

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

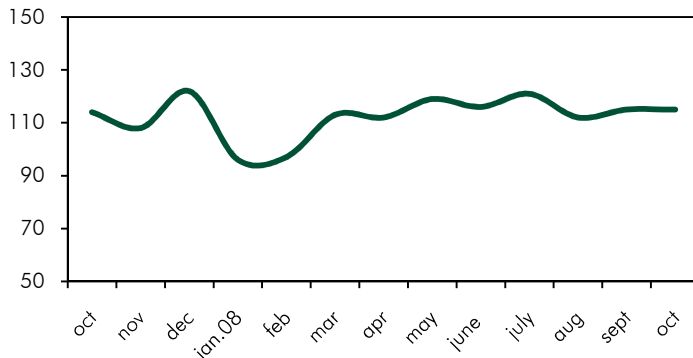
	2006	2007	2008f	2009f	2010f
Nominal GDP (EUR bn)	24.3	29.1	34.6	41.8	47.8
Per capita GDP (EUR)	3,270	3,940	4,690	5,680	6,490
FDI (USD million)	3,750	3,500	n/a	n/a	n/a
Real GDP, yoy (%)	5.6	7.1	7.0	5.3	5.6
Inflation (CPI), yoy, eop. (%)	6.6	10.1	9.5	7.7	5.4
Inflation (CPI), yoy, avg. (%)	12.7	6.8	11.2	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 RETAIL MARKET

According to data provided by the Statistical Office of the Republic of Serbia, compared to the same period of the previous year, the turnover of retail trade in Q3 2008 noted a 22.3 % growth at current prices in the Republic of Serbia, a 28.3 % growth in central Serbia and a 5.2% growth in Vojvodina. With regard to the same period, the wholesale trade at current prices noted a growth of 18.9 % in the Republic of Serbia, a growth of 12.4 % in central Serbia and a 39.3 % growth in Vojvodina. (Ø2007=100)

Retail trade turnover in Serbia



SHOPPING CENTERS

H2 2008 witnessed no new shopping center openings in Belgrade. The current stock of modern shopping centers in both Belgrade and Serbia still lags behind the trends in more developed countries of Central and Eastern Europe (CEE). The fact that, in comparison to other CEE capitals, the shopping center stock per capita in Belgrade is very low provides possibilities for significant development.

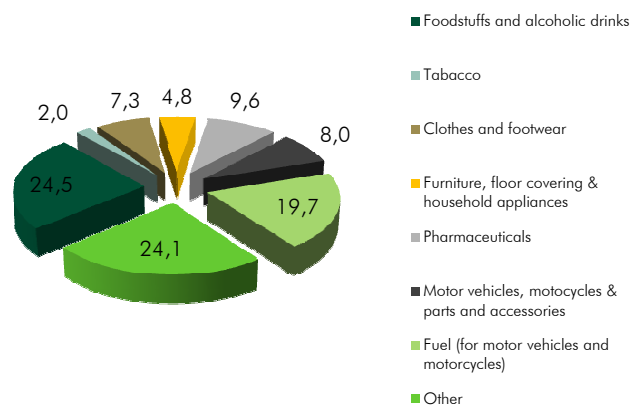
International retailers with established regional presence as well as domestic brands and retailers are the driving force of demand for retail units in Belgrade modern shopping centers. Although there were changes in tenant mix in some of the biggest shopping centers in Belgrade, they still record zero vacancy. The interest of retailers for old-style shopping centers decreases, even for shopping centers located in close proximity of Belgrade pedestrian zone.

Usce shopping center, located in New Belgrade block 16 featuring 50,000 sq m of GLA is scheduled for completion in Q1 2009. Once opened it will be the biggest modern shopping center in Belgrade.

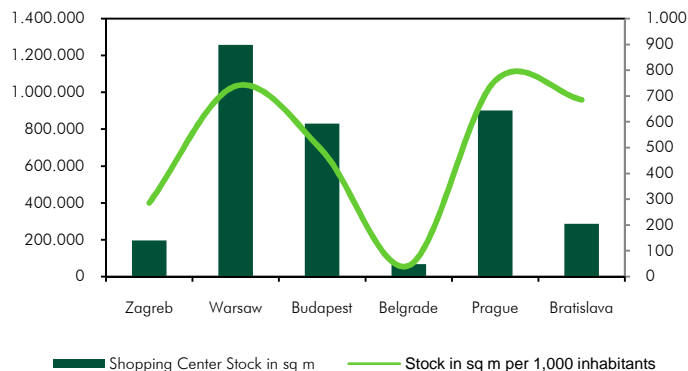
The very first modern shopping center in Belgrade downtown is to be constructed in Rajiceva Street, in immediate proximity of pedestrian zone. Preparation works for the construction of this mixed-use development have started and the completion is announced for 2011. This modern complex with total area of 46,000 sq m will comprise shopping mall, the first five-star hotel with the capacity of 240 hotel units, and underground garages.

Prime rental values in modern shopping centers retained the same levels as in H1 2008 and stand at EUR 40-60/sq m/month.

Turnover by type of goods, I-IX 2008 (in %)



Shopping center stock and stock per capita, year-end 2007



Selected modern shopping centers in pipeline in Serbia due for completion in 2009 and 2010

Project	Location	GBA (sq m)	Opening year planned
Usce	Belgrade	130,000	Q1 2009
Mercator	Sabac	23,000	2009
Plaza	Kragujevac	65,000	2010
GTC	Subotica	25,000	2010
MPC	Nis	22,000	2010

Prime retail rents

Location	Prime rents (EUR/sq m/month)
Knez Mihailova Street	Above 150
Terazije Square/Kralja Milana Street/Kralja Aleksandra Boulevard	60-120
Modern shopping centers	40-60

Retail operator presence in Belgrade

Operator	Market entry
Agrokor (IDEA)	2006
Interex	2007
Merkur	2005
M-Rodic	1998
Metro	2005
Super Vero	2002
Tehnomarket	2002
Tempo	2004
Tus	2008
Uradi Sam	2003

The interest of both international and local developers in Serbian retail market is constantly increasing which reflects the number of shopping centers planned for construction. Beside Belgrade, Novi Sad and Nis, other Serbian cities like Kragujevac, Subotica, Sabac and Valjevo will see new developments in the next three years.

HIGH STREET

In order to secure suitable retail premises, retailers are primarily interested in Belgrade high-street zone and modern shopping centers. Belgrade high-street zone still represents the focal point for retailers, especially the ones that are entering the market for the first time. High-foot traffic and the importance of high-street zone in terms of shopping destination secure good market entry.

Although demand remains very high, limited supply of retail units keeps availability at the low level. Only several units have seen tenant change. With the completion of Robne Kuće Beograd department stores, supply of retail units in high street zone will be boosted.

The primary shopping zone, Knez Mihailova Street is still the most interesting location for retailers, with average rents over EUR 150/sq m/month.

RETAIL WAREHOUSE

Retail Warehouse segment marks intense development activity in a large number of Serbian cities.

Croatian retail operator PEVEC has opened its first big-box in Belgrade, totaling 40,000 sq m of GBA. According to official information, PEVEC long-term plan includes the opening of another center in New Belgrade, as well as creation of retail network in whole Serbia.

FUTURE SUPPLY

Having opened stores in six Serbian cities, Slovenian retailer TUS plans the construction of another two developments in Vranje and Kragujevac.

Local retail operator, Tempo, has announced the spreading of retail network into several Serbian cities: Uzice, Kraljevo, Cacak and Vrnjacka Banja.

According to official information, Big Centers plan the construction of retail warehouse developments in Belgrade, Pancevo, Sabac, Jagodina, Novi Sad and Subotica.

SERBIA MAP



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