Belgrade Residential Market

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

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BELGRADE RESIDENTIAL MARKET

Residential market in Belgrade continues its expansion, recording high construction activity. Nevertheless, supply is not keeping up with demand. A considerable discrepancy between the two does exist and will continue so in foreseeable future.

Beside local developers, several international developers have announced the construction of large projects in the next few years.

SUPPLY

According to Belgrade Statistical Bureau, 7,601 residential units were constructed in Belgrade during 2007, only 222 units more than in 2006. Regarding the structure of those units, 31.6% of them are studios, while the percentage of one bedroom apartments is 26.6%.

According to the official statistics and CB Richard Ellis research, New Belgrade and Zvezdara areas experienced the largest increase in residential projects during 2007, with 1,340 residential units constructed in each municipality. There is difference though in average apartment size, totalling 57.8 sq m in Zvezdara and 66.9 sq m in New Belgrade. Average size of apartments constructed during 2007 in whole Belgrade area was 71.2 sq m, only slightly above average for year 2006 standing at 70.1 sq m.

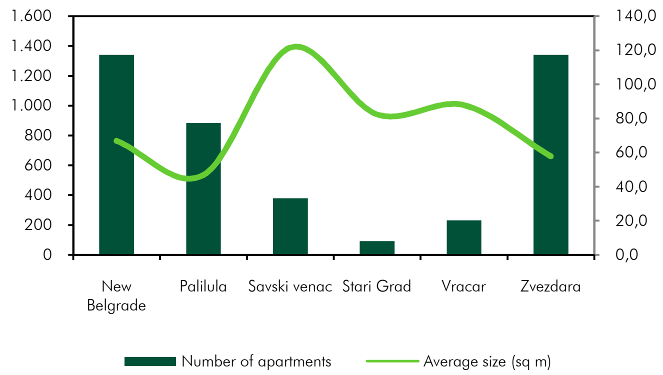
Two very attractive municipalities in Belgrade, Vracar and Stari Grad are faced with limited availability of construction sites. Projects located in these areas are of modest size, totalling on average 15-20 units. Vracar municipality has marked significant decrease in number of completed units, totalling only 232 units in 2007 in comparison to 805 units brought to the market during 2006. Stari Grad municipality marked increase of 66% with 93 units in 2007 in comparison to 56 from 2006.

Besides mid-end residential projects, supply of high-end residential developments is constantly increasing. New Belgrade area becomes more and more interesting, with two high-end residential developments currently in construction phase, located in close proximity of rivers Sava and Danube.

New Belgrade is also the location of residential development Belville. This complex is not only the biggest current residential project but also the biggest residential development in last five years. With regard to the structure of apartments, the highest share belongs to one-bedroom apartments.

Structure of units constructed during 2006 and 2007, (%)

Number of constructed apartments in several municipalities in Belgrade and the average apartment size (in sq m)



Selected biggest current projects in Belgrade

Name	Size gross (sq m)	Date of delivery
Block 11 c	15,500	Q1 2009
Savograd	12,000	Q1 2009
Belville	120,000	Q4 2009
Galerija Apartments	18,500	Q4 2009
Block 11 a	22,000	Q2 2010

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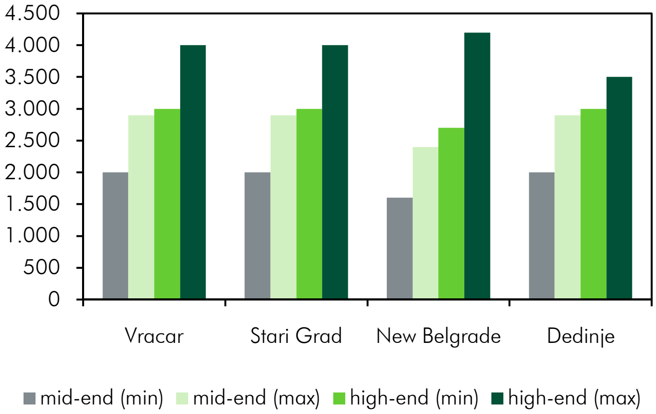
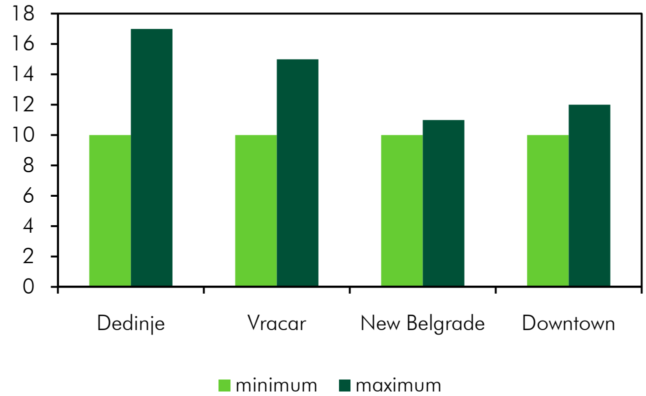
Selected projects announced for development

Project	GBA (sq m)	Date of delivery
Kalemegdan Park Apartments	12,000	2009/2010
Airport City residential project	66,000	n/a
Lamda, Juzni Boulevard	10,000	n/a
Yu Kapital, Kraljice Marije Street	7,200	n/a
Neimar –V, Radoja Dakica Street	7,000	n/a

Asking prices during H2 2008 (net of VAT)



Rental levels in H2 2008



DEMAND

During the last five years there was a strong demand for apartments of smaller sizes on the mid-end market. Investors were oriented towards creation of complexes with a high share of small, affordable apartments – mostly studios and one-bedroom apartments. The demand for high-end apartment units comes mostly from wealthy locals and Serbian Diaspora, as well as from companies purchasing apartments for their expatriates or their employees buying apartments for themselves.

Very strong demand recorded during the first three months of the second year-half 2008 has taken the slower pace starting from September.

Current global economic crisis has made the potential buyers more prudent when taking a loan, previously the main source of financing for a large portions of buyers. According to data provided by the National Bank of Serbia, at the end of year 2008, housing loans taken by Serbian citizens amounted to RSD 170 billion (EUR 1.92 billion), 59% more than at the end of year 2007.

SALES PRICES

According to Belgrade Statistical Office, average net prices of new apartments in Belgrade reached EUR 1,459/ sq m at the end of year 2007 (in comparison to EUR 1,407/sq m at the end of H1 2007). This figure includes the price of construction land, construction costs and additional costs.

During first three months of H2 2008, asking prices have recorded increase of 5-10%, depending on municipality. Global financial crisis has slowed down or even stopped further price increase in 2008 second year-half.

Mid-end residential developments located in municipality New Belgrade recorded asking prices of EUR 1,700-2,500/sq m, while those located in municipalities Vracar, Stari Grad and Dedinje were marketed at EUR 2,000-3,000/sq m. High-end developments located at very attractive locations in New Belgrade and downtown have recorded the levels of even EUR 3,500-4,000/sq m. (All prices indicated are net of VAT).

RENTAL LEVELS

Rental prices have retained the levels achieved during H1 2008. Demand is primarily oriented towards municipalities Dedinje, Senjak and Vracar, proven to be the most attractive for employees of foreign embassies and international organizations. An upward trend in demand has also been marked in municipality New Belgrade, especially in the area near Arena Sports Hall.

SERBIA MAP

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