

MarketView

Zagreb Offices

Quick Stats

Change from
Y-O-Y

Yield	↘
Vacancy	↗
Rent	↘

Change from
Q-O-Q

Yield	→
Vacancy	↗
Rent	↘

Hot Topics

- 2010 recorded a significant increase in take-up with Q3 reaching the highest quarterly take-up witnessed since the beginning of 2008.
- For the first time since the crisis there is close to 100,000 sq m of office space in the development pipeline which is actively under construction.
- The crisis continues to impact many of the small- to medium-sized occupiers, many of whom no longer require the space they currently lease. This is putting increasing pressure on rents as well as the vacancy rate.

OVERVIEW

- **Several large lettings resulted in significant take-up during Q3 2010**

The third quarter recorded a take-up in excess of 17,000 sq m. However, with only 3 transactions making up more than 76% of the take-up it is too early to consider this a trend. More than 40% of the take-up came from a single pre-lease which is very unusual for the Zagreb market and is a clear indicator of the lack of available space for large occupiers. The take-up was almost entirely driven by the expansion of well-established international corporations which have been present on the Croatian market for a long time, rather than newcomers.

- **Increased construction activity during 2010 increases development pipeline**

During the past 24 months there has been very little new supply of Class A office space delivered to the market and not many development starts have taken place. This has changed significantly over the course of the past few months with at least 3 large office developments now actively under construction which will result in more than 90,000 sq m of new space expected to be delivered between now and mid-2012.

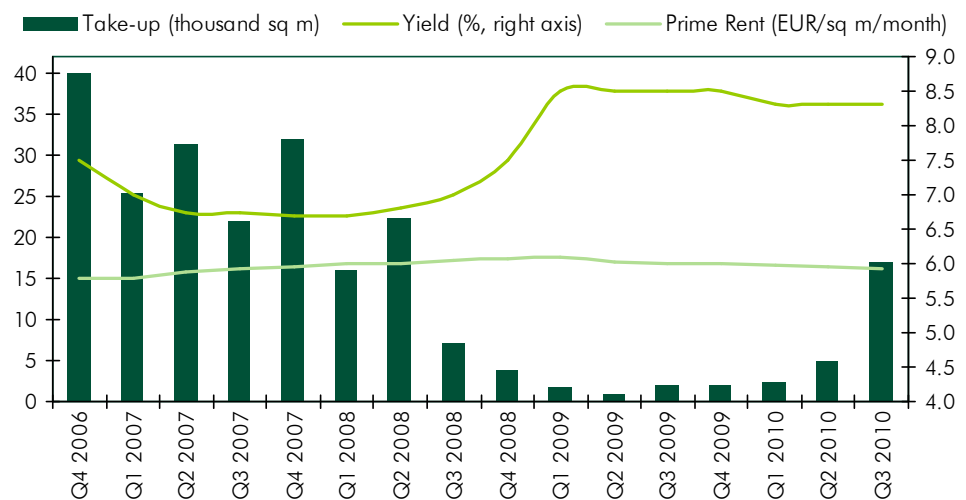
- **Vacancy remains low though under increasing pressure**

Though vacancy rates remain low, particularly compared to other CEE countries, in Q3 the vacancy rate year-on-year change was positive for the first time since the beginning of 2007. Expiring leases of occupiers not fully utilizing their current space will lead to an increase in the amount of vacant space on the market.

- **Rents not expected to grow soon**

With vacancy rates under increasing pressure and a growing development pipeline it is unlikely that the Zagreb office market will see rental growth any time soon. In an attempt to keep headline rents as high as possible it is likely that Landlords will increase incentives such as fit-out and rent-free periods. Any further decline in rents during the next few months should be limited.

Office Market Indicators



Source: CBRE Research

©2010, CB Richard Ellis, Inc.

INVESTMENT MARKET

Even though there has been an increase in interest by investors seeking opportunities this has so far not led to any investment transactions. However, with both vacancy and rents under increasing pressure it is possible that over the course of the months ahead the gap between buyers' and sellers' expectations may decrease which will lead to an increased likelihood of any investment taking place. Yields remain lower than those of other SEE countries including Bucharest and Sofia, but the premium above core CE markets continues to be in excess of 150 basis points.

OUTLOOK

Whilst the office market has been very quiet for the most part of the last 24 months, more recently activity has increased and it is expected that there will be more buoyancy in the months ahead. Increased activity over a period of time will eventually provide a clearer picture of the true state of the Zagreb office market.

A COMPARISON OF KEY INDICATORS IN CEE REGION AS AT Q2 2010

The Zagreb office market has had one of the lowest drops from the peak recorded during the past 3 years. However, whereas 7 out of the 9 markets below saw no change from Q1 to Q2, the Zagreb market continues to witness a decreasing trend. This would to some extent indicate that Zagreb is in a different part of the cycle than most other CEE countries.

City	Prime Rent (€/sq m/mth)	Last 3 Months	Last 12 Months	From peak (*)	Prime Yield
Warsaw	23.00	0.0%	-4.2%	-34.3%	6.60%
Vienna	22.25	0.0%	-1.1%	-5.3%	6.25%
Prague	21.00	0.0%	-4.5%	-8.7%	6.85%
Budapest	20.00	0.0%	0.0%	-11.1%	7.75%
Bucharest	19.50	0.0%	-2.5%	-11.4%	9.50%
Bratislava	17.00	0.0%	0.0%	-5.6%	7.50%
Sofia	14.50	-1.7%	-14.7%	-20.5%	10.00%
Zagreb	16.50	-1.2%	-2.9%	-5.7%	8.30%
Belgrade	15.00	0.0%	-6.3%	-28.6%	10.00%

* Figures indicate degree of change from the highest rent recorded in the previous three years and current level.

Source: CBRE Research

Disclaimer 2010 CB Richard Ellis

Information herein has been obtained from sources believed to be reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by CB Richard Ellis clients, and cannot be reproduced without prior written permission of CB Richard Ellis.

CB Richard Ellis Group, Inc. (NYSE:CBG), a Fortune 500 and S&P 500 company headquartered in Los Angeles, is the world's largest commercial real estate services firm (in terms of 2007 revenue). With over 29,000 employees, the Company serves real estate owners, investors and occupiers through more than 300 offices worldwide (excluding affiliate offices). CB Richard Ellis offers strategic advice and execution for property sales and leasing; corporate services; property, facilities and project management; mortgage banking; appraisal and valuation; development services; investment management; and research and consulting. CB Richard Ellis is the only commercial real estate services company named one of the 50 "best in class" companies by BusinessWeek, and was also named one of the 100 fastest growing companies by Fortune. Please visit our website at www.cbre.com.

For more information regarding the MarketView, please contact:

Croatian Business Team

CB Richard Ellis
Zagreb tower
Radnicka cesta 80
Zagreb 10000
Croatia
T: +385 1 6187 346
F: +385 1 6187 336

Office Manager

Diana Maltar
e: diana@cbre.hr

Managing Partner

Vlatko Dubravica
e: vlatko@cbre.hr

Partner

Arn Willems
e: arn@cbre.hr

Management Assistant

Ivana Holenda
e: ivana@cbre.hr

Office & Industrial Market

Nikola Vukosavljevic
e: nikola@cbre.hr

Retail Market

Emanuel Bakic
e: emanuel@cbre.hr

Goranka Brnas

e: goranka@cbre.hr

Ivana Milkovic

e: ivana.milkovic@cbre.hr

Research & Consultancy

Emina Cuturilo
e: emina@cbre.hr

Sales & Acquisitions

Ana Brkic
e: ana@cbre.hr