

Sarajevo Retail Market Report

Poseidon Property Research Q 1 2010



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Bosnia and Herzegovina – Key facts

- Bosnia and Herzegovina (BiH) is situated in South-East Europe, on the Balkan Peninsula. It is bordered by Croatia to the north, west and south, Serbia to the east, and Montenegro to the southeast. It is almost landlocked, except for 26 kilometres of Adriatic Sea coastline, centred on the town of Neum. The country is a politically decentralised Parliamentary democracy and comprises two governing entities, the Federation of Bosnia and Herzegovina and Republika Srpska, with District Brčko. BiH is 51.129 sq km with an estimated population of 4.6 million people and a work force of over 1.5 million people.

Main cities overview:

Sarajevo

Status: Capital of BiH
Population: 304,614 (Town area), 421.289 (County area)
Average Land Prices: €120/sq m
Average Hypermarket rents: €9/sq m

Banja Luka

Status: Capital of RS
Population: 195.000 (Town area), 250.000 (Municipal area)
Average Land Prices: €100/sq m
Average Hypermarket rents: €8.5/sq m

Tuzla

Status: 3rd biggest town In Bosnia (North – East region)
Population: 174.558 (Town area), 607.000 (County area)
Average Land Prices: €90/sq m
Average Hypermarket rents: €8/sq m

Mostar

Status: Centre of Herzegovina region (South part of Bosnia)
Population: 64.300 (Town area), 224.796 (County area)
Average Land Prices: €70/sq m
Average Hypermarket rents: €7/sq m

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Economic overview

- The interethnic warfare in Bosnia and Herzegovina caused production to plummet by 80% from 1992 to 1995 and unemployment to soar. With an uneasy peace in place, output recovered in 1996-99 at high percentage rates from a low base; but output growth slowed in 2000-02. Part of the lag in output was made up in 2003-08 when GDP growth exceeded 5% per year. However, due in large part to the global economic crisis, GDP fell by about 3% in 2009, exports fell 24%, and unemployment - as officially reported - rose above 40%. Banking reform accelerated in 2001 as all the Communist-era payments bureaus were shut down; foreign banks, primarily from Austria and Italy, now control most of the banking sector. The konvertibilna marka (convertible mark or BAM)- the national currency introduced in 1998 - is pegged to the euro, and confidence in the currency and the banking sector has increased. Bosnia's private sector is growing and foreign investment is slowly increasing, but government spending, at nearly 50% of adjusted GDP, remains high because of redundant government offices at the state, entity and municipal level. Privatisation of state enterprises, however, has been slow, particularly in the Federation where political division between ethnically-based political parties makes agreement on economic policy more difficult. A sizeable current account deficit and high unemployment rate remain the two most serious macroeconomic problems. Successful implementation of a value-added tax in 2006 provided a predictable source of revenue for the government and helped rein in gray market activity. National level statistics have also improved over time but a large share of economic activity remains unofficial and unrecorded. Bosnia and Herzegovina became a full member of the Central European Free Trade Agreement in September 2007. In 2009, Bosnia's economy was hurt by the global financial downturn, with GDP, exports, and employment all showing declines. One of Bosnia's main challenges has been to cut public sector wages and social benefits to meet the IMF's budget deficit criteria and qualify for additional tranches of Fund aid.

GDP (purchasing power parity):

\$29.07 billion (2009 est.); \$30.09 billion (2008 est.)

note: Bosnia has a large informal sector that may be as much as 50% of official GDP

GDP (official exchange rate):

\$17.16 billion (2009 est.)

GDP - real growth rate:

-3.4% (2009 est.); 5.4% (2008 est.)

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GDP - per capita (PPP):

\$6,300 (2009 est.); \$6,600 (2008 est.)

Labour force - by occupation:

agriculture: 20.5%; industry: 32.6%; services: 47%

Unemployment rate:

40% (2009 est.)

note: official rate; gray economy may reduce actual unemployment to 25-30%

Public debt:

43% of GDP (2009 est.); 40% of GDP (2008 est.)

Debt - external:

\$8.415 billion (2009 est.); \$7.388 billion (2008 est.)

Inflation rate (consumer prices):

0.6% (2009 est.); 7.3% (2008 est.)

Industries:

Steel, coal, iron ore, lead, zinc, manganese, bauxite, vehicle assembly, textiles, tobacco products, wooden furniture, tank and aircraft assembly, domestic appliances, oil refining

Exports:

\$3.95 billion (2009 est.); \$5.194 billion (2008 est.)

Imports:

\$8.82 billion (2009 est.); \$12.29 billion (2008 est.)

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Sarajevo overview

- Sarajevo is economically one of the strongest regions of Bosnia and Herzegovina. Like many other major cities, its economy is largely based on industries such as manufacturing and tourism. As the centre of various levels of area politics, many Sarajevo citizens also work in government. A number of local and international companies are present in the city and contribute to its economic health.
- Sarajevo's economy reached its peak in the 1980s, thanks in large part to the culmination of several decades of industrial development and a tourist boom following the Olympics, as well as increased international investment. In 1981 Sarajevo's GDP per capita was 133% of the Yugoslavian average. After years of war, Sarajevo's economy has been subject to reconstruction and rehabilitation programs. Amongst other economic landmarks, the Central Bank of Bosnia and Herzegovina opened in Sarajevo in 1997 and the Sarajevo Stock Exchange began trading in 2002. The city's large manufacturing, administration, and tourism base, combined with a large informal market, make it one of the strongest economic regions of Bosnia and Herzegovina. While Sarajevo had a large industrial base during its communist period, only a few businesses have successfully adapted to the market economy. Sarajevo industries now include tobacco products, furniture, hosiery, automobiles, and communication equipment. Companies based in Sarajevo include B&H Airlines, BH Telecom, Bosnalijek, Energopetrol, Energoinvest, Hidrogradnja, Sarajevo Tobacco Factory, and Sarajevska Pivara (Sarajevo Brewery). Retail space estimate is 143.800 sq m with 0,472 sq m/ per capita. The average price of an apartment is 2.400 KM/sq m.

Property Market overview

- The Sarajevo property market is in its infancy. The 'Bosnian War' between March 1992 and November 1995 stagnated the economy, which has failed to regenerate as quickly as neighbouring countries such as Croatia and Serbia. This is mainly because the capital, Sarajevo, was a battle line, and also because much of the internal industry of the republic during former Yugoslavia was based on the military defence, which left few commercially viable firms after the war. As a result the country has moved only slowly from the socialist era, with only a slowly evolving class system.
- As a result of the above mentioned factors, between 1995 and 2005 the property market has experienced minimal growth, which has typically hovered around the inflation rate for the country. However over the last two years the market has experienced growth of between 30 and 50% per annum. This is driven by a historical lack of supply and growing demand, within broader, positive economic growth patterns.

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Sarajevo SC overview

Scheme	Map No.	Location	GBA	Opening	Remarks
Skenderija	1.	Town Centre	15.000 sq m	1983	1 st SC in Sarajevo
Wisa	2.	Stup	10.000 sq m	2000	1 st after-war SC in Sarajevo
Mercator SC	3.	Novo Sarajevo	15.000 sq m	2000	
Robot Centre	4.	Dolac Malta	12.500 sq m	2007	Second Generation shopping centre
BBI	5.	Town Centre	43.000 sq m	2008	Konzum
Improtanne	6.	Marijin Dvor	15.000 sq m	2010	Konzum
Alta SC	7.	Marijin Dvor	23.000 sq m	10/10	Opening was scheduled for 4/10
Al-Shiddy	8.	Marijin Dvor	14.000 sq m	2012	Part of 105.000 sq m GBA scheme
Airport SC	9.	Stup - Airport	45.000 sq m	2012	
Hecoprom	10.	Stup	25.000 sq m	TBC	Works stopped due to the crisis
Grand Centre	11.	Ilidža	13.000 sq m	2008	Mercator

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Retail market

- In terms of total stock today there is cca 95.000 sq m GLA across the city. There is a per capita provision of 0.29 sq m/capita which contrasts with Zagreb at 1.35 sq m/capita. This indicates that the market is in its infancy. Moreover only 10% of the total stock is within a traditional 'retail centre' which contrasts with an EU average for 75%. Again, this reflects the immaturity of the market reflecting the economic profile of the country.

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Existing stock

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New developments

- The market is moving quickly and there are currently 4 speculative retail/mixed use city centre developments under construction or at acquisition/planning stage. This is scheduled to provide approximately 57.000 sq m GLA of retail space within the next three years. These developments will only provide three genuine retail centres of a significant GBA size (Alta 23.000 sq m, Al Shiddy at 14.000 sq m, Airport Shopping Centre at 45.000 sq m and Hecoprom at 25.000 sq m). However if these developments are competed then this would provide a **total** retail provision of 0.47 sq m per capita by 2011, compared to Zagreb which is scheduled to have a 1.73 sq m per capita by 2011.
- In terms of an analysis based purely on 'retail centres' by 2011 Sarajevo will have a 'retail centre' provision of 0.36 sq m per capita, as opposed to Zagreb which will have a provision of 0.71 sq m per capita, indicating that the market may experience over supply in the next three years. This is based on the premise that if the Sarajevo economy/market is 8 years behind the Zagreb market (see above) then it should take 8 years for Sarajevo's current per capita 'retail centre' provision to reach Zagreb's current per capita provision of 0.32. Moreover by 2011, Belgrade's retail centre provision will only equate to 0.24 sq m per capita which again suggests that the Sarajevo 'retail centre' market will move at a quicker pace than Zagreb's and Belgrade's. However it is widely acknowledged that the Zagreb and Belgrade markets are under supplied (hence Zagreb's retail centre stock will double in three years, and Belgrade's will be 4.75 times

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higher) and that new schemes are letting well, so therefore the Zagreb and Belgrade markets may be a conservative benchmarks but retail developers in Sarajevo should be cautious with the site selection and tenant profile.

- In terms of developers these are mainly derived from neighbouring countries of former Yugoslavia, or developers who have had experience in those markets. For instance Importantne, is being developed by a Slovenian developer, with Trigranit, a Hungarian developer, who has been active in Croatia and Serbia, also entering the market albeit at acquisition stage, Alta Centre being developed by Triland Development, Airport Centre developed by IPD Innovation Park Developmentt and KARIMPOL from Wiena and AI Shiddy Centre being developed by Shiddy International Group from Saudi Arabia. Mercator, the Slovenian supermarket also has three outlets in the city. The market is therefore reaching a critical stage where foreign investments are becoming more evident, which is in turn likely to generate further foreign investment.

Development pipeline

Scheme	Map No.	Location	GBA	Opening	Remarks
Alta SC	1.	Marijin Dvor	23.000 sq m	10/10	Opening was scheduled for 4/10
AI-Shiddy	2.	Marijin Dvor	14.000 sq m	2012	Part of 105.000 sq m GBA scheme
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Hecoprom	4.	Stup	25.000 sq m	TBC	Works stopped due to the crisis

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Demand / New entries

- In terms of tangible demand for retail space the tenant profile of the city is also underdeveloped. Current retailers in the market are almost entirely domestic with minimal international exposure. Current international brands are Benetton, Replay, Gant, Lacoste, US Polo, Cacharel, Skinny, Navigare, Glenfield, Urban Republic, Miss Selfridge, Dorothy Perkins, Magma Home, Sweat Years, Tommy Hilfiger, Tom Tailor, Gas, Bata, and Dr Martens, although these are likely to be in a franchise basis. Although the spending power of the country is low (the average net wage is €345/capita which is 54% of the Croatian net wage) there is significant demand from retailers in the country and the BBI Centre, which extends to 12.644 sq m GLA, which achieved 100% pre-let with over a year prior to completion. Indeed the BBI marketing team indicated that the demand: supply ratio showed significant surplus demand. Alta Centre announced the

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entry of a few international retailers such as Zara, McDonalds and H & M but there is no official confirmation on this since the opening of Alta Centre is postponed until Q4 2010.

Summary

- Two major factors will influence Sarajevo retail schemes development and major retailer's entry in 2010. Aside of effects of world economic crisis which directly influence consumer demand and spending power, political situation is key factor that will determine further retail market development in 2010 / 2011 in terms of international presence. Predominant opinion is that after October 2010 General Elections new investment wave would start especially in energy, production and retail sectors.
- Since retail market is still highly undeveloped, along with 107.000 sq m GBA of new retail space planned to be developed in next three years, structural changes in retail market are to be expected in next period.
- In 2010 Alta Center will open (Alta advertised opening of 02 April has been shifted to October 2010).
- Airport Shopping Centre and Al-Shidy Centre will, in 2012, provide a further 69,000 m² GLA and it is our assessment that this will provide reasonable shopping centre coverage in Sarajevo especially having in mind low spending power
- Also in next few years development of first retail parks is to be expected. This fact along with expected significant increase in retail warehouse development would give Sarajevo proper retail market coverage.

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