Prague Office Market

Q2 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 second quarter, we recorded a significant increase in take-up, due to the inclusion of the Česká spořitelna headquarters owner occupation deal. Construction activity grew markedly, as did prime headline rents. Vacancy rates slightly increased quarter-on-quarter.

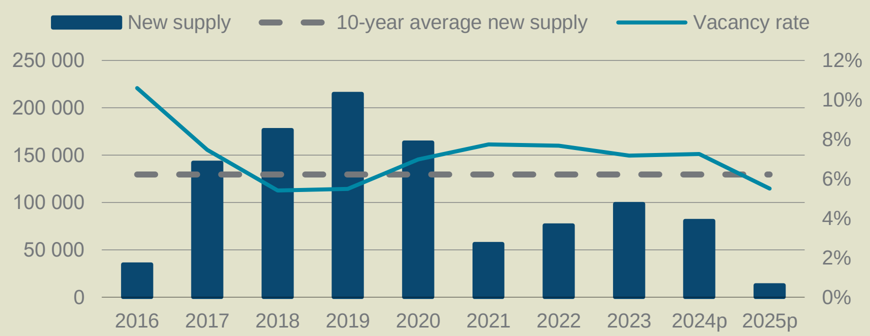
- We anticipate that rents should continue to grow this year. Only 14,700 sq m should be completed by the end of this year. Vacancy rates should therefore gradually decrease.

SUPPLY & VACANCY RATE

In the second quarter of 2024, 43,900 sq m of office space was completed. Amongst the completed projects were Hagibor 01 (13,100 sq m) and Hagibor 02 (15,800 sq m) in Prague 10, as well as Rohan City A1 (8,600 sq m) in Prague 8, and the reconstruction of Palác Dunaj (6,400 sq m) in Prague 1. Currently, 166,300 sq m is under construction, marking a significant increase in new development due to the commencement of construction work of the Smichov City South project in Prague 5 (119,200 sq m), including the Česká spořitelna campus (75,000 sq m). Additionally, the Hilla project (19,700 sq m) in Prague 4 has also launched construction works. A total of 80,300 sq m is expected to be delivered to the market throughout 2024, which is still significantly below the long-term average.

In the second quarter of this year, the vacancy rate slightly increased quarter-on-quarter by 44 basis points to 7.9%. Year-on-year, the vacancy rate rose by almost one percentage point. The total area of vacant offices reached 311,200 sq m. The highest vacancy rates were recorded in Prague 3 (18.7%) and Prague 7 (16.4%), while the lowest were in Prague 2 (2.6%) and Prague 8 (3.2%).

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	220,600 sq m 130,700 sq m
Prime Rent	29 EUR / sq m / month
Vacancy Rate	7.9 %
Under Construction	166,300 sq m

OCCUPIER FOCUS

The total gross take-up reached 220,600 sq m in the second quarter of 2024, marking the highest quarterly realized take-up ever, primarily due to the inclusion of the new Česká spořitelna headquarters (75,000 sq m) in Prague 5 developed for owner occupation. Even without this transaction, the take-up was strong, amounting to 145,100 sq m, which is 36% more than in the previous quarter and 4% more year-on-year.

Net take-up reached 130,700 sq m, 184% more than in the previous quarter and 117% more than in the same period last year. Ownership transactions accounted for 58%. Excluding these, net take-up was 55,200 sq m, up by 20% q-o-q and down by 8% in comparison to Q2 2023.

Without ownership transactions, renegotiations made up 58% of the total gross take-up, new leases and expansions 38%, and subleases only 4%.

Prague 5 recorded the highest net take-up (67%), Prague 1 attracted ten percent of all new leases and expansions, and Prague 4 accounted for 9%.

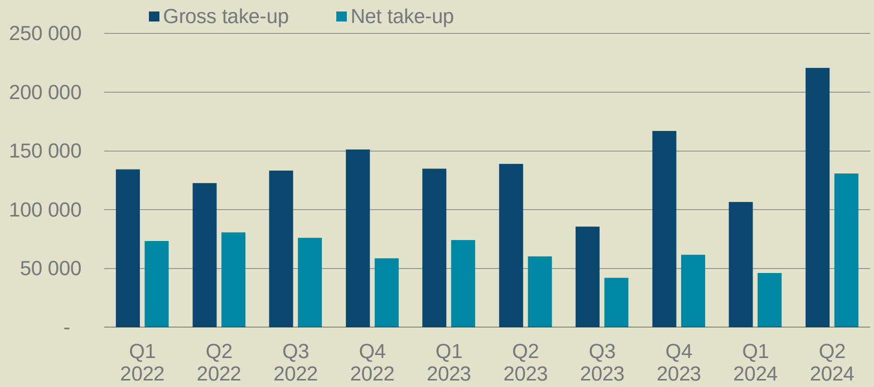
The largest new demand for office space came from companies in the financial sector (64%), followed by consulting (8%) and technology companies (5%).

MAJOR DEALS

The largest transaction of this year is the Česká spořitelna headquarters, with 75,000 sq m in the Smíchov City project in Prague 5. Other significant transactions in the second quarter include the renegotiation by Vodafone (10,000 sq m) in Prague 5 and Barclays Capital Services Limited (7,000 sq m) in Prague 4.

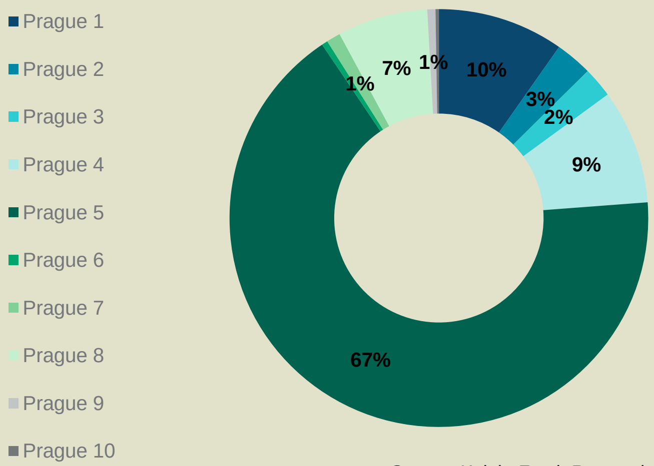
Not only due to the exceptional transaction by Česká spořitelna did we also observe an increase in the gross take-up levels in the second quarter. Excluding this owner occupier deals, renegotiations still dominate the leasing activity.

Gross and net take-up
sq m



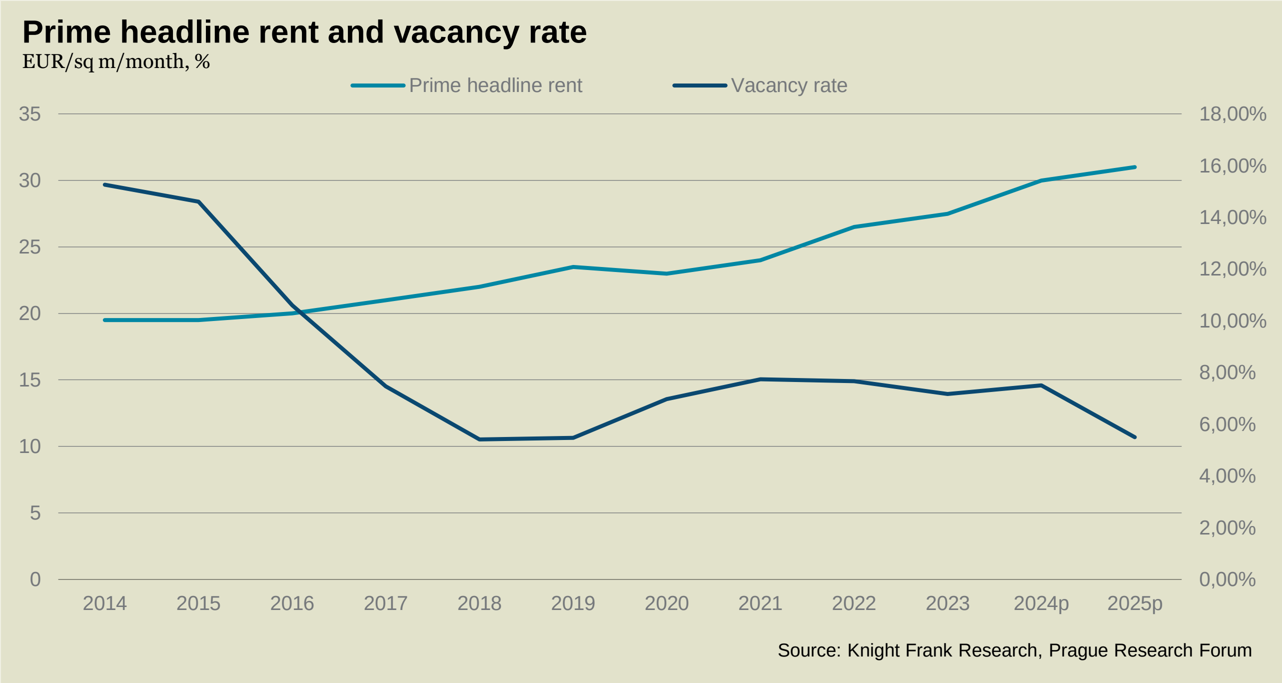
Source: Knight Frank Research, Prague Research Forum

Net take-up by district Q2 2024
sq m



Source: Knight Frank Research, Praguue Research Forum

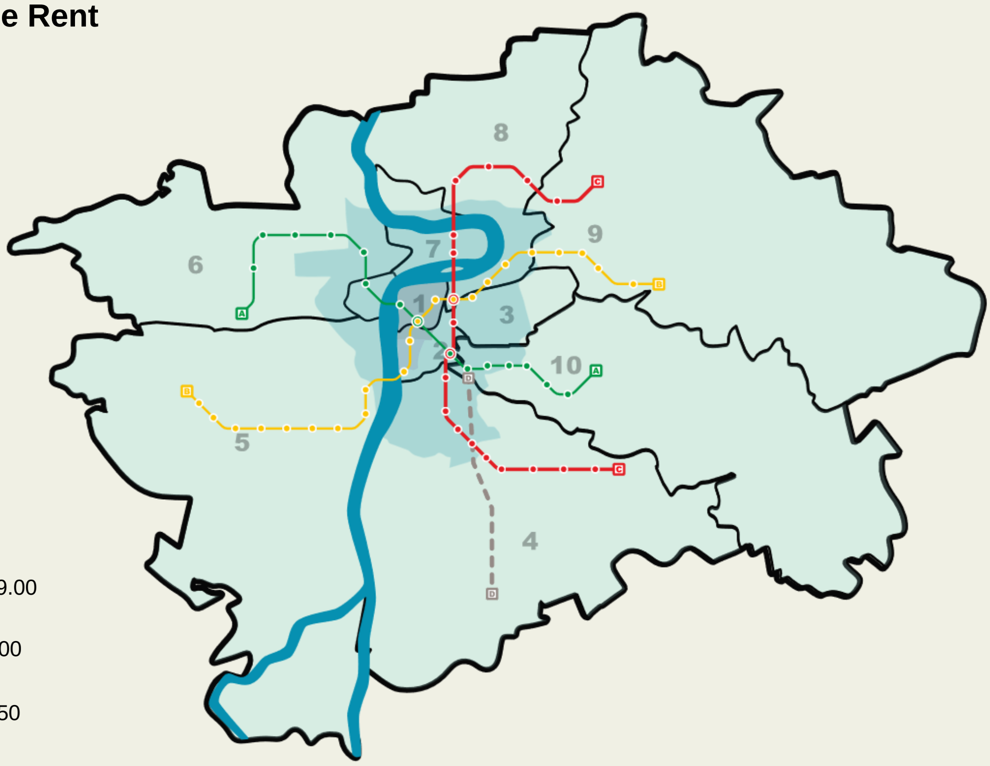
- We expect that prime headline rents will continue to grow in central locations and in the inner city, given the demand for centrally located modern offices that meet the ESG requirements.



PRIME HEADLINE RENT

Prime headline rents increased again in the second quarter to 28.00-29.00 EUR/ sq m/ month. In the inner city, the prime headline rent reaches 18.00-19.00 EUR/ sq m/ month, while in the peripheral areas of the city, it is 15.50-16.50 EUR/ sq m/ month.

Prime Headline Rent
EUR /sq m/month



City Centre: 28.00-29.00

Inner City: 18.00-19.00

Outer City:15.50-16.50

Focus

Coworking and Serviced Offices

Coworking and serviced offices in Prague have undergone consolidation and a significant increase in the space provided in recent years. Providers are responding to changes in tenant preferences and the demand for flexibility, both spatial and temporal, which allows them to adapt to changes in business strategy. In recent years since the pandemic, along with working from anywhere and the development of technology, there has also been a significant increase in office fit-out costs. This is also one of the reasons why the offer of fully equipped coworking and serviced offices is becoming increasingly attractive to a larger pool of companies.

COWORKING CENTRES

The total volume of shared and flexible office space in Prague currently exceeds 130,000 square metres, including both coworking centres and serviced offices. Compared to 75,000 square metres at the end of 2019, there has been a 73% increase over the past 4.5 years, indicating rapidly growing demand for these spaces in the capital. Despite the significant increase, the supply of coworking and serviced offices still accounts for only 3% of the Prague office stock Therefore, there is significant room for future growth in this segment. For example, in central London, the share of coworking and shared offices reaches up to around 20%.

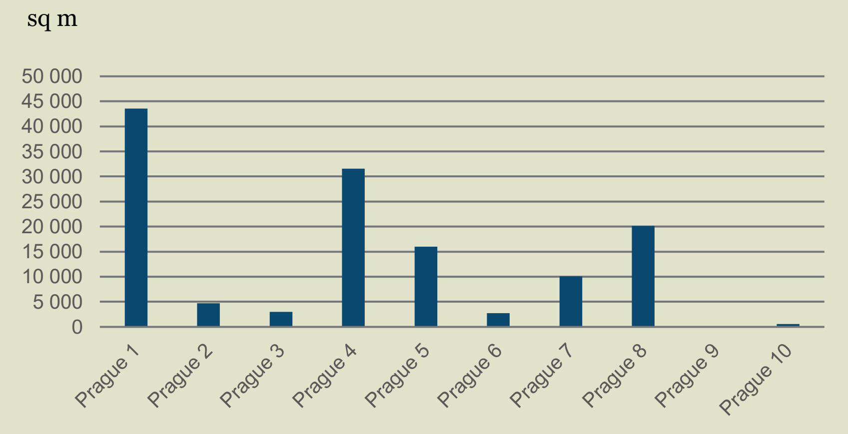
OUTLOOK

In recent years, at least 15 coworking offices have closed or stopped providing services. These were often independently owned and smaller (less than 500 square metres). On the other hand, 38 new flexible offices have opened in Prague in recent years. This clearly indicates consolidation and professionalization of the market, with established strong operators strengthening.

At the end of last year, Penta sold its coworking space BASE in Prague 2 to Scott.Weber.

Among the largest planned new centres this year are Regus in Nové Město in Prague 1, WorkLounge, which opened in June in Dejvice and plans to open in Žižkov in the summer. Scott.Weber will open in Karlín and Palmovka this and next year. Mo-cha already has its pilot coworking project in Prague 4 and will be opening another one on Wenceslas Square in 2025. Other openings are planned in Brno and Ostrava.

Coworking centres and serviced offices



Source: Knight Frank Research,

PRICE

Regarding the costs of coworking centres, there is a wide range depending on the location and the provider. The cost for a one-day entry ranges from 200 CZK to 1,000 CZK. The cost for unlimited monthly membership ranges from 1,990 CZK to 14,900 CZK. Many places offer a personal desk or office at an increased price. Prices for serviced offices in Prague vary between 3,690 – 17,500 CZK.

Among the largest providers of shared offices is Scott.Weber. With a total area of 40,800 square metres, they represent about 31% of the total flex-office space in Prague. Currently, they have 14 projects in very attractive, central locations such as Karlín, Wenceslas Square, and Pankrác. Regus and Spaces, both under IWG, have a total of 28,400 sq m of coworking space, with Spaces representing 14,400 sq m and Regus 14,000 sq m. Together, Scott.Weber and IWG are leaders in the coworking office market, with a 53% market share in Prague.

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.

Coworking: An arrangement in which individuals from different companies work in a shared working environment. The concept of coworking office spaces is greatly based in flexibility, which is reflected in what the many providers offer. This starts with a range of memberships. Clients can often choose from a “flexible” or “fixed” desk. With a “flexible” desk, clients are free to sit at any of the desks available in the shared spaces. With a “fixed” desk, members get an assigned desk that is reserved solely for them. Often, coworking office spaces also cater to those, who prefer privacy, and offer private offices that can be rented. Any member also has the chance to book a meeting room. Many places have memberships ranging from 30-120 hours per month, or a 24/7 access membership. Many also offer a “day pass”, in which clients can choose to visit for a day instead of paying for a monthly membership. The business hubs offer a community and networking opportunities as well as organize events for their members to attend and meet other professionals.

Serviced office: A fully equipped office space that is managed by an office provider, ready for immediate use. Often in highly demanded, central locations.

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.

Research & Consultancy
Lenka Šindelářová | Head of Research & Consultancy
+420 602 773 592
lenka.sindelarova@cz.knightfrank.com

Office Agency
Jan Babka | Head of Office Agency Occupier Solutions and Strategy
+420 702 276 335
jan.babka@cz.knightfrank.com

Knight Frank