different Generations in One Office

How to Create a Work Environment of the Future?



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The notoriously discussed generation gap is a big issue namely when creating a work environment, regardless of whether we are talking about traditional offices, manufacturing facilities, restaurants or other places we share during our work hours. Expectations and requirements differ in the same way as generations that meet in the work place. What are the demands and how to meet them?

While the younger generation is happy with a fast wi-fi connection, powerful computer, mobile phone and good coffee complemented by an architecturally inspiring and interesting environment, older generations need rather more “archetypal elements”. Ideally, a permanent work seat, where they will meet the same colleagues every day, and some space for storing their things so that they always have them at hand. However, are these elements really necessary in our age of over-dependency on modern technologies?

Find out what your employees really want
Modern office buildings make it possible to adjust the work day to the given needs – if one needs to concentrate fully, the space may be closed so that there is no disturbance. Flexible project rooms and relaxing zones have become a standard. Everyone can find whatever they need for their work.

However, how to find out what your employees want? How to effectively set up a work environment combining all

requirements under one roof? Talk to them, get to know them. It is the only way of finding out what they cannot work without, what the icing on the cake is and what helps improve the atmosphere at the work place. It is the only way you can design a balanced compromise. It is no good having a game console in every other room just because it is trendy now, when most people would welcome relaxing zones. In the end, it does not matter what colour your chairs will be, how many desks there will be and who designed them, or



Photos: Peter Fabo, Source: Deloitte archive

the view from the windows. The key aspect is being able to combine the expectations, demands and requirements of the various generations, no matter how different they are. It is of key importance to create a work environment in which a good atmosphere will be complemented by work habits that will be suitable for the people sharing space under one roof.

Churchill: a place for everyday work as well as occasional meetings
A modern work environment must be functional, varied and ideally also entertaining. It should not just follow trends, it should be timeless. The right work environment should provide enough room for random as well as planned meetings that have “busy” dynamics and simultaneously, enough room for concentrated, undisturbed work.

When we were creating the Churchill space in Vinohrady in Prague, we had all of this on our minds. For us, the key aspects were flexibility, technology, a home-like environment, and wellbeing. The key connecting element is the central staircase which runs through the

whole building. It is surrounded by social areas and coffee points – all the activity thus takes place in the centre of the building. We have plenty of rooms for random as well as planned meetings, large hubs for seminars and workshops, co-working and relaxing zones for groups and individuals. A bodybuilding gym, coffee shop and canteen located directly in the building and a good wi-fi connection anywhere in the building are a pleasant standard. During the day, we can cover all the needs in terms of team meetings, individual interviews as well as concentrated work and relaxation.



Deloitte won the prize in the Offices of the year 2019 competition (Consulting offices category) <https://www.kancelareroku.cz/galerie.php>

Deloitte WorkPlace Advisory

Is your rent agreement about to terminate? Are you growing and the current work environment no longer suits your demands? Do you know that a good quality facility is a competitive advantage and enables you to keep current employees and attract new ones? Workplace Advisory Consulting will guide you through the whole process – we will map the current situation, design an ideal solution for you and advise you on how to best organise the whole process and complete it successfully. We will assist you in preparing the business specifications, selecting new space, communicating with developers, architects and designers and, finally, we will naturally help you with the moving process!

5 things a modern office cannot exist without

1

Technology equipment: fast wi-fi connection, wireless technologies

2

Enough room for work and relaxation, quiet zones

3

Social rooms for random and organised meetings

4

Central space for meetings, own entry with a reception

5

Facilities: coffee shop, canteen, shops

The Number of Tourists Is Growing Faster Than the Number of Hotel Bedplaces - Accommodation Platforms Are the Ones Benefitting From It



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The influx of tourists in Prague increases by an average of 300 thousand tourists each year, which does not correspond to the growth in the number of hotel beds that is stagnating. Thus, the increasing tourist demand is covered by shared accommodation platforms, which have increased their capacity by more than 34% in the last 2 years.



Demand – tourist trend

The number of tourists is growing significantly and creating unprecedented new demand that is transforming not only the hospitality sector but also whole cities. As a result, the cities are currently looking for the right balance between a tourism development strategy and a resident-friendly environment.

Long-term economic upswing, affordability and the rise in the travelling trend itself are the main drivers of increasing tourist demand. Travelling was for decades provided primarily by professional travel agencies but the trend is currently disrupted mostly due to the influence of technology and connectivity. The smartphone became an essential travel tool which enables tourists to travel alone without any knowledge of the destination.

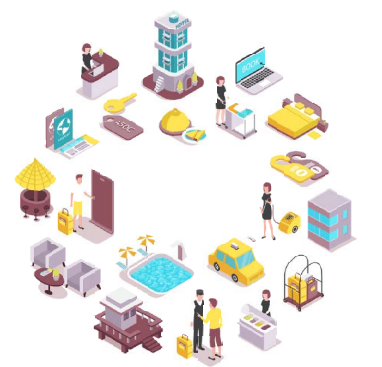
The trend of the tourism increase is confirmed in Euromonitor International statistics – each of the selected monitored cities has recorded an increase of international tourists in the last 2 years with an average of 9.5%.

The number of international tourist arrivals has increased by 606,000 between the years 2016 and 2017. In 2018, compared to the previous year, the number of tourists has increased by 232,000. Prague recorded the second highest increase in tourists of all selected cities just after Amsterdam with 1,568,000 growth in the last 2 years, mainly due to the characteristic of the city as a popular airport transition point.

Prague and Rome lead in terms of absolute numbers of international arrivals exceeding 9 million arrivals per year. However, in relative comparison, Prague achieves a significantly higher density ratio compared to the size of the city than Rome. The ratio of international arrivals to locals is 6.9% in Prague, which is more than two times higher than in Vienna or even three times higher than in Budapest.

Euromonitor International statistics include a prediction of the number of arrivals in cities in 2025. The prediction shows a further annual increase of international tourists coming to Prague by an average of 330,000 arrivals.

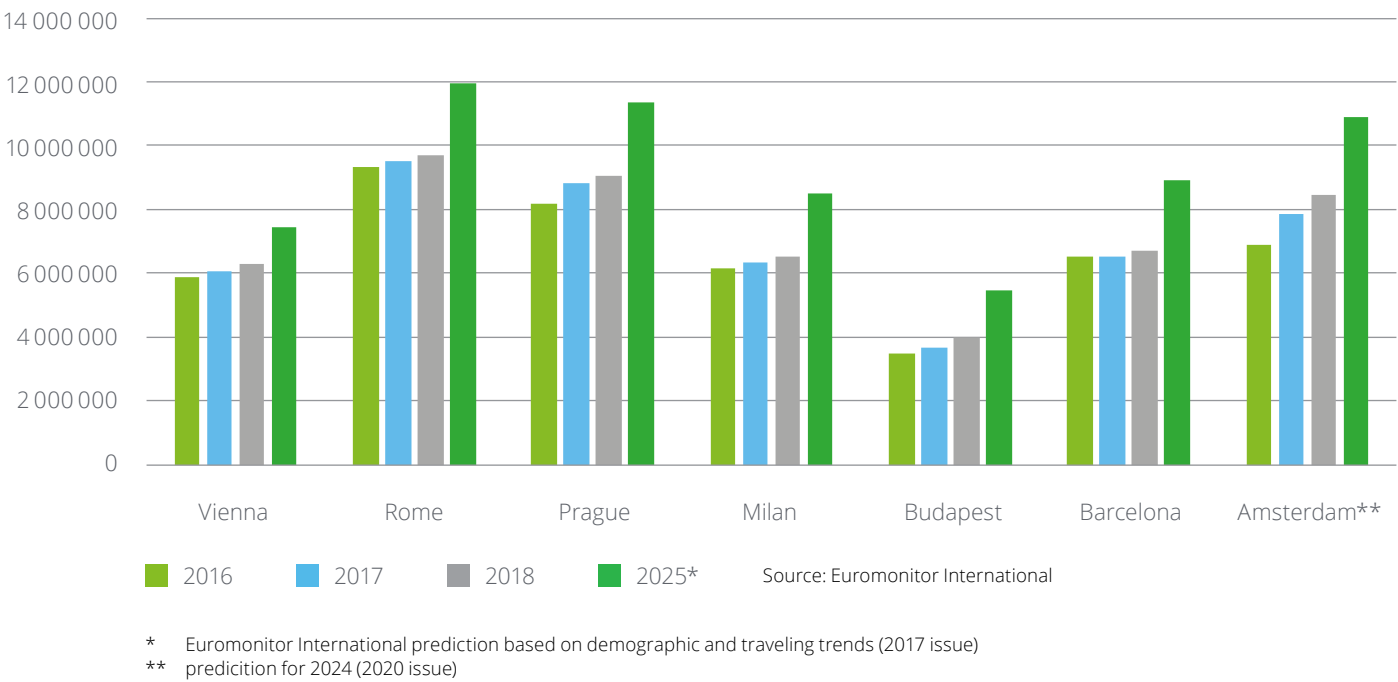
Deloitte.



Prague Hospitality Report
Tourism, Hotels & P2P accommodation
November 2019

The complete Prague Hospitality Report is available [here](#).

Significant growth of tourism in Prague

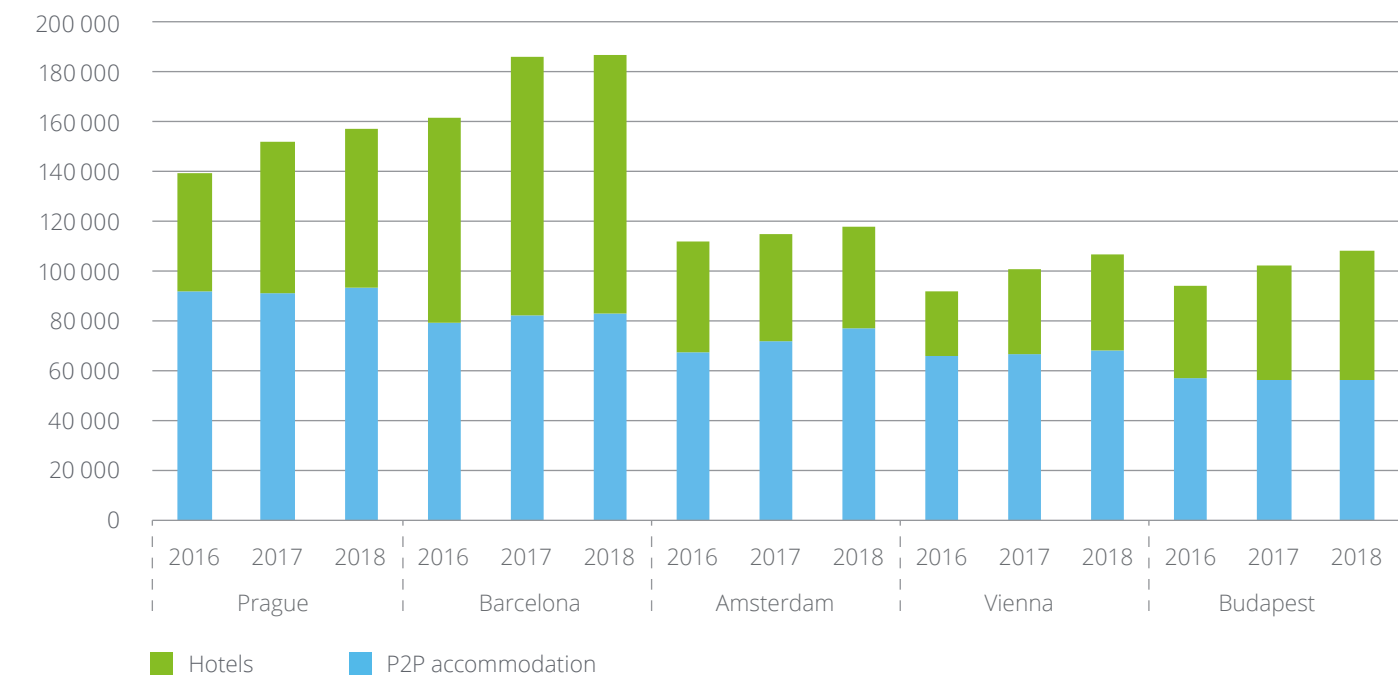


Offer – accommodation capacity

The tourist boom and technological progress have brought new possibilities in the area of tourist accommodation, which has long been represented exclusively by hotel capacities. The new concepts

are mainly based on the idea of shared economy where the trend of short-term rental of real estate, the so-called peer to peer (P2P) accommodation, began to promote.

Capacity of hotels and P2P accommodation in years 2016-2018



Source: Euromonitor International, AirDNA

Total tourist accommodation capacity grew by at least 5% in all compared cities between 2016 and 2018. In most cities, with the exception of Amsterdam, the majority of the growth can be attributed to P2P. Hotel markets mostly stagnated and in Budapest there was a decrease of 1.7%. Thus, the rapidly growing demand is largely satisfied by P2P, thanks to its ability to react more flexibly to current market conditions. The capacity of hotels can be increased especially through construction or reconstruction of existing buildings that require long planning and preparation and are expensive. On the other hand, the supply of bedplaces listed on P2P platforms can change in a few weeks by transforming apartments intended for living to tourist accommodation.

Tourism and the residential real estate market

The development of shared accommodation is not only about creating new tourist accommodation capacity, but the new units for P2P accommodation also affect the residential real estate market. Especially in the city centre, where shared apartments are highly demanded. In Prague's urban areas, such as Staré Město, Nové Město, Malá Strana, Josefov or Hradčany, P2P accommodation is most popular because of the greatest economic attractiveness of these areas that significantly affects not only residents, but also the overall genius loci of the city centre. By far the highest share of apartments intended for short-term accommodation is in Staré Město, where the share reaches up to 24.8% of the total housing stock.

Cadastral area	Estimated share of shared accommodation on the total housing stock in the area
Staré Město	24,8 %
Nové Město	16,3 %
Malá Strana	13,7 %
Josefov	12,2 %
Hradčany	5,3 %

Overall, Czech legislation is not prepared for the dynamic rise of P2P accommodation in order to move this new segment in the right direction. To achieve it, the following is needed: clear rules under which P2P accommodation can work and a new offer of hotel capacities to compensate part of the growing tourist demand.

The trend of growth in tourism is confirmed by the statistics of Euromonitor International, where all of the selected cities have seen an increase of international travelers by 9,5 % on average in the last two years.

The Winners of the 21st Year of the “Best of Realty” Prestigious Competition Are Known



On 12th November 2019, results were announced and awards were presented to the best projects on the Czech real estate market for 2019 at a gala held in Forum Karlín in Prague. The winners of the 21st year of the “Best of Realty” competition, considered to be the most prestigious in its field in the Czech Republic, were selected by a nine-member professional jury led by Tomáš Drtina (GfK Czech). Members of the jury included representatives of the Association for the Real Estate Market Development, Czech Green Building Council, bankers, realtors and consulting companies.

Nominations in the “Best of Realty 2019” were sought by buildings completed in the Czech Republic after 1st January 2018 in five main categories: Residential projects, New administrative centres, Shopping centres, Hotels, and Industrial and warehouse facilities. In addition, the special award of the jury went to a project which contributed to the development of the Czech real estate market or architecture in a unique way and improved the quality of its locality for the past year. The Association for the Development of the Real Estate Market, under the auspices of which the competition has been organised since its beginning, presented its “Award for Excellence”. As in prior years, Readers’ Award was presented: both laymen and professional public voted

on the website of the competition for the best real estate project without the selection of the category and thus expressed “vox populi”. Another two awards were added to all the above-mentioned awards this year: a personality was introduced to the Hall of Fame who was committed to the development, promotion and reputation of the real estate market, development and relating sectors in an extraordinary way in the past years. Last but not least, a prize for the Environmentally Friendly Project was awarded, across all categories. “It is symbolic that the Best of Realty competition started its third decade by a gala announcing the competition results in Forum Karlín which is one of the award-winning projects – it received a Special Award of the Jury in 2014 in this competition,” said Tomáš Drtina, chairman of the professional jury.

Decisive criteria in the assessment of the quality of nominated projects were the development of the locality, urban and architectonic solution, including internal layout, quality of construction and last but not least success on the real estate market and the environmental friendliness of the project. “This year, we again had numerous projects of very good quality from Prague and Czech and Moravian regions, and the decision making on the winners and the rewarded projects was not easy at all,” added Tomáš Drtina.

Continuing Dominance of the Residential Segment

In the traditionally best represented category of **residential projects**, 21 contenders were nominated: 11 in the category of small apartment projects and 10 in the category of larger projects. In the first category, jurors liked the **Barrandovská zahrada** project in Prague 5 most of all. They appreciated the very elegant and creative use of the specific plot of land respecting the surrounding buildings. Among the nominees, Barrandovská zahrada got attention by the quality of all details. The **Residence Waltrovka - II. phase, west** project in Prague 5 won the category of larger residential projects. In this case, the jury appreciated the above-standard housing in a newly created city district offering residences of various character and with sufficient common areas while maintaining privacy of local residents. Comprehensive amenities of the new city district close to the centre of Prague, connected to the B subway line,

and, at the same time, in a green area of an adjacent park and park areas, satisfy the majority of requirements of local residents.

The winner among **new administrative centres** was the **Praga Studios** project in Prague 8, thanks to its emphasis on sustainability, unprecedented use of state-of-the-art technologies and overall commercial success. Praga Studios leads by example in all issues assessed by the jury – it is an exceptional building both in the Czech Republic and the entire Central Europe.

Renovation of the Zlín department store triumphed in the **shopping centres** category for renovation, very difficult in terms of construction and static and successful in terms of architecture, of the unique building built at the time of the First Republic thanks to which the town currently has a shopping mall with numerous gastronomical units, creating a pleasant shopping area with a unique atmosphere.

In the category of **hotels**, the award went to **Hotel Jungmannovo náměstí 1** in Prague 1. The project received the award from the jury for exceptional and sensitive renovation of a building located in the centre of Prague. Thanks to the combination of functions, this building will always be vibrant. The hotel offers stylish and historically stylised rooms which will undoubtedly leave a positive impression on visitors to Prague.

Industry 4.0 Gets into Czech Logistics Buildings

The **Viapharma/Dr. MAX** project in the **Panattoni Park Prague Airport II** ranked first in the category of **warehouse and industrial facilities**. The jury appreciated its environmental friendliness and numerous selected technical solutions by which it was adapted for a specific lessee during the speculative development. As a result, the building meets the requirements of the Industry 4.0 concept and is relatively rare in the Czech Republic in this respect. Its operations met even the strict criteria of the State Institute for Drug Control.

The “Award for Excellence” presented by the Association for the Development of the Real Estate Market went to **Cyberdog Technology and Information Centre with a café with robotic staff** in Prague 5. The centre has become a meeting point for people living in the neighbourhood,

visitors to Prague and foreigners. All this due to its unique character, creative architecture and numerous technological gadgets thanks to which guests may enjoy both refreshments and a good wine prepared by a robotic hand, and curiosities and news from robotics and cybernetics.

Innovative **Praga Studios** (Skanska Property CR) office building with comprehensive solution in Prague 8, contributing to the further development of Karlín in Prague became the holder of the **Environmental Project of the Year**. The project competed (and won) in the category of new administrative centres. It is going to hold two certificates: LEED Platinum and WELL Gold which document precision work in sustainability and user friendliness. The guarantor in this category was the **Czech Green Building Council** – the jury included Simona Kalvoda – Executive Director of the Council.

Creation of the Hall of Fame for Personalities of the Real Estate Market

The first personality introduced into the Hall of Fame as part of the “Best of Realty” competition was **Serge Borenstein** – co-founder of the Karlín Group which was formed in 1997. At present, he is the main shareholder of the group whose name was inspired by the Prague district Karlín where its successfully completed projects made their mark. The award was presented by Miroslav Linhart, Deloitte partner and leader of the real estate team.

The **Readers’ Award for 2019** went to the **Churchill** project located in Prague 2 which competed in the category of new administrative centres and ranked second.

Together with the competition results, another year of the competition, already the 22nd was announced. In 2020, projects completed between 1 January 2019 and August 2020 may register in this year of the competition.

Readers’ prize for 2019

belongs to the **Churchill** project in Prague 2, which also took second place in new administrative centers category.



Building Icon **Amager Bakke**



Daniel Kopecký

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The incinerator plant is able to process almost half a million tons of waste annually, from which it generates electricity and heat for approximately 150 000 households.

It has been about two months since a ski slope was opened on the roof of a new waste incineration plant in Copenhagen. The project itself, called Amager Bakke, sets a possible new trend where similar buildings can do more than just fulfil their primary purpose. In line with this idea, an international tender was organised and the winner was Bjarke Ingels' architecture studio BIG. The result of its work is one of the largest and at the same time most environmentally friendly waste incineration plants in the world, with added value in the form recreational use and an interesting architectural solution.

The construction of the new plant began in 2013 as a replacement for the existing incineration plant Amagerforbraending, which had been in operation for 45 years. Amager Bakke started operating four years later. With 85 m in height, it is one of the tallest buildings in Copenhagen. The cost of the construction is estimated at EUR 550 million. Czech company Sipral was also involved in the project, supplying the outer sheathing of the building, which completes the building's characteristic design in the form of large aluminium blocks. Another interesting feature of the incineration plant that catches the eye from the outside is the

125 metre high chimney. The chimney was the subject of a campaign on the Kickstarter crowdfunding platform, the objective being that the chimney should release a large ring of smoke every time one tonne of CO2 is released in the atmosphere. The goal was to draw attention to the issues of air pollution. However, the project has now been suspended since sufficient funds have not been collected.

The incineration plant is able to process almost half a million tonnes of waste per year, using it to generate electricity and heat to supply almost 150,000 households. In addition, thanks to state-of-the-art technologies it has much lower emissions than the original plant. New filters led to a significant decrease in the emissions of carbon dioxide (by 90 %) and sulphur (by 99.5%) and it produces 100,000 tonnes of CO2 less per year than if the same number of households were supplied by a conventional coal power plant. Waste processing generates more water than it uses. In addition, emphasis is placed on the most efficient possible use of the residual waste after processing. Approximately 10,000 tonnes of metal are recycled very year and this residual waste is then used in road construction instead of gravel. In the



Highlights:

85 m Height	€ 550 million Construction costs	450m Ski slope length
450,000 tonnes of waste Annual capacity		150 000 Households supplied with heat and electricity

interior of the incineration plant, we can find a learning centre focused on educating and spreading awareness on the issues of the environment and sustainable development. It also includes administrative premises used in particular by ARC company, which manages the incineration plant's operations.

Ski slope on the outskirts of Copenhagen
Nevertheless, probably the most important factor that has brought so much attention of the general public to the building is its roof and the aforementioned ski slope. It was designed in cooperation with the SLA studio and it has 450 metres in length. It is composed of two parts, with the upper part steeper and the lower part more gradual.

Thanks to its artificial surface, it can be used essentially throughout the year, which many inhabitants will certainly profit from. Among other reasons because Denmark's highest mountain is only 171 metres high and ski lovers therefore have to travel abroad. The cost of skiing on Copenhill, as the new building is also sometimes called, is around € 20 per hour, or € 325 per year for regular visitors. Moreover, it is not just skiing and snowboarding enthusiasts who will benefit. A path for running, walking or cycling has been made along the ski slope. Everything is surrounded by greenery to make the impression of a mountain landscape as true as possible. At the top, we can find a bar, an area for exercising and especially a beautiful

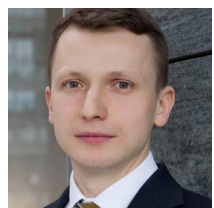
view of Copenhagen. The last but certainly not any less interesting attraction is the climbing wall that will open in early 2020 as the tallest outdoor climbing wall in the world. Copenhill can be seen as an example of a well-prepared project of a single "incineration plant" that can eliminate waste produced by hundreds of thousands of people while supplying them with electricity and heat. Above all, thanks to its smart construction, it offers much more for inhabitants of the city and its surroundings. The positive reactions of the public only confirm this. We can but hope that the future will see more such projects.

Contractual Arrangements Regarding the Use of Coworking Space

Nowadays, coworking space is an increasingly popular manner of using commercial property in order to generate profit. As in standard renting, the owner provides a building or its part for temporary use to a third party, and the third party pays an agreed consideration for the rented space. The difference in coworking is the fact that the space is used by various entities and persons and they are allowed to use the space even for a very short time. A particular user may rent only one office, or even only one workstation in an open space office for a single day, with the high comfort of a modern office and the possibility to use common areas, printers, other office equipment, kitchenettes, other services such as an assistant, etc.



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Coworking offers numerous other benefits to its users. Primarily for small entrepreneurs who are “self-employed”, renting an office on their own would frequently not be feasible for economic reasons. However, they may be able to afford one seat at a shared office and they can set the time of use to correspond with their work rhythm. Coworking is interesting even for large business companies. It allows them to establish a small branch in another city or town with much lower costs than renting a standalone office. Or they may use it to expand the capacity of their business premises in the short-term, organise training for clients outside their own offices, rent highly representative and comfortable premises for meetings outside their registered office, etc.

What type of contract is it?

Czech private law uses the theory of types of contract where legal regulations define, in addition to general rules for all legal proceedings and general rules for all contracts, specific rules for various types of contracts. For most types of contracts, rules are stipulated by Act No. 89/2019 Coll., Civil Code, as amended (the “Civil Code”). Legal regulations for each type of contract stipulate the rights and obligations of the parties that apply to this type of contract even when the parties concluding the contract do not specifically agree on them. Parties concluding a contract may deviate from certain (discretionary) statutory rules by agreeing on different rules in the contract, while they cannot deviate from other (mandatory) statutory rules.

Should the parties conclude a mutual relationship so specific that it cannot be

categorised under any of the contract types provided for by the law, it is an “innominate contract”. The innominate contract is then subject to general rules on analogy in accordance with the Civil Code under which statutory rules defining the type of contract having nature as close as possible to the innominate contract apply to such contract. Therefore, even if the contract cannot be categorised under a contract type, the legal rules will apply, namely those stipulated for a contract most similar in terms of content. However, innominate contracts are very rare in practice and most of concluded contracts can be categorised in some of the contract types defined by law.

The rule which is used to categorise a contract in a certain contract type is as follows: statutory rules apply to particular contract type when the content of such contract meets the essential elements of the particular contract type.

Lease or sub-lease

Given the above information, we believe that the contract used by the operator of coworking to provide part of the real estate for use will have to always be treated as a lease contract or a sub-lease contract in the Czech legal environment.

The assessment of a coworking agreement as a lease contract is in our opinion applicable even if the leased asset or its part is determined only generally, e.g. if the leased space is described only as

a single unspecified work station in a specifically defined open-space office. The general determination of the leased asset does not lead to vagueness of the lease contract and it therefore does not impact its effectiveness. The lessee will always take over a specific work station and then be required to return it.

Implications

Pursuant to categorisation of the contract in a certain type, we can conclude what rights and obligations are the operator and coworking user have as defined by legislation. The Civil Code contains an extensive definition of rights and obligations arising from lease contracts and relating to possibilities to terminate the contract and notice periods, rules regarding the maintenance of the leased asset, defects in the leased asset, etc.

Relationship of an entrepreneur towards an entrepreneur and an entrepreneur towards a consumer

In addition to a lessor-entrepreneur and lessee-entrepreneur relationship, coworking can sometimes be a lessor-entrepreneur and lessee-consumer relationship. For this reason, various statutory rules may apply to various users of the same coworking space depending on their relationship to the lessor.

When a work station in a coworking space is for example rented by an employee using his/her own funds to avoid a long-

distance commute to work in a situation when work from home is not possible due to family circumstances, or by a student for studying, etc., such a lessee will be a consumer in relation to the coworking space operator, and the extensive statutory regulations involving consumer protection will naturally apply. In addition, in contracts where one of the parties is a consumer, the parties have a lesser possibility to use discretionary provisions of legislation which may be deviated from.

Conclusion

Although the use of coworking spaces is a relatively new and fast-expanding phenomenon, from a strictly legal perspective it is a lease or sub-lease. For this reason, numerous statutory rules regarding leases apply to both operators of coworking and its users even when they have not explicitly agreed on them in the contract. Compared to standard renting of business premises, it is additionally necessary to bear in mind that certain persons will be consumers in relation to the lessor, which will significantly change the contractual position of both parties.



Expanding the List of Obligated Entities in Real Estate



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Combating the legalisation of illicit proceeds (anti-money laundering or AML) and terrorist financing is continuously changing at the both international and local levels, which is reflected mainly in regularly changing legislation that keeps extending the obligation of obligated entities and, above all, keeps extending the list of obliged entities.



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Current developments in prevention of money laundering and terrorist financing

After several amendments in previous years related mainly to the implementation of the so-called 4th AML Directive (as a result of which, for example, the requirement for keeping records of the beneficial owners of legal persons was introduced), the most topical issue as well as challenge is the implementation of the so-called 5th AML Directive, which should have been finished by all EU Member States by 10 June 2020. In the Czech Republic, compliance with the EU regulations should be achieved primarily by the amendment to the AML Act (and some other acts, e.g. the Gambling Act) and adopting a new act on the registration of beneficial owners. However, it is already clear that this deadline will not be met, as on 10 January 2020, both legislative proposals were still in the legislative process.

Prevention of the legalisation of illicit proceeds and terrorist financing in real estate

For the real estate area, the most fundamental change is the adjustment (extension) of the list of the so-called obliged entities within the meaning of the AML Act, which should reflect the potential risk of the misuse of subjects operating in real estate for the legalisation of illicit proceeds or terrorist financing.

The AML Act exhaustively defines the group of the entities that have an obligation to comply with this act and on which it imposes various obligations in combatting the legalisation of illicit proceeds and terrorist financing. The amendment to the current AML Act, which includes among the obliged entities the persons authorised to trade in real estate or act as a real estate agent, shall change the definition of the obliged entities,

based on which the list of obliged entities will newly include (inter alia) persons who buy or sell immovable properties (within their business activity) and perform the activities of a real estate agent within the meaning of the Act on Real Estate Agents (which shall be effective in March 2020).

The amendment to definition of obliged entities in the AML Act thus terminologically reflects the wording of the Act on Real Estate Agents (the obliged entities will continue to include, for example, a developer selling real estate), but above all it practically extends the list of the obliged entities to include persons acting as agents in the rental of real estate. However, this extension will be limited by the volume of payments in order to avoid a disproportionate increase in the number of obliged entities. Therefore, when intermediating the rental of real estate, real estate agents will only be considered to be obliged entities if they are to intermediate a rental with a monthly payment exceeding EUR 10,000.

Under the new legislation, the obliged entities according to the AML Act will be, for example, agents intermediating rental of warehouses, offices or business premises, including service companies performing the function of an agent within a holding (provided that the amount of the monthly payment exceeds the specified limit).

Consequences for entities operating in the real estate segment

In the event that a person becomes an obliged entity within the meaning of the AML Act, this person will have to fulfil the specific obligations laid down by the AML Act when carrying out transactions and in contractual relationships with partners in order to prevent the legalisation of illicit proceeds and terrorist financing.

The primary obligation in preventing the legalisation of illicit proceeds and terrorist financing is to carry out specific customer identification and due diligence. In the event that the conditions of the AML Act are met, the obliged entities must, before performing a transaction or establishing a business relationship, identify the client or, where applicable, a natural person acting on behalf of a legal person, usually in the physical presence of the client (i.e. "face to face", even though the AML Act allows the use of certain alternative ways of identifying the

client remotely). As part of the identification under the AML Act, the obliged entity shall, in particular, record and verify (i) identification data, (ii) identity card data and (iii) the client's appearance when compared to the photograph on the identity card.

In addition to the identification and verification of this information, the obliged entity will have to verify, within the client's identification, that the client (or, where applicable, the natural person acting on behalf of the legal person, the beneficial owner of the legal person or any other person in the ownership or management structure of the legal person) is not a politically exposed person or person against whom the Czech Republic applies international sanctions under the Act on Carrying Out of International Sanctions. In cases defined by the AML Act, the obligation to carry out a specific customer due diligence is added to the obligation to identify the client which (to the extent necessary to assess the potential risk of legalising the illicit proceeds and terrorist financing) includes especially (i) obtaining and evaluating information on the purpose and intended nature of the transaction or business relationship, (ii) identifying the beneficial owner and ownership and management structure of the client (if the client is a legal person) and (iii) reviewing the sources of money or other assets covered by the transaction or business relationship.

Another novelty for the obliged entities will be the obligation to designate a member of the statutory body responsible for carrying out the obligations arising from the AML Act, whereby, as part of the enhanced customer identification and due diligence, the statutory body (or the person entrusted by the statutory body with management in the area of measures against the legalisation of illicit proceeds and terrorist financing) will have to agree with entering into a business relationship with the client to which the enhanced customer identification and due diligence applies.

Naturally, the practical consequences related to the fulfilment of the specific obligations laid down by the AML Act are also the economic impacts comprising e.g. the cost of establishing systems for the recognition of suspicious transactions or the allocation of the capacity of certain employees to fulfil their obligations related to the prevention

of the legalisation of illicit proceeds and terrorist financing. The extreme economic consequence may be the financial impact of penalty if a state authority discovers misconduct on the part of the obliged entity in its control activities, as a result of which it will impose a pecuniary sanction on this entity.



Newly, the AML Act should also regulate the so-called enhanced customer identification and due diligence, which will apply in the event of increased risk of the legalisation of illicit proceeds and terrorist financing. Such a case will be, for example, a business relationship with a politically exposed person or a client established in a high-risk third country, which in practice often occurs when selling residential real estate.

Imminent sanctions on entities operating in the real estate segment

Although the fulfilment of the obligations laid down by the AML Act is practically and economically demanding, all persons that may be considered obliged entities within the meaning of the AML Act must perform careful and proper customer identification and due diligence, as well as ensure the fulfilment of other obligations laid down by the AML Act (e.g. regularly provide training for their employees or cooperating persons) as in the event of non-compliance with these obligations, the obliged entities may be subject to substantial sanctions. In addition to extending the AML regulation to a wider range of entities, there is a clear development of the extent of sanctions that may be imposed on obliged entities, not only in terms of raising the upper limit of financial sanctions (currently up to tens of millions of CZK), but also in the expansion of the types of penalties that can be imposed on them (as a last resort, there is also a risk of withdrawal of business authorisations).

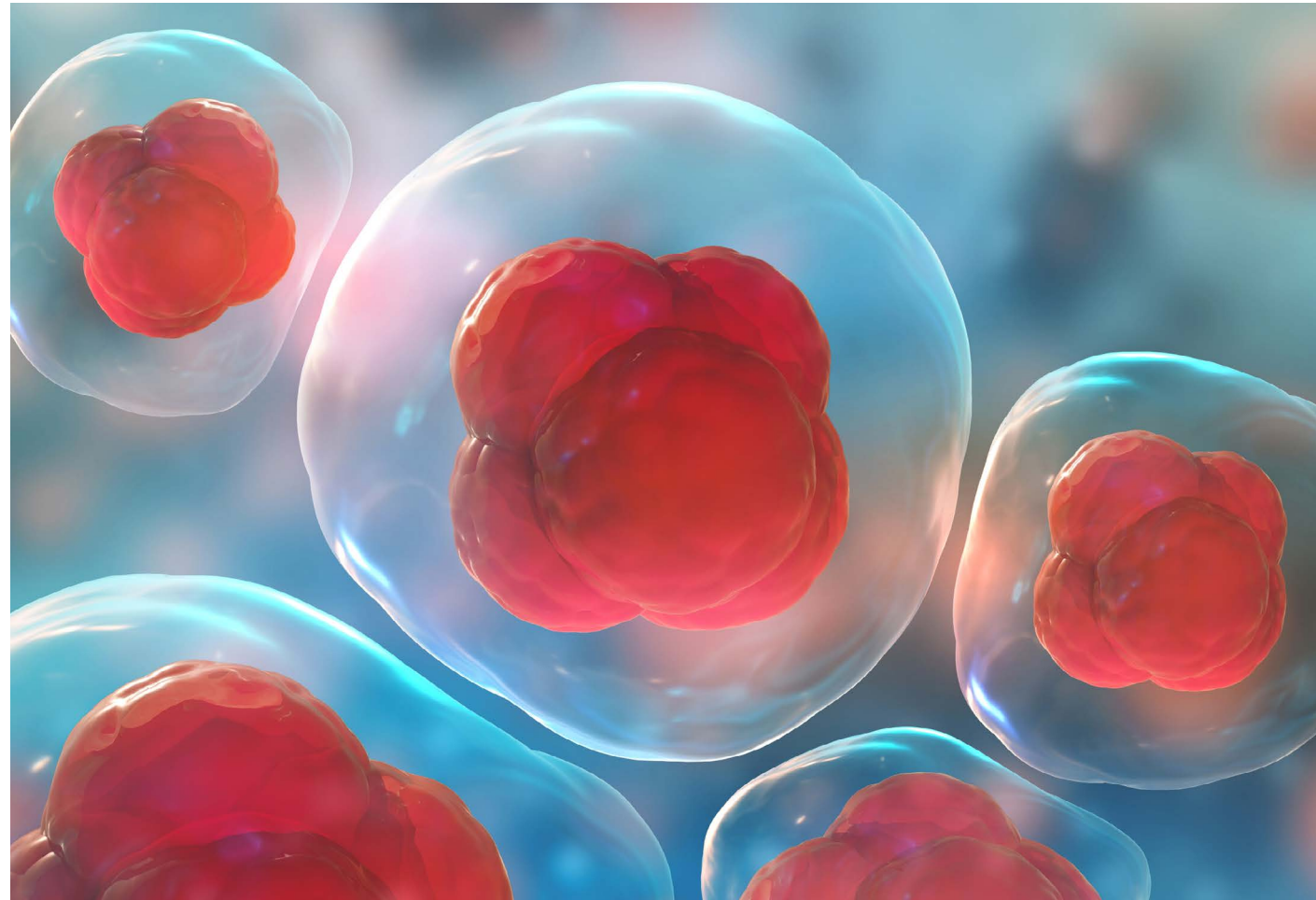
1 Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No. 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC

2 Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU

3 Act No. 253/2008 Coll., on Selected Measures against Legitimation of Proceeds of Crime and Financing of Terrorism, as amended

4 Act No. 186/2016 Coll., on Gambling, as amended

5 Act No. 69/2006 Coll., on Carrying Out of International Sanctions, as amended



Are Tax Liabilities Transferred to the Successor Company in the Event of a Demerger?



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While in the case of demerger by split-up, i.e. demerger where the demerged company ceases to exist, it is clear that the tax liabilities are transferred to the successor companies, it is less clear to what extent the tax liabilities are transferred in the case of demerger by spin-off, i.e. in cases where the demerged company does not cease to exist as a result of the transformation.

Transformation by demerger involves the transfer of the demerged company's net assets to one or more successor companies. The demerged company then may or may not cease to exist as a result of the demerger.

The method and extent of transfer of tax rights and liabilities related to the transferred net assets are generally regulated by the Tax Code. Section 240 of the Tax Code states that if a legal entity ceases to exist with a legal successor, its tax liability is transferred to the legal successor. Until the end of 2013, this provision additionally stated that if a legal entity ceased to exist as a result of a demerger without a clear indication to what extent the tax liability would be transferred to its legal successors, legal succession concerning tax liabilities would be determined by the tax administrator.

The transfer of the tax liability was therefore more closely defined only in cases where the demerged company ceased to exist as a result of the demerger. Then it was up to the participating companies, or the tax administrator, to specify the distribution of these liabilities in sufficient detail directly in the transformation project (the extent of transfer of tax liabilities is an obligatory component of the demerger project). In practice, it meant that the participating companies could determine what tax rights and liabilities would be transferred to the successor companies.

On the other hand, in the case of a demerger by spin-off, i.e. transformation without the dissolution of the demerged company, the method of transfer of tax liabilities was unclear. The Supreme Administrative Court even reached a conclusion in one of its rulings that in the event of a spin-off performed while this legal regulation was in effect, the transfer of the tax liability would be possible only if the demerged company ceased to exist. In the event of spin-off where the demerged company did not cease

to exist, all the tax rights and liabilities remained with the original taxpayer.

Situation after the amendment to the Tax Code in 2014

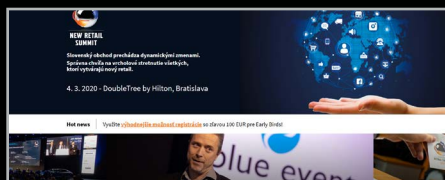
The Tax Code was amended in 2014. The definition of the transfer of the tax liability in the case of demerger by split-up was transferred to Section 240b of the Tax Code and subsequently expanded to include all cases of transformations of legal entities by demerger (not just cases where the demerged company ceases to exist). The Supreme Administrative Court confirmed the transfer of the tax liability from the non-dissolving demerged company to the successor company in the case of demerger by spin-off based on this provision. However, this ruling was issued under specific conditions. It concerned an existing tax liability (albeit one which was conditionally exempt as of the date of the legal effect of the transformation) tied to the contribution of an investment in a company pursuant to legal regulations on exemption from property transfer tax in the event of contribution in kind in a company as effective at that time.

It is therefore questionable whether the transfer of the tax liability in the event of transformation by demerger can be generalised to all cases of spin-off, and whether it is possible in line with Section 240b of the Tax Code to adjust the extent of the transfer of the tax liability from the non-dissolving demerged company to the successor companies in the transformation project at will. This consideration is crucial not just in terms of the liabilities existing as of the effective date of the spin-off due to the "cross-liability" of the companies participating in the transformation for the debts transferred as a result of the spin-off, but also due to the potential transfer of latent tax liabilities as of the effective date of the transformation. přechodu latentních daňových závazků k rozhodnému dni přeměny.

Calendar of Events



**Prague City Centre:
hotels – leases – flats**
12 February 2020
Hotel Grandium, Prague
[stavebni-forum.cz/cs/
diskusnietkani/centrum-
prahy-hotely-pronajmy-
byty/](http://stavebni-forum.cz/cs/diskusnietkani/centrum-prahy-hotely-pronajmy-byty/)



New Retail Summit 2020
4 March 2020
DoubleTree by Hilton,
Bratislava
newretailsummit.sk/sk/



MIPIM 2020
10 – 13 March 2020
Palais des Festivals, Cannes
mipim.com/



**Workshop – Work
Environment of the Future**
12 March 2020
dSpace – Churchill I., Prague
[deloitte.com/cz/cs/
industries/real-estate.
html?icid=top_real-estate](http://deloitte.com/cz/cs/industries/real-estate.html?icid=top_real-estate)



**Real Estate Market Spring
2020**
18 March 2020
Vienna House Andel's, Prague
[stavebni-forum.cz/cs/
konference/real-estate-
market-spring-2020/](http://stavebni-forum.cz/cs/konference/real-estate-market-spring-2020/)



Primetime for... Big Data
25 March 2020
Clarion Congress Hotel, Prague
bigdata.primetimefor.cz/cs/

REport

Key data, transactions monitoring, interactive Prague property map and more of real estate in publications at deloitte.cz/REport

All previous issues are available in the SMART Construction section at www.deloitte.cz/realestate