

Belgrade Residential Market

H2 2010

Quick stats

	Change from H1 2010
Supply	↓
Demand	→
Prices	↓

S&P'S LT FC Rating

BB-/Stable

Hot Topics

- The average salaries and wages paid in December 2010 in the Republic of Serbia amounted to EUR 371
- Unemployment rate in October 2010 stands at 19.2%, the same level as of April 2010
- The first construction phase of low-cost residential complex "Stepa Stepanovic" in Belgrade commenced during November 2010. Prices vary between EUR 1250 and 1290 per sq m, depending on the unit structure and size

H2 2010 From expert's point of view

Vladimir Popovic, Head of Residential:

"Due to corrections in sales prices and renewed subsidised loans by the Government of Serbia, demand has picked up considerably as compared to the 2010 year beginning. Most attractive residential municipalities have preserved the same sales focus and have thus generated highest sales volume thereof."

ECONOMIC OVERVIEW

The Executive Board of the International Monetary Fund (IMF) completed the sixth review of Serbia's economic performance under a program supported by a Stand-By Arrangement (SBA). It enables the immediate release of EUR 373 million. The Serbian Government has indicated that the drawing of the full amount would bring total disbursements under the program to EUR 1.90 billion.

The Free Trade Agreement between the four EFTA States (Norway, Switzerland, Iceland, and Liechtenstein) and the Republic of Serbia was signed on 17 December 2009. Full application of the Free Trade Agreement between Serbia and the EFTA countries should commence in 2011, after it is ratified by the parliaments of Norway and Iceland, as the agreement has so far been ratified by other two member states.

According to the results published by the Statistical Office of Republic of Serbia, in Q3 2010, GDP increased by 2.7% in comparison with the corresponding period of the previous year. Observed by activities, in the third quarter, the highest growth in the gross value added was noted in the section of financial intermediation (8.7%), section of transport (7.4%) and in the section of mining and quarrying (6.2%), while the major drop was recorded in the section of construction (9.2%) and the section of electric energy production, gas and water (4.4%).

Inflation in Serbia is highly sensitive to changes of energy and food product prices

due to their major share in CPI (consumers price index) and the frequent price oscillations of these products. Although the inflation recorded year low of 3.7% in H1, central bank's end of the year target of 6% was widely overshoot. In December, the inflation reached double figure of 10.3% which as a result had the depreciation of currency during the last quarter.

The net average salaries and wages paid in the Republic of Serbia, according to the Statistical Office of Republic of Serbia, in the year 2010, compared to the average salaries and wages paid in the year 2009 increased by 7.6% in nominal terms and by 0.7% in real terms.

In accordance with the Labor Force Survey, which was conducted in October 2010, unemployment rate in Serbia amounts to 19.2%; i.e. 20.4% in Central Serbia, 20.0% in Vojvodina region and 15.8% in Belgrade. Compared to the previous survey in April, Belgrade has marked a rise in unemployment of 1.8%, but is still well below the nation average.

Current economic developments have resulted in several reviews and the National Bank of Serbia (NBS) Monetary Policy Committee raises the key policy rate. From January 2009 NBS had cut the key policy rate by a cumulative of 925 basis points, a trend that was reversed in August 2010. Lastly in December, the rate stood at 11.5%, marking a rise of 350 basis points from May 2010, when key policy rate marked its historical low of 8.0%.

Key economic indicators - Serbia

	2008	2009	2010E	2011F	2012F
Nominal GDP (EUR bn)	33.4	29.9	29.6	30.3	32.8
Per capita GDP (EUR)	4,545	4,099	4,072	4,184	4,546
Net FDI (EUR bn)	1.8	1.4	1.0	2.2	2.0
Real GDP, yoy (%)	5.4	-3.1	1.8	2.7	3.5
Inflation (CPI), yoy, avg. (%)	11.7	8.4	6.3	9.4	6.7
Unemployment rate (%)	13.7	16.1	20.0	18.8	17.5
Exchange rate RSD/EUR, eop.	89.8	96.2	108.0	117.0	112.0
Exchange rate RSD/EUR, avg.	81.5	94.1	102.7	112.5	114.5
Current account balance/GDP (%)	-21.1	-7.0	-7.9	-8.9	-8.8
FDI/GDP (%)	5.5	4.7	3.4	7.3	6.1
Budget balance/GDP (%)	-2.0	-4.2	-4.7	-4.2	-3.7
Total foreign debt/GDP (%)	65.3	76.1	81.0	85.7	85.3

UniCredit Group New Europe Research Network December 2010

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BELGRADE RESIDENTIAL MARKET

Although the global financial crisis still has its grip on activities in Belgrade residential market, yearend brought moderate construction activity and revived interest of buyers.

Following the adopted Decree on financing the construction of low-cost flats in Serbia, Ministry of Environment and Spatial Planning continued the works on construction of the first low-cost residential complex "Stepa Stepanovic" in Belgrade. The first phase of project construction commenced during November 2010 and the expected date of completion for the first phase is spring 2012, while the completion of the whole complex is scheduled for yearend 2012, when all of the 4,578 units should be completed. Sales process of first 1,450 units commenced in December with prices ranging between EUR 1,250 and 1,290 per sq m, depending on the unit structure and size. Unit structure is dominated by single (960), two (1,285) and three (1,094) bedroom apartments that make up more than 70% of the supply.

SUPPLY

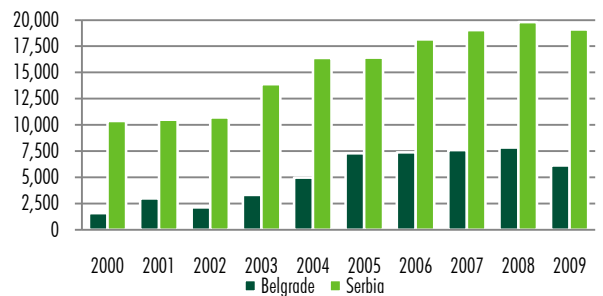
According to the official statistics, the number of constructed residential units in 2009 for Serbia and Belgrade noted a 22% drop compared to 2008, marking the first downward trend since 2004. Only Vozdovac, Vracar and New Belgrade municipalities showed resilience and maintained a positive trend.

In spite of certain slowdown in construction activities, drop in number of issued building permits, lack of demand and postponement of announced large projects that characterized previous several months, yearend shows signs of recovery and brings positive movements in Belgrade residential property segment, in terms of supply, increased demand and overall market climate.

Recently, the residential market has seen the completion of several residential mid-end to high-end projects, of local and international developers, which significantly enlarged primarily the offer of high-class accommodation in Belgrade. One of such projects is Edil Italiana's Casa di Gloria, exclusive residential complex located in Kneginje Zorke Street which holds 30 apartments and 45 underground garage spaces, and was officially opened in October 2010.

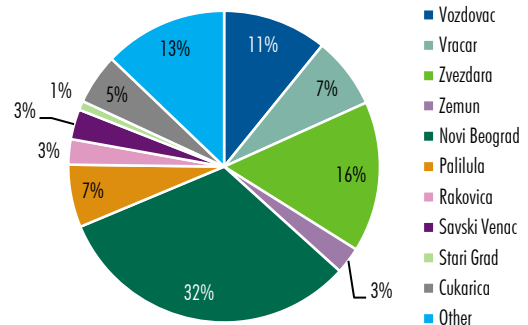
In terms of prospective offer, Nenal started with construction works on residential project in Santicева Street. Furthermore, Adoc commenced the building process of Bokeljska 7 project, due for completion in August 2011. Metropolitan Apartments should welcome its' first tenants in February 2011, while Imperial gradnja's Maxima Center completion is scheduled for 2011 yearend. Additionally, in spring 2011, in New Belgrade's block 65, PSP Farman should commence the construction of a large mixed-use project West 65, which should include 514 residential units within the whole complex.

Number of completed apartments in Serbia and Belgrade during 2000-2009



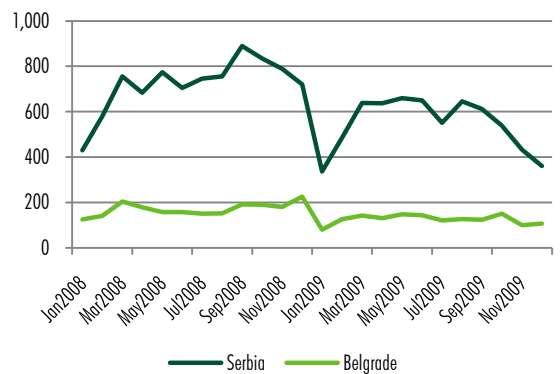
Source: Statistical Office of the Republic of Serbia

Number of constructed apartments per Belgrade's municipalities in 2009



Source: Statistical Office of the Republic of Serbia

Number of issued permits for buildings per months in 2008 and 2009



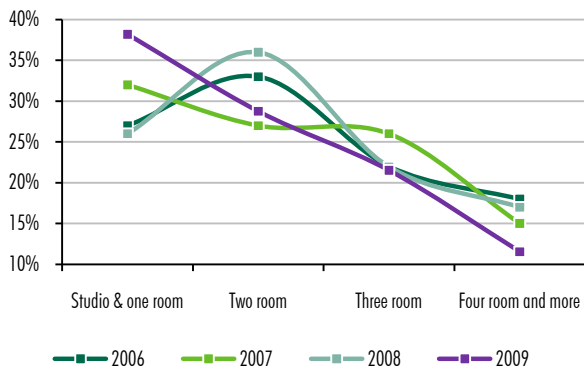
Source: Statistical Office of the Republic of Serbia

Selected residential projects in development in Belgrade

Project	Location	GBA (sq m)
Maxima Center Imperijal gradnja	New Belgrade	22,000
Metropolitan project	Palilula	16,500
MPC Kalemegdan Park Apartments	Downtown	12,100
Koling Zeland (residential complex)	Dedinje	10,000
ADOC Bokeljska	Vracar	5,000

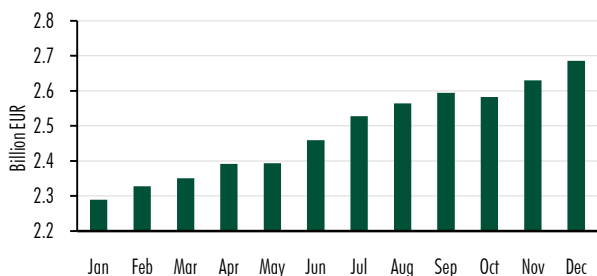
GBA – Gross Building Area
Source: CB Richard Ellis

The structure of newly constructed housing units



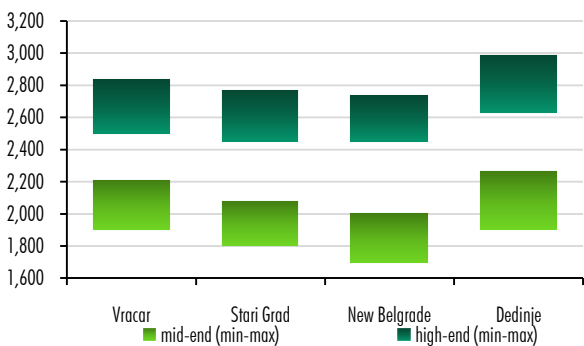
Source: Statistical Office of the Republic of Serbia compiled by CB Richard Ellis

Housing loans taken by Serbian citizens during 2010



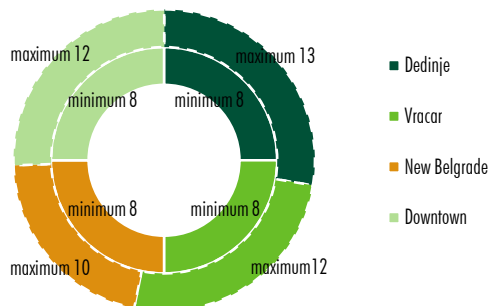
Source: Association of Serbian banks

Average asking prices of high-end and mid-end projects in Belgrade (EUR/sq m incl. VAT)



Source: CB Richard Ellis

Rental levels in H2 2010 in Belgrade (EUR/sq m/month)



Source: CB Richard Ellis

The structure of units constructed during 2006-2009 shows the orientation of developers towards construction of studios and one room apartments, since the demand for these types was highest and if the chance appeared, they could have easily been remodeled into a multiple bedroom apartment by a merger.

In the next couple of years, Belgrade market will witness the construction of several large-scale developments, introducing some of the most renowned international developers. The largest percentage of future projects will remain concentrated in central residential municipalities while the certain suburban neighbourhoods with great potential are also being considered as promising development areas.

DEMAND

After months of somewhat weak overall demand marked at the beginning of the year, yearend brings more positive trend and far better outlook. Supported by the rise in amount of housing credits, overall demand has been slightly improved as for the majority of buyers the main source for financing is taking out a loan.

Consequently, the demand was mainly oriented towards smaller apartments in lower-scale projects in case of credit buyers. However, the demand for high-class projects has remained stable as high-income population was not greatly affected by economic situation.

The number of housing loans taken out by Serbian citizens constantly has been on constant rose in the entire 2010, and grew by app. EUR 400 million y-o-y, noting the increase of 31.4% as compared to 2009-year end, according to Association of Serbian banks.

SALES PRICES

The first part of the year marked lower sales prices caused by the economic crisis as compared to the previous year. The downward trend has not, however, persisted and yearend notes rather stable prices.

The asking prices for high-quality projects depend on the location, investor and municipality and vary between EUR 2,500-3,000 with VAT included, while mid-end projects, characterised by medium quality of finishes, ranged between EUR 1,800-2,300 inclusive of VAT, yet the actual achieved prices may command the reduction of 5-10%.

RENTAL LEVELS

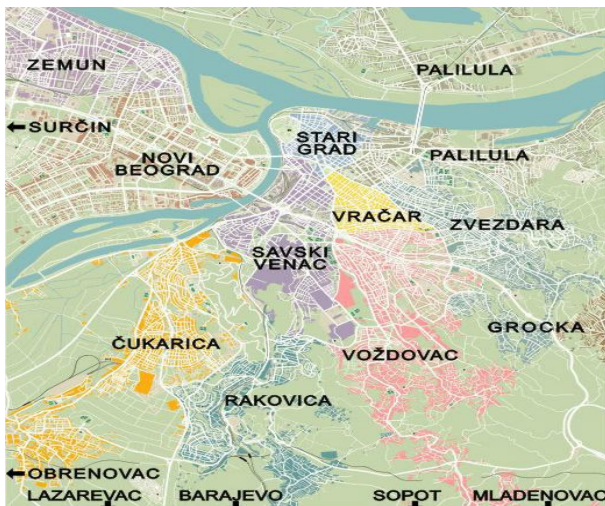
Rental prices showed downward trend in last months, recording the decline of 20% in comparison with the levels achieved at the beginning of year. Due to the lowered demand, the landlords are willing to decrease asking rents and enter further negotiations.

The most attractive municipalities for employees of foreign embassies and international organizations still remain Dedinje, Senjak, Vracar and New Belgrade.

SERBIA MAP



BELGRADE MAP OF MUNICIPALITIES



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