

Press release

Prague, 27th April 2022

Q1 2022: Prague office market enters 2022 with high activity and increasing rents

Prague Research Forum Announces Office Market Figures for Q1 2022

- **32% of the new office space planned for this year was completed in the first quarter, leaving 53,400 sqm to be completed in 2022**
- **Over 180,000 sqm still under construction, more projects to be launched soon**
- **Office space offered for sublease in the first quarter fell by 24% quarter-on-quarter**
- **Gross realised demand was the highest since the pandemic, up 44% year-on-year**
- **Net absorption was again positive in the first quarter, reaching 1,500 sqm**
- **Vacancy rate increased by 60 basis points to 8.4%**
- **Prime headline rent grew again to EUR 24.00–24.50 per sq m per month**

Introduction

Prague Research Forum is pleased to announce office market figures for the first quarter of 2022. The members of the Prague Research Forum – CBRE, Colliers, Cushman & Wakefield, JLL, Knight Frank, supported with the associated member Savills – share non-sensitive information intending to provide consistent, accurate and transparent data about the Prague office market.

RICS supports the activities of Prague Research Forum.

Office Stock and New Supply

The total size of modern office space in Prague at the end of the first quarter of 2022 was 3.75 million sqm. Only one building was completed in the first quarter, namely Kaprain's Harfa Business Center B (25,200 sqm). A further 53,400 sqm is scheduled to be completed in nine other projects by the end of 2022. Even if the deadlines are met, new office completions will be below average. A further 144,000 sqm is planned for 2023, assuming completion within current deadlines.

In the first quarter, refurbishment started on three office projects in Prague 1. In all cases, these are complete renovations of historically valuable buildings. Mint Investment has started the reconstruction of Palác Schiller (1,800 sqm), Crestyl has started the refurbishment of Náměstí Republiky 7, or NR7, (3,400 sqm) and Lasalle IM has started the refurbishment of a complex of three buildings on Na Příkopě street known as 100Yards (3,500 sqm). As of the end of March 2022, 182,600 sqm of office space was under construction, with most of it in Prague 1 (25%), Prague 5 (24%) and Prague 8 (21%).

The majority of the modern office supply (73%) consists of A-class buildings, with the highest quality AAA-rated space accounting for more than 17% of the total office stock.

The total supply of vacant sublease space reached 59,800 sqm in the first quarter, 24% less than in the previous quarter.

Office Take-up

Total gross take-up (including renewals - renegotiations - and subleases) reached 135,600 sqm in the first quarter of 2022, a quarter-on-quarter increase of 28% and a year-on-year increase of 44%, which is also the highest recorded since the fourth quarter of 2019.

The highest gross take-up in the first quarter was recorded in Prague 8 (28%), followed by Prague 5 (25%) and Prague 4 (18%). The highest demand for offices was realized by IT companies (27%), manufacturing companies (13%) and consulting/professional services (10%).

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New leases of existing space and expansions accounted for 44% of total gross take-up, while pre-letting of new offices under construction was 12%. A further 42% was accounted for by renewals of existing contracts (renegotiations). The remaining 2% is accounted for by subleases of already leased space.

Major Office Leasing Transactions

The largest transaction in the first quarter of 2022 was the renegotiation of Seznam.cz's lease in Palác Křižík in Prague 5 (14,800 sqm). This was followed by a pre-lease during construction in the Red Court building in Prague 8, which will become the headquarters of Czechoslovak Group (7,100 sqm) and the renegotiation of the lease of pharmaceutical company MSD Czech Republic in the Riverview building (6,800 sqm).

Office Vacancy and Net Absorption

Net absorption reflects the change in occupied office space on the market over a given period. Compared to the previous quarter, the occupied office space increased by 1,500 sqm. In the year-on-year comparison, absorption was also positive and Prague added 20,500 sqm of occupied office space compared to the first quarter of last year.

The office vacancy rate increased from 7.8% at the end of 2021 to 8.4% in Q1 2022. The total vacant office space at the end of the quarter reached 315,300 sqm. The highest vacancies were in Prague 4 (76,100 sqm) and Prague 5 (46,300 sqm). On the other hand, the least vacant space was in Prague 7 (9,500 sqm) and Prague 10 (8,900 sqm). The highest vacancy rates were in Prague 3 (26.6%) and Prague 9 (21.8%), the lowest in Prague 7 (3.9%) and Prague 10 (6.1%).

Rents

The prime rent in the first quarter of 2022 increased again and is in the range of EUR 24.00-24.50 per sqm per month in the city centre, EUR 16.00-18.00 per sqm per month in the inner and EUR 13.50-15.00 per sqm per month in the outer parts of the city.

In addition to rents, rising construction prices are still reflected in offers of allowances for office build-outs or other incentives.

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Reclassification of office properties

Prague Research Forum

The members of the Prague Research Forum – CBRE, Colliers, 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. 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 and contractually 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.
- Net absorption:** Net absorption reflects the change in occupied office space on the market over a given period. It can be both positive and negative.

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