

MARKETBEAT ZAGREB

Office Q4 2023



1.71%

Vacancy Rate

YoY
Chg

12-Mo.
Forecast

€14.0-15.5

Prime rental levels

7.25-7.75%

Prime yields

(Overall, All Property Classes)

ECONOMIC INDICATORS

2.6%

GDP Growth rate
2023

2.6%

Zagreb Q4 2024
Unemployment rate

EUR 1,387

Zagreb Q4 2023
Average net salary

Source: Croatian Bureau of Statistics, The Croatian Employment Service

ECONOMY

The Croatian economy, as analyzed in the Croatian National Bank's December macroeconomic projection, navigated challenges in the form of a decline in foreign demand and tightened financing conditions. Despite these obstacles, Croatia experienced economic growth throughout 2023, surpassing both the EU and the euro area averages. This growth was driven by various factors, prominently including a resilient demand for tourist services, heightened utilization of EU funds, and an expansionary fiscal policy. Real economic activity in 2023 is anticipated to be 2.6% higher than the previous year, reflecting the strength of domestic demand and service exports. The primary contributor to this growth is expected to be personal consumption, supported by continuous employment growth and an increase in nominal wages. In terms of the HICP, inflation is expected to decelerate to 8.4% in 2023, down from 10.7% in 2022. The slowdown in inflation during 2023 is attributed to diminished inflationary pressures and the subsiding impact of price increases. Substantial decrease in energy prices, from 19.2% in 2022 to an expected 0.1% in 2023, is a primary driver of this slowdown. The Croatian economy has demonstrated resilience in the face of external challenges, with sustained growth attributed to robust domestic demand, strategic utilization of EU funds, and a supportive fiscal policy. As the country moves into 2024, economic growth is projected to continue, albeit at a slightly moderated pace, while inflation is expected to remain under control. Monitoring key economic indicators will be crucial for stakeholders and policymakers in navigating the evolving economic landscape.

SUPPLY AND DEMAND

Positive market activity continued in Q4 2023, with a total take-up of 12,900 m², resulting in a cumulative take-up of 68,900 m² on annual level. This signifies an 11% increase in demand compared to the year 2022. Zagreb CBD remained as one of the most attractive zones, contributing a total of 53% or 36.600 sq m of total take up over the year 2023. The fourth quarter also confirmed a strong position of CBD in respect to the remaining city zones with a total take-up share of 40%. Demand across sectors throughout Q4 remained robust, with the IT sector leading at 31.05% of the total demand in 4Q 2023, followed by the consumer sector at 21.18%, and manufacturing with a share of 17.51%. The average deal size for the year 2023 was at the level of 610 sq m. As of the end of 2023, the total supply of office space in Zagreb reached 1,566,400 m², with 71% attributed to speculative stock. Of the total stock, 44% is located in CBD, comprising Class A and B office buildings. The year 2023 was marked with the completion of several office building projects, such as Grawe Garden Center, with a total of 2,100 sq m of GLA, set to officially open in January 2024. The second quarter of 2023 marked the completion of two CBD projects, Matrix C building, and Project 75. Two significant office building transactions were realized in 2023: the sale of Matrix B office building to the Slovenian fund Alfi RE and the sale of Eurocentar, previously owned by the Austrian group S IMMO AG, to the Croatian Atlantic Group. The total investment volume for these transactions exceeded EUR 55 million, indicating a strong investor interest in office projects. Considering the low vacancy rate over the past period, investors and developers have shown interest in further investments in office projects. In 2024, we anticipate a total supply increase of 35,000 m², including the completion of the second phase of the City Island project in Buzin.

Further supply increase is expected to be realized in 2025 with completion of some of the announced projects, such as VMD Office towers in Heinzeleova in a total GLA of 15,000 sq m, Supernova Buzin Office Tower in a total GLA of 15,300 sq m, mixed use project Museum Residences in Novi Zagreb area in a total size of the office area of 8,000 sq m of GLA.

RENTS AND VACANCY

Regarding rental rates, Class A office buildings have experienced a steady increase to EUR 14.0-15.5/sq m/month, while Class B office premises range from EUR 12-13.5/sq m/month. Current rents for prime A office projects range EUR 16-17.50/sq m/month. Despite new deliveries causing a mild overall vacancy rate increase to 1.71%, the vacancy for Class A buildings dropped below 1%, indicating a robust demand for prime office projects in Zagreb.

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