

Press release

Prague, 28th April 2021

The total net leasing activity in Q1 2021 decreased by 15% year-on-year

Prague Research Forum Announces Office Market Figures for Q1 2021

- **COVID-19 had impact on market activity with high share of renegotiations at 46% in Q1 2021**
- **Vacancy rate increased to 7.6%**
- **Share of immediately available space for sublease increased by 15% q-o-q**
- **Shift from speculative construction to pre-leased backed more common among developers**
- **Planned supply for 2021 is the lowest since 2016**
- **Five office projects commenced construction during Q1 2021**
- **The prime rent stays between 22.00 and 22.50 EUR/sq m/month**

Introduction

The Prague Research Forum is pleased to announce the office market figures for the first quarter of 2021. 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 total volume of 3,500 sq m of modern office space was delivered to the market in the first quarter of 2021. New completions include two properties, all as refurbishments. Hybernská 1 with 1,500 sq m in Prague 1 and Olbrachtova 5 with 2,000 sq m in Prague 4. As a result of the exclusion of properties, which are not leased on commercial basis, the total modern office stock slightly decreased to 3.69 million sq m.

Projects under construction amounts 199,700 sqm with approximately 65,800 sq m due in 2021, the remaining 133,900 sq m is scheduled in the years 2022-2023. During Q1 2021, three new projects and two refurbishments commenced construction. These included a new construction of the first phase of Masaryčka (25,000 sq m) in Prague 1, Košíře Office Park (5,300 sq m) in Prague 5 and Port 7 (30,600 sq m) in Prague 7 and two refurbishments of Palác Dunaj (7,200 sq m) in Prague 1 and Karlovo náměstí 7 (2,200 sq m) in Prague 2.

A-class office stock has a ca. 73% share on the total office supply, whereas the top-quality AAA-class properties accounted for over 16%.

The total volume of space immediately available to sublease in Q1 2021 accounted for 75,500 sq m, which is an increase of 15% (or 11,200 sq m) compared to the previous quarter.

Office Take-up

Gross take-up (including renegotiations and subleases) in the first quarter of 2021 amounted to 90,200 sq m, representing a 9% decrease on the previous quarter but an 30% increase in year-on-year comparison.

The highest demand in Q1 2021 was recorded in the city districts of Prague 4 (41%), followed by Prague 5 (14%) and Prague 7 (13%). The most active companies were from the Pharmaceutical sector (20%), followed by the IT sector (20%) and the Professional services sector (14%)

The share of renegotiated leases in the first quarter of 2021 reached 46%. Net demand (new leases, expansions and pre-leases) accounted for 50% of the total gross take-up and the share of subleases accounted for the remaining 4%.

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+420 224 814 060



+420 724 879 065



+420 234 603 603



+420 730 156 873



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Major Office Leasing Transactions

The largest disclosed transactions of the first quarter of 2021 were the renegotiation of Novartis (14,300 sq m) in Gemini B in Prague 4, followed by the new occupation of flex space concept operated by Passerinvest (3,300 sq m) in BB Centrum B in Prague 4, the renegotiation of Sweco Hydroprojekt (2,900 sq m) in Táborská 31 in Prague 4 and the expansion of Livesport (2,200 sq m) in Aspira Business Centre in Prague 5.

Office Vacancy

The share of vacant office space in Q1 2021 reached 7.6%, representing an increase of 60 basis points in comparison with the previous quarter. The vacant space totalled 280,600 sq m. The largest availability was in Prague 4 with 59,100 sq m, representing a vacancy rate of 6.1% and followed by Prague 5 with 57,600 sq m and a vacancy rate of 9.1%. The lowest amount of vacant space was recorded in Prague 3 with 6,400 sq m (vacancy rate of 5.2%) and in Prague 2 with 8,300 sq m (6.2%).

Rents

Despite the ongoing slowdown in net demand and rising vacancy rate, prime headline rents remained stable and stood between €22.00 and €22.50/sq m/month in the city centre at the end of Q1 2021. 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.

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Reclassification of office properties

Prague Research Forum

The members of the Prague Research Forum – CBRE, Colliers International, Cushman & Wakefield, JLL and Knight Frank – In 2020, 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, 49% of the properties are included in Class A, with only 8% reaching the top scores and receiving rating Class AAA. Remaining 51% of the properties are rated as Class B.

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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 be 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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