



Accelerating success.

Market Overview | Albania

H1 2017





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Executive Summary

Economy

Albania's economy is continuing to grow from 3.5% in 2016 to 3.6 % in 2017. The main contributors to the GDP growth remain the tourism sector and the energy sector with its large scale hydropower FDI projects. Construction is picking up strongly as a wave of new master plans and construction permits have been approved during the first half of 2017. The Albanian Currency, Lek's overestimated behaviour has shifted the balance of deposits and loans towards Lek in response to actions taken by the Central Bank to lesson the impact of the European currency on the Albanian economy.

The services sector, where tourism has the largest share, has increased by +12.8% compared to H1 2016 showing double digits growth rates.

Overall, the economy is showing signs of revitalization and growth with main drivers such as the tourism and construction sectors.

Office

At the end of H1 2017 total office supply in Tirana has increased to 107,107 sq.m including A, B, B+ class competitive and mixed-use buildings. The total vacant space in the city center has increased by 1,322 sq.m from H2 2016 reflecting an increase in the vacancy rate from 9.7% in H2 2016 to 10.74% in H1 2017. Such increase has occurred mainly from the entrance in the market of Millennium Business Center, a class A office building. As a result the total vacancy rate (excl. TBP) has registered a slight increase, reaching the level of 9.82%. Demand has increased mostly due to office relocations and/or extentions done on an ad hoc basis assome of the companies relocating their office used to rent converted residential apartments being out of the office stock, while others have relocated/extended their office within the office stock changing their office quality and/or size. Although prices have remained stable, the market is still landlord driven and will continue to be so until new supply comes to market. The approved master plan and planned high rise buildings in Tirana's city center will have a direct effect on the office market in the medium and long term, both, on the supply and price side.

Retail

The entrance of Toptani Shopping Center in March 2017 has increased the overall shopping center stock in Tirana by 24,000 sq.m reaching in total to 202,800 sq.m. This increase has effected also the shopping center vacancy rate recorded to be 2.76% compared to 2.07% in H2 2016. The rent negotiatios continue to be done mostly on an ad-hoc basis. In comparison to the year before (when Inditex entered the market), only five new international brands entered the market. Most of the retail activity was generated by international and local retailes already present in the country. The approved master plan of Tirana will have a direct impact also on the retail side, as most of the projects contain retail space.



Albania continues to offer a dynamic real estate market, with transactions based in the most successful retail and office assets. 2018 will offer new frontiers to retail occupiers in their expansion plans within the country. The office market will remain landlord driven until new supply becomes available. Tourism is the big news of 2018 as Albania is discovered by more European travelers, thus inciting investors both local and foreign in this new investment arena.

Economic Overview

Economic Overview¹

Based on the latest economic data and official statistics, the Albanian economy has performed in line with the forecasts for 2017. The economic growth continued to grow moderately in the first half of 2017. The first quarter of 2017 registered a growth rate of 3.9%, which succeeded the positive annual performance of 2016 with growth consisting (on annual terms) of 3.5%.

Trade deficit during the period January-August 2017 increased by 1.6% compared to the same period of 2016. While inflation, for the same period, has been stable at the rate of 2.1%.

Unemployment rate during T2² 2017 has reached 14.3%, declining by 0.83 pp compared to T1 2017 and 1.6 pp compared to T2 2016 showing signs of improvement in the labour market.

Financial markets were characterized by low interest rates on deposits and loans, creating demand for real estate properties as a more attractive and lucrative investment tool for capital owners. Non-performing loans have declined and reached 15.6 % of the total loan stock.

Due to the overestimated behaviour of ALL towards the two main foreign currencies, the EUR and USD, the stock of deposits and loans in ALL has increased. The banking sector remains very liquid, but with limited lending to the business community, while the NPL's have been declining to 15.6% as per end of June 2017.

During H1 2017 services sector, where tourism has the largest share, has increased by +12.8% compared to H1-2016 showing an impressive interest of tourists on Albania over the last year. Currently Albania has owned its place on the map as a new and attractive touristic destination.

According to the latest statistics, the number of foreigners that visited Albania in the first six months of 2017 rose by 9.9% year-on-year, in total reaching 1.76 million. Only in June, 437,820 foreign nationals, up 11% year-on-year, entered Albania. Out of the total, 195,048 came to Albania for recreational purposes. Most of the entrances are by land - 77 %, the rest is by air (15 %) and by sea (8%). This is in line with the nationality of international

visitors. Tourists from Kosovo, Macedonia and Montenegro account for 50 % of all entrances.

“Patriotic tourism” has however shown signs of decline as tourists from Italy, Poland, France and other Central and Western European countries have shown increased numbers.

Prognosis

According to IMF projections, GDP growth is expected to be around 3.6% for the entire 2017 and to achieve 4.1% in 2018.

In 2017 the growth will be fueled by both domestic and foreign demand, almost with an equal contribution from each. Within domestic demand, investment is expected to be the main contributor, although consumption is also not lagging behind.

While significantly higher performance of exports of both goods and services as compared to the last year is going to generate the growth within net foreign demand, as imports will continue to have a positive growth and therefore a negative contribution to the overall trade deficit

The World Travel & Tourism Council (WTTC) forecasts that tourism will continue its growth pattern and states that in 2017 Albania is expected to attract 4.26 million foreign tourists, while by 2027 the annual number of international arrivals is foreseen to reach 6.25 million, by thus becoming an attractive market in the region. However, there is further opportunity for growth in this sector that would put Albania in a comparable position to other markets in the region (in terms of share of tourism to GDP).

Key Annual Economic Figures			
Indicators	2015	2016	2017*
GDP, in %	2.6	3.5	3.6
Inflation CPI, in %	1.6	1.0	2.1
Unemployment, in %	17.1	16.1	15.8

Source: IMF, INSTAT, Ministry of Finance, year-end, *projected

Half of the entire population lives within one hour drive from the capital Tirana, making the Tirana-Durres-Elbasan triangle one of the densest ones in terms of population.

Population of Albania	2,876,591	
Total 3 Districts	1,273,529	49.7%
Tirana District	862,361	28%
Durres District	284,823	10%
Elbasan District	283,822	10%

Source: INSTAT 2017

¹ Analysis based on latest data published and forecast for 2017 and 2018

² T2 stands for Trimester 2

Office Market

Supply

The entrance of Millennium Business Center (a class A office building) in the market has impacted the office market, not only by increasing the total office stock, but also the office market quality. Even though it is not yet officially opened, a considerable surface of Millennium Business Center is already rented and the remainder is on the market ready to be leased.

Based on the above, the total office supply in Tirana has increased by 5,800 sq.m reaching in total to 107,107 sq.m including A, B and B+ class competitive and mixed-use occupied buildings. In relative terms, the overall office market has increased by 6%.

The majority of office supply (77%) is located in the city center and inner city, while the remainder of office stock (23%) is located in the outskirts of Tirana. Such changes were also reflected in an increase in the vacancy rate from 8.84% in H2 2016 to 9.82% in H1 2017.

The overall rate has resulted from the calculation of office stock rates located in the city center and inner city, excluding those of the large office projects situated in the outskirts of Tirana. The latter projects have high vacancy rates, mostly due to their location in the least favourable submarkets. Including such rates would distort the analysis of the total market's vacancy levels represented by central business district office buildings.

Demand

Total occupied stock at the end of H1 2017 amounted to 84,041 sq.m noting an increase of 4,478 sq.m compared to H2 2016.

Such increase has mostly resulted due to the office relocations and/or extensions done on an ad hoc basis; some of the companies relocating their office used to rent converted residential apartments out of the office stock, while others have relocated/extended their office within the office stock changing their office quality and/or size.

Rents

The average office rent rate in Tirana currently stands at €15.2/sq.m/month. Average class A office rents have

seen little change by rising to €19.1/sq.m/month in H1 2017 from €18.3/sq.m/month in H2 2016. It is worth noting that even though rent free periods remain officially an unavailable offer in Tirana's prime office locations, recently a more positive approach from the landlord side for such incentives is noticed.

Pipeline

Turdiu Center, located at Barrikadave street, comprises a total office space of 2,500 sq.m. The center is expected to enter in the market in 2018.

Arena Kombetare is the new project taking place in the former Qemal Stafa stadium, which apart of the stadium and sportive area will comprise both office and retail spaces. The project has already started its construction works and is expected to be completed within 2018.

Archea (4 ever green) Tower is a 85 metres tall tower located in the heart of the city. It is currently under an inactive status and only when active it would be clear if it would join the office stock or any other real estate subsegment.

Prognosis

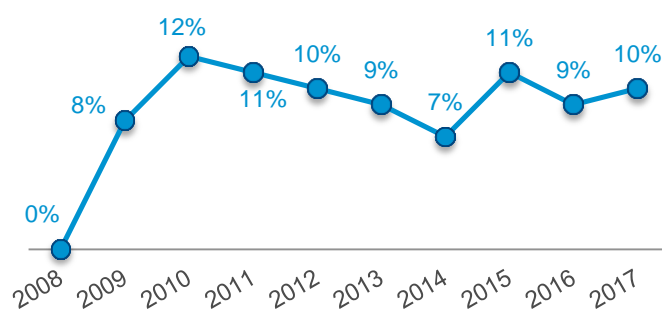
The completion of the new approved projects will significantly impact the office stock by bringing the much needed additional office supply. The latter will have a downward impact on the rental rates, which currently are recorded to be some of the highest rents in the Western Balkans.

Key Figures, H1 2017 - Tirana Market

Total Stock	107,107sq.m
Vacancy	9.82%
Prime Headline Rent	€ 24.5 sq.m/month

Source: Colliers International

Tirana Market Office Vacancy Rate (%)



Retail Market

Supply

The official opening of Toptani Shopping Center in March 2017 has significantly impacted the retail market in Tirana which had remained unchanged for the last two years. Taking in consideration its excellent location in the city center, as well as its high quality construction, Toptani has entered the market as one of the major shopping centers in Albania next to Tirana East Gate (TEG), Qendra Tregtare Unives (QTU) and Tirana Ring Center (TRC).

With the entrance of Toptani Shopping Center the overall shopping center stock in Tirana at H1 2017 has increased by 24,000 sq.m reaching in total to 202,800 sq.m. This new stock increase has also effected the shopping center vacancy rate recorded to be 2.76% compared to 2.07% in H2 2016. The rent negotiatios are mostly done on an ad-hoc basis.

Demand

This year marked again the increasing success of the shopping malls towards high streets. Apart from attracting existing retail companies in the market like LC Waikiki, DeFacto, Calzedonia, Jysk, Adidas etc, Toptani Shopping Center has achieved to bring into the Albanian market new international brands like Intimissimi, Well, Gentli shoes, Satur and Comodita Home.

Additionally, few international retailers are aggressively expanding their presence not only in Tirana, but also in other main cities of Albania.

Rents

Tirana's average shopping center rents currently stand at approximately €22/sq.m/month, being slightly increased from €20/sq.m/month in H2 2016. Prime headline rents have also been increased to €55/sq.m/month compared to €50/sq.m/month in H2 2016. Such changes have occurred due to the new shopping center (Toptani Shopping Center) entering the market. The market continues to be landlord driven, especially for prime retail spaces and shopping centers that hold good brands and can offer the retailers a high number of customers.

Prime High Street rents have encountered an increase in H1 2017 amounting €48/sq.m/month from €40/sq.m/month. Additionally, like in H2 2016 the gap between the highest and the lowest rents where the lowest is registered at €6/sq.m/month and the highest at €48/sq.m/month continues. This is due to buildings` age and conditions in high streets along with the alignments of retailers` category.

Pipeline

Qendra Tregtare Unives (QTU), the first and one of the well-known shopping centers in Albania, is expected to increase its total build-up area with 14,000 sq.m. Once completed, this additional retail space will increase the overall shopping center stock by offering to the clients more retail possibilities and services particularly to those customers located in the Western side of Tirana

In addition, Arena Kombetare stadium projected to be completed in 2018 is expected to also increase the retail space.

Prognosis

With the opening of Toptani Shopping Center in H1 2017 and the extension of QTU retail space, the shopping center submarket will soon achieve its saturation point.

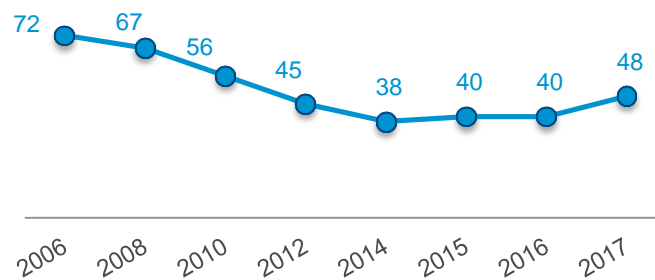
In addition, Tirana real estate market is expected to encounter major changes with the approval of the new master plan of the city. Based on the available information, many of the projects to be constructed in Tirana (Downtown Tirana, Eyes of Tirana, Arena Kombetare etc) will contain retail areas which are forecasted to impact significantly the retail market stock once completed.

Well managed shopping centers will continue to generate the necessary customer traffic to achieve success.

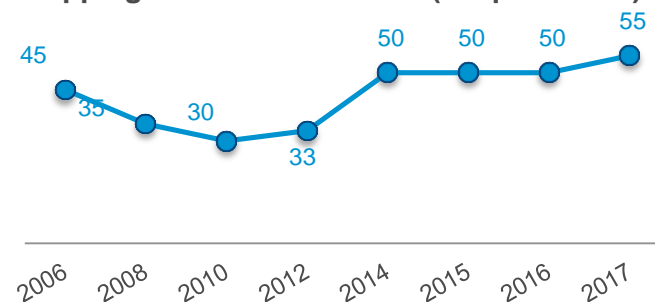
Key Figures, H1 2017 - Tirana Market	
Total Shopping Center Stock	202,800 sq.m
Vacancy	2.76 %
Prime Headline SC Rent	€ 55 sq.m/month
Prime High Street Rent	€ 48 sq.m/month

Source: Colliers International

High Street Prime Rent (€/sq.m/month)



Shopping Centers Prime Rent (€/sq.m/month)



\$2.6

billion in
annual revenue

2

billion square feet
under management

15,000

professionals and staff

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