

## Belgrade Industrial Market

H1 2010

## Quick stats

	Change from H2 2009
Take-up	↓
Supply	↑
Vacancy	↑
Rents	→

## S&amp;P'S LT FC Rating

BB-/Stable

## Hot Topics

- The average salaries and wages paid in June 2010 in the Republic of Serbia amounted to EUR 459.
- In February 2010, Serbia's official rating by the Organization for Economic Co-operation and Development increased, moving up from the sixth category into the fifth.
- Unemployment rate in April 2010 increased by 2.6% when compared to October 2009.
- Decree that permits the sale or lease of the construction land below the market price or without compensation has entered into force on March 20, 2010. The construction land that can be sold or leased under the above stated conditions has to be intended for the construction of the special importance facility and to lead to the increase of at least 1% of the number of employees in that municipality, as well as to contribute to the proportional increase in public revenues.

## ECONOMIC OVERVIEW

The Executive Board of the International Monetary Fund (IMF) completed the fourth review of Serbia's economic performance under a program supported by a Stand-By Arrangement (SBA), which enables the immediate release of EUR 383.2 million. The Serbian Government has indicated that the drawing of the full amount would bring total disbursements under the program to EUR 1.80 billion.

In June 2010, on a meeting in Luxembourg, the EU foreign ministers have agreed to recommend the ratification of the Stability and Association Agreement (SAA) with Serbia.

According to results published by the Statistical Office of Republic of Serbia, in Q1 2010, GDP increased by 0.6 percent in comparison to the corresponding period of the previous year. Observed by activities, in the first quarter, the highest growth in the gross value added was noted in the section of transport (8.6%), section of financial intermediation (6.3%) and in the section of mining and quarrying (4.0%), while the major drop was recorded in the section of hotels and restaurants (14.1%), the section of construction (12.0%) and the section of trade (6.8%).

Although inflation was a record low 3.7% yoy in May, the risk of the central bank's end of year target of 6% being overshoot remains, especially as the currency is depreciating.

The average salaries and wages paid in the period January – June 2010 in the Republic of Serbia, compared to the average salaries and wages paid in the period January – June 2009, were by 6.5% increased in nominal terms and by 2.3% increased in real terms.

In accordance with the Labor Force Survey, which was conducted in April 2010, unemployment rate in Serbia amounts to 19.2%; i.e. 20.6% in Central Serbia, 20.9% in Vojvodina region and 14.0% in Belgrade.

After reviewing current economic developments, on May 11, the National bank of Serbia Monetary Policy Committee reduced the key policy rate by half the percentage point, which equals 8.0 percent.

In accordance with the latest statement of The International Monetary Fund (IMF), Serbia would be returning to a high rate of growth of its gross domestic product (GDP) in 2012 and 2013. The IMF's new report on Serbia published on its official site, states that the growth of the GDP will speed up to five percent in 2012, and 5.5 percent in 2013. Additionally, the significant growth in exports from Serbia is expected in 2011, whereas GDP is expected to see an increase of two percent in 2010 and three percent in 2011. The report notes that the inflation rate would continue to drop in Serbia and would stabilize at about four percent annually, taking into consideration monetary and fiscal policies.

## Key economic indicators - Serbia

	2007	2008	2009	2010F	2011F
Nominal GDP (EUR bn)	28.8	33.4	30.5	29.4	29.1
Per capita GDP (EUR)	3,900	4,545	4,170	4,036	4,006
Net FDI (EUR bn)	1.8	1.8	1.4	1.3	2.3
Real GDP, yoy (%)	6.9	5.5	-3.0	0	2.2
Inflation (CPI), yoy, avg. (%)	6.5	11.7	8.4	5.1	6.3
Unemployment rate (%)	18.1	13.7	16.1	17.0	16.5
Exchange rate RSD/EUR, eop.	78.79	89.78	96.17	110.00	115.00
Exchange rate RSD/EUR, avg.	79.98	81.49	94.05	102.50	112.50
Current account balance/GDP (%)	-16.0	-17.3	-5.7	-6.7	-7.8
FDI/GDP (%)	6.3	5.5	4.5	4.2	7.7
Budget balance/GDP (%)	-1.6	-2.0	-4.2	-5.1	-4.0
Total foreign debt/GDP (%)	61.8	65.3	74.6	84.1	92.8

Source: Bank of Austria, June 2010

**BELGRADE INDUSTRIAL MARKET**

Although Serbia benefits from excellent geographical position enabling the opportunity for development of regional logistic centers, the logistic/industrial market is still underdeveloped, mainly due to serious infrastructure and traffic issues.

In years to come, the expansion of this sector could be possible if the market sees large projects that would boost the supply of modern industrial space.

The Serbian Government has ambitious plans for development of industrial zones, 49 of them in alone Serbia as a whole, 17 located in Belgrade area. Additionally, Belgrade authorities have announced the establishment of four main industrial zones within the city – Surcin, Grocka (100 Ha), Mladenovac (270 Ha) and Obrenovac (255 Ha).

Apart from industrial zones, creation of free zones across Serbia has been initiated by the local authorities in order to attract foreign industrial and logistic operators. Currently, there are six free zones: Piroat, Subotica, Zrenjanin, Novi Sad, Sabac and Kragujevac. Among other benefits, doing business in free zones provides companies with attractive tax regime and exclusion from VAT. Imports and exports are unlimited, while all the goods imported into domestic market from free zones is subject to foreign trade regime.

**SUPPLY**

During the previous period, owner occupancy was mainly behind the construction of new facilities. Additionally, it was a common practice to see local developers offering build-to-suit premises for a long term lease. The share of logistic/industrial developments intended exclusively for lease in the total number of premises brought to the market was very small.

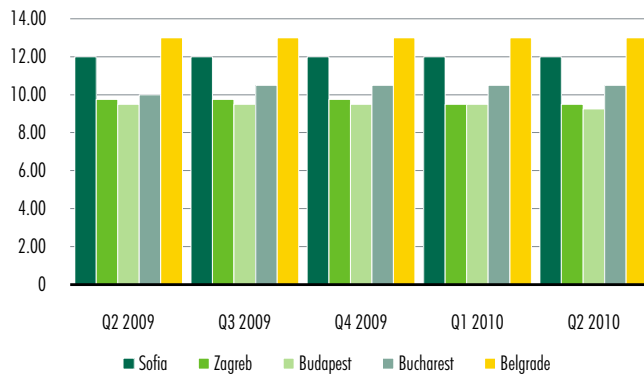
Roughly estimated, the total stock of contemporary logistic space in Serbia could be set to be to close to 300,000 sq m. More than half of this space is located in Belgrade or its surrounding areas. The primary logistics areas in Belgrade are located along the highways E-70 and E-75, as well as in the settlements in its close proximity, such as Stara Pazova, Simanovci, Dobanovci and Krnjesevci.

There are several projects currently in pipeline in Serbia, the biggest among them being the Trade Unique’s project in Indjija, comprising 250,000 sq m of GBA. Austrian company Eyemaxx has plans to develop a large Cargo center on the outskirts of Nis, holding 135,000 sq m of GBA, as well as a 50,000 sq m of GBA large logistics center in Novi Banovci. A Duch company, Eurasian Real Estate, plans to develop an industrial park in Zabalj, expected to comprise some 200,000 sq m of GBA.

Map of Pan-European Corridors



Prime yields (%)



Source: CB Richard Ellis

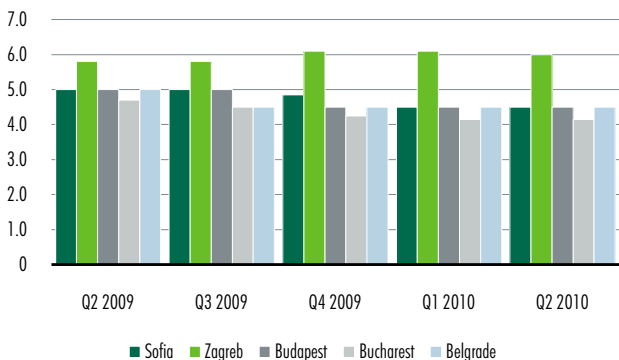
Selected pipeline developments

Project	Developer	Location	GBA (sq m)
TQ Indjija	TradeUnique	Indjija	250,000
Industrial Park	Eurasian Real Estate	Zabalj	200,000
Cargo Center	Eyemaxx	Nis	135,000
Log Center	Eyemaxx	Novi Banovci	50,000

Source: CB Richard Ellis

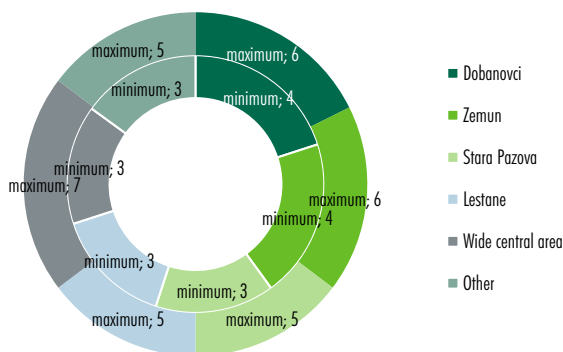
In February 2010, Serbian Government adopted Decree which enables local self-governments to dispose of land by lease at prices below market value. Local self-government can sell or rent public building land at the price lower than the market price or without any fee if it gets the consent from the Government, in accordance with the Law on Planning and Construction. The building land that the local self-government sells or rents under these conditions must be intended for the construction of facilities of special importance and to lead to the increase in number of employees in the economy sector of the local self-government by minimum 1 percent, while public incomes should be increased proportionally. The Decree was put in effect as of March 20, 2010.

Rental levels range in H1 2010 (in EUR/sq m/month)



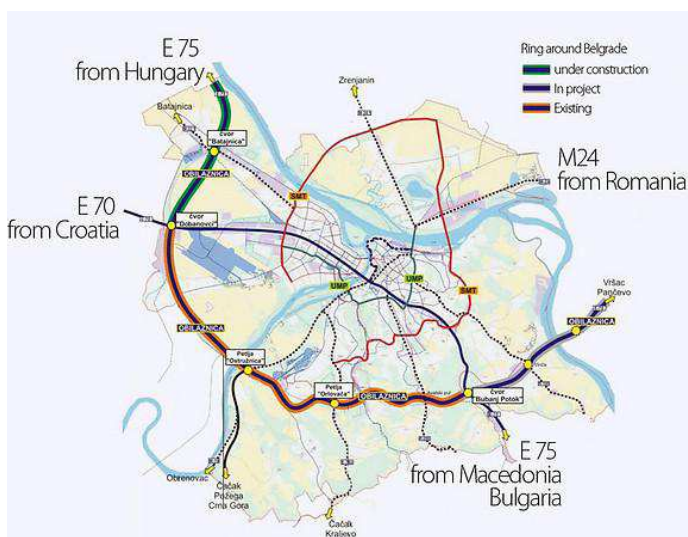
Source: CB Richard Ellis

Rental levels range in H1 2010 (in EUR/sq m/month)



Source: CB Richard Ellis

Belgrade ring road



Phiwa, sister company of Walter Group, has chosen Srbobran for its fourth logistic center in Serbia. This center will comprise two halls bringing together 18,000 sq m of GBA to the market. One of them is intended for lease while a part of the other one will be used as a distribution center for Valdi supermarkets, operating under Phiwa.

Belgrade area will be enriched by another logistic center. Locally based company Transped Belgrade has the intentions to construct a complex covering 35,000 sq m of GBA in Vrcin. During the first phase of the construction, only 6,500 sq m of GBA will be build for the purpose of up-to-date storage space. The total number of pallet places is expected to reach 44,000.

Once completed, the projects announced for development will drastically change the current image of Serbian industrial/logistics market. However, it is important to note that the completion dates for many projects are still uncertain.

## DEMAND

Occupier's analysis shows that the demand for warehouse space during H1 2010 has been generated by companies operating in the sectors such as transportation, logistics, distribution and pharmaceuticals.

Evident recession in the global markets has given serious impact to demand in this market segment during H1 2010, lowering on one side the requests for space and on the other side, forcing already present companies to relocate their operations into smaller premises.

Once the retail sector intensifies, together with the appearance of new foreign companies, demand for warehouse space is expected to witness significant improvement.

## RENTAL LEVELS

During the years 2007 and 2008, the market recorded no changes in rental levels of logistics/industrial space. First downward trend was noticed during 2009, what appeared to be common practice in the region as a whole. No significant changes in asking rental levels were recorded during the first year-half 2010. The trend is expected to remain the same till year-end.

Current situation is that the average asking rental rates in modern industrial facilities in Belgrade reach EUR 3.0–7.0/sq m/month depending on the location and the amenities.

The rental levels of old industrial premises stand between EUR 1.5 and 3.0/sq m/month on average.

## Definitions

**STOCK** – warehousing space in modern, Class-A, developer-led schemes

**VACANCY RATE** – a ratio of vacant warehouse space to total stock

**TOTAL LEASING ACTIVITY** – total warehouse space that has been leased in a given period (does not include temporary deals, which are less than 1 year); defining moment is the signature of legally binding document such as future agreement/lease agreement.

**NET TAKE-UP** – total leasing activity in a given period minus leases signed in which a tenant stayed in the same warehouse space (i.e. lease renewals, lease extensions, lease renegotiations).

**UNDER CONSTRUCTION** – developer-led warehouse space currently being developed

**NET ABSORPTION** – the change in occupied stock within a market during the survey period; the main factors that cause the net absorption and take-up to be different are lease extensions, pre-leases signed in previous survey period, tenants moving between existing premises or tenants leaving the industrial market.

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