

# 16. Property Market



## 5.5 - 7.9 EUR

**Czech Industrial Market**  
Total CZ rent (sq m/month)



## 7.5 - 7.9 EUR

**Czech Industrial Market**  
Greater Prague (sq m/month)



## 17.5–18.0 EUR

**Czech Office Market**  
Prague Inner City (sq m/month)

## INVESTMENT MARKET

### Q4 briefly

The investment volume in Q4 2022 reached approximately €294 million, after the exclusion of several forward purchases, including one quite major one which we will touch upon later. The total volume was also the second highest during 2022. Considering how low it was, it quite clearly represents a slowdown in the market. For comparison, the result represents a quarter-on-quarter increase of 131% and a decrease of 53% year-on-year. The total number of closed transactions increased to 16, which is an average number.

As for significant transactions, the largest was the aforementioned forward of Logport Prague West, a multipurpose warehousing asset. It will be delivered in summer of 2023 and is aiming to be awarded with a BREEAM Excellent certification. The investor was American investment management company, Invesco. The second largest transaction in Q4 was Ostrava Airport Multimodal Park. This is being acquired hall by hall, by American fund, Exeter. As international investors may seem hesitant regarding the Czech market, they can be considered as confident. Following these two industrial acquisitions, investors were also keeping their focus on the retail sector, especially retail parks and convenience schemes as both ZDR Investments and Generali acquired different portfolios, worth approximately €39 million combined.

### 2022 In review

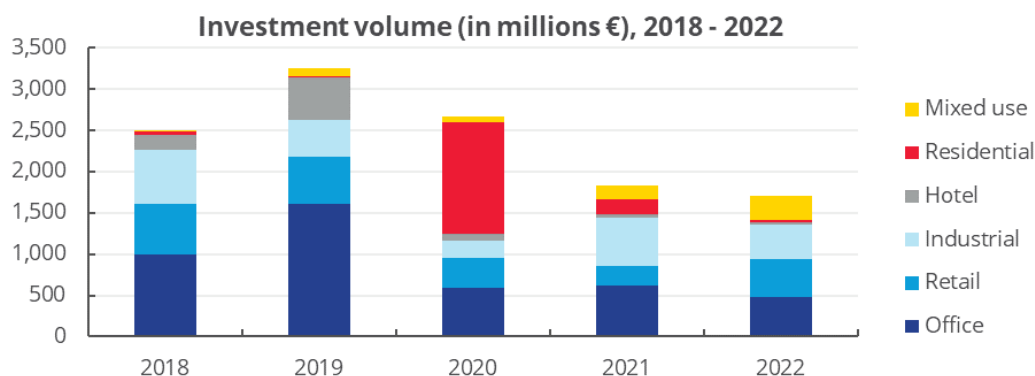
From an annual perspective, the investment volume did reach our expectations and ended at approximately €1.62 billion. This is year-on-year decrease by approximately 11% and the lowest total volume recorded since 2013. The first half, or rather first quarter, was responsible for the largest share of the total volume, as the €915 million was supported by transactions carrying over from 2021 and by coincidence, these were some of the largest transactions. Throughout the remainder of 2022, total transaction volumes did not exceed €300 million per quarter.

The investment volume split between asset types in 2022 was very even. The largest share was represented by office assets with 28%, supported by 17.5% in Mixed-use properties. These are mainly office buildings with retail elements like Bořislavka, which transacted in Q1. The second largest share was represented by retail assets with 27% and industrial properties in third place with 24%. As we have recorded, Czech commercial real estate market is not monothematic and is able to offer a variety of opportunities to investors.

### Prime yields

Although activity increased in comparison with the third quarter, we still do not have much transactional evidence to accurately set pricing. With known average inflation in 2022, we can predict where the rents will move. But whether prices will follow, it is difficult to predict right now. Most likely, and this is visible on other markets too, yields will start to soften quicker across the market. This won't be so dramatic in the case for prime core assets, as the absence of such opportunities makes them even more prized. But for other assets, which may be constrained by shorter WAULTs, necessary major investments or possess any other minor disadvantages, could be approached more critically by the investors, and their owners will probably be pressured into putting a discount on prices which were achievable just a couple of months back.

As of Q4, we moved our prime yield benchmarks for office assets out by 50 bps to 5.00%, for industrial assets by 25 bps to 4.75%. Other major prime yield indicators were kept mostly on the same level as in Q3, usually lacking enough transactional evidence. The CNB has left key rates fixed for several months, but the ECB again decided to increase to its current rate of 3.0%. The financial situation was troubling even before the additional increase and now, unless you are all-equity buyer or you can structure your investment financing differently, the all-in financing costs can marginalise the sense of investment itself.



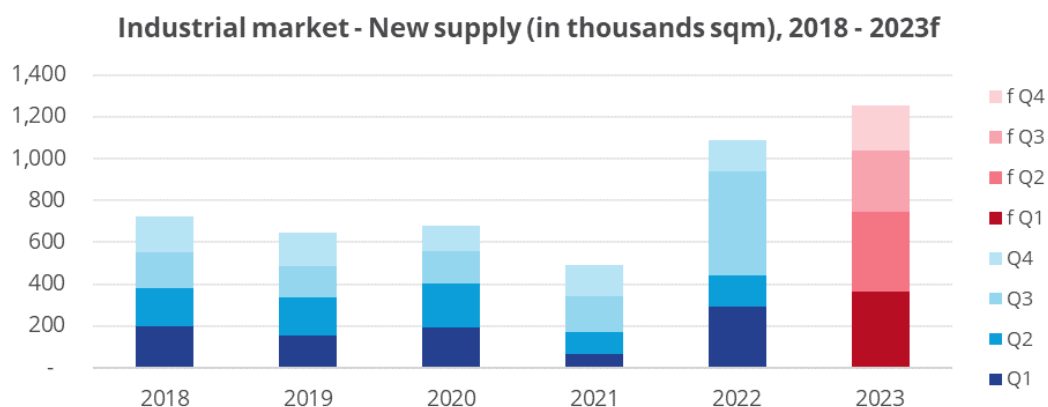
Source: Colliers Research, 2022

## INDUSTRIAL AND WAREHOUSE LEASING MARKET

### Supply and vacancy

The Czech industrial market grew at a rapid pace in 2022. Almost 1.1 million sqm of new space was added to the market, which is over 155% of the 5-year annual completions average and the highest volume on record for the Czech market. The market overtook the 10 million sqm mark in mid-year and just failed to overtake the 11 million sqm milestone at the year-end, with the total stock reaching 10.8 million sqm at the end of Q4 2022. There was 149,300 sqm of newly added modern industrial space in the last quarter.

The structure of contenders for the fastest growing regions changed slightly in 2022, as land availability constraints helped the previously less-developed regions to catch up a little with those such as the largest market of Greater Prague and Pilsen regions. Even some notable milestones were crossed in regional development. The Moravia-Silesia region crossed the 1 million sqm mark, making it the fourth largest Czech region with over 1 million sqm of modern industrial space. The Olomouc region reached 0.5 million sqm of industrial space. The Central Bohemia region, with 9% of the total new space in 2022, has quickly become much more important in terms of developing industrial stock in the past two years. While previously lagging behind in new development, the region now seems to be catching up, spurred on by a lack of available land for new development in Prague and its surroundings (as the demand for industrial space close to the capital persists).



Source: Colliers Research, Industrial Research Forum, 2022

While much can be said about new deliveries to the market and the high amount of space under construction, vacancy levels remained extremely low throughout the year, at around 1%. At the end of 2022, there was 102,100 sqm of immediately available space, amounting to 0.95% of total space on the market. Czechia firmly remains a landlord's market and will remain so throughout 2023. Only 2 industrial parks offered immediately available spaces above 10,000 sqm.

	Total CZ	Greater Prague	Pan-regional CZ
Total Stock (sq m)	10,772,000	3,433,500	7,309,200
Total leasing activity (sq m)	2,202,900	623,500	1,579,500
Space under construction (sq m)	1,237,000	82,900	1,190,800
Vacancy rate (%)	0.95	0.6	1.1
Existing vacant space (sq m)	102,100	21,300	80,800
Prime Rent (EUR/sq m/month)	5.50 - 7.90	7.50 - 7.90	5.50 - 6.80
New completions (sq m)	1,089,000	76,000	1,013,000

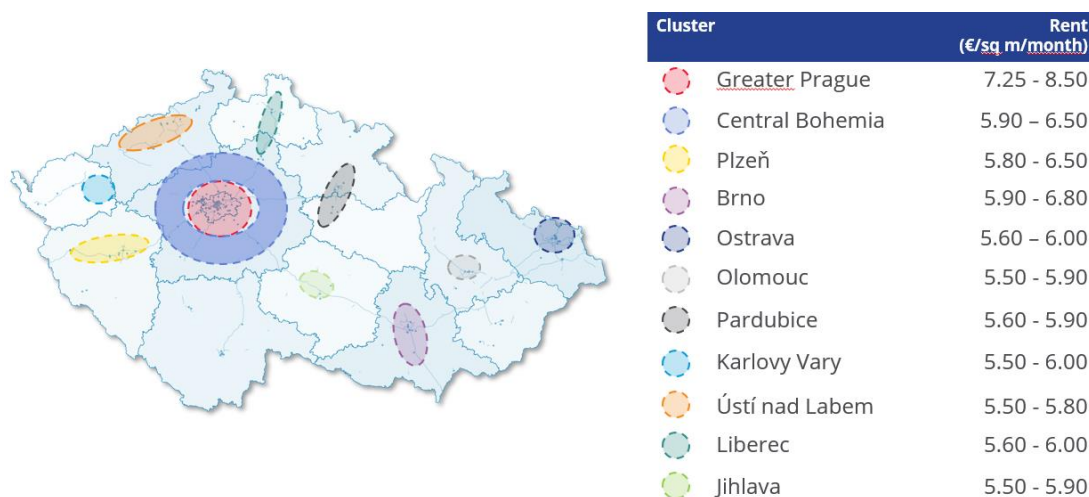
Source: Colliers Research, Industrial Research Forum, 2022

Even with vacancy, 2022 was somewhat “a record-breaking year”. During Q3 2022, the national vacancy rate decreased, for the first time since our historical records began, below 1%, to just 0.86%. Just two years ago, at the end of 2020, vacancy was 3.65%. The question on everybody’s lips is “When could it get back to that level again?”. While it seems that development is finally catching up with the demand surge of the previous two years, there are no clear signs whether this will be enough to help alleviate the availability constraint on the local market. In theory, the scheduled deliveries of new space we expect for 2023 could, combined with the adverse macroeconomic situation, foster higher vacancy in 2023, as the market is quick to change. Realistically though, we expect no drastic changes to the availability situation, at least not in the first half of the year.

## Rents

Rents continued to rise throughout 2022, both in Prague and all of the Czech regions. Prime rents in the country increased to the level of around €7.50 - €7.90 sqm/month. The highest achievable rent was in Prague, and on specific projects, offers ranged up to €8.50/sqm/month. In selected prime locations outside of Prague, rents rose rapidly this year, reaching around €6.00/sqm/month. Rents for mezzanine office space stood between €9.50 - €12.5/sqm/month. Service charges are typically around €0.65-1.00/sq m/month. Pricewise, the Czech market was quickly catching up with its western European counterparts in 2022.

## Industrial market – Average asking rent, established submarkets



Source: Colliers Research, Industrial Research Forum, 2022

## Prague office market

### New supply

As for the whole of 2022, the annual new supply represents approximately 75,400 sqm in only 7 projects, scattered mainly within submarkets of Prague 1, 5 and 8. The annual new supply increased 34% year-on-year, yet the total volume was again under the long-term average of approximately 130,000 sqm per year. In fact, the last two years combined represent exactly that level of new supply.

Most of the projects completed during 2022 still offer brand-new vacant space. With approximately 38,700 sqm of vacant space available within these projects, it is clear that the pre-leasing did not come easily during 2020 and 2021.

Similar to Q3, no new construction commenced during Q4. With this gap in supply, new deliveries scheduled for 2024 will be severely impacted as we register only 55,000 square meters planned for delivery that year so far, and with very little chance of that growing, considering the usual length of the construction phase. 2025 onwards, on the contrary, should be dramatically better as developers have indicated, that they could commence construction of up to 300,000 sqm during 2023.

### Vacancy and subleases

The market vacancy is under close observation and after Q4 2022, we recorded a vacancy of 7.7% across the market. This represents a decrease for the third time in a row, from the peak of 8.3% reported in Q1 2022. The year-on-year change is not that significant, decreasing just by 0.1% compared to Q4 2021. The current vacant space represents approximately 293,600 sqm in total. This decreasing trend is possible due to the combination of lower new supply and surprisingly strong demand. Part of this demand, on which we will comment later, was carried over from the pandemic years and is now dissolving gradually.

Among the largest established markets, Prague 8 has the lowest vacancy rate, at under 4.8%. This is in line with our previous comments which secure Prague 8's position as the most sought-after submarket. Other established submarkets usually have their vacancy around the market average and in general, micro-locations with modern buildings and good amenities are always considered first. Despite the higher occupancy costs, tenants seem willing to pay a premium in exchange for the best possible standards for their employees, as a form of their fight with the struggles in office engagement.

Subleases, which are an important part of the current market and are quite frequently used as a possible way of reducing a company's costs, represent 71,300 sqm of so-called 'grey space'. This subsector of the market represents an additional 1.9% of vacancy, but as subleases usually represent just a few percent of gross take-up, the absorption of such offers is rather slow.

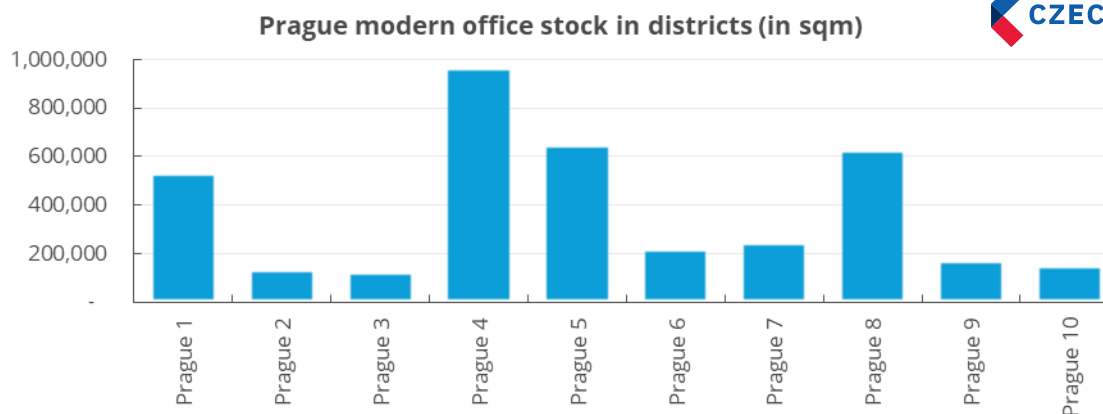
### Rents and incentives

With the year-end passing, the race for rent increases seems to have come to a halt, or slowed down at least. The main benchmark indicator, Prague's prime office rent, was approximately €26.50 per sqm, per month in Q4 2022 – the same as in the quarter before. Some projects offer smaller units for prices of over €30, but those are considered one-off transactions.

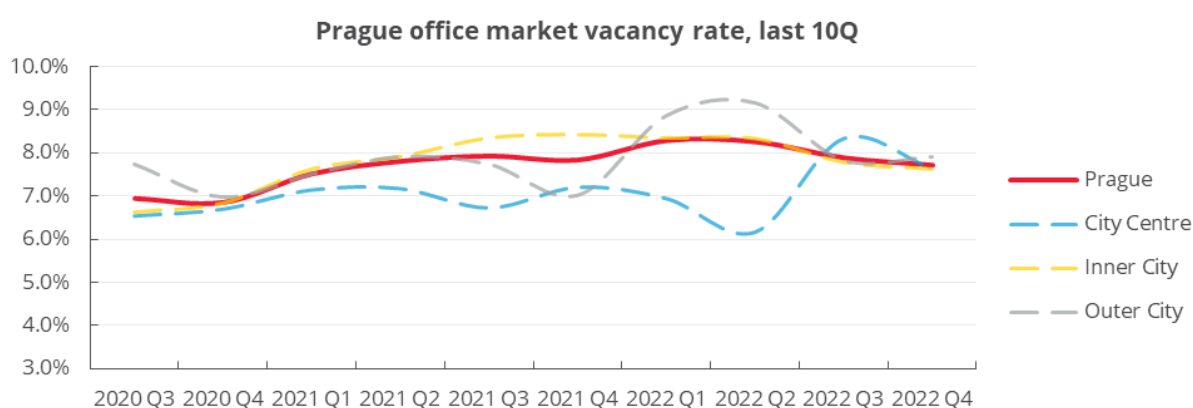
The prime rent for top inner-city locations like Brumlovka, Pankrác or Karlín currently range between €17.50 and €18.00 per sqm, per month and outer-city prime offices, which are represented by locations like Nové Butovice, Vysočany or The Park in Chodov can reach up to €16.00 per sqm, per month. Prices on the higher side for each submarket can be usually found in recently finished developments offering the highest technical standards, a rich choice of amenities, and access to the metro within a few minutes walking distance. Refurbished historic buildings within the city centre are usually an exception and they represent office space for a small group of professions interested in the city core like law firms, consultants, or smaller companies in general.

Projects that are under active construction currently have their asking rents set a bit higher, but only at first sight. Developers were put in a challenging position by the increasing costs of construction materials, construction companies' workloads and, in addition, the costs of financing and loans. All of these have resulted in decreasing the feasibility of their projects unless rental levels increase to cover the additional costs. Thanks to the average inflation in 2022 we expect the overall rental level to increase. Rents in existing properties will start to reduce the gap to the increased levels in new developments. But the existing stock, especially older offices without modern features or certifications can hardly justify any major rental increases without proper investments.

Service charges and additional costs are still a topic across the market and are being tackled in various ways.



Source: Colliers Research, Prague Research Forum, 2022



Source: Colliers Research, Prague Research Forum, 2022

## Brno office market

### Stock and new supply

Over the past several years, the Brno office stock has experienced rapid expansion. The average 10-year annual supply is around 30,000 sq m, meaning the city stock grows by approximately 4-5% annually. The current leasable area of offices in the South Moravian city is 664,400 sq m. With another 69,600 sq m scheduled to be finished between 2023 and 2025, we can expect a stable supply of new offices, mainly in the central district, Střed.

Overall, Brno was always flourishing with interesting projects and similarly to Prague, a number of developers were able to proceed with the construction of several large developments or brownfield redevelopments. As offices can't exist without employees and the housing situation worsened throughout the country, and in big cities especially, it is crucial to create mixed-use schemes like, for example, Nová Zbrojovka or Dornych. We also see expansions of successful office projects like Brno Business Park underway, with another building being added and further expansions of Brno's prime space in Vlněna Office Park and Titanium. The share of speculative construction in Brno is currently exceptionally high at over 88%. This could have a potentially significant impact on the future vacancy rate. On the other hand, this offers an extensive amount of space available to occupiers with plans to move in.

The current vacancy rate in Brno is stable but is higher than in Prague or Ostrava. Since end of 2018, it has been between 9 and 12% and is currently (at the end of 2022) at 13.4%. This rate represents approximately 88,800 sq m of vacant office space currently available for immediate occupation.

### Take-up, rents

Gross take up in Brno in 2022 accounted for 66,400 sqm, a best result in last three years and 2<sup>nd</sup> best result in in recorded history in the market. Net take-up represents approximately 65%, with the majority of deals reported as new occupation. Compared to the capital, rents for offices are considerably lower, currently standing at €16,50 per sq m per month for prime space. In general, most A-class properties are available for prices ranging between €13,00 and €15,50 per sq m. An increase in prices, especially in new projects, is expected, as the prices of materials, labour and consumables are difficult to predict.

## Ostrava office market

### Stock and new supply

As the other markets are growing thanks to developer activity, Ostrava's office market is stable for some time now. The last modern property was completed in 2019 and the city's market has stalled at an approximate size of 2017,000 sq m. The chance for expansion and further development relies on a number of projects in the pipeline.

Apart from Organica, which will represent a new prime property in Ostrava, and is currently under construction by Contera on a plot near Forum Nová Karolína shopping centre, there are a number of other projects proposed.

Among the most debated is the Ostrava Tower skyscraper proposed by a local developer, yet its completion is difficult to estimate. But other projects like the or Černá Perla which are focused on complete refurbishments of older properties are much closer to realization.

Low levels of supply also helps the vacancy rate as Ostrava's market offered just over 20,000 sq m of modern office space for immediate occupation. This represents a vacancy rate of 9.3%, which indicates the market currently favours landlords.

### Take-up, rents

Annual gross take-up in Ostrava occasionally exceeds 20,000 sq, and the result of 2022 was just a half of that.. This represents a major increase of 126% year on year and 79% compared to 2019. No renegotiations or renewals were reported. The cost of prime offices in Ostrava increased recently to approximately €14.50 per sq m per month, driven by the development of the new Organica building, which exceeds most of Ostrava's properties in many ways. Many offices currently available in Ostrava can be leased for between €10.50 and €12.50 per sq m per month and while these can be considered as stable, an increase is highly probable.

## Czech Office Market Indicators, 2022

	Prague Centre	Prague Inner City	Prague Outer City	Brno	Ostrava
Total stock (sq m)	567,600	2,133,500	1,103,600	664,400	217,000
Vacant space (sq m)	43,400	162,800	87,400	88,800	20,200
Vacancy rate	7.6%	7.6%	7,9%	13,4%	9,3%
New supply (sq m)	9,600	32,200	33,600	33,000	0
Total leasing activity (sq m)	91,100	342,700	113,500	66,400	10,100
Space under construction (sq m)	37,200	56,900	89,900	69,600	20,600
Prime rents (EUR/ sq m/ month)	26.50-27.00	17.50-18.00	15.50-16.00	16.00-16.50	14.00-14.50

**Source:** Colliers Research, Prague Research Forum, Regional Research Forum, 2022