Czech Republic Commercial – January 2020

Coworking in Prague

SPOTLIGHT

Savills Research

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BUSINESS LINK VISIONARY, PRAGUE

Flexible office stock ● Demand for coworking space ● Pricing

Coworking & flexible office stock

The total area of operational flexible workplace centres in Prague reached 75,000 sq m by the end of 2019, having expanded by 56% year-on-year.

With coworking hubs now present in virtually every major city in Europe there is no doubt this type of space is currently in demand, especially in the metropolises.

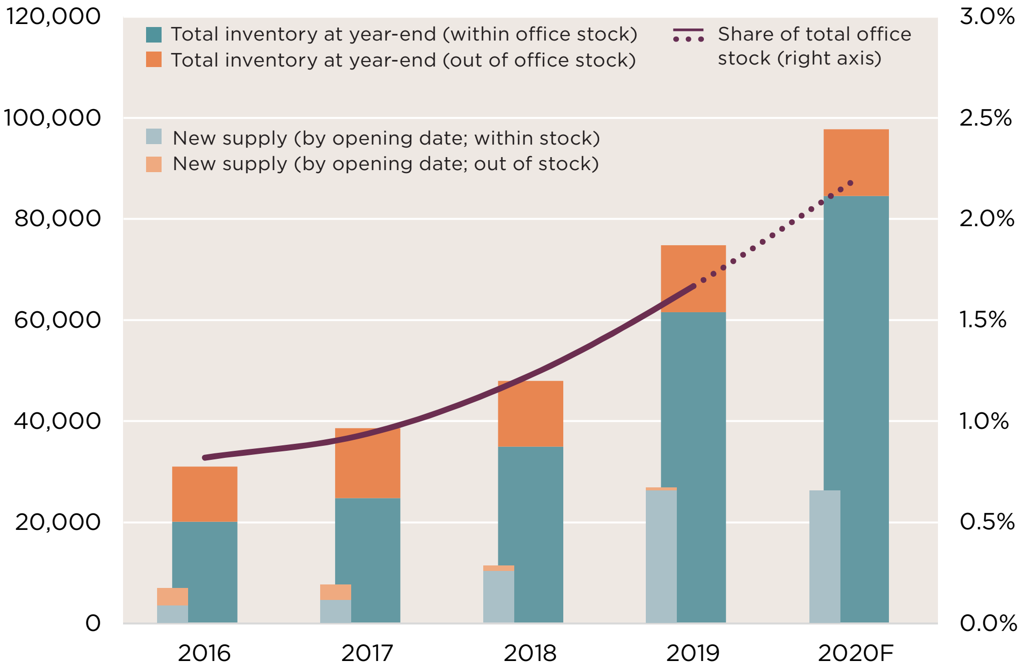
Prague is by far the largest flexible office market in the Czech Republic but in comparison to other European capitals the coworking & flexible workspace sector stills seems quite immature and is lagging a few years behind.

The ways of how and to whom such flexible workspaces are offered, as well as how they are operated have so many shapes and forms that the entire coworking and flexible office sector is gradually becoming less and less transparent.

Prague offers everything from third-party operated commercial centres, to coworking spaces provided directly by landlords, to business lounges in shopping centres and hotels to unused desks offered by office occupiers themselves, to larger corporations setting up coworking centres to support start-ups, such as the Microsoft Coworking Space that opened in Prague in March 2019.

During the course of 2018, Prague saw nine new shared workspace centres open their doors across the city. Taking into account that some of the smaller coworking hubs ceased operation, the stock of coworking and flexible office premises in Prague at the end of 2018 totalled around 47,800 sq m. Of that, nearly 13,000 sq m was located in lower quality office buildings.

New supply and total stock of coworking & flexible workplaces in Prague
(includes flexible workplaces in lower quality buildings, out of office stock; sq m)



Source Savills Research

27,000
square metres of new coworking and flexible workspace was opened in Prague during 2019 (+138% y-o-y)

75,000
square metres was the total stock of coworking and flexible workspace in Prague at the end of 2019

59
was the number of coworking and flexible workplace centres open for business in Prague at the end of 2019

10-15%
is considered a healthy ratio of coworking or flexible offices within an office building

5.5%
was the share of flexible office sector in net office take-up in the first three quarters of 2019

GROWTH ACCELERATED IN 2019

Although 2019 saw a similar number of new openings as 2018, the total new supply of flexible workspace in the city measured by total area reached 27,000 sq m, which translates into an increase of 138% from 2018 supply levels.

Eight new hubs welcomed their first clients during 2019. Besides WeWork making its long-awaited debut by opening in the Drn building in Prague 1 in September, Spaces opened their first two locations in Prague: the first in the Albatros building (not far from WeWork) and the other in Nile House in Prague 8. HubHub added Palác Ara as a second location to their Prague network and, similarly, New Work set up their second centre in Waltrovka in Prague 5. Scott & Weber entered the Prague 8 submarket with Praga Studios and Offices Unlimited introduced coworking premises in myhive Pankrác House in Prague 4.

In addition to these new openings, five of the existing centres increased their occupied space. By the end of 2019, the total area of active coworking and flexible workplace centres in Prague grew to 75,000 sq m, of which 18% was based within office buildings of lower quality that do not meet the criteria for inclusion in the monitored list of administrative buildings.

Considering only comparable office buildings, at the end of 2019 flexible (serviced) offices and coworking centres are expected to account for 1.7% of Prague's modern office inventory of 3.69 million sq m. By the end of 2020 it is likely that the share of flexible office sector will exceed 2%.

NEW OPENINGS IN PRAGUE DURING 2019

- WEWORK
  DRN, Prague 1
- SPACES
  Albatros, Prague 1
- SPACES
  Nile House, Prague 8
- HUBHUB
  Palác ARA, Prague 1
- SCOTT & WEBER
  Praga Studios, Prague 8
- NEW WORK
  Waltrovka, Prague 5
- OFFICES UNLIMITED
  myhive Pankrác House, Prague 4
- WORK SPACE HOLEŠOVICE
  Prague 7

MARKET SHARE

IWG Group is the market leader in Prague. At the end of 2019, the company had 11 locations around the city offering either serviced flexible offices under the Regus brand or coworking hubs known as Spaces. Across these 11 centres IWG's Prague portfolio will total 17,700 sq m, which corresponds to a market share of 24%.

Scott & Weber, HB Reavis, WeWork and New Work complete the top five ranking in Prague. Each of these players operates between 5,500 sq m and 8,000 sq m of flexible workspace within the city.

WHAT'S IN STORE FOR 2020

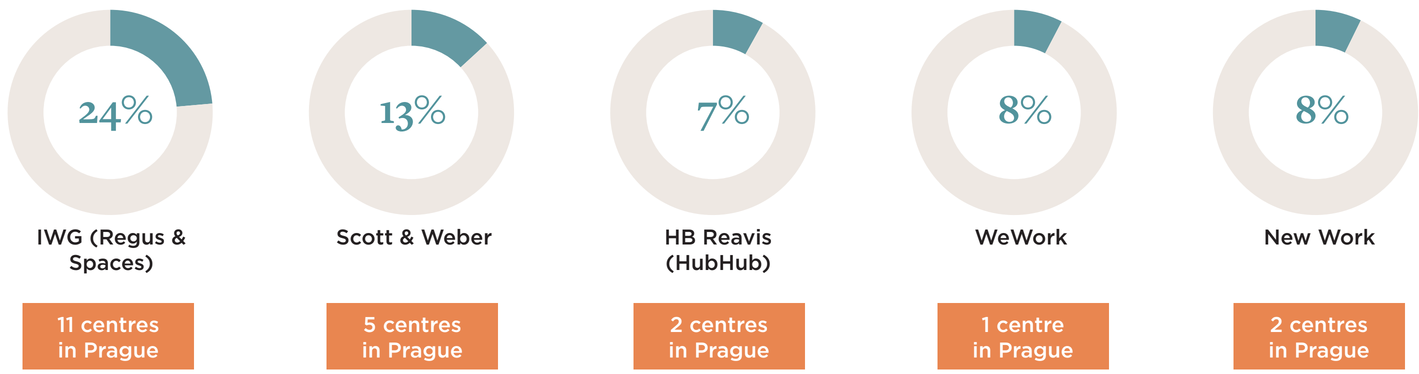
By the end of 2020, the total stock of coworking space and flexible offices in Prague is expected to near 100,000 sq m.

Spaces (IWG) has already committed to leasing an additional 7,200 sq m and opening another two new hubs in Prague. Having established its presence in Prague 1 and Prague 8 during 2019, Spaces is extending its coverage to Prague 4 and Prague 5. Both of these upcoming locations, Parkview and Smíchoff, are scheduled to open in the first half of 2020, once construction of those buildings is completed.

Other market players are also known to be working on expanding their Prague portfolios during the course of 2020. The main focus for the coming year is mostly on the submarkets of Prague 4, Prague 5, Prague 6 and Prague 8. None of those districts is, however, likely to exceed the scale of Prague 1's inventory, at least not during 2020. WeWork is also known to be having discussions about several other locations around Prague. However, similar to what is happening elsewhere in the world, WeWork's financial issues and management changes are affecting its growth strategy in Prague and its plans remain uncertain.

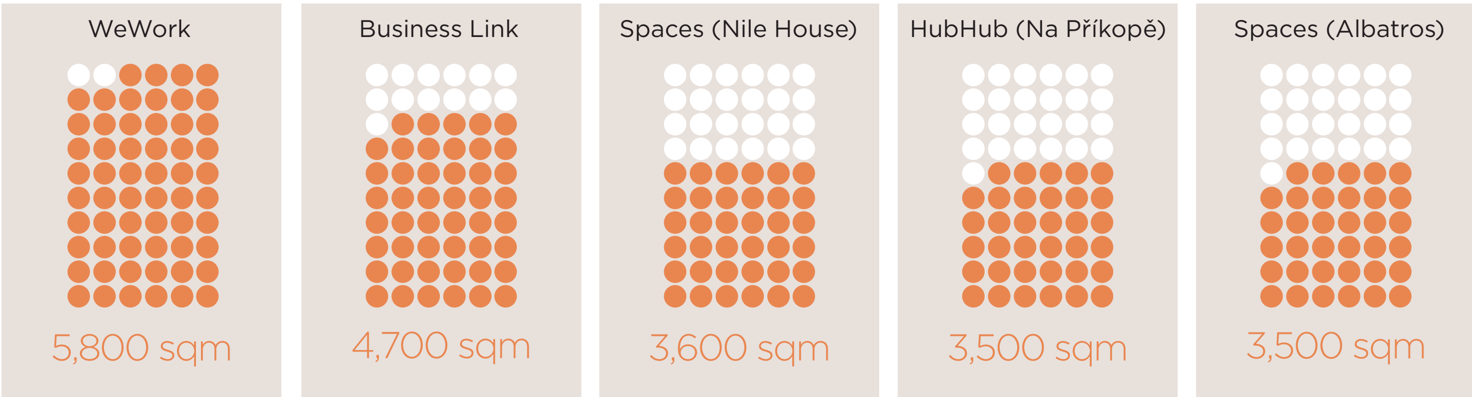
In 2020, the growth of the coworking sector in Prague is expected to stay at around the same level as in 2019. Many of the present operators plan to focus their energy on stabilizing and filling up their recently opened branches. In light of WeWork's ongoing struggles, some of its competitors may also use this opportunity to increase their market share.

Prague market share of coworking & flexible office operators (by sq m in operation at the end of 2019)



Source Savills Research

Largest coworking centres in Prague (open for business at the end of 2019)



Source Savills Research

Share of net office take-up

Net take-up volume of the flexible office sector in the first three quarters of 2019 was down by almost a half year-on-year.

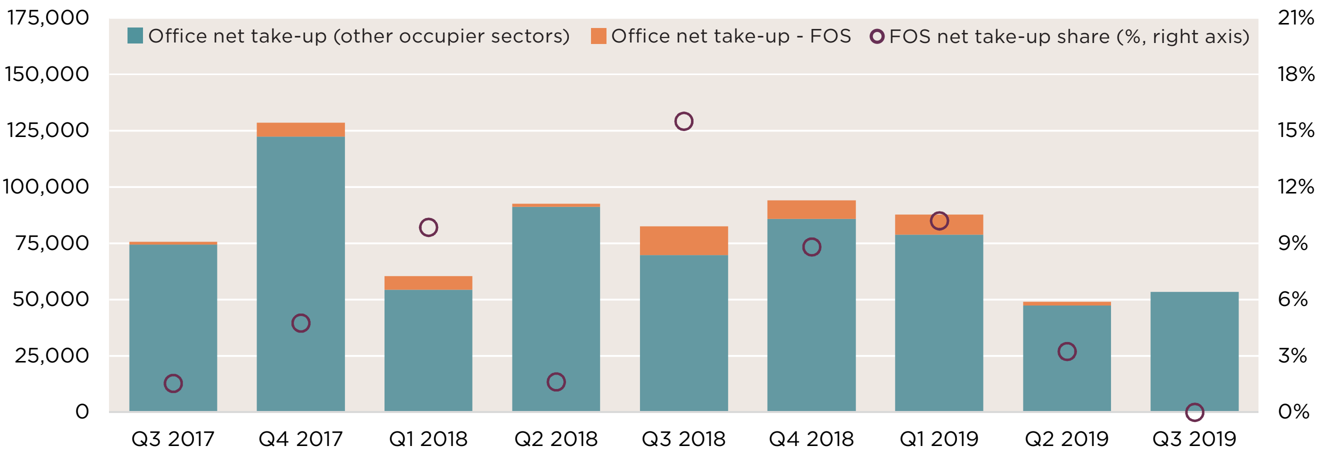
The segment of flexible offices in Prague is still very small compared to the total office stock. It is, therefore, inevitable that the leasing activity of flexible office providers (as they secure further office space) fluctuates wildly on a quarterly basis.

During the whole of 2018, coworking and flexible office operators signed commitments to lease a total of 28,500 sq m of modern office space in Prague, which represented a share of 8.4% of 2018 annual net take-up.

In the first three quarters of 2019, the sector accounted for a 5.5% share of the total net take-up. Lease agreements for a total area of only 10,500 sq m were signed, which was 48% below the activity recorded in the same period of 2018.

Take-up activity of coworking and flexible office providers might be restricted by property owners. Coworking is seen by landlords and investors as a good addition to other tenants in their buildings: it provides flexibility to existing tenants and works as a starting base for smaller companies who may in time grow into traditional offices within the same building. However, property owners need to find the right balance between stability and income that enhances the value of their office building and not the other way around. Ideally, coworking should not account for more than 10-15% of the total rentable area of an office building to allow for a good balance of occupational styles. Some landlords might prefer a traditional office tenant over a coworking operator, citing sustainability reasons. However, with co-working spaces growing in popularity it is likely landlords will become increasingly comfortable with this type of tenant.

Coworking and flexible office sector (FOS) take-up share



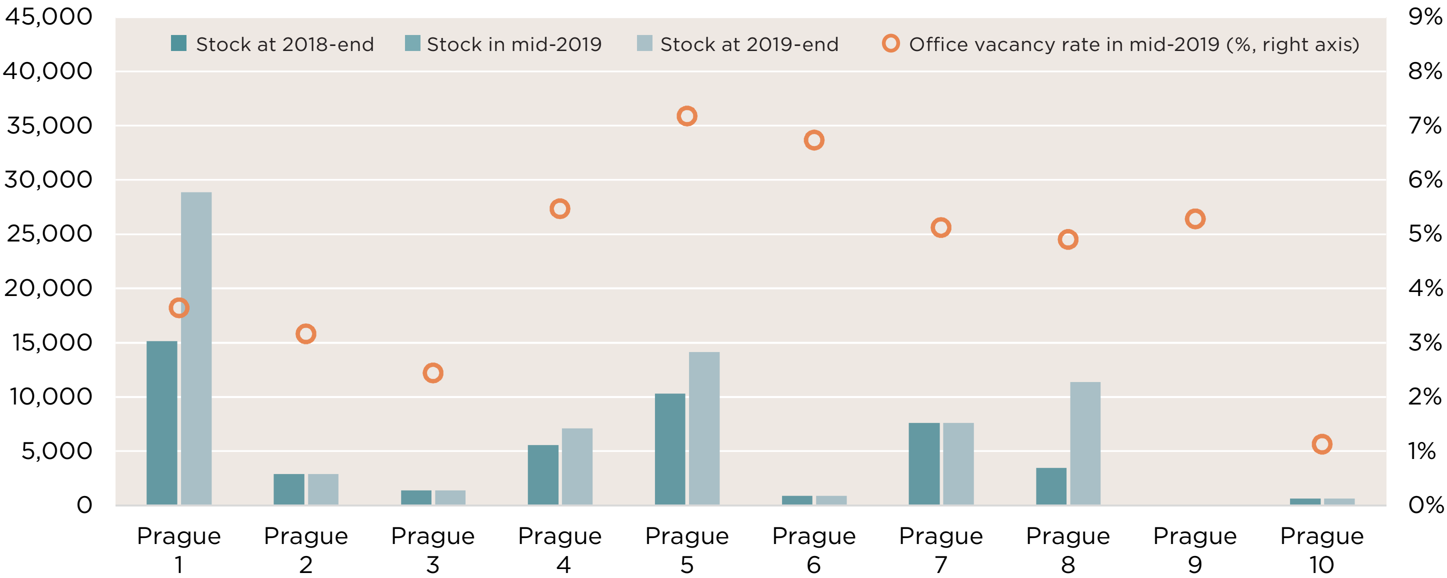
Source Savills Research

Location, location, location…

Almost 40% of the total Prague flexible office stock is found in Prague 1 district.

- Coworking centres and flexible offices in Prague are naturally mostly concentrated in and around the CBD, which forms the majority of the district of Prague 1. This part of Prague has also witnessed the most dynamic growth of flexible workspace over the past two years.
- The highest concentration of active coworking and flexible office centres, meaning also the highest level of competition among the operators of such space, is also found in Prague 1 (19 hubs out of the total 59), followed by Prague 5 with ten centres and Prague 8 with seven centres.
- By the end of 2020, Prague 4 is likely to see a significant increase in its flexible office stock. It is also the city's largest office submarket with a total office stock exceeding 950,000 sq m (representing 27% of Prague's total office inventory).

Total coworking and flexible workplace stock in Prague districts



Source Savills Research

Multi-city operators: Number of locations (2019 year-end)

Source Savills Research

Prague may be the centre of everything in the Czech Republic, but some operators have expanded into regional cities, offering space and services to people who travel around the country and businesses based outside of the Czech capital.

In the middle of 2019, there were only three coworking and flexible workspace operators in the Czech Republic, who were offering premises in more than one city and allowed their customers to use their network while travelling around the country.

These "courageous" brands included Impact Hub, Regus (part of IWG) and Offices Unlimited (a sister company of Svoboda & Williams). All of them first established a presence in Prague, then later expanded their presence to Brno and/or Ostrava (not in this particular order).

Demand for coworking & flexible offices

The situation on the traditional office market in Prague signals ongoing stability or even growth in demand for flexible workplaces.

With a limited amount of existing flexible office inventory (less than 2% of Prague office stock) and consistent tenant demand, Prague is well positioned to see an increase in flexible leasing activity. While vacancy rate remains trapped at around 5%, large blocks of office space immediately available directly from landlords are exceedingly limited. New construction is unlikely to provide enough supply and some office occupiers could find flexible or coworking space the best near-term fit to handle what is currently an imbalanced market in terms of supply and demand. Furthermore, the increasing rents for standard office leases will likely provide further motivation for small and mid-sized tenants to accomplish greater density and improved utilization through flexible office space.

The accelerating desire for flexibility and technological advancements are constantly changing the way we work. Moreover, as the population ages and people continue to work until later age it is quite common for four or five generations to occupy a single workplace, together with their differing needs and alternative ways of working. Luckily, many of today's occupational professions do not have to be limited to one place of work. The existence of flexible workplace allows organizations to offer alternatives to all age groups and at the same time provide opportunities to get closer to their customers or local markets.

"65% of people working in coworking spaces in 2017 were younger than 40 and the average age of coworking members is gradually increasing each year."

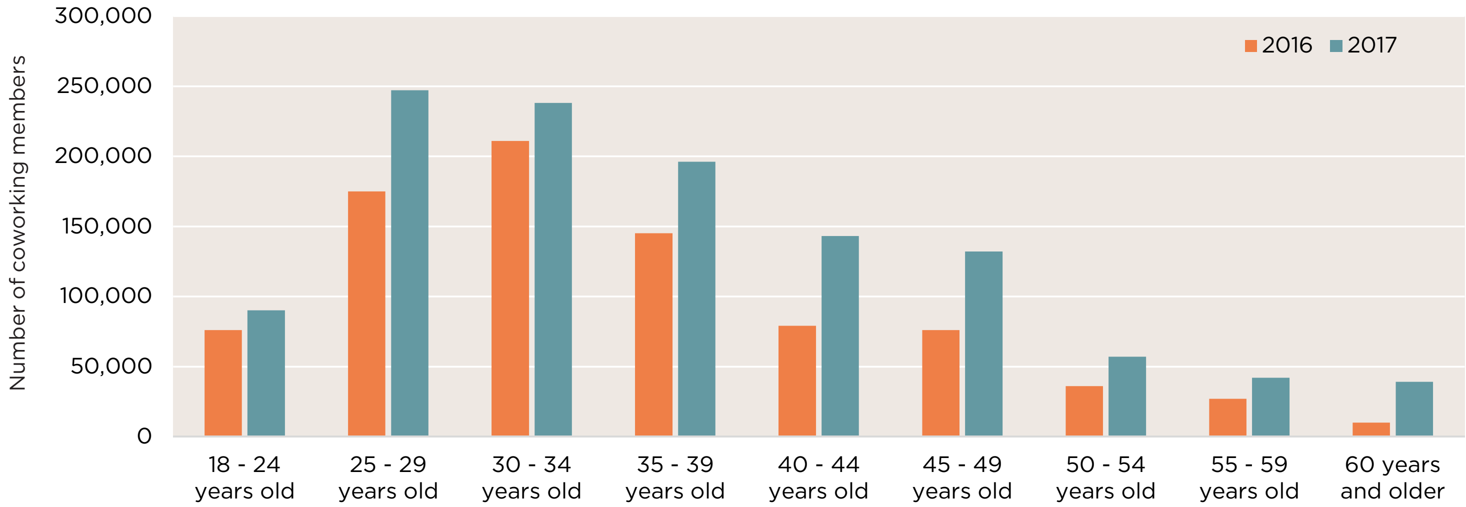
FURTHER GROWTH OF COWORKING VS. HUMAN MENTALITY

The coworking sector's evolution and growth dynamics seen in other more mature European capital cities would indicate that Prague has not yet reached saturation point. However we also need to take into account the mentality of local residents and employers. Foreign entrepreneurs may be more willing to invest in their business and spend money for the use of coworking space, though in the Czech Republic we might discover that the same group of people will see this as an unnecessary expense and will continue to work from home to keep cost down.

It could be a similar situation with larger corporations and employers. There are companies who promote flexibility at work at the highest levels, giving their staff freedom in terms of working hours and where they work from. On the other hand, there are many employers who do not trust their employees to actually perform the same amount of work as if they were sat in the office, while the performance of their respective teams could be hindered by communication barriers. Yahoo! or IBM may serve as a good example of how large corporations handle this issue: at some point in their recent history these companies introduced remote working, but after a time took a step back and brought their staff back into the corporate office environment.

In addition to these issues, most organisational structures are still framed around protecting existing stocks of knowledge rather than participating in knowledge flows and sharing with other companies, which is one of the benefits of becoming part of a coworking community.

Number of coworking members worldwide by age



Source Statista

Pricing

The cost of renting a desk in a coworking space in Prague has remained largely stable over the past year, with CBD locations naturally being the most expensive

The majority of coworking hubs and flexible office centres in Prague kept their prices unchanged over the last 12 months. Yet, there are some rare exceptions where prices, especially for monthly unlimited 24/7 use of a hot desk or fixed desk, have risen by as much as 20%. The pace at which the flexible workplace sector in Prague is growing, combined with current demand and occupancy levels, does not yet indicate that increasing competition will lead to aggressive incentives or discounts being offered by the providers in an effort to drive up occupancy levels.

The wide gap between the lowest and highest prices reflects the diversity of locations, as wlel as scope of services and overall comfort levels of individual hubs. Prices for coworking and shared offices in Prague 1 (CBD) are naturally higher than those outside the city's traditional central business district, taking into account higher costs (i.e. rents for traditional offices). Some operators offer full-service, all-inclusive premises including consumption of drinks, access to various events, workshops and fitness classes, while there are others who offer just a workplace without many or any extras.

The average monthly cost per employee in a traditional grade A office located within the Prague CBD comes to around 8,000 - 9,500 CZK. This includes the share on office rent (including meeting rooms), utilities and other fees associated with leasing the space, but excludes initial set-up costs spent on furniture, coffee / tea consumption and other smaller expenditures.

At these prices, the monthly costs of a hot desk or fixed (dedicated) desk in a larger coworking centre is still relatively cheap and, in most cases, comes with added benefits such as free access to events, yoga classes, and higher comfort levels provided by larger space with a number of different seating options. The use of meeting rooms in many coworking hubs is charged extra, but at the same time the premises provide more free options where one can hold an informal meeting.

It is impossible to say whether traditional office space is more expensive than coworking space, as this will be different for every company. Although coworking works out cheaper per person, each company is unique in the way it utilizes space (and what standard of space it demands), uses amenities and most importantly, the number of employees it has. Therefore the turning point at which coworking becomes less economical than traditional office may be at three people, 20 or anywhere between.

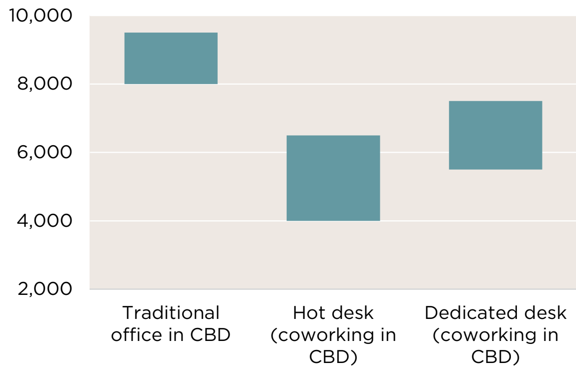
HOT DESK FOR A DAY
200 - 1,400
(CZK PER DAY)

HOT DESK 24/7
1,900 - 6,500
(CZK PER MONTH)

FIXED DESK IN OPEN SPACE
2,900 - 7,500
(CZK PER MONTH)

PRIVATE OFFICE PER PERSON
6,000 - 15,500
(CZK PER MONTH)

Monthly costs per employee



Source Savills Research

Comings & Goings

Even in a growth market there will always be those players that fall behind, decide to join forces or even exit altogether – and Prague's growing flexible office space market is proving to be no exception.

Most coworking operators interviewed for this survey believe there will be some consolidation as major international players and other new entrants appear in the market, leaving smaller independent players forced to seek partners to survive. The first stirrings of this process could be seen in August 2018 when Hub Ventures Group, the owner of the Impact Hub coworking centres, announced the acquisition of a majority 55% stake in the K10 coworking centre based in Prague 2.

To forestall this consolidation, there is a growing specialisation in the market as players try to carve out niches to differentiate themselves. HubHub, which has two locations in Prague, has a particular focus on tech start-ups with less than 20 employees; Business Link sees the start-up end of the market as already quite crowded so focuses on more established companies; and Impact Hub has always had a strong social business element to it.

Though none of the bigger Prague providers of coworking or flexible offices have yet to suffer the fate of Impact Hub's New York centre, which closed its doors at the end of 2018, new entrants continue to arrive, putting pressure on existing players. WeWork's arrival was the biggest shadow over the Prague market in 2019, but we have yet to see any major shake-out in this segment of the city's real estate market.

Savills Czech Republic Research
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