Prague Office Market

Knight Frank

Q3 2023

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

knightfrank.com/research

Only one smaller refurbishment project (1,200 sq m) started in Q3 2023, there have been no new constructions initiated since Q2 2022. This will undoubtedly curtail choices for prospective occupiers searching for prime office space in 2024, and notably, in 2025. New supply in 2024 is expected to reach to around 80,000 sq m and only 27,500 sq m is due for completion in 2025.

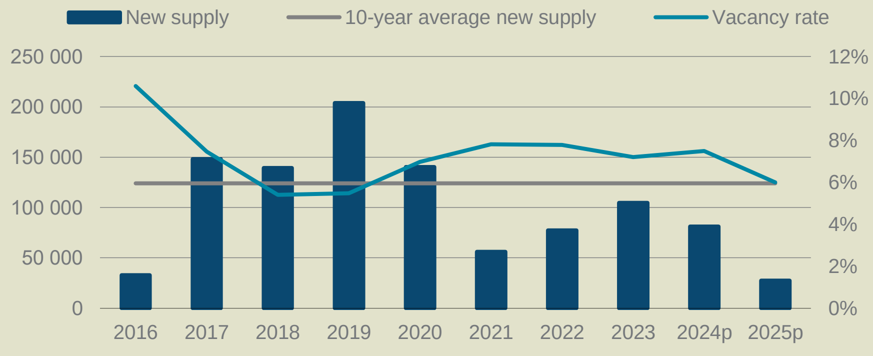
- Vacancy rates are forecast to remain relatively stable due to the combined effects of lower new supply with second-hand excess office space coming to the market upon lease expiries.

SUPPLY & VACANCY RATE

In Q3 2023, 60,400 sq m were completed in the Prague office market, bringing total stock in excess of 3.9 million sq m.
This was the highest quarterly supply since Q4 2019. Nevertheless, only 22% of the newly completed space was available for occupation.
Major new completions included Masaryčka A and B in Prague 1, Metalica and Legatica in the Nová Waltrovka complex in Prague 5 and Block Karlín in Prague 8. Before the end of 2023, only one building will be completed in Prague 1.
Despite the high volume of new completions, the vacancy rate has increased only slightly in Q3 to 7.4%, up by 0,4 percentage points.

New supply and vacancy rate

sq m, %



Source: Knight Frank Research

Key Occupier Market Figures

Quarterly Take-up

88,200 sq m

Prime Rent

27 EUR / sq m / month

Vacancy Rate

7,4%

Under Construction

85,800 sq m

Recent figures confirm that occupiers tend to prefer renegotiating their existing leases to relocations due to increased relocation costs and changes in workplace strategy with increased use of hybrid working models.

OCCUPIER FOCUS

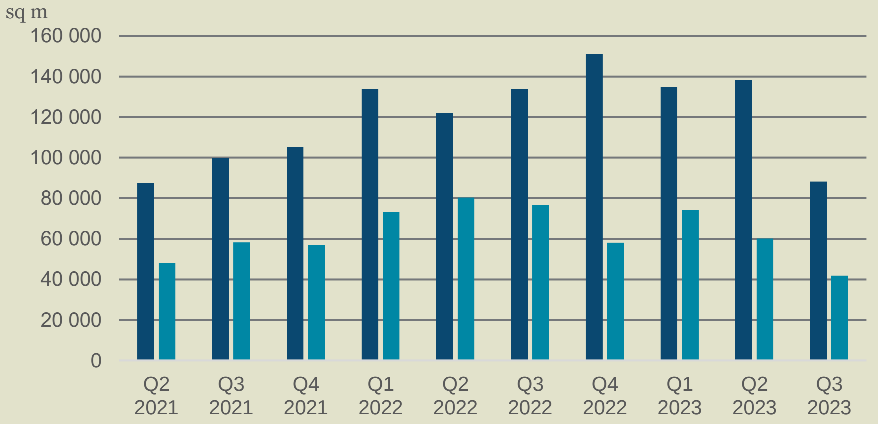
Total leasing activity decreased by 36% quarter-on-quarter and 34% year-on-year to 88,200 sq m. Net take-up amounted 41,800 sq m, down by 30% quarter-on-quarter and 45% year-on-year.

Renegotiations represented 50% of all signed leases. Subleases account for 3 % of gross take-up, nevertheless additional 58,500 sq m of office space is offered for sublease representing a so called shadow vacancy rate of 1.5 percentage points.

Highest gross take-up was recorded in Prague 4 (22%), Prague 8 (16%) and Prague 1 (16%). Technology companies had the highest share on total leasing activity in Q3 2023 (14%), followed by the pharmaceutical sector and construction equally taking an 11% share.

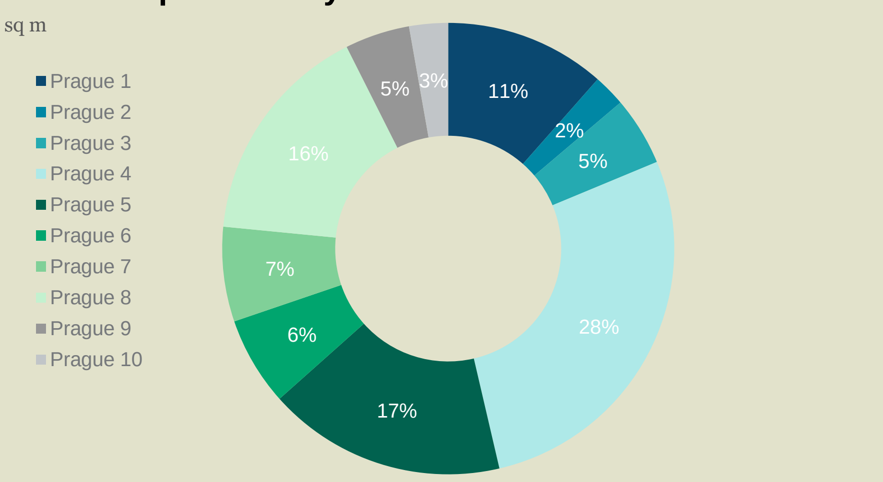
Since the start of the year gross take-up amounted to 361,000 sq m, down by 7% y-o-y, while net take-up decreased by 24% on an annual basis to 176,100 sq m.

Gross and net take-up



Source: Prague Research Forum, Knight Frank Research

Net take-up in 2023 by district

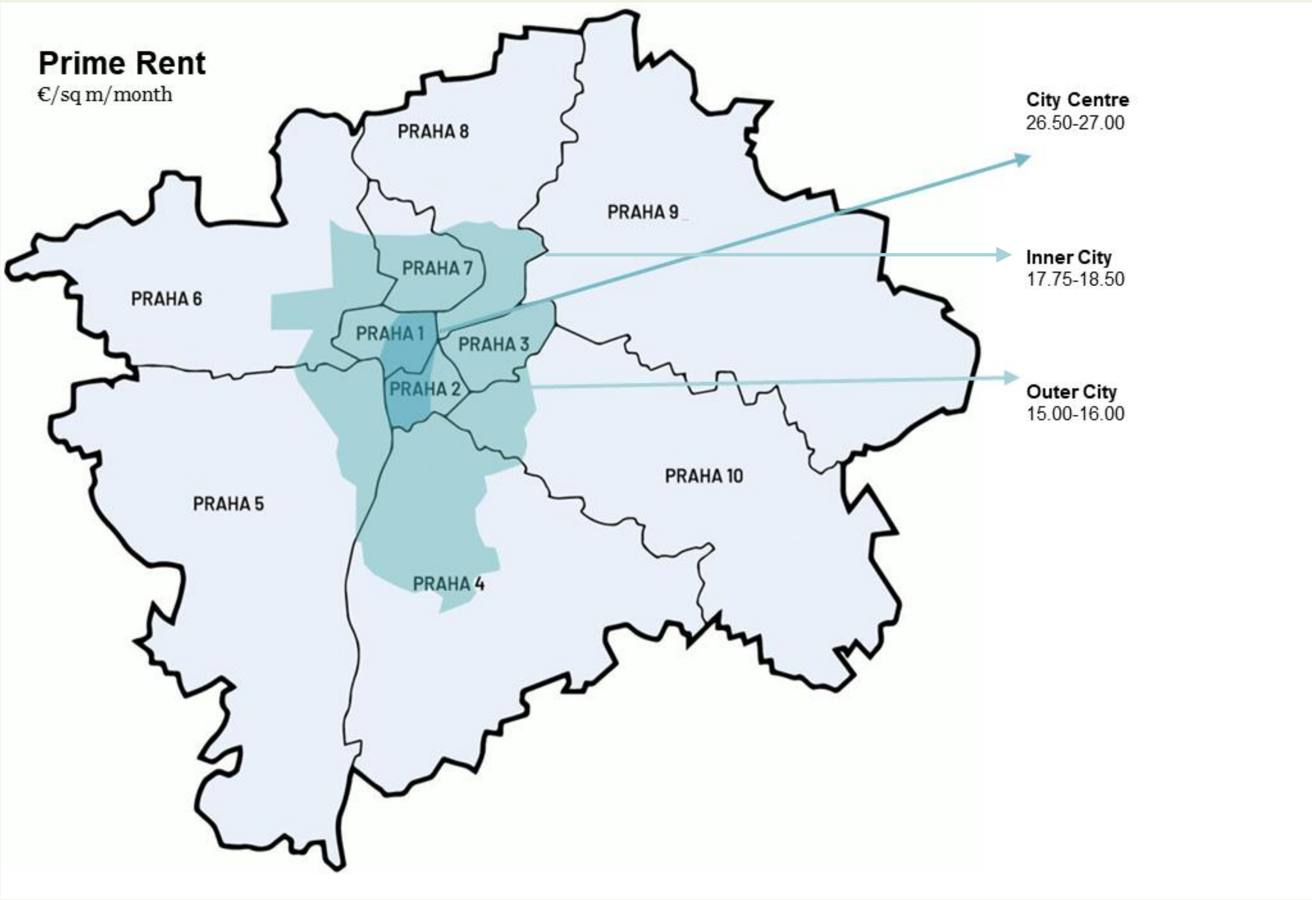


Source: Prague Research Forum, Knight Frank Research

- Looking ahead, we foresee sustained rental growth pressures primarily in the city centre and in some inner city locations where demand outpaces supply due to limited supply pipeline in the coming two years. On the other hand, outer city locations with higher vacancy rates may face rent reduction.

PRIME RENT

Prime rents remained broadly stable throughout the third quarter at €26.5O-27.00 sq m/month. Nevertheless, we are recording trophy assets in the centre, which achieve rents significantly above the market level. Inner city prime headline rents increased slightly to € 17.75-18.50 sq m/month and remained stable in outer city locations at €15.00-16.00 sq m/month



DEFINITION

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.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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

Office Agency
Richard Curran | Partner
+420 602 225 765
Richard.curran@cz.knightfrank.com

Office Agency
Jan Babka | Senior Consultant
+420 702 276 335
Jan.babka@cz.knightfrank.com

Knight Frank