

Belgrade Residential Market

Quick stats

Change from
H1 2011

Supply	↑
Demand	→
Prices	→

S&P'S ITC Rating

BB/Stable

Hot Topics

- Belgrade residential supply has been enriched with Adoc' Bokeljska project, of 7,500 sq m, Nanel's development in Santicева street, Metropolitan Apartments of 16,500 sq m in Palilula municipality and LiveIn Dorcol of 5,000 sq m of GBA in Skenderbegova Street
- Renowned British investor Pluto Capital plans to build the residential complex of 80 apartments, called Harmony Apartments, in Vracar municipality
- Serbian Government adopted a new Law on the Protection of Financial Services Consumers, which came into force as of 5th December 2011

ECONOMIC OVERVIEW

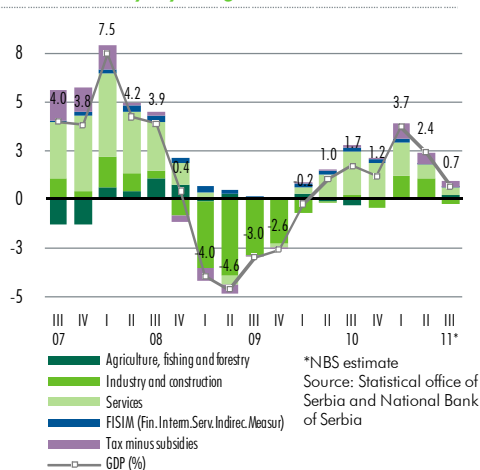
In November 2011, International Monetary Fund (IMF) and Serbia reached an agreement on the first review of the precautionary arrangement worth EUR 1.1 billion, which sets the 2012 budget deficit at 4.25% of GDP. If the first review is successful, Serbia will be able to withdraw the first tranche of EUR190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

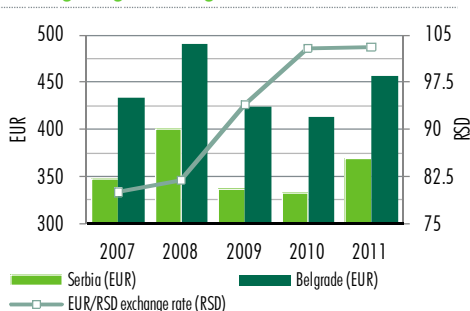
Number of employed people in Serbia dropped by nearly 3 percent in 2011, reaching about 1.76 million, which is a historical minimum for this country, reads a review of the economies of EU candidate and pre-candidate countries, published by the European Commission.

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.

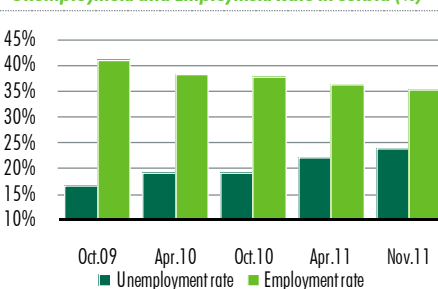
Contribution to y-o-y GDP growth



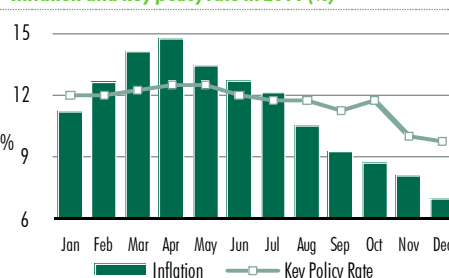
Average wages/Exchange Rate 2007-2011



Unemployment and Employment Rate in Serbia (%)



Inflation and key policy rate in 2011 (%)



BELGRADE RESIDENTIAL MARKET

Serbian Government is pursuing to support the construction industry to alleviate the effects of economic crisis. As a part of anti-crisis measures, the government has decided to decrease the percentage of citizens' participation in financing the subsidized housing loans to 5%, instead of previous 10%, adding that the upper age limit would be more flexible for all those who would like to take out a loan. The allocated funds for this purpose for 2012 are RSD 1.2 billion, out of which a half shall be assigned to purchasing the low-cost apartments in Stepa Stepanovic site and in future residential complex in Dr Ivana Ribara settlement in New Belgrade.

The construction of residential complex Stepa Stepanovic is going strong. The activities on the first phase and initial part of second phase incorporate 32 objects, including around 3,300 apartments which hold cca. 315,000 sq m of living space. Price per sq m is between EUR 1,250-1,290 (VAT incl.). Additionally, the Building Directorate of Serbia is planning to commence the construction of 800 apartments in new residential complex in Dr Ivana Ribara settlement, in March 2012.

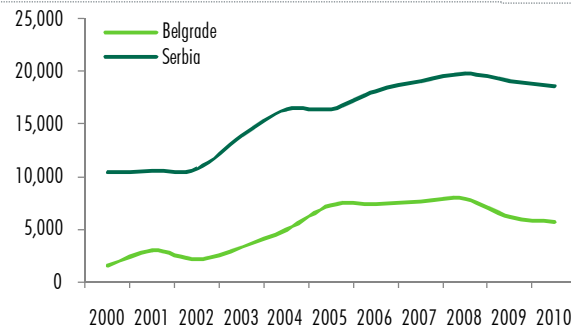
SUPPLY

In accordance with the official data, a number of constructed residential units in Serbia and Belgrade declined in 2009 and 2010, after a constant increase in the period 2002-2008. To be precise, 5,684 residential units were constructed in Belgrade during 2010, 7.6% less than in 2009 and even 27.7% less than in 2008. Still, some Belgrade municipalities recorded very intense development activity in 2010 as compared to 2009: Stari grad, Surcin, Grocka and Zemun. The biggest drop in development activity has been noted in municipalities: New Belgrade and Savski venac. The average size of apartments constructed during 2010 in whole Belgrade area was 63.1 sq m.

Although the data imply less intense activities in previous years, the current plans of investors indicate the market recovery and positive trends in the supply. Namely, Adoc has recently completed the construction works on its Bokeljska 7 project, of 7,500 sq m, totaling 32 apartments, while Nenel finished the project in Santicева street. Also, the luxurious residential complex Koling's Zeland of 10,000 sq m is in the final stage of completion, while Metropolitan apartments of 16,500 sq m in Palilula municipality welcomed the first tenants.

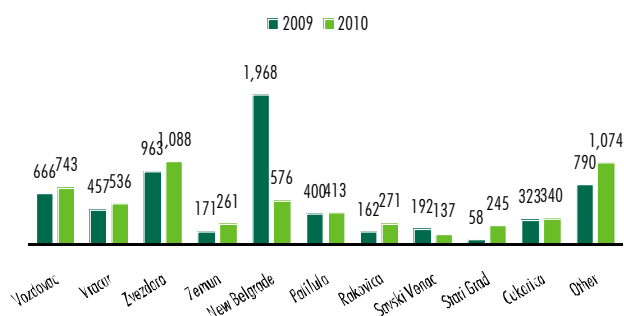
A renowned British investor Pluto Capital plans to build the residential complex of 80 apartments, ranging from 34 to 147 sq m, with high quality finishes and highly flexible space organization, called Harmony Apartments, located in Vracar municipality. The commencement of the construction is planned for the beginning of 2012, whereas the first buyers shall enjoy highly competitive prices and a possibility to be directly involved in the choice of certain finishes.

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



Source: Statistical Office of the Republic of Serbia

Number of constructed apartments in Belgrade's municipalities



Source: Statistical Office of the Republic of Serbia

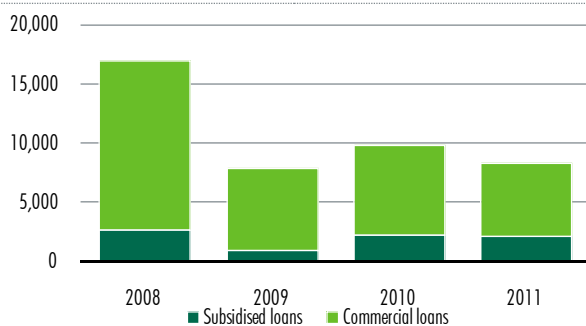
Selected residential projects in development in Belgrade during H1 2011

Project	Location	GBA (sq m)
Koling Zeland (residential complex)	Dedinje	10,000
Maxima Center Imperijal gradnja	New Belgrade	22,000
West 65	New Belgrade	50,000
Golf 8	Banova Brdo	31,000
Marmil Land	Vracar	15,000
Hypo Theta	New Belgrade	6,000

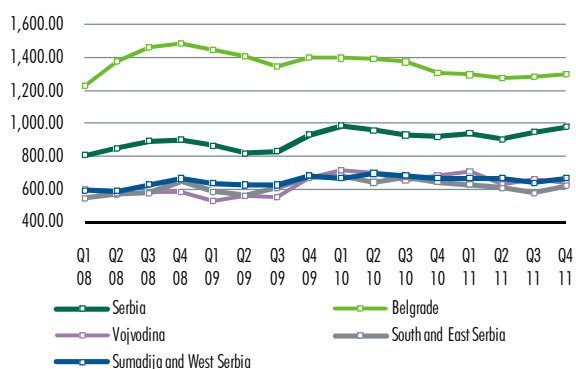
GBA – Gross Building Area
Source: CB Richard Ellis



Harmony apartments

Number of housing loans taken by Serbian citizens from 2008


Source: National Mortgage Insurance Corporation

Average achieved sales prices on the market (in EUR/sq m)


Source: National Mortgage Insurance Corporation, DOMex

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


Source: CBRE

Rental levels in H2 2011 in Belgrade (EUR/sq m/month)

Location	Renovated Properties	Newly Built Properties
Dedinje	8-10	10-15
Vracar	8-10	10-15
New Belgrade	6-8	9-15
Downtown	7-10	8-15

Source: CBRE

CBRE

Israeli investor Aviv Arlon has announced its plans to develop a residential complex of 32,000 sq m, i.e 263 apartments of different sizes ranging from 50 to 90 sq m, of which construction should commence in H1 2012 in Zvezdara municipality. The same part of Belgrade will be enriched with the development of Alpha city, the residential complex of 299 units. After completing the first project in Kneginje Zorke street, Italian investor Edil Italiana plans to begin the construction of its project in Ruzveltova street, of cca 50 residential units, in 2012.

Apart from large-scale projects, several small-scale projects in Vracar municipality are also in development phase, which will additionally enlarged Belgrade residential supply in the forthcoming period.

DEMAND

In order to offer enhanced protection to the users of financial services in Serbia in line with the level of protection provided in the European Union, Serbian Government passed a new Law on the Protection of Financial Services Consumers, which came into force as of 5th December 2011. One of the topics is the change of interest rates during the repayment of loan. Based on the new Law, banks will not be able to change interest rates according to their unilateral will, as the Law defines precisely the method of determining the interest rate, as well as the obligation of banks to inform citizens on any changes in such a rate before their implementation.

According to the National Mortgage Insurance Corporation, the number of realized housing loans fell by 15% in 2011 as compared to 2010-yearend, after a growth of 25% in 2010, as compared to 2009. One of the reasons might lie in the fact that the citizens' participation in financing increased to 10% from the previous 5%. Also, as there is no evident rise in living standard, most of the population whose main source of financing is taking out a loan, are postponing their decision to purchase an apartment.

Still, during the year overall demand had a positive trend, as compared to the previous year. In terms of demand for high-class projects, it has remained stable for some time, as high-income population was not greatly affected by economic situation.

SALES PRICES

In 2011, the prices of residential units stayed dormant and mostly unchanged, due to the high share of available and pipeline projects. In central Belgrade municipalities, the asking prices of high-quality projects start off from EUR 2,200 (VAT included), with most mid-end projects varying between EUR 1,500-2,100 with tax included. Prices are influenced by location and by the quality of finishing works.

RENTAL LEVELS

Year 2011 marked a steady rental demand, with rental levels standing between EUR 6-15/sq m, depending on the location and quality of properties. Dedinje, Senjak, and Vracar still remain the most interesting locations for foreign expatriates.

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

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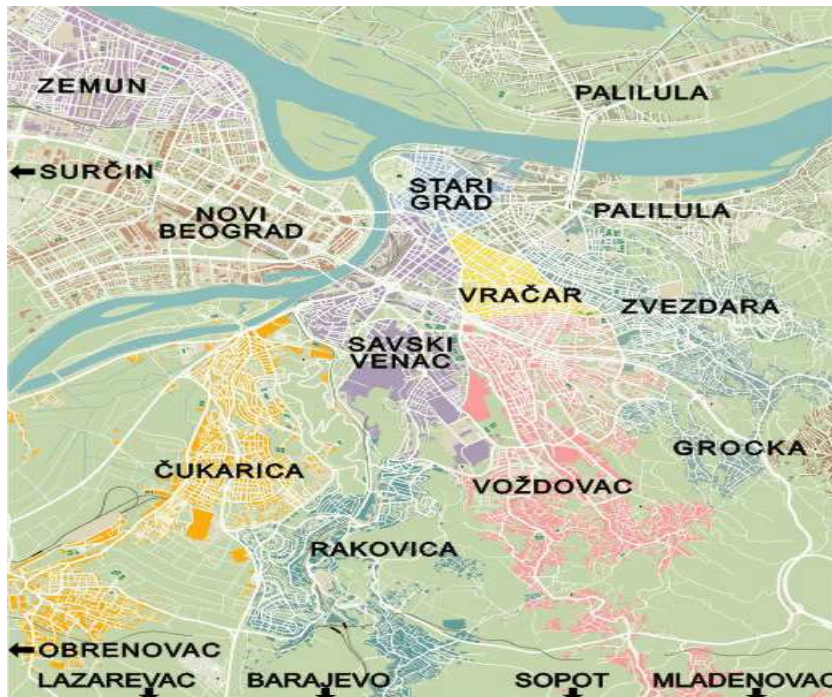
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Belgrade map of municipalities**Disclaimer 2012 CBRE**

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