

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
1.47% Overall Vacancy Rate	▼	▼
7,350 Total Leasing Activity, sqm	▲	▬
€18.00 Prime Asking Rent	▲	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS

3.6% GDP Growth Rate Q2 2024	▲	▬
2.4% Zagreb Unemployment Rate Q2 2024	▲	▲
€1,505 Zagreb Average Net Salary Q2 2024	▲	▲

(Overall, All Property Classes)
Source: Croatian Bureau of Statistics

ECONOMY

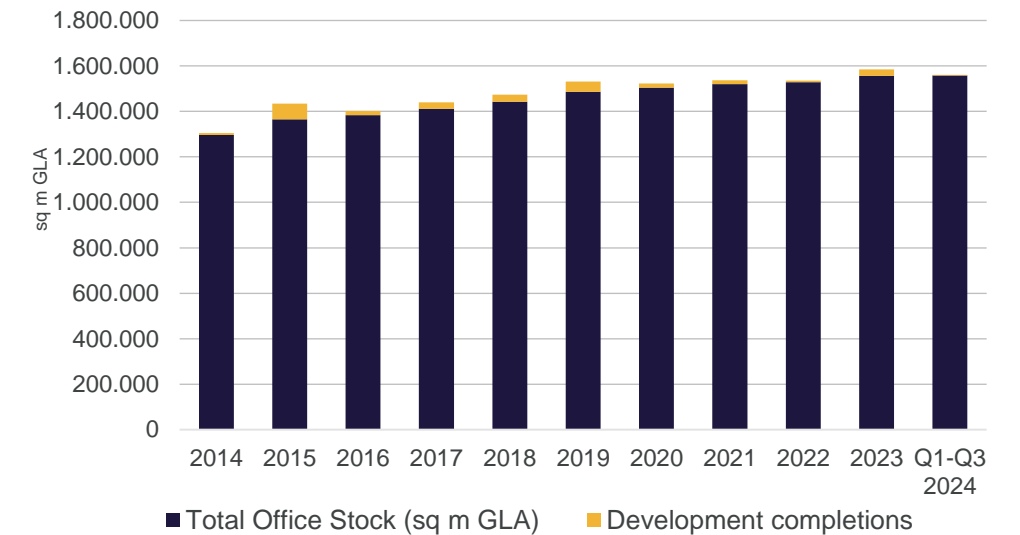
Croatia experienced a stable economic activity. The Croatian economy continued to expand relatively strongly, with an expected annual real GDP growth rate of 3.6% in 2024. This growth is primarily driven by robust domestic demand. Personal consumption remained strong, bolstered by ongoing increases in real disposable income. GDP growth in 2024 has been revised up by 0.4 percentage points relative to the projection from June this year. The labour market has remained strong. Due to the ongoing economic growth, employment is expected to grow by 3% in 2024, while the unemployment rate could fall to around 5.2%. Employment is expected to increase further in 2025 and 2026, although at a slower pace. Inflation in Croatia, measured by the Harmonised Index of Consumer Prices (HICP) is expected to ease gradually, dropping from 8.4% in 2023 to 3.9% in 2024, then further declining to 3.4% in 2025 and 2.3% by 2026. This slowdown reflects lower global prices for energy, food, and raw materials, as well as stabilised supply chains.

SUPPLY

Since the beginning of 2024, a moderate development trend has been recorded. Zagreb's total modern office stock has grown to 1,558,000 sq m GLA, including both Class A and Class B office schemes. Out of this, 1,108,000 sq m (or 71%) accounts for speculative stock. The most desirable area is CBD, which contains 660,000 sq m or 44% out of the total stock, further underscoring the importance of the CBD in the city's overall office market landscape.

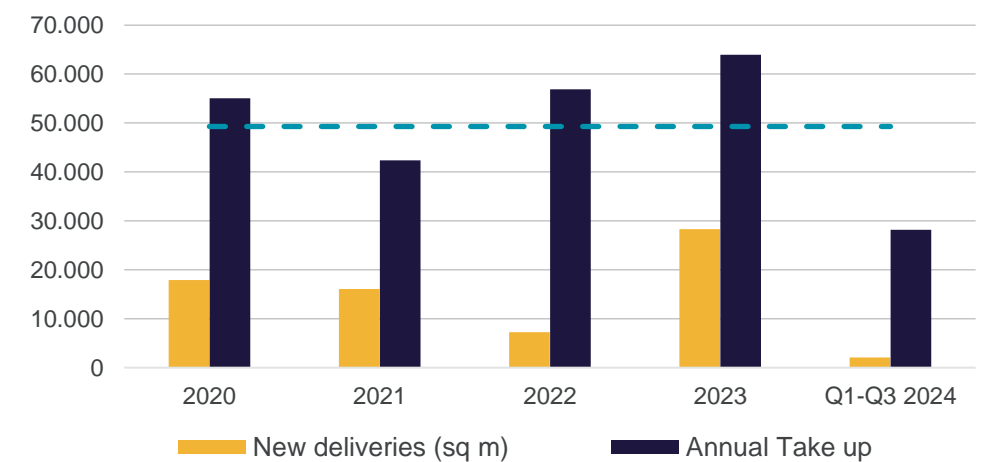
Regarding market development, more than 102,000 sq m of modern office space is currently under construction or in the preparation phase, with delivery expected by 2027. Specifically, 77,346 sq m is under construction, including City Island Phase 2 in Buzin (25,000 sq m) followed by the upcoming third phase of City Island (25,000 sq m), the mixed-use Museum Residences in Novi Zagreb (8,000 sq m), the mixed-use Avenue V project (4,500 sq m) on Strojarska-Vukovarska Street, and VMD business centre on Heinzlova Street.

TOTAL STOCK / NEW DELIVERIES



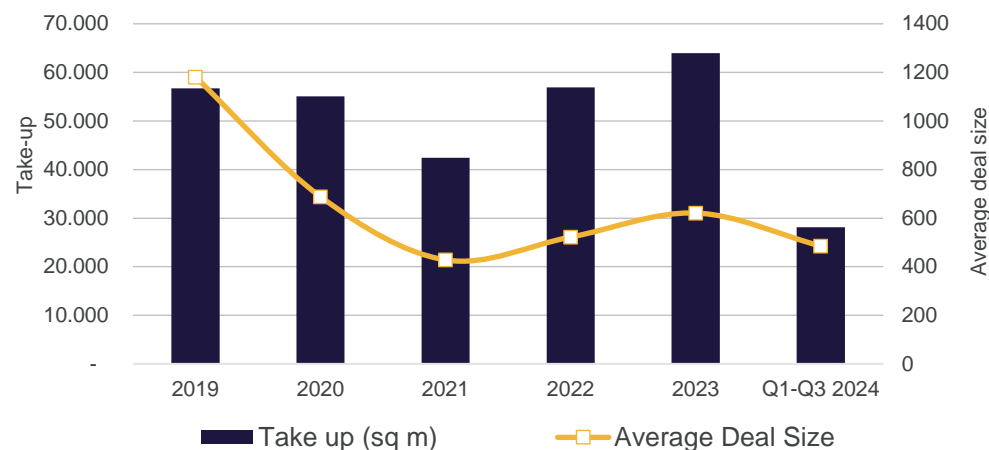
Source: CBS International, part of Cushman & Wakefield Group

NEW DELIVERIES / SPACE DEMAND



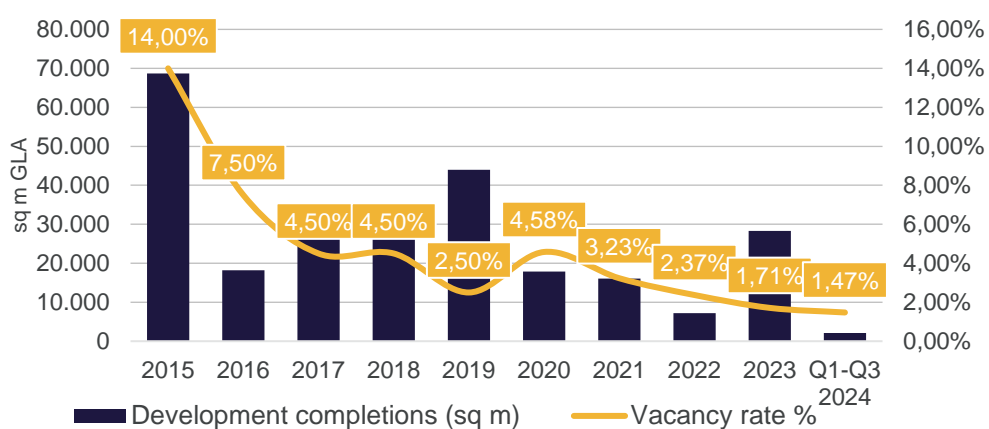
Source: CBS International, part of Cushman & Wakefield Group

DEMAND / AVERAGE DEAL SIZE



Source: CBS International, part of Cushman & Wakefield Group

NEW DELIVERIES / VACANCY RATE



Source: CBS International, part of Cushman & Wakefield Group

OUTLOOK

- Despite a slowdown in demand and overall leasing activity in Q3 2024, the market sentiment remains positive as employers are exploring ways to attract employees back to the office
- With the expected completion of City Island Phase 2, new supply is expected to reach a similar level as in 2023. Additional projects are expected to exceed the supply of the past two years, beginning to address current space shortages in the market.
- The upward pressure on rents observed over the past 12 months is likely to persist in the upcoming quarters, given the constrained project pipeline and low vacancy rates within Zagreb's office market.
- Investment in speculative office projects may grow as developers seek to capitalize on the high demand and low vacancy rates.

Meanwhile, projects such as the Matrix D (10,500 sq m), the fourth building in the GTC complex and the recently announced Business Centar Arena (15,000 sq m) are still in the preparation phase. Ongoing construction projects, especially in central areas like the CBD and developing locations such as Buzin, are expected to help address the shortage of new office space; however, demand for high-quality office space is likely to continue outpacing supply for some time.

DEMAND

The total office space take-up in Zagreb during Q3 2024 reached 7,350 sq m. Of this total, 26% of leasing activity occurred in the most preferred business area CBD. The average deal size during Q3 was 512 sq m, reflecting a stable leasing environment characterized by moderate-sized transactions. Among sectors, ICT remains the key driver of demand with a share of 48%, followed by the manufacturing sector which holds 33%. Considering the mentioned upcoming projects and the robust demand for modern office spaces, it will be interesting to see the redistribution of tenants when the new square meters arrive on the market.

PRICING

Zagreb's office market rental levels remained stable in Q3 2024, with prime asking rents for high-quality office space at the most attractive locations ranging from EUR 16-18/sq m/month, which represents a growth of 6% y/y. For Class A office buildings, asking rents were on a similar level compared to the last quarter, i.e., EUR 14.5-16/sq m/month, while Class B office space commanded asking rents in the range of EUR 12-14/sq m/month. This tiered pricing structure reflects the varying levels of demand and quality across different classes of office stock. Prime yields for modern office space remained stable at around 7.25%.

VACANCY

The vacancy rate at the end of Q3 2024 stood at an impressively low of 1.47%, signalling strong occupancy levels together with a lack of new projects on the market. For Class A office buildings, the vacancy rate was even lower at 0.59%. This indicates a robust demand for high-quality office space. The total vacant space at the end of Q3 2024 was 23,000 sq m.

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