

Overview

During the second half of 2019, Zagreb's modern office stock of Class A and Class B office buildings remained unchanged, reaching 1.4 million square meters of GLA. Speculative (leasable) office stock totals approx. 1,050,000 sq m, i.e. over 70% of the total modern office supply in Zagreb.

Occupier focus

Location-wise, the largest number of modern office buildings is situated in Central Business District, holding a share of 43% in the total stock. As per our market intelligence, the total leasing activity amounted 25,000 sq m in H2 2019, while the office space absorption was mostly driven by companies looking to relocate their premises. If we analyse the share per type of business, High-tech sector and IT industry were the key performers, and we expect companies from this market segment to remain the main market drivers in the upcoming period.

The digital revolution brought some new trends to the office market, changing the traditional business model in the real estate segment. In addition to tenants coming from large corporations, an increasing number of freelancers, start-ups and other independent professionals are looking for flexible and creative office spaces, transforming a typical office into an urban working environment. Currently, the coworking office market in Zagreb is still immature, totalling approx. 25,000 sq m. One of the market leaders in coworking, Rent24, which entered the Croatian market through a joint venture with HUB385, is currently working on the development of new 3,500 sq m of coworking space in Zagreb city centre. The other operators on the market are IWG (with Regus and Spaces), Zicer, Impact Hub, bee@work, BIZkoshnica, etc.

Investor focus

Two office investment transactions were closed in H2 2019 when Slovenian Magnus Kapital acquired City Plaza totaling 43,000 sq m from Austrian Centrice, while the Austrian real estate investment company S IMMO has acquired an office building called Hoto Tower, comprising 15,000 sq m, from Austrian SIGMA Group. Prime yields for modern office spaces vary between 7.25 - 7.50%. In terms of new deliveries, in addition to the second phase of GTC's Matrix Office Park, there are only two small-scale mixed-use projects currently under construction, indicating a growth of office stock by nearly 35,000 sq m.

Prime Office Rents and Vacancy Rate

Limited construction activity in the Zagreb office market, along with a stable demand, significantly influenced the vacancy rate, which further dropped to the historical minimum of 2.5%. The rent for class A office buildings slightly increased to the level between EUR 13-15/sq m/month, while average rents for Class B office space range EUR 10-12/sq m/month.

MARKET INDICATORS

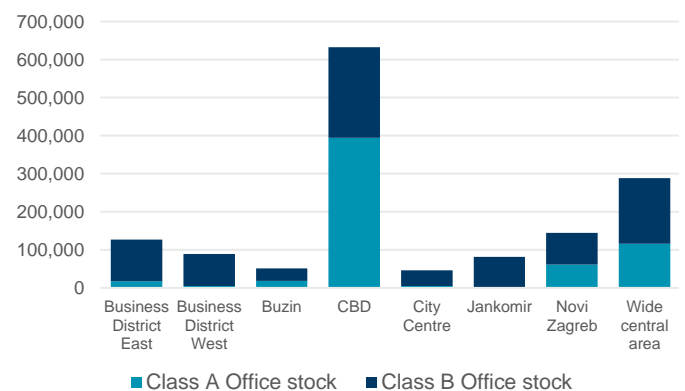
Market Outlook

Prime Rents:	Forecasted to remain stable	▲
Prime Yields:	The yield level is currently stable, but further yield decompression is possible.	▲
Supply:	CBD in focus, demand emerges in the city centre	▲
Demand:	Leasing activity is expected to remain stable	▶

Development activity - 2019

PROJECT	INVESTOR	SIZE SQ M GLA	STATUS
Matrix Office Park 1 st phase	GTC	10,000	Completed
R21	R21 Projekt	23,500	Completed
VMD Zaprudski Otok	VMD Grupa,	6,300	Completed
Matrix Office Park 2 nd phase	GTC	10,000	Under construction
Euro Daus Office Building	Agram TIS	7,700	Under construction
BHB Domus	Sindikata gradnja	5,600	Under construction
Alpha Centauri Campus	Infobip	10,000	Under construction
Crystal Tower	SG Kristali	n/a	Announced
Seven Gardens	GTC	60,000	Announced

Office Submarket Share



Source: CBS International, part of Cushman & Wakefield Group