

# Offices: demand in Prague relatively strong

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“Of course, it marks a distinctive decline compared to the first three months last year, which saw record-high volumes of concluded lease contracts,” says Martijn Kanters, of DTZ, adding: “On the other hand, Prague and the whole Central Europe are doing better than cities in Western Europe, except for Frankfurt.” The relatively good results on the market in administrative areas in Central and Eastern Europe can be explained by the delayed impacts of the economic crisis in the region, which are likely to be clearly visible in the results generated during the later quarters this year. Landlords as well as tenants in Western Europe were struck by the recession and the financial crisis much sooner.

## Exceptional Frankfurt

The demand in Frankfurt in the first quarter reached 140,500 square metres of office areas, i.e. 11% more than the local average over the last four years. The results were, however, to a large extent influenced by a single “mega” transaction - rental of an area of 72,000 square metres. Budapest is ranked second, quite surprisingly, in this comparison, as it reached 91% of its four-year average. On the other hand, London generated the lowest level of rentals over the last thirty years in the first quarter. According to the study, Moscow, Dublin and Milan also saw the biggest slumps in annual comparison (90%, 79% and 74%, respectively).

The “spatial” consolidation of businesses, reduction and rationalization of their operations were the main trends on all markets, which reflected in layoffs and a lower volume of rented areas. DTZ also recorded frequent relocations - to top-quality areas in the most attractive city parts. Because of all these facts, demand mostly focused on smaller areas, especially on markets such as Moscow, Madrid and Milan.

In this respect, the development on the market of “bank demand” should be noted, as it is more than important for administration buildings, or their landlords. Because of the global economic crisis, the volume of office areas rented by banks dropped 80% in the first quarter vs. the long-term quarterly average. The markets in London, Moscow and Warsaw were hit by this plunge the worst. In its May report European Banking Briefing, the consultancy Cushman & Wakefield voiced its expectations that many banks would start selling more in the coming 12 months and re-leasing their properties with a view to obtaining capital; this especially applies to banks that received major financial injections from state resources. Guy Douetil, of Cushman & Wakefield commented: “The bank crisis resulted in mergers, acquisitions and basically nationalizations of large banks in the whole Europe. Right now we find ourselves in unexplored waters and as long as we do not know the exact extent of job losses in banks, i.e. the volume of redundant office areas free for rental, it is hard to estimate the impact on the main financial hubs in Europe. However, properties constitute a major cost item for all banks and those banks ready to manage their portfolios efficiently are in the best position to cope with the current crisis.”

## Demand remains lower

DTZ’s analysts expect that in 2009, demand for administration buildings will continue weakening in most European cities. The rents respond to this trend, therefore a total slump of 5 to 15% can be predicted for this year. In some locations, such as Moscow, Kiev, Dublin and London, the projected decline in rents should be even more pronounced. Although Prague showed the highest year-on-year growth of rents, a slight decline was recorded in the second quarter and the rent level can be also affected by re-negotiations of lease contracts concluded between 2004 and 2005.

“If the economy falls even more into recession, we can logically expect poorer demand among potential tenants and the consequently higher supply of vacant premises, which will enforce lower rents. On the other hand, the relatively small number of new planned projects will soften the impacts of the rent reductions,” Bert Hesselink, of DTZ’s Prague office, estimates.

### **Businesses save money**

Cost efficiency and optimization - keywords for companies recently regardless of their specific business, turnover or payroll. The persistent economic stagnation forces many corporate managements to recalculate expenditures that they ignored last year. These also include the costs associated with office rentals. The latest study by the international consultancy DTZ European Office Affordability Index specifies that the average tenant in major European administration areas spends 15% of the income or turnover share of one employee on costs associated with office rentals.

“Although differences between the costs of office rentals in the individual cities are not the key driver to decisions on location, businesses tend to look at them more when they take decisions on the future location of their offices,” Bert Hesselink explains. The mentioned study implies, however, that in Warsaw, Budapest and Prague the costs of office rentals are becoming a problem, but globally Prague is not doing so bad in this respect. According to DTZ’s recent study Global Occupancy Costs - Offices (GOCO), which focuses on the global comparison of office rental costs in 114 commercial hubs (cities) in 49 countries, the Czech capital ranked 83rd, with the costs of EUR 4,340 per year and job (at the end of 2008). These costs include all charges to the tenant - i.e. rent, service costs and energies, property administration, real estate tax etc. Even with the average size of premises (11.3 square metres) per job, Prague is well below the global average (13.5 square metres).

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