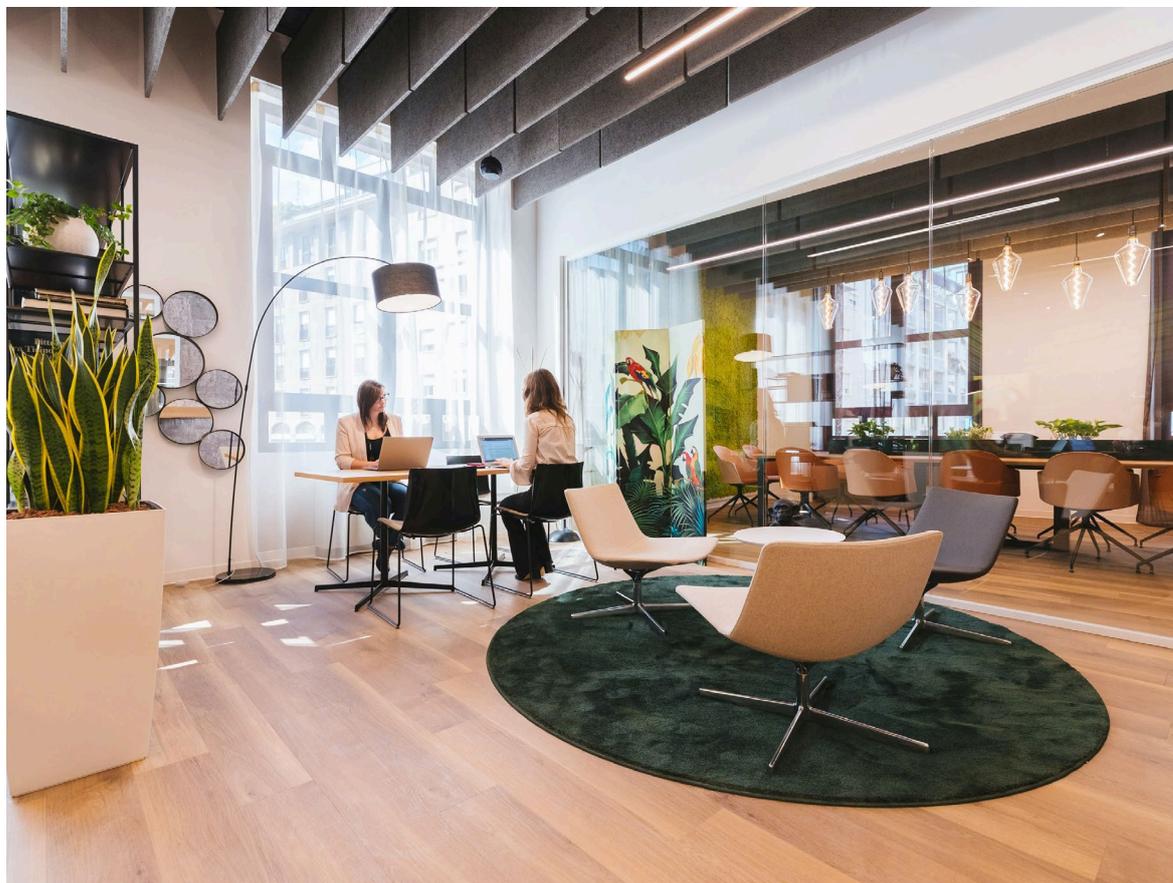


# Prague Office Market

## Prague office market in Q3 2022



**3.8 million sq m**  
Total office stock  
in Prague



**18,200 sq m**  
New office supply  
in Q3 2022  
(up by 1,300% y-o-y)



**8.1%**  
Vacancy rate  
(down by 20 bps q-o-q)



**137,700 sq m**  
Gross take-up in Q3 2022  
(up by 40% y-o-y)



**80,400 sq m**  
Net take-up in Q3 2022  
(up by 41% y-o-y)

## ECONOMIC OVERVIEW <sup>1</sup>

### GDP GROWTH

**2.2%**

2022 ANNUAL FORECAST

### CPI INFLATION

**15-16%**

2022 ANNUAL FORECAST

### NATIONAL UNEMPLOYMENT

**2.4%**

OCTOBER 2022

### GROSS MONTHLY SALARY

**€1,635**

(CZK 40,086)  
COUNTRY AVERAGE,  
Q2 2022

### EXCHANGE RATE

**24.51**

CZK/EUR  
AS OF 24/10/2022

### RETAIL SALES

**-8.8%**

Y-O-Y CHANGE,  
AUGUST 2022

Sources Czech Statistical Office, European Economic Forecast, CNB

## OFFICE MARKET HIGHLIGHTS: Q1-Q3 2022

- Total modern office stock in Prague slightly increased in Q3 2022 but still did not exceed 3.8 million sq m.
- New supply in the first nine months of 2022 totalled 66,000 sq m and another 11,500 sq m shall be delivered by year end. This year's annual new supply is expected to be 39% below the 10-year average (2012-2021), but should pick up again in 2023.
- From the previous quarter, vacancy rate in Prague decreased to 8.1% (20 bps down q-o-q). While perhaps not statistically interesting, this was the first decline seen this year.
- Year to date (YTD), total leasing activity reached 395,300 sq m (41% up y-o-y). Q3 was the most active of the year.
- Net demand recorded so far this year totalled 233,400 sq m (56% increase y-o-y). The transaction count was up by almost one third compared to the first three quarters of 2021 and 21% higher than in the same period of 2019. IT sector continues to be the most active, accounting for 28% of YTD net take-up.
- Prime office rent has risen again and reached €26.00-26.50 per sq m a month.
- The market posted positive absorption for the fourth consecutive quarter, with occupied office area across the city increasing by 24,100 sq m during Q3.

Source PRF

<sup>1)</sup> Based on the data available on 24/10/2022.

### ECONOMIC OVERVIEW <sup>1</sup>

- While the economy had grown in the first half of this year, in spite of unfavourable circumstances, it is expected to experience a mild recession in the upcoming months. Economic activity will decline mainly due to reduced foreign trade with Russia and Ukraine, supply shortages of key components for manufacturing and construction, and a sharp rise in energy and fuel prices. The forecast assumes that problems in global production and supply chains, which continue to persist and affect the domestic industrial economy, will gradually ease, with a complete unwinding by mid-2023. According to the latest projections issued by the Czech National Bank, real GDP growth could post 2.2% in 2022 (revised from the previously forecasted 0.8%) and slow down to 1.1% in 2023 (revised from 3.6%). Household consumption growth has practically come to a halt. However, consumers have so far been showing greater resilience to the rising cost of living, as their spending has not fallen as much as expected. Even so, households will continue to face the impact of high inflation next year, so the dynamics of their consumption should remain very low.

### CPI INFLATION <sup>1</sup>

- High inflation, which continues to hinder economic growth and depress living standards, rose further over the summer and according to the latest forecasts is expected to average around 15-16% for 2022. The exceptionally strong growth in consumer prices is being driven not only by the prices of food, fuel, electricity, gas and imputed rents, but also by other categories of goods and services. Inflation is also being boosted by accelerating and exceptionally strong cost pressures, which will start to ease in the second half of this year as import prices and domestic intermediate input prices slow down. In 2023, inflation should already be partly dampened by the transmission mechanism of higher monetary policy rates. In the forecast horizon, this factor should also contribute to the appreciation of the koruna, which will have an anti-inflationary effect. In 2023, the annual inflation rate could slow down to somewhere between 9-10%, partly thanks to the government's energy package.

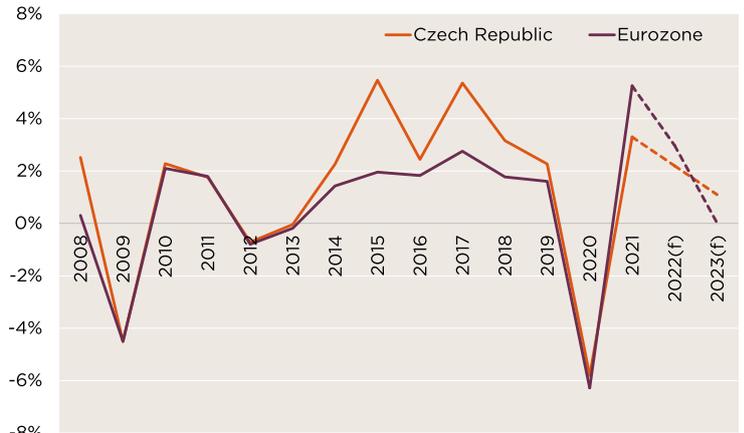
### RETAIL SALES <sup>1</sup>

- For the fourth month in a row, sales in both the food and non-food sectors have fallen continually. This decline deepened in August, with retail sales falling by 9% y-o-y, of which non-food goods fell by 10%, fuel by 9% and food by almost 7%. Sales in specialist clothing and footwear stores fell by 15%, and household goods, computer and communication equipment, culture, sport and recreation all fell 13%. On the other hand, sales in pharmaceutical and health care stores rose by 1%. Internet and mail-order stores saw their sales fall for the seventh consecutive month, this time by 10%. Because retail sales grew strongly last year, especially after the end of austerity measures and the economic recovery, the current y-o-y figure is burdened by a high comparison base.

### UNEMPLOYMENT <sup>1</sup>

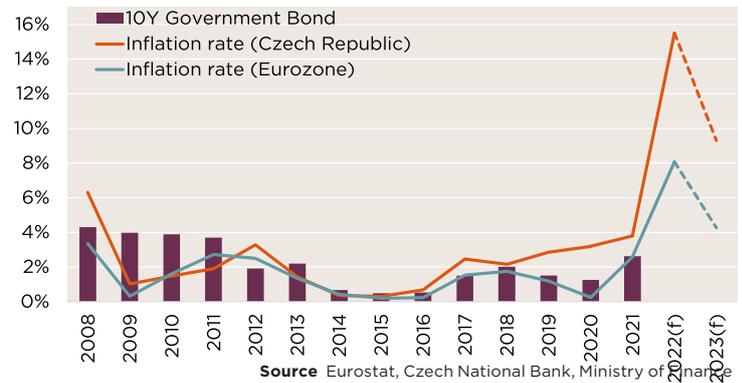
- Imbalances in the labour market related to shortages of employees continue to be reflected in all sectors of the economy. Labour market tensions will ease slightly further due to the moderation in domestic economic activity and the continued integration of Ukrainian refugees into the labour market. However, the outlook for the headline unemployment rate remains almost unchanged and, despite the expected shallow recession in the second half of this year and weak economic momentum, it is not expected to rise significantly in 2023. Thus, it should average around 2.5-2.7% in 2022 and could rise slightly to 2.6-3.3% in 2023, depending on the source. The tight labour market will push up wage growth, but this will lag behind inflation. Despite the aforementioned labour shortages, the Czech Republic still has the lowest unemployment rate in the EU and one of the highest labour force participation rates.

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



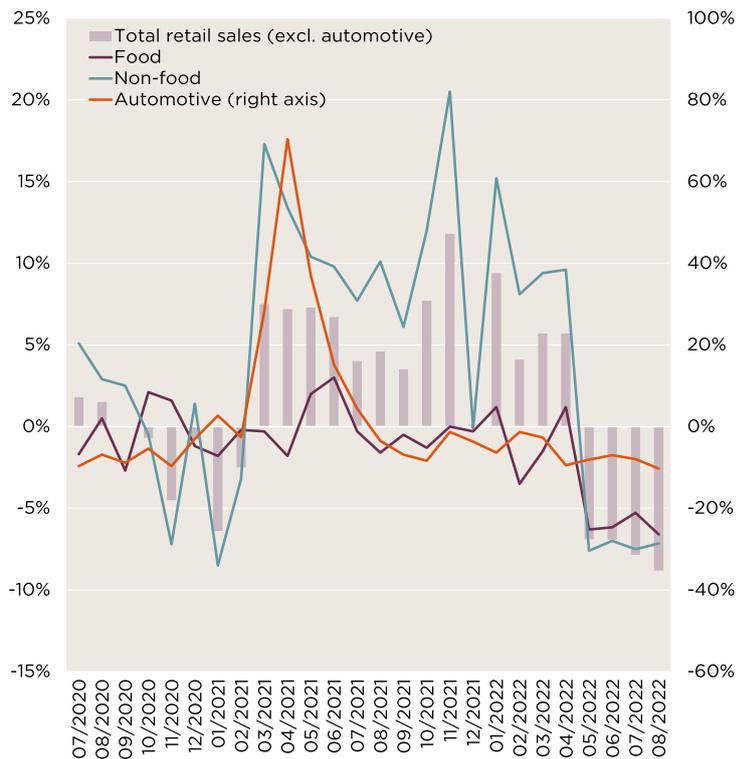
Source European Economic Forecast, Czech National Bank

### Inflation Rate and 10Y Government Bond



Source Eurostat, Czech National Bank, Ministry of Finance

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

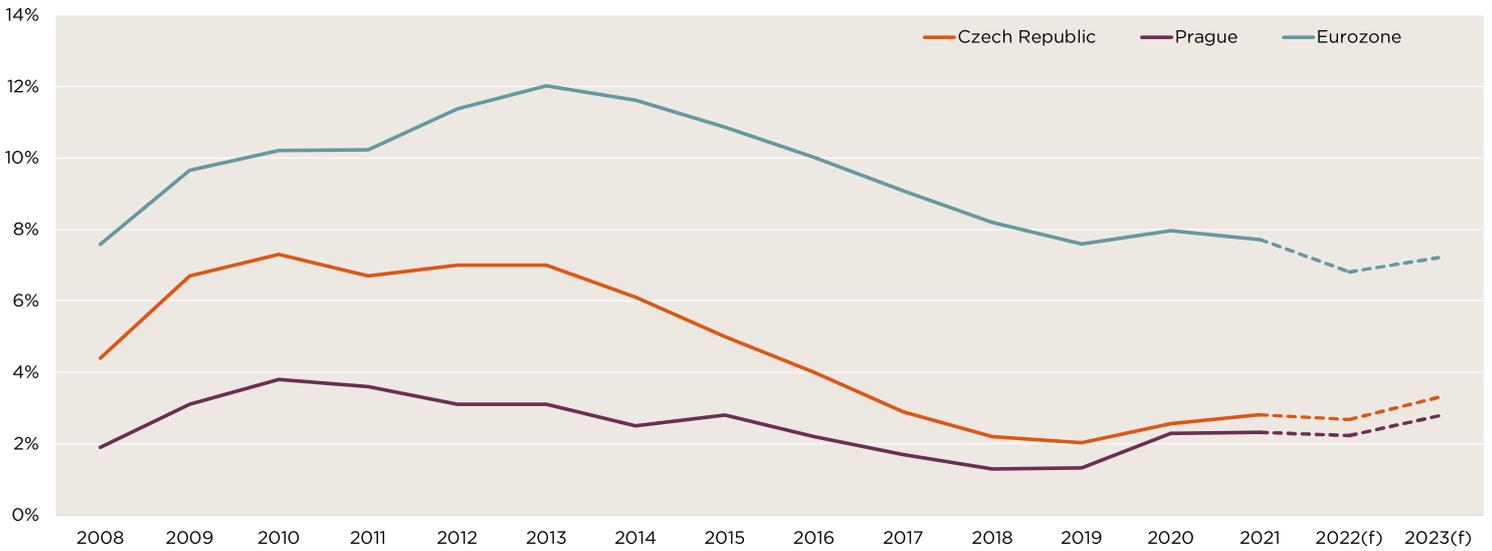


Source Czech Statistical Office

1) Based on the data available on 24/10/2022.

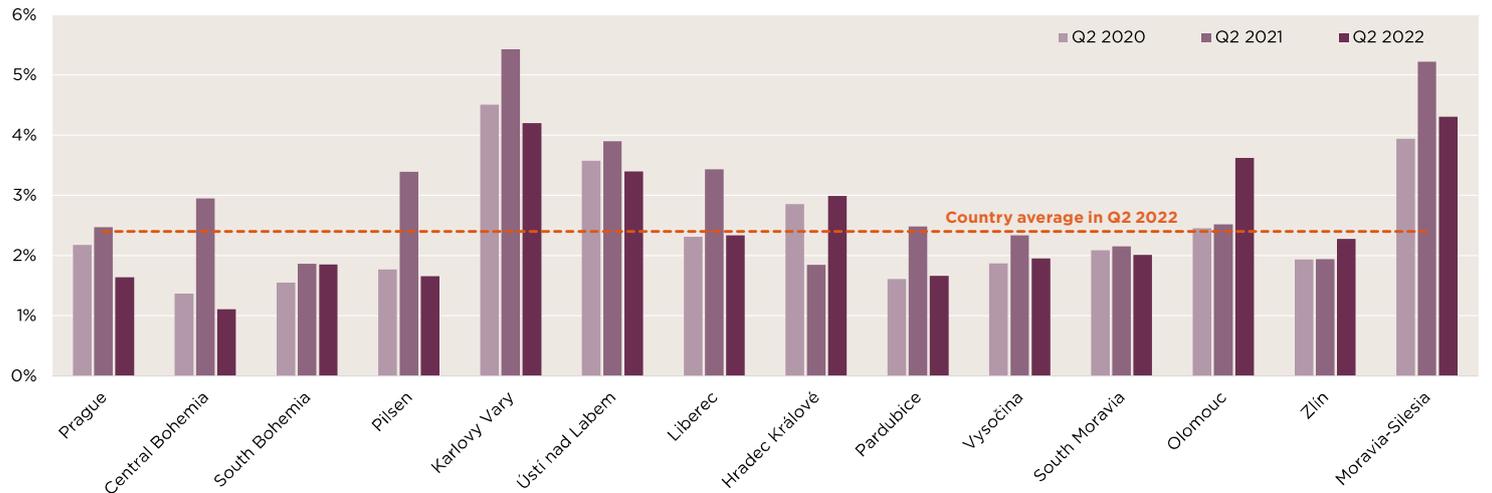
2) General unemployment rate is the percentage share of the unemployed people within the economically active labour force (being the sum of employed and the unemployed people).

### Unemployment Rate <sup>1</sup>



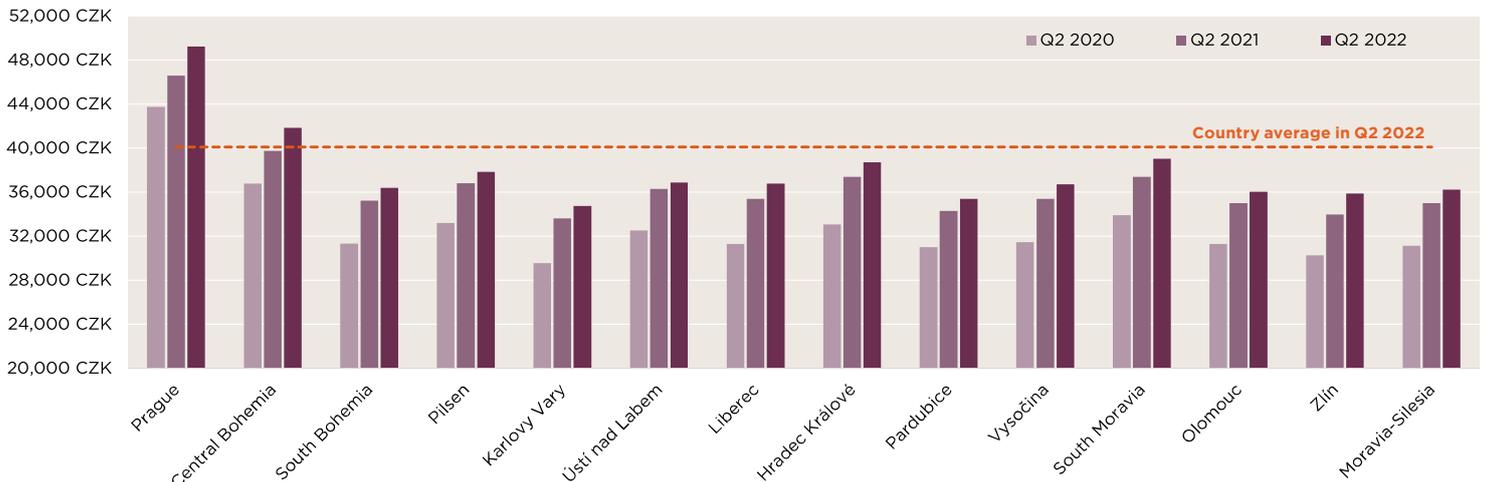
Source Oxford Economics, Eurostat, Czech Statistical Office

### Czech Republic Regional Unemployment Rate <sup>1</sup>



Source Czech Statistical Office

### Czech Republic Regional Gross Monthly Salary <sup>1</sup>



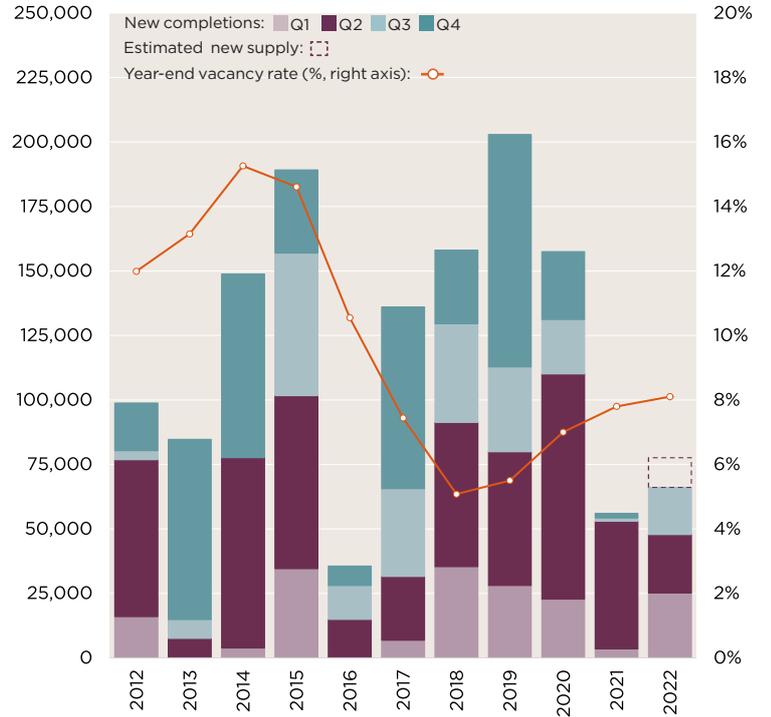
Source Czech Statistical Office

1) Based on the data available on 24/10/2022.

**EXISTING OFFICE STOCK AND NEW SUPPLY**

- At the end of September 2022, Prague office inventory remained at 3.8 million sq m. The share of higher quality A-class buildings grew to 2.8 million sq m (74% of total existing office stock). Only 15% of all office inventory is located in the city center, the largest volume of the stock falls within the inner city (56%) and the remaining 29% is found in the outer city.
- The largest office district was traditionally Prague 4 (968,400 sq m), followed by Prague 5 (638,800 sq m) and Prague 8 (623,800 sq m), where the office inventory slightly increased due to new supply.
- Construction of two office buildings was completed in Q3: Košíře Office Park (5,300 sq m) in Prague 5 and Bastion Florenc (3,400 sq m) in Prague 8. Additionally, the refurbishment of historical project VIA UNA enriched the Prague 1 office inventory with another 9,600 sq m. Total office area of all new projects was 18,200 sq m, the lowest quarterly volume of new supply seen this year.
- With no new developments breaking ground in Q3 2022, the above mentioned completions brought the total amount of office space under construction across the city down to 191,300 sq m at quarter-end. The majority of these premises were located in Prague 1 (19%), followed by Prague 5 (19%) and Prague 7 (17%). Over 32% of these projects were already pre-let.
- Of the total 19 office projects underway, all but three are scheduled for delivery in 2023 and 2024.

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

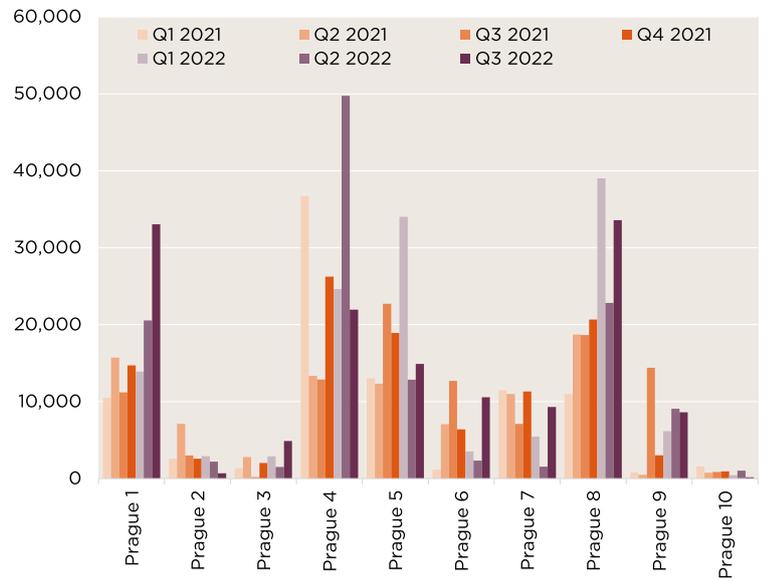


Source PRF, Savills Research

**OCCUPIER DEMAND**

- Quarterly leasing activity, including renegotiations and subleases, came to 137,700 sq m in Q3 2022, representing an increase both q-o-q (up by 11%) and y-o-y (up by 40%). Since the beginning of the pandemic, when occupier demand reached its minimum, the increasing trend still continues.
- The most active submarket was Prague 8 where gross take-up totalled 33,600 sq m. Prague 1 ranked second with 33,000 sq m, both representing nearly a quarter of the total leasing activity. The third place was taken by Prague 4, where occupier demand reached almost 22,000 sq m.
- Total demand for offices in Q3 was mostly made by new leases and expansions that accounted for 50% (almost the same as in the previous quarter). Renegotiations recorded a 26% increase q-o-q reaching nearly 40% of the quarter's gross take-up. Deals signed for premises that were still under construction totalled 9% and subleases made less than 2%.
- Net take-up volume remained nearly unchanged compared to the previous quarter and in Q3 2022 totalled 80,400 sq m (41% up y-o-y). This was 58% of the quarter's total leasing activity. The number of net take-up deals signed in Q3 was identical to last year and, as is typical on the Prague office market, leases of less than 500 sq m made up the majority of the quarter's net take-up.
- At 22%, the share of the IT sector in net take-up (by newly committed floorspace) was still the highest of all sectors in Q3 2022, although down from the previous quarter's 38%. The Finance sector was the second most active (15%) followed by Manufacturing (13%).
- The largest transaction signed in Q3 2022 was the renegotiation by KPMG in KPMG Office Centre (11,000 sq m) located in Prague 8. The second largest was Pio Banka's pre-lease at Masaryčka (5,400 sq m) in Prague 1.

**Gross Take-up in Prague Districts (sq m)**



Source PRF, Savills Research

**Largest Projects Under Construction in Q3 2022**

PROPERTY	CITY DISTRICT	SIZE (sq m)	PLANNED DELIVERY
Nová Waltrovka (by Penta)	Prague 5	28,200	Q3 2023
Port 7 - Building E (by Skanska)	Prague 7	23,900	Q2 2023
Masaryčka (by Penta)	Prague 1	22,100	Q3 2023

Source PRF

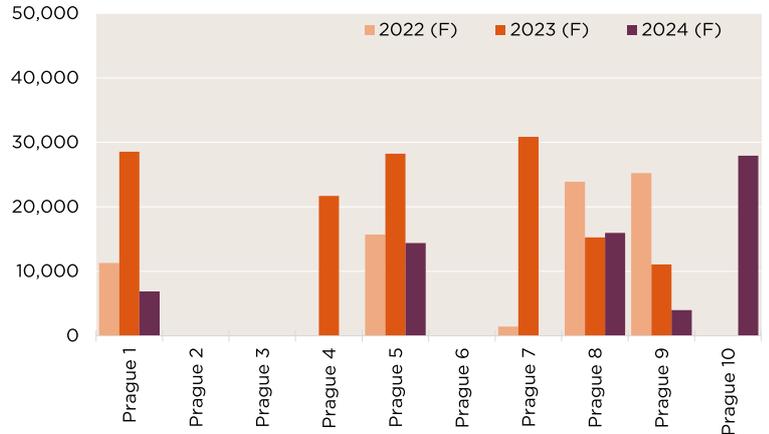
**OFFICE VACANCY**

- Occupier demand outpaced new supply and the citywide office vacancy rate decreased by 20 bps from the previous quarter to 8.1% in Q3 2022, hitting the lowest value so far this year. Converted to floorspace area, 308,000 sq m of office space was immediately available across the capital.
- For the fourth consecutive quarter now, the highest vacancy rates have been recorded in Prague 3 (25%) and Prague 9 (18%). All of the remaining city districts closed the quarter with a vacancy below 10%, Prague 8 was the lowest at 5%, and Prague 7 followed with 6%.
- The largest area of vacant offices (in sq m) was recorded in Prague 4 (66,300 sq m). Prague 1 and Prague 5 followed, both with 46,000 sq m of unoccupied office space. On the other hand, the lowest volume of vacant office stock was seen in Prague 2 (9,800 sq m) and Prague 10 (11,500 sq m).
- At the end of Q3 2022, at least another 1.7% of the existing stock was known to be offered for sublease, with immediate availability.

**RENT LEVELS**

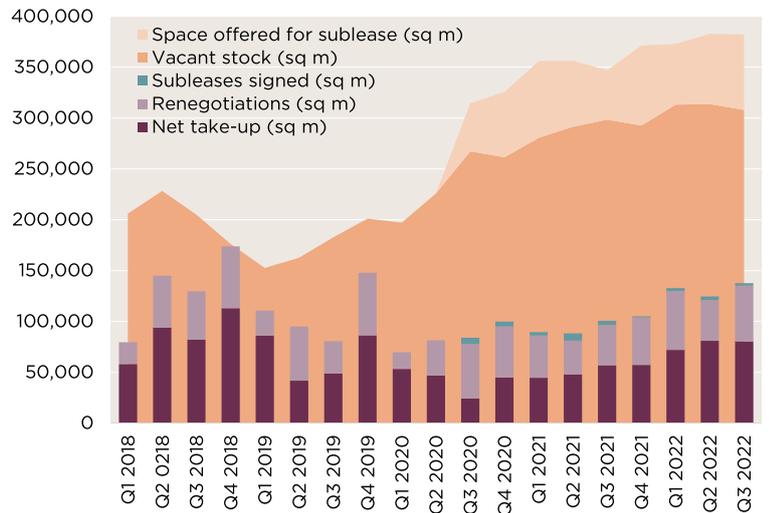
- During Q3 2022, prime headline rents in Prague increased again and appeared in the range of €26.00-26.50 per sq m a month. The most significant rent growth could be seen for newly completed office projects or those still under construction.
- In several cases, rent levels for new high-quality offices, especially those on higher floors and in the city centre, were reaching €30.00 per sq m a month, while modern premises of slightly lower quality but still close to the city centre continued to be offered from €17.50 to €18.00 per sq m a month. Monthly headline rents for modern offices farther away from the city centre continued spanning between €15.00-16.00 per sq m a month.
- Operational costs are increasing (doubling in many cases), and with rent indexations coming into effect at the beginning of 2023, occupiers are already seeking ways to reduce occupancy their overall costs.

**Annual New Supply by District (sq m)**



Source PRF

**Total Vacant Stock and Take-up (sq m)**



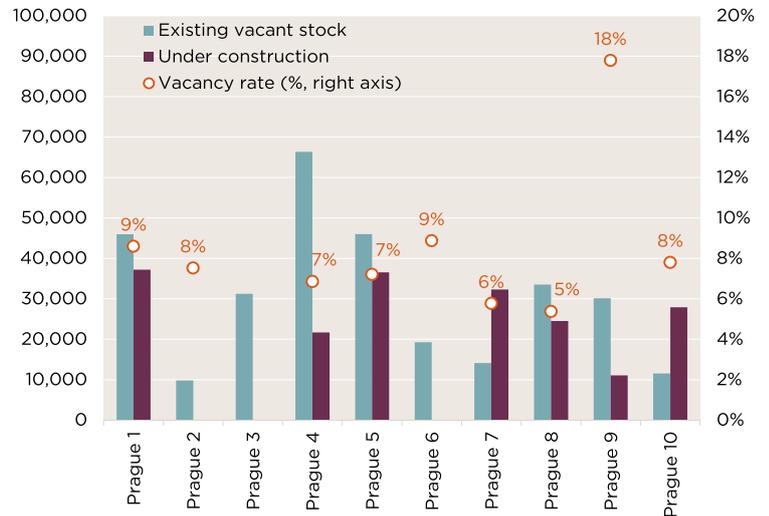
Source Savills Research, PRF

**Net Take-up in the past 10 third quarters (sq m)**



Source Savills Research, PRF

**Vacancy and Under Construction Space (sq m)**



Source PRF



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