

Press Release

Prague, 22 July 2024

Q2 2024: Prague Office Market Sees Increase in Construction Activity

Prague Research Forum Announces Office Market Figures for Q2 2024

- Four office buildings with a total of 43,900 sq m were completed in the second quarter.
- Currently, 166,300 sq m is under construction, up by 133% compared to the previous quarter. Significant projects in Prague 4 and Prague 5 have commenced construction.
- Due to an owner occupation deal with Česká spořitelna, gross take-up in Q2 2024 reached 220,600 sq m.
- Vacancy rate increased by 44 bps quarter-on-quarter to 7.9%.
- Prime headline rent in the city centre increased to €28.00-29.00/sq m/month.

Introduction

The Prague Research Forum is pleased to announce the office market figures for the second quarter of 2024. The members of the Prague Research Forum – CBRE, Colliers, Cushman & Wakefield, iO Partners, Knight Frank and Savills – share non-sensitive information with the intention of providing consistent, accurate and transparent data about the Prague office market.

RICS supports the activities of the Prague Research Forum.

Commentary

Milan Kilík, Head of Office Agency & Brokerage, iO Partners, comments: *“The Prague office market continues to follow trends from previous quarters. Despite increased construction activity, the supply of newly built office space for lease remains constrained. Companies prefer to renegotiate existing leases rather than seek new spaces. However, we are seeing rising demand, especially for high-quality projects closer to the city center, which has been reflected in an increase in prime headline rents over the past quarters. Overall, we perceive the market as dynamic and facing multiple challenges, making the upcoming quarters particularly interesting to watch.”*

Office Stock and New Supply

By the end of the second quarter of 2024, total modern office stock in Prague increased to 3.95 mil. sq m. During this period, four office projects in three locations were completed. The new supply included two separate office buildings within the Hagibor project – Hagibor 01 (13,100 sq m) and Hagibor 02 (15,800 sq m) in Prague 10, Rohan City A1 (8,600 sq m) in Prague 8, and the refurbishment of Palác Dunaj (6,400 sq m) in Prague 1.

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In Q2 2024, construction commenced on two office projects: Smíchov City South, consisting of three office buildings with a total of 44,200 sq m and Česká spořitelna HQ (75,000 sq m) in Prague 5, and Hila (19,700 sq m) in Prague 4. Currently, there are 166,300 sq m of office space under construction with scheduled completion between 2024 and 2027, representing a quarter-on-quarter increase of 133%. Only 9% of this space is expected to be completed this year.

Most of the modern office stock (74%) comprises Class A buildings, while the highest quality AAA-rated space accounts for approximately 20%.

Office Take-up

Due to the owner occupation deal with Česká spořitelna (75,000 sq m), the total gross take-up (including renegotiations and subleases) reached 220,600 sq m in the second quarter of 2024, marking the strongest quarterly demand for offices ever recorded in Prague. Even without the owner occupation deals, Q2 demonstrated strong leasing activity, reaching 145,100 sq m, which is up by 36% compared to the previous quarter and up by 4% year-on-year.

Excluding owner occupation deals, renegotiations accounted for 58% of the remaining gross demand. New leases and expansions made up 38% while subleases contributed only 4%. No preleases were recorded in the Prague office market this quarter.

Net take-up amounted to 130,700 sq m, with owner occupation deals accounting for 58%.

The highest gross take-up in the second quarter was recorded in Prague 5 (51%), followed by Prague 4 (18%) and Prague 8 (12%). The finance sector was the main driver of demand, accounting for 43% of the gross take-up, with technology companies followed with a 15% share.

Major Office Leasing Transactions

The biggest transaction of the second quarter of 2024 was Česká spořitelna's owner-occupation deal for their future headquarters in the Smíchov City complex in Prague 5, totaling 75,000 sq m. This represents the largest single transaction ever closed in the Prague office market. This was followed by the renegotiation of Vodafone (10,000 sq m) at City West C1 in Prague 5, and the renegotiation of Barclays (8,300 sq m) at Gemini A, B in Prague 4.

In line with the Prague Research Forum methodology, the Česká spořitelna transaction was included in this quarter's take-up based on the commencement of construction.

Office Vacancy and Net Absorption

Net absorption reflects the change in occupied office space on the market over a given period. Thanks to the newly completed projects with significant preleases, the occupied office space increased by 23,100 sq m in Q2 2024 compared to the previous quarter.

The office vacancy rate in the second quarter of this year increased by 44 basis points quarter-on-quarter to 7.9%. In a year-on-year comparison, this represents an increase of 92 basis points.

The total volume of vacant office space increased to 311,200 sq m. The highest vacancy rates were recorded in Prague 3 (18.7%) and in Prague 7 (16.4%), while the lowest vacancy rates were in Prague 2 (2.6%) and Prague 8 (3.2%).

Rents

Prime headline rents in the city centre slightly increased in Q2 2024 to their current level of €28.00-29.00 per sq m per month, €18.00-19.00 per sq m per month in the inner city and €15.50-16.50 per sq m per month in the outer parts of Prague.

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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. Owner occupation deals are included in take-up when the project commences construction.
- 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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