MARKETBEAT

ZAGREB

Office Q1 2024

	YoY Chg	12-Mo. Forecast
1.50% Vacancy Rate	▼	▲
€16.0-17.5 Prime asking rental levels	▲	▲
7.25-7.75% Prime yields	▬	▬

(Overall, All PropertyClasses)

ECONOMIC INDICATORS

	YoY Chg	12-Mo. Forecast
2.6% GDP Growth rate 2023	▼	▼
2.6% Zagreb Q4 2023 Unemployment rate	▼	▬
EUR 1,355 Zagreb Q4 2023 Average net salary	▲	▲

Source: Croatian Bureau of Statistics, The Croatian Employment Service

ECONOMY

Relatively strong employment growth and a decline in unemployment are expected in the domestic labour market, with a further rise in nominal wages, though at a slower pace, followed by a gradual recovery in real wages. In light of the continued upward phase of the economic cycle, employment is expected to grow further (by 1.8% in 2024), albeit at a slower pace towards the second part of the projection horizon. Unemployment is expected to continue declining, and the ILO unemployment rate might be 6% in 2024. Nominal and real gross wages in Croatia are expected to continue growing in 2024, albeit at a somewhat more subdued pace than last year, with pronounced wage growth in the public sector, even though this will depend on private sector workers' bargaining power. Wage growth is expected to continue decelerating over the remainder of the projection horizon. With the unwinding of past shocks, inflation is expected to continue decelerating in the coming months amid subdued current inflationary pressures. Estimates show that the average annual consumer price inflation rate in Croatia could be more than halved, from 8.4% in 2023 to 3.5% in 2024, driven by the expected decline in all the main inflation components, in particular core inflation. After stagnating in 2023, energy prices might edge down marginally in the current year, provided that administered prices of gas and electricity for households remain unchanged. The backdrop of lower energy and food commodity prices paired with normalised supply chains might contribute to a marked slowdown in the inflation of food and industrial products.

SUPPLY AND DEMAND

In the opening three months of 2024, modern office stock reached 1,556,600 sq m of GLA, following the official opening of Grawe Garden Center, with a total of 2,100 sq m of GLA, in January 2024. Out of the total stock, 42% is located in CBD, both Class A and B office buildings. Looking ahead, a further 80,000 sq m of modern office space is currently under construction or in the preparation phase, which should be delivered to the market by the end of 2025. Among new developments, 50% of the total surface is being developed in the Buzin area, 32% in CBD, while 10% will be in Novi Zagreb. This distribution underscores the growing interest of investors in the broader central areas of Zagreb. Anticipated supply growth is expected with the completion of several announced projects. These include the VMD Office towers in Heinzelova, totalling 15,000 square meters GLA, the Supernova Buzin Office Tower with a total GLA of 15,300 square meters, and the mixed-use project Museum Residences in the Novi Zagreb area, boasting an office area of 8,000 square meters GLA. Additionally, the preparations for the development of the Matrix D office building, which completion is planned for Q2 2025, have also commenced.

A slowdown in market activity was visible in the first three months of 2024 as the take-up for Q1 2024 totalled 10,476 sq m, which compared to the same quarter of 2023 was noticeably lower. However, the strong position of CBD in respect to the other city areas with a total take-up share of 43%, was again confirmed, followed by City Centre at 22% and Novi Zagreb at 19%. If we look at demand distribution per type of business the Professional Services sector was the key performer with a share of 38% of total take-up, followed by the Computers & Hi-Tech sector at 26% and the Public sector at 13%. The average deal size for the year 2023 was at the level of 430 sq m.

RENTS AND VACANCY

Regarding rental levels, Class A office buildings have experienced a steady increase to EUR 14.0-15.5/sq m/month, while Class B office premises range from EUR 12-13.5/sq m/month. Current rents for prime Class A office projects, at the most attractive locations, range from EUR 16-17.50/sq m/month.

Due to the lack of new deliveries on the market, which would increase the total office stock, along with steady demand, the overall vacancy rate declined to the historically lowest level of 1.50%, while the vacancy rate for Class A offices dropped to the level of 0.77%. Prime yields for modern office space remained stable between 7.25 and 7.75%.

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