

DTZ: Offices starting to be lacking in Europe

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The prime rent in European capitals grew in the third quarter of 2010. The current Property Times Europe analysis prepared by the international consultancy DTZ shows this. The reason, among others, is higher demand by tenants who fear further increase in rent in the coming years, caused by a lack of modern offices due to the construction downturn last year. "This trend is also clear in Prague. The prime rent fell to EUR 20 - 21 per sqm in the third quarter of last year. Thus, it reached its bottom and has remained stable since then whereas incentives for tenants have already reached their maximum," said Lenka Šindelářová from Prague's DTZ office.

Tenants expect lack of new offices in the near future and they want to take advantage of the favourable conditions before rents start to increase again and incentives start to decline. In 2011, the Prague office market will only be supplied with 70,000 sqm of offices.

DTZ London analysts have adjusted their rental growth estimates due to the current development in the European property market. This year it is expected to be 6.8 %, in 2011 further 4.7 %. DTZ expects the biggest progression of rents in London in the next year and in Central and Eastern European capitals. Tony McGough, head of Forecasting & Strategy Research department at DTZ, adds to the forecast: "More optimistic forecasts of economic growth in Central and Eastern Europe will translate into growth in rents. We expect an increase of 6.3 % in Warsaw, 5.6 % in Moscow, 5.4 % in Kiev. In the case of Prague, the prime rate will still remain stable in 2011; growth is only forecast for 2012.

Between July and September 46,300 sqm were let in Prague (after deducting renegotiations, it is 28,900 sqm). Although this is 2 % lower compared to the second quarter of 2010, it is 7 % higher year-on-year. Nevertheless, Lenka Šindelářová remains cautious in the forecasts: "Since the beginning of this year, new rents or prelets with a volume of 143 thousand sqm were concluded, this is comparable to last year's state. Newly concluded contracts fell year-on-year by 20 % to 78,000 sqm. This is caused by a significant share of renegotiations; this year they represent roughly 40 % compared to their 10-percent share in the years before the crisis.

In Europe, as well as in Prague, there was a significant reduction in speculative construction last year. This, together with an increased demand for modern "A-buildings", will lead to lack of new quality space although offices in older buildings will still continue to be vacated more widely. However, it is expected that a gradual decrease of vacancy rate will continue on a European scale.

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