CZECH REPUBLIC

PRAGUE OFFICES

QUARTER 2 | 2020

MACROECONOMIC OVERVIEW

After several months of uncertainty on a daily basis, we can now see and feel certain levels of clarity and stability. With most of the government issued restrictions lifted, only a few limitations remain, but still having an impact on several business sectors, mainly tourism and hospitality.

In line with Oxford Economics forecasts, we expect Czech GDP to fall by more than 5% in 2020. The Q-o-Q economic decline in Q1 was severe, and with the most severe lockdown issued in April, Q2 Q-o-Q is forecast to be even worse. We believe these numbers will soften towards the year end and recover during 2021.

Czech Republic entered the lockdown with very healthy labour market, therefore rise of unemployment rate to current level of 3.7% which was reported in July by Ministry of Labour and Social Affairs, is not a significant issue like in other countries of the Eurozone. It was largely possible thanks to generous government stimulus package, where country paid part of salaries and companies did not have to lay off their crucial workforce. Slight continuing rise is expected towards the end of H2.

The Czech Republic is already considered as one of the most suitable locations for manufacturing operations in Europe. However, the Czech reliance on car manufacturing and deep integration into various supply chains may be the current number one vulnerability, as was seen with the unprecedented drop in industrial production during Q2 months, in line with the pandemic outbreak in Germany. Consumer spending was bolstered with the end of restrictions, but further policy response to fostering economic recovery should be the current priority.

FIGURE 1: **Czech GDP compared to Eurozone**

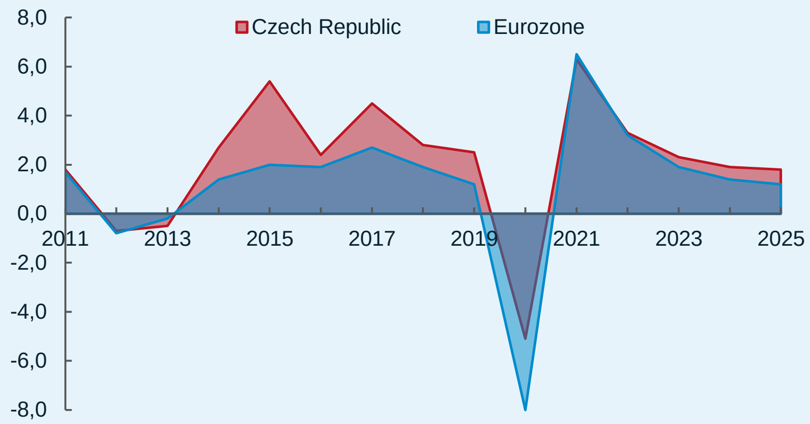


FIGURE 2: ***Unemployment rate***

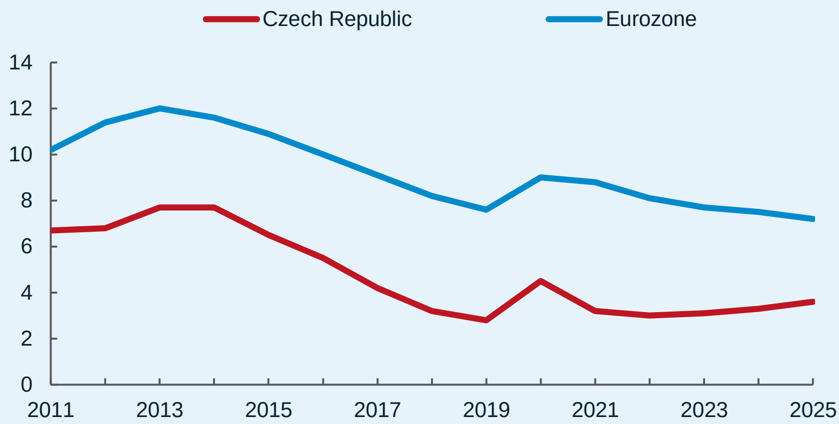
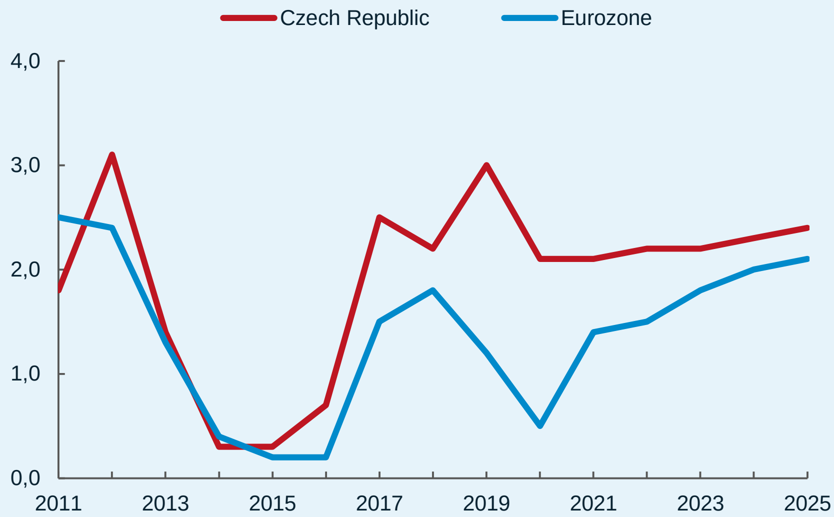


FIGURE 3: **Consumer Price Index**



Sources: Figure 1: Oxford Economics, Colliers International | Figure 2: Colliers International, Oxford Economics | Figure 3: Colliers International, Oxford Economics

STOCK & DEMAND

Stock & Vacancy

Despite the lockdown restrictions for the majority of Q2, developers managed to deliver 5 new buildings and fully refurbish a further 2 with a completions total of 88,000 sqm, so the total modern office stock currently stands at 3.71 million sqm. These buildings vary from small boutique projects to prime office buildings such as Parkview and BB Centrum B in Prague 4 or DOCK IN FOUR and Praga Office & Garden in Prague 8, to name just a few. Several projects have been postponed or delayed and we expect a further 63,000 sqm to be delivered by the year end.

The vacancy rate in Prague increased by 70 bps Q-o-Q to 6.1%. This represents roughly 226,000 sqm of modern office stock. In addition, we must take into account a significantly increased portion of available subleases, totalling 38,000 sqm, which represents the equivalent of an additional 1.0% of vacant space. Subletting of office space is an alternative for tenants seeking for new premises and wish to remain flexible in terms of size and the lease term.

Demand

Gross take-up (including renegotiations and subleases) amounted to 79,100 sqm. Despite this isan increase of 14% Q-o-Q, still the gross take-up for H1 has decreased by 29% Y-o-Y and represents 148,700 sqm. Many companies, where possible, renegotiated their current contracts, which resulted in 43% of renegotiated office space from the total. Amongst the biggest transactions of the quarter were the renegotiations of Plzeňský Prazdroj in Myslbek in Prague 1 (5,500 sqm), a new lease of TSK Praha in Centrum Stromovka in Prague 7 (4,300 sqm) and the renegotiation of CGI Logica in City West C2 in Prague 5. Increased activity was also seen from flexible workspace operator Scott & Weber who managed to secure units for two new centres in City Element and Praga Office & Garden (4,900 sqm in total). In addition to the aforementioned, we recorded a significant pre-lease deal in Prague 4, yet the details of this transaction are currently confidential.

RENTS & OUTLOOK

Rents

Despite general public expectations of upcoming rental reductions, prime headline rents remained stable between 22.50 EUR and 23.00 EUR per sqm in the city centre. Inner city prime rents range between 15.50 EUR and 17.00 EUR and outer city from 13.50 EUR to 15.00 EUR. Incentives are dependent on the stage of the project/lifecycle of the building, the submarket and length and amount of vacancy. From our experience, rent collections from office tenants were on a similar level as before lockdown. Landlords operating smaller B or C class properties could be affected more, as they do not apply market standard lease conditions in some cases.

Outlook

Pessimistic estimates were not fulfilled, and the Prague office market is in a good condition with healthy levels of vacancy and overall stable leasing activity. The current pipeline consists of several big developments, which should start over the next several months or, are waiting for certain levels of pre-lease, such as Rohan City A1 and A2 in Prague 8, City West C2, the first phase of Smíchov City in Prague 5 and Penta's long announced project Masaryčka in the heart of city centre.

Despite the aforementioned, the overall pipeline (under construction) for the rest of 2020 is only 63,000 sqm, with just 83,000 sqm planned for delivery in 2021, which is significantly below the average levels from recent years. This may result in a further decrease of vacancy and an increase in renegotiations, as tenants will have fewer options where to move.

FIGURE 1: **Modern office stock & vacancy in prague districts (sq m thousands)**

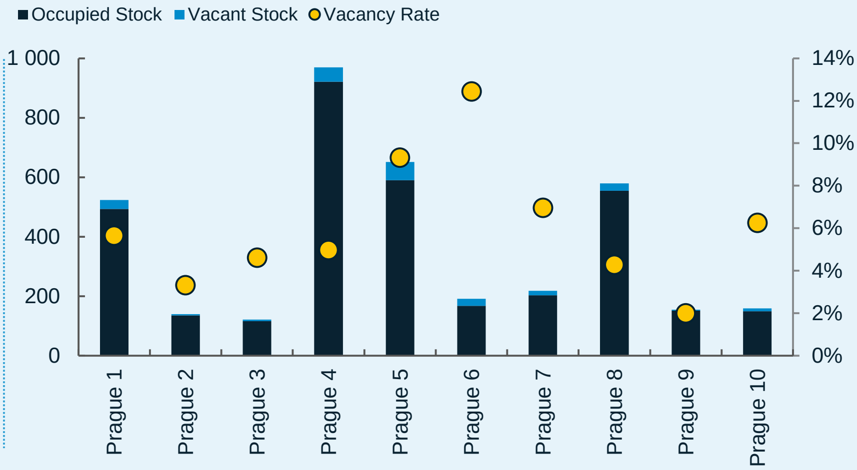


FIGURE 2: **Vacancy rate development & forecast**

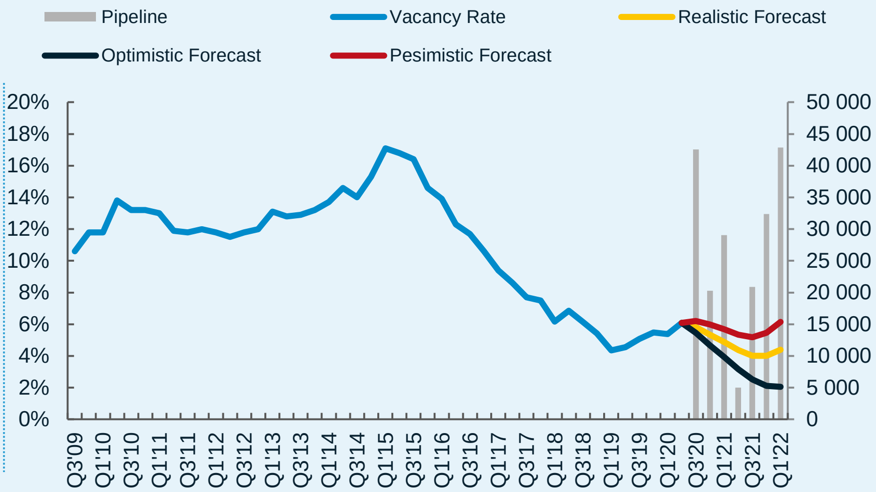
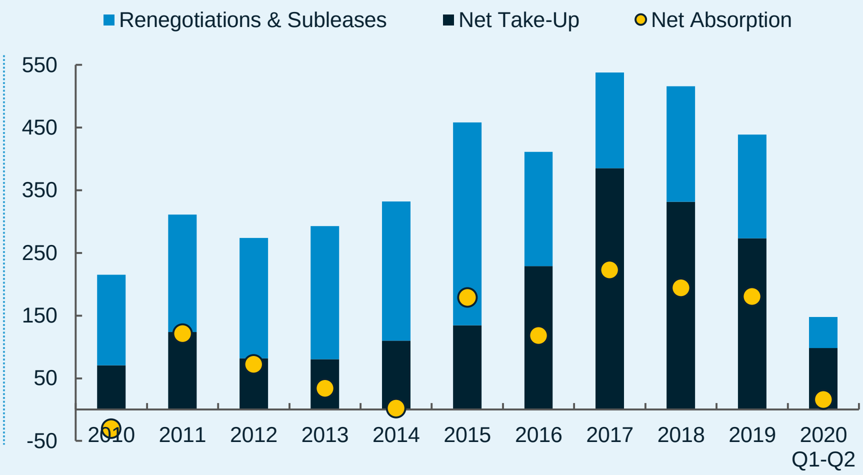


FIGURE 3: **Take-up and net absorption (sq m thousands)**



Note: Net absorption represents total change in occupied stock and as such can be also negative

Sources: Figure 1 to 3: Prague Research Forum (PRF), Colliers International

FOR MORE INFORMATION

COMPANY EXECUTIVES

Petr Žalský | Partner | Head of Office Agency
Mob: +420 601 056 858
petr.zalsky@colliers.com

Tewfik Sabongui | Managing Partner
Mob: +420 777 150 669
tewfik.sabongui@colliers.com

MARKET RESEARCH

Josef Stanko | Research Analyst
+420 728 175 024
josef.stanko@colliers.com

Theodor Pokorný | Analyst
+420 608 813 288
theodor.pokorny@colliers.com

Na Příkopě 859/22
Slovanský dům B/C
110 00 Praha 1