MarketView
Zagreb Office & Industrial

Quick Stats

OFFICE	Change from y-o-y
Yield	→
Vacancy	↗
Rent	↘

INDUSTRIAL	Change from y-o-y
Yield	→
Vacancy	↘
Rent	↘

Hot Topics

- With limited demand, increasing vacancy and a significant amount of space in the development pipeline, landlords are under increasing pressure to lower rents and/or provide other forms of concessions and incentives.
- For the first time since the 2008 crisis there is close to 100,000 sq m of office space in the development pipeline which is actively under construction.
- Monthly headline rents in excess of EUR 16.00 per sq m are becoming icnreasingly difficult to achieve which, inspite of stable yields, has led to a decrease in capital values.

OFFICE MARKET

- Demand

  There were indications of increasing demand for office space during the first half of 2011. Overall this is still very limited and most of it continues to stem from occupiers looking to down-size and/or cut costs. During the past two and a half years the average quarterly take-up has been around 5,000 sq m. Whilst there has been a slight increase, it is still only a fraction of that witnessed during 2006 to 2008 when quarterly take-up was on average over 20,000 sq m. As has been the case for the past 2 years, lease negotiations are still lasting exceptionally long with many transactions taking as much as 6 to 12 months to close.

- Supply

  Following two and a half years of very little new stock having been delivered to the market there is now a significant amount of space in the development pipeline. Approximately 25,000 sq m of new space is expected to be delivered during 2011 and possibly more than double this in 2012. Coupled with many occupiers continuing to down-size this could result in as much as 100,000 sq m of space becoming available to the market during the next 18 months. Total modern office stock in Zagreb is estimated at just under 600,000 sq m.

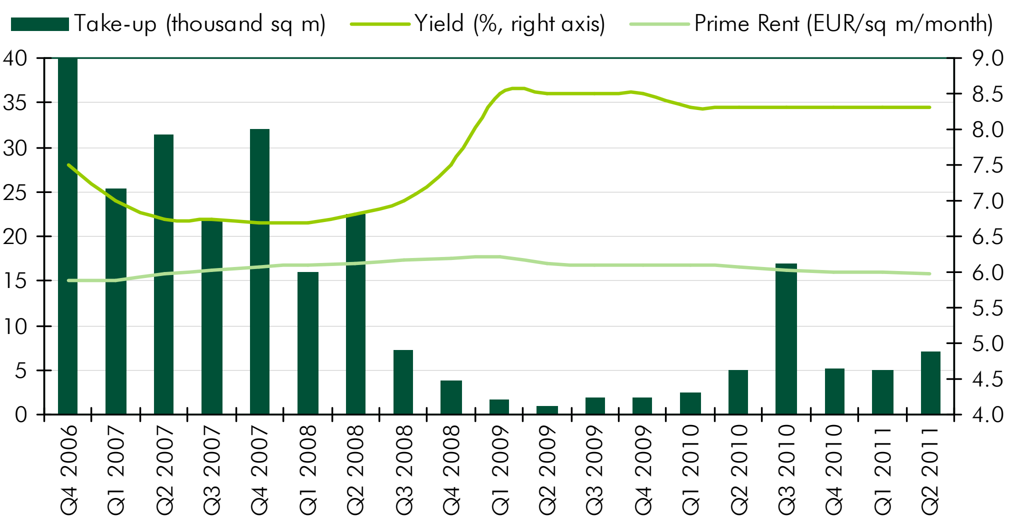
- Vacancy and Rents

  The vacancy rate for office space in Zagreb has increased by more than 50% since the end of 2010 reaching close to 7%. This remains quite low but it is likely to increase more in the months ahead. Higher vacancy together with limited demand and increasing stock is continuing to put a lot of pressure on rents. Only a few buildings are now succeeding to maintain high headline rents though this is at the expense of providing other concessions (rent-free, fit-out etc).

- Outlook

  The next few months should remain relatively stable though beyond this landlords are expected to face a rather challenging period at least until demand picks up again. On the other hand occupiers remain in a good position to secure favourable terms and conditions for quality office space.

Office Market Indicators



Source: CBRE Research

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INDUSTRIAL & LOGISTICS MARKET

- **Demand**

  Following significant take-up during 2009 and 2010, the past 6 months has seen very little letting activity in the industrial & logistics sector. This clearly indicates that for the time being demand remains quite limited. Occupiers are mostly made up of large retail chains, predominantly from the food sector, as well as logistics service providers. Some of these are tenants (Spar, Mercator, Trast, Kuehne & Nagel) whereas others are owner-occupiers (Lidl, Rewe, Magma, Konzum, Alca). Demand is expected to increase as Croatia leads up to full EU membership in 2013.

- **Supply**

  For a capital city Zagreb has a very low level of logistics stock available for the rental market. The Zagreb Logistics Park in Sveta Nedelja is currently the only park of its kind in Zagreb offering just modern office and Class A logistics space. On the other hand, as can be seen in the table below, there are a lot of potential developments in the pre-construction stage. However, it is only when demand picks up and developers are able to secure pre-leases that it is expected that these developments will proceed.

- **Vacancy & Rents**

  Monthly rents for prime space have remained in the EUR 5.50 to EUR 6.50 per sq m range for the past few years. Until more supply is brought to the market it is not expected that there will be much change. With very little modern stock, and much of it being owner-occupied, vacancy is very low.

- **Future development / Outlook**

  Without further economic recovery and a subsequent pick-up in demand it is expected that there will be limited transactions and that activity in the sector will remain minimal.

Major logistics developments within 30km radius of Zagreb

Project / Location	Development stage	Approximate Built Area
Logistic Centre Jastrebarkso	Pre-construction	70,000 sq m
Logistic & Distribution – Zagreb South	Pre-construction	180,000 sq m
Logistic & Distribution – Zagreb East	Pre-construction	80,000 sq m
Sv. Nedelja / Samobor	Pre-construction	70,000 sq m
Sv. Helena / Vrbovec	Pre-construction	80,000 sq m
Velika Gorica	Pre-construction	100,000 sq m
Total		**580,000 sq m**

Source: CBRE Research

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