

Office market snapshot  
Ljubljana  
June 2022

# Contents

- Market changes
- Impact of Covid
- Ukrainian war
- Slovenia - country snapshot
- Existing supply
- Development pipeline
- Office spaces in development
- Asking prices
- Demand
- Occupier breakdown
- Contact details



# Market changes

- The market has seen significant changes since our last market snapshot, as Slovenia returns to normality, post-Covid.
- Covid is over to all intents and purposes in Slovenia, with very low numbers of infections, and nearly all restrictions scrapped.
- People are slowly returning to the office, as is evident from traffic numbers, although it is clear from office car parks that some people are still working from home, at least some of the time.
- The war in Ukraine has had little impact on sentiment so far. The Slovenian economy is exposed, due to the country's reliance on Russian energy supplies, and rising costs are having an impact on inflation. The only significant Slovenian exports to Russia are pharmaceutical products.
- Russia is Slovenia's fifth largest foreign direct investment partner, accounting for 6.1% of total foreign investment. Russians invest in real estate (hotels, thermal spas, holidays homes etc.) It remains to be seen how the war will affect Russians' desire to invest in Slovenia.
- Office supply in Ljubljana continues to decrease, with 103,000m2 currently available, representing a decrease of 22% since last November.
- Take up decreased dramatically during the pandemic, and is slowly returning to pre-pandemic numbers. There is poor availability of office space of any quality, and no Class A office space. The market will no doubt get a boost as pipeline projects are delivered to market.
- There is a large pipeline of new office projects in all parts of Ljubljana, it is clear that a new investment cycle is underway after years of stagnation. Nearly 180,000m2 of new or refurbished office space will be delivered to market between now and 2025. This is a large amount for a small city, and there will be stiff competition between developers for prime tenants.
- Prices are stable in all submarkets in Ljubljana.

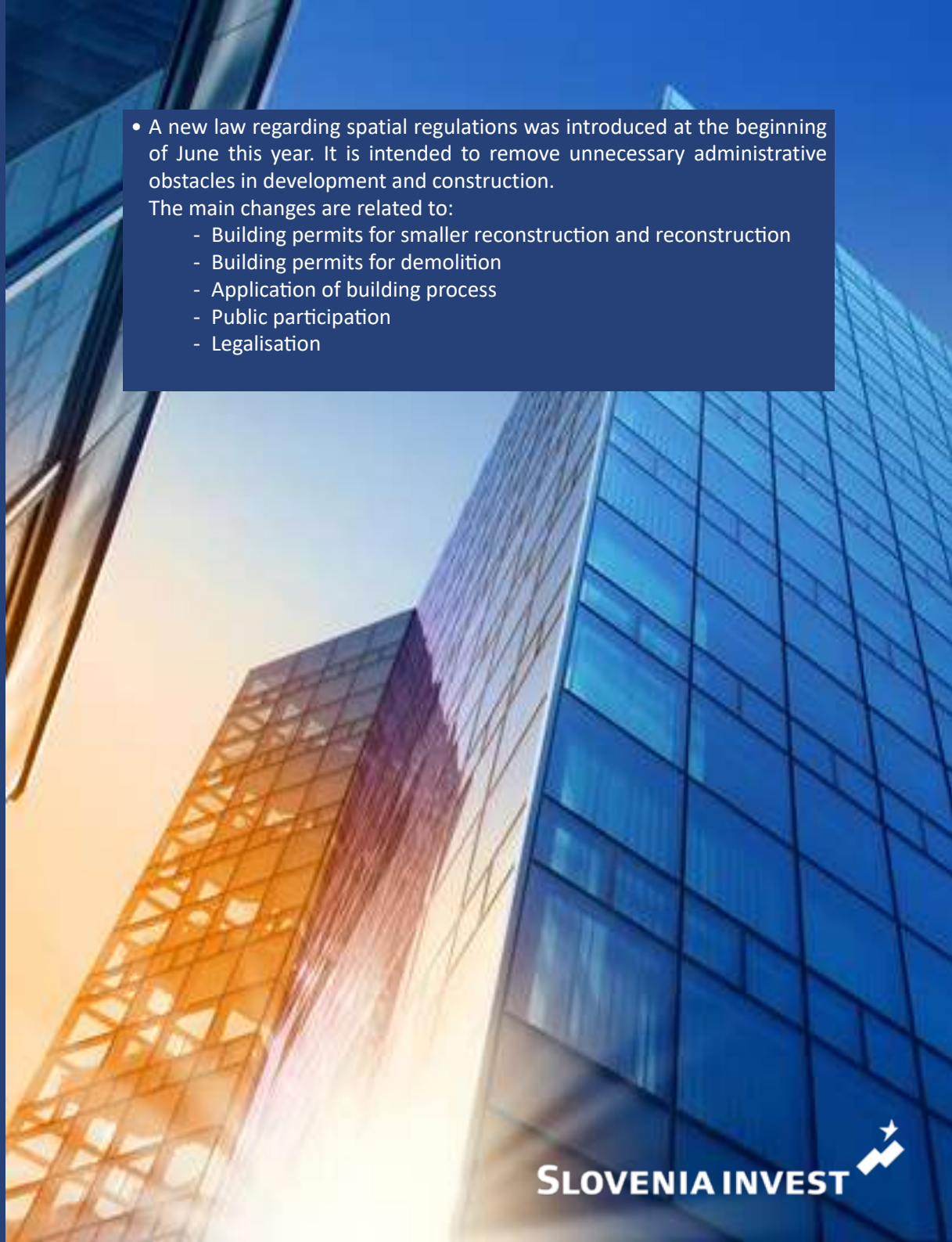
Submarket in Ljubljana	May 2022 asking rent	November 2021 AVG asking rent	March 2021 AVG asking rent	AVG leased rent 2020
Lj Bežigrad	11,33	11,11	10,73	10,94
Lj Center	13,54	11,98	12,81	9,91
Lj Moste-Polje	11,18	11,12	11,02	9,90
Lj Šiška	11,45	10,07	9,64	10,18
Lj Vič - Rudnik	11,03	10,33	10,73	10,22

\*Figures present €/m2/month

- A new law regarding spatial regulations was introduced at the beginning of June this year. It is intended to remove unnecessary administrative obstacles in development and construction.

The main changes are related to:

- Building permits for smaller reconstruction and reconstruction
- Building permits for demolition
- Application of building process
- Public participation
- Legalisation





# Impact of Covid

The Covid pandemic hit Slovenia hard, with high infection rates and deaths compared to other European countries, in spite of draconian restrictions. The first lockdown lasted from 13th March 2020 to 4th May 2020. The second began on 19th October 2020 and lasted until early February 2021. During first lockdown most retailers were closed and real estate agents were not permitted to carry out site inspections.

During the second lockdown bars and restaurants were open to an extent with takeaway options available, and shops were closed with only online options available. From 6th February until 11th April 2021 businesses tried to bounce back as restrictions were eased, but different measures were introduced from month to month.

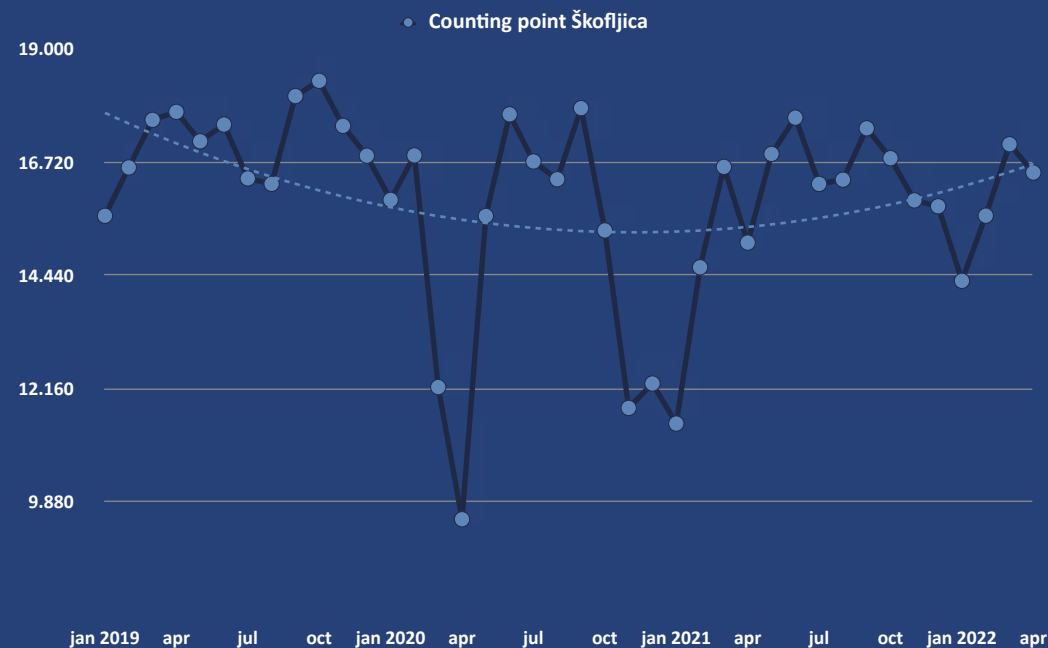
There are currently less than 4,000 active Covid cases, with only 7 people in critical condition. Restrictions have nearly all been scrapped, and Slovenia is back to business as usual. Many companies closed their doors permanently as a result of the pandemic, mainly small enterprises.

There is no data on how many employees are still working from home in Slovenia, however it seems from car parks in the city centre that people are slowly returning to the office.

From the data that shows the number of vehicles passing the registration point in Škofljica, we conclude that the number of vehicles on the road decreased significantly twice - in spring of 2020 and winter 2020/21. The number of vehicles is increasing slowly. Traffic density in 2021 is higher than traffic density in 2020, suggesting that people are returning to the roads and are back at their workplaces.



7-days average number of infected with Covid-19. Source: COVID-19 Sledilnik



Number of vehicles passing counting point in Škofljica. Source: Ministry of Infrastructure

# War in Ukraine

The Russian military attack on Ukraine started on 24th of February 2022, followed by comprehensive sanctions against Russia by EU and USA, in order to isolate it financially and economically. Highly restrictive measures aim to weaken the economic position of Russia.

The US announced a ban on imports of Russian oil, natural gas and coal shortly after the invasion and the UK announced a ban on imports of Russian oil within a month. Sanctions will severely affect Russian economy. Their consequences will however also adversely affect the European economy, which is exposed to Russia and Ukraine mostly through imports of energy, certain metals and food. Disruptions in supply chains have already started to influence prices, causing an increase in the cost of food and energy products.

The consumer price index in Slovenia has been rising since October 2021, with the highest increase from January to February 2022. In March 2022 the government introduced measures to freeze prices of energy supplies and help vulnerable citizens with funds to limit the impact of rising costs. In the last week of April, government intervention ceased, and prices were regulated by the market once again. In May, the government intervened once again.

The impact of war in Ukraine on the Slovenian economy will depend on further sanctions, duration, possible retaliatory sanctions and the adjustment of economies to the changed conditions. Possible disruptions in the supply of energy could have a significant impact on the economy, and consequently on the office market.

	October 2021	November 2021	December 2021	January 2022	February 2022	March 2022	April 2022
				High increase of prices		Government regulation	Government stops regulation
				Month compared to previous month			
Energy supplies	103,2	101,3	101,0	103,2	104,1	81,9	109,1
Basic goods	100,9	100,7	100,0	100,4	101,4	98,9	102,6

Price index of energy supplies and basic goods in general (including energy supplies) for the last 6 months.

# War in Ukraine - impact on the office market

The rising cost of utilities will lead to increased service charges and occupier costs in office buildings, which may lead to downward pressure on rents. However many Landlords in Slovenia (particularly those with better quality buildings), have rents indexed to inflation, and will benefit from rising costs as rents are indexed year on year.

Market sentiment has recovered from the covid epidemic, and has been stable in the last months. Generally companies are optimistic and the sentiment indicator has not been significantly impacted by the war for now.

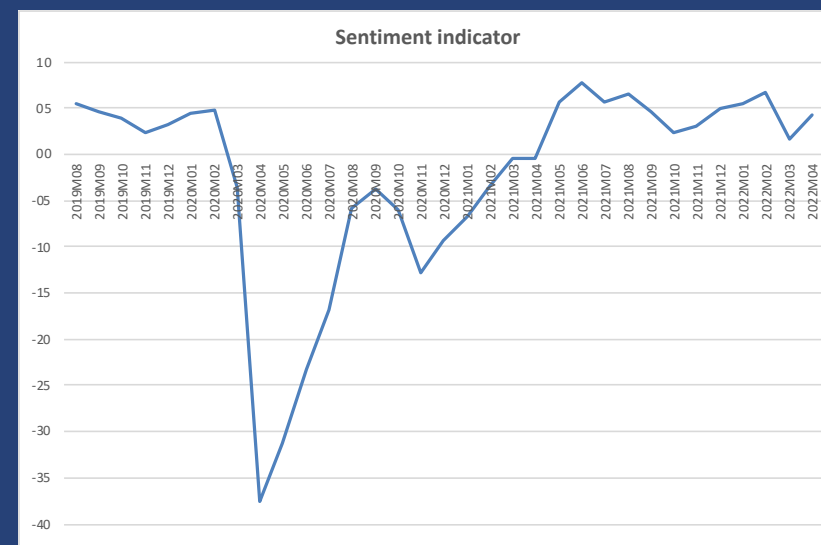
The direct exposure of the Slovenian economy to Russia and Ukraine is low. The high dependence on energy imports and the exposure of the Slovenian pharmaceutical and chemical industry on the other hand, is significant. The Slovenian share of exports to Russia and Ukraine is around 3.1% in recent years, with pharmaceutical products accounting for the largest share of exports - 12.5% of total (direct) exports.

The largest share of direct imports from Russia is accounted for by energy commodities, i.e. natural gas, oil and petroleum products. According to Eurostat, more than 75% of all gas imports to Slovenia come either directly or indirectly from Russia.

Imports from Ukraine include iron and steel, metals, cork and wood products, although their share is not significant. The indirect impact on Slovenia could be greater, through higher prices in the world market.

Russia is Slovenia's fifth largest foreign direct investment partner, accounting for 6.1% of total foreign investment. Russians invest in real estate (hotels, thermal spas, holidays homes etc.)

We can conclude that Slovenia does not rely highly on Russian and Ukrainian import and export as the share is low, with the exception of gas imports.



Source: SURS

Import and Export data to Russia and Ukraine

	Country	2019 (EUR)	%	2020 (EUR)	%	2021 (EUR)	%	2022M01* (EUR)	%	2022M02* (EUR)	%
Import from	All countries together	34.081.835.647		32.111.480.283		42.005.266.391		3.909.066.659		4.210.455.990	
	Russia	540.591.791	1,59	348.710.438	1,09	352.139.752	0,84	35.822.990	0,92	63.352.524	1,50
	Ukraine	41.665.372	0,12	45.509.634	0,14	70.156.224	0,17	4.997.965	0,13	7.356.421	0,17
Export to	All countries	33.547.841.189		32.925.295.779		39.516.421.659		3.517.719.467		3.591.983.169	
	Russia	886.203.083	2,64	865.646.365	2,63	854.548.232	2,16	69.049.380	1,96	72.041.894	2,01
	Ukraine	218.105.361	0,65	214.392.701	0,65	244.087.054	0,62	25.692.257	0,73	11.900.325	0,33

\*Current data  
Source: SURS

# Slovenia - country snapshot

- Slovenia is known as the last green jewel of Europe. It has spectacular mountains, lush thick forests, crystal clear lakes and rivers, a short Adriatic coastline, and Tuscan style vineyards. It is only 20.273 km<sup>2</sup>, and measures approximately 240 km east to west, and 130 km north to south. The population is a little over two million, of whom 350.000 live in the capital city of Ljubljana.
- It is situated to the north of the Adriatic sea, bordered by Italy, Austria, Hungary and Croatia.
- The country became part of the Federal People's Republic of Yugoslavia in 1946, before declaring independence in 1991 and moving to market capitalism.
- Slovenia is the most affluent of the accession states with estimated GDP per capita at 24,678 EUR in 2021, according to UMAR.
- 2020 saw a 4.2% drop in GDP, due to COVID-19 restriction measures adopted by the government. In 2021 GDP increased due to the elimination of restriction measurement and government's help targeting different sectors. 4.2% GDP growth is predicted for this year with slowed down increase in the next years, most likely the consequence of war in Ukraine.
- Slovenia was the first of the 10 EU accession countries to join the Euro zone, having adopted the currency on 1st January 2007. Slovenia joined the Schengen zone on 21st December 2007, and there are now no borders with Italy, Austria and Hungary.
- Tourism is the third largest sector of the economy. In 2020 due to COVID-19 tourism experienced a sharp decline in activity (42% less overnight stays). During the high season of 2021 however, foreign tourist generated 58% more overnight stays than in the high season of 2020, showing signs of recovery. The government help with touristic vouchers for each citizen also contributed to the tourism sector, evident from the number of domestic tourists. In 2021 Slovenia had 22% more overnight stays than the year before, but the numbers are still not as high as before the pandemic. There were still fewer foreign tourists in 2021, compared to 2019.
- Slovenia is a member of NATO and the OECD.

MACROECONOMIC DATA AND FORECASTS					
	2020	2021	2022 F	2023F	2024F
GDP (EUR bn)	46.9	52.0	56.2	59.8	62.9
Population (mn)	2.10	2.10	2.10	2.10	2.11
GDP per capita (EUR)	22,312	24,678	26,601	28,243	29,647
<b>Real economy change</b>					
GDP (%)	-4.2	8.1	4.2	3.0	2.8
Private consumption (%)	-6.6	11.6	4.3	1.4	1.6
Exports (%)	-8.7	13.2	7.1	5.5	5.0
Imports (%)	-9.6	17.4	7.2	4.9	4.6
Unemployment rate (%)	8.7	7.6	6.2	6.0	5.7

Source: UMAR, SURS

Tourism indicator - number of overnight stays				
	2018	2019	2020	2021
Total	15.694,705	15.775,331	9.204,374	11.251,158
Domestic tourists	4.518,695	4.404,565	5.850,018	6.456,686
Foreign visitors	11.176,01	11.370,766	3.354,356	4.794,472
High season* Domestic			3.496,146	3.372,575
High season* Foreign			1.689,753	2.895,896

\*high season includes June, July and August.

Number of overnight stays from 2018 to 2021. Source: SURS

# Existing supply

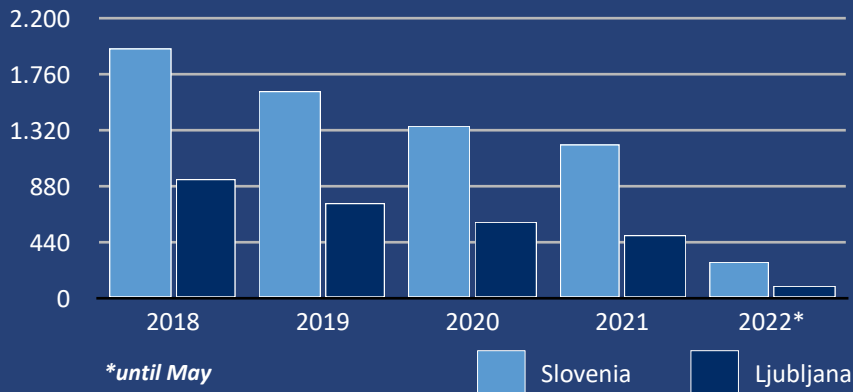
Due to the relative immaturity of the office market, there is no historical data on the supply of office space in Ljubljana.

According to GURS estimates, the number of individual office premises in Ljubljana is around 12,000 and the total area of office space in Ljubljana is 2.1 million square meters. The average age of office premises in Ljubljana is approximately 45 years. There is a lack of modern office premises with sufficient parking spaces, modern architecture and low operating costs. There is currently more than 103,000 m<sup>2</sup> of vacant space advertised for rent in Ljubljana, representing a decrease of 22% since our last office market snapshot in November 2021. The decrease can be explained by higher demand compared to that during the pandemic.

There was a significant increase in transactions of land zoned for office buildings in 2020.

The trend of decreasing new leases each year could change within the next two to four years, with many office projects in the pipeline, especially in Ljubljana which accounts for nearly 50% of all new contracts in Slovenia each year.

Number of new lease contracts annually - office premises



Number of new lease contracts and rent amount in Slovenia



Source: valuer.si

Number of new lease contracts and rent amount in Ljubljana



Source: valuer.si



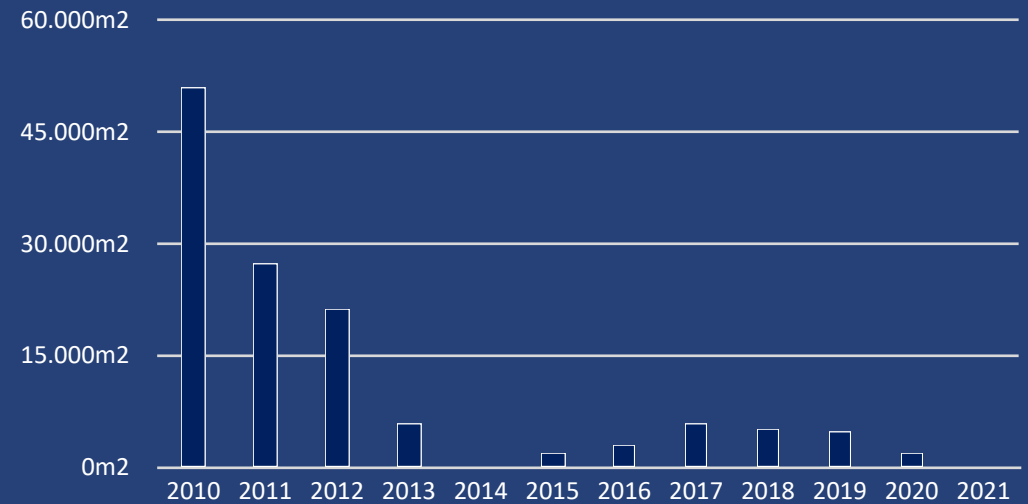
# Development pipeline

When Slovenia joined the EU in 2004, two important changes had a big impact on the Ljubljana office market. First many international companies opened branch offices, creating demand for quality office space. There were very few Class A office buildings then, and space traded at up to 22€/m2/month. Second, local banks gained greater access to interbank borrowing which made it easier for local developers to raise finance for new projects. Office buildings sprung up all over Ljubljana in response to these changes, some in quite unlikely places. Between 2008 and 2010, over 110,000m2 came to market - a large amount for a small city.

Predictably, the oversupply of new buildings caused a crisis in the office market and rents plummeted. Office developers were forced to give generous incentives to tenants including rent free periods, discounts, and free fit outs. It has taken many years to fill up the new buildings, but now there is no Class A space left.

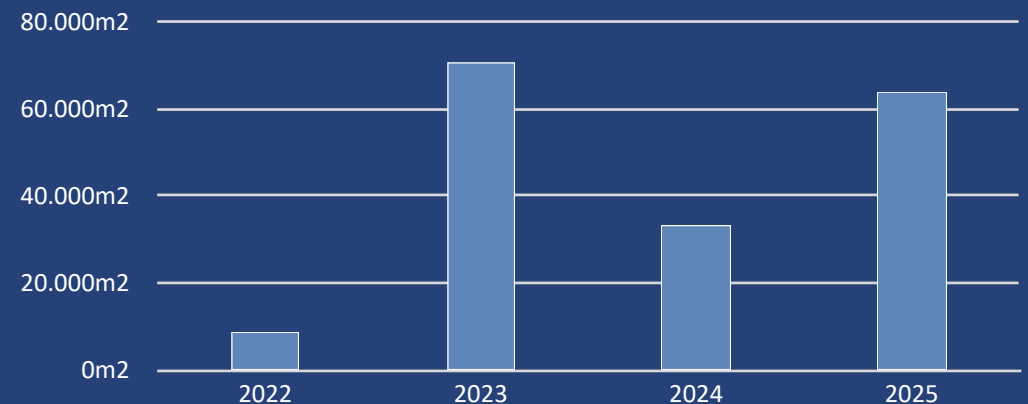
- The only major new office building in 2019 was the 4,658m2 Golden Palace in Stegne. A 2,000m2 extension to Dunajska Residencja on Dunajska Street was available from September 2020.
- Mixed-use project Palais Schellenburg is currently under development in the city centre and will bring 6,000m2 of office space to market in 2023.
- The city centre Emonika mixed-use scheme will deliver approximately 32,000m2 of office space in 2025.
- Slovakian Corwin will deliver approximately 35,000m2 on Vilharjeva, on the periphery of the city centre, at the end of 2024.
- Strabag is developing an 8,000m2 office project at the north end of Dunajska Street. They will occupy half and rent out half of the building. It is expected to be delivered in Autumn 2022.
- Another pipeline project is Stolp Severnica, at the south junction of Celovška Street and the ring-road. It will comprise 14,000m2 above ground, in a 24-storey tower. It is expected to be available in 2025.
- DimnikCobau is developing an office project in BTC of approximately 14,000m2, called Montana, with delivery due in 2023.
- Two projects are expected in Šiška. Poslovni Center Šiška which lies on the ring road near the north junction with Celovška cesta comprises 9,000m2 of office space,;and the Quadro business centre in Litostrojska, comprising more than 18,000m2, which is expected in 2023.
- Rotonda is an existing office building with additional floors planned. It will bring an additional 4.500m2 - 6.000m2.
- Poslovni center Bežigrad will be the result of a renovation, with an additional 4.700m2 of office space, planned for July of 2022.
- Poslovni center Brdo, planned to be finished in the autumn of 2025 will offer approximately 18.100m2 of office spaces.

Office completions 2010-2021



\*m2 of office space in Ljubljana, REN metadata  
Source: Proval

Office spaces in development



\*m2 of office space in Ljubljana; these represent current estimated areas for various projects with confirmed years of completion

# Office spaces in development

Name of the building	Short description	Date of usage permit is expected	Space available	Distance from city centre	Green certified
DCO Business Building (Strabag)	6-storey office building	Second half of October 2022	4.330 m2	3.5 km	DGNB Gold
Poslovni prostori Bežigrad	Renovated office building in 3rd building phase	after 01.07.2022	4.700 m2	2.5	/
Palais Schellenburg	6 - storey office building in the city centre	October 2023	5170 m2	300 m	BREEAM sustainability assessment method
DCB MONTANA	9-storey office building	31.12.2023	10.500 m2	5 km	DGNB Gold
Rotonda	Additional floors planned	1.10.2023	4.500-6.000 m2	3.5 km	LEED Platinum Certificate
Quadro	6-storey office building	Spring of 2023	Up to 18,000m2	3.8 km	
Poslovni center Šiška	Planned project	2023	31.650 m2 (GBA)	3.7	B1 or higher energy class
Vilharia	5-storey office building	Last quarter of 2024/first quarter of 2025	33.391,80 m2	1 km	LEED Platinum Certificate
Emonika	North HQ demise (9-storey)		16.573 m2		
	South tower (22-storey)	September 2025	15.138 m2	500 m	BREEAM sustainability assessment method
Polaris tower (Stolp Severnica)	25 storeys planned	December 2025	up to 14.000 m2	3.4 km	Leed platinum
Poslovni center Brdo	2 four-storey buildings with roof terraces	Autumn 2025	18.100 m2	3.5 km	

Completed in:  2022  2023  2024  2025

# Office buildings in development



Palais Schellenburg



DCO



Poslovni prostori Bežigrad



Rotonda

**SLOVENIA INVEST**







Poslovni center Šiška



Vilharia



Emonika



Quadro





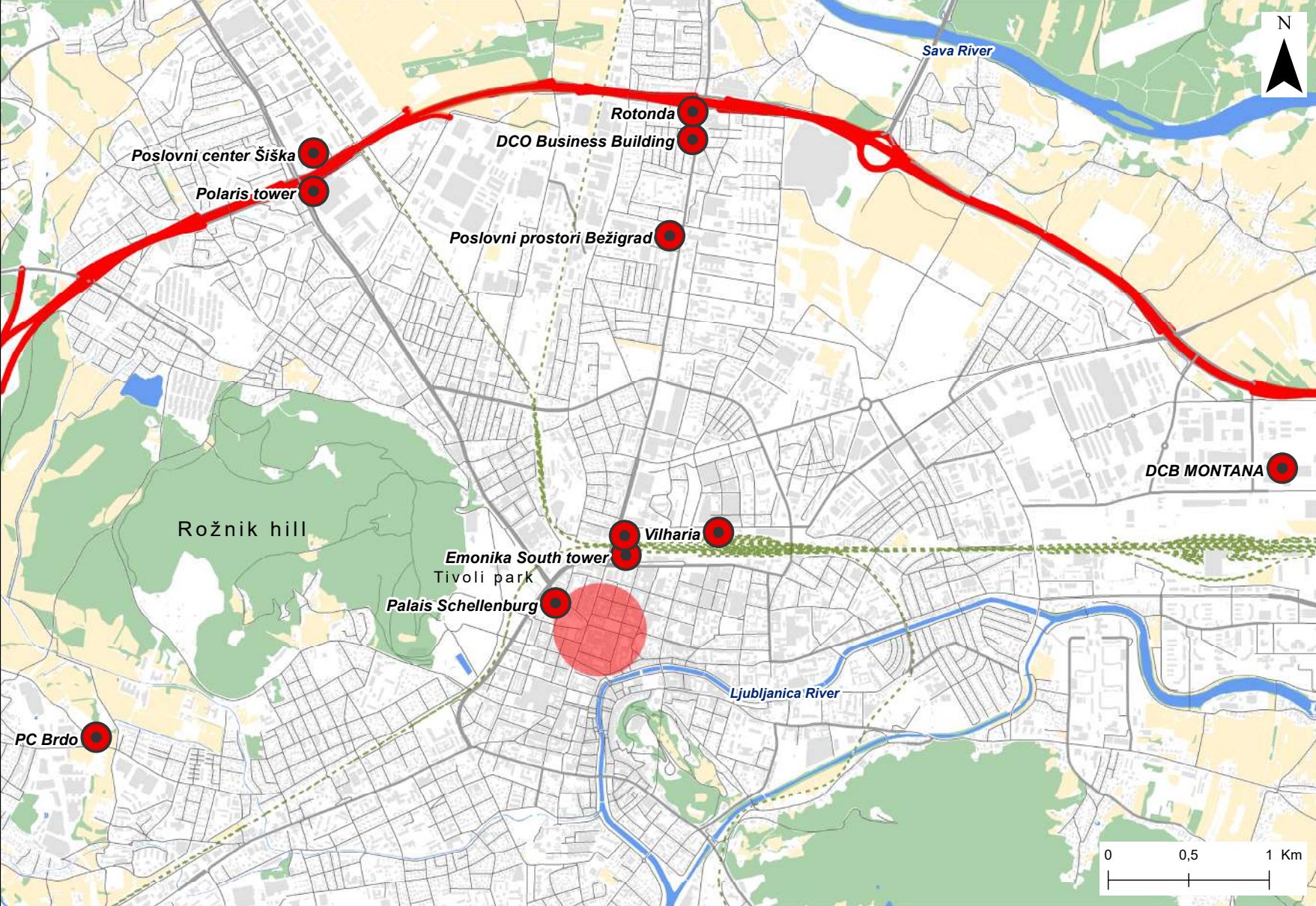
Poslovni center Brdo



DCB Montana



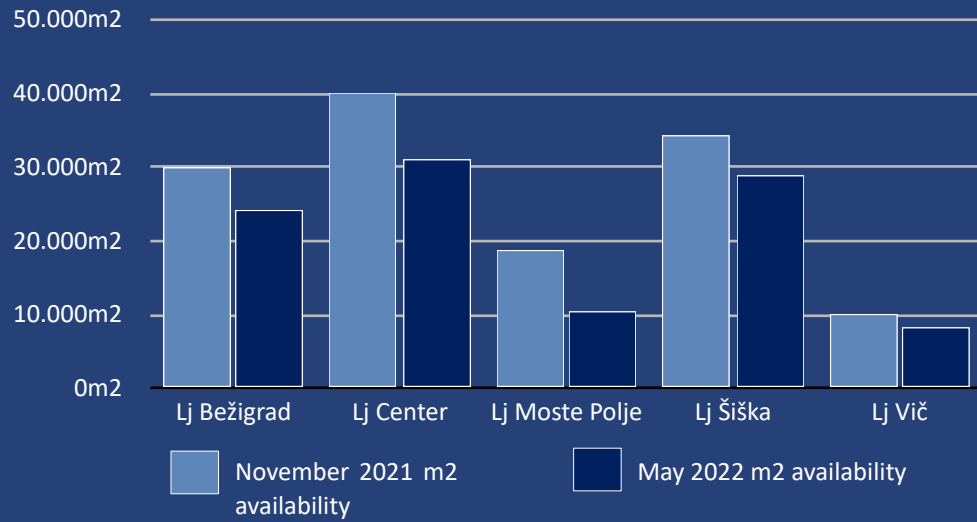
# Office buildings in development



Locations of commercial buildings in development.

# Availability of office space

Number and area of offices available



Source: nepremicnine.net

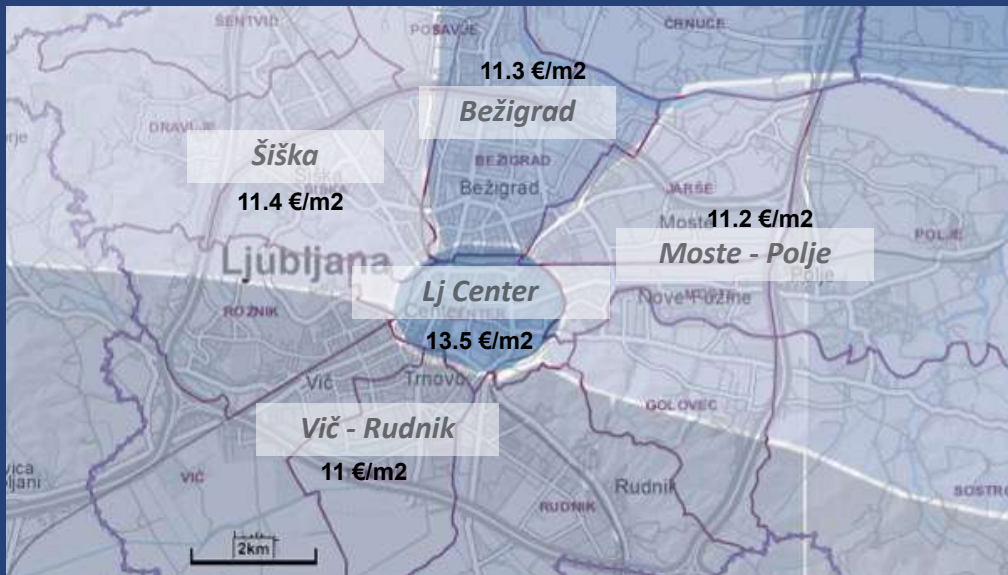
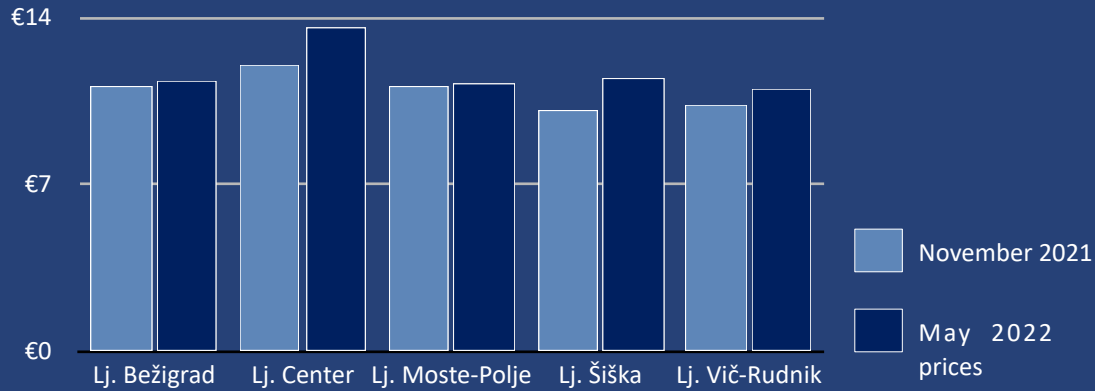




# Advertised prices

- Current average asking monthly rent in Ljubljana is 11,7€/m<sup>2</sup> whilst the average achieved monthly rent in November 2021 was 10,9€/m<sup>2</sup> excluding VAT. The submarkets of Bežigrad, and Moste - Polje are stable, with very little change in the city centre, Vič and Šiška. The more desirable submarkets in Ljubljana are Bežigrad, the City Centre, and BTC area as part of the Moste submarket.

Advertised prices (€/m<sup>2</sup>/month)



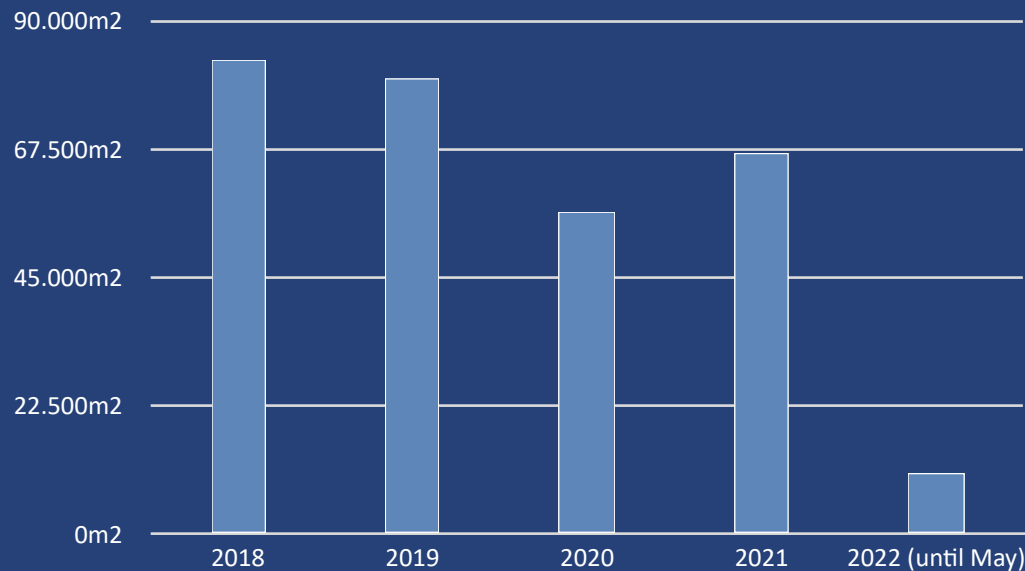
Source: nepremicnine.net



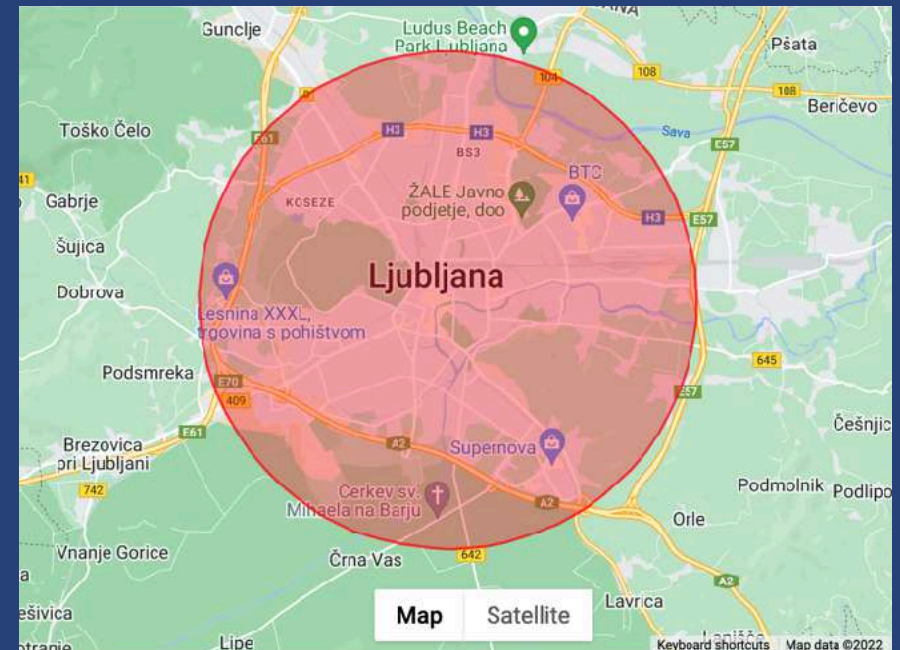
# Demand

- There is a high latent demand for quality office space in Ljubljana, as the supply of quality space has been insufficient to meet the needs of the corporate base.
- Slovenia has many small businesses and office suites comprise on average only 100m<sup>2</sup> in city centre, and around 550m<sup>2</sup> in BTC.
- A tenant survey indicated that 56% of occupiers in Ljubljana own their own office premises, and are therefore less able to relocate than those renting.
- Take up during the years of the financial crisis was very low, only around 25,000m<sup>2</sup> per annum. 2018 saw a large increase thanks to improved sentiment, company growth and start ups, at an estimated 100.000m<sup>2</sup>. Due to Covid-19 restrictions in 2020 take up of office space in Ljubljana reached only 56.000m<sup>2</sup>. In 2021 the take up increased slightly, but did not return to pre-pandemic numbers.

Office take up in Ljubljana by year

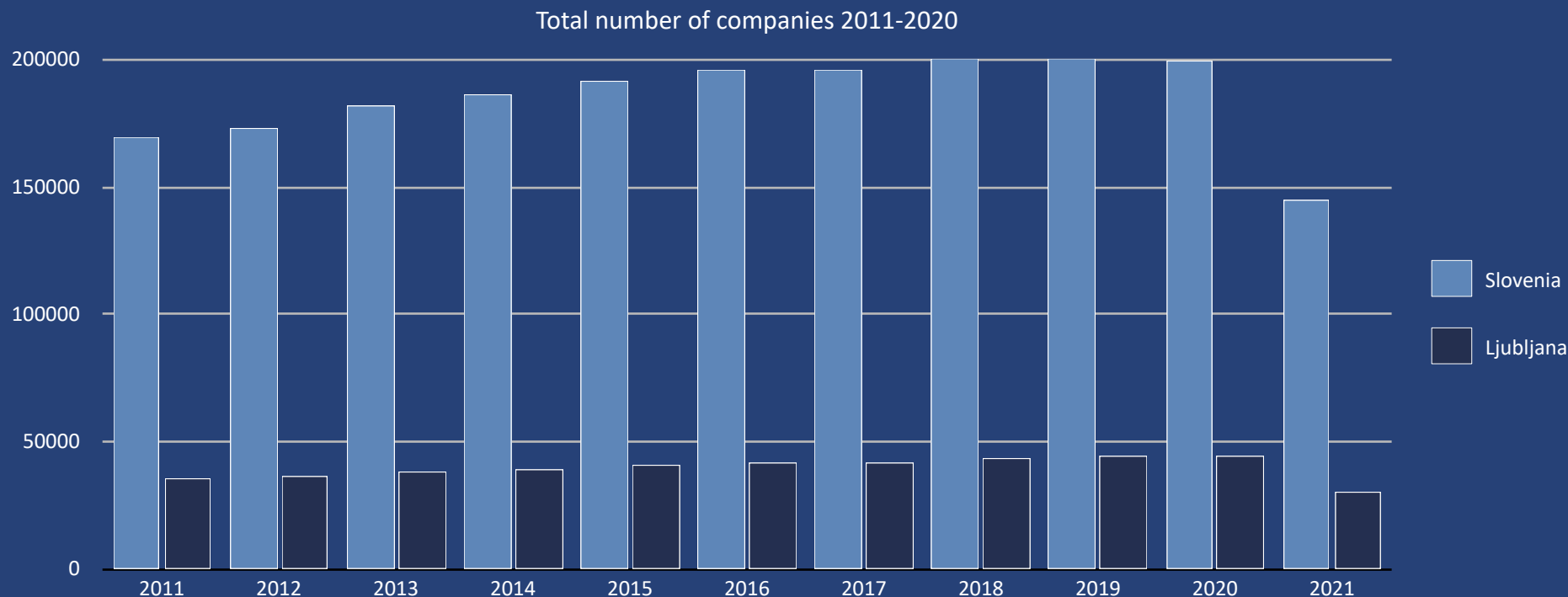


Source: Valuer, 2022



The analysed area

# Occupier breakdown



SLOVENIA	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Micro enterprise (0-9)	159,986	164,115	172,983	177,235	182,454	186,438	185,997	189,995	194,425	195,629	134,959
Small enterprise (10-49)	6,950	6,815	6,788	6,897	7,081	7,268	7,329	7,653	8,126	8,015	7,383
Medium enterprise (50-249)	2,082	2,031	1,988	1,971	2,002	2,027	2,084	2,163	2,220	2,211	2,120
Large enterprise (250-)	342	344	330	330	326	339	346	363	368	365	437

Source: SURS, bizi.si



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