



Colliers

Q4 2022 | Czech Republic

Regional Office Market Overview





Regional office market

Introduction

Offices. Small offices. Local branches. Remote workplaces. Label them as you wish, but it is important to remember that the Czech office market is not just about Prague. Throughout years, Czech regional cities have accumulated a considerable stock of modern office schemes and, especially after the accelerated evolution of real estate sector during over the last few years, some of the cities can proudly compete with Prague in terms of rents, quality, experienced property owners and blue-chip tenants.

Brno office market

Recognised as the second largest office market, Brno recorded approximately 664,000 sq m of modern offices at the end of Q4 2022. The market increased by 4.2% year on year, as approximately 33,000 sq m were completed in five projects, all finished in H2. From an annual perspective, the supply amount is in line with the 10-year average and in line with the average market growth.

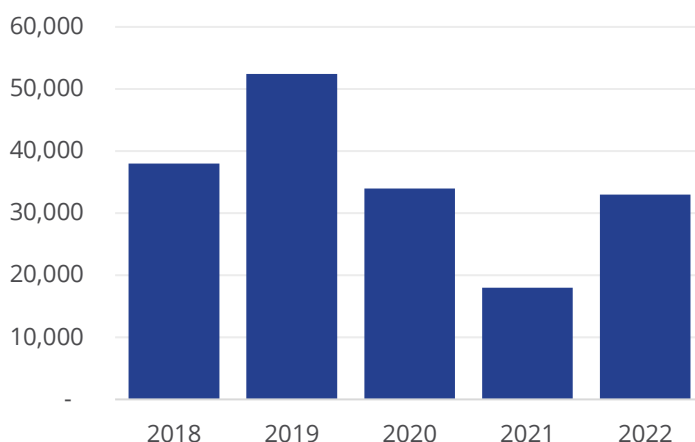
All of the new projects were expansions of existing projects or followed expansions within successful locations in the city. Amongst the completed projects are two extensions of the successful Titanium project with a size of

approximately 6,900 sq m in total, the fifth building in Brno Business Park (named E) with 13,200 sq m and Palác Trnitá by MS-Invest with approximately 7,800 sq m of offices along with apartments in a mixed-use scheme right in the heart of an area with a number of planned projects such as Dornych by Crestyl and Trio by J&T Real Estate.

The current vacancy rate in Brno increased by 170 basis points year on year, reaching 13.4% at the end of Q4 2022. This represents approximately 74,300 sq m of available immediately space. This increase comes from new construction, as some of the above-mentioned projects, such as the extension of Titanium and Brno Business Park E, delivered the space speculatively or only partially pre-leased.

Future evolution will proceed in a similar fashion as in recent years. The pipeline represents 70,700 sq m under construction and another 71,500 sq m yet to be commenced, totalling in 142,200 sq m to be completed in the upcoming 4 years. This can be also the core source of the upcoming difficulties with rising vacancy, as only approximately 6.5% is pre-leased. With the vacancy already fairly high and the Brno market in a position that does not favour owners or tenants, the uncertain future lurks over the south Moravian city.

Annual completions in Brno (sq m)



Sources:
Prague Research Forum, Colliers



Regional office market

Gross take-up in 2022 (with renegotiations and subleases included) accounted for 66,400 sq m, an increase of 7% year-on-year. This represents a slightly above-average result, yet such excess can also be a coincidence as the market is prone to significant influences in the case of larger transactions. But the attractiveness of local developments should not be marginalised. The office market in Brno usually records a larger share of net-take up, above 40,000 sq m annually and 2022 was not out of line with 66% of the total volume in net take-up. This helps to keep the market alive and absorb vacant premises. Net absorption, which represents the change in total occupancy, remains positive for another year, which means the market is constantly absorbing new office space, yet the pace could be quicker as it has decreased for the fourth year in a row.

However, this increased quality comes at a price, literally. The prime rental level reacted in the same fashion as in the other markets and increased to approximately €16.50 per sq m per month. The pressure on pricing comes from the increased development costs and also from the interest rates affecting financial instruments such as loans. A gap in rents between new existing project and those under construction started to widen, but not as wildly as we can observe in the Prague office market, for example. Some units in unique projects are offered for prices reaching up to €20 but such transactions are considered rare. Service charges were a large topic before the coming winter across the market, but as the consumption represents only a minor share of the occupier budget and those who took action early should already be on the safe side. The largest transactions of the 2022 were renegotiations. The largest of those happened in Spielberk Office Park where Atlas Copco renegotiated and expanded their lease contract. The following transactions were



Stock (sq m)

664,400

Y/Y: +4.2%



Gross Demand (sq m)

66,400

Y/Y: +4.1%



New Supply (sq m)

33,000

Y/Y: +83%



Vacancy Rate

13.4%

Y/Y: +1.7%



Prime Rent

€16.50

Y/Y: +€0.50



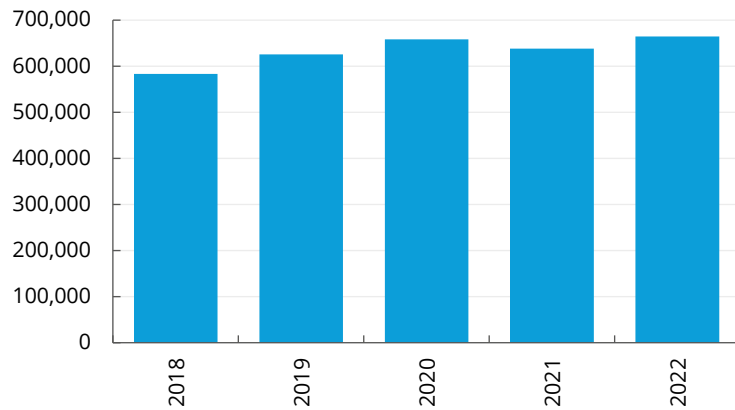
Under Construction (sq m)

69,600

Scheduled for 2023: 34,700 sq m

Stock evolution in Brno

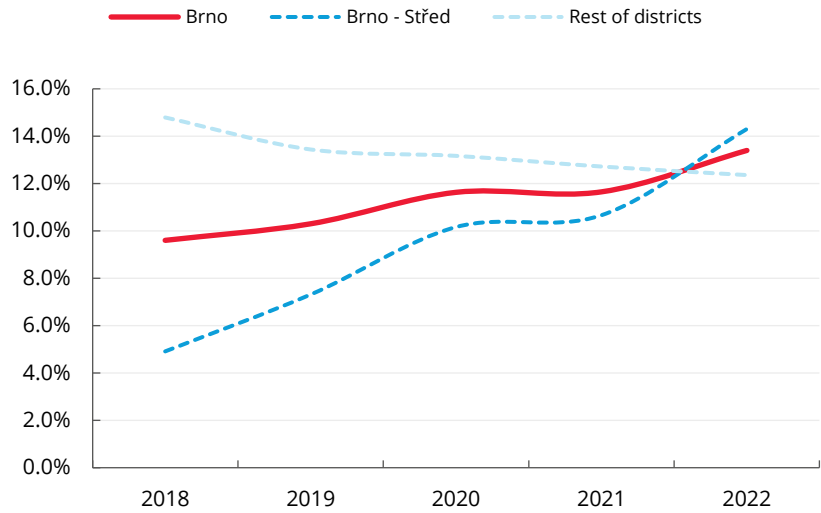
(sq m)



Sources:
Regional Research Forum, Colliers

Vacancy rate development in Brno

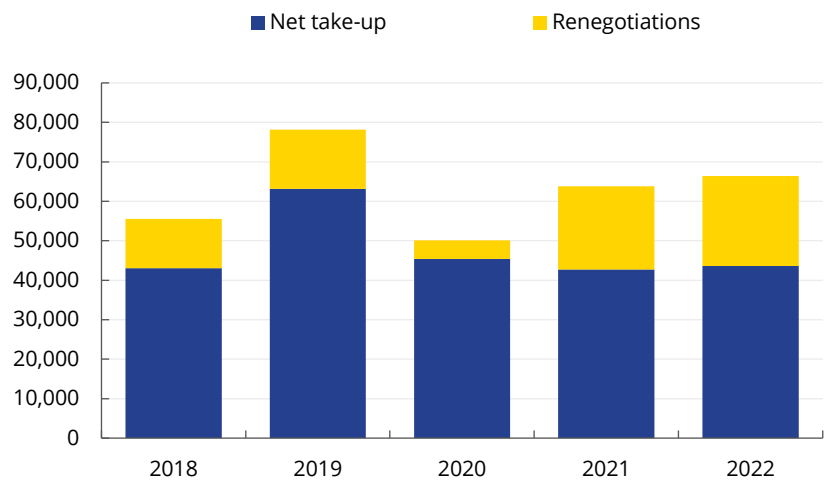
(last five years)



Sources:
Regional Research Forum, Colliers

Gross take-up in Brno

(sq m)



Sources:
Regional Research Forum, Colliers

Regional office market

Top transactions of 2022 in Brno

| Tenant | Property | Size (sq m) | Transaction |
|-------------|-----------------------|-------------|---------------------------|
| Atlas Copco | Spielberk Office Park | 10,600 | Renegotiation + expansion |
| FNZ | Rašínova 7 | 7,000 | Renegotiation |
| Undisclosed | Brno Business Park | 3,600 | Renegotiation |

Sources:
Regional Research Forum, Colliers

undisclosed companies from the IT and Technology sector in Rašínova 7 building (7,000 sq m) and in Brno Business Park (3,600 sq m). The largest new occupation happened in Zet.office in the Nová Zbrojovka project with a size of 2,600 sq m, but the details about the tenant were not disclosed. As for sectors, the most active companies are from the technology, professional services and manufacturing sectors. A major part of local occupiers are represented by various business service centres (BSCs). This subsector, although expanding over the last few years, has also fallen victim to hybrid working and cost cutting and their expansions in terms of size were frequently put on hold.

With the office market overlapping with industrial parks around the city (12% of the Czech industrial market is in South Moravia region, mostly clustered around Brno), the focus on the city will remain high. Supported by a number of students and being in relative proximity to other university cities like Ostrava or Olomouc, the highly educated workforce is within reach.

Brno has much to offer in terms of interesting developments, not only commercial ones. Recently, an international architectural competition was held to define the future shape of the main railway station. On the other hand, delays in the approval of the zoning plan continue and the permitting process is similarly difficult to the one in Prague. Yet construction continues, and the market will follow a similar trend with larger multifunctional developments, which has a greater impact on the area selected.

More troubling for the market will be to find the right pricing and a way to attract more tenants amidst the current period of space reductions, capex, opex cuts and rightsizing. Especially if the new space will be delivered without tenants secured, the period needed for finding an occupier could be longer than usual.



Regional office market

Ostrava office market

The situation on Ostrava's office market is virtually unchanged since our last report 12 months ago. The market is stalled at approximately 217,000 sq m, with no recent completions since 2019. As the only major development is represented by Organica, which is scheduled for completion in 2023, there will be another development vacuum to follow. There are office projects in the long-term pipeline, yet these have no details available and most likely are no closer to realisation than they were a year ago.

Several minor office-related projects, however, are moving forward, like the refurbishment of Černá Perla and the start of groundworks and archaeological survey of the site for Václav, a mixed-use development. The Ostrava Tower project announced another delay as the project has to be revised.

The vacancy rate at the end of Q4 2022 was approximately 7.1%, representing 15,300 sq m of space. This number will probably increase significantly as one of the largest tenants in the city, Tietoevry, will move to Organica leaving several thousand square meters unoccupied. With the current situation on the leasing market and long-term experience with the local market, immediate absorption of this large volume seems unlikely.

The annual transactional activity slowed down in Ostrava by approximately 50% year on year, representing approximately 10,100 sq m of gross take-up. The largest transaction of 2022 took place in Nová Karolina Park, where Česká Spořitelna renegotiated their lease contract of

approximately 3,200 sq m.

The largest new transactions were announced in the Orchard complex on Hornopolní Street, where O2 leased approximately 2,600 sq m. New transactions are happening almost exclusively on a handful of A-class properties.

Unfortunately, the office market in Ostrava still faces a number of challenges including troubled permitting, uncertain spatial development, and strong competition from Brno and other regional business centres in Poland, for example.

The overlay with the local industrial market which has boomed with activity in recent years and attracted several local and international developers, is representing a constraint in office development as the industrial zones are attracting even white-collar employees. The local industrial market represents approximately 10% of the national market and various parks around Ostrava had already announced expansions, the share of modern, purpose-built buildings located within industrial parks is also 10%. Considering that industrial properties include additional office space, the traditional office market has considerable competition.

Extensive brownfields in and around Ostrava are the one hope for the city and the local real estate market in general, yet the office market will probably not benefit much from those conversions, as the focus of investors for industrial and residential properties will probably outweigh the need for evolving the modern office market quickly.



Stock (sq m)

217,000

Y/Y: -1.0%



Vacancy Rate

7,1%

Y/Y: +1.2%



Gross Demand (sq m)

10,100

Y/Y: -50%



Prime Rent

€14.50

Y/Y: +€1.50



New Supply (sq m)

—

Y/Y: +0.0%



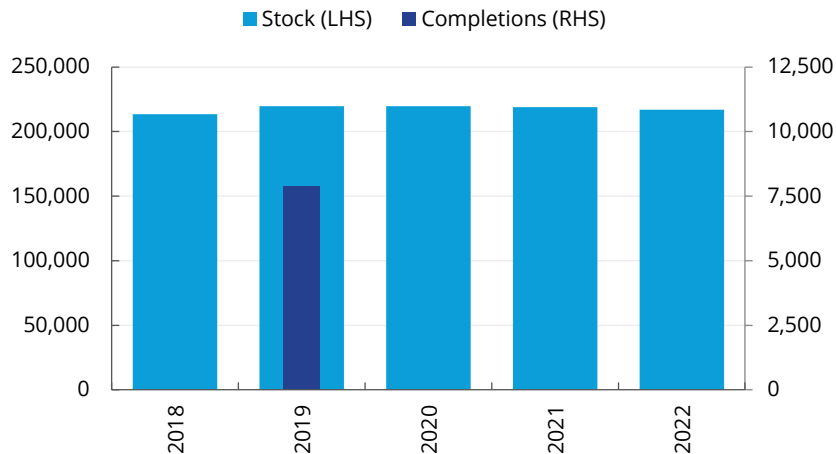
Under Construction (sq m)

20,600

Y/Y: +0.0%

Stock evolution and completions in Ostrava

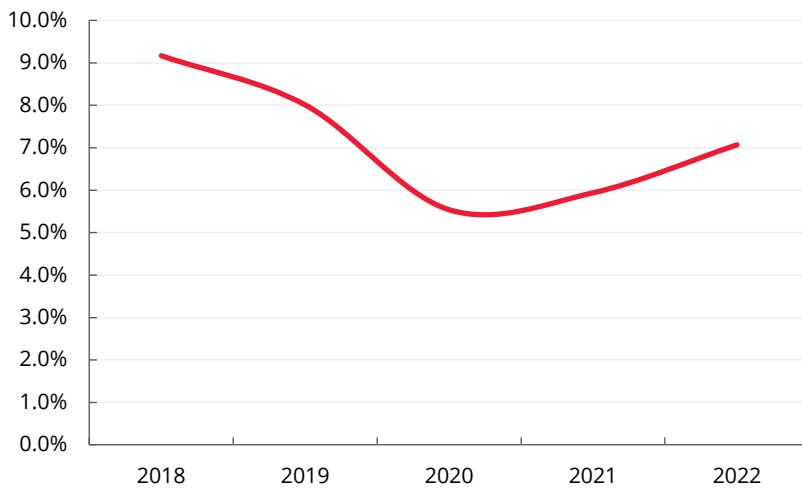
(sq m)



Sources:
Regional Research Forum, Colliers

Vacancy rate development in Ostrava

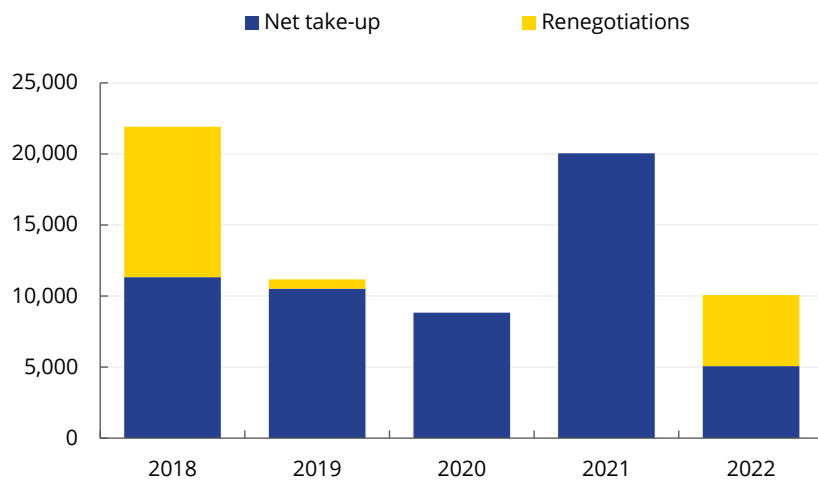
(last 5 years)



Sources:
Regional Research Forum, Colliers

Gross take-up in Ostrava

(sq m)



Sources:
Regional Research Forum, Colliers

Regional office market

Other regional cities

As the cost of construction and financing increased recently, projects from smaller developers have run into various feasibility problems. Many investors also reviewed their plans and rather followed the industrial or residential sector, as they could seem more profitable. The development activity and office market on the regional level is difficult to follow as most of the office developments are aimed at local submarkets and carried out by local developers or high net worth individuals, who are related to the site in some way and are not widely marketed. However, there are exceptions.

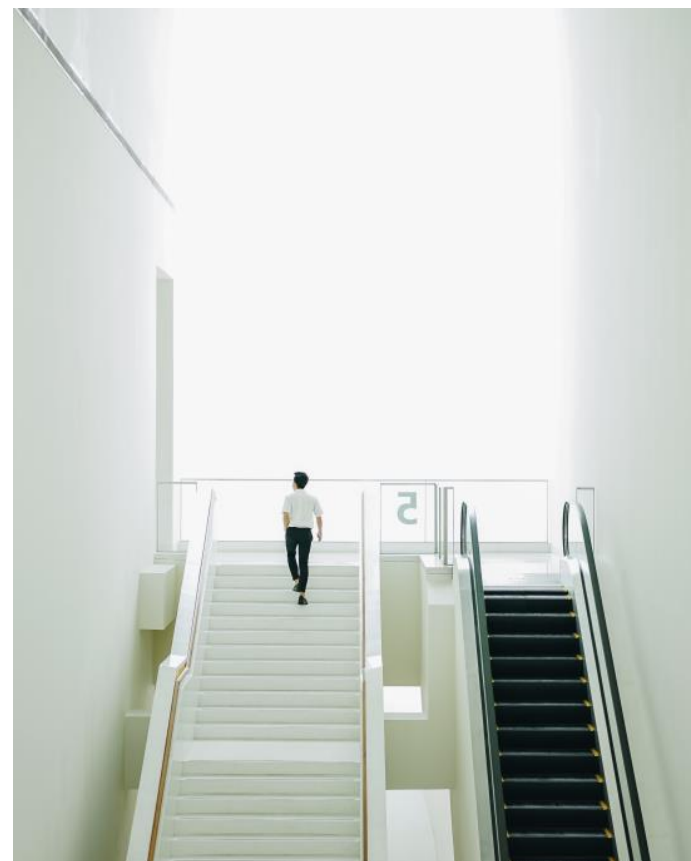
One of the highly anticipated projects is AMESIDE by Amadeus Real in Pilsen, which should be realised in the upcoming years after many years of discussions. The project will offer residences, offices, shops, and other amenities and aims for LEED certification. Another is Galerie Pernerka in Pardubice, carried out by Redstone Real Estate. This local developer is experienced and responsible for office, retail, and industrial projects in and around the city of Olomouc. This project in Pardubice should also offer office premises alongside extensive retail, entertainment, and gastronomical space. It will also offer a later residential phase, according to the available information.

As for the existing stock, examples of modern offices are not rare, but many of the projects have been around for some time already. The modern office stock in the other main regional cities represents a volume between 30,000 and

100,000 sq m with the cities of Olomouc, Hradec Králové and Pilsen leading the way in terms of accumulated stock. Some of the cities also possess a decent pipeline, yet as stated above, the refocusing on other sectors took its toll in the form of projects being rescheduled, repurposed or even cancelled.

Virtually every regional city offers some sort of opportunity for developers, investors or for example established serviced office solutions providers. As workplace policies changed, more and more corporates are looking for possibilities to create a hub & spoke workplace set-up across the country. Throughout the Czech Republic, we have identified a number of office properties, old or new, suitable for such usage. But whether the current owners will pioneer the new trends to support flexible workspace is debatable. For the regional cities, this solution is lacking and could represent a refreshing change to the local markets.

The development of new offices will most probably be constrained countrywide unless market conditions change. Local markets will mainly need local players to take the lead or join forces with institutional backers and prove that the regions are attractive and competitive.





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