Office market: Looks like we are on solid ground, but tread carefully

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The latest report provides a brief review of the first quarter of 2012 and prognosis of the office market in the Czech Republic. Key highlights include:

Supply and Demand
The total office stock expanded by 28,919 m2 as two office buildings came on line in Q1 2012. Four office buildings in Prague 1, Prague 4 and Prague 8 commenced construction this quarter; the majority of which are being built on a speculative basis. Gross office take-up totaled almost 80,000 m2 and showed a decrease in both q-o-q and y-o-y; however, the figures still demonstrate healthy levels of leasing activity, especially in light of the fact that 2011 was a record year for office take-up in Prague. Renegotiations made up the lion's share of take-up with 47%, followed by relocations at 31%, and new leases at 17%.

Vacancy/Availability
The overall vacancy rate was 12.26% and broadly in line with the year end figure of 2011 and a marginally improvement from the same point of last year. Across Prague a total of 345,000 m2 was available for immediate lease. Regarding vacancy increases and decreases: Prague 4 experienced the highest increase (from 7.7% to 9.9%); Prague 5 (6.95%) maintained the lowest vacancy rate; Prague 1 and Prague 8 recorded slight decreases (to 11% and 13.4% respectively); and Prague 9 (31%) and Prague 7 (23.8%) still suffers from vacancy rates well above the city average.

Rents
Prime office rental rates in all Prague submarkets remained unchanged; City Centre rents ranged from € 20-21/ m2/ pcm, Inner City rents from € 15-17.5/ m2/ pcm and Outer City rents from € 13-14.5/ m2/ pcm. Net effective rents achieved by occupiers who renegotiated leases or relocated were around 10-15% lower than quoted headline rents, depending on particular district, building, required size and lease terms.

Prognosis
Over 170,000 m2 of office space was under construction in Q1 2012. 84,000 m2 is expected to be completed in 2012; 60% of which is preleased/pre-sold.

Vacancy may increase slightly in the short term as all new office space delivered during the course of 2012 is not expected to be fully leased by the building completion date.

“There is a slight nervousness surrounding office leasing activity levels for the rest of the year, due to muted economic growth and the financial uncertainty in the Euro zone in 2012.,” says Jana Vlkova, MRICS, Director Office Agency, Colliers International Czech Republic. “We anticipate lease renegotiations and renewals to continue representing a major part of gross take-up, as some office occupiers may reconsider their relocation and expansion plans.”

Key office figures
Total stock: 2,813,588 m2
Take-up: 79,746 m2
Vacancy: 12.26%

Prime Headline Rent: €20–21/m2/pcm

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