

Overview of the Serbian property market

Arena of Investments in Architecture
44th International Construction Fair SEEBBE, Belgrade



19th April 2018

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Introduction

- Real estate is a cyclical commercial sector; for today's presentation we have collected and processed the most relevant up to date macroeconomic and other data for your better understanding of the moment this country and its real estate market are in
- Such data shows not only the recent economic history but it provides clues about the future of economic activities in Serbia and their correlation with RE market
- There is a strong correlation between macroeconomic stability, economic growth and RE market
- In this presentation we will look into all of these in order for you to have a better prediction of the future of the RE market performance and the likelihood of a profitable entry and exit from it.
- The presented data removes a significant degree of uncertainty in RE investments because it is of crucial importance to calculate and forecast RE investment performance such as
 - ✓ Price of an asset (land, building)
 - ✓ ROA
 - ✓ ROE
 - ✓ ROI
 - ✓ IRR
 - ✓ NOI

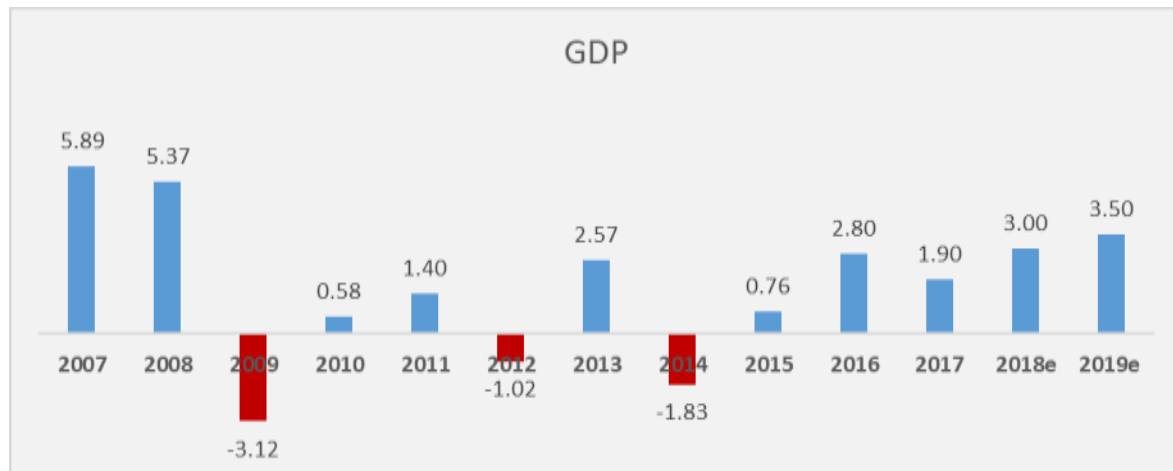


Serbia-key facts

- Form of Government Parliamentary Republic
- Territory 88.361 km²
- Capital Belgrade, the largest capital city between Vienna and Athens
- Population 7,1 million
- GDP per capita €4.971
- Currency Serbian Dinar (RSD)
- Exchange rate (19/04/2018) €/RSD=118,2363, US\$/RSD=95,5136
- Credit rating Moody's – Ba3/stable since March 2017; Fitch – BB/stable since December 2017; S&P - BB/stable since December 2017
- EU Accession Serbia has opened 12 chapters; The European Commission issued a policy paper on 6th February 2018 stating the year 2025 as the goal for Serbia to join the EU
- China factor One Road One Belt
- Political stability Serbian Progressive Party (SNS) won the general elections in 2012 with overall majority, it has been to the pools several times retaining and/or winning majority at every subsequent elections. President Aleksandar Vucic won his five year presidential mandate in 2017 and SNS is likely to govern Serbia for this and another term



Serbia- GDP



Source: Statistical office, EBRD, IMF

The negative GDP growth in 2009 is a combine consequence of the mismanaged public policy and rise of pensions and public sector pay in 2008 (see “Average wage in €” graph on slide 10) and the onslaught of the financial crises.

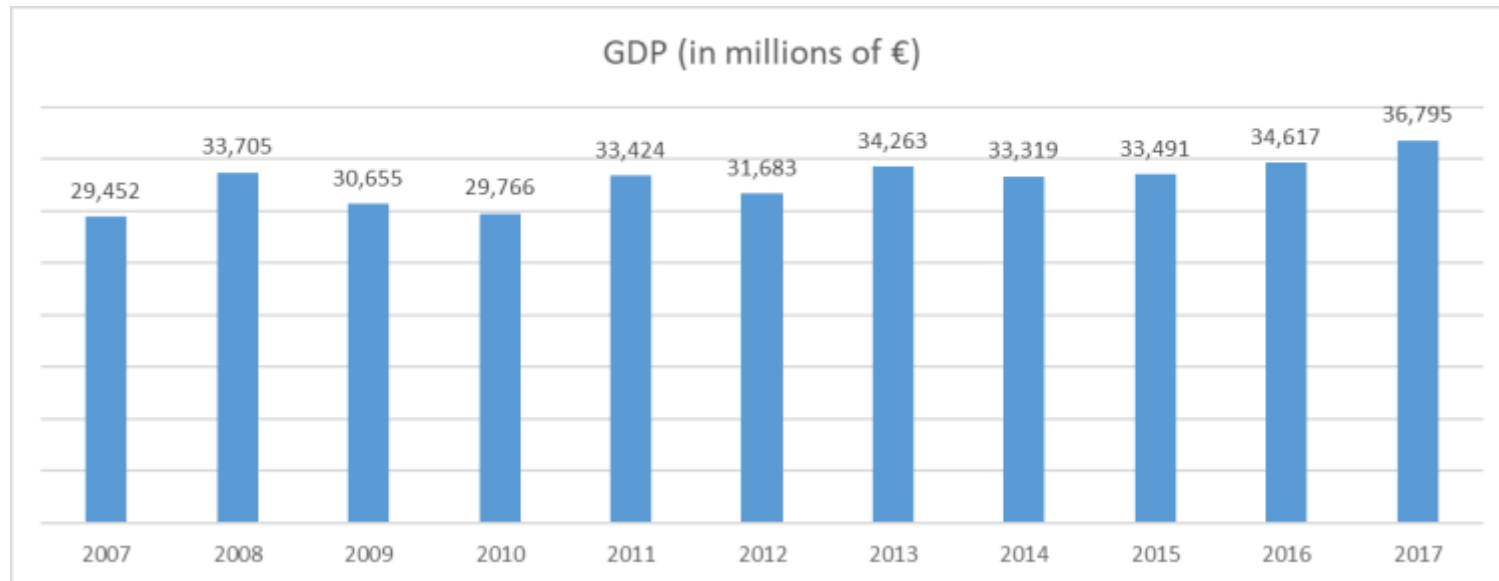
Similarly, there was a major shift in power in the general elections in 2012 when the economy slowed.

In 2014 many countries in CEE and SEE including Serbia were affected by biblical floods which had a negative effect on the economy.

Estimates for 2018 and 2019 are by EBRD and IMF. Serbian institutions such as NBS forecast a growth of 4% in 2018.



Serbia- GDP

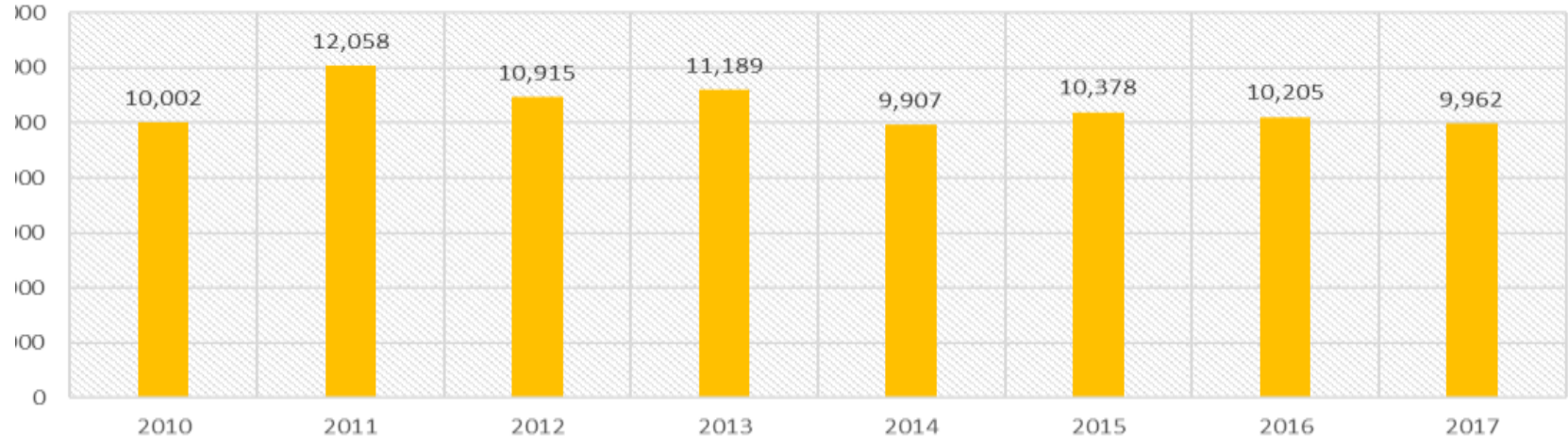


Source: Statistical office, NBS



Serbia-FX reserves

Foreign exchange reserves (in millions of €)

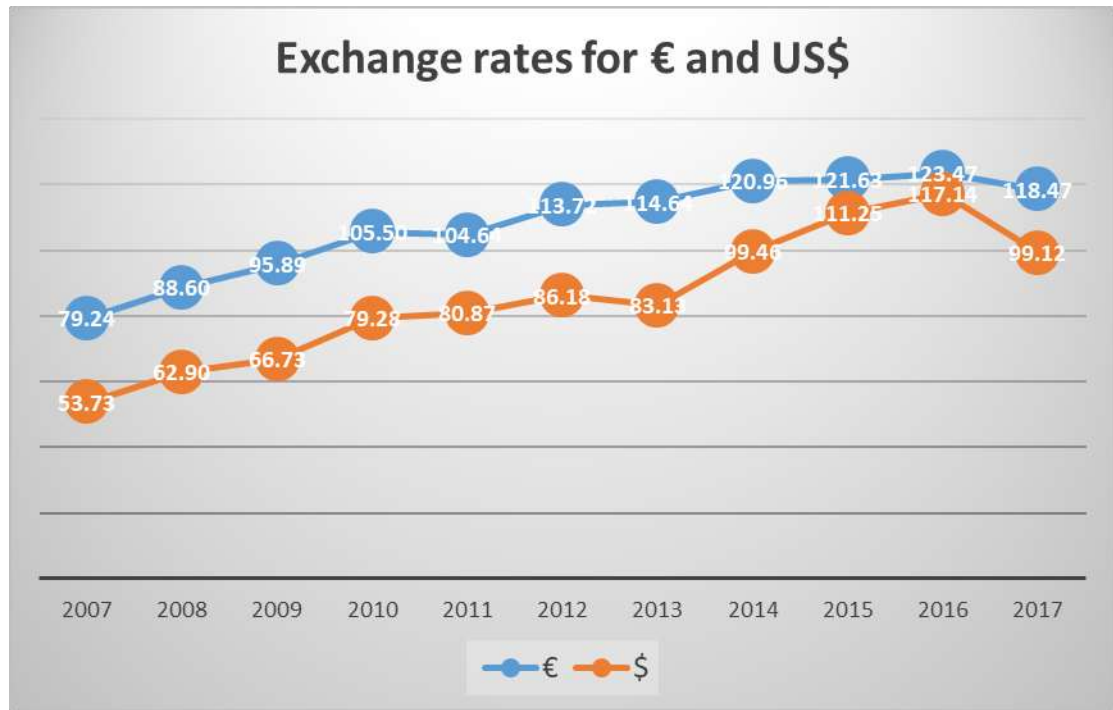


Source: NBS

There is about €11 billion in savings with banks and estimated further €3 billion savings (without Serbian diaspora) “under the mattresses”. RE has been the best performing asset class in Serbia for the last 40 years. Given the right circumstances we argue that a substantial chunk of these savings could and should find its way into the RE investments (bond issues, share subscriptions, crowd funding).



Serbia-FX Exchange rate

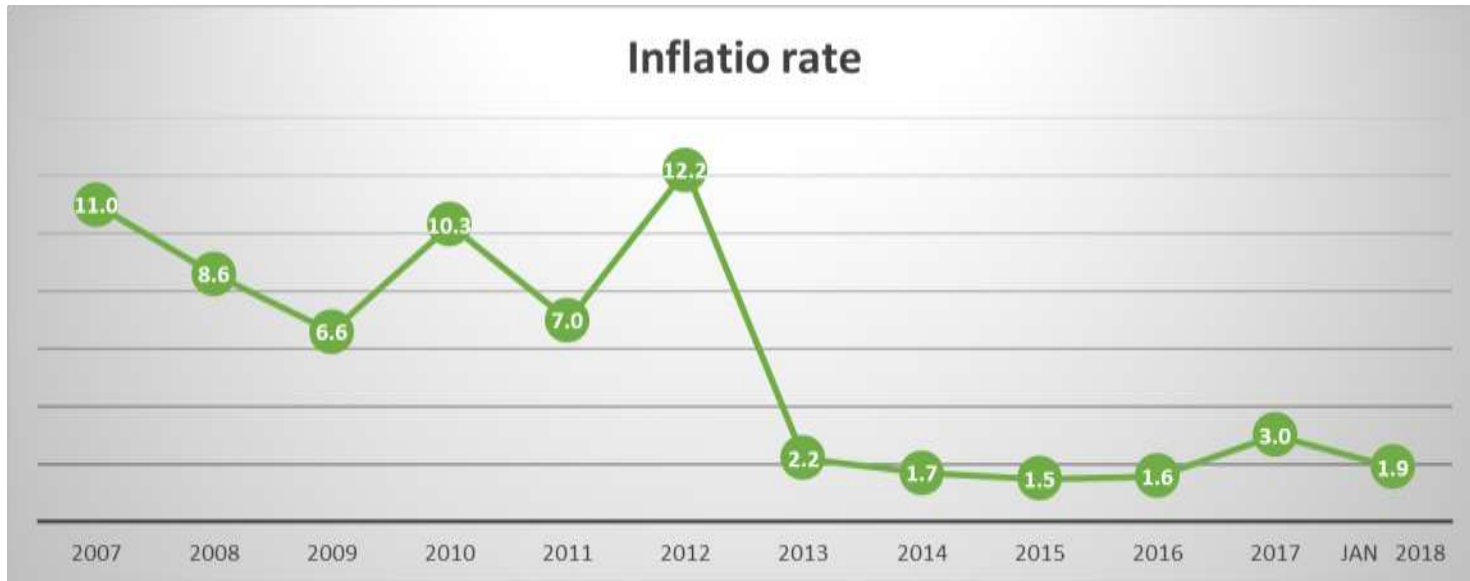


- RSD free floats against the major currencies but the National Bank of Serbia (NBS) intervenes to prevent sharp currency fluctuation and to preserve stable exchange rate
- RE transactions are carried out in Euros thus avoiding currency risks

Source: NBS



Serbia-Inflation

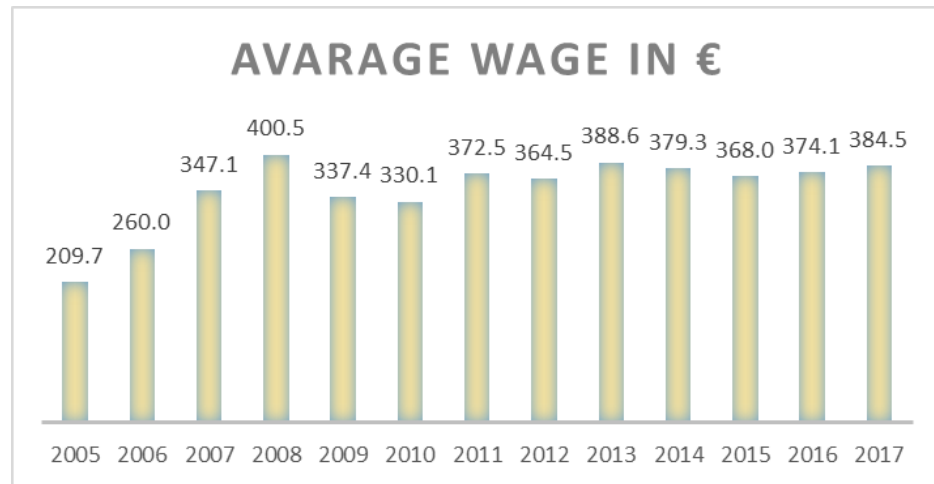
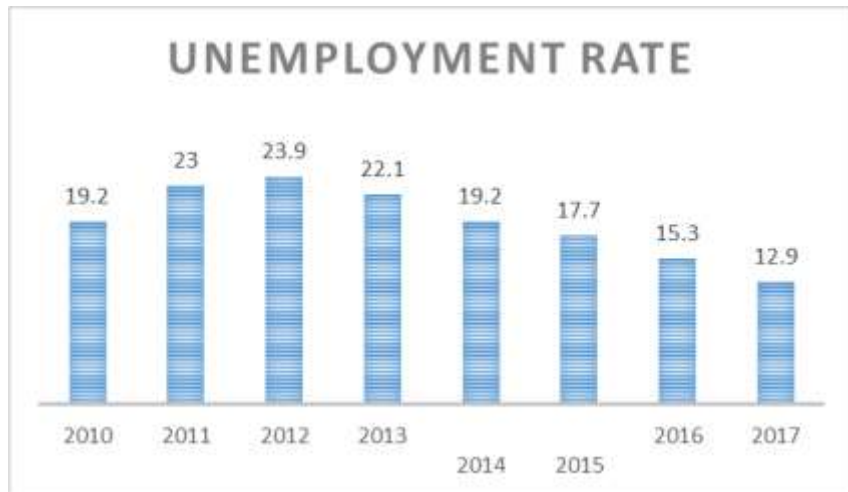


Source: NBS, Statistical Office

High Inflation rate used to be a major problem in the Serbian economy for businesses and consumers alike. Since 2013 it has been under control and we believe inflator is unlikely to return to pre 2013 because of the macroeconomic stability factors that have been built into the economy



Serbia-Employment

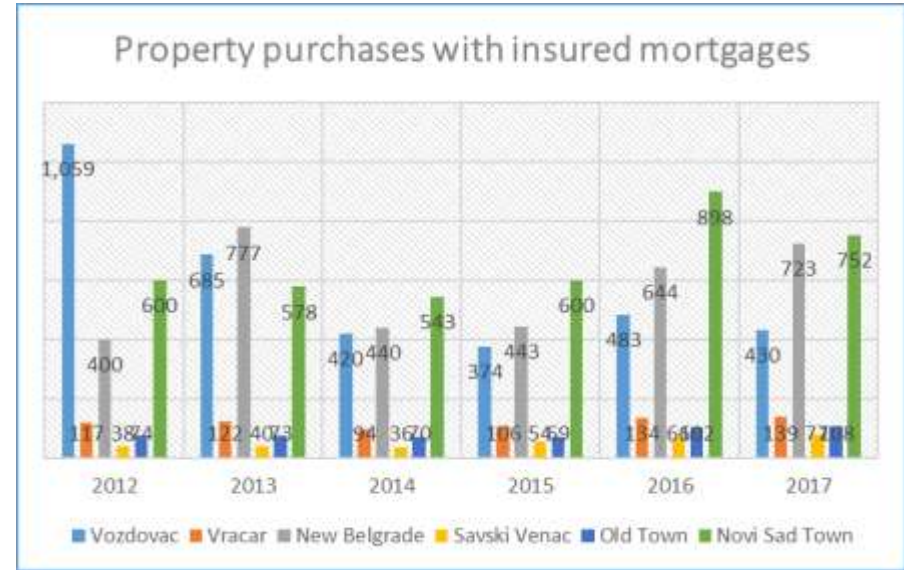
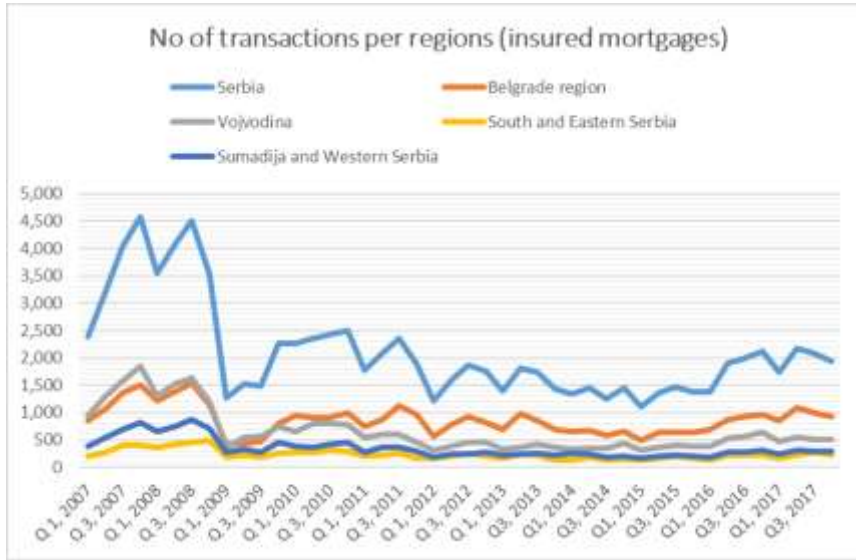


Source: NBS, Statistical Office

- Unemployment rose as a consequence of the financial crisis of 2008. It has been showing a steady decline since 2012.
- Wages have upwards trend since 2015. The sudden surge of income in 2008 was a result of political bargaining prior and after the general election that year.
- The above official statistics does not provide the complete picture because of the large scale of grey economy estimated between 20-30% of the entire economy and Serbian diaspora remittances home of about €3,5-4 billion per year. Serbian diaspora is a significant factor in the RE market as it represent a large proportion of cash buyers.



Residential market-mortgage sales

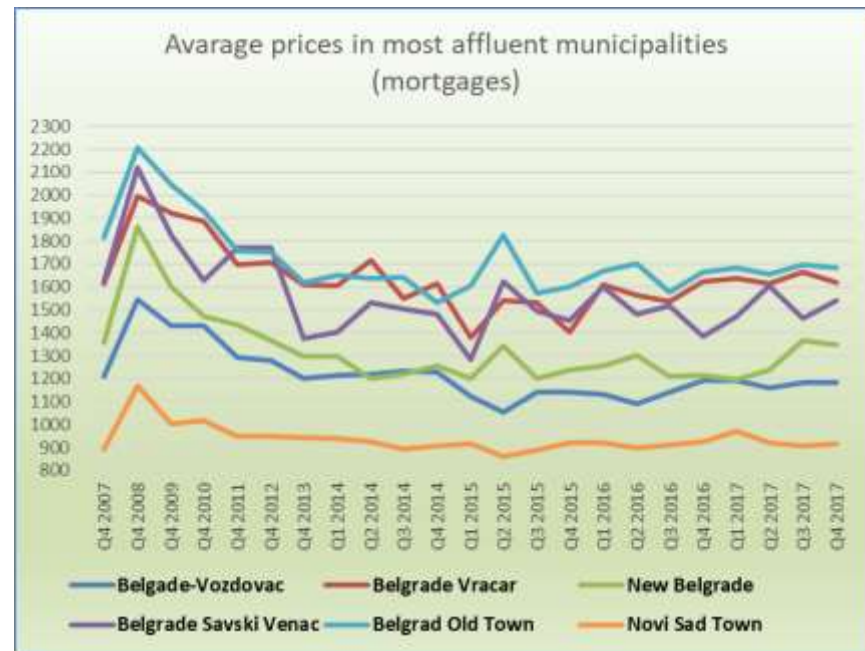
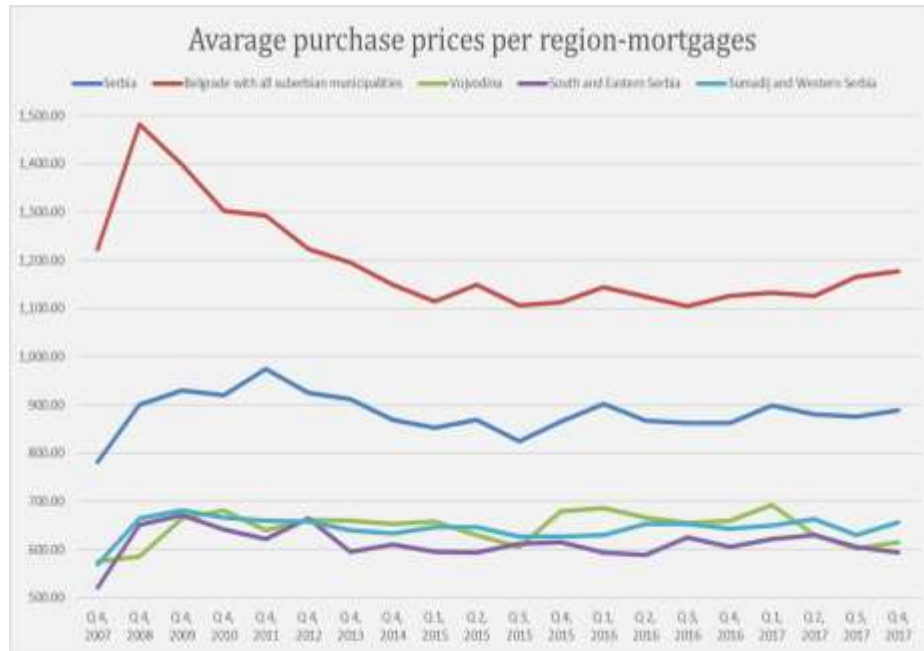


Source: NKOSK

The number of properties purchased with bank loans (mortgages) and insured with the National Corporation for Insurance of House Loans (NKOSK) on the national level (left) and in the most affluent areas/municipalities.



Residential market-prices

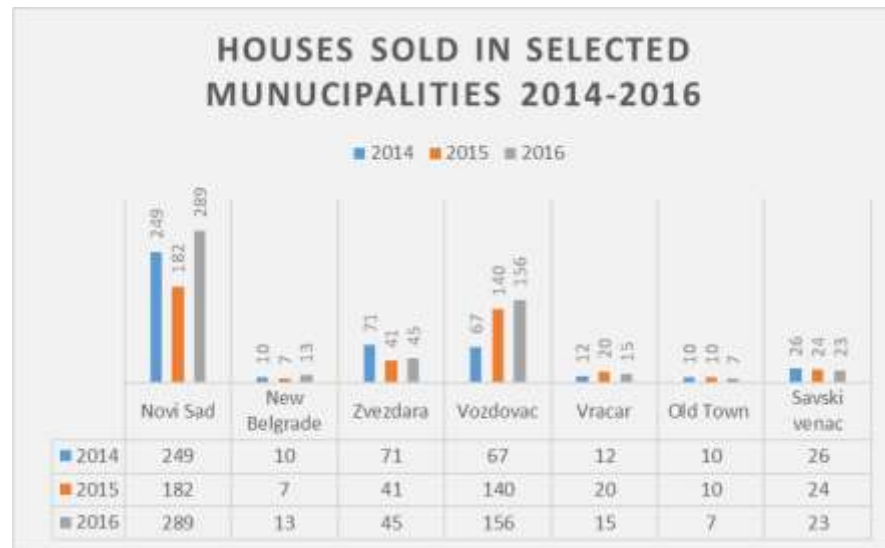


Source: NKOSK

Average prices of properties purchased with bank loans (mortgages) and insured with the National Corporation for Insurance of House Loans (NKOSK)



House and apartments sale-RGZ



Source: RGZ

All registered apartments and houses sales (cash and mortgages) in the selected affluent municipalities. Data by the Serbian Mapping and Cadastral Registration Authority (RGZ) is more accurate but unfortunately available since 2014 only.

The number of house sales is in decline since many houses have been purchased by developers to be knocked down and new high rising apartments be built instead.



House and apartments sales-prices (RGZ)

Prices in €	2016			2017		
	Min	Max	Average	Min	Max	Average
Novi Sad	600	1400	1000	600	1600	1050
New Belgrade	1500	2200	1900	600	2450	1700
Zvezdara	700	2100	1400	800	2100	1500
Vozdovac	900	2000	1350	800	1900	1500
Vracar	1550	2250	1900	120	2750	1950
Old Town	1400	2600	1900	1300	2400	1950
Savski venac	2900	Belgrade Waterfront		2600	7100	1700
	1550	Other properties				

The most accurate sale price data is provided by RGZ and available only for the last 2 years. It includes all registered sales.

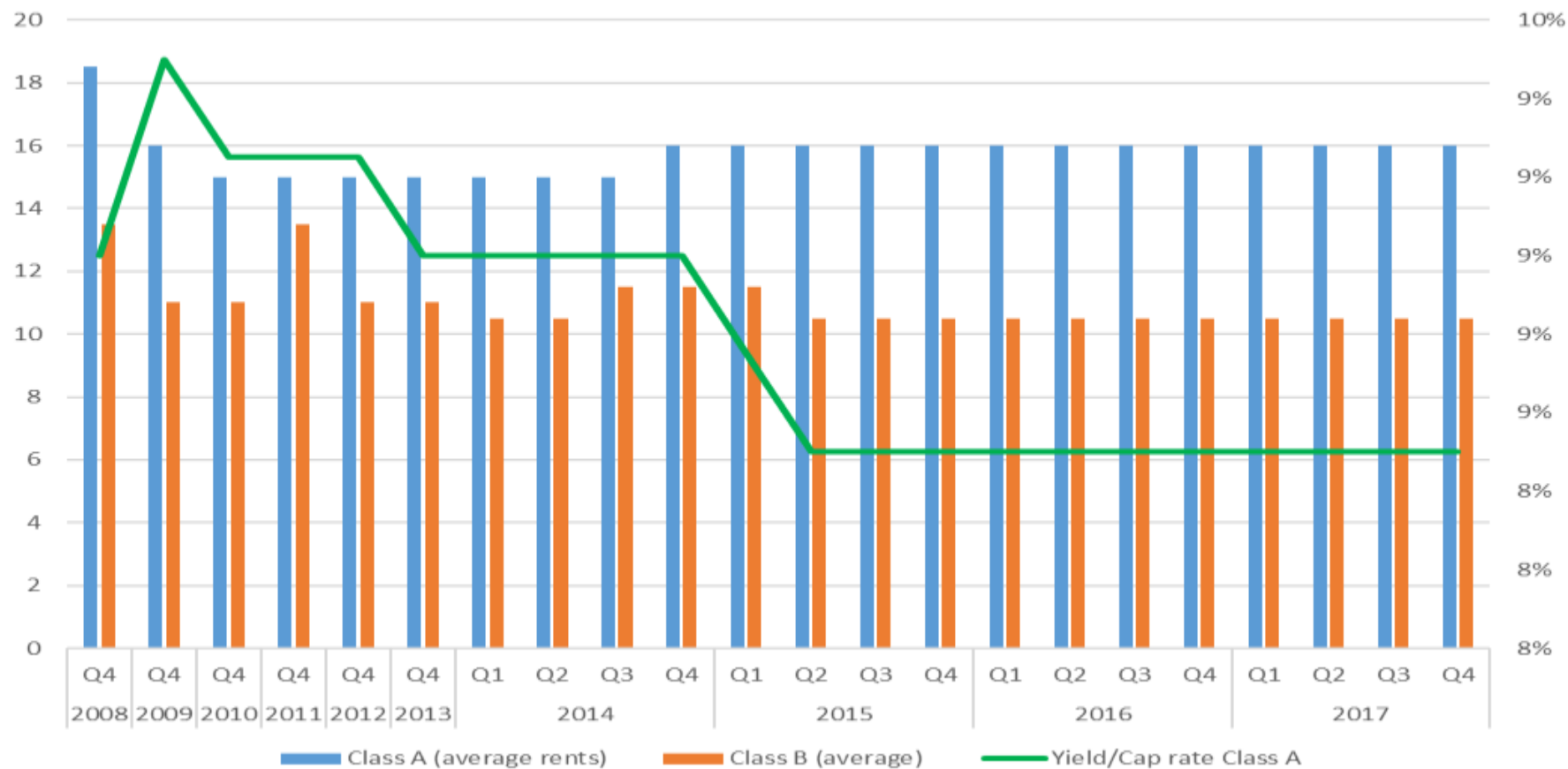
Together with NKSOK data presented above, it is a solid base for forecasting future prices in Belgrade and/or other locations in Serbia.

These data provide better understanding of the investment opportunities presented below.

Attractive developments	2017		
Prices in €	Min	Max	Average
Belgrade Waterfront	2100	7100	2650
Central Garden	2230	2475	2350
Green Avenue	1590	2045	1700

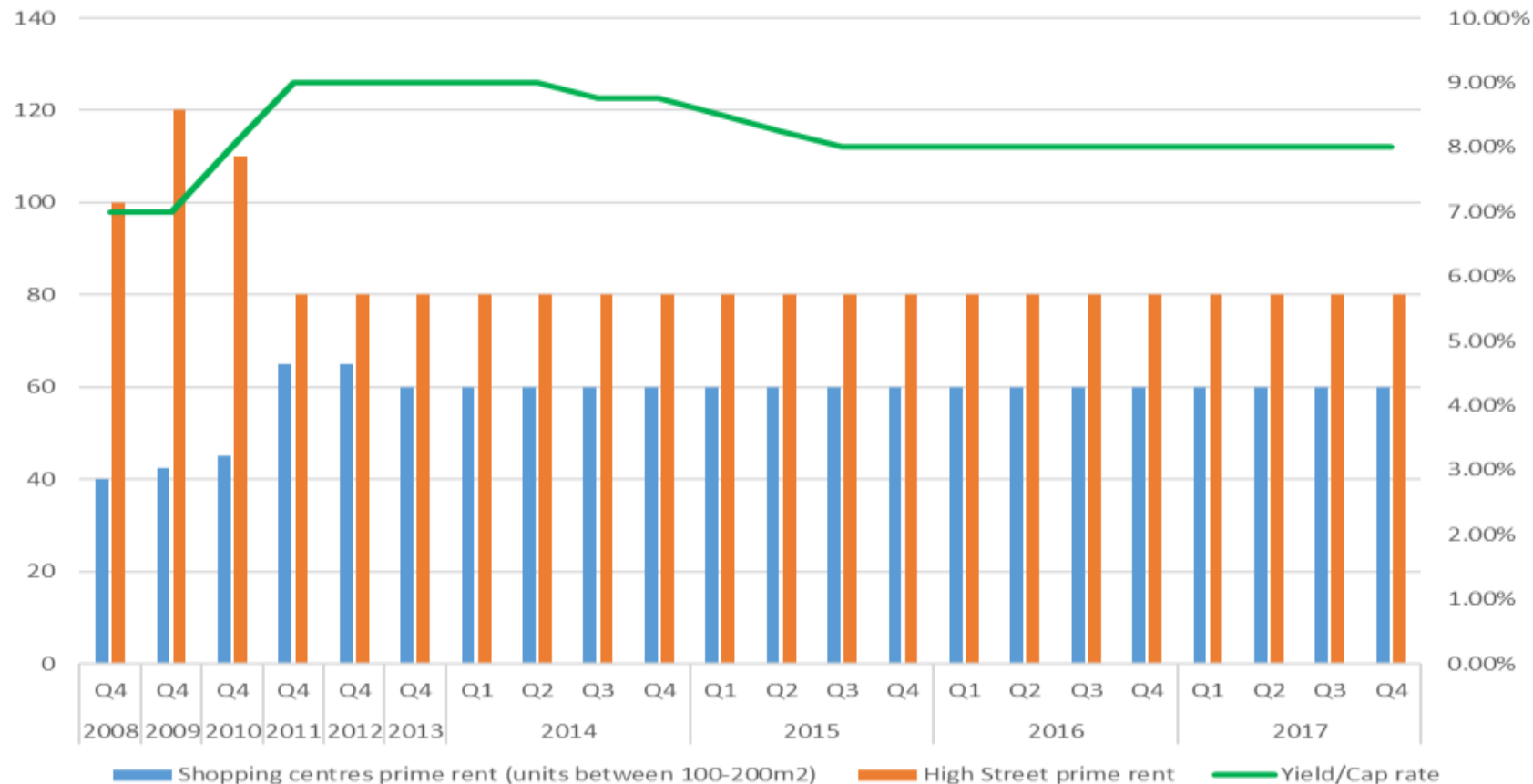


Office rents and yields 2008-2017



Source: JLL, CBRE, SEECAP research

Retail rents and yields 2008-2017



Source: JLL, CBRE, SEECAP research

Investors and developers

Since 2008 RE development in Serbia has become more institutionalised. About 50% of all pre 2008 developers, mainly small ones, have gone never to return to the market. Some large overleveraged local developers also went bankrupt after 2008 and their property empires are being dealt with by the bankruptcy courts. Photos of such a distressed asset for sale are below, after acquisition it requires interior design and finishing.



Investors and developers (cont.)

As a result of a stable macroeconomic and political environment and increasingly vibrant RE market, large international institutional have invested in new RE developments or acquired existing developments (retail mainly) enabling the first wave of developers to exit their investments.

International RE funds operating in Serbia

- Hystead, SA (retail)
- Eagle Hills, UAE (residential, hotels, retail)
- Poseidon, UK-retail, developing shopping malls outside of Belgrade in Leskovac and Zajecar
- NEPI, SA-retail in existing and developing new shopping malls
- AFI Europe, Poland, Israel (all)
- Shikun & Benui, Israel, residential Central Garden, Belgrade Skyline, office
- Bluehouse Capital, Greece (office)
- Global Trade Center (GTC), Poland, Israel-retail (Ada Mall)
- Erste Group, Austria - Sirius Offices opened in New Bgd in July 2017-€40M, 18.500 GLA, 230 parking spaces

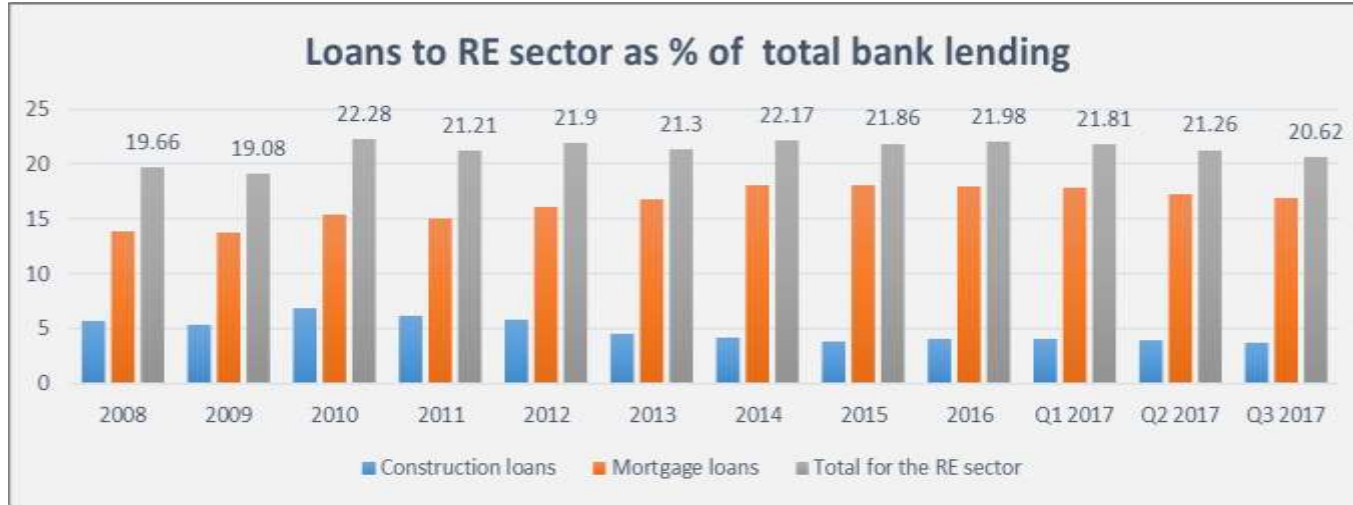
Local developers and investors - large such as Delta RE, Napred or Energoprojekt or a large number of **smaller** developers going for residential developments up to 10.000 GBA. Some of them made initial capital in unrelated fields such as entertainment, sport or other businesses.

Some local companies hold a substantial **land banks** suitable for RE developments-large building plots in zoned areas ready for development (subject to building permit and other administrative procedures).



RE finance-debt

Serbian banks, the majority of which are subsidiaries of large European banks (Societe Generale, Banka Intesa, Unicredit, Erste, Raiffeisen) are well capitalised (on average capital adequacy is over 20%) are ready and eager to finance RE developments and acquisitions. They also provide consumer finance-home loans/mortgages.



The relative amount of loans to RE Sector is stable but the volume of lending is growing y-o-y, as shown on the next slide.

Source: NBS



RE finance-debt

Local bank usual terms and conditions for RE development lending

Main

- Building plot ownership and building permit
- Up to 70% LTV
- Feasibility study, market research, business plan, financial modelling highly desired
- Pre sales-highly desired
- Interest rate/cost of capital on the borrowed funds-3-5% depending of the overall risk perception

Additional

- Prior experience in RE development
- Reputation
- Reputation of the main contractor and suppliers
- The same bank may offer home purchase loans to buyers

International sources

Debt

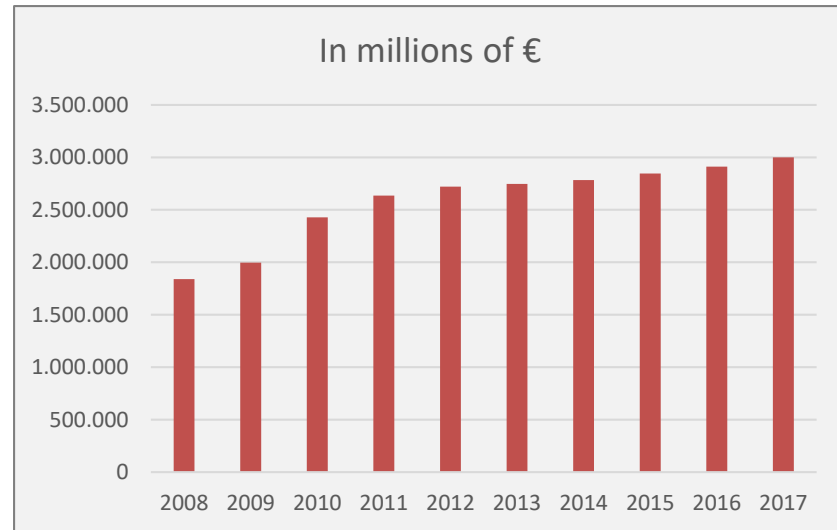
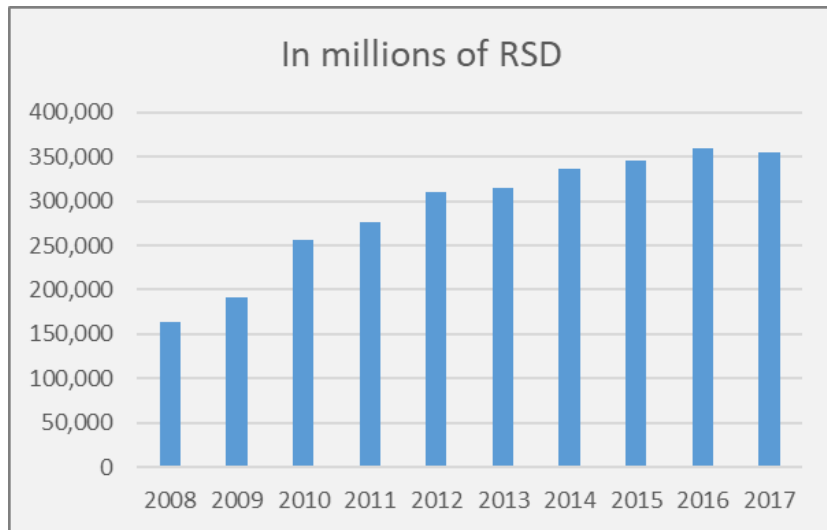
- South African Hystead obtained a €164M credit from EBRD and IFC to for further investments in Serbia, Montenegro and Macedonia (it already has 3 shopping malls in these countries)
- GTC has signed a €64M loan for its Ada Shopping Mall project in Belgrade from a consortium of banks, Banca Intesa Belgrade, Slovakia's Vseobecna uverova banka (VUB) and Croatia's Privredna banka Zagreb (PBZ), all members of Intesa Sanpaolo Group
- GTC also signed in December 2017 a €60M refinancing and investment loan with Raiffeisen Bank International (Austria) for the refinancing of its 46.000 GLA, 42% pre-leased Green Heart office project

Reverse situations possible – in June 2017 Erste and a couple of other banks refinanced a €47M construction loan provided by Piraeus Bank London to Bluehouse Capital for their Blue Centre Office building in Belgrade



RE finance-volume of lending

Total amount of home loans/mortgages owed to commercial banks

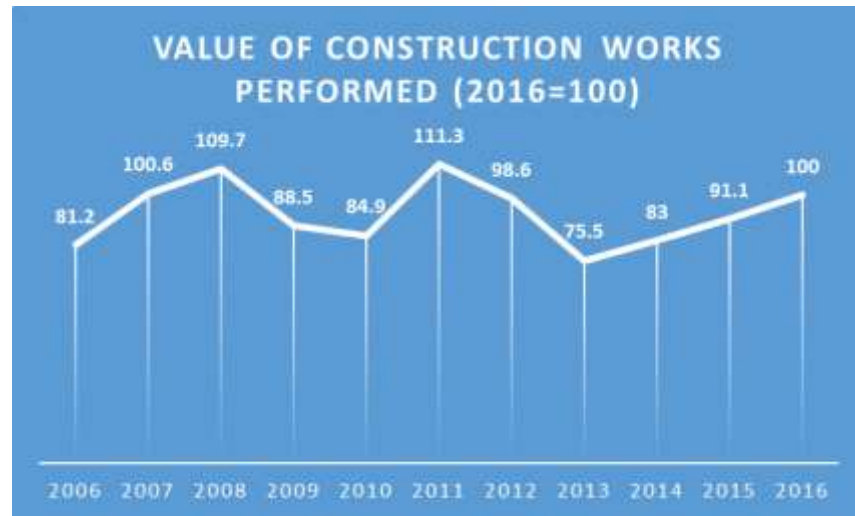
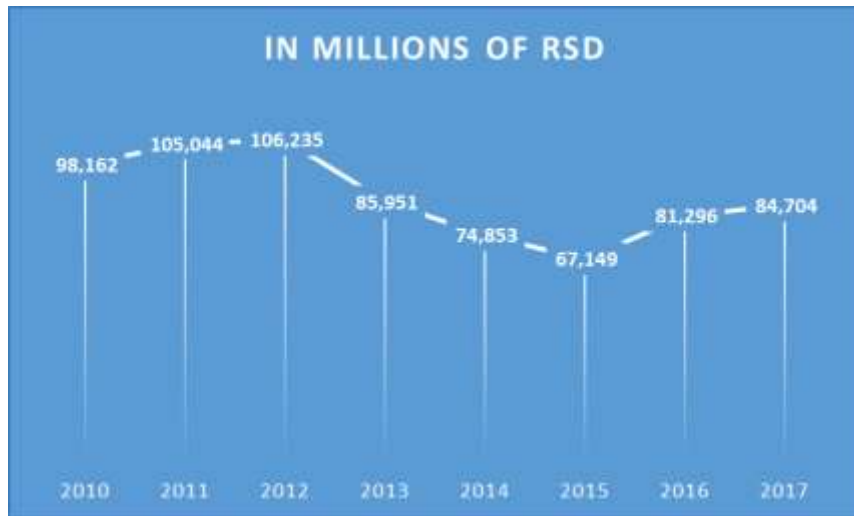


Source: NBS



RE finance-volume of lending

Construction sector borrowings RSD and Euro indexed borrowings



Source: NBS

Between 2010-2015 the Construction Sector went into deleveraging from the excess of pre 2008 accumulated debt and in 2016 began to reinvest



RE finance-mezzanine and equity capital

Mezzanine has been used in Serbia for corporate acquisition finance so far. In real estate it should be preferential source of finance to equity because it does not water down developer's equity.

Mezzanine for residential developments

- Shorter repayment periods 12-36 months with possible extensions of 12-24 months
- Structured as subordinated debt to senior lenders
- Non-recourse financial instrument
- LTC (loan to cost) 60-80% or LTV (loan to value) 5-10% less than LTC

Mezzanine for commercial properties

- Long repayment period, 7-10 years or on exit by the developer
- Acting more as equity capital structured as debt (because of the tax shield)
- Fund manager to have closer supervision over the investment
- Non-recourse financial instrument
- LTV 70-80%

Equity capital – underutilised by local developers for a variety of reasons. Many local developers are not developing their land bank (building plots) for years for lack of their own equity capital to finance project development instead of joining force with real estate investment funds to share costs, risks and benefits of such developments.

Foreign developers are better in utilisation of various sources of real estate funds including private equity or by listing on stock exchange.



Large RE projects under construction

1. Belgrade Waterfront (Eagle Hills and Govt of Serbia JV)– complexed residential, hotel and retail project scheduled for development over the next 25-30 years
2. Belgrade Skyline (AFI Europe) – total 68.000 m2 GLA; residential-34.000m2, offices -30.000m2 and 4.000m2 other commercial space
3. Gates of Vracar (AGNS Invest, local developer) – largest development in Vracar, a highly desirable residential area, 300.000m2 of residential and commercial space
4. Usce (Cofluence) Tower 2 (MPC) - €65M Class A office development with 23.200m2 GLA and 740 underground parking spaces
5. Ada Mall (GTC) - 34,400 m2 of retail space located in Cukarica, directly opposite Ada Ciganlija island in the Danube river
6. Green Heart (GTC)– Class A office project, 46.000 m2 GLA, New Belgrade



Examples of large greenfield and brownfield projects

1. **Blok 20 Delta Centre** – 13 floor Hotel InterContinental and 34 floor office building to commence in 2018, GBA 120.000m²
2. **Delta Planet**-retail – in the planning process, GBA 182.000 m² shopping mall, the developer estimated his investment of about €200M
3. **Tesla town** – business, retail and residential town on the outskirts of Belgrade allegedly 1 million m² to be built, its realisation depends on the metro link which is to be built from the site to Central Belgrade (pictured right)
4. **Block 11**—brownfield (residential, office, retail)
5. **Block 12** (residential, office, retail)
6. **M Milankovica**, New Belgrade
7. **Old Town** brownfield



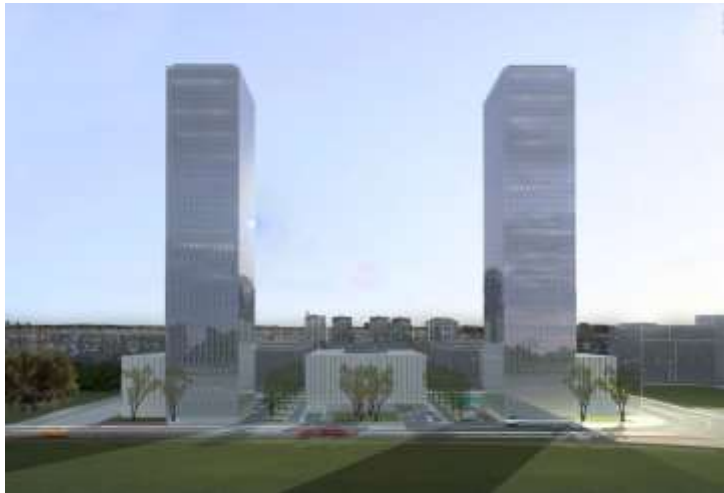
Block 11



- Prime site on the Danube banks, New Belgrade, brownfield
- Land plot – 45.000m²
- 5*Hotel, 267 rooms, 35.300m²
- Serviced apartments, 189 units, 43.700m²
- Residential apartments, 178 units 39.400m²
- Retail, 113 units, 26.400m²
- Offices 51.300 m²
- Parking 1.378 spaces, 37.600m²
- Sale, contact us for details



Blok 12



- **Block 12**-prime site on the Danube banks, New Belgrade
- Land plot size- 40.000 m²
- GBA – 154.000 m²
- Offices 51.300 m²
- Other commercial space (retail, restaurants etc) 10.250m²
- Residential 92.400m²
- Co-investment/co-development or acquisition of a part of the plot for office development
- Contact us for further details

Old Town

- A brownfield site in the Old Town close to Belgrade Waterfront, Belgrade Skyline, the former US Embassy, now to be an exclusive residential development and to the M1 Motorway
- Plot 3.300m²
- Existing building-offices 4.000m²
- Additional development of about 14.000m²
- Alternatively, demolition of the existing building and building a new development of about 20.000m², subject to planning permit
- Mixed use commercial 20%:residential 80% or commercial 100%
- Ideal for a condo hotel
- Sale, contact us for further details



M Milankovica

- New Belgrade, well positioned mid sized plot
- Plot size-9.400 m²
- Total GBA-34.000
- Mixed use-20% commercial:80% residential
- One owner, private land
- Sale
- Contact us for further details



About us

- ✓ A financial advisory established in 2001 that operates from Belgrade covering Serbia, Montenegro, Macedonia and Bosnia-Herzegovina
- ✓ We offer customised and focused advice to a variety of international clients interested in establishing a presence in our countries of operation and to local companies seeking innovative capital raising solutions such as strategic or private equity investments, mezzanine, loans and other forms of financing
- ✓ We work with a network of other consulting experts (lawyers, accountants, tax advisors, valuers, technical consultants etc.) thus being able to offer "*one stop shop*" to our clients to meet and deliver all their demands and needs
- ✓ We can identify potential targets, strategic partners, sellers and financial institutions. Our clients will benefit from having access to the best corporate finance advice from specialists who are fluent in the local language, practice and business etiquette
- ✓ We are an independent firm committed to provide high quality professional service, customized solutions and in-depth market knowledge.
- ✓ We adhere to high ethical and professional standards applicable to investment banking.



Practice areas

Mergers & Acquisitions

- Target identification
- Sell-side and buy-side advisory
- Public takeovers
- Due diligence
- Valuation

Corporate finance

- Private equity
- Mezzanine
- Loans and syndication
- Refinancing

FDI & Privatisation

- “One stop shop”
- Dealing with the authorities
- Financial incentives and benefits
- Post privatisation revival

Real Estate

- RE finance
- Project finance
- Sale and purchase of RE assets

Private equity

- Equity finance
- Financial modelling
- Exit strategies



Our RE services

◆ Real estate finance-offices, hotels, residential, industrial, logistics

- RE due diligence, investment appraisal and DCF valuation
- Modelling future financial performance of the RE investment
- Analysis of the RE investment metrics - equity multiple, IRR, NPV, key financial ratios-liquidity, leverage, profitability and other project development ratios and other project statistics
- Project or investment risk analysis - scenario analysis, sensitivity analysis, break-even, time series, Monte Carlo simulation, regression analysis
- Debt, mezzanine and equity RE finance raising in Serbia and internationally
- Structuring tax effective RE investment schemes
- RE/Construction debt refinancing and rescheduling
- Performance bonds, bank guarantees and other collaterals
- Joint ventures and strategic alliances with local developers and/construction companies
- RE debt workout and purchase

◆ Real estate sale and purchase

- Knowledge of the local property market and local players
- Identification of the real estate acquisition opportunities in the local market
- Site selection and site or building acquisition advisory
- Advise on building permits or other local legal rules and procedures and the most appropriate financial and corporate structures
- Sale of large assets to international investors



Contact details

For further inquiries please contact:

Zoran Mitic
Director
SEECAP Consulting
zoran.mitic@seecap.com
Tel: +381 11 36 35 935
Mob: +381 63 377 960
www.seecap.com
Belgrade, Serbia

