

## Belgrade Office Market

H2 2009

## S&amp;P'S LT FC Rating

BB-/Stable

## Quick stats

	Change from H1 2009
Take-up	↑
Supply	↑
Vacancy	↑
Rents	↓

## Hot Topics

- On December 22, 2009 Serbia submitted a formal application for European Union membership to Sweden, which currently holds the 27-country bloc's rotating presidency.
- After reviewing current economic developments, the National bank of Serbia Monetary Policy Committee decided to trim the key policy rate, which now equals 9.5 percent.
- According to Statistical Office of Republic of Serbia, gross domestic product (GDP) at constant prices decreased by 2.9% in 2009 in comparison with the previous year.

## ECONOMIC OVERVIEW

International Monetary Fund (IMF) has completed the second revision of the standby arrangement with Serbia, thus enabling the drawing of the second installment of USD 350 million. Along with the revision of the arrangement worth EUR 2.9 billion, the IMF Executive Board has granted the increase in the budgetary deficit of Serbia in 2009 of 4.5%. So far Serbia has drawn the first installment of EUR 788 million, and with the second the total amount of the credit will rise to 1.12 billion. Furthermore, the World Bank has approved USD 200 million loan to country, aimed at reducing public administration and improvement of the business climate in Serbia. This is the first installment of USD 400 million loan agreed at the meeting with the World Bank, held in October 2009. The remaining USD 200 million will be used for supporting the 2010 budget.

On December 1, 2009 global ratings agency Standard & Poor's (S&P) has revised Serbia's outlook from negative to stable due to reduced external pressures and its commitment to comply with an IMF program and added it has affirmed the country's 'BB-' long-term and 'B' short-term sovereign credit ratings.

GDP by individual economic activities, noted the increase in the following sectors: transport, storage and communications, financial intermediation, agriculture and governmental sector. Industrial production

declined by 12.6% in 2009, whilst construction sector noted a fall of 19.9% in 2009. Retail trade also noted a decrease of 11.7%, while the decline of wholesale trade amounted to 4.1%. The National Bank of Serbia has announced annual Consumer price inflation in 2009 of 6.6%, while the Monetary Policy Program for 2010 envisages this year's inflation of 6%±2 percentage points.

Based on data obtained from the Labor Force Survey, unemployment rate in October 2009 amounted to 16.6%. Wages and salaries grew by 8.8% in 2009 in nominal terms and by 0.2% in real terms, in comparison with 2008. The average net wage in 2009 in Serbia amounted to RSD 31,733 (EUR 338), Belgrade recorded an average net salary of RSD 39,862 (EUR 424).

According to Serbian Government predictions, Serbia foresees economic growth of 1.5% in 2010, 3% in 2011 and 5% in 2012, while the country has to continue pursuing a very responsible budget and monetary policy. Serbia's economic growth in the forthcoming years could not be founded on the inflow of foreign capital and on recurrent spending; yet all planned investments had to be realized to achieve short-term growth, while the only solution for achieving medium-term growth is to increase export.

## Key economic indicators - Serbia

	2007	2008	2009E	2010F	2011F
Nominal GDP (EUR bn)	29.5	34	31	31.4	32.9
Per capita GDP (EUR)	4,002	4,624	4,230	4,310	4,538
Net FDI (EUR bn)	1.8	1.8	1.5	1.8	2.3
Real GDP, yoy (%)	6.9	5.5	-3.2	-0.5	1.3
Inflation (CPI), yoy, avg. (%)	6.5	11.7	8.3	6.3	5.7
Unemployment rate (%)	18.1	18	18.5	19	18.2
Exchange rate RSD/EUR, eop.	78.79	89.79	96.23	100	100
Exchange rate RSD/EUR, avg.	80	81.49	94.07	98.12	100
Current account balance/GDP (%)	-15.6	-17	-7.4	-6.1	-6.8
FDI/GDP (%)	6.2	5.3	4.8	5.6	6.8
Budget balance/GDP (%)	-1.5	-2	-4.5	-4	-3.5
Total foreign debt/GDP (%)	60.2	64.1	73.5	78.8	81.9

Source: Bank of Austria, January 2010

**BELGRADE OFFICE MARKET**

Despite very active development during last several years, Belgrade modern office market is relatively underdeveloped. Starting with 2005, this real estate market segment has seen considerable construction of modern office projects, however, the total supply still lags behind the stock of other cities in the region.

**SUPPLY**

The volume of modern office stock has increased during 2009 by approximately 20% (90,000 sq m of GLA) with the opening of ACB 1700 Office Building, Savograd, Belville office building, Anex, Napred, Red Stripe and a few smaller office buildings. Moreover, in comparison with year-end 2007, Belgrade office supply has been enlarged by 60%.

Total office stock in Belgrade held close to 450,000 sq m of GLA at the end of year-2009. Although, the realization of several projects has been announced for the second half of the year, the completion dates have been postponed, indicating that year-2010 will offer additional 100,000 sq m of GLA to the market.

With the opening of the market, international investors were oriented towards development of modern buildings, which influenced the offer of high-quality projects, in favor of Class A office buildings. Furthermore, investors' permanent focus has brought the great prevalence of office buildings located in New Belgrade comprising close to 80% of the total supply in 2009.

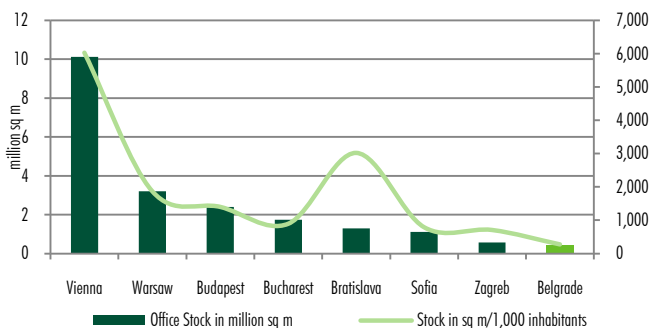
**DEMAND (TAKE-UP)**

The demand in Belgrade office market in H2 2009 amounted to app. 30,000 sq m, which shows major increase in comparison with the H1 2009. Although the first part of the year marked weak results, several large transactions signed in the third quarter boosted the demand, leading to the increase of take-up in Q3 by 30% in comparison with Q1 and Q2 2009.

At the end of 2009, the annual take-up accounted for app. 50,000 sq m, indicating similar results achieved in 2008. Additionally, the increased demand was caused by the significant price reduction that the market has faced in H2 2009.

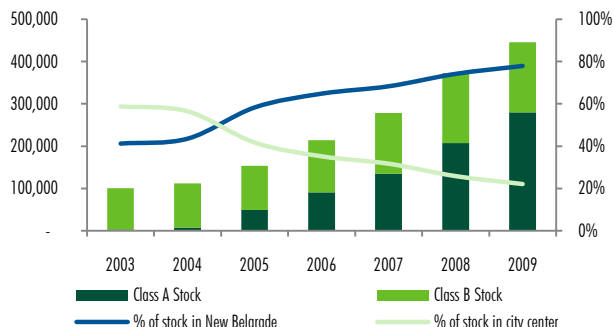
In spite of rather stable take-up, the number of signed deals in 2009 was higher for more than 15% as compared to the previous year, proving that the clients are more inclined to take smaller office space. Precisely, apart from already mentioned few larger transactions, 55% of all signed deals in 2009 were transactions lower than 300 sq m, i.e. more than 70% lower than 600 sq m. However, 2008 recorded barely 50% of transactions under 600 sq m.

**Modern office stock and stock per capita in the region, end of 2009**



Source: CB Richard Ellis

**Belgrade office stock**



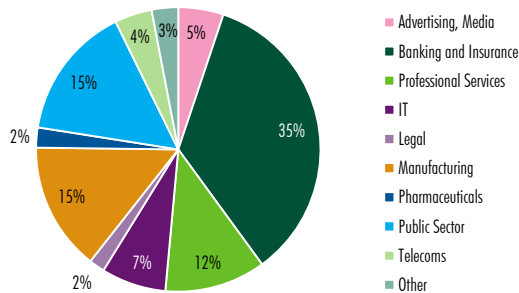
Source: CB Richard Ellis

**Selected lease transactions in H2 2009**

Tenant	Building	Size (sq m)
KBC Bank	Airport City	4,200
Piraeus Bank	Savograd	3,600
Erste Bank	GTC Square	2,300
Civil Aviation	M Invest	1,800
Deloitte	Hempro	1,500

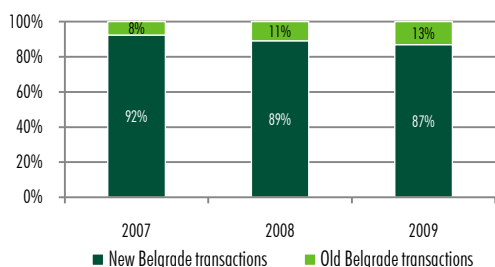
Source: CB Richard Ellis

**Occupier profile by sector of business in H2 2009**



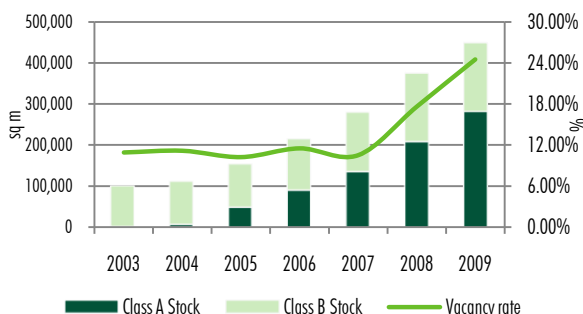
Source: CB Richard Ellis

**Belgrade lease transactions ratio**



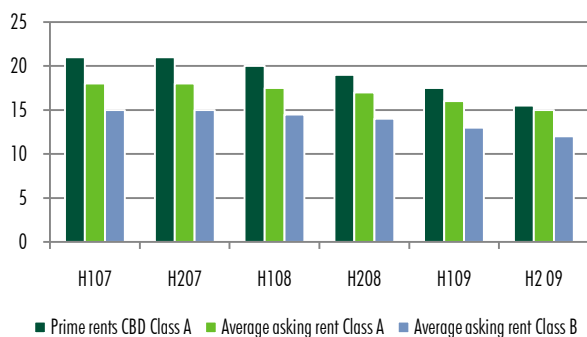
Source: CB Richard Ellis

**Belgrade office vacancy rates**



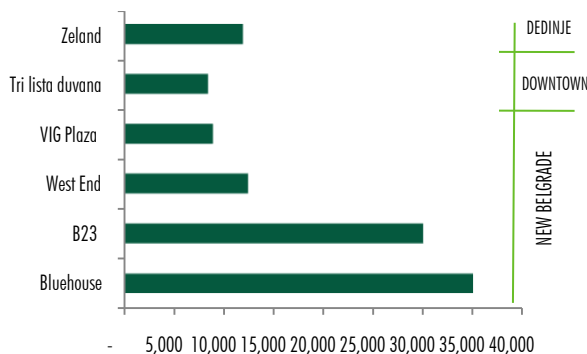
Source: CB Richard Ellis

**Belgrade asking office rents**



Source: CB Richard Ellis

**Selected pipeline developments due for completion during 2010**



Source: CB Richard Ellis

The tenants continued to target New Belgrade area and during H2 2009 majority of significant transactions were signed in New Belgrade. In terms of occupier profile, banking stays the most active sector, since several large bank corporations signed its lease deals during H2 2009.

**VACANCY**

Significant changes in Belgrade office stock and unmatched demand have resulted in a very sharp increase in vacancy level, reaching app. 25% at the end of 2009 i.e. 17.6% at the end of the year 2008.

Bearing in mind that most new office inventory delivered during 2009 are Class A office buildings, the vacancy rate of Class A office space has marked a much faster growing pace than the vacancy rate of Class B office space.

It is expected that further construction activity in Belgrade office market along with potentially weaker demand may notably influence availability levels.

**RENTAL LEVELS**

Having faced rather challenging market conditions and more intensive competition among large office projects currently in pipeline, the landlords are forced to offer more flexible incentive packages in contract negotiations (whether in terms of rent-free period, fit-out contribution or better parking ratio).

Since the beginning of 2009, rental levels of office space have showed constant downward trend in comparison with year-2008. The second half of the year recorded even lower rents, due to the extended offer and rising vacant space. Generally, Class A office buildings imply average asking rents of EUR 14-16/sq m/month, while average asking rents of Class B stock amount to EUR 12/sq m/month. However, the achievable rental levels are much lower, standing at EUR 13.5 EUR/sq m for Class A and EUR 10/sq m/month for Class B buildings.

**FUTURE SUPPLY**

Belgrade office market will see intensive development in the foreseeable future. Among the most significant projects to be completed in 2010 are Bluehouse in block 26, Verano's B23 in block 23, West End and Vig Plaza located in New Belgrade and Tri Lista Duvana located in the city center.

It is expected that all office buildings currently in construction phase will be brought to the market as announced, holding more than 100,000 sq m. However, due to the turmoil on the world's financial market, investors are quite cautious with regard to new investment decisions and projects, meaning that only a limited number of office projects are currently in planning phase.

## 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)	12-15% of the first year's rent

## Definitions

## Classification

Class A: Best space available – i.e. new or high-quality secondhand space at good location, with top specification and prominent market image.

Class B: Good-quality secondhand space - i.e. no longer prime because of factors such as age or location.

**Stock** – modern office space in Class A and Class B buildings excluding owner occupied/governmental buildings

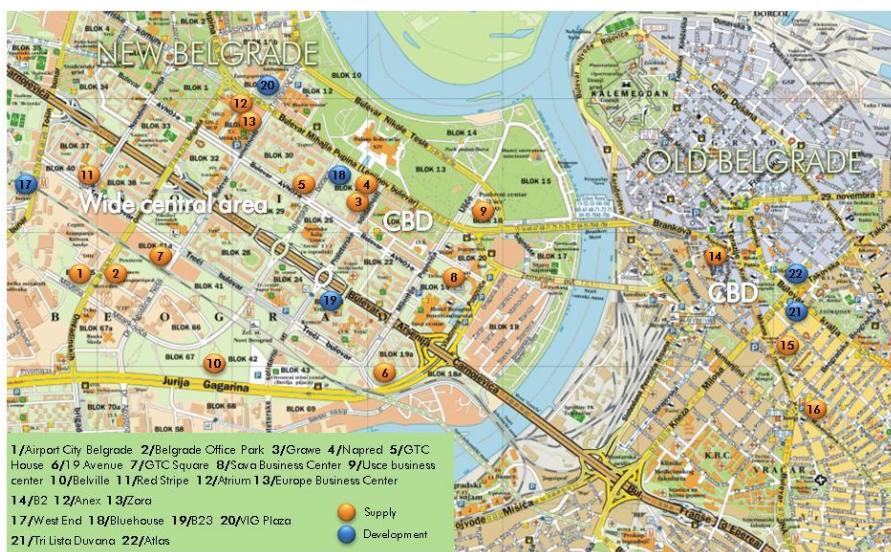
**Pipeline developments** – office space currently being developed/under construction

**Vacancy Rate** – the ratio of vacant office space to total stock

**Take-Up** – office space leased or pre-leased in a given period

**Prime Rent** – typical 'achievable' open market headline rent (can be hypothetical) for a unit of standard size of the highest quality and specification and in the best location in the market, at the survey date. It does not need to be identical to any of the transactions, particularly if the deal flow is limited or made up of unusual one-off deals

## Belgrade Office Market Map



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For More information regarding the MarketView, please contact:

## CB Richard Ellis d.o.o.

Dragan Radulovic

Managing Director

CB Richard Ellis d.o.o.

Airport City Belgrade

88b Omladinskih Brigada Street

11070 Belgrade, Serbia

t: +381 11 22 58 777

e: [dragan.radulovic@cbre.co.rs](mailto:dragan.radulovic@cbre.co.rs)

Milica Molovic

Head of Office Brokerage

CB Richard Ellis d.o.o.

Airport City Belgrade

88b Omladinskih Brigada Street

11070 Belgrade, Serbia

t: +381 11 22 58 777

e: [milica.molovic@cbre.co.rs](mailto:milica.molovic@cbre.co.rs)

Tamara Kostadinovic

Head of Market Research

CB Richard Ellis d.o.o.

Airport City Belgrade

88b Omladinskih Brigada Street

11070 Belgrade, Serbia

t: +381 11 22 58 777

e: [tamara.kostadinovic@cbre.co.rs](mailto:tamara.kostadinovic@cbre.co.rs)