Romania / Hungary / Bulgaria / Greece / Serbia

Knight Frank

CSEE Market Overview

Office, Industrial, Data Centres *special feature*

2023 - 2024

Pathways to property

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Con-tents

Pathways to property

Navigating Real Estate Trends

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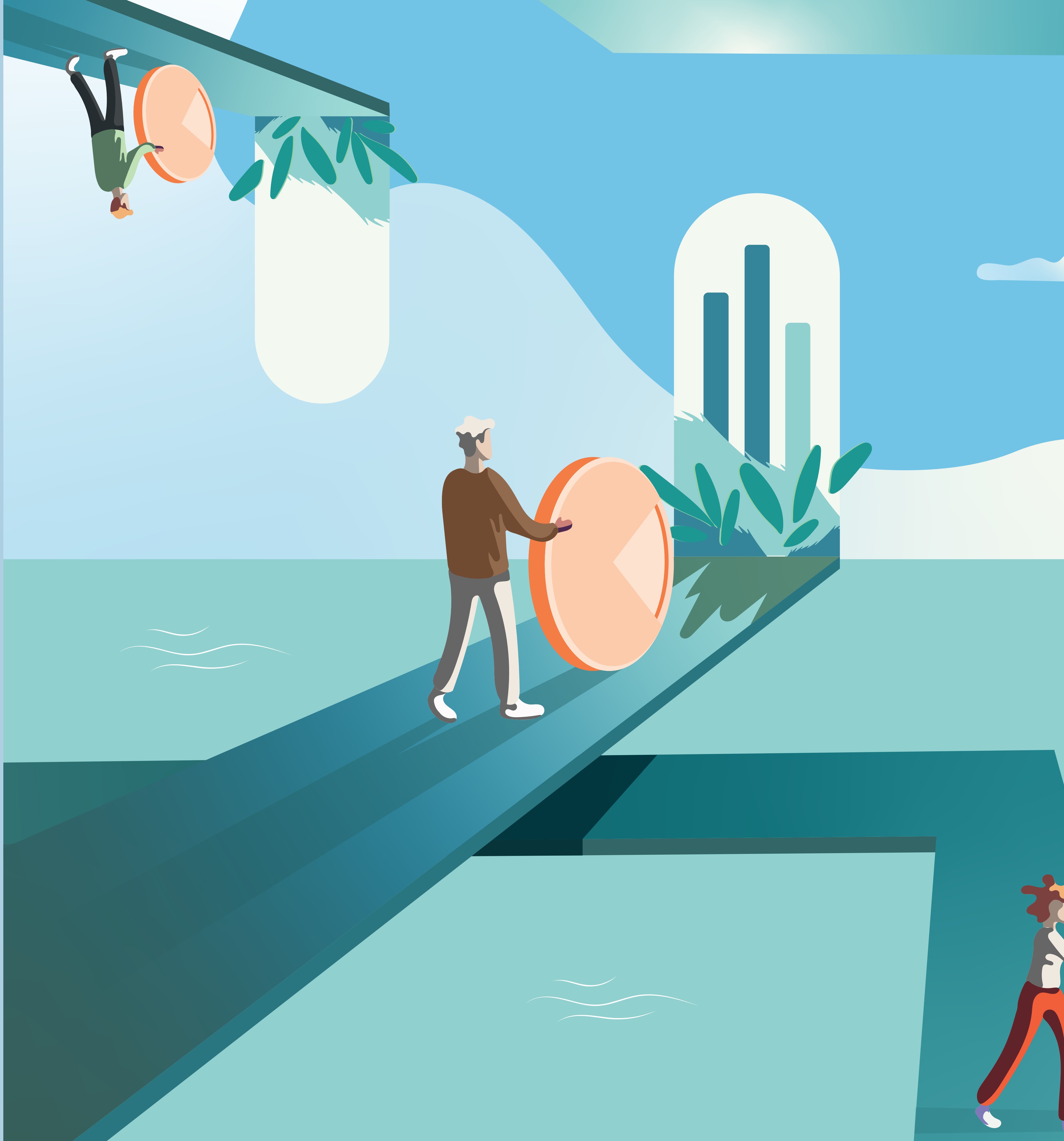
ROMANIA

Bucharest

2023-2024



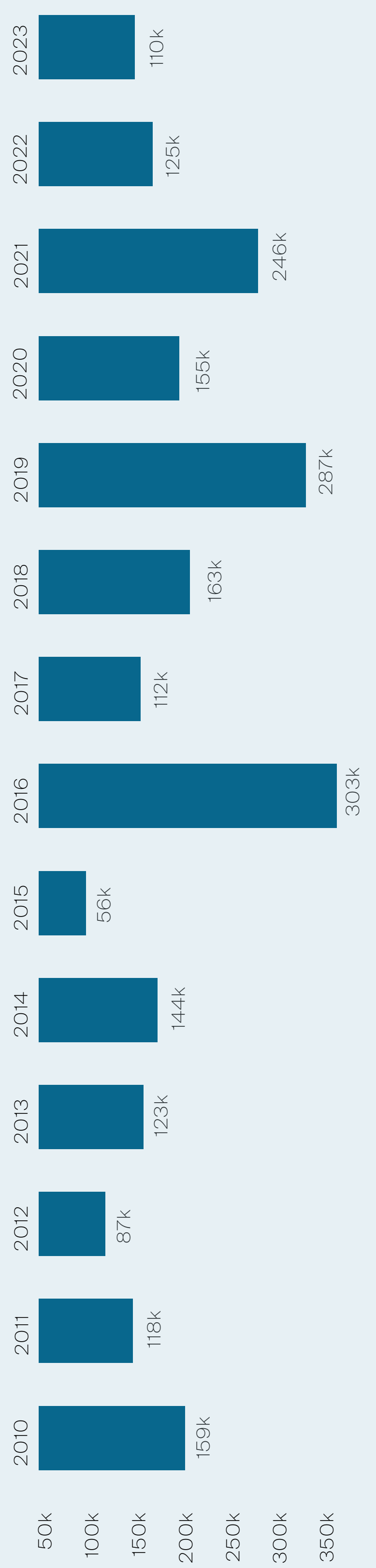
Office Market Overview

Industrial and Logistics Market

OFFICE MARKET OVERVIEW

Romania

Supply evolution *(sq m)*



Supply

110,000 sq m

Construction completions amounted to 110,000 sq m in 2023, 12% less than the volume seen in 2022, and 35% below the ten-year average for the figure.

Stock

3,433 mil sq m

The submarket with the highest modern office stock is Center West area (~622,000 sq m) followed by Calea Floreasca / Barbu Vacarescu (~589,000 sq m) and Center (~453,000 sq m).

Main deliveries

BUILDING	AREA (SQ M)	DEVELOPER	SUBMARKET
One Cotroceni Park II	34,500	One United	Center-West
U-Center II	32,500	Forte Partners	Center
@Expo	28,000	Atenor	North-West (Expozitiei)

Demand

439,000 sq m

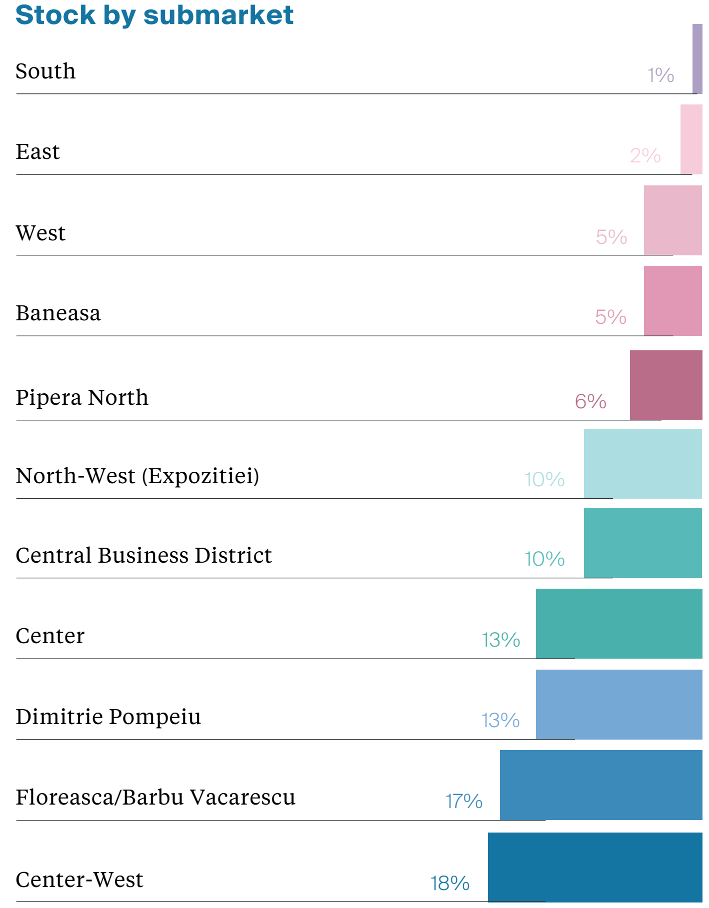
2023 registered an all-time record in terms of the overall office leasing demand, the highest level ever on this market – 439,000 sq m. This represents an increase of 44% compared to 2022, and 40% above the ten-year average for the figure. 2019 was the previous record year with almost 400k sq m, so it took us 3 years to reach and surpass that level, by 50k sq m. Not easy years (pandemic and war close to out borders), still the demand came back to the right track, showing the resilience of the office segment.

Top submarkets for leasing activity included Floreasca /Barbu Vacarescu which saw 118,000 sq m of take up (27%), the Dimitrie Pompeiu area where 87,000 sq m were leased (20%), and the Centre-West with 17% of take up.

IT & Communication sector still makes up the largest share of demand, accounting for 43% of the total take-up.

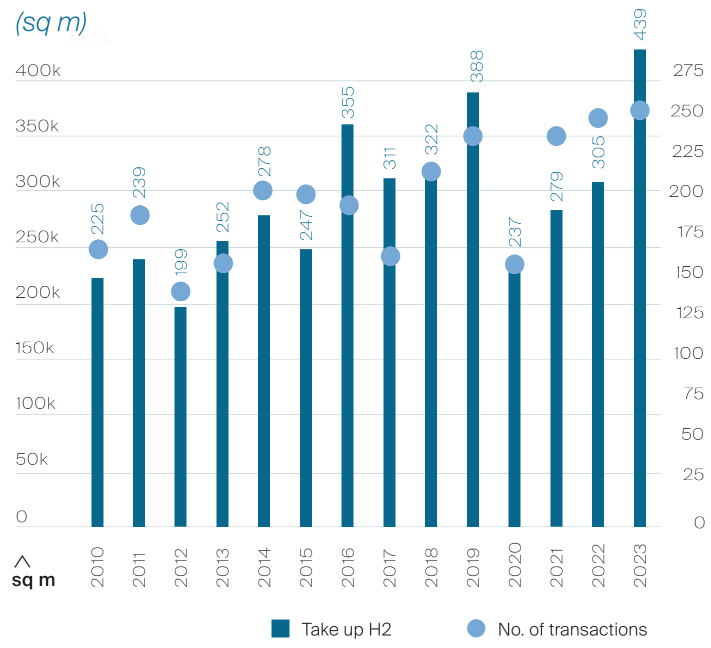
In terms of the type of the transactions 2023 was atypical, clearly dominated by renewals in the detriment of new demand, expansions and pre-leases. Also, it was atypical considering the size of the transactions, being dominated by large transactions.

Stock by submarket

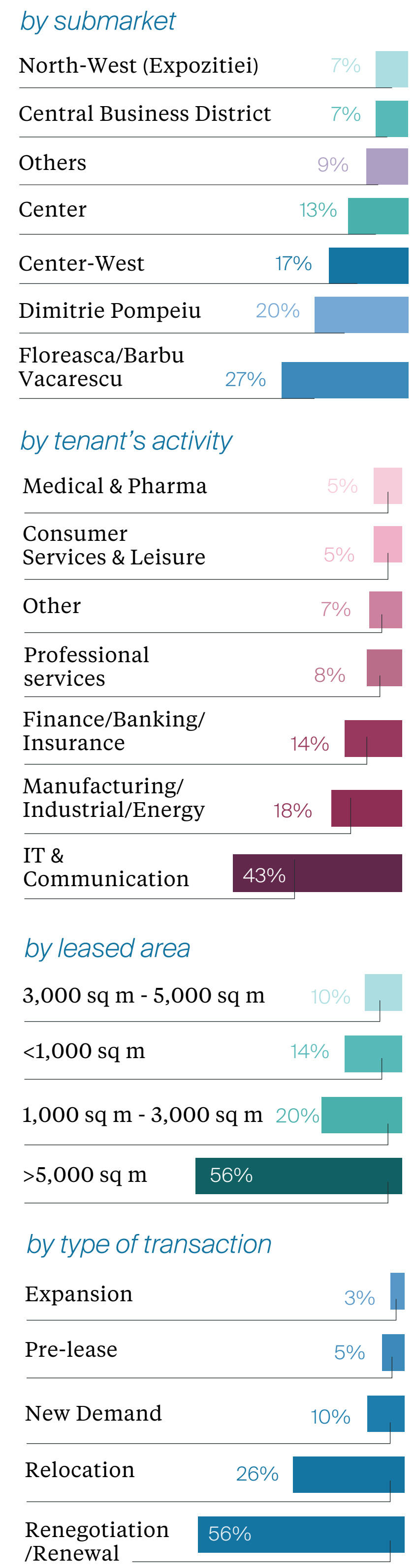


Demand evolution

(sq m)



Demand breakdowns:



Rents
21 eur/sq m/mo

Rents increased significantly for the on-going leases due to indexation which registered a record high in 2022 – more than 9% followed by more than 6% in 2023. The last 2 years were record years in terms of the indexation.

Vacancy
14%

Due to the high demand from 2023, vacancy started to decrease compared to 2022. A healthy vacancy should be around 10% of the stock. After the pandemic it increased to 15%, now it is around 14% and is expected to decrease. Besides demand, the vacancy is also influenced by the new deliveries, which decreased in the last 2 years compared to the previous ones. During the financial crisis we had the highest vacancy, so despite the pandemic and the war, we did not reach again the peak from the financial crisis.

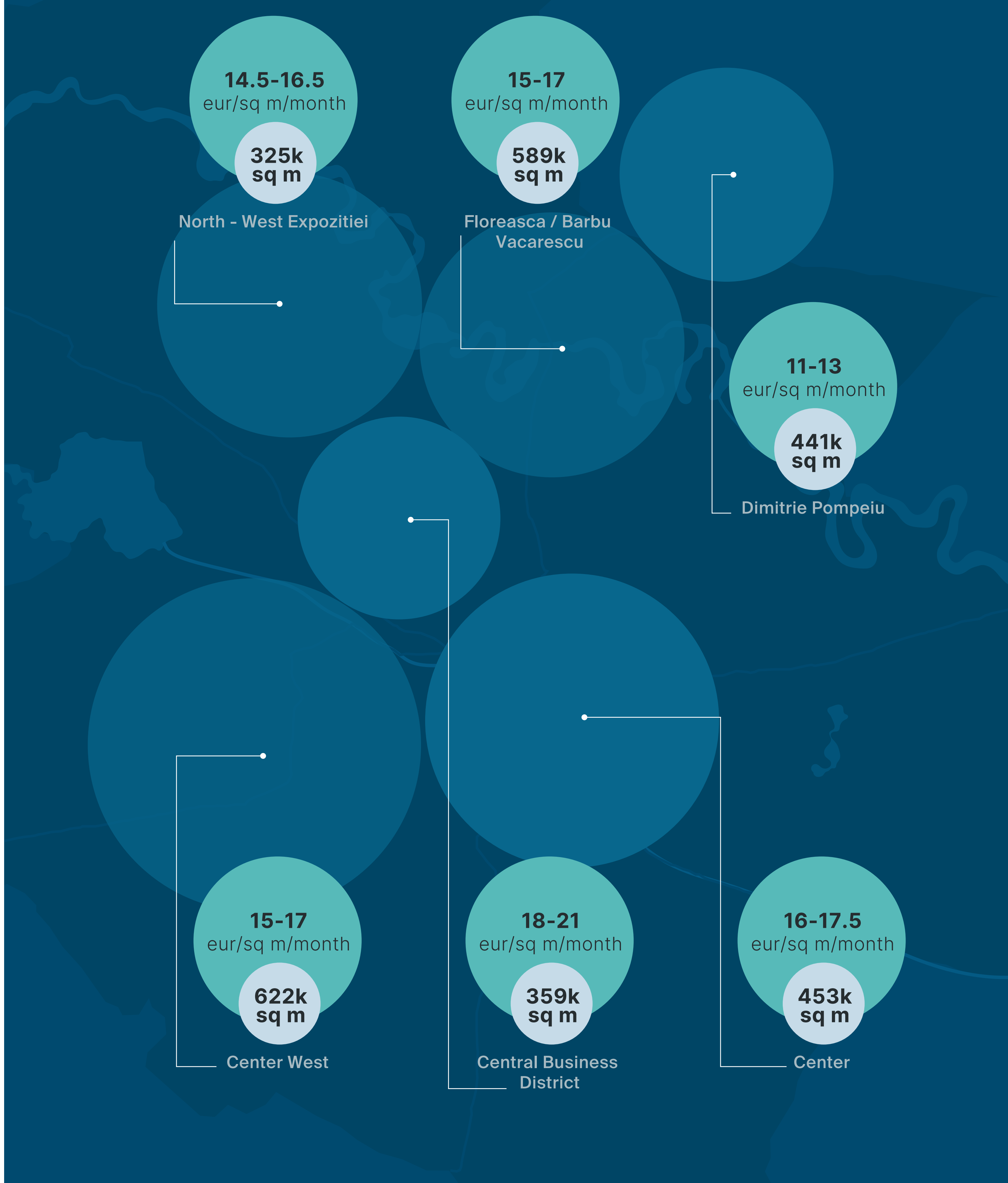
Top 10 leases
in 2023

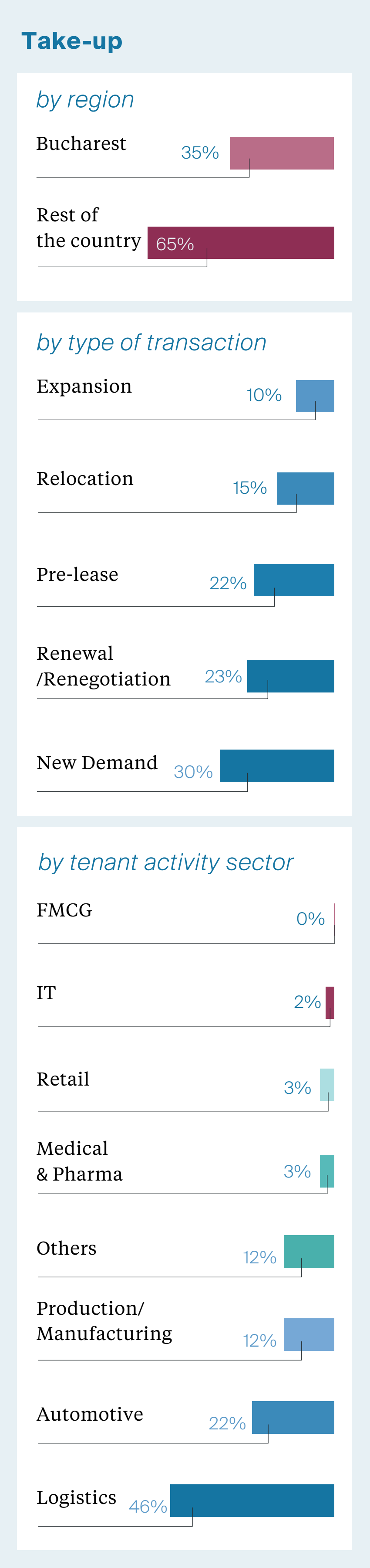
TENANT	AREA (SQ M)	BUILDING	TYPE OF TRANSACTION
Oracle	26k	Oregon Park, Floreasca Park	Renewal
Honeywell	24k	GW BOC	Renewal
Infineon	20k	ONE Technology District	Pre-lease
BCR	18k	The Bridge	Renewal
Adobe	17.5k	U-Center 2	Relocation & Expansion
Unicredit	15.5k	GW Expozitiei	Renewal
DB Technology	12.7k	GW BOB	Renewal
Deloitte	12.5k	Oregon Park	Renewal
Huawei	12k	GW Tower	Renewal
E-Mag	10k	GW Square	Relocation

Forecast
15,000 sq m 2024

What's *next?*	Center-West	Center	Floreasca / Barbu Vacarescu	Dimitrie Pompeiu	North-West
Existing stock	**622K**	**453K**	**589k**	**441K**	**325K**
New projects with **building permits** *sq m* *number of projects*	111k 4	85k **2**	32k 2	20k 1	18k 1
Future stock	**733k**	**538k**	**621k**	**462k**	**343k**
New projects without **building permits** *sq m* *number of projects*	174k 5	85k 4	30k 1	0 0	167k 5
Total	**907k**	**623k**	**651k**	**461k**	**510k**

BUSINESS
Hubs map





INDUSTRIAL AND LOGISTICS MARKET

Romania

Supply
500,000 sq m

In 2023, deliveries totaled around 500,000 sq m, bringing the total stock to 7 million sq m across the country. Bucharest received around 44% of the new supply.

Demand
712,000 sq m

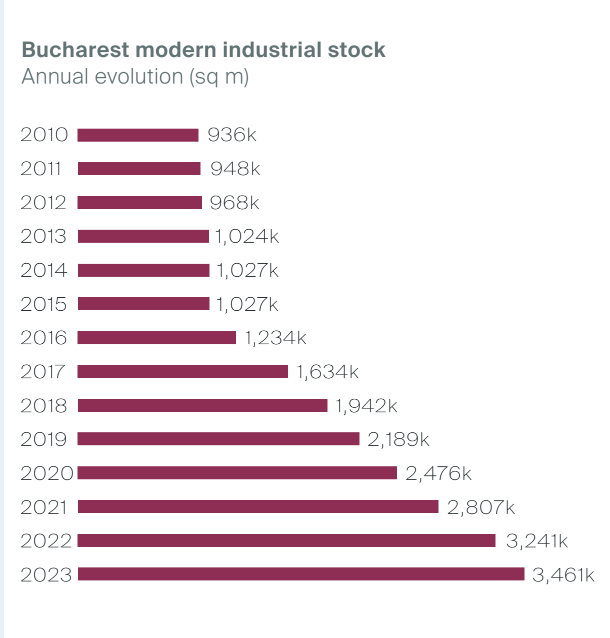
Nationwide the take up reached approx. 712,000 sq m of space absorbed, representing a decrease of 20% compared to the previous year.

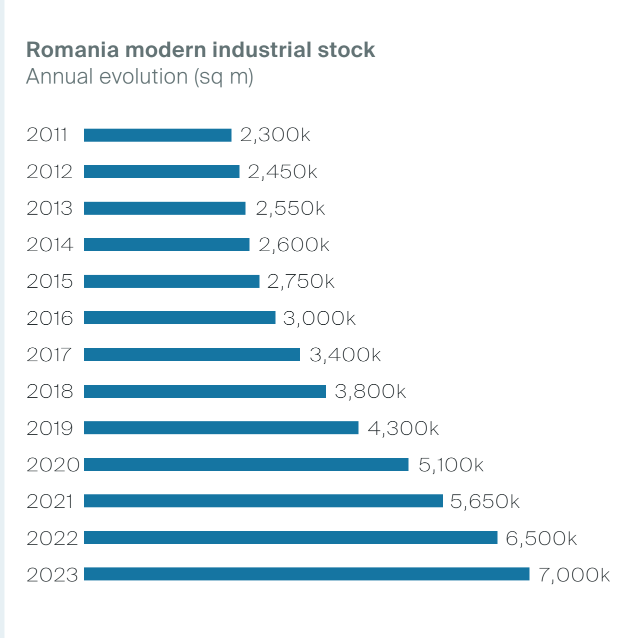
Remarkably, just around 35% of the leasing demand, though still substantial when considering the total leased area, originated from Bucharest. This marks an important drop from 59% in the preceding year and a decline from 64% in 2021.

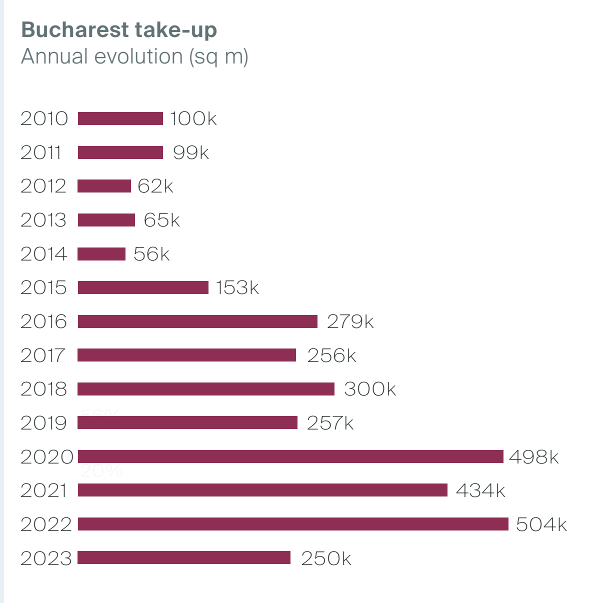
ROMANIA	SUMMARY	BUCHAREST
7 mil. sq m	Stock	3.5 mil. sq m
500k sq m	New supply	220k sq m
450k sq m	Pipeline	100k sq m
712k sq m	Total leasing activity 2023	250k sq m
5%	Vacancy	5.5%
4-5	Headline rent (eur/sq m/month)	4-5
7.75	Yield	7.5

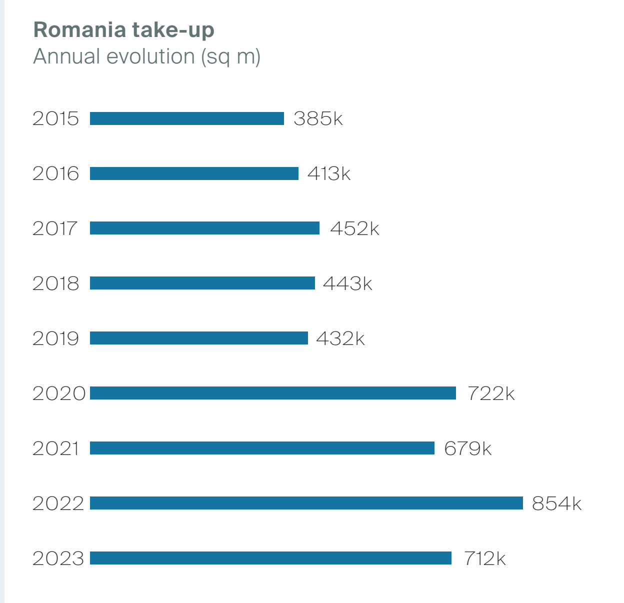
Deliveries 2023 (selection)

CITY	PARK	AREA (SQ M)
Bucharest	CTPark Bucharest West 24	65,000
Bucharest	WDP Park Stefanesti	47,000
Oradea	CTPark Oradea (Cargo)	39,000
Brasov	VGP Park Brasov	38,000
Bacau	Eli Park	37,000
Slatina	WDP Park Slatina	25,000
Bucharest	ELI Park 4, phase I	20,000









Logistics firms rented 46% of the total volume recorded in 2023 (~330,000 sq m), followed by automotive (22% and ~144,000 sq m, respectively) and enterprises engaged in production (12%, ~88,000 sq m).

A total of 85 leasing transactions were recorded nationwide in 2023 with an average lease size of 8,500 sq m and 24 transactions larger than 10,000 sq m. During the second half of this year, notable transactions included the expansion of Yusen with CTP in CTP Park Bucharest (~19,000 sq m) and Continental new lease signed in VGP Park Timisoara (20,000 sq m).

On the whole, the main source of demand was the new demand accounting for 52% from the total take-up, followed by renewals with 23% and relocations with 10% the overall leasing volume.

Vacancy
~5-6%

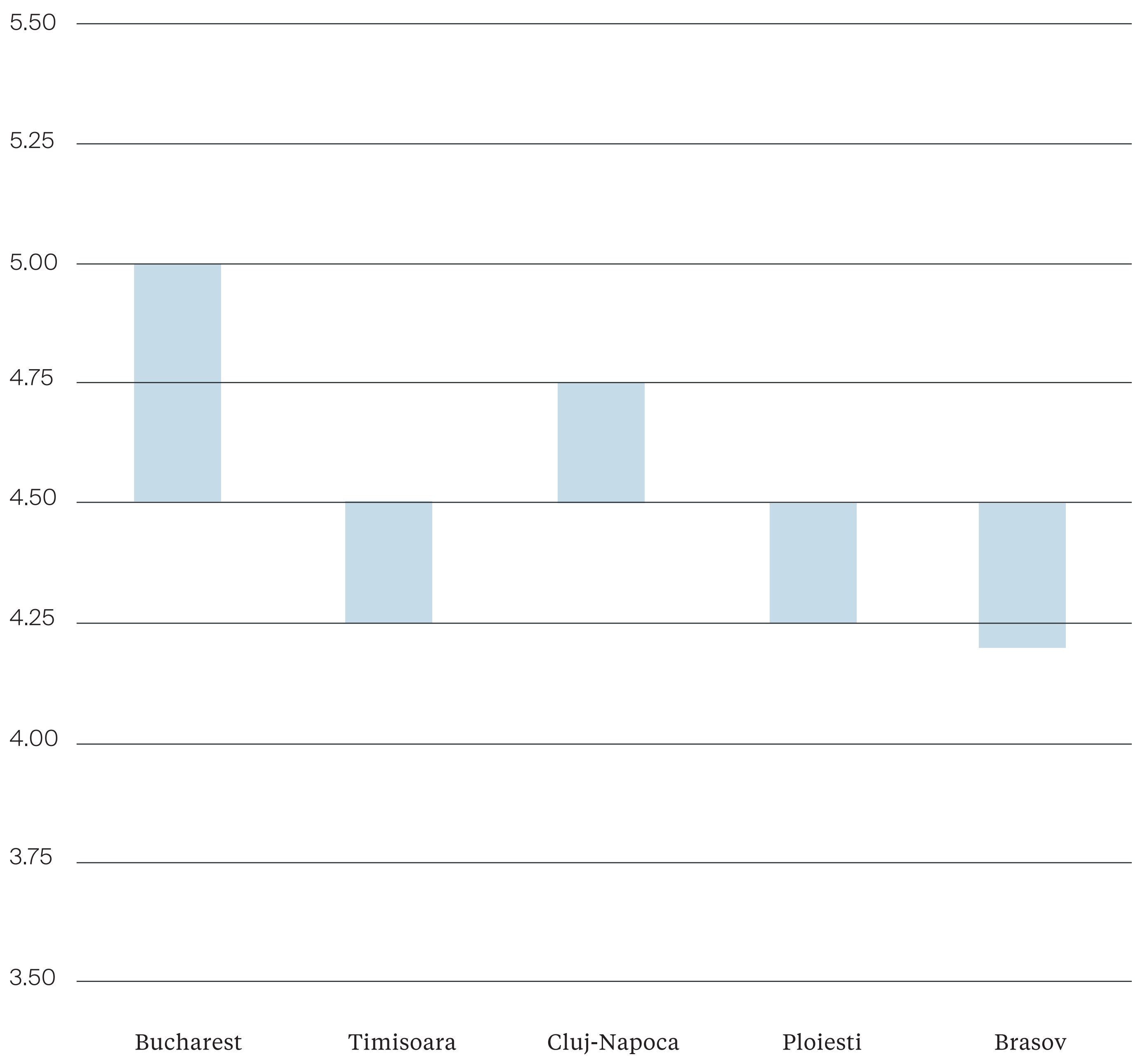
The vacancy rate, which is reported to be around 5%, stays low as a result of the developer's preference for built-to-suit projects.

Rents
4-5 eur/sq m/month

Rents have escalated from under 4 eur/sq m at the close of 2021 to nearly 5 eur/sq m in some cases.

Forecast

Romania continues to draw interest as a promising market for fresh investments and is emerging as a key distribution center for logistics in the region. Developers display confidence and determination in meeting tenant requirements, evident as they announce new expansions for projects that have demonstrated strong performance.



INDUSTRIAL MARKERS
Romania map

CITY/AREA	STOCK (SQ M)
Bucharest	3,500,000
Timisoara	750,000
Cluj-Napova	420,000
Ploiesti	417,000
Brasov	400,000
Pitesti	250,000
Sibiu	150,000

HIGH STOCK

MEDIUM STOCK

LOW STOCK

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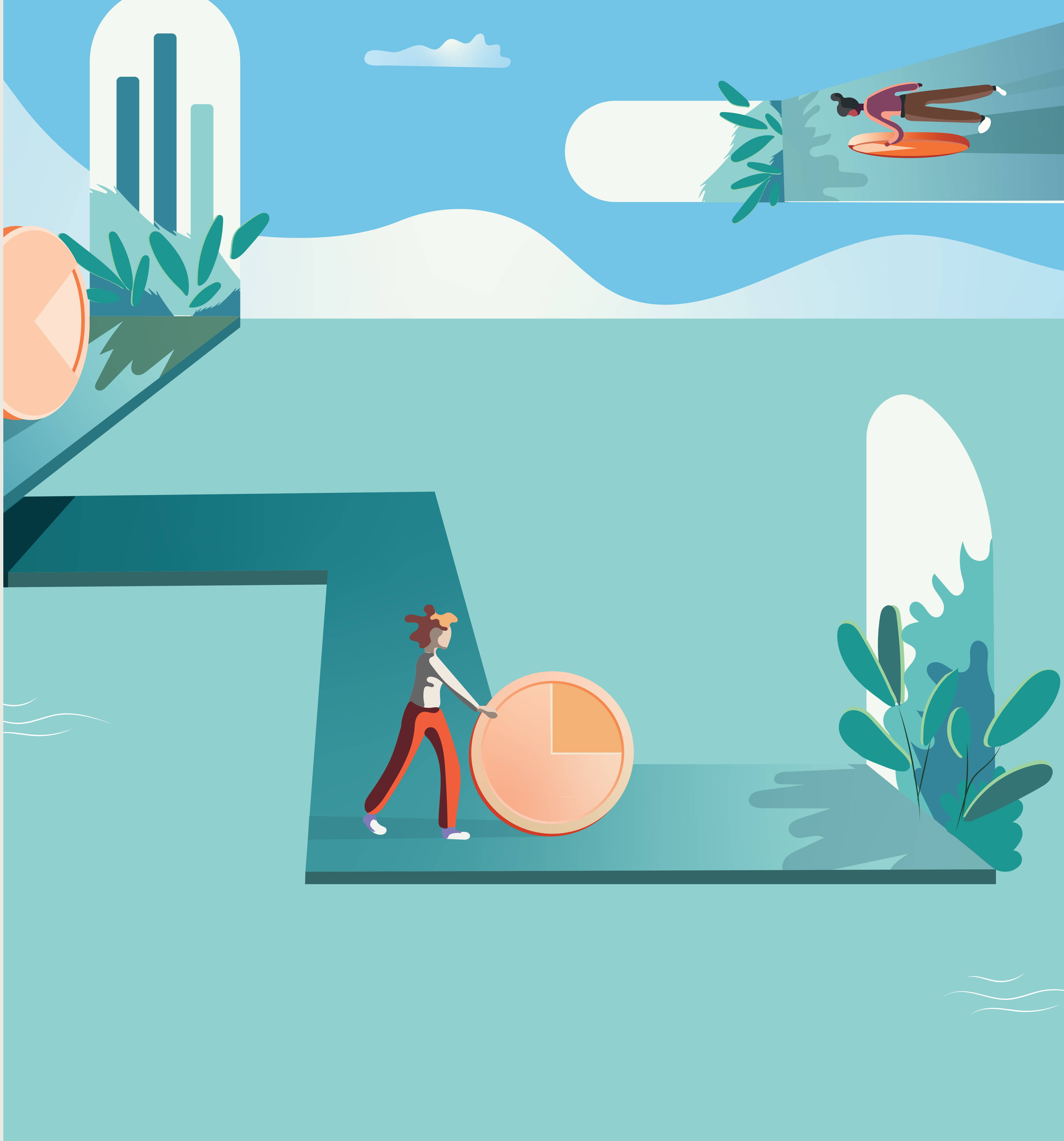
HUNGARY

Budapest

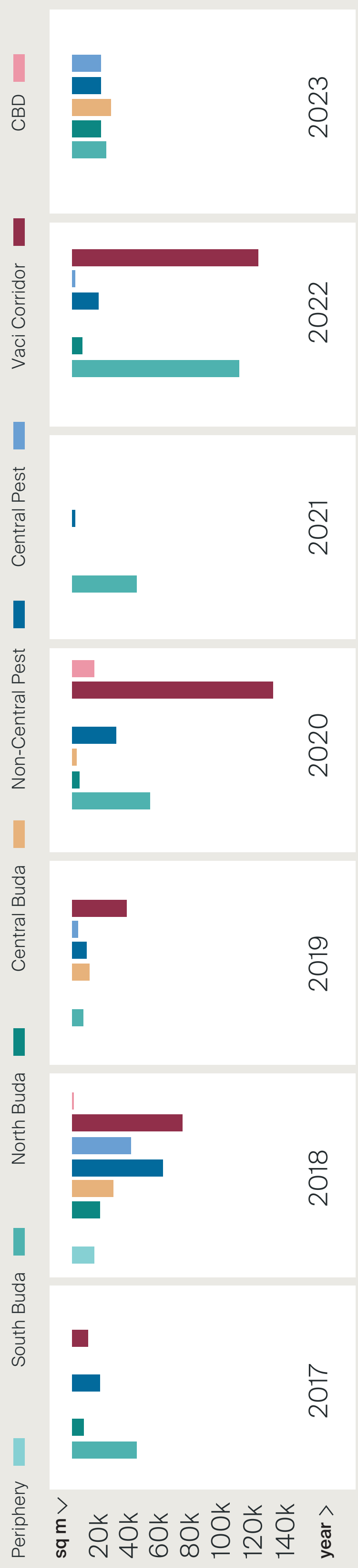
2023-2024

Office Market Overview

Industrial and Logistics Market



Deliveries
by submarket



OFFICE MARKET OVERVIEW

Hungary

Supply

102,830 sq m

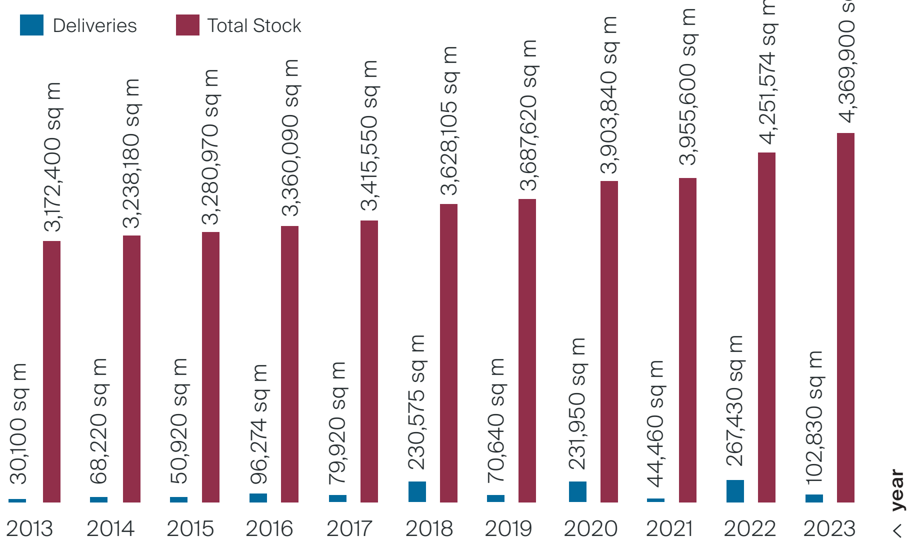
As it has been anticipated, 2023 did not keep up with the delivery boom of 2022, in total, 102,830 sq m office space was handed over throughout the year of 2023, representing less than half of the volumes of 2022. (267,430 sq m) The new supply arrived in 8 schemes, out of which 5 buildings concerned the Buda submarkets: F99 (14,040 sq m) and Budapart Downtown (8,420 sq m) in South Buda, Homework (3,740 sq m) and Bem Center (25, 320 sq m) in Central Buda, while RoseVille office building (15,540 sq m) in North Buda created new relocation options on the market. As for the Pest side, BIF Tower (8,530 sq m) and the South wing of Liberty building (9,720 sq m) in Non-Central Pest, while the first phase of Corvin Innovation Campus (17,520 sq m) in Central Pest submarket were added to the portfolio of 'Class A' office buildings in Budapest.

Stock

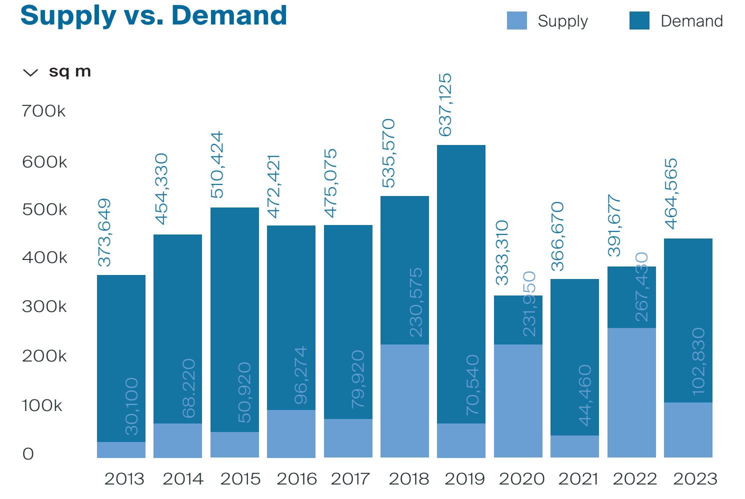
4,369,900 sq m

Amidst the steady stream of new deliveries over the course of the year, the overall office inventory saw a boost of an additional 24,230 sq m, attributed to the annual size correction at the beginning of 2023. On the other hand, one office building within the Central Business District (CBD), spanning 3,755 sq m, has been excluded from the total stock due to its altered configuration, resulting in a cumulative area of 4,369,900 sq m by the end of the year. Examining the Budapest office landscape, class 'A' and 'B' speculative office space accounts for 3,571,710 sq m, while owner-occupied space amounts to 798,190 sq m. Notably, during the first half of the year, the latter category experienced growth with the transition of Imperial Krisztina Plaza (16,830 sq m) and N97 office building (3,610 sq m) from speculative office space to owner-occupied premises.

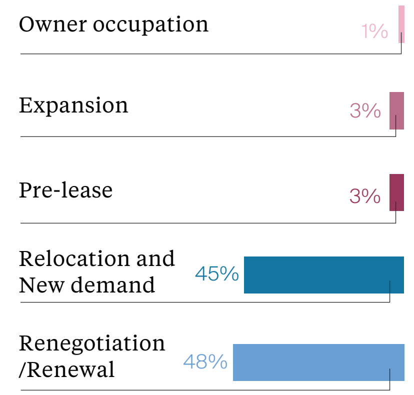
Deliveries vs. Total Stock



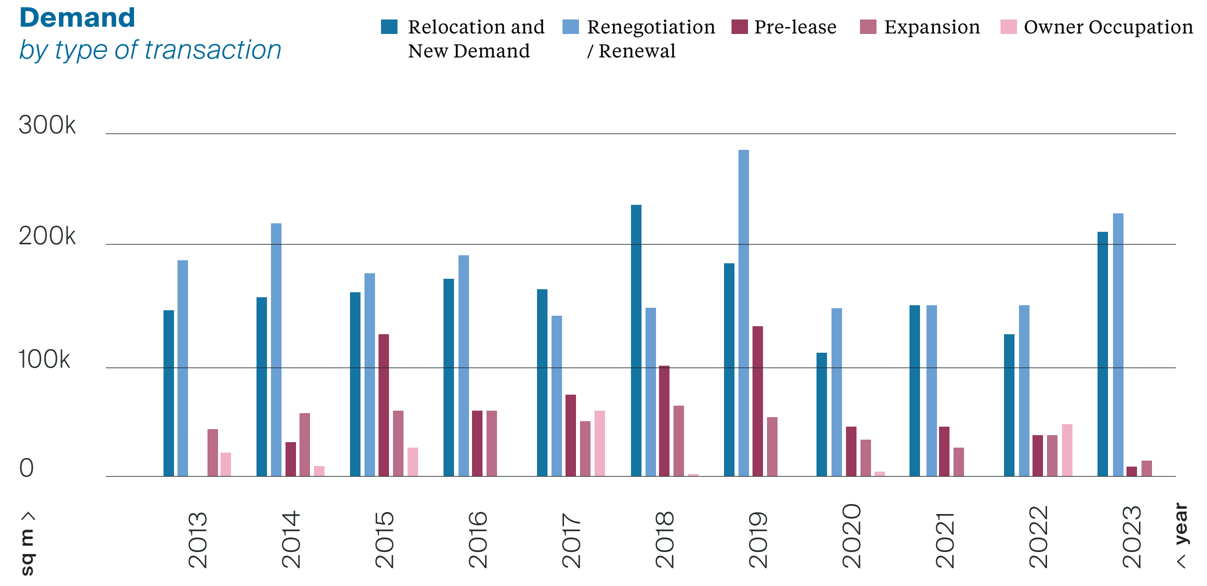
Supply vs. Demand



Demand
by type of transaction



Demand
by type of transaction



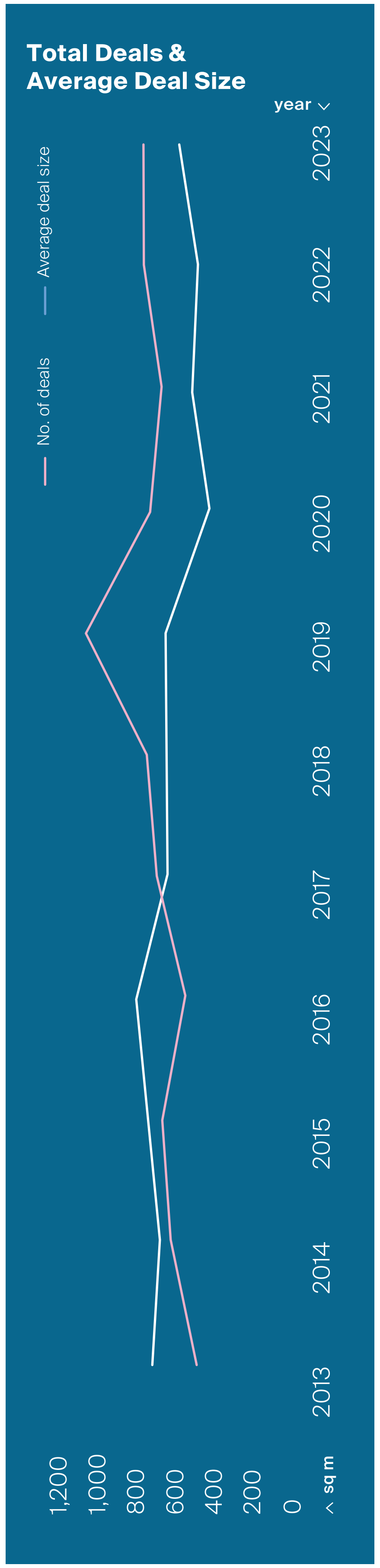
Demand

464,565 sq m

The year was marked by a rising level of tenant activity, registering a 19% growth compared to 2022. Additionally, net absorption shifted into positive territory, with occupied areas expanding by 21% on a year-on-year basis.

In terms of transaction types, renewals made up almost half of all leasing activities, comprising 48% of the total, while new demand constituted 45%. The latter two was followed by expansions and pre-lease agreements each contributed 3% to all take-up, whereas owner-occupied deals represented just 1% of the annual demand.

Altogether, 594 lease agreements were finalized in 2023, marking an 18% increase compared to the previous year. Concurrently, the average deal size reached 782 square meters. Regarding submarkets, Váci Corridor retained its status as the most favoured, accounting for 29% of total deals, followed by Central Pest submarket, hosting 15% of the transactions.



Rents

Generally, a slight rise was noticeable in most Budapest office submarkets in 2023. Average headline rents were registered between 15-17.5 eur/sq m/month range, whereas some new built, central, prime buildings were asking 28 eur/sq m/month for their office areas. Similarly, to the previous years, rent levels remained under the constant pressure of rising costs of construction, high inflation, and financing expenses.

Vacancy

13.5%

The annual office vacancy rate exhibited a 2.2 pps surge compared to the previous year, along with a 0.3 pps uptick quarter-on-quarter, culminating in a year-end figure of 13.5%. In terms of submarkets, the lowest vacancy rate at 8.7% was measured in North Buda while the Periphery submarket retained the highest rate at 36.8%.

Average rent:

15 - 17.50

eur/sq m/month

Prime rent:

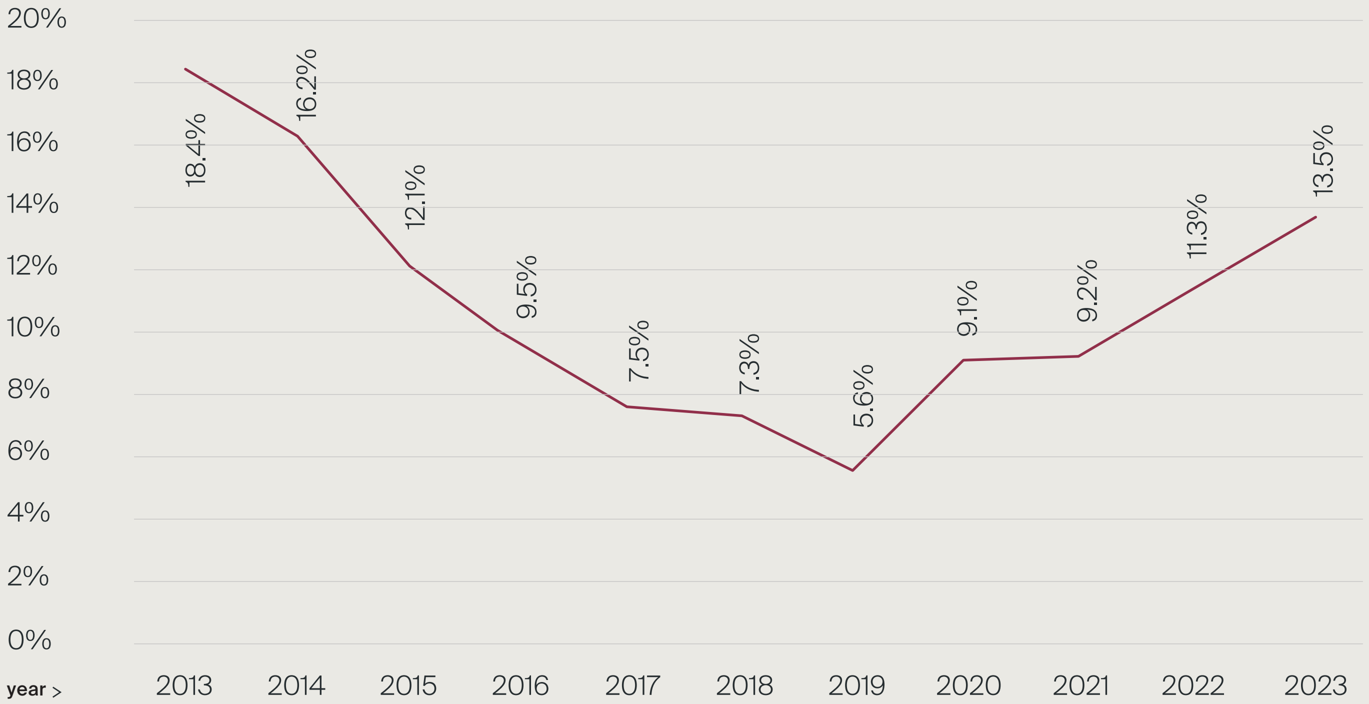
28

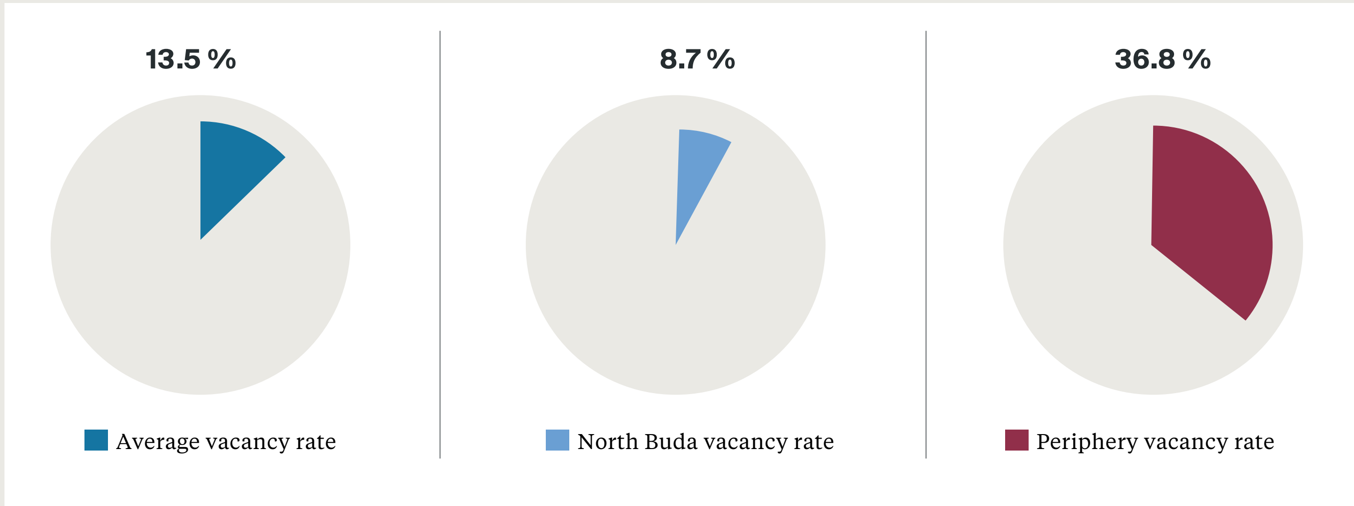
eur/sq m/month

Key transactions

SIZE (SQ M)	SUBMARKET	BUILDING	TYPE OF TRANSACTION
16,200	Central Pest	GTC Metro	Renewal
12,390	Váci Corridor	Átrium Park	Renewal
11,000	Central Pest	Magyar Telekom HQ	New lease
8,110	Central Pest	Millennium Tower I	New lease
7,290	Central Pest	Rumbach Center	Renewal
7,020	Central Pest	Hungária Office Park VII	New lease
7,000	Central Pest	Mill Park	Renewal

Vacancy rate



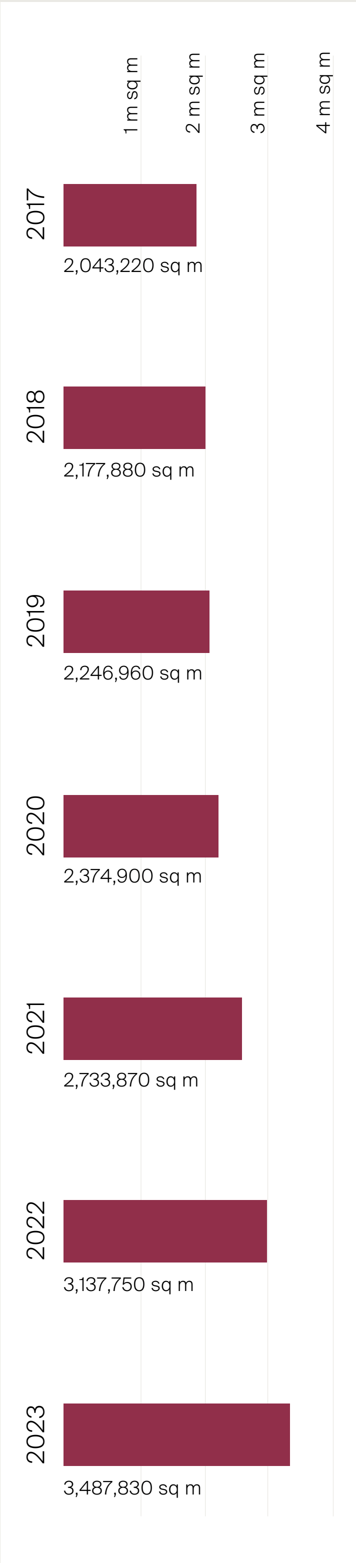


Forecast

After post pandemic optimization, energy prices and the energy efficiency of the buildings has become the main focus of both landlords and tenants. Beside location and rents, ESG and sustainability became the number 1 trigger in relocation projects, detailed analyses of the service charge content, green certification has become a peculiarly substantial matter to consider.

In 2024, this trend expected to stay and subsequently, the attraction of new, consciously built net-zero energy buildings will prevail among occupiers, while landlords with an aging portfolio are uninterruptedly exposed to the challenge to upgrade their buildings to deter their tenants from moving somewhere more sustainable. Depending on the financial caution of developers in addition to the volume of pre-lease requirements, there is approximately 170,000 sq m new office space in the pipeline for the year 2024 to be handed over, thus, new deliveries on the Budapest office market is expected to surpass the modest volume of 2023.

Stock evolution



INDUSTRIAL AND LOGISTICS MARKET

Hungary

Supply | Stock

358,010 sq m | ~3.5 million sq m

358,010 sq m new supply has been added to the Greater Budapest industrial stock during 2023, almost reaching a 3.5 million sq m stock size with 3,487,830 sq m. The deliveries arrived in the form of 20 new buildings throughout the year and presented a 7.5% volume increase compared to 2022.

Demand

630,760 sq m

The total industrial take-up reached 630,760 sq m in 2023 in the Greater Budapest area, which means a 7% decrease year-on-year. 93 leasing transactions have been recorded in the course of the year, out of which 18 were signed for more than 10,000 sq m, 10 in the last quarter. Considering area, the last quarter presented almost half of the total demand (313,810 sq m) in 26 project, resulting in a 12,070 sq m average deal size in Q4 2023.

Prime Rent (big box)
5.90 eur/sq m/month

Vacancy 8.6%

Forecast

The pipeline remains robust, approximately 450,000 sq m to be delivered in 2024, of which 57% is developed on built to suit basis, suggesting that the boom of the industrial developments remains, attracting new entries to the Logistics & Industrial market.

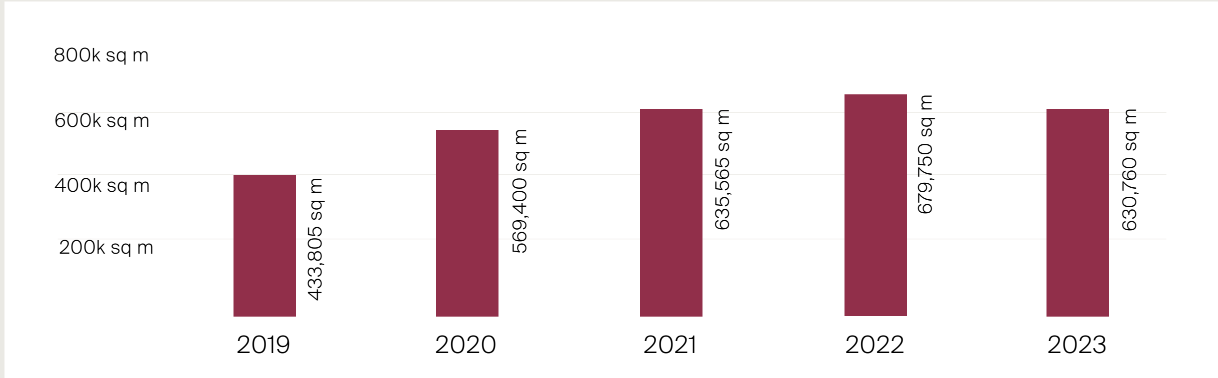
The prime industrial rent is predicted to be stay on the current level with no significant differences between Greater Budapest and the countryside.

The Hungarian logistics market remained Greater Budapest focused, however some of the secondary markets on the countryside, such as the Southern part of Hungary, showing an increase in importance due to governmental intentions.

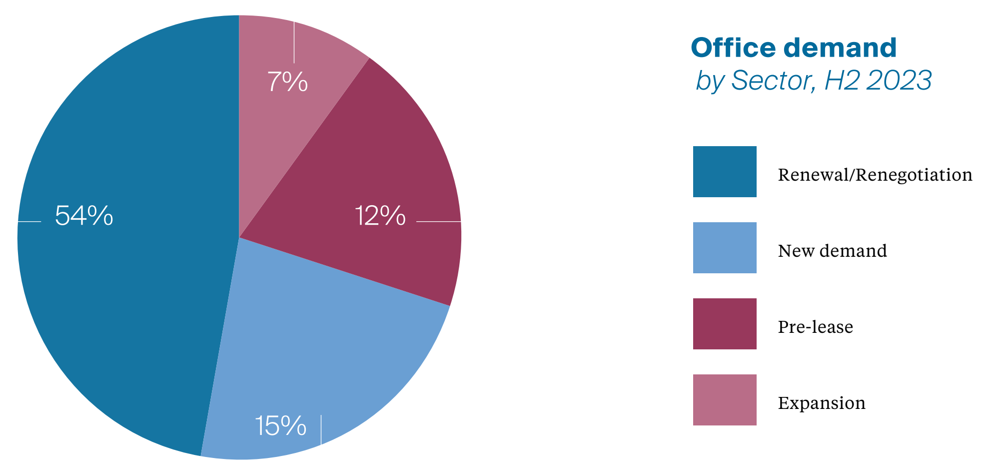
The regional logistics market has been mainly driven by German automative industry in the last couple of decades, however, the focus of the government seems to turn toward new areas such as research & development.

Occupiers are more interested in ESG and environmentally concious developments, similarly to the sentiment on the office market. Beside green solutions, tenants seek to increase efficiency in terms of space, quality and cost. The vast majority of occupiers with the above request tend to select new, high quality buildings.

Take-up evolution



Office demand
by Sector, H2 2023



Key completions

Greater Budapest & the countryside

SIZE (SQ M)	CITY	DEVELOPER/PROJECT
57,760	Páty	HelloParks Páty - PT1
46,275	Maglód	HelloParks Maglód
45,200	Fót	HelloParks Fót - FT2
42,500	Ecser	CTPark Ecser - ECS1
38,000	Győr	VGP Park Győr Beta - A

Key transactions

Greater Budapest & the countryside

SIZE (SQ M)	CITY	DEVELOPER	TYPE OF TRANSACTION
82,320	Üllő	GLP Üllő Logistics Centre	Renewal
32,000	Üllő	Panattoni Hungary Development Kft.	Pre-lease
32,000	Kecskemét	VPG Park Kecskemét	Pre-lease
25,000	Győr	VPG Park Győr Beta	Pre-lease
24,350	Páty	HelloParks Páty - PT1	Pre-lease

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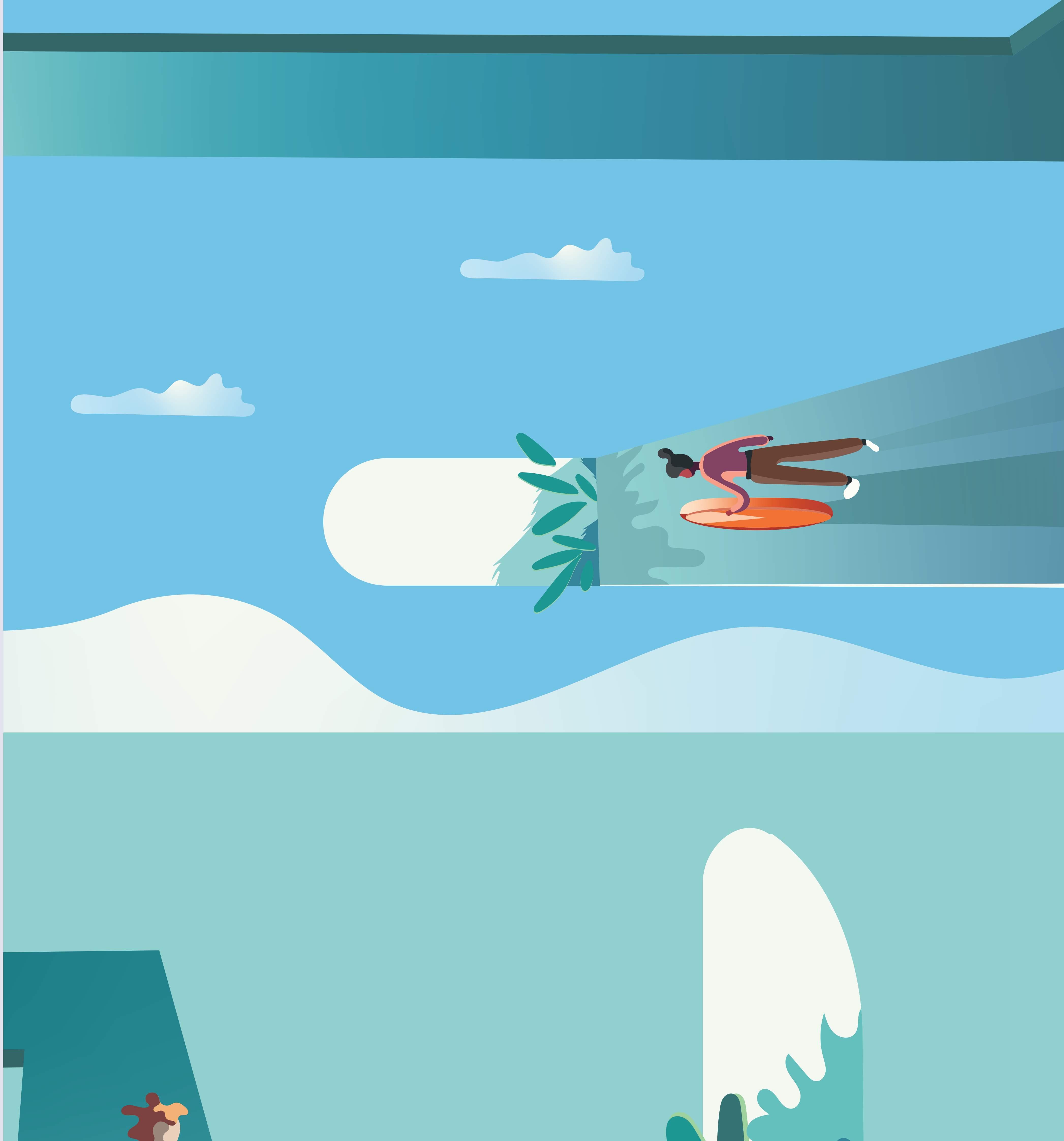
BULGARIA

Sofia

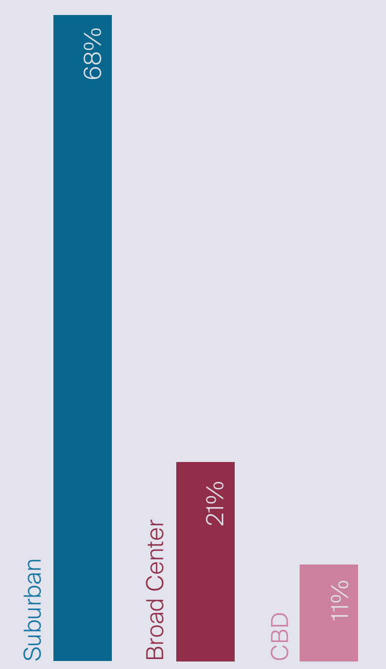
2023-2024



Office Market
Overview

Industrial and
Logistics Market

Total stock
by submarkets, H2 2023



OFFICE MARKET OVERVIEW

Bulgaria

Supply

Sofia registered approx. 17,000 sq m of newly delivered office space in 2023. As a result, the total speculative stock in Sofia remains almost unchanged at approx. 2.4 million sq m. The city's construction pipeline is currently below 200,000 sq m, the lowest figure in five years.

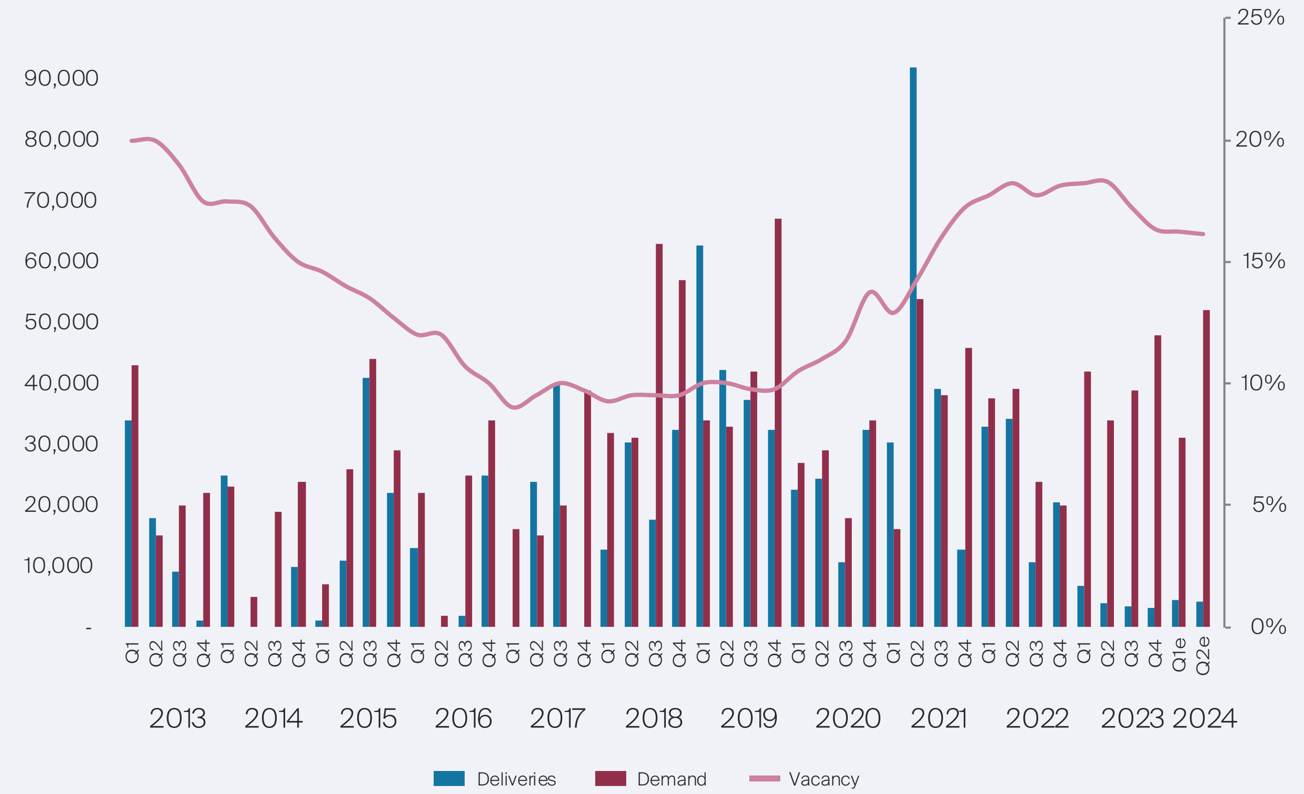
Rising inflation due to skyrocketing energy costs and increased prices of building materials are leading to a slowdown in investment in the office segment. In addition, significant increases in interest rates translate into an increase in funding costs, making projects more complicated to implement. As a result, investment processes have been slowing down and investors are showing a degree of restraint and caution when deciding on new investment projects.

Stock

2.4 mln sq m

Leader in office stock remains the Suburban market with around 68% of the total office stock or around 1,6 mln sq m, followed by the Broad Center with about 21%, or around 510k sq m, and 11%, or 300k sq m, in CBD.

Net absorptions and new deliveries *(sq m)*



Demand

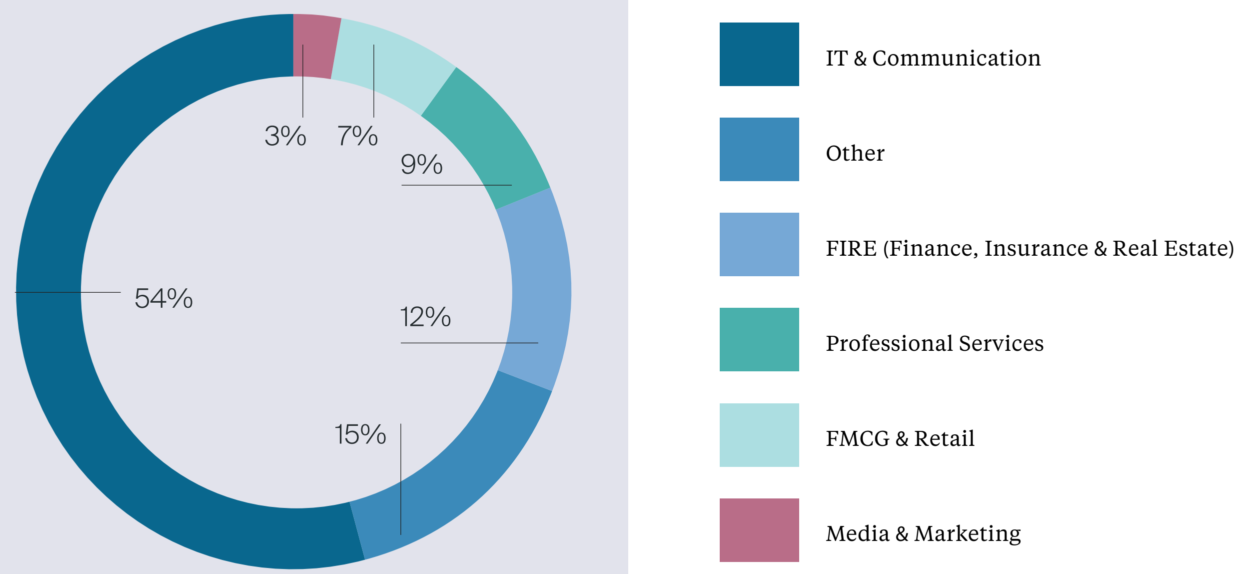
In 2023, around 165,000 sq m of office space were contracted in Sofia. The total take-up shows that occupier's activity was generally healthy throughout the year compared to the previous year's figure. Locations with the newest buildings in line with the latest ESG standards are attracting the highest demand. Office users focus on high-quality projects and locations with additional amenities. As such, the future of the office clearly lies in the premium segment. This is supported by the fact that more than 90% of the registered transaction took place in class A office buildings.

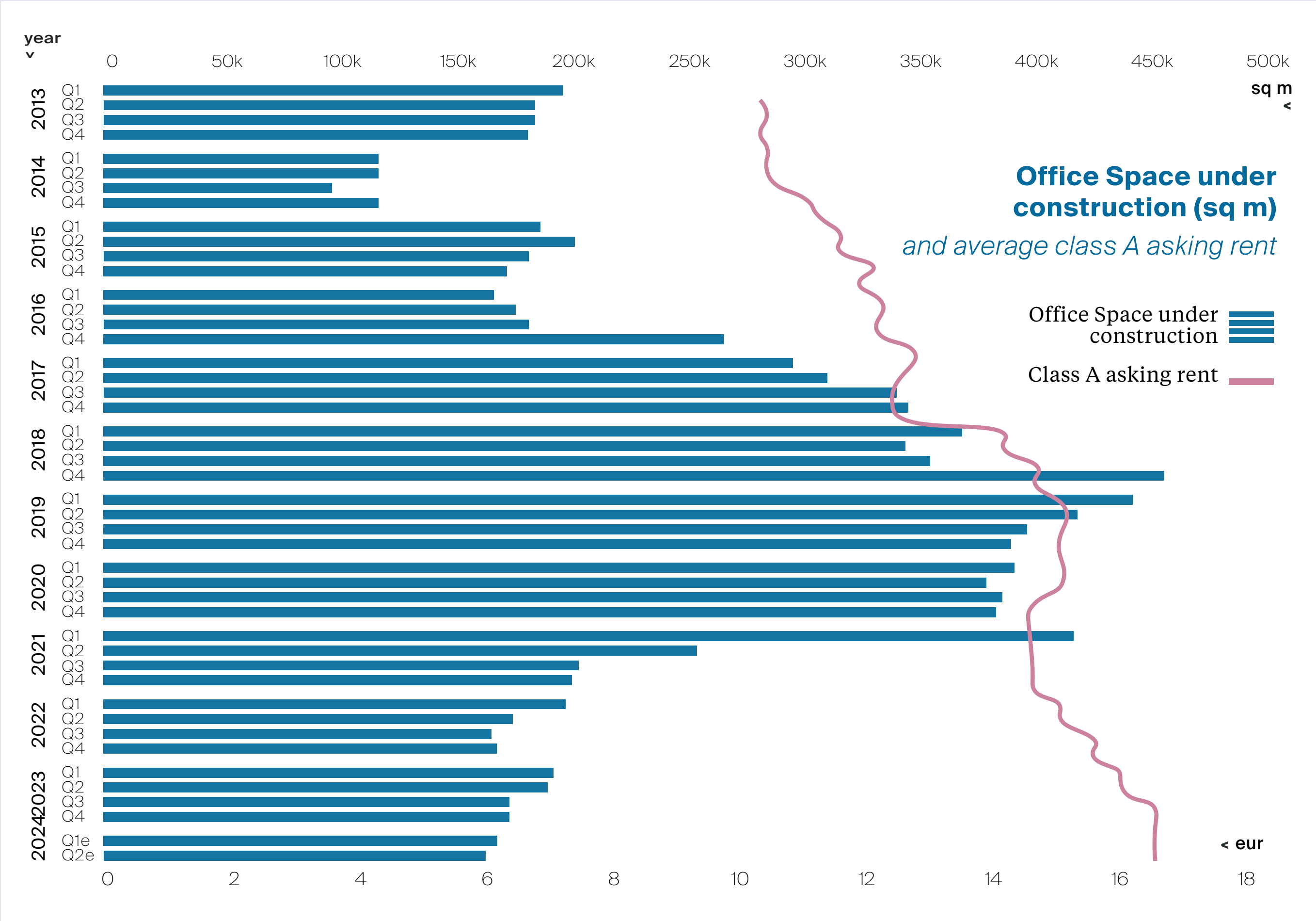
The leasing market remains driven by lease renewals and relocations, while new business entries and office expansions keep the smaller share. Demand remains mainly driven by companies from the IT and BPO industries, responsible for around 70% of the transactions. Net absorption remains moderate, with an only 25,000 sq m increase of physically occupied office space in 2022.

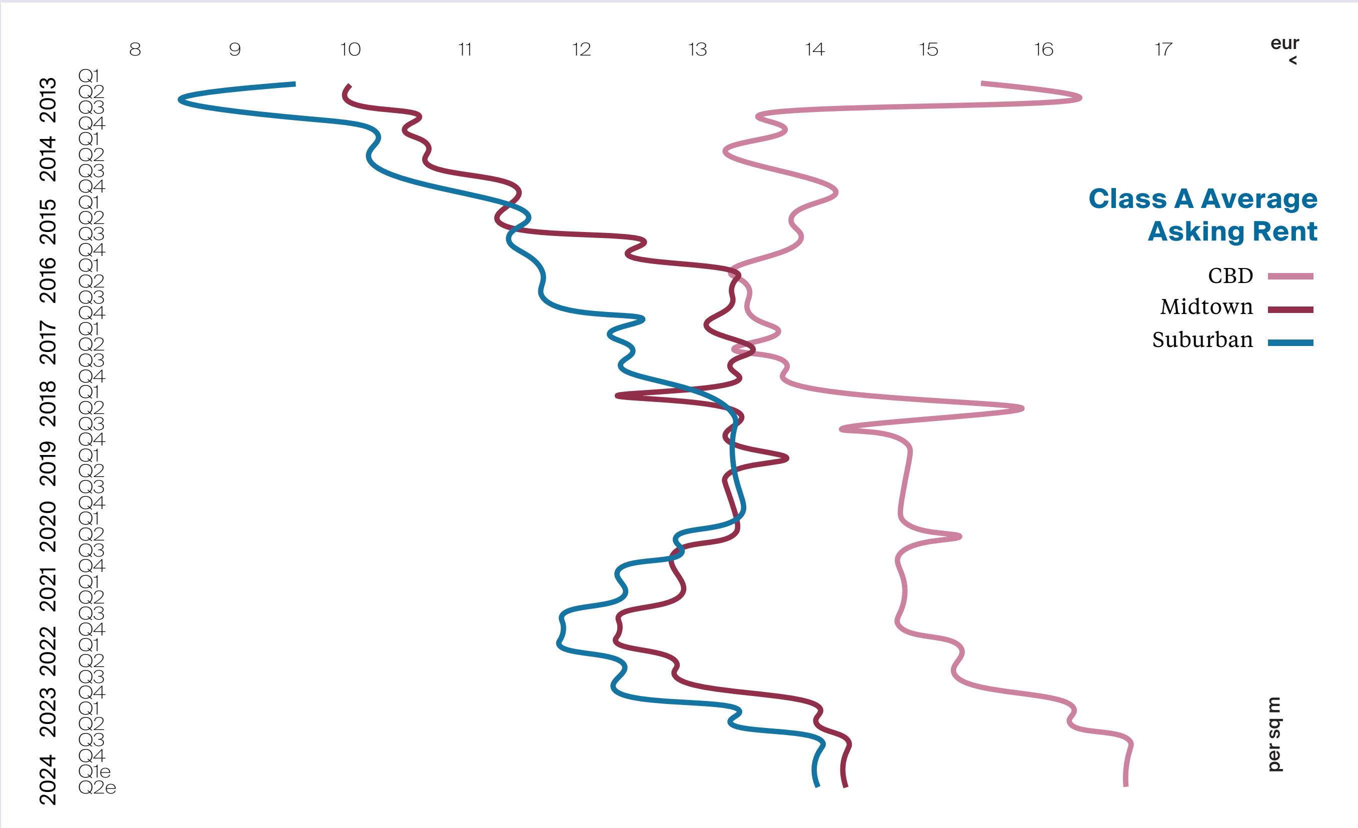
Changes in businesses in response to the pandemic created a unique opportunity to rethink the way in which the modern work environment is organized. Hybrid work established itself as the new normal. People want to keep the flexibility they gained during the pandemic and continue working in the office and from home. The physical office, however, remains indispensable for creative teamwork and productivity. That said, the office is gaining a new role in building community and engagement, acting as a physical manifestation of the company's values and culture. It's no longer only a place where people come to work. It's where employers come to do their jobs but also to reconnect and socialize with colleagues, to be part of innovation and creative processes.

Additionally, due to its relative flexibility, the rise of co-working and flex office structures affected new leases and expansions. What was initially considered an option mainly for freelancers and start-ups looking for an innovative and affordable work environment, has evolved over the past couple of years into an attractive option for large companies seeking to reduce their overheads, optimize their flexibility and maximize their employee productivity and wellbeing. As a result of these trend s, new spaces were opened during th e year, and the total stock of co-work ing spaces and serviced offices in Sof ia has reached approx. 60,000 sq m.

Office demand
by Sector, H2 2023







Prime headline rent

16.5 eur/sq m/month

Average asking rental levels increased slightly in 2023: for class A offices with a high occupancy, we observed 16.5 eur/sq m in the Central Business District (CBD), 14 eur/sq m in the broad centre and 13.75 eur/sq m - for suburban areas.

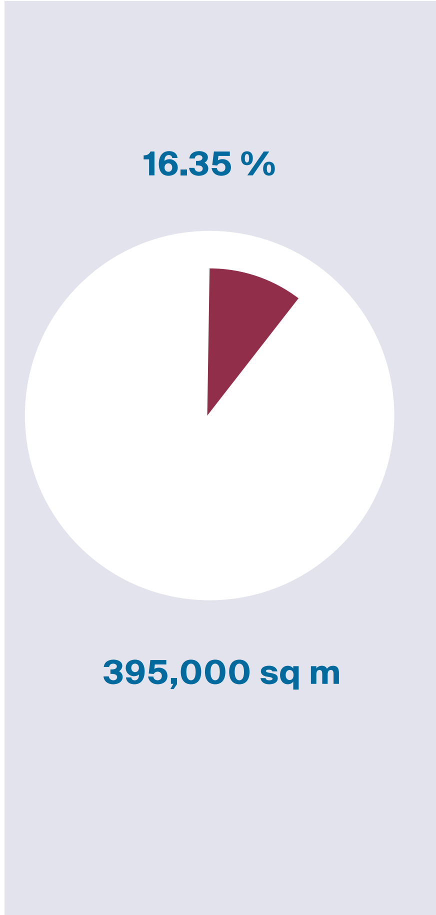
For class B offices asking rents remained almost unchanged in the range 9–12.50 eur/sq m in CBD and gradually decrease, reaching 6 – 11 eur/sq m in the more peripheral areas.

Increasing operating costs put landlords under pressure, leading to an increase of service charges, with prime rates in Sofia in the range 3 – 4 euro/sq m.

While the most premium locations still retain higher rent levels, the gap between newly delivered buildings and class B office is increasing.

In a high inflation reality, with building materials prices growing in some cases by 60-70% and increasing labour costs, paired with the growing cost of funding linked to interest rates hikes, it would be unreasonable to expect that rents will remain stable.

Vacancy



The vacancy towards the end of Q4 of 2023 decreased to around 16.35% of the total stock. This figure is equivalent to approximately 395,000 sq m available for immediate occupation. Most of the other available office spaces remains in class B projects.

Forecast

The office market in Sofia demonstrated a stable performance towards the end of 2023.

High inflation and interest rates continue to have a negative impact for the real estate industry from an investment standpoint, as it erodes the purchasing power of investors and therefore, reducing the overall return on investment. As prices of goods and services rise, the value of rental income and property appreciation decline, impacting the profitability of real estate investment, and thus adversely affecting office developments.

As a result of the relatively low level of deliveries, vacancies are expected to decline for high-quality and well-located properties, leading to increased competition between prospective tenants for class A office space. Due to the limited 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 a landlord's market for class A office space in the medium-term. 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 2024, the hybrid model of working, which combines office-based and remote work, will continue to establish itself, offering flexible and quick solutions to occupiers. Co-working spaces are designed to respond to the most urgent needs of the market. The number of offices can be increased or decreased, the lease can be short or long-term and no capital expenditures are incurred.

Stock

1.5 million sq m

Demand

200,000 sq m

Vacancy Rate

1.5%
(approx. 30,000 sq m)

Pipeline

350,000 sq m
(under construction)

Prime Rent Level
(big box)

5.5 eur
(class A)

INDUSTRIAL AND LOGISTICS MARKET

Bulgaria

Bulgaria's industrial real estate market is concentrated around the capital Sofia and its outskirts.

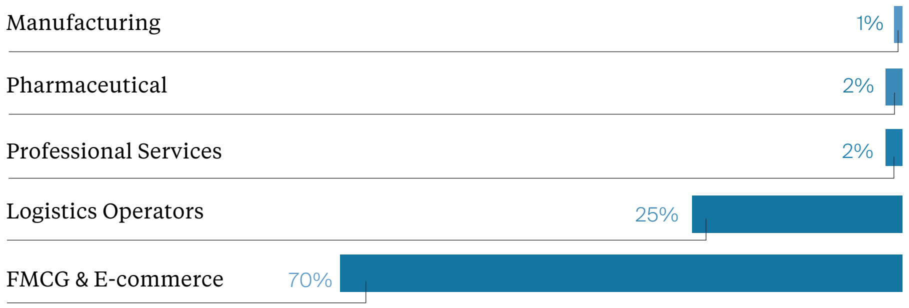
Demand for logistics space is expected to remain concentrated along Sofia ring road and in the newly developed industrial zones in Elin Pelin area (Ravno Pole village) and Bozhurishte. Companies are looking to stockpile production materials to shield themselves from unexpected price hikes.

There is huge potential for further development due to "nearshoring" tendencies - transferring of business operations from abroad to a nearby country in Europe. In the context of this trend, the country's geostrategic position and favorable tax rates, have a chance to attract more investment in this segment.

Take-up
2023

- A total take-up of approx. 200,000 sq m has been recorded for the year-end of 2023, a significant increase in demand compared to the previous year's value
- Industrial and logistics space under construction in Sofia and its nearby outskirts currently stands at 350,000 sq m.
- Demand was mainly driven FMCG and e-commerce companies (70%), followed by logistics operators (25%), professional services companies (2%), pharmaceuticals (2%) and manufacturing (1%)

Take-up
by type of industry

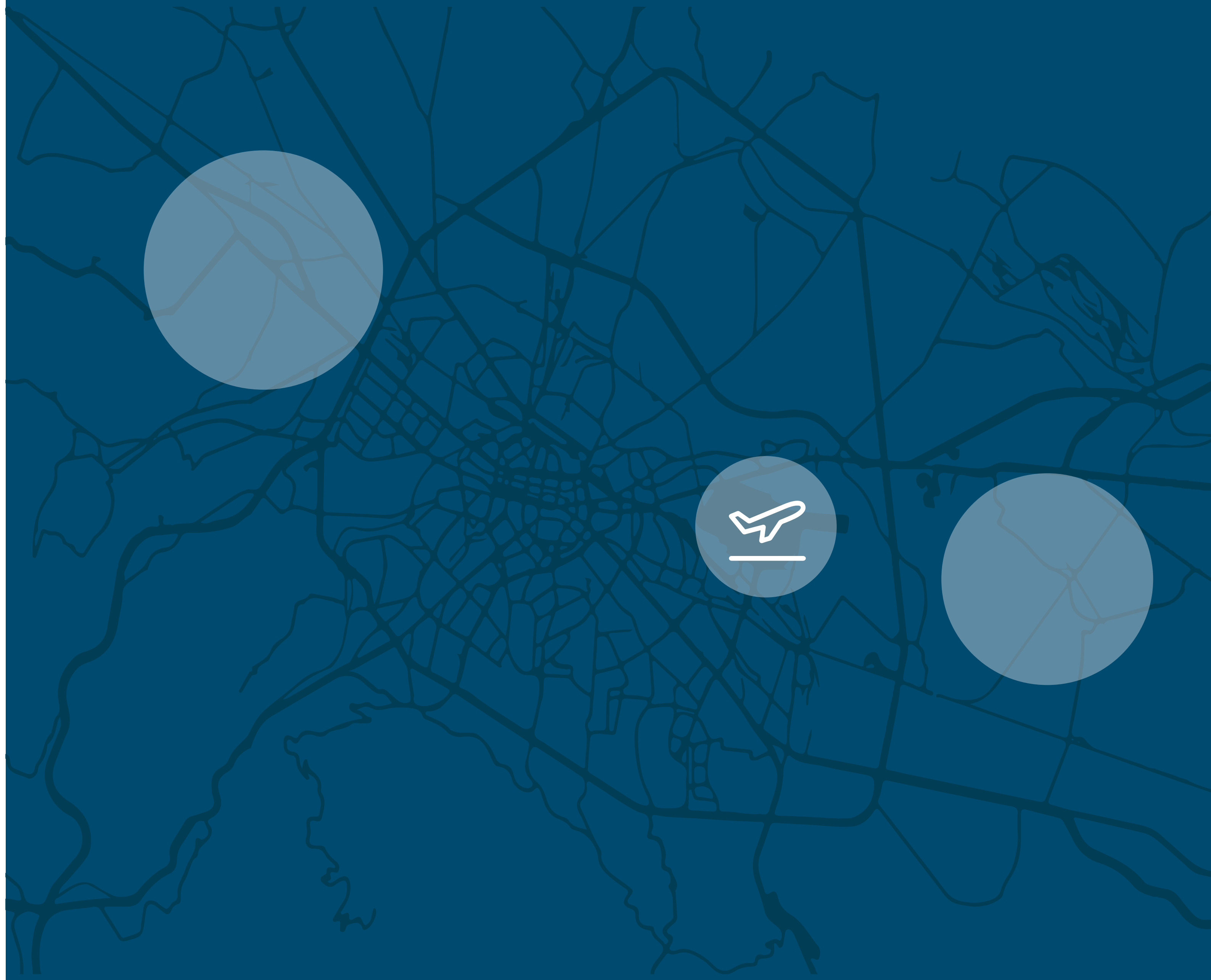


Economic Indicators

Unemployment rate	Corporate Tax in Bulgaria	GDP Growth 2023
4.4%	**10%**	**1.9%**
Inflation	Prime Yield	VAT
8.5%	**7.5%**	**20%**

INDUSTRIAL

Market Overview Map



Main industrial zones (existing and developing)

Sofia International Airport

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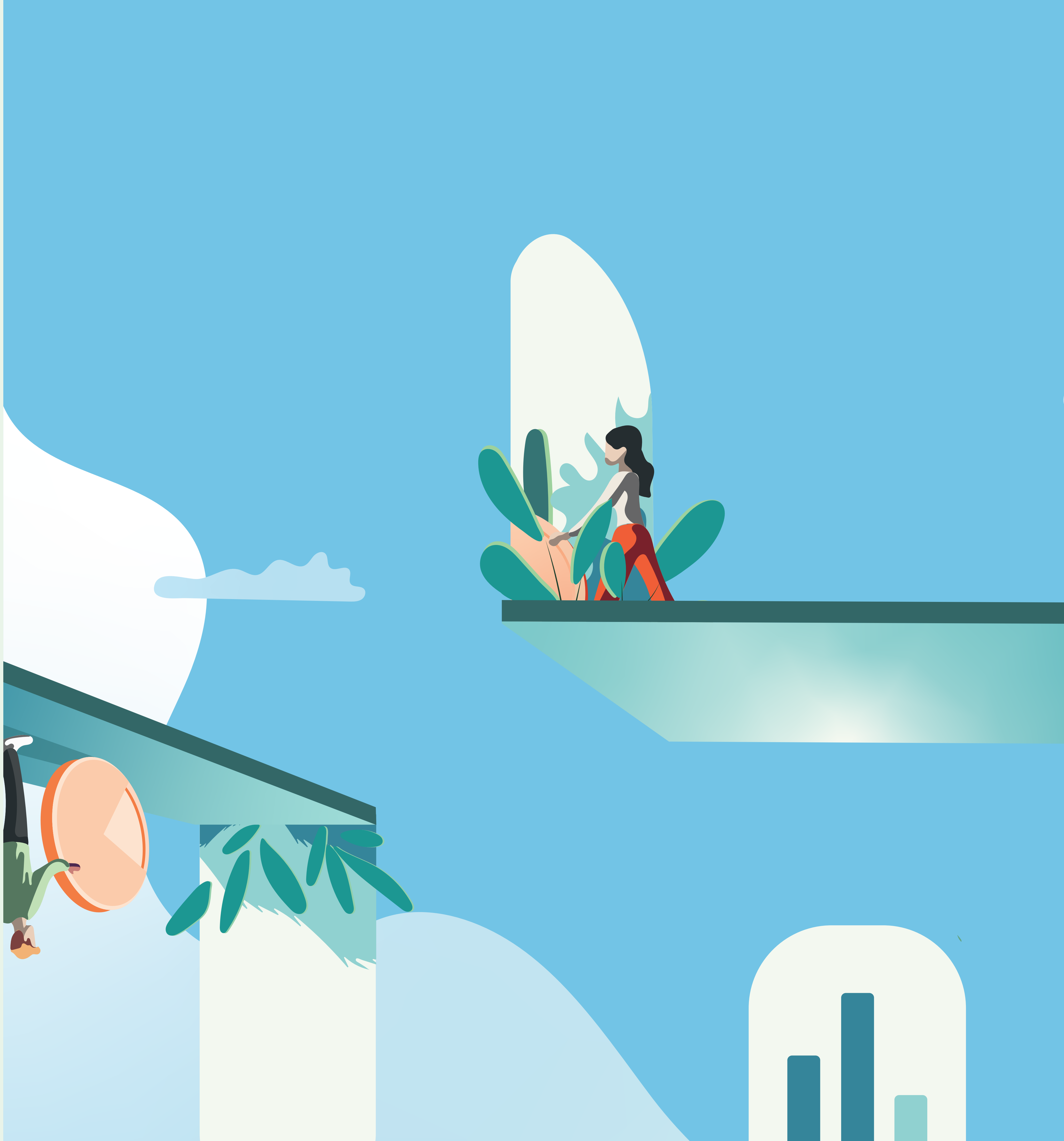
GREECE
Athens

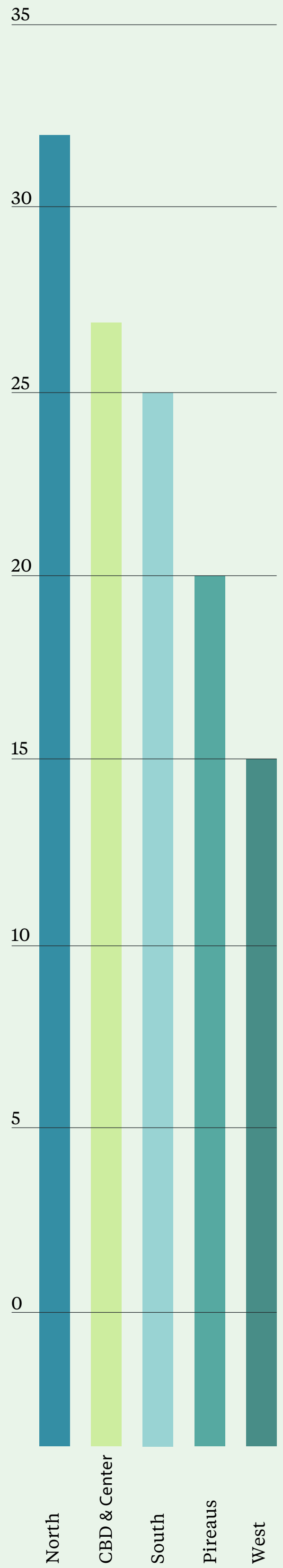
2023-2024



Office Market Overview

Industrial and Logistics Market

Prime average rent per submarket



OFFICE MARKET OVERVIEW

Greece

Stock

2.86 million sq m

The office market in Athens appears to be sustaining positive growth. Approximately 90,000 sq m of new office space were added to the stock during 2023, increasing the total inventory to around 2.86 million square meters. The supply in 2023 was significantly lower compared to 2022. The North submarket retains the highest stock, closely trailed by the CBD.

Demand

The demand in 2023 was more than 100,000 sq m, significantly higher in comparison to 2022. There were large transactions signed during the year like AADE that will relocate to Athens Heart with a surface of more than 25,000 sq m and the Parliament Offices to Amalias Str. (Bodosakis Palace) with 13,000 sq m. The desire for Class A, green office buildings remains strong, considering that the new or refurbished offices with these characteristics delivered in recent years have not absorbed the corresponding demand.

Rent

The new, high-standard, Class A projects in prime locations are continuing to push the rent levels upwards. The prime average rents do not appear to have a significant difference compared to the first semester of 2023. Nonetheless, it is worth mentioning that there were cases in the North business hub in which the asking rent reached 33-35 eur/sq m/month. In 2023 overall, the prime average rent in North Athens was around 28-29 eur/sq m/month, while in CBD and Southern submarkets, 25 and 23 eur/sq m/month respectively.

Vacancy

The overall vacancy rate had an increase to 9% in 2023 compared to 7.5% in 2022. This can be attributed to a significant extent to the relocation of tenants from older stock to newly delivered projects and to a lesser extent to the downsizing of some occupants. The prime vacancy rate on the other hand lies around 5%.

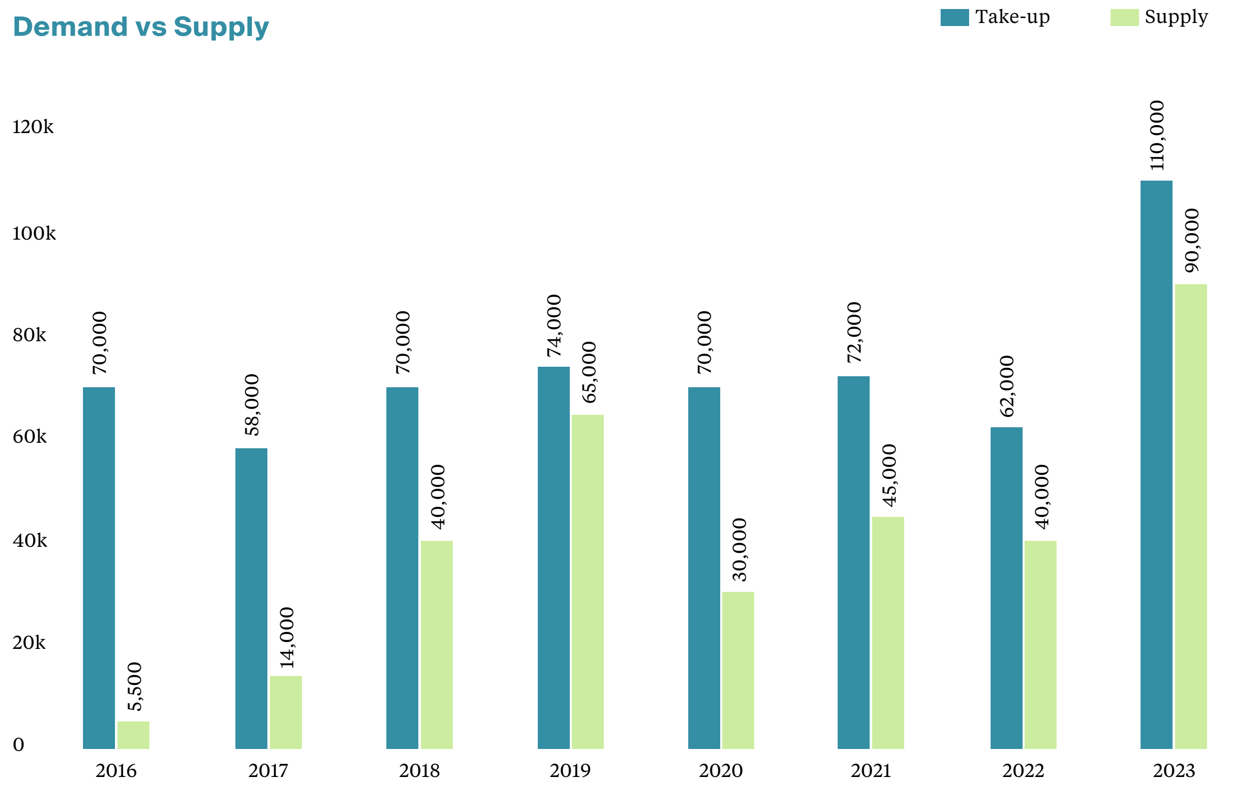
Pipeline

It seems that the local REICs are expected to drive the office stock in the next 3 years or less. There are large scale projects of 60,000 sq m that are currently under construction and more than 100,000 sq m have been announced to be delivered in the near future.

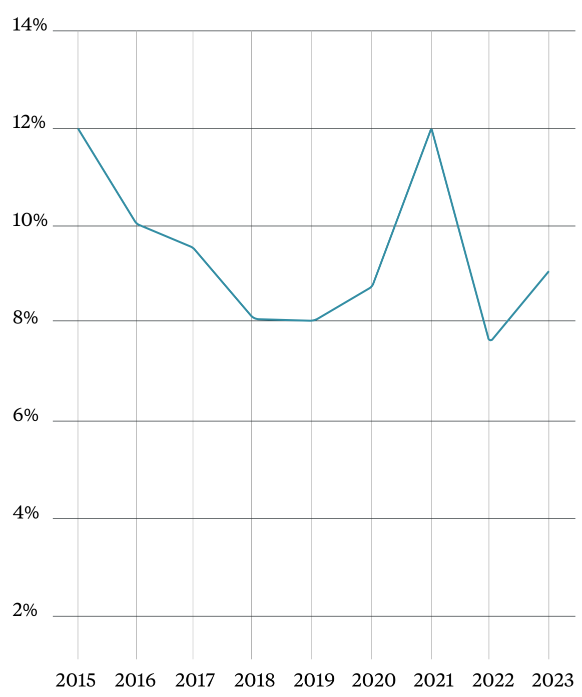
Some of the new projects are: the new investments of Trastor both in Vassilis Sofias Avenue with 6,000 sq m, and the office building in Sorou 18 with a surface of approximately 5,000 sq m, expected to be delivered by the end of 2024. Also, the works for The Grid, a 49,000 sq m Class A office park, developed by the joint venture of Noval Property-Brooklane Capital, started at the beginning of 2024 with estimated completion in the first half of 2025.

Lastly, Dromeus Capital acquired the old Metamorfosis Exhibition Center, known as "EKEP", and plans to tranform it to a modern office building of 15,000 sq m with target date of completion in Q2 2025.

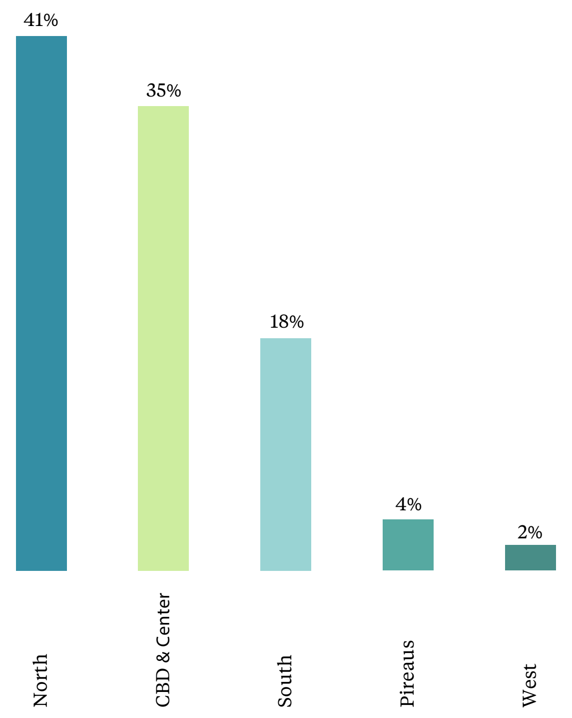
Demand vs Supply



Vacancy rate



Stock by submarket



INDUSTRIAL AND LOGISTICS MARKET

Greece

In the most recent annual EY Attractiveness Survey for Greece, Transportation & Logistics emerges as one of the top 5 sectors in the Greek economy and has attracted important foreign investors. The logistics industry has been strengthened even more during 2023, offering investors competitive returns and stable rental rates.

Total Stock

It is estimated that in the 1st half of 2023 more than 100,000 sq m of industrial and logistics space have been absorbed in the greater area of Attica and more than 90,000 sq m were under construction in the 2nd half of the year, bringing the total stock of warehouse/ logistics to approximately 8.2 mil sq m.

In West Attica, specifically in Aspropyrgos and Magoula, there has been a consistent increase in development while Elefsina and Thriassio are emerging as significant areas for investments within the logistics industry. Additionally, secondary locations like Oinofyta and Markopoulo are witnessing increased demand, largely due to the scarcity of prime warehouses in West Attica.

Rent

It is important to emphasize that due to the shortage of supply, there is a significant challenge for the logistics market, as the existing infrastructure fails to meet the demands of current market needs which leads to increasing the rents in prime logistics spaces. The average prime rent is noted to be 5.00-5.30 eur/sq m in West Attica. Projections suggest that average rents will continue to climb in 2024 to more than 5.5 eur/ sq m.

Pipeline

Some important transactions in 2023 include: an acquisition of Trastor REIC of a 30,100 sq m land in Aspropyrgos, where a 23,800 sq m is under construction, an acquisition of Trastor REIC of 17,060 sq m warehouses in Mandra Attikis, leased to Goldair Cargo, an acquisition of Goldair Cargo of a 14,000 sq m logistics facility in Aspropyrgos, a warehouse of 53,000 sq m in Ag. Ioannis Rentis purchased by Sklavenitis supermarket, and a new warehouse of 43,000 sq m leased to 3PL Synergy which will be delivered in 2024.

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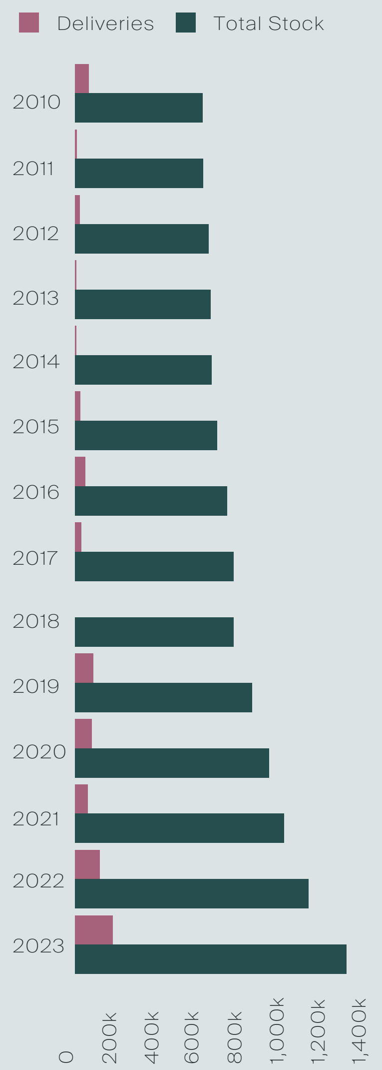
SERBIA
Belgrade

2023-2024

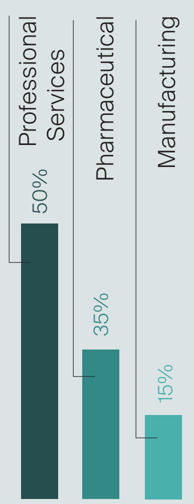
Office Market Overview

Industrial and Logistics Market

Deliveries vs. Total Stock



Stock *by submarket*



OFFICE MARKET OVERVIEW

Serbia

General Market Overview

In 2023, the Belgrade office market witnessed a surge in the development of A-class office spaces, signaling a shift towards modern, high-quality workspace solutions. New Belgrade in particular, emerged as a hotspot for such developments, driven by its strategic location and infrastructure advantages. This trend reflects the growing demand for premium office accommodation in the city.

We expect that the demand for the office sector will be strong in 2024 and 2025 derived from consolidation and further growth of IT sector through acquisitions, overall expected increase in economic activity and several big announced governmental projects related to World Fair EXPO that will be held in Belgrade in 2027.

GDP is projected to grow 3,5% in 2024 and further increase in construction activities will continue. It is worth noting that in the 2024-2026 period there will be some very big office projects that will change entirely the landscape of office supply in the forthcoming years. We see Serbia as a country that will have additional influx of FDIs, increase in average salaries while still being attractive as a hub for many companies looking for skillful labor for expanding their cross-border activities.

Also, we see an increase in A class office projects in city center with rents reaching over 20 eur/sq m and we see further interest in developing new construction sites in the city center. However, New Belgrade (CBD) will remain the favorite destination for office occupiers, where we find the biggest and newest inventory of class A office buildings.

Supply

There are several very big projects that have been completed in 2023 bringing 184.000 sq m of new office space to Belgrade market.

The year has started with the opening of AFI Skyline tower on 40.000 sq m followed by K District's 9,000 sq m in the center of the town, TB 65 building in New Belgrade, developed by Exing Group of 14,000 square meters.

The initial phase of the AFI Zmaj Business Park of 28.000 sq m has been finished providing another two completely new buildings in the new location in wider area of Belgrade that is going to become one of the biggest business parks in the future. In addition, Alco Business Center was completed to its full 13,000 sq m as well as Bridge Plaza project in Block 43 in New Belgrade.

Airport City AFI was enlarged by other two buildings. Nonetheless, the biggest two projects that were completed this year were B23 in New Belgrade with an overall surface of 57.000 sq m of new office space and BIGZ in the wider central city area of 44.000 sq m refurbished by Marera Group.

Finally, there is one prominent office project finished in city center, namely Revolucija Office Building, adding 9.870 square meters of space fully rented before its completion.

Stock

1,310,000 sq m

In 2023, the combined inventory of A and B grade office spaces surged past 1.3 million square meters, with an additional 184,000 square meters integrated into the inventory during the same period.

Noteworthy developments of the year included the highly anticipated unveiling of the B23 office complex, boasting an expansive 50,700 sq m of premium office space, alongside the eagerly awaited reconstruction of the BIGZ building, spanning an impressive 44,000 square meters.

Demand

We expect that the demand for the office sector will be strong in 2024 and 2025 derived from consolidation and further growth of IT sector through acquisitions, overall expected increase in economic activity and several big announced governmental projects related to World Fair EXPO that will be held in Belgrade.

Additionally, there is a possibility of new companies coming onto the market.

Location Trends:

Skyline, Revolucija and Artklasa, the biggest A class project completed in city center prove that the city center, as a location, has grown in interest, both, from investors and tenants.

The office space in the city center vary in quality and prices where you have B+ class starting from 13 eur/sq m to A class reaching over 20 eur/sq m. The city center has its limits mirrored in available construction space and lack of available parking. New Belgrade (CBD) will remain the most sought after location for office space given new projects, excellent connectivity, high-end quality of space and stable rents in office space. The rent for A class office space ranges between 15.5-17.5 eur/sq m and we can say that most of the A class buildings are falling in this price range.

Rents

Rents have remained stable with marginal increase during 2023 despite double-digit inflation from mid-2022 to mid-2023. The stability is significant in New Belgrade while there has been some increase in the rents in the center of the town. The rents in New Belgrade for A class office buildings ranged from 15.5 to 17.5 euros per sq m, while rental rates for class B office spaces typically range from 12 to 15 euros per sq m. Rents in the center of the town range from 13 euros/m2 to 20 euros per sq m in the newest A class buildings.

New Belgrade

917k sq m

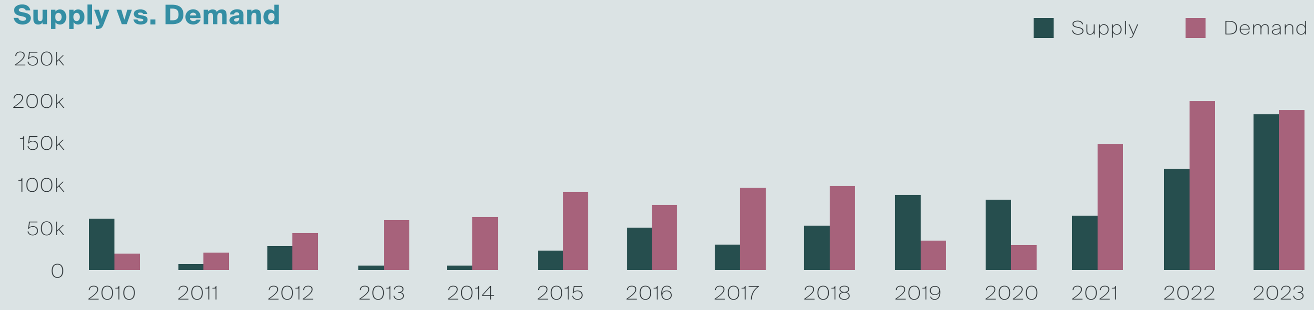
15.5 - 17.5 eur

City Center

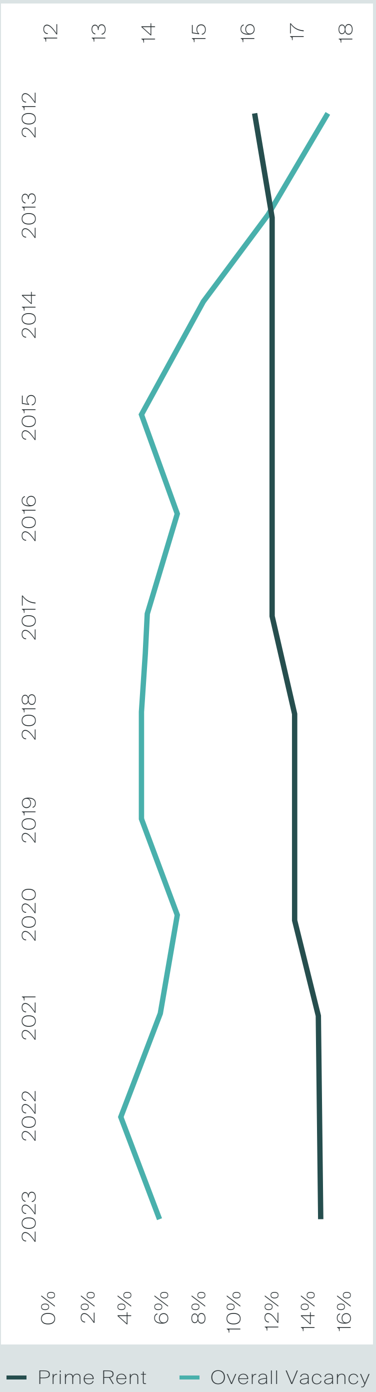
393k sq m

13-20 eur

Supply vs. Demand



Vacancy



Belgrade's office market vacancy rate slightly increased in 2023 due to the completion of new offices and the ongoing trend of downsizing used space, so now the total vacancy rate stands at 6% for A class buildings.

Pipeline 300 - 350.000 sq m

Projections 2024-2025
and 2026-2027

PROJECTS	DEVELOPER	LEASABLE AREA (SQ M)	TARGET DELIVERY DATE
Prokop	PSP Pharman	17,000	2025
AIRPORT CITY 1000 Building	AFI EUROPE	47,000	2025
GTC B41	GTC	72,000	2026
AFI Zmaj Phase 2	AFI Europe	60,000	2026
Lozionica	Government Republic Sebia	14,000	2025
Politika	The building for sale	16,000	2024
Brankov Business Center	SFI GROUP	10,300	2024
Blok 26 Napred	Napred AD	15,000	2025
Blok 41 Auto Cacak	Auto Cacak	13,470	2025
Delta Land	Delta Group	n/a	2027
BIG CEE Visnjicka Banja	BIG CEE	12,000	2026
Green Escape K1 and K3	Imel	39,700	2027

Forecast

The current momentum in construction projects will continue with approximately 300,000-350,000 square meters of development and planned to develop office space in Belgrade in 2024-2026 period. These upcoming developments will further increase the office market in Belgrade to close to 1.65 million square meters in 2024-2026 period.

The Belgrade office market has consolidated in the previous two years after substantial growth run by development and growth of IT sector and reallocation of international companies.

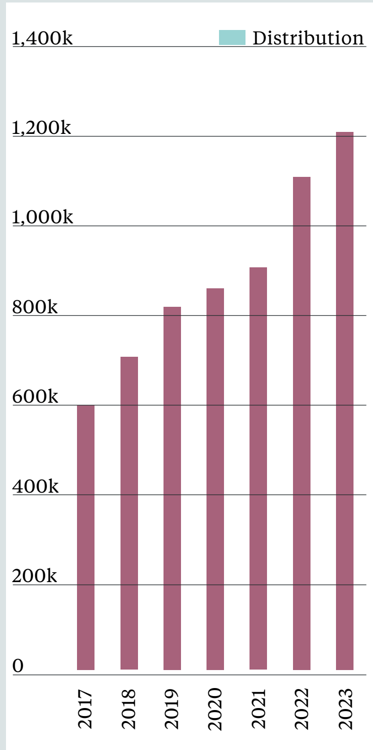
Additionally, sustainability and energy efficiency have also become paramount considerations in office space design and construction. Increasing awareness of environmental issues and corporate responsibility has led to a greater emphasis on green building practices. Consequently, office buildings with LEED or BREEAM certifications are garnering heightened interest from tenants and investors alike.

In summary, despite challenges, the Belgrade office market seems primed for expansion. Those who adjust to shifting conditions and capitalize on the city's strategic benefits can expect rising rental rates and a favorable outlook in the foreseeable future.

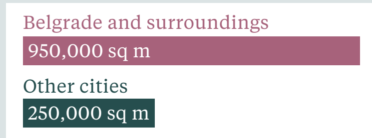
INDUSTRIAL AND LOGISTICS MARKET

Serbia

Belgrade warehouse stock



Stock by submarket



Belgrade and its surroundings are still Serbia's main industrial hub, with cities like Pecini and Stara Pazova following closely.

These areas are best served by the national infrastructure, especially the vicinity to roads like E70 and E75 makes these locations still the most sought for by the distribution and logistics companies. Many developers also plan to invest in other towns in Serbia since there is a lack of modern industrial warehouse space in secondary investment locations like Novi Sad, Nis, Leskovac, Subotica and others.

When it comes to FDIs (foreign direct investments), production companies that have decided to start their activities in Serbia are choosing the location based on two main factors: workforce availability and governmental incentives.

We expect further mergers in the logistic sector, an increase in e-commerce and future inflow of FDIs that will add to the industrial stock in the following years. FDIs reached the amount of 4.5 billion EUR in 2023 after strong post-covid recovery in 2021 and 2022.

Rents

Average headline rents for modern industrial spaces vary anywhere between 3.5-5.5 eur/sq m / month. The highest rents are seen in the modern stock of Belgrade municipalities, 4.50-4.75 eur/sq m / month, usually leased by distribution and logistics companies with daily distribution.

Industrial yield is 8.5 %.

Deliveries 2023

(selection)

LOCATION	PARK/PROJECT	AREA SQ M
Valjevo	Hansgrohe	35,000
Valjevo	Hisense Europe	30,000
Šimanovci	CTPark Belgrade West	30,000
Novi Sad	Continental AG	30,000
Nova Pazova	Delta Real Estate (Phase II)	16,000
Šimanovci	Industrail Park Belgrade (Phase VII)	13,000

Pipeline 2024-2025

(selection)

LOCATION	PARK/ PROJECT	AREA SQ M
Dobanovci	VGP Park Belgrade	400,000
Ruma	Haitian International	250,000
New Belgrade	CTPark Belgrade City	135,000
Jagodina	CTPark Jagodina	103,000
Šimanovci	UDI Logistic Park Šimanovci	60,000
Niš	Ariston	50,000
Nova Pazova	Besico North I	46,000
Šimanovci	Milšped	30,000

SPECIAL FEATURE

CSEE Data Centre Market Report

STEPHEN BEARD
GLOBAL HEAD OF DATA CENTRES

Overview

As the digital landscape continues to evolve, Central and South-eastern Europe (CSEE) positions itself as a focal point for data centre investment and development. Domestically, the motivation for digital transformation was accelerated by the impact of the pandemic, requiring businesses to expedite their transition to digitisation and cloud solutions. Regionally, the oversaturation of established markets continues to reshape the data centre landscape in Central and South-eastern Europe, presenting international players with a significant opportunity for growth and strategic positioning. The geographical advantages, coupled with tax incentives, cost efficiencies, and immediate hyperscale demand, collectively make this region an attractive proposition.

The region has varying growth rates, with Athens, Bucharest, Sofia and Zagreb experiencing the strongest growth in recent years with international operators and hyperscalers establishing themselves as significant players. AWS, MSFT, Google, Meta, Netflix, Disney, AT&T as well other European telcos and financial institutions are all known to have deployed within CSEE. Microsoft's shift towards establishing self-build facilities within the region has further solidified its strength. The hyperscaler currently has three ongoing data centre schemes in Athens and land acquisitions in Otopeni – a town just north of Bucharest.

Market Focus

Greece – Athens

Despite Greece's relatively small population of ten million, it boasts the highest total IT capacity in the region, a total of 102 MW. The dynamic growth in projects, set to go live in the near future, underscores the market's rapid advancement. Microsoft's ongoing developments in the area are likely to further elevate Athens' status, attracting additional attention to the entire region.

Greece, with its numerous cable landing stations in Crete, is positioning the region as a viable alternative to Western Europe for hyperscalers seeking robust connectivity options. The strategic location of Crete as a key connection point between Europe and the Middle East and North Africa (MENA) is particularly noteworthy.
The main data centre hub in Greece is Athens and as of Q4 2023, the Athens data centre market had an identified supply of 83.4MW. There is 14.6MW of live capacity and a further 13.6MW of total supply under construction. The remaining 55.2MW is "phased" or planned, which includes schemes with either planning permission or reserved power (early stage), if not both. There is an 12% vacancy rate, and the slight majority of market composition can be attributed to colocation capacity with a 51% share.

The pipeline supply includes the three Microsoft facilities, totalling approximately 40MW with all currently being in the early stages of development. Two of sites are situated in Koropi, to the south of Athens and the third to the east in Spata. Digital Realty are under construction on the expansion of their Athens campus by 6.8MW with a further 15MW of capacity in early stage.

The majority of capacity outside of Athens is located within the Lamda Helix (Digital Realty Greek subsidiary) facility in Crete. The 6.5MW facility will serve as an interconnection point for intercontinental and regional subsea cables, redistributing content to Greece, Turkey, Northern Africa, and Central Eastern Europe, as well as the Balkans. It is set to be live in 2025 and will be the island's first carrier neutral data centre.

Romania – Bucharest

The main data centre hub in Romania is Bucharest and as of Q4 2023, the Bucharest data centre market had an identified supply of 53.1MW of which 22.1MW is colocation capacity. There is 11MW of live capacity and a further 0.6MW of total supply under construction. The remaining 41.5MW is "phased" or planned of which 11.5MW is colocation capacity, including schemes with either planning permission or reserved power (early stage), if not both. There is an 8% vacancy rate, and the majority of market composition is self-build with a 58% share.

The pipeline supply includes the 30MW Microsoft facility and the 5MW NXDATA 3 facility in Otopeni, both still in the early stages of development, with NXDATA currently in the process of obtaining planning approval. M247 is expanding its capacity with 0.6MW currently under construction and 5.5MW in early-stage development. Additionally, Portland Trust is working on a 1MW project scheduled to be operational in 2024. The Balkan-IX internet exchange holds nodes in two facilities within Bucharest, NXDATA-1 and NXDATA-2, the first carrier neutral colocation data centres in the country.

Bulgaria – Sofia

The main data centre hub in Bulgaria is Sofia and as of Q4 2023, the Sofia data centre market had an identified supply of 22.4MW. There is 17.3MW of live capacity and currently 0MW of capacity under construction. The remaining 5.4MW is "phased" or planned, which includes schemes with either planning permission or reserved power (early stage), if not both. There is an 22% vacancy rate, and the entirety of the market is colocation.

The pipeline supply includes the expansion of the Equinix SO2 facility by 0.4MW, the Neterra SDC2 facility by 1MW and the Telepoint Sofia East facility by 4MW. These expansions are all in early-stage development.

Hungary – Budapest

The main data centre hub in Hungary is Budapest and as of Q4 2023, the Budapest data centre market had an identified supply of 18MW, of which all is live capacity. There is currently 0MW of capacity under construction. There is 0MW "phased" or planned, which includes schemes with either planning permission or reserved power (early stage), if not both. There is a 0% vacancy rate, and the entirety of the market is self-build.

Serbia

As of Q4 2023, the Serbia data centre market had an identified supply of 12MW, of which 6MW is live capacity. There is currently 4MW of capacity under construction. There is a further 2MW "phased" or planned, which includes schemes with either planning permission or reserved power (early stage), if not both. There is a 16% vacancy rate, and the entirety of the market is colocation.

Although Belgrade has the highest number of data centres, the majority of the market's capacity is within Data Cloud Technology's facility in Kragujevac with 3.67MW of live capacity, 3.5MW under construction and 0.33MW in early-stage development.

How can investors get into the Data Centre sector?

There are number of different structures investors can pursue in order to enter the data centre market but viability of any project in the current market is heavily dependent on power availability. Power is the only commodity data centre operators sell to their customers and as such the "power on" date is essential. All data operators are IRR driven businesses and will not complete an Agreement for Leases with any investor without a viable "power on" date.
In regard to the different structures, investors can adopt the value-add approach which involves preparing Freehold land for data centre development by securing power and planning permission. This is the preferred option for operators due to its impact on their Enterprise Value. We would typically expect consented and powered DC development land to trade for c.£1.5m - £2.0m/MW of IT power in Tier 1 markets.

Operators will also consider taking long term leases (20 to 25 years) on a Powered Shell basis which will typically comprise the buildings shell, an on-site substation and civil works enabling a grid connection with building permits and power secured. SEGRO are the leading powered shell developer in Europe and have evidenced the appetite for this structure through numerous lettings to operators and hyperscalers. We have seen significant powered shell rental inflation over the last 12-months which aligns with the fully fitted rental inflation – a direct result of limited supply. Premium rents on long terms leases are at 10% Yield on Cost. The other route to entry is the joint venture approach which in the data centre market typically involves a Propco and Opco structure. This will involve the Propco providing an equity contribution through the delivery of the real estate with the relevant consent and power. Whereas the Opco will fit out and operate the facility. The Opco will have established relationships with end users and hyperscalers, enabling them to design appropriate schemes and subsequently sell the power.

To conclude, if there is significant power (30MVA – 200MVA) available within a 5-year period, data centre development should be included as part of a developers exit development / exit strategy.

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