

## Press release

Prague, 24<sup>th</sup> July 2023

### **Q2 2023: Stable market. Limited construction.**

*Prague Research Forum Announces Office Market Figures for Q2 2023*

**In the last 12 months, no office building construction has commenced.**

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**No office building was completed in the second quarter.**

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**Renegotiations again dominated leasing activity**

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**Vacancy rate decreased to 7.3% quarter on quarter.**

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**The prime rents stabilised.**

## Introduction

Prague Research Forum is pleased to announce office market figures for the second quarter of 2023. The current members of the Prague Research Forum – CBRE, Colliers, Cushman & Wakefield, iO Partners, Knight Frank and Savills – share non-sensitive information intending to provide consistent, accurate and transparent data about the Prague office market.

JLL has entered into a partnership agreement with iO Partners in the Czech Republic, as of July 1<sup>st</sup>, 2023. iO Partners guarantees seamless continuity in the real estate business with its esteemed status as a JLL preferred partner in the CEE region.

RICS supports the activities of the Prague Research Forum.

## Commentary

Radana Williamsova, Associate Director of Office Agency, Colliers, comments:

*“Over the past 12 months, the Prague office market has shown signs of stagnation with no new projects initiated. Vacancy rates have been slowly decreasing due to limited new supply compared to the absorption of office space, pointing to a potential shortage of high-quality offices for lease.*

*Lower office vacancy rates, rising interest rates and rising construction costs have caused rents, which have been relatively stable over the past 10 years, to rise significantly in recent months. We expect that this trend may continue in part of the market.*

*Some businesses are re-evaluating their office needs, aiming to reduce space while fostering collaboration and face-to-face interactions to encourage employees back to the office.”*

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## Office Stock and New Supply

The total size of modern office stock in Prague remained at 3.85 million sq m in Q2 2023. No office building has been completed and there has been no construction commencement within Prague. However, another seven office projects totalling approximately 66,800 sq m of office space are scheduled for completion by the end of 2023.

Around 143,600 sq m of office space was under construction in the second quarter of 2023. The majority of this space is located in Prague 1 (26%), Prague 10 (20%) and Prague 5 (19%).

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.

## Office Take-up

Total gross take-up (including renegotiations and subleases) reached 148,800 sq m in the second quarter, representing an increase of 23% year-on-year and an increase of 10% quarter-on-quarter.

The highest gross take-up in the second quarter was recorded in Prague 4 (41%), followed by Prague 5 (16%) and Prague 1 (14%). The highest demand for offices was realised by technology (42%), financial institutions (9%) and pharmaceutical companies (7%).

New leases of existing space and expansions accounted for 41% of the total gross take-up, while pre-leases of new offices under construction accounted for 4%. Notably, renegotiations of existing contracts represented a significant share of deals at 53%.

The remaining 2% accounted for subleases of already leased space.

## Major Office Leasing Transactions

The largest transactions in the second quarter of 2023 were renegotiations of DHL Information Services (18,000 sq m) at The Park in Prague 4 and Microsoft (16,100 sq m) at Delta building in Brumlovka in Prague 4. The largest new lease was signed by Sandoz at the Enterprise building (5,700 sqm) 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 13,600 sq m compared to the previous quarter.

The office vacancy rate decreased from 7.6% in Q1 2023 to 7.3% in Q2 2023. The total vacant office space at the end of the second quarter reached 279,600 sq m. The highest vacancy was registered in Prague 4 (53,800 sq m) and Prague 5 (50,700 sq m). The lowest vacancy was reported in Prague 10 (7,700 sq m) and Prague 2 (8,700 sq m).

The highest vacancy rates were recorded in Prague 3 (20.4%) and Prague 9 (14.4%), while the lowest was in Prague 8 (3.9%) and Prague 10 (5.0%).

## Rents

Prime rents stabilised in the second quarter of 2023, ranging at levels 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 increasing 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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