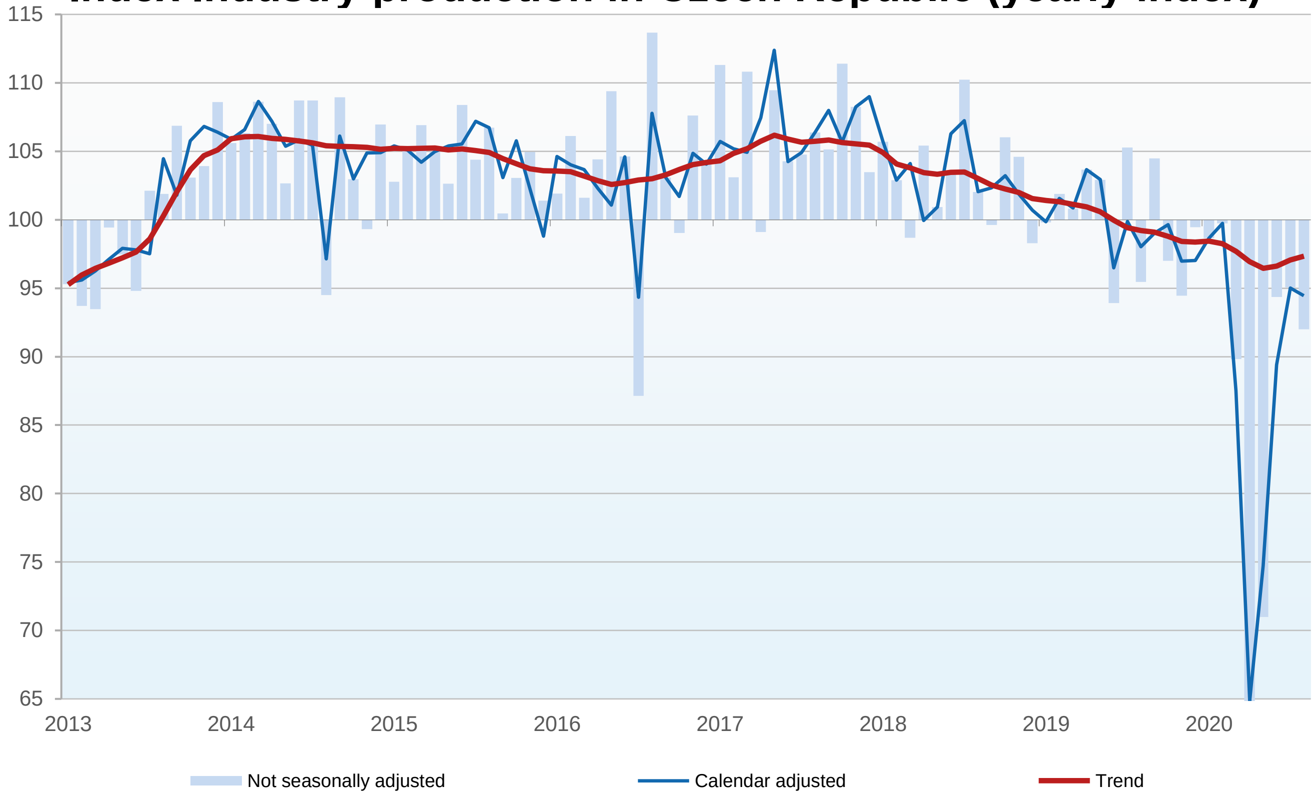
CZECH REPUBLIC

PRAGUE OFFICES

QUARTER 3 | 2020

Index Industry production in Czech Republic (yearly index)



MACROECONOMIC OVERVIEW

After more than half a year of uncertainty around the future development of economies during the Covid pandemic, Countries and businesses have had some time to stabilize and come up with plans for the future as the pandemic slowed during the summer. This unprecedented situation accelerated modern trends of the digital economy and remote services. On the other hand, industries around traveling, hospitality and short-term rentals, such as Airbnb, practically ceased to exist during the lockdowns.

In line with Oxford Economics forecasts, we now expect Czech GDP to fall by 6.1%, a deeper fall than was expected in Q2, with slower recovery forecasted from 2021 onwards.

Industry continued to improve during the summer but still remained over 4% below pre-pandemic levels. According to Oxford economics, the Industrial output of the Czech economy is expected to contract by 10.6% in 2020 as the Czech manufacturing industry is deeply integrated into European Automotive supply chains. This output contraction is driven by reduced car sales and consumer interest.

The Czech National Bank, with its quick reaction to the pandemic outbreak by substantially decreasing bank rates to 0.25% from 2.25% in February, created a strong vision for Czech monetary policy. Commercial banks have just started to slowly decrease their rates and this trend is expected to continue.

The Unemployment rate has increased from 2.8% to 3.7% and is forecasted by Oxford economics to reach 4.2% in 2021. The Unemployment rate reached record lows in 2019, which had limited the development of certain industries. Some of them are now able to absorb people coming the from hospitality and tourism sectors.

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

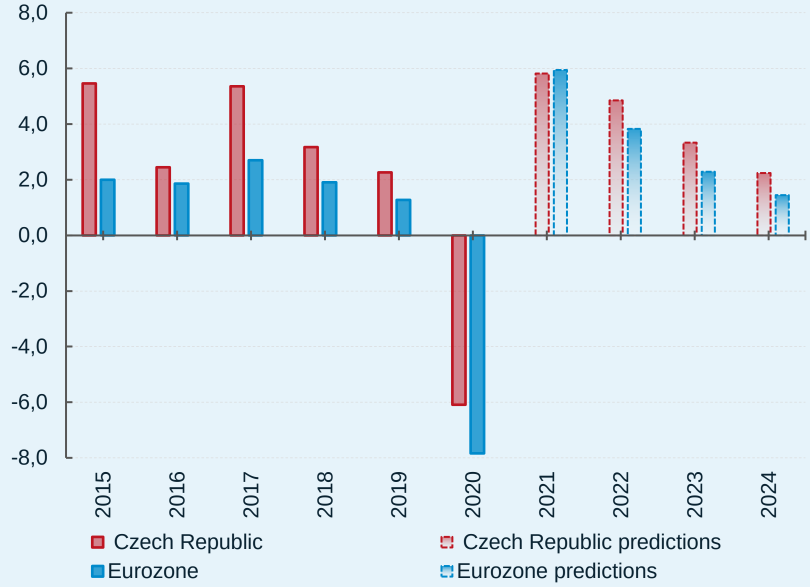


FIGURE 2: ***Unemployment rate***

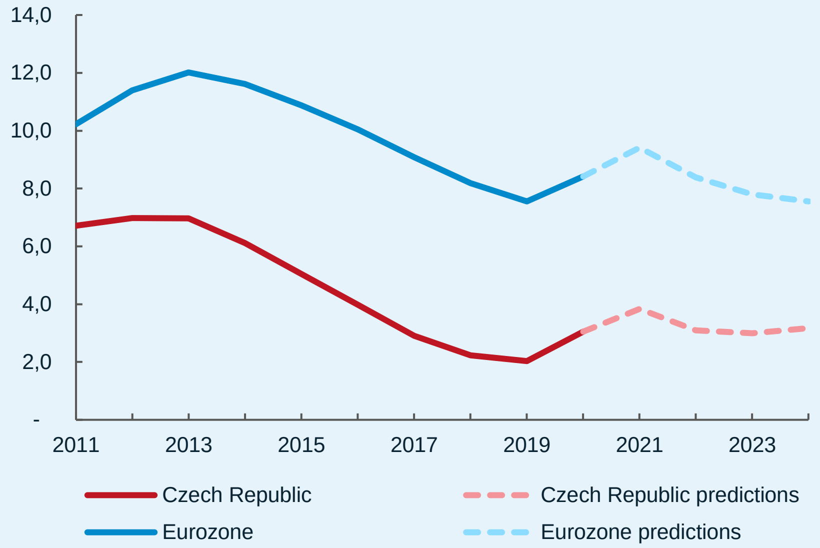
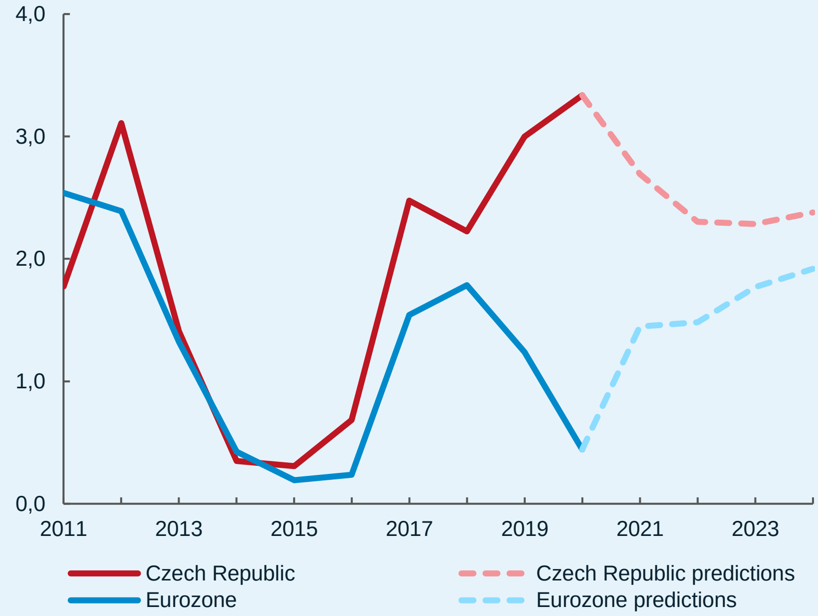


FIGURE 3: **Consumer Price Index**



Sources: Figure 1 - 3: Oxford Economics, Colliers International

STOCK & DEMAND

Stock & Vacancy

With the end of third quarter came further restrictions in an attempt to supress a significantly increasing number of Covid-19 cases amongst the Czech population. From the scope of the modern office market, the impact of the pandemic is starting to be more visible in some areas, but longer-term market predictions remain uncertain.

During Q3, three new developments added 21,100 sq m, bringing the total modern office stock to 3.73 million sq m. Two of these new developments, AFI City 1 (15,900 sq m) and mixed-use building, Poděbradská (2,400 sq m), are located in Prague 9. This district is currently considered more for residential, but with the future redevelopment of sites around Kolbenova and Poděbradská streets, this part of the city will surely flourish with new life in upcoming years. The last of the new developments is the new HQ for České přístavy, located in Prague 7. A further 24,400 sq m in 4 projects is expected to be delivered by the end of the year. These projects are refurbishments only and include projects such as Hybernská 1 in Prague 1, Holečkova 26 in Prague 5 and Bubenská 1 and Riveroff Office House, both in Prague 7. 2021 will be very limited in terms of new completions as projects due for delivery amount to only 98,400 sq m. For illustration, this is 59% of the current year supply and only 46% of the space delivered in 2019.

The vacancy rate in Prague increased for the second time in a row after a period of uncertainty in the spring. The current increase of 90 bps Q-on-Q to 7.0% is the first significant growth seen in recent years. But when we look from a different perspective, this rise is from the historically lowest levels and even when the unoccupied space represents approximately 267,300 sq m, larger vacant units are more or less an exception.

As in the previous quarter, sub-leases are again worth mentioning. By the end of the quarter, we registered almost 82,000 sq m of space to sublet. Of this volume, more than 47,000 sq m is available immediately. The subleases on offer vary significantly in size and terms. Although these units can be a good value option, it can often be difficult to find the right unit in terms of lease length, security and privacy, or even fit-out style.

Demand

Total take-up increased by 9.0% Q-o-Q to 86,200 sq m, but net take-up dropped significantly by 41% Q-o-Q to only 26,500 sq m, as the trend of renegotiations from last quarter continued. Net take-up for Q1 to Q3 2020 is down by 31% compared to the previous year. In terms of net absorption, Q3 was negative for the first time since 2015, yet in a YTD perspective 2020 remains positive with approximately 56,000 sq m.

It is possible that the transaction of the year happened in Prague 4, when UniCredit Bank prolonged their lease (22,900 sq m) in BB Centrum Filadelfie tower. The other major office transactions were the renegotiations of Bluelink International in Florentinum (3,200 sq m) and a new lease for Verizon Czech in Life Building C in Prague 4 (3,200 sq m). Also, Bořislavka, although still under construction, reported new leases and is now more than 96% occupied.

RENTS & OUTLOOK

Rents

Prime headline rental levels remained stable between €22.50 and €23.00 per sq m in the city centre. Inner city prime rents range between €15.50 and €17.00 and outer city from €13.50 to €15.00. Landlords are able to provide much more generous incentives in hope for attracting new occupiers.

Outlook

As the current pandemic situation in the Czech Republic can look quite grim, it is surely not the case of the modern office market. The development of buildings under active construction did not stop, although some pipeline projects are waiting for a certain level of pre-lease, rather than to build speculatively. 3 new constructions were commenced during last quarter, including Košířská brána in Prague 5 and Florenc Gate in prague 8. The last one is the first of the long-awaited large developments, Smíchov City, commenced construction of its first phase and will soon bring life to the large brownfield in Prague 5. Other developers do not stand aside and combined large projects like Roztyly, Opatov and Hagibor will follow as soon as the permissions will be granted.

In the short term, we can expect further caution on the market. Many companies are still considering their next steps or waiting for a global approach from their mother companies. With limited supply for next year we can expect the trend of renegotiations to continue. This should also help to keep the vacancy at a healthy level as new tenants will have fewer options to choose from. The sublease market is currently on the rise, but it’s impact could be short-lived as subletters may reconsider their business activities.

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

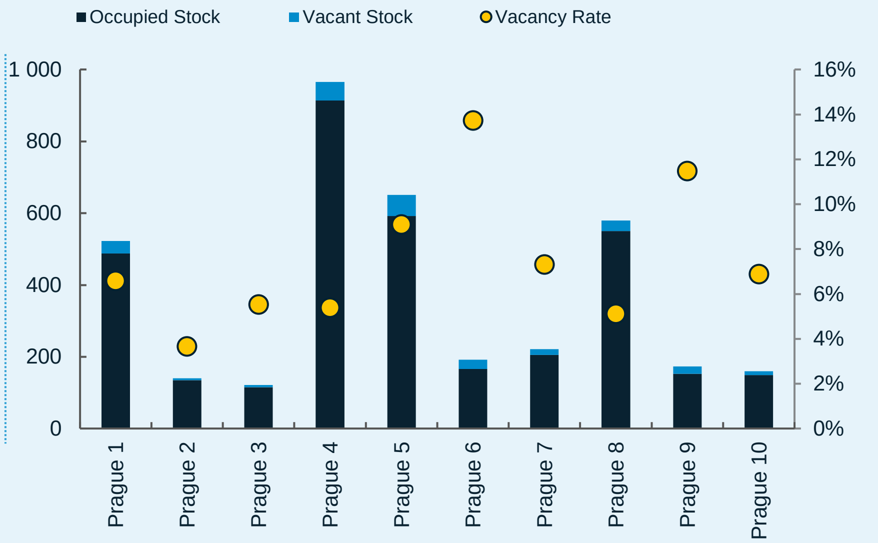


FIGURE 2: **Vacancy rate development & forecast**

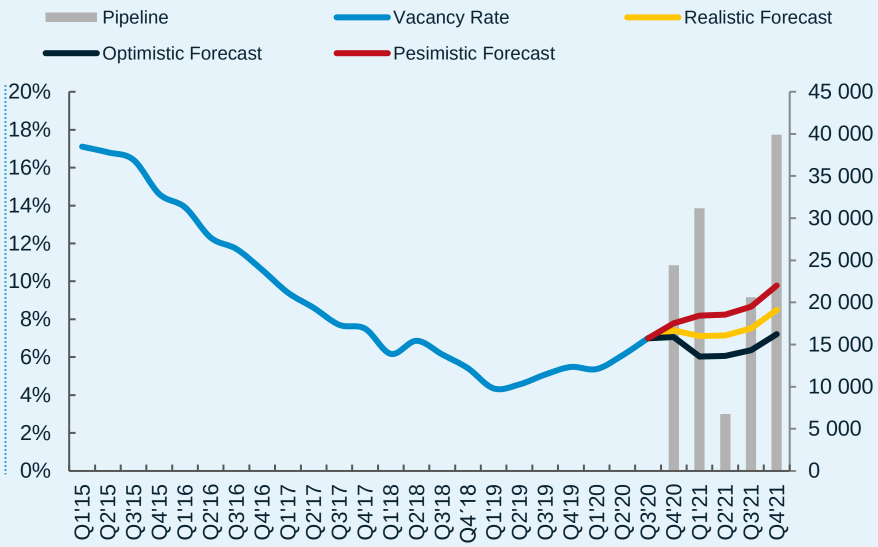
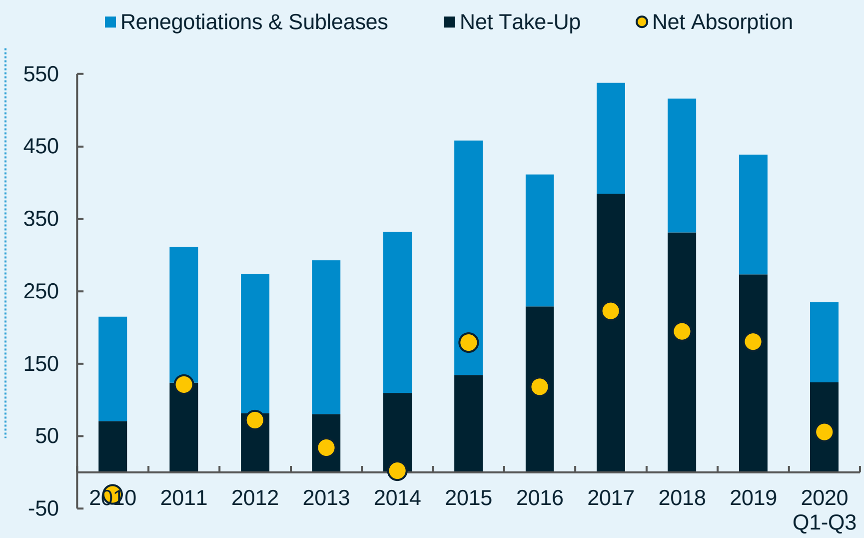


FIGURE 3: **Take-up and net absorption (sq m thousands)**



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