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2021 | Czech Republic

Regional Office Market Overview



Introduction

Offices in Czech Republic are not only located in Prague. The country has many beautiful, emerging cities where modern trends meet with centuries of history. There, new and modern office hubs are created

to accommodate occupiers coming to the country, searching for a calmer but vibrant location, or expanding or diversifying from the prime market of the capital.

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 638,000 sq m. With another 66,600 sq m scheduled to be finished between 2022 and 2024, 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. We also see expansions of successful office projects like Brno Business Park underway, with a fifth 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 93%. This could have a potentially significant impact on the future vacancy rate, as from the 31,500 sq m planned for 2022, not a single unit was yet reported as pre-leased. On the other hand, this offers an extensive amount of space available to occupiers with plans to move in.

Brno - Key market figures



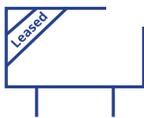
Stock (sq m)

637,900



Vacancy Rate

11.8%



2021 Gross Take-up (sq m)

63,800



Prime Rent

€16.00



2021 New Supply (sq m)

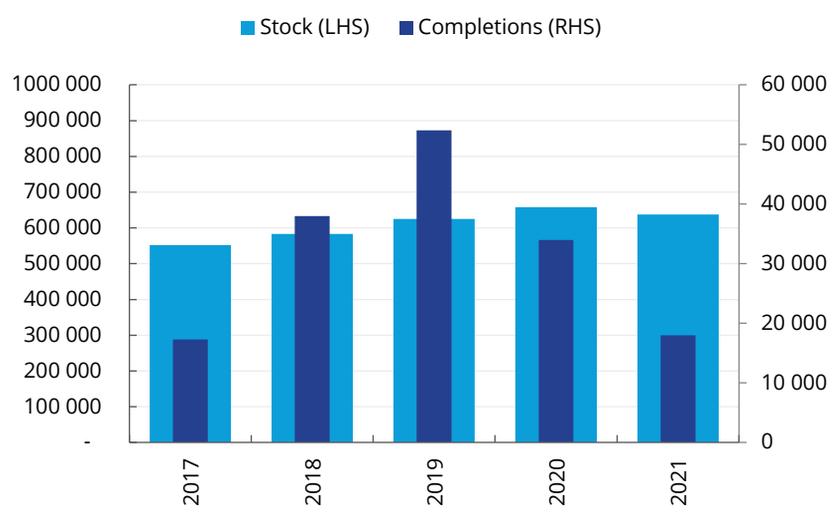
18,000



Under Construction (sq m)

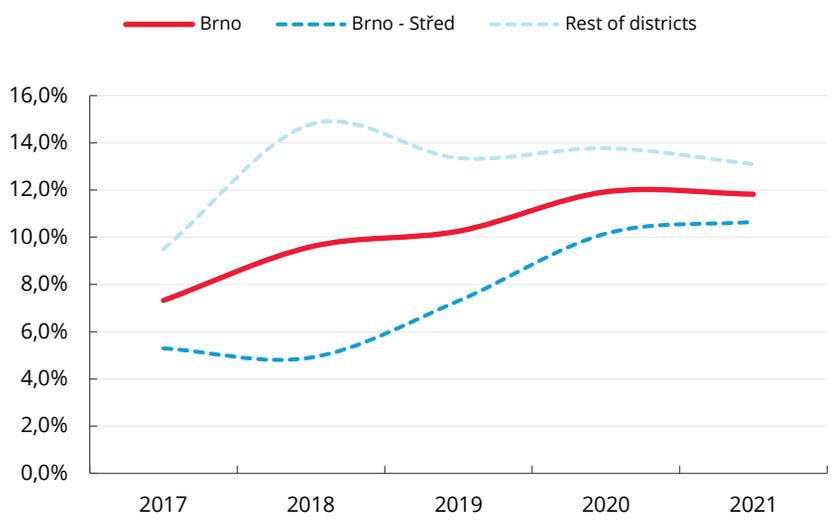
66,600

Stock evolution and completions in Brno (sq m)



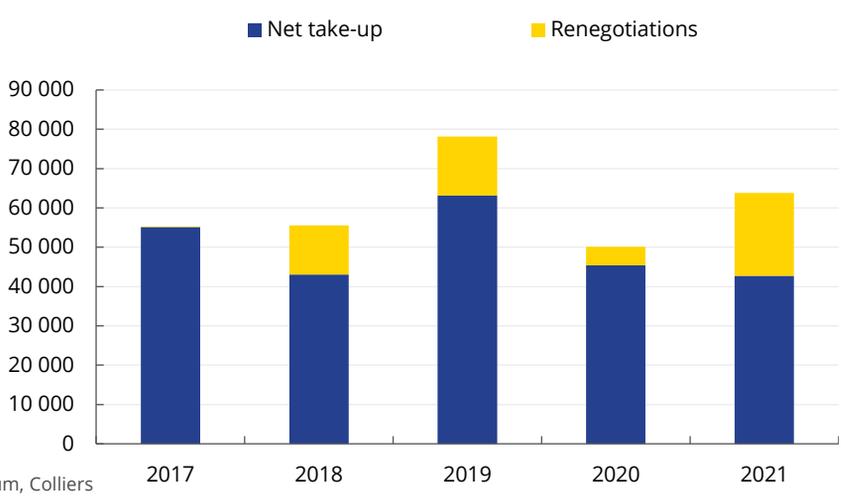
Sources: Regional Research Forum, Colliers

Vacancy rate development in Brno



Sources: Regional Research Forum, Colliers

Gross take-up in Brno (sq m)



Sources: Regional Research Forum, Colliers

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 2021) at 11.8%. This rate represents approximately 75,500 sq m of vacant office space currently available for immediate occupation.

Take-up, rents and notable transactions

Gross take up in Brno in 2021 accounted for 62,000 sqm, an increase of 24% year-on-year. From this point, 2021 can be considered as an above average year for Brno offices, ending with the second-best result in recorded history in the market. Net take-up represents approximately 66%, with the majority of deals reported as new occupation. Pre-leases were rarely reported in 2020 and 2021, which may be attributed to the uncertainty during the pandemic.

Compared to the capital, rents for offices are considerably lower, currently standing at €16,00 per sq m per month for prime space. In general, most A-class properties are available for prices ranging between €13,00 and €15,00 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.

The largest transaction of 2021 in Brno was the ca. 5,000 sq m renegotiation of PPG Industries Czech Republic in Spielberk Office Centre in Q4. Other large transactions were also mainly

renegotiations of large companies. Most notably CB&I in Spielberk Office Centre (4,900 sq m) and UNIQA insurance company in Uniqa Business Center (3,500 sq m). Among the largest new leases in 2021 we noticed several large leases with sizes of over 2,000 sq m in Green Building II in Areál Slatina and the deal of Seznam.cz in Campus Science Park of 3,700 sq m.

Outlook

Brno shouldn't be looked at as "the other option" when choosing a location in the Czech Republic. With a large number of quality universities, it is one of the best places in the country to recruit young professionals for various business service centres. The city is also surrounded with extensive industrial & logistics facilities in the south and east. Although these areas compete directly with offices, they also make the city more attractive to occupiers from all sectors, no matter what kind of space they are looking for.

As we mentioned, the share of speculative construction is high and in the short term, this will result in a further increase of the vacancy rate, theoretically up to 15%. But we also assume the market will be able to absorb a large portion of newly delivered space in 6 to 12 months after completion. Along with the rising importance of ESG related reporting for large companies, many owners of older properties could proceed with refurbishments of older properties within the stock.



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 219,100 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 Jindřich Center or Černá Perla which are focused on complete refurbishments of older properties are, in our opinion, much closer to realization. Low levels of supply also resulted in a low vacancy

rate and at the end of 2021, Ostrava's market offered just over 13,000 sq m of modern office space for immediate occupation. This represents a vacancy rate of 5.8%, which indicates the market currently favours landlords.

Take-up, rents and notable transactions

Annual gross take-up in Ostrava occasionally exceeds 20,000 sq m and this number is exactly the volume for 2021. This represents a major increase of 126% year on year and 79% compared to 2019. No renegotiations or renewals were reported.

The most notable transaction of 2021 was the announced pre-lease of Tieto in Organica, with a total size of 15,500 sq m. The company will move from IQ Tower located on the corner of 28. října and Vítkovická street, once the new building is finished. Other reported transactions of the past year were without disclosed details.

Ostrava - Key market figures



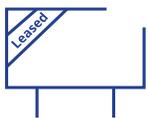
Stock (sq m)

219,000



Vacancy Rate

5.9%



2021 Gross Take-up (sq m)

20,000



Prime Rent

€13.00



2021 Supply (sq m)

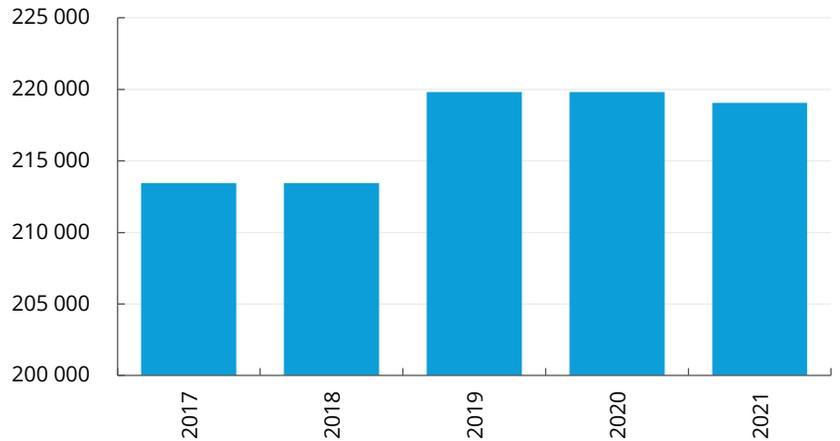
1,700



Under Construction (sq m)

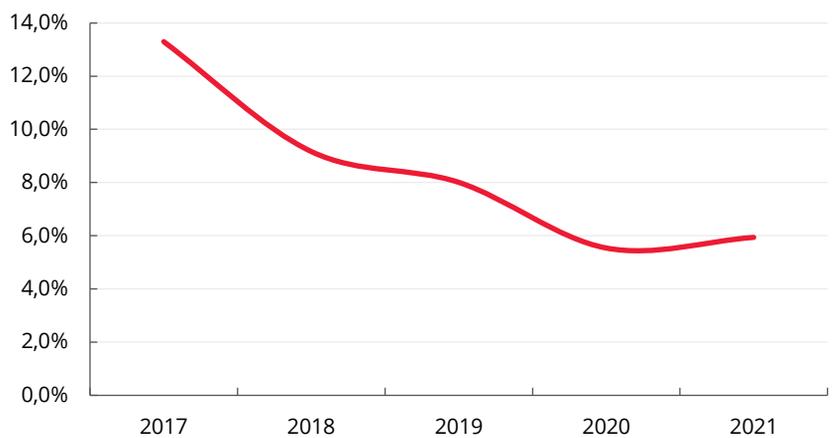
20,600

Stock evolution in Ostrava (sq m)



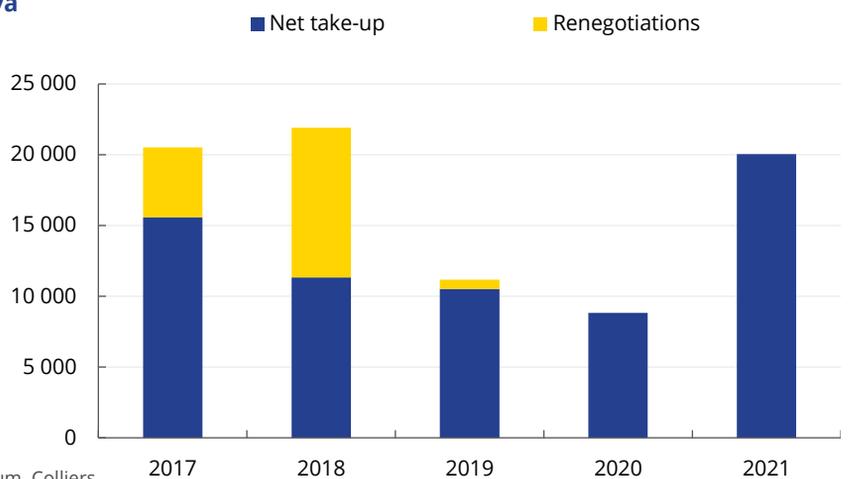
Sources: Regional Research Forum, Colliers

Vacancy rate development in Ostrava



Sources: Regional Research Forum, Colliers

Gross take-up in Ostrava (sq m)



Sources: Regional Research Forum, Colliers

The cost of prime offices in Ostrava increased recently to approximately €13.00 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 €12.00 per sq m per month and while these can be considered as stable, an increase is highly probable.

Outlook

Ostrava's office market has now slowed down due low supply resulting in less activity.

Lengthy permitting can be understandable as a smaller market size needs careful planning and zoning to ensure the market will not become oversupplied, which has already happened in the past. Local developers and investors are needed to step-in and act. Ostrava is definitely sought after by occupiers, but a lot of attention is currently aimed at the rapid development of industrial and logistics facilities around the city, strengthening the already large submarket. The workforce for newcomers from office sector can be difficult to attract and other cities can therefore be considered.

Other regional cities

Stock and new supply in regions

Increased activity is also happening throughout the larger cities in the Czech Republic. Although the regional city markets are not monitored to a similar degree of detail as the top three, we see an increased presence, activity and determination to create modern office properties from developers all around the country.

Such buildings are usually smaller and/or are used purely for the needs of the developer, but we are able to spot a few exceptions, which represent interesting alternatives for some regional occupiers.

Among the best examples of modern development in the regions are the Cities of Olomouc, Hradec Králové and Pilsen. The recently finished building Envelopa in Olomouc, with size of 15,000 sq m, is providing its tenants with standards currently available only in the major markets. In Hradec Králové, ČSOB continues their pursuit of a smart and sustainable portfolio with the completion of their own HHQ. This sustainable building will be, in the near future, accompanied by a

similar project in Pardubice, called PHQ. Finally in Pilsen, although no major office building was finished recently, the pipeline is stacked with interesting projects like Šumavská Gate or the large, mixed-use project, AMESIDE.

Number wise, the modern office stock in the main regional cities usually represents a volume of between 30,000 and 100,000 sq m, including a decent pipeline, with the three above mentioned markets being closer to the high side of the range.

Outlook

Regional cities offer a great opportunity for local developers and occupiers alike. As international capital sometimes hesitates to enter these smaller markets, regional cities usually need someone with local experience and strong relationships with the given market to fully exploit its development capabilities. Occupiers who are considering the regions are often interested in the idea of a cheaper and more available workforce, yet this could sometimes prove to be a wrong assumption.

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