



# SERBIAN

## MARKET OVERVIEW

### H2 2018

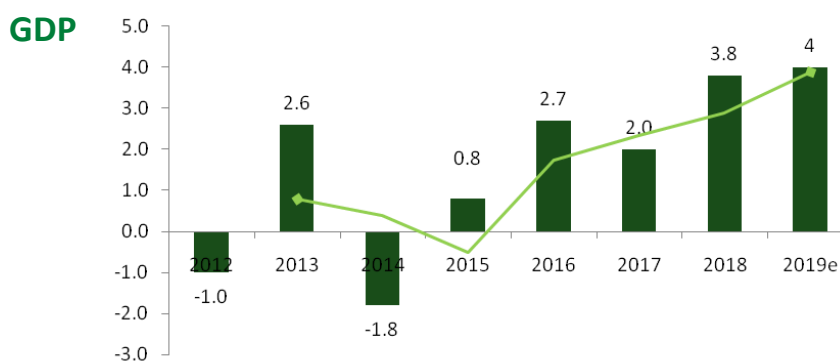


## In the coming years Serbia will maintain a strong, sustainable and broad-based growth

Macroeconomic stabilization and improvements to the business environment contributed to further FDI growth (over EUR 3 bn net in 2018), focused on the tradable sectors.



- ✓ **Strong GDP growth in 2018 picked-up the higher than expected, supported by robust investment growth, sustainable consumption growth, exports and Labour Market Recovery.**
- ✓ The overall economic activity in 2018, measured by GDP and expressed at constant prices, reach a real growth of 4.4% when compared to 2017.
- ✓ Pre-crisis GDP growth was driven by consumption, the trend reversed after the crisis in favor of investments and exports. In the past four years, fixed investments grew at an average rate of around 7%. In 2018 investment growth picked up to 9.1% providing a key contribution to higher-than-expected GDP growth. Investments reached 20.2% of GDP in 2018, and their share will continue to grow in the medium term.



Source: Ministry of Finance of Republic of Serbia, NBS, Republican Bureau of Statistics RS, Danos research

- ✓ As a result of adequate policy mix, GDP growth will remain broad-based and sustainable. This year we could expect growth of around 3.5%, while the medium-term growth should be around 4%. Domestic factors will continue to provide strong support to economic growth. Consumption will continue to grow, but slower than the total GDP, creating space for more investment. Macroeconomic stability, strong private and public investments, continuous expansion in exports and sustainable rise in consumption, improve in the overall business environment will be the main drivers of GDP growth of around 4% in the coming years. Implementation of structural reforms, improvement in the investment climate and the EU accession process created a foundation for healthy growth.
- ✓ **In the next five years, Serbia will gradually converge towards more developed countries in terms of GDP composition**

## Rating Outlook for Serbia Improved

After reaching its all-time low in early 2018, Serbia's risk premium remains among the lowest in the Region



- ✓ Moody's kept Serbia's rating outlook to 'Ba3' with a stable outlook.
- ✓ In December 2018 **S&P improved outlook from stable to positive** and affirmed rating at BB, on the back of strong economic growth and results of monetary policy in maintaining price and financial stability. Appreciation pressures that were present in 2017 and 2018, were backed by the improved outlook of domestic economy – improved confidence resulting in higher investments as well as the continuation of vibrant export growth.
- ✓ The upward revision of Serbia's rating outlook resulted from strong economic growth and results of monetary policy in maintaining price and financial stability. The improved outlook also reflects prudent fiscal stance confirmed also through new PCI arrangement with IMF.

# Economic Overview

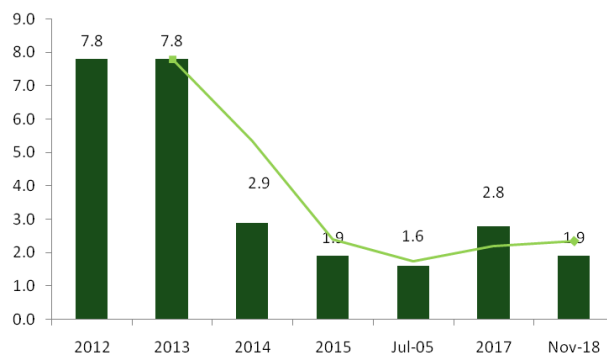


## Low Inflationary Pressures. Inflation will continue to move in the lower half of the target band

✓ In 2018, y/y inflation remained low and stable, moving at the average level of 2.0% and finishing the year at the exact same level. Annual inflation rate was estimated to equal 2.1%.

Inflation in 2018 amounted to 2.0% y/y (both average and year-end), and was driven by food and services prices. Underlying price pressures remain subdued: core inflation has hovered around 1% y/y during 2018 confirming low inflationary pressures.

## CPI



Source: Ministry of Finance of Republic of Serbia, Republican Bureau of Statistics RS, Danos research

✓ Prices of goods and services used for personal consumption in December 2018 in relation to November 2018 increased by 0.1% on average. Consumer prices in December 2018, increased by 2.0% in relation to December 2017. The same increase (2.0%), was noted in 2018 in relation to 2017. Inflation is kept firmly in check, moving around 2% on average in the past five years.

✓ Inflation is expected to move within the target tolerance band. Inflation movements in the coming period will be determined by growth of aggregate demand, faster growth of administered prices in 2019 and waning of the effects of past appreciation. Though it will be trending temporarily closer to the target midpoint at the beginning of 2019, due to low base effect. Inflation forecast is at 2.9% this year, 3% in 2020.

## UNEMPLOYMENT



Source: NBS, Republican Bureau of Statistics RS, Danos research

## Favorable Developments on the Labour Market - The unemployment rate in 2018 recorded the lowest level

✓ Based on the results of the Labour Force Survey for Q3 2018 the unemployment rate was 11.3% (-1.6 pp. y/y), which is its lowest comparable level.

✓ The employment rate in Q3 reached 49.2% (+1.0 pp y/y) while unemployment rate equaled 11.3%.

✓ Favorable trends in the formal labour market come from the private sector, where employment increased by 14.2% (November 2018/November 2014) - mainly in manufacturing, private sector services and construction.

✓ Growth of gross salaries and wages in the 2018 compared to the same period last year was 5.9% in nominal terms and 3.8% in real terms. At the same time, net salaries and wages increased by 6.5% in nominal terms and by 4.4% in real terms.

✓ Average gross salaries and wages calculated in November 2018 amounted to 69,949 RSD, while average net salaries and wages amounted to 50,556 RSD.

✓ Compared with the same month last year, average gross salaries and wages for November 2018 increased by 6.5% in nominal terms and by 4.5% in real terms, while average net salaries and wages increased by 7.0% in nominal terms and by 5.0% in real terms.

✓ The unemployment rate in Serbia is forecast to be at 12%, that it will drop to 10.9% in 2020.



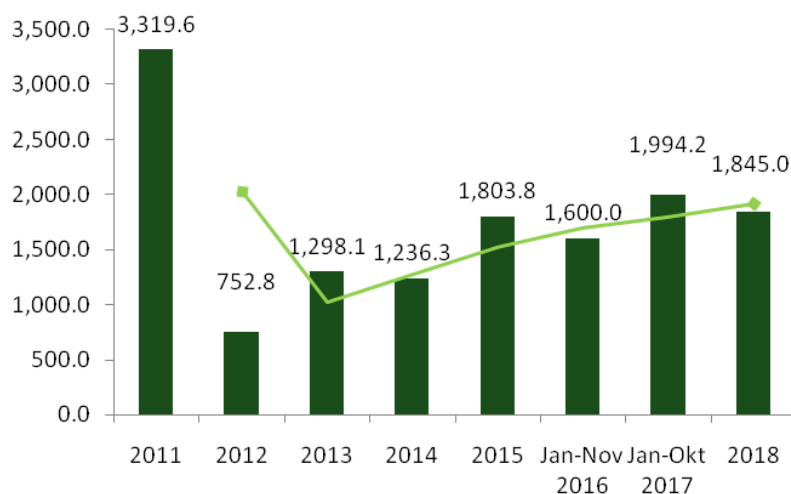
## Serbian economy - Stable growth in productivity

**Macroeconomic stability combined with structural reforms and improved business environment has created a more favorable climate for high FDI inflow**

✓ During 2018 a large share of FDI inflows has been directed to export-oriented sectors. Within manufacturing, most FDI inflows are directed to the automobile, base metals, food/beverage and chemical industries. This resulted in high growth of manufacturing employment, output and exports.

✓ FDI inflows are diversified by region of origin as well, with a greater share of countries from the Asia Pacific and Middle East regions, alongside Serbia's major investment partner - the European Union

### NET FDI



Source: Ministry of Finance of Republic of Serbia, Republican Bureau of Statistics RS, , Danos research

✓ In 2018 net FDIs exceeded EUR 3bn (including preliminary data for December), marking one of the best years on record and outperforming the projection (EUR 2.6bn). Net FDI during 2018 (official data) (EUR 2.2bn) was on a similar level as in 2017.

✓ Faster GDP (4.5% y/y) than employment growth until Q3 2018 led to an increase in productivity in the Serbian economy by 1.2% y/y. In the last three years, the highest growth of productivity has been recorded in manufacturing branches with the largest FDI inflows - steel, chemical and pharmaceutical industries, as well as in rubber, plastics industry and in production of machinery and equipment, as well as in production of beverages.

✓ According to FT (August 2017), Serbia has the best global performance index for Greenfield FDI.

✓ We expect a continuance of strong performance in 2019, with net FDI inflows projected at 5.7% of GDP (EUR 2.6 bn).

✓ The value of construction works carried out in 2018 noted a real growth of 10.9% in comparison to 2017. The retail trade turnover expressed real growth of 4.5%, while the wholesale trade turnover expressed nominal growth of 9.1%.

✓ Significant recovery of the real estate market is shown by data from the National Bank of Serbia, where in the last two years and for the eleven months of last year, 71.1 billion dinars of housing loans were approved, while that figure in year 2014. was amounted to 32.3 billion. According to the Statistical Office, in the first half of last year, the price of new construction increased by 7.7% compared to the second half of 2017, with calculated course rate.



## Supply

According to our research, current class A and B office stock in Belgrade is close to 800,000 sq m. This includes owner – occupied and speculative space. When observing geographically, 90% of total Grade A and Grade B office stock is located in Belgrade's Central Business District (CBD), while the Broad Centre is comprised of about 10%.

In terms of location, the New Belgrade area records the greatest concentration of Grade A and B office buildings in comparison to the rest of Belgrade office districts.

Built stock still remains modest compared to the cities of the similar size in the region. This is indicator of the expected trend if economic and political conditions remain stable with further economic growth.

## Rents and vacancy rate

During H2 2018 rental levels remained stable compared to the first half of the year. Prime asking rents for class A office space are in the range of EUR 14.5-16.5/sq m/month and between EUR 10-12/sq m/month for class B premises. In line with previous trends on the office market landlords have continued to offer incentives including rent free periods, fit-out contributions and additional free parking spots.

## Demand

Leasing activity was strong in whole 2018 and it will keep the same trend in 2019. A short comparison the take up in first half of 2018 was on the level of the whole 2016. The strongest demand came from IT, followed by professional services, pharmaceuticals and companies dealing with „co-working“ spaces.

PIPELINE OFFICE PROJECT			
Project/Investor	Location	Area (sq m)	Status
Business Garden / AFI	City Center	16.000	Under construction
Usce Tower 2 / MPC	New Belgrade	22.000	Under construction
N House	Block 21/New Belgrade	10.700	Under construction
Green Heart / GTC	New Belgrade	46.000	Under construction
BIG CEE office project	New Belgrade	90.000	Announced
Airport City 5th phase	Block 65/New Belgrade	15.000	Announced
Skyline / AFI	Belgrade	30.000	Under construction
Immorent Sirius office (2nd phase)	Block 43/New Belgrade	12.500	Under construction
West 65 Tower	New Belgrade	70.000	Announced
Navigator 2 / MPC	New Belgrade	27.000	Under construction
Kalemegdan Business Center	Belgrade	17.000	Announced

## Rental levels € per sq m

**Class A office buildings in CBS**

**14.5-16.5**



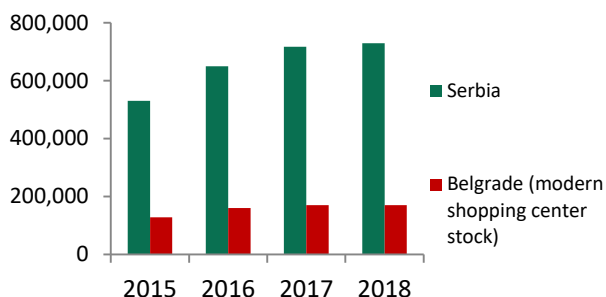
**Class B office buildings**

**10-12**





## Supply and Demand



Source: Danos research

Most dynamic sector on real estate market is retail sector. The demand amongst both local and international retailers is for retail park projects, due to the lowest costs of leasing space in such projects. There is also a strong demand for street retail units. We are expecting growing trend of new entries.

- **CAPITOL PARK LESKOVAC** – 6.500 sq m
- **CAPITOL PARK RAKOVICA 2<sup>nd</sup> phase** – 2.300 sq m
- **PROMENADA NOVI SAD**– 43.000 sq m

### New openings

Springfield - SC Stadion  
 Gigatron - SC Stadion  
 Galileo - SC Merkator  
 Koton– Nest Kraljevo  
 LC Waikiki Outlet – Zemun Park  
 Dexy Co – Rajiceva SC

The developments of retail parks was a growing trend in 2018. RC Europe RSB which currently operates on Nest Retail Park in Kragujevac announced plans to invest in new projects in Uzice, Obrenovac and Ruma.

### New entries

Kigili	Promenada Novi Sad
Mohito	Promenada Novi Sad
Maison Marasil	Promenada Novi Sad
Nespresso	Delta City Belgrade



German discount chain entered Serbian market. Nineteen stores has been open in 14 cities.

### Rental levels in Belgrade



High streets  
 € 30 - € 80



Shopping centers  
 € 20 - € 40



Belgrade Rajiceva SC March 9

FOREVER 21

DECATHLON



Source: Danos research

### PIPELINE RETAIL PROJECT

Project/Investor	Location	Area (sq m)	Delivery data	Status
Ada Mall/GTC	Belgrade	31.000	H1 2019	Under construction
BW Gallery/Eagle Hills	Belgrade	93.000	2020	Under construction
Big Fashion Vidikovac/BFC	Belgrade	70.000	2019	Under construction
MPC Properties	Belgrade	43.000	1 H 2020	Under construction
Nest/RC Europe	Uzice	7.000	2H 2019	Announced
IKEA Retail Park	Belgrade	n/a	n/a	Announced



# Residential Market

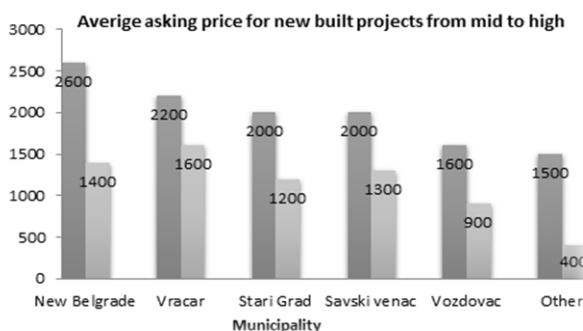
## Supply

2018 was surely one of the busiest years for the growth of the residential market. New projects have been spotted mostly on New Belgrade, Savski Venac, Stari Grad and Vracar.

With the high demand, the prices have also grown (approx. By 8%).

Following it's trend for the past year and a half Belgrade Waterfront still holds the first place for the highest prices per sqm (approx. 7800 EUR)

Building permits for the residential buildings, when comparing to the office buildings, have increased (approx. 65.6%), which proves that the market is following the rise of the demand.



Source: Danos research

SELL



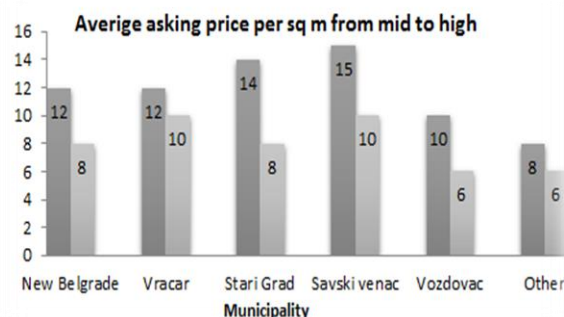
RENT

## Demand

New Belgrade and Zvezdara Municipality have been going side by side throught the whole 2018 regarding the demand for the residential units. Mostly, the demnd has increased for the new construction and for the units between 50-60 sqm.

Besides the following trend of "Green" buildings, what new buyers are looking for is a "Family friendly" enviroment, something that is close to their work or atleast a place that has good city connections, and of course The View.

Regarding the Most Wanted Municipality in Belgrade, in 2018, we had a suprising shift from New Belgrade, to Zvezdara. New Belgrade still holds it's place amongst the desirable places to settle down, but Zvezdara is right up there with new projects.



Source: Danos research

### PIPELINE PROJECTS

Project	Location	Investor	Total size (units)/phase in progress	Status
A Block	New Belgrade	Deka Inzenjering	841 units / 4th phase * 108 units Appartments *109 units Business Appartments	Under Construction
Savada	New Belgrade	Neimar V	500 units - 3rd phase * 200 units	Under Construction
SunCity	New Belgrade	Energo Group	174 units	Completed
West 65	New Belgrade	PSP Farman	514 units	Completed
Wellport	New Belgrade	Shikun & Binui Group	500 units - 1st phase * 95 units	Under Construction
Blok 32	New Belgrade	PMC Inzenjering	127 units	Under Construction
Exing Home 65	New Belgrade	Zepter group and Exing B&P	147 units	Under Construction
Park 11	New Belgrade	Energoprojekt	134 units	Under Construction
Sakura Park	New Belgrade	Goldberg Real Estate	228 units	Announced
Central Garden	Stari Grad	AFI Europe, Shikun & Binui Group	500 units / 4th phase * 67 units	Under Construction
K. District	Stari Grad	AGNS INVEST I Pinnacle	N/A	Under Construction
Skyline	Savski Venac	AFI Europe	1st phase * 134 units	Under Construction
Belgrade Waterfront : "BW Vista" i "BW Parkview"	Savski Venac	Eagle Hills	1st phase - 296 units 2nd phase - 228 units 3rd phase 244 units	Under Construction
Kneza Milosa Residences	Savski Venac	Yossi Avrahami Ltd., Almogim Holdings Ltd. and Energogroup d.o.o.	226 units	Under Construction
Vozdove Gates	Vozdovac	Shikun & Binui Group	700 units / 3rd phase *180 units	Under Construction
Panorama Vozdovac	Vozdovac	CEP	187 units / 3rd phase	Under Construction
Paunov breg	Vozdovac	CPI Group	107 units / 4th phase	Under Construction
Stepin Breg	Vozdovac	Nobnek doo	76 units	Completed
Green Avenue	Zemun	Montex real Estate	400 units / 3rd phase * 90 units	Under Construction
Gornji Zemun	Zemun	World Trade Capital	184 units	Under Construction
Zemunske kapije	Zemun	The Building Directorate of Serbia	1700 units / 2nd phase *323 units	Under Construction
Sunnyville	Palilula	Constantine the Great	252 units / 3rd phase * 94 units	Under Construction
Vracar Gates	Vracar	Aleksandar Group	250 units	Under Construction
East Side	Zvezdara	East Side Development d.o.o.	347 units	Under Construction



## Supply - Development activity in second semester 2018 remained high.

The main drivers were in construction of new distribution and logistics facilities, as well as expansion of investors already present on the market and extension of existing production halls.

Thanks to the numerous incentives available to investors in the last years, Serbia has attracted many exports-oriented companies in the manufacturing and production sector which consider secondary cities favourable locations for the development of facilities. The most of market activities were noted by companies from the automotive sector.

Rising development activity within industrial and logistic sector influensed with goverment reforms, stabile economic growth, continuous investment in infrastructure market second semester 2018.

The industrial production in the Republic of Serbia in 2018 increased by 1.3% relative to 2017.

IT market in Serbia grows by 8 percent in 2018.



Industrial market stock was pushed on approx. 350.000 sq m in Belgrade area and 700.000 sq m in rest of Serbia.

RECENT NEW SUPPLY			
Project	Type	Location	Size (sqm)
AMM Manufacturing	Light industrial	Kragujevac	17,000sqm
Aptiv/Delphi	Production	Leskovac	>27,000sqm
Mint/Adient	Light industrial	Loznica	n/a
Simens	Light industrial	Kragujevac	40,000sqm
Essex Europe	Light industrial	Zrenjanin	15,000sqm
Kromberg&Schubert	Light industrial	Krusevac	23,000sqm
Zumtobel	Light industrial	Niš	40,000sqm
Egston	Light industrial	Pancevo	n/a
Henkel Somat	Production	Krusevac	n/a
Wood feel	Furniture	Kursumlija	7,000sqm
Ariston	Light industrial	Svilajinac	4,000sqm
Calzedonia	Production	Kula	12,000sqm
Amphenol automotive technology	Light industrial	Trstenik	7,000sqm
Bekament	Light industrial	Arandjelovac	n/a
LebanTeks	Light industrial	Leban	12,700sqm
Health Care Europe - 2 phases	Light industrial	Ruma	n/a
IMI	Light industrial	Nis	14,000sqm
GLM	Light industrial	Zrenjanin	n/a
Baby Food Factory	Production	Dobanovci	13,600sqm

Logistic development in the proximity of Belgrade and secondary cities with be enlarged with the delivery of pipeline projects – industrial parks, mainly with light industrial and production.



# Industrial Market



## Demand

During H2 2018 demand for modern industrial / logistic schemes was majorly driven by automotive, manufacturing and distribution companies. The demand is higher for modern warehouses within secondary cities. New projects in pipeline include expansions of existing capacities and the delivery of new projects on proximity to Belgrade and secondary cities.

Several speculative schemes were noted in the proximity of Belgrade.

- The announced construction of a logistics centre in Šimanovci by CTP.
- Industrial Park Belgrade completion of phase 4 is expected in the coming period, after which the company will start the fifth and sixth phase of the project.
- The construction of Nelt's fifth logistics building.
- Construction of MIND Park industrial complex in Kragujevac in progress.

PIPELINE PROJECTS				
Project	Type	Location	Size (sqm)	
Eyemaxx	Distribution warehouse	Stara Pazova	18,000sqm	
Log Max Beta	Distribution warehouse	Stara Pazova	30,000sqm	
IPB 4	Distribution warehouse	Simanovci	15,670sqm	
IPB 5	Distribution warehouse	Simanovci	15,670sqm	
IPB 6	Distribution warehouse	Simanovci	n/a	
Quass	Light industrial	Indjija	5,000sqm	
Rimaster	Light industrial	Paracin	n/a	
Mei Ta	Light industrial	Obrenovac	55,000sqm	
Leoni	Light industrial	Kraljevo	60,000sqm	
Kleemann	Light industrial	Simanovci	n/a	
ZF Friedrichshafen	Light industrial	Pancevo	50,000sqm	
Vorwerk Autotec	Light industrial	Cacak	40,000sqm	
Tai Group	Light industrial	Kraljevo	n/a	
Wieland	Light industrial	Cacak	n/a	
Health Care Europe - with phases 3 and 4	Light industrial	Ruma	up to 70,000sqm	
Yura	Light industrial	Leskovac	n/a	
Albon	Light industrial	Ruma	11,000sqm	
Caminada	Light industrial	Subotica	2,000sqm + 2,000sqm	
Zastava oruzje		Kragujevac	4,000sqm	
Hirsch	Light industrial	Backi Petrovac	n/a	
Mayekawa	Light industrial	Smederevo	2,000sqm + 6,000sqm	
Feka automotive	Light industrial	Cuprija	n/a	
Treleborg	Light industrial	Ruma	10,000sqm	
Le Belier	Light industrial	Kikinda	n/a	
CTPark Belgrade West	Industrial park	Belgrade	14,110sqm	
CTPark Novi Sad	Industrial park	Novi Sad	24,340sqm	
CTPark Belgrade North	Industrial park	Belgrade	25,660sqm	
Bosh	Production	Simanovci	n/a	

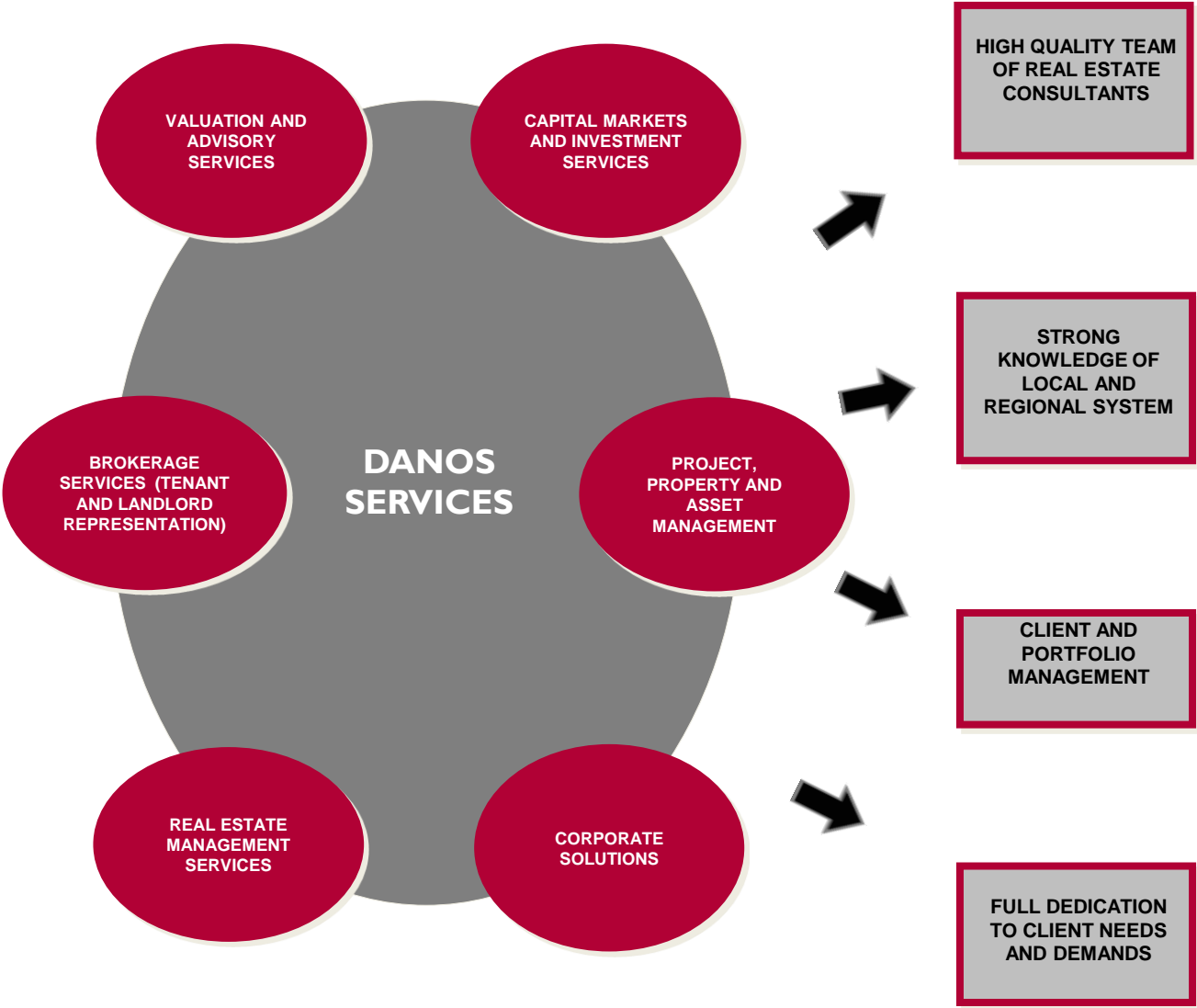
## Rental levels



In wider Belgrade area, prime headline rents for modern logistic premises in H2 2018 range between EUR 4/sq m/month and EUR 5/sq m/month. While average rental levels for older and refurbished industrial premises range from EUR 3 to EUR 4/sq m/month. For "built-to-suit" space, rent level is in range EUR 4-5 sq m/month.

Rental levels for new industrial developments throughout Serbia are in the range of EUR 2,5 – 5/sq m/month.

# Our Services





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