

Prague Office Market



ECONOMIC OVERVIEW

- The Czech economy expanded by 2.5% in 2019, slightly slower than in 2018 (2.9%). Further deceleration to around 2% is expected in 2020, primarily due to weakening household consumption, which is currently the main economic driver.
- The unemployment rate stayed the lowest in the EU, falling back to 2.0% in December 2019. During 2019, unemployment in the Czech Republic most probably reached its lowest point and in 2020 is forecast to slowly climb to around 2.3%.
- Average nominal wage growth in 2019 is expected to reach 7.0%, following 7.6% growth recorded in 2018. In 2020, wage growth is projected to decelerate to 5.6%.
- Inflation rate reached 2.8% in December 2019, well above the 2% ČNB target, but still within the tolerance band. The annual average inflation rate for 2019 reached 2.8% (slightly above 2018).

PRAGUE OFFICE MARKET HIGHLIGHTS

- 206,000 sq m of office space was delivered to the Prague market in 2019, which is the highest annual supply since 2008.
- Modern office stock in Prague reached 3.69 million sq m, while 201,000 sq m of that was unoccupied at the end of the 2019. This translates into a vacancy rate of 5.5%, which is 114 basis points (bps) above the 2018 year-end vacancy rate.
- Annual gross take-up in 2019 amounted to 439,000 sq m, (18% below last year's level). Net take-up activity followed a similar downward trend and added up to 274,600 sq m (21% below the 2018 figure).
- In 2019, the flexible office sector accounted for 3% of annual gross take-up and 5% of annual net take-up, which was down by nearly half compared with 2018.

Prague office market in Q4 2019



3.69 million sq m
Total office stock
in Prague



206,000 sq m
Office supply in 2019
(up by 33% y-o-y)



5.5%
Vacancy rate
(up by 42 bps q-o-q)



147,400 sq m
Gross take-up in Q4 2019
(down by 17% y-o-y)



87,400 sq m
Net take-up in Q4 2019
(down by 24% y-o-y)

CZECH REPUBLIC UNEMPLOYMENT	GDP GROWTH	GROSS MONTHLY SALARY	CPI INFLATION
2.1% AVERAGE ANNUAL RATE (2019)	2.0% 2020 FORECAST	€1,337 COUNTRY AVERAGE, Q3 2019	2.8% AVERAGE ANNUAL RATE (2019)

OFFICE STOCK AND SUPPLY

The last quarter was the strongest period of 2019 in terms of new supply. Five new buildings and one refurbishment project (Centrum Vinice) were completed, representing quarterly office supply of 93,200 sq m. This was the highest quarterly supply volume recorded in Prague in the last 10 years.

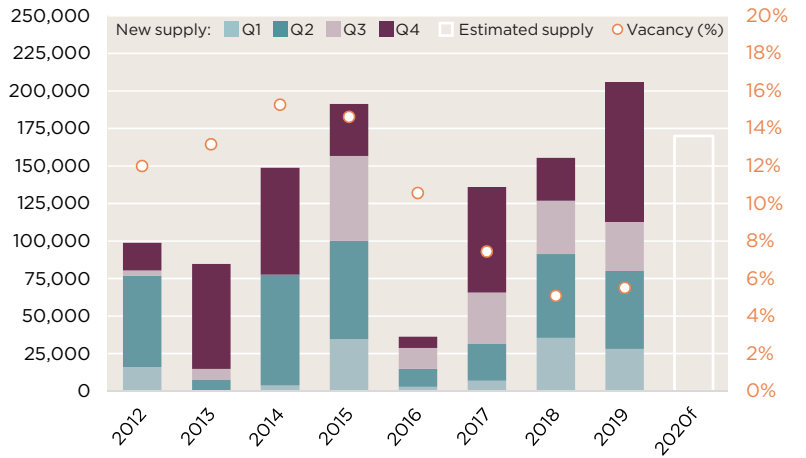
Annual office supply added up to 206,000 sq m, an increase of 33% y-o-y, making 2019 the strongest year in terms of supply since 2008. Most of that office space was delivered to the Prague 5 market (23%) and Prague 8 district (19%).

At the end of 2019, the total modern office stock in Prague totalled 3.69 million sq m. Prague 4 remained by far the largest office district in the city, followed by Prague 5 and Prague 1.

Nearly 248,000 sq m of additional space was under construction across the city. Almost half of this construction pipeline volume (11 buildings totalling 113,000 sq m) should be delivered to the market in the first half of 2020, though overall annual supply levels in 2020 are expected to fall by around 20% y-o-y.

The most extensive development is under way in Prague 8 (78,100 sq m), followed by Prague 4 with the pipeline of both new and refurbished buildings reaching 43,600 sq m. Prague 10 was the only district in the city without any ongoing construction at the start of 2020.

Office supply (sq m) and year-end vacancy rate (%)

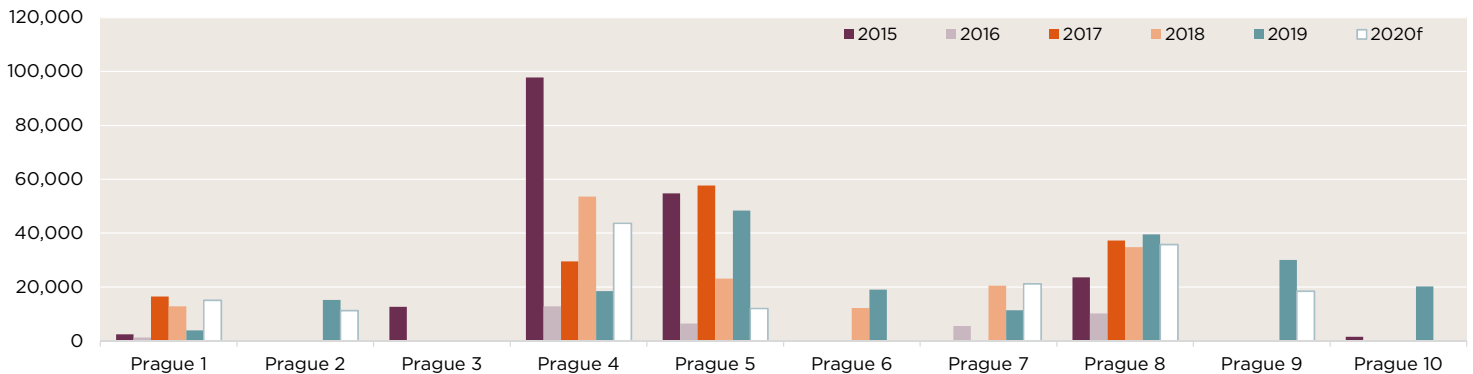


Sources Savills, PRF

Largest completions of 2019

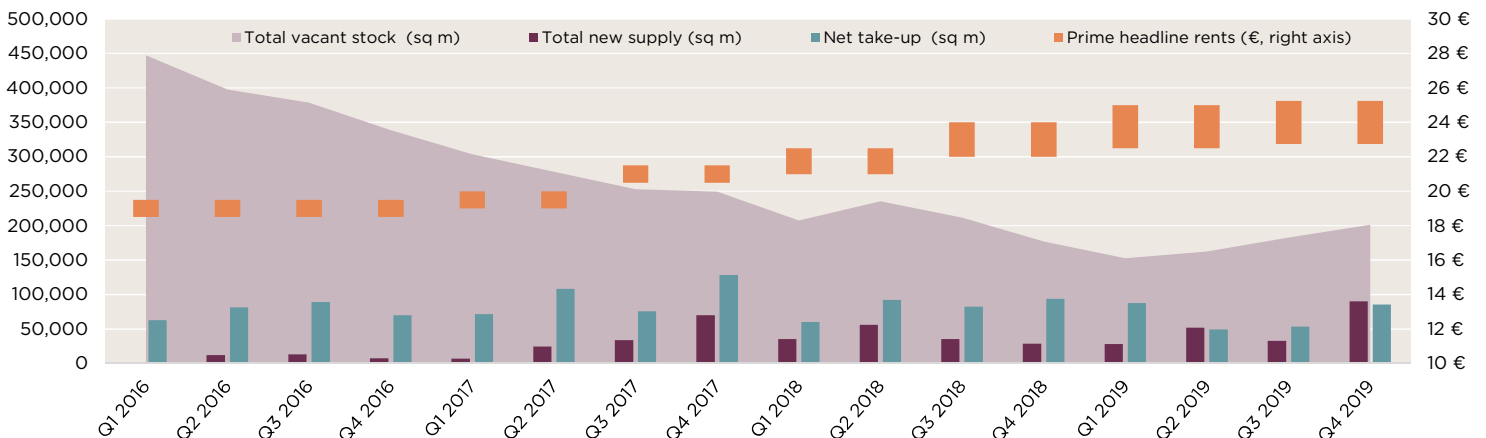
PROPERTY	SIZE (sq m)	DISTRICT
Harfa Office Center (Beethoven)	30,000 sq m	Prague 9
ČSOB HQ. II (owner occupied)	30,000 sq m	Prague 5
Centrum Vinice	20,200 sq m	Prague 10
Telehouse Office Center	19,000 sq m	Prague 6
DOCK IN THREE	16,100 sq m	Prague 8
Churchill I.	15,200 sq m	Prague 2

Annual office supply in Prague districts (sq m)



Sources Savills, PRF

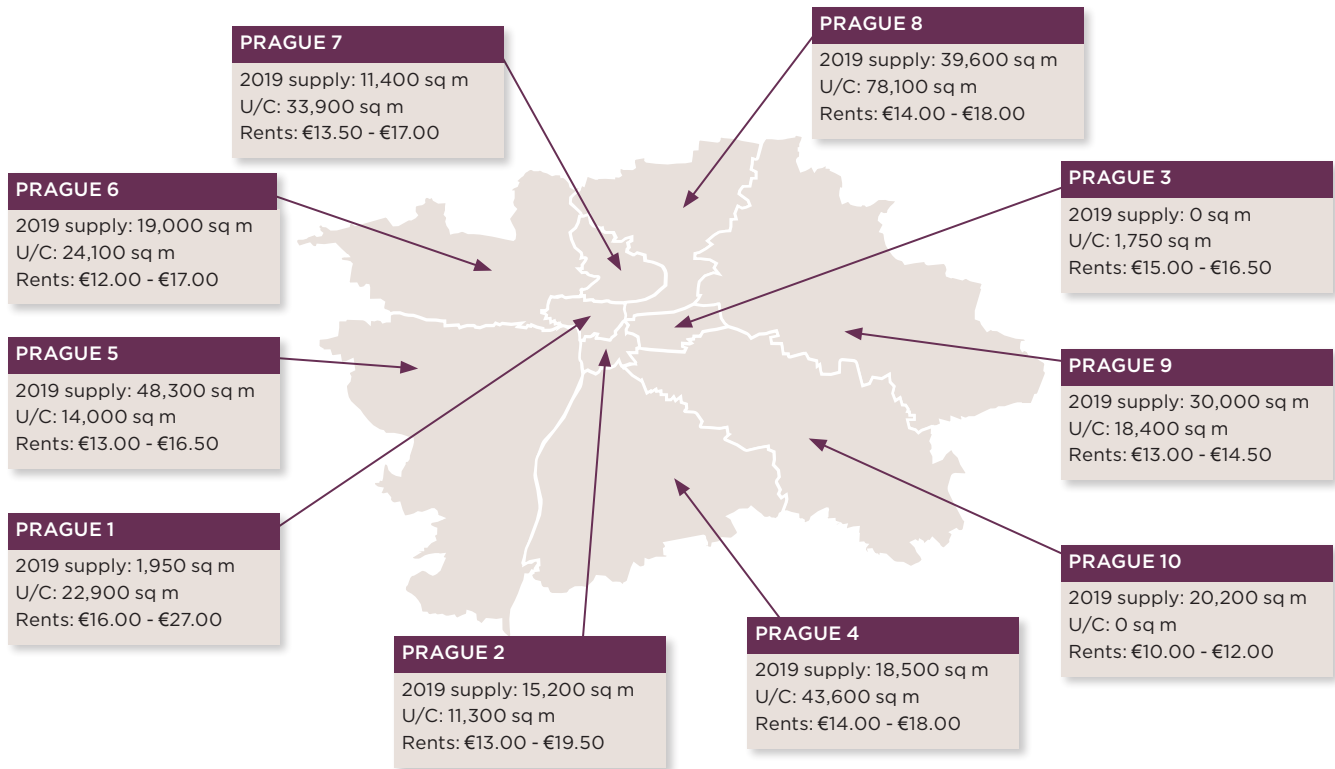
Vacant space, supply, net take-up (sq m) and rents (€/sq m/month)



Sources Savills, PRF

Office market by Prague district

(2019 supply = office space completed in 2019; U/C = all office space under construction at the end of 2019; Rents = monthly headline rents per sq m)



OFFICE VACANCY

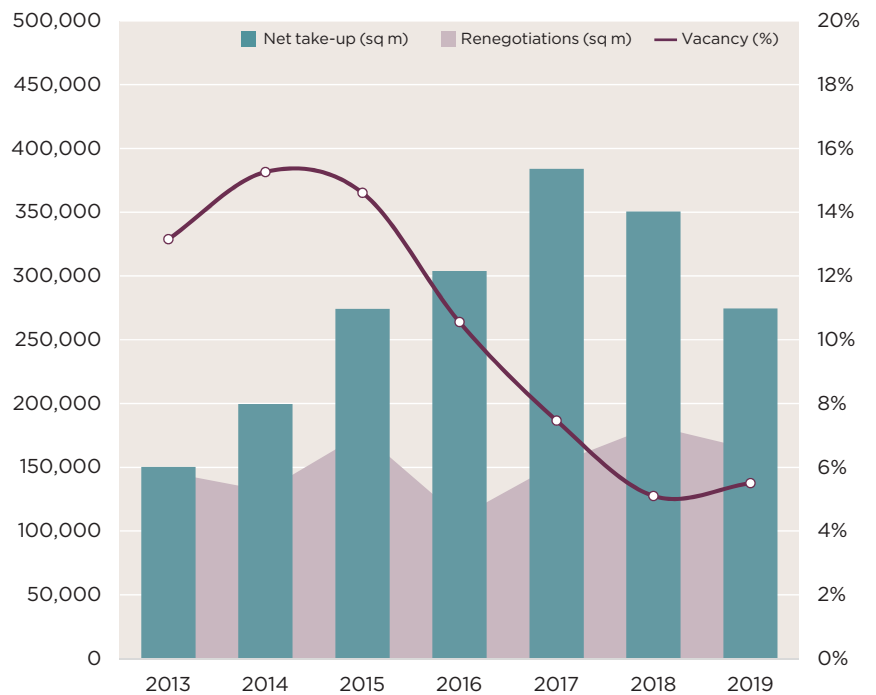
After falling to a historical low of 4.4% in Q1 2019, the vacancy rate in Prague slowly increased throughout the year and maintained its upward trajectory in the last quarter to close the year at 5.5%. This increase in the share of unoccupied office space in the city has been mainly caused by the exceptional volume of new space delivered to the market in the final quarter of the year, of which nearly 44% (41,000 sq m) represented speculative office developments.

Of the total 201,000 sq m of office space that was available for immediate occupation across the city at the end of 2019, Prague 5 continued to offer the largest volume of vacant premises (49,600 sq m, a q-o-q increase of 9%). Prague 4 followed with 43,100 sq m of available office space, which was 17% less than in the previous quarter.

On the other hand, the highest occupancy levels were recorded in Prague 2, which featured only 2,700 sq m of vacant existing offices.

Almost half of the total office space that is expected to be completed in Prague during 2020 is already pre-let, meaning the citywide vacancy rate is not expected to increase significantly in 2020.

Net take-up (sq m) and vacancy rate (%)



OCCUPIER DEMAND

Gross take-up in the last quarter of 2019 reached 147,400 sq m, making it the strongest quarter of the year, not only in terms of new supply, but also leasing activity (83% q-o-q increase). Despite this quarterly increase in demand at the year's end, gross take-up levels in Prague have shown a declining trend over the last three years. In 2019 the annual gross take-up volume dropped to 439,000 sq m, which was 18% below last year's figure. Leasing activity in 2019 was mainly driven by companies from the Professional Services and IT sectors.

Net take-up in Q4 2019 reached 87,400 sq m. Although this figure demonstrated an increase of 75% q-o-q, annual net take-up for the whole of 2019 fell to 274,600 sq m, which was 21% below the activity recorded in the previous year.

The largest transaction signed in the final quarter of 2019 was a lease renewal by PwC in City Green Court in Prague 4 (13,400 sq m).

In 2019, the flexible office sector (FOS) accounted for 3% of annual gross take-up and 5% of annual net take-up. This is down by nearly half compared with 2018, when the sector made up over 5% of the total gross take-up and nearly 9% of annual net take-up.

Largest transactions of 2019

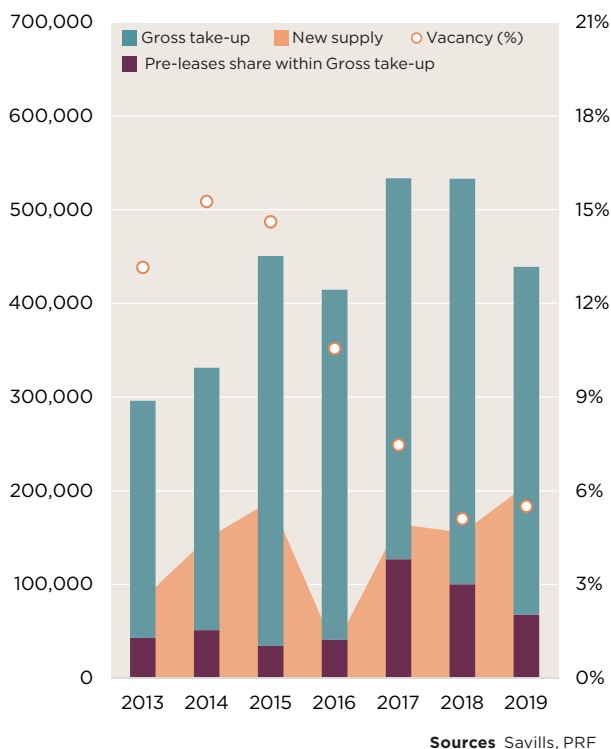
TENANT	PROPERTY	DISTRICT	SIZE (sq m)	DEAL TYPE
Clearstream Operations	Futura Business Park	Prague 8	17,100	Lease renewal
ExxonMobil	Luxembourg Plaza	Prague 3	15,400	Lease renewal and expansion
J&T	Rustonka R4	Prague 8	15,300	Sale and leaseback (property sale has yet to be closed)
PricewaterhouseCoopers	City Green Court	Prague 4	13,400	Lease renewal
Veeam Software	Rustonka R3	Prague 8	8,600	Pre-lease

RENT LEVELS

Headline rents remained mostly unchanged. 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 per month.

Monthly 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.

Gross take-up, new supply and vacancy rate



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DEFINITIONS

- TOTAL STOCK** includes office buildings 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.
- VACANCY RATE** is the share of unoccupied space within completed buildings included in Total Stock. A unit is leased upon signature of a binding commitment (e.g. Lease Agreement, Amendment etc.)
- GROSS TAKE-UP** is the total leasing activity recorded within office buildings (existing buildings included in Total Stock, planned buildings or projects under construction) and includes pre-leases, new leases, lease prolongations, lease renegotiations, expansions and subleases. Transactions are recorded based on a signature date, not based on unit occupancy.
- NET TAKE-UP** excludes lease renegotiations, prolongations and sub-leases.