

# Zagreb Office Market Pulse

H1 2016



## Stock and Supply

In the first half of the 2016, construction activity remained low in Zagreb with only one smaller sized office scheme delivery, namely Avenija Projekt. However, prior to this slower construction period, the Zagreb office market noted extensive development, when various projects were brought to the market. As a result of growing supply and challenging economic conditions, the office market has been put under pressure. Therefore, a significant increase in vacancy has been recorded, followed by rental pressure on older office stock and secondary locations.

The previous notable office completion occurred in 2015 when the second phase of VMD Strojarska was delivered, totalling over 18,700 sq m. The first phase of the scheme was completed in 2014 and added 10,500 sq m to the modern office stock. The overall complex includes residential units as well.

Future supply will rely mainly on smaller scale projects, which are in final stages of construction. The limited new supply is expected by the end of the year, and the total planned projects will add around 40,000 sq m. The further development of larger sized projects remains uncertain.

### Office schemes under construction

Property	Location	Size (sq m)
Adris centar	Centre	10,800
Conditum	Novi Zagreb	6,500

Source: JLL, July 2016

### Overall Statistics

**6,000 sq m**  
H1 2016 completion

**17,300 sq m**  
Upcoming supply

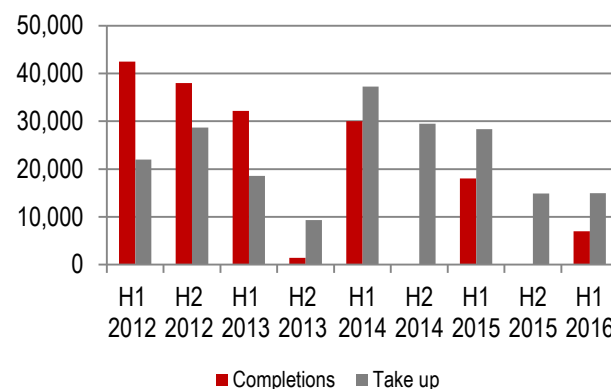
**40,000 sq m**  
Overall future office projects

**Take-up H1 2016**  
Driven by relocations

**Location**  
The highest activity was noted in Business District East and Buzin

**12.5 %**  
Vacancy rate in A&B Class office buildings

### New office supply and take up



Source: JLL, July 2016

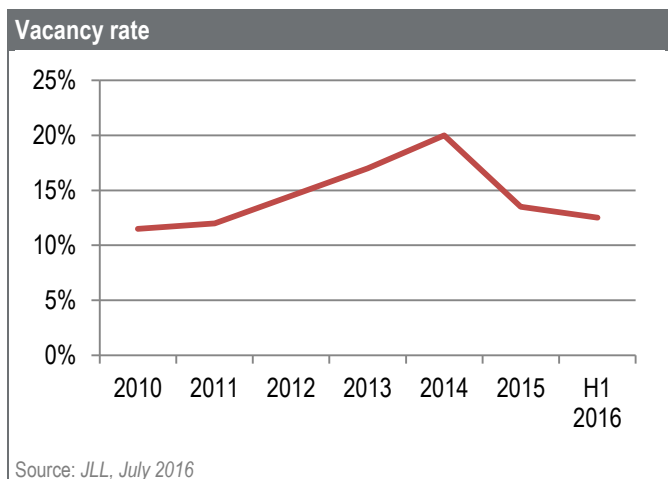
## Demand

Since the beginning of the year, market activity has been driven by net take-up, underpinned mainly by tenant relocations. Such a trend has been constant over the recent period as companies continue to relocate to higher quality and more flexible modern office schemes, located outside of the central city area, in more developed business zones.

The majority of activity took place in Business District East followed by Buzin area. During the first half of the year, the most active sector was IT, followed by the manufacturing, consumer goods and pharmaceutical sectors.

## Vacancy

During the first half of 2016, vacancy has witnessed a slight drop and currently stands at 12.5%. This trend has been continuous over recent months, underpinned by the increase of net take-up, mainly due to relocations. As occupiers continue to relocate to modern office buildings, the vacancy levels in lower quality buildings continue to grow. Modern office premises remained to be the focus of potential tenants and demand for such schemes is constant. Therefore, these properties note the greatest occupancy levels.



## Rental levels

From the beginning of the year, prime office rents in Zagreb remained stable ranging between €14 and €15 m<sup>2</sup>/month, with only few exceptions exceeding this average. A continuous downward pressure on office premises in secondary locations has pushed on rental levels which range from €8 to €11 m<sup>2</sup>/month. Tenants continuously expect a greater level of incentives, including rent free periods and fit-out contributions. As tenants continue to relocate to modern schemes, more downward pressure is expected on secondary properties.

## Investment outlook

From the beginning of the year investor focus remained strong, targeting retail assets in Zagreb and several secondary cities. South Africa's Tower Property Fund has acquired four retail schemes from Agrokor, including two Konzum stores in Zagreb and Velika Gorica; Sub City shopping centre in Dubrovnik and Meridijan 16 in Zagreb, for a total of €66.4 million. Furthermore, US based investment fund Morgan Stanley has acquired two dominant shopping centres in Zagreb, namely City Centre One East and West for approximately €220 million. In addition, Loan Star Real Estate Fund has acquired the Centrice portfolio from Heta Asset Resolution which includes 5 assets in Croatia.

### Jones Lang LaSalle

#### Andrew Peirson

Managing Director  
SEE Region & Romania  
JLL  
+381 11 785 0579  
andrew.peirson@eu.jll.com

### Jones Lang LaSalle

#### Jana Golubović

Senior Research Analyst  
SEE Region  
JLL  
+381 11 785 0589  
jana.golubovic@eu.jll.com

### Renova Property Consultants

#### Tomislav Greguric

Managing Director  
+385 91 4826 194  
tomislav.greguric@renova.hr

