

COVID-19 UPDATE IMPACT ON SERBIAN PROPERTY MARKET

May 2020

Due to coronavirus pandemic, over the past few months, governments, companies and people worldwide have taken extraordinary actions which include restricted business activities, travel restrictions and social distancing. However, as of May 2020, several European countries announced relaxation of the measures adopted by governments to reduce transmission of COVID-19, while the most affected countries in the Eurozone extended the restrictions.

Even though the curve has recently been flattening, it is yet too early to estimate precisely forthcoming effects as the pandemic of COVID-19 will certainly have an impact on the global economy. It appears that we will witness consecutive declines in global and regional GDP in the current and next quarter of 2020. After forecasted GDP growth of 1.1% in January 2020, the Eurozone economy contracted by 3.8% in the first quarter of 2020, according to preliminary estimates from Eurostat.

The real estate market is clearly exposed to the current situation, still property types which depend on social contact and human interaction, such as hospitality and retail segment, are more exposed, while the other property types such as office, industrial and residential are more resilient but not immune.

Belgrade Office market

The year 2020 started off with great momentum continuing from 2016-onwards, with high occupancy demand, low vacancy levels, strong development activity and overall solid market fundamentals. By the end of Q1 2020, the impact of the global slowdown on the back of COVID-19 pandemic became also visible in Belgrade office market and the market activity narrowed, causing the drop in the overall demand. As a consequence of the current situation, leasing activity slowed down as of beginning of March, which caused a decrease in the total take up for cca 45% as compared to Q1 2019. The demand has been characterized by the intensive pre-leasing activity, i.e. share of pre-leases is 54%, while the total take-up in Q1 2020 amounted to app. 15,000 sq m.

Along with the potential structural and organizational changes of the office space, demand for flexible workplace will be on rise. Lower employee density and remote-working options could affect demand for the office space in the future. The vacancy rate in Belgrade remained low, standing at the 3.5% at the end of Q1 2020. More specific, the vacancy rate for Class A office space in New Belgrade stands at the level of 2.9%. Due to expected deliveries in the second half of the year, the vacancy rate could see a slight increase, but will remain one-digit number, since the demand is already picking up as lockdowns are lifted and the current situation is becoming more relaxing.

Most landlords are trying to identify tailor-made solutions for tenants based on the numerous factors, which are favourable for both landlords and tenants. At the moment, there is no significant impact on the headline rents, having in mind that the investors are applying different pricing strategy (i.e. rent-free period to be used earlier than stipulated in lease agreements, a waiver of certain obligations and/or tenant incentives, etc).

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Retail market

As a result of lockdown measures, retailers turned to flexible omni-channel retail models, in order to recompense the revenue from their physical stores and to ensure that the commerce keeps going. Restaurants were offering meals for delivery instead due to a closure, producers were forced to offer their products through the online food markets, while gym retailers offered online workout sessions. In the long term, consumers' online purchasing habits could evolve significantly.

When it comes to the high-street, it was also affected. Since the main pedestrian zones depend significantly on the high footfall and attract mostly tourists, these zones could be affected until the traveling restrictions are more relaxed. When it comes to the rental levels, the pressure on rents is expected. The previous period was marked by a difficult and complex negotiations between tenants and landlords regarding rental payments.

There were no interruptions in construction activity on the retail market, yet previous ongoing projects are slightly postponed. Belgrade retail market supply will be boosted by more than 150,000 sq m of new retail space by the end of 2020, as the openings of three retail formats are expected in late 2020. Although retail is affected the most, it is expected to be the first segment which will lead the recovery of the market.

Industrial market

Past few years were marked by the influx of international investors who recognized the numerous opportunities that Belgrade and Serbia can offer, while the already present investors showed their interest in long-term investments.

Limited market conditions in which the retailers operate at the moment have resulted in the somewhat lower demand for warehouse space, although this is the sector to be the most resilient to the current situation. During the previous period, construction activity continued on both commercial and infrastructural projects in Serbia as the construction sites remained operational despite the current situation, however some scheduled completions could be delayed or postponed. A certain number of investors are currently developing and expanding their production and warehouse facilities, while considering the government's incentives in industrial and logistics sector, cooperation between universities and investors in continuous education of the workforce, as well as increasing investments in infrastructure, opportunities for further growth and development are encouraging.

Although industrial and logistics market in Serbia is clearly exposed to the effects of the global pandemic crisis, market fundamentals were very strong prior to the COVID-19 crisis. Moreover, the pandemic is underlining the importance of supply chains and logistics, and the sector is prepared to rapidly respond to the post pandemic recovery.

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Residential market

Although Belgrade residential market was booming in the previous period, we expect some impact to the market in the near-term, having in mind that some buyers may choose to delay purchase decisions. During April 2020, CBS International has conducted a comprehensive research of Belgrade residential market, which included the analysis of 296 residential projects in various construction phases in all central Belgrade municipalities. In addition, secondary market was analyzed.

As per our research of the market, at the moment there are no significant changes in the sales prices for newly-built units. Namely, large-scale investors are keeping the same sales prices which were established prior to the commencement of this situation, offering a regular discount of 2-5% only. A slight price decline is visible in case of smaller, financially more vulnerable local investors (usually without project financing), who develop the projects of up to 50 units and are forced to speed up the sales process by offering lower prices. When it comes to the secondary market, the downward trend in the prices is visible in less than 5% of offered apartments.

Although the prices were not impacted significantly, the volume of transactions compressed. As per official data, more than 4,000 residential units were sold in Belgrade in the first three months of 2020, which represents a decrease of 15% in comparison to the same period in 2019. More significant drop is evident in the period March 15th-April 15th this year against the same period in the previous year, when the decline of nearly 60% in the number of sold apartments was marked, which is mainly a consequence of coronavirus lockdown in Belgrade. Buyer sentiment is expected to be more cautious, especially for housing-loan dependent buyers, until the situation improves, which can be expected as of mid-2020.

There were no measures limiting construction works in Serbia and most construction sites remained active, with preventative measures being taken. Due to the permitting processes slowdown and other obstacles, some scheduled completions could witness a slight delay.

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