

Quick stats

Change from H2 2010

Take-up	↑
Vacancy	↓
Rents	→

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Hot Topics

- The contemporary Belgrade office stock of Class A and Class B buildings at the end of 2011 equaled app. 502,500 sq m of GLA.
- The total take-up in office market segment during H2 2011 amounted to app. 21,000 sq m of GLA
- Vacancy rate continued to decrease and currently stands at cca. 21.3%

ECONOMIC OVERVIEW

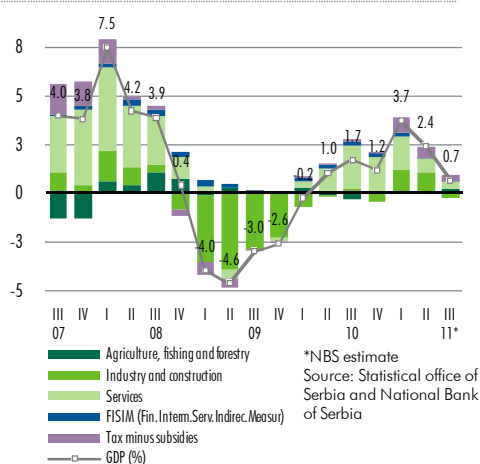
In November 2011, International Monetary Fund (IMF) and Serbia reached an agreement on the first review of the precautionary arrangement worth EUR 1.1 billion, which sets the 2012 budget deficit at 4.25% of GDP. If the first review is successful, Serbia will be able to withdraw the first tranche of EUR190 million.

Continued liberalization in accordance with the schedule provided by the Stabilization and Association Agreement (SAA), between Serbia and the European Union is creating a free trade and a duty-free access to the European market of half a billion consumers. According to the Office for European Integration of Serbia, under the provisions of the Interim Agreement on trade and trade related matters with the EU, the average tariff on imports from the EU will amount to 1.8%, while the average tariff on imports from other countries that have concluded preferential agreement is expected around 6.2%.

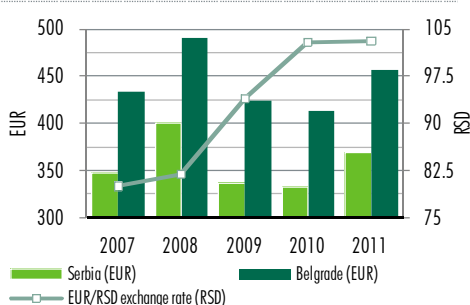
Number of employed people in Serbia dropped by nearly 3 percent in 2011, reaching about 1.76 million, which is a historical minimum for this country, reads a review of the economies of EU candidate and pre-candidate countries, published by the European Commission.

According to the Statistical Office's data, consumer prices fell by 0.7% in December 2011. Y-o-y inflation continued down, in line with the National Bank of Serbia's expectations, and settled at 7.0%. The expectations of the NBS are that by the end of Q1 2012, the inflation will be at the level of 5.7%, or around the upper limits planned for the end of next year of four plus minus 1.5%. The fall in inflation and reduction in reference rates should contribute further to the decline in interest rates in Serbia, and have a positive impact on economic activity and employment.

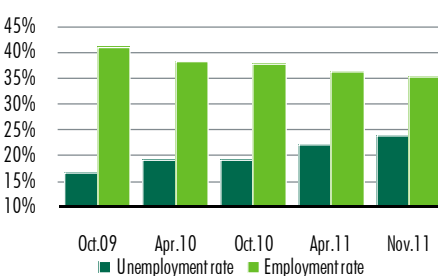
Contribution to y-o-y GDP growth



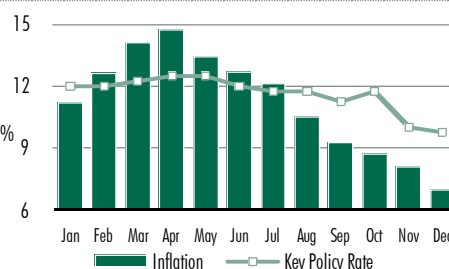
Average wages/Exchange Rate 2007-2011



Unemployment and Employment Rate in Serbia (%)



Inflation and key policy rate in 2011 (%)



## BELGRADE OFFICE MARKET

The contemporary Belgrade office stock of Class A and Class B buildings at the end of 2011 equaled app. 502,500 sq m of GLA.

In terms of relative development, enriched with a quarter of a million of sq m of office space over a five year period. Compared with other capital cities in the region, Belgrade had a modest development. Bucharest and Budapest noted a development of over a million sq m each, while Sophia developed cca. 900,000 sq m. The only regional capital not to witness great development was Zagreb, with app. 150,000 sq m of new office space.

### SUPPLY

Construction works on Lion Belf's Eurocentar II building downtown have reached the stage of active marketing of the building. With the completion of this modern complex, the market will be enriched with additional 3,600 sq m of GLA.

In terms of prospective supply, there are only two office projects marking construction activities. The Falkensteiner Hotel, in New Belgrade Block 11 is going strong, and the completion of cca. 6,000 sq m office tower is expected in the third quarter of 2012. Future Raiffeisen Bank HQ in New Belgrade Block 66, with 21,000 sq m is almost completed, with outer construction works almost completed, and interior finishing due to be realized during the first quarter of 2012.

### DEMAND (TAKE-UP)

In the last quarter in 2011, total leased take up amounted close to 13,500 sq m, almost double than in the same quarter of the previous year. Having in mind the second half of 2011, the total leased take-up counts for cca. 21,000 sq m of GLA, representing the increase of 25% in comparison with the corresponding period of 2010. The annual lease take-up stands at app. 45,000 sq m.

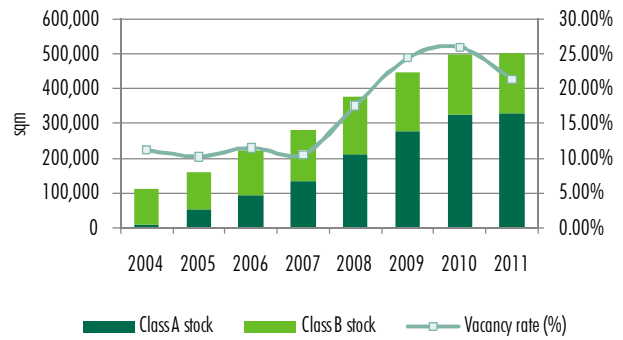
The analysis of the size of office requirements in year 2011 indicates that around 42% of the signed lease acquisitions are lower or equal to 300 sq m, while the number of signed lease acquisitions is evenly distributed among tenants looking for office space between 300 and 600 sq m and larger than 600 sq m. Taking into account past few years, the results indicated the decreasing trend in the number of small deals, while number of medium deals was on rise. The total number of deals also increased.

In terms of distribution of total lease activities for 2011 by location, New Belgrade submarket remains the target area for a large portion of tenants, primarily due to the better choice of modern office buildings. Although New Belgrade took the prevalence as pre the number of signed deals over years, i.e. in 2011 73% of all deals were signed in New Belgrade, interest in downtown still exists.

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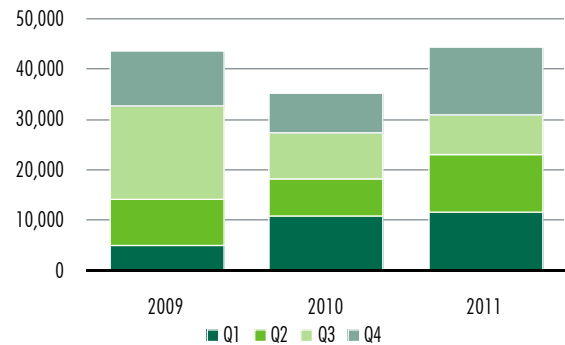
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Belgrade office stock (sq m GLA)



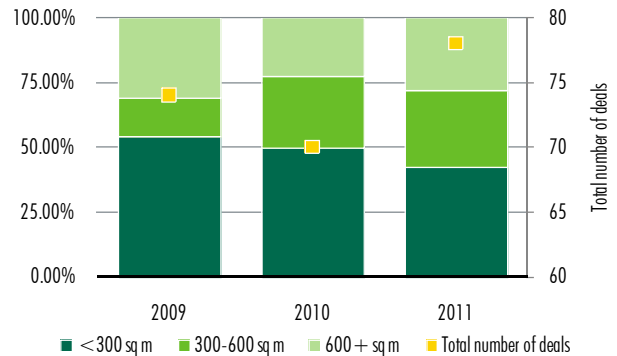
Source: CBRE

Quarterly take-up - Leased space 2009-2011 (sq m in GLA)



Source: CBRE

Deal size overview 2009-2011



Source: CBRE

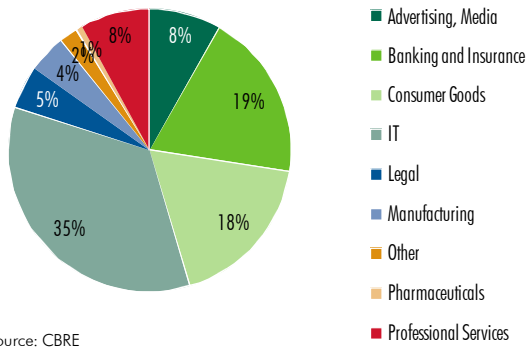
Selected lease transactions in H2 2011

Tenant	Building	Size (sq m)
Delhaize Group	Belville	4,000*
NCR	Sava Business Center	2,625
Microsoft	Blue Center	2,500
Stampa Sistem	Meteor	2,400
Jankovic Popovic Mitic	Genex Apartmani	1,000
Tvojih 5minuta	M-Invest	800
GroundLink	Anex	512
Imperial Tobacco SCG	Usce	500
Nissan-Renault	Airport City 1700	400
Medtronic	GTC House	300

\* Owner occupied deal, excluded from total leased take-up  
Source: CBRE

**CBRE**

Occupier profile in H2 2011



Source: CBRE

In terms of occupier profile during H2 2011, IT sector was the most active (35%) with NCR and Microsoft transactions driving most of the demand. Banking and Insurance sector with 19% and Consumer Goods with 18% were traditionally very strong. Looking at the entire year, the market share of individual business lines resembles the prior year, with IT sector accounting for almost 1/3 of demand (33%), followed by Banking and Insurance and Consumer Goods with 12% each.

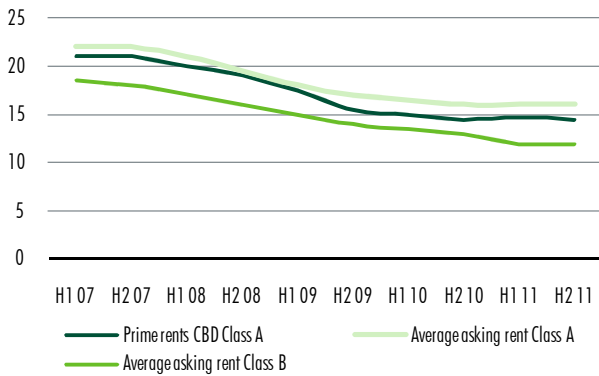
VACANCY

Since Belgrade office stock has seen minimal changes, the vacancy level is continuing to mark a downward trend, reaching the lowest level in the last two-year period of 21.3%.

Having in mind that most new office inventory delivered during previous few years are Class A office buildings, the vacancy rate of Class A office space has marked a much faster growing pace than the vacancy rate of Class B office space, reaching the level of approximately 21.7%. Vacancy rate for Class B stands at 20.6%.

It is expected that limited construction activity in Belgrade office market along with stable demand will significantly influence availability levels.

Belgrade asking office rents (EUR/sq m/month)



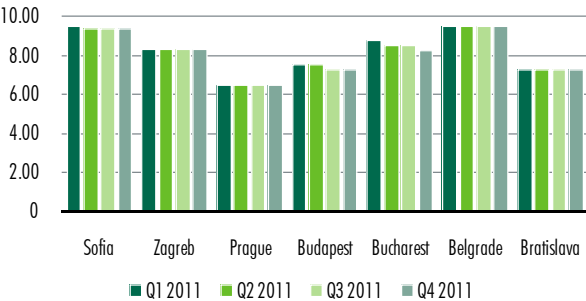
Source: CBRE

RENTAL LEVELS

Rental levels of both Class A and Class B office space remain stable and unchanged compared to H1 2011. 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. During the entire year, office prime yields stood at 9.5%.

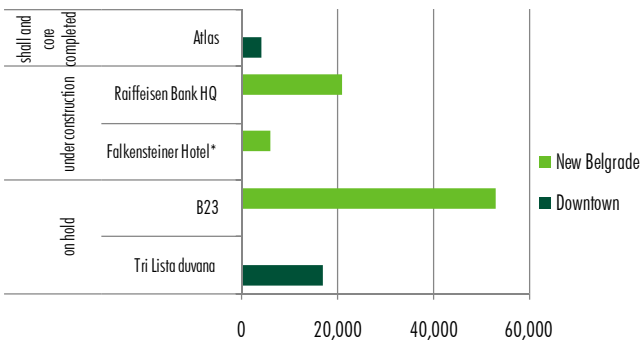
Office prime yields (%)



Source: CBRE

The landlords are willing to offer more flexible incentive packages in contract negotiations (whether in terms of rent-free period, fit-out contribution or better parking ratio) in order to attract new tenants.

Selected pipeline developments in Belgrade (sq m of GBA)



\*Office part (Danube Business Center)- cca.6,000 sq m  
Source: CBRE

FUTURE SUPPLY

With no other significant new projects currently in early construction phases, and as the development and completion of announced or commenced 70,000 sq m of Class A office projects (including Verano's B23, located in New Belgrade's block 23, and MPC's Tri Lista Duvana, located downtown) remain uncertain, Belgrade market is expected to be enriched with only projects for owner-occupier purposes.

## Key economic indicators - Serbia

	2009	2010	2011E	2012F	2013F
Nominal GDP (EUR bn)	28.9	28.6	32.5	34.5	37.2
Per capita GDP (EUR)	3,942.7	3,917.1	4,471	4,741	5,141
Net FDI (EUR bn)	1.4	0.9	1.5	1.0	1.5
Real GDP, yoy (%)	-3.5	1.8	1.7	1.0	3.0
Inflation (CPI), yoy, avg. (%)	8.4	6.3	11.2	5.4	6.8
Unemployment rate (%)	16.1	20.0	23.0	22.5	21.5
Exchange rate RSD/EUR, eop.	96.0	105.5	104.0	103.0	105.0
Exchange rate RSD/EUR, avg.	94.0	103.0	102.0	103.0	104.0
Current account balance/GDP (%)	-7.2	-7.3	-7.2	-7.5	-7.9
FDI/GDP (%)	4.8	3.0	4.6	2.9	4.0
Budget balance/GDP (%)	-4.5	-4.7	-4.6	-4.5	-4.3
Total foreign debt/GDP (%)	78.9	83.3	75.5	74.3	75.3

UniCredit Group New Europe Research Network December 2011

## Definitions

## Classification

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

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

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

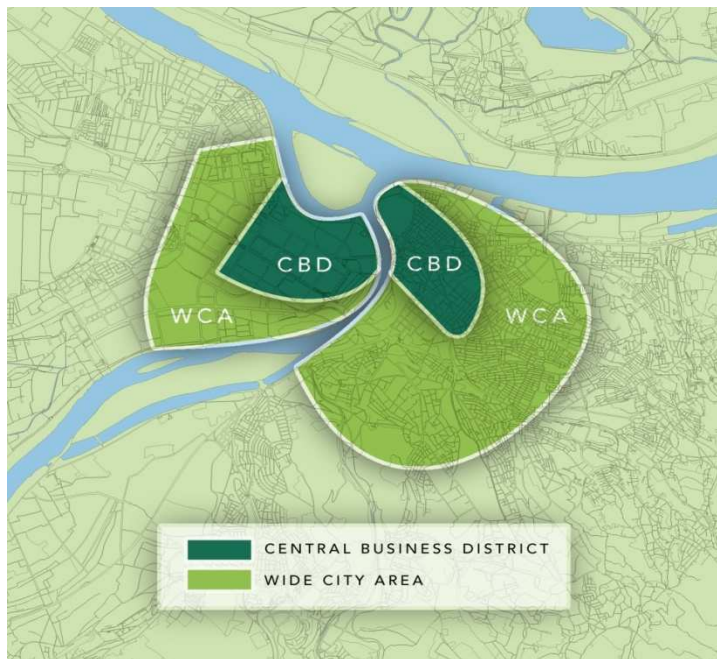
**Pipeline developments** – office space currently being developed/under construction

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

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

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

## Belgrade office space submarkets



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