Belgrade Property Market

S&P'S LT FC Rating

BB-/Stable

Office Quick stats

	Change from Q4 2009
Take-up	↑
Vacancy	↑
Rents	→

Retail Quick stats

	Change from Q4 2009
Take-up	↓
Vacancy	↑
Rents	→

Residential Quick stats

	Change from Q4 2009
Supply	↑
Demand	↑
Prices	→

Hot Topics

- The average net salary paid in March 2010 in the Republic of Serbia totaled EUR 339.85 (RSD 33,508)
- According to the preliminary results published by the Statistical Office of Republic of Serbia, GDP grew by 1% in Q1 2010
- The total take-up in office market segment during Q1 2010 amounted to app. 10,000 sq m of GLA

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ECONOMIC OVERVIEW

The Executive Board of the International Monetary Fund (IMF) completed the third review of Serbia's economic performance under a program supported by a Stand-By Arrangement (SBA), which enables the immediate release of EUR 360 million. The Serbian Government has indicated that will draw only 50% of the purchase available under this review. This would bring total disbursements under the program to EUR 1.3 billion.

During March 2010, Dun & Bradstreet has upgraded Serbia's rating from a high-risk DB5a to a moderate-risk DB4d, meaning that Serbia has been rated in the moderate risk band for the first time.

In February, Serbia's official rating by the Organization for Economic Co-operation and Development (OECD) had increased, moving up from the sixth category into the fifth. According to the OECD's report, Serbia was the only country in the world whose rating has been improved.

In accordance with the data from the Statistical Office of Republic of Serbia, the retail trade turnover in the Republic of Serbia in the period January – March 2010, compared to the same period in 2009, declined by 2.2% at current prices and by 8.8% at constant prices.

The average salaries and wages paid in the period January – March 2010 in the Republic of Serbia, compared to the average salaries and wages paid in the corresponding period of 2009, were increased by 5.7% in nominal terms and by 1.3% in real terms.

After reviewing current economic developments, on March 23, the National bank of Serbia Monetary Policy Committee reduced the key policy rate by half the percentage point, which equals 9.0 percent.

In accordance with the latest statement of The International Monetary Fund (IMF), Serbia would be returning to a high rate of growth of its gross domestic product (GDP) in 2012 and 2013. The IMF's new report on Serbia published on its official site, states that the growth of the GDP will speed up to five percent in 2012, and 5.5 percent in 2013. Additionally, the significant growth in exports from Serbia is expected in 2011, whereas GDP is expected to see an increase of two percent in 2010 and three percent in 2011. The report notes that the inflation rate would continue to drop in Serbia and would stabilize at about four percent annually, taking into consideration monetary and fiscal policies.

BELGRADE OFFICE MARKET

The volume of office stock has increased during first quarter of 2010 by approximately 10% with the opening of office buildings (Blue Center and West End, both located in New Belgrade).

The contemporary Belgrade office stock of Class A and Class B buildings at the end of first quarter 2010 equaled app. 480,000 sq m of GLA.

West End

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Belgrade office market continued to record renewed demand which commenced with the second half of last year, meaning that the total take-up in the first quarter of 2010 amounted close to 10,000 sq m of GLA. As compared to the same quarter of previous year, take-up in Q1 2010 showed the increase of 85%. The analysis of the size of signed lease acquisitions in the first quarter of 2010 indicated that more than 50% of the deals presumed office requirements lower than 300 sq m, and less than 19% of office deals were larger than 600 sq m of space, showing that the companies still require smaller offices.

Constant growth of office stock, also marked from the beginning of the year, and unmatched demand have resulted in a further increase in vacancy level, reaching app. 28% at the end of Q1 2010, after amounting to app. 25% at the end of the year 2009.

Rental levels of both Class A and Class B office space remain mostly stable as compared to Q4 2009. 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 EUR 12/sq m/month. However, the achievable rental levels are much lower, standing at around EUR 13.5 EUR/sq m for Class A and EUR 10/sq m/month for Class B buildings.

Despite the fact that in recent years, office market was considered as very attractive segment for the investors, the turmoil on the world's financial market has influenced the investors to be rather cautious with regard to new investment decisions and projects. This means that majority of projects, although planned for development, are put on hold or postponed for uncertain period. Due to the lack of considerable new projects currently in early construction phases, it is expected that in longer term vacancy rate will be at lower level.

BELGRADE RETAIL MARKET

Shopping centers retail market noted the same tendencies, as in the previous quarter, meaning that the trend of tenant change in shopping centers has continued. What is also notable is the small modifications in unit sizes, which enables landlords to introduce certain new brands and keep the existing tenants in the centers. The total stock of modern shopping centers in Belgrade remains unchanged during Q1 2010, holding close to 150,000 sq m of GLA.

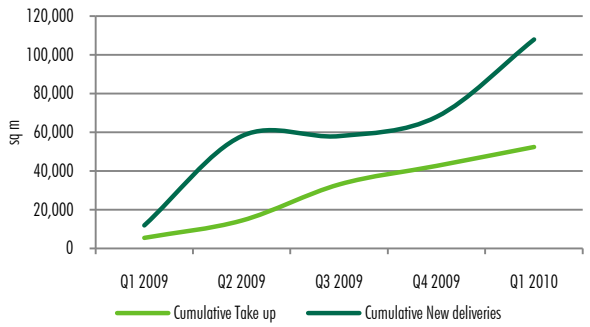
As expected, the opening of Usce shopping centre in March 2009 has influenced the positioning of Belgrade and Serbia on the global retail map. Namely, according to CBRE International annual research on the presence of internationally recognized retailers, in 2009 Serbia's positioning improved as per the number of present brands, from 17 to 22%, which now ranks it 39th on the global list. Belgrade itself takes 88th place, among 148 cities which participated in the research across the world.

Selected lease transactions in Q1 2010

Tenant	Building	GLA (sq m)
Univerzal bank	Genex	~ 2,500
Nestle	GTC Square	1,500
Ericcson	Savograd	900
Dexy Co	West End	475

Source: CB Richard Ellis

The comparison of cumulative take up and cumulative new deliveries to the market, starting with Q1 2009 till Q1 2010 (in sq m of GLA)



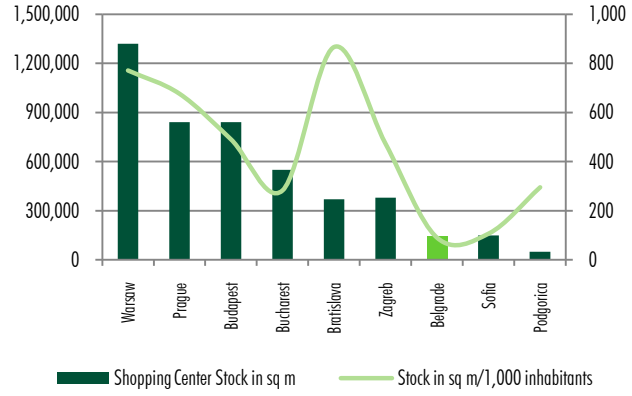
Source: CB Richard Ellis

Selected pipeline developments due for completion during 2010 and 2011

Project	Location	GBA (sq m)	Investor
Vig Plaza	New Belgrade	16,000	Wiener Stadtische
Tri Lista duvana	Downtown	17,000	MPC
Atlas	Downtown	4,000	Atlas group
Zeland	Dedinje	12,000*	Koling
B23	New Belgrade	53,000	Verano group

* office part

Stock of modern shopping centres per capita, after Q1 2010



Source: CB Richard Ellis

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Selected modern shopping centres in pipeline in Belgrade and Serbia due for completion in 2010 and 2011

Project	Location	GBA (sq m)	Investor
Point center	Grocka	9,100	Immopoint
Park City	Novi Sad	12,000	Vondel capital
Shopping Center	Nis	15,000	MPC
Pluto	Leskovac	11,400	Pluto capital
Delta park	Kragujevac	23,000	Delta

Source: CB Richard Ellis

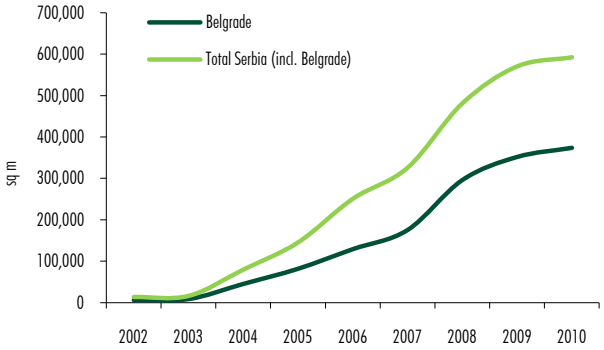
High street and modern shopping centres prime rents

Location	Prime rents (EUR/sq m/month)
Knez Mihailova Street	Above 120
Terazije Square/Kralja Milana Street/Kralja Aleksandra Boulevard	60-120
Modern Shopping Centres	35-60

Source: CB Richard Ellis

Prime yields (%)

Warehouse retail stock in Belgrade and Serbia after Q1 2010



Source: CB Richard Ellis

Apart from the smaller shopping centers that are planned in Belgrade suburbs, such as Point center in Grocka, more significant pipeline of retail development is pending, including the projects: Plaza Centers's project Visnjicka Plaza (48,000 sq m of GLA); Ashtrom International's center in Rajiceva Street (20,000 sq m of GLA) and Verano Group's large shopping centre called Trosarina (32,500 sq m of GLA). However, the completion dates are still uncertain.

The interest in Serbian retail market remains high. Aviv Arlon has opened its first Retail Park in Pancevo, by opening Dis hypermarket of 4,500 sq m. The second phase will include construction of 5,000 sq m, while the whole complex is planned for completion in six phases. BIG CEE has plans to commence the construction of its first retail park in Novi Sad, holding 32,000 sq m.

High street retail

During Q1 2010, demand has slightly fallen for high street properties due to the significant rental levels. Vacancy rates have increased in all segments (even in prime central streets), while secondary areas were most affected.

The prime retail levels at top locations, in particular high street zone, have remained mostly stable with slightly downward corrections, standing between EUR 60 and 120/sq m/month in prime locations, such as: Terazije Square and Kralja Milana Street, with top rents in Knez Mihailova Street, where rents overachieve EUR 120/sq m/month. While top locations still resist financial instability due to a limited supply of prime units, secondary or tertiary locations are witnessing increased pressure on rents.

Belgrade high street retail zone remains very important retail environment, attracting well-known international brands. Recently, British luxury fashion brand Burberry has opened its first store in Belgrade, at Terazije Square.

Warehouse retail

During Q1 2010, Serbian trade company Real market opened the biggest hypermarket in Belgrade. Its HiperCort is situated next to Belgrade-Zagreb highway and occupies the surface of 22,000 sq m.

During this year, warehouse retail segment will persist in marking a significant expansion. One of the leading distribution groups, French chain Carrefour and well-known German "Do It Yourself" concept store OBI have plans to enter Serbian market in 2010.

Many retailers have plans to continue expanding their store networks, such as: Veropolus, Delta, Interex and IDEA. German self-service wholesale trade company Metro Cash and Carry has announced the construction of its third store in Belgrade, in Cukarica municipality, and one in Subotica, which will be the seventh store that the company has opened in Serbia.

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BELGRADE RESIDENTIAL MARKET

In January 2010, Serbian Government adopted Decree on financing the construction of low-cost flats in Serbia and the regulation on conversion of land usage right into ownership right. According to current plans, 10,000 low-cost apartments will be constructed in Belgrade, Novi Sad, Nis and Kragujevac. The state will subsidize the interest rate of up to 7%, so that the investors will be obliged to pay the interest rate of 2% on these loans. This year's budget has allocated RSD 2 billion (app. EUR 20 million) for that purpose. The maximum prices of flats per zones have been established by the Decree and will range from EUR 695 to EUR 1,595 depending on the city and the zone.

The first signs of recovery and certain positive movements in Belgrade residential market, in terms of supply and overall demand, that yearend of 2009 has brought, also continued during first months of 2010. Significant number of residential projects, both high-quality and mid-end projects, are currently under construction which will enrich the residential property market in the next several years. The largest percentage of future projects remains concentrated in the central city locations and New Belgrade, whilst the certain suburban neighbourhoods have great potential to be considered as promising development locations.

Having in mind the government supportive measures and incentives for housing loans, demand keeps marking the positive tendency, since for the majority of buyers the main source of financing is taking out a loan. According to Association of Serbian banks, the number of housing loans taken out by Serbian citizens constantly increases, and grew by 12% in March 2010 as compared to 2009-yearend. Additionally, the willingness of landlords to meet buyers' requests in terms of lowering the asking prices, sometimes even for 15-20%, also certainly influences the demand. High-class projects are usually characterized by stable demand, as high-income population is not greatly affected by economic situation.

As the prices of residential units depend on the attractiveness of location, proximity to downtown, quality of finishing works and general condition of the property, the asking prices of high-quality projects kept mostly unchanged prices in Q1 2010 in comparison with the previous quarter, varying between EUR 3,000-3,500, while mid-end projects, characterised by medium quality of finishes, range between EUR 2,000-2,500.

The first quarter of 2010 marked the increase in rental demand. The most attractive municipalities for international companies and embassies are Dedinje, Senjak, Vracar and New Belgrade. Although the previous year brought the decline in rental prices by 20%, the beginning of this year noted the certain rent stabilizations, standing between EUR 8-15/sq m, depending on the location and apartment quality.

The maximum price per sq m in Belgrade's second zone zone will be EUR 1,595, the third zone will cost EUR 1,290, forth zone will be EUR 945, while the price in other zones in the capital will amount to 695 EUR per sq m. Low-cost apartments are not planned for construction in Belgrade's first and extra zone.

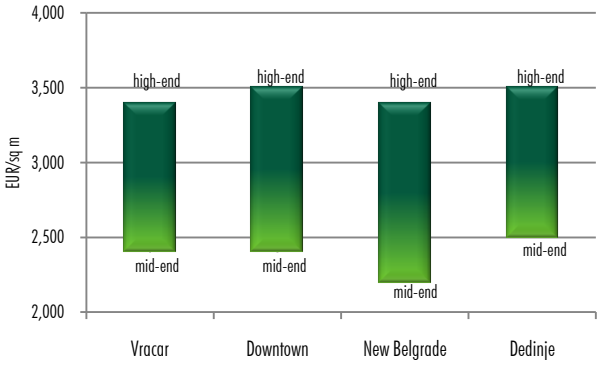
In Vozdovac settlement, in Belgrade, at the location of 4th July Barracks , the construction of the first low-cost residential complex with 5,000 apartments will commence during forthcoming summer. The maximum price per sq m will be 1,290 EUR.

Selected residential projects completed or in development in Belgrade

Project	Location	GBA (sq m)
MPC Kalemegdan Park Apartments	Downtown	12,100
Ocean Atlantic Galerija Apartments	Downtown	18,500
Koling Zeland (residential complex)	Dedinje	10,000
Metropoliatan project	Palilula	16,500
Maxima Center Imperijal gradnja	New Belgrade	22,000
Prima Edil Italiana	Downtown	4,000

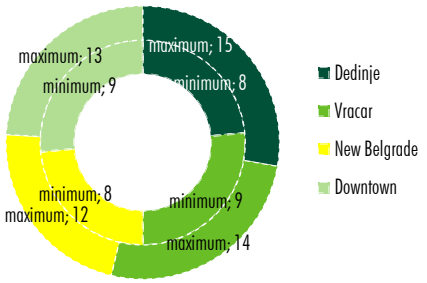
Source: CB Richard Ellis

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



Source: CB Richard Ellis

Rental levels in Q1 2010 in Belgrade



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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

Serbia Map

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