

Press release

Prague, 24th January 2023

Q4 2022: Prague office market recorded strong demand, but new construction remains sluggish

Prague Research Forum Announces Office Market Figures for Q4 2022

- **Almost 184,000 sqm of office space is under construction; most of it in Prague 1 and Prague 7.**
- **Total completions in 2022 comprise 75,400 sqm, up 35% year-on-year, however, still significantly below the long-term average.**
- **Volume of space available for sublease reached 71,300 sqm.**
- **Gross take-up in Q4 reached 151,800 sqm, full-year take-up got to 550,100 sqm.**
- **Net take-up in Q4 reached 60,600 sqm, bringing full-year net take-up to 297,000 sqm, the highest since 2018.**
- **Net absorption remained positive at 10,100 sqm in Q4, indicating healthy demand for office space.**
- **Vacancy rate decreased to 7.7%.**
- **Prime rent has stabilised at around €26.50/sqm/month.**

Introduction

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

RICS supports the activities of the Prague Research Forum.

Office Stock and New Supply

The total size of modern office stock in Prague reached 3.8 mil. sqm at the end of the fourth quarter of 2022. During Q4 2022, one property was completed: Smíchov City Na Knížecí (8,300 sqm) in Prague 5 by Sekyra Group. Total completions in 2022 reached 75,400 sqm in seven properties, up 35% year-on-year, but down 42% on the 10-year average. In 2023 we expect a slight market recovery with the scheduled completion of 130,000 sqm of offices, in 2024 we expect a significant decrease in completions to the level of 2021-2022

In the first half of 2022, the construction of 57,900 sqm of office space commenced construction with completions scheduled mainly in 2024. In the second half of 2022, no new construction of an office building or renovation was started.

Most of the modern office supply (74%) consists of Class A buildings, with the highest quality AAA-rated space accounting for more than 17% of the total office stock.

Office Take-up

Total gross take-up (including renegotiations and subleases) reached 151,800 sqm in the fourth quarter, up 11% on the previous quarter and 45% up year on year.

The highest gross take-up in the fourth quarter was recorded in Prague 4 (42%), followed by Prague 8 (22%) and Prague 1 (13%). Technology companies were the main driver of demand (36% share on gross take-up), followed by financial companies (10% share).

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New leases of existing space and expansions accounted for 35% of the total gross take-up, while pre-leases of new offices under construction accounted for 5%. Renegotiations of existing contracts represented a major share of deals at 58%. The remaining less than 2% accounted for subleases of already leased space.

Full-year figures show that gross take-up grew by 43% year-on-year to 550,100 sqm. The highest share on annual take-up was in Prague 4 (30%) and Prague 8 (23%). Technology companies were the main drivers of demand (28% share on gross take-up), followed by financial and pharmaceutical companies (10% share each).

Major Office Leasing Transactions

The largest transactions in the fourth quarter of 2022 were the renegotiations of O2 (29,000 sqm) in Gamma, Brumlovka in Prague 4 and Expedia (7,300 sqm) in Corso Court in Prague 8. The largest new deal was a lease of Generali (5,500 sqm) in Beta, Brumlovka in Prague 4.

Office Vacancy and Net Absorption

Net absorption reflects the change in occupied office space on the market over a given period. The occupied office space increased by 10,100 sqm compared to the previous quarter, annual absorption reached 73,200 sqm.

The office vacancy rate in Q4 2022 decreased to 7.7%. The total vacant office space reached 293,600 sqm at the end of the quarter. The largest vacant space was registered in Prague 4 (60,900 sqm) and Prague 5 (54,400 sqm), the least vacant space was in Prague 10 (9,600 sqm) and in Prague 2 (10,700 sqm), which are overall small office submarkets. In terms of the vacancy rate, the highest vacancy rate was in Prague 3 (23.8%) and in Prague 9 (17.6%), the lowest vacancy rate then in Prague 8 (4.8%) and in Prague 7 (5.0%).

Rents

Prime rents are stabilising and in the fourth quarter of 2022 stood at around €26.50 per sqm per month in the city centre, €17.50-18.00 per sqm per month in the inner city and €15.00-16.00 per sqm per month in the outer parts of the city.

In addition to rents, the growing construction costs are now also reflected in the total volume of fit-out contributions or in other forms of incentives provided by landlords.

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Classification of office properties

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The minimum requirements for inclusion into modern office stock of either Class A or Class B 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 a 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 the 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 the final score of the property. The 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%

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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 a 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 a 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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