Colliers INTERNATIONAL

EXCEEDING BORDERS:

Office Snapshot

Office Markets across 14 CEE Capital Cities

LESSONS FROM AROUND THE GLOBE

Globally, the COVID-19 crisis has dramatically impacted the way we work and at Colliers we believe this shift will affect not only how we work in the short-term but will have far-reaching effects on work and the workplace. To help understand this, we have recently conducted a global 'Work from Home' experience survey, engaging over 5,000 respondents in 25 countries across 18 sectors.
The survey measured the respondents' experience of working from home plus the levels of desire to work from home after COVID-19. Results can be found on our COVID microsite (see contact page).

We must emphasise that our current views on the work from home situation will not necessarily be fully representative of our views in the future. These are adapting and changing according to a myriad of health, economic and societal forces. We continue to measure the pulse of working from home, how these experiences change over time and influence trends in, as well as the impact on real estate requirements and decision making.

In summary, we must keep in mind that, depending on where you are in the world, we are just 4-6 months into this truly global event and the combination of countries, companies and individuals will result in a wide variety of results. Not to mention, although maybe temporarily forgotten, that there are other geopolitical influences at play, plus threats of a second wave that could also make an impact.

HOW WILL COVID-19 IMPACT AND SHAPE THE FUTURE OF OFFICES?

We expect COVID-19 to further accelerate the adoption of technologies/PropTech in the property industry as a whole.
This will come from both the investor/landlord and tenant/corporate sides. For physical office properties there are numerous hardware and software solutions out there, from monitoring climate and air quality, to space utilization and attendance. The latter is of current importance in successfully tracking those returning to the office in case of COVID cases. This includes the ability to reduce physical contact, with touchless entry systems and online visitor check-in, for example. In addition, there are solutions to help report faults and monitor critical office and building equipment, systems and utilities.

From a user experience side, there are apps to track news and events in the local area through to ordering meals, booking cars, parking and meeting spaces, even finding colleagues. Many of these rely on the successful collection, analysis and usage of the data, some of which may be considered private, so it is important that data ownership and other legal hurdles are clear and agreed by all parties involved.

WHAT IS THE LANDLORD'S POSITION?

Although the outbreak came earlier to Asia, COVID-19 still came as a huge shock to all and let's face it, very few were prepared for what was to unfold in the weeks and months to follow.
Office landlords, as for most other property type owners, saw a rapid movement to help stop the spread of the virus, by sending people home. For the last 3-4 months, this is where the majority of office workers have remained, although a return is slowly starting to happen.

Some property and business types were ordered to close by Governments, leaving many landlords in a very challenging predicament. The support measures or guidelines given by the authorities around the region was varied, but in general did not provide landlords with a great deal of comfort. As a result, the majority of landlords initially worked with their equally concerned occupiers, partners and suppliers to find workable solutions around rents and service charges for those that faced genuine, demonstrable challenges to cover costs. Particularly those in the worst hit industry sectors where income was also increasingly difficult to predict. These discussions largely took place on a case by case basis and where appropriate materialized in rental holidays and/or additional rent-free periods with lease extensions to compensate the landlord.

There is always much debate about what the future will look like and for the office space as we know it today, COVID has brought many new challenges to the table. Many of these new questions will in some part be answered by how long the pandemic lasts, whether it returns in other waves, when a vaccine will be available and of course whether companies and people can adapt, or whether they reach a breaking point and need to make hard choices.

While the latter is perhaps an extreme view, landlords could be faced with some occupiers reviewing their real estate strategies for a change in footprint (up or down) or will be looking for more flexible or hybrid solutions that allow them to expand and contract as required, within reason. This presents some challenges for the office investment market as, like all property types, the value is largely driven by the length and covenant of the income/tenant. Landlord's cannot bear this risk alone so, in return for more flexibility or uncertainty in future, will this mean that costs/rents should need to increase? Certainly tenant covenants will be heavily scrutinised.

There really are numerous scenarios that can play out here but unfortunately it is still too early to make any concrete predictions. Provided that there are no major repeat waves of the virus, we expect that Q2 data that will start to give us some idea of where risks are starting to appear and then full year data for 2020 will be far more revealing in terms of how economic, leasing and market conditions will adjust the dynamic of this sector for office property owners.

HOW ARE OCCUPIERS RESPONDING?

Despite the potential devasting impact on many businesses that cannot work from home, the lives and safety of people have been put first. Literally overnight, office workers were sent to work from home for an unknown period of time. Now that the number of active cases in many countries is stabilising, offices are starting to reopen, but a majority return by employees has not, as yet, been recorded.

There are a number of reasons for this. First of all, many companies are still making the return to the office an option for employees to continue the prevention of infections and to some extent, in line with governmental guidelines. However, as other places of interest open (shops, restaurants etc) and visited by many socially, it makes this option more of a challenge. Secondly, many businesses are implementing guidelines around social distancing whereby the number of desks that can be utilized is reduced to around 50% (+/-). There are also different strategies and needs for people to return to the office, whether this is done on a shift basis, voluntarily basis, or a necessity in some cases due to connectivity, space, or other disturbances. There has also been significant resource put towards sanitizing spaces by landlords and businesses. This scenario is expected to continue over the summer with many companies looking to review/return in September.

The potential increase in working from home is likely to have some impact, and many companies will review the functionality and size of their offices. From our Global survey one of the key findings is that people would like to continue working from home at least 1 or 2 times per week after COVID-19 has settled down. Therefore, many businesses are currently asking questions like: What is the desire within my organisation to work from home after COVID-19?
How does the desire differ between teams? What will the impact of increased working from home be on the amount of office space we need and the functionality of our office? We believe it is important to test a range of scenarios to be prepared to rebalance and right size the workplace at the right moment. The Colliers 'Rebalance your Workplace Planner' enables organisations to be agile and proactive not reactive to an unknown set of economic and health variables.

We are also hearing a lot from our Client companies that they are, or plan to consider a hybrid mix of remote and office-based work (regular and flex space), and they will require software and systems allowing them to manage distributed teams. We can already see increasing popularity of software for management of distributed teams, starting from basic videoconferencing tools up to project management, team management and even skills management in the business.

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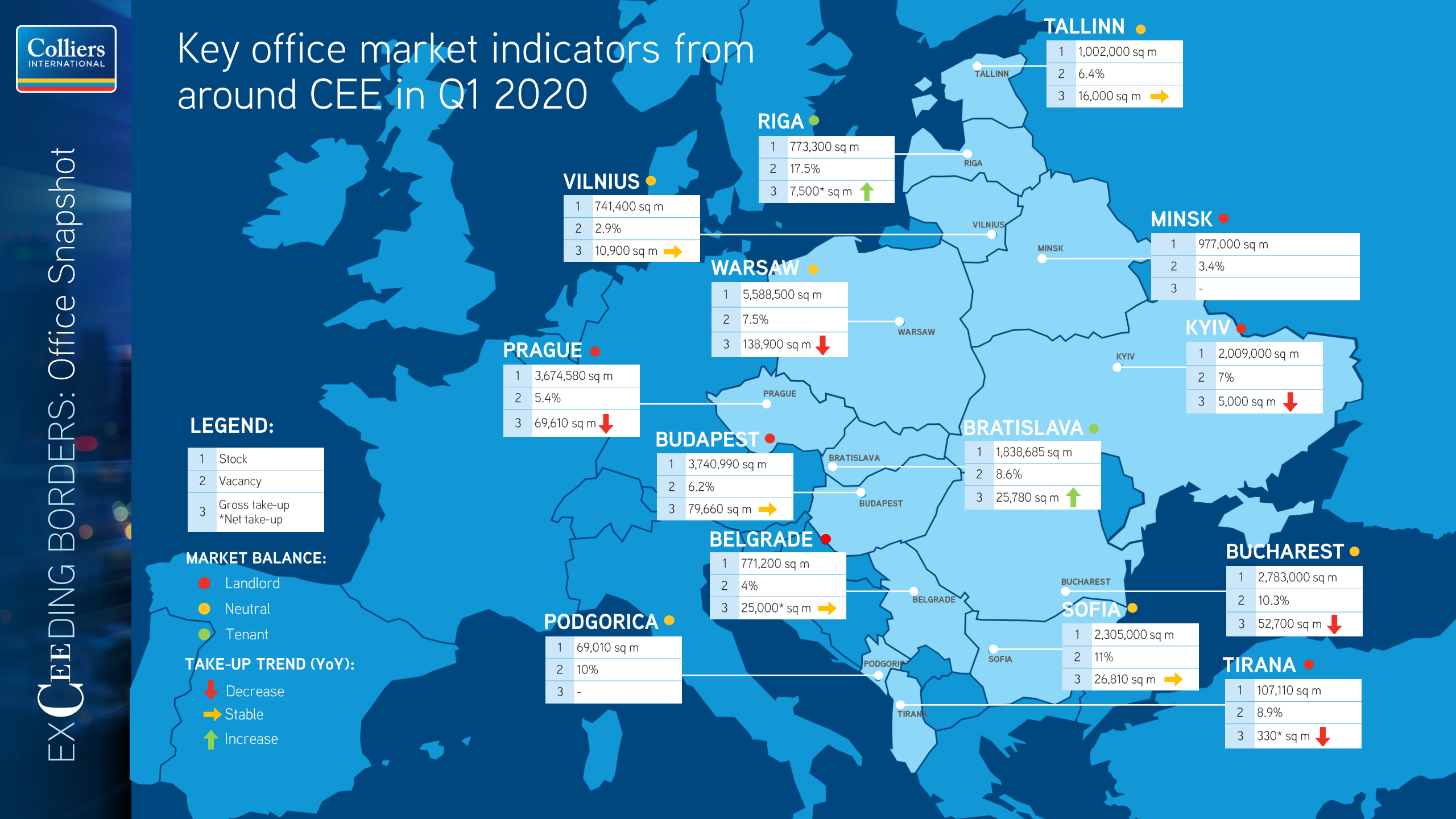
EXCEEDING BORDERS: Office Snapshot

Key office market indicators from around CEE in Q1 2020



TALLINN

1	1,002,000 sq m
2	6.4%
3	16,000 sq m →

RIGA

1	773,300 sq m
2	17.5%
3	7,500* sq m ↑

VILNIUS

1	741,400 sq m
2	2.9%
3	10,900 sq m →

MINSK

1	977,000 sq m
2	3.4%
3	-

WARSAW

1	5,588,500 sq m
2	7.5%
3	138,900 sq m ↓

KYIV

1	2,009,000 sq m
2	7%
3	5,000 sq m ↓

PRAGUE

1	3,674,580 sq m
2	5.4%
3	69,610 sq m ↓

BRATISLAVA

1	1,838,685 sq m
2	8.6%
3	25,780 sq m ↑

BUDAPEST

1	3,740,990 sq m
2	6.2%
3	79,660 sq m →

BELGRADE

1	771,200 sq m
2	4%
3	25,000* sq m →

BUCHAREST

1	2,783,000 sq m
2	10.3%
3	52,700 sq m ↓

SOFIA

1	2,305,000 sq m
2	11%
3	26,810 sq m →

PODGORICA

1	69,010 sq m
2	10%
3	-

TIRANA

1	107,110 sq m
2	8.9%
3	330* sq m ↓

LEGEND:

1	Stock
2	Vacancy
3	Gross take-up *Net take-up

MARKET BALANCE:

- Landlord
- Neutral
- Tenant

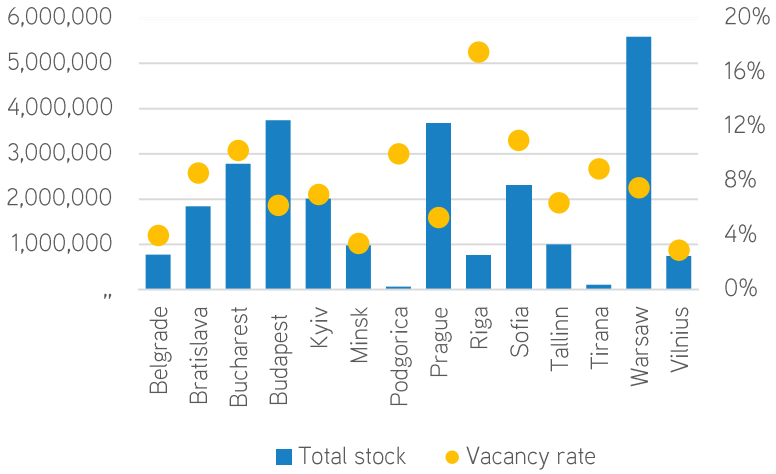
TAKE-UP TREND (YoY):

- ↓ Decrease
- → Stable
- ↑ Increase

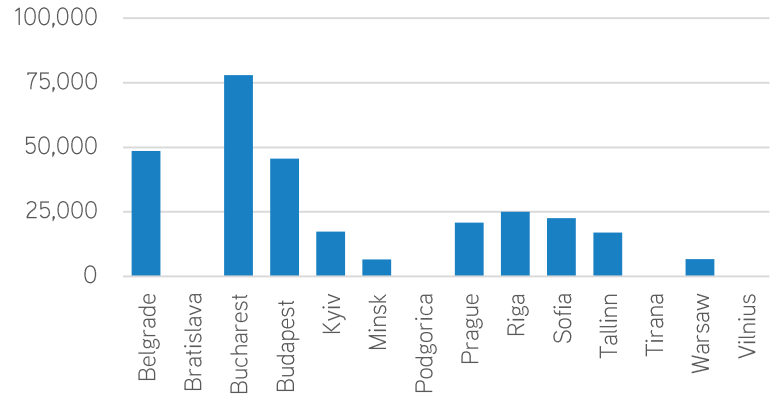
Office Market in CEE Capital Cities - Q1 2020

EXCEEDING BORDERS: Office Snapshot

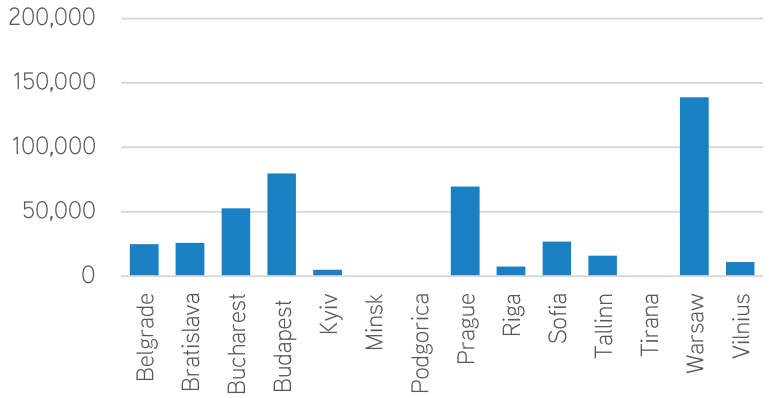
TOTAL OFFICE STOCK (SQ M) AND VACANCY RATE (%)



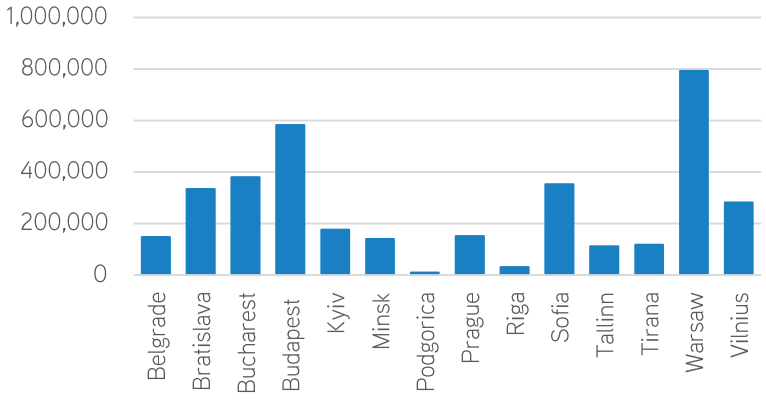
NEW SUPPLY (SQ M)



TAKE-UP (SQ M)



UNDER CONSTRUCTION (SQ M)



CEE MARKET SUMMARY

The total modern office stock in the 14 CEE capital cities at the end of Q1 2020 reached almost 26.4 million sq m. In Q1 2020, developers completed over 288,000 sq m, with more than 3.6 million sq m currently under construction and due for delivery over the next 2-3 years.

The largest supply of modern office space is recorded in Warsaw (5.6 million sq m), Budapest (3.7 million sq m) and in Prague (3.7 million sq m). Office stock of over 1 million sq m is also recorded in Bucharest (2.7 million sq m), Sofia (2.3 million sq m), Kyiv (2 million sq m), Bratislava (1.8 million sq m) and Tallinn (1 million sq m).

The largest increase of new supply in Q1 2020 was noted in Bucharest (78,000 sq m). Second place, in terms of the amount of new office space completed in Q1 2020 was taken by Belgrade (48,000 sq m), followed by Budapest (45,560 sq m). The majority of modern office projects are naturally located in the capitals of the countries, although office markets have also been developing well in a number of regional cities. These cities, along with the capitals, are often supported by good sized labour pools and Universities that provide a stable supply of highly educated students with a variety of industry knowledge and skillsets, including strong language abilities. Notable regional cities across CEE include i.e. Krakow, Wroclaw, Tricity (in Poland), Brno, Ostrava (in Czech Republic) and Timisoara, Cluj-Napoca (in Romania), to name just a few.

In Q1 2020, tenants leased almost 520,300 sq m of modern office space across all capitals of the 14 CEE countries. The most popular city among tenants in Q1 2020 was Warsaw (138,900 sq m leased space), Budapest came second (79,660 sq m) and Prague third (69,610 sq m).

The lowest vacancy rate was recorded in Vilnius (2.9%), Minsk (3.4%) and Belgrade (4.0%). The widest choice of available office space at the end of Q1 2020 was noted in Riga (17.5%), Sofia (11%) and Bucharest (10.3%).

The largest amount of modern office space under construction at the end of Q1 2020 was in Warsaw (792,800 sq m), Budapest (582,000 sq m) and Bucharest (380,000 sq m).

Selected Lease Transactions and New Supply from around CEE

EXCEEDING BORDERS: Office Snapshot

COMPANY	SIZE (SQ M)	BUILDING	LOCATION	LEASE TYPE	SIGNED
mBank	45,600	Mennica Legacy Tower	Warsaw	Pre-Lease	2019
Ubisoft	28,000	J8 Office Park	Bucharest	Pre-Lease	2019
ExxonMobil	27,300	Pillar	Budapest	Pre-lease	2019
Dell	19,811	Cubus	Bratislava	Renegotiation	2019
Clearstream	17,100	Futurama Business Park	Prague	Renegotiation	2019
Tesonet	15,000	Sparta 360 BC	Vilnius	Pre-lease	2019
Wargaming	14,000	Futuris	Minsk	Pre-lease	2019
EGT	9,987	Richhill Business Center	Sofia	Relocation	2019
Privatbank	6,400	Office building at 29 Kovpaka Street	Kyiv	Relocation	2019
Elektrilevi	6,000	Electra, Avala District	Tallinn	Pre-Lease	2019
Nordeus	6,000	GTC Greet Heart	Belgrade	Relocation	2019
Confidential	4,000-5,000	Confidential	Riga	New deal	2019
Nokia	138	ETC Business Center	Tirana	Renegotiation	2019

PROJECT	LOCATION	GLA (SQ M)	COMPLETED
Globalworth-developed Renault Bucharest Connected	Bucharest	47,000	2019
Westend Plaza	Bratislava	33,000	2019
Garitage park ph.1	Sofia	30,000	2019
Budapest One	Budapest	27,400	Q1 2020
Harfa Office Centre	Prague	27,100	2019
Z-Towers	Riga	25,000	Q1 2020
Wola Retro	Warsaw	24,500	2019
Futuris	Minsk	22,250	2019
Kalemegdan Business Centre	Belgrade	21,600	2019
Sigma BC	Kyiv	19,200	2019
S7 BC (stage II)	Vilnus	15,950	2019
Eesti Meedia HQ	Tallinn	8,450	2019

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EXCEEDING BORDERS: Office Snapshot

COVID-19 impact on office markets in CEE countries

KEY TAKE AWAYS

- The pandemic has sent shock waves across the property sector with almost all office workers having been sent to work from home for the past few months. This situation is slowly easing off in many markets but both companies and their employees seem to have adapted well and are reviewing their longer-term options in this regard.
- Whether we like it or not, the broader effects of this pandemic on the property sector, business sectors and economies are still in the relatively early stages. We do not believe this is the end of the office at all, but there will be an impact on how much and for what we use the space for.
- Some business and property sectors will be affected more than others and more time is needed to understand what the future will look like. Change is always coming, but the type of crisis, its rate of change and its truly global nature create a truly mind-blowing set of variables, making it very difficult to predict meaningful outcomes.
- In the office sector, we understand very well the pressure that everyone is under and how tempting it is to make quick or perhaps emotional decisions. That said, Landlords and Tenants are largely having open negotiations on how to move forward in these difficult times.
- Rental deferrals and additional incentives have been most common across the region, as opposed to rent reductions. In return for these concessions, leasing contracts are typically being prolonged by an appropriate period.
- Due to good levels of market activity in recent years across the region and assuming the more common 5-year lease terms, we expect a fair amount of market activity in 2020 will come from lease renegotiations and renewals as opposed to new and pre-lease transactions where they may be less pressure to make a decision until there is more clarity. There is also a good chance that we will record more sub-leases being offered if companies need to downsize.
- One thing that is for sure is that that tenant covenants will receive additional scrutiny by landlords, banks and investors in order to limit risk to a sustainable income. Similar to the leasing markets, there has also been a slow down in investment activity, again partly due to lack of clarity in where the markets will settle, but also due the fact that investors have been unable to travel to view opportunities. As markets re-open, we expect transactions to pick-up in the second half of the year.

POLAND

The COVID-19 pandemic has undoubtedly affected the office market in Poland. The global situation seems uncertain and is changing every day, which is why in many companies decision-making processes and new leasing agreements have been suspended. However, those tenants who are just ending their lease contracts are pressured into making some moves, which is why many transactions are still ongoing. This year and next, we can certainly expect an increase in the number of renegotiations, which until now accounted for only 33% of lease contracts in Poland. Due to the current situation tenants focus mainly on cost optimization and perceive any relocation only through the prism of potential savings. Many companies have switched to working from home in a way that does not affect the business and operational activity. The fast pace and efficiency by which companies have switched to remote working and its positive results allow us to believe that this is how some of us will be working in the near future. It can therefore be predicted that the demand for office space in the long run may decrease. The number of subleases as well as renegotiations will increase, while initial rental rates will be relatively stable. We also expect an increased interest in hybrid lease models - the space leased for a traditional office will be supplemented with coworking/flex spaces depending on the current needs of the organization.

CZECH REPUBLIC

The full impact of COVID-19 on real estate is not yet fully distinguishable. The state of emergency and most restrictions have now been largely lifted. The remaining restrictions mostly affect people's leisure time with limited opening hours and event attendance caps. The market is slowly waking up and companies are returning back to their offices. International companies in particular are still working largely from home or under a socially distanced and responsible return to the office, such as at Colliers in Prague. We are can come to the office, provided that we make a prior reservation and respect the social distancing and safety measures in place. Some leasing transactions on the market have been delayed or cancelled during Q2 but deals in advanced or final stages have mostly proceeded. Although Q1 take-up was the lowest in recent years, we do not expect tenants to remain on hold long term. Instead, many of them may look for more flexible office solutions. We may see some slight delays for projects which were due to commence or finish construction during Q2, but in most cases only by a matter of weeks. We also expect that some major upcoming projects that were due to be built on a speculative basis, will now rather wait for certain levels of pre-lease. Depending on how the project is financed, this may well be required by the lender. Rents and service charges remain stable and the Czech market has been maintaining a very low overall vacancy long before the current situation.

HUNGARY

Hungary lifted the lockdown from the beginning of June, applying it to the whole country, however there are still remaining restrictions relating to maintaining health such as wearing the mask in shops and on public transport. As a result of the economic downturn that COVID-19 has caused, many companies have suspended their decisions regarding their expansion or change of office in order to observe the development of the market situation from a safe spot. However, those tenants who are just ending their lease contracts are forced to proceed with their current negotiations, therefore many transactions are still ongoing. Tenants will require even greater flexibility than previously from property owners regarding lease agreements, both in terms of their duration, the rent-free period, and the amount of space leased. We expect an increase in the share of renegotiations / renewal type of transactions. Tenants will focus mainly on cost optimization and perceive any relocation only through the prism of potential savings. Those projects that are under construction will be finalized, although there might be slight delays in delivery dates. In the case of those developments that were at the early stages when the pandemic hit the market, we may expect longer delays.

SLOVAKIA

Government restrictions stimulated office tenants to seek additional incentives, such as rent reductions/holidays. Some of the landlords have offered additional rent free periods in exchange of the prolongation of the lease term. Should this trend continue, we can expect an increased number of renegotiations in the upcoming quarter. Some companies (including Colliers) are already back in their offices. Employees are allowed to come on a voluntary basis with a set of specific rules adopted to enhance safety (e.g. disinfection of premises, set distance between seats, special arrangements in the common areas, etc.) There is no exact set date for the country, so timing depends on the employers themselves. Generally, we believe the biggest impact of the COVID-19 to be the expanding popularity of the home office concept, which proved to be working in many cases during the last couple of months. In terms of the Slovak market, tenants that were affected by the disruption of operations during the pandemic typically requested special conditions from landlords. Some of the landlords agreed to provide additional incentives in the exchange of leasing contract prolongations. In some cases, leases were prolonged for 3-5 years. We thus expect renegotiations to take a considerable share of total take-up in the upcoming quarter. In terms of new leases, approval processes are generally being extended with tenants focusing more on cost saving models. Some of the new projects were delayed, but overall, most of the pipeline under active construction are still due to be delivered within the original timeline.

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EXCEEDING BORDERS: Office Snapshot

COVID-19 impact on office markets in CEE countries

ROMANIA

Offices were generally shut down in wake of the COVID-19 lockdown, with a few employees travelling to work for specific reasons. Employees are gradually returning though some may not return until at least autumn. Leasing activity was already cooling down in Q1 amid a tighter labour market, with activity slowing down significantly; ongoing deals continued, albeit at a slower pace. This will lead to one of the worst periods in the post-GFC period, though on a more positive note, supply has already reacted and quite a lot of the deliveries expected for 2021 have been moved back (new projects expected for this year are going forward largely unchanged and with good pre-lease ratios). With regards to rents and service charges, no major changes have been made as the market is still in a somewhat neutral state, given that the vacancy rate for good buildings is still in low single digits; still, service charges were reduced a bit to account for the lower operating costs of office buildings during this period of lower employee foot traffic. Landlords starting to become quite more generous on the incentives side, both with rent-free months and financial contribution to fit-out; this is due to the leasing market softening substantially and also a fairly robust pipeline for the next few years (though many projects will likely be pushed back unless they can manage to score an anchor-tenant or a few pre-leases). Rents have not changed in general and given that rents have been largely flat during recent years, as the strong demand was met with hefty supply, we would expect landlords to not want to offer too much concession on this side.

BULGARIA

More time is needed to accurately measure the impact of the COVID-19 on the office market in Bulgaria. Currently, there are no major deviations from standard practices. Leases that were initiated before the health crisis were finalized during the lockdown without reduced space or rents. Office landlords and tenants have gradually begun the process of returning to the office, and a full return is expected in the second half of September. Q1 2020 ended with a 20% decrease in total take-up compared to the same quarter in 2019. Our expectations for Q2 2020 is again in the same range because there is high activity on the market. Although the economy has slowed down, the projects under construction are keeping their schedule and maybe there will be a slight delay in the pipeline that is in a planned phase. Office occupiers in some sectors are aiming at negotiating rent abatements or deferrals but rental levels haven't changed yet. There is some discount in the service charge fee for the period of lockdown which now compensates the higher fee of disinfections. New transactions are moving at a slower pace and COVID-19 clauses are included in the contracts which give more flexibility or options to the tenants for termination. More often step rent is observed but the average income from the lease agreement is maintained.

LATVIA

In general, COVID-19 has impacted the Riga office market in various ways. From a developer's perspective, none of the projects under construction were stopped, however developers are more cautious about their future plans. Currently, no developers have announced that they are stopping their planned projects, nevertheless new development might be delayed due to uncertainty around COVID-19 after the summer. A large number of companies, including Colliers Latvia, was working remotely for nearly 3 months, and now are returning to their offices step by step. Although the state of emergency ended on June 9, companies remain cautious and are more flexible on working part time from office and part time remotely. Colliers Latvia remains flexible and employees can work remotely depending on specifics, as well as a 2-meter distance between chairs and strict disinfection rules are being followed in office premises. During the three-month emergency companies realized that part of their workforce can work remotely for now, as well as overall uncertainty around COVID-19 remains locally and globally, therefore expansion plans are being postponed. Projects completed in early 2020 are now struggling to obtain new tenants which has led to an increase in vacancy and may cause a short term effect on rents.

LITHUANIA

The COVID-19 pandemic has led to the largest ever experiment of remote work. It seems that professionals have missed the office environment and have started to gradually return since the 18th of May. To ensure the safety of employees, enterprises implement additional measures, such as more frequent disinfection and distance between workstations. The general market sentiment is improving, and the lockdown is officially over as of the 17th of June. It is observed that tenants are continuing with previously commenced lease processes. Total take-up (preliminary) of modern office space in Vilnius in H1 2020 reached ~ 25,000 sq m, of which over 70% were agreements for Class A office space. Developers are continuing with projects under construction, which, in June 2020, together amounted to a GLA of 252,500 sq m. This is a considerable pipeline, reaching even a third of total existing office stock. Coupled with the current situation still marked with uncertainty, developers are evaluating new projects more carefully and postponing as necessary. The greatest competition lies in the Class B segment, which consequently is under the strongest pressure for a downward rental correction. On the contrary, the Class A segment is expected to be more robust.

ESTONIA

Offices are probably one the least affected property segments in Tallinn so far. Currently, no developers have announced that they are stopping their projects under construction. Construction continued and Q2 2020 saw the completion of several new office projects. However, some further developments might be delayed due to market uncertainty. The leasing market remained active at the beginning of the year, seeing the relocation of several larger tenants, however, Q2 2020 is expected to remain rather calm as tenants began to postpone or freeze their expansion plans from March. Rental rates started to come under downward pressure as a result of the COVID-19 outbreak and a possible change of balance between supply and demand for office space (new supply and lower demand). Landlords started to propose a somewhat lower rent (8-15% less compared to pre-pandemic levels) to secure new lease deals. Tenants are seeking to cut or lower rental and additional costs. Renegotiations and disposals are very likely to continue throughout 2020. Companies (including Colliers) started to return back to their offices largely from mid-May. Approx. 30-40% (up to 50%) of employees work now in the offices, while others continue to work remotely/from home. Large companies/corporations still only allow 20-25% of their employees to be back in the office.

BELARUS

Quarantine was not officially enforced in Belarus and the right to choose remote work was granted to employers. However, most tenants of business centers in Minsk switched to remote working. At the beginning of the COVID-19 pandemic, the capital's office market had been characterized as undersupplied and a "landlord markets" with an extremely low vacancy rate (not more than 4%). The COVID-19 pandemic did not bring a significant increase in vacancy, as tenants do not want to lose their spaces. There is also no firm indication that the COVID-19 pandemic will bring a significant increase in vacancy rate in future since a large-scale shift to remote work is unlikely. Work on construction sites has not stopped. In general, a small amount of new office space has been commissioned since the beginning of this year. However, all facilities planned for 2020 are being built actively, and the probability of their implementation by the end of 2020 is high. As of May 2020, it is possible to point to the following changes in the rental market: a decrease in demand and a decline in market activity, a reduction in rates by 10-15% and other concessions for new agreements. Some landlords also offered rental relief for several months, payment deferrals, etc. under existing leasing deals.

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COVID-19 impact on office markets in CEE countries

MONTENEGRO

Montenegro was quick to impose restrictions in March and has been able to recover relatively quickly due to a relatively low number of COVID cases.
The situation has more or less returned to normal, as of June 1, with certain restrictions on public gatherings. All businesses that have remained open have been limited in one way or another, and many of us think that this might lead the economy to a very tricky situation, since our main source of income comes from tourism and hospitality, and the season might just be a bust. All workers have returned to offices for work, with very little restrictions, such as mothers with small children. Otherwise the market has largely returned back to normal.
Take-up is expected to remain unchanged, as most tenants have active long-term lease contracts. As for pipeline projects under construction, almost all construction companies were allowed to continue working on their current developments, and are not showing any signs of slowing down. Most tenants have requested discounts or complete credit notes on invoiced rents for the time spent in lock-down. This mostly depended on general conditions at the time, which varied from case to case. Tenants would mostly be negotiating for discounts on rent ranging from 10% to 50%, while service charges largely remained unchanged, with discounts ranging from 10 to 20%.

UKRAINE

The Kyiv office market was landlord friendly at the end of 2019 and rental rates were expected to increase before the COVID-19 pandemic took hold.
Such forecasts were based on low vacancy rates, increased demand for high-quality office space and low growth of new supply in previous years. The total take-up of office space in Q1 2020 was around 5,000 sq m; which is 85% lower than in 2019 and 2018. The significant drop in Q1 demand was mainly due to the suspension of some deals that were scheduled for February and March 2020. Some companies are holding to their earlier plans, i.e. they do not postpone or stop the process of signing contracts for new premises. These are large international corporations and companies from the sectors, which are least sensitive to the crisis. 18 business centers with a total GLA around 201,000 sq m have continued with active construction or renovation phases despite limited quarantine measures. One of the key trends in 2019 was the practice of signing pre-lease agreements for properties under construction. As a result, a significant portion of the projects under active construction already have a low vacancy rate. It should be noted that the terms for tenants to move in may be affected by existing problems with the supply of materials, furniture and equipment. Some landlords are providing temporary rental discounts, but it will take some time before the restrictions are lifted and tenants can fully resume their work in office buildings to predict how the dynamic of rental rates will change. It is most likely that rental rates will decrease slightly, but it is expected that the office property market could stay strong due to the low rate of new supply and lack of quality office space.

ALBANIA

Since April 18, Albania has gradually started to re-open businesses according to their category, accompanied by a set of measures to be followed.
Colliers Tirana office was opened on the same date. Regarding the office market, it has shown no significant change due to the pandemic. The service sector is returning slowly to their pre-COVID-19 working capacity.
Also, delayed office demand has been reactivated during May and June 2020. On the other side, construction has been the only industry which has not stopped working during this period. On the contrary, the pandemic situation supported the speed of projects under construction. Moreover, during the lock-down, new construction permits were granted and new projects broke ground. We have registered no change in rents and service charge levels. However, some landlords have shown flexibility in terms of rental agreements particularly in regard to international tenants with force majeure clauses.

SERBIA

In spite of the COVID-19 outbreak in March, the fundamentals of the Belgrade office market remain solid and it is expected that this segment will be one of the least affected by the pandemic in the short term. It is still very hard to predict the intensity of the crisis caused by the pandemic on the Belgrade office market. There may be a short-term impact on leasing demand in the market at a time when new supply is due to come. This may create an opportunity for tenants to negotiate more favourable terms. On the other hand, as there are pre-commitments and pre-leases in new office schemes which will enter the market by the end of 2020, the adverse impact on office absorption will most probably not be significant in the short-term. As of the end of the State of Emergency in Serbia, the lock-down is no longer in place. Therefore, many companies have returned to working from their offices, as has our team, albeit with the duty to uphold health and safety measures recommended by the government. Many companies have arranged remote working for their teams while some are also incorporating a shift based system to lower the number of employees present at any one time in their offices. It is expected that modern office stock will be increased by an additional 90,000 sq m by the end of 2020, which should be supported with a similar level of take-up. However, expected completions might be somewhat postponed since some construction works have slowed due to government measurements related to COVID-19.

HAVING A DIFFERENT EXPERIENCE? WE WOULD LIKE TO HEAR FROM YOU.

We are doing our best to monitor the constantly changing situation on a daily basis, but please contact us if you would like to share your experiences or discuss potential scenarios tailored specifically for you.

If you are unsure about how to plan your offices, both now and in the months to come, why not consult our workplace, design and project management experts. They would be very happy to discuss your needs and it will be one less thing to worry about in these challenging times.

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