

PRF: demand for offices increasing, growing volume of subleases

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During the second quarter, over 42,000 square metres of office areas were completed in Prague; in total, during the first quarter, the new areas on offer totalled almost 85,000 square metres. The biggest increase was seen in marginal parts of the city - especially in Prague 9, where two new buildings were completed: the last stage of the Prosek Point project, Building C with 7,710 square metres and Vysočanská brána (Vysočany Gate) with 11,250 square metres of office areas. Other major projects completed in the second quarter include Futurama Business Park A1 in Prague 8 and the second stage of the Palác Archa project, each with over 8,000 square metres of modern office areas.

Growing demand

The demand in the second quarter was almost 55,000 square metres, which constitutes a 30% increase compared to the previous quarter, but a year-on-year decline of 19%. From this point of view, Prague 4 was the busiest, just like before, with almost 44% of all lease transactions in the second quarter completed there. The lease in Airport Business Center in Prague 6 by Czech Airlines (5,230 square metres) was especially noteworthy; likewise, GfK will lease 2,630 square metres within the Kavčí Hory Office Park project in Prague 4.

The vacancy rate of office areas grew insignificantly in the second quarter to 10.13%, compared to 10.04% in the previous quarter. The lowest vacancy rate was recorded in Prague 2 (5.56%), the highest in Prague 9, where 21.83% of all office area available are lying idle.

The highest achieved rent slightly decreased in the second quarter of 2009. In the city centre it is currently at about EUR 21 - 22 per square metre and month, in the inner city it remains at EUR 15 to 17.50 and in the outer city it reached EUR 12 - 14 per square metre and month.

Sublease has its pros and cons

With some companies limiting their operations, there is an increasing number of office subleases on the market. Such premises are leased to other companies so the current tenant could cut the costs of office operation if it has no option to withdraw from the contract. At present, according to the latest survey by PRF, this currently involves about 1.84% of all occupied areas in Prague and exceeds a total area of 43,000 square metres. This issue is also studied by the consultancy King Sturge. "We have been recently contacted by a growing number of tenants wishing to sublease their offices. Their expansion has halted in the last year or they have even had to release some employees and now they have larger premises than what they really need. Since they cannot change or terminate their current contract, they are thinking about sublease to compensate their financial losses," says Filip Rerko, of King Sturge, adding: "But unfortunately they don't always realize that sublease is the biggest liability for them and that they are responsible for the smooth progress of the sublease to the sublease as well as the building owner."

Sublease - as one of the possible ways to cut operating costs - cannot be used in all administration buildings. According to Eva Gloserová, of King Sturge, it is especially necessary to ensure a sufficient flexibility of the premises to provide the highest possible degree of privacy for the landlord's and the sublessee's operations. Another problem could be the issue of interior furnishings in the sublessee's premises - if they are adjusted to suit his needs, it is necessary to bear in mind that the original landlord

will later insist on recovering their original condition. And the shorter terms of sublease contracts could turn out to be another disadvantage for the sublessees as they cast doubt on any possible larger investments. The tenants, on the other hand, have to realize that the rent paid by the sublessee will be lower than the rent paid by the tenant alone. In addition, if the sublessee fails to comply with the contract and has problems to pay the rent, the financial obligations are passed on the tenant, who has to pay the rent for the whole area to the building owner. “Rather than sublease, we recommend to those interested in smaller office areas to contact property developers and owners of office buildings and to conclude a lease contract directly. There is a broad choice on the market today and property developers are prepared to be flexible,” says E. Gloserová, of King Sturge.

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