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Industrial Zone Vladicin Han

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MISP Involvement

- Feasibility Study for Vladicin Han selected in March 2011
- Cooperation agreement signed by the Municipality in April 2011
- Feasibility activities started in June 2011.
- MISP was requested to prepare a feasibility to the standards expected by the EU
- Feasibility study completed in December 2011

Background to Project

- Regulation plan was prepared in August 2010
- Several deficiencies noted on the regulation plan i.e. Corridor X not considered, access to IZ not fully assessed, water supply wastewater and stormwater issues not resolved
- Project is a potential candidate for implementation under the Competitiveness axis for IPA 2012.

MISP Approach

- Carry out a market analysis (supply and demand sides)
- Identify all the issues (social, legal, institutional, programming etc)
- Prepare design criteria for development
- Develop investment plan
- Carry out Cost Benefit Analysis
- Prepare an implementation programme

Market Analysis

- Consult local real estate specialists
- Identify and categorise existing local enterprises
- Determine sectoral potential and harness clustering effect
- Evaluate industrial sectors and relevant supply chain
- Identify needs of industrialists (sector, location, size, infrastructure)

Supply and Demand Trends

- Industrial market peaked in 2008, rent reduced by 20 – 35%
- Supply reduced because of scarce private investments
- Occupiers' specifications increasingly demanding (location)
- Scarcity of good quality ready developed land
- Demand still strong in some sectors (automotive, pharmaceutical, FMCG), between 1000- 3000m^2
- Balancing of market expected
- Recovery not for the short term but expected

Industrial Real Estate Market

Selling prices – Land only

- Belgrade – about 30€/m^2
- Vojvodina – about 10€/m^2
- Central/ South Serbia – 5 to 10€/m^2
- Kragujevac city - 60 to 100€/m^2 (market overheating !!)

Rental prices – Industrial buildings

- Belgrade suburbs Old premises – 1 to 3 €/m^2/month
- Belgrade suburbs Modern premises – 3 to 5 €/m^2/month
- Bucharest, Sofia Modern warehouse – 4 €/m^2/month
- Munich, Hamburg Modern warehouse – 5 €/m^2/month

Note: Rental of 1€/m^2/month provides an IRR of 10% if investment is about 100€/m^2

Strategy and Policy development for industry of Serbia, 2010 - 2020

Targets for 2020

- Encourage added value production (not just primary resources)
- Double industrial production compared to 2010
- Increase productivity of labor in industry and construction by at least 50%,
- Increase the share of exports to 50% of GDP
- Increase the average annual FDI inflow of 2.35 billion euros
- Increase employment in manufacturing by 75,000 workers

Typical Manufacturing Supply Chain

Sector Evaluation in Region

Large local industries (Vladicin Han, Vranje, Surdulica)

- Food industry (Nectar/ Delises, Coca Cola)
- Agroindustry & Wood (BAT, Duvanska AD, Simpo/Ikea, Divan divani)
- Home appliances (Alphaplam)
- Textile & apparel (Jumko, Devic textil, Minex)
- Construction (Balkan Brik, Bankovic, Hanplast, Knauf)

Support industries

- Back office services (marketing, advertising, finance)
- Retail
- Health

Typical Employment Potential

Market Sector	Typical Factory Area, ha	Typical No Employees
Agro-industry	2.3	280
Wood industry	3	250
Industrial assemblies	3	400
Home appliances	2 - 10	300 - 1000
Clothing & footwear	2 - 7	400 - 3000
Electronic	1 - 3	100 - 1000
Construction	13	300
Logistics	2 - 7	200 - 600

Supply Side Issues

- Good connection to international transport network
- Supply of skilled labour
- Target industrial sectors and segments
- Position within the industrial supply chain
- Distance to sales market
- Design of industrial zone (plot size, ready built factories)
- Supply side incentives (one stop shop, business incubators)

Serbia Supply Side Policies

Improving Labour Market

- Incentives for investments in large manufacturing (automotive)
- Foreign direct investment incentives
- National Employment Service Incentives
- Municipal incentives (land in exchange for jobs & others)

Encouraging competition and innovation in the product market

- Some support to R & D
- Serbia still has a lot to do to promote competition
- 95th in 2011 World Economic Forum Global Competitiveness Index

Demand Side Issues

Considerations of Industrialists

- Economic situation (not brilliant now but usually cyclic)
- Availability and cost of finance (low & restricted)
- Fiscal and other incentives (available in Serbia)
- Quality of location (good prospects)
- Cost of land (good but private sellers expectation very high)
- Ease of doing business (not very good in Serbia)

Vladicin Han – A deprived region

MISP Strategic Principles

- Conformity with National and regional strategies
- Ensure real demand for industrial facility
- Provide high quality serviced industrial land to attract world class investors
- Reduction of high level of unemployment and halt depopulation
- Have a long term view, whilst investing for the short/ medium term

Vladicin Han – Advantages

- Good transport connection to Trans-european Network, i.e. Corridor X (within 1km)
- Land is available in proximity of existing industrial zone (>200ha)
- Skilled labour available (60% of unemployed)
- Competitive labour costs
- Secure electricity and water supply

Industrial zone "Jug" in Vladicin Han
Concept I - location A - Suva Morava

Location A "Suva Morava"

land owned by R. Serbia & other	34.43ha
brownfield	47.06ha
greenfield phase 1	64.10ha
greenfield phase 2	126.89ha

Location A "Suva Morava"

LEGEND:

- existing road
- corridor X
- existing railway
- future railway
- boarder of the ind. zone in phase 1
- boarder of the ind. zone in phase 2

N

0.1 0.2 0.5 1 km

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Land occupation

future lots - total	47.00 ha
greenfield phase 1	64.10 ha
Traffic	4.00 ha
location A	145.60 ha

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Traffic Infrastructure

Proposed Works

Reconstruction of existing roads	400 m
Internal Roads with street lighting	4.5 km
Buried electricity cable, 110kV	2.5 km
Buried electricity cable, 35kV	2.5 km
Internal electricity distribution, 10kV	16.2 km
Transformers 10/0.4kV	7 units
Telecommunication ducts	2.7 km
Wells, pump stations, water pipes	5.4 km
Wastewater pipes	4.2 km
Wastewater treatment plant	1 unit
Rainwater network	5.6 km
Flood protection dyke	2.1 km

Cost Estimates for Works

Component	Cost, Euros
Site Preparation	65,450
Road network	1,900,000
Electrodistribution network	1,079,000
Burial of existing 110kV overhead power line	1,370,000
Street lightning	211,500
Telecommunication network duct	57,937
Water resources	410,000
Water supply	458,500
Wastewater network & WWTP	1,712,000
Rainwater network	1,374,500
Flood protection	420,000
Total	**9,058,887**

Expected Benefits – New Jobs in Region

Sectors	Structure	Jobs as per Strategy	Jobs in IZ
Manufacturing	21%	2,110	2,100
Construction	24%	2,400	240
Wholesale & Retail	42%	4,200	1,260
Logistics	13%	1,320	1,300
Total	100%	10,000	4,900

Cost Benefit Analysis

- Direct costs such as land purchase & development costs
- Indirect costs such as loss of agricultural land
- Direct benefits – New direct and indirect jobs
- Indirect benefits – Taxes generated by the new IZ

Indicators	Unit	Optimistic Scenario	Realistic Scenario	Pessimistic Scenario
EIRR	%	25,2%	19,9%	11,1%
PV Benefits	EUR	90.808.789	65.829.695	33.379.637
PV Costs	EUR	14.428.996	14.428.996	14.428.996
ENPV	EUR	76.379.793	51.400.699	18.950.641
B/C	#	6,29	4,56	2,31

Potential Funding Plan

Potential Financing Source	Investment Values (current price, EUR)	%
EU grant (Works & TA)	11,551	77%
Government grant	1,071	7%
Municipal Loan (Land)	1,314	9%
Local Budget	970	7%
Others	0	0%
Total	**14.906**	100%

Next Steps

- Purchase of land for development
- Amend the detailed regulation plan to align with feasibility study
- Seek funds for preliminary and detailed design
- Maintain momentum to secure funds for construction
- Marketing activities to be intensified

Conclusion

- Necessity to be ready when demand picks up
- Promising prospects for attracting industries
- Good marketing necessary to attract world class investors
- Economic internal rate of return sufficient for EU (i.e. >5.5%)
- Important to acquire land prior to seeking finance
- Central level assistance necessary for co-financing
- Municipality needs to maintain momentum

QUESTIONS

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Thank you for your attention!