

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 OFFICE MARKET

SUPPLY

At the end of year 2008, the total speculative inventory of Class A and Class B office space in Belgrade reached the amount of 445,000 sq m. In comparison to year-end 2006, Belgrade Office Stock has increased by 65% i.e. by 27% in comparison to year-end 2007.

During H1 2008, the postponement of completion of several office buildings resulted in delivery of only one Class A office building, 19 Avenue, holding 20,000 sq m of GLA. Contrarily to H1 2008, H2 2008 saw the completion of several class A and class B office buildings totaling 80,000 sq m of GLA.

Similarly to the previous period, the majority of office developments already in construction phase or announced for construction are located in municipality New Belgrade, with only several office buildings in downtown. The situation is likely to remain the same in the forthcoming period. Majority of office buildings located in downtown that appeared in the market during H2 2008 have small GLA and are usually leased to one tenant only.

DEMAND (TAKE-UP)

Demand for new office premises during 2008 was characterized by prevalence of interest for office developments located in New Belgrade area, resulting in only several significant transactions recorded in Belgrade downtown. The total take-up during 2008 was slightly below the levels achieved during 2007. Beside international banks and corporations, the share of local companies in the structure of demand is constantly increasing.

Due to current global economic trends, the appearance of new companies still not present on the market is not expected in the next period, which will certainly influence demand in 2009. Besides, it is expected that the delivery of office buildings currently in construction phase and announced for development could be postponed. Only with the improvement of economic situation, the market expects the appearance of new international companies searching for adequate office space, but also the growth of local companies and their relocation into modern office space.

Tenant request for office space usually ranges from 200-300 sq m to 1,500+ sq m. Requests for units 400-500 sq m large represent the smallest share in total demand.

Selected Office Buildings completed during H2 2008

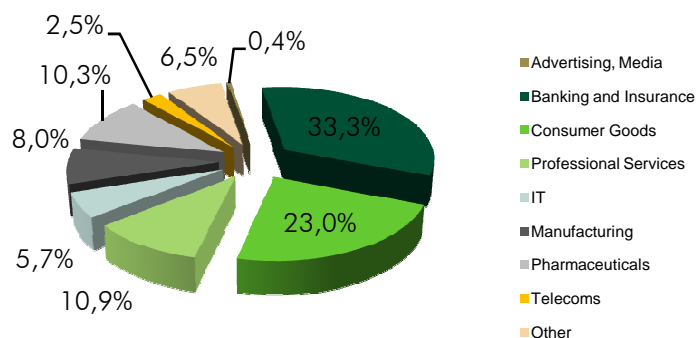
Development	Office area gross (sq m)	Completion date
M Business Center	6,000	Q3 2008
Hyundai Office Building	4,700	Q3 2008
GTC Square	24,000	Q4 2008
Airport City 3 rd phase	19,000	Q4 2008
BOP 2 nd phase	9,500	Q4 2008
B2	4,400*	Q4 2008

* NLA

Selected lease transactions in H2 2008

Tenant	Building	Size (sq m)
EFG Bank	Hyundai Office Building	3,200
Banca Intesa	Airport City	2,000
KBC Securities	Takovska Office building	1,700
Nokia Siemens	Belgrade Office Park	1,100
Carlsberg	GTC Square	1,000
Porr	GTC Square	600

Occupier profile by sector of business in H2 2008



Belgrade office vacancy rates

Office Class	Vacancy rate
Class A	To 15%
Class B	To 21%
Overall	17.6%

Belgrade Prime Office rents

Office Class	EUR/sq m/month
Class A	15.00 to 17.00
Class B	11.00 to 13.00
Class C	9.00 to 12.00

Selected Pipeline Developments due for completion during 2009 and 2010

Development	GLA (sq m)	Completion date
Airport City 1700	11,800	2009
Bluehouse block 26	35,000	2009
Sava Business Center	21,000	2009
Belville Office building	28,000	2009
Tri lista duvana	8,500	2009
B23	53,000	2010
VIG Plaza	9,000	2010

VACANCY

Changes in Belgrade office stock have resulted in a very sharp increase in vacancy level, reaching 17.2% at the end of Q3 2008 i.e. 17.6% at the end of the year 2008. Due to the fact that Class A office buildings represented 85% of total new office inventory delivered during H2 2008, the vacancy rate of Class A office space has increased much more significantly than vacancy rate of Class B office space. Pipeline developments due for completion in Q1 2009 are not expected to change the vacancy rate significantly.

RENTAL LEVELS

Rental levels of Class A office space during 2008 have slightly decreased in comparison to 2007. Recently finished Class A office buildings command asking rental values of EUR 16.5-18.0/sq m/month, while for office space under construction, they range between EUR 15-17/sq m/month. Brand new properties situated at some of the most attractive locations in Belgrade have recorded asking rents of up to EUR 19/sq m/month.

Rents for Grade B stock vary between EUR 11 and EUR 13/sq m/month.

(Note: All prices are expressed in their triple net values).

FUTURE SUPPLY

Taking into account the number of office buildings currently in construction phase and due for completion in the next two years, the continuance of expansionary phase of Belgrade Office Market in foreseeable future is guaranteed.

During Q1 2009, the completion of additional 65,000 sq m of quality office space is expected, while all projects announced for completion by year-end 2009 should increase Belgrade office stock by a total of 130,000 sq m of GLA. By the end of year 2010 Belgrade Office stock should reach the level of 625,000 sq m.

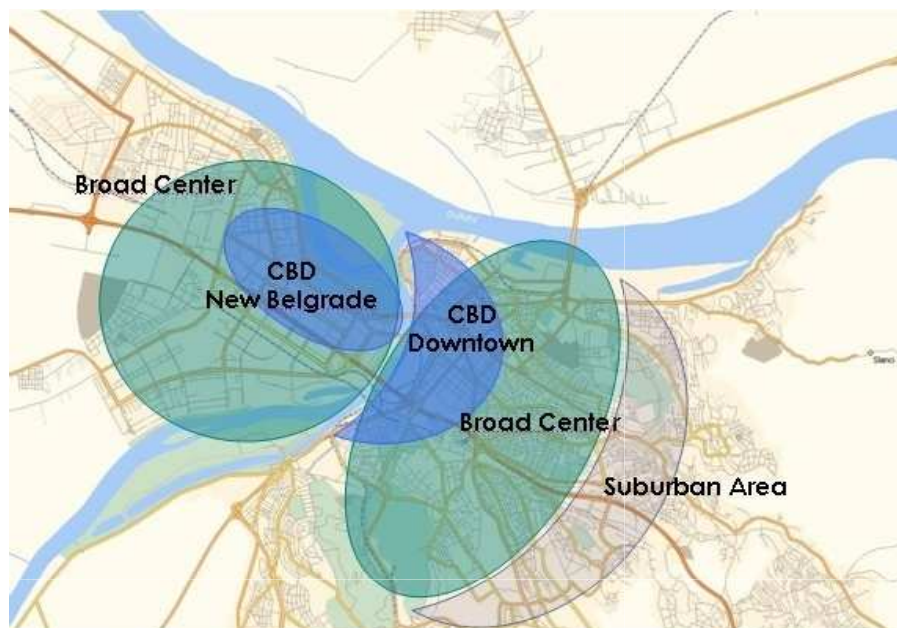
New Belgrade area still attracts the greatest number of new developments. The share of office buildings located in downtown and due for completion in 2009 represents only 20% of the total.

Due to current global economic trends the postponement in start of construction of previously announced developments is to be expected. All office buildings currently in construction phase will be brought to the market as announced.

Belgrade Market Structure

Taxes and fees	
Typical Lease Length	5 years
Typical Service Charge	EUR 3/sq m/month
Corporate Income Tax	10%
VAT	18% (8% for new housing development)
Transfer tax	2.5% of purchase price
Agent's Fees (investment)	1.0-3.0% of purchase price
Agent's Fee (leasing)	10-15% of the first year's rent

BELGRADE OFFICE MARKET MAP

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