

RESEARCH

**Zagreb Office
Market Overview**

H2 2020



ECONOMY OVERVIEW

Croatian economy in H2 2020

The COVID-19 pandemic negatively affected economy with the recession continuing in H2 2020. Weak personal consumption was one of the leading reasons of recession as it is the largest component of GDP and accounts for 60% of its total use.

GDP

The estimate of Croatia's GDP for Q4 2020 shows 7.0% contraction in Q4 2020 year-on-year, following a 10.0% drop in Q3 2020, with peak of 15.4% contraction in Q2 2020.

Inflation

Consumer prices in December 2020 decreased 0.7% at the annual level following November's 0.2% decline, marking the biggest drop in consumer prices since September 2016.

Labor market

The average monthly net salary in December 2020 reached an all time high of HRK 6,999 which represented 5.7% increase year-on-year.

The unemployment rate in December 2020 further increased to 9.5% marking the highest unemployment rate since May 2020.

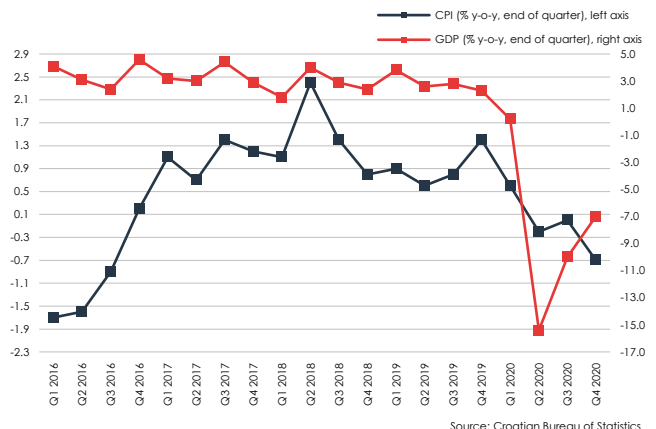
Retail sales

Retail sales fell 3.2% year-on-year in December 2020. This was the tenth consecutive month of decline in retail activity. Retail sales for the entire year fell by 5.8% in real terms.

Industrial production

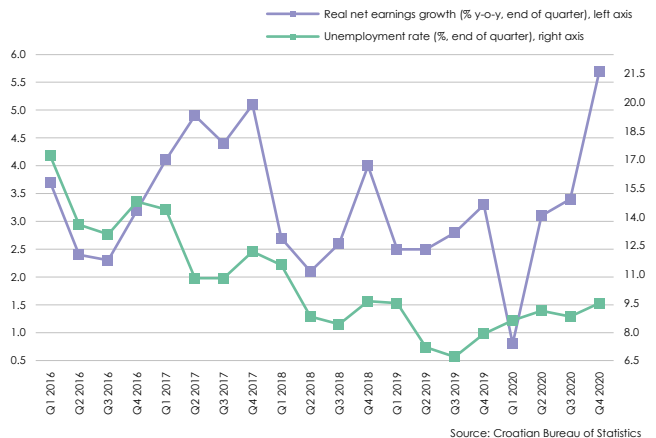
Industrial production volume rate grew 0.3% year-on-year in December 2020.

Figure 1: GDP and CPI indicators



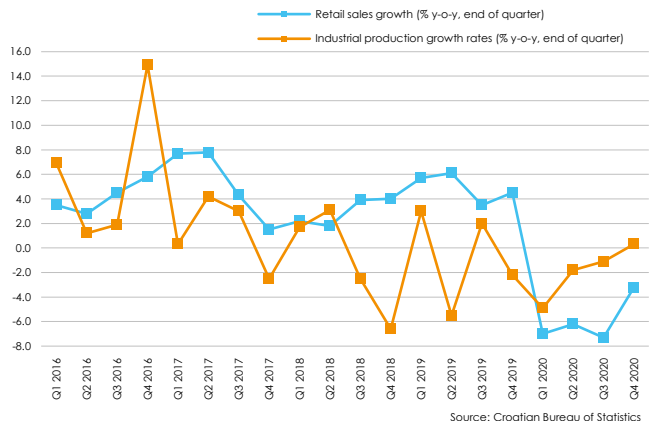
Source: Croatian Bureau of Statistics

Figure 2: Labor market indicators



Source: Croatian Bureau of Statistics

Figure 3: Retail sales and industrial production indicators



Source: Croatian Bureau of Statistics

ZAGREB OFFICE MARKET

Market Overview

Office Supply

There were no new project deliveries in H2 2020, therefore total competitive office stock in Zagreb remained at approximately 1.08 million sq m of leasable area.

However, building 16 in business complex Zavrtnica was renovated into a coworking space named Wespa Spaces. The complex spreads over 3,000 sq m covering three floors. On the first and second floor there are 320 office and semi-open workplaces, as well as 20 meeting rooms, and call booths. Ground floor comprises conference area, an amphitheater with a cinema, podcast room, central lobby, a restaurant, and a café.

Under construction

- Campus project Alpha Centauri of the IT company Infobip in Novi Zagreb District is close to completion. The project comprises a total of 15,500 sq m out of which 9,000 sq m of office space, 1,500 sq m of residential area, and 5,000 sq m of other service areas and parking spaces. Completion is planned in H1 2021.
- Construction of business complex City Island in Business District Buzin is underway. The project will be delivered in five phases. Phase I includes three office buildings with multifunctional halls and studios, a hotel with 200 rooms, and a congress center. The southern part of the first phase will be occupied by commercial television company Nova TV headquarters and studios.
- A part of D3 building in Centar 2000 complex which was originally planned to be a hotel is being converted into an office space. Completion of 4,650 sq m GLA of a new office space is planned for Spring 2021.

Planned

- GTC Group plans construction of additional office project development on the land next to the Matrix Office Park.

Figure 4: Alpha Centauri (Infobip) under construction



Source: Propertias

Figure 5: Buzin City Island under construction



Source: Propertias

Figure 6: Visualization of Buzin City Island



Source: www.tehnika.hr

ZAGREB OFFICE MARKET

- Development of earlier announced headquarters of Atlantic Grupa in Novi Zagreb still hasn't started.
- Croatian Lottery announced construction of a new office building in Novi Zagreb Business District, in Sopot neighborhood, along Dubrovnik Avenue. The project is planned in two phases on a plot of 7,661 sq m. In the first phase, an office building for the needs of its own employees of approximately 11,500 sq m. Additional business premises and other facilities are planned in the second phase.

Demand

Leasing activity in competitive projects in H2 2020 totaled to approximately 30,400 sq m GLA which represented an increase of 68% compared to the previous half-year.

Leasing activity was mostly driven by relocations (39%) and new occupations (36%), followed by renewals (24%) and expansions (1%).

The strongest demand for office space was recorded by manufacturing and energy sector (41%), followed by financial sector (18%), public sector (15%), computers and hi-tech (13%), consumer services and leisure (5%).

Occupants were primarily interested in three business districts: CBD (29%), Business District West (24%), and Business District East (21%). The remainder was recorded in Jankomir (17%), and City Center (9%).

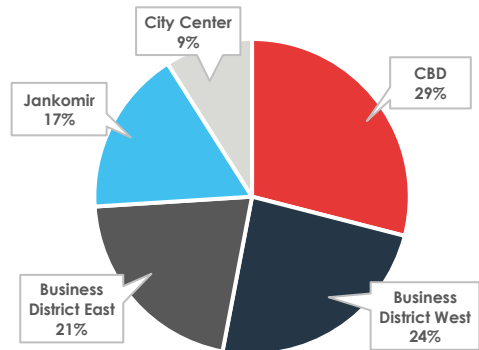
At the end of H2 2020 vacancy rate in competitive projects was between 3% and 4%.

Rent and Yield

Compared to H1 2020, monthly prime office rent at the end of H2 2020 remained unchanged at 14.50 EUR/sq m. Average monthly rent in class-A buildings stood at approximately 12.00 EUR/sq m. Rent in class-B buildings amounted around 9.00-11.00 EUR/sq m per month.

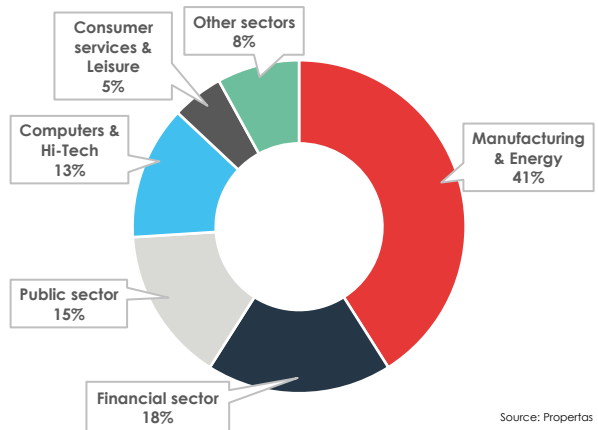
At the end of H2 2020 prime office yield was 7.80%.

Figure 7: Leasing activity by business districts, H2 2020



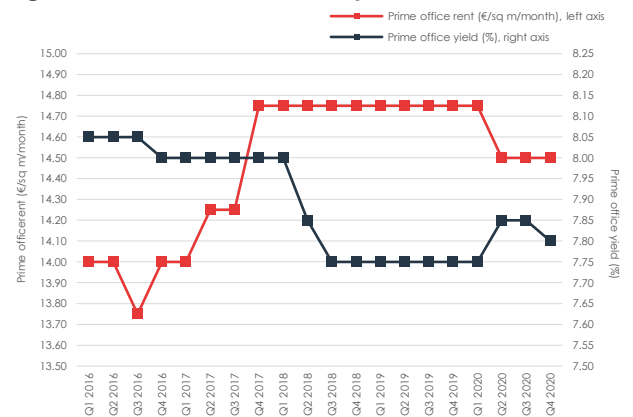
Source: Propertias

Figure 8: Leasing activity by sectors, H2 2020



Source: Propertias

Figure 9: Prime office rent and yield



Source: Propertias

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

CONTACTS

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