

# SLOVAKIA Office Market Snapshot

Third Quarter | 2019



## MARKET INDICATORS

### Market Outlook

|               |   |   |
|---------------|---|---|
| Prime Rents:  | Prime rents should remain stable in the short term.   | ► |
| Prime Yields: | Despite yields sharpening, increase could occur in the medium-term if net absorption doesn't catch up to the strong new supply. | ▲ |
| Supply:       | More than 70,000 sq m of new supply should be added to the office market in 2019.   | ▼ |
| Demand:       | Solid economic fundamentals should contribute to the market activity and keep the occupiers' demand high.                       | ► |

### Prime Office rents – September 2019

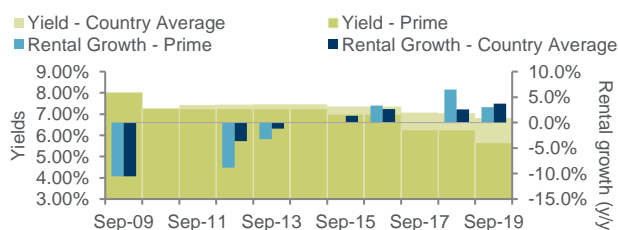
| LOCATION                 | €           | €          | US\$        | GROWTH % |             |
|--------------------------|-------------|------------|-------------|----------|-------------|
|                          | SQ.M<br>MTH | SQ.M<br>YR | SQ.FT<br>YR | 1YR      | 5YR<br>CAGR |
| Bratislava – City Centre | 17.00       | 204        | 21.4        | 3.0      | 2.5         |
| Bratislava – Inner City  | 13.50       | 162        | 17.0        | 3.8      | 1.6         |
| Bratislava – Outer City  | 11.50       | 138        | 14.5        | 4.5      | 1.8         |

### Prime Office yields – September 2019

| LOCATION<br>(FIGURES ARE GROSS, %) | CURRENT<br>Q | LAST<br>Q | LAST<br>Y | 10-YEAR<br>HIGH | LOW  |
|------------------------------------|--------------|-----------|-----------|-----------------|------|
| Bratislava                         | 5.65         | 5.75      | 6.25      | 8.00            | 5.65 |

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

### Recent performance



## Overview

Year-on-year GDP growth for Slovakia slowed considerably to 2.5% compared with 3.4% in the previous quarter. Slowdown in the automotive industry also affected the declining export activity. However, this is largely offset by domestic demand, which remains strong and maintains stable inflation growth. Record low unemployment rate causes slowdown of job growth. This economic climate puts an upward pressure on real wages and domestic consumption. In the second quarter, corporate profits increased by up to 9.5% year on year, which may spur further investment activity. Lending declined in all sectors except for agriculture and real estate.

## Occupier focus

Q3 take-up remained steady and reached 26,600 sq m, approximately 46% of which consisted of renegotiated office space. Almost two thirds of gross take-up were in Bratislava inner city submarket and the strongest demand was in Bratislava II district. Along with traditionally strong professional services and IT, considerable demand for office space originated from the public sector.

As of the end of Q3, approximately 127,000 sq m of office space was under construction, most of which lies within the city centre and city business district, both with high absorption potential. Einpark in Bratislava V district represents a notable green development with the planned opening at the end of 2019. J&T Real Estate has obtained a building permit for the Eurovea II project, which will add about 44,000 sq m of office space to the market.

## Investment focus

Private sector remains optimistic which drives fixed investment. Office property investment outpaced the industrial sector in 2018 and the total investment reached € 746.5 million, up 62% from previous year. We expect this appetite to extend to 2019, driving purchase prices up. The average lot size for a CRE investment transaction has increased this year compared to 2018. Slovak and Czech investors will close most of their deals in the second half of the year. Yield compression continues against the backdrop of continuously high take-up.

## Outlook

We expect high demand for office space including some significant lease extensions towards the end of 2019. Combined with the expected completion of some larger schemes in the near future and ECB's decision to cut rates, yields should decrease slightly this year and remain at low levels during 2020. Some limited, non-structural increase in vacancy rate is expected in the short term as new supply emerges. Tenants upgrading from B- and C-class offices could be replaced by public institutions which demonstrate fresh demand. Pipeline in secondary locations should rely on innovative and green technologies and attractive lease terms to increase competitiveness.

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| LOCATION                    | BUILT STOCK<br>(SQ.M) | AVAILABILITY<br>(SQ.M) | VACANCY RATE<br>(%) | TAKE-UP<br>(SQ.M) | TAKE-UP YTD<br>(SQ.M) | UNDER CONSTRUCTION<br>(SQ.M) |
|-----------------------------|-----------------------|------------------------|---------------------|-------------------|-----------------------|------------------------------|
| Bratislava (CC)             | 625,500               | 44,800                 | 7.2%                | 5,700             | 33,100                | 74,700                       |
| Bratislava (IC)             | 759,600               | 56,800                 | 7.5%                | 16,400            | 72,100                | 52,300                       |
| Bratislava (OC)             | 440,500               | 59,100                 | 13.4%               | 4,500             | 31,900                | 0                            |
| <b>Bratislava (Overall)</b> | <b>1,825,600</b>      | <b>160,700</b>         | <b>8.8%</b>         | <b>26,600</b>     | <b>137,100</b>        | <b>127,000</b>               |

Source: Bratislava Research Forum, Cushman & Wakefield, Q3 2019

## Key Occupier Transactions

| PROPERTY                      | SUBMARKET   | BUSINESS SECTOR                         | SIZE (SQ.M) | TYPE OF LEASE |
|-------------------------------|-------------|---|-------------|---------------|
| AC Ružová dolina              | Inner City  | Public/Embassy/Trade Council/Diplomatic | 4,000       | renegotiation |
| Galvaniho Business Center III | Outer City  | IT                                      | 2,800       | renegotiation |
| Digital Park                  | Inner City  | Prof. services                          | 2,200       | renegotiation |
| Ein Park Offices              | Inner City  | IT                                      | 1,500       | pre-lease     |
| Eurovea Central               | City Centre | Finance/Banking/Insurance               | 1,000       | new lease     |

Source: Bratislava Research Forum, Cushman & Wakefield, Q3 2019

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