Press release

Prague, 21st October 2020

Higher sublease activity increasing competition on the office market

Prague Research Forum Announces Office Market Figures for Q3 2020

- **Covid-19 impacts start to show in rapid decrease of net demand and postponement of several completions of new office projects**
- **Despite the current conditions, construction activity on the market has not stopped and stays intensive, with the commencement of 3 new constructions and one refurbishment, including the long-awaited brownfield project Smichov City**
- **Many developers are changing their strategy from speculative construction to construction with pre-leases only; therefore – without such pre-leases – pipeline postponements can be expected**
- **The share of sublease deals on the total take-up increased from around 1% in previous quarters to 7%**
- **The prime rent stays at 22.50 EUR/sq m**

Introduction

The Prague Research Forum is pleased to announce the office market figures for the third quarter of 2020. The members of the Prague Research Forum – CBRE, Colliers International, Cushman & Wakefield, JLL, Knight Frank – share non-sensitive information with the aim of providing clients with consistent, accurate and transparent data about the Prague office market.

RICS supports the activities of Prague Research Forum.

Office Stock and New Supply

A volume of 21,200 sq m of modern office space was delivered to the Prague market in the third quarter of 2020, bringing the total modern office stock to 3.73 million sq m. New completions include three properties, all as new developments. AFI City 1 in Prague 9 with 15,900 sq m, Administrative building Českých Přístavů in Prague 7 with 2,800 sq m and Poděbradská Centrum in Prague 9with 2,400 sq m.

In Q3 2020, three new projects and one refurbishment commenced construction: new construction of Smíchov City Na Knížecí (SM1) in the long awaited project Smichov City in Prague 5, Florenc Gate in Prague 8, Košířská brána in Prague 5 and refurbishment of Olbrachtova 5 in Prague 4. Approximately 26,200 sq m of offices are expected to be completed by the end of 2020. Further 128,600 sq m of office space is already under construction with scheduled completion in 2021 and 2022.

A-class office stock has a ca. 71% share on the total office supply, whereas the top-quality AAA-class properties accounted for almost 18%.

The total volume of space immediately available to sublease in Q3 2020 accounted for 47,200 sq m, which is an increase of 9,700 sq m compared to the previous quarter.

Office Take-up

Gross take-up (including renegotiations and subleases) in the third quarter of 2020 amounted to 86,200 sq m, representing an 9% increase on the previous quarter and an 7% increase in year-on-year comparison.

The highest demand in Q3 2020 was recorded in the city districts of Prague 4 (45%), followed by Prague 8 (21%) and Prague 5 (11%). The most active companies were from the finance sector (33%) followed by the IT sector (18%) and the professional services sector (7%).

The share of renegotiated leases in the third quarter of 2020 reached 62.4%. Net demand (new leases, expansions and pre-leases) accounted for 30.7% of the total gross take-up and the share of subleases accounted for 6.9%.

Major Office Leasing Transactions

The major transactions of the third quarter of 2020 were the renegotiation of UniCredit Bank (22,900 sq m) in BB Centrum Filadelfie in Prague 4, followed by the renegotiation of Bluelink International in Florentinum (3,200 sq m) in Prague 1, the new occupation of Verizon Czech in Life Building C (3,200 sq m) in Prague 4 and the renegotiation of Good Data in Danube House (2,500 sq m) in Prague 8.

Office Vacancy

The share of vacant office space in Q3 2020 reached 7.2%, representing an increase of 110 basis points in comparison with the previous quarter. The vacant space totalled 267,300 sq m. The largest availability was in Prague 5 with 59,300 sq m, representing a vacancy rate of 9.1% and followed by Prague 4 with 58,500 sq m and a vacancy rate of 6.1%. The lowest amount of vacant space was recorded in Prague 2 with 5,100 sq m (vacancy rate of 3.7%) and in Prague 3 with 6,700 sq m (5.5%).

Rents

Although the vacancy rate increased in the last two quarters and overall activity slowed down, prime headline rents remained stable and stood between €22.50 and €23.00/sq m/month in the city centre at the end of Q3 2020. Inner city prime rents ranged from €15.50 to €17.00/sq m/month and from €13.50 to €15.00/sq m/month in the outer city.

Reclassification of office properties

Prague Research Forum

The members of the Prague Research Forum – CBRE, Colliers International, Cushman & Wakefield, JLL and Knight Frank – have undergone a reclassification process of all properties, which are currently included in Prague's office stock to better reflect modern trends in property and development.

The minimum requirements for inclusion into modern office stock of either Class A or Class B remain unchanged and include:

- The building was built or refurbished after 1990
- Available units are being advertised in an appropriate way
- The GLA of the building exceeds 1,000 sq m

When assessing the property quality, the major categories included are as follows, with brief description:

- **Technical specifications –** how well is the property built and equipped
- **Smart technologies –** how efficient the buildings are, what smart technologies do they use and what extras to "standard" property equipment do they offer
- **Location –** accessibility, services and amenities in proximity of the property
- **Service and security –** how safe the building is and how it is managed
- **Parking –** parking ratios, with different requirements for properties in the city centre, inner city and outer city
- **Age of building –** building completion or the latest refurbishment date
- **Subjective evaluation –** subjective assessment by Prague Research Forum members

Each of the criteria has subcategories, which enable scoring of the properties, resulting in final score of the property. Maximum weight of each category is as follows:

Category	Share on total
Technical Specifications	41%
Smart Technologies	18%
Location	9%
Service & Security	9%
Age of Building	8%
Parking	8%
Subjective Evaluation	7%

As a result of the reclassification, 47% of the properties are included in Class A, with only 8% reaching the top scores and receiving rating Class AAA. Remaining 53% of the properties are rated as Class B.

Appendix

Definitions:

Stock:	Total completed office space (occupied and vacant), newly built since 1990 or refurbished, A and B class offices, owner occupied and for lease and public authorities' buildings. Buildings with leasable area lower than 1,000 sq m are excluded.
New supply:	Completed newly built or refurbished buildings that obtained a use permit in the given period.
Take-up:	A gross figure representing the total floor space known to have been let or pre-let, sold or pre-sold to tenants or owner-occupiers over a specified period. It does not include space that is under offer. A property is taken up when the contract is signed. Total take-up includes renegotiations, lease extension and subleases, net take-up excludes these.
Vacancy rate:	Ratio of physically vacant space in completed buildings on the total stock.
Prime rent:	Achieved rents that relate to new prime, high specification units in prime locations. However, there might by exceptional assets on the market, in which higher rent could be achieved.
Sublease:	Space offered for lease by a tenant who is contractually obliged to occupy the premises for longer period than what they need.

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