Prague Office Market

Q3 2024

A regular quarterly update on the Prague office market looking at supply and demand patterns and analysing major occupier trends

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In the last months of 2024, and especially in the coming year, the new supply of spaces will significantly decrease, which should contribute to a reduction in vacancy rates, which have slightly increased throughout the year.

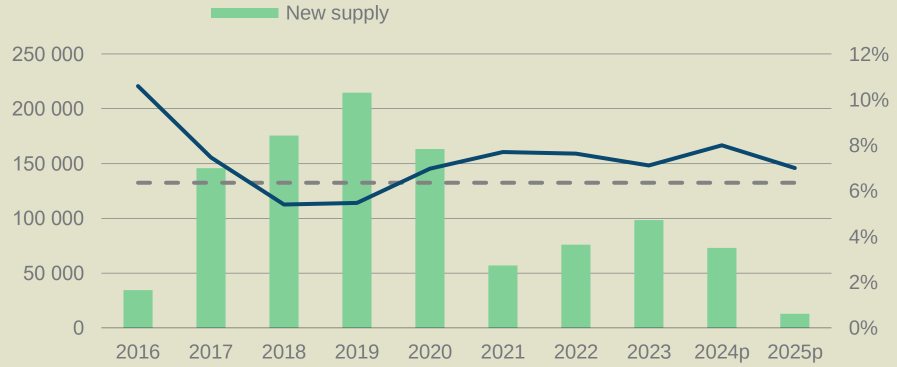
SUPPLY & VACANCY RATE

In the 3rd quarter of 2024, the reconstruction of the Riveroff Office House building (1,400 sq m) in Prague 7 was completed. By the end of 2024, an additional 3,500 sq m of office space is expected to be completed, bringing the total new supply for 2024 to 73,000 sq m. Currently, 166,600 sq m is under construction. No new construction was initiated in the third quarter.

The vacancy rate in the third quarter of this year slightly increased by 15 basis points to 8.1% quarter-on-quarter, and year-on-year, the vacancy rate increased by almost 78 basis points. The total area of vacant offices reached 318,200 sq m. The highest vacancy rate was recorded in Prague 3 (17.8%) and Prague 7 (16.7%), while the lowest was in Prague 2 (2.3%) and Prague 8 (3.9%).

New supply and vacancy rate

sq m



Source: Knight Frank Research, Prague Research Forum

Key Occupier Market Figures

Quarterly Gross Take-up & Quarterly Net Take-up

132,600 sq m
48,200 sq m

Prime Rent

29 EUR / sq m / month

Vacancy Rate

8.1 %

Under Construction

166,600 sq m

OCCUPIER FOCUS

The total gross take-up in the third quarter of 2024 reached 132,600 sq m, representing a year-on-year increase of 55%, but at the same time, a quarter-on-quarter decrease of 39%. For the first three quarters of this year, the total take-up amounted to 458,100 sq m of office space, which represents a 27% increase compared to the same period last year. Renegotiations accounted for 61% of the total take-up in the third quarter.

Net take-up reached 48,200 sq m, which is 64% less quarter-on-quarter, but 14% more year-on-year. For the first nine months, net take-up was 222,800 sq m, 26% more compared to the same period last year.

The largest net take-up was realized in Prague 4 (26%), followed by Prague 1 (23%) and Prague 5 (15%). The highest share of new leases in the third quarter was signed by manufacturing companies (17%), followed by companies from the education sector (15%).

MAJOR DEALS

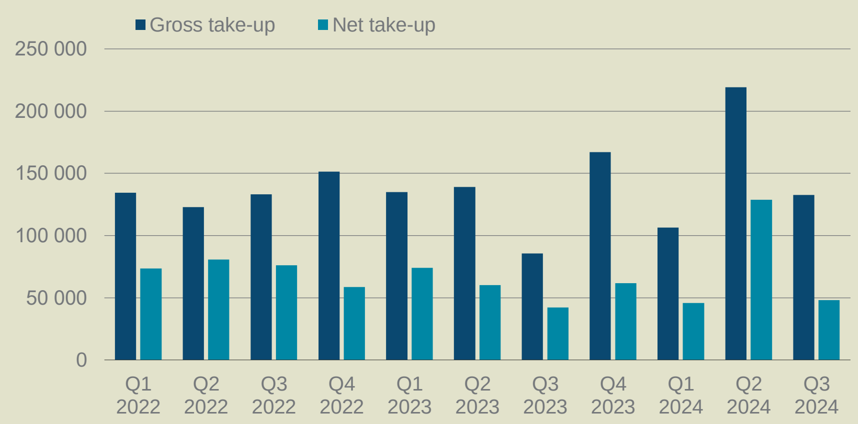
The most significant transaction of the third quarter of 2024 was the extension of an existing lease for a confidential tenant in Prague 4 (18,400 sq m). Other notable transactions included the extension of an existing lease by a technology company in the Rustonka R3 building (8,600 sq m) in Prague 8, and the extension of Skanska's lease in the Corso Court building (5,800 sq m), also in Prague 8.

61 %

Renegotiations make up to 61% of gross take-up. Year-on-year, demand remains relatively stable. Tenants are optimizing their offices and their space utilization. In attractive locations with high demand, there is a lack of available space more and more evident.

Gross and net take-up

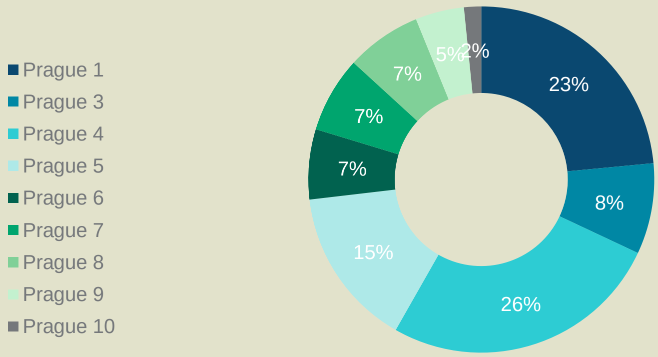
sq m



Source: Knight Frank Research, Prague Research Forum

Net take-up by district in Q3 2024

sq m

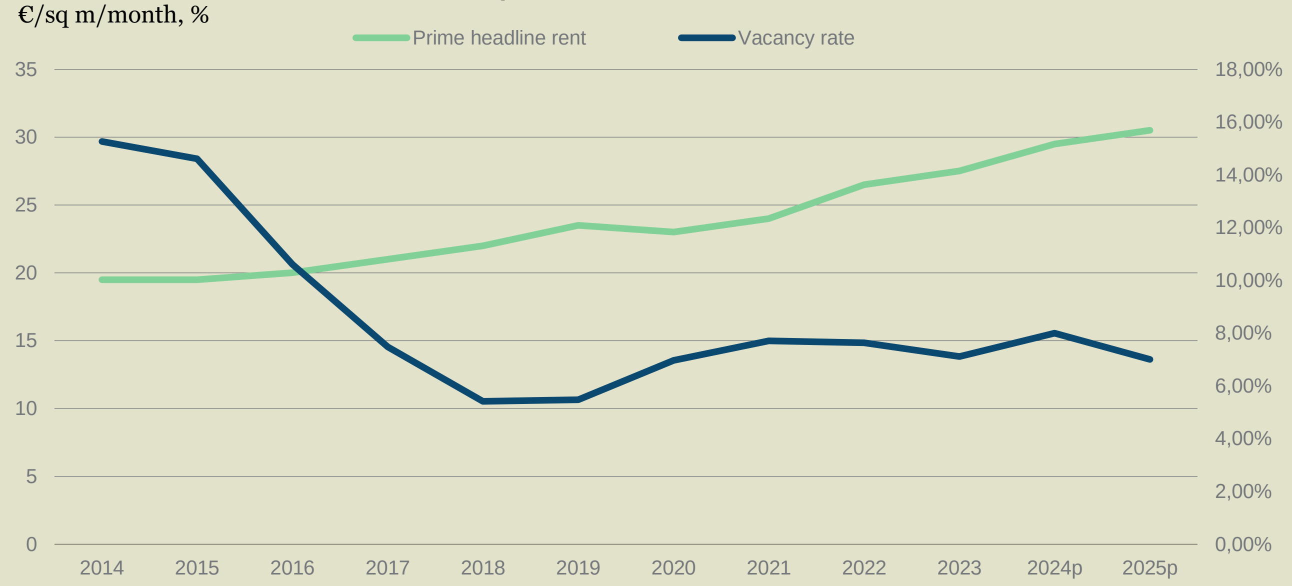


Source: Knight Frank Research, Prague Research Forum

- The prime headline rents will continue to rise next year, due to excess demand for premium office spaces in top locations in the city centre and Karlín.

Prime headline rent and vacancy rate

€/sq m/month, %



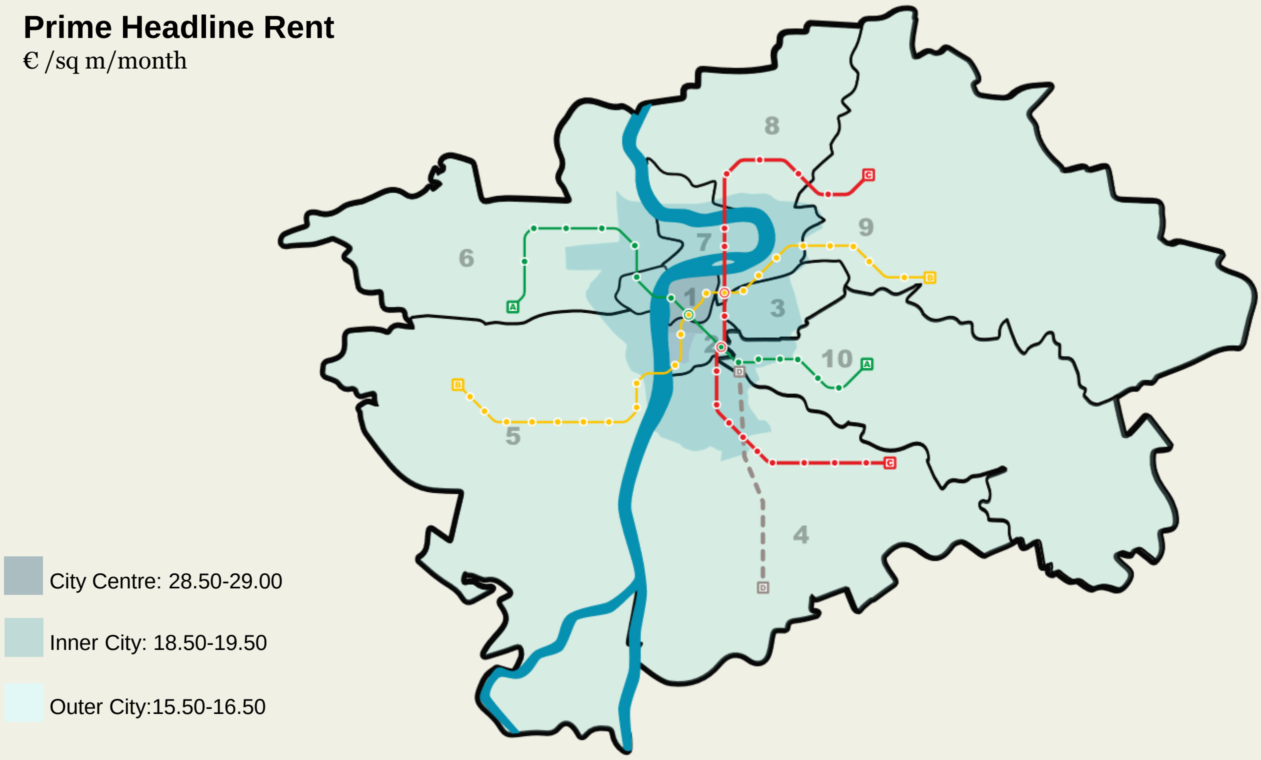
Source: Knight Frank Research, Prague Research Forum

PRIME HEADLINE RENT

Prime headline rents remained broadly stable in the thirds quarter to €28.50-29.00 per sq m/ month. We continue to record rents exceeding €30 per sq m in trophy properties in the city centre. In the inner city, the prime headline rent increased by 50 Cents to €18.50-19.50 per sq m/ month, while in the peripheral areas of the city, they were stable at €15.50-16.50 per sq m/ month.

Prime Headline Rent

€ /sq m/month



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Focus

ESG

ESG & OBSOLESCENCE & REGULATION

Tightening regulations, changing requirements of tenants, financing banks, and investors—these are all factors that are influencing the strategies of property owners, not just of office buildings. By 2030, all new buildings need to be "zero-emission buildings".
Existing buildings will need to undergo gradual renovations to at least meet energy class D by 2033.
In Prague, 31% of all modern office spaces in classes A and B are over 20 years old. Additional 38% are between 11-20 years old. This age profile of Prague's office buildings will create further pressure for higher retrofitting costs and technology replacements to ensure compliance with ESG requirements.
Newly completed buildings achieve Energy Performance Certificate (EPC) level B, no administrative building has achieved EPC A based on the new regulation. The situation is much more complicated for older buildings.
From a sample of about 240 analyzed buildings, the vast majority has an EPC based on an older less strict regulation and the ratings are at level C or lower.

OUTLOOK

Along with tightening regulations, tenant preferences are changing. Large corporate tenants require high standards of compliance with ESG requirements. Smaller tenants are not yet as concerned about this. However, all tenants are very focused on energy costs and the energy efficiency of buildings. Offices are becoming an increasingly important tool for tenants to attract talent, which is why the importance of the 'S' in ESG—i.e., the social pillar, such as a healthy and high-quality working environment and the availability of services in or around the building—is growing.

A major challenge for the future will be ensuring compliance with the EU Taxonomy, which, according to estimates, is currently met by only a small portion of newly completed buildings.

31% of the total stock of modern class A and B offices is older than 20 years.

38% of the total stock is 11-20 years old.

31% is younger than 10 years.

54% of the total modern office stock has green building certification.

67% of certified buildings are certified at the two highest levels.

Source: Knight Frank Research, Prague Research Forum

ECONOMIC SUSTAINABILITY

Every measure taken must also be economically feasible to be sustainable; not everything can be implemented in buildings that are in operation and fully occupied. Therefore, it is necessary to carefully consider, evaluate, and phase each step. The most common steps that owners take to increase energy efficiency and enhance compliance with ESG goals are:

- Replacement with quality LED lighting, intelligent light control
- Greening of roofs and exteriors
- Addition of bicycle storage and showers
- Rainwater retention
- Addition of civic amenities
- BMS (Building Management System)

IMPROVEMENTS WITH IMPACTS INTO OCCUPANCY AND OPERATIONS:

- Replacement of windows with triple glazing
- Replacement of boilers
- HVAC (Heating, Ventilation, and Air Conditioning) upgrades
- Insulation

A key driver of increasing ESG standards are the requirements from banks. Banks may not finance new construction unless it meets EPC level B or A. For older buildings, the owner must demonstrate commitment to investments leading to improvements. Non-compliance means either the project is not financeable or the financing becomes more expensive.

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 fewer 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. 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.

Sublease: Space offered for lease by a tenant who is contractually obliged to occupy the premises for a longer period than what they need.

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.

If you have any question about our research or would like to acquire more information or would seek any real estate advice, we would love to hear from you.

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