

## Press release

Prague, 19<sup>th</sup> April 2023

### Q1 2023: Almost 38,000 sq m completed across two office projects

*Prague Research Forum Announces Office Market Figures for Q1 2023*

- **Development activity is still significantly lower than pre-covid: around 145,000 sq m is currently under construction.**
- **No new construction commenced in the last nine months.**
- **Vacancy rate fell 75 basis points y-o-y to 7.5%.**
- **Gross take-up reached 137,800 sq m; 45% consisting of renegotiations.**
- **Prime rent reached EUR 27.00 per sq m/month.**

## Introduction

Prague Research Forum is pleased to announce office market figures for the first quarter of 2023. 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.

## Commentary

Radka Novak, Head of Office Agency CEE, Cushman & Wakefield, comments:

*“The Prague office market is experiencing a significant drop in new supply: no project commenced construction during last nine months. We realistically expect only one to two office developments to start by the end of 2023.*

*The downsizing trend is confirmed by the increase of the sublet space in the market by one-third compared with the same period last year. However, the combination of an active demand and a low supply keeps vacancy down and supports the successful absorption of premises available for sublease.*

*Prime rents are nearing its peak. Despite that, in a couple of transactions in the city centre, currently reported prime rental level was exceeded.”*

## Office Stock and New Supply

The total size of modern office stock in Prague reached 3.85 million sq m in Q1 2023. Three separate office buildings were completed as part of the PORT7 project by Skanska in Prague 7 – Alexandria (4,200 sq m), Dover (2,800 sq m) and Edinburgh (23,900 sq m). This quarter's second completed office development was Red Court (7,100 sq m) in Prague 8. Another nine office buildings with a total office space of around 90,000 sq m are scheduled for completion by the end of 2023.

Around 145,000 sq m of office space was under construction in the first quarter of 2023. Most of the space under construction is in Prague 1 (26%), Prague 10 (20%) and Prague 5 (19%). No new construction or reconstruction commenced in this quarter.

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

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## Office Take-up

Total gross take-up (including renegotiations and subleases) reached 137,800 sq m in the first quarter, representing an increase of 3% year-on-year and a decrease of 9% quarter-on-quarter.

The highest gross take-up in the first quarter was recorded in Prague 8 (21%), followed by Prague 5 (19%) and Prague 4 (17%). The highest demand for offices was realised by technology (12%), manufacturing (11%) and energy & extractives companies (10%).

New leases of existing space and expansions accounted for 40% of the total gross take-up, while pre-leases of new offices under construction accounted for 14%. Renegotiations of existing contracts represented a major share of deals at 45%. The remaining 1% accounted for subleases of already leased space.

## Major Office Leasing Transactions

The three largest transactions in the first quarter of 2023 were renegotiations: Amazon (11,800 sqm) in Rustonka R1 in Prague 8, Accenture Services (5,600 sqm) in Visionary in Prague 7 and a renegotiation combined with an expansion of an undisclosed tenant in BesNet Centrum Alpha (4,300 sqm) in Prague 4. The largest new lease was signed by Lego Production in the Aviatika building (4,000 sqm) in Prague 5.

## 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 53,100 sq m compared to the previous quarter.

The office vacancy rate decreased from 7.7% in Q4 2022 to 7.5% in Q1 2023. The total vacant office space at the end of the first quarter reached 289,100 sq m. The highest vacancy was registered in Prague 4 (56,400 sq m) and Prague 5 (52,100 sq m). The lowest vacancy was reported in Prague 10 (9,200 sq m) and Prague 2 (9,300 sq m). The highest vacancy rates were recorded in Prague 3 (21.6%) and Prague 9 (14.3%), while the lowest were in Prague 8 (4.2%) and Prague 4 (5.8%).

## Rents

Prime rents increased slightly in some submarkets in the first quarter of 2023, ranging around EUR 26.50–27.00 per sq m per month in the city centre, EUR 17.75–18.25 in the inner city and EUR 15.00–16.00 in the outer parts of the city.

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

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# Classification of office properties

## Prague Research Forum

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 sqm

**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 sqm 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 headline 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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