

Prague Office Market



Prague office market in Q2 2021



3.73 million sq m
Total office stock
in Prague



49,500 sq m
New office supply
in Q2 2021
(down by 57% y-o-y)



7.80%
Vacancy rate
(up by 170 bps y-o-y)



89,300 sq m
Gross take-up in Q2 2021
(up by 14% y-o-y)



49,100 sq m
Net take-up in Q2 2021
(down by 11% y-o-y)

ECONOMIC OVERVIEW

GDP GROWTH

3.1%

2021 PREDICTION

CPI INFLATION

2.8%

JUNE 2021

NATIONAL UNEMPLOYMENT

3.4%

MAY 2021

3.3%

Q1 2021 AVERAGE

GROSS MONTHLY SALARY

€1,354

(CZK 35,285)
COUNTRY AVERAGE,
Q1 2021

EXCHANGE RATE

25.64

CZK/EUR
Q2 2021 AVERAGE

RETAIL SALES

5.8%

Y-O-Y CHANGE,
MAY 2021

OFFICE MARKET HIGHLIGHTS - H1 2021

- The total modern office stock in Prague rose to 3.73 million sq m at the end of H1 2021.
- The delivery of four new development projects and two refurbishments across the city brought about a total of 53,000 sq m of new office supply to market in H1 2021. A 30% increase compared to H2 2020, however, the year-on-year (y-o-y) comparison showed a drop of 52%.
- Over the last six months to June 2021, the overall vacancy rate increased by 82 bps to 7.80%, its highest level since Q2 2017. This corresponded to 291,400 sq m of unoccupied office space available for rent around the city at the end of June 2021.
- The Prague office market saw the H1 2021 gross take-up totalling 179,500 sq m, being up by 21% y-o-y and only 3% down compared to the H2 2020 activity. This indicated a slow gradual return to the pre-pandemic levels.
- The total net demand registered in H1 2021 totalled 94,300 sq m, representing a 3% decline y-o-y but an increase of 34% compared to H2 2020.
- Prague office market witnessed a positive net absorption of 23,200 sq m in the first half of 2021 (compared to 85,300 sq m in H1 2020 and 5,300 sq m in H2 2020).

ECONOMIC OVERVIEW

- The Czech economy continued to suffer from the lasting impacts of the Covid-19 pandemic and containment measures again negatively impacted retail sales and services in the first months of 2021. As the country was strongly affected by the pandemic in spring, GDP growth was still in negative territory and in Q1 2021 averaged at -2.4%. However, recovery of economic activities is expected throughout this year and according to the Ministry of Finance, GDP growth could reach 3.1% in 2021 and accelerate to 3.7% in 2022, mainly thanks to the recovery of private consumption. The increase will, however, be greatly influenced by the development of potential mutations that could again worsen the epidemic in autumn.
- The automotive sector, the largest industry in the Czech Republic accounting for more than 9% of GDP, has been facing supply chain disruptions, which are resulting in production cutbacks. Shortages of key components began to manifest themselves at the end of 2020 and are unlikely to be resolved sooner than in 2022. A major impact on the entire Czech economy is expected, given its strong dependence on this sector.

INFLATION

- At the end of Q1 2021, the inflation rate fell to 2.4% (compared to a 2020 annual average of 3.2%). However, it is expected to grow again near the end of 2021 and oscillate around the upper band of the 2% target. According to a Czech National Bank prognosis, the inflation rate will reach an average of 2.7% in 2021 and in 2022 it is predicted to get closer to target and reach 2.4% on average.

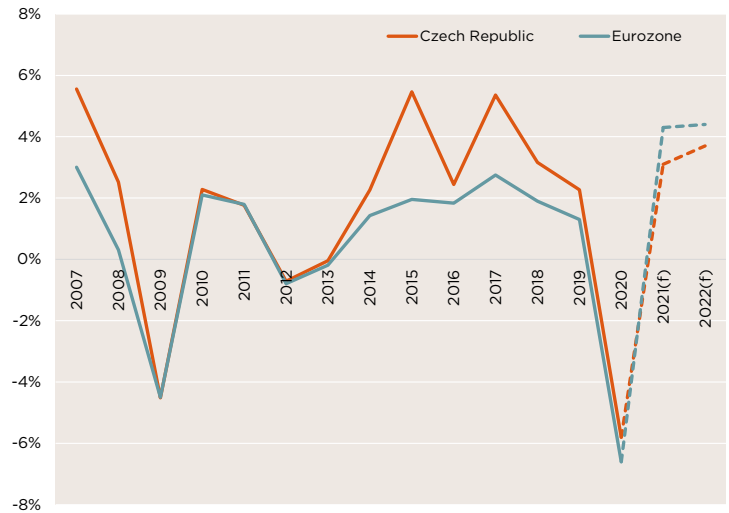
RETAIL SALES

- By the end of spring, the tight pandemic restrictions were lifted and restaurants and shops with non-essential goods reopened. Therefore in May, the y-o-y growth in retail sales reached positive numbers at 5.8%. In March and April, the increase was even more substantial and exceeded 7%. This was thanks to the growth in non-food sales (+17.30% y-o-y in March, +8.4% y-o-y in May) and particularly thanks to automotive sales, which skyrocketed to almost 71% y-o-y growth in April. The future development of retail sales will continue to be closely tied to the pandemic situation and the ability to keep it under control without any additional restrictions.

UNEMPLOYMENT

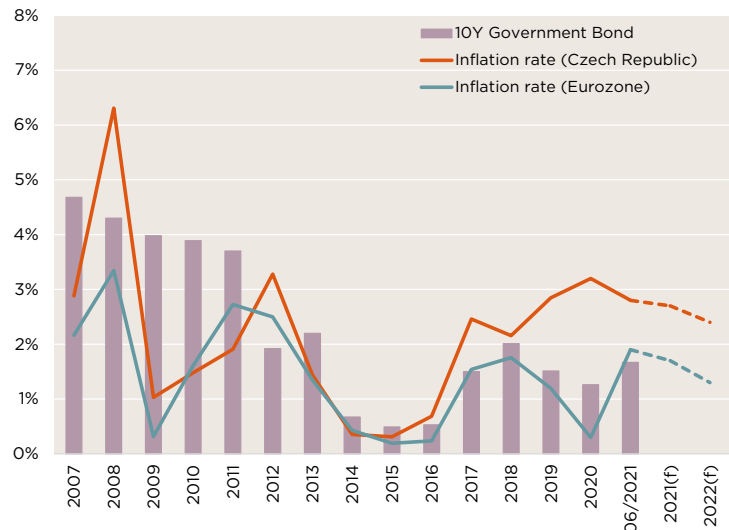
- A worsening epidemic situation at the beginning of the year also affected the labour market, which continues to cool. According to the prediction of the Czech National Bank, the unemployment rate, which reached 3.4% in May 2021, shall continue to rise until the second half of 2021 and average at 3.6%. The unemployment rate in 2022 is expected to stagnate or even increase moderately to 3.7% since it is likely that state aid will be terminated.
- The unemployment rate in the regions, shaken by restrictions, remained high. Even in Prague, it climbed to higher-than-usual figures and in Q1 2021 averaged 3.0% (up by 190 bps y-o-y). The highest rate of unemployment and also the most significant y-o-y increase was recorded in the Karlovy Vary region, standing at 8.4% in Q1 2021 (up by 230 bps q-o-q and up by 540 bps y-o-y), mainly due to the significant drop in tourism. The lowest unemployment rate was observed in the Zlín region where it fell to 1.5%, making it the only Czech region where unemployment did not exceed 2%.

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



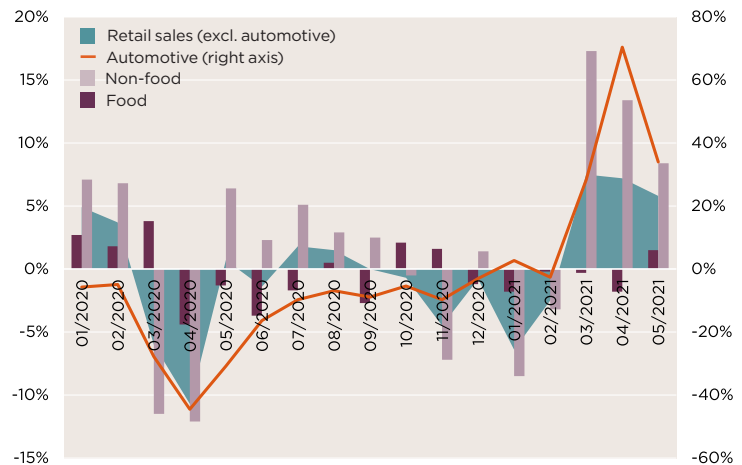
Source Oxford Economics, Czech National Bank, Ministry of Finance

Inflation Rate and 10Y Government Bond



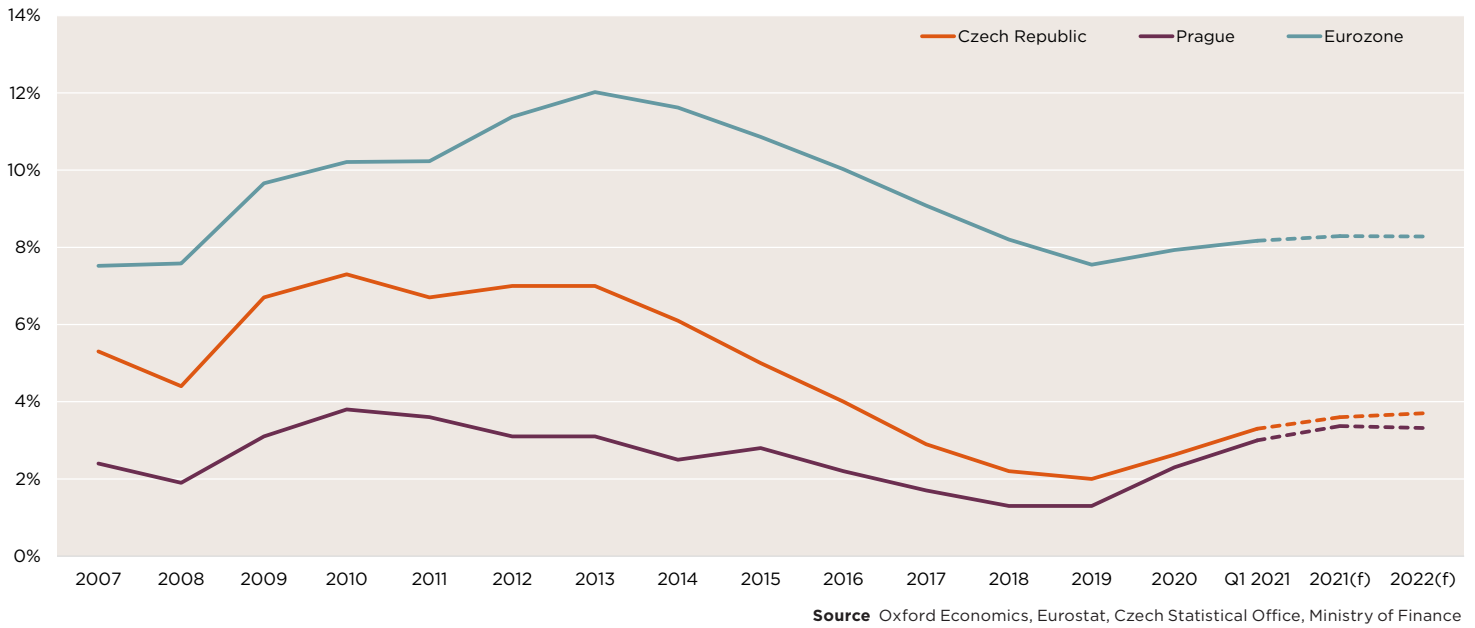
Source Oxford Economics, Czech National Bank, Eurostat

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

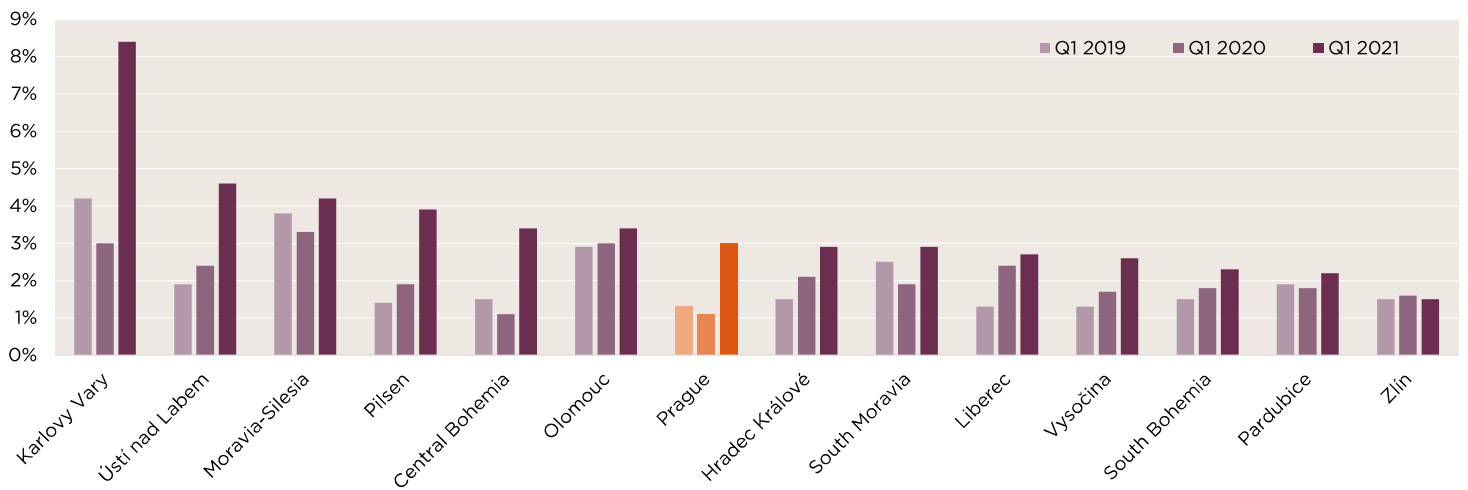


Source Czech Statistical Office, Savills Research

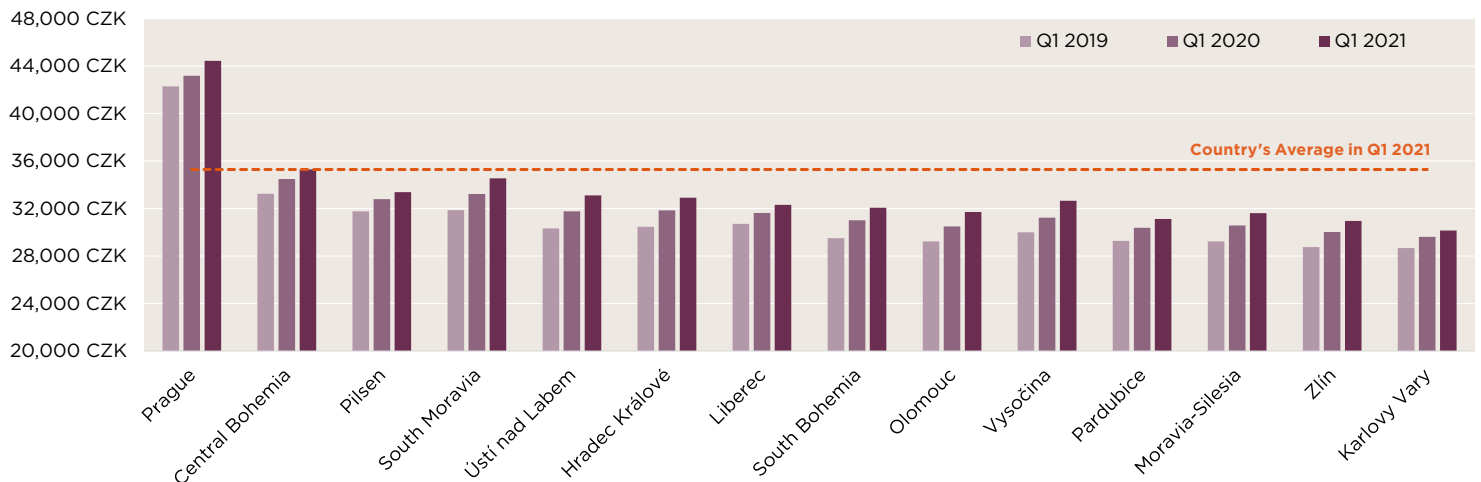
Unemployment Rate



Czech Republic Regional Unemployment Rate



Czech Republic Regional Gross Monthly Salary



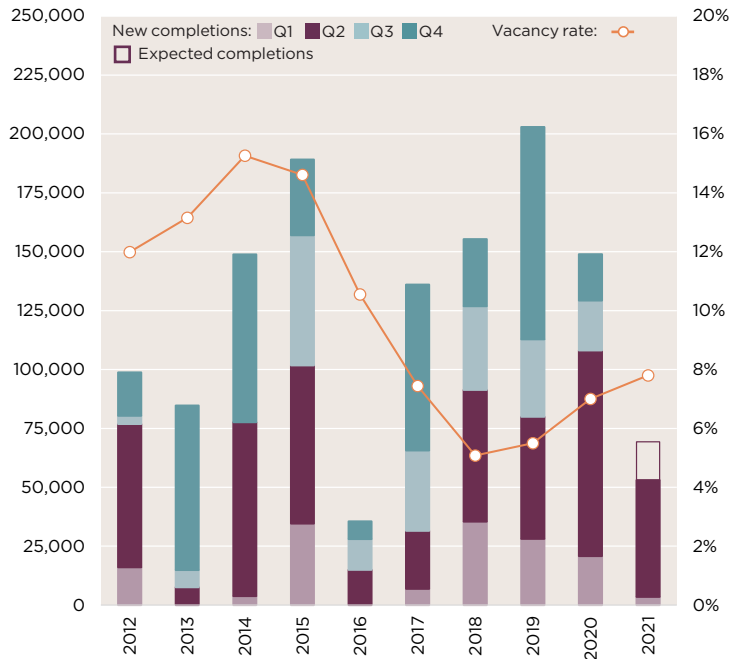
EXISTING OFFICE STOCK AND NEW SUPPLY

- Total modern office inventory in Prague increased moderately in Q2 2021 to 3.73 million sq m. Traditionally, the largest submarket was Prague 4, with stock reaching to almost 1 million sq m, followed by Prague 5 (635,780 sq m) and Prague 8 (599,900 sq m).
- Although subdued and still challenged by uncertain long-term space planning, Q2 2021 saw a recovery in new supply as 49,500 sq m was delivered to the market across four new projects. Even though a decline of 57% is still visible in y-o-y comparison, new office supply for the second quarter is 10% above the pre-pandemic quarterly average*.
- With these completions and no new office projects breaking ground in Q2 2021, the volume of office space in the active construction pipeline declined to 167,300 sq m. The 2021 annual supply is expected to come to 69,300 sq m, therefore making it the lowest annual volume of new office completions since 2016.
- The most extensive construction was underway in the Prague 1 district where, thanks to the commencement of the Masaryčka project in Q1 2021, the pipeline was exceeding 41,000 sq m. The Prague 7 district followed with almost 40,000 sq m of office space under construction and Prague 9 closed the top three with 30,700 sq m.

OCCUPIER DEMAND

- The total leasing activity, comprising both new leases and renewals, amounted to 89,300 sq m in Q2 2021. Although almost identical to the previous quarter's 90,200 sq m and 27% below the pre-pandemic quarterly average*, the Q2 gross take-up was up by 14% y-o-y.
- The most active submarket was Prague 8, where the gross take-up totalled 18,800 sq m and represented 21% of all lease commitments signed in Q2 2021. Prague 1 followed with signed leases for 16,100 sq m and Prague 4 district contributed to the city's gross take-up with 12,500 sq m.
- Overall the office leasing activity in Q2 2021 was mainly driven by companies from the Professional services sector that generated 13% of the gross take-up, followed by Public and Consumer Goods sectors.
- Even though net take-up volumes did improve from the previous quarter, posting 49,100 sq m of signed deals, they are still not reaching the pre-pandemic levels. The Q2 2021 net demand was up by 11% compared to the same period of 2020, however, the cumulative net demand registered in H1 2021 was still 3,000 sq m below the H1 2020 results and 30% below H1 2019.
- The share of renegotiations on the total leasing activity continued to decrease, standing at 37% in Q2 2021 which translated into 33,000 sq m of the total transaction volume. The share of subleases increased from 4% in Q1 2021 to 8% in Q2 and reached 7,100 sq m.
- None of the transactions concluded during Q2 2021 was greater than 4,000 sq m. Top transactions during Q2 included Ministry of Industry and Trade signing a new lease at Václavské náměstí 42 in Prague 1 (3,700 sq m), pre-lease of 3,500 sq m in Dock in Five in Prague 8 concluded by an undisclosed US company from Life Science sector, a new lease of University of Chemistry and Technology at Jankovcova 23 in Prague 7 (3,200 sq m) and a 3,000 sq m of sublease space taken by Košík.cz (Rockaway Group) at Blox in Prague 6.
- In Q2 2021, overall net absorption bounced back to positive 38,655 sq m from the negative 15,500 sq m seen in the first quarter of this year.

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



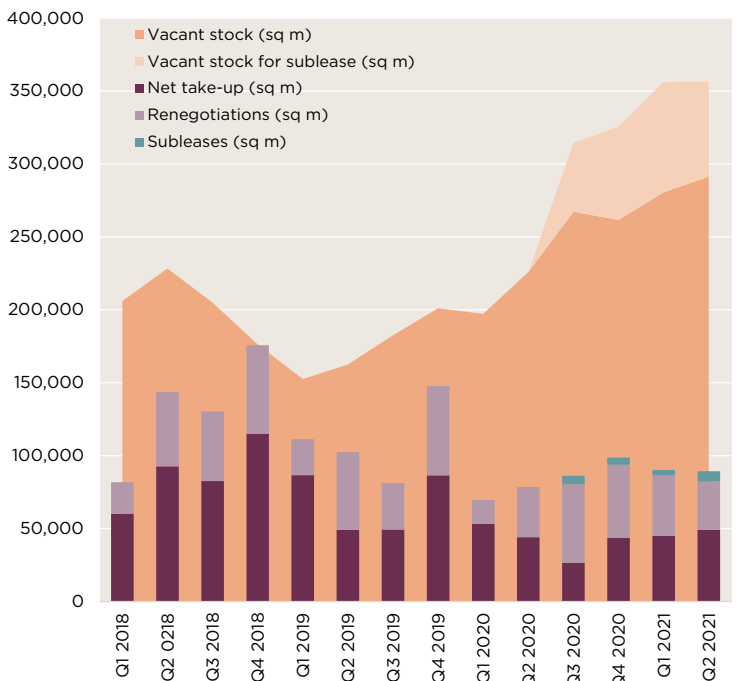
Source PRF, Savills Research

Largest Completions in Q2 2021

PROPERTY	SIZE	DISTRICT
Bořislavka Centrum	25,400 sq m	Prague 6
Mississippi House	13,300 sq m	Prague 8
Missouri Park	7,300 sq m	Prague 8
Astrid Offices	3,500 sq m	Prague 7

Source PRF, Savills Research

Total Vacant Stock and Take-up



Source PRF, Savills Research

* pre-pandemic 8-quarter average means 2018 & 2019

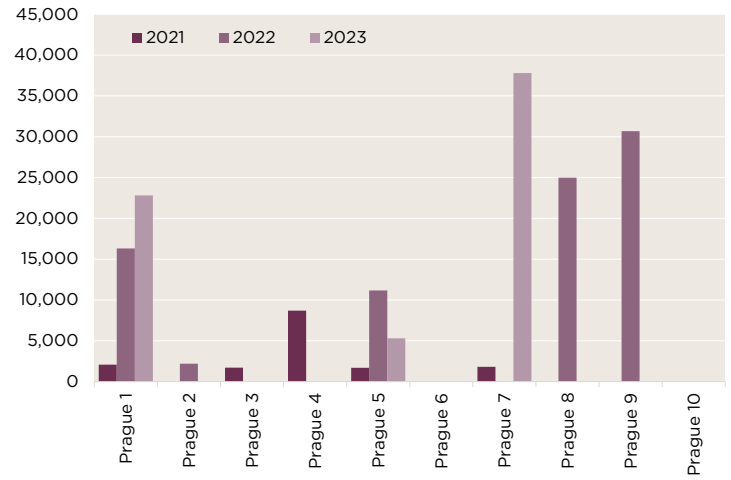
OFFICE VACANCY

- From the end of 2020, the vacancy rate keeps crawling up and at the end of June 2021 reached 7.80%. That translated into a 170 bps increase y-o-y. The vacancy rate recorded in Q2 2021 was at the highest level in the last four years with 291,400 sq m of office space immediately available for rent across the city.
- The premises offered for sublease totalled 65,000 sq m, indicating a 14% q-o-q decrease. Combining these premises with the officially vacant office space, the vacancy rate would rise to 9.55%, which would be the highest since the end of 2016.
- The highest volume of immediately available space in Q2 2021 was found in Prague 4 (70,900 sq m). However, thanks to the significant size of this submarket, the vacancy rate did not exceed 7.30% and was still 50 bps below the city average. The highest share of unoccupied offices was recorded in the Prague 5 district, where the vacancy rate stood at 9.00% (representing 57,300 sq m of available space). On the contrary, the highest occupancy levels were seen in the Prague 2 submarket where, with 5,900 sq m of available space, the vacancy rate fell to 4.40% (from 6.2% in Q1).

RENT LEVELS

- Prime headline office rents remained stable despite rising vacancy rate.
- The Prague city centre (CBD) offers premium-grade buildings as well as lower quality office space in B-class and historic buildings. The highest quality offices on top floors in the city centre continue to be offered for more than €25.00 per sq m per month, but there are also modern premises with rent levels spanning from €16.50 to €20.00 per sq m a month. Monthly headline rents for modern offices outside the city centre remained between €13.00 and €16.50 per sq m.

Premises Under Construction and Planned Delivery (sq m)



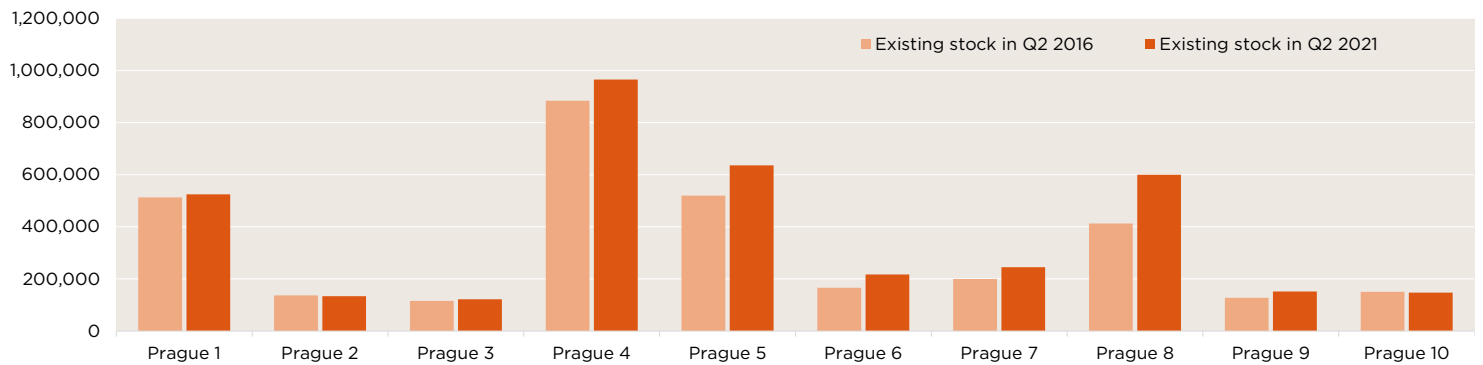
Source PRF, Savills Research

Largest Transactions of Q2 2021

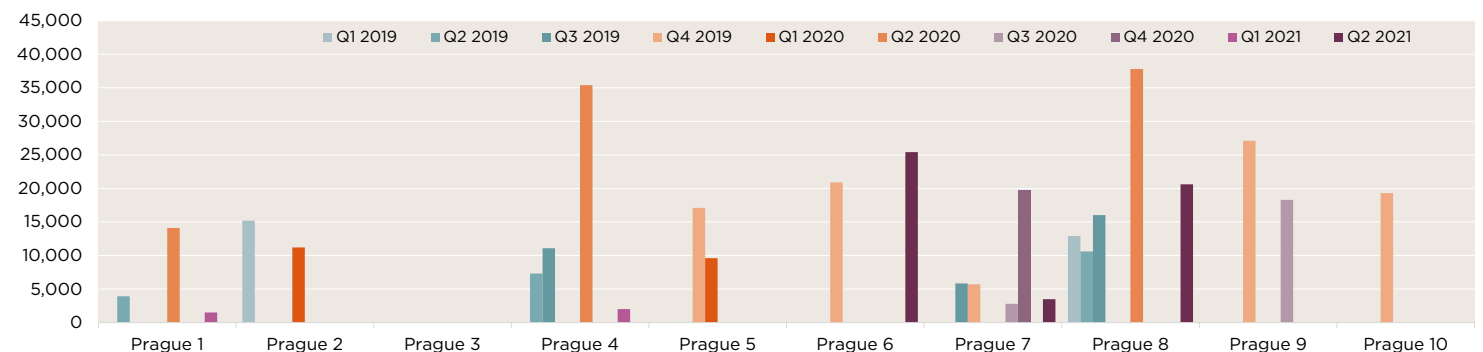
TENANT	PROPERTY	SIZE (sq m)	DEAL TYPE
Ministry of Industry and Trade	Václavské náměstí 42, Prague 1	3,700	New lease
US pharmaceutical company	Dock in Five, Prague 8	3,500	Pre-lease
University of Chemistry & Technology	Jankovcova 23, Prague 7	3,200	New lease
Košík.cz (Rockaway Group)	Blox, Prague 6	3,000	Sublease

Source PRF, Savills Research

Stock Growth in Prague Districts (sq m)



Quarterly Office Supply in Prague Districts (sq m)



Source PRF, Savills Research



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