

Prague Office Market

savills



Prague office market in Q2 2022



3.75 million sq m
Total office stock
in Prague



22,700 sq m
New office supply
in Q2 2022
(down by 54% y-o-y)



8.4%
Vacancy rate
(down by 1 bps q-o-q)



123,700 sq m
Gross take-up in Q2 2022
(up by 41% y-o-y)



80,000 sq m
Net take-up in Q2 2022
(up by 67% y-o-y)

Source PRF

ECONOMIC OVERVIEW ¹

GDP GROWTH

0.8%

2022 PREDICTION

CPI INFLATION

13.9%

2022 ANNUAL FORECAST

NATIONAL UNEMPLOYMENT

2.5%

MAY 2022

GROSS MONTHLY SALARY

€1,546

(CZK 37,929)
COUNTRY AVERAGE,
Q1 2022

EXCHANGE RATE

24.53

CZK/EUR
AS OF 22/7/2022

RETAIL SALES

-6.9%

Y-O-Y CHANGE,
MAY 2022

OFFICE MARKET HIGHLIGHTS: H1 2022

- The total size of modern office stock in Prague at the end of Q2 2022 remained at 3.75 million sq m. In the first half of the year, there were three new projects (47,900 sq m) completed and added to the office inventory, new deliveries were therefore 10% down compared to H1 2021.
- The total rentable area under construction at the end of June exceeded 216,000 sq m, showing a rise of 47% y-o-y. More than 28,800 sq m of this space is expected to be delivered to the Prague market by year end.
- Office vacancy rate in Prague remained at 8.4% (313,400 sq m of unoccupied offices). This was 55 bps up from the middle of 2021. Since the pandemic hit in 2020, Prague office market has seen a rise in vacancy rate in 6 out of the last 10 quarters.
- Year to date, the total leasing activity reached 256,600 sq m, sitting 28% above the gross take-up recorded in the first half of 2019 and simultaneously a 41% growth y-o-y. Net demand recorded in H1 2022 totalled 152,000 sq m, indicating a 64% increase when compared to H1 2021. Some 79% of these new commitments were signed in Grade A buildings.
- Rent levels kept climbing and by the middle of the year were between €25.00 and €25.50 per sq m a month.

Sources Czech Statistical Office, European Economic Forecast, CNB

¹⁾ Based on the data available on 22/07/2022.

ECONOMIC OVERVIEW ¹

- According to the latest data, real GDP growth would slow significantly this year and economic activity would even fall slightly y-o-y in the second half of the year due to rising financial costs and reduced real incomes, which would hamper all economic activity. Economic growth is also being held back by problems in global production and supply chains, further exacerbated by the war in Ukraine, and by deteriorating sentiment among Czech firms and households. Problems in global production and supply chains are expected to ease gradually against the backdrop of a gradual de-escalation of the war, but will not fully subside until the middle of next year. Output growth for 2023 is revised downwards in line with the deteriorating global macroeconomic outlook and is forecast to slow significantly below 1% in annual terms this year. However, GDP growth is forecast to accelerate to over 3% in 2023, surpassing its pre-pandemic level.

INFLATION ¹

- The Czech economy is facing a combination of exceptionally strong inflationary pressures, which are reflected in escalating broad-based price growth. Inflation is forecast to peak in Q3 2022, reaching 16% y-o-y, but to decline afterwards, when the impact of the loss of real income and the effectiveness of tightened monetary policy are expected to prevail, averaging 13.9 % y-o-y in 2022. Core inflation will continue to reflect both strong output price dynamics at home and abroad and the fading of noticeable domestic cost and demand pressures. In response to the long-term inflationary pressures, the Czech National Bank raised the two-week repo rate to 7% (while in June 2021 it stood at 0.5%). This year's double-digit inflation will thus decline rapidly in the first half of next year, with the rapid rise in interest rates so far contributing substantially. Inflation is projected to decline towards 4.5% y-o-y in 2023, supported by well-anchored inflation expectations as well as a stronger domestic currency and more stable energy prices.

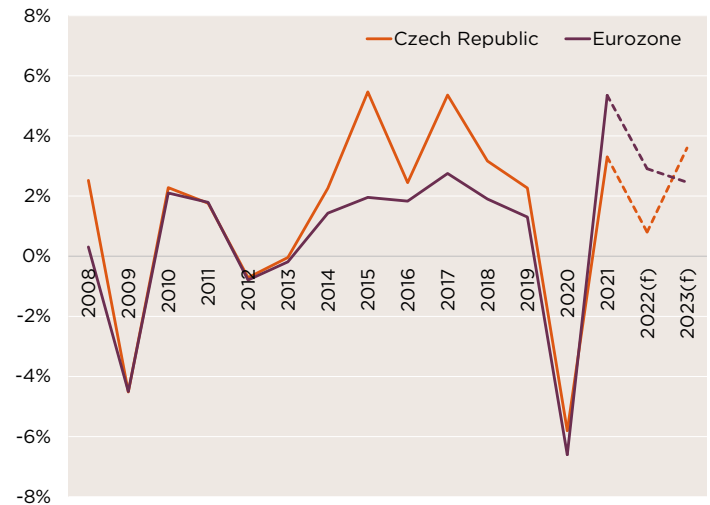
RETAIL SALES ¹

- In May 2022, retail sales fell by 6.9% y-o-y in real terms, with non-food goods falling by 7.6%, food by 6.3% and fuel by 5.2%. Retail sales declined in all sales categories except pharmaceuticals, health care and drugstores. Sales in specialised clothing and footwear stores fell by 15.3%, culture, sport and recreation by 14.8%, computer and communication equipment by 9.8% and household goods by 9.0%. On the other hand, sales growth was recorded by pharmaceutical and health care stores by 5.5% and cosmetic and toiletries stores by 4.4%. Sales to online stores fell for the fifth month in a row, this month by 10.1% but were up by more than a third compared to pre-pandemic year 2019. Sales and repair of motor vehicles rose by 1.4% in real terms month-on-month and declined by 8.1% y-o-y. The main reason for the reduction in consumption is rising inflation, which in combination with the sharp rise in the cost of living makes households reassess wasteful spending. Thus further declines in real turnover of shops and service firms can be expected in the upcoming months.

UNEMPLOYMENT ¹

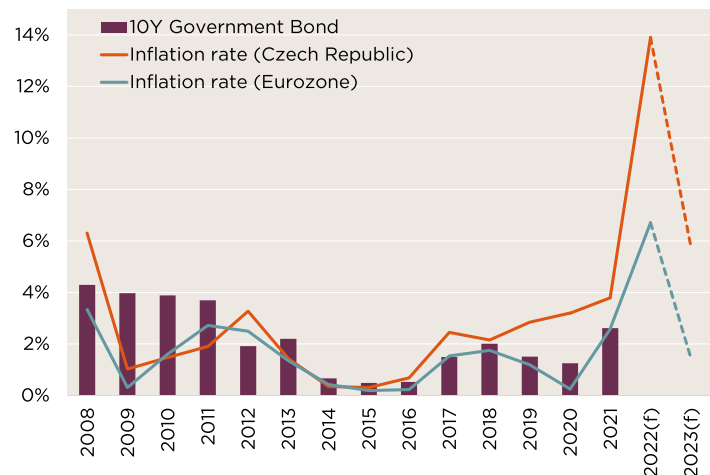
- The unemployment rate² reached 2.5% in May this year, which is the same level as in the previous quarter. On a y-o-y basis it fell by 0.7%, which represented the mildest y-o-y decline since January this year. The Czech labour market continues to be affected by seasonal work, which is in full swing, especially in construction, gastronomy, tourism, agriculture and horticulture, but also in forestry, fishing, spa and mining. In the upcoming months, unemployment should stop decreasing, but at the same time it will not rise significantly. According to analysts, there is still a shortage of employees on the labour market, despite migration from Ukraine. However, no other EU country has unemployment below 3% and the Czech Republic still remains the country with the lowest unemployment rate in the European Union.

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



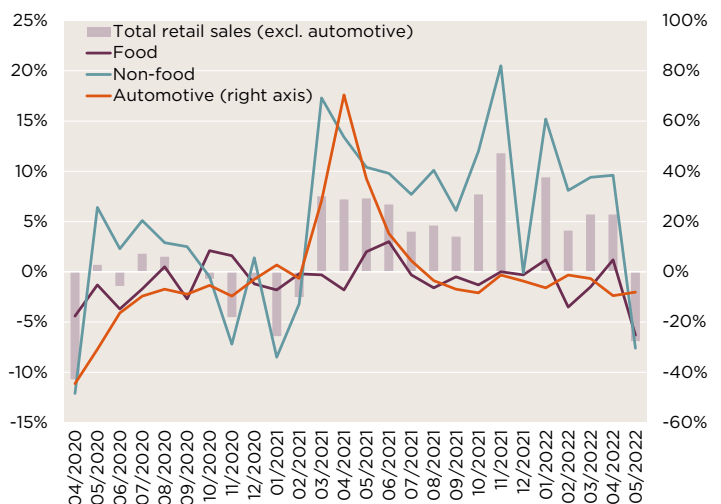
Source European Economic Forecast, Czech National Bank

Inflation Rate and 10Y Government Bond



Source Eurostat, Czech National Bank, Ministry of Finance

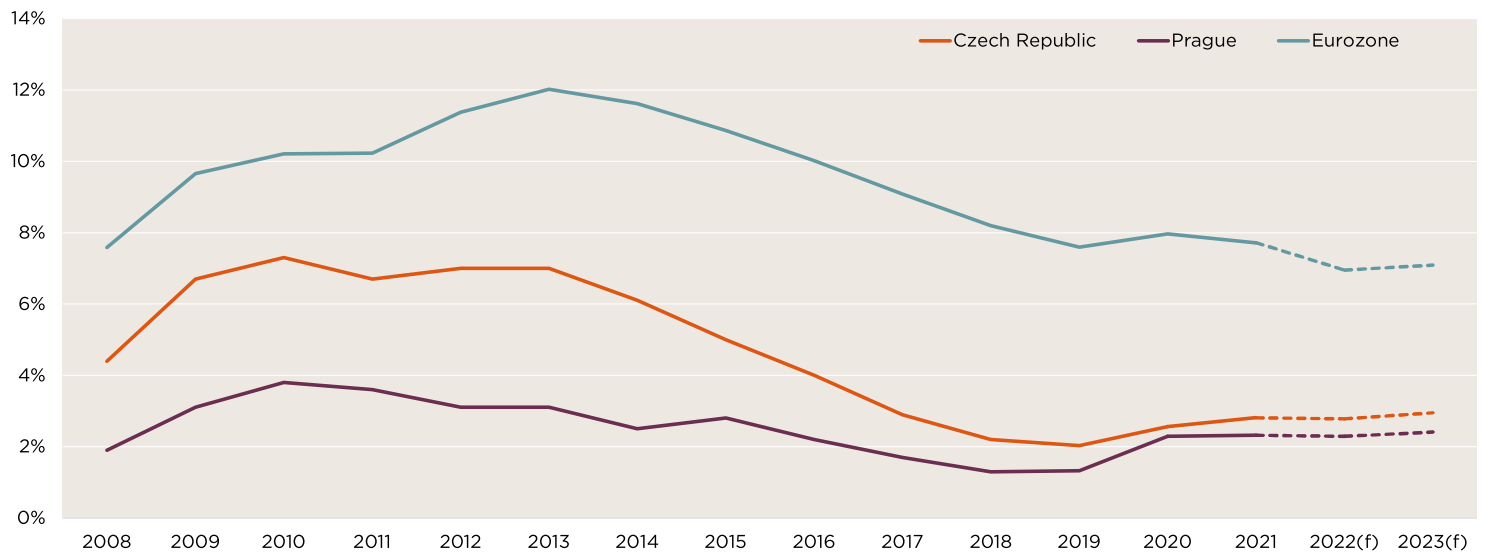
Retail Sales (y-o-y change, %)



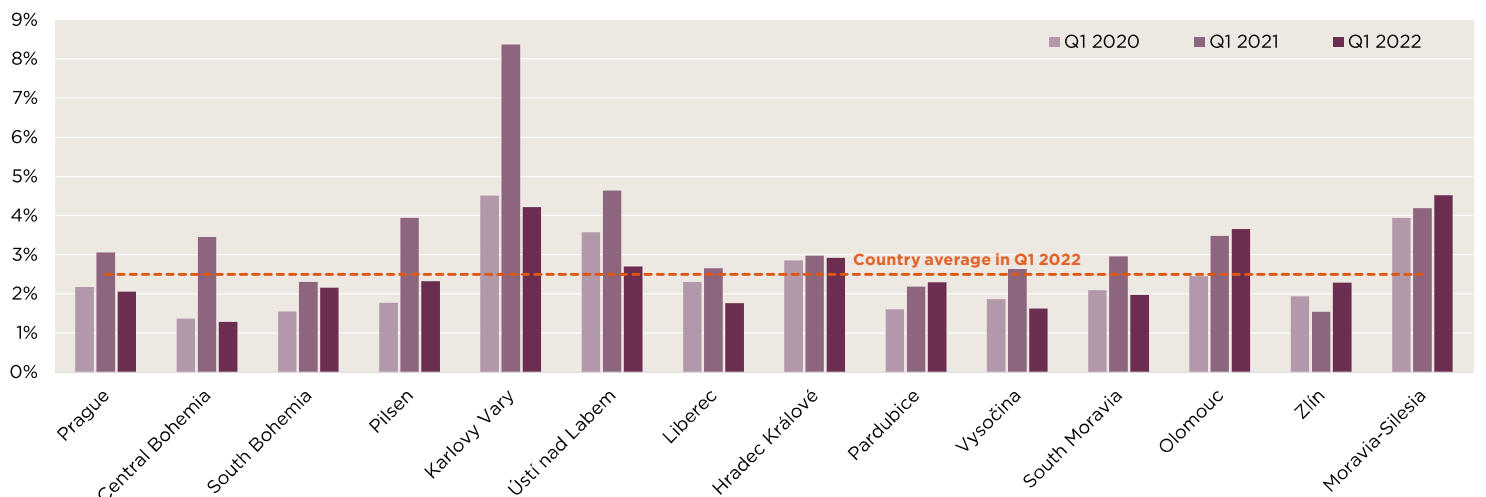
Source Czech Statistical Office

¹ Based on the data available on 22/07/2022.

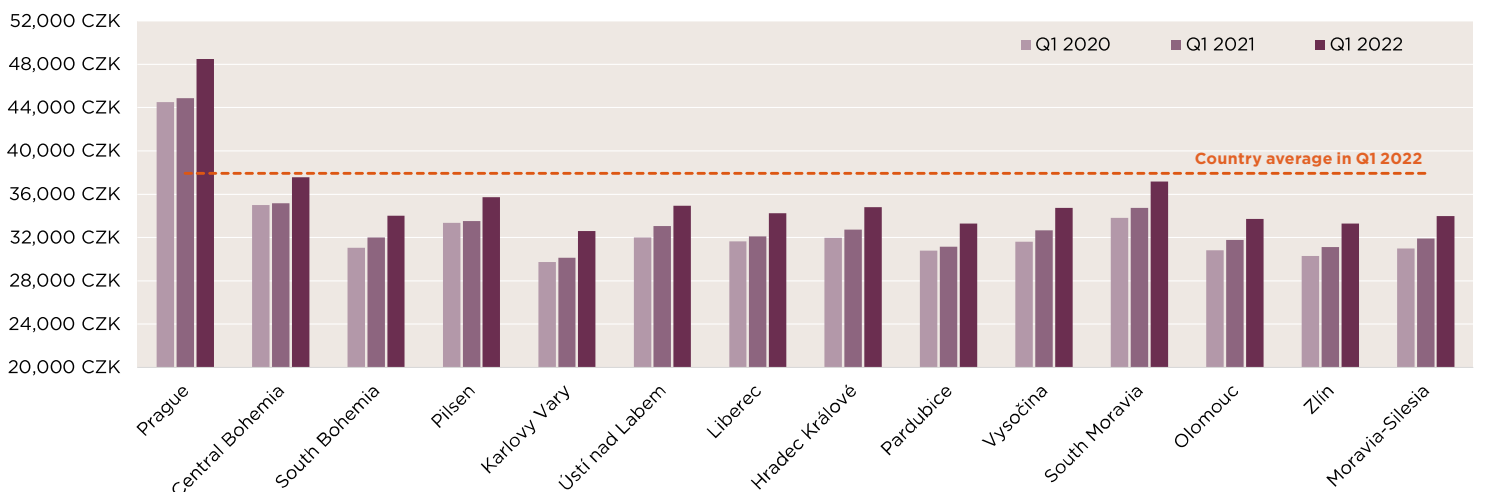
² General unemployment rate is the percentage share of the unemployed people within the economically active labour force (being the sum of employed and the unemployed people).

Unemployment Rate ¹

Source: Oxford Economics, Eurostat, Czech Statistical Office

Czech Republic Regional Unemployment Rate ¹

Source: Czech Statistical Office

Czech Republic Regional Gross Monthly Salary ¹

Source: Czech Statistical Office

¹) Based on the data available on 22/07/2022.

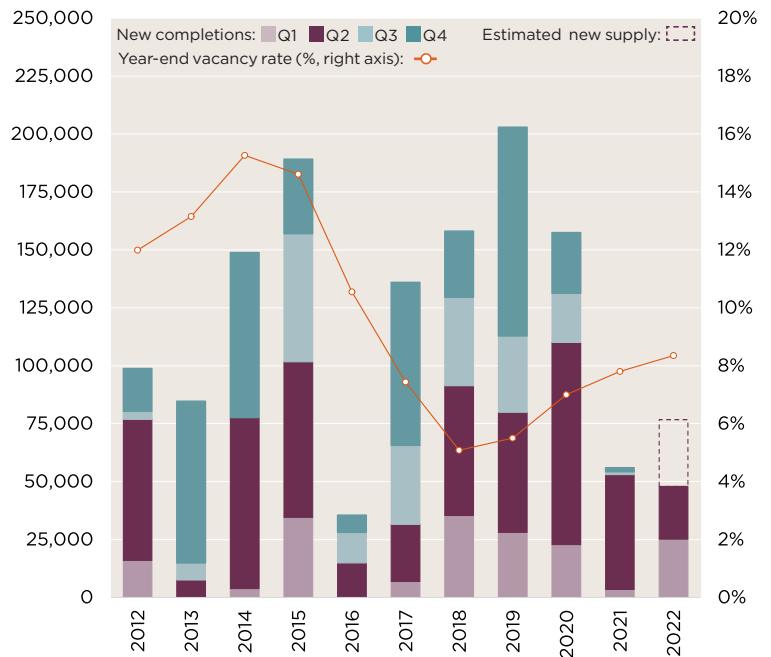
EXISTING OFFICE STOCK AND NEW SUPPLY

- In Q2 2022, the total office inventory in the city stayed unchanged at 3.75 million sq m, of which Grade A stock totalled 2.76 million sq m. Some 1.38 million sq m of offices in Prague have been newly constructed or have undergone substantial refurbishment in the past 10 years.
- The largest office submarket is still Prague 4 (965,200 sq m), holding 26% of total office stock in the city. The other two largest office districts are Prague 5 (17%) and Prague 8 (16%).
- Although two new office projects with a total size of 22,700 sq m were supplied to the Prague office inventory, the quarter's new supply saw a q-o-q decline of 10% (and 54% decrease y-o-y). However, with completion of another six projects totalling 28,800 sq m expected by the end of the year, the annual deliveries should be up 37% compared to 2021.
- Construction works commenced on four office projects during Q2 2022 – the reconstruction of the first phase of E-Factory in Prague 9 (19,300 sqm) and a new development of three office buildings: Hagibor 01 (12,100 sq m), Hagibor 02 (15,000 sq m) by Crestyl in Prague 10 and Rohan City A1 (9,300 sq m) by Sekyra Group in Prague 8.
- From the previous quarter, the active construction pipeline increased by 19% to over 216,000 sq m in Q2 2022 (being 6% of the total existing stock). Compared to Q2 2021, the volume of space under development expanded by 47%. By district, development activity was concentrated mostly in Prague 1 (the CBD) with 46,200 sq m underway and Prague 5 followed with 40,800 sq m under construction.

OCCUPIER DEMAND

- In Q2 2022, the overall leasing activity, including renegotiations and subleases, amounted to 123,700 sq m. Posting a 7% decrease q-o-q but still sitting 24% above the previous 12-quarter average and surpassing the 100,000 sq m level for the third consecutive quarter. Compared to the Q2 2021, an increase of 41% was recorded.
- The highest occupier activity was recorded in Prague 4, where all transactions totalled nearly 50,000 sq m (40% of the quarter's gross take-up). Prague 8 ranked second (22,800 sq m), followed by Prague 1 with signed commitments for 20,500 sq m of offices.
- Traditionally, the majority of the leasing activity was driven by IT companies (33% of Q2 2022 gross take-up) followed by Pharmaceuticals (11%) and the Finance sector (8%).
- Occupier activity was driven by new demand (i.e. pre-leases, new leases and expansions), which represented 65% of all commitments signed this quarter. Lease renewals totalled 40,000 sq m (32% of gross take-up) and the volume of known subleases again slightly increased and totalled 3,700 sq m (3% of the total transaction activity).
- Net take-up increased for the second quarter in a row and in Q2 2022 reached 80,000 sq m. This was the highest value recorded since Q4 2019 and also an increase of 67% y-o-y. Prague 4 drove new leasing activity in the city this quarter, with 30,600 sq m of new commitments signed in Q2 2022.
- The largest transaction inked in Q2 2022 was the pre-lease of 9,700 sq m signed by SCS Software at Roztyly Plaza (currently under construction in Prague 4). This was followed by the renegotiation of a confidential tenant also from the IT sector of 4,200 sq m in the BesNet Centrum in Prague 4.

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



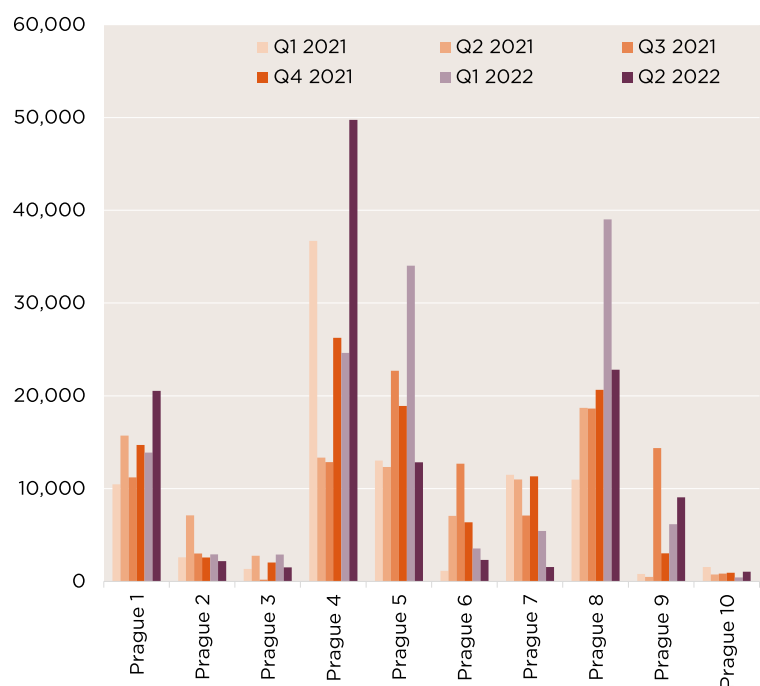
Source PRF, Savills Research

Largest Projects Under Construction in Q2 2022

PROPERTY	CITY DISTRICT	SIZE (sq m)	PLANNED DELIVERY
Nová Waltrovka (by Penta)	Prague 5	27,300	Q3 2023
Port 7 - Building E (by Skanska)	Prague 7	24,400	Q2 2023
Masaryčka (by Penta)	Prague 1	22,100	Q3 2023

Source PRF

Gross Take-up in Prague Districts (sq m)



Source PRF, Savills Research

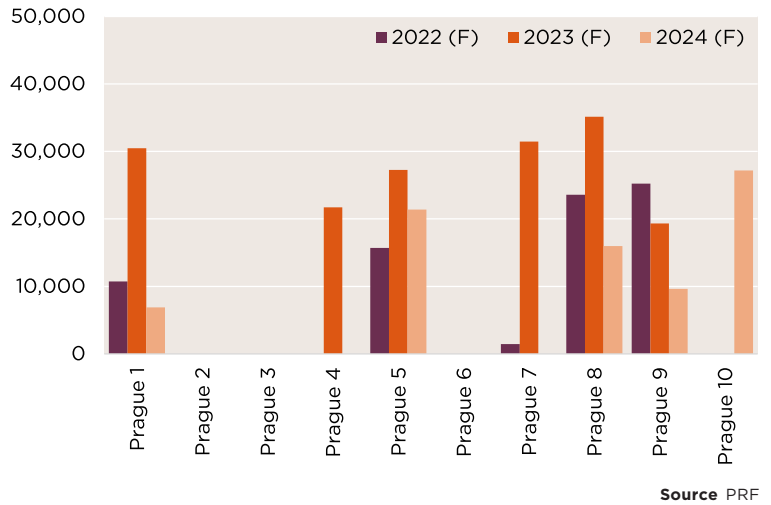
OFFICE VACANCY

- Although only 34% were pre-leased, new building completions during the quarter did not influence the vacancy rate, which remained stable at 8.4%, the same as in the previous quarter.
- Translated to floorspace area, the total volume of offices offered immediately for lease in Q2 2022 totalled 313,400 sq m. Of that, 233,900 sq m was vacant within Grade A buildings. The share of unoccupied space in Grade A and Grade B buildings is almost equal at 8.5% and 8.0% respectively.
- The highest amount of a vacant premises was again found in Prague 4 (75,800 sq m) and Prague 5 (49,300 sq m). On the contrary, the highest occupancy levels were seen in Prague 10 (9,800 sq m), followed by Prague 2 (10,400 sq m).
- By vacancy rate, the highest share of unoccupied space was recorded in Prague 3 (26%), followed by the Prague 9 city district (22%). Both of these, Prague 3 and Prague 9, have also witnessed the highest increase in their vacancy rates from the beginning of this year, while the remaining eight city districts stayed more or less stable during that period.

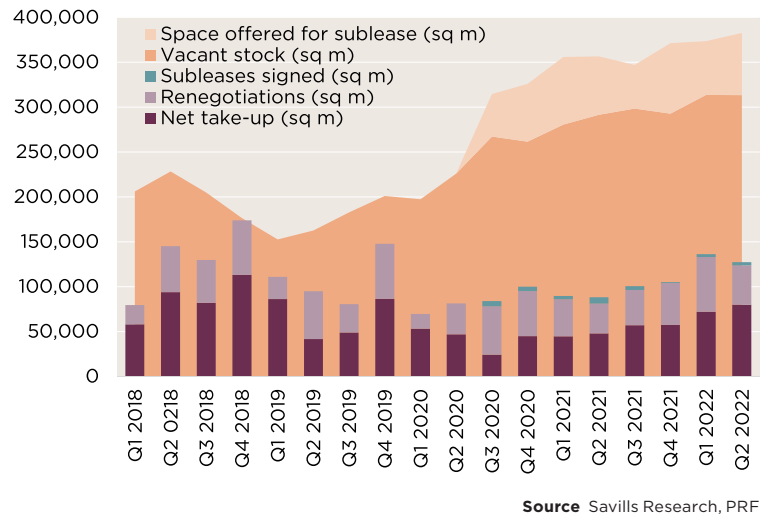
RENT LEVELS

- Prime headline rents continued their upward trend and in Q2 2022 stood between €25.00-25.50 per sq m a month in the city centre (CBD), however, the highest quality offices on top floors located in CBD could be seen to go for €27.00-30.00. Rent levels in the inner city moved to €16.50-18.50 and in the outer city shifted slightly to €14.00-16.00 per sqm a month.
- The most significant rent increase could be observed in the newly completed buildings, meaning that the price gap between these new projects (including future developments) and existing office buildings is constantly widening. This trend can be expected to continue in the next periods as well.

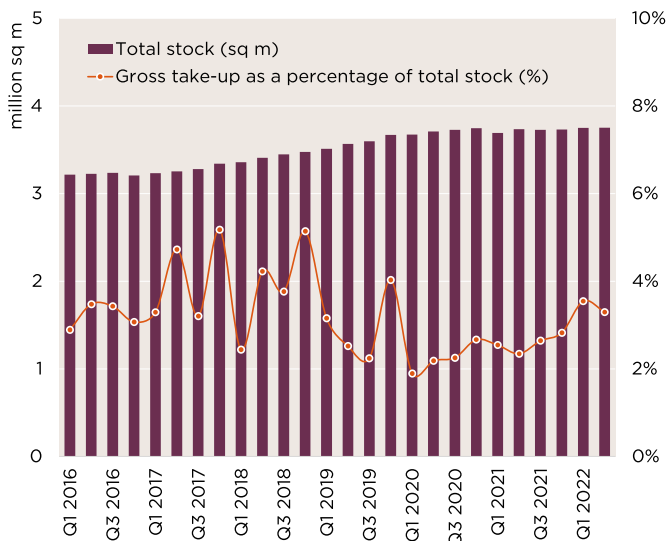
Annual New Supply by District (sq m)



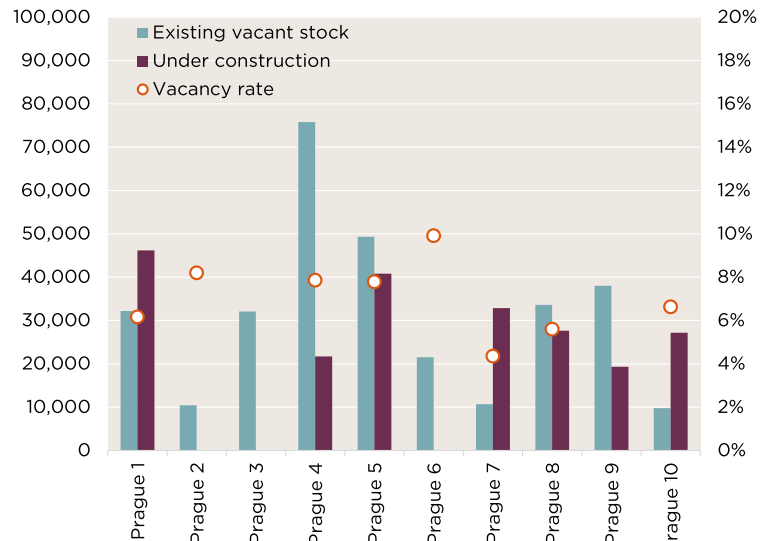
Total Vacant Stock and Take-up (sq m)



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



Vacancy and Under Construction Space (sq m)





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Research team

Lenka Pechová

Senior Research Analyst

00420 604 387 407

lenka.pechova@savills.cz

Tereza Matyášová

Research Analyst

00420 773 885 000

tereza.matyasova@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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Savills CZ s.r.o., Florentinum, Na Florenci 2116/15, 110 00 Prague 1

+420 220 413 000 | savills.cz