Romania / Hungary / Bulgaria / Serbia / Greece

CSEE Office Market *Overview*

Elevate

H1 2022

knightfrank.com/research

Contents

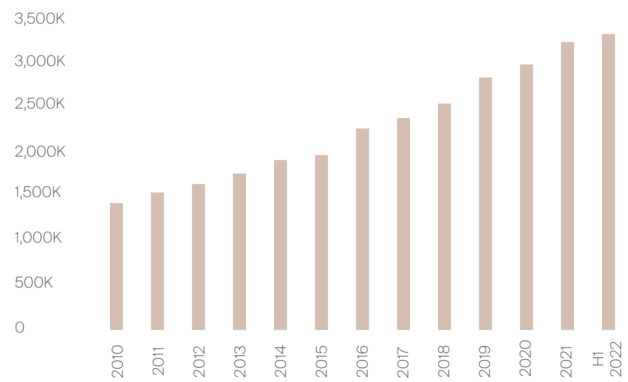
Supply

98,000 sq m

In H1 2022 the supply reach approximately 98,000 sq m, representing a double amount compared to same period last year. Among the schemes, AFI Tech Park II is the largest (~24,500 sq m), followed by @Expo (~21,000 sq m) and Tandem (~21,000 sq m).

Modern Office stock

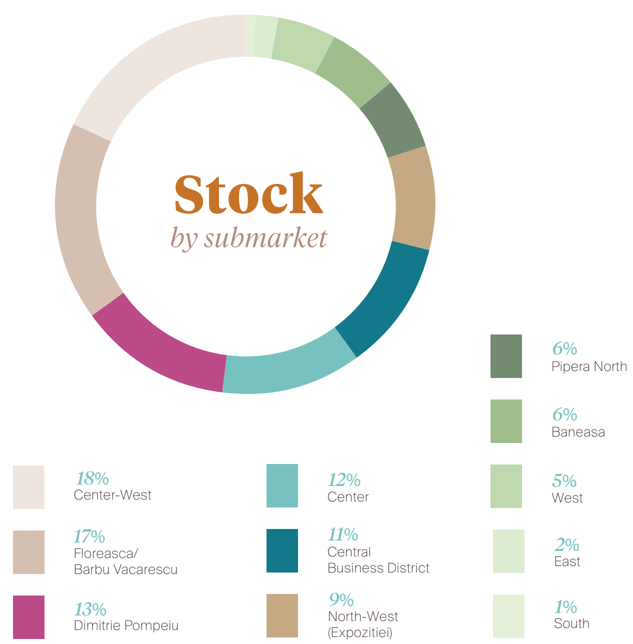
Annual Evolution



Stock

3.3 mil sq m

The submarket with the highest modern office stock is Center West area (587,000 sq m) followed by Calea Floreasca / Barbu Vacarescu (570,000 sq m) and Dimitrie Pompeiu (441,000 sq m).



Demand

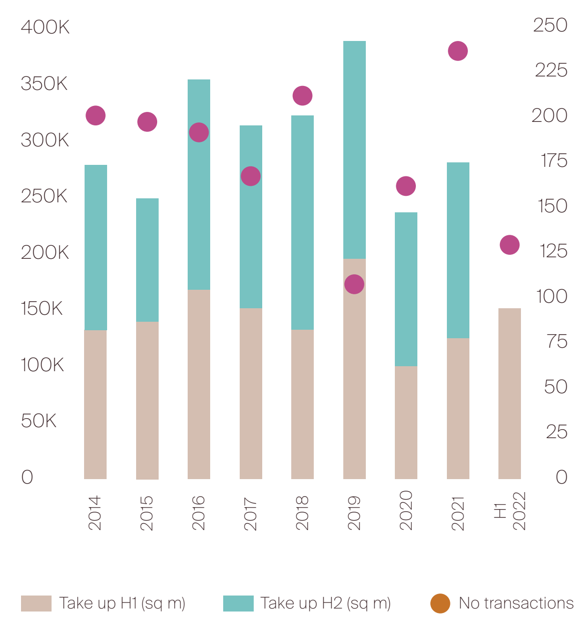
151,000 sq m

Almost 79,000 sq m were leased in Q2 2022 after 72,000 sq m in the 1st quarter, bringing take-up to almost 151,000 sq m for the 1st half of 2022, an increase of 20% compared to the same period of last year.

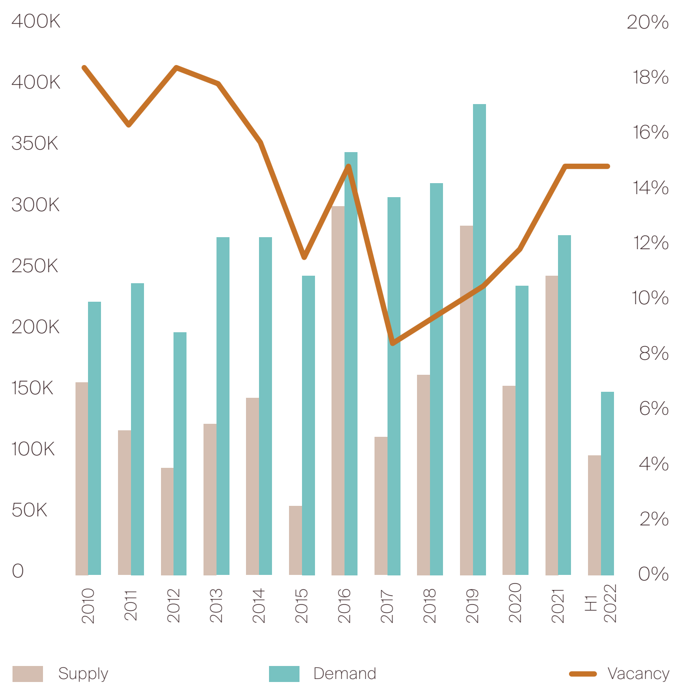
130 transactions were signed in H1 2022, compared to 100 in H1 2021. Recent transactions already show a trend towards a reduction in the average size of leased space from 1,500 sq m in H1 2020 and 1,250 sq m in H1 2021 to 1,100 sq m since the beginning of 2022. Out of 151,000 sq m, 40% were new demand, 26% renewals, 25% relocations while pre-lease were 6%.

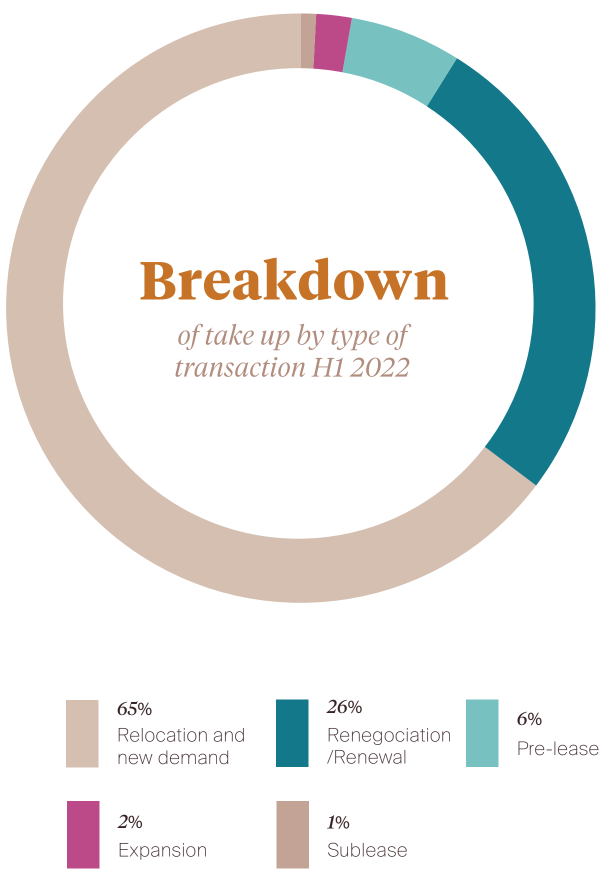
The most sought after submarkets in H1 2022 were Center-West area, which saw ~40,000 sq m of leasing activity (26% of total take up) and Center area, where ~30,000 sq m of space was leased (20% of total take up), followed closely by Floreasca/Barbu Vacarescu with 19% of total take up each.

IT & Communication sector still makes up the largest share of demand, accounting for almost 30% of the total take-up, followed by professional services companies with 13% share.



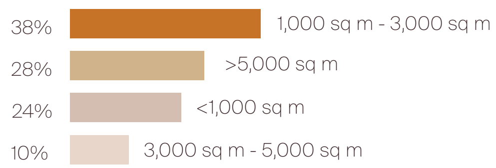
Supply vs. Demand





Breakdown

of take up by leased area H1 2022

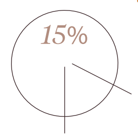


Rents

Several factors including a smaller number of new projects in the pipeline and higher construction costs led to an increase in average gross rents in the good quality buildings that are due to be delivered.

The average rents for prime offices in prime locations were situated at 18.5 EUR/sq m/month.

Vacancy



The vacancy rate remained constant at a level of 15%.

Forecast / Pipeline

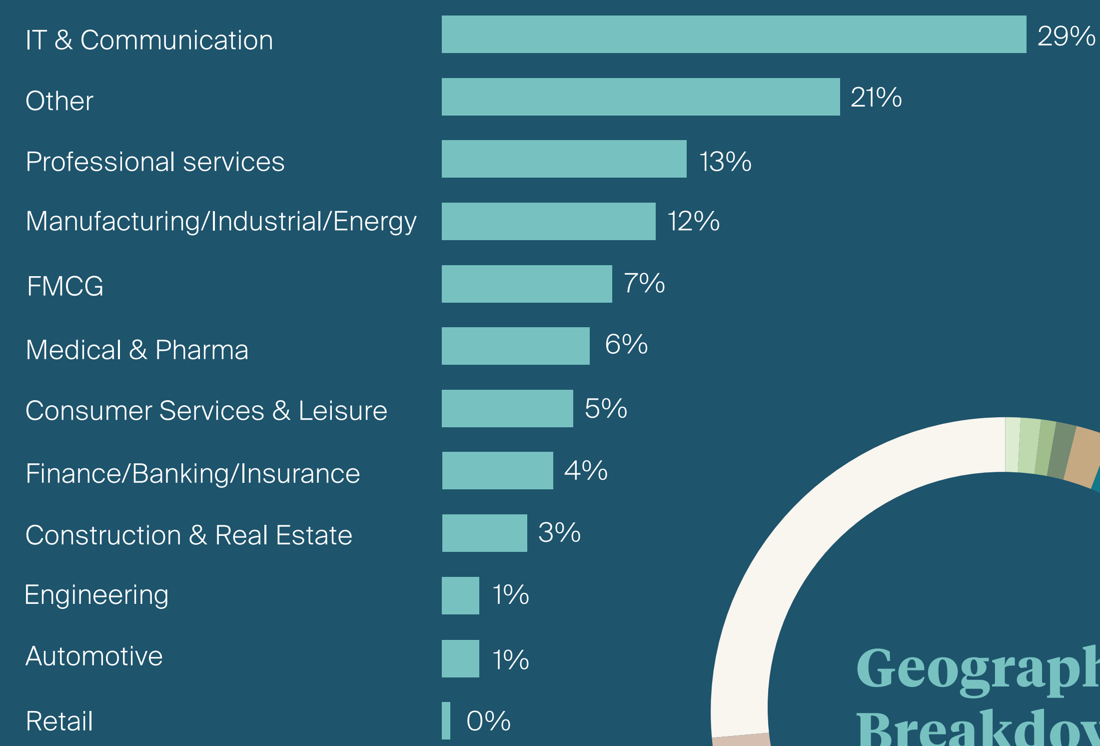
~ 40,000 sq m until end of 2022

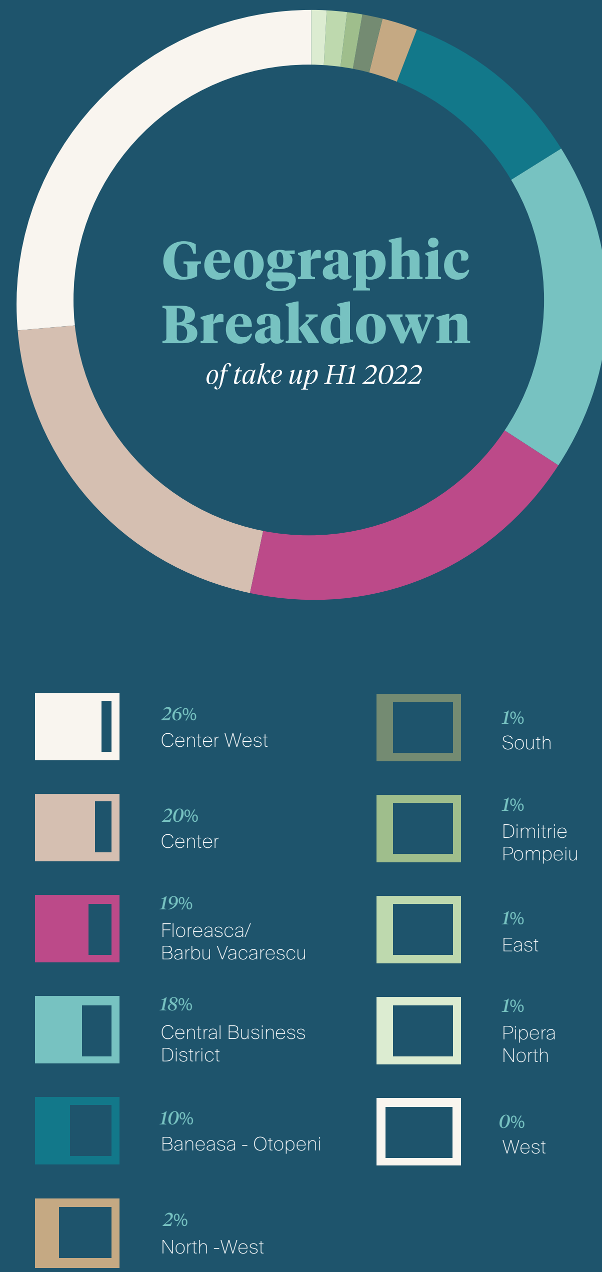
Including schemes such as: One Cotrceni Park II (~35,000 sq m and Tudor Arghezi by Strabag (~7,500 sq m).

Amid the lack of approvals of new building permits we estimate a smaller number of projects will be delivered in the next few years. This means the Bucharest office leasing market will likely change to a landlord market, which will put further upward pressure on rents.

Breakdown

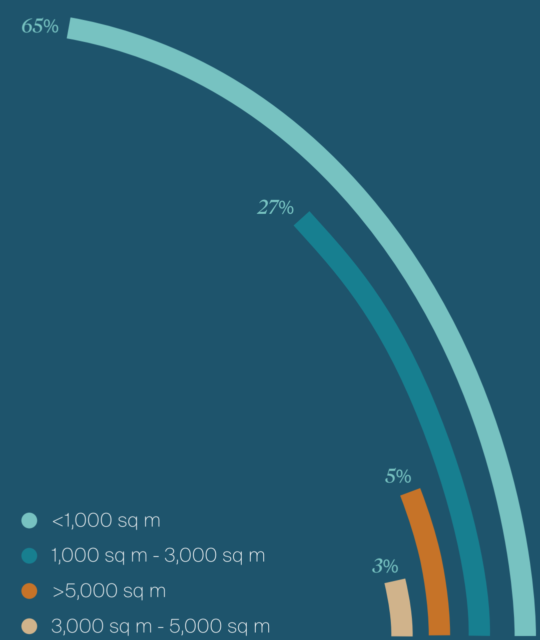
of take up by tenant activity





Breakdown

of take up by number of transactions H1 2022



Budapest Office Market

Supply

109,100 sq m

The first half of 2022 started with the delivery of 109,100 sq m Class 'A' office space to the Budapest office market. 4 buildings were added to the speculative office stock, of which the largest handovers happened in Váci Corridor in 2 buildings, amounting to 46,885 sq m. There was a significant addition to the owner-occupied stock also on that submarket, with the delivery of the 28,000 sq m OTP HQ building.

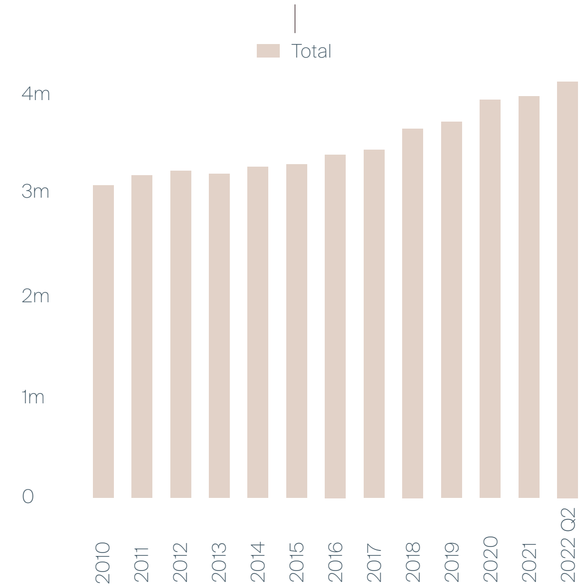
Stock

New milestone: over 4 million sq m

The total market stock has reached 4,093,250 sq m in H1 2022, consisting of 3,398,770 sq m Class 'A and B' speculative office space and 694,480 sq m owner-occupied space. This latter sector increased significantly in the second quarter because of the delivery of the OTP HQ, while speculative office handovers were rather the characteristic of the first quarter of the year.

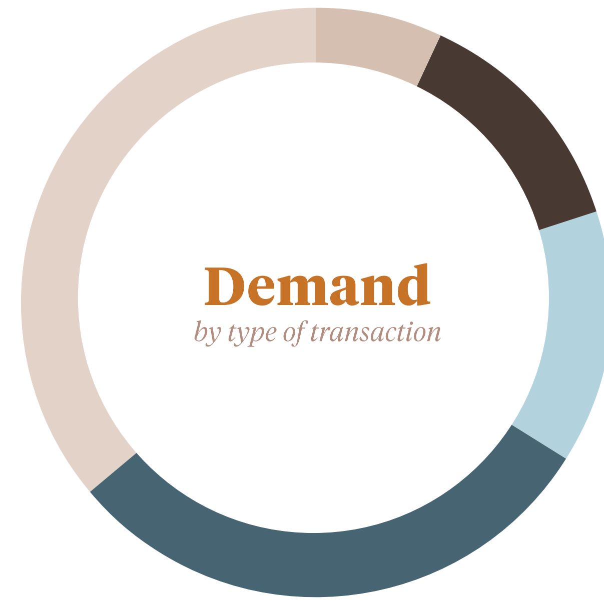
Modern

office stock



Demand

by type of transaction



Demand

188,770 sq m

The positive tendency of 2021 continued troughout H1, resulting in a 10% grow year-on-year.

With 36% renewals are still the most popular considering type of transactions, followed by new demands with a share of 30%. Pre-lease agreements dropped down to 7%, however expansions reached 13% of the totel leasing activity in the first half of 2022. A significant growth was present in the owner-occupied sector, adding up to 14% of all transactions.

The average deal size in H1 was recorded at 710 sq m, however if we separate the first two quarters, we can see a positive tendency, since the average size of leased office spaces was 662 sq m in Q1 and 750 sq m in Q2. The number of total lease agreements reached 266 deals of which 15 agreements were signed for more than 2,000 sq m office space.

Rents

14-17 € / sq m / month
Prime: 25 € / sq m / month

It can be generally stated that both average rents and prime rents stayed firm in H1 of 2022, however, some submarkets have already observed the detrimental effects in headline rents that the increased construction costs and energy prices, economic uncertainty and changes in currency exchange rates have brought about.

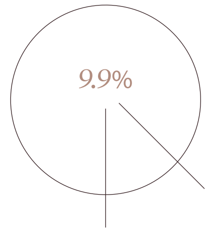
Forecast

240,000 sq m until the end of 2022

The bigger fraction of new deliveries will be arriving in the second half of 2022 to the Budapest office market, since 240,000 sq m is planned to be handed over in H2.

As it has been expected, the strong start of 2022 in terms of leasing agreements continued throughout H1 with the slow but steady increase in demand. This trend is predicted to be challenged in the upcoming quarters given the economic uncertainties and the way companies reconsidering their business models and optimising their space. However, the rise in residential utility costs may bring new changes in the recently established hybrid working methods that also will have an impact on attitudes toward the office property market.

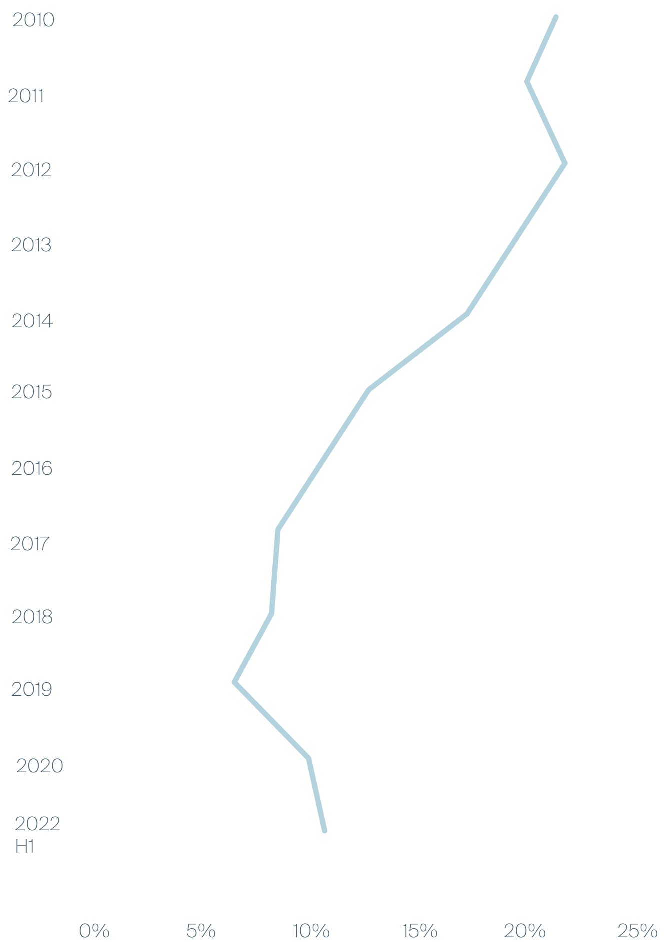
Vacancy



Among other factors, due to the significant amount of new supply (which is already twice as much as in year 2021) and the relatively low demand, the vacancy rate has slightly increased to 9.9%. North Buda submarket got its low vacancy rate even lower making it down to 4.4%, while the highest rate amounting to 31.4% was still recorded in the periphery.

Vacancy

rate



KEY TRANSACTIONS

building
Infopark
Type of transaction: ***Renewal***
Submarket: ***South Buda***
8,410 sq m

building
Maros BC
Type of transaction: ***Renewal***
Submarket: ***Central Buda***
6,150 sq m

building
Haller Gardens
Type of transaction: ***New Lease***
Submarket: ***Non-Central Pest***
5,420 sq m

building
Szépvölgyi 22
Type of transaction: ***Renewal***
Submarket: ***North Buda***
4,200 sq m

building
Liberty
Type of transaction: ***Pre-lease***
Submarket: ***Non-Central Pest***
3,780 sq m

building
Dorottya udvar
Type of transaction: ***New Lease***
Submarket: ***Central Buda***
3,760 sq m

Supply

For the first half of 2022 new office deliveries amounted to around 50,000 sq m. As a result, the total stock in Sofia reached approx. 2.4 million sq m.

Rising inflation and increased prices of building materials are leading to a slowdown in investment in the office segment. Investors are generally cautious. Current projects are being completed while new projects are being put on hold. The city's total construction activity stands at approx. 177,000 sq m as of Q2 2022.

Stock

2.4 mil sq m

Leader in office stock remains the Suburban market with around 67% of the total office stock or around 1.6 mil sq m, followed by the Broad Center with about 21%, or around 512k sq m, and 12%, or 304k sq m, in CBD.

Demand

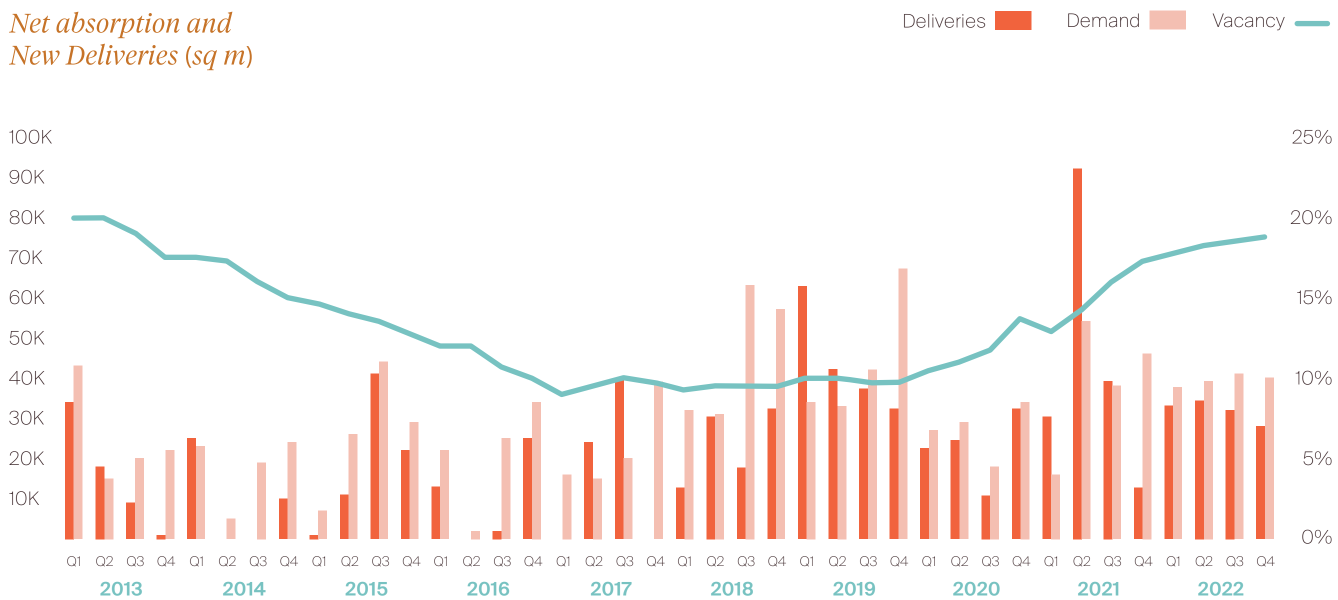
In the first half of 2022, 85,000 sq m were contracted in Sofia, 21% above the previous year's, with expectations for further growth in 2023. Locations with the newest buildings are attracting the highest demand. Modern workplace solutions, safe and sustainable work environments, as well as interior and design elements, which respond to the post-covid workplace standard continue to have substantial effect on tenants' choices.

Demand was mainly driven by companies from the IT and communications industry, responsible for around 60% of the transactions. The leasing market was dominated by relocations (38%) and renewals (35%), while office expansions (13%), pre-leases (10%) new market entries (5%) registered a smaller share of the overall transactions. Consequently, net absorption remains low, with an only 14,000 sq m increase of physically occupied office space in Q2 2022.

Companies looking to improve working conditions and re-evaluating their office management strategy in line with the hybrid work model remained significant considerations in the first half of 2022. The uncertainty of the situation due to geopolitical tensions, ongoing supply chain disruptions and higher interest rates with an expected effect on economic growth, made companies more careful, prompting them to investigate ways to optimize their office space. Additionally, due to its relative flexibility, the rise of co-working and flex office structures affected new leases and expansions. We observe a growing need and popularity for hybrid office spaces with a high level of safety, security, and smart solutions to fully meet tenant needs.

The forecast for the second half of 2022 is optimistic, with expectation for a rise in demand, and employers looking for a slightly different office structure – comfortable and spacious open spaces, modern design solutions, smarter and sustainable offices.

Net absorption and New Deliveries (sq m)



Prime headline rent

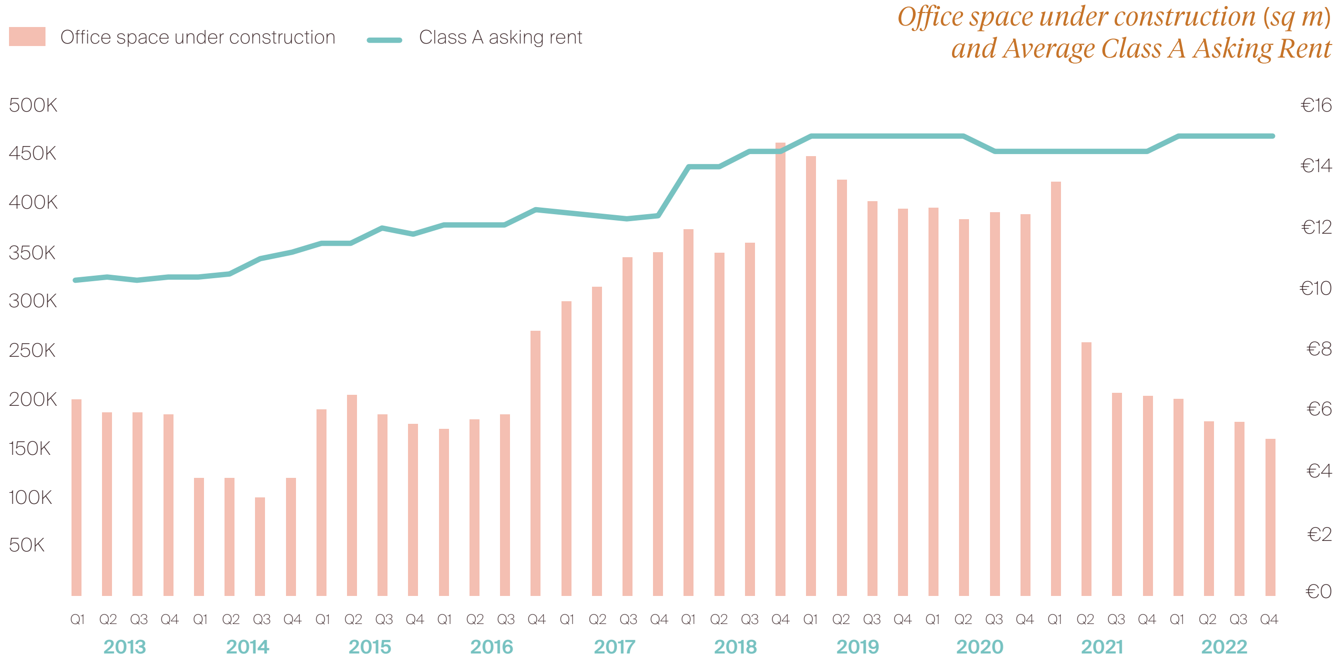
15 EUR / sq m/ month

Average asking rental levels remained stable in Q2 2022: for class A offices we observed EUR 15 per sq m in the Central Business District (CBD), 12.5 euro per sq m in the broad centre and 12 euro per sq m - for suburban areas.

For class B offices asking rents remain in the range EUR 9.00 – EUR 12.50 per sq m in CBD and gradually decrease, reaching EUR 8.00 – EUR 11.00 per sq m in the more peripheral areas. Increasing operating costs put landlords under pressure, leading to an increase of service charges, with prime rates in Sofia in the range EUR 2.5 – 4 / sq m.

While the most premium locations still retain higher rent levels, the gap between newly delivered buildings and already proven projects in established locations has slightly increased.

Office space under construction (sq m) and Average Class A Asking Rent



Vacancy

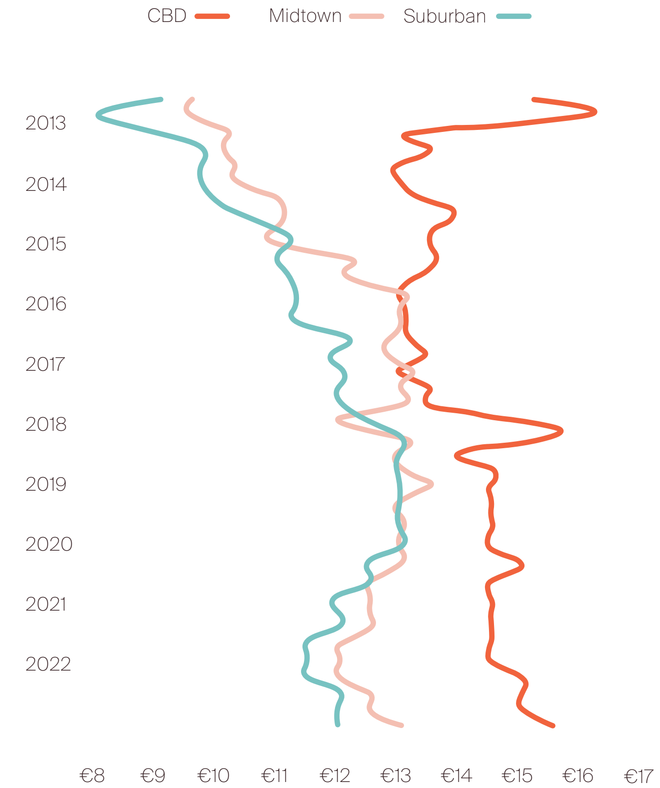
18.25% or 433,000 sq m

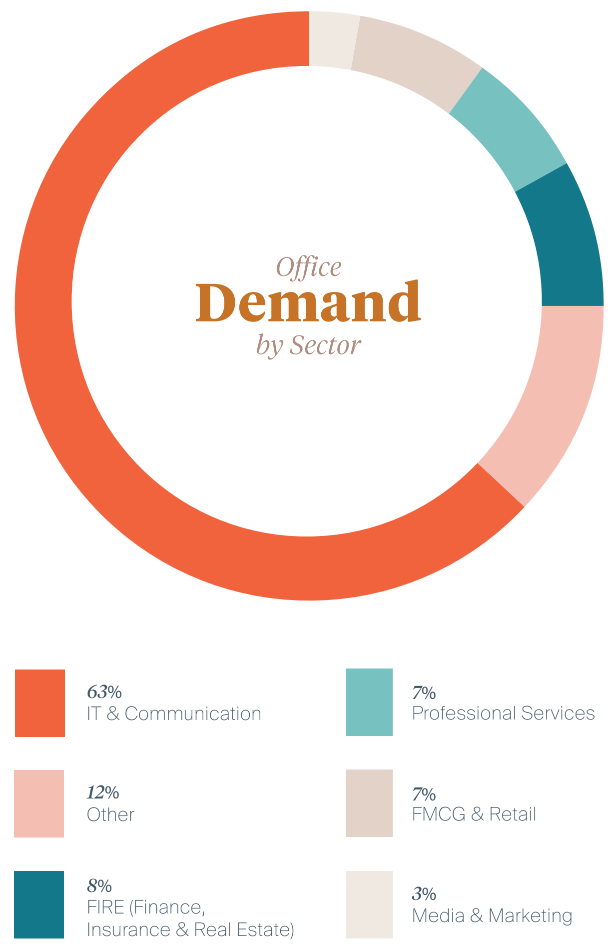
The vacancy rate towards the end of Q2 of 2022 peaked, reaching 18.25% of the total stock. This figure is equivalent to a total of 435,000 sq m available for immediate occupation.

New deliveries and low levels of net absorption alongside companies aiming to optimize their office space were the main causes for this vacancy level at the close of the first two quarters. For the rest of 2022 we don't expect availability to increase considerably, given the slow pace of office developments as well as the gradual return of major occupiers to standard office use.

Most of the other available office spaces remains in class B projects. As forecasted, towards the end of H1 of 2022 there was considerable availability in new projects released recently on the market.

Class A average asking rent





Forecast

The office market in Sofia demonstrated a stable performance towards the end of H1 2022. Vacancies are expected to decline for high-quality and well-located properties, leading to increased competition between prospective tenants in these preferred parts of the city. As a result of the reduced availability of high-quality space alongside a significant increase in the construction and management costs of the facilities, we expect an increase in rents for high-quality projects, indicating a shift towards the landlord's market for class A office space.

Vacancy could however become more structural for class B offices and offices located in secondary submarkets, creating a downward pressure for rents for this segment. In the medium term, the hybrid model of working will establish itself among occupiers. An increasing number of companies are looking for flexible or co-working office space, providing their business with quick and convenient expansion solutions.

Stock

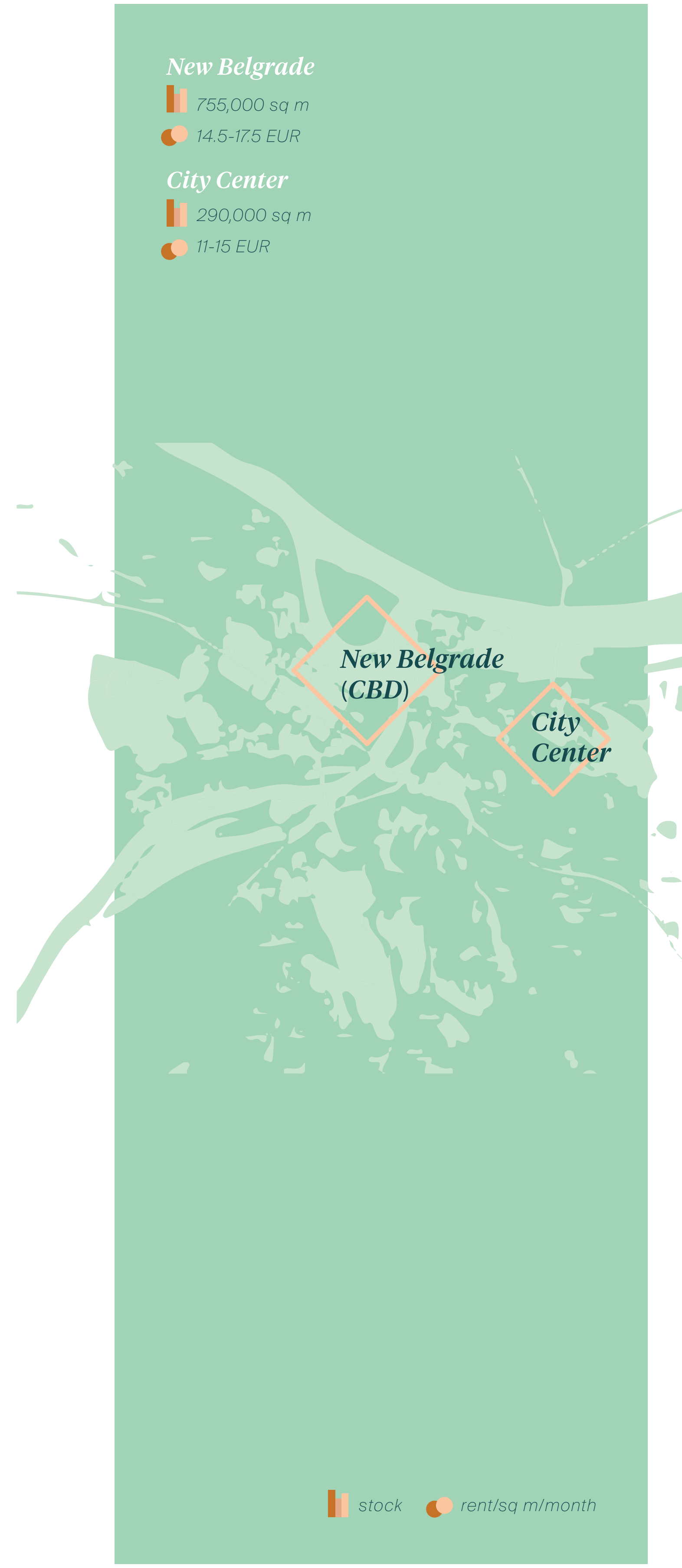
1,045,000 sq m

Compared to the second half of 2021, the first part of 2022 was much more dynamic, featuring a higher level of ongoing activities within the Belgrade office market. Given the current situation globally, a lot of companies have decided to move their operations to Serbia which has resulted in a boom of demand both within the office and residential markets.

The previously mentioned statement leads us to an oustanding demand level of approximately 65,000 sq m within the office market in H1 of year 2022, which is an increase of over 100% compared to H2 of 2021. In addition to the capital being the most popular choice among companies entering the Serbian market, Novi Sad although a secondary city is becoming more and more poular, especially when it comes to IT firms. Namely, Novi Sad has been named an IT hub even though it is much smaller in size than Belgrade, and as a result we are witnessing ongoing construction works and the delivery of new class A office buildings in this secondary city.

The stock level in Belgrade, compared to the end of 2021 has increased by approximately 4% in the first half of 2022, totalling to 1,045,000 sq m. This level is expected to increase further by the end of 2022, with the additional 50,000 sq m that will be added to the total stock with the completion of Afi Skyline and GTC X. The most significant addition to the stock level throughout the first half of 2022, was the delivery of the completely refurbished Belgrade Palace office building, located in the city center.

Belgrade Palace, one of Belgrade's biggest landmarks has been refurbished to match the standards of class A buildings, adding over 20,000 sq m to the current office stock. Additionally, the TLD office building also located in the city center, has added 10,000 sq m to the office stock. The remaning two projects that have been delivered in the first half of the year, are the Centroprom building and the 1st phase of the Green Escape project, both located in New Belgrade or in other words the CBD.



Supply / Pipeline

200,000 sq m

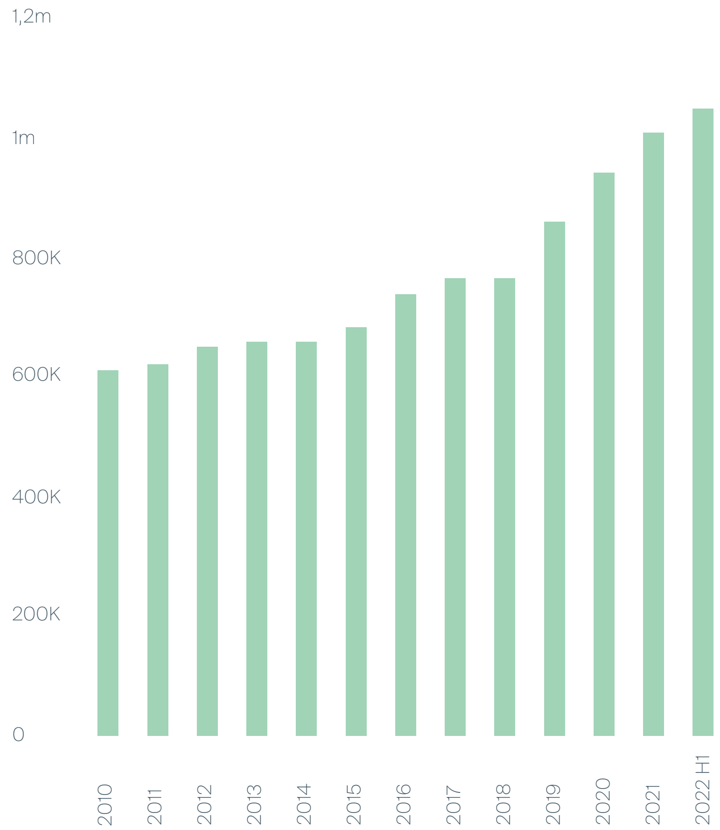
When looking at the total number of office stock, New Belgrade (CBD) remains the most dominant sub-market. However, given the current supply and the newly added office buildings at the beginning of this year, we may conclude that the city center is becoming more and more popular both among developers and companies; especially the ones that are new to the market.

Considering the completion of the Belgrade Palace and the TLD building that together added approximately 30,000 square meters to the office stock located in the city center and considering the upcoming city center projects such as Revolucija Office Building, BIGZ and Skyline: we predict that the city center will become the new CBD in the upcoming years. An extensive pipeline shows how dynamic and fast growing the Serbian office market is and will continue to be so.

Towards the end of 2022, more precisely in Q4, we are expecting the completion of GTC X and the AFI Skyline tower; one of the most modern office complexes not only in Serbia, but also in the region. AFI Europe, being one of the biggest developers in Serbia is also developing the AFI City Zmaj project, an Office Park between the city center and the airport, scheduled for 2023. The biggest local developer, Marera properties that has recently completed the refurbishment of the Belgrade Palace is now working on another landmark in Belgrade; the BIGZ building, scheduled for Q2 2023.

Modern Office Stock

Annual Evolution



Snapshot

Office Projects under construction

Project	*Leasable Area*
GTC X	18,000 sq m
Skyline	35,000 sq m
Revolucija Office Building	6,000 sq m
ACB 2500	18,000 sq m
BIGZ	34,000 sq m
AFI Zmaj Phase 1	27,000 sq m *delivery in phases
Blok 41	8,000
Green Escape	14,000 sq m *delivery in phases

Demand

The total demand for the first half of this year has approximately reached 65,000 sq m which is an increase of more than 100% compared to H2 of 2021. This outstanding figure shows how fast at developing and how dynamic the office market in Serbia is. However, this boom in demand is also related to the current ongoing situation globally, which has influenced many multinational firms to move their operations to Serbia.

As mentioned previously, besides the capital, we have seen a lot of ongoing activities within the office market in Novi Sad, as well as some other secondary cities such as Kragujevac and Nis. While some employees have completely returned to the office, others are still in favour of the remote working models, which have been implemented because of the Covid19 pandemic. Most of the transactions were once again closed in New Belgrade (CBD), however the City Center is not far behind when looking at the total number of transactions closed. The same as in previous years, the most active sectors were IT, consumer goods and professional services, respectively.

Rents

Prime rent, class A 14.5- 17.5 Euro/sq m

Overall rent price remained stable when compared to last year. Prime asking rents for grade A office buildings in the Central Business District vary from EUR 14.5 to EUR 17.5 /sq m monthly, whereas in the city center the levels range between 11-15 EUR/sq m. The rent levels in the city center, for class A buildings are expected to rise with the delivery of new modern buildings in this area. Service charge varies from EUR 3 /s qm to EUR 4.5 /sq m monthly and the add on factor is between 5%-12%.

Vacancy

5.5%

Compared to the end of 2021, the vacancy rate has decreased by 1.5%, due to the outstanding increase in demand of over 100%.

Forecast

As in the previous years, Serbia has kept its leader position in the region, as the volume of investment remains high and is expected to increase even further in the upcoming years. Besides these high levels of investment, another factor that has influenced Serbia's leading position is the large influx of multinationals that have moved their operations to Belgrade, Novi Sad and other secondary cities.

We anticipate that the extremely high demand from Western companies with operations in Russia, which have moved to Serbia, will calm down. But despite that, we will witness a stable growth in the demand for business premises, mostly due to the expansion of the needs of existing tenants, and the desire to move to more attractive locations. We will also witness the application of hybrid business models, where employees will be required to spend at least 3 days a week in offices. There will of course still be a certain number of companies that will give employees the freedom to decide for themselves, but it is to be expected that a larger number of firms will follow the new standard of leading IT companies, such as Google and Apple, that have established 3 working days at the office as mandatory.

According to our research team, the trend of co-working spaces has also remained strong, and we have noticed that a lot of coworking companies present in the Serbian market are looking at extending their size.

Supply & Stock

It appears that the Athens Office Market continues to grow, albeit at a slower pace vs. the same period last year, seeing that in the first half of 2022 there was an increase of 30,000 sq m in the supply of office spaces (vs. 40,000 in H1-2021), bringing the total stock up to 2.65 mil sq m.

Demand

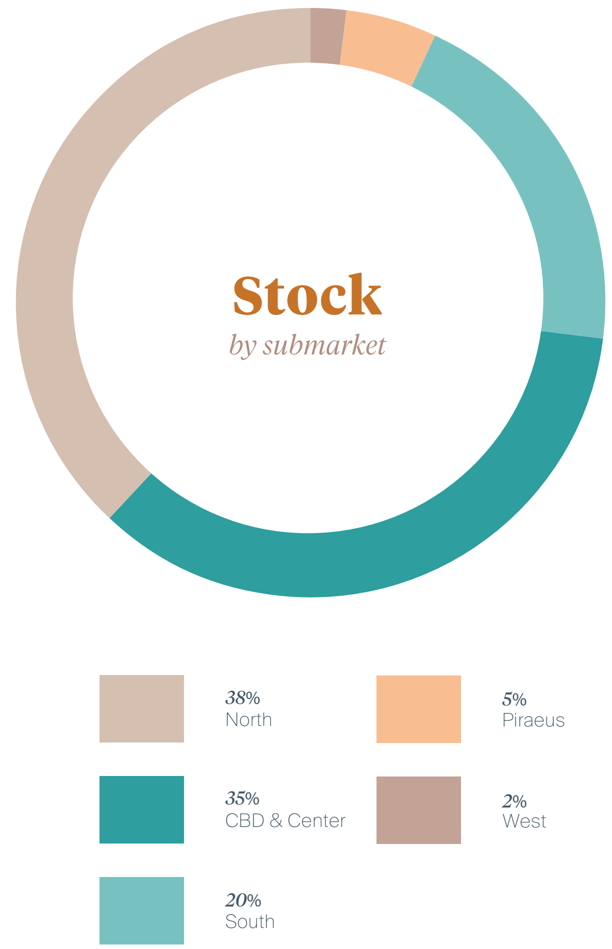
Tenants start to feel more confident in the post pandemic era, which is reflected in the transactions that reached a total of 35,000* sq m. Although most companies will still offer to their employees the option of working remotely, the need to provide a workspace will still be critical for employees' interaction, high morale and satisfaction. The demand for A class office buildings persists after the pandemic, while North and CBD remain the most attractive submarkets.

*This figure does not include renewals and renegotiations.

Prime headline average rent

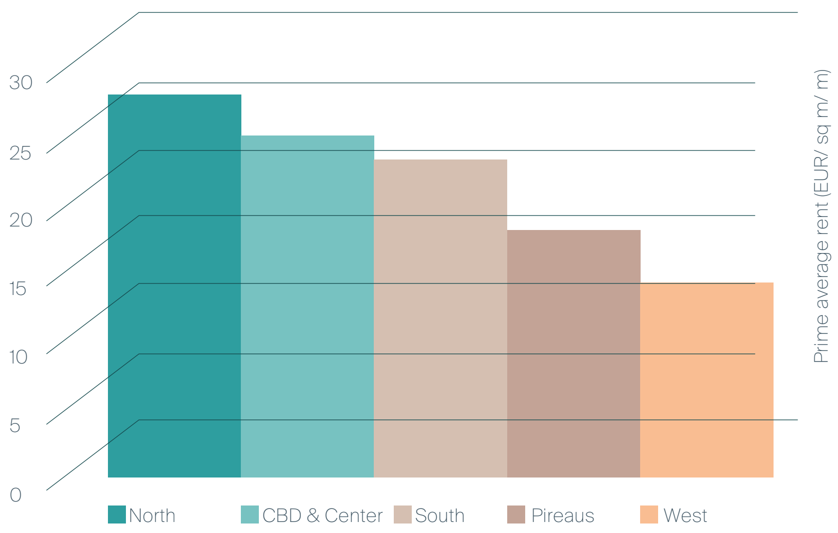
25 EUR / sq m/ month

Overall rent price remained stable with a slight increase in A class buildings. However, in the next months, office rent prices are expected to face the challenges arising from increased inflation and elevated construction costs as a result of the global geopolitical turmoil.

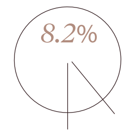


Prime average Rents

per submarket



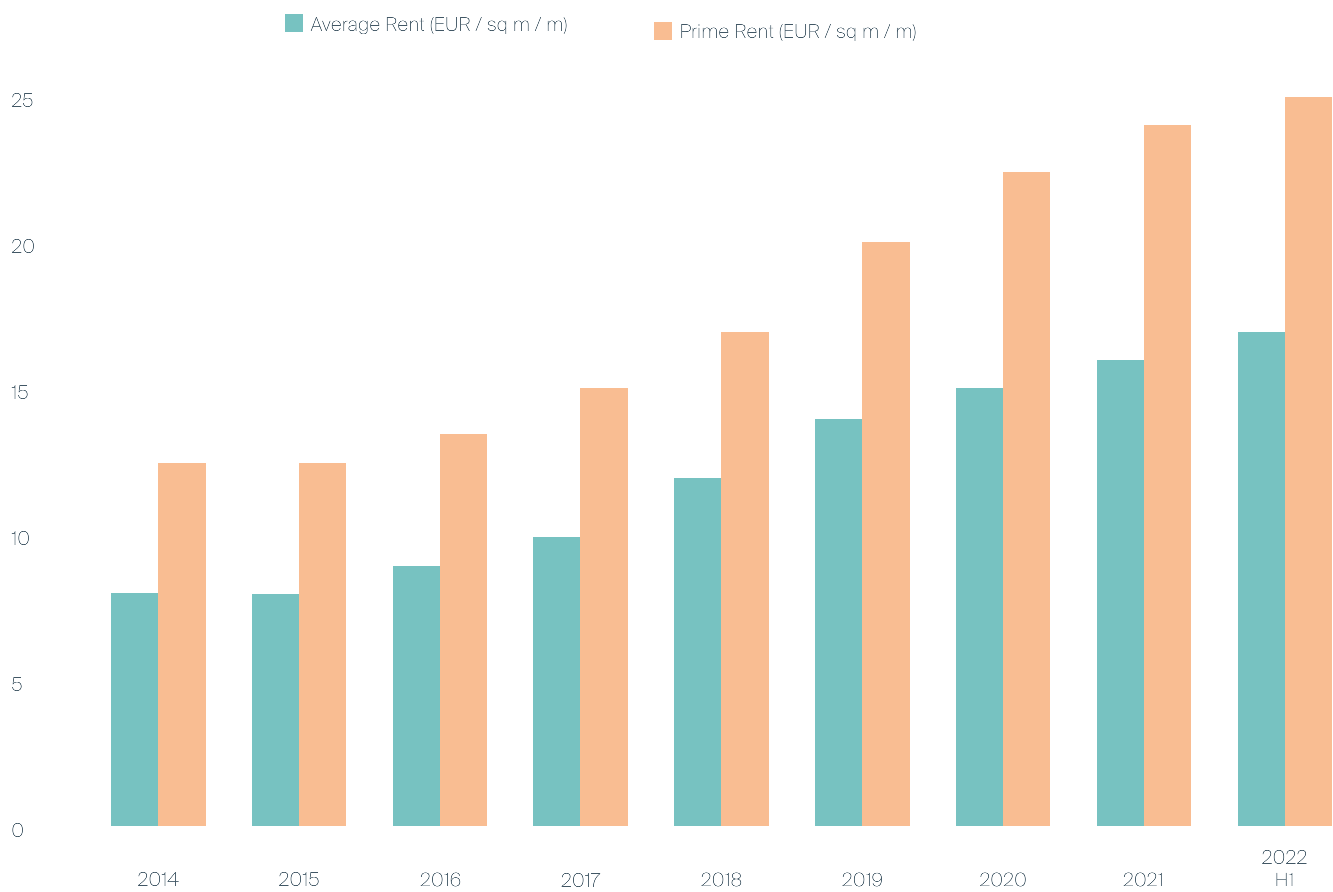
Vacancy



The vacancy rate fell to 8.2% from 12.0% at the end of 2021 and vs 12.8% during the same period last year. Prime vacancy recorded a slight decrease from 5% in the previous year to 4.0% in the first half of 2022, as the lack of A class office building remains.

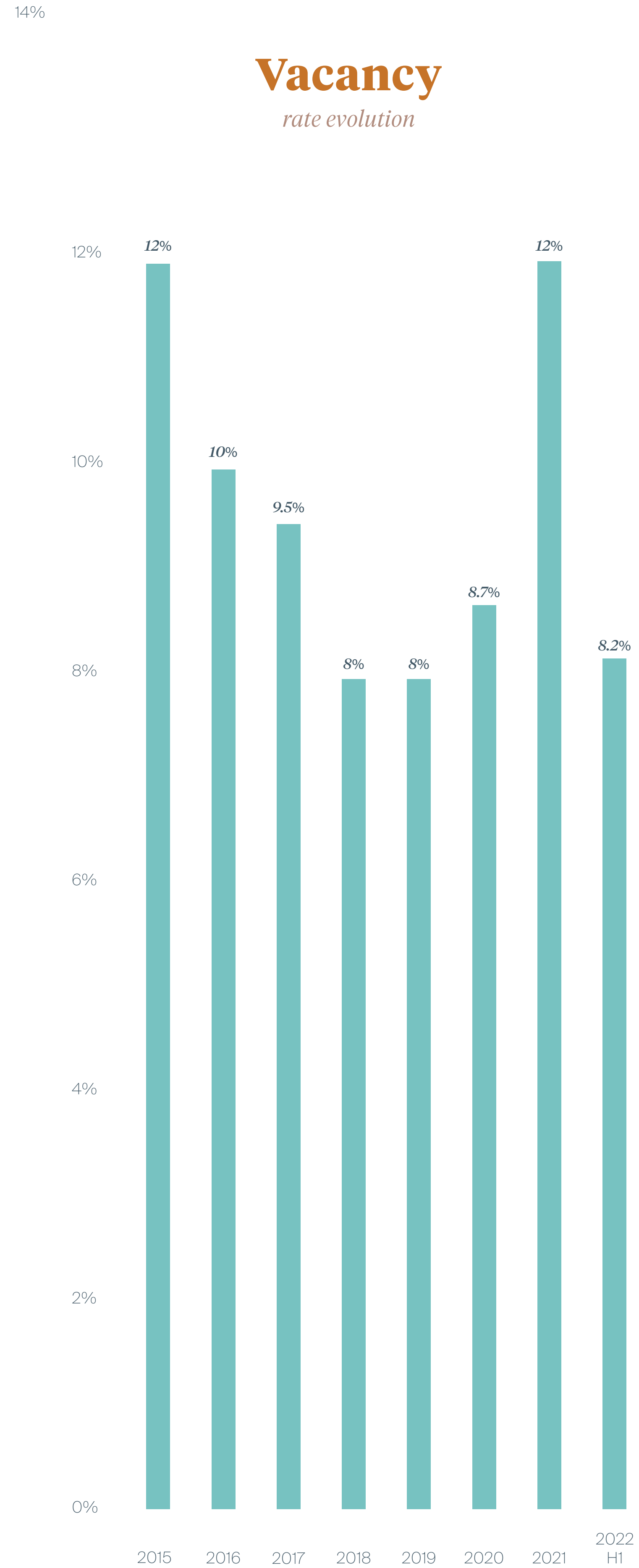
Average vs. Prime

Rent evolution



Vacancy

rate evolution



Pipeline

Office stock is set to expand in the next 5 years. Over 50,000 sq m are currently under construction, while more than 130,000 sq m are expected to be delivered in the next couple of years.

The new investment of Prodea in North Athens, Marousi along Kifisias Avenue, which will be comprised of two office buildings with total surface of 17,000 sq m, will be completed at the end of 2023. Another project which is expected to be completed at the end of 2023 is that of Dimand designed for PwC's new headquarters in two opposite buildings with total surface of 22,500 sq m.

Also, the construction of the Cambas Park project started at the end of June 2022, which includes office buildings of c. 51,220 sq m and will be delivered at end-2024.

Forecast

The lack of A class buildings in the Greek office market coupled with increased demand for good quality and green buildings, in-line with ESG criteria, is expected to continue to affect prime rents upwards in the short term. This issue is expected to be offset with the materialization of the pipeline of projects from 2023 onwards. However, the economic uncertainty and high costs due to geopolitical developments may pose a risk to the rollout of the projects.

Settle for more.

Whatever your property needs,
we go above and beyond to meet them.

Bucharest
Oliver Derksen
oliver.derksen@ro.knightfrank.com

Belgrade
Nikola Velickovic
nikola.velickovic@rs.knightfrank.com

Budapest
Petra Holy
petra.holy@hu.knightfrank.com

Athens
Dimitra Theochari
dimitra.theochari@gr.knightfrank.com

Sofia
Lyubo Mladenov
lyubo.mladenov@bg.knightfrank.com

Horatiu Florescou
Chairman & CEO CSEE
hf@knightfrank.com

RECENT **MARKET-LEADING RESEARCH** PUBLICATIONS:

The Wealth Report 2022

Y(OUR) Space 2021

Romania Market Overview
H1 2022

Knight Frank Research
Reports are available at
knightfrank.com/research

Knight Frank