

Prague Office Market

savills



ECONOMIC OVERVIEW

GDP GROWTH

-5.8%

2020 FORECAST

CPI INFLATION

3.2%

2020 AVERAGE

NATIONAL UNEMPLOYMENT

3.2%

IN DECEMBER 2020

2.6%

2020 ANNUAL AVERAGE

GROSS MONTHLY SALARY

€1,338

(CZK 35,402)
COUNTRY AVERAGE,
Q3 2020

EXCHANGE RATE

26.44

CZK/EUR
2020 AVERAGE

RETAIL SALES

-5.3%

Y-O-Y CHANGE,
NOVEMBER 2020

Sources Oxford Economics, Czech Statistical Office,
Czech National Bank

OFFICE MARKET HIGHLIGHTS - H2 2020

- Total amount of 40,900 sq m of new office space was delivered to the Prague market in the second half of 2020, representing a 67% decrease in a year-on-year comparison.
- Modern office stock in Prague totalled 3.75 million sq m at the end of 2020.
- Vacancy rate reached 7.0% at the end of the year, (being up by 150 bps from the end of 2019), meaning there were 261,500 sq m of unoccupied office premises around the city.
- Total leasing activity in H2 2020 reached 184,900 sq m, being 25% above the gross take-up levels registered in the first half of 2020. However, in a year-on-year comparison, a decline of 19% was recorded.
- Net demand continued weakening and in the second half of 2020 amounted to 69,900 sq m, indicating a 49% year-on-year decline.
- Rent levels stayed unaffected by the lockdown and the general market slowdown.
- Net absorption in 2020 reached 90,530 sq m (compared to 178,150 sq m in 2019).

Prague office market in 2020



3.75 million sq m

Total office stock
in Prague



151,000 sq m

Office supply in 2020
(down by 26% y-o-y)



7.0%

Vacancy rate
(up by 150 bps y-o-y)



333,000 sq m

Gross take-up in 2020
(down by 25% y-o-y)



167,200 sq m

Net take-up in 2020
(down by 38% y-o-y)

Sources
PRF, Savills Research

ECONOMIC OVERVIEW

- The world economy was negatively effected by the COVID-19 pandemic in 2020. Related measures imposed in an attempt to beat it resulted in a deep synchronized decline of the global economy, unprecedented in the era after World War II. Many countries responded by adopting large scale fiscal and monetary stimuli that helped to mitigate some of the short-term negative economic shocks. According to the forecast of the Czech National Bank, a drop in GDP of 5.8% is predicted for the whole year. There should be a deep fall in all areas of GDP components except the general government spending. With Government measures starting to have a positive effect, including restricting population movement to contain the virus whilst simultaneously rolling out a vaccination program, the Czech National Bank predicts that Czech economy will gradually start to recover in 2021 and reach the growth of 2.2% by the end of the year.

INFLATION

- Throughout 2020, the CPI inflation was well above the upper band of the 2% inflation target and averaged at 3.2%. However, by the end of the year, it slowed down significantly. According to the macroeconomic prediction of the Ministry of Finance, the inflation rate should decline ever further in 2021. It is expected to oscillate within the tolerance band and average at 1.9% by the end of 2021.

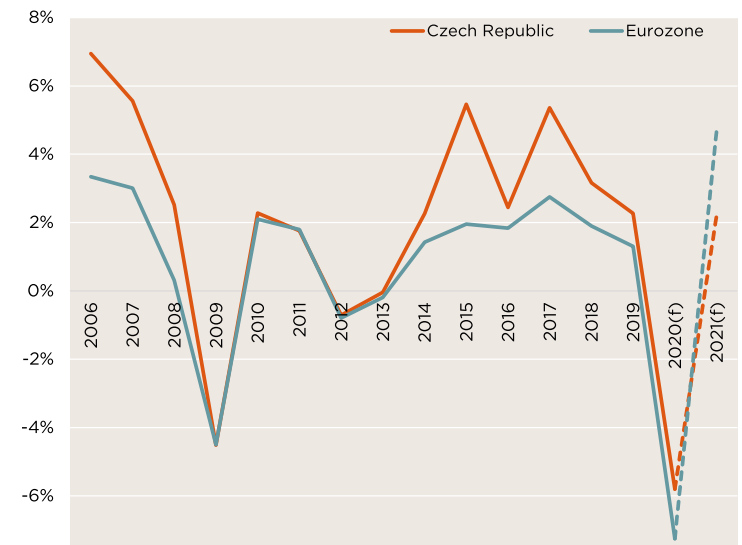
RETAIL SALES

- When the first lockdown was imposed in spring 2020, the majority of stores were closed and retail sales plummeted dramatically. A fall of almost 11% in y-o-y comparison was recorded in April. After a short summer period when most restrictions were lifted and stores reopened, the second wave hit Europe in autumn, bringing new lockdown measures. In November, retail sales were down by 5.3% compared to the same period of 2019. Automotive sales were hit the hardest, being down by almost 45% (y-o-y) in April and 11.30% (y-o-y) in November 2020. On the other hand, a significant increase in online sales was recorded in 2020, since e-commerce became one of the only possibilities to purchase non-food products and goods.

UNEMPLOYMENT

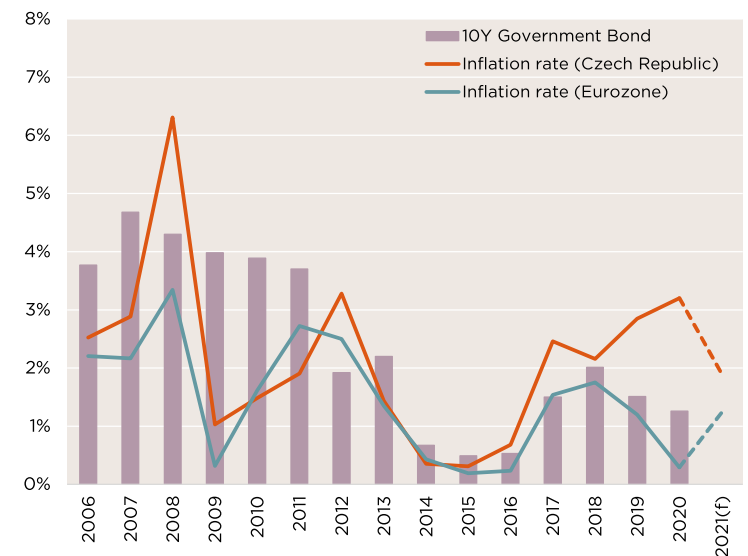
- Going into 2020, Czech Republic had the lowest unemployment rate in the EU. Throughout the year, given the strong economic headwinds, unemployment has risen but remains at a comparatively low level.
- According to the prognosis of the Ministry of Finance, the general unemployment rate in the Czech Republic is predicted to further increase, having reached an average of 2.6% in 2020. Even though the pandemic has caused disruption in the labour market, the unemployment rate is significantly lower than one would expect in the current economic downturn. This is partly due to the government measures imposed to support the employment, as well as due to workers' fear of changing jobs in these uncertain times. It is expected that unemployment will continue to rise and reach its peak of 3.3% in 2021, a figure still well below most of EU countries. An expected renewed demand for labour shall slightly reduce the number of unemployed people at the beginning of 2022.
- The unemployment rate in Prague has been traditionally the lowest in the country, reaching 1.9% in 2019 (70 bps below the country's average). However, due to the COVID-19 pandemic, the Prague unemployment rate increased in 2020, reaching 2.7% in Q3. In a year-on-year comparison, this translated into an increase of 150 bps, one of the most significant in intraregional comparison. A bigger increase was recorded only in the Liberec region, where the unemployment rate rose by 160 bps.

GDP Growth (y-o-y change, %, 2015 constant prices)



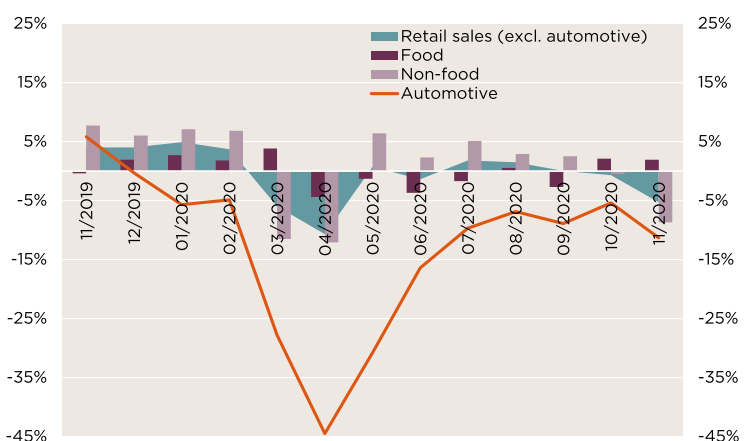
Source Oxford Economics, Czech National Bank

CPI Inflation and 10Y Government Bond



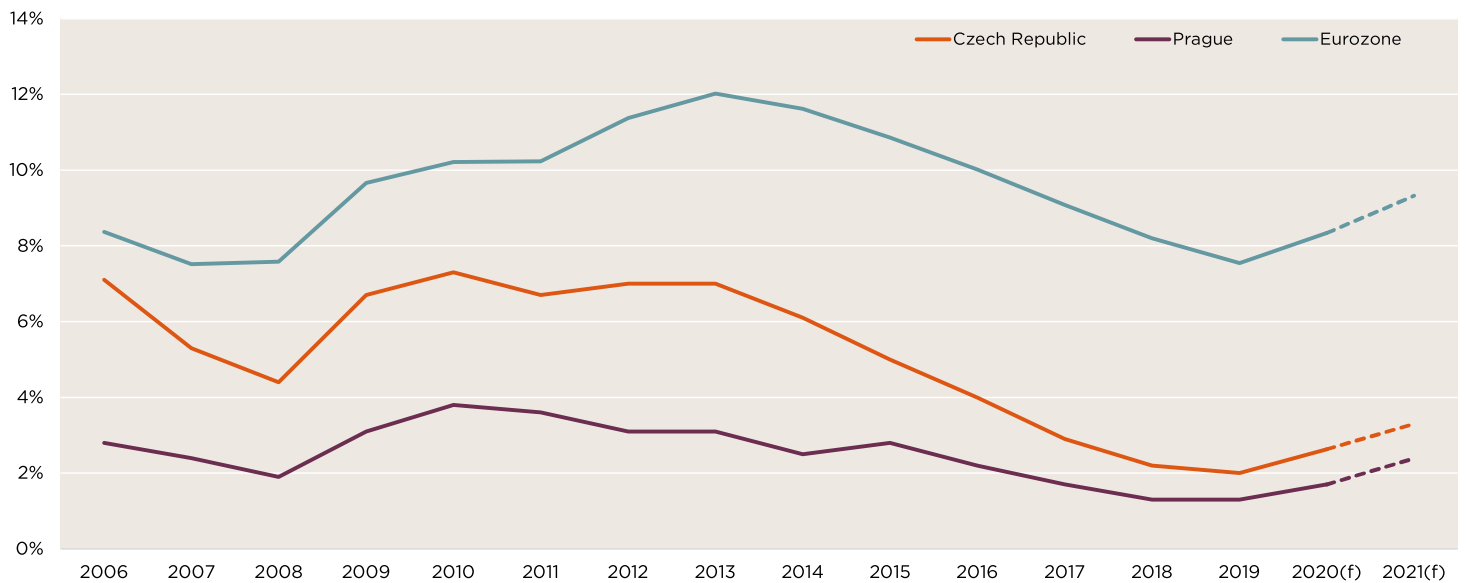
Source Oxford Economics, Czech National Bank, Ministry of Finance of the Czech Republic

Retail Sales (y-o-y change, %)



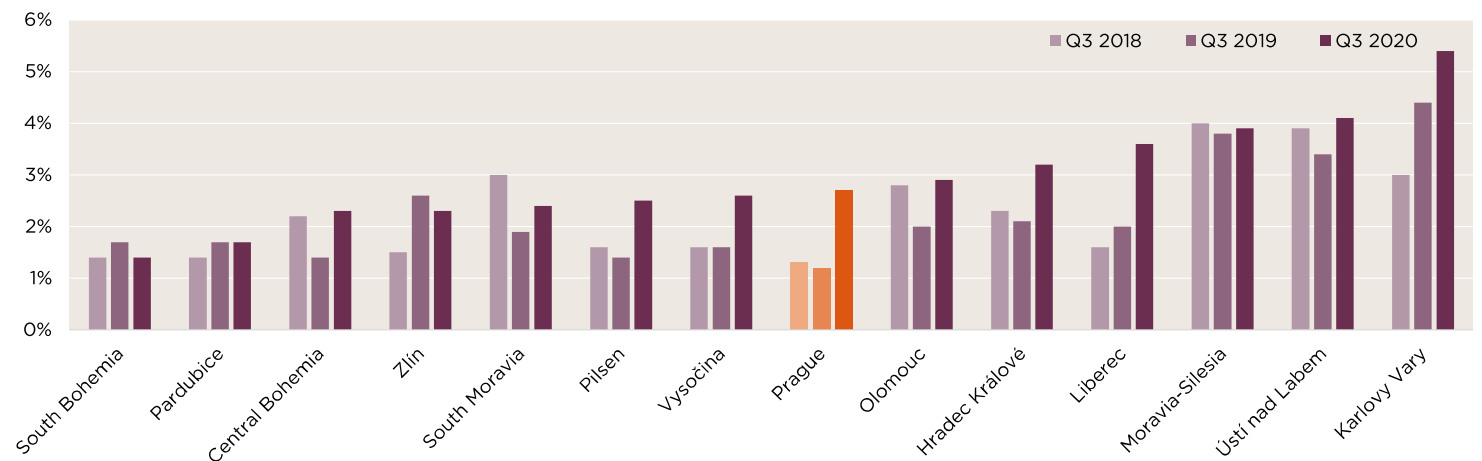
Source Czech Statistical Office, Savills Research

Unemployment Rate



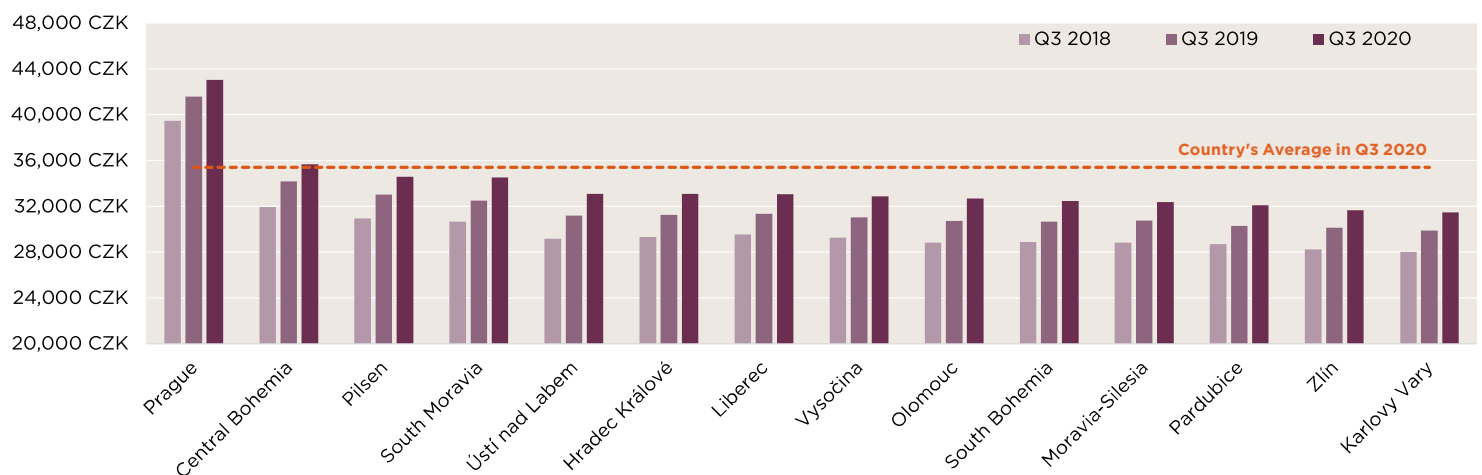
Source: Oxford Economics, Czech Statistical Office

Czech Republic Regional Unemployment Rate



Source: Czech Statistical Office

Czech Republic Regional Gross Monthly Salary



Source: Czech Statistical Office

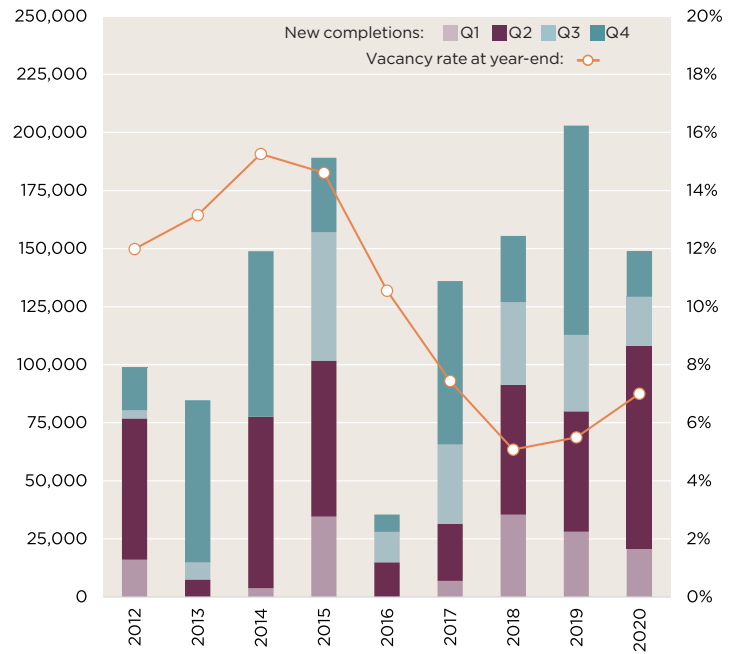
EXISTING OFFICE STOCK AND NEW SUPPLY

- The year of 2020 was very unusual and the Prague office market faced many challenges related to the pandemic. The second half of 2020 saw a significant drop in office supply with only 40,900 sq m of new space delivered to the market, a decline of 63% compared to the first half of the year and 67% down y-o-y.
- New supply in H2 2020 was formed by four buildings. Three of these were finalized in Q3 (AFI City 1 and Poděbradská Centrum in Prague 9, and administrative building Českých Přístavů in Prague 7) and Q4 saw the handover of a single building - the refurbishment of Bubenská 1 in the Prague 7 district.
- The annual cumulated new supply in 2020 included 13 office buildings totalling 151,000 sq m, demonstrating a 26% decrease in new supply year-on-year. The highest volume of new space was delivered to Prague 8 (37,700 sq m), followed by Prague 4 (35,500 sq m).
- Total office stock in Prague grew to 3.75 million sq m, with Prague 4 still being the largest office submarket (966,500 sq m), followed by Prague 8 (650,800 sq m) and the Prague 5 district (579,300 sq m).
- Office space totalling 134,000 sq m was under construction around Prague at the end of 2020. The most extensive construction is under way in Prague 8 (four buildings totalling 48,000 sq m), followed by Prague 9 with Harfa Business Centre B under construction, which is currently the largest building under construction in the city (30,600 sq m).
- Weakening demand and the overall market slowdown has resulted in number of projects completions been delayed to 2021, and similarly, construction commencements on several schemes have been postponed. The annual new supply in 2021 is expected to come to 97,000 sq m, showing a further decline by approximately 35% against 2020.

OCCUPIER DEMAND

- In the last six months of 2020, office tenants in Prague concluded transactions totalling 184,900 sq m, by 25% more than in H1 2020 but 19% below the gross take-up recorded in H2 2019. The activity in H2 2020 was mainly driven by companies from the IT sector and professional services.
- Prague 4 dominated the total leasing activity in H2 2020, with transactions totalling 60,600 sq m (33% of the total H2 gross take-up). Prague 8 was the second most active submarket in H2 2020 with leasing activity of 33,200 sq m and Prague 5 ranked third with 22,100 sq m transacted.
- The share of renegotiations increased from 34% recorded in H1 2020 (and 41% in H2 2019) to 56% in H2 2020. The remainder of the H2 leasing activity was made up of subleases (almost 11,000 sq m).
- Due to the considerably weaker demand seen throughout the whole year, the cumulative annual leasing activity added up to only 333,000 sq m, indicating a 25% decrease y-o-y (442,500 sq m was transacted in 2019).
- Net take-up in H2 2020 continued its downward trend which started to become apparent in 2019. In H2 2020, net office demand totalled 69,900 sq m (38% of the H2 total leasing activity) showing a decline by 28% compared to H1 levels, and a 49% drop against the same period of 2019. The total annual net take-up in 2020 reached 167,200 sq m which was 38% below the 2019 results.
- The largest transaction signed in the second half of 2020 was the renegotiation of UniCredit Bank in BB Centrum Filadelfie (Prague 4) totalling 22,900 sq m.

New Supply (sq m) and Vacancy Rate (%)



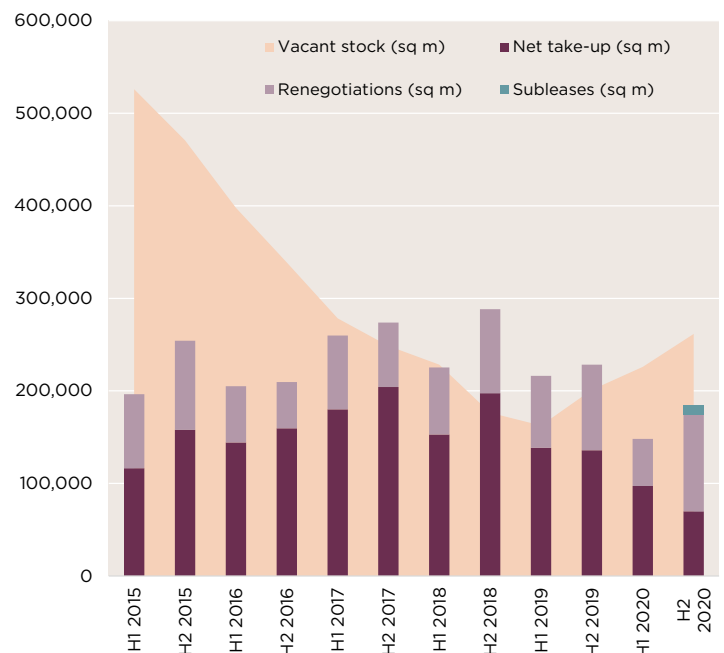
Source PRF, Savills Research

Largest Completions in 2020

PROPERTY	QUARTER	SIZE (sq m)	DISTRICT
DOCK IN FOUR	Q2 2020	20,400	Prague 8
Bubenská 1	Q4 2020	19,700	Prague 7
AFI City 1	Q3 2020	15,900	Prague 9
J&T HQ	Q2 2020	15,300	Prague 8
Parkview	Q2 2020	15,300	Prague 4

Source PRF, Savills Research

Total Vacant Stock and Take-up (sq m)

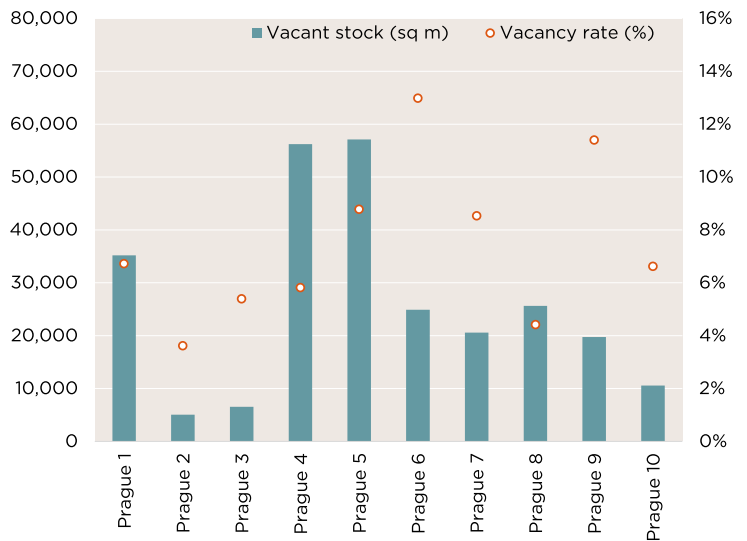


Source PRF, Savills Research

OFFICE VACANCY

- From the beginning of 2020, when the share of unoccupied office space in Prague stood at 5.4%, the vacancy rate rose to 7.0% at the end of the year. This corresponded to 262,000 sq m of immediately available space.
- The highest volume of existing vacant stock was again (for the 13th quarter in a row) registered in Prague 5 and Prague 4. Over 43% of the total unoccupied office space in Prague was found in these two city districts. On the other hand, the highest occupancy levels continued to be seen in the Prague 2 district (vacancy rate at 3.62%, 338 bps below the city average).
- Prague 9 showed the most significant change in vacancy rate in the last 12 months, going up from 2.6% at the end of 2019 to 11.4% at the end of 2020. This was caused by the speculative development of AFI City 1.
- The trend of subleasing is still growing on the Prague office market. The volume of office space available for sublease across the city increased in the final quarter and closed the year at 63,400 sq m. Combining this with the official vacant stock would increase the vacancy rate to 8.7%.

Vacancy in Prague Districts (sqm and %)



Source PRF, Savills Research

RENT LEVELS

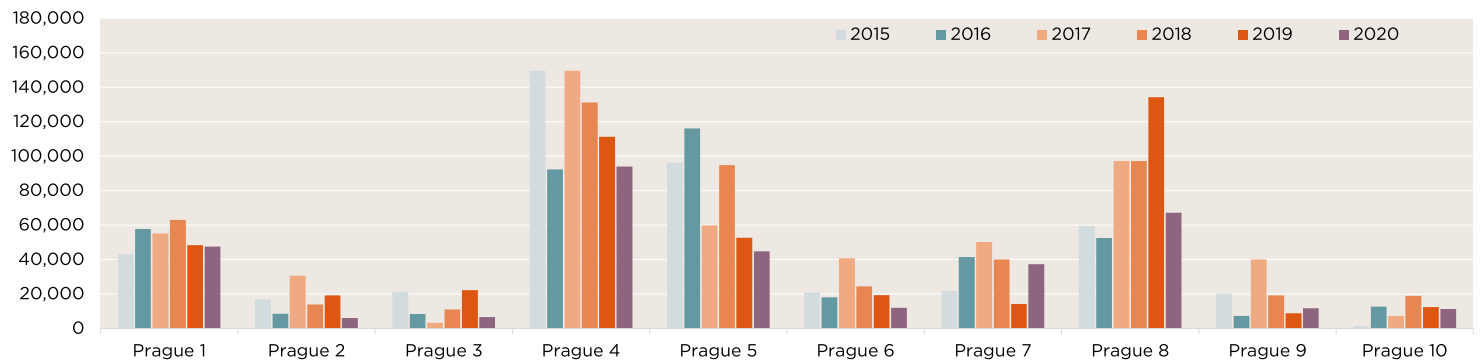
- Even though the overall activity on the market slowed down and vacancy rate went up, prime headline rents remained unaffected by the situation. The buildings of varying quality in the Prague city centre range from some of the best premium-grade buildings to older class B premises. The highest quality offices on top floors in the city centre can be offered for more than €25.00 per sq m per month, but there are also modern premises ranging between €16.50 and €20.00 per sq m per month.
- Monthly headline rents for modern office space outside the city centre stayed between €13.00 and €16.50 per sq m.

Largest Transactions of 2020

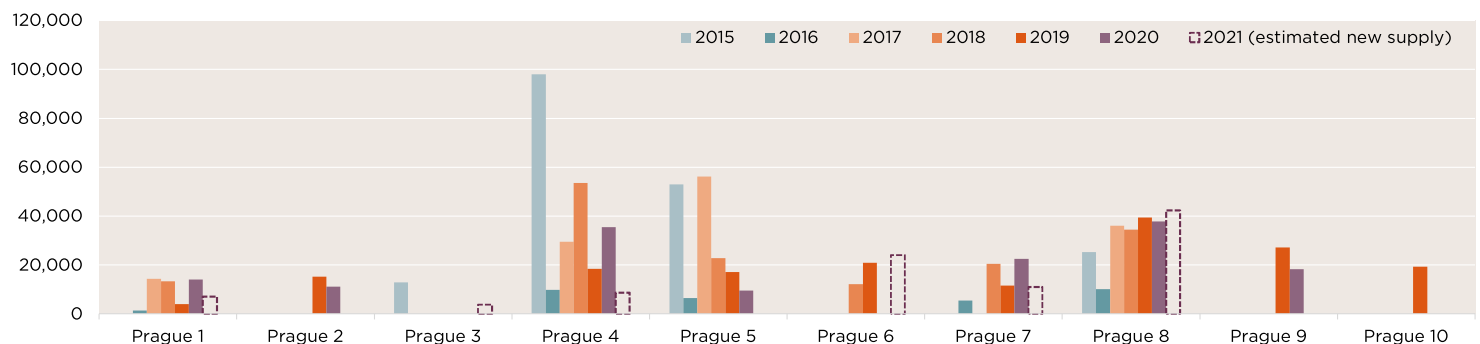
TENANT	PROPERTY	SIZE (sq m)	DEAL TYPE
UniCredit Bank	BB Centrum Filadelfie, Prague 4	22,900	Lease renewal
Undisclosed	Hagibor 05, Prague 10	7,800	Pre-lease
Internet Mall	Gen, Prague 7	6,300	Lease renewal

Source PRF, Savills Research

Annual Gross Take-up in Prague Districts (sq m)



Annual Office Supply in Prague Districts (sq m)



Source PRF, Savills Research



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