

## Press release

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

### **Q3 2023: Nearly 60,400 sqm of office space in six buildings was completed.**

*Prague Research Forum Announces Office Market Figures for Q3 2023*

#### **Quarterly gross office take-up decreased by 34% year-on-year**

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**At the end of September 2023, approx. 85,800 sqm of office space was under construction**

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**Renegotiations accounted for 50% of the total take-up**

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**Vacancy rate rose slightly quarter-on-quarter to 7.4%**

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**Prime rents remained stable**

## Introduction

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

RICS supports the activities of the Prague Research Forum.

## Commentary

Pavel Novák, Head of Office Agency at Savills, comments:

*“Even the third quarter of 2023 did not bring much optimistic news for the construction of new office buildings in the capital of the Czech Republic. The situation seems to be increasingly unfavourable, as no construction has been launched on the Prague office market since the second quarter of 2022. The lack of available space is becoming a concern and tends to escalate.*

*However, attention is now drawn to the outlook for 2025. Unless there is a major last-minute change, it is likely that the Prague real estate market will not see any new office space completions during that year. This expectation may lead to a significant excess of demand, especially in attractive locations in Prague, which will in turn lead to rising rent levels and increased competition among tenants.*

*Such a market environment may already be reflected in the smaller share of concluded tenant relocations in the third quarter of 2023. In contrast to this development, the trend of a gradual reduction of corporate office space in the outer parts of the city may continue. This situation is influenced by factors such as home office and other current trends that are encouraging companies to review their office space needs.*

*Overall, the Prague office market is facing a challenge that requires strategic planning and solutions. The lack of construction of office buildings combined with otherwise high demand can have a significant impact on business and the working environment in the Czech capital. “*

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## Office Stock and New Supply

The total volume of modern office stock in Prague reached 3.90 million sqm at the end of the third quarter. During this period, a total of 60,400 sqm of modern office space was completed in the following projects: two separate office buildings within the Nová Waltrovka project in Prague 5 - Legatica (8,600 sqm) and Metalica (18,600 sqm), Masaryčka (22,100 sqm) in Prague 1, Block Karlín (8,200 sqm) in Prague 8, the newly refurbished Palác Schiller (1,800 sqm) in Prague 1 and the new Loko Libeň (1,100 sqm) in Prague 9. Only the refurbishment of one office project with a total area of 6,400 sqm is expected to be completed by the end of 2023.

At the end of September 2023, approximately 85,800 sqm of office space was under construction with completion scheduled for 2023 and 2024. The largest amount of that space is currently found in Prague 10 (34%), Prague 4 (25%) and Prague 1 (17%).

In the third quarter, the refurbishment work began on VN 62 (1,200 sqm) in Prague 1, however, again, no new office project broke ground in Prague.

Most of the existing modern office inventory (74%) consists of Class A buildings, with the highest quality AAA-rated space accounting for more than 18% of the total office stock.

## Office Take-up

Total gross take-up (including renegotiations of existing contracts and subleases) reached 88,200 sqm in the third quarter of 2023, representing a year-on-year decline of 34% and a quarter-on-quarter decline of 36%.

The highest gross take-up in the third quarter was recorded in Prague 4 (22%), Prague 8 (16%) and Prague 1 (16%). Demand was driven by companies operating in the Technology sector (14%), followed by Manufacturing (11%) and Pharmaceutical (10%) companies.

New leases and expansions signed in existing space accounted for 45% of total gross take-up, while there was only one pre-lease of new offices that are under construction, which accounted for only 2% of the quarter's take-up. Renegotiations of existing lease contracts accounted for 50% of total demand. The remaining 3% were subleases of already leased space.

## Major Office Leasing Transactions

The largest transaction in the third quarter of 2023 was the renegotiation and expansion of Unilabs Diagnostics at Hadovka Office Park (4,500 sqm) in Prague 6, followed by the renegotiation and expansion of Škoda Transportation at Coral Office Park D (3,700 sqm) in Prague 5 and a new occupation of Zenwork at Palác Ara (2,800 sqm) in Prague 1.

## Office Vacancy and Net Absorption

Office vacancy rate increased from 7.0% in Q2 2023 to 7.4% in Q3 2023. The total vacant office space at the end of the latest quarter totalled 289,200 sqm. The highest vacancy rates were recorded in Prague 3 (21.2%) and Prague 9 (13.7%), while the lowest vacancy rates were seen in Prague 8 (2.5%) and Prague 10 (4.6%).

The majority of vacant office space was located in Prague 5 (58,900 sqm) and Prague 4 (54,800 sqm), on the contrary, the least was found in Prague 10 (7,100 sqm) and Prague 2 (8,800 sqm).

Net absorption reflects the change in occupied office space on the market over a given period. From the previous quarter, the volume of occupied office space increased by 41,800 sqm.

## Rents

The highest achievable rents (prime) remained stable in the third quarter and ranged between €26.50-27.00 per sqm per month for top quality offices in the city centre. In the inner city, prime rents increased slightly to €17.75-18.50 and in the outer parts of the city remained at €15.00-16.00.

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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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