

Prague Office Market

savills



ECONOMIC OVERVIEW

- Due to the government measures imposed to manage the Covid-19 pandemic, the world economy will find itself in a recession this year. It is predicted that Czech economy will fall by 5.1%. The most significant decline is expected to be recorded in fixed capital investment and foreign trade.
- The unemployment rate is on the rise due to the decreased demand for labour and overall risk environment. Having reached 2.6% in June (2.1% in Q4 2019), it is predicted to continue rising and reach a peak of at least 5% by the end of 2020.
- The rampant wage growth of the last few years is expected to slow significantly throughout 2020. In Q1 2020, the average nominal wage grew by 5.0% y-o-y, comparing to 6.7% in Q4 2019. Figures for Q2 2020 are expected to see stagnation at best, likely even wage decline.
- In Q1 2020, the inflation rate averaged 3.6%, well above the 2% target. According to ČNB's forecast, the inflation rate will gradually slow from the middle of the year and fall slightly under 2% by the beginning of 2021.

PRAGUE OFFICE MARKET HIGHLIGHTS

- 108,100 sq m of office space was delivered to the Prague market in H1 2020, representing a 35% increase compared with the same period last year.
- Modern office stock in Prague totalled 3.71 million sq m, while only 3.48 million sq m of that space was occupied at the end of Q2 2020. This translated into a vacancy rate of 6.1%, which was 154 basis points (bps) above the Q2 2019 vacancy rate.
- Quarterly gross take-up in Q2 2020 reached 79,000 sq m, slightly above the leasing activity of the previous quarter (up by 14%) but compared with Q2 2019 it was down by 23%. Net demand followed its downward trend, amounting to 44,600 sq m (-16% q-o-q; -9% y-o-y).
- In the aftermath of the imposed lockdown, the “grey market” of subleasing began to flourish. It is predicted that by the end of 2020, the total office space available for sublease will reach almost 100,000 sq m. This could have a major impact on office rent levels in the capital.

Prague office market in H1 2020



3.71 million sq m
Total office stock
in Prague



108,100 sq m
Office supply in H1 2020
(up by 35% y-o-y)



6.1%
Vacancy rate
(up by 154 bps y-o-y)



148,600 sq m
Gross take-up in H1 2020
(down by 31% y-o-y)



97,800 sq m
Net take-up in H1 2020
(down by 29% y-o-y)

Sources Oxford Economics,
Czech Statistical Office,
Savills Research, PRF,
Czech National Bank

UNEMPLOYMENT	GDP GROWTH	GROSS MONTHLY SALARY	CPI INFLATION
2.6%	-5.1%	€1,295	3.1%
CZECH REPUBLIC, JUNE 2020	2020 FORECAST	COUNTRY AVERAGE, MONTHLY	JUNE 2020

EXISTING OFFICE STOCK AND NEW SUPPLY

Modern office stock in Prague totalled 3.71 million sq m in the second quarter of 2020. Prague 4 is still by far the largest district, reaching almost 1 million sq m of office space, followed by the Prague 5, Prague 8 and Prague 1 districts.

The second quarter of 2020 saw 87,300 sq m of new office space delivered to the market, representing a more than 300% increase in supply compared with Q1 2020, when there were only two completions with a total size of 20,800 sq m. Overall, 108,100 sq m was added to office stock in Prague in the first half of this year, showing 35% y-o-y growth.

Nine new buildings were completed in H1 2020. Two of them were refurbishment projects (BB Centrum building B and Sixty House) that added over 20,000 sq m to the modern office inventory. The majority of new office space was completed in Prague 8 (35% of new supply in Q2), followed by Prague 4 with a 33% share of new completions.

More than 173,000 sq m of additional office space was under construction at the end of June. Premises totalling 62,900 sq m should be delivered by the end of 2020, which would bring the annual supply of 2020 to around 171,000 sq m (down by 16% y-o-y).

The most extensive construction is under way in Prague 9 with the pipeline there reaching almost 50,000 sq m, followed by construction in the Prague 8 and Prague 7 districts. On the other hand, Prague 2 and Prague 10 were without any ongoing construction in Q2 2020.

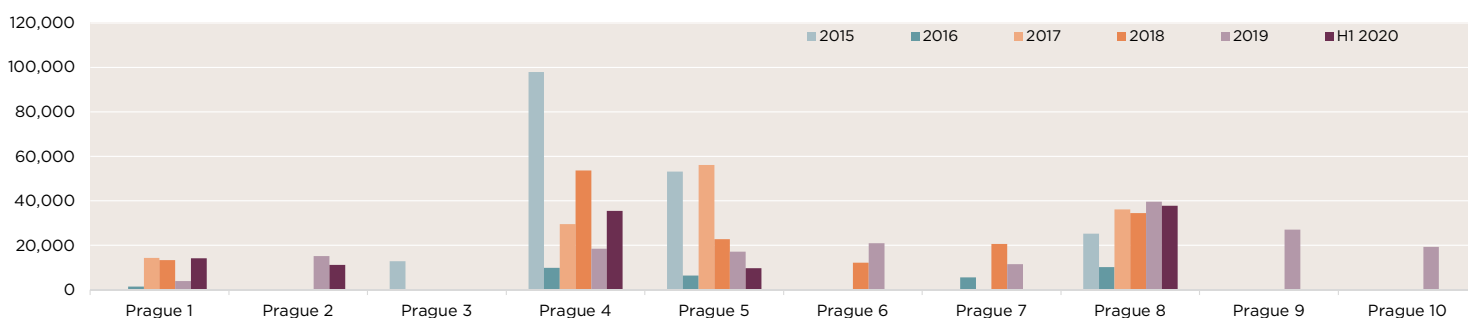
“GREY MARKET” OF SUBLEASING

During the lockdown that was imposed across most parts of the world, Prague included, companies discovered that working from home had no major impact on employee productivity. This could result in a tendency for companies to downsize their working space to save some money.

As lease agreements are usually signed for a longer period of time, we will start seeing more office space being released onto the sublease market. Currently, there is already more than 30,000 sq m of office space offered for sublease and this figure could potentially reach almost 100,000 sq m by the end of 2020. By far the largest amount of this “grey space” on offer is in Prague 4, reaching almost 20,000 sq m, followed by the Prague 8 and Prague 1 districts.

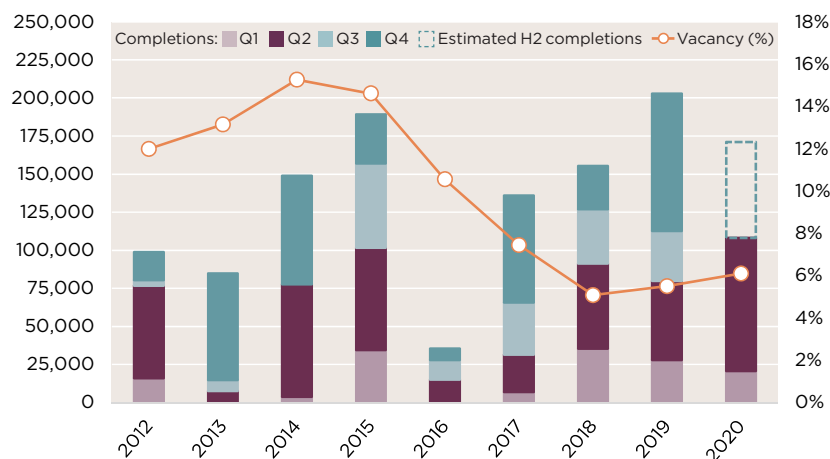
This trend could significantly affect office rent levels in the city, with the grey space competing especially with newly delivered projects.

Office supply in Prague districts (sq m)



Sources Savills, PRF

Development completions (sq m) and vacancy rate (%)

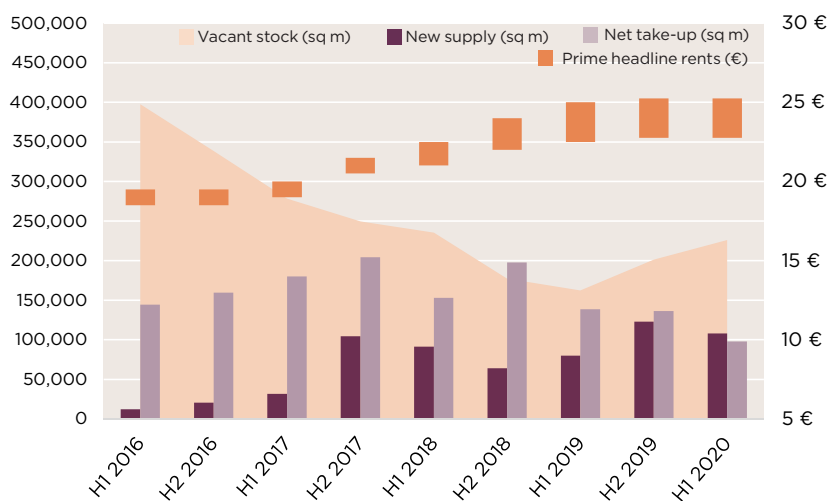


Sources Savills, PRF

Largest completions in H1 2020

PROPERTY	QUARTER	SIZE (sq m)	DISTRICT
DOCK IN FOUR	Q2	20,400 sq m	Prague 8
J&T HQ	Q2	15,300 sq m	Prague 8
Parkview	Q2	15,300 sq m	Prague 4
BB Centrum B (ref.)	Q2	14,600 sq m	Prague 4
The Flow Building	Q2	14,100 sq m	Prague 1
Churchill II.	Q1	11,200 sq m	Prague 2

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



Sources Savills, PRF

OFFICE VACANCY

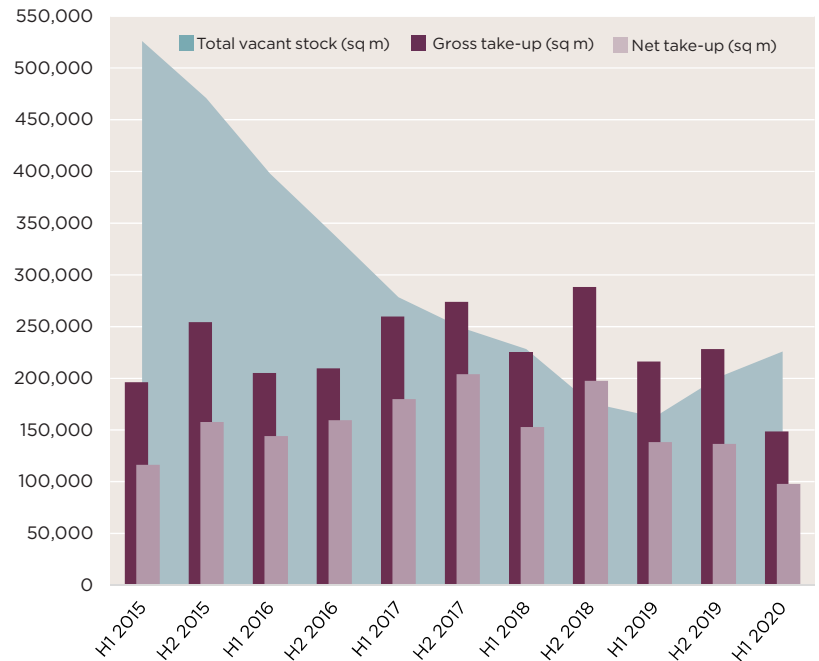
Since the beginning of 2019, when the vacancy rate in Prague was at its historical low, a rising trend has become apparent. At the end of Q2 2020 the share of unoccupied office space in the city reached 6.1%, showing an increase of 70 bps compared with the previous quarter.

The area of vacant office stock in Prague amounted to 225,900 sq m at the end of Q2 2020. Prague 5 reported the largest volume of unoccupied premises (60,700 sq m, up by 14% q-o-q) to give a vacancy rate of 9.3%. Prague 4 followed with a vacancy rate of 5% (48,300 sq m of vacant offices).

On the other side, the highest occupancy levels were registered in Prague 9 and Prague 2. There was only 3,100 sq m (2%) on offer in Prague 9, while Prague 2 closed Q2 with 4,700 sq m of existing available space (3.3% vacancy rate).

It is important to note that due to the Covid-19 pandemic and the trend for subleasing, the real volume of available office space is certainly higher than the officially stated vacancy rate.

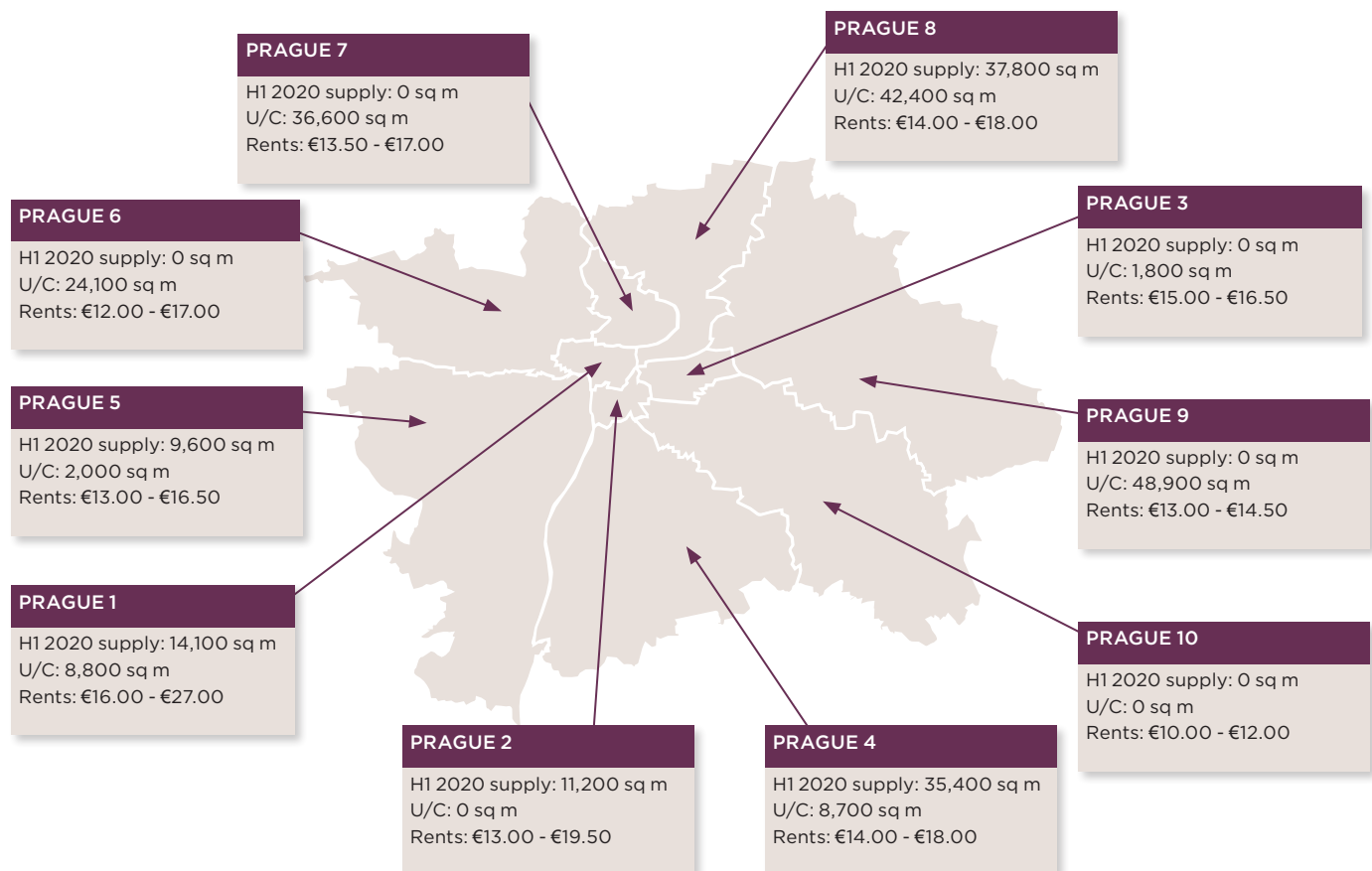
Total vacant stock, gross take-up and net demand (sq m)



Sources Savills, PRF

Prague office market by district

(H1 2020 supply = office space completed in H1 2020; U/C = all office space under construction at the end of H1 2020; Rents = monthly headline rents per sq m)



Sources Savills, PRF

OCCUPIER DEMAND

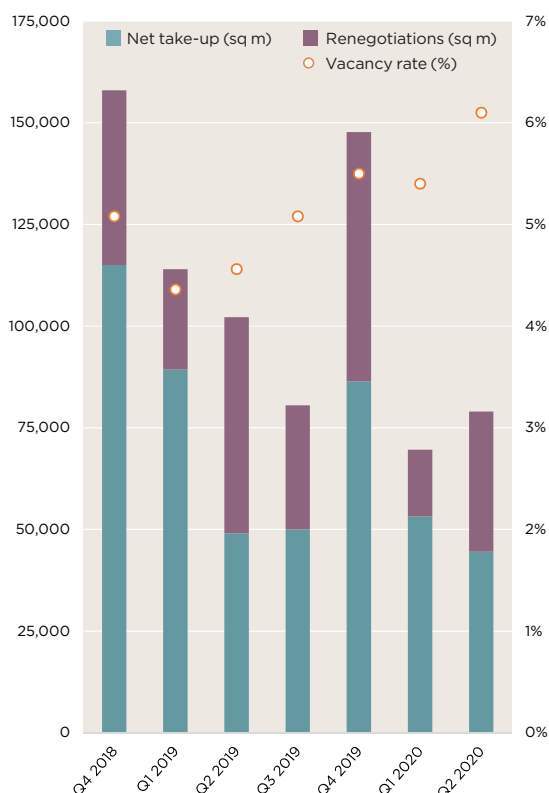
Even though gross take-up in Q2 2020 reached 79,000 sq m (representing 14% q-o-q growth), we can see a decline of 23% y-o-y. The cumulative gross take-up recorded in H1 2020 amounted to 148,600 sq m, which was 31% below the same period last year.

Gross take-up in Q1 2020 amounted to 69,600 sq m, representing a 53% decrease compared with Q4 2019, when leasing activity totalled almost 148,000 sq m.

Leasing activity in the second quarter of 2020 was mainly driven by companies from the consumer goods, IT and finance sectors. Prague 4 attracted the highest volume of office leasing activity representing almost one-quarter of the total gross take-up. Prague 1 followed with a share of 23%, and Prague 7 was in third place with 16% of the city's gross take-up.

Net take-up continued decreasing, totalling 53,300 sq m in Q1 2020 and 44,600 sq m in Q2 2020 (down by 16% q-o-q). The overall volume of space leased in H1 2020 (excluding lease renewals) reached 97,800 sq m, showing a 29% decline y-o-y. Net demand is predicted to continue decreasing as the effects of the pandemic is reflected in the office real estate market over the next 6-12 months. We can already see that many of the companies that were considering expanding their office space have put those plans on hold and, as mentioned, some tenants are also looking at downsizing their space.

Net take-up, renegotiations, vacancy rate



Sources Savills, PRF

Largest transactions of H1 2020

TENANT	PROPERTY	DISTRICT	SIZE (sq m)	DEAL TYPE
Plzeňský Prazdroj	Myslbek	Prague 1	5,500	Lease renewal
Wrike Czech	DOCK IN FOUR	Prague 8	5,300	Pre-lease
Technická správa komunikací hl.m. Prahy	Centrum Stromovka	Prague 7	4,300	New lease
Accenture Central Europe	The Park	Prague 4	4,200	Lease renewal
CGI Logica	City West C2	Prague 5	3,300	Lease renewal

RENT LEVELS

Headline rents have remained at the same level for quite some time now. 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 offices of the highest quality on top floors in the city centre are offered at rates of around €25.00+ per sq m per month, but there are also modern units ranging from between €16.50 and €20.00 per sq m per month.

Monthly headline rents for modern office space outside the city centre stayed in the range of €13.00 - €16.50 per sq m.

Rent levels are predicted to slightly decrease due to the increased space being offered for sublease (considerably cheaper than space offered directly by developers and investors). Landlords, who are naturally pushing for renegotiations, therefore need to show more flexibility and offer terms with greater incentives.

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.

Savills team

Please contact us for further information

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

Katarína Mizerová
Junior Research Analyst
00420 220 413 004
katarina.mizerova@savills.cz

Office agency team

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

Kajetan Časenský
Office Consultant
00420 727 943 680
kajetan.casensky@savills.cz

David Gajdoš
Office Consultant
00420 220 413 004
david.gajdos@savills.cz

Savills CZ s.r.o., Florentinum, Na Florenci 2116/15, 110 00 Prague 1
+420 220 413 000 | savills.cz

Savills is a global real estate services provider listed on the London Stock Exchange. Savills operates from over 600 owned and associate offices, employing more than 35,000 people in over 60 countries throughout the Americas, the 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. This report is for general information 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.

savills