

Ljubljana City Report



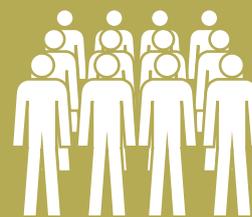
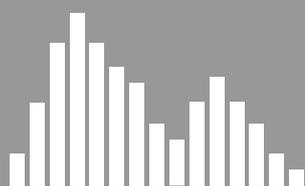
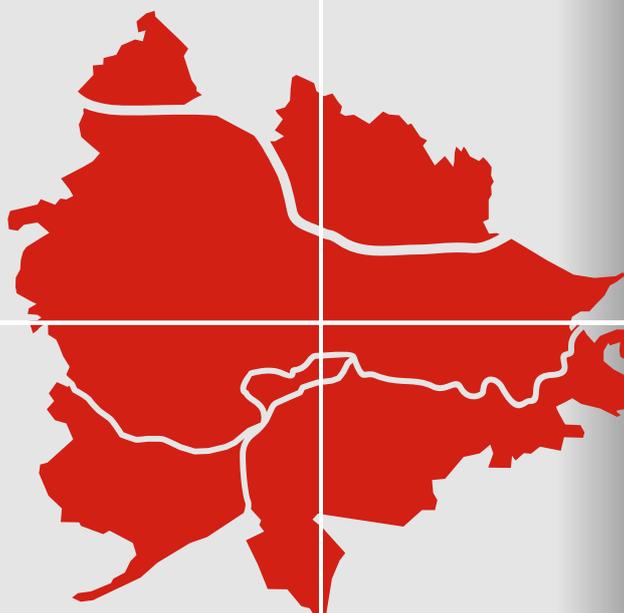
H2 2014

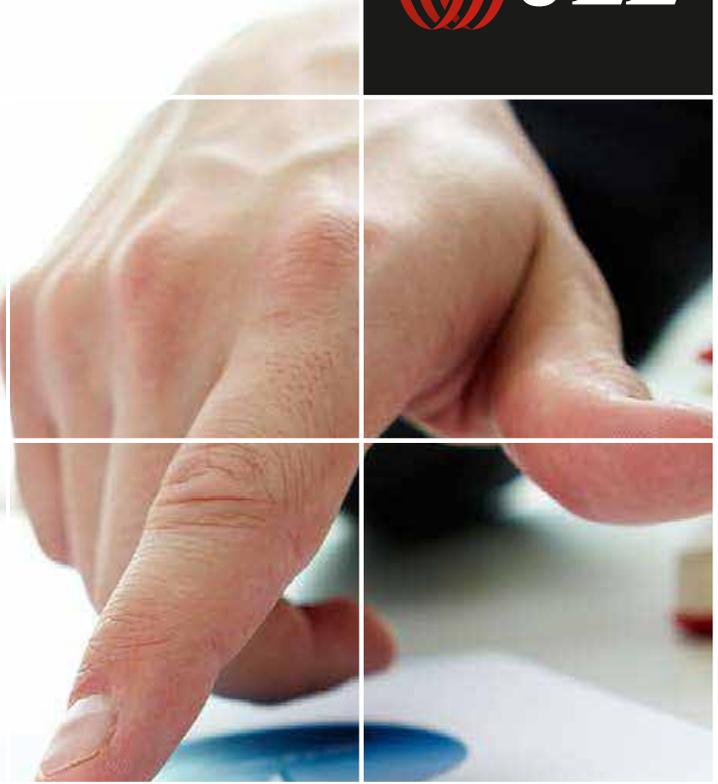


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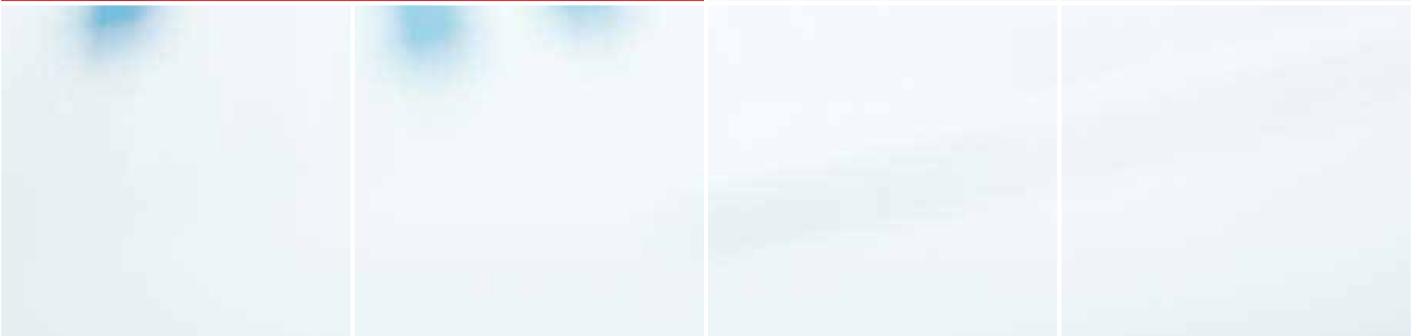


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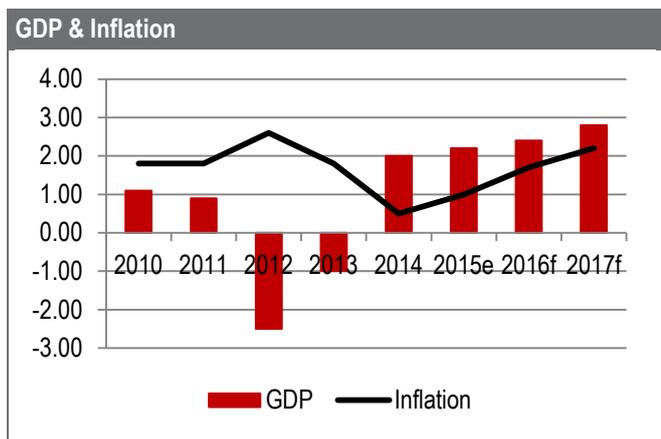
Economy/Investment



Economy/Investment

Economy

According to the statistical office of the Republic of Slovenia, during the third quarter of 2014, GDP increased by 3.2% when compared to the corresponding period of 2013. The main source of economic growth remained to be export; however there are concerns that uncertain euro zone demand could disrupt the country's recovery. Furthermore, investment and manufacturing have benefited from stronger export demand particularly from the Eurozone, and bank recapitalization, launched in December 2013, has helped in economic stabilization.

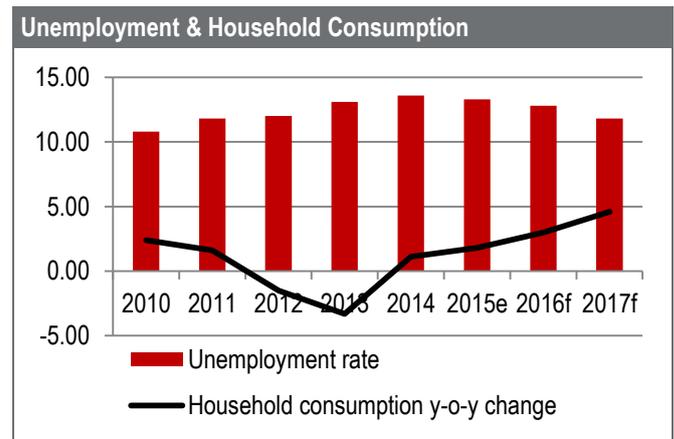


Source: Oxford Economics, January 2015

Industrial output has picked up gradually and construction has improved as well. EU funding support, alongside greater confidence across the Eurozone, had boosted broader private sector investment by enabling a variety of projects to commence. Labour market and public services reforms are essential for boosting long term growth and improving the business environment. Based on the strong exports and firmer domestic activity, Oxford Economics suggests that GDP is set to rise by 2.4% in 2016 and then 3.3% by 2018.

According to the national statistical office, the greatest price increases during 2014 were noted in the sector of miscellaneous goods and services (5.8%), followed by recreation and culture (4.2%), and alcoholic beverage and tobacco (4.0%). However, a decline in prices were noted in sector of communication (-2.5%), transport (-2.2%), housing, water, electricity, gas and furnishing, household equipment and maintenance (-1.3% both) and non-alcoholic beverages (-1.2%).

During the third quarter, average monthly net earnings in Slovenia were €639, presenting a 0.6% increase in real terms when compared to the previous quarter. Average monthly net earnings for the same period in Ljubljana were €1,108.



Source: Oxford Economics, January 2015

In November 2014, the registered unemployment rate decreased slightly and stood at 12.5%. When compared to the corresponding period of the previous year, this presents a drop of 50bps.

Political Situation

The newly formed SMC party won the parliamentary elections in July 2014, capturing 35% of the vote. Miro Cerar, the party leader has been nominated as Prime Minister which was ratified in August 2014. Besides continued privatization, lowering government debt and improving links between politics and business, the government will be focused on balancing public finances without hampering growth, protection and development of the public sector and restoring people's trust in state institutions.

Downside risks are still high, and despite successful elections, confidence remains fragile and well below pre-crisis levels. Reforms to reduce relatively high labour costs and labour market inflexibility, as well as reforms in public services are essential to boost longer term growth prospects and relieve fiscal pressures. The government has promised progress towards reforms, however the coalition has a slim majority so is likely to face strong opposition.

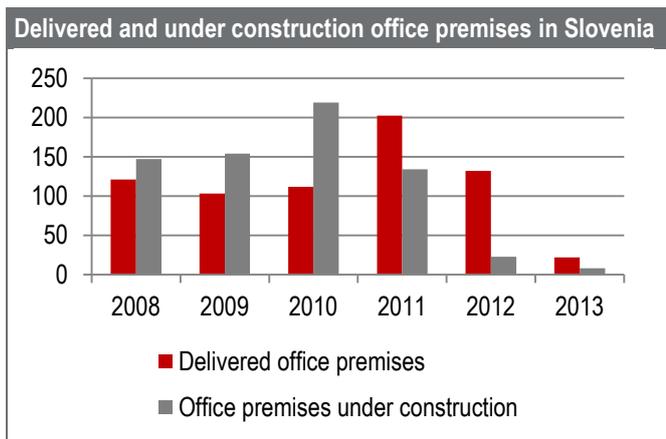


Office Market

Office Market

Supply

Over the past 24 months, Ljubljana’s office market has witnessed limited activity in terms of new developments. Since 2011, the level of delivered and office schemes under construction have been decreasing, with the majority of them being located in Ljubljana, as the major leasing market, as well as economic, business and administrative centre. In 2014, the market witnessed the completion of smaller scale schemes, namely Eco Silver House and several smaller office developments located around the city centre area. Eco Silver House is a mixed use complex located in Dunajska Street, including residential and commercial areas. Furthermore, there are a small number of older office schemes which are currently being renovated.



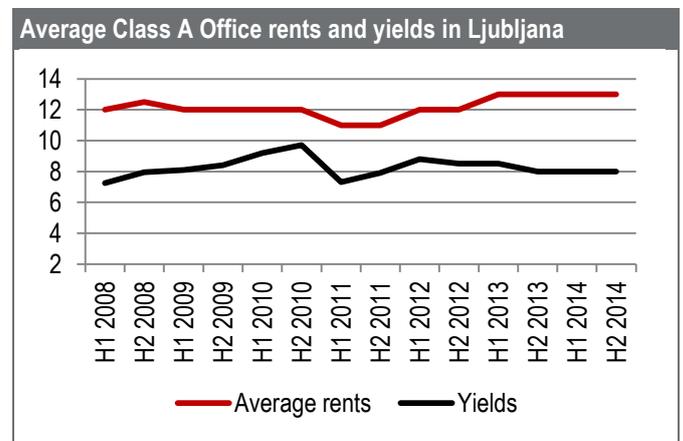
Source: Statistical Office of the Republic of Slovenia, January 2015

The majority of proposed office developments are concentrated in the city centre area and many of them are on hold due to unfavorable market conditions. One of the main schemes currently on hold is the Tobačno City project which will include approximately 67,000 m² of business premises, with plans to develop additional residential areas. Dunajski Kristali is in its last stage of construction with completion expected to be finalized within the upcoming months. Other significant projects in the pipeline are Emonika, Gemini and Litostroj which will offer large mixed use areas.

Demand

The challenging economy remained to have an impact on office space demand in Ljubljana. More offices are available and the vacancy rate is facing an uptrend, depending on the quality of the property, its location access and additional amenities. Yet there are still older office buildings from the 1970s and 1980s being occupied due to lower costs.

Market activity is dominated by both international and local companies seeking expansion and relocation to more modern premises with increasingly favourable commercial conditions. Occupiers’ interest remained focused on smaller office floor plates of up to 200 m². The highest occupancy rates were noted within prime office buildings and demand for such properties remains constant. Lower quality office buildings are facing growing vacancy rates as their occupiers moving toward modern office buildings.



Source: KF Finance, JLL January 2015

Rents

Rents for A Class office premises range from €12-14 m² / month. A slight declining trend was noted in secondary locations, pushing the rental levels down to €9-10 m² / month, caused mainly by tenant relocations. We expect that office rents for modern premises will remain stable over the coming years, whilst outdated property rents will face further decreases.

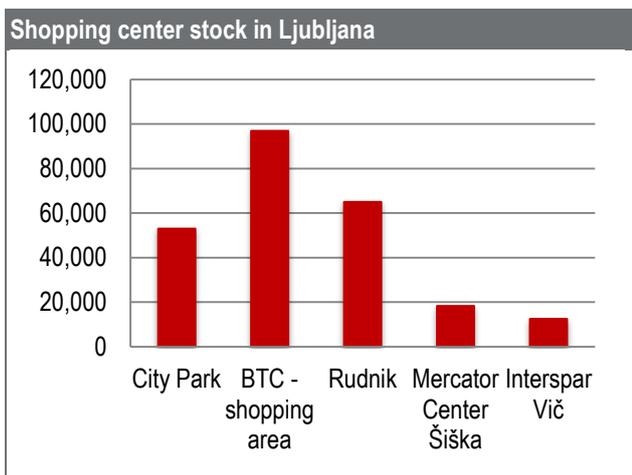


Retail Market

Retail Market

Supply

Over the past 12 months, the retail market in Ljubljana witnessed no large scale retail completions. The shopping center stock remained at the same level, with city-wide supply reflecting a relatively high level of 880 m² of shopping center stock per one thousand inhabitants. The most visited shopping area remained to be BTC City, including City Park shopping center, followed by the Rudnik area and Mercator center. BTC city was previously converted from industrial facilities and today includes shopping, office, leisure and warehousing areas.



Source: JLL, 2015

In 2014, market activity relied predominately on the expansion of existing retailers within smaller sized schemes. During the last quarter, German discount supermarket chain – Lidl, opened a new store of 1,200 m² in the Bežigrad municipality, increasing its network to 46 units. The beginning of 2015 was marked by the opening of the 44th Eurospin store, Italian discount supermarket, in Brezovica, with approximately 1,000m². The company plans to open an additional four stores by the end of the year.

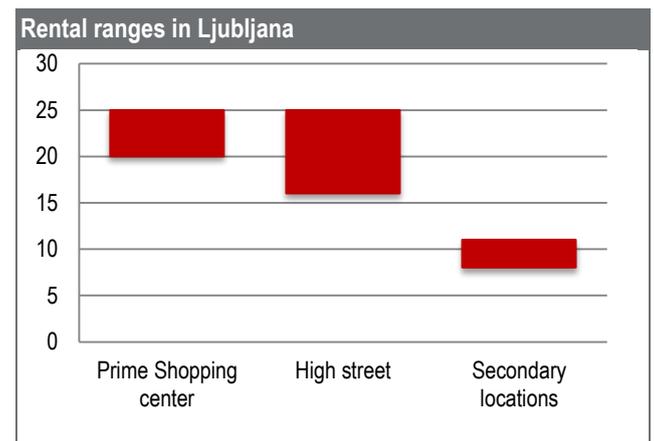
In terms of future retail development, the construction of Emonika City Center remains uncertain. This mixed use complex will offer a combination of a business tower, shopping and entertainment center, hotel and congress center and residential.

The shopping center will include 200 shops, a multiplex cinema, a casino; children’s play and other entertainment areas.

Demand

In 2014, purchasing power declined as the post-recession syndrome has caused a 2.4% annual decline on retail trade. One of the most high profile cases involved the Bled-based Sportina Group who restructured its business and involved the closure of a number of unprofitable shops. Although there has been a decrease in demand for retail space, there are still a number of international retailers looking to expand directly into Slovenia, focused mainly on prime locations and schemes. Magistrat International, a new regional franchise partner of American brand GAP, has opened its first three stores in Ljubljana within City Park shopping center and Emporium department store. Galileo has opened its first mono brand store in Supernova in Ljubljana.

Swedish furniture retailer Ikea, is in the process of completing a land plot purchase from Triglav insurance company, located in the BTC area, with the first store scheduled to open at the beginning of 2017.



Source: JLL, 2015

Rents

Rental levels for prime shopping centers range from €20 to 25 m²/month, while secondary rents are from €8 to 11 m²/month. Furthermore, rents in the prime high street areas, remained at a similar level to shopping centers ranging between €16 and 25 m²/month.



Market Practice

Market Practice

Leasing Market Practice

Lease Length

- The average lease length is 3 to 5 years (office) and 3 to 5 years (retail).
- In a few cases longer leases can be agreed. 3 year break options are increasingly common.

Payment Terms

- Rents are quoted and paid in €. Rents are payable monthly in advance. Occasionally, rents are paid quarterly in advance for logistics properties.

Rental Deposit

- It is common to agree on a cash deposit or bank guarantee equal to 3 months' rent.
- The Deposit or guarantee can be a 3 month cash deposit or bank guarantee (retail and office) or a bank guarantee, debenture bond or promissory note for logistics premises.
- Indexation is annually in line with European HICP.

Other Charges

- Other charges consist of Service and energy charges. (Utilities and direct consumption are paid separately)(Offices and industrial).
- Other charges consist of Service charges and marketing costs (retail).

Insurance

- The landlord covers costs of building insurance (recovered by service charge). The Tenant covers insurance of own premises, inventory, contents and civil liabilities.

Incentives

- Incentives may be offered by the landlord. This can typically be in the form of rent free periods, fit-out contributions or contribution towards moving costs.



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SEE Region