AN ANALYSIS OF THE DEVELOPMENT OF THE OFFICE SPACE MARKET IN BRATISLAVA¹

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1. Introduction

In Slovakia, the market of "up-to-date" office space started to develop particularly in Bratislava approximately in 1997, when the construction of the first part of the Bratislava Business Center (BBC) I-IV administrative complex was finished by the HB Reavis Group development company. The BBC I-IV project with the total rental area of 33,380 sq m was one of the first significant development projects, which has set certain standards for administrative buildings on the Slovak market with the office space.

The office market started to be monitored probably in 2001, when the financial group the J&T Real Estate published the first year-long report about this market in Bratislava. During the following years, the office market was developing in Bratislava the most. Approximately since 2007, developers started to notice the east of Slovakia as well, specifically the city of Košice, where there was a lack of high quality office space.

After that, in the year 2008, which was called the year of discovering opportunities in the secondary towns of Slovakia, the office market opened for other towns, such as Trnava, Žilina or Nitra as well. However, this development was stopped in the whole Slovakia with the beginning of 2009 and the economic crisis which affected also the area of the office real estate. At the end of 2010, a significant revival of the market with office space was noticed, which could be seen in an increased number of transactions (rent square meters) of the office areas. Since Bratislava is significantly the most dominant town on the market with the office space, we will focus on it in our analyses.

2. Office space market in Bratislava

The year 2002 was the weakest from the view of the growth on the market with office real estate, as only about 30,000 sqm (see: Fig. 1) of new or reconstructed space were added. Then in 2003, there were 76,400 sqm added but companies were not able to occupy them and as a result of that the occupancy of the space dropped to 52% - the lowest level in history. In 2004, Slovakia became a member of the European Union and the year brought also new optimism and a vision of some significant office real estate, which should have been finished in three years and simultaneously, the year is connected with a significant stimulation of the demand for office space. As far as offices are concerned, it was the year 2005 which was crucial, in spite of a statistically low growth of square metres. In September 2005, the fifth bridge across the Danube was finished and in December the last section of the D1 motorway was completed, which connects Bratislava, Vienna and Budapest. This way new opportunities were created for the development of office space on the right side of the Danube. A proof of it are the Aupark Tower and the Digital Park - today already very successful projects, which became easily accessible and therefore interesting as for their locality. At that time, works connected with the building of the Sitina tunnel were in full action. Thanks to the tunnel the D1 and D2 motorways are connected today, which significantly reduced the traffic in the surroundings of Patrónka and at the same time new possibilities for a development in that area arose.

A high demand for new offices (expressed by a low vacancy rate) together with a favourable urban development of the city encouraged developers to prepare new projects. Within three years there were record-breaking almost 400,000 sqm added to the market with the office space.

The occupancy in 2008 staggered a little as a result of an enormous number of new offices which tenants did not manage to occupy. According to the analyses of J&T real Estate, the market with office real estate reached the amount of 1,395,000 sqm (see: Fig. 2). Since that year the situation with office real estate has been also monitored by Bratislava Research Forum - BRF, an association of four most significant companies from the area of real estate in Slovakia (CB Richard Ellis, Colliers International, Cushman & Wakefield and Jones Lang LaSalle), according to which the total supply of the office space in 2008 reached 1,163,000 square metres. The difference in the whole area of offices stated by the J&T Real Estate company and BRF is caused by the fact that BRF does not add the C standard offices to the total volume, that means older, unreconstructed space which does not meet the criteria of the space of a higher quality (A and B standard) and which makes about 109,000 sqm. The divergence is also caused by a different view on evaluating the objects

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Figure 1: Annual increases on the office space market in Bratislava and the occupation rate

Source: Custom processing

Figure 2: Total supply of the office space in Bratislava according to J&T Real Estate and a comparison with the data from BRF

Source: Custom processing
Figure 3: Development of supply and vacancy rate on the market with office premises during individual quarters of the years 2007 – 2012

Source: Custom processing.

Figure 4: Total Competitive Office Stock (Total Modern Office Stock)

Source: Custom processing.
that provide office space from the view of square metres provided.

The record-breaking amount of new office objects which enriched the market in 2008, was the biggest in history so far. Already that year, the arrival of a worse economic situation was obvious, and the completion of more projects in progress was postponed indefinitely or they were not started at all. Too big a supply of new office space on the market, together with the coming signs of the global economic crisis caused problems with occupation of the space.

The end of 2008 and the year 2009 brought the end to questionable projects and a wait-and-see attitude started with falling prices, increasing costs for credit funding, etc. A proof of the fact that during 2008 and 2009 new projects were stopped or they were not started at all, is the results of the analysis of real estate consulting companies. They show that in the third and fourth quarter of 2010 there was no new space on the market with office real estate (see: Fig. 3), which is the result of the stopped building activities from the previous years3.

The year 2008 can be considered as crucial, expressing the crisis with the following recession in 2009 and in a part of 2010. At the end of 2010 and at the beginning of 2011, the market with office space went through a period of a revival transactions and the vacancy rate was falling, at the beginning of Q2 2011 it reached only 9.5% (see: Figure 1 and 3).

The Bratislava office market reacted strongly to the change in the general economic climate. After a record-breaking year in 2008, during which almost 188 000 sqm new offices were added to the market, 2009 brought 122 000 sqm to the market, which represented an annual decrease of 30% (CB Richard Ellis, 2009). However, in the year 2010, it already was only approximately 57 000 sqm – another fall in new supply in comparison with 2009 and in year 2011 there was a slight increase of 10 000 sqm against the year 20104.

3. An analysis of the current market situation

According to Colliers International, by the end of Q2 2012, Bratislava’s total office stock exceeded 1.46 million sqm. Grade A office premises accounted for 59% of the total stock and Grade B offices accounted for the remaining 41%. One new office building came to market in Q2 2012. A 16,000 sqm office space was completed in the mixed-use project, Central, which was developed by Immocap5.

The distribution of modern office stock was at the end of Q2 2012 as follows by location:

- City Centre submarket (32.0%), with a vacancy rate of 11.0%;
- Inner City submarket (42.9%), with a vacancy rate of 9.7%;
- Outer City submarket (25.1%), with a vacancy rate of 12.3%.

Newly built schemes (constructed in 1998 at the latest) currently account for approximately 70% and refurbishments for 30% of the market. Grade B stock tends to be refurbished office space, which has limited standard of premises (e.g. no raised floors, no air exchange, general appearance of the building etc.).

The largest volume of A class premises is located in the first Bratislava district with 319,239 sqm, followed by the second district

Figure 6: Total Office Stock by districts of Bratislava for the period of Q1 2012

Source: CBRE 2012; custom processing

with 309,119 sqm. The smallest volume of 23,100 sqm of new premises is available in the fourth Bratislava’s district7.

The overall vacancy rate for Bratislava has increased slightly from 10.2% in the previous quarter to 10.8% at the end of Q2 2012. The lowest vacancy rates recorded in the second quarter of 2012 were in Bratislava 5 (5.7%), followed by Bratislava 1 (10.6%) and Bratislava 2 (10.8%)8.

A continuing trend (2012) since 2011 is to remain in the existing rented areas and to prolong the period of rental agreements. CBRE estimates that 10% of the rented office spaces (i.e. 2,200 sqm) represent tenants who moved from the space of C standard category to the level of the space of A/B category, extension of the already rented space or new acquisitions on the market. From the view of the division of the total rental activity in Q2 2012 according to the location of the rented office space, the major part of the space was situated in the narrower city centre (77%), followed by the centre itself (17%) and then the wider centre of Bratislava (6%). The greatest interest in the renting office space was from the area of telecommunication services (62%) and from the area of professional service providers (19%)9.

Rental conditions are stable over the long term. The highest asking rents in prime office buildings in Bratislava’s best locations have remained stable throughout the year. Prime rents are currently at around €14 – €16/sqm/month. Rents in the Inner City zone range between €10.5 and €12.5/sqm/month. Rental levels in the Outer City district have stabilised between approximately €8 and €10/sqm/month. Rent free periods,

Figure 7: The average amount of rent for free office space in 2012

Source: kancelarie.sk 2012; custom processing

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7 Bratislava City Report Q1 2012, Jones Lang LaSalle 2012.
8 Bratislava City Report Q1 2012, Jones Lang LaSalle 2012.
which are the most common form of incentives, can range between 3 to 5 months for new 5 year lease contracts\(^1\).

Effective rents could be lower by 8% - 12% including incentives offered by landlords. However, the incentives largely depend on the quality, location and vacancy of the individual office scheme. We do not expect any decline in rental levels in foreseeable future, especially in A-class buildings. However, older generation buildings may see a slight downward pressure on headline rents in the next 6-12 months (8/2012)\(^1\).

Additional four projects will be added to the market by the end of 2012 with a total office area of about 50,000 sqm – Digital Park III (19,000 sqm), BBC 1 Plus (14,000 sqm), Reding Tower II (8,000 sqm) and Panon Office (6,000 sqm), as well as the second phase of Central (3,000 sqm) (See: Table 2). Due to the fact that the new premises will not be fully occupied at the moment of delivery, we assume an increase in vacancy rate.

From the view of the demand for office space, a stable development is expected throughout the year 2012, and it is assumed that many tenants will choose the possibility to prolong the existing rental agreements or to make a small extension of the already rented space instead of relocating the company. CBRE expects that these kinds of transactions will dominate in the following years as well.

In Bratislava there is a total of 1.2 million sqm of new planned office space (5/2012), and during the following four years about 600,000 sqm could really arise. In addition, reconstructions of the existing space are not included in these numbers. According to Colliers International, the situation on the office market in Bratislava would be optimal if only one third of the total volume of the planned space would be realised. Furthermore, the current trend is not favourable to great office space as up to 80% of tenants are looking for space with the area smaller than 100 sqm. The price remains to be an important factor. A survey which was conducted on a sample of 200 tenants in Bratislava and Košice showed that in the course of one year (2012) only 8% of companies plan to relocate\(^1\). From 2013 it is assumed that green buildings will play a significant role, they will come to the market and will set a challenge for developers to create a strat-

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\(^{10}\) Bratislava City Report Q1 2012, Jones Lang LaSalle 2012.

\(^{11}\) CBRE office market for Q2 in Bratislava, CBRE – Kharisma, 2012.

\(^{12}\) Stavebné forum, Bratislava office market view. 2012.
4. Conclusion

The real estate market in Slovakia has been very affected by the global economic crisis. Since mid-2008, investors have stopped building new developer projects and simultaneously the demand for administration buildings on the market with office space decreased. After a period of recession at the end of 2010, the real estate market started to revive. A proof of it is also a survey of the Colliers International company that: “all national economies in the region of the central Europe, including Slovakia slowly started to stabilize.” Investors started to look for new possibilities in Slovakia and they focus mainly on rented buildings in Bratislava. That stimulates a positive development on the whole real estate market. Experts predict a long-lasting growth of yields from rents and an increase of the priority of green buildings with economical operation. The demand is great mainly for the A class of the office space, which urges new building in this segment.

At the same time, in a long-term horizon, effectiveness and construction of green administrative buildings belong to the main trends of development because the pressure of tenants and investors on reducing costs for services is still greater. Based on that fact, institutional investors begin to prefer sustainable projects which can offer them fulfilment of these requirements, reduce the energy consumption, provide tenants with healthier and cleaner environment but mainly bring buildings of a higher quality to the real estate market. It is assumed that these buildings will be more competitive than non-certified ones in the future and that they will fulfil still more demanding requirements made by the Slovak and the European legislation in a better way.

Bibliography

Bratislava City Report Q1 2012, Jones Lang LaSalle 2012.

An Analysis of the Development of the Office Space Market in Bratislava (Summary)

The paper presents the results of the analysis of the development of the office space market in Bratislava.

The main objective of this paper is mainly to point out the development of the office real estate market in the capital of Slovakia in recent years and to present the current market situation.

Analiza rozwoju rynku powierzchni biurowych w Bratysławie (Streszczenie)

W artykule zaprezentowane wyniki analizy rozwoju rynku nieruchomości biurowych w Bratysławie. Głównym celem artykułu jest wskazanie kierunków rozwoju rynku powierzchni biurowych w stolicy Słowacji w ostatnich latach i przedstawienie bieżącej sytuacji rynkowej.