

Prague Office Market

savills



Prague office market in Q1 2022



3.75 million sq m
Total office stock
in Prague



25,230 sq m
New office supply
in Q1 2022
(up by 622% y-o-y)



8.40%
Vacancy rate
(up by 60 bps q-o-q)



135,600 sq m
Gross take-up in Q1 2022
(up by 44% y-o-y)



75,700 sq m
Net take-up in Q1 2022
(up by 70% y-o-y)

ECONOMIC OVERVIEW ¹

GDP GROWTH

0-1.2%
2022 PREDICTION

CPI INFLATION

3.8%
2021 AVERAGE

NATIONAL UNEMPLOYMENT

2.5%
FEBRUARY 2022

GROSS MONTHLY SALARY

€1,471
(CZK 40,135)
COUNTRY AVERAGE,
Q4 2021

EXCHANGE RATE

24.38
CZK/EUR
AS OF 31/3/2022

RETAIL SALES

4.6%
Y-O-Y CHANGE,
FEBRUARY 2022

OFFICE MARKET HIGHLIGHTS: Q1 2022

- With only one new office building delivered to the Prague office market in the first three months of 2022, the city's total modern office stock expanded to 3.75 million sq m.
- After 18 quarters, office vacancy rate again surpassed 8% and reached 8.4% (up by 60 bps q-o-q). This corresponded to 315,300 sq m of immediately vacant offices, which was the highest level of vacant space seen in Prague since Q4 2016.
- Total occupier activity in Q1 2022 reached 135,600 sq m, being the highest since the beginning of the Covid-19 pandemic and 44% above the gross take-up level recorded in Q1 2021.
- Q1 2022 net demand totalled 75,700 sq m, which was 70% up y-o-y and 32% higher than in the previous quarter.
- The market experienced positive absorption for the second quarter in a row, posting 1,500 sq m in Q1 2022.
- Active construction pipeline was slightly lower than a year ago and in March 2022 totalled 182,600 sq m.
- Average prime headline rents went up slightly from the previous quarter and in Q1 2022 stood between €24.00 and €24.50, while new developments in CBD indicate rents from €25.00 to €30.00 per sq m a month.

Sources Czech Statistical Office, Czech National Bank,

Source PRF

¹) Based on the data available on 21/4/2022.

ECONOMIC OVERVIEW ¹

- The recovery in trade, transport and hospitality, the sectors affected the most by the pandemic restrictions, had positive effect on GDP growth in the final months of 2021. As a result, the annual economic growth exceeded previous forecasts of the Czech National Bank and reached 3.1% y-o-y. Economic predictions for 2022 are continually being revised to reflect the impacts of the ongoing war in Ukraine, which will surely include persisting supply chain disruptions, shortage of semiconductors and raw materials, staff decline and rising input prices. Another factor that is likely to negatively impact the Czech economy could be rising prices of goods, services and energy, which will outstrip salary increases this year and thus reduce household consumption. Consequently, the latest predictions have downgraded the expected economic growth in 2022 to somewhere between 0% and 1.2%, while economic activity in 2023 will also be affected.

INFLATION ¹

- Rising inflation is likely to be one of the factors affecting consumer confidence in 2022. In 2021, the average annual rate of inflation climbed to 3.8%, being the highest since 2008. However, in the first three months of 2022, inflation surged further and in March 2022 consumer prices rose 12.7% y-o-y. Fuel, gas and electricity prices have seen the most significant price increases. To address rising inflation, the Czech National Bank has raised base interest rates several times from mid-2021. In March 2022, the latest increase brought the two-week repo rate to 5.0% (while in June 2021 it stood at 0.5%). All predictions published prior to Russia's invasion to Ukraine are being adjusted to reflect the commodity price spike caused by the war in Ukraine. Although the government is currently considering various measures to fight inflation, the latest projections signal that the Czech Republic is set to face double-digit inflation for the rest of 2022, hence the annual average inflation is also expected to reach double-digits.

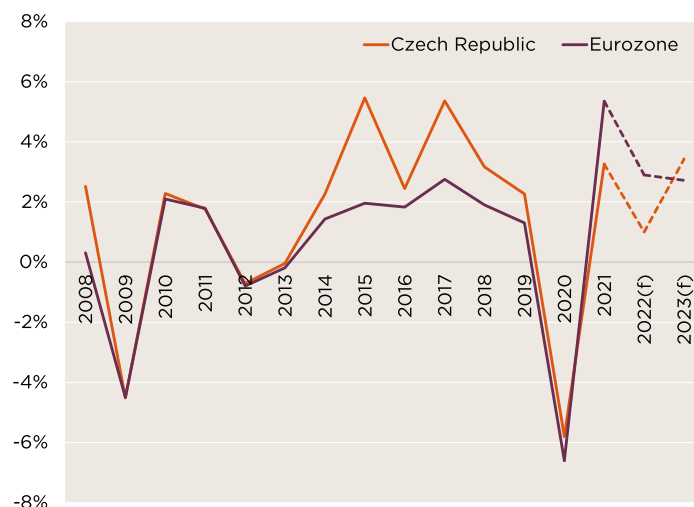
RETAIL SALES ¹

- Retail sales in February 2022 increased by 4.6% y-o-y, with fuel sales up by 12.3%, non-food sales up by 9.8% whereas food sales fell by 3.8%. The growth in retail sales in February was driven by purchases of non-food goods in brick-and-mortar stores, which had been restricted last year. Less used were online stores, which reported a y-o-y decline in sales. All ranges of non-food goods recorded higher demand. Sales in specialised stores selling clothing and footwear increased by 119.3%, culture, sport and recreation products by 34.6%, household products by 17.3%, computer and communication equipment by 11.3%, cosmetics and toiletries by 8.5% and pharmaceutical and medical goods by 4.2%. The demand of the upcoming years will be negatively affected by high inflation, rising interest rates as well as the Russian-Ukrainian conflict. Analysts therefore predict rather slow growth and gradual recovery. On top of this, demand is being dampened by problems in supply chains. Customers are not able to buy goods because they are simply out of stock and waiting periods reach several months.

UNEMPLOYMENT ¹

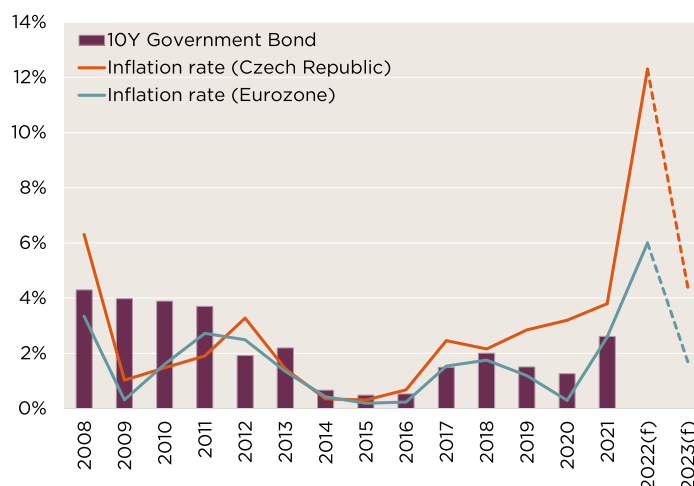
- The general unemployment rate² started to decline significantly after easing up the pandemic restrictions in the first half of 2021 and averaged at 2.8% in 2021. At the end of March 2022 the unemployment rate stood at 2.6%. However, it is predicted that the decline will be slowed down slightly throughout 2022, following temporary cutbacks in industrial production. After the problems with supply chains will be resolved, a decline in the unemployment rate is expected, reaching 2.5% on average in 2022. However, the room for a more significant reduction has been exhausted since the Czech labour market is known for its high saturation. The war conflict in Ukraine will most likely have an impact on labour market too, but it is still hard to predict. The migration of unskilled workers to the Czech Republic could squeeze the unemployment rate even lower, since the main problem of domestic labour market is especially lack of unskilled employees.

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



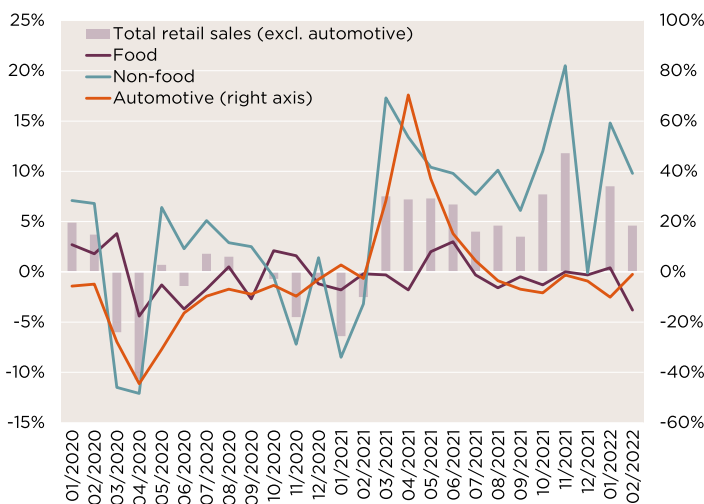
Source Oxford Economics

Inflation Rate and 10Y Government Bond



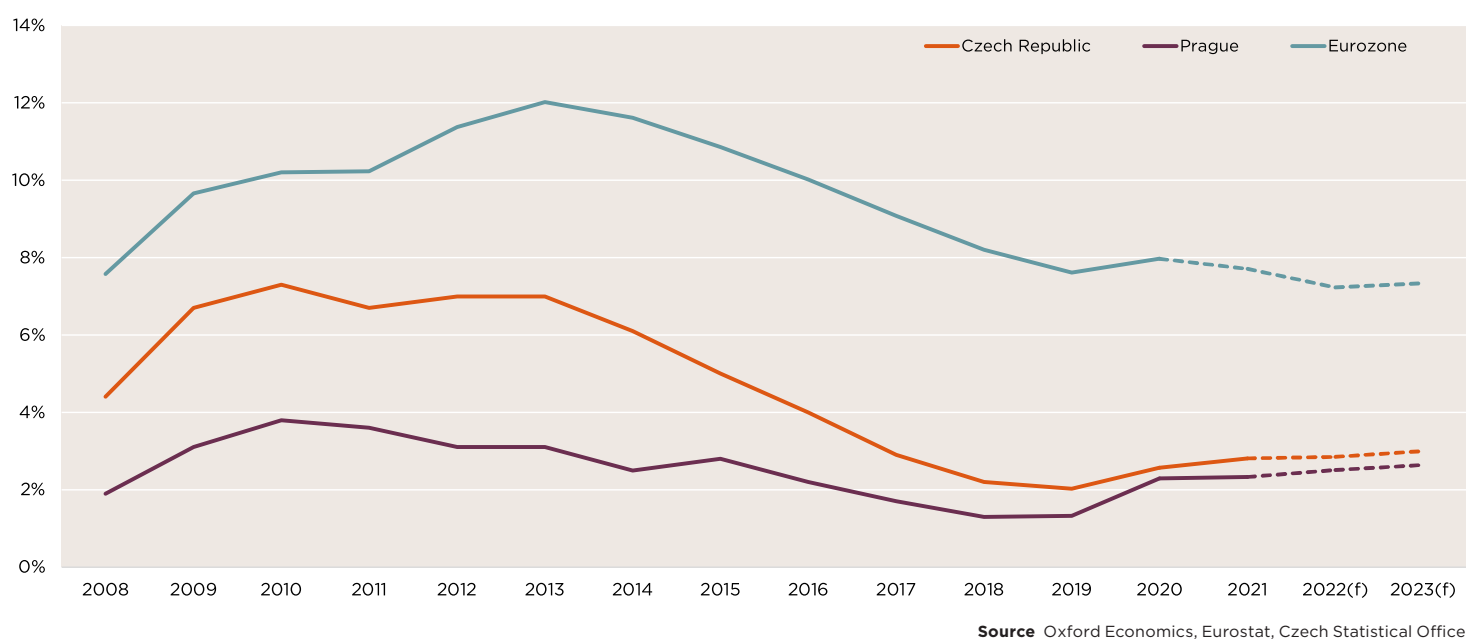
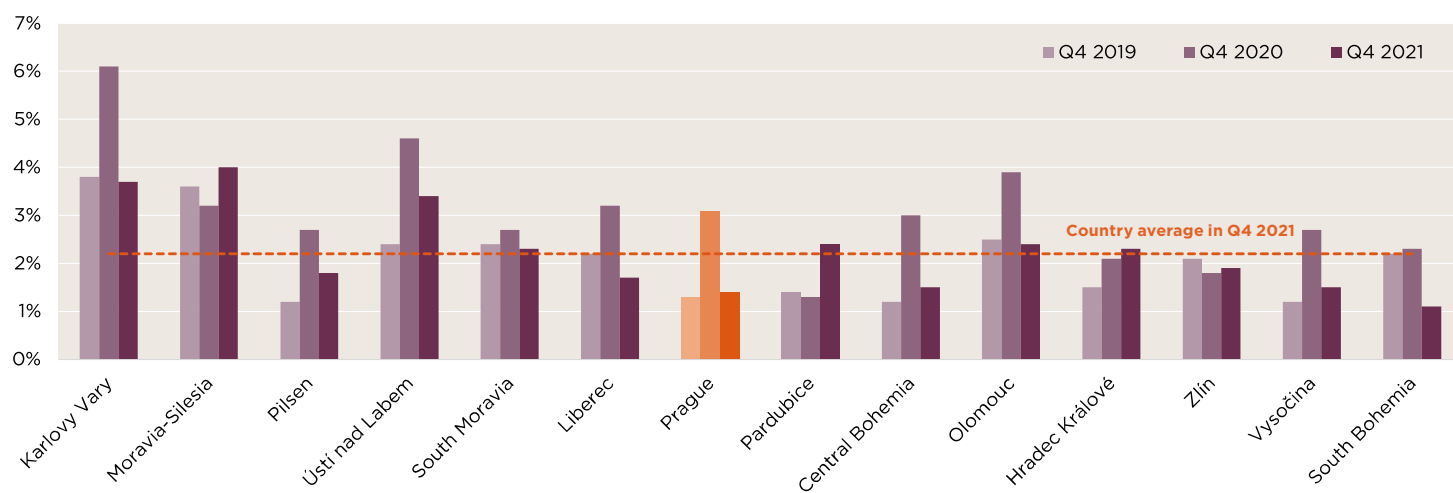
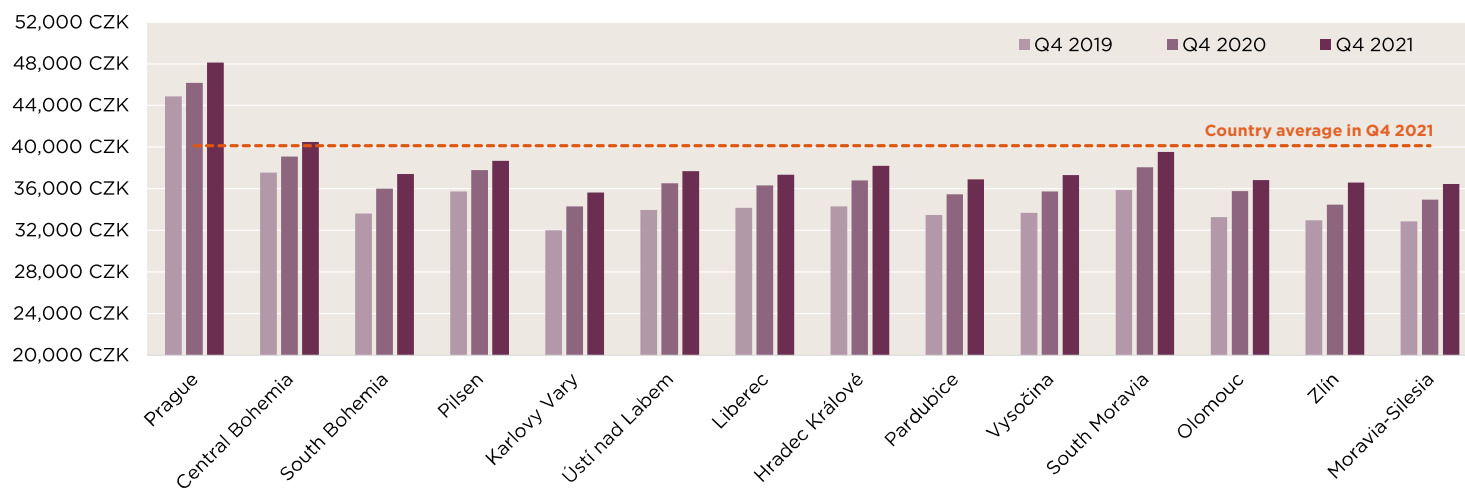
Source Eurostat, Czech National Bank, Ministry of Finance

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



Source Czech Statistical Office

¹ Based on the data available on 21/4/2022.² 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 ¹Czech Republic Regional Unemployment Rate ¹Czech Republic Regional Gross Monthly Salary ¹¹) Based on the data available on 21/4/2022.

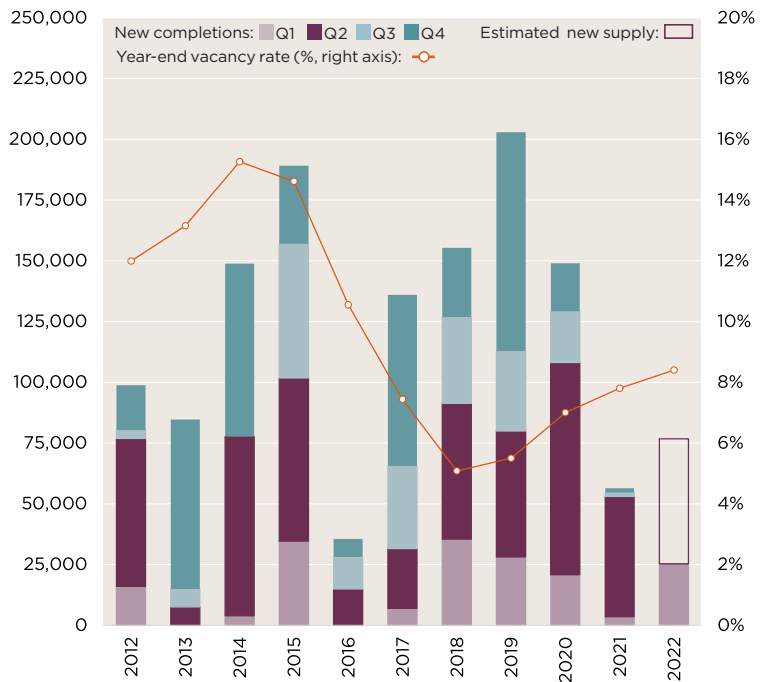
EXISTING OFFICE STOCK AND NEW SUPPLY

- At the end of March 2022, the total rentable area of modern office space in Prague was 3.75 million sq m. Prague 4 has maintained its status as the largest office submarket in Prague since 2005 and today it houses more than a quarter of the city's office inventory.
- The only office project completed in Prague in the first three months of 2022 was Harfa Business Center B with a total rentable area of 25,230 sq m, located in Prague 9 next to the O2 Arena.
- As of March 2022, there were 21 office projects underway in Prague, totalling 182,600 sq m and 23% of those areas were already pre-leased. Construction was in progress in five of the ten city districts, while Prague 1 and Prague 5 dominated with space under development totalling 46,200 sq m and 43,000 sq m respectively. Of the 21 office buildings under construction, six were refurbishment projects and the remaining 15 were new developments.
- Total new supply in 2022 is expected to come to 76,700 sq m, which would be 36% above new deliveries seen in 2021 but down to half compared to the pre-pandemic 5-year annual average. Approximately 144,000 sq m across 12 office buildings is currently scheduled for completion during 2023.

OCCUPIER DEMAND

- Total office leasing activity in Prague, including lease renewals and subleases, in Q1 2022 reached 135,600 sq m and was the highest since Q4 2019. Compared to the same period last year, total occupier activity went up 34%, indicating a return to the pre-pandemic levels.
- Based on gross take-up, the most active submarket was Prague 8, where occupiers signed commitments or renewals for 37,900 sq m of office space, representing nearly a quarter of the quarterly leasing activity. The second highest activity was seen in the Prague 5 district (34,500 sq m) and Prague 4 (24,800 sq m).
- As is common on the Prague office market, occupiers within the IT sector were paramount in driving quarterly take-up, accounting for 27% of overall activity. This was followed by the Manufacturing sector (13%) and companies offering Professional and Consulting services together with Pharmaceutical and Finance sectors, of which each accounted for approximately 10% of the quarter's gross take-up.
- During Q1 2022, office tenants renewed or prolonged leases for a total area of 56,706 sq m (42% of gross take-up). The volume of signed subleases slightly increased to 3,200 sq m but represented only 2% of the quarter's transaction volume.
- Net take-up has increased for the fourth consecutive quarter and in Q1 2022 reached 75,700 sq m, a 32% increase on Q4 2021 and the largest amount of quarterly space let since Q4 2019.
- Compared to the previous quarter, net absorption in Q1 2022 decreased (from 6,100 sq m) but still posted a positive value of 1,500 sq m.
- The largest transaction signed in Q1 2022 was the renegotiation by Seznam.cz in Palác Křižík (14,800 sq m) located in Prague 5. This was followed by a pre-lease of 7,100 sq m in the Red Court building in Prague 8 concluded by Czechoslovak Group and the third largest contract of the quarter was the 6,800 sq m renegotiation signed by pharmaceutical company MSD Czech Republic in the Riverview building situated in Prague 5.

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



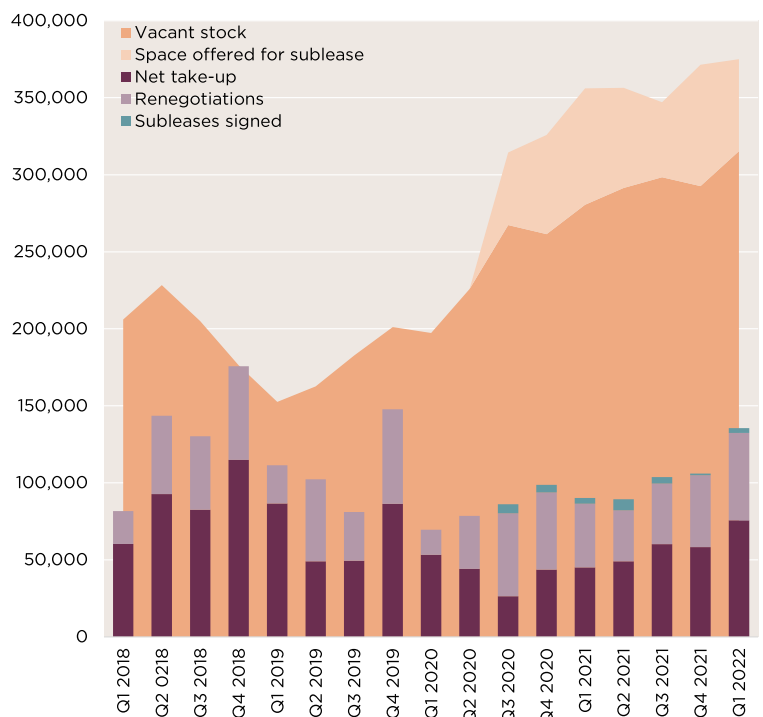
Source PRF, Savills Research

Largest Projects Under Construction in Q1 2022

PROPERTY	DISTRICT	SIZE (sq m)	DELIVERY
Port 7 - Building E	Prague 7	24,400	Q2 2023
Roztyly Plaza	Prague 4	21,700	Q4 2023
Dock in Five	Prague 8	20,500	Q2 2022

Source PRF

Total Vacant Stock and Take-up (sq m)



Source PRF, Savills Research

OFFICE VACANCY

- From the end of 2021, office vacancy rate in Prague rose by 60 bps to 8.40%, reaching the highest rate since Q2 2017. The vacancy was spread between A-class and B-class stock almost evenly, A-class stock posted 8.4% and office within the B-class category recorded vacancy rate of 8.5%.
- Converted to sq m, the total area of offices immediately available for lease at the end of March 2022 stood at 315,300 sq m. The highest amount of a vacant office space (in sq m) was traditionally found in the city's largest office hubs, i.e. Prague 4 (76,100 sq m) and Prague 5 (46,300 sq m). On the contrary, the least vacant space was registered in Prague 10 and Prague 7. In terms of vacancy rate, the highest share of unoccupied office space was in Prague 3 (26.6%), followed by Prague 9 (22%), while the lowest was seen in Prague 7 (4%) and Prague 8 (6%).
- Office space known to be offered for sublease across the city in March 2022 totalled at least 59,800 sq m, with the largest share of these grey spaces found in the Prague 5 district, followed by Prague 4 and Prague 1. From the end of 2021, the known volume of sublease opportunities dropped by 24%.

RENT LEVELS

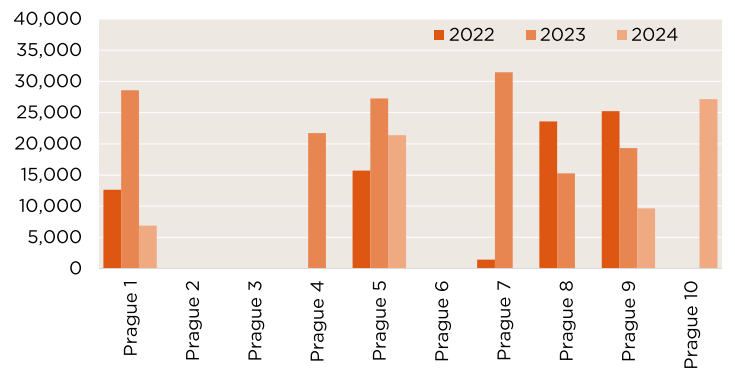
- Average prime headline rents in Prague stood between €24.00 and €24.50 per sq m a month, slightly up from the previous quarter, however, the highest quality offices on the top floors in premium-grade buildings in the Prague city centre (CBD), including those currently under construction, are commonly offered for rates between €25.00 and €30.00. Office space in buildings of slightly lower quality, often in historic buildings, situated in the CBD range between €16.50 and €20.00 per sq m a month. Modern offices outside the city centre can still be leased from €13.50 to €16.50 per sq m.
- As rising construction costs are pushing up rents across all real estate sectors, offices will be no exception. We may therefore see slight rental growth in 2022 for offices in future developments and schemes that are already under construction, which will have to absorb new construction, fuel and utility costs to reach completion.
- Overall occupancy costs will also go up due to increasing utility costs and high inflation that will be projected in rental indexation at the end of 2022.

Largest Transactions of Q1 2022

TENANT	PROPERTY	SIZE (sq m)	DEAL TYPE
Seznam.cz	Palác Křižík, Prague 5	14,800	Renewal
Czechoslovak Group	Red Court, Prague 8	7,100	Pre-completion
MSD Czech Republic	Riverview, Prague 5	6,750	Renewal

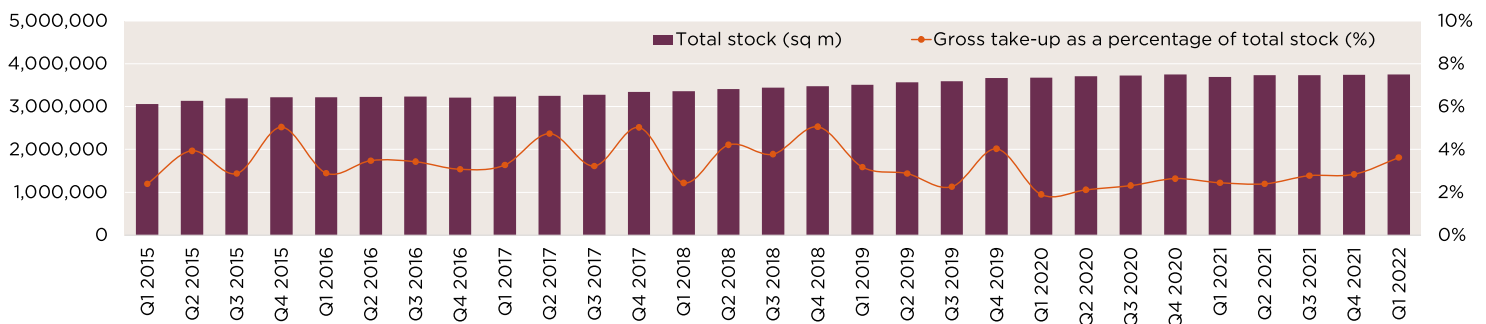
Source PRF

Annual New Supply (sq m)

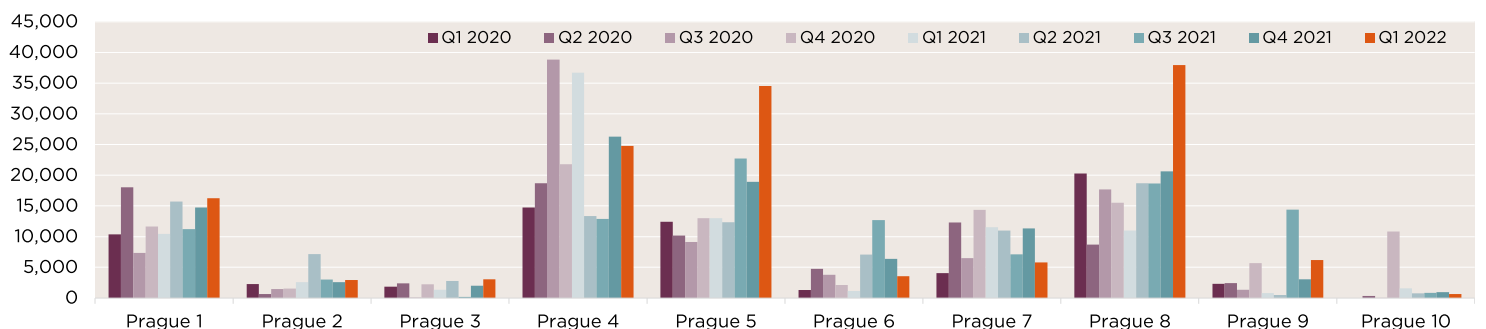


Source PRF, Savills Research

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



Gross Take-up in Prague Districts (sq m)



Source PRF, Savills Research



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