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## Slovenia – how does it compare to other markets?

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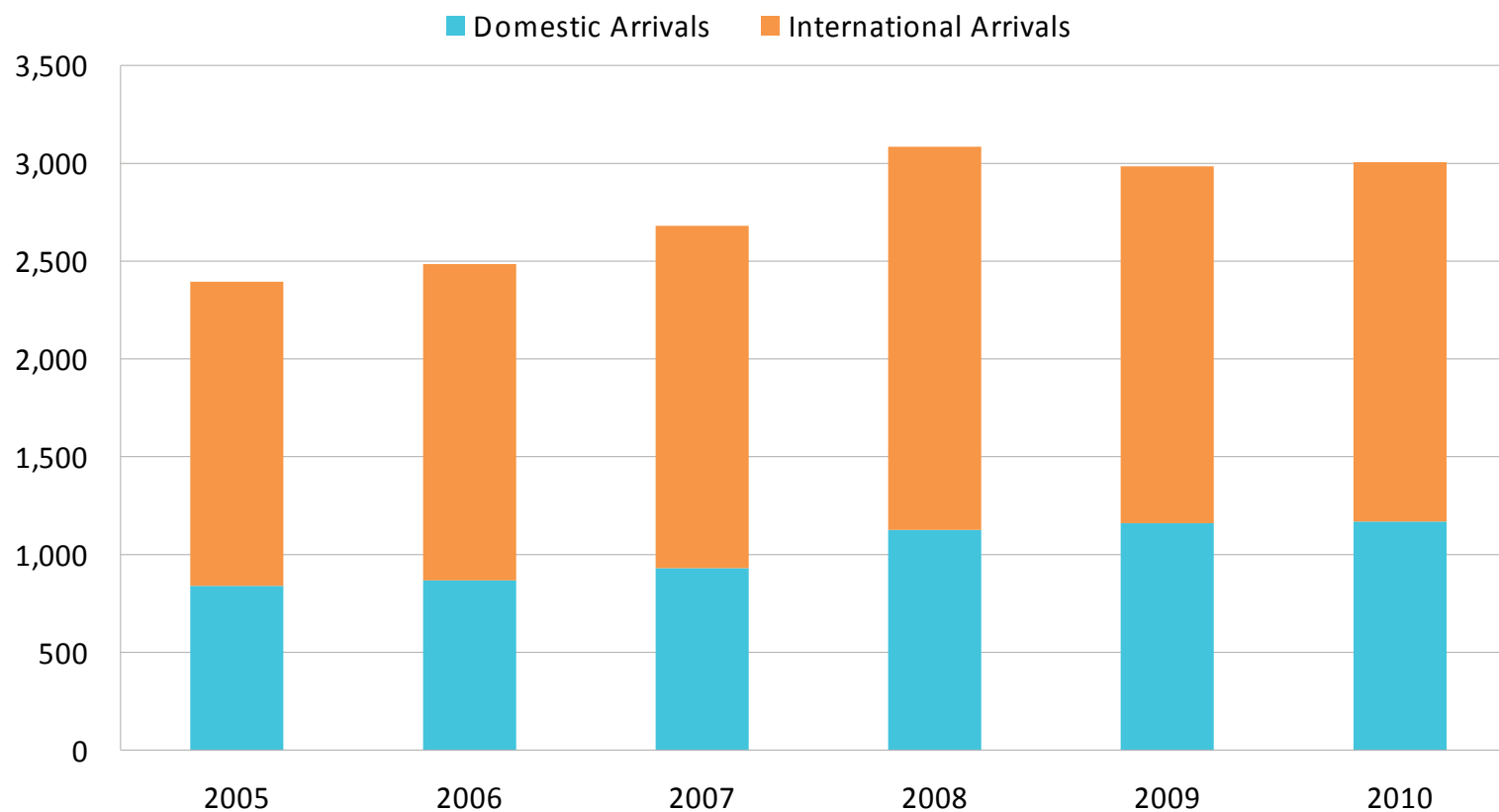


## HOSPITALITY MARKET

- What is the future for Slovenia's hotels?
- Most hotels still owner occupied
- Is there room for international operators?



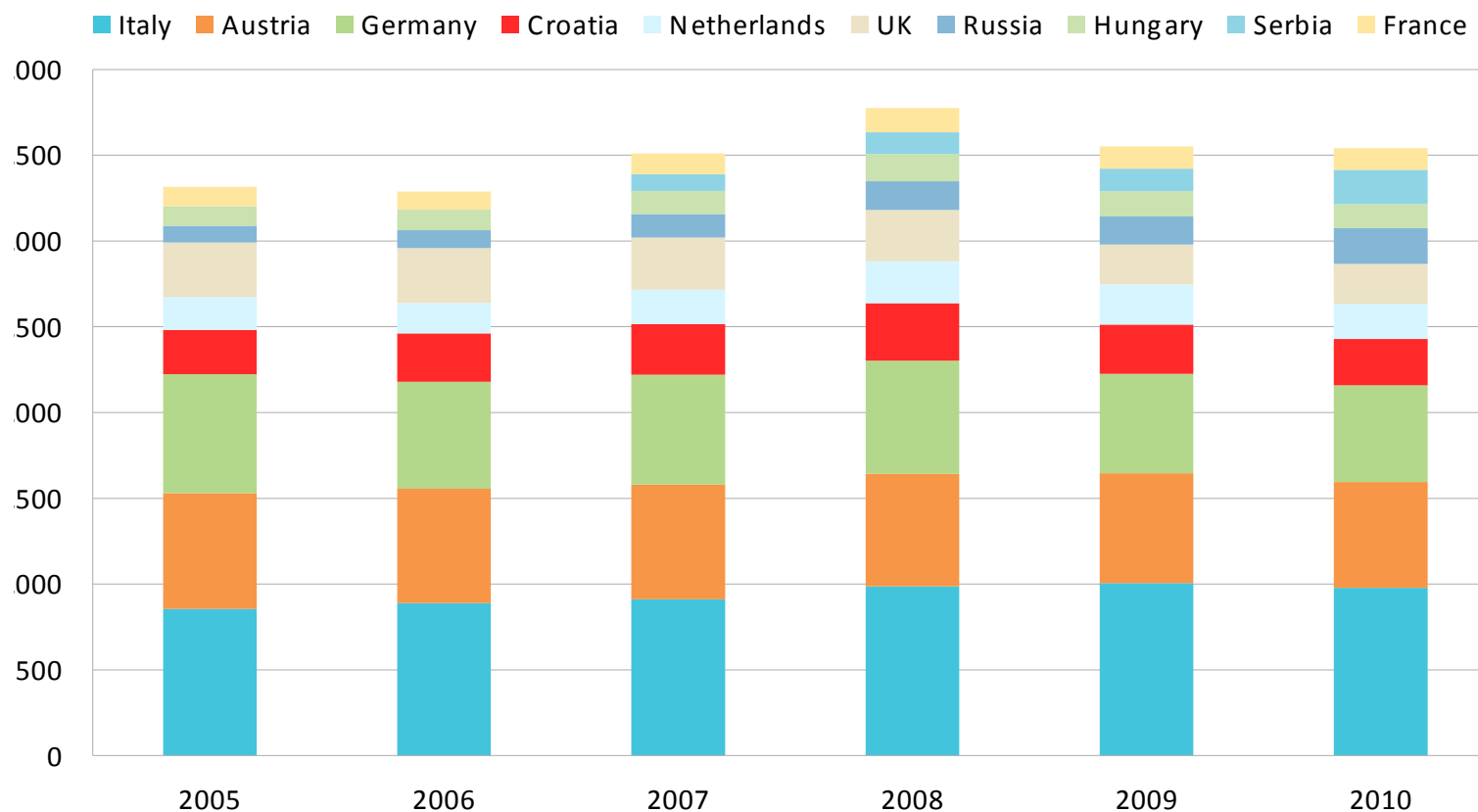
### Tourist arrivals to Slovenia 2005 – 2010 (000s)



Source: Statistical Yearbook of the Republic of Slovenia 2010



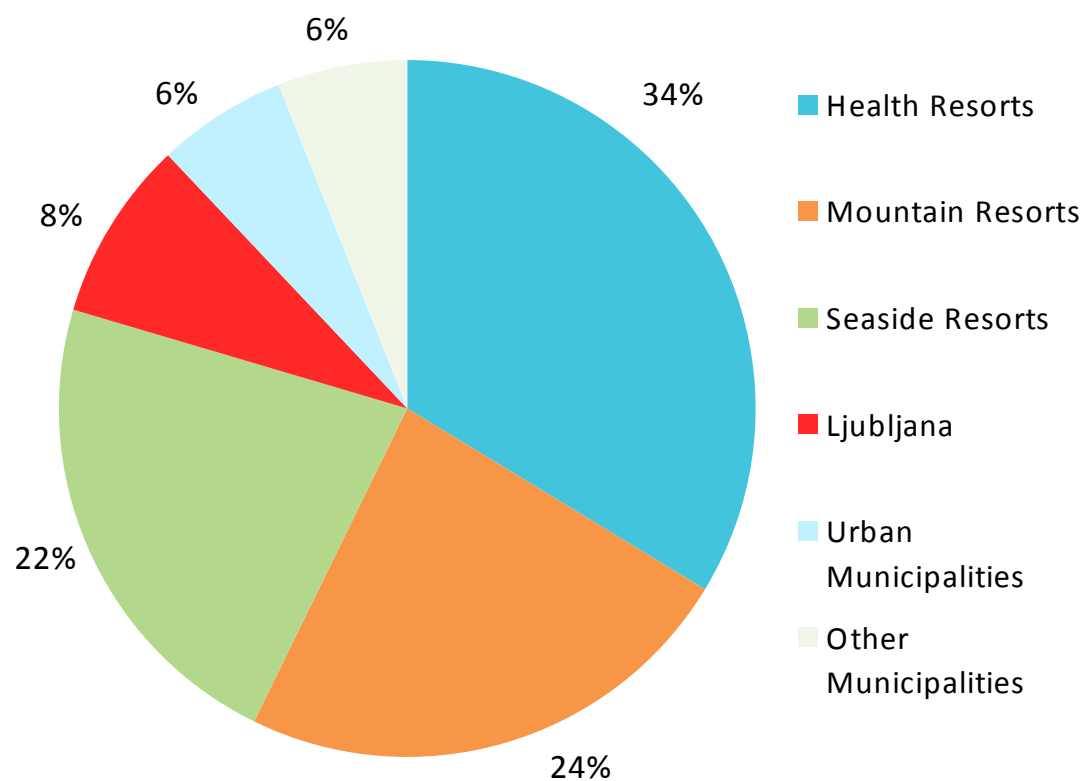
### Top 10 Source Markets (Overnight Arrivals) By Nationality, 2005 - 2010



Source: Statistical Yearbook of the Republic of Slovenia 2010



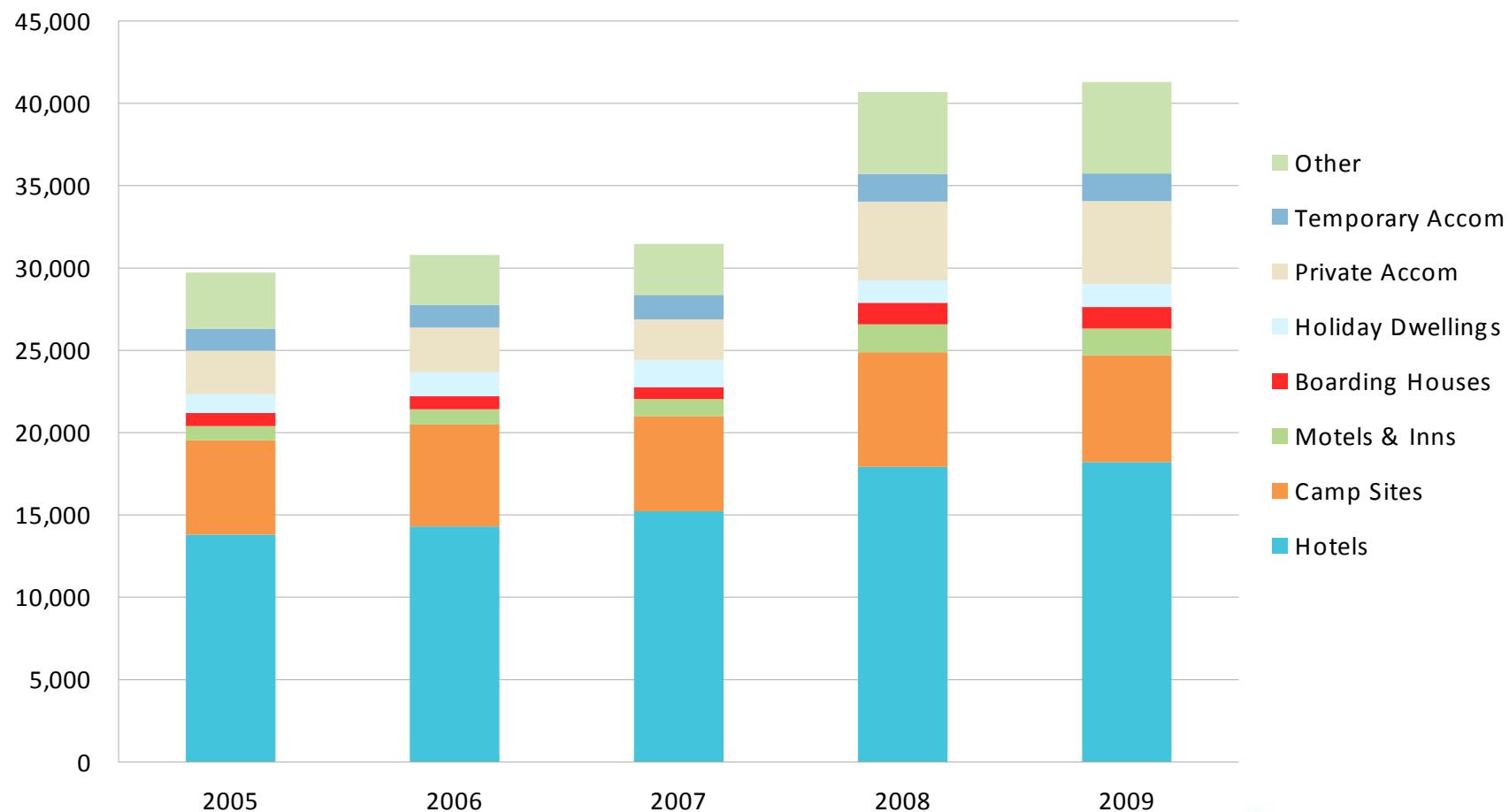
### Destination Within Slovenia (As % of Total Overnights), 2010



Source: Statistical Yearbook of the Republic of Slovenia 2010



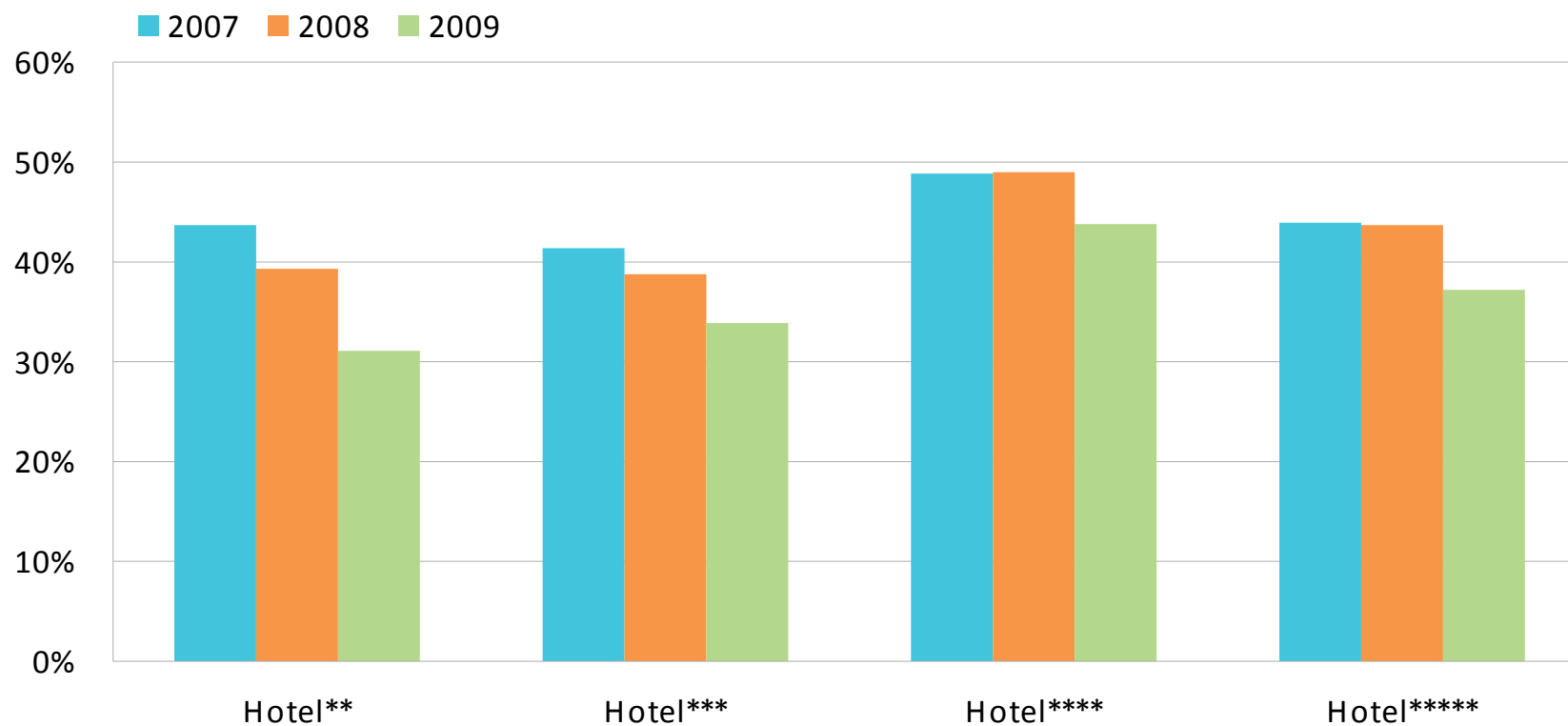
### Supply of Tourism Accommodation (Rooms)



Source: Statistical Yearbook of the Republic of Slovenia 2010



### Hotel Bed Occupancy (2007 – 2009)

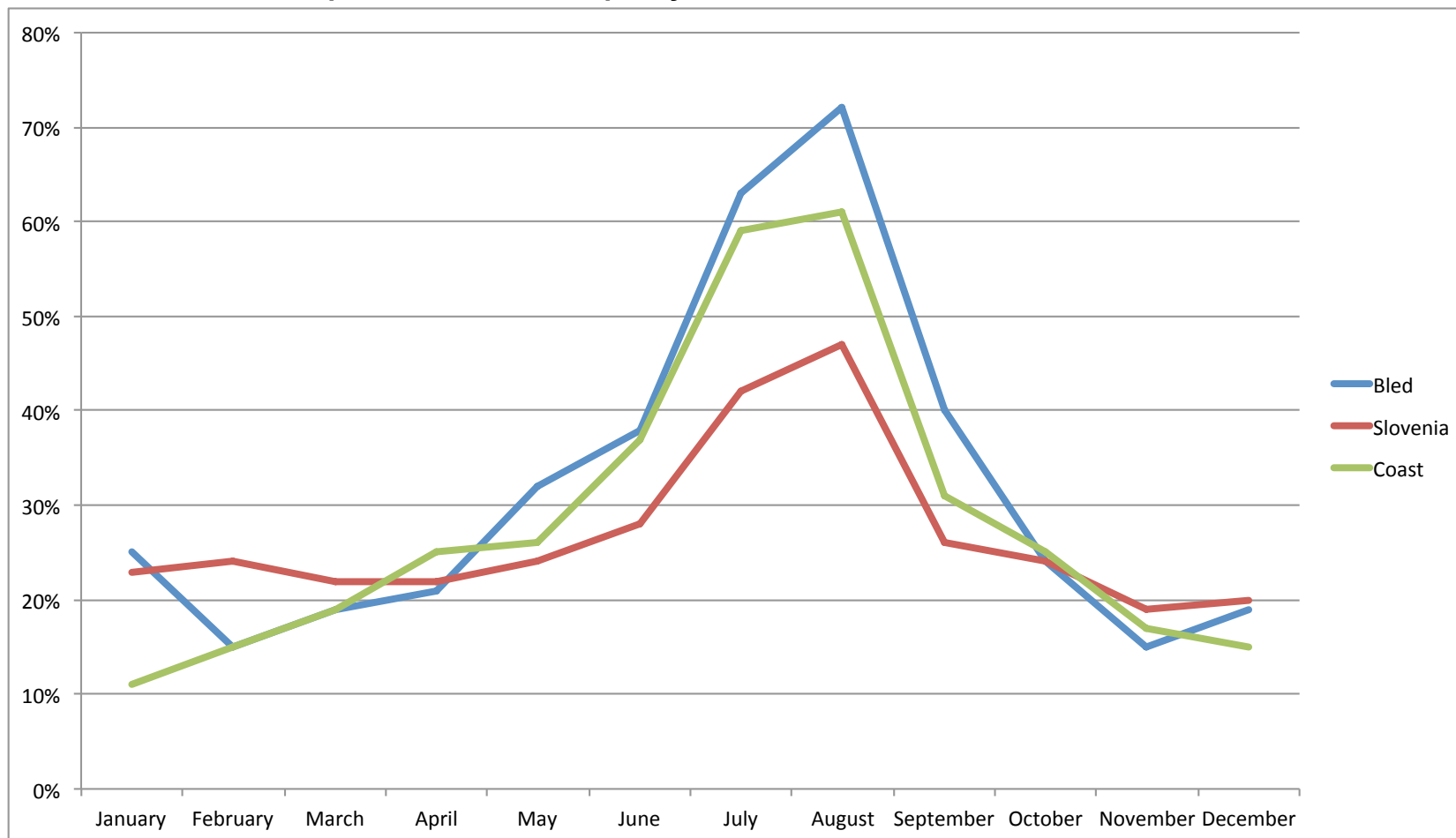


Source: Statistical Yearbook of the Republic of Slovenia 2010





Comparison of Bed Occupancy in 2010, Slovenia, Coast and Bled



Source: SURS



## HOSPITALITY MARKET

- Most hotels in Slovenia still owner operated, only two properties are managed by international operators; the Kempinski Palace Hotel in Portorož, and the Austria Trend in Ljubljana
- Percentage of rooms in branded hotels in other markets is much higher:
- USA – over 79%
- UK – circa 50%
- Dubai – over 70%
- France – circa 50%
- Italy – less than 30%



## WHY HOTEL OWNERS CHOOSE INTERNATIONAL OPERATORS

- Marketing muscle
- Internet expertise (45% of bookings now originate on the internet)
- Reservations platforms (GDS accessible by travel agents, car hire firms and airlines)
- Loyalty schemes (Hilton has 25m members)
- Generally 20% of bookings come from the reservation platform of an operator
- Training and operational manuals
- Constant monitoring of service levels
- Knowledge transfer to the local team
- Hotels are valued according to revenue and profit and professional operators can protect and enhance the underlying value of the asset
- Internationally recognized brand name is perceived as a quality promise
- Better finance terms available from banks as risk is perceived to be lower



## NOT ALL HOTELS ARE SUITABLE FOR INTERNATIONAL OPERATORS

- Hotels that are too small cannot achieve the economy of scale to make it worthwhile for an operator
- Hotels in very poor locations with low existing trade are not of interest
- Hotels in poor condition would impact badly on an operator's reputation so would not be of interest unless in an excellent location with potential to be refurbished quickly



## OFFICE MARKET

- Surplus of space in secondary locations
- Still little quality space in the centre
- Pipeline of new projects mainly in the centre
- Future of new projects uncertain
- Comparison with other CEE markets

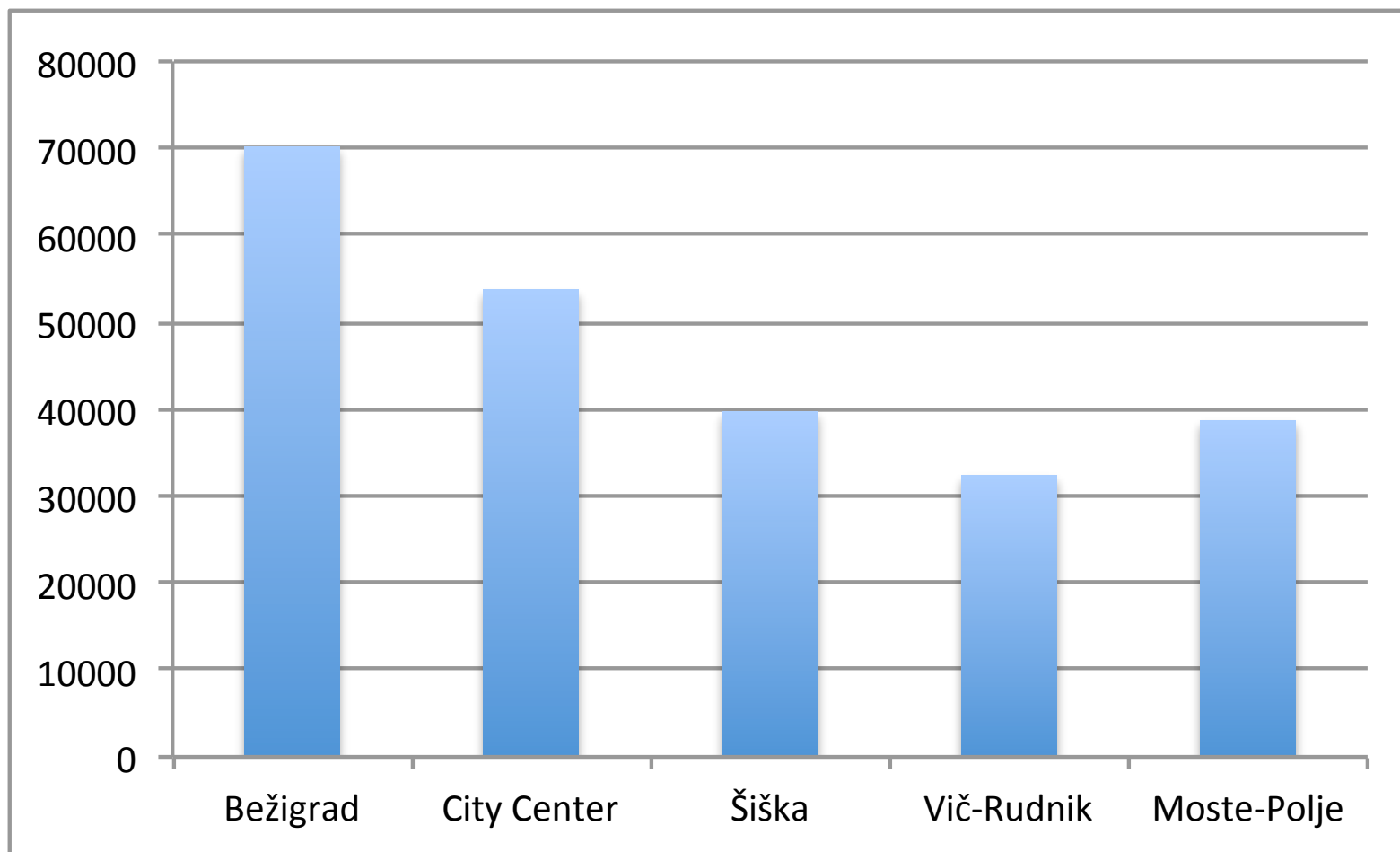


## OFFICE MARKET

- Approximately 660,000m<sup>2</sup> occupied in Ljubljana
- 235,000m<sup>2</sup> currently available in previously occupied office space
- 58,000m<sup>2</sup> available in new buildings
- 293,000m<sup>2</sup> available in total
- Total office stock is therefore 953,000m<sup>2</sup>
- 30% vacancy rate

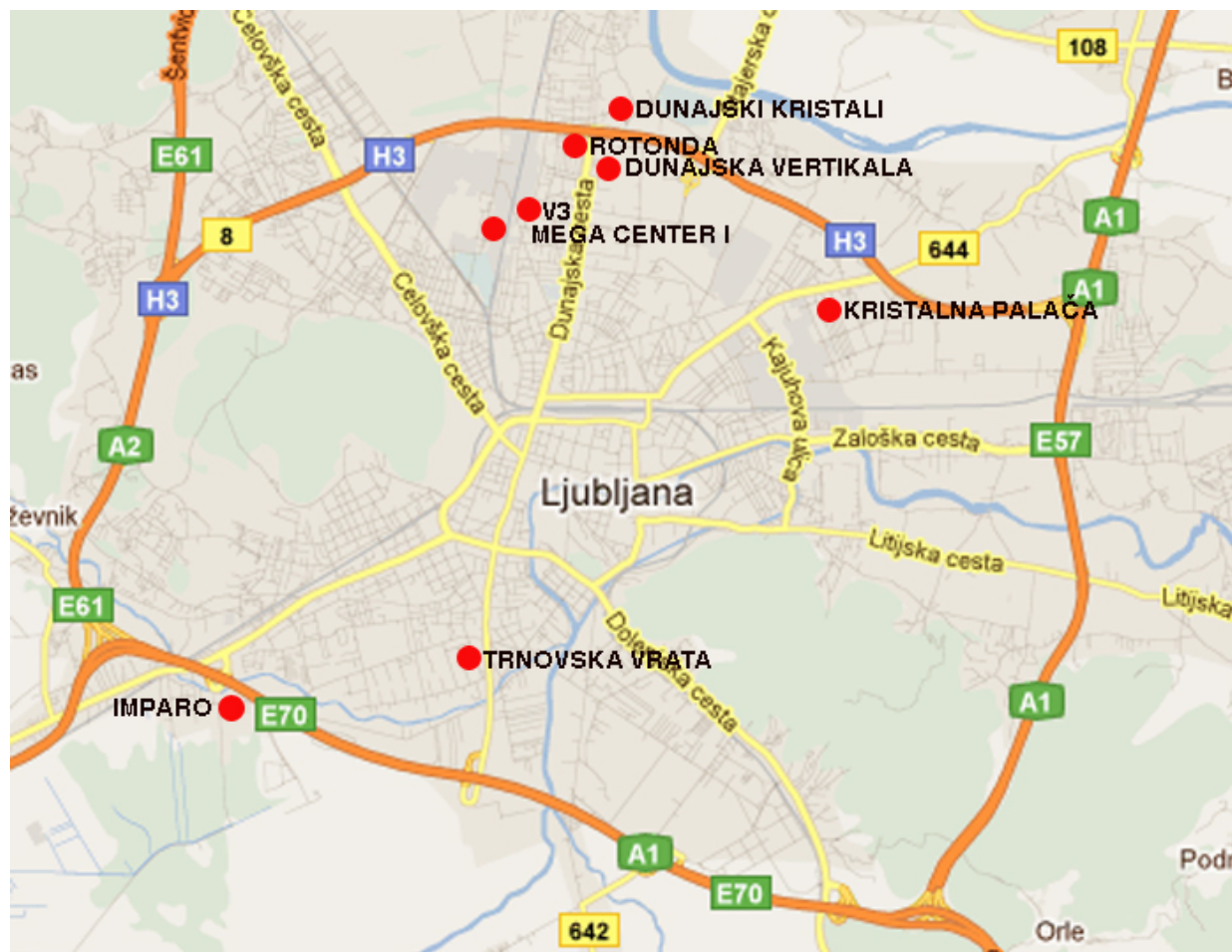


Current supply by submarket



Source : : nepremicnine..net

## Existing new buildings with available space



Source : Slovenia Invest



## Project pipeline



Source: : Slovenia Invest



## FUTURE OF NEW OFFICE PROJECTS UNCERTAIN

- Takeup of office space in Ljubljana is only 40,000m<sup>2</sup> per year approx
- The high vacancy rate at present means there will be insufficient demand to support all pipeline projects
- Timing is key, the projects that get to market first will benefit from first mover advantage and the latent demand for quality office space in the center
- Obtaining bank finance will be very difficult due to the lack of liquidity in the Slovene banking system and the reluctance of foreign banks to finance Slovene real estate projects



Prime Office rents and yields in CEE cities, as at June 2011

Country	City	Prime rents €/sq.m/month	Prime yields
Bulgaria	Sofia	12	9.75%
Croatia	Zagreb	15	8.00%
Czech Rep.	Prague	21	6.25%
Hungary	Budapest	21	7.25%
Poland	Warsaw	26	6.40%
Poland	Krakov	15	7.25%
Poland	Katowice	13	8.50%
Poland	Poznan	15	7.75%
Poland	Lodz	13	8.50%
Poland	Wroclaw	15	7.00%
Poland	Szczecin	14	9.00%
Poland	Gdansk	14	8.00%
Romania	Bucharest	18.5	9.00%
Serbia	Belgrade	15	10.50%
Slovakia	Bratislava	17	7.25%
Slovenia	Ljubljana	15	7.75%

Source: Cushman & Wakefield



## RETAIL MARKET

- New space becoming available but will it meet the needs of international brands entering Slovenia?
- Ljubljana has suffered from a lack of quality retail space for many years, but this is finally being addressed with the Stožice, Emonika and Interspar Šiška developments
- Further retail space will be developed in Ljubljana in Tobačna City, and an extension to Supernova in Rudnik
- New developments also underway elsewhere with Mercator Maribor, and Supernova Nova Gorica
- Q-Landia have added two malls to their portfolio this year, in Krško and Kamnik



## RETAIL MARKET ENTRANTS

- 50% of all retail space in Ljubjana is situated in BTC city
- It is not purpose built, but converted from warehouse space and is compromised in terms of depth, parking and frontage
- There is poor availability of retail space that suits the needs of international brands entering Slovenia as part of their global expansion
- The new schemes under development will all be leased and managed by Companies with a successful track record in attracting international brands
- There is strong interest from global electronics, personal care, fashion, accessories, sports, fitness and restaurant brands wishing to expand into Slovenia



### Prime Shopping Center rents and yields in CEE cities, as at June 2011

Country	City	Prime rents €/sq.m/month	Prime yields
Bulgaria	Sofia	24	9.00%
Croatia	Zagreb	32	7.50%
Czech Republic	Prague	70	6.00%
Hungary	Budapest	90	6.50%
Poland	Warsaw	77	6.25%
Poland	Krakow	37	7.25%
Poland	Poznan	37	7.25%
Poland	Tricity	37	7.25%
Poland	Silesia	47	7.25%
Poland	Szczecin	37	7.25%
Poland	Lodz	33	7.25%
Poland	Wroclaw	37	7.25%
Romania	Bucharest	51	9.00%
Serbia	Belgrade	35	10.50%
Slovakia	Bratislava	65	7.25%
Slovenia	Ljubljana	32	7.00%

Source: Cushman & Wakefield



**Prime High Street Retail rents and yields in CEE cities, as at June 2011**

Country	City	Prime rents €/sq.m/month	Prime yields
Bulgaria	Sofia	50	9.00%
Croatia	Zagreb	75	7.75%
Czech Republic	Prague	170	6.25%
Hungary	Budapest	100	6.75%
Poland	Warsaw	85	7.75%
Poland	Krakow	79	8.25%
Poland	Katowice	58	8.25%
Poland	Poznan	58	8.25%
Poland	Lodz	29	8.25%
Poland	Wroclaw	47	8.25%
Poland	Szczecin	33	8.25%
Poland	Gdynia	35	8.25%
Romania	Bucharest	65	9.25%
Serbia	Belgrade	92	10.50%
Slovakia	Bratislava	42	7.25%
Slovenia	Ljubljana	30	7.00%

Source: Cushman & Wakefield



7. slovenska  
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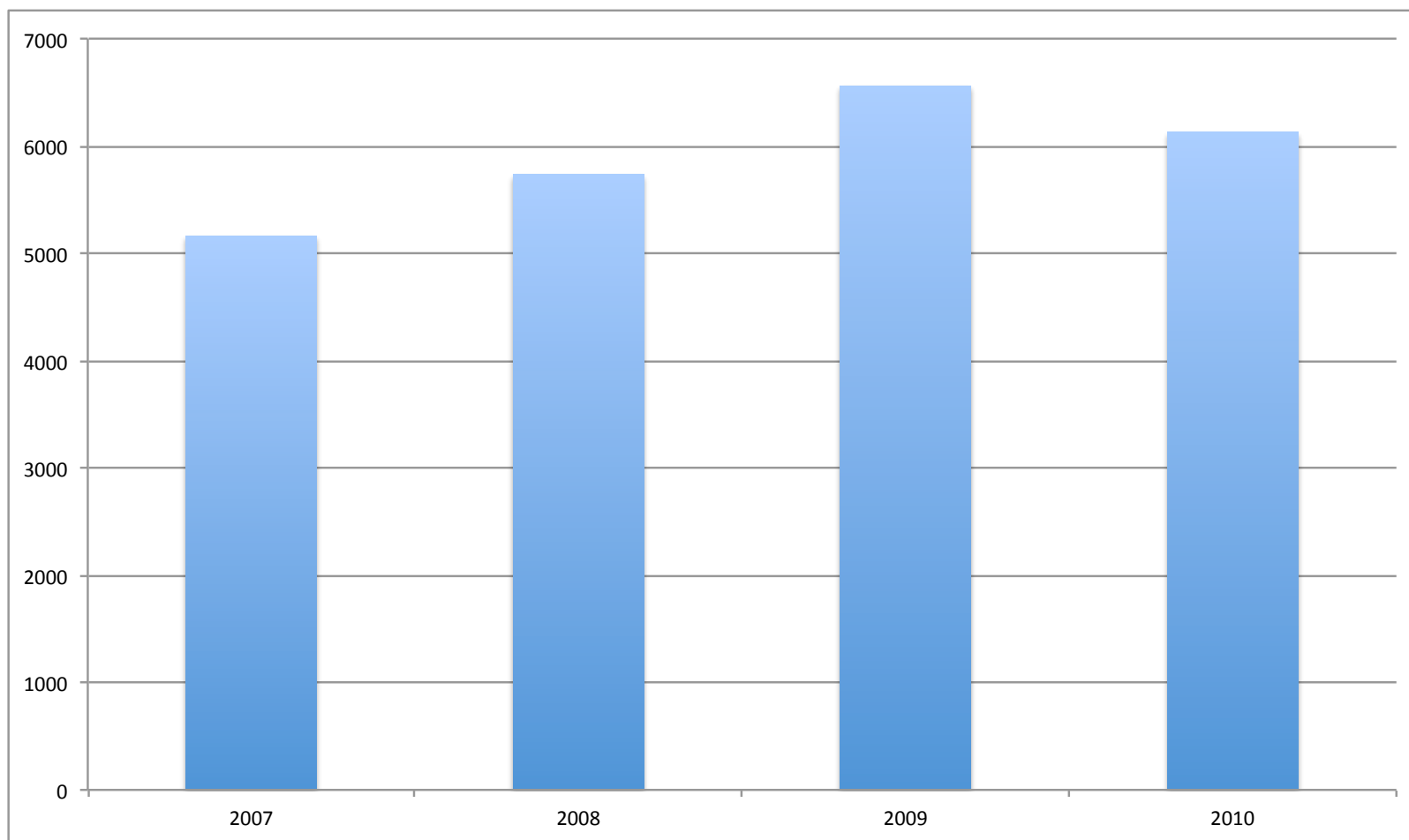
## INDUSTRIAL MARKET

- Does Slovenia have the potential to become a logistics hub?
- Approximately 70% of industrial properties in Slovenia owner-occupied
- A rental market is yet to develop, currently very early stage
- Most warehouses are outdated and do not meet the needs of modern occupiers (minimum height 10m)
- No developers currently developing speculatively
- Croatia's accession to the EU may fuel the need for more warehouse space as trade increases with Slovenia and other EU members
- The Port of Koper is increasingly becoming the gateway to CEE and this will create a need for more warehouse space, but other infrastructure (particularly railways) needs to improve
- Slovenia's high social security contributions and inflexible labour laws may deter some logistics companies from setting up subsidiaries





### Cargo (tonnes) through the Port of Koper



Source: SURS



Prime Logistics rents and yields in CEE cities, as at June 2011

Country	City	Prime rents €/sq.m/month	Prime yields
Bulgaria	Sofia	3.8	12.50%
Croatia	Zagreb	5.5	9.50%
Czech Republic	Prague	3.7	8.25%
Hungary	Budapest	3.5	9.00%
Poland	Warsaw	5.8	8.00%
Poland	Krakow	4.3	8.00%
Poland	Katowice	3.5	8.25%
Poland	Poznan	3.6	8.50%
Poland	Lodz	4.5	8.25%
Poland	Wroclaw	3.7	8.25%
Poland	Gdansk	3.7	8.50%
Poland	Szczecin	3.4	8.50%
Romania	Bucharest	4.0	9.50%
Serbia	Belgrade	4.5	13.00%
Slovakia	Bratislava	3.5	8.75%
Slovenia	Ljubljana	6.5	9.25%

Source: Cushman & Wakefield



## VALUATIONS IN SLOVENIA

- Misalignment with international valuation methods
- International valuations generally focus on recent comparable transactions and current availability
- The replacement value method is still widely used in Slovenia, but is considered outdated in more mature markets
- A recent portfolio valuation of 350+ properties in ex-Yugoslavia on behalf of a leading financial institution, by four different international valuers, showed that most local valuations were between 3 and 7 times the actual market value
- Slovene banks have suffered huge write-downs with more to come and they will most likely start to hold valuers responsible for losses due to inaccurate valuations, as in more mature markets
- PI cover will have to be substantially increased to become aligned with international valuation standards



## CAPITAL MARKETS

- What is an investment transaction?
- No investment transactions in Slovenia since 2008
- Lack of suitable properties available
- Poor understanding of institutional investors requirements



### Investment transactions in Slovenia and neighbouring countries

Country	2006	2007	2008	2009	2010	2011
Slovenia	3 deals 53.1m€	3 deals 56.3m€	1 deal 128m€	<u>none</u>	<u>none</u>	<u>none</u>
Austria	63 deals 2,400m€	67 deals 2,800m€	38 deals 2,100m€	36 deals 1,300m€	70 deals 1,570m€	30 deals 1,500m€
Croatia	5 deals 214m€	3 deals 178m€	5 deals 252m€	2 deals 54m€	3 deals 232m€	4 deals 226m€
Hungary	25 deals 759m€	38 deals 1,928m€	15 deals 434m€	6 deals 263m€	9 deals 177m€	9 deals 302m€
Slovakia	6 deals 292m€	13 deals 444m€	15 deals 170m€	4 deals 42m€	4 deals 33m€	3 deals 131m€
Czech Republic	42 deals 1,757m€	58 deals 2,655m€	27 deals 1,109m€	15 deals 496m€	30 deals 646m€	11 deals 1,005m€

Total	No. of deals	Total volume
Slovenia	7	237.4m€
Austria	304	11,670m€
Croatia	22	1,156m€
Hungary	102	3,863m€
Slovakia	45	1,112m€
Czech Republic	183	7,668m€

Source: CBRE and Slovenia Invest



## CAPITAL MARKETS

- Investment transactions are sales of income generating assets (generally office buildings, shopping centres, logistics facilities or hotels) to investors looking for a stable ROI
- Although several institutional investors have targeted Slovenia, most have been unable to find suitable assets
- Most local developers in Slovenia have a poor understanding of investor requirements (title, due diligence, tax structure, leases etc), and their projects are not suitable for the rigorous conditions of funds



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