

# MarketInSight

*Coronavirus – Impact on Skopje Property Market*



### **PRE AND POST CORONAVIRUS OUTLOOK ON NORTH MACEDONIAN PROPERTY MARKET**

A severe global situation caused by COVID-19 with the end of April is flattening significantly. The first case of the coronavirus, formally named COVID-19 by the World Health Organization, was reported on December 31st, 2019, and there have since been multiple developments with the virus globally with considerable speculation on the impacts. Over the last two months, governments, companies and people worldwide have taken extraordinary actions which include restricted business activities, travel restrictions and social distancing.

Even though the curve has recently been flattening, it is yet too early to estimate precisely forthcoming effects as the pandemic of COVID-19 will certainly have an impact on the global economy and, the probability of global recession in 2020 is considered high. It appears that we will witness consecutive declines in global and regional GDP in the current and next quarter of 2020. After forecasted GDP growth of 1.1% in January 2020, the Eurozone economy contracted by 3.8% in the first quarter of 2020, according to preliminary estimates from Eurostat.

When it comes, having in mind the continuation of the Macedonian property market, it enters 2020 on solid basis the strong performance which started back in late-2016 and continued onwards. Occupancy demand in the office market remains healthy for a few years. Positive trends such as effective rental levels were evident, vacancy rate was constantly dropping, development activity was significant in all property segments and overall market fundamentals were solid. Given that real estate market is moving at a slower pace, and does not shift promptly to the new conditions, the effects are yet to be anticipated.

As for Skopje office market, short-term demand will slightly decrease until the situation is fully calmed. Large companies and tenants will be more mindful in relocation of their premises or expansion activities in the forthcoming period, while small and medium-sized companies will be as usual more comfortable in making such decisions. ICT industry, regardless of the situation, continues to be the major demand driver, and in the following period the demand of the business sector is expected to grow considerably. The situation inevitably required from the companies to restructure OPEX and conduct cost cutting, making them more cautious and prepared for the situation's aftermaths to follow over the economies.

Positively, the vacancy rate in the office buildings at the beginning of the year has slightly dropped to the level of 7.6% expected to further continue performing well, keeping up low end healthy vacancy rate percentage between 5-10%. Moreover, the vacancy rate dictated no changes in the buildings' rental prices and service charges costs. However, the landlords also should not remain immune to the situation, trying to provide the tenants with more eased renting terms. Lease agreements are about to change for lessees in a more favorable sense, contributing to more flexible rental terms and conditions, more competitive incentives, flexible notice period, fit-out contributions etc. Currently, CBS team is processing the requests of the office tenants for more relaxing payment terms, whereas the solutions for the tenants are tailored-made, which in combination can bring a greater comfort to the landlord as well.

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## Skopje Property Market April 2020

Shopping center landlords across Macedonia are also analyzing and evaluating the current situation as per the newly introduced governmental measures to close all shopping centers in Macedonia. Most landlords are trying to meet tailor-made solutions as per the industry the retailer comes from, which will be favorable for both retailers and landlords. Online sales share is expected to grow additionally. Although retail is affected the most, it is expected to be the first segment to lead the recovery of the market.

Limited market conditions may result in the reduced demand for warehouse space at least in the short-term, although this is the sector to be the most resilient to the current situation. The construction activity will continue on both commercial and infrastructural projects in Macedonia as the construction sites remain operational despite the current situation, however some scheduled completions could be delayed or postponed. Having in mind that setting up of a production facility is a lengthy process and represents a strategic long-term decision of a company, we may say that Macedonia is still a favorable choice of the international factories that had initiated their interest in Macedonia before this situation.

Although Skopje residential market was slowly and constantly growing in the previous period, in the near-term, the number of buyers choosing to delay purchase decisions will be insignificantly low. Therefore, buyer sentiment is expected to be more cautious, especially for housing-loan dependent buyers, until the situation improves, which can be expected from mid-2020. The construction sites are continuing to operate normally, with preventative measures being taken, therefore we do not expect considerable delays in completion dates of the projects that are already under-construction.

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