

A blurred office scene with people working at desks, overlaid with a green-to-yellow gradient. The text is white and positioned on the left side of the image.

# CEE FLEXIBLE OFFICE MARKET 2021

**CBRE**

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SUMMARY

# CEE REGION

Flexible offices, coworking spaces, serviced offices - aside from the pandemic, these have been hot topics in the real estate industry in recent years, and particularly in the last few months.

The word pandemic is ubiquitous at the current time. For the flexible office industry, we hear more and more often that this is the reason for increasing client focus on this sector. No wonder, because in the era of an inability to make long-term decisions, the flex offer is the answer to many customer requirements. The pace and scope of these changes is particularly well visible in the CEE region, which is developing exceptionally dynamically, whilst at the same time many customers and operators are watching the flex offer market closely.

That is why we decided to create this short report, which provides the most important information about the flex market in CEE, including the similarities but also differences between individual countries and leading cities.

And there is a lot to talk about. CEE has over 643,000 sq m of flex space, which has been built in the last 15 years. Another 85,000 sq m will be delivered, despite the pandemic, in the next 2 years.

This is a response to customer interest. The strength of the flex space market is best illustrated by the list of the largest transactions on the market in 2020, despite the prevailing pandemic.

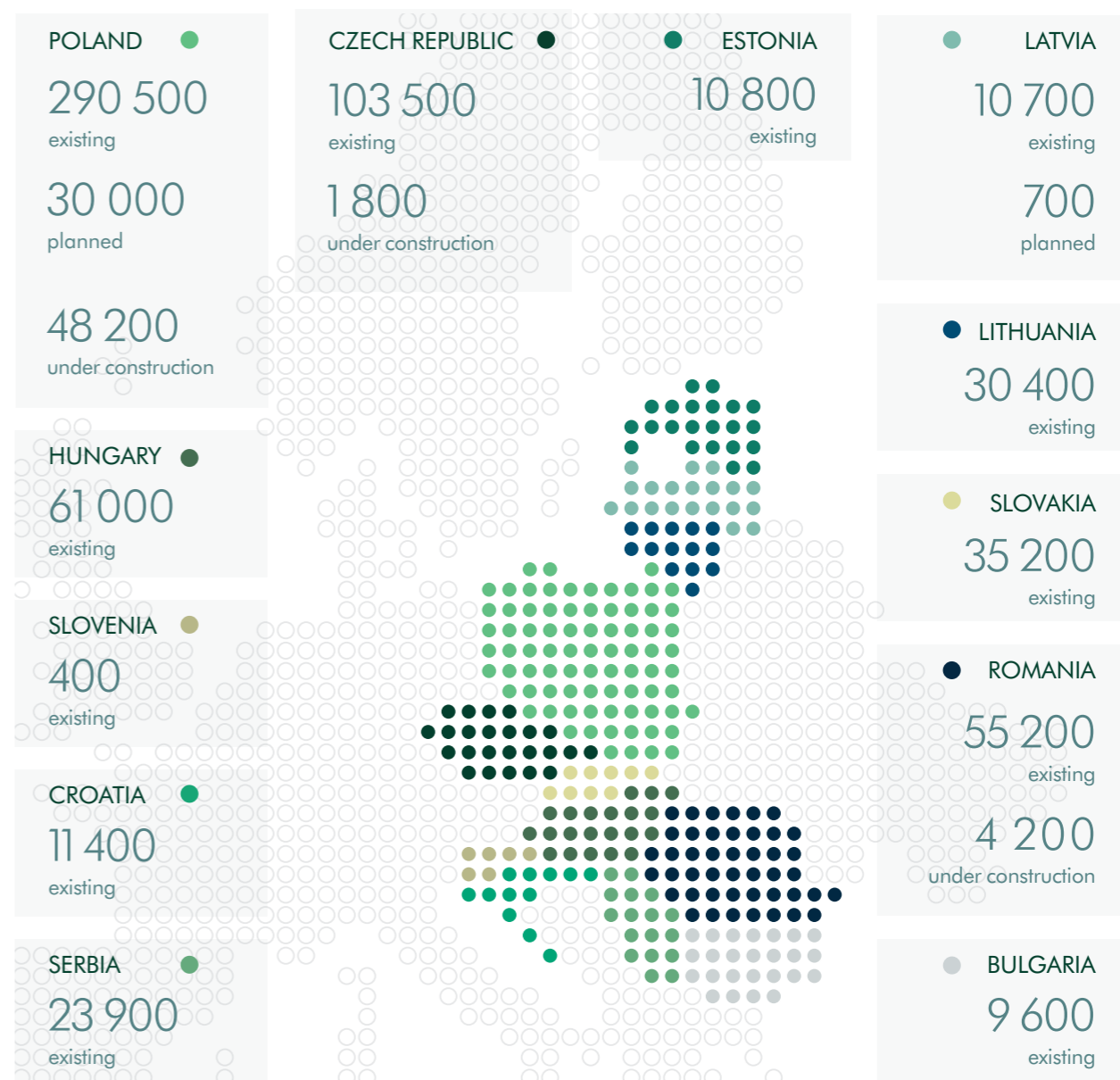
12 countries      24 cities

159 operators

FLEX SPACE  
643 000 sq m  
existing

85 000 sq m  
under construction

## CEE Flexible office supply [sq m]

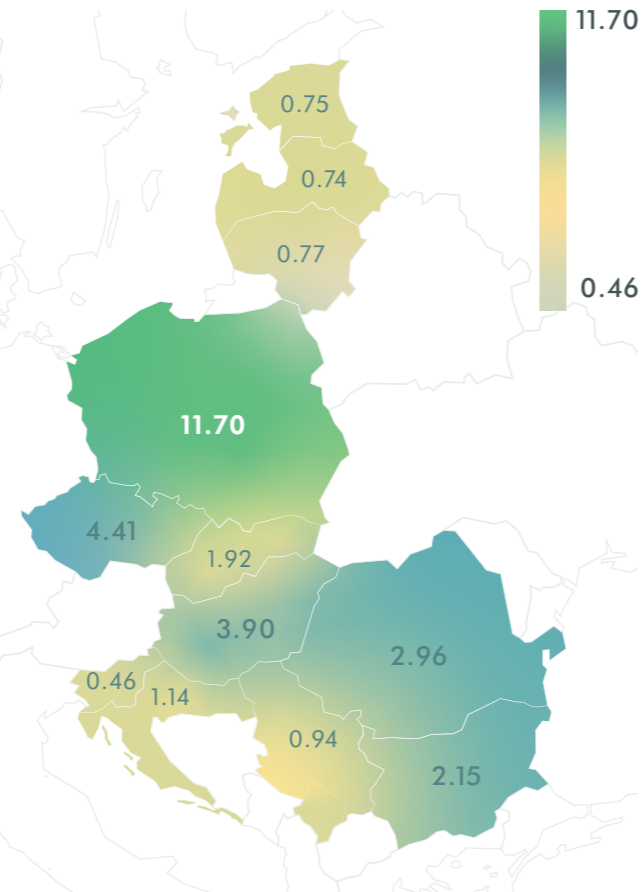


## Largest flex deals in 2020

| WORKSTATIONS | OPERATOR      | CITY   | TENANT SECTOR                      |
|--------------|---------------|--------|------------------------------------|
| 320          | Business Link | Krakow | Manufacturing, Industrial & Energy |
| 268          | WeWork        | Warsaw | Financial Services                 |
| 257          | WeWork        | Prague | Pharmaceutical                     |
| 200          | Business Link | Krakow | Manufacturing, Industrial & Energy |
| 193          | WeWork        | Warsaw | Business Services                  |
| 170          | Omnioffice    | Warsaw | Computers / Hi - Tech              |
| 149          | WeWork        | Warsaw | Computers / Hi - Tech              |
| 130          | NewWork       | Krakow | Manufacturing, Industrial & Energy |
| 128          | WeWork        | Warsaw | Consumer Services & Leisure        |
| 119          | WeWork        | Warsaw | Financial Services                 |

### Office supply (million sq m)

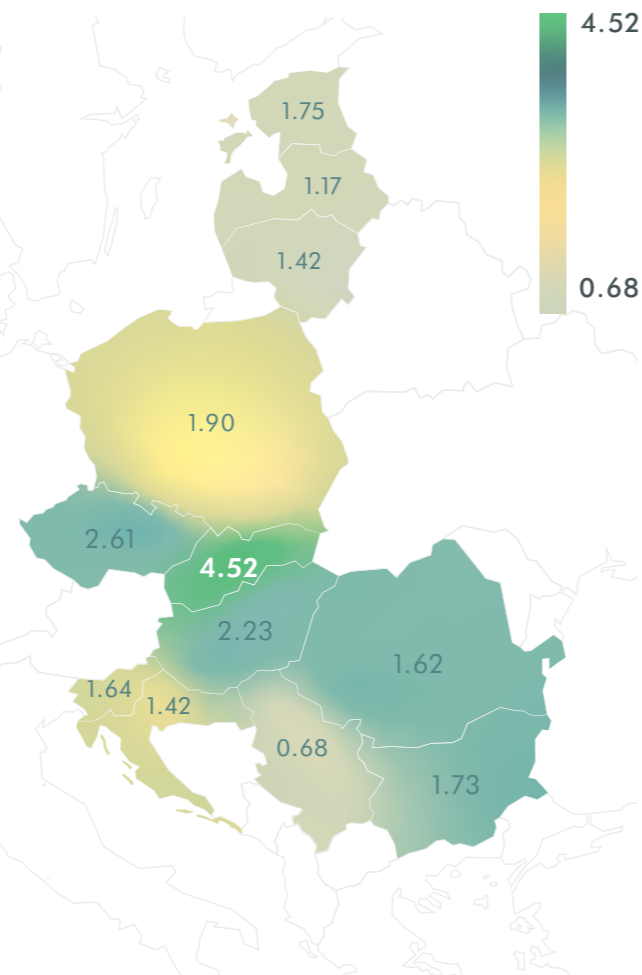
The CEE region varies both by size of the countries and in terms of the office supply. What is common is that due to the availability of a highly qualified talent pool and rapidly improving infrastructure, the CEE region attracts various investors, both domestic and international...



### Office stock density (per 1,000 inhabitants)\*

...that is why we will use standardized data to enable comparison.

The first indicator is office supply density per 1,000 inhabitants which shows the service type structure of the economy and indicates that most CEE countries still have plenty of room to grow above 2.0 sq m / 1,000 inhabitants.

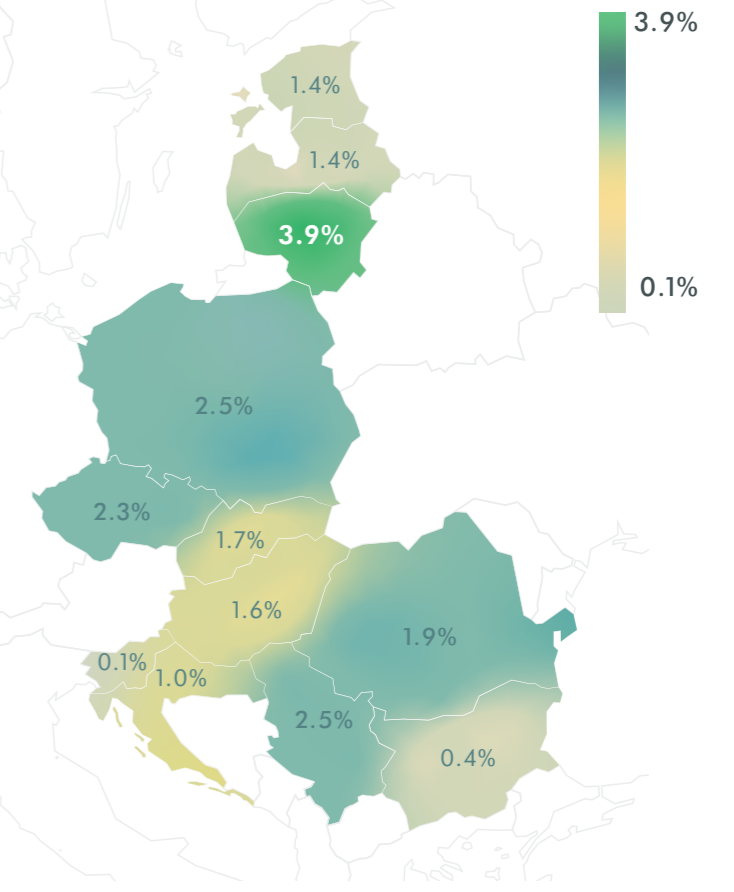


\*refers to the population of the analyzed cities

### Flexible office space (% share)

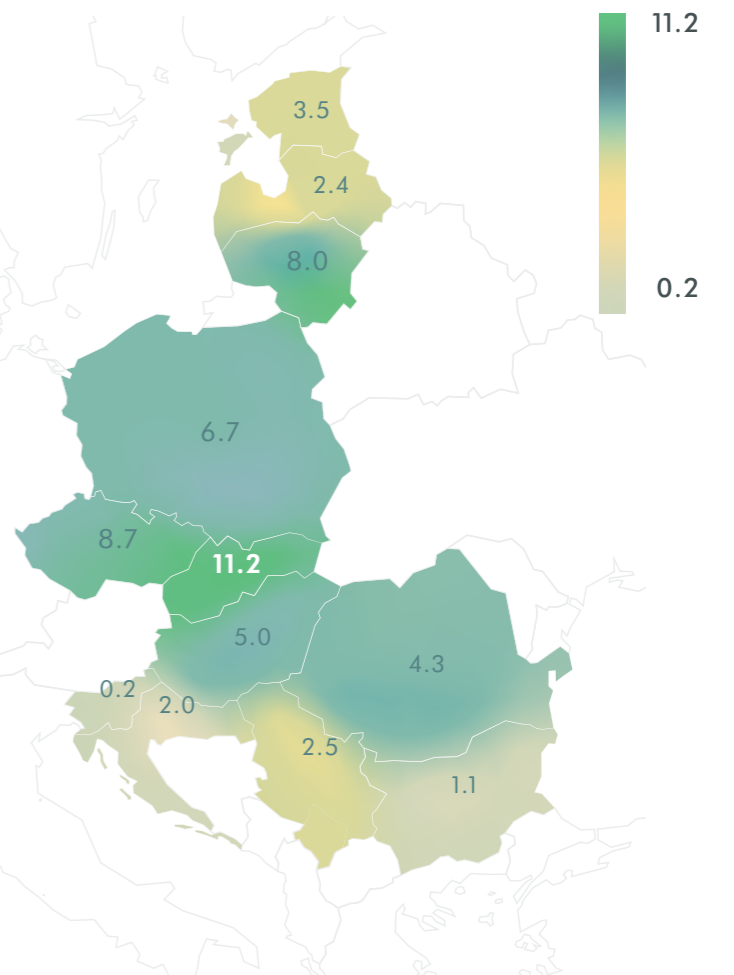
Due to the very extensive growth during the last 3-4 years, many of the CEE markets exceeded 2% flex saturation of office stock (in terms of area).

The highest saturation across European cities is observed in London, where almost 6% of the total office stock is occupied by flex operators. In continental Europe office stock occupied by flex operators, on average, represents 2% of the total office supply. It is observed that markets which respond quickly to new trends are characterized by a bigger flex ratio.



### Flexible office density (number of workstations per 1,000 inhabitants)\*

One of the indicators measuring the strength of demand for the flex market is the ratio of flex desks per 1,000 inhabitants. For London, which is perceived as the most mature European flex market, this ratio stands at 30 per 1,000 inhabitants. The flex market in the CEE region therefore has significant growth potential ahead.



\*refers to the population of the analyzed cities

# BALTICS

## Market

During 2018-2019 the Baltics region witnessed a rapid expansion of co-working and serviced office concepts. However, during 2020 and 2021 it was also noticed that certain main operators in this market were involved with lease reductions and downsizing activities. The year has forced operators to explore options and terminate problematic locations.

## Operators

Pre-2020 it was common to see direct lease acquisitions by the operators, and management agreements were rare. Due to the risk management during the pandemic (Covid-19), we are now seeing that most of the operators and co-working players are only considering management agreements instead of the direct liability via a lease. It is also apparent that due to these changes landlords are also trying to enter this market and offer certain flexible solutions to increase their market share.

## Tenants

At the beginning of 2020 the Covid-19 outbreak forced a change many company working habits and remote working significantly increased. This directly impacted flex operators as many short-term agreements were not prolonged during such uncertain times. In the summer of 2020 occupier activity increased as the situation with Covid-19 stabilized. In 2020 several newcomers in the market chose flex operators as a temporary solution before moving to a traditional office.

### FLEXIBLE OFFICE OPERATOR ORIGIN IN BALTICS



### FLEXIBLE OFFICE OPERATOR STRUCTURE IN BALTICS



TALLINN  
1 100  
existing

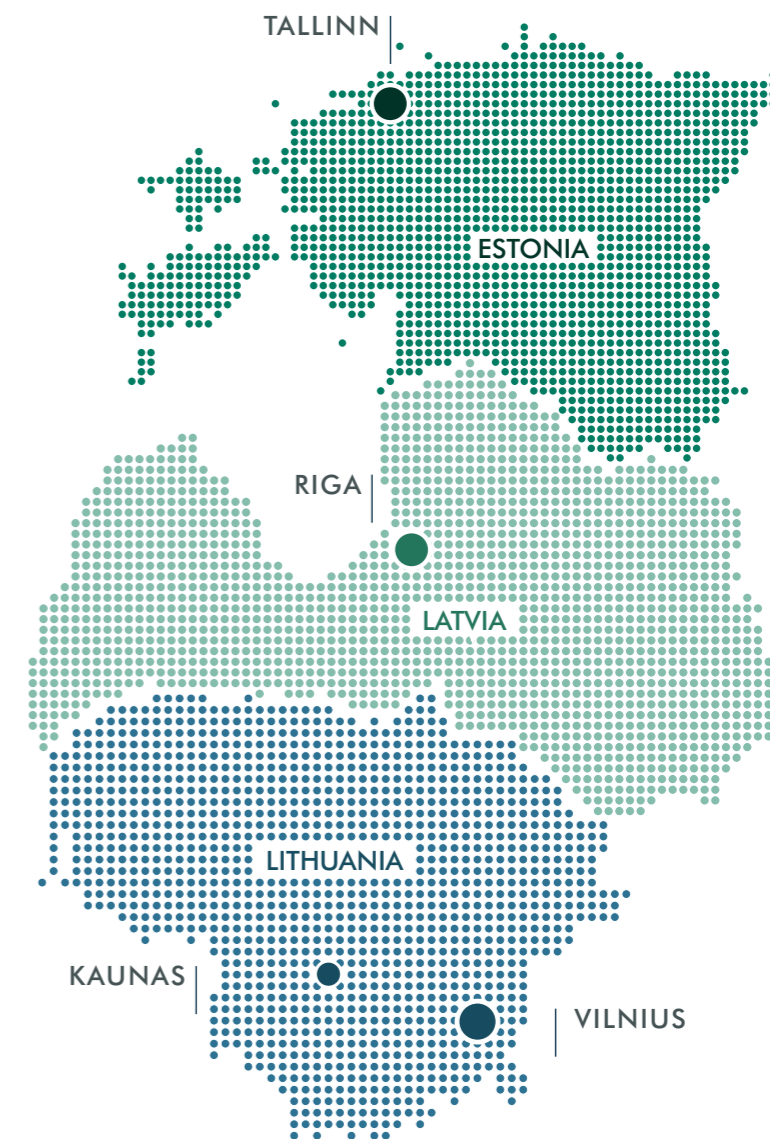
RIGA  
1 400  
existing

70  
under construction

KAUNAS  
200  
existing

VILNIUS  
2 700  
existing

## Flexible office supply [workstations]



## Prices range [EUR/workstations/mth]



# POLAND

## Market

Since 2016, the flex market in Poland has been developing very dynamically and 2020 was the first year that did not witness double-digit market growth.

The flex market itself has some interesting features.

1. Nearly half of the operators are local companies and this is an interesting balance, especially outside the capital city, for global operators.
2. In Poland, 1/3 of all operators are related to a developer, which is practically unheard of on such a large scale in other markets. We also see a very great interest among landlords in cooperation with operators or in creating their own concepts - new examples are Immofinanz or Warimpex.

## Operators

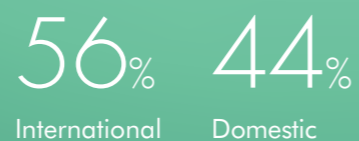
Several smaller operators have been forced to close their business centres due to the pandemic. Nevertheless, in Warsaw and Krakow, which are the largest office centres, we see the greatest interest in the new flex space. In addition, Katowice is the most interesting city in terms of planned and new flex investments, directly linked to a very high demand for office services.

## Tenants

Despite the very volatile epidemiological situation, which has affected the turnout of people coming to offices, it has become apparent that the interest in flex solutions among customers has increased. This did

not necessarily translate into the number of transactions closed, but due to the high level of interest, we anticipate a large inflow of clients in Q3 and Q4 2021 into flex offices.

### FLEXIBLE OFFICE OPERATOR ORIGIN IN POLAND



### FLEXIBLE OFFICE OPERATOR STRUCTURE IN POLAND

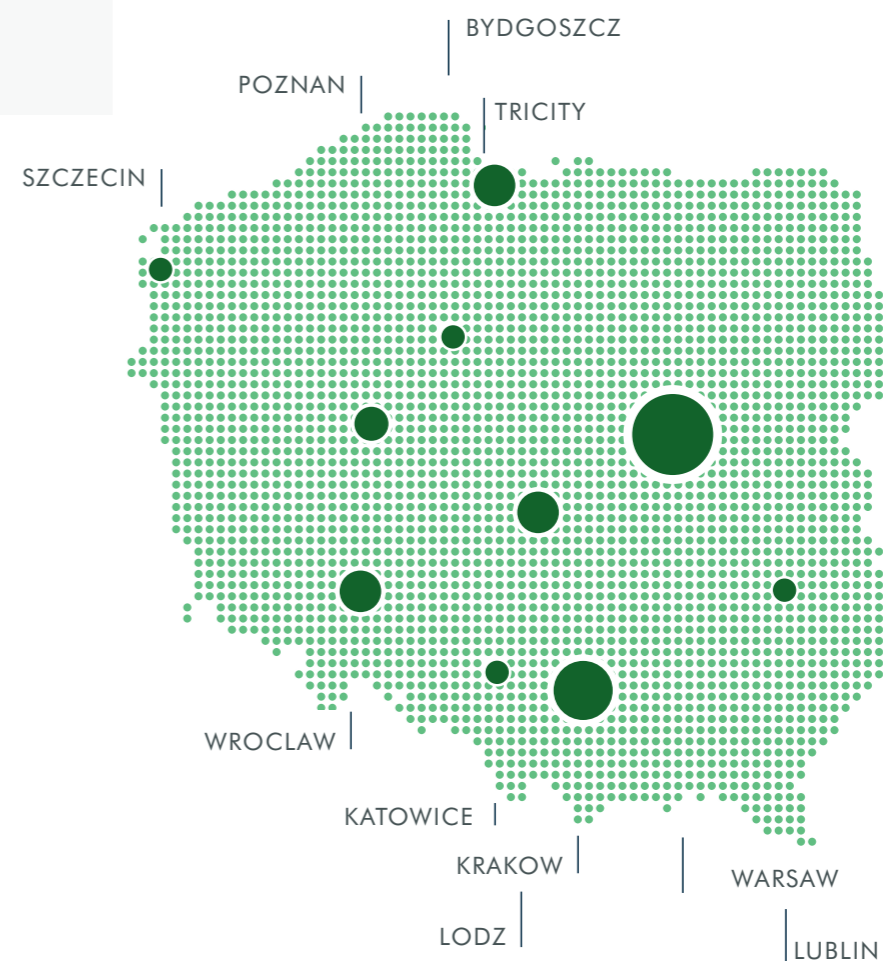


## Interesting fact

Poland and Slovakia are the only two countries with a significant portion of operators backed by a landlord. There are indications that it this trend may remain.

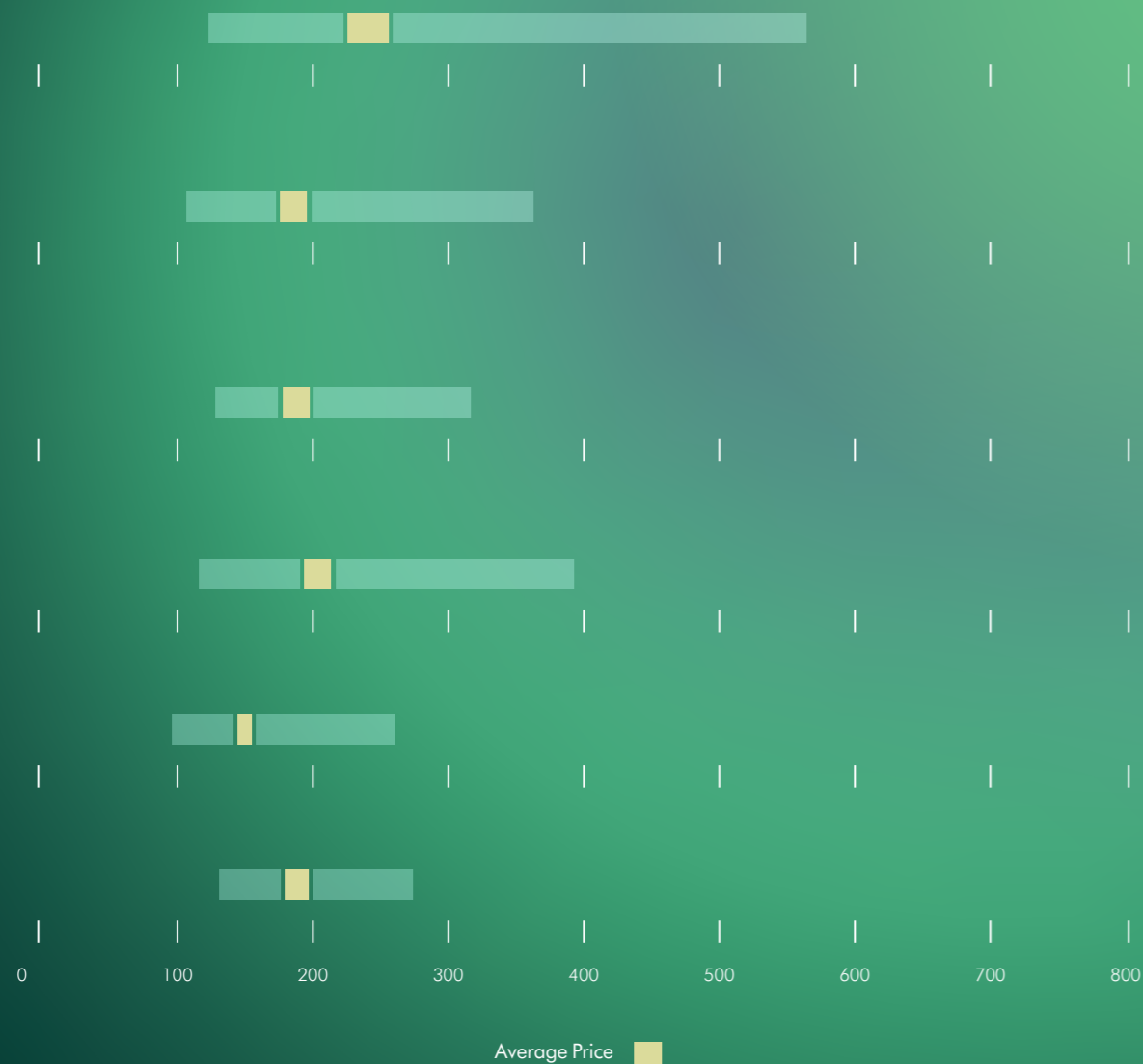
## Flexible office supply in Poland [workstations]

|                                                                               |                                                                          |                                                                        |                                                                           |
|-------------------------------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------|---------------------------------------------------------------------------|
| <b>WARSAW</b><br>26 600 existing<br>2 000 under construction<br>2 900 planned | <b>KRAKOW</b><br>6 900 existing<br>600 under construction<br>400 planned | <b>LODZ</b><br>1 500 existing<br>900 under construction<br>200 planned | <b>TRICITY</b><br>1 400 existing<br>750 under construction<br>300 planned |
| <b>KATOWICE</b><br>500 existing<br>400 under construction                     | <b>POZNAN</b><br>1000 existing<br>300 planned                            | <b>WROCLAW</b><br>2 400 existing<br>1 200 under construction           | <b>BYDGOSZCZ</b><br>300 existing                                          |
| <b>SZCZECIN</b><br>300 existing                                               |                                                                          |                                                                        | <b>LUBLIN</b><br>100 existing                                             |



Warsaw  
Krakow  
Wroclaw  
Poznan  
Lodz  
Tricity

Prices range [EUR/workstations/mth]



After months of the pandemic, average transaction prices in all Polish cities have settled very close to the left end of the price range charts. However, **we anticipate that in the near future we will observe a strong trend of average transaction prices moving to the right part of the range ie. growth of average prices.**

# CZECH REPUBLIC

## Market

Since 2017, the flex market in the Czech Republic has been developing very dynamically. The biggest boom occurred in 2019, when a record number of flexi office centres were opened. In 2020, during the Covid-19 pandemic, the demand for flexible offices dropped significantly. The acquisition of new premises was put on hold. With a view to better times, many operators are looking around for new premises once again. There are two major operators in the Czech Republic: a global provider IWG, and a local operator Scott Weber. Some of the landlords are creating their own concepts, e.g. The Base by Penta, Clubco by CTP, Flexible offices by Passerinvest.

## Operators

Several coworking operators with no serviced offices on offer have been forced to close their business centres due to the pandemic. We see that the crisis has strengthened operators with a sufficient number of small serviced offices on offer. These operators are intensively searching for new premises again.

## Tenants

The demand for flexible offices has been increasing since Q1 2021. We are also seeing increased demand from international corporate companies.

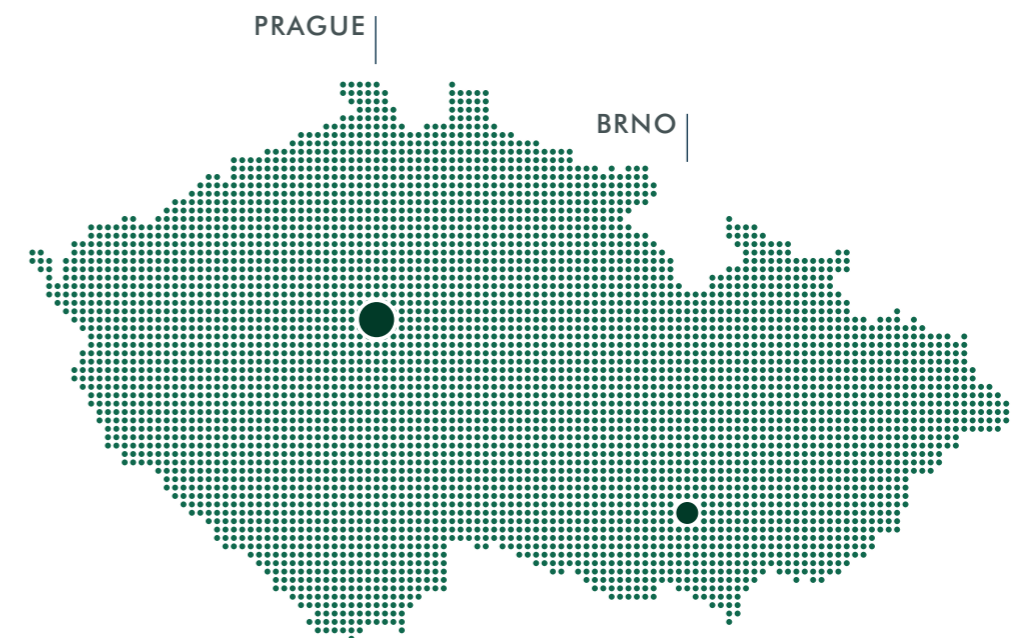
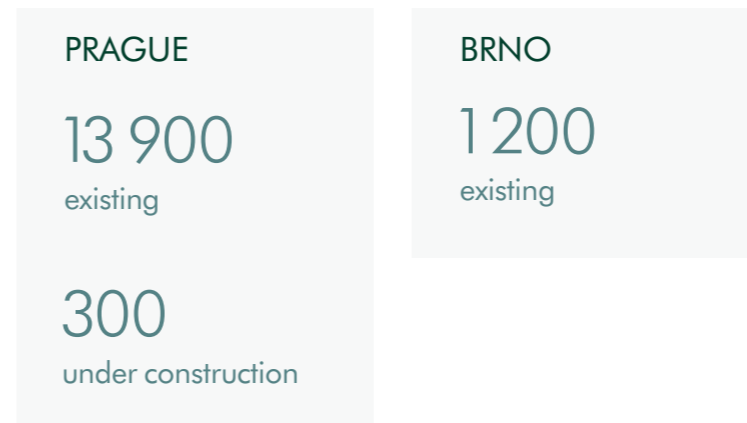
### FLEXIBLE OFFICE OPERATOR ORIGIN IN CZECH REPUBLIC



### FLEXIBLE OFFICE OPERATOR STRUCTURE IN CZECH REPUBLIC



## Flexible office supply in Czech Republic [workstations]



## Prices range [EUR/workstations/mth]





# SLOVAKIA

## Market

The flex office market in Slovakia has been developing since 2016. The largest providers of coworking spaces are located in the Slovak capital, Bratislava. The flex market itself is interesting and offers many attractive spaces.

1. More than half of the operators are local companies, while the others are international with CEE scope, creating an interesting balance.
2. In Bratislava, the average coworking space offers 185 working stations for rent.
3. The largest coworking space in terms of the number of working stations is currently in Nivy Tower, which is also the newest one in Bratislava.

## Tenants

Due to the ongoing pandemic situation, we have recorded stronger demand from the tenant's side. This didn't necessarily translate into the number of transactions closed, but due to increased interest, we expect a larger inflow of clients in Q3 and Q4 2021 to flex offices.

## Operators

Key landlords are convinced that the current situation has highlighted the increased need for office space that is modern, environmentally secured, and, most importantly, flexible. Consequently, they continue to expect increasing demand for this type of office.

### FLEXIBLE OFFICE OPERATOR ORIGIN IN SLOVAKIA



### FLEXIBLE OFFICE OPERATOR STRUCTURE IN SLOVAKIA



## Interesting fact

Only one international operator currently present in the market is an independent. The other 95% of the stock is represented by landlord backed concepts.

## Flexible office supply in Slovakia [workstations]

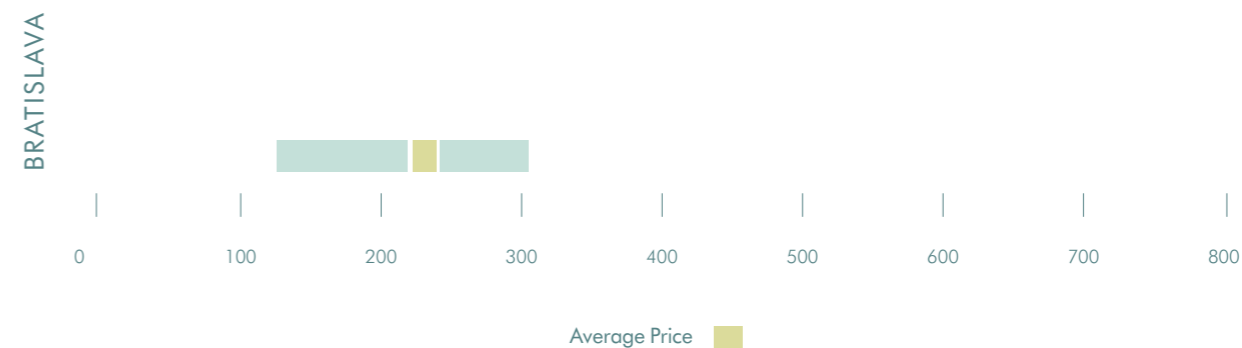
BRATISLAVA

5 000

existing



## Prices range [EUR/workstations/mth]



# HUNGARY

## Market

The Budapest flexible office market is clearly in its early maturity compared to leading Western European cities. Due to the strong presence of local operators, global players entered the Hungarian market relatively late in the cycle: Budapest saw a boom in flexible office space in modern buildings first in 2018. Since then the total stock taken by flexible operators exceeded 61,000 sq m (ca 1.5% of the modern office inventory). The expansion of global networks clearly slowed down during the pandemic – however, we expect a rebound in activity based on ongoing negotiations.

## Operators

The landscape had been long dominated by local operators starting their business mostly in underutilized downtown properties of secondary quality. For economic concerns these local flex operators did not take up any space in the modern office stock – although there are plans for some to move into modern offices as they cannot expand in their current locations. The landscape is currently dominated by three international flex operators, having several offices leased in the main business hubs in the city.

## Tenants

Following a severe but temporary dip, we forecast office demand to gradually recover from mid-2021. With the business environment changing, there is an increasing expectation for more flexible lease terms regarding size

and length. We see more corporate occupiers turning to flexible solutions (i.e. managed leases) even with size requirements typically met by traditional landlords previously. While it was rather unique for a traditional office developer or asset manager to provide flexible services to clients in their portfolio before the pandemic, such services have now made it on to the agenda of many landlords. We expect the amount of flex space not only to increase as business activity resumes, but also it will become more a landlord-driven market as some owners embrace flexible offices as part of their in-house operated services.

FLEXIBLE OFFICE OPERATOR ORIGIN  
IN HUNGARY

100%  
International

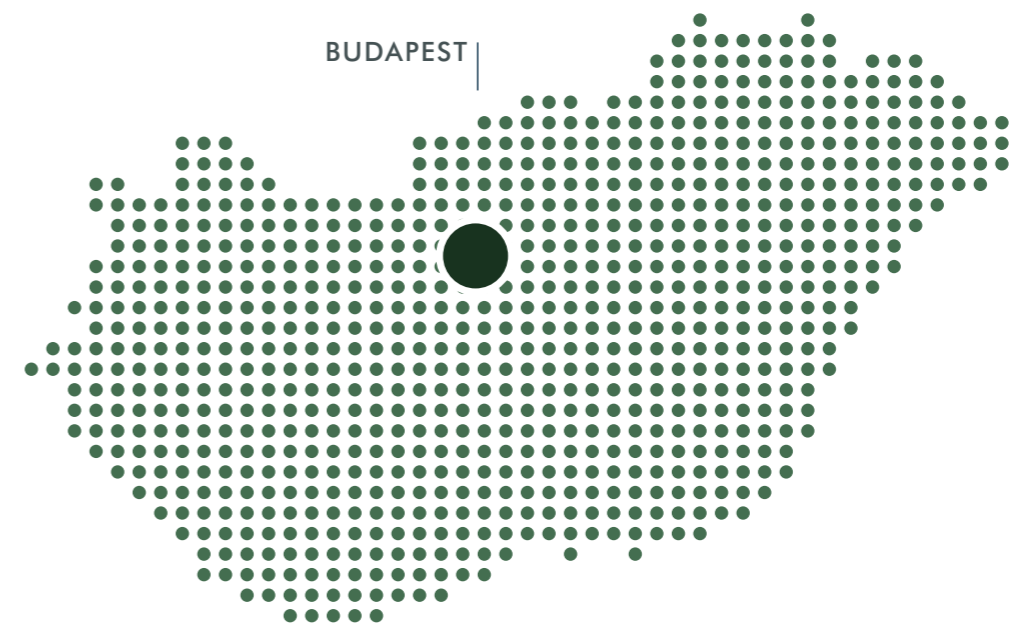
FLEXIBLE OFFICE OPERATOR STRUCTURE  
IN HUNGARY

85% 15%  
Independent Landlord

## Flexible office supply in Hungary [workstations]

BUDAPEST

9 000  
existing



## Prices range [EUR/workstations/mth]



# ROMANIA

## Market

Starting with 2017 the flexible office market in Bucharest witnessed a consistent continuous growth with both local and international operators entering the market. As 2020 challenged the office market to a never before seen dynamic in regards to total leasing activity and health and safety regulations, flexible offices proved to be an easy 'go to' for companies searching for a workplace for a short term as well as for companies which strategically divided their team, requiring permanent back-ups for all core operations. A new market niche that is being formed in all major cities, is set to focus on new premises, in a market where adaptability, fast presence and relocations are determinant factors.

The main features that can be identified for the Bucharest flexible office market are:

1. Balanced market with regard to the number of local versus international operators;
2. International developers manage a total leasable area that is 18% higher compared with the local ones;
3. A new trend is shaping up on the Romanian market, with office building developers that incorporate a flexible component in their projects, such as The One flexible spaces in One United's schemes (One Tower & One Cotroceni).

## Operators

The overall 2020 office leasing activity in Bucharest was highly affected by the Covid-19 pandemic with landlords and companies focused mainly on employees' health and

safety issues. In a year when the 'wait and see' strategy was widely adopted by real estate market players, demand for flexible spaces registered the same general trend of limited demand.

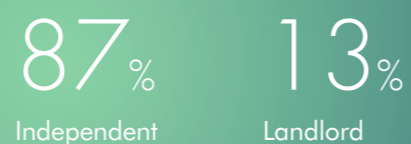
## Tenants

Most of the flexible office operators located in the country's capital city managed to survive the crisis triggered by the global pandemic with reverberations on both economic and health levels. Nonetheless, there were several locations operated by locals that were closed for strategic reasons.

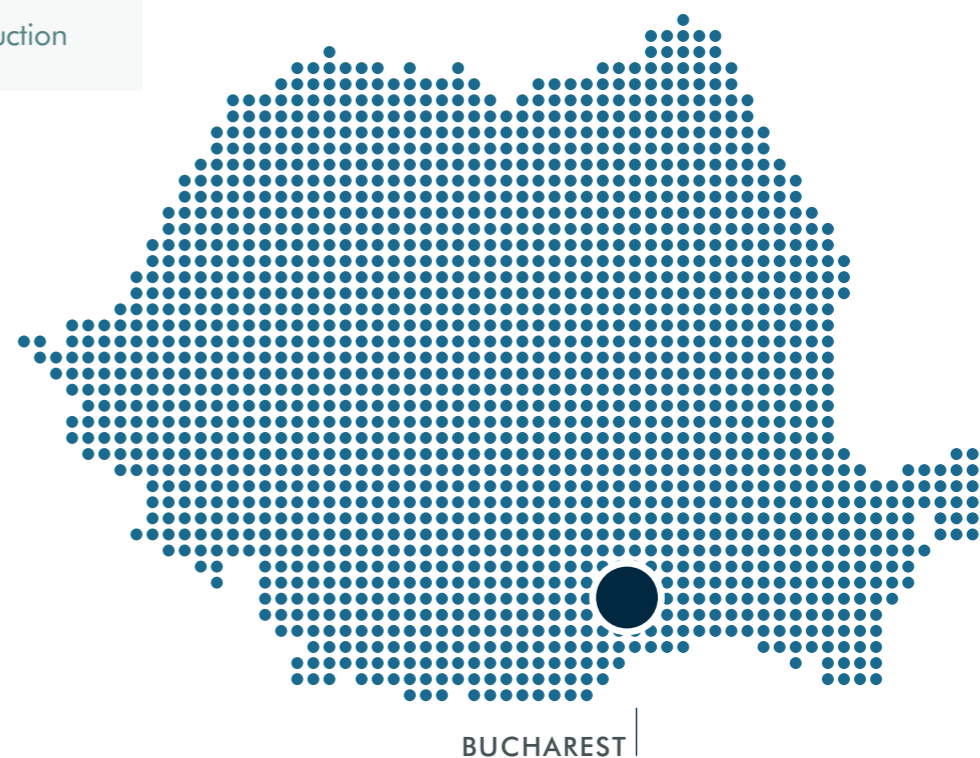
FLEXIBLE OFFICE OPERATOR ORIGIN  
IN ROMANIA



FLEXIBLE OFFICE OPERATOR ORIGIN  
IN ROMANIA



## Flexible office supply in Romania [workstations]



## Prices range [EUR/workstations/mth]



# SEE

## Market

The flex market has been developing at a more rapid pace in the past few years, with Serbia being the most developed market in the region. Each market has its own specifics, but Bulgaria, Croatia and Slovenia are dominated by international operators with Serbia having a larger share of local companies. While in the previous period, operators and developers were mostly unrelated, many developers have recognized the need for flexible office space and more and more companies are opening their own flexible premises.

## Operators

Unlike the demand on the customer side, demand from flex operators remained stable during the past year and no notable closures have been recorded. However, some deals previously in the pipeline have been delayed as flex space operators adopted a more cautious approach in terms of business expansions. However, Serbia and its capital Belgrade continued expanding and the stock of flex offices increased even during the pandemic.

## Tenants

While during the outbreak most offices remained operational, the epidemiological situation has impacted on the working habits of most companies and individual occupiers, and the majority of tenants within flex office spaces adopted a work from home model. The reduction in occupier activity was most notable during the peak months at the start of the pandemic, however activity levels began to improve during the summer months and more and more interest has been noted since, promising a quick recovery on the market.

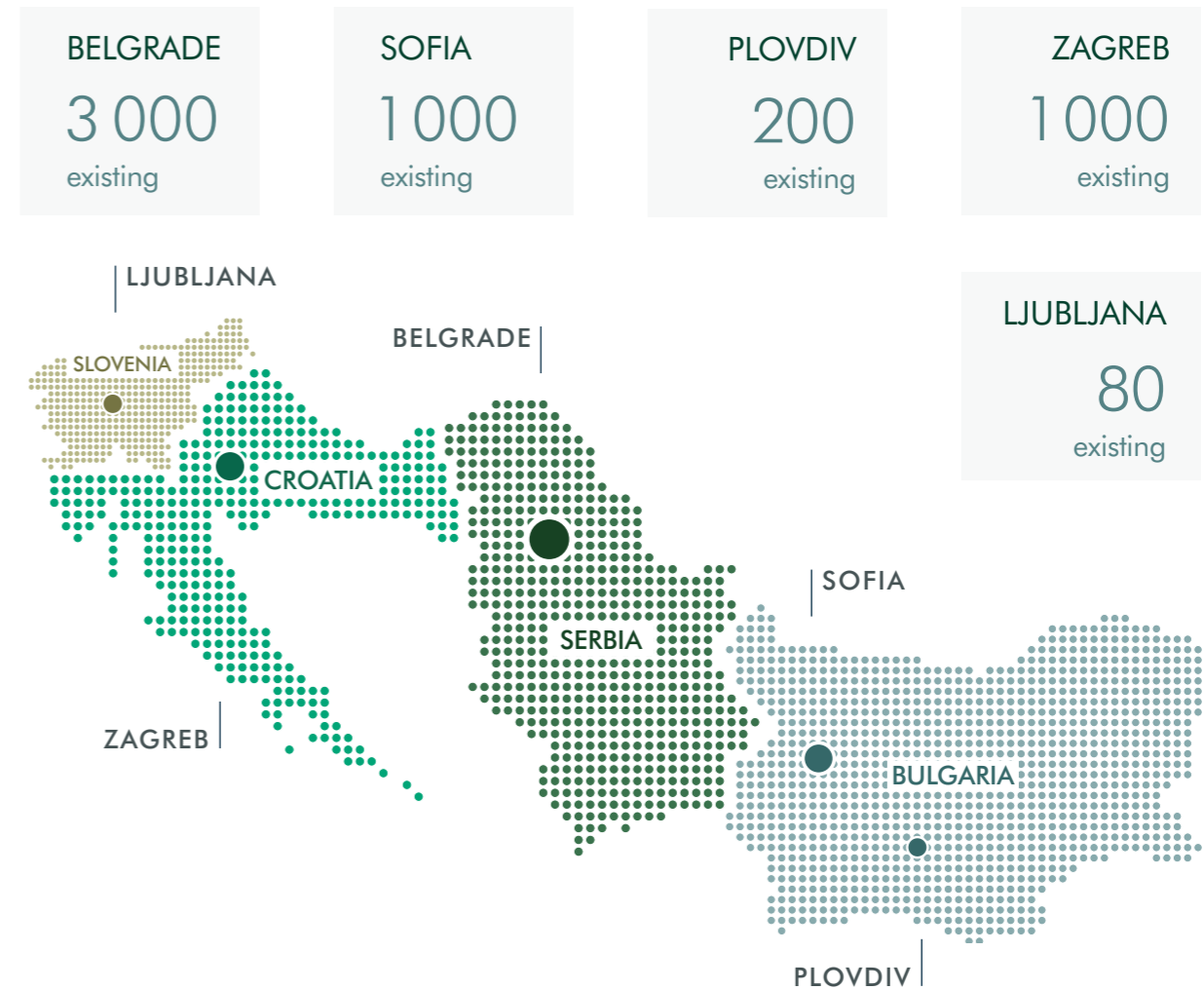
FLEXIBLE OFFICE OPERATOR ORIGIN  
IN SEE

63% International  
37% Domestic

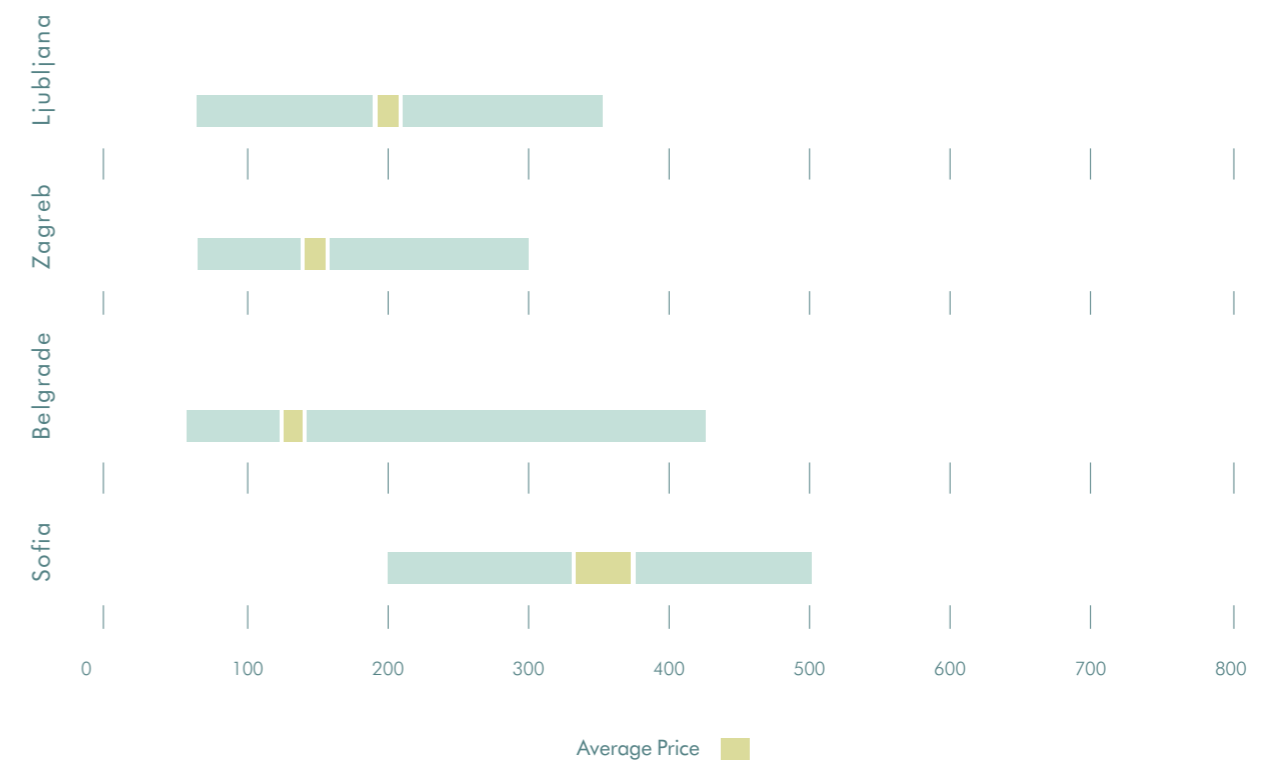
FLEXIBLE OFFICE OPERATOR ORIGIN  
IN SEE

85% Independent  
15% Landlord

## Flexible office supply in SEE [workstations]



## Prices range [EUR/workstations/mth]



# SUMMARY

Flex offices are becoming more common and have blended into the office reality. After rapid growth in recent years, the Covid-19 pandemic has reshaped market dynamics for occupiers, operators and owners.

OCCUPIERS are more often exposed on flexible solutions. The biggest driver here is uncertainty of the future and difficulties in medium- and long-term planning which was brought to the market together with Covid-19. Even though we saw substantial disruption to the whole office sector at the beginning of the pandemic, after one year we observe that demand for flexible solutions is growing together with occupiers' awareness. Flex space has become synonymous with remote and hybrid work as well as video calls and for this segment of the market Covid-19 acted as an accelerator. We forecast that this trend will stay with us for longer, attracting more and more occupiers and thus increasing demand for such solutions.

This fact should keep the OPERATORS satisfied. However, before they start focusing on the income, operators first need to shake off the turmoil caused by the pandemic. For a couple operators this has meant closing some of their locations, but for most there has been a sharp decrease in revenue. Expansion plans were put on hold which in some cases was too extensive. Those operators who diversified their portfolios of locations and clients, have means and opportunities to take over and open new locations. Nonetheless, operators have become more careful and prefer to sign management or profit sharing agreements rather than standard leases.

For LANDLORDS in the CEE region management or profit sharing agreements are rare and troublesome. Difficulties in valuing assets with the new approach to agreements is impacting on achievable yields, particularly for core products. This is the biggest challenge for independent operators seeking to grow. On the other hand, developers can observe how flex offices have become more and more popular and are perceived as added value for the building offering standard lease terms. Hence creating own brands or collaborating with existing operators is becoming more popular. The biggest names present in our region, such as Skanska, Immofinanz, Warimpex, Echo Investment, HB Reavis have already done this and others are likely to follow this trend.

All the above mentioned trends have already emerged and are likely to reshape the flex market in the coming quarters and more reports and analysis on these matters, is to come.

Flex space has become synonymous with remote and hybrid work as well as video calls and for this segment of the market Covid-19 acted as an accelerator.

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CBRE Research

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