Belgrade Property Market

S&P'S LT FC Rating

BB/Stable

Office Quick stats

	Change from Q2 2011
Take-up	↓
Vacancy	↓
Rents	→

Retail Quick stats

	Change from Q2 2011
Take-up	→
Vacancy	→
Rents	→

Residential Quick stats

	Change from Q2 2011
Supply	↑
Demand	↑
Prices	→

Hot Topics

- According to the preliminary results published by the Statistical Office of Republic of Serbia, GDP grew by 0.7% in Q3 2011
- CPI inflation started to decline in Q2 2011 and hit 9.3% in September
- The total take-up in office market segment during Q3 2011 amounted to app. 7,400 sq m of GLA

ECONOMIC OVERVIEW

The Executive Board of the International Monetary Fund (IMF) has approved an 18-month Stand-By Arrangement for an amount equivalent to SDR 935.4 million (about US$1.5 billion or EUR1.1 billion). However, the Serbian authorities intend to treat the arrangement as precautionary, and not to draw on Fund resources unless the need arises.

Full implementation of the Free Trade Agreement between Serbia and the European Free Trade Association (EFTA) will start as of October 1st, with the enforcement of the duty free trade between Serbia and Iceland. EFTA members are Iceland, Liechtenstein, Norway and Switzerland. Application of the free trade agreement between Serbia and Switzerland and Liechtenstein commenced on October 1st 2010, and as of June 1st 2011, between Serbia and Norway.

According to the projection of the balance of payments of the National Bank of Serbia (NBS), foreign direct investment (FDI) this year should be among Serbia's most important inflows from abroad amounting to about USD 2 billion.

NBS's Monetary Policy Committee decreased the key policy rate by half the percentage point, reducing it below the levels as of previous year-end (11.50%, Dec. 2010), and it now stands at 11.25%.

In accordance with the data from the Statistical Office of Republic of Serbia, GDP has noted the growth of 2.4 % in Q2 2011, in comparison with the corresponding period of 2010.

Observed by activities, the highest growth was recorded in the section of mining and quarrying, the section of electricity, gas and steam supply and the section of information and communication, while the biggest drop was marked in the section of trade. Moreover, based on a flash estimate for Q3 2011, GDP increased by 0.7% in comparison with the corresponding period of the previous year.

The average net salaries and wages paid in September 2011 in the Republic of Serbia equaled RSD 38,763 (EUR 383). Belgrade region is way above the national average, with average net salary totaling RSD 48,374 (EUR 478).

After a peak in April 2011, year-on-year CPI inflation started decreasing, from 14.7% in April to 10.5% in August and 9.3% in September, mainly due to stabilized food prices. The target inflation for the end of 2011 amounts to 4.5 ± 1.5%, and for the end of 2012 4.0 ± 1.5%. According to NBS's assessments, the inflation will continue to drop in the next period and should come within the limits of the target inflation in the first half of 2012.

Republic of Serbia - latest indicators

Estimated population	1st January 2011	7,276,195
Quarterly GDP – flash estimate	Q3 2011 / Q3 2010	real growth 0.7%
CPI - COICOP	Sep 2011 / Aug 2011	growth 0.2%
	Sep 2011 / Sep 2010	growth 9.3%
Industrial production	Sep 2011 / Sep 2010	fall 1.8%
External Trade	Jan-Sep 2011	USD 23,578.4 million
Turnover of goods (in retail trade)	Sep 2011 / Sep 2010	fall 10% - current prices
		fall 18.3% - constant prices
Average net salary	Sep 2011 / Sep 2010	growth 12.1% in nominal terms
		growth 2.6% in real terms
Unemployment rate (Labor force Survey)	Apr 2011	Total - persons aged 15+ - 22.2%
		person aged 15-64 - 22.9%
Average monthly individual consumption	Q2 2011	RSD 46,500 (EUR 466)
expenditures per household	Q2 2010	RSD 42,448 (EUR 419)
Usage of information – communications technologies in Serbia	2011	52.1% of the households possess a computer
		41.2% of the households have Internet connection

Source: Statistical Office of the Republic of Serbia

BELGRADE OFFICE MARKET

The contemporary Belgrade office stock of Class A and Class B buildings remained unchanged and at the end of the third quarter of 2011 equaled app. 500,000 sq m of GLA.

This year, the third quarter noted a decrease of 13% when compared to the same quarter of 2010. With around 7,400 sq m of leased space, this quarter records a 36% decrease compared to the take-up realized in the previous quarter. However, despite weak results achieved in this quarter, YTD leasing activity in general was very strong and has almost reached the amount achieved throughout the entire previous year. With another quarter pending, and with the continuance of this trend, the total leasing activity of 2011 is expected to reach the figures achieved before 2009.

What is also an encouraging figure is that the total amount of leased space is equally split between the new entries and companies that were already present on the market.

Since the market has not seen any new building deliveries, vacancy continues its downward trend for the fifth quarter in a row. Currently vacancy stands at the mid end of 22%, breaking below the 23% barrier.

During this quarter, the number of signed lease acquisitions hit ends of the size line and around 64% of the deals presumed office requirements lower or equal to 300 sq m, and app 29% of office deals were larger than 600 sq m of space. Deals larger than 600 sq m of space make up almost 70% of total transactions. In terms of occupier profile, IT sector was the most active sector, with 41% share in Q3 2011, followed by Professional Services (16%) and Legal sector (14%).

Rental levels of both Class A and Class B office space remain mostly stable and unchanged throughout the year. Asking rental values of Class A office buildings vary between EUR 14-16/sq m/month, while average asking rents of Class B stock amount to around EUR 12/sq m/month. However, the achievable rental levels, with incentives included, are standing at around EUR 13.5 EUR/sq m for Class A and EUR 11/sq m/month for Class B buildings.

The only office building with ongoing construction is the future headquarters of Raiffeisen Bank in New Belgrade block 66, with 21,000 sq m due for delivery during the first quarter of 2012. Another development currently in construction phase is the Falkensteiner Hotel in New Belgrade block 11. The complex will incorporate a business tower, which will host cca. 6,000 sq m of modern office space. Delivery date for this project is set for the third quarter of 2012.

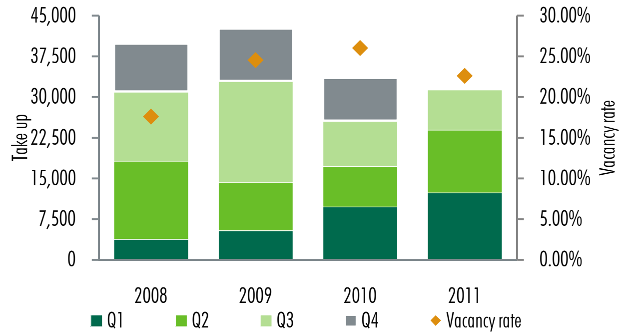
Since there are no other significant new projects currently in early construction phases, it is expected that in longer term vacancy rate will continue its decreasing trend.

Selected lease transactions in Q3 2011

Tenant	Building	GLA (sq m)
NCR	Sava Business Center	2,625
Jankovic Popovic Mitic	Genex Apartmani	1,000
Tvojih 5minuta	M-Invest	800
Nissan-Renault	Airport City Belgrade	400
SekoPak	Red Stripe	300
Leitner Leitner	Anex	256

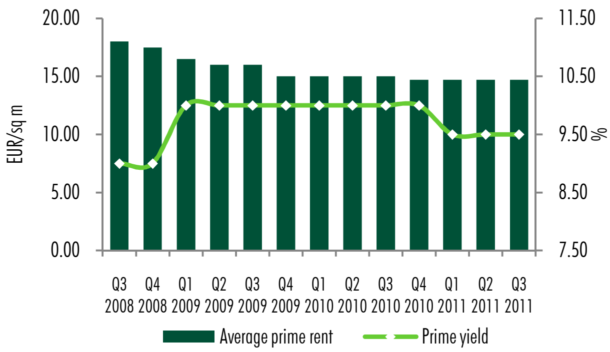
Source: CB Richard Ellis

Quarterly leasing activity 2008-2011 (sq m) and vacancy rate (%)



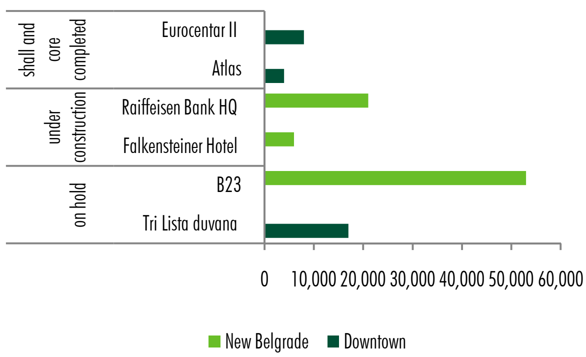
Source: CB Richard Ellis

Average prime rent and prime yield in period Q3 2008-Q3 2011



Source: CB Richard Ellis

Selected pipeline developments in Belgrade (sq m of GBA)



Source: CB Richard Ellis

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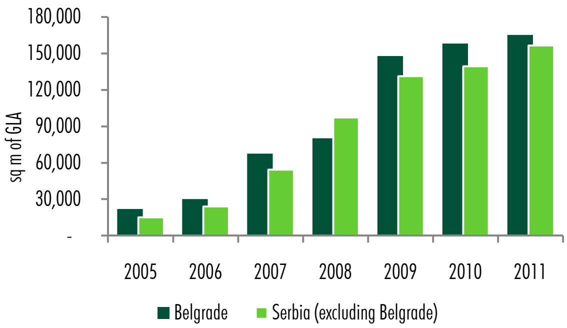
Stock of modern shopping centres in Belgrade and rest of Serbia



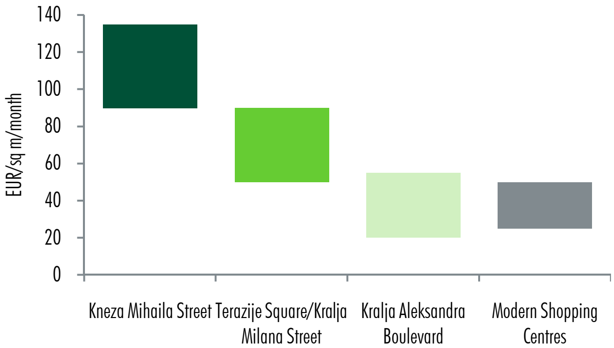
Source: CB Richard Ellis

Selected retail formats in pipeline in Belgrade and Serbia

Project	Location	Format	GBA (sq m)	Opening year planned
Aviv Park ph.III	Pancevo	Retail Park	4,000	Q4 2011
BIG CEE	Novi Sad	Retail Park	32,000	Q1 2012
Kragujevac Plaza	Kragujevac	Shopping Center	52,000	Q1 2012
Fashion Park Outlet	Indjija	Factory Outlet Centre	30,000	Q1/Q2 2012
Visnjicka Plaza	Belgrade	Shopping Center	100,000	Q4 2013

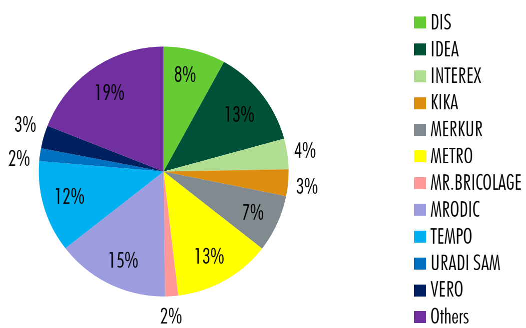
Source: CB Richard Ellis

Prime rents in Belgrade



Source: CB Richard Ellis

The share of operators in the total warehouse retail stock in Serbia



Source: CB Richard Ellis

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BELGRADE RETAIL MARKET

Shopping centers

With no new developments occurring during this quarter, Belgrade contemporary stock of shopping centers is standing at app. 165,000 sq m of GLA. The two flagship modern shopping centers Delta City and Usce, are still the most attractive destinations for retailers which continue to record vacancy levels close to none.

Elsewhere in Serbia, construction is going strong on the Plaza Shopping Centre in Kragujevac. The new modern shopping centre will embrace cca. 52,000 sq m of GBA, around 22,000 sq m of GLA, and will more than double the total shopping centre stock in the city. The shopping centre is almost fully pre-let, and the new year will bring some interesting new brand names to this part of Serbia. Moreover, several other ongoing projects will considerably change the retail scene in Serbia.

High street retail

Demand for high street properties kept mostly stable trend throughout the year. Belgrade retail market has marked new entry with opening of the GAP store in Kneza Mihaila street. The international brand has chosen the high street for market penetration and brand awareness raising. After positioning themselves in Belgrade's' two flagship malls, Sephora has opened its third store at the heart of Belgrade.

Warehouse retail

Serbian Commission for Protection of Competition gave a green light to the takeover of Delta Maxi retail chain by Belgian Delhaize Group in mid July. The decision came three months after the EUR 932 million deal was signed in March.

Mercator-S has announced its intention to take over the commercial activities of Familija markets, in the business premises of Robne Kuce Beograd Department Stores, under the contract on strategic partnership signed on the end of July 2011. Contract to lease 27 facilities of Robne Kuce Beograd, in which Familija Market operates, shall become effective upon approval of the Competition Commission of Serbia. The contract is designed for long-term lease of total area over 22,000 sq m.

Further growth of Mercator chain also marked the opening of the ninth Roda Center mid of July, located in Jagodina. Roda Center Jagodina spreads over 7,500 sq m, incorporating a supermarket and technical goods shop with around 2,000 sq m each.

Idea has continued to expand its retail network by opening its 27th shop this year in September. New Idea Super store was opened in Trstenik, and covers over 1,500 sq m, offering more than 15,000 products.

After opening the stores in Novi Sad and Nis, French DIY chain Mr.Brickolage has completed its first object in Belgrade, holding 3,100 sq m.

BELGRADE RESIDENTIAL MARKET

Based on the official statistics, a number of constructed residential units in Serbia and Belgrade constantly grew till 2008, noting the first downward trend in 2008 which continued throughout 2009 and 2010. Accordingly, 5,684 residential units were constructed in Belgrade during 2010, 7.6% less than in 2009 and even 27.7% less than in 2008. However, some Belgrade municipalities recorded very intense development activity in 2010 as compared to 2009: Stari grad (322%), Surcin (314%), Grocka (168%) and Zemun (53%). The biggest drop in development activity has been marked in municipalities: New Belgrade (-71%) and Savski venac (-29%). The average size of apartments constructed during 2010 in whole Belgrade area was 63.1 sq m.

In terms of residential supply, Adoc has recently completed the construction works on its Bokeljska 7 project, of 7,500 sq m, totaling 32 apartments available from EUR 1,950 (VAT incl.), with sizes from 46 up to 150 sq m. Also, several residential projects are currently under construction, which will enlarge the offer of both high and mid-class accommodation in Belgrade.

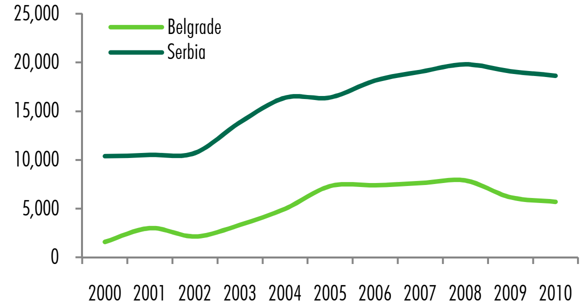
The first construction phase of low-cost project on Stepa Stepanovic site is currently on track, which is due for completion in early Q2 2012. The activities on the first phase and initial part of second phase incorporate 32 objects, including around 3,300 apartments which hold cca. 315,000 sq m of living space. Price per sq m is between EUR 1,250-1,290 (VAT incl.), while garage places are available for EUR 7,200 (VAT incl.).

After a recessive first half, summer brought encouraging figures as the borrowing activity picked up. The number of realized loans in June and July made it over the average for the 2010, surpassing the figure of 850 per month. From the beginning of 2010, the total number of realized loans has reached 15,000 until July 2011, thus directly influencing the demand that was considerably higher than of the first two quarters.

Even though the demand was on the rise, prices of residential units remained dormant and mostly unchanged as of the previous quarter, due to the high share of available and pipeline projects. In central Belgrade municipalities, the asking prices of high-quality projects start off from EUR 2,300 (VAT included), with mid-end projects varying between EUR 1,500-2,100 with tax included. Prices are influenced by location and by the quality of finishing works.

Rental demand remains steady, with a change in postulates, becoming more tenant driven. A trend of cost downsizing was noted among foreign companies, influencing the increase in availability, thus the third quarter rental levels noted a decrease compared to the previous quarter. On average, the reduction was between 8-12%, and the rental prices are standing between EUR 7-12/sq m, depending on the location.

Number of completed apartments in Serbia and Belgrade during 2000-2010



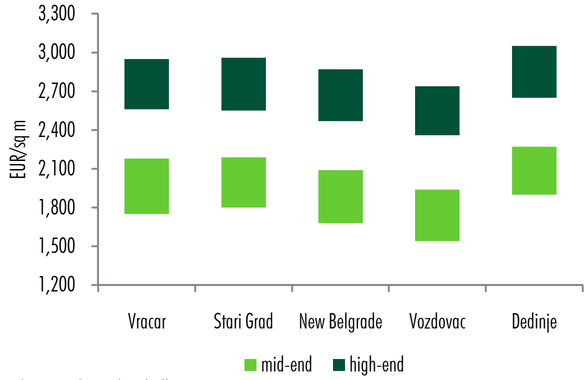
Source: Statistical Office of the Republic of Serbia

Selected residential projects in pipeline or under construction in Belgrade

Project	Location	GBA (sq m)
Stepa Stepanovic	Vozdovac	315,000
Koling Zeland (residential complex)	Dedinje	10,000
Maxima Center Imperijal gradnja	New Belgrade	22,000
West 65	New Belgrade	50,000
Golf 8	Banovo Brdo	31,000
Marmil Land	Vracar	18,000

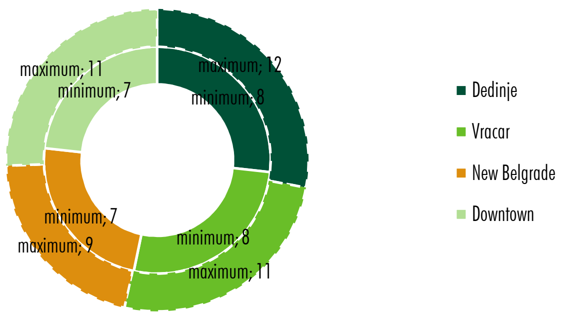
Source: CB Richard Ellis

Average asking prices of high-end and mid-end projects in Belgrade



Source: CB Richard Ellis

Rental levels in Q3 2011 in Belgrade (EUR/sq m/month)



Source: CB Richard Ellis

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
GBA – Gross Building Area;
GLA – Gross Leasable Area
CEE- Central and Eastern Europe
SEE- South East(ern) Europe
YTD- year to date

Serbia Map

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