

## Belgrade Industrial Market

H2 2009

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

BB-/Stable

## Quick stats

	Change from H1 2009
Take-up	↓
Supply	↑
Vacancy	↑
Rents	↓

## Hot Topics

- On December 22, 2009 Serbia submitted a formal application for European Union membership to Sweden, which currently holds the 27-country bloc's rotating presidency.
- After reviewing current economic developments, the National bank of Serbia Monetary Policy Committee decided to trim the key policy rate, which now equals 9.5 percent.
- According to Statistical Office of Republic of Serbia, gross domestic product (GDP) at constant prices decreased by 2.9% in 2009 in comparison with the previous year.

## ECONOMIC OVERVIEW

International Monetary Fund (IMF) has completed the second revision of the standby arrangement with Serbia, thus enabling the drawing of the second installment of USD 350 million. Along with the revision of the arrangement worth EUR 2.9 billion, the IMF Executive Board has granted the increase in the budgetary deficit of Serbia in 2009 of 4.5%. So far Serbia has drawn the first installment of EUR 788 million, and with the second the total amount of the credit will rise to 1.12 billion. Furthermore, the World Bank has approved USD 200 million loan to country, aimed at reducing public administration and improvement of the business climate in Serbia. This is the first installment of USD 400 million loan agreed at the meeting with the World Bank, held in October 2009. The remaining USD 200 million will be used for supporting the 2010 budget.

On December 1, 2009 global ratings agency Standard & Poor's (S&P) has revised Serbia's outlook from negative to stable due to reduced external pressures and its commitment to comply with an IMF program and added it has affirmed the country's 'BB-' long-term and 'B' short-term sovereign credit ratings.

GDP by individual economic activities, noted the increase in the following sectors: transport, storage and communications, financial intermediation, agriculture and governmental sector. Industrial production

declined by 12.6% in 2009, whilst construction sector noted a fall of 19.9% in 2009. Retail trade also noted a decrease of 11.7%, while the decline of wholesale trade amounted to 4.1%. The National Bank of Serbia has announced annual Consumer price inflation in 2009 of 6.6%, while the Monetary Policy Program for 2010 envisages this year's inflation of 6%±2 percentage points.

Based on data obtained from the Labor Force Survey, unemployment rate in October 2009 amounted to 16.6%. Wages and salaries grew by 8.8% in 2009 in nominal terms and by 0.2% in real terms, in comparison with 2008. The average net wage in 2009 in Serbia amounted to RSD 31,733 (EUR 338), Belgrade recorded an average net salary of RSD 39,862 (EUR 424).

According to Serbian Government predictions, Serbia foresees economic growth of 1.5% in 2010, 3% in 2011 and 5% in 2012, while the country has to continue pursuing a very responsible budget and monetary policy. Serbia's economic growth in the forthcoming years could not be founded on the inflow of foreign capital and on recurrent spending; yet all planned investments had to be realized to achieve short-term growth, while the only solution for achieving medium-term growth is to increase export.

## Key economic indicators - Serbia

	2007	2008	2009E	2010F	2011F
Nominal GDP (EUR bn)	29.5	34	31	31.4	32.9
Per capita GDP (EUR)	4,002	4,624	4,230	4,310	4,538
Net FDI (EUR bn)	1.8	1.8	1.5	1.8	2.3
Real GDP, yoy (%)	6.9	5.5	-3.2	-0.5	1.3
Inflation (CPI), yoy, avg. (%)	6.5	11.7	8.3	6.3	5.7
Unemployment rate (%)	18.1	18	18.5	19	18.2
Exchange rate RSD/EUR, eop.	78.79	89.79	96.23	100	100
Exchange rate RSD/EUR, avg.	80	81.49	94.07	98.12	100
Current account balance/GDP (%)	-15.6	-17	-7.4	-6.1	-6.8
FDI/GDP (%)	6.2	5.3	4.8	5.6	6.8
Budget balance/GDP (%)	-1.5	-2	-4.5	-4	-3.5
Total foreign debt/GDP (%)	60.2	64.1	73.5	78.8	81.9

Source: Bank of Austria, January 2010

## BELGRADE INDUSTRIAL MARKET

The logistics/industrial market is expected to expand in years to come. Although currently the least developed market segment of the Serbian real estate market, large projects announced for development will positively influence further supply.

In addition, many municipalities across Serbia started to work on creation of the ambient that would attract investors, in their industrial zones, being willing to offer municipal land to investors at favorable prices.

In 2009, Ministry for National Investment Plan (NIP) implemented three major national programs. The fraction of Horgos – Novi Sad highway, as part of Corridor 10 was designed and built while the preparation works for the construction of new lane and modernization of the existing lane are in progress. Moreover, NIP financed works worth over RSD 478 million on the road Kragujevac – Batocina in order to support the development of automobile industry, which will also be continued in 2010. The third national program "Infrastructure development in 40 most underdeveloped municipalities in Serbia" introduced the synchronized and systematic investments in infrastructure development in these areas. In this sense, a loan worth EUR 150 million for infrastructure projects was signed with the European investment bank (EIB). Consequently, investments in new and improved infrastructure might reflect the greater number of optimal locations for logistics properties.

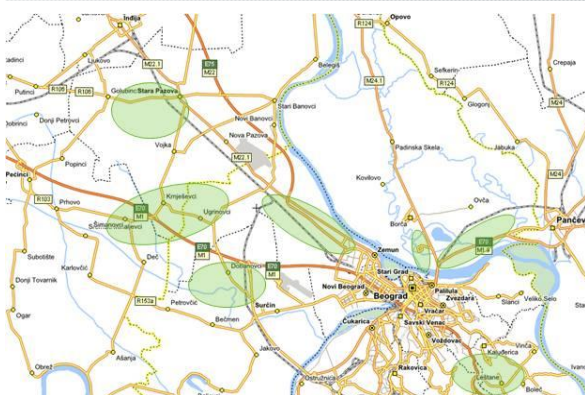
### SUPPLY

Previously, investments in logistic facilities mostly came from local companies in need of facilities for owner occupancy. The market also noted the examples of local developers offering build-to-suit projects in return for long term lease. However, more intensive development has recently commenced, with the introduction of several foreign investors that have plans to develop modern logistics parks across the country.

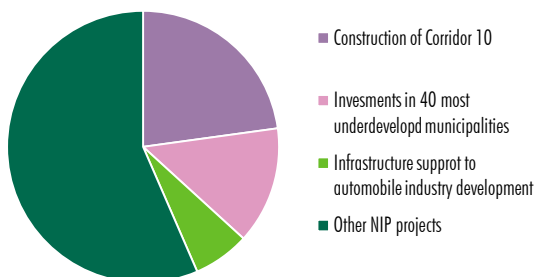
The total stock of contemporary logistic space is estimated at app. 300,000 sq m, out of which almost 60 percent is located in Belgrade's area including the suburbs. The primary logistics market is concentrated around Belgrade, along the highways E-70 and E-75, and locations in its close proximity, such as Stara Pazova, Simanovci, Dobanovci and Krnjesevci.

In addition to the future supply, an Austrian company Eyemaxx has plans to build a large Cargo center, located in Nis, holding 135,000 sq m and logistics center in Stari Banovci, totalling 50,000 sq m of GBA, while a Dutch company Eurasian Real Estate, plans to develop industrial park in Zabalj.

Popular locations for development of industrial/logistics facilities within Belgrade city boundaries

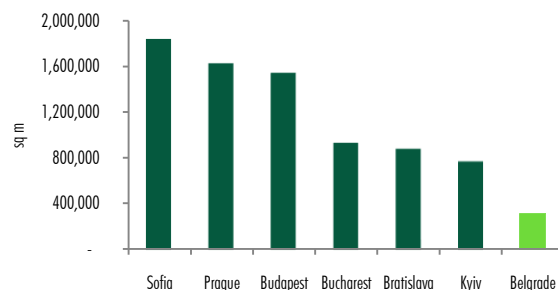


NIP projects



Source: Ministry for National Investment Plan

Total stock in Q4 2009 in the region (in sq m)



Source: CB Richard Ellis



Eyemaxx, LOG Center



Transped, Vrcin

Additionally, the company Phiwa, a sister company of German Walther Group, has commenced the construction of logistics center in Srbobran which will comprise two halls of 18,000 sq m. Phiwa already owns the logistics centers in Subotica, Senta and Zrenjanin, holding more than 60,000 sq m, and the center in Srbobran will be the fourth that the company has developed in Serbia.

During next several months, the local company Transped Beograd will commence the construction of the logistics center in the vicinity of Belgrade, in Vrcin area. In the first phase, Transped will build an up-to-date storage space of 6,500 sq m. After completion of the whole complex, the logistics center will cover 35,500 sq m, including 44,000 pallet places.

The completion of all projects that are currently under construction or in a planning stage will considerably increase the modern stock of logistics space. The completion date for certain projects will be in accordance with investors' plans, however deadlines for several projects still remain uncertain.

**Selected Pipeline Developments**

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

\* GBA – Gross Building Area  
Source: CB Richard Ellis

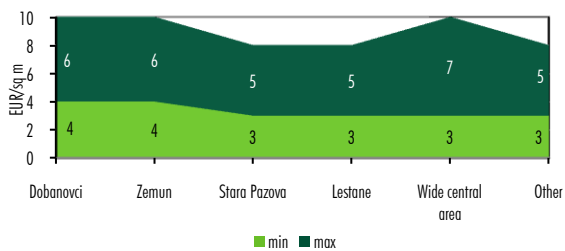
**DEMAND**

Demand for industrial and logistics space is usually generated from transportation, logistics, distribution and pharmaceutical companies. Current economic situation and reduced business activities influenced the industrial market which recorded the new trend of tenants lowering their requests for space size and moving their operations towards smaller units, causing the decreased demand in previous several months.

Current Good Manufacturing Practice (cGMP), being a legal regulation in developed countries, will become a legal regulation in the Republic of Serbia, starting with March 2010. These standards which ensure that products are consistently produced and controlled according to the quality standards appropriate for their intended use, may positively influence further demand for industrial and logistics facilities.

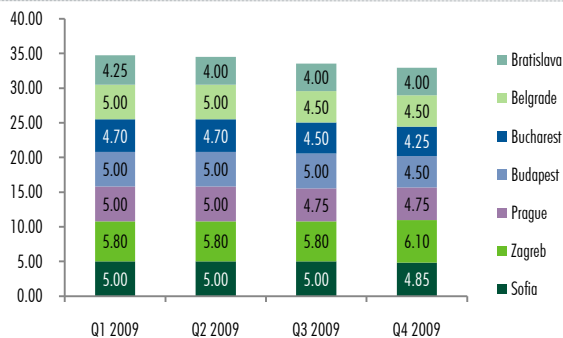
It is expected that the entrance of foreign companies as well as the intensification of retail sector developments should increase the demand for speculative warehouse space.

**Rental levels range in H2 2009 (in EUR/sq m/month)**



Source: CB Richard Ellis

**Rental levels in the region (in EUR/sq m/month)**



Source: CB Richard Ellis

**RENTAL LEVELS**

Rental levels of industrial and warehousing facilities did not record a substantial change during 2007 and 2008. However, in 2009, rental levels showed downward trend, which was also marked in several cities throughout the region. The average asking rental rates in modern industrial facilities reached EUR 4.0–7.0/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.

## Map of Pan-European Corridors

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