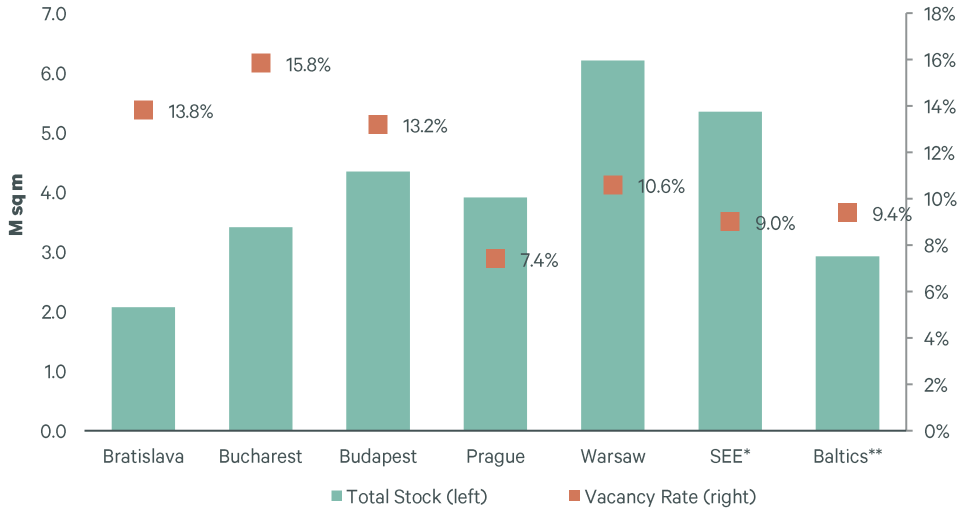
CBRE

CEE Office Market Figures

OFFICE STOCK AND VACANCY RATE

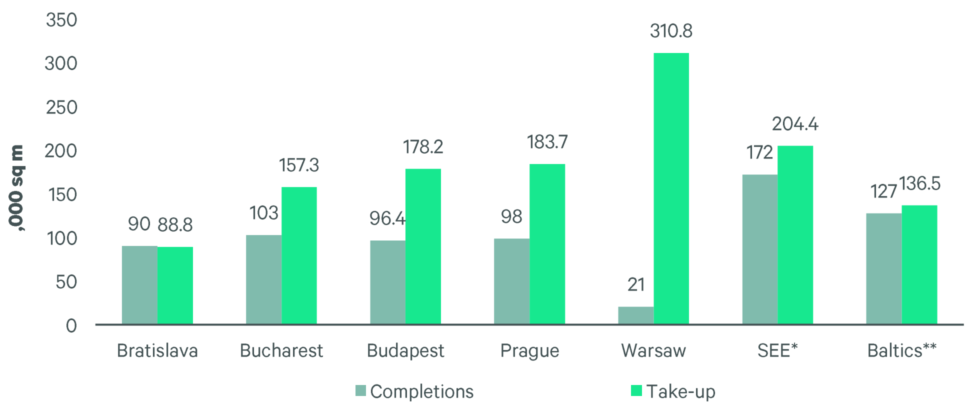


The year-to-date new office completion volume as of Q3 2023 has reached 408,000 sq m in CEE-5 capitals, 707,000 sq m in total CEE (including Baltics-3 and SEE-4). Total new delivery is down by 34% (y/y) in CEE-5, whereas development activity increased considerably across SEE and in Baltics with 44% (y/y). YTD completion remained under 100,000 sq m in all markets except for Belgrade (108,000 sq m) and Bucharest (103,000 sq m). Warsaw continued to register extremely short new supply: only 21,000 sq m in 2023 (down by 91% y/y).

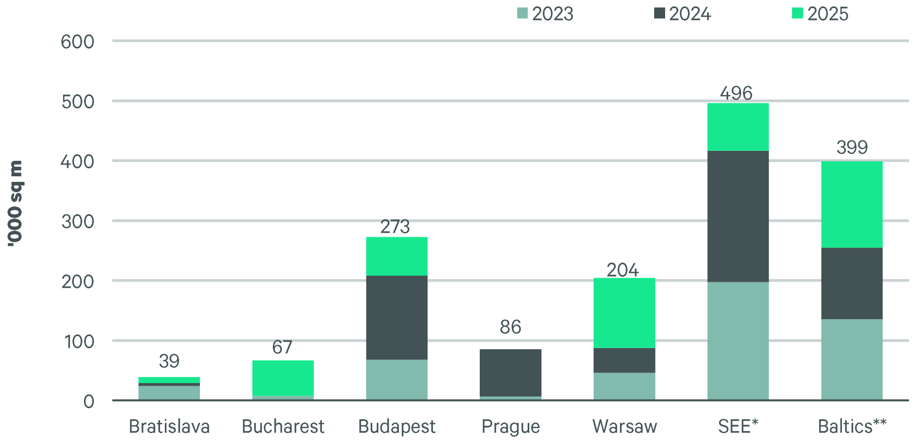
There is 1.56 million sq m under construction in the region (total CEE) with a peculiar shift towards the smaller markets. Development pipeline is set to moderate with commencement volumes easing. Nevertheless, U/C pipeline remains still relatively high in some SEE markets – notably Belgrade and Sofia. Compared to the size of the market, CEE-5 capitals register the lowest development activity – with the exception of Budapest. The lion's share of these new projects is scheduled to arrive in 2024 but prompting high delivery volumes for the rest of 2023 as well. We forecast ca. 605,000 sq m of new delivery in CEE region for next year – however, in a very particular distribution: Baltics, SEE and Budapest will make 80% of all completions in 2024. Other cities, like Bucharest and Warsaw expect most of the new stock for 2025, in contrast the pipeline in Prague will dry up from the end of 2024.

Vacancy slightly edged up in all markets, remained stable in Prague and declined notably in Warsaw. The lowest vacancy in the region is measured in Prague (7.4%), which in light of the extremely low development volume threatens with short supply in the coming years. While average vacancy rate is higher in other core markets, there is a growing shortage of quality space in some of the most demanded (central) submarkets. In the smaller markets of the Baltics and SEE, the vacancy rate is still below average (ca. 9%) for the time being, but larger development activity predicts here further increase in vacancy rates as development-to-stock ratios are at 9% in SEE and 14% in Baltics.

OFFICE COMPLETION AND TAKE-UP Q1-Q3 2023



OFFICE PIPELINES UNDER CONSTRUCTION (UNTIL 2025) IN CEE

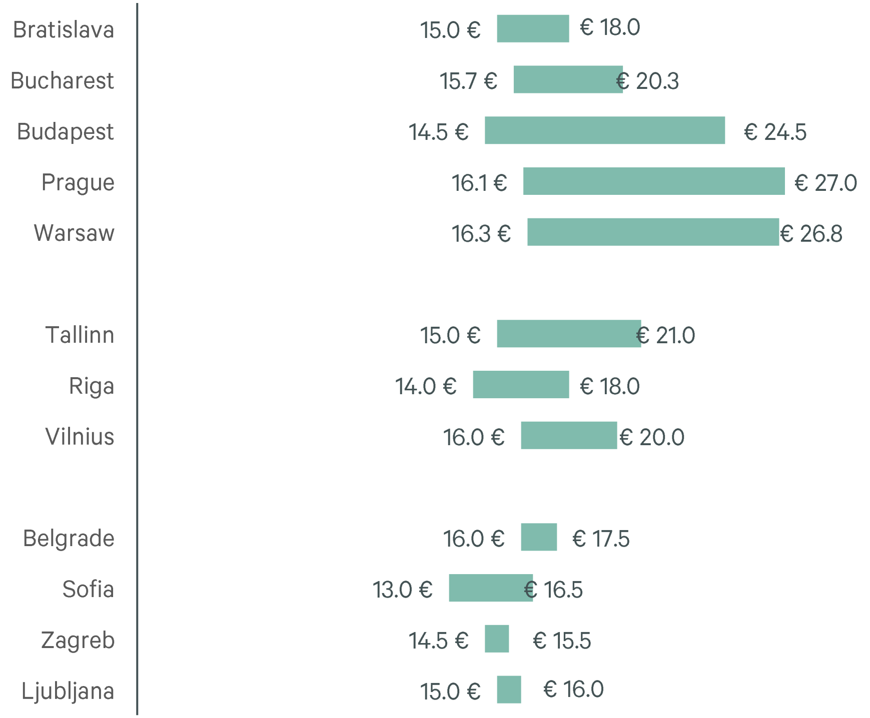


*SEE: Belgrade, Zagreb, Sofia, Ljubljana

**Baltics: Tallinn, Riga, Vilnius

Source: CBRE, 2023

OFFICE ASKING RENTS (AVERAGE – PRIME)



Average rents are quoted as the market average of asking rents quoted for the vacant space in the individual city.

Prime rent refers to the highest available asking rents in the best-in-class properties available on the market for lease.

Source: CBRE, 2023

Office demand has somewhat picked up in Q3 with quarterly take-up increasing by 3% q/q. In CEE-5, Bratislava and Prague showed a contraction in quarterly volume, whereas growth was most prominent in Bucharest. Demand eased in smaller markets as well – with the notable exception of Riga and Tallinn – making these cities excel also at annual level. On the back of stronger Q3 figures, YTD take-up in CEE is only 6% short to last year's level. YTD take-up volumes in Bucharest and Baltics have posted robust growth (+15% and +12%); remained flat in a large number of markets and decreased by up to 20% in Prague and Warsaw. Share of renewals is still on rise while pre-leases and large commitments are still relatively rare.

Office rental changes indicate a widening gap between prime and secondary stock – although there has been a general upward correction in average rents in a number of markets in Q3. Rental increase, however, still lags behind inflation in most markets. At the top of the pack, prime rents have increased by 6-8% y/y in Bratislava, Bucharest and Baltics. Although rental increase has been more modest (2-3% y/y) elsewhere; prime rents remained highest in Budapest, Prague and Warsaw. SEE capital continue to remain the most cost-effective office locations, although we are seeing upward pressure build up in certain submarkets here as well. Average and prime rents continue to show a considerable gap – especially in the more mature markets.

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