Accelerating success.

ExCEEding Borders

Office Markets & The Business Services Sector in CEE-15

CEE | September 2021

Photo: Nestle, Czech Republic, Source: Colliers Czech Republic

Contents

Foreword from Colliers CEE CEO

We live in interesting but rapidly changing times with a lot of variables. This makes it more and more difficult for companies to define their goals and specific needs.

Therefore, as Colliers, we need to meet the challenges of the modern world to be a reliable partner to our clients with whom they would like to go down this unexplored track. By combining various competences, services and providing holistic support throughout the entire decision-making process, we go far beyond brokerage.

We notice the changes taking place on the market concerning technology, expectations and the habits of customers and tenants. As a company, we want to look "beyond real estate" and create a coherent "business intelligence platform" - develop in the field of consulting in new and existing areas such as data and technology, workplace, flex office solutions, HR, ESG and the newly created service - location strategy. We constantly develop ourselves to be able to create numerous business scenarios for our clients.

Geographically we look holistically, too. By preparing reports such as ExCEEding Borders, we wish to present the opportunities offered by the wider CEE region, in the context of Europe. Investors rarely look at individual countries - their attention is focused on the potential of entire regions, and entering one market usually means expansion into neighbouring countries. We are pleased to be their guide on this journey.

Thank you to all Colliers experts which have shared their in-depth knowledge and data in this report. I hope that you will find this publication useful and we look forward to discussing your business ideas, plans and concerns at any point.

We hope you find this an interesting read!

Monika Rajska-Wolińska
Chief Executive Officer | CEE Colliers

Photo: Artery, Lithuania, source: Lords LB Asset Management

Introduction

Colliers are delighted to bring you the latest edition in the ExCEEding Borders series of reports. After a seemingly never-ending journey across pandemic mountain and through lockdown valley over the last 18 months, we take a look at what's been happening across the office sector in Central and Eastern Europe.

The report presents the situation in the key office markets of 15 CEE countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, Poland, Romania, Slovakia, Slovenia and Ukraine. In the report, we highlight changes in key market indicators such as total office stock, take-up and leasing conditions, vacancy levels, space under construction and our short-term forecasts. The individual office market data from each country is also enriched with concise commentaries and images of modern office projects from across the region.

Furthermore, and perhaps more importantly, we provide a high level, but fascinating look at the tremendously successful business services sector. For many countries in the region, business services have become one of the leading sources of FDI and one of the biggest employment sectors, now estimated to employ well in excess of 1 million people in the markets covered in this report.

Although the double-digit annual employment growth in the sector in many countries has reportedly slowed in recent times to mid to high single digits, the CEE region is still attracting new investment and seeing the expansion of existing centres. This success, which is set to continue for many years to come, is largely thanks to the regions labour pool of well educated, highly talented, hardworking people, with a very broad range of language skills.

Furthermore, the continued rise of the sector also has a great deal to do with the highly professional industry associations and the more than 3,500 centres operating within. Behind the scenes of the sector, there has been a great deal of hard work and determination, not only to raise the profile and operating landscape of the sector but, to continuously attract, grow and raise the bar on the complexity and high value of the services they deliver to their own organisations and clients.

Amongst many other new challenges in other sectors and walks of life, the pandemic has also raised so many questions in relation to, for example, how often and how much office space we will need, or will be using in the months and years to come? Will the masses still be happy and healthy working from home, or essentially anywhere where they can plug in and get a signal? Will there simply come a time when companies just request their employees to come back into the office? The answer is that it is practically impossible to predict a one-size-fits-all answer to cover the decisions made by the hundreds of thousands of individual companies operating in the region, and far more, globally.

However, at Colliers, we do our very best to observe, listen, be creative and share these findings and insights through our research and business lines, so that we can support our clients' decision-making processes and help accelerate their success.

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Photo: Skysawa, Poland, source: PHN

CEE Macroeconomic & Demographic Overview H1 2021

Country

1 Population (mn), *forecast (2010-2030)
2 Unemployment rate (%), *forecast (2010-2030)
3 GDP growth (YoY%)
4 Average monthly gross salary (EUR/month), *trend YoY (H1 2020/H1 2021)
5 Number of students, *trend YoY (H1 2020/H1 2021)
6 Number of graduates, *trend YoY (H1 2020/H1 2021)

▲ increase, ▼ decrease, ● stable

Source: Colliers based on Eurostat and local statistical offices

Czech Republic

1	10.70	▲
2	3.70%	▼
3	-2.40%	
4	€1,385	▲
5	299,396	▲
6	62,914	▼

Slovenia

1	2.08	▼
2	8.20%	▼
3	1.60%	
4	€ 1,978	▲
5	82,700	▲
6	15,494	▼

Croatia

1	4.08	▼
2	8.90%	▼
3	-0.70%	
4	€ 1,251	▲
5	155,939	▼
6	33,284	▼

Bosnia and Herzegovina

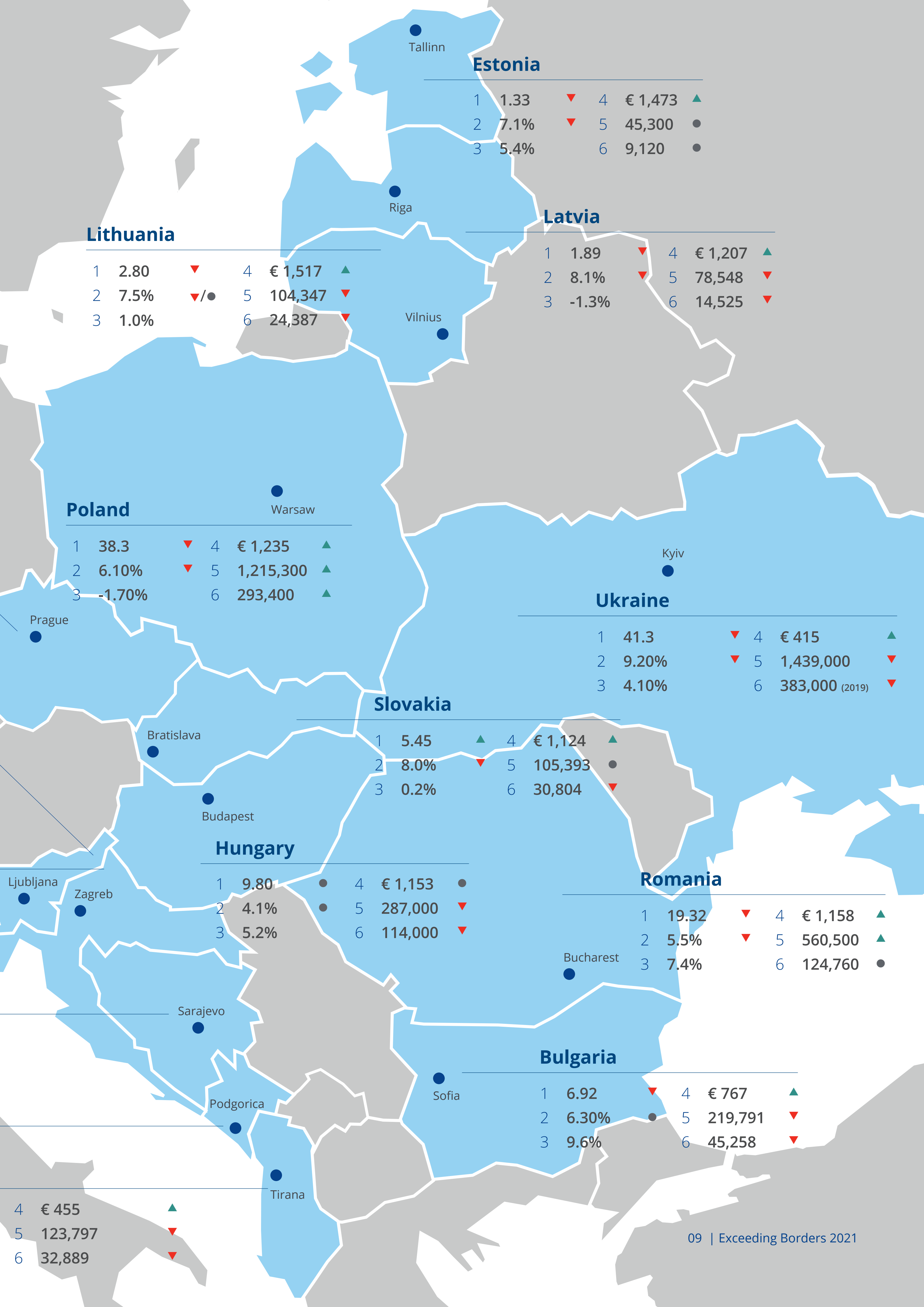
1	3.26	▼
2	33.40%	▼
3	1.50%	
4	€ 772	▲
5	79,886	▼
6	12,705	▼

Montenegro

1	0.63	▼
2	22.1%	▲
3	-6.4%	
4	€ 789	▼
5	18,403	▼
6	3,044	▲

Albania

1	2.83	▼
2	11.9%	▼
3	2.7% (from 2019 to 2020)	


Tallinn
Estonia
1 1.33 ▼
2 7.1% ▼
3 5.4%
4 € 1,473 ▲
5 45,300 ●
6 9,120 ●
Riga
Latvia
1 1.89 ▼
2 8.1% ▼
3 -1.3%
4 € 1,207 ▲
5 78,548 ▼
6 14,525 ▼
Lithuania
1 2.80 ▼
2 7.5% ▼/●
3 1.0%
4 € 1,517 ▲
5 104,347 ▼
6 24,387 ▼
Vilnius
Warsaw
Poland
1 38.3 ▼
2 6.10% ▼
3 -1.70%
4 € 1,235 ▲
5 1,215,300 ▲
6 293,400 ▲
Kyiv
Ukraine
1 41.3 ▼
2 9.20% ▼
3 4.10%
4 € 415 ▲
5 1,439,000 ▼
6 383,000 (2019) ▼
Prague
Slovakia
1 5.45 ▲
2 8.0% ▼
3 0.2%
4 € 1,124 ▲
5 105,393 ●
6 30,804 ▼
Bratislava
Budapest
Hungary
1 9.80 ●
2 4.1% ●
3 5.2%
4 € 1,153 ●
5 287,000 ▼
6 114,000 ▼
Ljubljana
Zagreb
Romania
1 19.32 ▼
2 5.5% ▼
3 7.4%
4 € 1,158 ▲
5 560,500 ▲
6 124,760 ●
Bucharest
Sarajevo
Bulgaria
1 6.92 ▼
2 6.30% ●
3 9.6%
4 € 767 ▲
5 219,791 ▼
6 45,258 ▼
Sofia
Podgorica
Tirana
4 € 455 ▲
5 123,797 ▼
6 32,889 ▼

CEE Macroeconomic & Demographic Overview

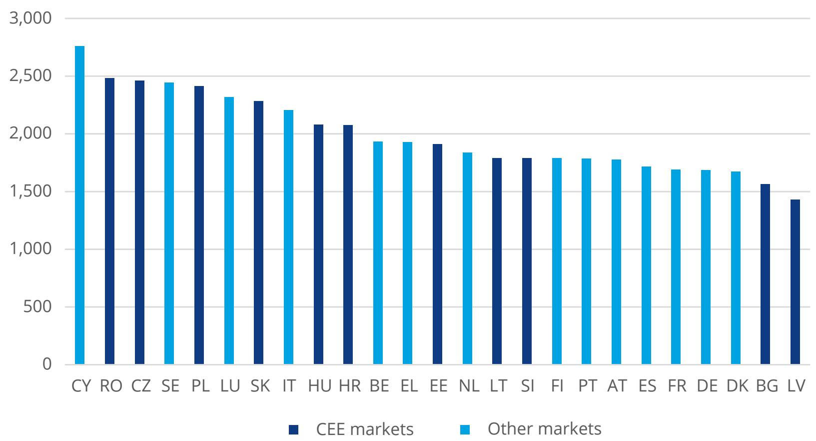
The CEE region is a heterogenous region featuring countries that have already converged to economic levels similar to some Western European states (Czech Republic, Lithuania, Estonia) and some which are below the world average in terms of GDP/capita (Ukraine, Montenegro).

What they all share in common, however, is a major economic growth potential – which some have already taken advantage of, while others may be next in line following proper reforms. The first wave of growth came decades ago via outsourcing of industrial operations from developed countries (which gradually became more complex), with a second wave fuelled by the development of business services.

We find that the big macro numbers still support the ongoing development of the service sector; but we must start by mentioning that we lack comparable numbers for non-EU countries. None the less, we could extrapolate that Albania, Belarus, Bosnia & Herzegovina, Montenegro and Ukraine would likely fall in line with what the least developed European Union countries looked like two decades ago, both in terms of challenges and opportunities. We looked at hourly value added and hourly labour costs and by dividing them, the ratio we obtain can be used to calculate an answer to a question like "what will EUR 1,000 of labour costs expenditures get you in terms of returns". We notice that most of the CEE countries fall in line in the upper half of the EU member states, while those that do not, still manage to overtake or at least be on par with quite a handful of more developed countries in terms of price competitiveness.

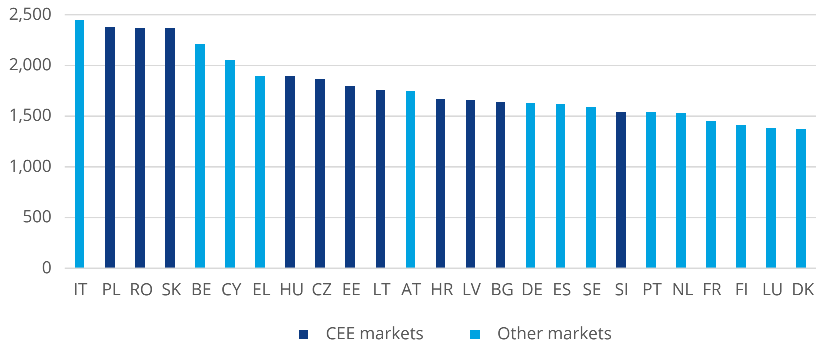
We excluded Ireland from the charts as its GDP figures are greatly swelled by accounting reasons (so not a measure of true productivity); since it is possible that Cyprus also falls into this category to a certain extent, this means that Europe's most price competitive countries for IT&C operations, when factoring in returns, are Romania, Czech Republic, Sweden and Poland, with minimal distance separating them. It is also important to note that most of these countries are closing the gap to more developed states: Czech Republic

What will EUR 1,000 of labour costs get you in terms of value added (Information and communication)?



Source: Colliers, Eurostat

What will EUR 1,000 of labour costs get you in terms of value added (professional, scientific and technical activities, administrative and support service activities)?



Source: Colliers, Eurostat

and Romania are outliers in terms of actual hourly productivity, at over EUR 40 per hour, which is already on par with Spain and at two thirds of Austria's level.

Turning to a wider category of various professional services yields an even better result, with three CEE countries again in the top 4, with little difference separating them (Italy, Poland, Romania and Slovakia). Comparing these states at the top of the ranking with a powerhouse economy like France yields a two thirds difference in terms of price competitiveness.

Then again, productivity is sort of an abstract concept that should not be judged on its simple semantics, it's not that some people work way more than others; the indicator we used previously – value added – is a result of several factors: how hard people work, what tools they have at their disposal and what the managers demand of them (i.e. complexity of operations). What the previous charts show is that at the current junction, even when factoring in rising labour costs, CEE countries manage to offer good returns thanks to being able to drive increasingly complex tasks. And this is a second point we want to make: it's not just low labour costs that attract companies here, it is also the talent.

In a 2019 report, Pentalog, an IT&C services company, crowned Slovakia as home to the most talented developers in the world, followed by Mexico and Poland. In fact, 5 out of the top 10 countries were Eastern European (Hungary, Ukraine and Czech Republic were also present on the 4th to 6th spots), while the other countries also did quite well, surpassing powerhouses like the US, China and France.

Furthermore, it is not just IT skills that are on par with the best, it is also the language skills that are here. The EF English Proficiency Index, probably the most extensive measure of this topic worldwide, does not include any Eastern European country in its "very high" category, reserved mostly for Nordic European states, but 11 out of the 17 countries in the "high" category are from the CEE, with Croatia coming out on top as best in this class.

With labour costs several times smaller than in developed countries and skills at least on par, if not superior, the CEE is set to remain an attractive destination for business services and IT operations, for both low- and high-complexity tasks. What is also important to note is that the CEE offers a wide array of choices to interested companies: potentially higher risk-reward alternatives in frontier markets outside the EU, as well to somewhat mature countries that are punching way above their weight and are rather comparable with the likes of Spain or Italy. For the latter countries, labour force availability remains a major constraint, while for the former, it is more about enacting structural reforms that would create an attractive backdrop for investors, nevertheless, the business services sector will likely continue to shine bright in the CEE over the decades to come.

Office Markets in CEE - H1 2021

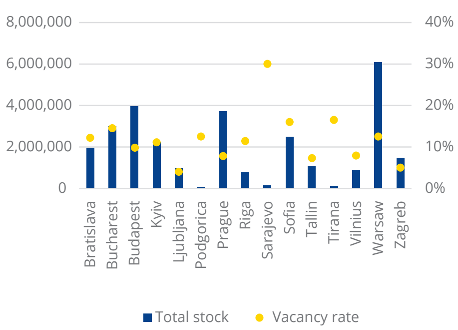
The total modern office stock in the 15 CEE capital city markets covered in this report, reached over 29 million m² at the end of H1 2021. New office supply in these markets during the first half of 2021 totalled just over 640,000 m², with a further 2.4 million m² currently under active development and due for delivery over the next 2-3 years.

The largest supply of modern office space is located in Warsaw (ca. 6.1 million m²), Budapest (ca. 4 million m²) and in Prague (3.7 million m²). Other markets with an office stock of over 1 million m² include: Bucharest (3 million m²), Sofia (2.5 million m²), Kyiv (2.2 million m²), Bratislava (2 million m²), Zagreb (1.5 million m²), Tallin (1.1 million m²) and Ljubljana (1 million m²). The largest increase of new supply in H1 2021 was noted in Warsaw where developers delivered 10 office projects with a total area of 226,300 m². In second place was Sofia (115,000 m²), followed by Kyiv (71,000 m²). Looking ahead, the largest volume of new, modern office space under construction at the end of H1 2021 was in Kyiv (448,000 m²), Budapest (350,000 m²) and Warsaw (329,000 m²).

The majority of modern office projects are naturally located in capital cities; however a growing number of office markets have also been developing, at different speeds, in regional cities across the CEE. These destinations, along with the capitals, are typically 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 the CEE include: Krakow, Wroclaw and Tricity in Poland, Brno and Ostrava in the Czech Republic, and Timisoara and Cluj-Napoca in Romania, to name just a few.

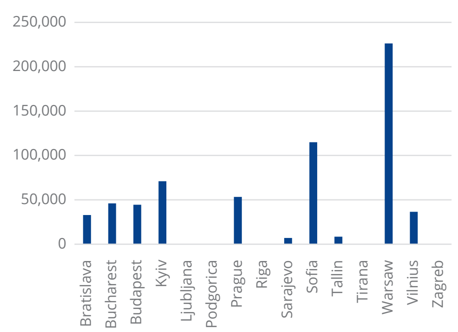
A great deal of demand, or occupier activity, across the CEE markets comes from the modern business services sector and, in addition to being one of the largest employment sectors in the region, it is also among the largest office occupier groups. To give an approximate idea of how important or how large this sector is, if we assume an average of 10 m² per employee, then the sector could occupy well in excess of 10 million m², or the equivalent of ca. 35% of the 15 CEE capital city market stock. The spread of these BSS centres however is of course much wider than the capital city markets, particularly in the regional markets of Poland, Czech Republic and Romania

Total stock (m²) & vacancy (%) H1 2021



Source: Colliers

New supply (m²) H1 2021



Source: Colliers

as mentioned earlier. During the pandemic it was widely reported that there was decreased demand, due to the disruption of BSS services, for certain Asian markets which, in part, was temporarily transferred to other destinations, such as the CEE region. The situation arose from issues stemming from a lack of working from home infrastructure such as home wi-fi access and laptops, amongst others. Some companies, especially banks, cited their dissatisfaction with operations, security, and overall business continuity issues during the pandemic.
As a result, this could mean further growth for business services in the CEE region and time will tell how this translates into additional office space requirements, or whether this can be absorbed into the current inventory.

Prior to the pandemic, many countries and markets across the region were enjoying several years of robust economic growth and increasing demand for office space. In many cases, these were even record levels, as existing companies expanded and new entrants arrived to take advantage of the benefits that the CEE markets had, and still have to offer. As it has been widely commentated, the pandemic has caused a variety of disruptions to the regular operations of office markets globally and the CEE region is not immune to this either.

"A great deal of demand, or occupier activity, across the CEE markets comes from the modern business services sector and, in addition to being one of the largest employment sectors in the region, it is also among the largest office occupier groups."

Kevin Turpin
Regional Director,
Research & Consultancy Services | CEE
Colliers

Photo: Nuvo Business Park, Ukraine,
Source: Colliers Ukraine

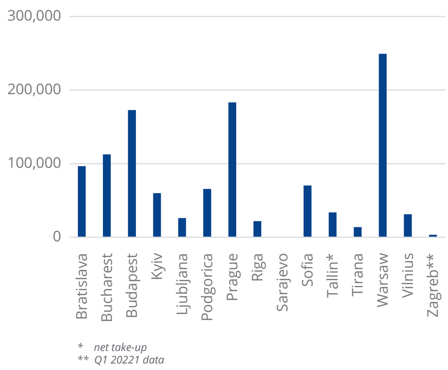
In relation to the future of office demand and occupancy, a significant proportion of companies continue to review their policies in relation to staff working from home, returning to the office, or hybrid models incorporating the aforementioned practices, as well as the use of flexible office spaces. In the majority of cases, concrete decisions will largely be driven by lease events as they roll over (break options/lease expiries). Some companies have looked at sub-letting unwanted space and while there was a spike in this activity earlier in the pandemic, creating grey vacancy, this seems to have stabilised and even subsided in some markets.

As a result of recent disruptions, the biggest office markets in CEE in 2020 saw a YoY declines of up to -30% on average in both gross and net demand. The first half of 2021 has seen similarly subdued results, however, some markets, including Warsaw, have started to see green shoots of recovery. In the first half of 2021, tenants leased over 1.1 million m² of modern office space across the capitals of the 15 CEE countries. The highest level of activity was recorded in Warsaw (249,300 m²), followed by Prague (183,300 m²) and Budapest (172,900 m²).

When uncertain times strike, it is not always easy to just stop the development pipeline. Coming off the back of the aforementioned positive economic and demand climate, there was a fair amount of space lined up for delivery across the region. Therefore, when this space is met with reduced demand, office vacancy levels will naturally start to rise. The widest choice of available office space at the end of H1 2021 was noted in Sarajevo (30%), Tirana (16.5%) and Sofia (16%) following sizeable new deliveries relative to the size of the market. The lowest vacancy rates at the end of H1 2021 were recorded in Ljubljana (4%), Zagreb (5%) and Tallin (7.3%).

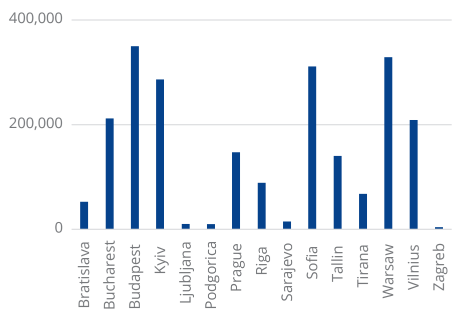
At the end of H1 2021, nine out of the fifteen markets covered in the report have seen vacancy rise into double digits. If demand does not pick-up over the next year or two, then we can of course expect that vacancy in some markets will further increase before making an improvement, due to the planned pipeline over the same period. However, when looking at vacancy, it is also important to look at each market individually and at the quality and age of those vacant properties. It is also fair to assume that some buildings could well become obsolete and will either be fully refurbished to meet modern or future standards or, be repurposed entirely. Going forward, we also expect to see a greater influence in this respect relating from both stricter ESG requirements and growing demand, particularly from occupiers and investors, for buildings to be compliant, healthy and sustainable.

Gross take-up (m²) H1 2021



Source: Colliers

Stock under construction (m²) H1 2021



Source: Colliers

Photo: Mol Campus, Hungary, source: Colliers Hungary

Albania Overview

Tirana Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m^2)
H1 2021	137,600

New supply	GLA (m^2)
H1 2021	0
2021 forecast	2,600
2022 forecast	65,300
2023 forecast	25,000

Vacancy rate	%
H1 2021	16.5
2021 trend forecast	▲
2022 trend forecast	▲
2023 trend forecast	▲

Take-up	Gross (m^2)	Net (m^2)
H1 2021	13,800	-
2021 trend forecast	▲	-
2022 trend forecast	▲	-
2023 trend forecast	▲	-

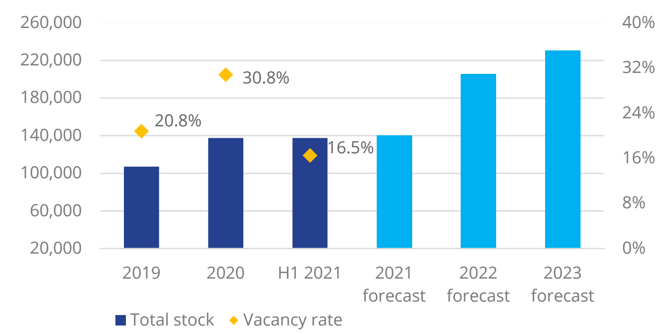
Size of average transaction (m^2) and YoY trend	▲
Market balance (Tenant, Landlord, Neutral)	Landlord
Under construction area (m^2)	67,900
Rental rates (EUR/m^2/month)	Class A: 21 Class B: 11
Rental rates trend YoY	▼
Main developers/owners/landlords	Gener 2, MET Invest, EDIL-AL, Albstar, AL&GI
Other popular secondary city markets	Durres, Vlore, Shkoder
Prime yields	9.5%

3 largest projects under construction:

Building	Developer
Downtown One	Kastrati Construction shpk
MET Building Tirana	MET Invest shpk
Eyes of Tirana	Concord Investment

Photo: ABA Business Center, Source: Gener 2 shpk

Total office stock (m^2) evolution and vacancy rate (%)



Market update

Currently, the office stock in Tirana is recorded at 137,600 m^2. There is no change in the location of the office stock where still the majority is concentrated in the CBD and inner city (77%), while the remaining office stock (23%) is located in the outskirts of Tirana.

The office market was not left unaffected from the Covid-19 pandemic. The full lockdown imposed by the Albanian government during H1 set the office market into a pause mode for approximately three months. Even though working from home was a revolution for the Albanian labour market, the market coped and adjusted in a fast and impressive way to the new working mode.

Trends and forecast

According to the office market survey conducted by Colliers Albania, the office rent levels by Q4 2021, in accordance with the majority of responses (43%), are expected to remain unchanged. This may be a result of the fact that currently 70-80% of the employees are back to their offices, and the rest of employees are expected to return to the office by the end of 2021.

Projects currently under construction which envisage a significant office component have not been influenced from COVID-19, since the construction sector had continued to work under normal conditions and pace. The risk of the office market lies in the dynamic of the supply and demand. While the supply is approximately accurately forecasted, the uncertain office demand by both local and international companies at the time these projects will enter the market remains highly unpredictable.

COVID-19 update

According to the office market survey conducted by Colliers Albania, one year after the pandemic outburst, 43% of Albanian companies have almost fully returned to their offices. Working from home was a revolution for the Albanian labour market and the Albanian practice suggests that the office environment cannot be replaced easily by remote working. However, 62% of the companies responded that they would be open to work from home up to 2 days per week.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
217	-	8,000+	**52% SSC/GBS 23% BPO 23% ITO 2% R&D**	**Tirana, Durres, Vlore, Shkoder**	**Albanian, English, Italian**

***BSS** - Business Services Sector, **BSCs** - Business Services Centres*

According to the Bank of Albania data, FDI has averaged USD 1.1 billion in the last six years. Investments are concentrated in the following sectors: energy, extractive industries, banking and insurance, telecommunications, and real estate.

The number of employees is increasing what illustrates an upward trend. This sector represents 48.6% of the GDP, employing 43.7% of the workforce.

Large scale BPOs consist of foreign investors or joint-venture companies, while the rest of the business services' sub-sector is dominantly owned by local entities.

Bosnia and Herzegovina Overview

Sarajevo Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m²)
H1 2021	140,000

New supply	GLA (m²)
H1 2021	7,000
2021 forecast	15,000
2022 forecast	32,000
2023 forecast	38,000

Vacancy rate	%
H1 2021	30.0
2021 trend forecast	●
2022 trend forecast	▼
2023 trend forecast	▼

Take-up	Gross (m²)	Net (m²)
H1 2021	-	-
2021 trend forecast	-	-
2022 trend forecast	-	-
2023 trend forecast	-	-

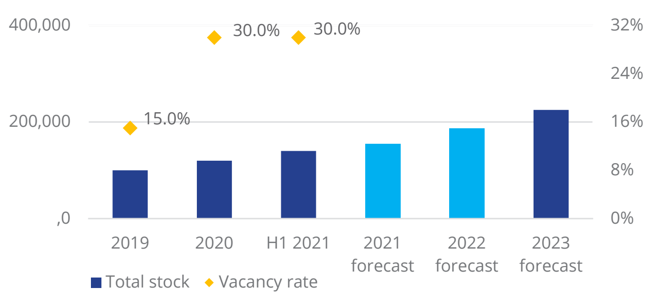
3 largest projects under construction:

Building	Developer
Symphony IT HQ	Butmir
Ećo HQ	Green Home
Al Jazeera HQ	BBI

Size of average transaction (m²) and YoY trend	3,200 ●
Market balance (Tenant, Landlord, Neutral)	Neutral
Under construction area (m²)	15,000
Rental rates (EUR/m²/month)	Class A: 15 Class B: 10
Rental rates trend YoY	●
Main developers/owners/landlords	Avaz, Palace Investments, M Investment Group, Smart Invest/ANS Drive, Symphony Group
Other popular secondary city markets	Mostar, Banja Luka
Prime yields	8%
% share of office in total investment volume	0%
Total investment volume H1 2021 (EUR)	5,450,000

Photo: Avaz Twist Tower, source: Colliers Croatia, Slovenia, Bosnia and Herzegovina

Total office stock (m²) evolution and vacancy rate (%)



Market update

Larger developments are on hold, while smaller built-to-suit developments continue unimpeded. The market is oriented mostly towards residential developments, with all other sectors, including office, being perceived as riskier. New demand mostly comes from companies in the ICT sector, professional services and recently, medical and pharmaceutical sectors. Tenants from other sectors fared worse and still require rent concessions or rent free periods, while landlords utilize this opportunity to extend their lease agreements in exchange for rent concesions. Demand for modern office spaces is present, as most of the supply is older, which creates an upward pressure on rental rates. Newly built office buildings charge a premium over the older stock. Market balance is mostly neutral, with a limited supply of office spaces, but also a small number of strong tenants.

Trends and forecast

Due to several projects in the pipeline, the supply of office spaces will rise. The increases in supply pertains mostly to increases in built-to-suit and owner occupied premises. Developers will remain cautious with regards to larger investments due to high vacancy on the market. The upcoming developments will continue to mostly be built-to-suit, while larger developments will remain on hold until the economic conditions improve. The vacancy rate will likely reduce in the upcoming period, in line with the economic recovery. Rental rates will likely remain at higher levels until substantial supply of modern supply is available on the market, negating the premium that remains due to the higher share of older stock.

COVID-19 update

Most of the workforce has returned to offices, with a few exceptions of smaller and more flexible IT companies that seem to have embraced the work from home model. The hybrid model is not fully utilized, however both employers and employees seem to enjoy more flexibility with regards to their place of work.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
58	13	14,300	**40% customer service 35% software dev. 15% IT, 10% F&A 10% SCM, 5% R&D 5% HR, 1% other**	**Sarajevo, Banja Luka, Mostar, Tuzla**	**English, German, French, Dutch, Turkish, Arabic**

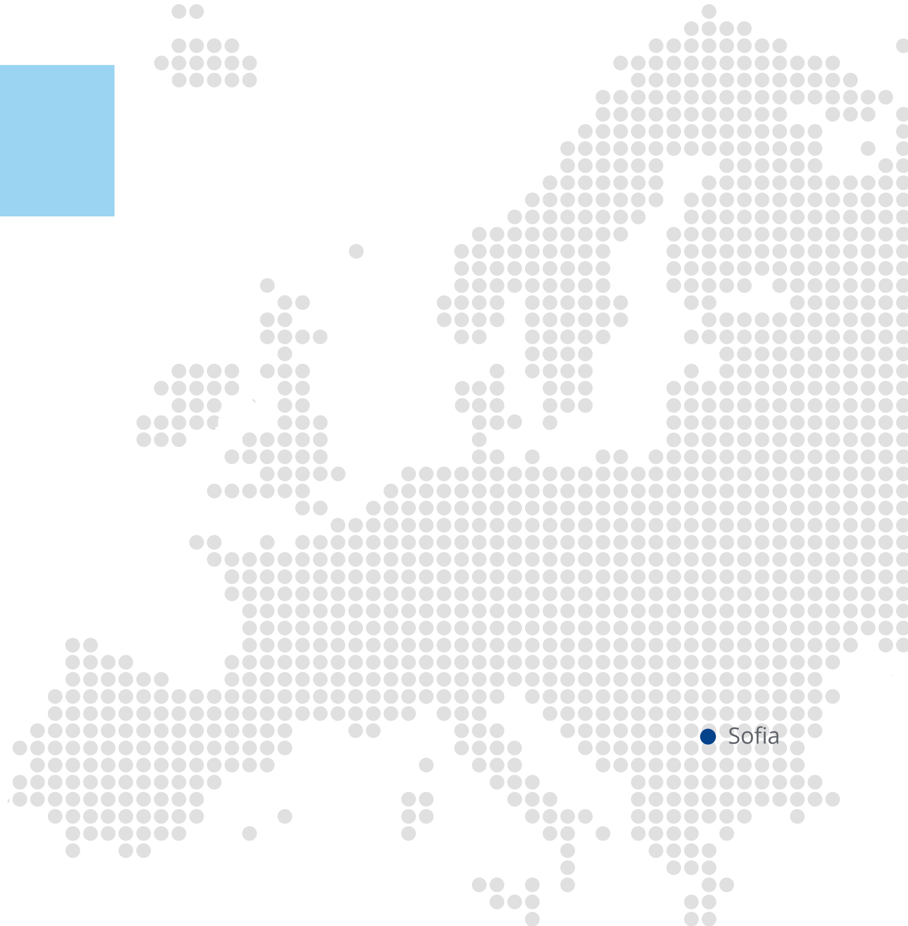
***BSS** - Business Services Sector, **BSCs** - Business Services Centres*

The business services sector in BiH is growing due to its relatively low cost and availability of the educated workforce, being more and more recognised by the international investors. BiH boasts a relatively favourable tax environment, stable currency pegged to the Euro and a near-shore European location that further strengthens its appeal. There are however structural problems rooted in its hampered economy overall, clouding the perspective unless reforms are implemented.

The IT community has been the driving sector of growth in the past decade what should continue in the future. It results in IT skills being prevalent in the local market. An increasing number of firms are providing multi-lingual customer services, finance, marketing and other back and front office services, taking advantage of the country's multi-lingual talent. The number of employees in the business sector still represents a relatively small portion of the workforce. However the number of employees in the sector is growing.

Investors are mostly regional business service providers, while local investors focus on smaller IT services providers. The investors' origins are regional companies from Croatia, Serbia and Slovenia, with several investors from Germany and Austria recocgnising the cultural affinity and familiarity with languages with the BiH market. Middle-Eastern investors find the country to be suitable for establishing a foothold in the region as well.

Bulgaria Overview



Sofia Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m²)
H1 2021	2,503,000

New supply	GLA (m²)
H1 2021	115,000
2021 forecast	83,700
2022 forecast	102,170
2023 forecast	125,900

Vacancy rate	%
H1 2021	16.0
2021 trend forecast	●
2022 trend forecast	●
2023 trend forecast	●

Take-up	Gross (m²)	Net (m²)
H1 2021	70,300	45,200
2021 trend forecast	●	●
2022 trend forecast	●	●
2023 trend forecast	●	▲

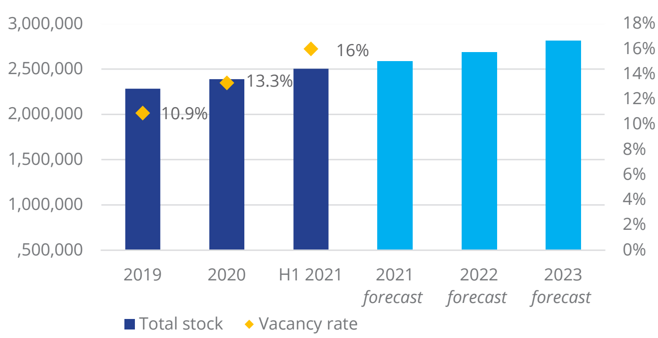
3 largest projects under construction:

Building	Developer
Sky Fort	Fort Noks
Synergy Tower	Bulgarian Real Estate Fund (BREF)
La Scala	Strabag

Size of average transaction (m²) and YoY trend	890 ▼
Market balance (Tenant, Landlord, Neutral)	Tenant
Under construction area (m²)	311,250
Rental rates (EUR/m²/month)	Class A: 12.5 Class B: 9.5
Rental rates trend YoY	●
Main developers/owners/landlords	Garitage Investment, GTC, Capital Fort, BREF, RPHI Raiffeisen Property, Strabag
Other popular secondary city markets	Varna, Burgas, Plovdiv
Prime yields	8%
% share of office in total investment volume	17%
Total investment volume H1 2021 (EUR)	19,000,000

Photo: Park Lane Office Center, source: Park Lane Developments

Total office stock (m²) evolution and vacancy rate (%)



Market update

The first six months of the year registered high activity on the office market. Total take-up reached 70,300 m^2, which is 6% higher compared to the first half of 2019. During this period, the largest share by type of transaction was relocation with 39%, followed by renewals (37%), pre-lease (10%), expansion (10%), and new entries (4%). The driving factor of demand has not change - IT and outsourcing companies are resonsible for 72% of all registered transactions. The vacancy rate increased mainly due to the new supply and it is expected to continue to grow with more office buildings being scheduled for completion by the end of this year. The average asking rental rates remained stable as the difference between the offer price and the contract price increases, depending on the location and the building completion stage. There is a possibility that this gap will increase if the planned supply is delivered to themarket.

Trends and forecast

Companies from the IT & outsourcing industry will remain the most active players on the market and are anticipated to continue expanding their presence in regional cities.

COVID-19 update

In the second half of the year, the share of employees working from the offices is expected to gradually increase, in alignment to tenant's sector, as well as global or regional corporate policies. Many corporations are focused on defining and refining core hybrid models of work that include office, home and third space - shared spaces, flex offices, work "from anywhere". Different types of internal office space transformation will be observed, placing much more emphasis on ways to stimulate collaboration, creativity, reinforcement of the sense of belonging and corporate culture.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
650	30	84,000	56% ITO 30% BPO 14% R&D 14% SSC	Sofia, Varna, Burgas, Plovdiv	English, German, Russian, French and Spanish

***BSS** - Business Services Sector, **BSCs** - Business Services Centres*

The industry is growing considerably faster than the national economy and by 2023 its turnover is expected to expand both in terms of value and as a share of the economy, to EUR 4.7 billion and 8.9%, respectively. In 2019, business services contributed 5.5% to Bulgaria's real GDP - EUR 2.9 billion. The business services industry reinforces its position as a preferred employer, and the evidence for this is the growing number of people working in the sector. It accounts for 3.5% of the labour market in Bulgaria and even in the challenging year of 2020 the number of employees continued to rise.

The sourcing industry employed a total of 84,000 employees (FTEs) in 2020. By 2023, the number of FTEs is expected to exceed 100,000. The biggest investors on the Bulgarian market are HP, Telus International, Sutherland Global Services, IBM, Coca Cola, Cargill, Paysafe, Ingram Micro, Concentrix, PPD, Adecco, Experian, SAP Labs etc.

In terms of preferred locations within the country, the capital Sofia is the undisputed favourite, with nine out of ten foreign investors choosing it to establish operations. This exceeds the industry average and can be attributed to a strive for more predictable business environment and access to workforce.

As of October 2020, 51.5% of all providers, had Bulgaria-based majority owners as ITO prevailed among domestically majority-owned vendors. The remaining companies had foreign majority owners from 46 different countries. The sectoral structure of foreign-owned companies or 48% of these companies, were owned by entities based in the UK, the USA, the Netherlands or Germany. While most centers with direct owners from the UK and the Netherlands were engaged in BPO, investors from the USA and Germany prevailed in the ITO sector.

Croatia Overview

Zagreb Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m²)
H1 2021	1,480,000

New supply	GLA (m²)
H1 2021	4,200
2021 forecast	14,700
2022 forecast	31,600
2023 forecast	57,800

Vacancy rate	%
H1 2021	5.0
2021 trend forecast	●
2022 trend forecast	●
2023 trend forecast	●

Take-up	Gross (m²)	Net (m²)
Q1 2021*	3 400	3 400
2021 trend forecast	●	●
2022 trend forecast	●	●
2023 trend forecast	●	●

* - latest available data

3 largest projects under construction:

Building	Developer
City Island	KFK
Infobip Campus (Alpha Centauri)	Radnik
BHB Domus	BHB

Size of average transaction (m²) and YoY trend	8,300 ▲
Market balance (Tenant, Landlord, Neutral)	Neutral
Under construction area (m²)	4,200
Rental rates (EUR/m²/month)	Class A: 12 Class B: 9
Rental rates trend YoY	●
Main developers/owners/landlords	GTC, KFK, VMD, Sigma, Kamgrad
Other popular secondary city markets	Rijeka, Split
Prime yields	7.5%
% share of office in total investment volume	6%
Total investment volume H1 2021 (EUR)	227,410,000

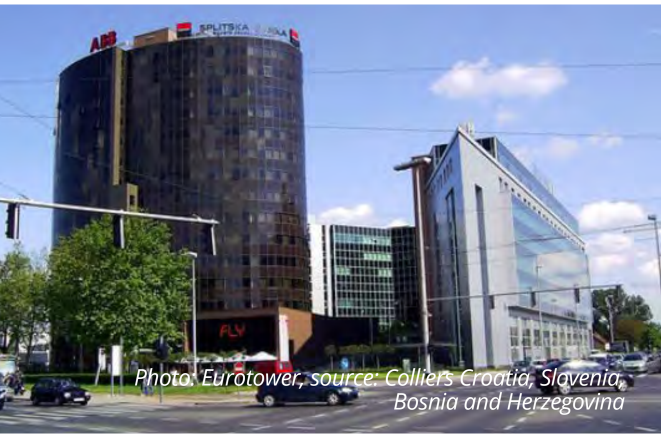
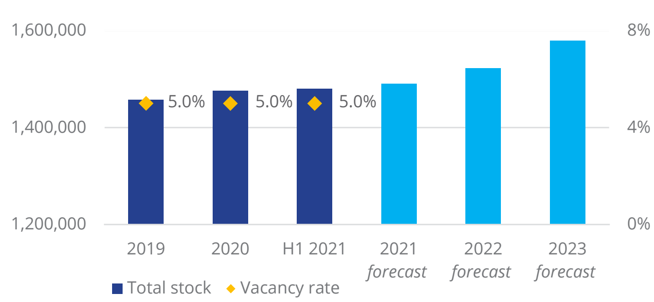


Photo: Eurotower, source: Colliers Croatia, Slovenia, Bosnia and Herzegovina

Total office stock (m²) evolution and vacancy rate (%)



Market update

Zagreb's office market had suffered disruptions from both COVID-19 as well as the earthquakes that damaged several older buildings that were used as offices in the central business district. Due to these reasons, demand increased, while the stock of modern A class buildings was already limited, creating a scarcity of available office space. However, this was somewhat mitigated by remote working habits that were already present and established due to the epidemic. There are several new office projects under construction and in the pipeline, most of which are built-to-suit. Demand will remain high for modern class A offices.

Trends and forecast

Due to the onset of COVID-19 and the recent earthquakes, the majority of the leasing activity was generated by tenant relocations instead of new demand. Nevertheless, the demand is expected to increase due to a lack of suitable class A offices of larger sizes. Current vacancy is at fairly low levels and will most likely remain at those levels even after the completion of the projects in the pipeline. Average rents will remain stable in the mid-term. Class A office buildings seem to be unaffected by the changes in the market, since they are not as numerous and demand for those offices remains high. Inspite of rising work from home trends, A class offices showed resilience, despite the landlords being pressured into more flexible lease terms during the epidemic.

COVID-19 update

Most companies have returned back to offices, with the exception of IT companies that encourage employees to working from home. Nonetheless, employers now offer a more relaxed approach to working from home, with the majority of employees now having an option to work remotely at least a few days a week.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
80*	-	15,000	45% BPO 40% ITO 5% R&D 5% SSC/GBS 5% other	Zagreb, Varaždin	English, German, French, Dutch

BSS *- Business Services Sector,* ***BSCs*** *- Business Services Centres*

The business services sector in Croatia is relatively underdeveloped, although growing in recent years, with several notable companies such as Infobip and M+ Group originating from Croatia. Although the workforce is well educated, labour is relatively expensive. Furthermore, taxation is relatively high and the availability of the workforce is reducing, hampering large scale development.

Employment in the sector is steadily growing, but is dependent on the development of the companies in the sector.

Major investors are primarily domestic companies and smaller entrepreneurs, while larger corporate investors are known to establish shared service centres, such as Teva or Vertiv. Investors are mostly domestic and regional in origin, however there are several larger international investors from Western Europe and North America.

* - estimates

Czech Republic Overview

Prague Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m²)
H1 2021	3,734,900

New supply	GLA (m²)
H1 2021	53,300
2021 forecast	64,400
2022 forecast	85,900
2023 forecast	161,100

Vacancy rate	%
H1 2021	7.8
2021 trend forecast	▲
2022 trend forecast	▼
2023 trend forecast	●

Take-up	Gross (m²)	Net (m²)
H1 2021 (Q1+Q2)	183,300	94,200
2021 trend forecast	▲	▲
2022 trend forecast	●	●
2023 trend forecast	▲	▲

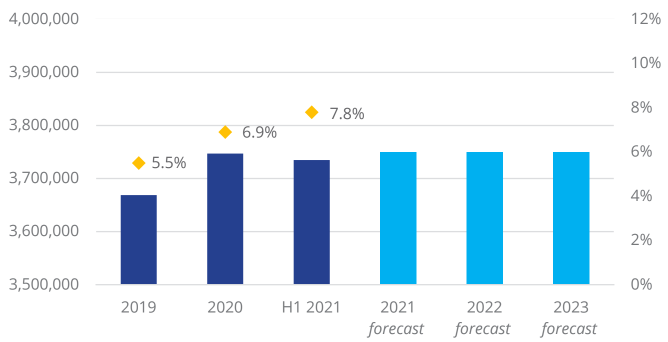
Size of average transaction (m²) and YoY trend	592 ▼
Market balance (Tenant, Landlord, Neutral)	Neutral
Under construction area (m²)	147,271
Rental rates (EUR/m²/month)	Class A: 22.5 Class B: 13.5
Rental rates trend YoY	●
Main developers/owners/landlords	CPI Property Group, Deka Immobilien, Passervinvest, Immofinanz, CA Immo
Other popular secondary city markets	Brno, Ostrava
Prime yields	4.25%
% share of office in total investment volume	45%
Total investment volume H1 2021 (EUR)	782,786,200

3 largest projects under construction:

Building	Developer
Harfa Business Centre B	Kaprain
PORT 7	Skanska
DOCK IN FIVE	Crestyl


Photo: Greenpoint, source: Colliers

Total office stock (m²) evolution and vacancy rate (%)



Market update

Total leasing activity in Prague has been stable over the last several quarters, but we have observed changes in shares of the different deal types. During 2020, renegotiations seemed to be the top priority for offices as they took over 50% of the market share. In H1 2021 we registered more new leases in existing vacant premises.

Trends and forecast

Due to the low volume of offices under construction in Prague for years 2021 and 2022, we expect a general stabilisation of the market. The increase of the vacancy rate has eased and is expected to start slowly decreasing in late H2 2021 or early H1 2022.

COVID-19 update

Subleasing will remain a topic for some upcoming quarters, but we expect it will slowly subside and will be mostly used as a short-term solution. Many companies are currently at the point to decide which work model they will implement. As companies are slowly coming back to the office, attendance is still not fully visible, as summer vacation months also arrived. Hybrid working is definitely a model that many companies are considering in the Czech Republic, as employees have successfully withstood the crash course in working from home.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
310	70	up to 120,000	41% ITO 37% SSC 13% R&D 9% BPO	**Prague, Brno, Ostrava**	**Czech, English, Slovak (used, not required)**

BSS *- Business Services Sector,* ***BSCs*** *- Business Services Centres*

The Czech Republic is a proven leader in the GBS sector in CEE with over 310 centres and rapidly approaching 120,000 people employed in them throughout the country. The Czech business services sector rose by 15% year-on year during 2020.

The country is considered a stable, resilient, and low risk country and is also well positioned geographically. Czech business service centres offer a very wide range of business services to their own businesses and clients, but there is also a strong representation from centres delivering IT services and software development, finance & accounting and HR functions.

The Czech GBS sector services almost two thirds of the globe with a main focus on the local market, the rest of CEE and western Europe. Amongst the biggest investors are top global companies like Avast, Accenture, Oracle, Honeywell and Tieto to name a few. Most centres are present in the larger cities of Prague, Brno and Ostrava which naturally attract the attention from investors. However, slightly smaller regional cities are emerging too from the shadows, usually thanks to local universities and availability of workforce due to lower living costs.

Photo: Greenpoint, Czech Republic, source: Colliers

Estonia Overview

Tallinn Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m²)
H1 2021	1,078,700

New supply	GLA (m²)
H1 2021	8,480
2021 forecast	29,080
2022 forecast	85,800
2023 forecast	68,500

Vacancy rate	%
H1 2021	7.3
2021 trend forecast	●
2022 trend forecast	▲
2023 trend forecast	▼

Take-up	Gross (m²)	Net (m²)
H1 2021	-	33,800
2021 trend forecast	-	●
2022 trend forecast	-	▲
2023 trend forecast	-	●

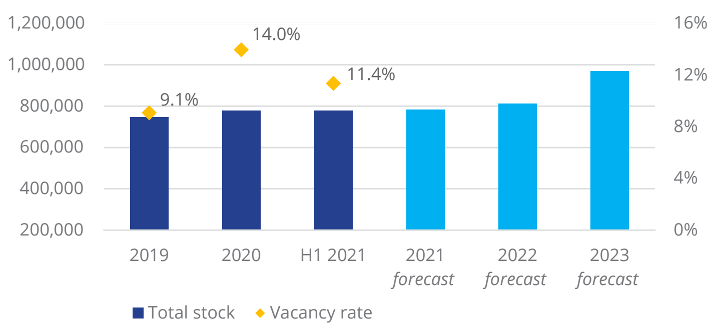
Size of average transaction (m²) and YoY trend	●
Market balance (Tenant, Landlord, Neutral)	Tenant
Under construction area H1 2021 (m²)	140,300
Rental rates (EUR/m²/month)	Class A: 14-18 Class B: 10-15
Rental rates trend YoY	●
Main developers/owners/landlords	Kapitel, Porto Franco, Mainor Ülemiste, Kaamos, Kawe, Capital Mill, Fausto
Other popular secondary city markets	Tartu
Prime yields	5.9%
% share of office in total investment volume	25%
Total investment volume H1 2021 (EUR)	45,000,000

3 largest projects under construction:

Building	Developer
Liivalaia Quarter	*Kapitel*
Porto Franco	*Porto Franco*
Sepise 7	*Mainor Ülemiste*

Photo: Meistri Business Centre, source: Hepsor Real Estate

Total office stock (m²) evolution and vacancy rate (%)



Market update

Tallinn office market is an actively developing market with a total GLA of over 140,000 m^2 (16 projects) or 13% of total stock under construction in June 2021. Exsising stock together with a high "ready-to-start" development pipeline highlights continuing developers' confidence.

In terms of occupier demand, the ICT sector continues to dominate the leasing activity, followed by the professional sector (lawyers, auditors and consultants). The office market will continue to see relocations of some large space occupiers in 2021-2024.

Vacancy continues to fluctuate around 8-9% in Class A and B1 speculative buildings, seeing a steady demand for newly built office space.

Rents for properties in good locations remain stable. Upward trajectory of the vacancy rate and downward pressure on rents is seen mostly in the Class B2 segment.

Trends and forecast

Tenants are expected to continue asking for more flexibility and landlords might be forced to continue adjusting to a new reality. Market conditions will further strengthen favourably to tenants.

COVID-19 update

Remote working and rotation-based working have become somewhat a new reality, and this is likely to have some role in office planning in the future, along with consideration of safety measures. Approximately 30-50% (up to 70%) of employees work now in the offices, while others continue to work remotely / from home.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
80+	-	9,000	-	**Tallinn, Tartu**	**English, German, Finnish, Swedish, Norwegian, Estonian**

BSS *- Business Services Sector,* ***BSCs*** *- Business Services Centres*

Estonia is an established location for BSS thanks to its high-quality, multilingual workforce, flexible business environment, and sustainable financial attractiveness.

Estonia's journey began in the 1990s as a nearshoring location of choice for Nordic companies. Since then, the sector has expanded significantly, diversifying the functions covered and up-tiering in sophistication.

According to Invest in Estonia, there are over 80 captive, BPO and ITO shared service centres in Estonia employing 8,000+ people. Traditional strengths in IT and finance are augmented by growing expertise in supply chain and HR management. IT is widely utilised, from chatbots and social media in customer service, to robotic process automation in finance.

Estonia also specialises in government services, Tallinn being home to the EU LISA centre for operational management of large-scale IT systems and the NATO Cooperative Cyber Defence Centre of Excellence.

The business services sector has grown constantly during the last 5 years, seeing the emergence and/ or expansion of new companies and centres (ABB regional shared service center, relocation of Stora Enso, expansion of Nordea, new Car.Software Estonia).

Hungary Overview

Budapest Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m²)
H1 2021	3,955,600

New supply	GLA (m²)
H1 2021	44,500
2021 forecast	63,500
2022 forecast	300,000
2023 forecast	80,000

Vacancy rate	%
H1 2021	9.8
2021 trend forecast	▲
2022 trend forecast	▲
2023 trend forecast	▼

Take-up	Gross (m²)	Net (m²)
H1 2021	172,900	96,200
2021 trend forecast	●	●
2022 trend forecast	●	▲
2023 trend forecast	▲	▲

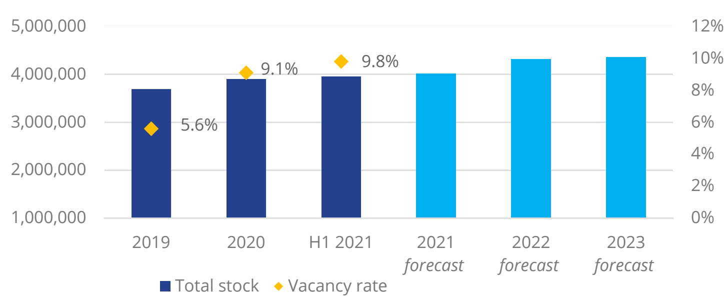
Size of average transaction (m²) and YoY trend	742 ▼
Market balance (Tenant, Landlord, Neutral)	Neutral
Under construction area H1 2021 (m²)	350,000
Rental rates (EUR/m²/month)	Class A:15-16 Class B: 11-13
Rental rates trend YoY	●
Main developers/owners/landlords	Erste Fund, OTP Fund, Diófa Fund, CPI, Indotek, Wing, GTC
Other popular secondary city markets	Debrecen
Prime yields	5.25%
% share of office in total investment volume	87%
Total investment volume H1 2021 (EUR)	655,900,000

3 largest projects under construction:

Building	Developer
Budapest One	Futureal
Liberty	Wing
Millenium Gardens	TriGranit

Photo: Liberty, source: Colliers Hungary

Total office stock (m²) evolution and vacancy rate (%)



Market update

Total demand reached 133,730 m^2, representing an increase of 3% YoY. Renewals made up the largest share of total leasing activity with 44%, followed by new leases in the existing stock with 37%, pre-leases in new developments with 12%, while expansions reached 7%. The vacancy rate continued to increase to 9.8%, representing a 0.8 pps uptick QoQ and a 2.5 pps increase YoY. Net absorption fell into negative territory (-11,500 m^2) at the end of H1 period, as the total occupied stock decreased by 16,720 m^2 in Q2, hence the net apsorption of H1 reached 44,500 m^2 of new office space was delivered to the Budapest office market in the first half of 2021.

Trends and forecast

The Q2 2021 office market statistics showed signs of recovery from the preceding suppressed quarters but were still held back by the recent restrictions and uncertainty in the wake of the COVID-19 pandemic. Although vacancy continued to climb, leasing volumes pointed to an improvement amidst the early economic and societal normalization that is expected to continue in the months ahead.

COVID-19 update

we expect that more tenants will settle into a hybrid form of operation over the longer term. However, it is important to note that while the space of communal areas, collaborative spaces will increase, the proportion of office space will not decrease because a denser seating plan will be considered. The partial home office approach will probably stay as a common practice, but the full-time home office is also not a sustainable option for most companies over the long term due to innovation, growth and personal collaboration perspectives.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
200	40	74,000	**70% SSC 30% BPO**	Budapest, Debrecen, Székesfehérvár, Miskolc, Pécs, Szeged	**English, German, Italian, Dutch, Spanish, French**

***BSS** - Business Services Sector, **BSCs** - Business Services Centres*

The migration of services out of Hungary is growing slowly by a few percent annually, representing that the Hungarian SSC industry reached its maturity level. Finance and accounting is the most inbound migrated service and it is the most outbound as well. This means that low value-added services are being outsourced or migrated, while the mature Hungarian SSC environment takes more complex services into its portfolio.

Most employees in SSCs in Hungary are working in the finance area, IT and in the customer services area. With its 205 service centers and more than 73,800 employees, the sector has a track record of steady growth and increasing diversity. The second most popular location for SSCs in Hungary is Debrecen, followed by Szeged and Pécs. These are all Tier 2 cities with university backgrounds.

The main 5 investors come from the IT, finance and banking sectors: Deutsche Telekom IT Solutions with 2,600-2,700 employees, Tata Consultancy Services with 2,500-2,600 employees, Citi Service Center with 2,500 employees, IBM Client Innovation Centre with 2,300 employees and British Petrol with 2,000 employees.

The top 10 investors originated from the US (60%), UK (20%),Germany (10%) and India (10%).

Latvia Overview

Riga Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m²)
H1 2021	778 ,100

New supply	GLA (m²)
H1 2021	0
2021 forecast	6,400
2022 forecast	30,400
2023 forecast	181,300

Vacancy rate	%
H1 2021	11.4
2021 trend forecast	▼
2022 trend forecast	●
2023 trend forecast	▲

Take-up	Gross (m²)	Net (m²)
H1 2021	22,000	22,000
2021 trend forecast	●	●
2022 trend forecast	▲	▲
2023 trend forecast	▲	▲

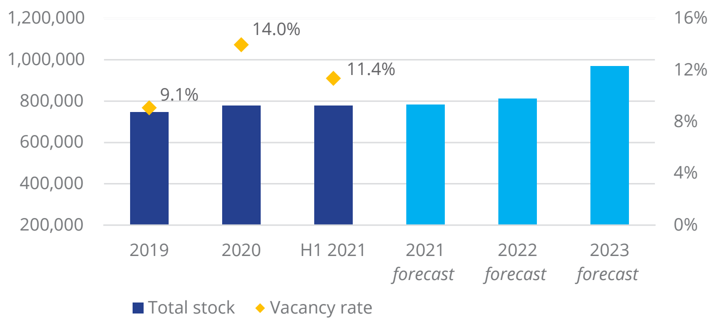
3 largest projects under construction:

Building	Developer
Novira Plaza	Novira Capital
Preses Nams (stage I)	Lords LB
Verde (stage I)	Capitalica

Size of average transaction (m²) and YoY trend	750 ▲
Market balance (Tenant, Landlord, Neutral)	Tenant
Under construction area H1 2021 (m²)	88,963
Rental rates (EUR/m²/month)	Class A:14-16, Class B: 10-14
Rental rates trend YoY	●
Main developers/owners/landlords	Eastnine, Lords LB, Hanner, Linstow, Galio, Capitalica
Other popular secondary city markets	None
Prime yields	5.8%
% share of office in total investment volume 2020	29%
Total investment volume 2020 (EUR)	330,974,000

Photo: Gustavs BC, source: Galio

Total office stock (m²) evolution and vacancy rate (%)



Market update

In addition to the three large office projects currently under construction in Riga: Verde, Preses Nams and Novira Plaza, construction works on Zeiss office building commenced in Q2. Currently there are around GLA 89,000 m^2 of mostly class A office space under construction. Even though class A vacancy level is still quite high, the office space is being absorbed and projects like Origo One are fully let one year after completion. Interest from potential tenants remain, however larger companies are currently trying to redefine their workplace strategies for the post-covid period and are expected to come back with new strategies and the required office areas during late 2021.

Trends and forecast

The vacancy rate is expected to decrease in 2021, as companies are returning to offices and more people are getting vaccinated. there is also an overall positive trend in the epidemiological situation in Latvia. We expect vacancy to increase in 2023 as there will be ca. 218,000 m^2 of office space delivered to the market. We expect that the gross and net take-up trend will increase in 2022-2023, as companies will return to the office post-pandemic and the increase in supply will lead to an increase in demand.

COVID-19 update

It is expected that many professionals will return to offices during autumn, considering positive epidemiological situation and vaccination rates, but the situation is still uncertain, as it is expected that during the autumn and winter the number of covid cases will rise. During lockdown companies were pressured to shift their working model to remote work and it helped to prove that it is possible to achieve similar results while working from home, thus the hybrid model is becoming more popular and it is expected that some companies will continue remote working practice in the future. Currently companies are reevaluating the workplace strategies.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
65	11	15,600	**40% BPO 39% ITO 32% SSC 12% hybrid**	Riga	**English, Latvian, Russian**

BSS *- Business Services Sector,* ***BSCs*** *- Business Services Centres*

BSS in Latvia is steadily growing, but it is not yet mature. While many economic sectors struggled because of the pandemic, there was a 7% growth in the business services sector. A large share of companies are also planning to expand their operations and attract more employees over the coming years. Recent advancements in the effectiveness of administration processes for priority investment projects, implemented by the Latvian government, as well as the improved supply and availability of both class A and B office office premises, are expected to positively impact BSS growth in the near future.

The number of employees is growing, as a large share of BSS companies (especially from the IT industry) are offering better wages and benefits to their employees, but there is strong competition for highly skilled professionals among companies, especially in the aftermath of the pandemic. Improving immigration processes, as well as existing workforce reskilling, will help to grow the number of employees working in BSS.

Many of the investors are widely known global companies, that decided to select Latvia because of its unique geographical location and highly skilled multilingual workforce. A large share of investors represent the IT industry, as well as data analytics, finance and accounting and commercial and professional service industries. Almost half of all BSS companies originate from Scandinavia and that can be explained by the geographical proximity, similarities between cultures, direct flight frequency, similar time zones and availability of multilingual and highly skilled professionals. Investors from other European countries, include Germany, Finland, Switzerland, as well as the USA.

Photo: Verde, Latvia, source: Capitalica

Lithuania Overview

Vilnius Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m²)
H1 2021	892,000

New supply	GLA (m²)
H1 2021	36,500
2021 forecast	105,900
2022 forecast	132,900
2023 forecast	105,100

Vacancy rate	%
H1 2021	7.9
2021 trend forecast	▲
2022 trend forecast	▲
2023 trend forecast	▲

Take-up	Gross (m²)	Net (m²)
H1 2021	36,600	31,200
2021 trend forecast	●	●
2022 trend forecast	●	●
2023 trend forecast	●	●

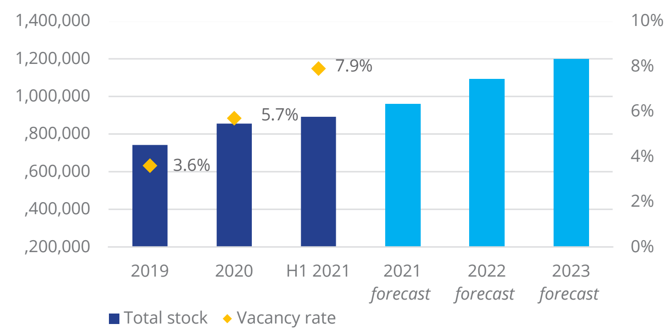
Size of average transaction (m²) and YoY trend	780 ▼
Market balance (Tenant, Landlord, Neutral)	Tenant
Under construction area (m²)	209,000
Rental rates (EUR/m²/month)	Class A: 14-17 Class B: 9-14
Rental rates trend YoY	●
Main developers/owners/landlords	Vastint Lithuania, Lords LB Asset Management, Galio Group, Hanner, Darnu Group
Other popular secondary city markets	Kaunas
Prime yields	5.5%
% share of office in total investment volume	19.3%
Total investment volume H1 2021 (EUR)	329,440,600

3 largest projects under construction:

Building	Developer
Cyber City	VK investicija
Core BC	Baltijos Gildija
Business Garden Vilnius (part of stage I)	Vastint Lithuania

Photo: Artery, source: Lords LB Asset Management

Total office stock (m²) evolution and vacancy rate (%)



Market update

In H1 2021, the Vilnius office market maintained stability, recording an increase of office stock by 36,500 m². The development pipeline increased up to 209,000 m², while demand for office space picked up due to an improving business sentiment and gradual return to offices on the back of the accelerating vaccination process. The leasing market saw office deals mainly below the threshold of 1,000 m². Office rental rates remained stable compared to the end of 2020, while overall market vacancy increased, mostly due to large vacancies opened in existing stock.

Trends and forecast

New office developments in Vilnius are expected to increase the vacancy level, although its growth will be hampered by the growing office demand from companies returning to the office environment and actively expanding SSCs. Overall, market conditions will remain favorable to tenants. Rising construction prices will pose a risk to rental growth if left unmanaged.

COVID-19 update

Uncertainty remains in the market, albeit a growing number of companies are opting for hybrid work models, which is likely to impact workspace solutions and demand for office space. The office is now perceived not only as a workplace. In a broader sense, it is a space for cooperation and meetings, that encourages employee communication and community spirit. The IT sector holds a leading position in this field.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
85	16	20,170	**69% GBS 13% ITO 10% R&D 8% BPO**	**Vilnius, Kaunas**	**English, German, Swedish, French, Italian**

BSS *- Business Services Sector,* ***BSCs*** *- Business Services Centres*

Despite the challenges presented by the global pandemic, Lithuania's business services sector continued to grow in 2020, which translates to over 20,000 people employed in the sector, which is 4.5% more compared to the previous year and slightly less than the average of the last five years.

Despite the growing maturity of the sector, Lithuania remains one of the least saturated locations in Europe with a large untapped potential due to its well-developed digital infrastructure and sufficient number of highly skilled specialists.

Companies in the SSC and IT sectors make up key tenants of the business centres, of which the largest lease agreement for 15,000 m² office space was signed by Western Union in 2020. To add more, many existing market players have plans to expand by strengthening their current functions or broadening the range of functions. Vilnius remains the most popular location among the companies in this sector. This is evidenced by the newcommers that all chose Vilnius in 2020. 40% of all business services companies are headquartered in the United States, while more than 50% of the sector's workforce are employed by the Nordics centres.

By number of centres, the ICT sector continues to be a leader, comprising 41% of all business services centres in Lithuania belonging to the Information Technology & Services category. Meanwhile, Financial Services and Research currently make up 51% of the industry's total employment.


CORE

Photo: Core, Lithuania, source: Baltijos Gildija

Montenegro Overview

Podgorica Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m^2)
H1 2021	77,300

New supply	GLA (m^2)
H1 2021	0
2021 forecast	0
2022 forecast	10,000
2023 forecast	0

Vacancy rate	%
H1 2021	12.5
2021 trend forecast	●
2022 trend forecast	●
2023 trend forecast	●

Take-up	Gross (m^2)	Net (m^2)
H1 2021	65,700	65,700
2021 trend forecast	●	●
2022 trend forecast	●	●
2023 trend forecast	●	●

Size of average transaction (m^2) and YoY trend	●
Market balance (Tenant, Landlord, Neutral)	Neutral
Under construction area H1 2021 (m^2)	10,000
Rental rates (EUR/m^2/month)	Class A:17 Class B: 8-14
Rental rates trend YoY	●
Main developers/owners/landlords	Abu Dhabi Financial Group, Celebic, Zetagradnja
Other popular secondary city markets	Budva
Prime yields	9-10%

largest project under construction:

Building	Developer
Zetagradnja (mixed use)	Zetagradnja

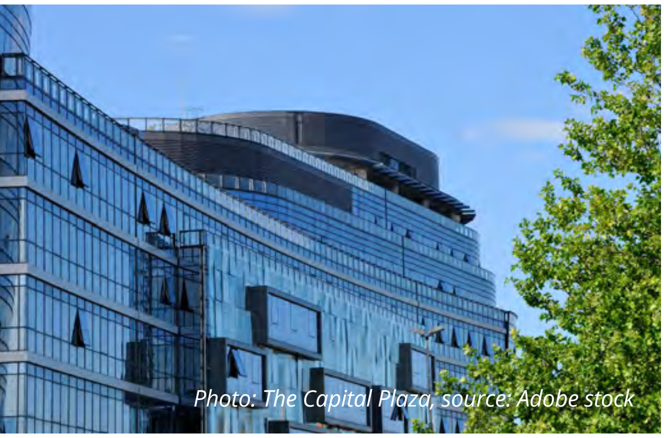
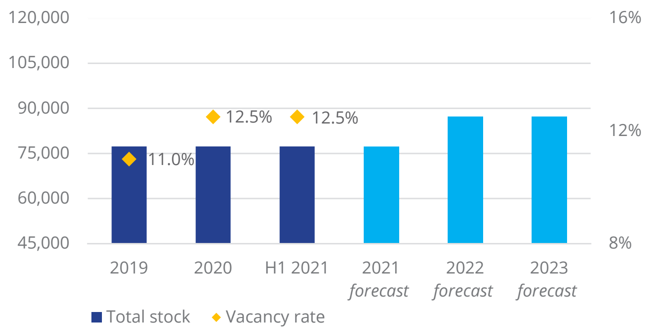


Photo: The Capital Plaza, source: Adobe stock

Total office stock (m^2) evolution and vacancy rate (%)



Market update

The core of business activity is located in Podgorica, and therefore represents the main business hub of Montenegro. As development of the capital continues to grow, new investors and developers are researching new potential areas for construction of new office properties. As demand continues to drive the market, the market is ready for a steady comeback from the COVID-19 crisis.

Trends and forecast

While demand has remained mostly stable over the past year, many business owners have found themselves in a difficult situation. The combined efforts of landlords and government institutions have resulted in a somewhat stable solution with contract renegotiations, or agreeing to grant credit notes to tenants for the duration of last year's lockdown period. As a relatively small market, Montenegro has managed to make the best of a very problematic economic period.

COVID-19 update

While many larger companies have opted to organize staff to work from home, the trend of working remotely still has not caught up with the other western countries. The smaller companies have a relatively low number of employees, additionally a large percentage of companies operates in the service and hospitality industry what combined results in low rate of remote working people. Still, with new startups popping up around the country, work is slowly starting to be organized from home, with many agreeing on a positive impact on efficiency.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
5	0	510	**50% BPO** **30% SSC/GBS** **20% ITO**	Podgorica	**English**

BSS *- Business Services Sector,* ***BSCs*** *- Business Services Centres*

Montenegro has a somewhat underdeveloped market for business services outsourcing. However, for a long time the country has been relatively "freelancer-friendly", with many young professionals choosing to work remotely from home and use their craft on the international market. Over time, investors and companies have aknowledged Montenegro as a potential market for affordable labor force.

While Podgorica has remained the most popular destination for investors and companies to open shop, especially in financial and banking services, smaller startups working in logistics have popped up all around the country, aiming at the American market.

With international offices continuing to open on the market, the number of employees continues to grow from year to year. As the popularity of the market continues to grow, research indicates that outsourcing in Montenegro will further expand in the following years.

Investors are mostly from the financial and banking services industries, with some smaller activity in logistics and teaching, mostly foreign languages. Investors for the largest amount of activity originate from the United States, with larger investors also coming from Asia.

Poland Overview

Warsaw Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m^2)
H1 2021	6,095,700

New supply	GLA (m^2)
H1 2021	226,300
2021 forecast	337,330
2022 forecast	238,700
2023 forecast	57,300

Vacancy rate	%
H1 2021	12.5
2021 trend forecast	▲
2022 trend forecast	●
2023 trend forecast	▼

Take-up	Gross (m^2)	Net (m^2)
H1 2021	249,300	148,300
2021 trend forecast	●	●
2022 trend forecast	▲	▲
2023 trend forecast	▲	▲

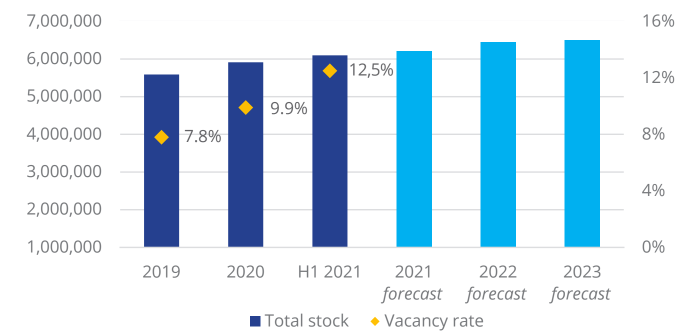
3 largest project under construction:

Building	Developer
Varso Tower	HB Reavis
Forest (Tower)	HB Reavis
Fabryka Norblina	Capital Park

Size of average transaction (m^2) and YoY trend	1,050 ▼
Market balance (Tenant, Landlord, Neutral)	Tenant
Under construction area H1 2021 (m^2)	329,000
Rental rates (EUR/m^2/month)	Class A:12.5-24.5 Class B: 10-18
Rental rates trend YoY	▼
Main developers/owners/landlords	Ghelamco, Echo Investment, HB Reavis, Skanska Property Poland, GTC
Other popular secondary city markets	Kraków, Wrocław, Trójmiasto, Katowice, Łódź, Poznań
Prime yields	4.7%
% share of office in total investment volume	31%
Total investment volume H1 2021 (EUR)	2,535,000

Photo: Skysawa, Poland; source: PHN

Total office stock (m^2) evolution and vacancy rate (%)



Market update

The stock of modern office space in Warsaw now exceeds the level of 6 million m^2. In H1 2021, developers delivered 226,300 m^2 which is more than twice much as in H1 2020. The vacancy rate increased by 4.6 p.p. compared to H1 2020 and at the end of Q2, it was 12.5%, which means that the availability of office space amounted to approximately 759,600 m^2. Since the beginning of the year, tenants have leased 249,300 m^2, which is 25% less than in H1 2020. The largest transactions concluded in Q2 2021 were the renegotiation of a confidential tenant in the Senator (20,640 m^2) and a new agreement of the Warsaw City Hall in Widok Towers (11,300 m^2).

Trends and forecast

The global situation remains uncertain which is why in many companies the decision-making processes around new leasing agreements have slowed down. The tenants are reviewing their options and needs for office space. The number of subleases, as well as renegotiations, will increase as the tenants tend to postpone their decisions to relocate, preferring instead to renegotiate their current contracts for more favourable terms.

COVID-19 update

According to the survey conducted by Colliers in Q2 2021 - 60% of companies currently work remotely, 34% in hybrid models and only 6% from the office only. 77% of companies plan to introduce a hybrid model on a permanent basis. Employers most often declare their willingness to keep working remotely to 2 or 3 days a week.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
1,602	148	355,300	**47% IT 25 % SSC/GBS 15% BPO 13% R&D**	**Warsaw, Kraków, Wroclaw, Trójmiasto, Poznań**	**English, German, Polish, French, Spanish, Italian**

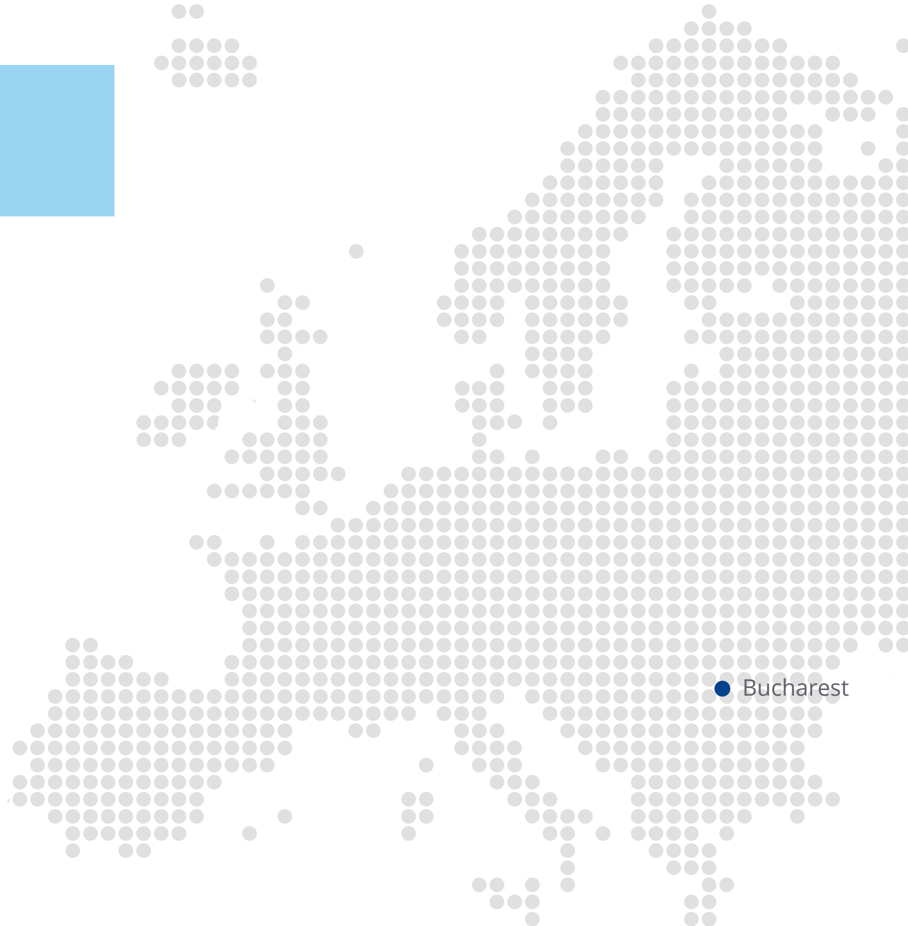
BSS *- Business Services Sector,* ***BSCs*** *- Business Services Centres*

In H1 2021, over 1,600 Polish and foreign business services centers were operating in Poland, including BPO, SSC/GBS, IT and R&D entities. In 2020, 65 new centers began operations, while in H1 2021 - it was 9. Foreign centers dominated the new investments in 2020 and 2021. The share of the three largest business services centers - Kraków, Warsaw and Wrocław in the overall number of new centers was 53%. The number of new centers being established each year has been decreasing for the last three years.

The number of employees at centers in Poland in H1 2021 was 355,300. In comparison with Q1 2020, it is an increase of 13,500 (3.9% growth), of which 68% was in three main locations (Kraków, Warsaw, Wrocław). The employment growth rate is declining, which is a symptom of the sector entering a mature phase.

New centers being established since the beginning of 2021 are mainly by US investors (32.4%) who overtook Polish investors that held the top position in the prior year (17.6%). They are followed by entities from Germany, the UK, Denmark, the Netherlands, Sweden, France and Spain. Investors from an additional 8 countries each opened a single center. In total, investors came from 17 different nations.

Romania Overview



Bucharest Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m²)
H1 2021	3,001,600

New supply	GLA (m²)
H1 2021	46,000
2021 forecast	266,700
2022 forecast	65,000
2023 forecast	80,000

Vacancy rate	%
H1 2021	15.75
2021 trend forecast	▲
2022 trend forecast	▲
2023 trend forecast	▼

Take-up	Gross (m²)	Net (m²)
H1 2021	112,600	31,700
2021 trend forecast	▼	▼
2022 trend forecast	●	●
2023 trend forecast	▲	▲

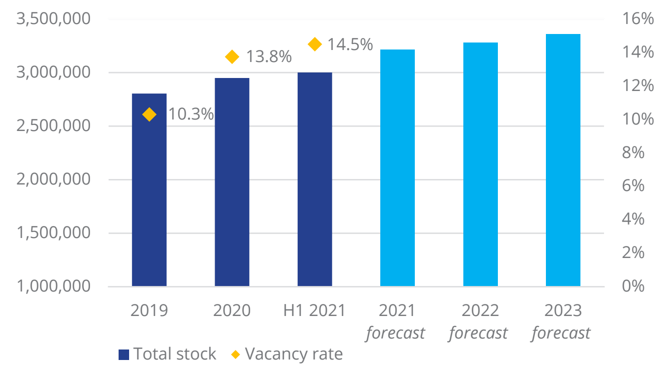
3 largest projects under construction:

Building	Developer
J8 Office Park	Portland Trust/ARES Management
One Cotroceni Park	One United Properties
U-Center	Forte Partners

Size of average transaction (m²) and YoY trend	●
Market balance (Tenant, Landlord, Neutral)	Tenant
Under construction area (m²)	212,000
Rental rates (EUR/m²/month)	Class A: 18 Class B: 12
Rental rates trend YoY	●
Main developers/owners/landlords	Globalworth, AFI Europe, Immofinanz, CA Immo, River Development
Other popular secondary city markets	Cluj-Napoca, Timisoara, Iasi
Prime yields	6.75%
% share of office in total investment volume	66%
Total investment volume H1 2021 (EUR)	289,500,000


Photo: Oregon Park, source: Colliers Romania

Total office stock (m²) evolution and vacancy rate (%)



Market update

Demand-wise, the Bucharest office market is having one of its poorest years in the last decade, with new demand down some 20% versus H1 2019 and at less than half compared to a very good year like 2018. With vacancy already in double-digits and a fairly robust pipeline for 2021, this is very much a tenants market.

Trends and forecast

While far from set in stone, it looks like companies will adapt a hybrid work regime, which could lead to a lower need for offices and, in turn, feed into a higher vacancy over the next years, as renewals will happen. As vacancy may top 20% in the next couple of years, the market looks set to remain a tenant-driven one for the time being. There is a clear differentiation between modern, class A buildings and the older, less qualitative stock, with the latter likely to suffer more.

COVID-19 update

Returning to the office en masse remains a function of mass immunity and as Romania is lagging other EU countries in terms of vaccination, large companies have delayed prompting their employees to come back into the office. Based on Colliers surveys, a hybrid work regime, with a lower and heavier focus on remote work from sector to sector, looks to be the norm in most cases.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
215	16	~200,000	**56% SSC/GBS** **19% BPO** **18% ITO** **7% R&D**	**Bucharest, Timisoara, Cluj-Napoca, Iasi, Brasov**	**English, French, German**

BSS *- Business Services Sector,* ***BSCs*** *- Business Services Centres*

The business services sector has continued to expand in recent years, though the labour market is getting tighter and tighter, meaning that the market is expanding more or less largely driven by graduates rather than labour market slack.

Without looking at pure IT&C operations, there are about 140,000 employees in business service centers in Romania, so including the former would likely lead the overall figure to over 200,000 employees.

Investors in the Romanian business services sector are varied companies, from all sorts of economic sectors, from manufacturing firms outsourcing some operations here to pure service companies. It is also noteworthy that Romania is host to all sorts of operations, from those handling simple operations like call centers to complex operations (like R&D, cybersecurity) employing highly qualified individuals.

Investors are mainly coming from advanced economies, mostly European and Northern American countries.

Slovakia Overview

Bratislava Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m²)
H1 2021	1,956,200

New supply	GLA (m²)
H1 2021	32,950
2021 forecast	52,730
2022 forecast	100,870
2023 forecast	77,500

Vacancy rate	%
H1 2021	12.2
2021 trend forecast	▲
2022 trend forecast	▲
2023 trend forecast	●

Take-up	Gross (m²)	Net (m²)
H1 2021	96,700	66,700
2021 trend forecast	▲	▲
2022 trend forecast	▲	▲
2023 trend forecast	●	●

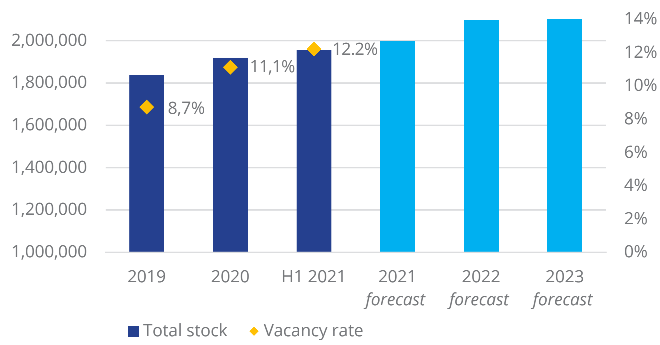
Size of average transaction (m²) and YoY trend	680 ●
Market balance (Tenant, Landlord, Neutral)	Tenant
Under construction area H1 2021 (m²)	52,730
Rental rates (EUR/m²/month)	Class A:15 (prime 16.5) Class B: 12.5
Rental rates trend YoY	▼
Main developers/owners/landlords	HB Reavis, J&T, Penta
Other popular secondary city markets	Kosice
Prime yields	5.3%
% share of office in total investment volume	0.2%
Total investment volume H1 2021 (EUR)	600,813,000

3 largest project under construction:

Building	Developer
Mlynske Nivy Kosicka	HB Reavis
New Apollo	HB Reavis
Pribinova Y Eurovea 2	J&T


source: Shutterstock

Total office stock (m²) evolution and vacancy rate (%)



Market update

Bratislava's office market has started to show signs of recovery. With the wakening of development activity, construction costs are rising considerably for both offices and other property types. Developers are trying to maintain headline rents, but provide more incentives in the form of prolongued rent-free periods and higher fit-out contributions. Subletting activity persists with most of the players looking to sublet 10-30% of their existing office premises. Home office remains popular and we see this trend contributing to longer terms changes in the nature of the working environment.

Trends and forecast

Reduction of the office space used is expected to be a hot topic in the market. Flexible office spaces are seen to attract more attention from tenants, offering an option of greater resilience even though at higher costs. Landlords are seen to continue enhancing incentive packages slightly, but mainly for renegotiation deals.

COVID-19 update

Sub-leasing activity has increased with companies looking for cost-cutting opportunities.

Flexible office spaces could be a viable option to attract tenants with more flexible and shorter-term requirements, with a view of converting them into longer term tenants further down the line.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
70	12	37,000+	-	**Bratislava, Kosice, Trnava, Zilina**	**English, German, French, Italian, Czech, Bulgarian, Hungarian, Polish**

BSS *- Business Services Sector,* ***BSCs*** *- Business Services Centres*

The business services sector is dynamically expanding in Slovakia. Thanks to the availability of a qualified labour force and its performance, BSCs in Slovakia are evolving towards centers with higher added–value with greater emphasis on the quality of their services. On top of that, more and more BSCs are moving up their value chain by creating Centers of Excellence with specialized positions. While new SSCs & BPOs continue to be set up in Slovakia, the majority of growth and expansion of this market is triggered by already established centers and related companies.

Currently the sector employs more than 37,000 professionals with the number of SSCs and BPOs expected to increase in future. There are several SSC & BPO companies with employees exceeding 1,000 FTE. The majority of centers in Slovakia employ up to 200 FTE.

The Slovak BSS landscape is dominated by large companies originating from the US and Western Europe.

More specifically, investors originated from mainly from Europe (63%), North America (28%), Asia (8%) and South America (1%).

Slovenia Overview

Ljubljana Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m^2)
H1 2021	1,000,000

New supply	GLA (m^2)
H1 2021	0
2021 forecast	0
2022 forecast	24,000
2023 forecast	23,000

Vacancy rate	%
H1 2021	4.0
2021 trend forecast	●
2022 trend forecast	●
2023 trend forecast	●

Take-up	Gross (m^2)	Net (m^2)
H1 2021	26,000	-
2021 trend forecast	●	-
2022 trend forecast	●	-
2023 trend forecast	●	-

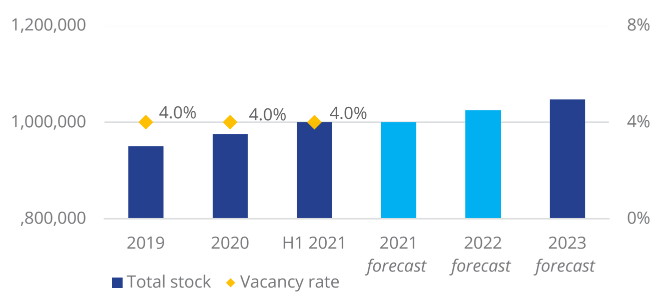
Size of average transaction (m^2) and YoY trend	4,600 ▼
Market balance (Tenant, Landlord, Neutral)	Neutral
Under construction area H1 2021 (m^2)	10,300
Rental rates (EUR/m^2/month)	Class A:13 Class B: 9
Rental rates trend YoY	●
Main developers/owners/landlords	Strabag, Generali, Trigal, BTC d.d., MCL RE, Reitenburg Group
Other popular secondary city markets	Maribor
Prime yields	7.5%
% share of office in total investment volume	6%
Total investment volume (EUR)	118,729,900

3 largest projects under construction:

Building	Developer
Palais Schellenburg	Reitenburg Group
DCO Strabag	Strabag
Business Centre Šiška	RP investicije

Photo: Feniks Business Center, source: Colliers Croatia, Slovenia, Bosnia and Herzegovina

Total office stock (m^2) evolution and vacancy rate (%)



Market update

Slovenia had more restrictive measures during the epidemic, with several lockdown periods that extended into Q1 2021. However, most office buildings remained open during the lockdowns. Companies that implemented remote work procedures during the lockdowns have been negotiating rental incentives, rent-free periods and early contract breaks. Properties with a stronger tenant covenant proved to be more resilient than those dependent on tenants in the fields that were distressed by the epidemic, such as airlines, tour/event operators and tourist agencies. The overall stock mostly consists of smaller and older premises with only a small number of modern class A offices. Demand is therefore high for newly built modern offices within the city centre.

Trends and forecast

Average rent in competitive stock is stable for class A offices and is currently in the range of EUR 14 to EUR 17 per m^2. We expect the average rents for class A properties in Ljubljana to remain stable in the coming period due to the low vacancy rate and limited pipeline. As a result of the new supply shortage, the average vacancy rate in class A buildings in Ljubljana will remain low, at around 4%.

COVID-19 update

When compared to Croatia and Bosnia and Herzegovina, Slovenian companies seem to have mostly embraced working from home even after the initial lockdowns, wheather fully or partially working from home/remotely.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
70	-	10,000	**45% BPO 40% ITO 5% R&D 5% SSC/GBS 5% other**	**Ljubljana, Maribor, Koper**	**English, German, French, Dutch**

BSS *- Business Services Sector,* ***BSCs*** *- Business Services Centres*

The business services sector in Slovenia is relatively underdeveloped, hampered by relatively high labour costs and taxes. Nonetheless, the market is still in its infancy and investors recongise the advatages of the highly educated workforce in a central European location.

The number of employees in the sector is growing, however, the availability of the workforce is relatively low.

Investments usually come from private investors or smaller companies, while larger institutional investors are rare. Investors are primarily domestic or European companies.

Ukraine Overview

Kyiv Office Market

▲ increase, ▼ decrease, ● stable

Total office stock	GLA (m²)
H1 2021	2,218,000

New supply	GLA (m²)
H1 2021	71,000
2021 forecast	201,000
2022 forecast	136,800
2023 forecast	178,700

Vacancy rate	%
H1 2021	11.1
2021 trend forecast	●
2022 trend forecast	▲
2023 trend forecast	▲

Take-up	Gross (m²)	Net (m²)
H1 2021	60,000	-
2021 trend forecast	▲	-
2022 trend forecast	▲	-
2023 trend forecast	▲	-

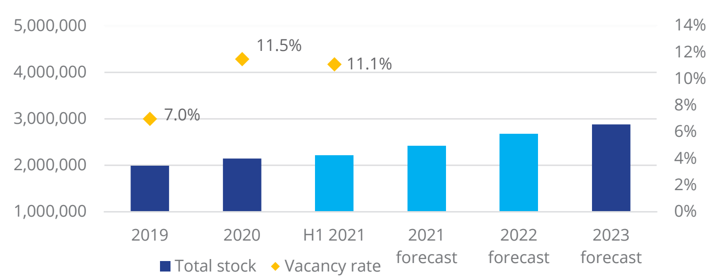
Size of average transaction (m²) and YoY trend	2,000 ▼
Market balance (Tenant, Landlord, Neutral)	Neutral
Under construction area H1 2021 (m²)	286,500
Rental rates (EUR/m²/month)	Class A: 19-26 Class B: 12-20
Rental rates trend YoY	▲
Main developers/owners/landlords	KAN Development, Forum Management Group, UDP, CAPITAL Group, Kovalska Industrial-Construction Group, NEST, KDD
Other popular secondary city markets	Dnipro, Kharkiv, Odessa, Lviv
Prime yields	11.5%

3 largest projects under construction:

Building	Developer
BC Mag.nett	Local Developer
Business Park NUVO	Kovalska & KDD Ukraine
Business Park Unit.City	UDP

Photo: Nuvo Business Park, Source: Colliers Ukraine

Total office stock (m²) evolution and vacancy rate (%)



Market update

In comparison to 2020, the office market in Ukraine is more adapted to the current situation and realities. In general, the office real estate market is at a fairly stable level, in contrast to other periods of financial crisis. In the Ukraine, as in other parts of the world, many companies have noticed a significant decrease in the efficiency of employees when working from home mode, and are reducing the amount of time spent working remotely and gradually returning to the office. However, there are also some companies that plan to continue working remotely or on a hybrid basis more permanently. Overall, the office real estate market is beginning to recover gradually.

Trends and forecast

In general, all trends will directly depend on the economic situation in Ukraine. While observing a positive outlook of the Ukrainian economy and the tendency of growth in the IT industry, an increase in demand for offices is expected as far as the IT sector is a key demand driver. Considering a high demand for IT specialists in Kyiv, IT companies also started to expand operations in other cities beside capital. The size of office space per employee is still the same (~10 m^{2}/person), whereas the configuration of office space is changing (isolated places for virtual meeetings, special places for personal and team work, hot desking, etc.). With the aim to win a competitive advantage on the market, developers go beyond construction of office walls and create the whole ecosystem for a productive working environment (well-organized common areas, retail and food&beverages premises, sport and walking areas, high-quality air conditioning systems).

COVID-19 update

In Ukraine, despite COVID-19, a lot of companies are not going to abandon office work. In most cases, this is about domestic companies. However, from the very begining of the pandemic, IT companies as well as international companies switched to the remote format of working. Nowadays, Ukrainian representative offices of international companies are gradually returning employees to offices in accordance with the global policy of their HQ. Moreover, many office centers opened a vaccination point for employees with the aim to accelerate the pace of vaccinations.

Business Services Sector

Total number of BSCs	Number of BSCs opened since Q1 2019	Employment in BSCs	Structure of BSS	Cities with the largest number of BSCs	Typical languages used / required
150+	-	190,000	57% ITO 31% R&D 8% SSC/GBS 5% BPO	Kyiv, Lviv, Kharkiv, Odessa	Ukrainian, Russian, English

***BSS** - Business Services Sector, **BSCs** - Business Services Centres*

Ukraine has emerged as a popular location for business service centers. Moreover, Ukraine has regularly been recognized as one of the most popular IT outsourcing destinations. The country offers quite a large labor force with around 190,000 employees currently in business service centers. The workforce is expected to grow and reach 242,000 by 2025 (27% growth). With 14 million people in the Ukrainian labor force have acquired extensive skills and an advanced education, human capital is a key resource and driver for developing the business service sector in Ukraine.

Ukraine's IT industry has grown, from USD 1.9 billion in 2016 to USD 5 billion in 2020. A further boost of the IT sector is anticipated due to the recent launch of the special legal framework - Diia City. IT companies receive a special taxation model, flexible employment conditions and a special procedure to interact with regulators.

Main investors include Epam, IBM, Samsung, Huawei, Google, Nestle, PWC, EY, KPMG, Delloite, AB InBev, Siemens. Generally, the BPO and SSC sector represents foreign companies, especially from the USA and Europe. There are also several cases of ITO and R&D centres being located in Ukraine.


Photo: Nuvo Business Park, Ukraine, source: Colliers Ukraine

Future Location Strategies

Business Services Centres (BSCs) account for a significant proportion of Central Europe's office space take-up. BSC headcount growth projections typically ranged between 10 and 15% year-on-year throughout the last decade however, the Covid pandemic has changed that outlook and the ensuing need for office space.

Painting an even more gruesome outlook, some "prophets" predict a "location-agnostic" era for BSCs. How right are they? Will increased work-from-home drastically alter the BSC office landscape? Should we expect significantly different Location Strategies going forward?

The Covid pandemic only underscored what Physics Nobel laureate Niels Bohr said nearly a century ago. "Prediction is very difficult, especially if it is about the future."

Just recall what many of the "expert opinion makers" on BSCs stated early and mid-2020. Some predicted the end of the office, others advocated massive reshoring to Central Europe. Then there were those that believed BSCs would not be able to cope with the pandemic's lockdowns. With today's benefit of hindsight, it is fair to say that none of them got it right.

Meanwhile, BSC strategists and leaders need to carve out the way forward for their operations. A balanced view on some the key options they face, and how that might impact Central Europe's office landscape is due.

Location agnostic strategies

The view is that with the ever-accelerating dissemination of technology and broadband infrastructure, paralleled by people increasingly wanting to work from home, the importance of location will rapidly disappear.

There are some facts that support this view, as well as proofs of concept that justify its support.

Just take the number of people having broadband access throughout Central Europe. It averages at 77% , but with significant variations across the region. For instance, Bulgaria and Romania have internet penetration rates in the lower 60% range, whereas Czech Republic and Estonia regionally lead with 88%.

As for BSCs in particular: they have long operated remotely. Since the mid-1980s they standardised processes and skills to tap cost arbitrage and to source language and technically skilled talent on an international level.

Proof of concept is abundant. Central Europe counts around 850,000 people working in BSCs, the majority of which service markets across EMEA, if not the world.

So why couldn't that concept be taken just one step further? Could not BSC work be conducted on a far more distributed and remote basis? This would allow companies to mobilise talent where that talent resides, rather than seeking to attract it to a few cities and offices?

The idea is not that far-fetched. Think of Dell Technologies. As early as in 2009 the company launched its Connected Workplace program. That enables staff to work remotely and is viewed as a key component to attracting and retaining talent, fostering the company's culture and operations. CM2H Hill – with a Krakow-based BSC – is another example of a company that has long employed staff on a remote basis. These two cases are merely the tip of the iceberg.

The catches

As with most things, challenges to location-agnostic strategies come in three.

Photo: Core, Lithuania, source: Baltijos Gildija

Expert opinion

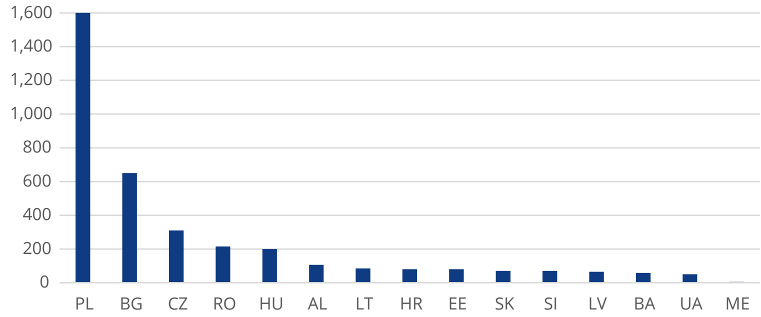
“Central Europe counts around 850,000 people working in BSCs , the majority of which service markets across EMEA, if not the world."

"The stunning observation is that in 2020 and through early 2021, around 60% of all new BSC positions have been created in Tier 3 and Tier 4 cities.”

Elias van Herwaarden
Head of Location Strategy | EMEA
Colliers

First and foremost, Europe's information superhighway still leaves significant parts of its geography devoid of adequate telecommunications infrastructure.

Secondly, ever since the Agricultural Revolution (circa 10,000 B.C.) mankind has flocked into cities. And that hasn't changed. Management Consultant McKinsey noted that a mere 4% of 1,100 cities and regions surveyed across 29 European countries are home to 20% of Europe's population. Between 2007 and 2018, these 48 "dynamic cities" accounted for 35% of Europe's net job growth, 40%, of its population growth and generated 43% of Europe's GDP increase. This raises the question as to how much and what type of talent BSCs could unlock through remote work.



Source: Colliers

Thirdly, as BSCs – particularly in CEE – take-on more value-adding work and complex processes, talent issues hamper location agnostic strategies. For one, throughout 2020 and 2021 BSC leaders reported a lack of proper management skills to guide remote teams. The problem is caused by the fact that current team leaders and middle managers grew into their positions on the basis of arms-length and daily in-person exchanges with their subordinates. They have not been equipped to coach and monitor work remotely. Another talent challenge is all about maintaining staff engagement. To date, many leaders struggle to install company culture and to build team cohesiveness by means of Zoom or Teams meetings. As a result, staff feel less attached to any particular company, with increased attrition as a dire consequence.

Changing office landscape?

Much has been said and written on the office of the future. But what is it that emerges when speaking to BSC leaders?

To be clear, in the BSC space there is no doubt that the concept of office as we knew it is dead. Just consider the Latin roots of the word. The ancient Romans already used opificium to indicate places where work is done. The shear speed at which BSCs globally switched over to working from home only underscores that a desk-equipped building no longer holds exclusivity as a place from where business services work gets done.

But, as noted earlier, the work from anywhere (WFA) concept already existed long before Covid struck. The pandemic just forced companies to accelerate and widen its usage.

Then, not all BSC processes can be handled on a WFA basis. Just consider challenges emerging from banks' data confidentiality, or the need to observe GDPR regulations. That type of work typically requires secure environments. Often in limited-access parts of BSC facilities which require staff to hand-over their smart phones before entering. Not exactly work that can be farmed-out to the proverbial kitchen table.

From office to social anchor

There are other reasons why BSCs will continue to need office floorplates. One being that the opificum is increasingly evolving into an ideamficum – a place where ideas are exchanged and innovation grows. Certainly, BSCs have done well in taking-on additional work from their corporate front-lines throughout the pandemic. But off the record, many of their leaders will admit "it all worked better and faster" during the days that they could have people brainstorming face-to-face in a room for a day or two. “Designing process transitions via Zoom simply doesn’t cut it!”, clarifies a Managing Director of a bespoke BSC.

Last but not least, there is the matter of talent management. Just consider this. The more successful BSCs typically put significant effort into company branding and increasingly lavish chill-out spaces and workplaces. This is for a two-fold purpose. The branding serves the purpose of creating a team feeling. Not just withing the BSC, but also between the BSC and the front-end businesses it serves. The chill-out spaces – often combined with flexible working hours arrangements – are there to allow for “R&R moments” with fellow workers. Again, to foster a community spirit, to create a sense of belonging. Kick-in the increased popularity of the agile and scrum approaches to realize change and it is easy to visualise corporate space becoming like a three-dimensional social platform.

Marius Ivanauskas, Head of Group Business Services at Telia Company, nicely sums-up this view. In his own words: “Work will never be the same as it became detached from physical location, however companies need common denominators to ensure they keep people within their gravity field - one of those will be the office as social anchor.”

Future location strategies

The common expectation is that in times of turmoil companies revert to proven strategies and tactics. This proved less true for BSCs since Covid hit across Central Europe in early 2020.

To set the scene: through the 2009 – 2019 period, BSCs predominantly located in Tier-1 and Tier-2 cities. Think capital cities and major provincial metropolitan areas.

2020 seems to have brought an inflection point. Of course, BSC job creation in Central Europe that year was down 66% from its 2019 level. A steep decline and useful material for those that predicted a ghastly end for the sector. But as context: regional BSC job creation in 2020 was approximately the same as in 2016, and there were few “prophets of doom” back then.

The stunning observation is that in 2020 and through early 2021, around 60% of all new BSC positions have been created in Tier 3 and Tier 4 cities.

Exchanges with BSC leaders indicate that this is not just a mere temporary tactic triggered by the pandemic. Indeed, the drivers underlying this trend are too structural. Think of new and increasing talent needs, wage hikes in the larger cities, and the need for resilient footprints. Add to that the preference of Millennials for greener cities with affordable rents. So, do expect to see more distributed footprints going forward. Note however that few, if any, of the BSC leaders in Central Europe are considering relocation of their centres.

A bright future?

Let there be no doubt, BSCs will continue to change their facility requirements and their location strategies. Yet that is nothing new. They have done so across Central Europe for the last three decades. It stands to reason that the pace of change will remain a gradual one. It will not be as fast and as pivotal as some predicted. At least not for the immediate future. Just remember that in the wake of the pandemic most companies and their BSCs still limit capital expenditure, if not hiring.

As a perspective on what is coming: the BSC industry associations across CEE project year-on-year job creation to vary between 5% and 7% for the 2021-2022 period. This is significantly down from the pre-pandemic 12% to 15%. Yet with an estimated 850 thousand working in the sector across the region, this still implies that through year-end 2022, around 100,000 additional people will require work spaces. Just assume that they would need to use a corporate facility two to three days a week for that purpose, at 10 m^2 per person... Everybody can do the math on what that means for new corporate space.

Clearly, there is little reason to assume that the BSCs role in CEE office space take-up is over. But again, as Niels Bohr advised: caution must be observed when predicting the future.

Location Strategy

Where to locate operations has far-reaching business impacts. Think of attracting and retaining talent, market access, costs like payroll, real estate and tax. Not to mention resilience and risk.

Destination options are manifold. Deployment tactics are amplified by accelerated adoption of remote work. Tier 3 and Tier 4 locations are on the rise.

To develop and implement location solutions, corporations need to understand how to localize their business model, gather the right data and intelligence, and to acquire insight into what works where.

At Colliers we advise corporations on such matters. Every day. Around the world.

Typical client questions

- Where is the talent and how to gain it?
- Which countries or cities to consider for our project?
- What are the “hot-spots”?
- How to optimize our location portfolio?
- Where should we centralize our operations?
- Should we stay or go from our current site?
- Can we get incentives?

Our team

Colliers has dedicated Location Strategy and Site Selection professionals around the world.

We delivered more than 700 location optimization projects. For all corporate functions:

- Shared Services & GBS
- IT delivery centers
- Manufacturing
- Logistics and warehousing
- Head offices
- R&D

Client benefits

- Robust methodologies
- 30 years’ experience
- Accuracy, analytics, real-time insights
- Accelerated decision making
- Enhanced stakeholder support
- Reduced risk
- Actionable recommendations
- Objectivity and strict confidentiality
- Seamless end-to-end support

Core competencies

- Translate business drivers into realistic operating models
- Business case development
- Balance operational excellence and cost efficiencies
- Negotiate incentives
- Design and implement location strategies

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Our Location Strategy professionals are members of the Site Selectors Guild, the global league of top site selection professionals.

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Tenant Representation

Our approach

Client first
The client's business always remains our key priority. Therefore we offer feasible and optimized solutions. We believe that to be the reason our clients like working with us so much.

Technological solutions
Colliers supports its Customers in creation and implementation of smart office solutions.

Comprehensive services
We provide our clients with a complete scope of services and think strategically about the entirety of their business. We are distinguished by our approach, combining and strengthening team competences and allowing us to guide the client through the entire process.

Experience
Each process and transaction imparts us with additional knowledge. We keep perfecting our offer to always be able to tailor it to our Clients' needs.

Trust
Over 90% of our clients recommend working with Colliers!

The pace of change has accelerated.
The world is changing.
And so is the workplace.

How does this service work?

We will guide you through the entire process of selecting a new office. We start with a needs analysis, prepare an appropriate request for proposal and then compare, analyze and negotiate the offers. In most cases, we follow two parallel procedures - simultaneously negotiating in your name with the current owner and seeking alternatives on the market.

What are its stages?

Office Needs

Strategy

Analysis of the current workplace, lease, client's requirements and establishing a strategy;

Location

Impementation of the strategy, market analysis and location selection;

Agreement

Financial negotiation, Letter of Intent negotiation, Lease Agreement negotiation;

Delivery

Support of project implementation;

New Office or New Lease Conditions

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Accelerating success.

Define the future of spaces

Workplace Advisory, Design and Build Services

The change

The post-pandemic real estate market is rapidly changing in terms of approach to shaping future spaces, their influence on people, the planet and profitability. Flex-olution has accelerated, switching the definition of real estate as a physical product, to the flexible and phygital service, tailored to the end-users needs.

Human-centered

With this change we have to adjust our approach to each and every Client, whether it is the workplace, the office building, a retail space or an industrial site. Human-centered design methods help us to understand user behaviours and define the proper business goals together with the client. Our goal is to craft meaningful environments where people not only perform, but also thrive.

Complex competencies

Across the CEE markets we provide comprehensive services combining real estate consulting with design & build competencies. Our team of organizational psychologists, architects, strategists, engineers and construction managers deliver projects with an end-to-end approach. We start from the holistic analysis, defining the spatial strategy and business scenarios. We define, design and deliver future-proof spaces, in a flexible yet structured process. Each step leads us towards creating real value for your business.

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CEE | September 2021

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