

RESEARCH

Zagreb Office  
Market Overview

H1 2020



# ECONOMY OVERVIEW

## Croatian economy in H1 2020

During the first half of 2020, the COVID-19 pandemic led to a decline in economic activity. Decreasing exports, lost revenue from tourism, as well as rise in unemployment negatively affected the overall economic outlook.

### GDP

After a 0.4% expansion in Q1 2020, Croatia's GDP in Q2 2020 decreased 15.1% year-on-year, marking the deepest economic contraction on record.

Further contraction of GDP is projected for this year as a result of the coronavirus pandemic.

### Inflation

Annual inflation rate in June 2020 decreased by 0.2% at the annual level, a more modest drop compared to May's 0.6% fall which represented the largest drop since September 2016.

### Labor Market

The average monthly net salary in June 2020 amounted to HRK 6,774. As compared to the same month last year, it increased 3.1% in real terms.

Crises caused layoffs and absence of seasonal employment reflected in higher unemployment rate. In June 2020 it increased at 9.1%.

### Retail Sales

After favorable figures in the first two months of the year, retail sales started to decline in March 2020 by 11.7% year-on-year. Further decrease by 6.2% was also recorded in June.

### Industrial Production

Industrial production volume rates dropped by 1.8% year-on-year in June 2020.

Figure 1: GDP and CPI Indicators

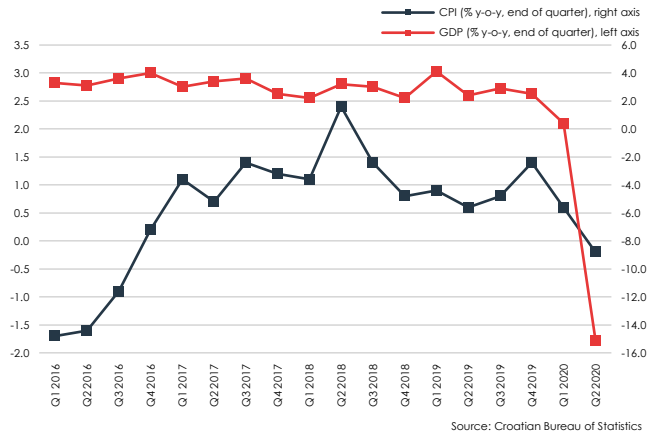
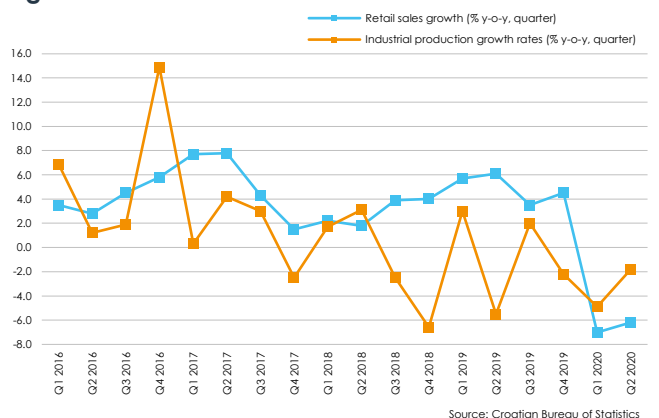


Figure 2: Labor Market Indicators



Figure 3: Retail Sales and Industrial Production Indicators



# ZAGREB OFFICE MARKET

## Market Overview

### Office Supply

Total competitive office stock in Zagreb at the end of H1 2020 amounted to approximately 1.08 million sq m. Two new office buildings were delivered to the market during H1 2020. Both buildings are located in Business District East and classified as Class A:

- Second building of Matrix Office Park comprising of approximately 10,500 sq m was completed in Q1 2020;
- Agram office building located in Radnička Street covering 7,600 sq m of office space was completed in Q2 2020.

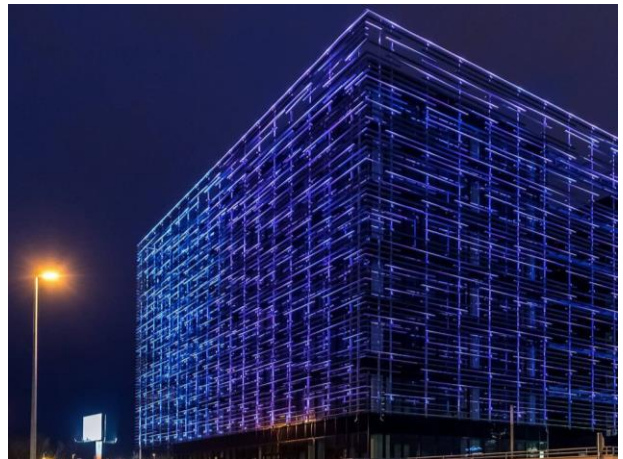
### Under construction

- Campus project of IT company Infobip in Novi Zagreb District is under construction. It will comprise of total 15,500 sq m including 1,500 sq m of residential, 9,000 sq m of office, and 5,000 sq m of other service areas and parking spaces.
- KFK, a regional manufacturer of aluminum-glass facades, recently started development of business complex Buzin City Island. The project is located by the main road leading to the city airport, connecting Zagreb and Velika Gorica. The project will be delivered in five phases. The first phase will include a hotel with 200 rooms and a congress center, as well as three business buildings with multifunctional halls and studios. The southern part of the first phase will be occupied by commercial television company Nova TV headquarters and studios.
- Hotel premises planned in Centar 2000 D3 building are currently being converted into 4,650 sq m GLA of office space. Completion is planned for Spring 2021.

### Planned

- GTC Group plans continuation of an office project development on the land next to the Matrix Office Park.
- Development of headquarters of Atlantic Grupa in Novi Zagreb hasn't started yet. Announced project will comprise of 18,000 sq m.

Figure 4: Matrix Office Park – Building B



Source: Propertias

Figure 5: Euro Daus (Agram) office building



Source: Propertias

Figure 6: Visualization of Buzin City Island Project



Source: www.tehnika.hr

# ZAGREB OFFICE MARKET

## Demand

During H1 2020 leasing activity in competitive projects totaled to approximately 18,000 sq m GLA. Compared to the previous half-year, this represented a drop of almost 50%.

Market activity was mostly driven by relocations (73%), while take-up, including expansions and new occupations, reached 18% of total leasing activity in H1 2020. One of the reasons for the higher level of relocations was caused by the earthquake which damaged a large number of older buildings in the city center, from which the tenants were forced to move out. Many of them came from public sector including public education, government departments and agencies, or regulatory bodies.

Even 64% of total leasing volume was recorded in Business District East. The remainder was recorded in City Center (25%), CBD (6%), and Jankomir (5%).

The strongest demand for office space was recorded by public sector (53%), followed by computers and hi-tech sector (23%), manufacturing and energy (14%), consumer services and leisure (9%), and professional sector (1%).

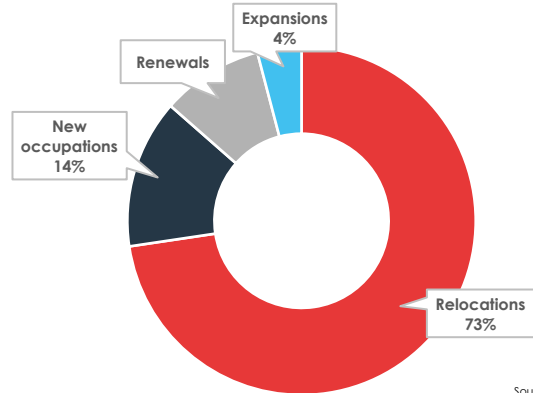
At the end of H1 2020 vacancy rate stood at approximately 3%.

## Rent and Yield

Prime office rent at the end of H1 2020 amounted to 14.50 EUR/sq m, while rent in class-B buildings stood around 9.00-11.00 EUR/sq m per month. Average monthly rent in class-A buildings stood at approximately 12.00 EUR/sq m.

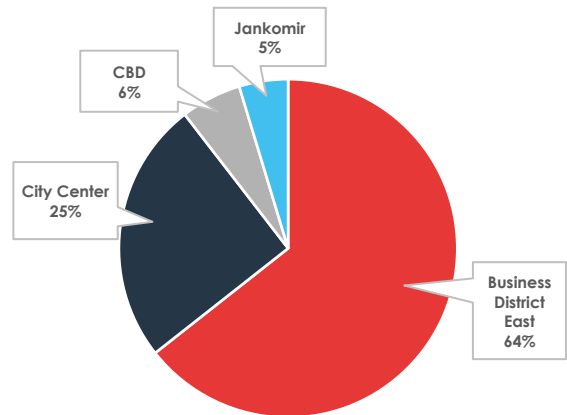
Prime office yield was 7.85%.

Figure 7: Leasing activity by type of deal, H1 2020



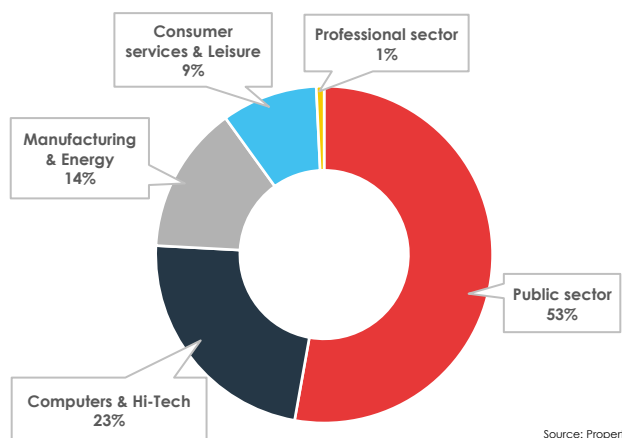
Source: Propertas

Figure 9: Leasing activity by business districts, H1 2020



Source: Propertas

Figure 8: Leasing activity by sectors, H1 2020



Source: Propertas

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## DEFINITIONS

**Competitive Office Stock** – total gross leasable floor area in completed (occupied and vacant) class A and B office buildings categorized in line with modern office standards, which comprise at least 3,000 sqm GLA, excluding government-owned buildings

**Prime Rent** – the typical achievable open-market headline rent that could be expected for a unit of standard size (200-250 sqm GLA) in a property of highest quality and specification within the prime location

**Prime Yield** – the yield which an investor would receive when acquiring a prime (class A) property in a prime location, which is fully let at current market rents; the prime yield reported is net

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## CONTACTS

For more information about this Market Overview please contact:

**Dejan Ružić**  
HEAD OF AGENCY & CORPORATE SERVICES  
T: +385 1 6187 350  
E: dejan@propertas.hr

**Sandra Doležal**  
RESEARCH & CONSULTANCY  
T: +385 1 6187 348  
E: sandra@propertas.hr



Radnička cesta 80  
HR – 10000 Zagreb  
Croatia

W: [www.propertas.hr](http://www.propertas.hr)  
T: + 385 1 6187 346  
F: + 385 1 6187 336  
E: [propertas@propertas.hr](mailto:propertas@propertas.hr)