

RESEARCH REPORT

Skopje Property Market

CBRE | Macedonia

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Q4 2014

HOT TOPICS

- Energy-efficiency requirements starting from 2015 stimulated demand for office space that required minimal refitting
- The asking prices of high-quality office space remain stable with strong preference for office properties that include parking facilities

Macedonia essentials

Area (square kilometers)	25,713
Population, 2013 estimate	2,065,769
Average Monthly Net Salary (EUR) August 2014	353
Average monthly household expenditure (EUR), 2013	423
Unemployment rate Q3 2014	27.9%
GDP change Q3 2014 (Y-o-Y)	4.1%
CPI change January-December 2014 (Y-o-Y)	-0.3%

Skopje essentials

Area (square kilometers)	87.90
Population, 2013 estimate	612,514
Average Monthly Net Salary (EUR) 2013	401

Source: State Statistical Office, National Bank of the Republic of Macedonia, City of Skopje

ECONOMIC OVERVIEW

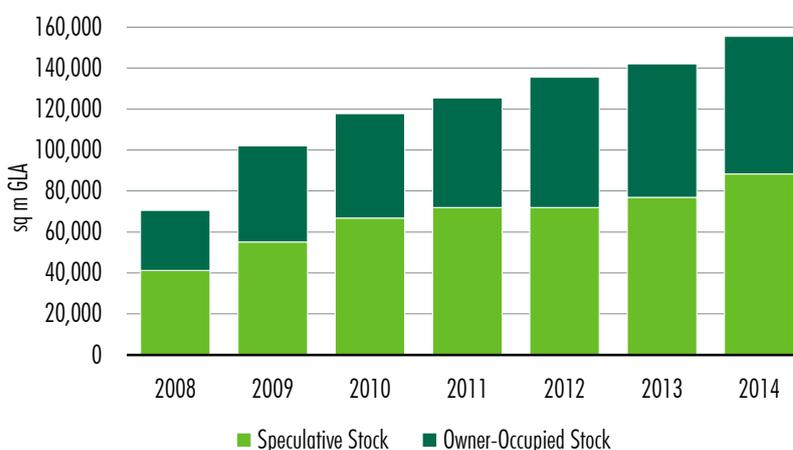
With another strong quarter, the Macedonian economy in Q3 2014 grew by 4.1%, which is more than the long term average. The industrial production in the period from January until November increased by 5.2% in comparison with the same period in 2013 with prices having decreased by 0.3% as shown by the Consumer Price Index. The unemployment figures have currently reached the threshold of 27.9% from the population between the age of 15 to 64 being unemployed in Q3 2014, while the average net salary in the period from January until November only marginally increased by 0.7%.

During the first three quarters of 2014, EUR 200.60 million Foreign Direct Investments have been attracted in Macedonia whereby large multinational companies with plans for investments in and outside the technological-industrial-research zones represent the large majority. With an expected GDP growth for 2015 of 3.6% (source: IMF), the country remains focused towards attracting foreign direct investments that will help its growth. The inflation is expected to reach the level of 1% (source: NBRM) for 2015 as increases in both consumption and public-sector investments are expected.

SKOPJE OFFICE MARKET

During Q4 2014, an estimated 2,976 sq m of new office space was completed, thus bringing the total office stock to approximately 155,000 sq m of GLA of Class A and B office units in Skopje. The vacancy rates floated around 18% from the total stock currently being empty. The office market in the city centre continued to be of major interest as the majority of the office buildings are located in the city centre as well as Skopje downtown with app. 2,586 sq m of office space per 1,000 inhabitants in the Centar municipality.

With an estimated GLA of 67,000 sq m of class A and B buildings being also owner-occupied, the office market remains constrained. At the same time this has increased the interest amongst residential owners for conversion of residential into office space. However, with limited parking and infrastructure facilities available in the near vicinity, any effects of such conversions would be limited.



Source: CBS International, part of the CBRE Affiliate Network

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At the same time, the new energy-label certification requirements are expected to create additional demand for high-quality office space with a higher energy certificate. While a higher energy certificate rating would indicate lower energy costs, the total costs of renting office units that carry the certificate in the long-run are expected to increase as these buildings would typically carry the premium. Usually the energy certificate would initially be obtained when remodeling and/or refitting the office buildings.

During Q4, the demand for office space has been largely driven by ICT companies with greater focus on research and development (R&D) rather than sales and marketing. They typically request flexible office space – space that can be easily transformed to meet their changing needs. Typically these include multiple offices, one or more conference rooms as well as a collaborative open space that fosters team interaction.

RENTAL LEVELS

As per the rental movement trends, asking rents have changed little compared to Q3 2014. Skopje’s office market is still positioned at the point where the rental rates vary considerably over particular submarkets. Prime asking rents for Class A office space in Skopje ranged between EUR 9 and EUR 16 per square meter per month. Asking rents for Class B office space varied in the range between EUR 8 and EUR 14 per square meter per month.

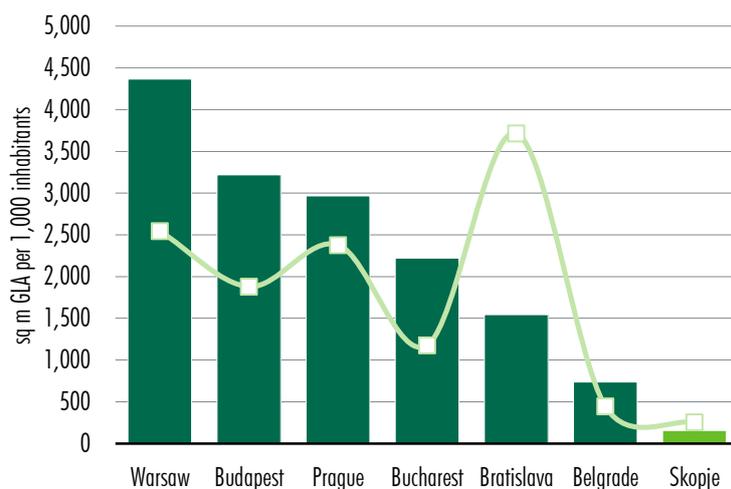
SKOPJE RETAIL MARKET

During Q4, the modern shopping mall stock remained at the level of approximately 86,000 sq m with vacancy rates in modern shopping malls having continued to decrease to a new threshold of 3%. The major drivers behind the continued push of the vacancy rates were the expansion plans of several national and international chains that expanded their retail offerings in the modern shopping malls. While the average modern shopping mall is only 4 years old, with 140 square meters of modern retail space per 1,000 inhabitants, the retail market in Skopje has significant room for growth.

At the same time, high-street retail locations continue to be dominated by the HORECA sector with up to 30% of the total high-street locations being occupied by restaurants, cafes and other food and drinks related chains.

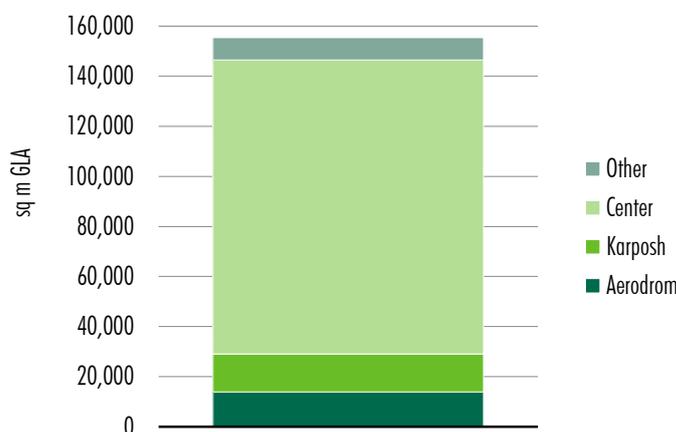
The stock of small-size modern shopping malls remained at the level of approximately 13,000 sq m. The vacancy rate of old-style shopping malls as well as small-size modern shopping malls continued to rise thus pushing up the average vacancy rate to the level of 8.7%. There are some plans for conversion of retail space into office-style space, however the effects of these conversions are still to be seen.

OFFICE STOCK (IN THOUSANDS SQ M GLA)



Source: CBS International, part of the CBRE Affiliate Network

CLASS A AND B OFFICE BUILDINGS



Source: CBS International, part of the CBRE Affiliate Network

PROPERTY CONVERSION

With an increasingly aging base of office buildings and modest vacancy rates for office buildings, Skopje’s office market is in need for new commercial high-grade office buildings. On the other hand, with the recent growth in construction of residential apartments and the large vacancy rates amongst them, many owners are increasingly interested into converting and redeveloping the property into an office and/or retail space.

According to internal standards and local regulations, only a fraction of the total base can be considered to be Class A or B office units. While small-size converted office space as well as residential apartments are successfully trading as office units, due to structural and location limitations, they cannot be considered as high-quality office buildings.

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As per the ongoing construction of the announced shopping mall in Petrovec municipality initially planned to hold approximately 10,000 sq m, the building has been converted into a hospital with accommodation facilities. The new expected completion date for delivering part of the building is Q3 2015.

At the same time, during Q4, a new trend and format of supermarket retailing has been started by one national supermarket chain. This included the introduction of a smaller size supermarket that is located in high footfall areas, carrying A-brand products and offering prices at levels of larger supermarkets while occupying smaller square meters of retail space. On the other hand, other supermarket chains have continued their expansion in big-box style locations located outside major traffic roads where an increased focus is placed on in-house and B-brand products.

The future expansion of both retail concepts will however remain submarket specific as high footfall areas remain interesting for small-size retailing while upcoming submarkets outside the city center offer greater expansion opportunities with ample parking facilities.

RENTAL LEVELS

Prime asking rents for high-street retail units in the city centre varied in the range between EUR 9 and EUR 40 per square meter per month, depending on the location and the type of the retail unit. The asking rents for units in shopping centres varied between EUR 12 and EUR 40 per square meter per month depending on the type and format of the shopping centre.

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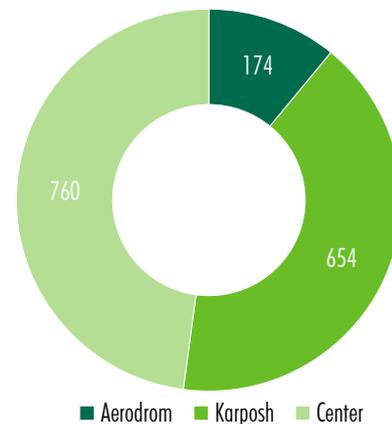
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SQ M OF MODERN SHOPPING MALL PER 1,000 INHABITANTS



Source: CBS International, part of the CBRE Affiliate Network

ASKING RENTS FOR HIGH-STREET RETAIL UNITS

Location	Size	Asking price (EUR/sq m)
Centar		Up to 40
Aerodrom	< 150 sq m	9-16
Karposh		9-27

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