

Zagreb Industrial Market Pulse

H1 2016



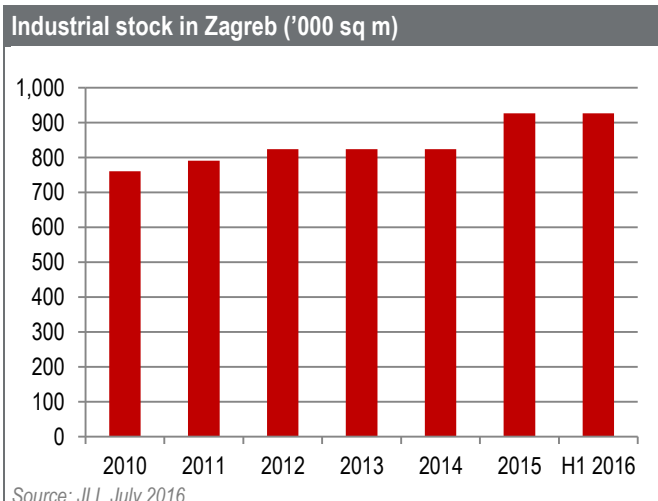
Stock and Supply

The industrial market is considered as the least developed real estate segment, both in Zagreb and the whole country. The majority of stock is still mainly owner occupied as developers prefer to deliver schemes for owner occupation purposes. Over the years, along with the evolution of the industrial sector, major industrial zones have been created within and around Zagreb such as Jankomir, Zitnjak, Rugvica, Sveta Helena and Sveta Nedelja.

At the beginning of the year, according to Eurostat data, Croatia was among three European countries with the strongest industrial production growth which has been constant over previous months. In 2015, Kaufland and Ralu were the main investors in the industrial market segment. At the beginning of 2015, Kaufland opened a logistics center for owner occupation, totalling over 64,500 sq m in Jastrebarsko. In the second half of 2015, a new logistics center was opened in Rugvica area by Ralu logistika, totalling over 11,500 sq m. This was an investment of nearly €20 million and offers controlled temperature conditions from -25 to +25 C, and a vehicle maintenance area of 1,500 sq m.

Recent supply on the market has relied on the expansion of companies from the retail, manufacturing and logistic sectors. Existing food retail chains continued their expansion throughout the country, including the modernisation of existing properties and the opening of new stores. Therefore, the future development of the retail sector will have a significant impact on the further development of the industrial market.

In addition, unlike current conditions, the market in 2015 noted growth in construction activity which brought new supply to the modern market. Austrian logistics company Lagermax has opened a new 17,000 sq m distribution and logistics center within the Luka municipality in the Greater Zagreb. Furthermore, the company bought land near Osijek where they plan to build a cross-dock platform for servicing the Slavonija and Baranja regions. Zagreb Brewery has opened a 43,000 sq m distribution centre for owner occupation purposes. This was an investment of approximately €5 million.



Major recent deliveries

Scheme	Location	Size (sq m)
Ralu Logistika	Rugvica - Zagreb	11,500
Lagermax	Luka - Zagreb	17,000
Zagreb Brewery	Zaprešić - Zagreb	43,000
Kaufland logistic center	Jastrebarsko - Zagreb	64,500

Source: JLL, July 2016

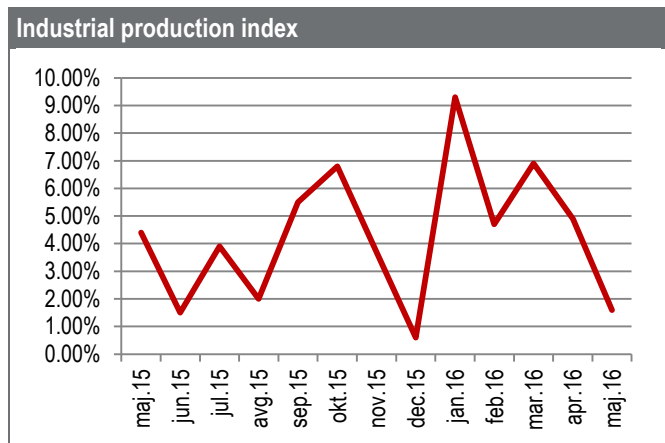
Other important industrial zones in the country are situated around major coastal cities such as Split and Rijeka. With the current market conditions, future supply will rely on the construction of built to suit schemes.

Future supply will rely on construction in secondary cities. The construction of new facilities and modernisation of terminal Skrljevo has been announced. This will be an investment worth €350 million and the funds have been provided from the recapitalisation process of the Port of Rijeka, successfully conducted last year. This project will include two phases and the first includes the construction of new warehouses (26,000 sq m), the adaptation of existing warehouses and construction of a depot for containers and supporting infrastructure.

Demand

Demand for industrial schemes remains driven by shipping companies, retail and the manufacturing sectors. The respective sectors will continue to underpin the development of the industrial stock. Previously, many retailers had delayed their expansion plans, however with the improved market conditions; existing retail chains have continued to strengthen their networks and modernize their stores.

Industrial schemes maintained low vacancy levels as newly developed stock was built mainly for owner occupation purposes.



Source: Croatia Bureau of Statistics, July 2016

Rental levels

Since the beginning of the year, prime rental levels have remained stable ranging from €5 to €5.25 sq m/month. Prior to this, overall market conditions had a negative impact on rents and prime rental levels witnessed a downward pressure. Furthermore, a decrease has been noted for secondary assets including 15 to 20 year old stock and lower quality facilities ranging from €3 and €4 sq m/month.

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