

Prague Office Market



ECONOMIC OVERVIEW

GDP GROWTH

2.5%

2021 PREDICTION

CPI INFLATION

5.8%

OCTOBER 2021

NATIONAL UNEMPLOYMENT

2.7%

SEPTEMBER 2021

GROSS MONTHLY SALARY

€1,493

(CZK 38,275)
COUNTRY AVERAGE,
Q2 2021

EXCHANGE RATE

25.50

CZK/EUR
Q3 2021 AVERAGE

RETAIL SALES

3.4%

Y-O-Y CHANGE,
SEPTEMBER 2021

Sources Czech Statistical Office, Czech National Bank, Ministry of Finance

OFFICE MARKET HIGHLIGHTS: Q1-Q3 2021

- Total modern office stock in the city stayed at 3.74 million sq m at the end of Q3 2021.
- In the first three quarters of 2021, the Prague market saw completion of five new developments and two refurbishment projects. The office inventory therefore increased by 54,700 sq m, showing a 58% year-on-year (y-o-y) drop in new office supply.
- Office vacancy rate in Prague increased to 8.0% (up by 80 bps y-o-y) and corresponded to 298,400 sq m of immediately available premises.
- Year to date, 283,200 sq m of leases were signed (21% up y-o-y), with Q3 being the most active for the year. This noticeable recovery of leasing activity indicates a gradual return to the pre-pandemic numbers.
- Net demand recorded in the first three quarters of 2021 totalled 154,500 sq m and demonstrated a 25% growth y-o-y. The share of net take-up on the total tenant activity recorded during this period stood at 55%.
- Although net absorption for the first three quarters of 2021 posted a positive figure of 17,800 sq m, it stands well below the 65,100 sq m recorded in the same period of 2020.

Prague office market in Q3 2021



3.74 million sq m
Total office stock
in Prague



1,700 sq m
New office supply
in Q3 2021
(down by 92% y-o-y)



8.00%
Vacancy rate
(up by 80 bps y-o-y)



103,700 sq m
Gross take-up in Q3 2021
(up by 20% y-o-y)



60,150 sq m
Net take-up in Q3 2021
(up by 127% y-o-y)

Sources PRF, Savills Research

ECONOMIC OVERVIEW

- As 2021 progresses, the Czech economy continues to fight the effects of the COVID-19 pandemic. However, despite some ongoing restrictions, GDP growth was generally optimistic, reaching 8.1% y-o-y in Q2 2021 and preliminary estimates indicating a y-o-y growth of 2.8% in Q3 2021.
- As the seasonality of Covid-19 begins to be seen again, with associated measures being taken, there is optimism that lessons learned from the preceding 18 months will moderate its economic impact. According to the Ministry of Finance's forecast, the annual GDP growth is expected to reach 2.5% in 2021 and accelerate to 4.1% in 2022.
- The automotive sector, the largest single economic sector in the Czech Republic and a major contributor to GDP, continues to face supply shortages of some components. Manufacturers even had to partially reduce or even stop the production. It is unlikely that automotive production will be fully up and running by the end of the year, which may negatively impact the Czech economy and slow down the GDP growth.

INFLATION

- Compared to Q1 2021, when the inflation rate averaged at 2.4%, its level rose significantly in October 2021 to 5.8%. The Czech National Bank anticipated that inflation will keep on hovering well above the upper side of the tolerance band in the final months of 2021 and close the year with an average of 3.7%. Because of the significant growth in inflation, the Bank Board of the Czech National Bank decided to increase the two-week repo rate by 125 basis points (bps) to 2.75% in November 2021 (the highest increase since 1997). The Czech National Bank hopes to slow down the rise of inflation that was predicted to reach almost 7% at the beginning of 2022 and to return inflation rate to the 2% target within 12-18 months. According to its forecast, the inflation rate in 2022 should reach an annual average of 5.6% and in 2023 slow down again, get closer to the inflation target and oscillate around 2.1%.

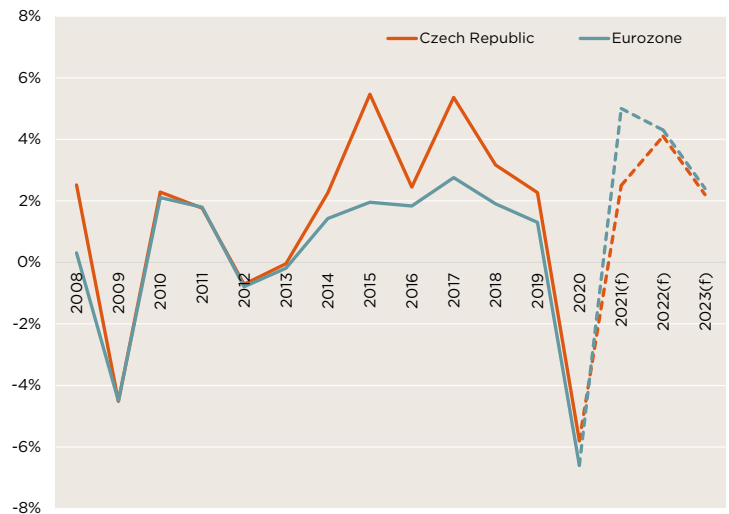
RETAIL SALES

- Although the y-o-y increase in retail sales in September reached positive figures of 3.4%, it is considered a mild slowdown compared to the summer results (+5.5% in July and +4.1% in August). The main contributors to the increase in September were Internet sales (+15.6% y-o-y) and generally, non-food sales that demonstrated a 6.7% y-o-y growth. The September figures are mainly affected by the lowering household demand caused by rising energy prices and other housing costs as well as fear of another epidemic wave. Even though retail sales faltered in September, the Czech Statistical Office concluded that the trend has already returned to the pre-pandemic growth and sales should continue to rise. Further development is also closely tied to the pandemic situation, but it is expected that thanks to the continuing vaccination, such strict measures will not be needed again and we will see retail sales grow further.

UNEMPLOYMENT

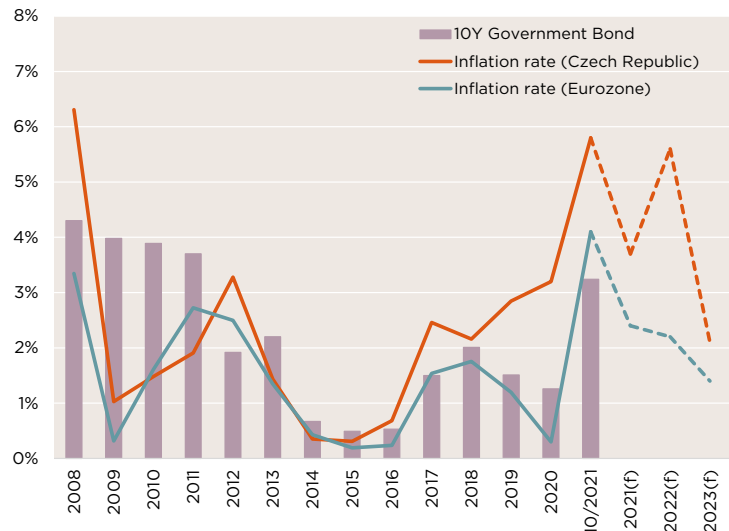
- Czech Republic maintains a low level of unemployment; according to the Czech Statistical Office, unemployment fell to 2.7% in September 2021, some 400 bps lower than the EU average (6.7% in September). With the easing of restrictions and the recovery of economic activities (mainly in gastronomy, services and hotel sector), labour demand is increasing again and the Ministry of Finance predicts a continued decline of unemployment. It is thus expected to reach 3.0% on average in 2021 and to fall further to 2.7% in 2022. However, the level of unemployment will also depend considerably on the situation in the automotive industry, which employs more than 182,000 people in the country. The production cutbacks may lead to collective redundancies, which may raise the unemployment rate above the expected level.

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



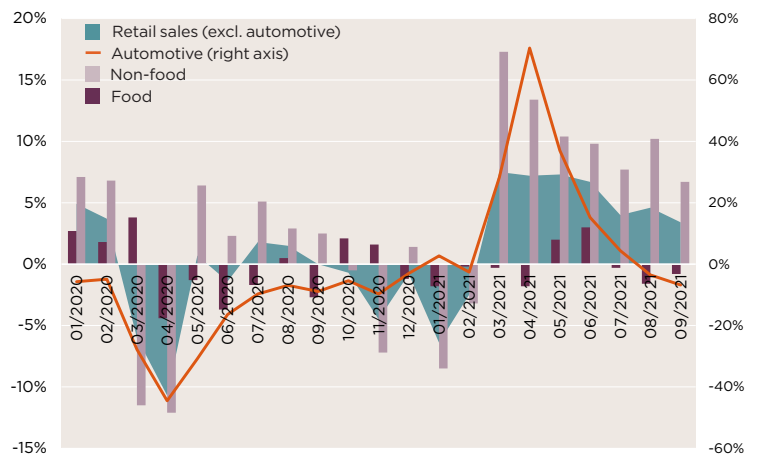
Source Oxford Economics, Czech National Bank, Ministry of Finance

Inflation Rate and 10Y Government Bond



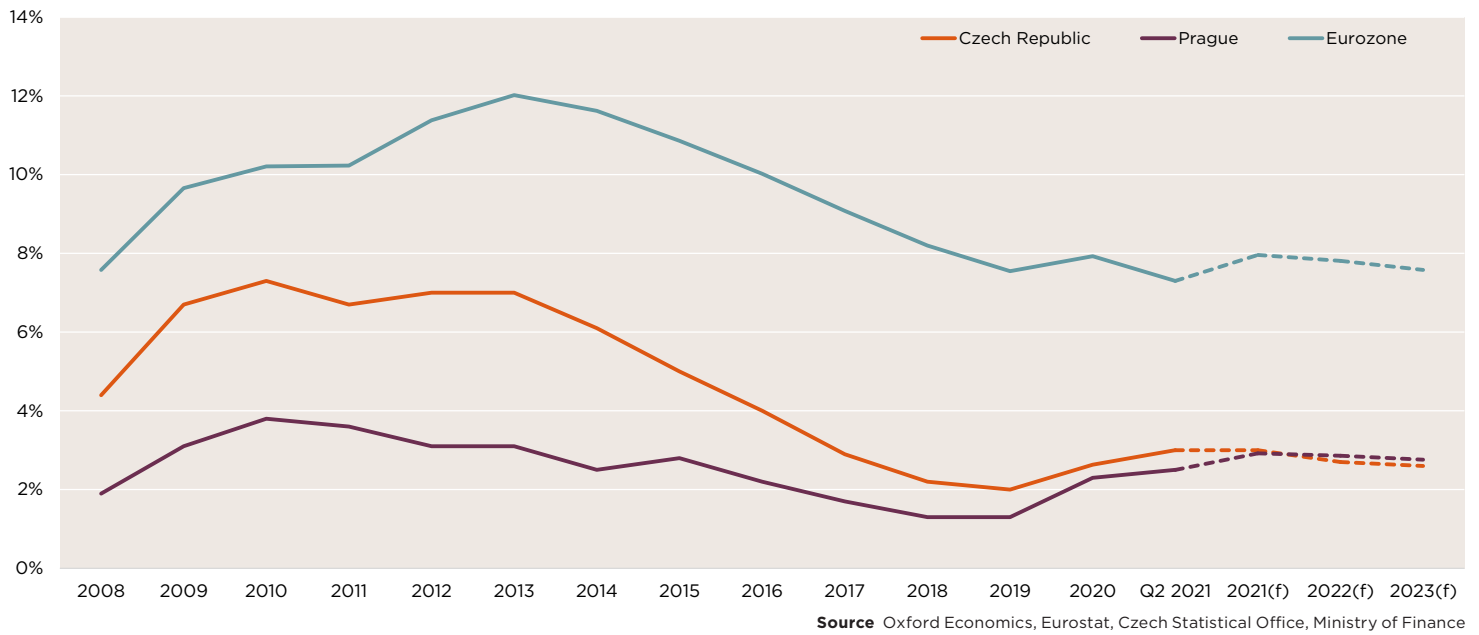
Source Oxford Economics, European Economic Forecast, Eurostat, Czech National Bank, Ministry of Finance

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

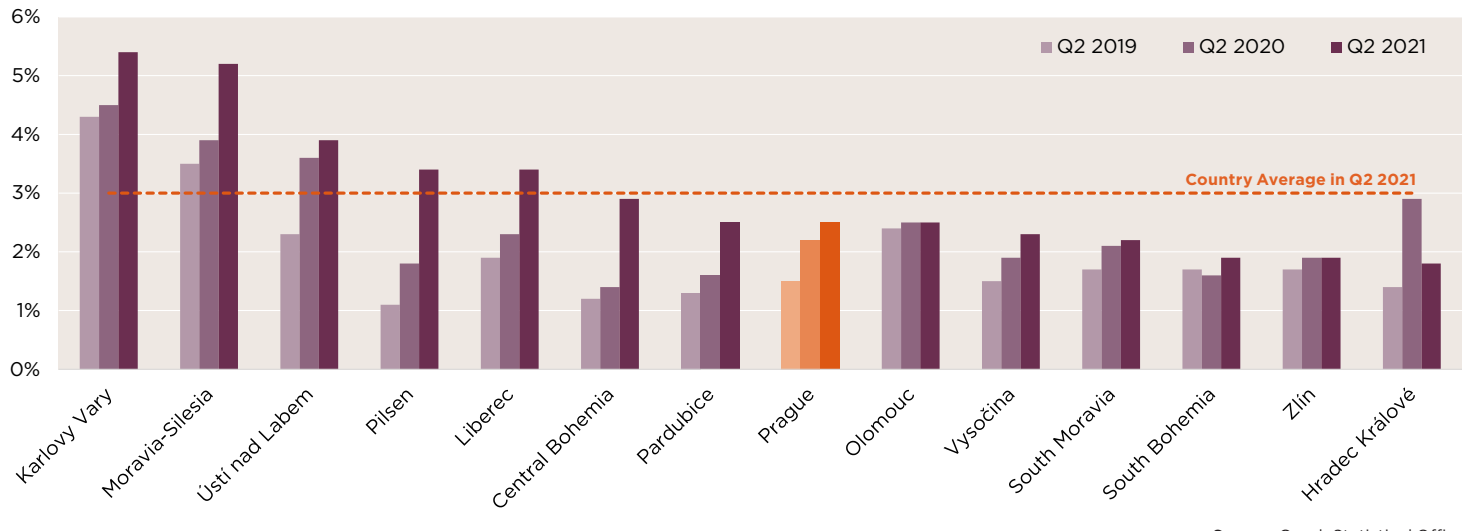


Source Czech Statistical Office, Savills Research

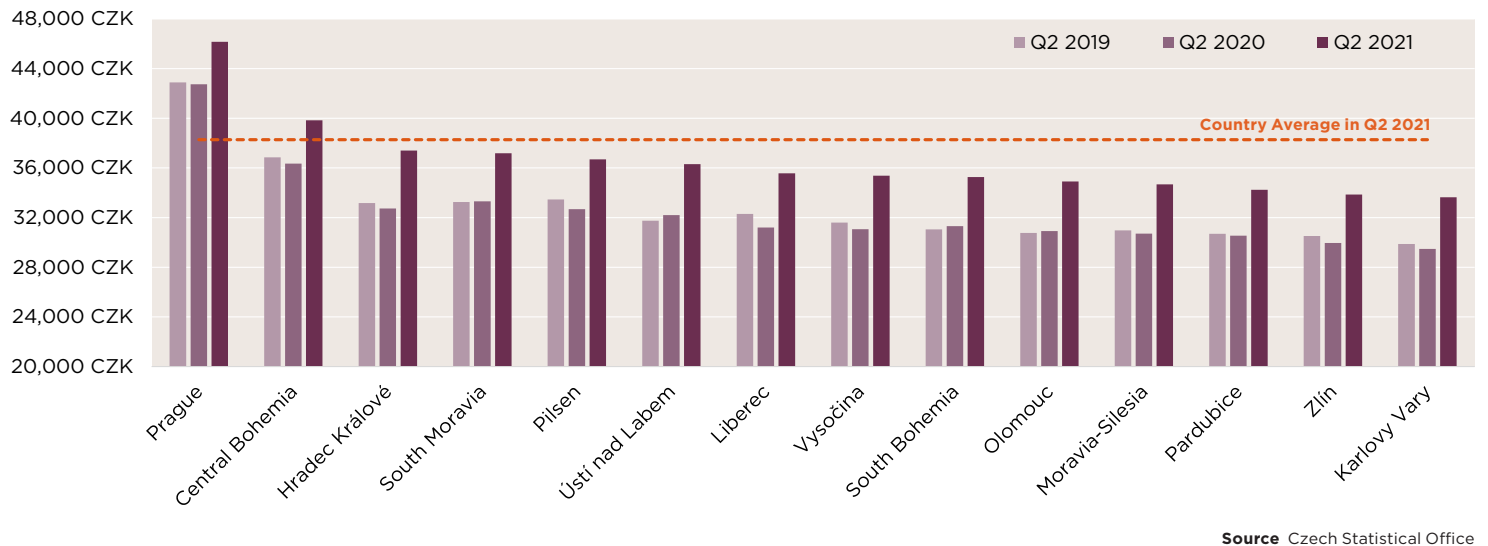
Unemployment Rate



Czech Republic Regional Unemployment Rate



Czech Republic Regional Gross Monthly Salary



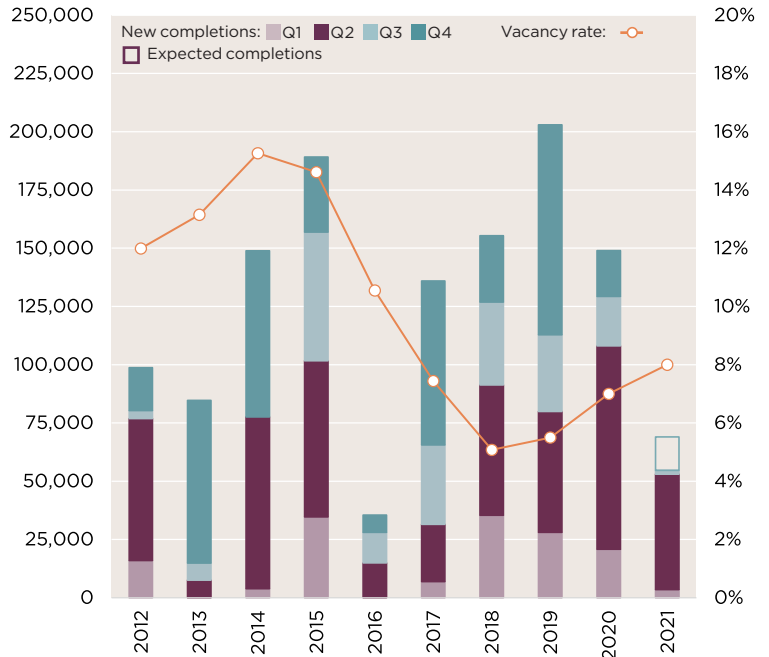
EXISTING OFFICE STOCK AND NEW SUPPLY

- With only one smaller office project completed in Q3 2021, the total modern office inventory in Prague stayed almost unchanged at 3.74 million sq m. More than a quarter of the total stock is located in Prague 4, and together with the second and third largest submarkets (Prague 5 and Prague 8) these provide almost 60% of the city's total office stock.
- Despite the spike in new office supply recorded in Q2 2021 (when 49,500 sq m was delivered), Q3 was marked by almost no development completions. The only exception was a small office building at Holečkova 26 in Prague 5, that added 1,700 sq m to the Prague office stock. On top of that, only approximately 14,300 sq m of office premises are scheduled for completion in the last quarter of 2021. This, together with the space already introduced to the market in the first three quarters, should bring the annual office supply to only 69,000 sq m. Compared to the 2020 annual supply (151,000 sq m), this year's completions will be 54% down. At the same time, this year will see the lowest annual volume of space delivered to the market in the last 5 years.
- The volume of office space under construction rose to 199,000 sq m in Q3 2021. Penta broke ground on two buildings at their Nová Waltrovka scheme in Prague 5 (Legatica totalling 8,300 sq m and the 18,000 sq m Metalica), and construction works commenced on Red Court (7,100 sq m) in Prague 8. Prague 5 became the district with the highest active development pipeline; thanks to the commencement of the two mentioned buildings, the total space under construction rose to nearly 42,800 sq m. The Prague 1 district ranked second with construction underway on 41,200 sq m of new office space and Prague 7 closed the top three with a pipeline of 39,600 sq m, mostly made by the ongoing construction of PORT 7.

OCCUPIER DEMAND

- Quarterly leasing activity made of lease renewals, new leases, pre-lets and subleases increased significantly and reached 103,700 sq m. In a y-o-y comparison, gross take-up rose by 20% and was 16% up from the previous quarter. With gross take-up only 15% below the pre-pandemic quarterly average*, it seems that occupier demand is re-starting.
- Prague 5 contributed most to the overall leasing activity, making 22% of the city's total transaction volume in Q3 2021. That translated into 22,700 sq m of signed leases. Prague 8 followed with leasing commitments totalling 18,700 sq m and Prague 9 ranked third with gross take-up of 14,400 sq m.
- Based on space taken up in Q3 2021, the most active occupier sectors were finance (16% of this quarter's gross take-up), followed by IT (14%) and manufacturing accounting for 12%.
- The share of subleases on gross take-up fell from 8% in Q2 2021 to 4% in Q3. The average share of subleases registered in the preceding four quarters stood at slightly above 5%. Lease renegotiations signed during Q3 2021 totalled 39,400 sq m (38% of gross take-up).
- Net take-up maintained its growing tendency in Q3 2021 and went up to 60,150 sq m. That translated into a 22% quarter-on-quarter (q-o-q) increase and 127% improvement y-o-y. The cumulative net take-up registered in the first nine months of 2021 was 25% above the same period of 2020 and amounted to 154,500 sq m. The increasing quarterly net take-up figures logged this year imply that the activity of office occupiers on the Prague market is picking up, although very gently.
- However, net absorption levels have been going up and down from Q2 2020 (when the first lockdown was announced in the Czech Republic). In spite of the negligible new supply in Q3 2021, net absorption returned to its negative side at -5,300 sq m (the previous quarter saw a positive absorption of 38,600 sq m).

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



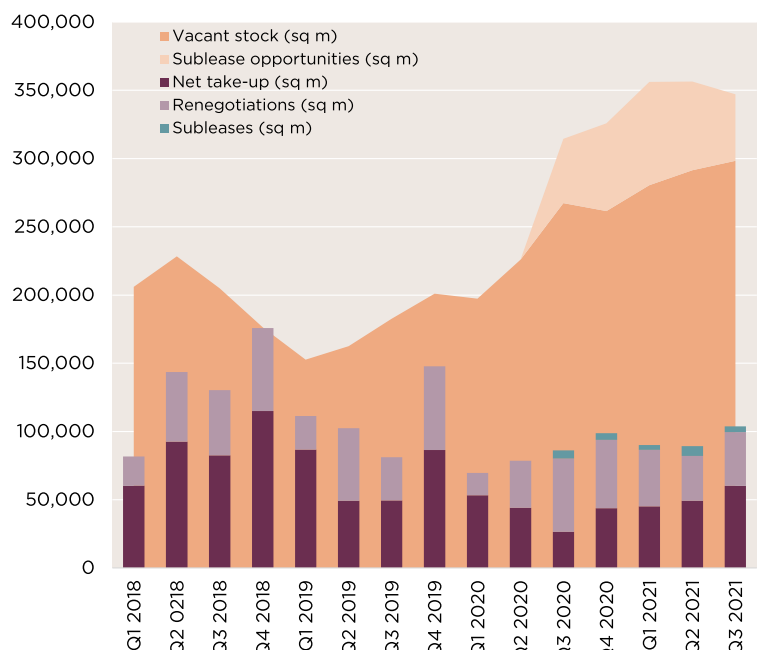
Source PRF, Savills Research

Largest Projects Under Construction in Q3 2021

PROPERTY	DEVELOPER	SIZE (sq m)	DELIVERY
Harfa Business Center - B	Kaprain Group	30,700	H1 2022
PORT 7	Skanska	30,600	H1 2023
Nová Waltrovka (Legatica + Metalica)	Penta	26,300	H2 2023
Masaryčka (A+B)	Penta	22,800	H1 2023
DOCK IN FIVE	Crestyl	21,600	H2 2022

Source PRF, Savills Research

Total Vacant Stock and Take-up



Source PRF, Savills Research

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

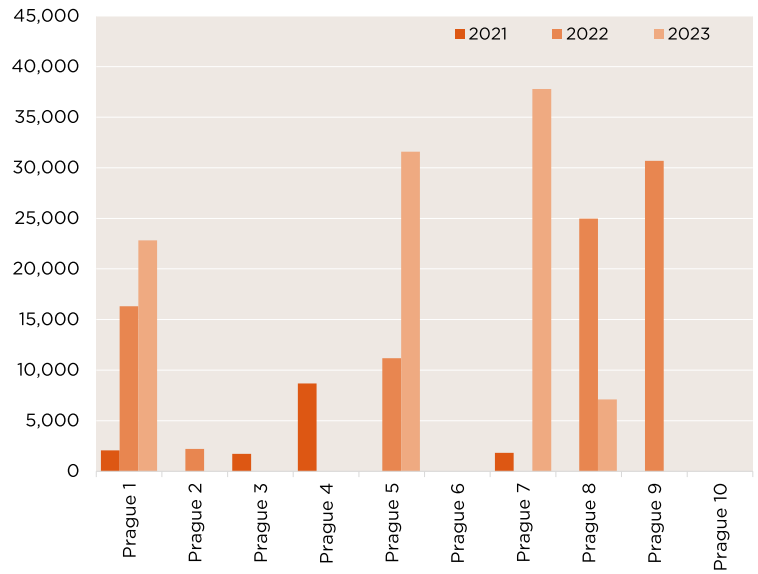
OFFICE VACANCY

- Even though Q3 2021 did not see any notable office completions and net take-up increased, vacancy rate went up for the third consecutive quarter and reached 8% at the end of September. This is the highest share of unoccupied office stock recorded on the Prague market since Q2 2017 and the highest volume of vacant offices (in sq m) seen on the market since Q1 2017.
- The total office stock available for immediate lease totalled 298,400 sq m. Traditionally, the highest volume of vacant premises (74,000 sq m) was found in the city’s biggest submarket, Prague 4, whilst this volume converted to a vacancy rate of only 7.7%. Prague 9 posted the highest share of unoccupied offices, the vacancy rate increased to 13.90%, which equated to 20,100 sq m of immediately available premises. The Prague 2 district kept its status of the most occupied office submarket, only 4,900 sq m were available for occupation at the close of Q3 and local vacancy rate dropped to 3.80% (from 4.4% in Q2 2021).
- In Q3 2021, the office space offered for sublease declined by 25% q-o-q to 48,700 sq m (compared to 65,000 sq m offered in Q2 2021). Beside the fact that some premises were sublet, the drop in supply can be explained by tenants’ decision to take the space off the market and some premises may have also been moved to the officially vacant stock (leases were terminated or amended to reflect downsizing).

RENT LEVELS

- Despite the fluctuating net absorption levels and rising vacancy, prime headline rents remained unchanged.
- The Prague city centre (CBD) offers premium-grade buildings as well as lower quality office space within B-class and historic buildings. In many cases, rent levels for the highest quality offices on top floors in the city centre still exceed €25.00 per sq m per month, while modern premises of slightly lower quality but still in the city centre continued to be offered from €16.50 to €20.00 per sq m a month. Monthly headline rents for modern offices outside the city centre continued spanning between €13.00 and €16.50 per sq m.

Premises Under Construction and Planned Delivery (sq m)



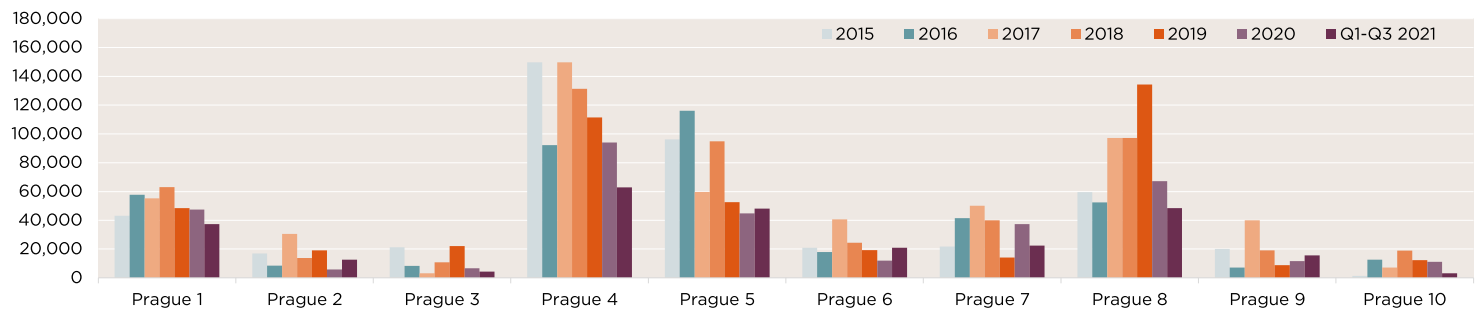
Source PRF, Savills Research

Largest Transactions of Q3 2021

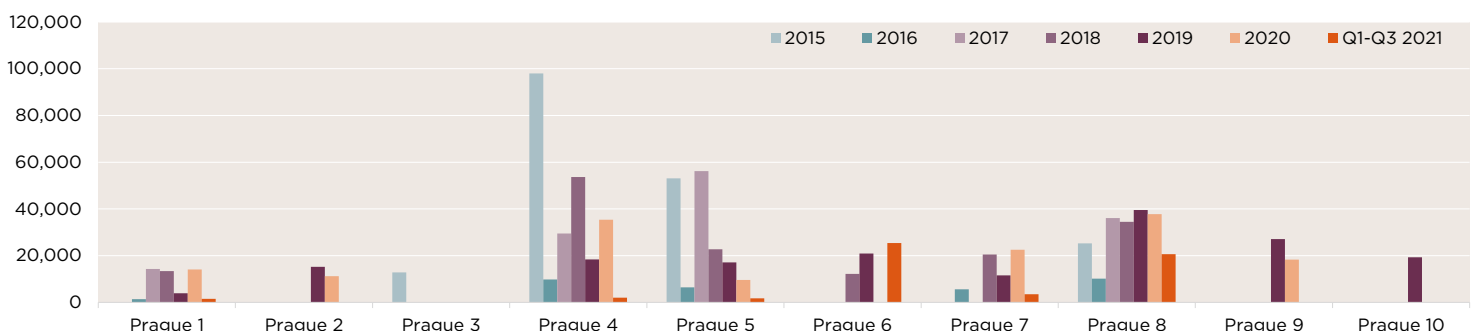
TENANT	PROPERTY	SIZE (sq m)	DEAL TYPE
National Nederlanden	Zlatý Anděl, Prague 5	6,000	Pre-lease
Aeskulab	Hadovka Office Park, Prague 6	3,500	Renewal
Zásilkovna	Balabenka Office Building, Prague 9	3,300	New lease

Source PRF, Savills Research

Gross Take-up in Prague Districts (sq m)



Office Supply in Prague Districts (sq m)



Source PRF, Savills Research



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Research team

Lenka Pechová

Senior Research Analyst

00420 604 387 407

lenka.pechova@savills.cz

Katarína Mizerová

Junior Research Analyst

00420 220 413 004

katarina.mizerova@savills.cz

Office Agency Team

Pavel Novák

Head of Office Agency

00420 724 032 844

pavel.novak@savills.cz

Matěj Baranek

Associate Director

00420 606 600 817

matej.baranek@savills.cz

Ondřej Šimek

Associate

00420 731 114 343

ondrej.simek@savills.cz

David Gajdoš

Office Consultant

00420 774 422 112

david.gajdos@savills.cz

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