

# SERBIAN

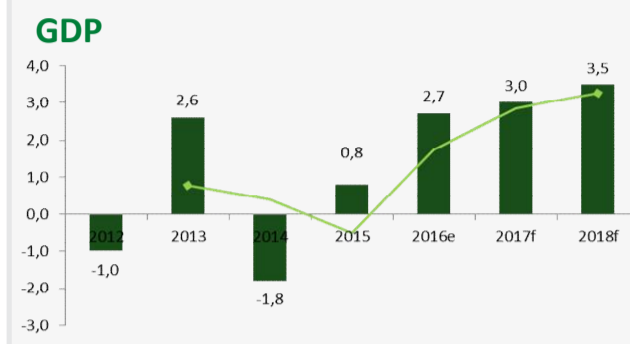
## MARKET OVERVIEW

### H2 2016

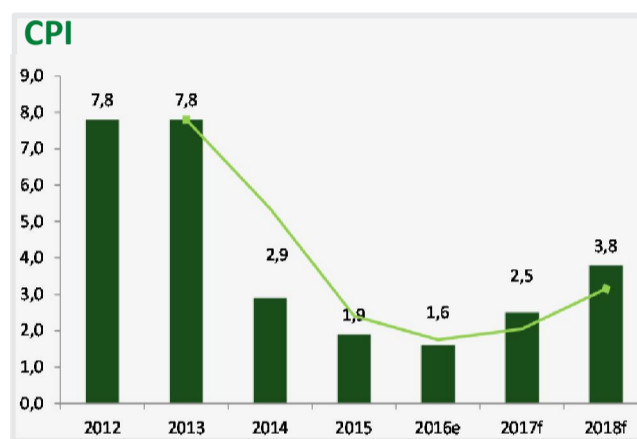
## Economic Overview



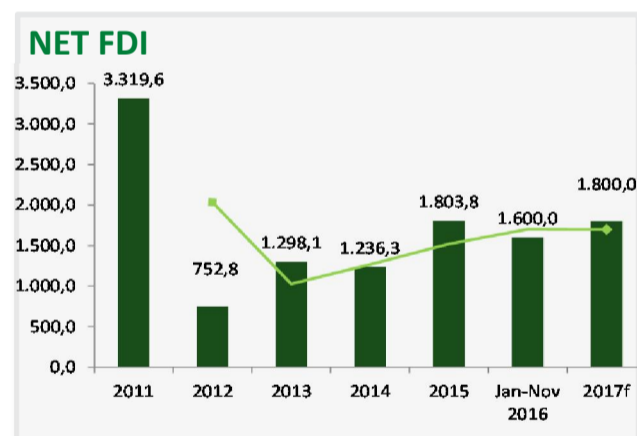
- ✓ In 2016 Serbia has recorded **GDP** growth of 2.7%, which represents quite an achievement compared to 2015 with 0.8% and stagnation of the previous years. **GDP** growth was majorly led by agriculture, industrial performance, construction and private sector services. In the coming period **GDP** growth is expected to gradually step up, reaching 3% in 2017 and 3.5% in 2018, while keeping favourable growth structure.
- ✓ During 2016 **inflation** remained low and stable and it is expected to stay within the target figure during 2017 and beyond. In December 2016, **inflation** on annual basis stood at 1.6%. Decision to decrease 2017 target to 3+/-1.5% was based on stable inflation in past three years and significant improvement in macroeconomic fundamentals and prospects, primarily a sustainable narrowing imbalances and a lower investing risk. According to the forecasts an average inflation rate will be 2.5% in 2017.
- ✓ **Net FDI** inflow for the period January-November 2016 stood at EUR 1.6 billion recording slight increase on annual basis. Net FDI outlook for 2016 is expected to reach 1.8 billion, achieving the similar figure from 2015.
- ✓ In Q3 2016 decline trend pushed **unemployment rate** to 13.8% representing its lowest level since 2014. At the same time, the **employment rate** up warded to 46.8% primarily within agricultural and manufacturing sector, achieving the highest level in the past three years.
- ✓ The average **real net wage** during first 11 months in 2016 increased by 2.6% y-o-y, majorly caused by higher wage increase in the private sector ( 3.5% y-o-y in real terms) and lower wage increase in the public sector (0.8% y-o-y in real terms). An average net wage for the 2016 in Serbia amounted to EUR 375.
- ✓ Projection for the **budget deficit** in 2016 is at level of 2.5% amounting to EUR 0,8 billion. In 2015 deficit amounted to 4,8% (EUR 1,6 billion).
- ✓ According to the last NBS session held in December 2016, the **reference interest rate** remained unchanged at 4,0%.
- ✓ Overall **external trade** in the period January – October 2016 amounted to EUR 25,3 billion marking an increase of 7,2% y-o-y. **Export of goods and services** amounted to EUR 11 billion representing an increase of 10,1% y-o-y while **import of goods and services** amounted to EUR 4,2 billion representing an increase of 5,1% y-o-y. The **FTD** for period Januar-October amounted to EUR 3,1 billion, representing a decrease of 9,1% compared with the same period in previous year. The coverage of imports by exports was 77,8% and was higher than in the same period of the previous year (74%).
- ✓ Business environment improvement is confirmed by the World Bank Doing Business list (47<sup>th</sup> place). Serbia is ranked among the 10 most-improved countries.
- ✓ Moody's has improved Serbia's rating outlook from stable to positive ('B1') in March 2016, furthermore Fitch upgraded the rating from 'B+' to 'BB-' with stable outlook in June 2016 and affirmed it in December 2016, while S&P revised Serbia's outlook to positive from stable('BB-') in December 2016.



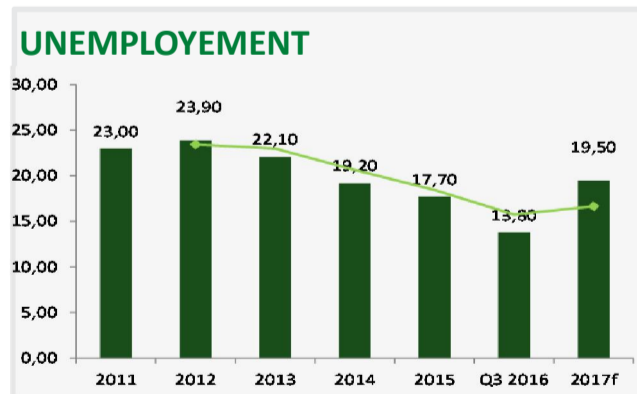
Source: NBS, Danos research



Source: Ministry of Finance of Republic of Serbia, Danos research



Source: Ministry of Finance of Republic of Serbia, Danos research



Source: NBS, Danos research

## Office Market



### Supply and Pipeline

Second half of 2016 has been marked with strong construction activity and completions of several modern office projects which added nearly 52,000 sq m to the Belgrade office stock. Five office buildings were added to the market out of which four are speculative: Airport City 4th phase Building No.2 (12,000 sq m GLA), GTC Forty-one 2nd phase (7,600 sq m GLA), Navigator Business Centre (14,600 sq m GLA) and are located at New Belgrade CBD zone, while Green Square (2,700 sq m GLA) is located at downtown zone. Societe Generale HQ building with 7,700 sq m GLA for owner occupation and remaining 1,800 sq m GLA for speculative purposes is located at New Belgrade CBD area as well. Growing demand has caused expansion of BOP office building with additional construction of 5,000 sq m at the top of the building. End of H2 2016 has recorded total modern office stock of Grade A and B in amount of 665.000 sq. m GLA, recording 10% y-o-y increase.

| PIPELINE OFFICE PROJECT             |                        |             |             |               |                          |
|-------------------------------------|------------------------|-------------|-------------|---------------|--------------------------|
| Project/Investor                    | Location               | Area (sq m) | Purpose     | Delivery Date | Status                   |
| Deneza                              | New Belgrade           | 2.650       | Speculative | 2017          | Underconstruction        |
| GTC 41 - phase 3                    | Block 41, New Belgrade | 10.000      | Speculative | 2017          | Underconstruction        |
| Immorent "Sirius offices" (phase 1) | Block 43, New Belgrade | 18.500      | Speculative | 2017          | Underconstruction        |
| Deneza                              | New Belgrade           | 2.650       | Speculative | 2017          | Underconstruction        |
| Atrijum 63                          | Block 63, New Belgrade | 5.000       | Speculative | 2017          | Underconstruction        |
| Starine Novaka (AFI & Tidhar)       | City Centre            | 16.000      | Speculative | n/a           | Announced                |
| Usce Tower 2 (MPC)                  | New Belgrade           | 22.000      | Speculative | n/a           | Announced                |
| Napred office building              | Block 21, New Belgrade | 13.000      | Speculative | 2017          | Reconstruction - ongoing |

### Demand

During H2 2016 relocation deals remained to be as one of the main drivers of market activity, followed by new occupations significant share in take-up. IT sector traditionally participated with greatest portion in demand. An average deal size during H2 2016 stood at about 700 sq.

### Rental levels

During H2 2016 rental levels remained stable compared to the first half of the year. Prime asking rents for Class A office buildings in CBD zone vary from EUR 15 to 17 per sq m GLA, while Grade B recorded rental levels in range of EUR 9 and 12 per sq m GLA.

### Vacancy rate

The trend of continual decrease in vacancy rate in previous period has been affected with the new deliveries during H2 2016 recording slight increase at level of 7% for the Grade A and B office buildings.

### Prime Yields



# Retail Market



## Supply



**Modern SC**  
133.000 sq.m GLA

**Modern SC**  
215.000 sq. m GLA

**Retail Parks**  
41.000 sq.m GLA

**Retail Parks**  
160.000 sq.m GLA

### Prime shopping center stock in Belgrade



80 sq.m GLA per  
1.000 inh.

For the retail market in Serbia it is still possible to say that it is one of the most attractive sector and it is expected to grow further. The main factor for the better performance in retail from the previous years have been the general economic conditions.

### Openings



**MPC SHOPPI – BORCA** 12.000 sq.m  
Tenants - Dis, Sport Vision, LC Waikiki, Takko, Jysk

**BETEX – Pozeska Str.** 4.700 sq.m  
Tenants – Vulkan, Carvel, Comtrade, ProCredit

**STOP SHOP – Valjevo** 6.100 sq.m  
Tenants – LC Waikiki, N Sport, Planika, Top Shop, Legend

## Pipeline

## Demand

Due to the lack of available space in modern shopping center entry of new brands at the market is limited.

At the beginning of August Lidl has started construction in Subotica, Novi Sad, Nis and two new locations in Belgrade at Borca and Vidikovac. The opening has been postponed till 2018.

LC Waikiki has continue expanding by opening new store in Belgrade in SC Stadion.

BIG Shopping center has recorded an entrance of one of a the most modern cinemas in Serbia, CineStar on 5.000 sq. m GLA

### RETAIL RENTS

| Location                             | < 50 sq. m | 50-150 sq. m | 150-500 sq. m | > 500 sq.m |
|--------------------------------------|------------|--------------|---------------|------------|
| Knez Mihailova Street                | Up to 120  | 80-100       | 60-80         | 40-60      |
| Terazije Square/Kralja Milana Street | 50-70      | 40-60        | 25-50         | 20-40      |
| Kralja Aleksandra Blvd               | 70-100     | 50-80        | 30-60         | 20-50      |
| Secondary street                     | 30-50      | 30-40        | 15-30         | okt.20     |
| Retail parks                         | Up to 20   | 15-20        | Up to 15      | Up to 10   |
| Modern Shopping Centers              | Up to 70   | 50-70        | 40-60         | Up to 40   |

## Prime Yields



### PIPELINE RETAIL PROJECT

| Project/Investor                               | Location                  | Area (sq m) | Delivery Date | Status            |
|--|---------------------------|-------------|---------------|-------------------|
| Belgrade Plaza / Plaza Centers Serbia          | Visnjicka Street-Belgrade | 32.335      | H1 2017       | Underconstruction |
| Rajiceva Shopping Mall / Avital                | Knez Mihajlova-Belgrade   | 15.500      | H2 2017       | Underconstruction |
| Shoppi Borca retail park / MPC Properties      | Borca-Belgrade            | 13.000      | H2 2016       | Underconstruction |
| Stop Shop retail park / Immofinanz             | Valjevo                   | 6.000       | H2 2016       | Underconstruction |
| IKEA   | Belgrade                  | 30.000      | H2 2017       | Underconstruction |
| Capitol park / Poseidon Group and Mitiska REIM | Rakovica-Belgrade         | 21.000      | H2 2017       | Pipeline          |
| Ada mall / GTC                                 | Radnicka Street-Belgrade  | 32.000      | H2 2018       | Pipeline          |

# Residential Market

## Summary

The residential market in Belgrade in H2 2016 continued trends from the first half, with a smaller drop in demand when it comes to apartment renting. With a stable political and economic situation, compared to the previous years, and the inflow of foreign capital, Serbia is becoming an attractive location for investment. With large free plots, New Belgrade is still the most attractive area for constructing multi-family buildings, as well as the municipality of Palilula and Zvezdara. Luxury living, with fewer apartments per building, is still reserved for municipality Vracar and Dedinje area.

The growing number of large foreign investors inflow leads to higher standards of quality of the construction works and finishing details. The centre of attention have not been the construction and materials only, but also the improved amenities within the building (gym within the building, common areas and alike), as well as the benefits of the location (distances from schools and kindergartens, from large shopping malls, distances from the office buildings, etc.).

The Government of the Republic of Serbia is still adapting and applying the Law on Planning and Construction, which should not affect the overall residential picture more significantly than the impact in 2016

## Supply and demand

Large scale projects such as A-Block, Savada, Sunnyville, Sun City, West 65, Central Garden and alike, continue to be built according to announced phases.

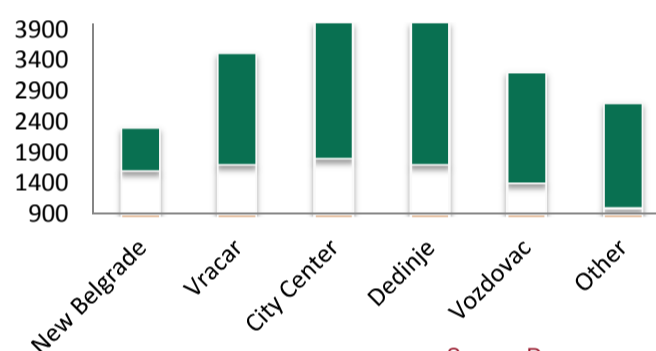
Furthermore, the UAE developer, *Eagle Hills company* also adheres to deadlines and plans with its most interesting mixed-use project *Belgrade Waterfront*, giving the old river bank a new look and long-awaited value by pushing boundaries and standards of everything constructed so far in Belgrade.

The end of 2016 gives us the completely new project within the residential market in Belgrade, when the construction of a large-scale residential project *Vozdovac kapije* will begin. The project, planned by Israeli investor *Shikun&Binui* will host app.800 units, with 129 ones in the first phase.

According to official statistic, the number of apartments built in June 2016 increased by 9.6% compared to June 2015. The most demanding apartments, when mid-end project are concerned, are either three or four room apartments around 85 to 90 sq m or 60 sq m apartments with one or two bedrooms in structure, located in municipality of New Belgrade, Palilula and Zvezdara.

Luxurious high-quality projects still remain prevalent in Vracar, Senjak and Dedinje area, with four room structured apartments ranging from 120 to 150 sq m, usually in buildings with a small number of tenants. When renting apartments and houses are concerned, the most demanding locations for families are New Belgrade, Vozdovac and Vracar with mid-end rents. New Belgrade is also attractive for young business people working in office centres near by. Elite parts of Vracar, Senjak and Dedinje are still interesting for single foreign citizens, as well as families with diplomatic status due to the fact that these municipalities pass all safety standards, and also having in mind presence of a large number of international schools.

Average asking price for new built projects from mid to high



Source: Danos research

## Rental levels

The sales prices remain unchanged, ranging between EUR1,700 – 2,200, VAT included, for mid-end projects, while the apartments in older buildings, in need of renovation, record a smaller decline in the price that ranges from EUR 1,000 – 1,100.

What is significant in relation to the previous years is the fact of increasing number of foreign companies, domestic IT companies and alike, searching for apartments as office spaces, due to the fact that the balance between location – quality – price remains realistic and strong in the residential market, much more than in the office sector.

The market notes quite stable demands considering the rental prices. The rental levels for newly built properties range between EUR 10-13/sq m, while the rents for renovated properties vary between EUR 8-10/sq m.

The interesting fact is that one apartment can have two different rental prices, which can vary for EUR 300-500, depending on whether it is rented as apartment for living, or as an office space. Prices of apartments that are rented as an office spaces are higher than the price of the same apartment in the residential market.

# Industrial Market



## Supply

In 2016 industrial production in the Republic of Serbia increased in comparison to 2015.

Development of industrial facilities has been more extensive than development of logistic facilities.

Serbia has become a place for suppliers in the automotive industry.

Wider territory of Belgrade remains of interest for the development of logistics facilities while factory complexes are being built in smaller cities of Serbia.

Industrial market has been influenced by economic situation, export-import policy of the country, quality of the transportation network and growing retail sector.

| Finished developments    |                         |           |
|--------------------------|-------------------------|-----------|
| Investor                 | Distribution/production | Region    |
| Indofood                 | Production              | Indija    |
| Tecnostrutture           | Production              | Zrenjanin |
| Sloboda                  | Production              | Čačak     |
| Industrial Park Belgrade | Distribution            | Šimanovci |
| Aster Textile            | Production              | Niš       |
| Mekafor                  | Production              | Kikinda   |
| Eurofiber                | Production              | Čuprija   |
| Gomex                    | Distribution            | Zrenjanin |

| Pipeline Projects              |                         |              |
|--------------------------------|-------------------------|--------------|
| Investor                       | Distribution/production | Region       |
| Magna Seating                  | Production              | Odžaci       |
| Aster textile (reconstruction) | Production              | Niš          |
| Cinnovation group              | Production              | Ruma         |
| Univerexport                   | Distribution            | Novi Sad     |
| Mei Ta                         | Production              | Obrenovac    |
| Ditre Italia                   | Production              | Vranje       |
| IGB Automotive                 | Production              | Indija       |
| Eyemaxx                        | Distribution            | Stara Pazova |

| Announced                  |                         |          |
|----------------------------|-------------------------|----------|
| Investor                   | Distribution/production | Region   |
| Cooperatief IMI Europe     | Production              | Niš      |
| Progetti                   | Production              | Sombor   |
| West Pharmaceutical        | Production              | Kovin    |
| Z-line Car Interior        | Production              | Mionica  |
| Manifatture Settentrionali | Production              | Vrbas    |
| Yazaki                     | Production              | Šabac    |
| Hydroweb                   | Production              | Jagodina |

## Demand

The highest demand is related to the modern industrial / logistics facilities with a developed infrastructure and good transportation connection.

The demand majorly comes from the transportation, automotive and distribution companies.

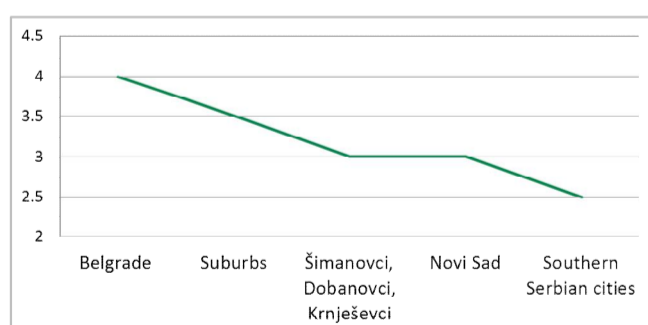
## Rental levels

Rental level for prime stock remains stable in the second half of 2016.

Older facilities with lack of modern features achieve lower rental level.

Rents for prime logistic / industrial space in Belgrade and in the neighboring municipalities of Belgrade (Dobanovci, Šimanovci, Stara Pazova etc.) is in range EUR 4 – 5 per sq m.

## Average rental levels



## Prime Yields



# Agricultural Market



## Supply

Agriculture is very important for the Serbian economy because it creates a surplus;

Serbia is the 10th in the world in the export of maize;

Serbia is the 7th European producer of corn;

Serbia has total of 5.06 mill hectare of agricultural area;

Arable land occupies 3.3 mill hectare, which results in 0.70 hectares and 0.45 hectares per capita respectively;

The most important agricultural products of Serbia are corn, wheat, sunflower, sugar beet and soybean;

There have been 200,000 to 250,000 hectares of wheat sown in Serbia.

## Demand and trends

Traditionally, arable land market is most active within Vojvodina area predominantly in Srem, Banat and Bačka;

The market value of agricultural land is directly dependent on the location, quality, accessibility, infrastructure, irrigation systems as well as market participants themselves;

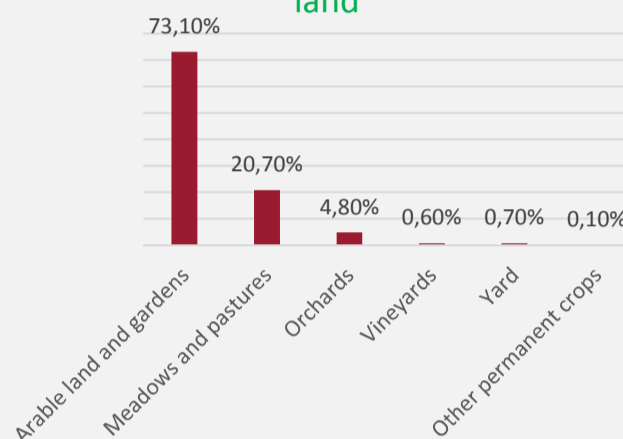
Traditionally, wheat, corn, sunflower and soybean are the most common culture on arable agricultural land in Serbia;

Larger land plots with flat topography achieve higher prices;

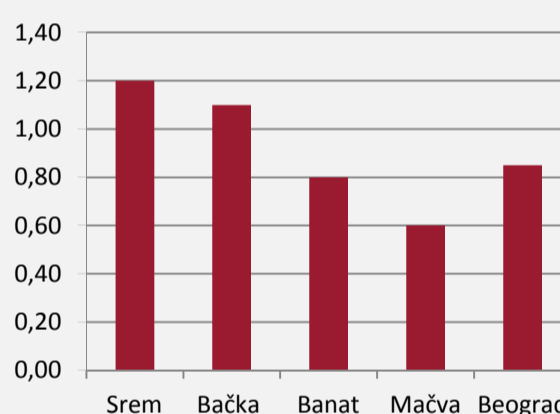
About 60% of wheat is sown in Vojvodina while the remaining 40% sown in Central Serbia of planned about 500,000 hectares;

The dynamics of sowing is affected by the low price of wheat and the absence of the Government incentives.

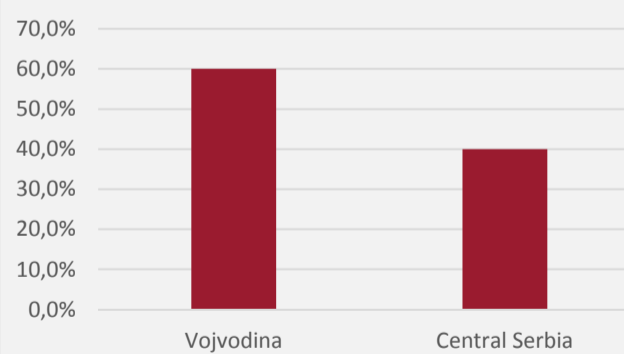
### Structure of utilized agricultural land

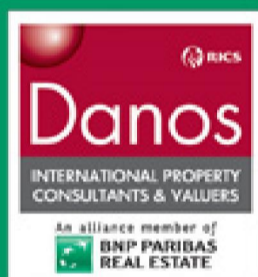


### Land plot - sales prices (EUR/m2)



### Area under wheat





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