

Prague Office Market




ECONOMIC OVERVIEW

GDP GROWTH

1.9%

2021 PREDICTION

CPI INFLATION

3.8%

2021 AVERAGE

NATIONAL UNEMPLOYMENT

2.3%

NOVEMBER 2021

GROSS MONTHLY SALARY

€1,471

(CZK 37,499)
COUNTRY AVERAGE,
Q3 2021

EXCHANGE RATE

25.65

CZK/EUR
2021 AVERAGE

RETAIL SALES

11.7%

Y-O-Y CHANGE,
NOVEMBER 2021

Sources Czech Statistical Office,
Czech National Bank,

OFFICE MARKET HIGHLIGHTS: 2021

- Total modern office inventory in Prague remained at 3.74 million sq m at the close of 2021.
- Prague office market saw a completion of only eight office buildings in 2021, the annual new supply came to 56,400 sq m being the lowest since 2016 and at 40% of the 5-year annual average (140,900 sq m)*.
- Office vacancy rate at the end of 2021 stood at 7.8%, 82 basis points (bps) above Q4 2020, which translated into 292,700 sq m of immediately available office space.
- Total 2021 leasing activity of 389,200 sq m topped 2020 figures by more than 56,000 sq m, being 17% up y-o-y and only 12% below the pre-pandemic 2019. Net take-up has rebounded from 2020 levels, increasing by 27% y-o-y to 212,800 sq m. However, still not reaching the 2019 pre-pandemic figures (by 58,800 sq m).
- Although the net absorption of 2021 showed positive numbers of 25,200 sq m, it stood well below 90,500 sq m recorded in 2020.
- Rising rent levels could be seen on the Prague office market towards the end of 2021 and, as expected, service charges went up reflecting the increase in energy prices.

Prague office market in Q4 2021



3.74 million sq m
Total office stock
in Prague



1,700 sq m
New office supply
in Q4 2021
(down by 91% y-o-y)



7.80%
Vacancy rate
(up by 82 bps y-o-y)



106,000 sq m
Gross take-up in Q4 2021
(up by 7% y-o-y)



58,300 sq m
Net take-up in Q4 2021
(up by 33% y-o-y)

Sources
PRF, Savills Research

ECONOMIC OVERVIEW

- The gradual economic recovery that began in spring 2021 and continued through summer slightly slowed down in the second half of 2021. However, it still remained in positive figures, with GDP demonstrating a 3.1% year-on-year (y-o-y) growth in Q3 2021. The economic growth was mainly driven by increased household consumption caused by spending of the involuntary savings that many households built up during previous lockdowns. According to the projections of the Czech National Bank, the ongoing partial pandemic restrictions will no longer have tangible impact on the economy and the GDP should reach an average growth of 1.9% in 2021. In 2022, the economic recovery shall be supported by the continuously rising household consumption and GDP growth is therefore predicted to accelerate to 3.5%, reaching the pre-pandemic levels at the turn of the year.
- This rather optimistic prognosis may be negatively affected by the persisting problems in the supply chains that have significant impact on the Czech production (especially on the automotive industry). Due to these input shortages, some manufacturers are restricting or even temporarily stopping production. The Ministry of Finance, however, predicts that most supply chain issues will ease down by mid-2022 and the economic growth will speed up in the second half of the year.

INFLATION

- In spite of the Czech National Bank increasing the two-week repo rate to 2.75% in November 2021, the inflation rate surged to 6.6% in December. That brought the annual average inflation to 3.8%, the highest since 2008. The rapid surge in inflation was caused by soaring energy and oil prices. Due to the continuously growing inflation, the two-week repo rate was raised once again in December 2021 to 3.75%. Despite this measure, the Czech National Bank expects that the inflation rate will be pushed to 9% in January, possibly reaching double-digits in the first few months of 2022. It is predicted to start slowing down in Q2 2022 and drop significantly in the second half of the year. The inflation rate should thus once again get close to the 2% target in 2023 and average at 2.1%.

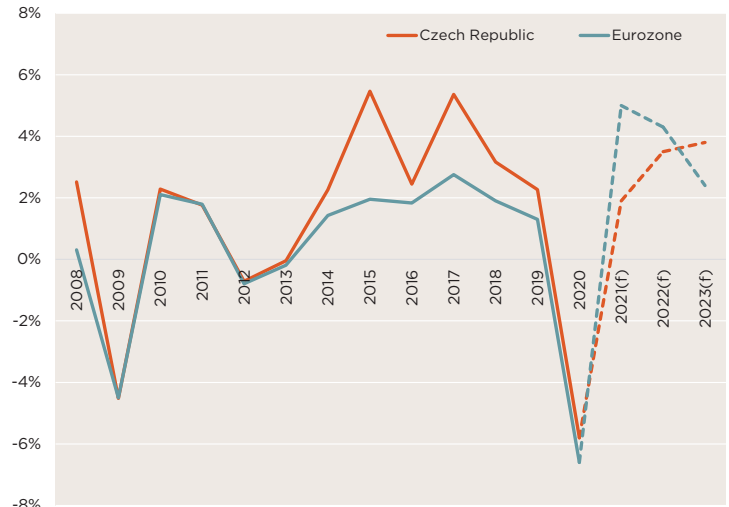
RETAIL SALES

- Total retail sales in November reached an impressive y-o-y growth of 11.7%, the highest increase in 2021. The main contributors to the November growth were apparel and footwear sales (+283.5% y-o-y) and generally non-food sales, which posted a 20.8% y-o-y increase. Automotive sales remained in negative figures and demonstrated a 1.5% y-o-y decline, which was caused by ongoing component shortages and production cutbacks. The overall retail sales growth was mainly driven by improving pandemic situation, previously deferred consumption and spending of the pent up savings. Total retail sales are predicted to rise in the coming months but could be negatively affected by high inflation and a potentially worsening pandemic situation.

UNEMPLOYMENT

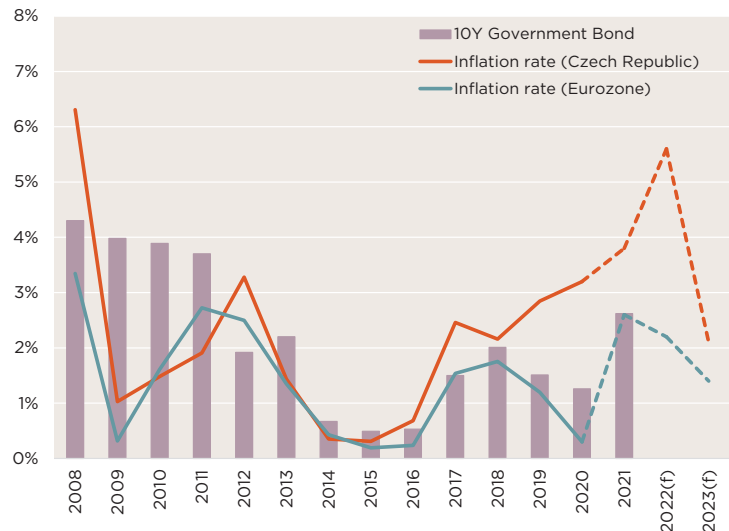
- Following the reopening of the economy in spring 2021, the general unemployment rate* dropped significantly from 3.3% in January to 2.3% in November 2021. Although the rate of unemployment was the lowest since April 2020, it got back to levels typical in 2018 and 2019 (before the Covid-19 crisis). In absolute figures, the number of unemployed persons fell from 170,388 in January to 118,751 in November 2021. The Czech National Bank expects the 2021 annual unemployment rate to reach an average of 3.1%. The general unemployment rate in the Czech Republic is projected to pursue its fall and reach 2.8% in 2022 and 2.7% in 2023. However, the room for further decline is limited by the fact that Czech unemployment rate is already the lowest in the European Union (in November 2021 standing 420 bps below the EU average of 6.5%).

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



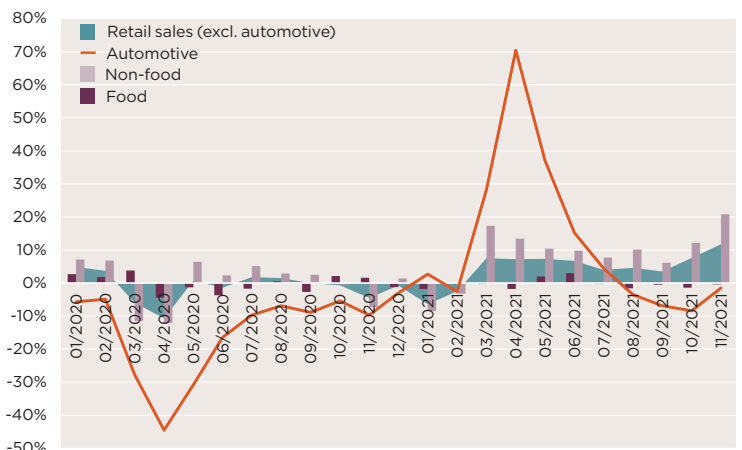
Source Oxford Economics, Czech National Bank, European Economic Forecast

Inflation Rate and 10Y Government Bond



Source Oxford Economics, European Economic Forecast, Eurostat, Czech National Bank

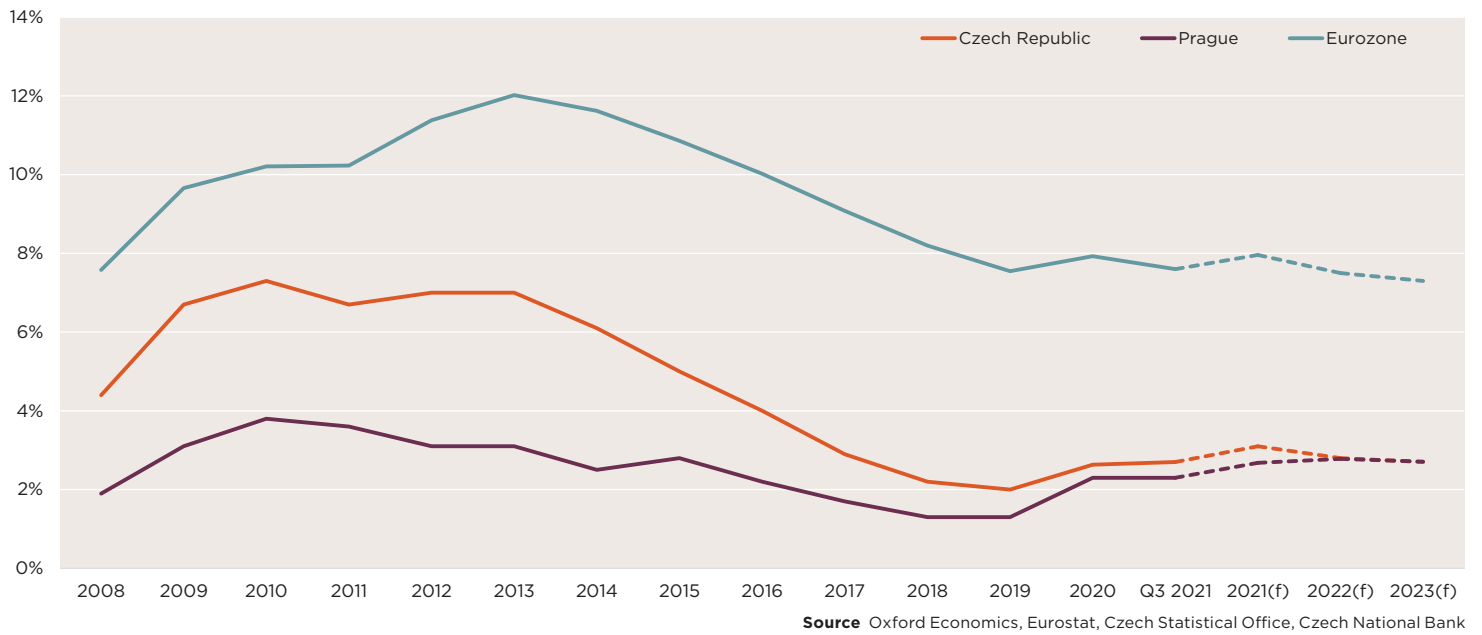
Retail Sales (y-o-y change, %)



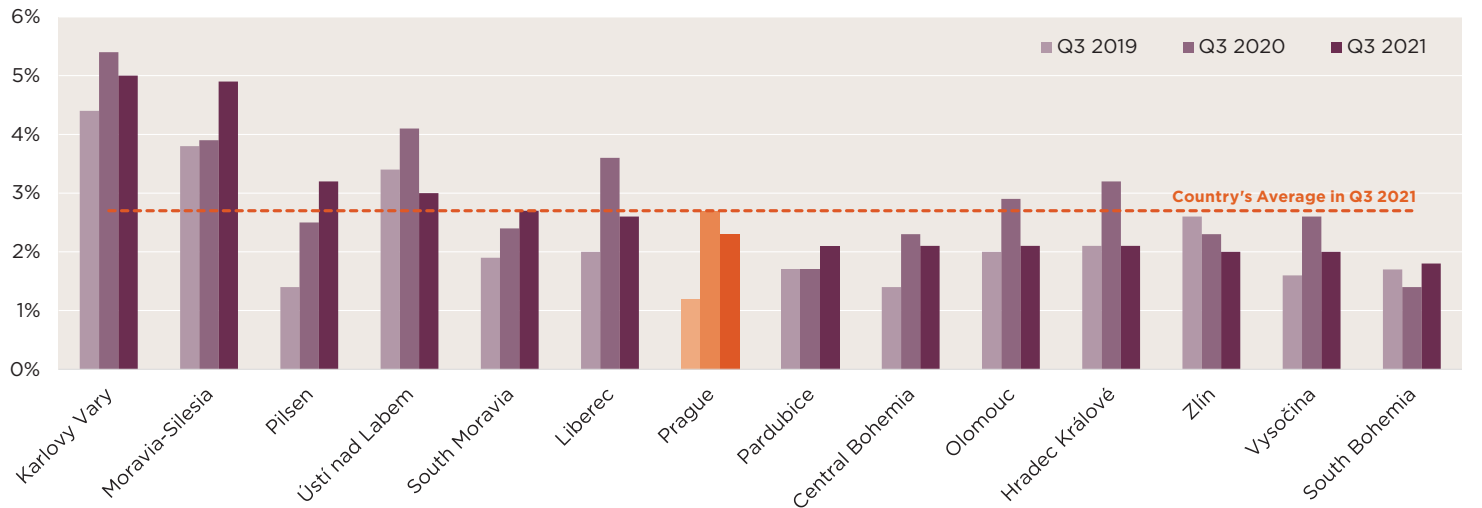
Source Czech Statistical Office, Savills Research

* General unemployment rate is the percentage share of the unemployed people within the economically active labour force (being the sum of employed and the unemployed people)

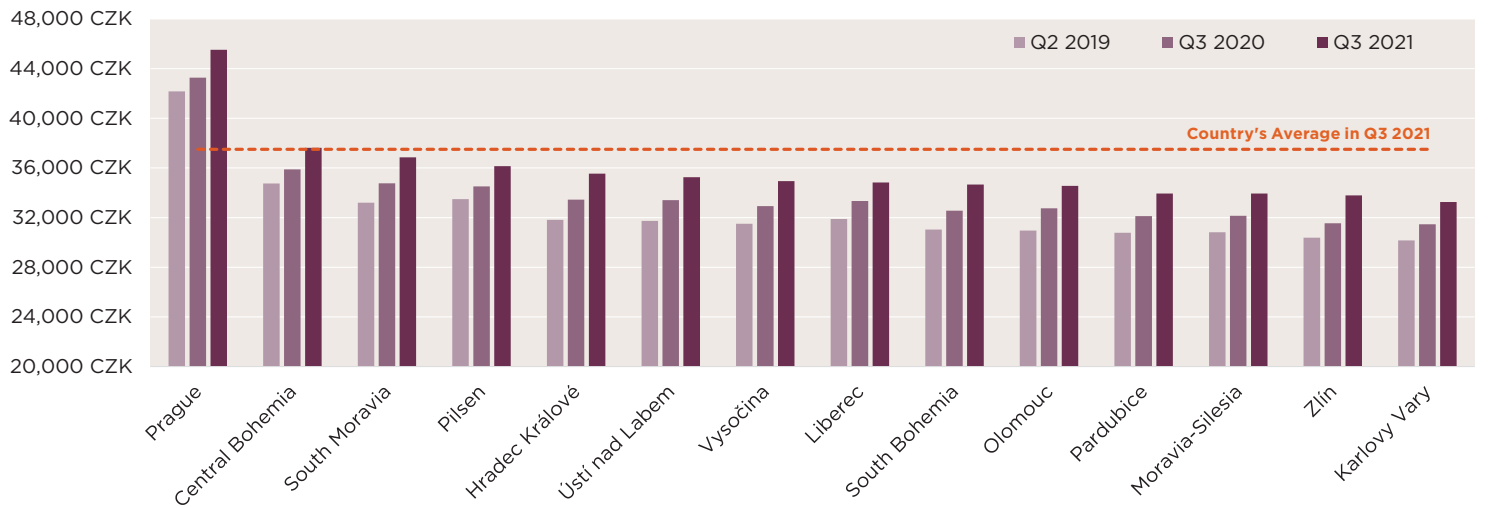
Unemployment Rate



Czech Republic Regional Unemployment Rate



Czech Republic Regional Gross Monthly Salary



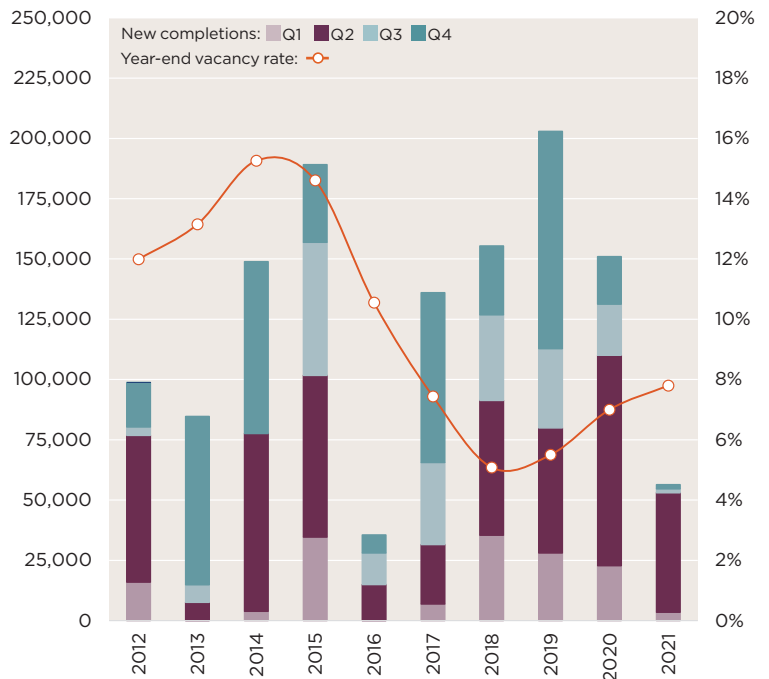
EXISTING OFFICE STOCK AND NEW SUPPLY

- Total modern office inventory in Prague remained more or less unchanged at 3.74 million sq m, as only one smaller project (Victoria Office Center) of 1,700 sq m was added in Q4. The largest share of total stock was traditionally located in Prague 4, followed by Prague 5 and Prague 8. These three submarkets combined provide more than 2.2 million sq m (59%) of the city's office inventory.
- At the end of 2021, 198,700 sq m of office space was under construction across the city, including refurbishment projects but excluding owner occupied premises. The space under development went up in Q4 as Passerinvest broke ground on Roztyly Plaza (21,000 sq m) in Prague 4 and construction of Block Karlín (8,100 sq m) kicked off in Prague 8.
- The highest active development pipeline can be seen in Prague 5, where a total of 41,300 sq m is being built, followed by Prague 8 with construction pipeline reaching 40,000 sq m. Prague 1 ranked third with construction under way on more than 39,000 sq m of offices, most of which is down to the ongoing construction at Masaryčka. On the contrary, no active construction is underway in the submarkets of Prague 2, Prague 3, Prague 6 and Prague 10.
- Of the space currently under construction, eight buildings totalling 76,200 sq m are scheduled for completion in 2022 and 101,000 sq m shall come to the market in 2023 across six schemes (ten buildings in total).

OCCUPIER DEMAND

- In terms of total leasing activity (which includes renegotiations, pre-lets, new leases, expansions and subleases), Q4 was the most active quarter of the year. With 106,000 sq m, the quarter's results were 7% up compared to Q4 2020. The quarterly pre-COVID historical leasing average as a percentage of total inventory is 3.6%. Applying this to today's stock volume, Q4 2021 activity was still 28,600 sq m lower when compared to the five years prior to COVID.
- The highest leasing activity in the final quarter of 2021 was recorded across projects in Prague 4, where gross take-up reached 25,400 sq m (24% of the city's quarterly take-up). The Prague 8 submarket contributed with leases totalling 21,200 sq m and Prague 5 closed the top three with commitments totalling 19,100 sq m.
- The highest demand came from the IT sector that generated 22% of the quarterly gross take-up, followed by companies offering professional and consulting services (14%) and the finance sector (10%).
- Based on the total office space taken up in the last quarter of 2021, net demand (pre-leases, expansions and new commitments) made 55% of all signed leases, while the share of renegotiations stood at 44% (46,600 sq m). The share of subleases on the quarter's activity fell again, from 4% recorded in Q3 2021 (and 8% in Q2 2021) to 1% in Q4 2021.
- Even though net take-up demonstrated a minor 3% decrease q-o-q, in y-o-y comparison it rose by 33% and stood at 58,300 sq m. Compared to the quarterly average of the five years prior to COVID, Q4 2021 net demand was lower by almost 21,000 sq m.
- Net absorption in the Prague office market turned positive in Q4. After the marginally negative 5,300 sq m registered in Q3 2021, the market posted a positive net absorption of 7,400 sq m in Q4 2021. The 2021 annual net absorption totalled 25,200 sq m, being down from 90,500 sq m measured in 2020.

New Supply (sq m) and Year-end Vacancy Rate (%)



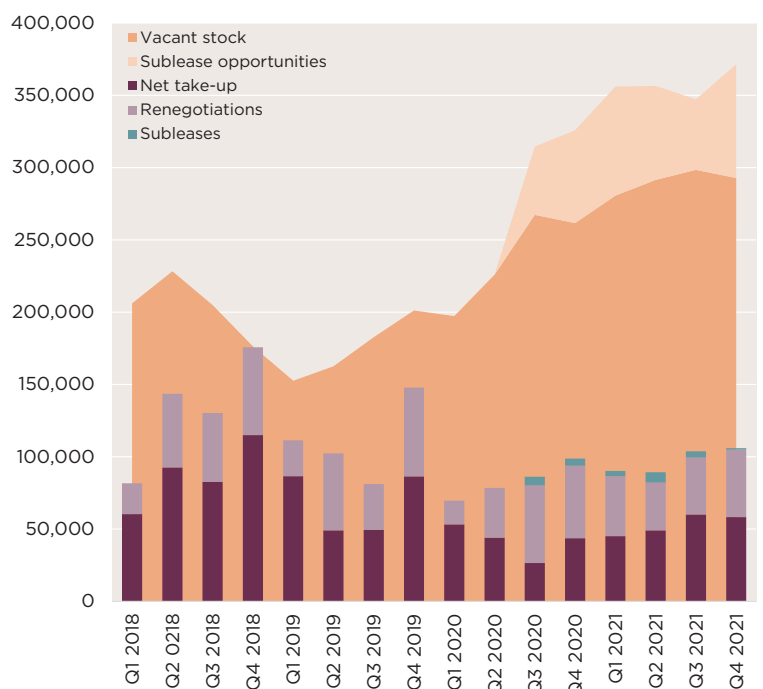
Source PRF, Savills Research

Largest Completions in 2021

PROPERTY	DISTRICT	SIZE (sq m)	DELIVERY
Bořislavka Centrum	Prague 6	25,400	Q2 2021
Mississippi House	Prague 8	13,300	Q2 2021
Missouri Park	Prague 8	7,300	Q2 2021
Astrid Offices	Prague 7	3,500	Q2 2021

Source PRF, Savills Research

Total Vacant Stock and Take-up (sq m)



Source PRF, Savills Research

OFFICE VACANCY

- From the previous quarter, the overall vacancy rate in the Prague office market decreased by 20 bps and closed the year at 7.8%. That translated into 292,700 sq m of office premises immediately available for lease. At these levels, availability rate is still considerably higher than the average of the last few years, standing 82 bps above Q4 2020.
- The largest volume of vacant stock was found in the Prague 4 district, where unoccupied premises totalled 71,400 sq m. Considering the size of this submarket, the vacancy rate represented 7.4% (40 bps below the city average). The district with the highest share of unoccupied office space at the end of 2021 was Prague 3 where the local vacancy rate climbed to 14.9% (from 8.6% in Q3 2021). Prague 9 ranked second, posting a vacancy of 14.6% (i.e. 21,100 sq m of vacant offices). In contrast, the highest occupancy levels were recorded in Prague 7 (4.8%) and Prague 10 (5.8%).
- The volume of offices offered for sublease rose significantly to 78,700 sq m (from 48,700 in Q3 2021) and reached the highest volume since the beginning of its record keeping in Q3 2020. Overall space availability, which includes official vacancy and sublease opportunities, would climb to almost 10%.

Largest Transactions of Q4 2021

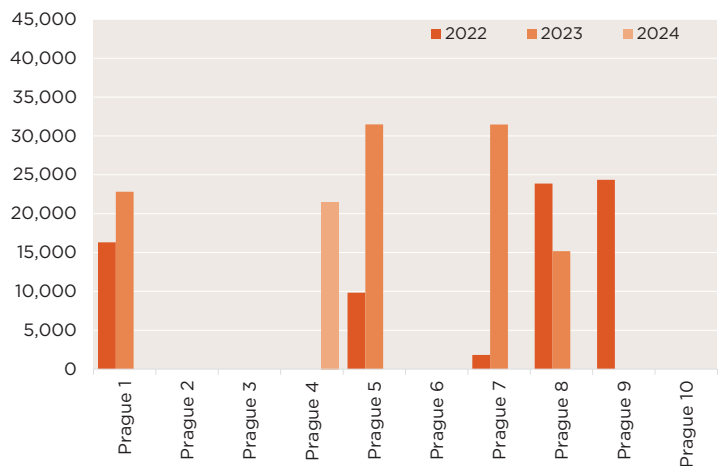
TENANT	PROPERTY	SIZE (sq m)	DEAL TYPE
Thales DIS Czech Republic	BB Centrum, Prague 4	4,400	Renewal
Direct (insurance company)	PORT 7, Prague 7	4,200	Pre-lease
Scott.Weber (coworking)	PORT 7, Prague 7	3,800	Pre-lease

Source PRF, Savills Research

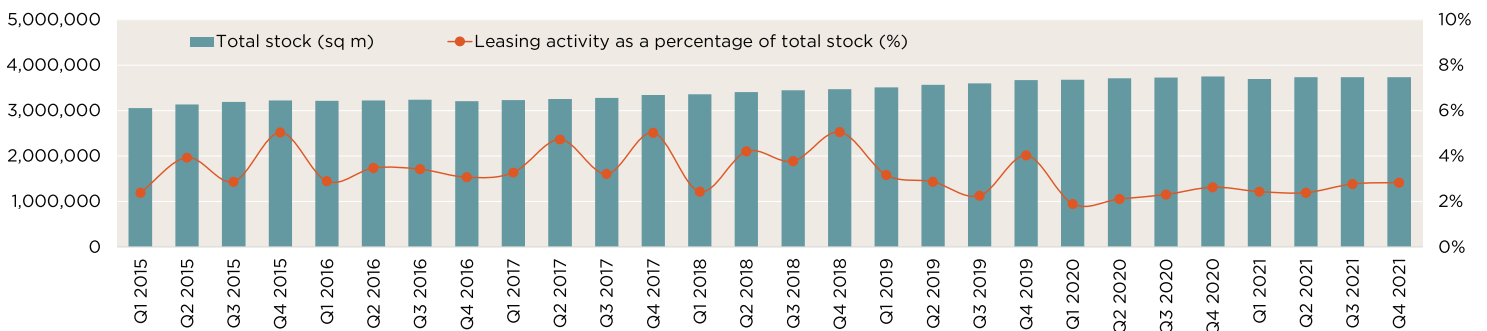
RENT LEVELS

- After a long period of rental stagnation, headline rents have increased slightly at the close of 2021. The highest quality offices on the top floors in premium-grade buildings in the Prague city centre (CBD) are now offered from €25.00 to €30.00 per sq m per month, these also include schemes under construction which have to reflect higher construction costs. Slightly lower quality offices in historic buildings located within CBD range between €16.50 and €20.00 per sq m a month. Rent levels for modern offices outside the city centre are between €13.50 and €16.50 per sq m.
- In buildings with higher vacancy, the duration of the pandemic has weakened landlord leverage and has resulted in greater downward pressure on effective rents.
- Rising energy prices are already being projected into occupancy costs as landlords started to increase service charges. Monthly fees are therefore expected to grow by 15 - 20%.

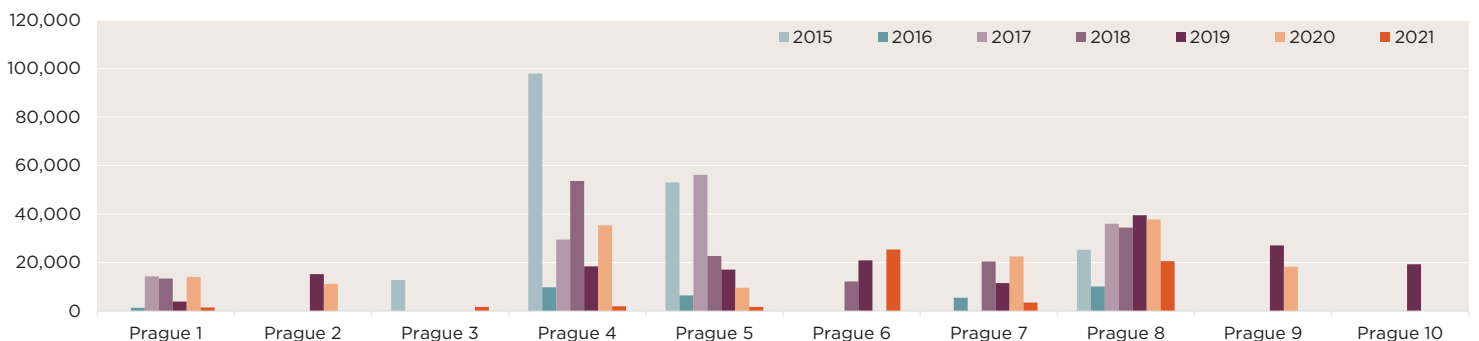
Development Pipeline and Planned Delivery (sq m)



Quarterly Gross Take-up as a Share (%) of Total Office Stock (sq m)



Office Supply in Prague Districts (sq m)



Source PRF, Savills Research



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