

Avisource
Q2 2022
Czech Republic

**Prague Office
Market Tracker**



HIGHLIGHTS

- In Q2 2022, the total leasable office area reached 3.75 million sq m. Two new office buildings were completed in this quarter; DOCK IN FIVE (20,500 sq m) in Prague 8 and Kosirska brana in Prague 5 (2,000 sqm) bringing 22,200 sqm of new office space in total to the market.
- There is a total of 216,000 sq m of office space under construction with completion planned between 2022-2024. We expect another six projects (28,000 sq m) to be delivered to the market by the end of this year.
- Despite a steady increase of rents for newly completed buildings (13% y-o-y), the rent growth for existing buildings is not that substantial and we don't expect any significant changes in this trend.



TOTAL
OFFICE STOCK

3.75 m sq m



NEW SUPPLY
Q2 2022

22,700 sq m



VACANCY RATE

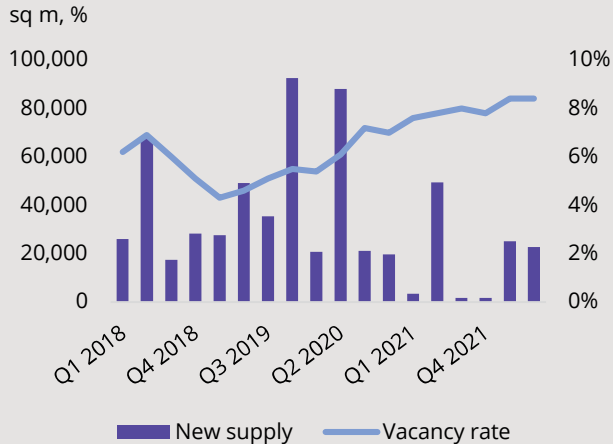
8.4 %



UNDER CONSTRUCTION
/ RECURBISHMENT

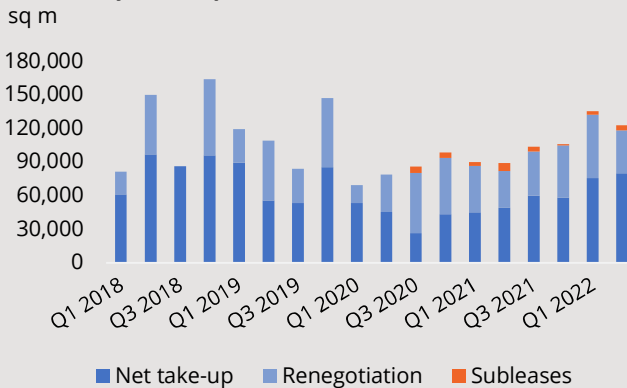
216,000 sq m

New supply, vacancy rate



Source: Avison Young, PRF

Quarterly take-up



Source: Avison Young, PRF

Prime headline rents

City Centre	€26.50 – 30.00
Inner City	€16.50 – 18.50
Outer City	€13.50 – 16.00



Average rents in A-class offices

Prague 1	€19.00 – 23.00
Prague 4	€14.50 – 15.50
Prague 5	€14.50 – 16.00
Prague 8	€15.50 – 16.50

**PRIME
OFFICE
YIELD**

4.25%



Investment

The total investment volume has decreased from €190 million to €80 million year on year. Demand for office assets in premium locations remains strong, but a situation of lack of suitable opportunities persists. A notable transaction which closed in Q2 2022 was the acquisition of Red Court office building in Prague by BlackBird Real Estate from J&T.

Office market overview

There were two new office buildings completed in Q2 2022, bringing the total lettable office area to 3.75 million sq m.

Over 216,000 sqm of office space was under construction or reconstruction in Q2 2022 due to be delivered to the market between 2022-2024, representing a 47% increase y-o-y. We expect 28,800 sq m to be completed by the end of this year. The highest concentration of development activity was mostly in Prague 1 with 46,200 sq m in the pipeline followed by Prague 5 with 40,800 sq m underway.

During this quarter, the construction of four office projects commenced: the first phase of the reconstruction of E-factory (19,300 sqm), the new development of Hagibor 01 and Hagibor 02 office buildings by Crestyl in Prague 10 (12,100 sq m and 15,000 sqm respectively) and Rohan City A1 office building by Sekyra Group in Prague 8 (9,300 sq m)

The vacancy rate remained unchanged at 8.48% as in the previous quarter and increased by 0.6 percentage points y-o-y. We expect the office leasing activity to reach roughly 450 000 sq m this year with approximately 30-40% being new leases, preleases or expansions. Therefore, we estimate the vacancy rate to remain stable or slightly increase by year end. (source: PRF).

Demand

Take-up	Volume	Q/Q	Y/Y
Gross:	123,700 sq m	+ 7%	+ 41%
Net:	80,000 sq m	+ 4%	+ 67%

Concentration of gross take-up

IT	39%	Prague 4	40%
Flexible workplace	9%	Prague 8	18%
Pharmaceuticals	11%	Prague 1	17%

Total leasing activity in Q2 2022 amounted to 123,700 sq m (32% renegotiations, 65% new occupations incl. expansion & preleases). There was an increase in rental levels in H1 2022. Utility charges also increased, reflecting the rise in energy prices.

Major leases

- Pre-lease of SCS Software (9,700 sqm) in Rožtyly Plaza in Prague 4
- Renegotiation of a confidential tenant (4,200 sqm) in BesNet Centrum in Prague 4
- Flexible workplace provider FLEKSI (3,800 sq m) in Filadelfie, Brumlovka in Prague 4 & a new tenant - an IT company in DOCK IN FIVE (ca 3,500 sq m) in Prague 8

Rents

While rents for newly completed buildings have been rising steadily (13% y-o-y), the pace of rental growth for existing office buildings is not that substantial. This trend is expected to continue throughout the upcoming quarters.

Petr Florian, Associate Director Office Leasing, AY in the Czech Republic comments:

„We see the hybrid working is the new standard and also the future of the office market. The drop in demand during the pandemic was temporary and occupiers are now focusing more on the flexibility of the working environment and creating collaborative space rather than „old-fashion“ workspace.

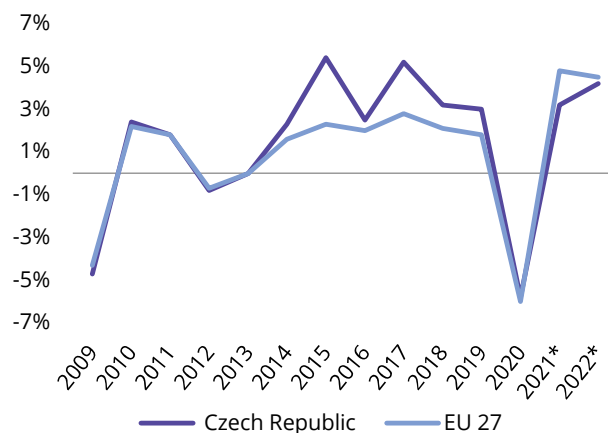
However, the main topic and challenge we are currently discussing with our clients, both the landlords and occupiers, are increasing rental levels due to high inflation and increasing service charges & utilities.“

Economic Overview

- The Czech economy is dealing with ongoing inflation and a prediction of a rather weak growth as a result of it, severed by low unemployment rate and commodity prices. We anticipate that in 2022 growth will stay around 2.2% with a slight improvement in 2023. In May, the unemployment rate decreased to 3.2%, further aggravating the situation in the labour market. As a result of inflation, wages increased nominally in Q2 2022, while the real wages of most workers decreased.
- In May, inflation reached 16%, one of the highest rates in the EU. This pressure will affect consumer spending, as real wages fall and encourage a drop in consumer confidence. A headline inflation can be expected to decline only very gradually over the year, especially because high energy prices already significantly affected industry.
- Real GDP growth would slow significantly this year and economic activity would even fall slightly y-o-y in the second half of the year due to rising financial costs and reduced real incomes, which would hamper all economic activity. However, GDP growth is forecast to accelerate to over 3% in 2023, surpassing its pre-pandemic level.
- The Czech National Bank raised the two-week repo rate to 7% (while in June 2021 it stood at 0.5%). This year's double-digit inflation will thus decline in the first half of next year, with the rapid rise in interest rates so far contributing substantially. Inflation is projected to decline towards 4.5% y-o-y in 2023, supported by well anchored inflation expectations as well as a stronger domestic currency and more stable energy prices.
- According to the ČSÚ, consumer prices increased by 0.4%, month-on-month. This development came from price growth in almost all consumer basket divisions except 'transport'. The year-on-year growth of consumer prices amounted to 17.2% in August, which was 0.3 percentage points down on July this year.
- The Czech koruna's exchange rate against the euro reached an average value of CZK 24.64/EUR in Q2. The CNB's interventions played a significant role in this. Compared to last year's 2nd quarter, the koruna's exchange rate against the euro was stronger by 3.9% and remained almost unchanged quarter-on-quarter.
- With the estimated high inflation rate for 2022 and with rising energy costs we expect a leapfrog increase in occupier costs in 2023 after indexation clauses and service charge reconciliation will take effect.

GDP growth (% , at constant prices 2015)

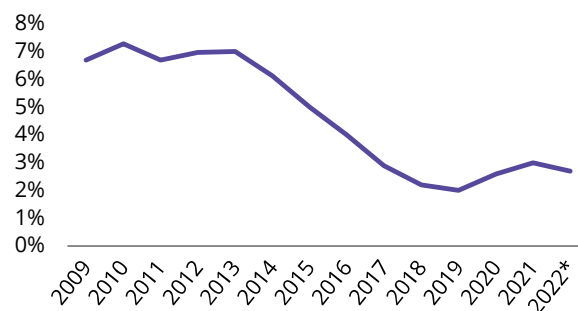
%, y/y



Source: CSU, Eurostat, Avison Young

Unemployment rate

%, y/y



Source: CSU, MF ČR, Avison Young

* Forecast

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