BNP PARIBAS
REAL ESTATE

BELGRADE OFFICE MARKET

1H 2009

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CONSULTANTS & VALUERS

Serbia Key Facts

Located in Southeast Europe, Serbia represents central part of the Balkan Peninsula, at the intersection of Pan European Corridors N° 10 and N°7, on the way from Europe to Asia. The Republic of Serbia encompasses an area of 88,412 square kilometers. It is divided into 29 districts and the City of Belgrade. City itself is further divided into municipalities.

To the East, Serbia borders with Bulgaria, to the North East with Romania, to the North with Hungary, to the West with Croatia and Bosnia and Herzegovina, to the South East with Montenegro and to the South with Albania and FYROM.

Pan European Corridor N° 10 is one of the most important European highways passing through the country, leading from Salzburg through Belgrade and Niš and branching to Athens and Sofia. Another branch of the corridor links the Capital with Budapest.

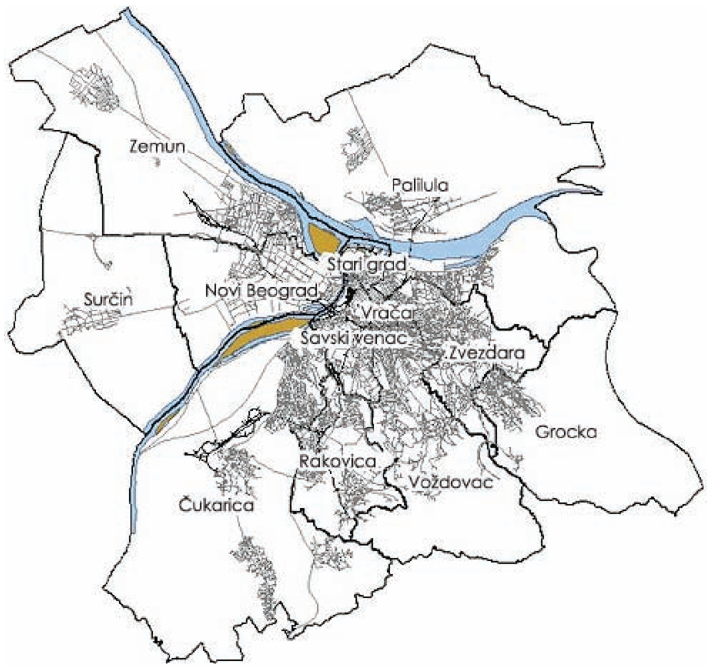
Belgrade Airport represents the main gateway for international air transportation with JAT Airways as major national courier and with 43 direct lines.

The capital of Republic of Serbia, Belgrade, is situated on the confluence of rivers Danube and Sava, with population of 1,576,124 according to the Census 2002.

Total surface of Belgrade area of 3,222 sq km is divided into 17 municipalities; among 10 of them belongs to the urban zone (Vračar, Stari Grad, Savski Venac, Novi Beograd, Čukarica, Zvezdara, Palilula, Zemun, Rakovica, Voždovac), and 7 of them are suburban area (Surčin, Sopot, Grocka, Lazarevac, Mladenovac, Obrenovac, Barajevo).

It is one of the oldest cities in Europe and has since ancient times been an important focal point for traffic, an intersection of the roads of Eastern and Western Europe. Belgrade is a large industrial, commercial, tourist, cultural, educational and political centre and an important 1.7 million - customer market.

Serbia in Europe



Belgrade’s urban municipalities

Economy Key Facts

Macroeconomic Indicators	2006	2007	2008e	2009f
GDP (EUR bn)	24.3	29.1	33.2	30.8
GDP per capita (in EUR)	3,278	3,948	4,513	4,186
GDP growth (y-o-y %)	5.6	7.1	5.5	-2.0
CPI (y-o-y %)	6.6	10.1	6.8	8.5
Central Bank reference rate	14.0	10.0	17.8	20.0
Exports of goods (in mil. EUR)	5,103	6,432	7,428	1,733.0
Imports of goods (in mil. EUR)	10,463	13,507	15,580	3,628.0
Gross foreign debt (% of GDP)	61.3	61.0	67.0	80.3
Gross foreign debt (EUR bn)	14.9	17.8	22.3	24.8
Net FDI	3.4	1.6	1.8	0.9
FDI (as a % of GDP)	14.0	5.5	6.2	2.9
Population (in mil)	7.4	7.5	7.5	7.5
Unemployment rate (%)	20.9	18.1	13.3	15.0
Exchange rate to EUR	79.8	78.8	89.8	102.0
Inflation rate (%)	5.9	5.4	10.6	9.0
Average net salary (in EUR)	258.0	347.0	433.0	347.0

Source: NBS

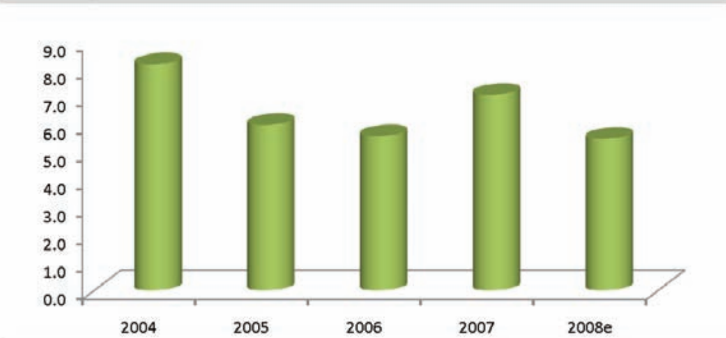
Strong economic progress has been made since 2001, particularly in expanding private sector participation in the economy. The reform program has helped to strengthen the country's strong economic performance and reductions in poverty. Serbia signed Free Trade Agreements (FTA) with:

- CEFTA, with all neighboring countries, providing market of 55 million people
- FTA exists with the Russian Federation, offering access to market of 150 M people
- FTA with Belarus and Turkey

In 2008 Serbia signed SAA Agreement (Stabilization and Association Agreement) with EU which opens Serbia towards EU market. In particular, main economic and political focus in Serbia presents improvement of economic stability and continuing with EU Association process.
Due to the global financial crises, in 1Q 2009 GDP growth recorded downfall to - 5.2%, while predictions for the 2009 expected to be at -2%, with decrease in FDI from EUR 2.1 bn in 2008 to EUR 0.9 bn in 2009. In order to lessen the impact, Serbian government has reached for an agreement with International Monetary Fund (IMF) in March 2009, for a stand-by credit arrangement in amount of EUR 3 bn, as to fulfill budget deficit and cover public expenditure. Also, in accordance with IMF guidance, Serbian government is about to make a decision on VAT increase from current 18% to 19%, and will further-more cut public wages and employment, in order to bring new, rebalanced budget, in a balance.

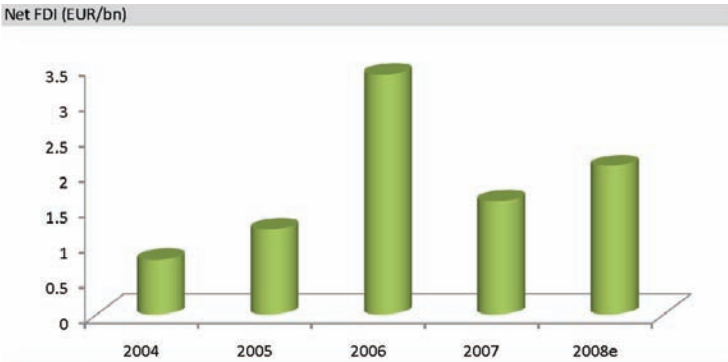
Most of foreign direct investments (FDI) comes from EU countries. The largest investment recorded so far in Serbia came from Norway, Greece, Austria and Hungary, but also from Slovenia, France, Great Britain, Italy etc. The largest portion of FDI is generated from privatization process, which is conducted in three ways: public auction, public tender and restructuring.

GDP Growth, in %



Source: NBS

Net FDI (EUR/bn)



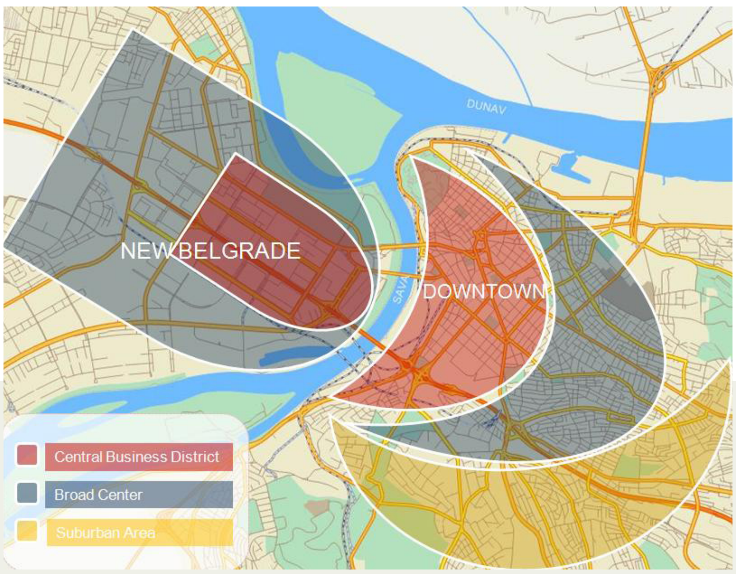
Source: NBS

Serbian Office Market

In a past few years, Serbia experienced rapid growth of demand for office space. Taking a historical prospective, the Serbian modern office market has started to develop after the political changes in 2000. At that time, the country opened its doors for international business and cooperation causing an influx of foreign companies and organizations in significant need for quality office premises.

The real expansionary phase of office space started in 2004 and 2005 and continued through following years. Many foreign companies expressed needs for opening their representative offices and branches, and regarding that, international banks were and still are the biggest tenants in office market. Also, companies in telecommunication, chemical and financial advisory industry took big part in tenancy share.

In comparison to the other CEE countries, Serbia has the lowest ratio between population and total office stock, and number of new developments is still behind cities like Warsaw, Budapest or Prag. Main reason for that is still unstable political and economical situation in the country, but on the other hand, it represents a great opportunity for new developments in the country and giving a chance to the companies to take a good competitor position.



Belgrade and Novi Sad are the main building centers. There are also other cities like Nis, Cacak, Kragujevac facing an expansion in office stock development, but in much smaller portion. The characteristic of office development in smaller cities are that they have average size from 500 – 2,000 sq m and are mostly situated in city centers. Also, office branches can be found at industrial zones of these cities, near manufacture and industrial facilities.

Demand for office market in Novi Sad is still high for converted apartments in the city centre and mixed use buildings, because of lack of big in a past few years, Serbia experienced rapid growth developments, as could be seen in New Belgrade.

Belgrade office market can be divided by it location on Central Business District (CBD), Broad Center Area and Suburban area.

CBD Area of Belgrade encompasses an area of downtown (Dorcol, Knez Mihailova Street, Terazije Street, Slavija Square and Knez Milosa Street as most prominent downtown business areas) and New Belgrade (Blvd. Dr. Zorana Djindjica, Blvd. Mihaila Pupina Street, III Blvd. and Omladinskih Brigada Street as the most prominent business areas in New Belgrade).

Broad Center Area encompasses wider downtown area, both on New Belgrade and Downtown. In New Belgrade most prominent business areas are Jurija Gagarina Street and Blvd. Nikole Tesle Street, while on “the other side of the river” those areas would be along Blvd. Kralja Aleksandra Street, Vracar area, Autokomanda area, Belgrade Fair area and along Blvd. Oslobodjenja Street.

Suburban Area encompasses wide city area, along major streets and roads which enters into the city.

Belgrade Office Market

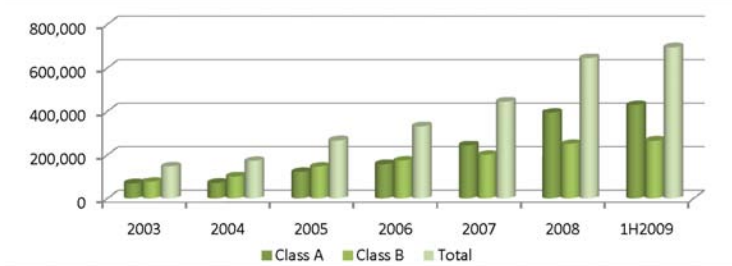
Total stock of office premises in Belgrade, in 1H 2009, was around 695,000 sq m which presents an increase in stock by 49,500 sq m or 8% comparing end of 2008. The overall stock increase in 2006 was 24% while in 2008 recorded increase was 45% which delivered to the market additionally 200,000 sq m. Most of development is still concentrated in New Belgrade, while the only development of Class A office building in downtown was B2 building, near Terazije Street, with total area of around 24,000 sq m, from which 4,000 sq m is office space. Class A office premises recorded stock of around 429,500 sq m, while Class B stock records 265,000 sq m in total.

Supply and most of developments are still recorded in New Belgrade, with prevailing Class A office premises. Reason for this we can find in the fact that New Belgrade has large stock of construction land that is undeveloped together with clear and valid ownership issues. Major developments and deliveries in 2009 are Savograd (20,000 sq m), Airport City Tower (12,000 sq m) and Belgrade Office Park (16,000 sq m). Currently under construction is approximately 190,000 sq m of modern office space that has to be delivered in the second half of 2009. First available new development will be Blue Center (Bluehouse fund A Class office building) on New Belgrade, Block 26 with more than 30,000 sqm of NLA.

Vacancy rate in total office stock recorded an increase from 12% at the end of 2008 to 15.15% in 1H 2009. Class B office stock recorded an increase in vacancy rate from 13% at the end of 2008 to 15.9% in 1H 2009, while Class A stock recorded an increase from 11% in 2008 to 14.4% in 1H 2009. Market slowdown together with significant increase of office stock in 2008 and expected delivery in 2009 will considerably change the picture of office market. Predictions for 2H 2009 are not optimistic; new development will increase stock, which will drastically increase vacancy rate, especially concerning the fact there are no new FDI and expansion plans until recovery of world's economy.

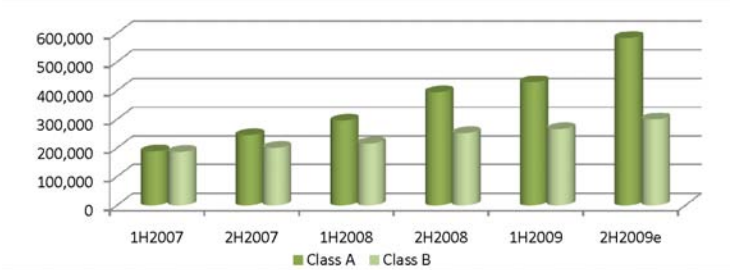
Demand for quality and high standard office premises in Belgrade continuously decreasing. Decrease of demand is noted from the second half of 2008 that continued in 2009. Most of businesses decided to postpone their expansion plans and there is no interest among the potential investors to enter the market in this specific occasion. The highest demand (almost 70% from total) is for small and medium office premises, areas from 200 – 1,000 sq m. Overall; in 2008 demand has recorded a drop of 5% for Class A office premises, mainly due to the overall delivery of new office buildings.

Total office stock in Belgrade, from 2003



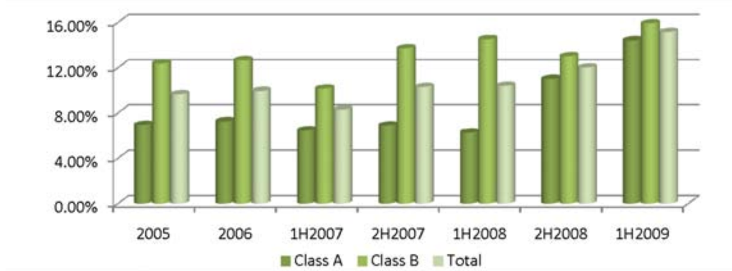
Source: Danos, Serbia

Office development, in half - year periods



Source: Danos, Serbia

Vacancy rate



Source: Danos, Serbia

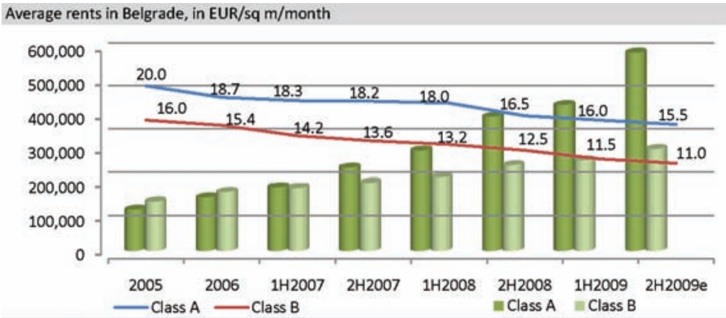
Belgrade Office Market (Cont.)

Rental levels have a descending trend during the last few years, because of new developments, more competitors on the market, but also due to the global financial crises that started at the end of the 2007.

In a comparison with the end of 2008, there was a downfall in Class A office rents by 3%, which means that rental level has dropped from EUR 16.5 to EUR 16 per sq m / month.

Also, Class B rental levels in 2008 dropped by 8% in comparison to with the end of 2008, which means that average rents dropped from EUR 12.5 in 2008 to EUR 11.5 per sq m / month.

Average rents in Belgrade, in EUR/sq m/month



Source: Danos, Serbia

Class A Rents

Average monthly rents for Class A office premises have a descending trend since 2001. In 2008, an average rent level was EUR 17 per sq m/month, dropped to EUR 16 per sq m/month in 1H 2009.

Regarding location, the most expensive location is CBD Area, where in 1H 2009 average rents vary between EUR 16 and 18 per sq m/month, while rents in Wide Center Area were fluctuating from EUR 13 to 15 per sq m/month.

Class B Rents

Average monthly rents for Class B office premises have a descending trend since 2001. In 2008, an average rent level was EUR 12.5 per sq m/month, dropped to EUR 11 per sq m/month in 1H 2009. Regarding location, the most expensive location is CBD Area, where in 2008 average rents vary between EUR 10.5 and 15 per sq m/month, while rents in Wide Center Area were fluctuating from EUR 8 to 10 per sq m/month.

Average rents by location

Year	2007	2008	1H 2009
Class A (CBD)	20.5 - 24.0	17.0 - 20.0	16.0 - 18.0
Class A (Wide Center Area)	18.0 - 18.5	13.0 - 15.0	13.0 - 15.0
Class A (Suburban Area)	n.a.	n.a.	n.a.

Average rents by location

Year	2007	2008	1H 2009
Class B (CBD)	13.0 - 21.0	11.0 -16.0	10.5 - 15.0
Class B (Wide Center Area)	10.0 - 14.0	9.0 -12.0	8.0 - 10.0
Class B (Suburban Area)	11.5 - 13.0	n.a.	n.a.

Belgrade Office Market (Cont.)

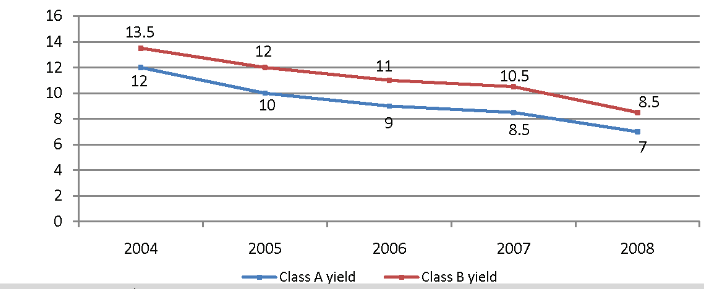
Investment Sales

Average yields of Class B Offices are estimated at 10.5%, whereas for Class A Offices are estimated at 9.5%

It is hard to define accurate state of investment activities in Belgrade, because data's are not public available.

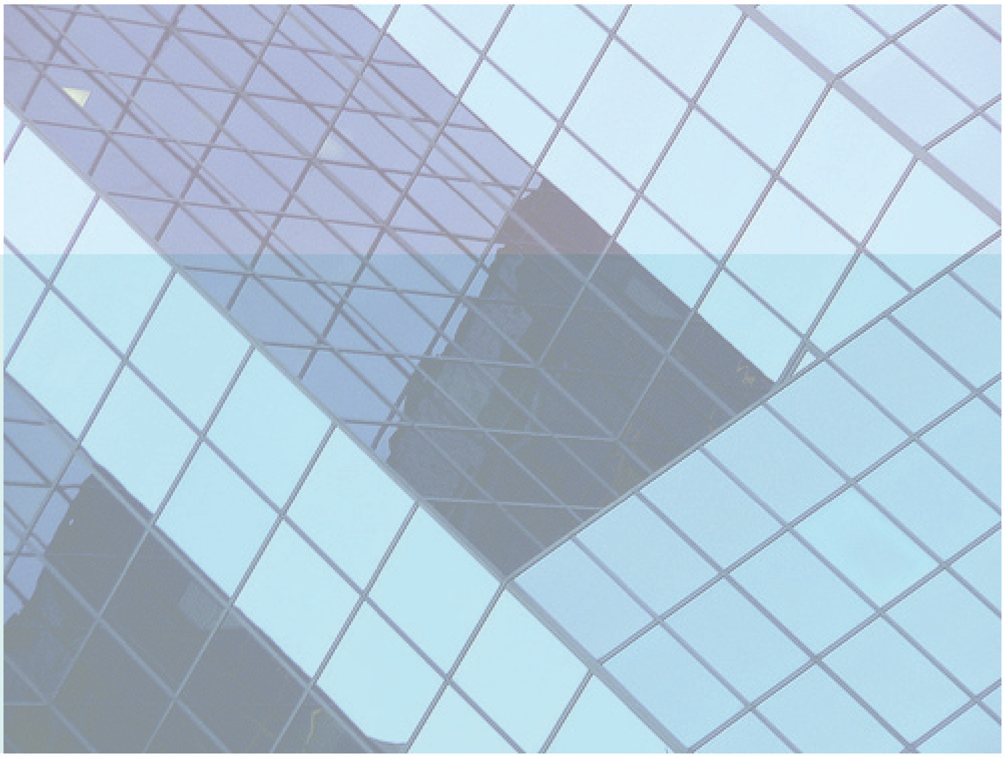
Selling prices are in most cases confidential. There is a difference between asking and achieved price, so only asked price can be presented:

Yields in %, from 2003 - 2004



Source: Danos, Serbia

Approved projects in pipeline			
Project	Location	Area (sqm)	Investor
Airport City 1700 *	Wide Area / New Belgrade	11,800	Africa Israeli Group
Blok 43	Wide Area / New Belgrade	25,000	MPC Properties
Blue Center	CBD / New Belgrade	49,700	Bluehouse Capital / Alpha Bank
Belville Office building *	Wide Area / New Belgrade	28,000	Delta Holding / Hypo Alpe Adria Bank
Tri lista duvana*	Downtown	17,300	MPC Properties
Verano B23 *	CBD / New Belgrade	53,000	Verano Group
VIG Plaza *	CBD / New Belgrade	16,000	n.a.
Campus 41 ***	Wide Area / New Belgrade	90,000	Signa Development / Napred
Usce Tower II ***	CBD / New Belgrade	30,000	MPC Properties
* - 2009; *	** - 2010;	*** - Approved (deadline unknown)	



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