Colliers

Accelerating success.

2021 | Czech Republic

# Prague Office Market Overview

# Macroeconomic overview

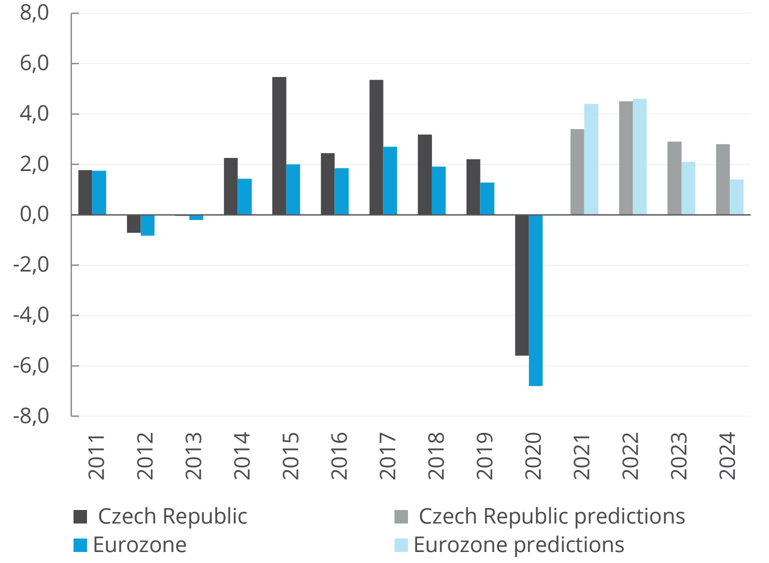
The Czech Republic remained in a state of emergency during the entire first quarter of 2021. This condition was ended in mid-April and lasted a total of 189 days. Despite some progress of distributing the vaccine to the population, it is still quite slow in comparison with other countries in Europe. As the count of new confirmed cases of COVID decreases, the whole country looks forward to loosening the measures. There is however a long road back to normality and the government, both current and future (which will be elected in autumn), must avoid the mistakes made last year.

As we could expect, the prolonged state of emergency affected the forecasts for GDP. In general, we are still expecting a rebound in H2 2021 from the current slowdown and through 2022. According to Oxford Economics, the forecasted growth for this year is 3.3%. Industry and exports are still the main economic engines, even with several bottlenecks in supply chains that can limit their outputs. By the time shops re-open, strong consumer spending is also expected to lead the recovery, thanks to the accumulated savings amongst the population.

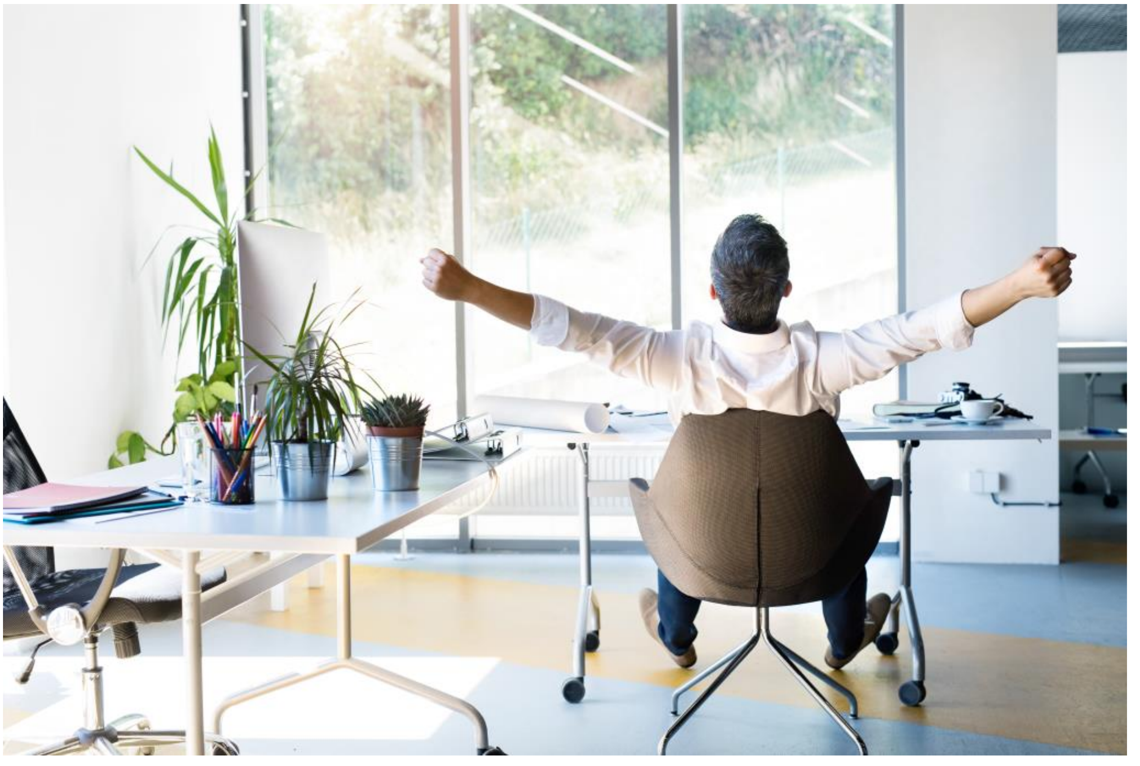
What could be surprising, despite reported closures of hundreds of restaurants and even several retail brands and chains, is that the unemployment rate has remained at similar levels recorded last year, reaching 4.2% at the end of March 2021. This represents approximately 307,000 jobless individuals in the country. This rate is expected to remain for some time during 2021 and even decrease further forward in 2022, once the economy can operate without limitations.

One big question mark still hangs over inflation. There were several scenarios warning about the inevitability of increasing consumer prices however, many economists and institutions are now forecasting a much more conservative outlook for Czech Republic, ranging from 2.0% to 2.5% in 2021.

**Gross domestic product**
(%)




Sources: Colliers International, Oxford Economics



# Prague office market

## New supply and vacancy

The first quarter of the year can sometimes be a little overlooked, especially after traditionally strong fourth quarters. But in 2021, when everyone in the Czech Republic is hoping for some improvement either in business or in life itself, the situation on the Prague office market has broken from tradition.

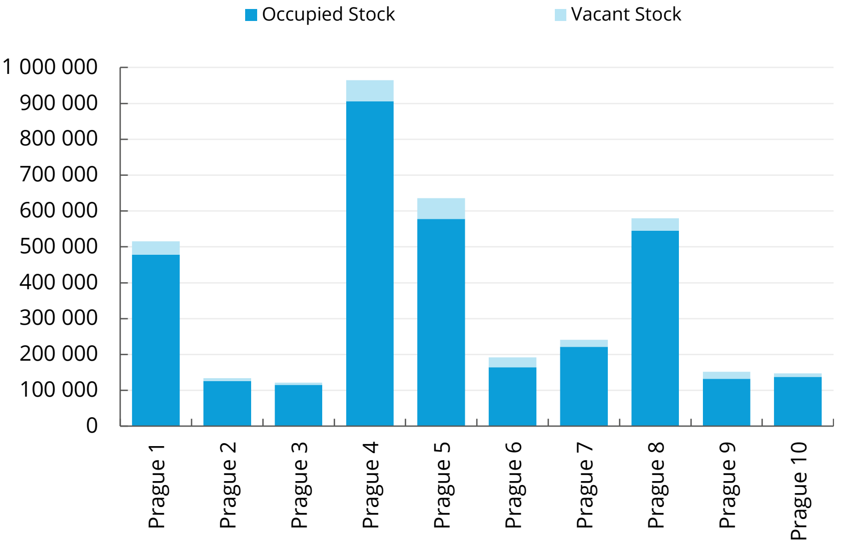
In the first quarter of 2021, just two developments were completed and added a total of 3,500 sq m to the market. This represents one of the lowest levels in the market's history. Both projects were refurbishments of older properties. Hybernská 1, located in the city centre near náměstí Republiky, added 1,500 sq m and Olbrachtova 5, in Prague 4, added 2,000 sq m. With the increasing age of a large part of the stock, we may well see many landlords consider refurbishment or even change of use, as a reaction to the city's housing crisis. The current modern office stock in Prague decreased slightly to 3.69 million sq m, due to the exclusion of several buildings which were no longer offered for commercial leasing.

**Top 3 Transactions of Q1 2021**

| Tenant | Property | Transaction |
|---|---|---|
| **Novartis** | Gemini | Renegotiation |
| **New Flex Centre** | BB Centrum B | New lease |
| **Sweco Hydroprojekt** | Táborská 31 | Renegotiation |

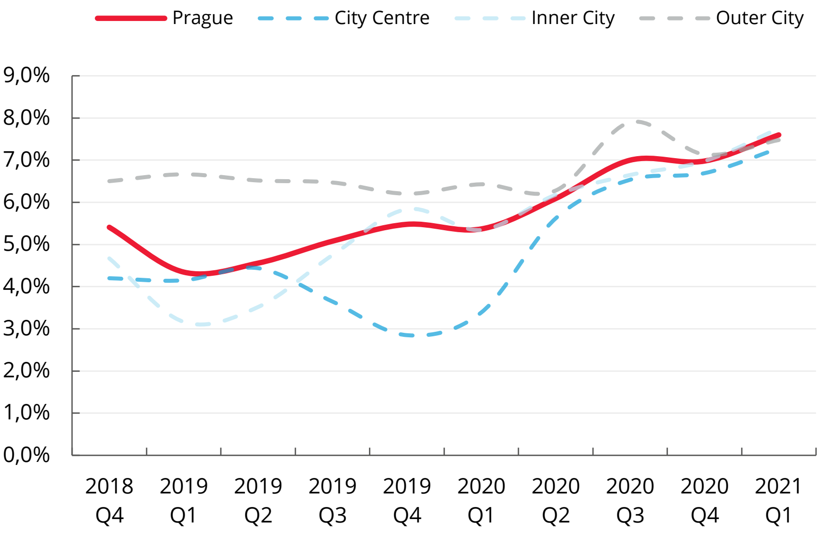
Sources: Prague Research Forum, Colliers International

## Modern office stock & vacancy in Prague districts (sq m)



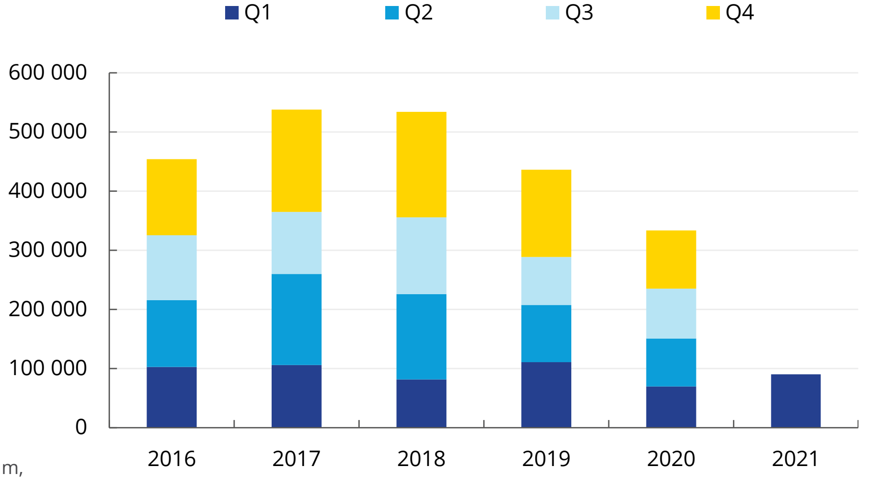

Sources: Prague Research Forum, Colliers International

## Vacancy rate development




Sources: Prague Research Forum, Colliers International

## Gross take-up (sq m)




Sources: Prague Research Forum, Colliers International

The expected level of supply for the remainder of 2021 is just 65,800 sq m, from which over 55% is already pre-leased. Next year looks similar, with 78,300 sq m of space under active construction and due for completion in 2022. On the more optimistic side, many projects have entered construction phases in recent months, including the long awaited Masaryčka by Penta, with approximately 25,000 sq m, and PORT 7 by Skanska with 30,600 sq m. Both projects are scheduled for delivery in 2023. Furthermore, the market has also recorded a decent pipeline, with numerous projects waiting to secure a sufficient pre-lease in order to proceed with construction or, as a condition of financing.

As for current vacancy, we are experiencing a slow, but increasing trend. By the end of Q1 2021, approximately 7.6% of modern offices in Prague were vacant, representing 280,600 sq m. This represent an increase of 60 basis points quarter-on-quarter and 220 bps year-on-year. In addition to this, the sublease market is still quite strong and offers a further 75,500 sq m of space for a variety of conditions, including below market standard prices and contract assignments.

## Demand

Take-up in Q1 is sometimes overshadowed by strong demand at the end of the year, but in the current quarter, the numbers are a bit more optimistic. Gross take-up accounted for 90,200 sq m, an increase year-on-year of 30%. Demand is still strongly driven by renegotiations, as they represent share of 46% on the gross figure. Pre-leasing activity accounted for an 11% share on gross take-up.

Net demand, calculated from newly leased space, expansions and pre-leases totalled 45,200 sq m in Q1. With lower levels of expected supply, we recommend that tenants act earlier to secure their desired office space, particularly within new projects.

The biggest transaction of the quarter was, without a doubt, the renegotiation of Novartis in Gemini B in Prague 4, with a size of 14,300 sq m. Among the other major deals of the quarter, we include a new lease of flex-office centre in BB Centrum B in Prague 4 (3,300 sq m), the renegotiation of Sweco Hydroprojekt in Táborská 31 in Prague 4 (2,900 sq m) and the expansion of Livesport in Aspira Business Centre in Prague 5 (2,200 sq m).

Although sub-leases have attracted a lot of attention on the market recently, they only contributed to Q1 take-up with a 4% share, or 3,600 sq m in total. But to remain objective, several units that were available for sub-lease, were re-claimed by the respective landlords and leased directly.

## Rents and incentives

Although vacancy is rising slightly, demand is still solid and occupiers who are currently looking for new offices have a wider range of choices. Thanks to this fact, landlords are offering higher fit-out contributions and slightly longer rent-free periods, than we were recording in 2019. However, reality strongly differs by developer or property condition. Prime headline rents in the city centre remained at the previous range of €22.00 to €22.50. Rents for the best inner-city offices range between €15.50 and €17.00 and prime office space in outer city locations can be leased monthly for between €13.50 and €15.00 per sq m.

# Key market figures

Office Stock (sq m)
**3.69 mln**

Vacancy Rate
**6.7%**

Q1 Gross Demand (sq m)
**90,200**

Prime Rent
**€22.50**

Q1 Supply (sq m)
**3,500**

Under Construction (sq m)
**199,700**

## Outlook

As the government plans for lifting the restrictions are in sight, and public testing and vaccination processes are already under way, we believe that we will soon get at least some idea about the condition and also about the intentions of companies active on the Prague office market. It is certain that an acceleration of activity on the market will not be immediate. We still expect the vacancy rate to rise by additional basis points, but it will be inevitably softened by low supply at some point in near future.

One promising fact is that some of the largest, or most significant projects, which have been anticipated for years, have entered construction phases, or are very close to it. Therefore, the pipeline new supply for 2023 and beyond could well be above average again. A question mark however still hangs over the new building law and if it will really positively impact the permitting process, as a number of the proposed projects have been stuck in this process for years.

## For more information


**Office Agency**

**Petr Žalský**
+420 601 056 858
petr.zalsky@colliers.com

**Research & Forecasting**

**Josef Stanko**
+420 728 175 024
josef.stanko@colliers.com

**Managing Partner**

**Tewfik Sabongui**
+420 777 150 669
tewfik.sabongui@colliers.com





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


Accelerating success.