

Press Release

Prague, 22 January 2024

Q4 2023: New construction on the Prague office market remains very low

Prague Research Forum Announces Office Market Figures for Q4 2023

- **Almost 84,000 sqm of office space is under construction**
- **Total completions in 2023 comprised 98,400 sqm, up 31% year-on-year, however, still significantly below the long-term average**
- **Gross take-up in Q4 reached 166,700 sqm, full-year take-up got to 521,600 sqm**
- **Net take-up in Q4 reached 62,600 sqm, bringing full-year net take-up to 236,100 sqm**
- **Net absorption remained positive at 11,200 sqm in Q4, full-year absorption stood at 127,000 sqm**
- **Vacancy rate decreased by 50 bps year-on-year to 7.2%**
- **Prime rent has grown to €27.00-27.50/sqm/month**

Introduction

Prague Research Forum is pleased to announce the office market figures for the fourth 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

Simon Orr, Director in A&T-Offices, adds: *“Due to a slowdown in new leasing activity, we see upward pressure on incentives in certain locations. Price and location are still the driving factors for tenants, with sustainability increasingly part of the corporate agenda. We are aware of projects on the market with permits, which will start construction upon securing strong interest or even a pre-lease. Construction activity should start to recover this year; however, developers will remain cautious in this era of high construction costs.”*

Office Stock and New Supply

The total size of modern office stock in Prague reached 3.9 mil. sqm at the end of the fourth quarter of 2023. During Q4 2023, no new office building was completed. Total completions in 2023 reached 98,400 sqm in seven projects, up 31% year-on-year, but down 23% on the 10-year average.

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

No new office building construction has been initiated in the city since Q2 2022. The latest addition to the construction pipeline was the refurbishment of a smaller office building (1,200 sqm), which was launched in Q3 2023 and shall be completed during 2024. Currently, there is 84,000 sqm of office space under construction and all 84,000 sqm is scheduled for delivery in 2024.

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Office Take-up

Total gross take-up (including renegotiations and subleases) reached 166,700 sqm in the fourth quarter, almost double than the previous quarter and 10% up year-on-year. However, Q4 gross take-up was driven by renegotiations, which accounted for 60%.

New leases of existing space and expansions accounted for 32% of the total gross take-up, while pre-leases of new offices under construction had a 6% share. The remaining less than 2% were represented by subleases of already leased space.

The highest gross take-up in the fourth quarter was recorded in Prague 4 (33%), followed by Prague 5 (22%) and Prague 8 (15%). Technology companies were the main driver of demand (33% share of gross take-up), followed by Pharmaceutical/Medical companies (17% share).

Full-year figures show that gross take-up slightly decreased by 3% y-o-y to 521,600 sqm. In 2023, net take-up stood at 236,100 sqm, it was 18% lower compared to the previous year and 12% below the 10-year average.

Major Office Leasing Transactions

The largest transactions in the last quarter of 2023 were the renegotiations of Avast Software in Enterprise Office Center (12,200 sqm) in Prague 4 and two renegotiations by MSD Czech Republic in Five (11,300 sqm) and Riverview (6,200 sqm), both located 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 11,200 sqm compared to the previous quarter, annual absorption reached 127,000 sqm.

The office vacancy rate in Q4 2023 decreased by 16 bps q-o-q to 7.2%. The total vacant office space reached 280,700 sqm at the end of the year. The largest vacant space was registered in Prague 5 (53,600 sqm) and Prague 4 (52,700 sqm), the least vacant space was in Prague 10 (8,400 sqm) and in Prague 2 (8,400 sqm), which are overall small office submarkets. In terms of the vacancy rate, the highest vacancy rate was in Prague 3 (18.9%) and in Prague 7 (13.7%), the lowest vacancy rate then in Prague 8 (2.9%) and in Prague 4 (5.5%).

Rents

Prime headline rents slightly increased and in the fourth quarter of 2023 stood at around €27.00-27.50 per sqm per month in the city centre, €17.75-18.50 per sqm per month in the inner city and €15.00-16.00 per sqm per month in the outer parts of Prague.

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 sqm

When assessing the property quality, the major categories included are as follows, with a brief description:

- **Technical specifications** – how well the is property built and equipped
- **Smart technologies** – how efficient the buildings are, what smart technologies they use and what extras to “standard” property equipment 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 the 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. Gross take-up includes renegotiations, lease extensions 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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