

Prague Office Market



OFFICE STOCK & SUPPLY

Two office buildings were completed in Prague during Q3 2019 and one additional property was refurbished and added back to the city's modern office inventory. As a result of these completions, the total office stock in Prague grew by 33,000 sq m and currently stands at 3.6 million sq m. Grade A office inventory stood at 2.63 million sq m.

The two new deliveries included the Argentinská Office Building (5,800 sq m) in Prague 7 and Dock In Three (16,100 sq m), Crestyl's third office building out of a total five within their Prague 8-based scheme. VIG carried out the full refurbishment of BB Centrum C Life building in Prague 4, which was initially built by Passerinvest in 1998.

Nearly 113,000 sq m of modern offices were supplied to the Prague market during the first three quarters of the year, which was 12% down y-o-y. However, if all of the premises scheduled for completion during Q4 are completed on time, the total annual supply in 2019 would reach ca. 206,000 sq m, which would be the highest level since 2008.

At the end of Q3 2019, the city's construction pipeline included 316,800 sq m of mostly new office developments, which should all be completed by the end of 2021. Nearly 40% of all this space was pre-committed.

VACANCY

By Q3 2019 the vacancy rate in Prague had climbed by 54 bps from Q2 to 5.1%, which translates into almost 183,000 sq m of unoccupied modern office space.

This marginal increase in the volume of immediately available office space was partially caused by new speculative space totalling 17,600 sq m that was delivered to the market during Q3, and also by some second-hand space becoming vacant in grade A as well as grade B offices across the city.

Unoccupied office space was evenly distributed across grade A and grade B office buildings. Both of these stock categories closed the third quarter at a 5% vacancy rate.

53% of all unoccupied space was found in Prague's biggest office districts, Prague 4 and Prague 5. Prague 4 was offering more than 52,000 sq m for immediate occupation and almost 45,300 sq m was available in Prague 5.

Assuming that all six buildings that are scheduled for delivery by year-end complete construction on time, up to 40,000 sq m of speculative office space will be added to the Prague market in the final quarter of 2019. With demand cooling, this speculative development could push up the vacancy rate slightly.

Prague office market in Q3 2019



3.6 million sq m
Total office stock
in Prague



33,000 sq m
Office supply in Q3 2019
(down by 14% y-o-y)



5.1%
Vacancy rate
(up by 54 bps q-o-q)



85,200 sq m
Gross take-up in Q3 2019
(down by 35% y-o-y)

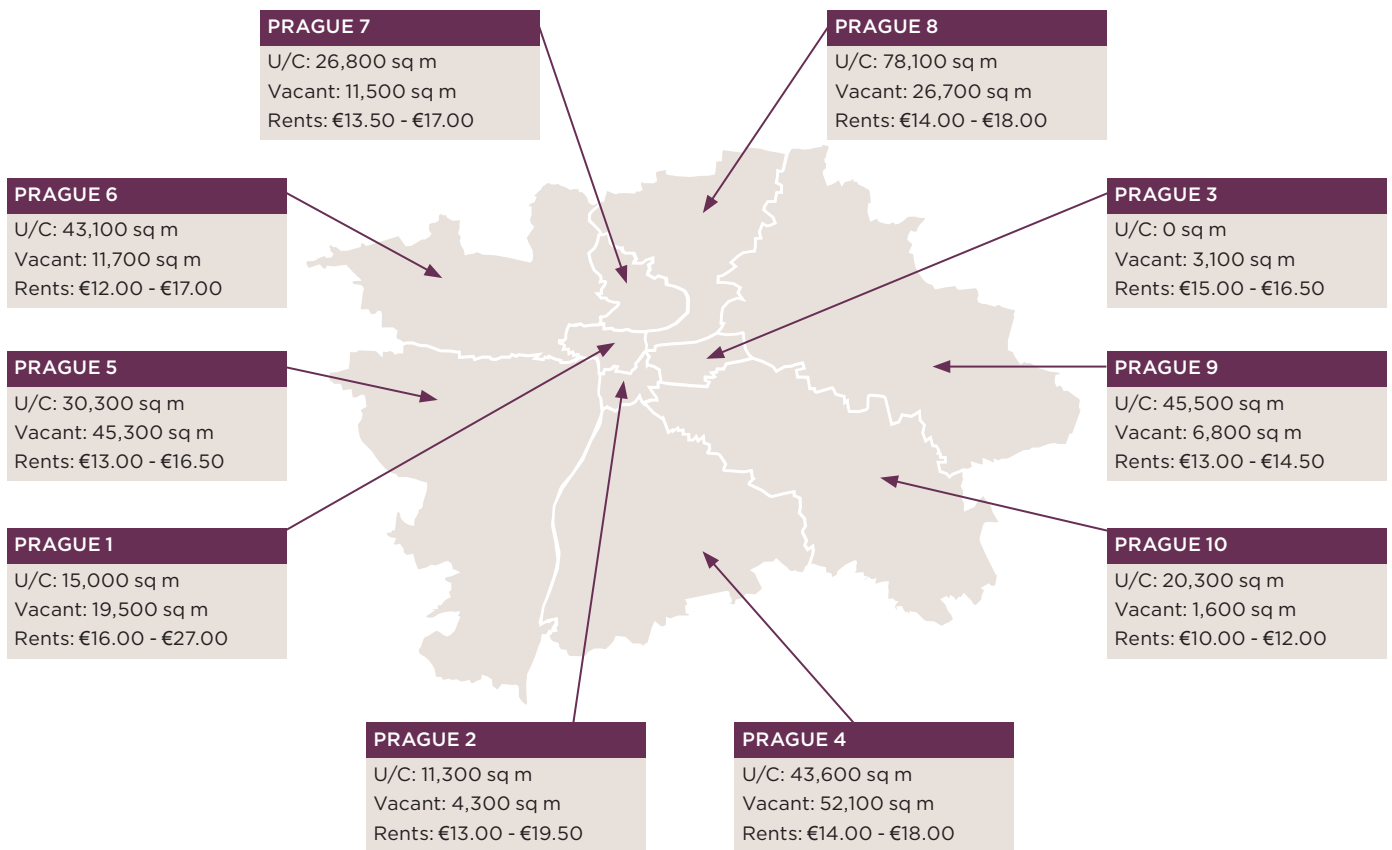


53,500 sq m
Net take-up in Q3 2019
(down by 35% y-o-y)

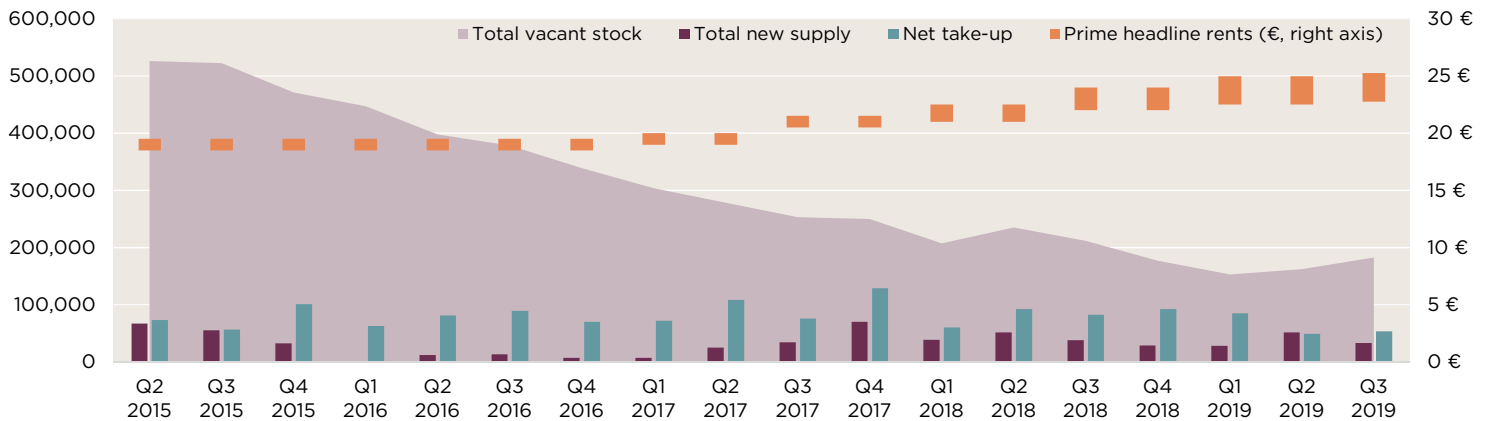
Source Savills, PRF

Office developments, vacancy and monthly headline rents across districts

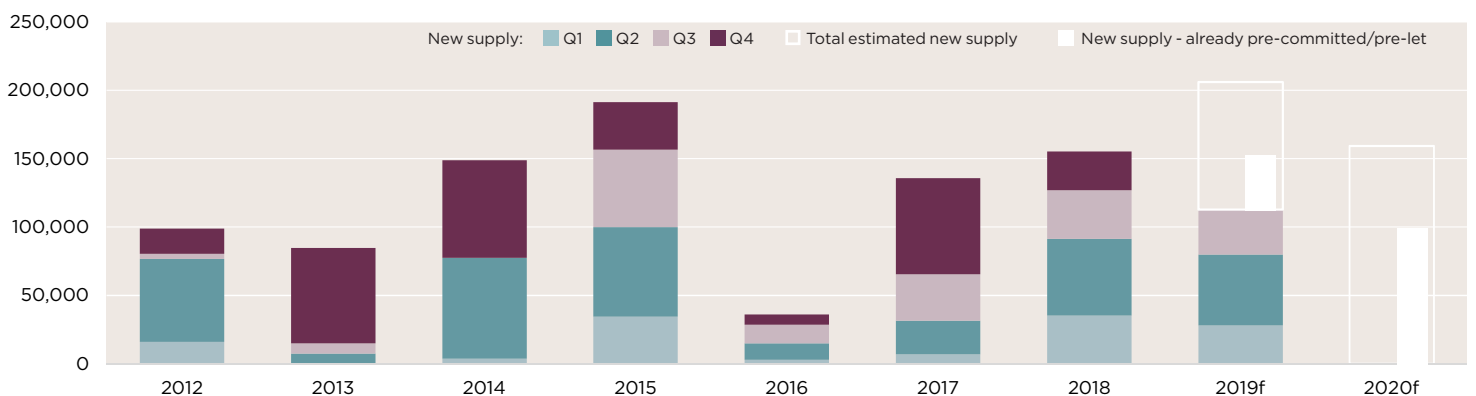
(U/C = all office space under construction; Vacant = immediately available office space; Rents = monthly headline rents per sq m)



Vacant space, new supply, net take-up and prime headline rents



Annual office supply



OCCUPIER DEMAND

Demand for office space in Prague continued its downward trend that began in the previous quarter. Gross take-up in Q3 reached 85,200 sq m, which was a further fall of 17% q-o-q and 35% y-o-y. The year-to-date leasing activity totalled 300,000 sq m, representing a 16% decrease compared with the same period last year.

Although the Q3 net take-up figures rose by 9% q-o-q amounting to 53,500 sq m, a comparison with last year's Q3 results reflect the overall weakening demand. Having fallen by 35% y-o-y, the decline in quarterly new demand showed a direct link with the y-o-y drop seen in the total office leasing activity.

Total net take-up for the first three quarters of 2019 came to 190,200 sq m, which was 19% down y-o-y. In this period, new demand for modern office space in Prague was driven by the IT sector (21% of YTD net take-up), Professional Services (18%) and Banking & Financial Services (18%). Coworking & Flexible offices operators did not sign any new lease commitments during Q3 2019.

The largest transaction signed in Q3 2019 was the 15,400 sq m lease renewal and expansion of ExxonMobil's space at CPI's Luxembourg Plaza in Prague 3.

RENT LEVELS

Headline rents remained unchanged from the previous quarter. Prague city centre offers buildings of varying quality, ranging from some of the best premium grade buildings in town to older grade B premises. The highest-quality office units on higher floors in the city centre were being offered at €25.00-plus per sq m a month, but there were also modern units available for €16.50 - €20.00 per sq m a month.

Headline rents for modern office space outside the city centre and at more peripheral locations stayed in the range of €13.00 - €16.50 per sq m a month.

Incentives offered by landlords still typically amount to one month rent free for each year of the lease. Fit-out contributions generally reached €80 - €150 per sq m.

Monthly service charges for office space remained at CZK 85 - 135 per sq m in Prague 1, and around CZK 75 - 120 per sq m in other parts of the city.

Rents for parking in Prague 1 (city centre) were mostly charged at €160 - €290 per parking place a month and around €90 - €130 in the Prague districts.

Savills team

Please contact us for further information

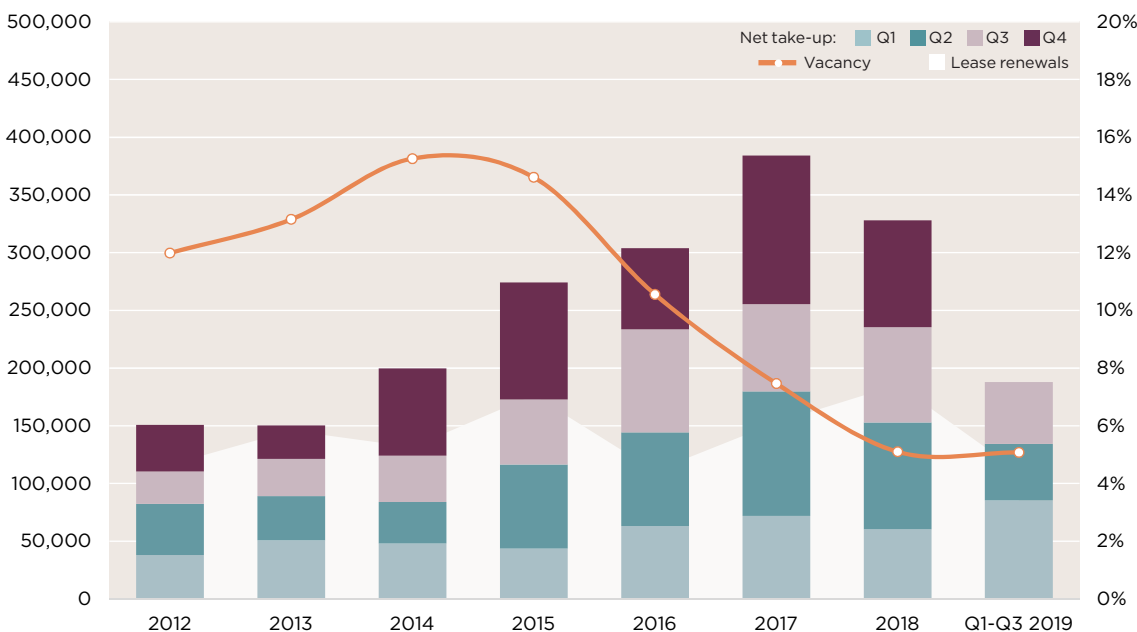
Lenka Oleksiaková
Senior Research Analyst
00420 604 387 407
lenka.oleksiakova
@savills.cz

Štěpán Smrčka
Head of Office Agency
00420 777 017 178
stepan.smrcka
@savills.cz

Petr Florián
Tenant Representation
00420 722 022 254
petr.florian@savills.cz

“ The ongoing uncertainty over long-term economic growth and also limited labour availability continue to suffocate office occupier demand in Prague. Abundant new supply expected to hit the market in 2019 and also 2020 will bring the vacancy rate up a bit, which could create a somewhat more competitive environment on the market. Rent levels are expected to remain unaffected, with rental growth likely to occur especially within new and future projects that had to bear the increased construction costs. ”

Net take-up and vacancy rate



Source Savills, PRF

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 700 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.



DEFINITION OF TERMS AND ABBREVIATIONS

TOTAL STOCK includes office buildings in Prague with leaseable area exceeding 1,000 sq m, which have been built or substantially refurbished during 1990 or later. A-class, B-class and owner-occupied premises are all included.

SUPPLY represents office premises where construction (or refurbishment) was completed in the specified time period.

DEVELOPMENT PIPELINE comprises office buildings that are under construction (or undergoing substantial refurbishment) in the specified time period (projects put on-hold are excluded).

VACANCY RATE demonstrates the share of unleased space within completed buildings included in Total Stock. Units under short-term lease or under offer (with Heads of Terms signed) are considered vacant. For the purposes of vacancy calculation, the unit is leased upon signature of a binding commitment (e.g. Lease Agreement, Amendment etc.)

GROSS TAKE-UP represents the total leasing activity that was recorded within office buildings in Prague (existing buildings included in Total Stock, planned buildings or projects in the construction pipeline). Gross Take-Up includes pre-leases, new leases, lease prolongations, lease renegotiations, expansions and subleases. Short-term leases (for a period shorter than 12 months) are excluded. Transactions are recorded based on a signature date, not based on unit occupancy.

NET TAKE-UP follows the same principles as Gross Take-Up, but excludes lease renegotiations, prolongations and sub-leases.

PRIME HEADLINE RENT is rent achieved for high quality A-class office units in prime location. Headline rents exclude any incentives provided by the landlord.

Y-O-Y stands for “year-on-year” and compares a certain period of one year to the same period of the previous year.

Q-O-Q stands for “quarter-on-quarter” and measures the change between one monitored quarter and the previous monitored quarter.

YTD stands for “year to date” and refers to the period from the beginning of the current year to a specified date before the year’s end.

BPS means basis point and describes the percentage change in the value or rate. One basis point is equivalent to 0.01%.

SAVILLS IN THE CZECH REPUBLIC

Savills office in the Czech Republic was established in February 2017. Since then, we have created a full-service office staffed by a team of professionals who are highly recognised on the market.

We have very much established Savills as a leading real estate advisor for the Czech and Slovak markets and, therefore, have made significant progress to achieving our goal of being the real estate advisor of choice for our clients.

Key services offered in the Czech & Slovak Republics include:

- Investment, Sales & Acquisitions
- Office leasing & Tenant representation
- Industrial leasing & Tenant representation
- Asset & Property management
- Client accounting
- Valuation & Advisory
- Building & Project consultancy
- Research

Savills CZ s.r.o.
Florentinum
Na Florenci 2116/15
110 00 Praha 1
+420 220 413 000

savills.cz

Savills plc is a global real estate services provider listed on the London Stock Exchange.

Established in 1855, Savills is one of the UK’s leading multisector property advisors with an international network of more than 600 offices and associates throughout the Americas, UK, Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

