

Belgrade Industrial Market

H2 2008

S&P'S LT FC Rating

BB-/Negative

Hot Topics

- According to estimates of the Statistical Office of the Republic of Serbia, in the year 2008, GDP grew by 6.1 percent in comparison to the previous year
- FDI in Serbia during H1 2008 amounted to EUR 808 million, while in Q3 2008 it amounted only to EUR 134 million

ECONOMIC OVERVIEW

The effects of global economic crisis are notable in Serbia through lessened availability of foreign funds and decline in confidence among savers, leading to withdrawal of certain foreign currency deposits. The decline in foreign exchange liquidity gave rise to depreciation pressures in Q4 2008. In order to enhance foreign exchange liquidity, the National Bank abolished the reserve requirement on fresh external borrowing by banks, and at the same time, increased the dinardenominated share of required reserves in foreign currency accounts. Rising international real interest rates and the decline in availability of foreign funds will further impede the country's economic growth.

Despite tight monetary policy, the 2008's core inflation target was not achieved. Year-on-year core inflation measured 10.2% at the end of Q3 2008, and declined to a level of 8.6% at the year-end, thus exceeding significantly the targeted range of 3-6%.

Year-on-year retail price growth amounted to 9.9% and is expected to slow to 9.7% at year-end. Slower growth in retail prices than in core inflation in Q3 (0.5% vs. 2.4%) was mainly due to a drop in prices

of agricultural and petroleum products.

The key policy rate was changed six times during 2008, final change in October resulting in level of 17.75%.

According to Serbian Government estimates, Serbia's GDP growth will reach 3.5-4.0% in 2009.

Current account deficit in Q3 reached USD 2,339 million, up by app. 63% in Q3 2007. There was a notable slowdown in net inflow from foreign direct investment in Q3 2008, reaching only USD 202 million. Of total investment, over three fifths accounted for investment in property (23.4%), wholesale and retail trade (22%) and processing industry (16%).

The slow-down in nominal wages continued in Q3 (18% y-o-y) while real wages picked up by 5.3%. The average salaries and wages paid in December 2008 in the Republic of Serbia amounted to EUR 436.

Total unemployment dropped, driving the unemployment rate further down. The estimated rate of unemployment declined from 22.9% at the end of Q1 down to 21.4% in Q3 2008.

Key economic Indicators - Serbia

	2006	2007	2008f	2009f	2010f
Nominal GDP (EUR bn)	24.3	29.1	34.6	41.8	47.8
Per capita GDP (EUR)	3,270	3,940	4,690	5,680	6,490
FDI (USD million)	3,750	3,500	n/a	n/a	n/a
Real GDP, yoy (%)	5.6	7.1	7.0	5.3	5.6
Inflation (CPI), yoy, eop. (%)	6.6	10.1	9.5	7.7	5.4
Inflation (CPI), yoy, avg. (%)	12.7	6.8	11.2	8.7	6.3
Unemployment rate (%)	20.9	18.1	18.0	17.5	17.0
Exchange rate RSD/EUR, eop.	79.0	79.2	76.0	75.0	73.0
Exchange rate RSD/EUR, avg.	84.1	80.1	80.0	75.5	74.0
Current account balance/GDP (%)	-9.8	-13.2	-17.0	-13.6	-11.1
FDI/GDP (%)	14.0	5.5	6.7	7.1	7.1
Budget balance/GDP (%)	1.5	1.3	-2.0	-3.0	-2.0
Public debt/GDP (%)	34.1	28.4	23.3	22.0	22.0
Total external debt/GDP (%)	61.3	61.0	56.5	53.2	50.6

Source: NBS, Statistical Office of the Republic of Serbia, Bank of Austria

BELGRADE INDUSTRIAL MARKET

SUPPLY

With favorable geo-strategic position offering the possibility to access EU market easily, Serbia provides remarkable opportunities for industrial and logistics developments in mid to long term. Via strategic transportation corridors 10 and corridor 7 the country links Western Europe and the Middle East, representing excellent location for future regional logistics centers which may effectively serve West Balkan Region. Due to over a decade long political instability, Serbia has lost an opportunity to become one of the most important regional logistics centres, such is Hungary today. The Serbian National Investment Plan identifies 49 industrial development zones, whereas 17 are located in Belgrade, 20 in Vojvodina and the remaining in central and southern regions.

Within Serbia, the primary logistics market is concentrated around Belgrade, along the highways E-70 and E-75, and locations in its close proximity, such as Stara Pazova, Simanovci and Krnjesevci. Belgrade logistics market is mainly based around road network and at the Port of Belgrade.

The total stock of contemporary logistic space is estimated at 250,000 sq m, out of which 120,000 sq m is located in Belgrade's area incl. outskirts, and remaining 130,000 sq is located in Simanovci, Krnjesevci and Stara Pazova.

DEMAND

Demand for modern logistics development is growing, particularly from retailers. In the last two years, annual take-up remained at the constant level. Occupation demand for industrial and logistics space continued its growth in H2 2008 and mostly comes from distribution, transportation, pharmaceutical and logistics companies. The entrance of foreign companies as well as the intense retail sector development has increased the demand for speculative warehouse space.

RENTAL LEVELS

Rental levels of industrial and warehousing facilities did not record a substantial change during 2007 and 2008. Rental levels of old industrial premises are between EUR 1.5 - 3.0/sq m/month on average, while at attractive locations in Belgrade the monthly rental rates can achieve up to EUR 3.5/sq m/month. Demand for modern warehouse facilities is still unmet and average rental rates in this segment of the industrial market reach EUR 4.0-7.0/sq m/month depending on location and the amenities.

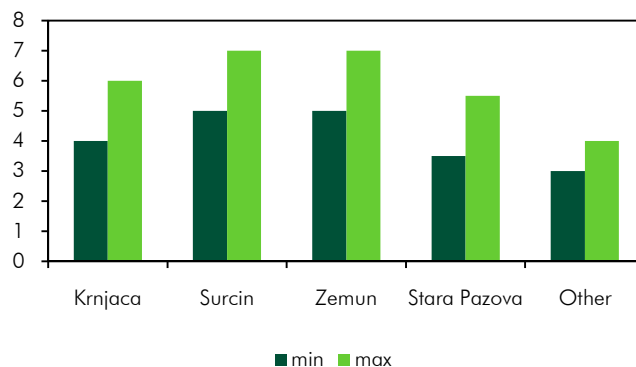
Popular locations for development of industrial/logistics facilities within Belgrade city boundaries



Selected Pipeline Developments

Project	GBA (sq m)	Expected date of delivery
Galenika	50,000	2010
Eurasian Real Estate	20,000	2011
TP Indijija	250,000	2011
Lafarge Beocin	n/a	2013
Immo Industry Group	110,000	n/a

Prime rents in H2 2008 (in EUR/sq m/month)



Highlights

- Prospective tenants are seeking modern and flexible warehouse space with built-up transportation infrastructure at attractive locations. Requirements also include proper ceiling heights 9-12 meters, independent power supply, temperature control, loading docks, etc.
- With the improvement of business climate in Serbia and the anticipated increase in industrial production and commerce, the need for storage facilities and specialized warehouses is expected to grow. We also expect the strongest occupier interest generated by third party logistics specialists, looking to meet the demand of their clients.
- Over the next few years the logistics sector in Serbia should continue to mature, in particular benefiting from improvements in road infrastructure, linking the country to central European markets. Investment in new and improved infrastructure will deliver new routes to market and reflect the optimal locations for logistics property.

SERBIA MAP



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