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# Market Overview Albania 2020

**March 2021**

Colliers Albania

## Top Market Predictions

### 1. New high-end developments continue to reach unprecedented levels

Despite the Covid-19 pandemic, the Albanian urban regulation entities kept on issuing construction permits throughout the year. The increasing trend continued during the first three quarters of 2020 where 1,054,000 sq. m of total built up area were granted a permit at a national level compared to 999,784 sq.m of total built up area in 2019. Albania`s construction sector is expected to be one of main contributors to the GDP growth for the year to come. Activity, both in the construction and real estate market, will intensify due to large size projects under development located in the capital and coastal areas.



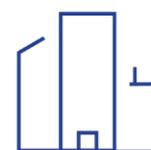
### 2. Boom in hotel construction permits and second home market sales and rental prices

Travel limitations have increased demand from Albanians and diaspora for second homes, which is predicted to continue in 2021. Hence, sales and rental prices for quality second home premises will continue to thrive with incremental double digits if travel restrictions to the rest of Europe endure. While the pandemic has slightly postponed and delayed the arrival to market of the first 4-5-star hospitality projects under construction, the appetite from investors and developers continues to remain high and is shown in the significant number of new permits issued during 2020 for high-end hotel projects in Tirana and the Albanian Riviera. Interest from high-end international hospitality groups have not withdrawn as Albania is seen as the last market to develop in quality tourism in the Mediterranean basin.



### 3. High-end office space rents to reach regional levels

As expected, 2020 registered a double digit increase in the office vacancy rates, while the decrease in rental prices was only moderate due to the relatively steady demand. On the other hand, as the modern office stock is expected to increase in the medium run, competition will increase among landlords and thus prices are expected to fall reaching more approachable and reasonable levels in the medium term. We expect Tirana`s main landlords who remain primarily private owners to additionally increase their contribution to the tenants` fit outs and investments budgets.



### 4. Prime shopping centres to return to normal operational levels

The presence of international retail brands offering incentives to their franchises has positively impacted the sales volumes of these brands which performed better than their counterparts abroad. Local demand has remained and will remain strong in 2021 as the pandemic effects will slide to 2021 and travel restrictions will continue.



### 5. New entries and expansions of international BPO

Albania has always been attractive to international BPO companies, whose interest remained high even during 2020. New companies entered the market in the midst of the pandemic and have plans for future expansion, further strengthening Albania`s position in the BPO world and emphasizing the potential the county carries in this sector with its young and multi-lingual, educated population.



“Albania remains a dynamic real estate market, growing in both the retail and office sectors. The Covid-19 pandemic had a definite impact in the first quarter of 2020, but with the ease of the quarantine restrictions, the real estate market picked up and recorded higher than usual transaction volumes, particularly in the residential sector. The office stock is foreseen to see notable change in the mid-term due to heavy construction activity with downward pressure on prices and new entrance of BPO players that will diversify more the tenant base. The retail market will see growth by existing investors coupled by the entrance of new brands from the region. Fashion retailers are set to continue their growth by using multi-channel strategies to widen their reach and investment in e-commerce is expected to rise as an effective tool to target buyers. Tourism will see continuous investment by local investors, but this time coupled with experienced international hotel operators who should bring world class expertise to the Albanian hospitality market when it comes to international standards for customer service and quality control. Albania is additionally attracting the interest of regional investors in the hospitality field who are looking at it as an interesting, new destination.”



**Stela Dhimi | Managing Partner | Albania & Kosovo**

## Economy

The Covid-19 pandemic reached Albania in March 2020 and has become since then the focal point of concern for the Albanian economy. As it kicked off in March 2020 with the first case officially announced by the Ministry of Health and Social Protection, it continues to develop to date with thousands of cases reported on a daily basis by government entities.

In addition to the pandemic, Albania continued to feel the consequences of the November 2019 earthquake which displaced thousands and is still affecting the economic situation. The redevelopment plan in the damaged areas is ongoing. Several establishments are still in the process of being demolished, while others are in the reconstruction phase. A number of constructions are planned to be built, and construction hasn't started with delay. The Albanian economy is currently suffering from the Covid-19 medium term effects and the earthquake aftermath and it is foreseen that their impact will continue throughout 2021 and well into 2022.

### Macro-economic Snapshot

According to preliminary analysis from IMF, in 2020, Albania registered a growth of -7.5%, declining with -9.7 points % compared to 2019. However, the 2021 forecast is positive showing a recovery of the economy with over 10 points %, reaching a yearly growth rate of 6.1 % making up for the economic decline of 2020. As stated by INSTAT, industries contributing positively to the 2020 growth rate were the construction sector with 0.73% contribution to growth, the real estate market with 0.53%, the public administration, education and health with 0.27%, industry, energy and water with 0.10%, agriculture, forestry and fishing with 0.01%.

During the first three quarters of 2020 655 construction permits were issued which amount to a total area of 1,054,000 sq.m, while during the same time period in 2019, the number of permits issued was 892 and their total area was 1,780,000 sq.m.

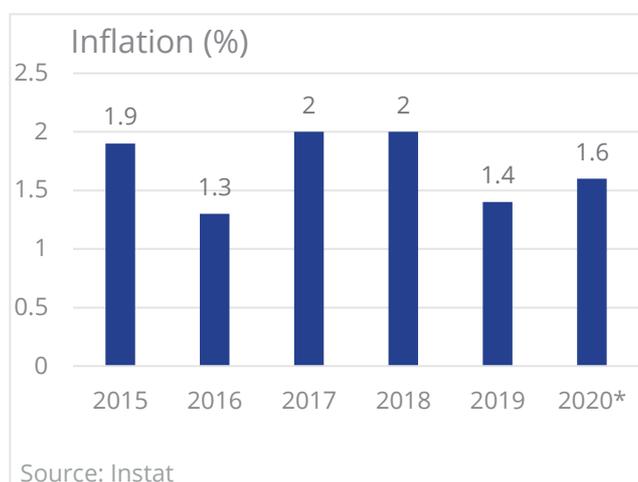
### Key Annual Economic Figures

Indicators	2016	2017	2018	2019	2020*
GDP Rate in %	3.3	3.8	4.1	2.2	-7.5
Inflation Rate in %	1.3	2	2	1.4	1.6
Unemployment Rate in %	15.2	13.7	12.3	11.5	11.6

Source: IMF, Instat

The impact of Covid-19 on the construction sector was not notable, as it continued its normal operation in the market even during the national lockdown.

In yearly terms, inflation was 1.6% in 2020, registering a slight increase by 0.2 point % compared to 2019. Food and non-alcoholic drinks had the highest rate among all the contributors with 3.6%, and transport, which was the most negatively affected sector compared to 2019, had the lowest rate with -3.2%. Inflation declined due to low demand and the disinflation pressure from the international economies.



Source: Instat

Financial and monetary measures undertaken from the Bank of Albania aimed for the reduction of lending and debt service costs, the full supply of liquidity to the financial markets, and an adequate distribution of the financial burden of the crisis between the banking sector and businesses. BOA's forecast on the financial recovery seems optimistic. The currently implemented monetary policies show positive prospects in overcoming the difficult situation.

INSTAT data show a decreasing unemployment rate during Q3 2020 compared to the same period of 2019. However, based on third party sources, realistic unemployment rate would be around 15 %. Women and independent workers were the groups most affected from the pandemic showing a higher level of unemployment rates.

Exports during 2020 decreased by 9% compared to 2019. Exports were influenced by the decline in exports of "Textiles and footwear" with -5.3%, "Minerals, fuels, electricity" with -3.5 %, "Construction materials and metals" with -1,2%. On the other hand, imports during 2020 decreased by 6.8% compared to the previous year. This reduction was influenced by the decline in imports of "Minerals, fuels, electricity" by -3.5 %, "Textiles and shoes" by -1.8%, "Machinery, equipment, spare parts" by -0.8%.



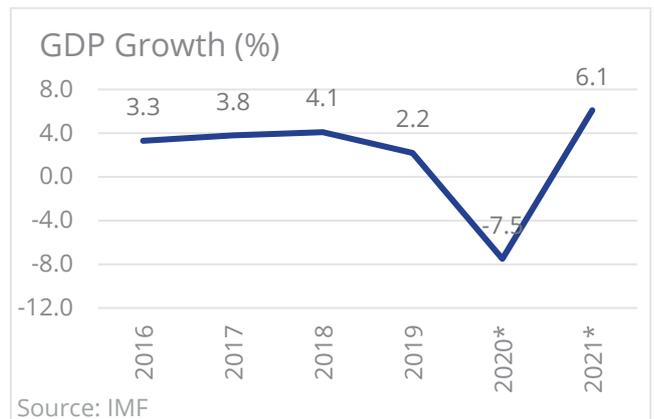
The Covid-19 pandemic has also affected the hospitality and tourism market. In the first three quarters of 2020, the number of total visitors decreased by -48%, compared to the same period of 2019. The

number of nights spent in total followed the same trend as the number of visitors and decreased by -49%, compared to the first three quarters of the previous year. The second quarter of 2020 recorded the lowest number of visitors and the lowest number of nights spent, respectively -76% and -77% compared to the second quarter of 2019.

In the beginning of 2020, 1.2% of GDP was planned to be allocated for the earthquake reconstruction. With the emergence of the Covid-19 pandemic the government had to revise the budget.

During H2 the government did not impose a second lockdown, but the increment of new cases forced the authorities to tighten restrictions.

There have been three budget revisions in 2020. The first two ones emphasized a growth of health spending and providing assistance to businesses and households, and the third one augmenting reconstruction and investment.



### Prognosis

The estimations of preliminary predictions from BOA, IMF and the Albanian government indicate the ability of the Albanian economy to gradually recuperate its economic position. However, it remains fragile, since there are still many uncertainties such as the worsening of the epidemiological situation, the possibility of a slower recovery of domestic and foreign demand and difficulties in the monetary policy transmission mechanism. As 2020 was the year of endurance instead of investments, 2021 does not guarantee a boost in new investments based on all the above factors. Likewise, the extension of travel restrictions would shrink the tourism sector further. The construction sector could be represented by public reconstruction projects and private projects in the pipeline that are under development.

## Office Market

### Supply

Currently, the office supply in Tirana is recorded as 137,565 sq.m. During 2020 the market welcomed an additional 30,458 sq.m quality office space, which significantly increased the total stock by 28.4 %. More specifically the new added office supply consisted of: 13,232 sq.m of class A, 6,300 sq.m of class B+ and 926 sq.m of class B office space in Tirana.

Again, there is no change in the location of the office stock where still the majority is concentrated in 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. Additionally, the restrictions implemented afterwards were not in the office sector's favour.

Following the increase of the stock and the challenges that the 2020 pandemic brought to the businesses and their expansion plans in general, the vacancy rate in office space recorded one of the highest rates (24.3%) during the last decade. Such increase brought forward a more client-oriented approach towards the tenants from very traditional landlords used to offering the very basics to their clients in the past.

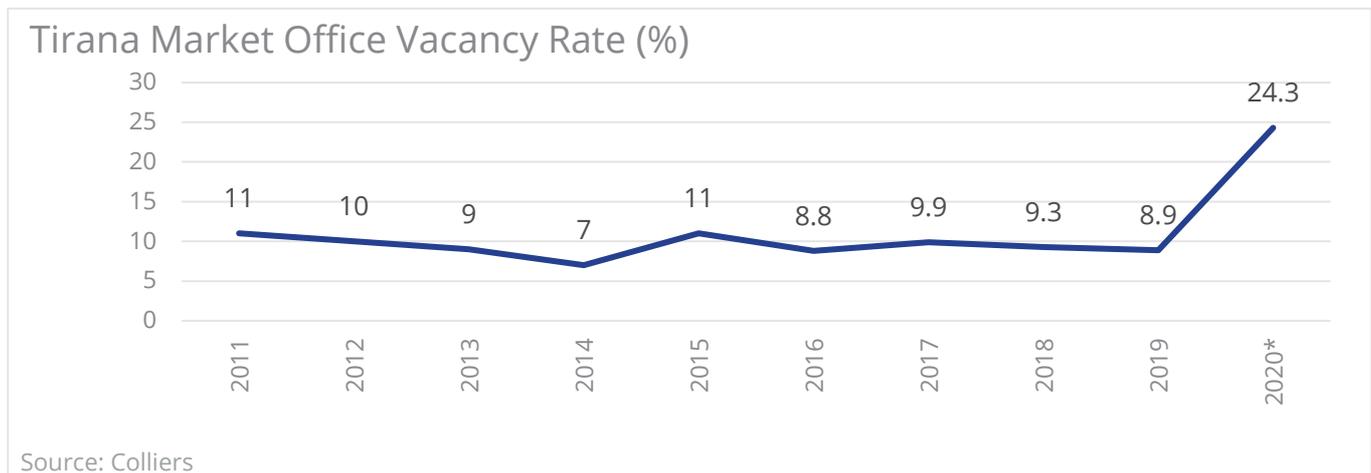
### Key Figures, 2020 - Tirana Office Market

<b>Total Stock</b>	137,565 sq.m
<b>Vacancy</b>	24.32%
<b>Prime Headline Rent</b>	€ 23.5 sq.m/month

Source: Colliers

### Demand

Demand for office space in Tirana in during 2020 has experienced some changes compared to the previous year. The Covid-19 Pandemic has affected the type of demand for office space. Companies are currently requiring smaller office space, shorter lease lengths and more flexible lease terms. However, an exception to this are the large corporates which have still continued with their planned expansions or opening of new offices even during pandemic times.



## Rent

The Covid-19 pandemic brought some changes to the office market rent levels too as it presented new challenges for both tenants and landlords. During H1 the obligatory lockdown forced offices to remain closed and employees to suddenly start working from home. During H2 2020, as the Albanian government did not impose a second lockdown, companies began welcoming employees back at their offices, but social distancing forced many tenants to carry on with remote work or apply rotation schedules. Landlords of business centres have chosen to offer incentives, instead of lowering rental prices straight forwardly. While individual landlords have been more flexible in offering price reductions, incentives and embracing requests placed by tenants. The price reductions and incentives applied, due to the economic consequences caused by the pandemic, have affected an overall rent decrease level of 15%.

Hence, in 2020 the average office rental rate in Tirana was € 16 /sq.m/ month while the prime headline rent was registered €23.5/ sq.m/ month.

Headline rents have experienced the lowest decrease due to the limited stock of high-quality office space. The highest decrease was registered in B+ and B office buildings where the negotiation power has slightly shifted to the tenants.

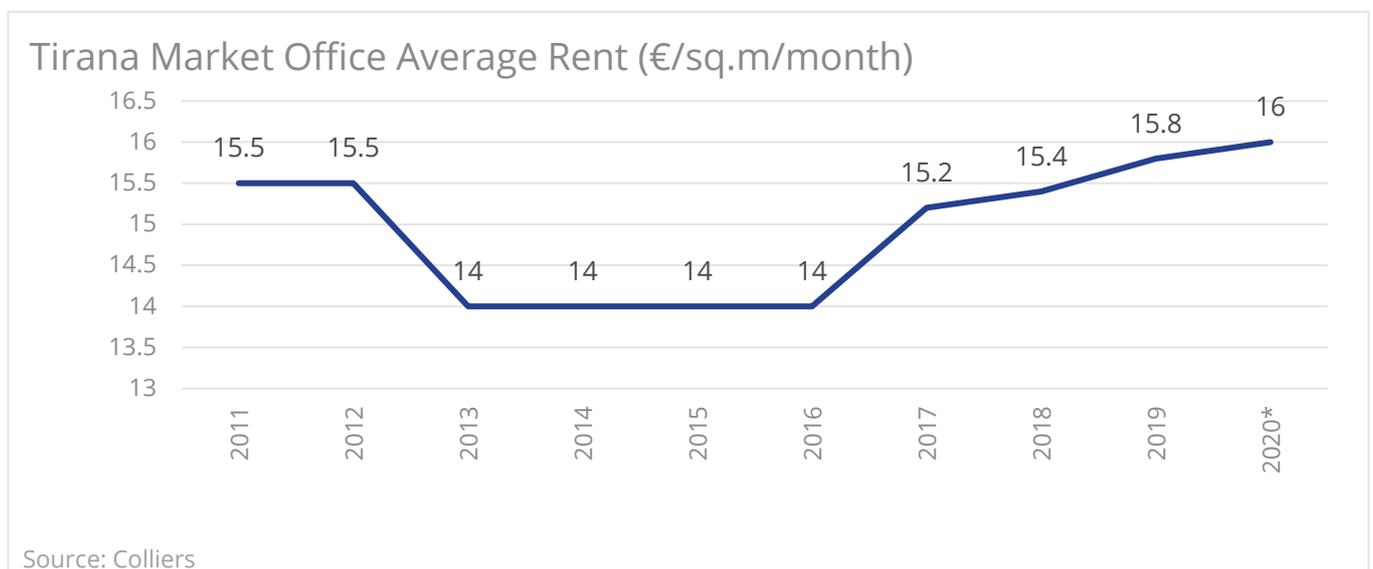
## Pipeline

There are several large projects in the pipeline, which include new mixed-use buildings, residential and office complexes in very prime locations of Tirana. Some of these projects on the pipeline are MET Tirana Building, Downtown One, Orion Business Centre, Eyes of Tirana, Tirana's Rock and Ekspozita Building. The total office space under active construction is 67,858 sq.m and is expected to enter the market in 3 years' time. Meantime, there are other large-scale projects in their initial planning phase that we expect to further increase the office stock in the medium to long run.



## Prognosis

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. However, the expectations are for lower market rents and higher yields to be achieved in the medium term.



## Retail Market

### Supply

During 2020 the retail market supply has reached a total stock of 218,800 sq.m, registering an increase of 5% attributed to arrival on the market of Arena Center.

In 2020, the vacancy rate has decreased to 4,9% from 5.3% in 2019. This decrease has come as a result of considerable retail take up space at one of the secondary shopping centres located in Tirana. As the vacancy rate declined, on the other hand, supply of the retail market was affected by the Covid-19 pandemic, with differences in the high streets and shopping centres. While the unprecedented situation caused the closure of a large number of retail shops on Tirana's main high streets such as Myslym Shyri and Durrësi Street (respectively 39% and 32% approximately), the shopping centre scene was different, with few to no closures and sales achieving healthier financial results than the ones forecasted at the beginning of the pandemic, by large retailers.

On a positive note, despite the large number of bankruptcies registered among small, individual retailers located in high streets, it's worth noting that simultaneously the pace of renting out these spaces to new retailers remained relatively high.

### Demand

Demand was characterized by new international brands entering the market. Tommy Hilfiger, Replay, Hugo Boss and Scholl have absorbed approximately 1,000 sq.m of high-end retail space, mostly in shopping centres. Despite the new entries in the market, the Covid-19 pandemic has created difficult circumstances for the retail sector. The lockdown during H1 2020 forced many retailers to remain closed for almost three months and many of them tried to adapt to the new reality by implementing e-commerce solutions, through websites or via social media, in order to continue to operate.



#### Key Figures, 2020 - Tirana Retail Market

<b>Total Shopping Center Stock</b>	218,800 sq.m
<b>Vacancy</b>	4,93 %
<b>Prime Headline SC Rent</b>	€ 45 sq.m/month
<b>Prime High Street Rent</b>	€ 35 sq.m/month

Source: Colliers

As a result, limitation on travel and shopping abroad shifted customers to retailers with a local presence filling the gap created at the beginning of the pandemic and by thus increasing internal consumption.

### Rents

Tirana's average shopping centre rents can reach up to around €22/sq.m/month while prime headline rents in these centres, for small size retail spaces have seen a moderate decrease reaching levels of €45/sq.m/ month from €52/sq.m/ month registered in 2019. In yearly percentage terms the decrease is of 13%.

High street rents have achieved a slightly higher decrease (18 %) compared to shopping centers, amounting to €35/sq.m/ month in 2020 from €43/sq.m/ month in 2019. The decrease came as a result of the direct impact of Covid-19 pandemic.

Many business owners were forced into challenging negotiations with their landlords, due to the temporary closure of shops. Pandemic clauses are not commonly included in lease agreements, as it is an unusual occurrence.



As a result, landlords and tenants have found themselves unprepared while negotiating arrangements' clauses such as rental deferrals.

Retailers have been supported with some temporary incentives such as postponement of rental payments or one-off rental discounts. The latter were done only upon request by the retailers. Effectively the yearly rental rents applied by the landlords and shopping centres have shown a general decrease ranging between 15% to 25% yearly.

During H2 2020 since there were only restrictions and rules to be followed and no lockdown, rental prices for tenants in shopping centres remained the same as before the forced quarantine during H1 2020.

Food and beverage retailers (food courts and bars) remain the most affected category in both shopping centres and high streets as footfall has decreased and they are currently impacted by their limited hours of operations.

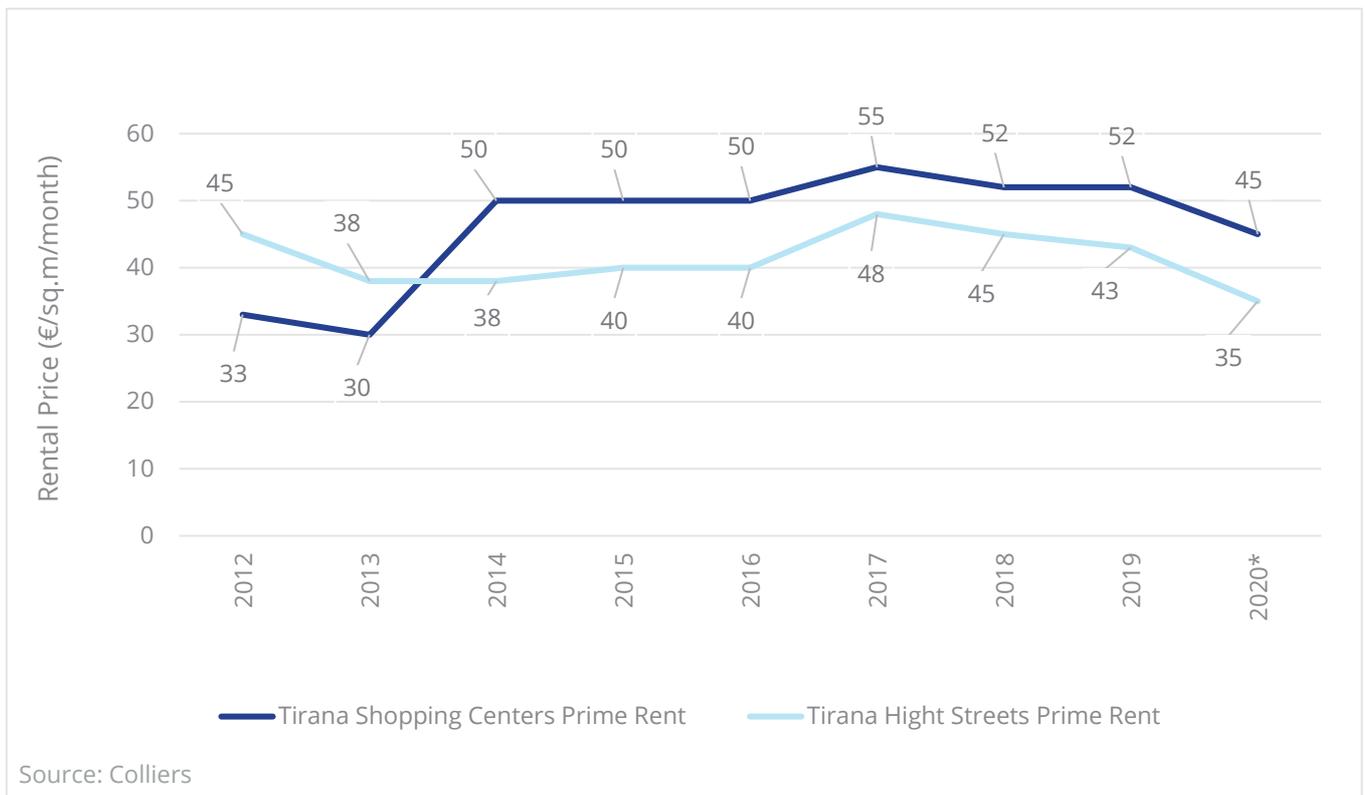
### Pipeline

Projects in the pipeline comprising of proper, limited (10 % of TBA), yet prime retail spaces consist of Downtown1, MET Building, Eyes of Tirana, Garden Building, Tirana's Rock and Ekspozita Building.

The estimated total retail stock that is projected to enter the high streets or city centre in the short to medium term amounts to 18,194 sq.m.

### Prognosis

As for offices, retail spaces planned to be included in mixed-used buildings in the pipeline have not been influenced from Covid-19, since these buildings continue to be under construction. There are also new international brands interested in entering in the Albanian market. These are plans made before the emergence of Covid-19, thus there is no certainty on what their development pipeline in 2021 will be.





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