

# Zagreb Office Market Pulse

H1 2015



## Stock and Supply

Being the major political, economic, educational and cultural centre of the country, Zagreb hosts a large number of public and private companies, which created significant demand for office space over the years. However, during the recent period, the Zagreb office market has been put under pressure, underpinned by increasing supply followed by decreasing demand due to economic circumstances and causing a constant increase in vacancy levels.

During the past 18 months, the office market has recorded increased development activity, with several larger scale projects being delivered. The completion of Sky office tower 2 and the first phase of VMD Strojarska together added around 30,000 sq m of modern office space. Furthermore, the beginning of the year was marked by the completion of the 2<sup>nd</sup> phase VMD Strojarska which added over 18,000 sq m. The entire mixed-used complex also includes two residential buildings, spread over 10,000 sq m.

Future supply remains uncertain with various smaller scale projects in the pipeline, totalling around 50,000 sq m, although with undefined delivery dates. Construction of larger scale projects remains on hold.

### Future office projects

Property	Location	Size (sq m)
Avenija Projekt	Business District West	7,000
Conditum	Novi Zagreb	6,500

Source: JLL, August 2015

### Overall Statistics

**18,700 sq m / 29,300 sq m**

Last office completion / total 2014

**13,500 sq m**

Estimated new supply in the following 12 months

**50,000 sq m**

Overall future office projects

**28,300 sq m**

Gross office take-up in H1 2015

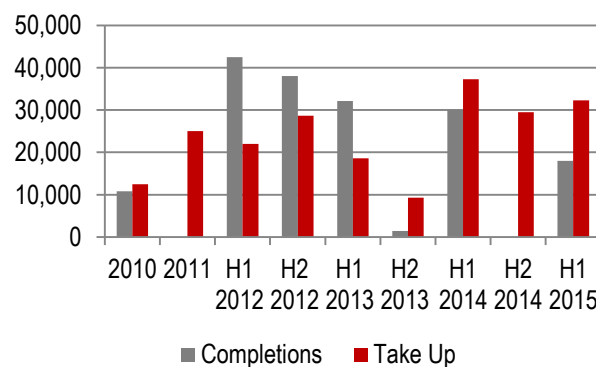
**>50% office transactions in CBD**

The highest activity was noted in CBD as of H1 2015

**15 %**

Vacancy rate in A&B Class office buildings as of H1 2015

### New office supply and take up

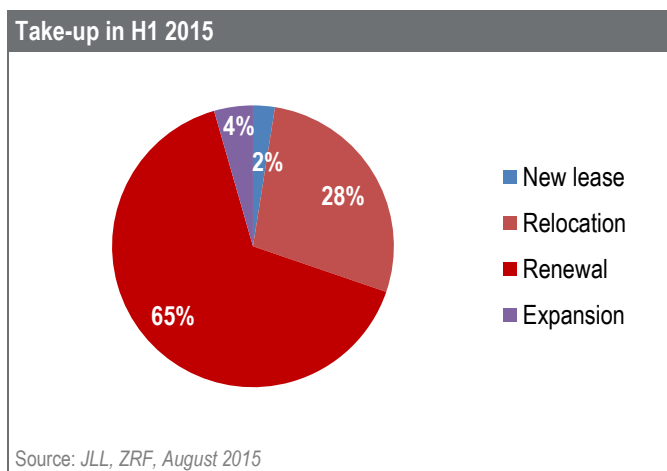


Source: JLL, August 2015

## Demand

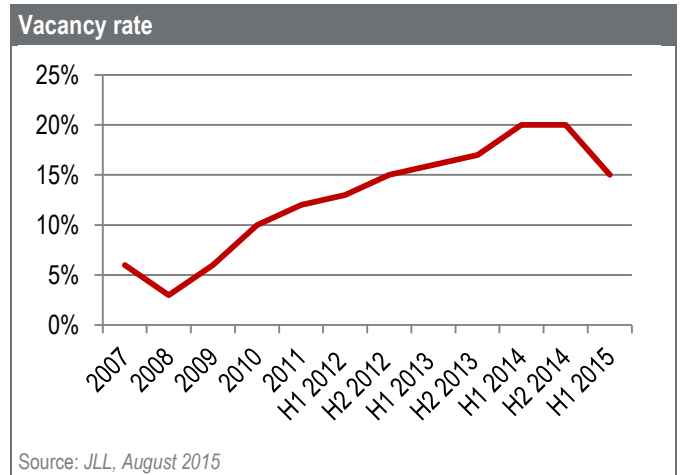
Demand for office space in Zagreb is highly influenced by the macroeconomic and financial situation, which is having a significant impact on occupiers. More flexible, higher quality office premises are pushing occupiers from the city centre and lower quality premises to more developed areas including CBD, Business District East and Novi Zagreb.

During the first half of 2015, market activity was mainly influenced by the renewal of contracts, followed by the relocation of existing tenants. The majority of activity took place in the CBD with nearly 53%, followed by Business District East and Buzin. The most active sector was banking, followed by the IT and telecommunication sectors.



## Vacancy

From the beginning of 2015, the vacancy level has recorded a drop and currently stands at 15%. With the significant number of relocations of occupiers to modern office premises, we are of the opinion that the highest vacancy will be in lower quality buildings. The demand for modern office premises is constant and therefore such buildings are largely well occupied.



## Rental levels

During the first half of 2015, prime office rents in Zagreb remained stable ranging between €14 - €15 m<sup>2</sup>/month, with only few exceptions exceeding this average. However, rental pressures continued to push rents down for office premises in secondary locations, currently ranging between €8 - €11 m<sup>2</sup>/month. Tenants continue to expect a greater level of incentives in the form of rent free periods and fit-out contributions. A downward pressure on rents can be expected in the strongest locations, however we expect this to be more evident in secondary properties, with the continued relocation of tenants to modern premises.

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