



Serbia Property Market

 **King Sturge**

Autumn 2009



Executive summary

- Serbia is strategically located on the borders of the EU, neighbouring Hungary in the north and Romania and Bulgaria to the east. Two major Pan-European transport routes lead through the country – corridor VII and X.
- Belgrade is the most important population centre and is experiencing faster economic growth than other regions in the country. The majority of property market activity is concentrated there.
- Minimum earnings, fixed at €145/month, which, though comparable with Bulgaria and Romania, are dramatically lower than in other Eastern European countries.
- Serbia has developed into a stable growing market economy, which boomed in 2004, achieving 8.80% annual GDP growth and most recently at 5.4% in 2008. The economy is expected to contract at a rate significantly above the EU average.
- Serbia has the lowest corporation tax in Eastern Europe, at 10%.

Office market

- Class A office stock now totals approximately 330,000m². A further 100,000m² of office space is already under construction and due to be completed by mid-2010, boosting stock to an estimated 430,000m². However, at the time of writing of this report many of the office building construction sites have ceased to work and look to be waiting for the market to turn. The majority of development activity is still focused in New Belgrade.
- Despite the fast pace of growth, Belgrade's office stock is relatively low compared to other capital cities in Eastern Europe.
- Demand in the Belgrade office market has been weak but still holding a pulse with total lettings of approximately 7,500m² in first half of 2009. The two largest lettings were completed by King Sturge which put Piraeus Bank and Credit Agricole/Meridian Bank in Sava City.
- Prime Class A rents have decreased significantly

to €17/m²/month with significant incentives to attract occupiers. As supply has currently exceeded demand, vacancy has increased significantly towards 20% and seen to be stable for the short to medium term. We see a lag in supply in 2011 if the economic crisis turns around.

Retail market

- Sales may decline in Serbia over the short term but the market is unlikely to see the kind of catastrophic scenes witnessed in Western countries. Although nervous retailers are no longer competing for space as they were recently, it is predicted that there will be a growing focus away from High Street retailing to quality in-town shopping malls and out-of-town retail park developments, which offer low rental costs, strategic marketing plans and a controlled and structured tenant mix. The Serbian retail sector is still fragmented, with the provision of retail floor space per capita extremely limited. The retail market is dominated by local players and reflects the characteristics of a market evolving from a controlled economy to a free market.
- Since our last report, two new western style shopping malls have been developed which have increased regional shopping mall presence to 72,000m² GLA.
- Moreover, food retailing has been the fastest developing retail sector in Belgrade with many of the older players working on a penetration marketing strategy by increasing the number of stores. The newest brand to the food retailing sector "Familija Market" was introduced to Belgrade in 2008 by the domestic investor, Verano Motors, who jointly purchased the RKB department store chain, which will act as a platform for the introduction of this brand.
- New inbound foreign retailers who opened in Serbia during 2009 included Peek & Cloppenberg, Koton, Fox, Stiefelkönig and Vapiano.
- At the present time retail rental levels for both high street units, shopping malls and food stores are under downward pressure from retailers whom are seeing weak retail purchasing and are likely to remain so over the short term.

Industrial market

- The underdeveloped industrial market is expected to rapidly change as requirements increase for distribution warehouses to serve the expanding retail and FMCG service sectors after the financial crisis starts on its road of recovery.
- The modern logistics development is mostly owner occupied.
- The distribution warehouses and light-industrial properties are located along important traffic links, in Krnješevci and Šimanovci districts and in the Port of Belgrade.
- The total stock of modern warehousing in the greater Belgrade area is estimated to be less than 90,000m², the majority of which has been built in last three years as owner-occupied projects.
- The industrial rents can reach up to €6.50/m²/month for prime modern space. Rents for old non-refurbished warehouses, mainly located in Belgrade's port, range between €1 and €2.50/m²/month.

Land values

- The years leading up to 2009, with the entrance of foreign investors into Belgrade's market, land values have been rising. The last year has seen some little or no transactions as most investors have found better deals in the more developed and less risky western markets.
- The prices range from €15 to €60/m² for industrial land around Belgrade depending on zoning and location. Currently, the most expensive sites are residential and commercial sites in the core of Old Belgrade and sites for logistical purposes in close proximity to Belgrade's airport.

Residential market

- The residential inventory in Belgrade has shown a steadily increasing trend over the past few years. Since the beginning of 2009, we have witnessed a sales drop by 66% due to the bank financing problems and people expecting pricing to drop more significantly.
- The New Belgrade area is becoming increasingly popular. Other attractive locations include the

city centre, Čukarica, Zvezdara, Dedinje, Vračar, Senjak, Banovo Brdo and Voždovac.

- The sale prices range from €1,300/m² in the city's periphery up to €2,000-€2,800/m² in the city centre and Vračar and €3,000- €4,000/m² in Dedinje and Senjak.
- The average rents for good-quality premises in prime locations are between €10 and €13/m²/month.

Investment market

- There was strong interest among international companies to invest in Serbian property, across all sectors. This has all but subsided due to less risky competing products in the western developed countries.
- Due to the immaturity of the market and the very low stock of any new developments, it is difficult for investors to find suitable products.
- With a number of new office buildings and shopping centres it is anticipated that foreign developers will look to trade products and release capital to re-invest in new developments.
- The annual gross investment yields range from 9% to 13% for all property types.
- The weak interest from investors and a growing number of investment products are likely to weaken yields dramatically, as is the case in other emerging Eastern European countries.



Sadržaj

- Srbija se nalazi na granici sa EU, graniči se na severu sa Mađarskom, sa Rumunijom i Bugarskom na istoku. Dva glavna puta kroz Evropu prolaze kroz Srbiju – Koridor VII i X.
- Beograd je grad sa najviše stanovnika i brže se ekonomski razvija od ostalog dela zemlje. Većina poslova vezanih za nekretnine su skoncentrisani u Beogradu.
- Najniže zarade koje iznose 145 eura mesečno a koje su uporedive sa zaradama u Rumuniji i Bugarskoj, prilično su niže od zarada u istočnoevropskim zemljama.
- Srbija se razvila u stabilno rastuće ekonomsko tržište, koje je procvetalo 2004. godine, dostigavši 8,80% godišnjeg rasta bruto domaćeg proizvoda, a u 2008. on je iznosio 5,4% . Očekuje se da će ekonomija imati znatno veći pad od evropskog proseka.
- Srbija ima najnižu taksu na prihod preduzeća u Istočnoj Evropi i ona iznosi 10%.

Tržište poslovnih prostora

- Trenutno na tržištu postoji 330.000m² poslovnog prostora A klase. Budućih 100.000m² je već u izgradnji i rok za završetak radova je do sredine 2010. godine, dostižući očekivanih 430.000m². Međutim, u trenutku pisanja ovog izveštaja, izgradnja mnogih poslovnih objekata je obustavljena i čeka se novi rast tržišta. Većina ovih prostora se i dalje nalazi na Novom Beogradu.
- Bez obzira na brzinu rasta, ponuda poslovnih prostora u Beogradu je još uvek relativno mala u poređenju sa ostalim glavnim gradovima Istočne Evrope.
- Potražnja za poslovnim prostorima u Beogradu, je skromna, ali je je još uvek u skladu sa ukupnom kvadraturom od 7.500m² koja je iznajmljena u prvoj polovini 2009. godine. King Sturge je posredovao u iznajmljivanju poslovnog prostora u zgradi Sava City Piraeus banci i Credit Agricole/Meridian banci.

- Cene iznajmljivanja poslovnih prostora A klase su značajno pale na 17 €/m²/mesečno i oseća se snažna inicijativa za privlačenjem zakupaca. Budući da je trenutno ponuda nadmašila potražnju, stepen nepopunjenosti je značajno povećan na 20% i čini se da će tako biti na kratkoročnom i srednjeročnom nivou. Završetak novih projekata će kasniti u 2011. ukoliko se ekonomija oporavi od finansijske krize.

Maloprodajni objekti

- Očekuje se kratkoročan pad prodaje u Srbiji ali se tržište neće suočiti sa katastrofalnom situacijom koju je iskusila Zapadna Evropa. Iako se vodeći i jaki zakupci više ne nadmeću za maloprodajni prostor kao ranije, predviđa se smanjenje interesovanja za lokale u glavnim trgovačkim ulicama i sve veće fokusiranje na kvalitetne gradske tržne centre i retail parkove van gradova, koji nude niske cene zakupa, isplaniranu marketinšku strategiju i kontrolisan raspored zakupaca.
- Srpsko maloprodajno tržište je još uvek nepotpuno, sa kranje ograničenom ponudom maloprodajnog prostora po glavi stanovnika. Na tržištu maloprodajnih prostora dominiraju lokalni igrači i ono oslikava tržište koje se razvija od kontrolisane ekonomije ka slobodnom tržištu.
- Od izdavanja našeg poslednjeg izveštaja, izgrađena su dva moderna šoping mola, po ugledu na one na zapadu, što je povećalo ponudu regionalnih šoping molova za 72.000m² bruto površine za iznajmljivanje.
- Osim toga, lanac supermarketa je tip maloprodajnog prostora koji se najbrže razvija u Beogradu, sa mnogo starijih igrača koji rade na marketinškoj strategiji prodora na tržište povećanjem broja prodavnica. Najnoviji brend u ovom sektoru je "Familija Market", a predstavio ga je u Beogradu 2008. godine domaći investitor Verano Motors, koji je sa konzorcijumom kupio Robne kuće Beograd, lanac robnih kuća koji će služiti kao platforma za uvođenje ovog brenda. Novi strani brendovi koji su ušli u Srbiju 2009. godine su Peek & Cloppenburg, Koton, Fox, Stiefelkönig i Vapiano.

- Trenutno, trgovci vrše pritisak da se smanje cene iznajmljivanja maloprodajnih prostora kako za ulične lokale, tako i za lokale u šoping molovima i lancima supermarketa, zato što se suočavaju sa slabom prodajom a takvo stanje će verovatno ostati isto u kratkoročnom periodu.

Industrijsko tržište

- Očekuje se da će se nerazvijeno tržište industrijskih objekata ubrzo promeniti, jer će se povećati potražnja za skladišnim prostorima potrebnima za maloprodajni i sektor robe široke potrošnje nakon što tržište krene putem oporavka od finansijske krize.
- Moderne logističke objekte uglavnom koriste vlasnici.
- Skladišni prostori i objekti lake industrije se nalaze duž značajnih saobraćajnica, u Krnješevcima i Šimanovcima i u Luci Beograd.
- Na širem području Beograda se nalazi manje od 90.000m² modernih skladišnih prostora, većina je sagrađena u poslednje tri godine i koriste ih vlasnici.
- Najamnine industrijskih objekata dostižu i €6,5/m²/mesečno za moderne objekte. Zakupnina starih nerenoviranih skladišnih prostora je između €1 - €2,5/m²/mesečno i uglavnom se nalaze u Luci Beograd.

Vrednosti zemljišta

- Tokom poslednjih godina, sa dolaskom stranih investitora na beogradsko tržište, vrednost zemljišta je porasla. U prošloj godini transakcija nije bilo, ili čak vrlo malo, pošto su investitori ulagali u razvijena i manje rizična zapadna tržišta.
- Cene industrijskog zemljišta kreću se između €15 i €60/m² u zavisnosti od zone i lokacije. Trenutno je najskuplje zemljište za izgradnju stambenih i komercijalnih prostora u centru grada i industrijsko zemljište u blizini beogradskog aerodroma.

Tržište stambenih prostora

- Ponuda stambenih prostora u Beogradu pokazuje tendenciju ravnomernog rasta u poslednjih nekoliko godina. Od početka 2009. godine, svedoci smo pada prodaje za 66% zbog problema sa bankarskim finansiranjem i zbog činjenice da svi očekuju značajniji pad cena.
- Novi Beograd postaje sve popularniji. Ostale atraktivne lokacije su centar grada, Čukarica, Zvezdara, Dedinje, Vračar, Senjak, Banovo Brdo i Voždovac.
- Cene stambenih prostora su između €1.300/m² na periferiji do €2.000/m² do €2.800/m² u centru grada i na Vračaru, i između €3.000/m² i €4.000/m² na Dedinju i Senjaku.
- Prosečne cene iznajmljivanja za kvalitetne stanove na dobrim lokacijama kreću se između €10/m²/mesečno do €13/m²/mesečno.

Investicije

- Postojalo je veliko interesovanje za tržište Srbije među stranim investitorima, u svim sektorima. Ono je opalo zbog manje rizičnih konkurentskih proizvoda u razvijenim zapadnim zemljama.
- Zbog nerazvijenosti tržišta i veoma slabe ponude novih projekata, investitorima je teško da pronađu odgovarajuće projekte.
- Sa povećanim brojem poslovnih zgrada i tržnih centara, očekuje se da će strani investitori težiti da prodaju proizvode i oslobode kapital za nove projekte.
- Godišnji prihodi od investicija su između 9% i 13% za sve vrste nekretnina.
- Veliko interesovanje investitora i veći broj investicija će verovatno smanjiti prihod kao što je bio slučaj u ostalim zemljama Istočne Evrope.



Introduction

Politics

Serbia finds itself in a halting progress towards integration into the EU, held up to a large extent by Serbia's failure to cooperate fully with the International Criminal Tribunal for the former Yugoslavia. Moreover, Serbia continues to have difficult relationships with some of its neighbours, particularly Kosovo. However, it can be said with great confidence that a renunciation of EU integration is impossible in Serbia today. Although it has seemed that Serbia is closer to Russia than to the EU and that it tries to balance between these two powers, the policy of keeping one leg in the West and one in the East will not be tenable in the long term.



Serbian Parliament

The Serbian government has approved a security agreement for the interchange of information with NATO, but the majority of citizens are reluctant

to join NATO. All together Serbia is making good political progress. It was announced that Serbia will apply for candidacy in 2009, finish EU reforms by 2012 and expects to enter the EU by 2014. Serbia has been proactive in international politics by recently meeting with France's President Sarkozy (May 2009), visit by U.S. Vice President Biden (May 2009), and planned visit to Russian President Medvedev by the end of 2009.

Population

Serbia has a total population of 7.5 million (according to the latest census in 2002), around the same as Austria. The Serbian capital is Belgrade, with a population of 1.7 million. The second major city is Novi Sad, located 80 km north of Belgrade, with a population of 300,000. The next largest city is Niš, with 250,000 inhabitants, located 250km from Belgrade in the south of Serbia. Belgrade is the most important population centre and the majority of property market activity is concentrated there. The regional cities are seeing a significant rise in investment over last two years which has been a combination of foreign and domestic investment.

Labour costs in Serbia are among the lowest in the Eastern European region and significantly lower than those in the EU member countries. This will undoubtedly attract foreign investors planning potential operations in the region provided the necessary skill base exists. Average labour costs in 2008 in Serbia are around €406/month, less than 50% of the average labour costs in Poland, the Czech Republic and Hungary. In addition, minimum earnings, fixed at €145/month, which, though comparable with Bulgaria and Romania, are dramatically lower than in other Eastern European countries.

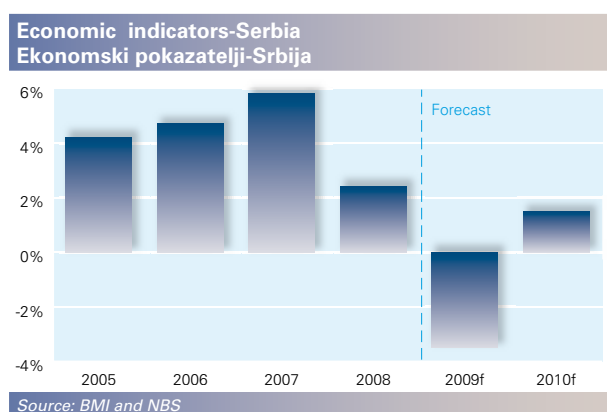
Economy

Over the past few years, Serbia has developed into an increasingly stable growing economy based on free market rules. Despite strong growth recorded in 2008 at 5.4%, the Serbian economy is forecasted to contract by 5.1% in 2009 which is predicted to continue into early 2010 with moderate growth forecasted for 2011. This contraction is mainly due to a knock-on effect of the world financial crisis.

King Sturge: Serbia Property Market 2009

Economic indicators-Serbia Ekonomski pokazatelji-Srbija		2005	2006	2007	2008			2009f	2010f	
GDP growth BDP stopa rasta		6.2%	5.7%	7.5%				-5.1%	0.2%	
					I 2008	II 2008	III 2008	IV 2008	I 2009	
Inflation Inflacija		14.5%	5.9%	7.9%	10.2%	14.2%	11.4%	10.3%	10.2%	
Unemployment rate Stopa nezaposlenosti		21.8%	21.6%	18.8%					27.0%	26.0%

Source BMI and National Bank of Serbia



Although many are pessimistic regarding privatisation, the sale revenues are key in bridging the time between now and the sustainable operation of the country. Moreover, the privatisation puts the companies into either better operating hands or companies are terminated opening space in the market for other more efficient operators.

According to the NBS, the consumer average annual inflation rate in 2008 was 8.6% and is expected to remain around 9% in 2009 with a decline in 2010. It is estimated that the inflation rate will continue to drop after 2010.

Serbian corporate income tax is charged at a rate of 10% - the lowest rate in Eastern Europe. This has attracted many corporates to the market, such as Carlsberg, VIP, Kraft, Gazprom, Bank of Moscow and Fiat.

Transport infrastructure

Serbia occupies a prime crossroads location between Western Europe and the Near East. Along with Croatia and Slovenia, Serbia is on the main transport

route between Vienna and Istanbul, and offers major trade potential to foreign investors. Two major Pan-European transport routes lead through Belgrade – corridor VII and X. In general, the quality of existing roads and railway infrastructure is good. Serbia has been updating its infrastructure and received more than €300m from the World Bank for Corridor 10 Highway and another €600m is expected from EIB and EBRD also for highway improvement in the south. Belgrade continues its construction of the Ring Road which will significantly improve the flow of traffic within and out the city.

Following the secession of Montenegro in June 2006, Serbia lost its access to the sea. However, the Port of Belgrade, situated on the Danube river, has increased its importance for the goods exchange. It forms an important traffic, transloading and cargo transportation centre for goods distribution in Serbia, handling 3 million tonnes of freight a year.



Bridge over the river Sava in Belgrade



Office market overview

The stock of office space in Belgrade has increased dramatically during the last few years, with demand for modern workspace that complies with the regulations in force in Western Europe. Despite the fast pace of growth, Belgrade's office stock is still relatively low compared to other capital cities in Eastern Europe, with approximately 330,000m² of Class A office stock, compared to approximately 550,000m² in Bucharest and 390,000m² in Zagreb.



Belville

Location

The Serbian office market is still mainly focused on Belgrade. Office stock is mainly split into two locations: the traditional core of Old Belgrade, referred to as "downtown", and New Belgrade across the river Sava.

Old Belgrade (Stari Grad)

The old town of Belgrade, the downtown, is located in the upper Dorćol area, from the streets off Cara Dušana up to Knez Mihailova Street. Upper Dorćol is a mix of residential apartments and small converted offices, often sharing the same building. The area, close to the main retail shopping streets, is popular with domestic firms and peppered with cafés and restaurants. There

are also two main office arteries heading out of downtown: Kralja Milana/Slavija Square, and Kneza Miloša. Imposing government office buildings are located along the main artery between Bulevar Franše d'Eperea and Kneza Miloša. However, the main difficulty is the low availability of car parking in the centre.

There is certainly demand for the centre from international and domestic firms i.e. auditors and lawyers. The majority of buildings are 'C' Class office buildings located in this area with a few 'A' and 'B' Class office buildings improved in the last couple of years. Moreover, there are only a few office locations being improved including "Tri Lista Duvana" building close to completion near parliament and Atlas Group's office location also adjacent to parliament.

New Belgrade (Novi Beograd)

In contrast to hilly, Old Belgrade, the area is completely flat, and set out on a US-style grid pattern, with numbered "blocks". Before 2000, the majority of development here was communist-style residential blocks giving the municipality the highest density residential area in Serbia. Since 2000, the majority of new development has been glass curtained office buildings and more recently the home of two new shopping centres. The majority of new office space is located in New Belgrade, due to the ease of locating and purchasing development land, transparency of ownership, modern facilities and infrastructure and availability of parking.

Regional cities

The office market is not well developed in the regional cities. Most of the office stock outside Belgrade is considered to be Class B. There are usually only a few business centres in larger cities as a result of a lack of demand.

Market size

Class A office stock now totals approximately 330,000m². A further 100,000m² of office space development is already under construction and due to be completed by mid-2010, boosting stock to an estimated 430,000m². The pipeline of 'A' and 'B'

class projects are estimated to amount to almost 300,000m² but due to current financial conditions will be delayed for several more years and will not come to the market before 3 years time. Furthermore, it is possible that not all projects will come to fruition, tempering the influx of new space to the market.



Airport city phase

Among international developers present in the market are Global Trade Centre International (GTC), established in Poland in 1994 and a leading developer in Central and Eastern Europe; the Africa Israel Group; CA IMMO; the Austrian company Durst & Vasko and Mahler Projekt from Germany. These developers and others were becoming increasingly active but in most cases pipeline projects have been put on hold. Nevertheless, wealthy Serbian individuals looking to capitalise on opportunities and with strong local networks, remain dominant in the market. Steps towards greater transparency and liquidity are continuing to improve investor confidence and the business climate.

Supply

Since our last report on the Belgrade market in Q2

2007, the supply of new office space has almost tripled the size of the Class A office market from approximately 118,000m² to 330,000m² as at Q2 2009. The most notable buildings finished since the last report would be 19 Avenue, Savograd, Airport City Phase III, Belgrade Office Park, Corner Business Centre, and GTC Square. Looking ahead, approximately 110,000m² of office space is in the pipeline scheduled for completion over 2009 and 2010. Among the variety of projects under construction there are several landmark developments, all of which are mainly located in New Belgrade and include: Tri Lista Duvana, Verano Block 23, VIG Plaza (Weiner Städtische) and Bluehouse.

There were some notable new transaction types in the property market in the past two years. First was the highly publicised MPC and Merrill Lynch JV deal that includes the Usce Business Centre and a possible twin tower still in the pipeline. The second was the forward purchase of Bluehouse project from Energoprojekt which was a first in Serbia; finally, was the Sale and Leaseback between Immorent and Europen for their New Belgrade office accommodation. These transactions clearly show that Serbia is advancing quickly in the area of real estate investment finance and development.



Tri Lista Duvana

Key pipeline office schemes Planirani kancelarijski projekti

Building Zgrada	Zone Zona	Gross Area Bruto površina	Completion (estimate) Završetak (procena)
Airport City phase IV	New Belgrade	18,500	4Q2009
Bluehouse Energoprojekt	New Belgrade	30,000	4Q2009
Verano Building Block 23	New Belgrade	30,000	2010
Tri Lista Duvana	City centre	10,500	2010
Ocean Atlantic	City centre	2,000	2010



Downtown, the continuing process of privatisation means that there are opportunities for refurbishment of large buildings in Old Belgrade in the future. However, it is not really possible to estimate the extent of potential redevelopment accurately due to the plethora of variables to consider, not least the lengthy tender process, clarification of legal issues, planning and the permits process.

Demand

Demand in the Belgrade office market has been weak but still holding a pulse with total lettings of approximately 7,500m² in first half of 2009. The two largest lettings in the last six months were completed by King Sturge which saw CA Meridian Bank (Credit Agricole Group) and Pireaus Bank sign with Sava Business Center (CA IMMO International). In addition to a slowdown of new and international occupiers coming to Belgrade, an increase in supply and weak demand has signalled the existing occupier's market that market rent is decreasing. The end of the Q3 2009 will almost see all foreign banks headquarters relocated to New Belgrade.



Sava Business Centre

Vacancy

The amount of immediately available office space in the Belgrade market is rising due to the amount of new development under way. We estimated that vacancy had eroded down to 7% during 2008, but has risen back towards 20% due to weaker than expected demand and is likely to remain stable or increase slightly by the end of the year as the newest

office space is absorbed and Bluehouse coming to the market at the end of 2009. We expect this trend to continue into the Q2 2010.

Rents

Prime rents currently stand at €17/m²/month in Old Belgrade and €17/m²/month in New Belgrade (Class A). The weak demand due to cost cutting measures by head offices has started to undermine prime rents achievable, with landlords competing for tenants. Prime rents in New Belgrade are likely to continue to slip as long as new supply outstrips demand, a characteristic that could be present in the Belgrade market for couple of years to come, as the market plays catch-up and establishes a new equilibrium.

Prime office rents – Belgrade Cene zakupa poslovnog prostora – Beograd	
Location : Lokacija	Range/€/m ² /month Raspon/€/m ² /mesec
City Centre : Centar grada	15-18
New Belgrade : Novi Beograd	15-18
Out of centre : Van grada	10-13

In comparison to other Eastern European cities, prime rents in Belgrade are on a level with Zagreb and Copenhagen, making them some of the lowest rents for Class A space in the region.

We have witnessed some developers foreseeing the oversupply of Class 'A' stock and changed tactics to offer good quality but inferior location Class 'B' space, which opts for less glass and more value.



19 Avenue

Retail market overview

Over the past 10 years the Serbian economy has been undergoing dramatic and fundamental transformation through the privatisation of state retail businesses and the emergence of new small enterprises. Despite progress, in comparison to other European countries the Serbian retail sector remains at the bottom of the maturity curve, presenting opportunities for future development. There is limited data available on Serbian consumption, with few indicators of household expenditure, retail turnover, floor space and shopping behavioural patterns.

Sales may decline in Serbia over the short term but the market is unlikely to see the kind of catastrophic scenes witnessed in Western countries. Although nervous retailers are no longer competing for space as they were recently, it is predicted that there will

be a growing focus away from High Street retailing to quality in-town shopping malls and out-of-town retail park developments, which offer low rental costs, strategic marketing plans and a controlled and structured tenant mix.



Idea

Existing supply of modern retail space - Belgrade Postojeća ponuda maloprodajnog prostora - Beograd

Centre	Owner /Developer	Type	Opening year	Location	Existing Retail Space
Centar	Vlasnik/ Investitor	Tip	Godina otvaranja	Lokacija	Površina postojećeg prodajnog prostora
Mercator Centre	Mercator	Shopping centre	2002	New Belgrade	22,000
ImmoCentar 1	MPC/ML	Shopping centre	2006	New Belgrade	10,000
ImmoCentar 2	MPC/ML	Shopping centre	2006	Bezanijska kosa	10,000
Delta City	Delta Holding	Shopping centre	2007	New Belgrade	28,000
Zira	Verano	Shopping centre	2007	city centre	7,000
Robna Kuca Beograd	Verano	Department store	2008	city centre (Terazije)	4,400
Robna Kuca Beograd	Verano	Department store	2009	perifery(Dusanovac)	2,000
Robna Kuca Beograd	Verano	Department store	2009	perifery (Miljakovac)	6,100
Robna Kuca Beograd	Verano	Department store	2008	perifery (Zemun)	4,000
China Trade Center ph1	Diplon	Shopping centre	2009	Belgrade highway	11,400
Usce	MPC/ML	Shopping mall	2009	New Belgrade	43,000
Merkur	Merkur	DIY	2005	New Belgrade	11,000
Pevec Center	Pevec	DIY	2008	Belgrade (Krnjaca)	35,000
Metro Cash&Carry	Metro	Cash&Carry	2005	Belgrade (Krnjaca)	8,500
Metro Cash&Carry	Metro	Cash&Carry	2005	Belgrade (Zemun)	13,000
Roda Cash&Carry	Rodic	Cash&Carry	2008	Zemun	14,000
Rodic Mega Market	Rodic	Hypermarket	2007	New Belgrade	12,000
Super Vero 1	Veropoulos	Hypermarket	2002	New Belgrade	3,500
Super Vero 2	Veropoulos	Hypermarket	2004	Belgrade (Konjarnik)	6,000
Tempo	Delta Holding	Hypermarket	2004	Near Port of Belgrade	10,200
Tempo	Delta Holding	Hypermarket	2006	New Belgrade	13,000
Supermarkets - supermarketi					130,000
High streets stock - maloprodajni prostori u glavnim trgovačkim ulicama					20,000
TOTAL MODERN RETAIL SPACE IN BELGRADE - UKUPNO MALOPRODAJNOG PROSTORA U BEOGRADU					424,100



Under Construction in Belgrade U izgradnji u Beogradu

Centre	Owner /Developer	Type	Planned delivery	Location	Planned Pipeline (GLA m ²)
Centar	Vlasnik/ Investitor	Tip	Planirani završetak	Lokacija	Planirani projekti (bruto površina za zakup u m ²)
Interex	Intermarche	Shopping mall	2010	Konjarnik	10,500
Super Vero	Veropoulos	Shopping mall	2010	Vozdovac	5,000
TOTAL - UKUPNO					15,500

Under Reconstruction in Belgrade U fazi rekonstrukcije u Beogradu

Centre	Owner /Developer	Type	Planned delivery	Location	Planned Pipeline (GLA m ²)
Centar	Vlasnik/ Investitor	Tip	Planirani završetak	Lokacija	Planirani projekti (bruto površina za zakup u m ²)
Robne kuće Beograd	Verano	Department stores	2010	5 department stores in city centre and Belgrade	22,300
TOTAL - UKUPNO					22,300

The retail market in Serbia has significantly matured in the last couple of years with the introduction of two new western style entertainment-anchored shopping malls. In addition, the privatisation of the largest department store chain, Robna Kuća Beograd, successfully transacted in 2007. Until recently, the Serbian retail market had shown remarkable growth with a dramatic rise in spending power in recent years. With Usce shopping Centre having a successful opening, we have seen the retail market begin to weaken with retailers halting plans for growth.

Retailer demand

The Serbian retail sector is still fragmented, with the provision of retail floor space per capita extremely limited. The retail market is dominated by local players and reflects the characteristics of a market evolving from a controlled communist economy to a free market.

The sector to experience the most activity from foreign players has been food, with merged Mercator and Rodic, InterEx, Idea, Veropoulos and Metro all continuing to expand aggressively. Aside from this, the majority of international products in the Serbian market are sold through franchise outlets and dealerships as a low risk way of entering

the market, especially in the fashion and luxury goods sector most of which are all owned by the most affluent Serbians.

New inbound foreign retailers who opened in Serbia during 2009 included Peek & Cloppenberg, Koton, Fox, Stiefelkönig and Vapiano.



Shopping mall Usce

Retail property supply

There are four main retail channels of distribution: standard shops, shopping malls, community and galleria shopping centres, and retail warehouses. No outlet centres exist at the present time except Immocentar that changed the concept from a neighbourhood shopping centre to an "outlet shopping centre".

Pipeline Planirani projekti					
Centre	Owner /Developer	Type	Planned delivery	Location	Planned Pipeline (GLA m2)
Centar	Vlasnik/ Investitor	Tip	Planirani završetak	Lokacija	Planirani projekti (bruto površina za zakup u m ²)
Pevec Center	Pevec	DIY	2012	Block 53, Zemun	30,000
Delta Power	Delta Holding	PC	2011	Block 53, Zemun	58,000
Metro	Metro	Cash&Carry	2011	Zarkovo	10,000
Merkur	Merkur	DIY	2011	Zarkovo	10,000
Rodic Power Center Ph2	Rodic	PC	2012	Zemun	80,000
Power Center	Verano	PC	2012	Block 53, Zemun	80,000
China Trade Center Ph2	Diplon	Shopping center	2011	Zemun	35,000
Novaterra	Novaterra	PC	2011	Zemun	100,000
Sportstar Plaza	Plaza Centers	Shopping mall	2011	Palilula	37,500
TOTAL UKUPNO					440,500

Standard shops include traditional small shops, kiosks, markets and bazaars. Despite increasing modernisation of the retail market, these still represent the mainstay of Serbian retailing, particularly outside of Belgrade.

The prime retail area for standard shops in Belgrade is located in the pedestrianised area around Knez Mihajlova Street, Bulevar Kralja Aleksandra and Terazije. In this district there are also arcades, such as the Millennium Centre, which comprises a number of small shops over four floors. This type of retail provision is typical of retail "centres" in Serbia at the present time.

Shopping malls are, by definition, freestanding, multi-level sites in town-centre locations, with a clothing-orientated retail proposition. These are

still a relatively underdeveloped phenomenon in Serbia.

Community and Galleria shopping centres are purpose-built retail warehousing shopping centres, anchored by a major hypermarket, typically located in edge- or out-of-town locations. The hypermarket is supported by smaller retail units, often with a clothing focus. The Mercator Centre in New Belgrade is a prime example of a Belgrade galleria shopping centre. Anchored by the Slovenian food retailer Mercator, the centre comprises 50 shops and restaurants, covering 22,400m². It opened in the spring of 2003, and at the time was Mercator's largest investment outside of Slovenia, at a value of €37.4 million. The centre has dropped down two positions to be the third largest retail complex in the city.

Shopping center rental rates in Belgrade Cene zakupa u šoping centrima u Beogradu

Centre Centar	Average Rental Levels (€/m ² /month)	Type	Retail GLA in m ²	Location Lokacija	Opening Year, Godina otvaranja
	Prosečna cena zakupa (€/m ² /mesec)		Bruto površina maloprodajnog prostora za zakup u m ²		
Delta City	29	Shopping mall	28,000	New Belgrade	2007
Usce	32	Regional Shopping mall	43,000	New Belgrade	2009
Mercator	18	Neighbourhood Shopping center	22,000	New Belgrade	2002
Immocenter	14	Galleria Shopping Centre	10,000	New Belgrade	2006
Zira	*42	Neighbourhood Shopping Centre	7,000	Palilula	2007

*Supermarket was sold and therefore rent does not include supermarket which would normally bring it down to upper 20 eur range.



Retail warehouses tend to be stand alone sites, with the concept of retail parks yet to develop in Serbia. One of the most recent developments is the METRO cash and carry located in Zemun, on the edge of Belgrade. The store was completed in Q4 2005, and comprises 8,500m² of commercial space. At the end of 2006 a new Tempo store was opened next to Kvantas Market, totalling 18,000m² and KIKA will open in Q4 2009 in Belgrade.

The concept of retail parks that are certain to be developed in Serbia, with the most likely debut being BIG –CEE schedules to open by Q4 2010. BIG –CEE is a joint ventured company planning to be the developer of the first retail park in Serbia which will be located in Novi Sad. This retail park is a hybrid of a shopping mall and retail park covering over 28,500m². One of the most recently announced developments in Belgrade is the IBC Power Center with plans to develop 27,500m² next to the METRO cash and carry. Finally, the Interex-Inter Marche and TUŠ stand alone supermarkets with 3,500m² were opened in Belgrade in 2008.

New retail development

There are a number of new retail developments finished in New Belgrade. Amongst the most interesting ones is UŠĆE Shopping Mall which is the largest modern shopping center (43,000m² GLA) in Serbia and the region. The shopping center has over 140 shops, a supermarket, restaurants and cafés, food court, multiplex cinema with 11 screens, bowling alley, casino, family entertainment and kids' playground, as well as a garage with over 1,300 free parking places.

Delta City the second largest (29,500m² GLA) is also in New Belgrade, located in one of the most densely populated areas in Serbia and contains a supermarket, a wide variety of stores, 10 cinema screens, bowling, restaurants and cafés. Belgrade has a lack of in-town shopping centres that the centre of Belgrade is striving for. Also, mentioned previously is the IBC Power Centre. Moreover, Plaza Centers' Sportstar location will host a large multifunctional shopping centre.

Rental performance

At the present time, retail rental levels tend to be decreasing for both high street units and food stores. New developments bringing shopping centres to New Belgrade is likely to lead to downward pressure on rents for existing retail units in the area, as they struggle to compete with the high-quality space coming onto the market.

Serbia remains an underserved market with many developments now on hold. The financial crisis has resulted in those schemes not already committed being delayed as is the case elsewhere throughout Eastern Europe.



VIG Plaza

It continues to be a 'tenants market' - particularly for the Anchor occupiers with retailers who will acquire floor space commanding significant discounts and financial incentives.

There is still demand from existing, smaller retailers to explore opportunities outside the capitol. However, new entrants into Serbia wish to have representation within Belgrade, at discounted rates, prior to committing elsewhere.

Industrial property market overview

Serbia is strategically located on the borders of the EU, neighbouring Hungary in the north and Romania and Bulgaria to the east. The attraction of a cheaper labour force and favourable tax regime, compared to the neighbouring EU countries, may tempt some investors to set up their production facilities and distribution warehouses in Serbia.

Currently, there are only a few new modern logistics developments in Serbia, mostly owner occupied. The undeveloped industrial market is thus rapidly changing as requirements for distribution warehouses to serve the expanding retail and service sectors increase, as well as the distribution activities of third-party logistics providers (3PLs). Improving market fundamentals and a stable growing economy suggest that this sector will experience very intense development activity in the coming years.

Existing Industrial stock – Belgrade Postojeći skladišni prostori- Beograd

Company / Project Kompanija/Projekat	Size (in m ²) Površina (u m ²)	Date Of Completion Godina završetka
Port of Belgrade	300,000	1980's
ITM Group (Simanovci)	11,000	2005
Logistic Team Sekulic (Ugrinovci)	6,000	2007
Intereuropa (Dobanovci)	8,600	2007
Milsped (Krnjesevci)	22,500	2007
Lagermax (Simanovci)	11,000	2008
Nelt (Dobanovci)	32,600	2006
Centroprom (Dobanovci)	22,000	n/a
Schenker (Batajnicky drum)	1,000	2002
Airport Logistics	5,500	n/a
Total Ukupno		

In the first two quarters of 2008 came a surge of interest from international logistic developers. These developers came from the U.K. and Austria. Transactions for land have been wide ranging from €4 to €25/m² depending on location and status of planning conditions. One of the most notable transactions in 2008 was EYEMAXX which purchased rights for building logistics facilities in the Niš Airport Lands through a PPP. Moreover, EYEMAXX purchased land from a domestic land

owner around Stara Pazova with the intention of building a retail scheme and logistic facilities. Besides, with the bankruptcy of IIG, their assets were purchased by Ulogis part of DDG.

Pipeline

Planirani projekti

Company / Zone Kompanija/Zona	Size (in m ²) Površina (u m ²)	Commentary Komentar
IIG (Stari Pazova)	90,000	IIG was purchased out of bankruptcy by Delin Development Group
Phoenix Properties Holding (Indjija)	56,800	Completion 2010
Eyemaxx - Stara Pazova	50,000	Completion 2011
TQ Indjija	250,000	Completion 2011

Location

Most of distribution warehouses and light industrial properties are located along important traffic links, along the path of expanding transport corridors and in the Port of Belgrade on the Danube river. Outside of Belgrade, industrial and technology parks have been developed in the regional cities Novi Sad, Indjija, Vršac in the north and Niš in the south.

Area around Nikola Tesla airport

The area around the Nikola Tesla Airport and along the E70 motorway leading to the city is very attractive to FMCG companies, 3PLs and warehouse retailers. Land prices around the airport are higher than in other parts of Belgrade and so development here is expected to focus on office, hotel, research and development and airfreight service facilities.

The airport cargo terminal currently has two distribution warehouses of 5,500m² and 2,500m² for operative services and forwarding agencies. The airport reports it handles approx. 35,000 tonnes of freight a year. A new cargo terminal and logistic centre is planned for the medium term, which will double the airport's freight capacity. The main limitations around the airport are height and distance restrictions. In this regard, there are two more approvals that must be attained for building approval which are from the Airport



Authority and Authority for Aircraft Control. This increases the risk to any given project in the area and increases the time of preconstruction.

Dobanovci

Dobanovci is experiencing a growing interest from developers due to its easy access to the airport, proximity to Belgrade and relatively cheap land prices. The district is located at the crossroads of the city ring road and the E70 motorway (leading to the Croatian border). The access to the E75 motorway (leading to the Hungarian border) and distance to the city centre (18 km) may also increase its potential for future development.

However, the majority of the land is currently owned by the military, which may prolong and complicate the acquisition process for prospective owners/developers.

Krnješevci, Šimanovci

Krnješevci and Šimanovci districts are located a bit further from the city centre, approximately 25 km, and are the most favoured areas for logistics and light-industrial schemes. The majority of the limited number of new developments around Belgrade are located in this area.

Among the occupiers are: Hammars Trading (German distribution company), Dewaco Man (service centre), JUB, Milsped (local distribution company) and ITM (part of the French retailing group).

Regional cities

Aside from Belgrade, there are a few municipalities experiencing development activity in the distribution, logistics and light-industrial sectors.

Worthwhile mentioning are the locations close to **Novi Sad**, where Carlsberg, US Steel and Ball Packaging operate their light-industrial production plants. The other important location is **Niš**, situated about 250 km south of Belgrade. Tigar Michelin, tyre manufacturers, and tobacco company Philip Morris have their operations in the **Niš** area. The presence of these large production facilities in this area has triggered

some associated development of distribution facilities and light-industrial units for supporting businesses. Indjija made an industrial park between the city and highway E-75 and has been one of the more active areas. This municipality has seen investment from companies such as Embassy Group, Henkel, Microsoft, Versil Legno, Mercator and TradeUnique among others.

Market size

The vast majority of the stock in Belgrade is not refurbished or well maintained due to financial problems or bankruptcy of the previous occupiers and landlords. Most of it was built before the 1990s and situated close to the port.

The modern warehouse sector is greatly under developed and has been taken by local 3PLs, who have been showing increased market activity over the last few years. The total stock of modern warehousing in the greater Belgrade area is estimated at less than 90,000m², the majority of which has been built in last three years as owner-occupied projects. For example, Milsped, Dewaco-Man, Jupol, Pink TV, Don Kafa and ITM built their own facilities; however, the majority is the light industrial uses. The most modern logistics facility in the country is Milsped's facility in Savski Nasip, Belgrade which has approximately 22,500m² or 14,500 pallets.

Supply

As the market is undersupplied it has attracted attention from both domestic and international developers. Only local companies and a handful of international developers have built warehouse properties so far. Currently, the pipeline has dried up with many projects put on hold due to lack of funding and uncertainty with economic performance. Once the economy starts to move we expect a large interest in logistic schemes to take place.

As consumer spending continues to grow across Serbia more retail distribution will be required. Some international developers, like Helios are searching the market for suitable plots to start their operations in the country. However, difficulties in finding a site

large enough and security of land ownership are the major obstacles to penetrating the market.

Demand

Demand for prime modern space continues to grow as Belgrade expands in response to increased consumer spending and greater political stabilisation. The limited stock of modern industrial facilities and the prevalence of owner-occupied space mean that there is strong demand from prospective occupiers. Most warehouse requirements come from food retail distribution chains, transportation and pharmaceutical companies.

It is expected that further demand for warehouse facilities and industrial units will follow after the improvement of the business environment and the increase of trade and industrial production.

Vacancy

Currently, the vacancy rate is close to zero due to the majority of properties being owner-occupied. In the case of more speculative development being delivered to the market in next five years, a large amount of old stock in Belgrade may become empty as tenants upgrade their facilities, so increasing total vacancy. However, this stock, mainly located in the city centre, may swiftly be converted to residential or office schemes.

Rents

Industrial rents in Serbia are higher than those in the other Eastern European countries. Due to the high demand, almost non-existent speculative stock and the general immaturity of the market, rents can reach up to €6.00/m²/month for prime modern space. However, as the modern stock increases over the next few years, prime rents are expected to drop to a similar level as in other markets.

Production facilities are also seeing higher rent levels compared to the Eastern European average. As a result of limited stock and specific occupiers' requirements, rents of up to €7/m²/month can be achieved for light-industrial unit. Rents for the old non-refurbished warehouses, mainly located in Belgrade's port, range from €1 to €2.50/m²/month.

However, there is a limited evidence of market rents as most of the transactions are completed on an off-market basis.

Land values

During the past three years, with the entrance of foreign investors into Belgrade's market, land values have been rising. The supply of prime land in Belgrade is limited due to the fact that the vast majority is owned by state, military or private entities. Typically, the land for sale is fragmented and it is very difficult to find suitable plots for offices and retail development in the city and for industrial development on outskirts of Belgrade.

As a general rule the asking price of land depends on location. The planning gain is also a large consideration if the site density is low and there is demand for a particular product in that area. However, many times asking prices are unrealistically high as owners do not understand the investment strategy. In cases where the land is owned by the state, the prices are centrally regulated and structured by zones and development category.

The Serbian legal framework recognises two land categories most commonly used for investment purposes: construction land and agricultural land, both mostly private and state-owned. The price of land is largely dependent on its category. The procedure to change the category from agriculture to construction land usually takes up to six months.

Currently, potential investors can acquire building land only to a limited extent. However, an introduction of the new constitutional law will increase the security of land ownership for foreign investors. Prices range from €15 to €60/m² for industrial land around Belgrade depending on zoning and location. Currently, the most expensive sites are residential and commercial sites in the core of Old Belgrade and sites for logistical purposes in close proximity to Belgrade's airport.



Residential property market overview

The capital, Belgrade, is the leader in the amount of new residential development delivered to the market, while regional cities are experiencing a more moderate increase. Some new residential development is happening in Novi Sad and Niš, the two largest cities after Belgrade.



Belville

Property types:

Residential properties can be divided into four main categories:

New developments The medium- or high-quality individual buildings are usually well decorated with granite or marble and fitted with sumptuous appliances, including air-conditioning, security systems, etc. In addition to more exclusive areas of Dedinje and Senjak, these developments are also located in other areas of the city's periphery.

New apartments The apartments are not usually furnished but well decorated and fitted with Italian bathroom, kitchen and other appliances.

The estimated new stock is 14,000 – 15,000 units delivered within the last two years.

Early 20th century buildings/houses Built between the 1890s and the World War II, the buildings usually have high stucco ceilings and sizes vary from 50m² to 200m². The majority of these buildings are located in the Old Town.

Buildings/houses from the 1970s and the 1980s There are usually two or three apartments in one building, therefore not convenient for families requiring a 200m² to 300m² house with few bedrooms. Most of them need to be renovated to western European standards.

Location

The location of a residential property in Belgrade, as in many other European markets, is the most important factor governing its value and desirability.

The residential locations can be divided into four zones:

Zone 1 Dedinje, Senjak and the north-west part of Voždovac

Zone 2 Core city centre including Vračar

Zone 3 Surrounding areas

Zone 4 New Belgrade

The residential inventory in Belgrade has shown a steadily increasing trend over the past few years. The New Belgrade area is becoming increasingly popular and numerous projects are under construction or in the pipeline. Other attractive locations for residential development (mainly for middle-class residents) include the city centre, Čukarica, Zvezdara, Dedinje, Vračar, Senjak, Banovo Brdo and Voždovac.

New Belgrade

Over the past few years, New Belgrade has been an emerging location for commercial and residential development due to its good, clear land title, land availability and flexible planning. Approximately 2,700 new flats have been constructed within the last two years and around 800 units are under construction now.

The vast majority of residential developers follow the demands of the middle-class population and build medium-quality apartments, mainly around Bulevar Avnoja Street (eg Block 27, 67 Energoprojekt and Napred). Locations with river views are preferred by local buyers whose budget is above average. New apartments close to the sports centre Arena and to the Mercator hypermarket were also increasingly attractive to potential buyers. Developers addressing Belgrade's wealthier population develop luxurious apartments or semi-detached houses in Dedinje and Senjak.

New residential projects are mostly built to a medium standard. The apartments are usually fitted with parquet wooden floors, basic bathrooms and no kitchen. Higher-quality residential developments in the area offer further amenities such as building security, pools and exercise rooms.

Supply

The supply of new apartments and houses in Belgrade is estimated at between 6,600 and 7,500 units per annum. Considering Belgrade's population, current residential stock and high demand, the supply is insufficient and is expected to increase.

Most developments remain relatively small with not more than 60 to 70 flats per scheme, and normally less than 50. At the same time, only the most recent schemes have been finished up to western standards, creating a real attraction and differentiation in the market.

Belgrade's residential market has been active mainly with local investors, who know the market and its obstacles well. However, only some of the residential projects, such as MPC Company's Oaza project, Delta / Hypo Group JV Universiade, Meridian Balkans, GTC Park Apartmani, have been completed to western standards.

The largest project completed to date in post-90's era, is the Belville residential/commercial development. Now that Universiade Games 2009 is over, the owners of the flats will start taking over their apartments in September and October.

The residential development, Belville, had presold almost 70% of the 1,800 apartments.

Local developers are by far the largest category for residential developers. There are many smaller developers that develop buildings from several up to 20 apartments. We are seeing a distinct reduction in supply due to lack of financing and demand.

Demand

With the economy slowing down and the forecast of a gloomy next year and half, demand for residential premises has come to almost a stand still. The reduction of demand is the culmination of two main reasons. First, people are still expecting significant discounts for current projects and new projects have not been discounted. Second, banking system has raised interest rates and has been reluctant to disperse loans in today's economic uncertainty.

Demand was very strong in the first three quarters of 2008 and declined thereafter until the end of the year. The beginning of 2009 saw almost a complete halt of sales with less than one third of the sales in the same period in 2008. Most developers stated that 50 to 80% of sales were cash transactions.



Park Apartmani

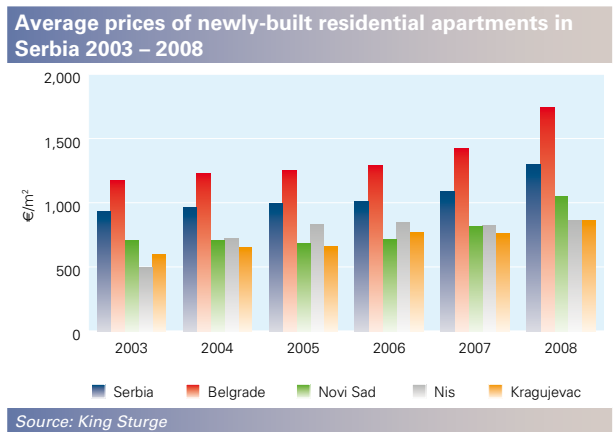
Sales prices

Compared to the other CEE capitals, prices in Belgrade are considered high. The sale prices range from €1,300/m² in the city's periphery up to €2,000-€2,800/m² in the city centre and Vračar and €3,000-€4,000/m² in Dedinje and Senjak. The city centre



and Dedinje/Senjok remain the most exclusive areas; however, due to supply Dedinje/Senjok is definitely the dominant area. All these prices could be 10%-20% higher if the property would include luxury fittings (fireplace, jacuzzi, Italian bathrooms, imported kitchens, etc).

In New Belgrade, average prices for non-renovated properties are between €1,300 to €1,800/m² in better locations. However, sale prices have reached from €1,800 (Belville) to €4,000 (Neimer V)/m² in newer developments due to strong demand in the past. The sale price increases were due to the increased availability of credit, competitive conditions, increases in wages and restricted supply.



Rents

The letting market for residential properties has now reached a level of relative maturity. Average rents for good-quality premises in prime locations are in the range of €10 to €13/m²/month. It is considered that rents have reached their peak level and a further increase in rental values is not expected. Yields for this type of property are similar as in other countries at around 5 -6%.

Investment market

There was considerable interest among international investors in entering the Serbian market. However, due to the immaturity of the market and the very low stock of any new developments, it is difficult for investors to find suitable products.

Since “modern property” development began only a few transactions have been recorded. Most of the original developments that were built in the last 5 years have remained in the developer’s books as these speculative developers wanted to take advantage of the higher rents achievable in early stage economies that have characteristically low levels of inventory such as the case in Serbia.

In 2007, MPC Properties purchased the “Hypo Consulting” portfolio. The portfolio has some very attractive properties that included several land plots and income generating buildings. MPC owner invited suitors to purchase part of the MPC Properties of which Merrill Lynch is the purported winner.

The RKB portfolio of 39 department stores (in need of major renovation) was purchased in 2007 as a JV between MIG and Verano for €365 million. Many privatisations have been purchased for strictly the land and latent development value.

Currently, gross initial yields range from 8.5% to 10% for all property types around Belgrade. However, it is hard to identify the yield values due to limited transactional evidence. The investment climate in the past year has completely changed with many over leveraged companies going bankrupt in Western Europe. This has led to outward movement of yields in Western European countries from the result of distressed property sales, increased supply and tightening of lender’s belt. Therefore, investors will look for a significant discount in property prices in Serbia to justify the extra risk over Western Europe or even the EU countries surrounding Serbia. The light at the end of the tunnel still cannot be seen and the future is still very unpredictable.

Contacts

BELGRADE

Director

Srdjan Vujičić

Valuation and Research

Bryan Beaton

Nebojša Nešovanović

Ivana Trajković

Djordje Jovičić

Office Agency

Goran Ivanić

Zvezdana Milutinović

Retail Agency

Ivan Todorović

Nevena Kostić

Residential Agency

Barbara Ristić

King Sturge d.o.o.

UŠCE Tower, 11th floor

Bulevar Mihajla Pupina 6

11 070 New Belgrade

Serbia

Tel: + 381 11 2200 101

Fax: + 381 11 2200 102

E-mail: serbia@kingsturge.com

www.kingsturge.rs

INTERNATIONAL

Managing Partner – Continental Europe

Richard Fiddes

Investment

Jens J. Moller Madsen

KING STURGE

30 Warwick Street

London W1B 5NH

United Kingdom

Tel: +44 (0) 20 7087 5501

Fax: +44 (0) 20 7087 5526

www.kingsturge.com

All data contained in this report has been compiled by King Sturge LLP and is published for general information purposes only. While every effort has been made to ensure the accuracy of the data and other material contained in this report, King Sturge LLP does not accept any liability (whether in contract, tort or otherwise) to any person for any loss or damage suffered as a result of any errors or omissions. The information, opinions and forecasts set out in the report should not be relied upon to replace professional advice on specific matters, and no responsibility for loss occasioned to any person acting, or refraining from acting, as a result of any material in this publication can be accepted by King Sturge LLP.

© King Sturge LLP September 2009



This publication is printed on recycled, post-consumer fibre, totally chlorine free paper produced from sustainable stock. FSC certification.

LOCATIONS

UK

England • Scotland • Wales

THROUGHOUT EUROPE

including:

Belgium • Bulgaria • Croatia • Czech Republic • France • Germany • Greece
Hungary • Ireland • Luxembourg • Netherlands • Poland • Romania • Russia
Serbia • Slovakia • Spain • Switzerland • Turkey

UNITED ARAB EMIRATES

THE AMERICAS

A member of  King Sturge *CORFAC*
International

 CHAINLINKS
RETAIL ADVISORS

ASIA PACIFIC

www.kingsturge.com

 **King Sturge**

+44 20 7493 4933