Danos

INTERNATIONAL PROPERTY CONSULTANTS & VALUERS

BELGRADE OFFICE MARKET

1st QUARTER 2009

BNP PARIBAS REAL ESTATE

1. 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.

Picture: Belgrade's municipalities

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 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).

Picture: Knez Mihailova Street

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.

Belgrade is investing significant resources into infrastructure and building land development with the result that there is a substantial amount of building land available for all purposes. The Belgrade local authorities support investment and enable projects to be speedily commenced and completed.

2. Economy Key Facts

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 Agreement (FTA) in 2007:

- 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

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.

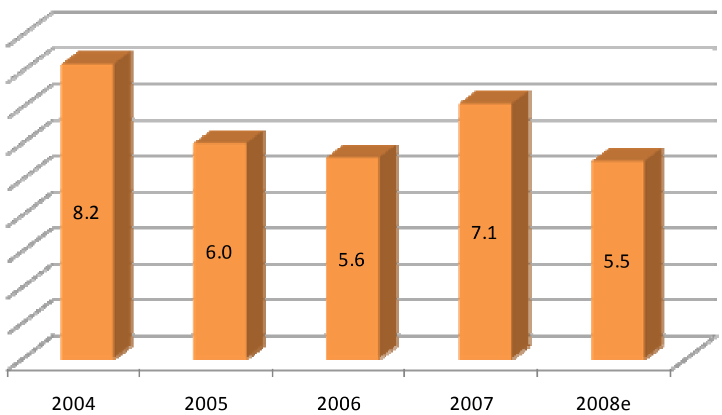
Over the past few years, Serbia has developed into a stabile growing market economy. Despite difficult conditions in the past, the country's economy accomplished respectful 8.2% annual GDP growth in 2004 but dropping back to 5.5% in 2008. Still, for years, Serbia has the biggest growth in economy in the region. Because of the global financial crises, predictions for 2009 are not so bright; GDP growth expected to drop-fall to 1% (the biggest pessimist forecast even negative figure), with decrease in FDI from EUR 2.1 bn in 2008 to EUR 0.9 bn in 2009.

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

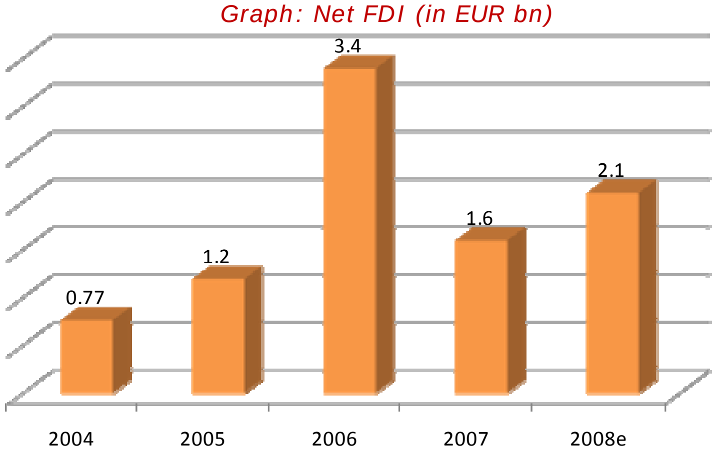
Graph: Key Economy Indicators

Macroeconomic Indicators	2006	2007	2008e
GDP (EUR bn)	24.3	29.1	33.2
GDP per capita (in EUR)	3,278	3,948	4,513
GDP growth (y-o-y %)	5.6	7.1	5.5
CPI (y-o-y %)	6.6	10.1	6.8
Central Bank reference rate	14.0	10.0	17.8
Exports of goods (in mil EUR)	5,103	6,432	4,383
Imports of goods (in mil. EUR)	10,463	13,507	9,201
Gross foreign debt (% of GDP)	61.3	61.0	67.0
Gross foreign debt (EUR bn)	14.9	17.8	22.3
Net FDI	3.4	1.6	2.1
FDI (as a % of GDP)	14.0	5.5	6.2
Population (in mil)	7.4	7.5	7.5
Unemployment rate (%)	20.9	18.1	13.3
Exchange rate to EUR	79.8	78.8	89.8
Inflation rate (%)	5.9	5.4	10.6
Average net salary (in EUR)	258	347	433
Source: NBS. Ministry of Finance			

Graph: GDP Growth, in %



Graph: Net FDI (in EUR bn)



Source: NBS

3. 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.

In Novi Sad, most attractive locations are Blvd. Oslobodjenja, Blvd. Kralja Petra, Dunavskaand Zmaj Jovina Street.

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.

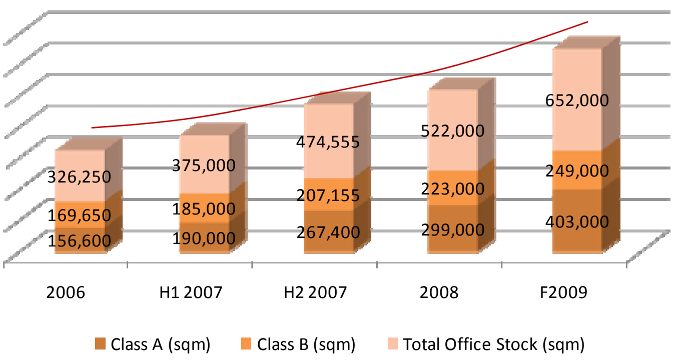
CBD Area encompasses an area of downtown (Dorcol, Knez Mihailova Street, Terazije Street, Slavija Square and Knez Milosa Street as most prominent downtown business areas) and New Belgrade Area (Arena, Blvd. Dr. Zorana Djindjica, Usce, Blvd. Mihaila Pupina Street, III Blvd. Street as most prominent business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

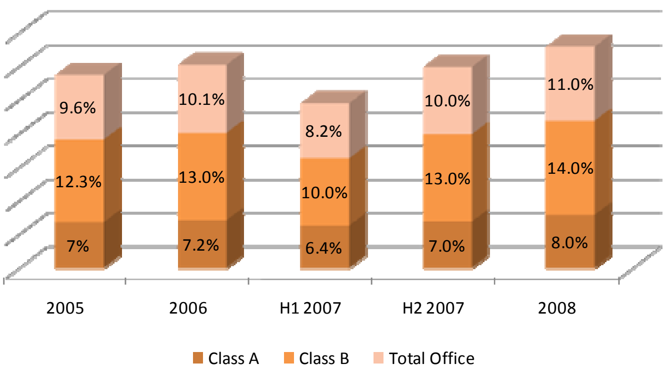
4. Belgrade Office Market

Graph: Total office stock in Belgrade, from 2006



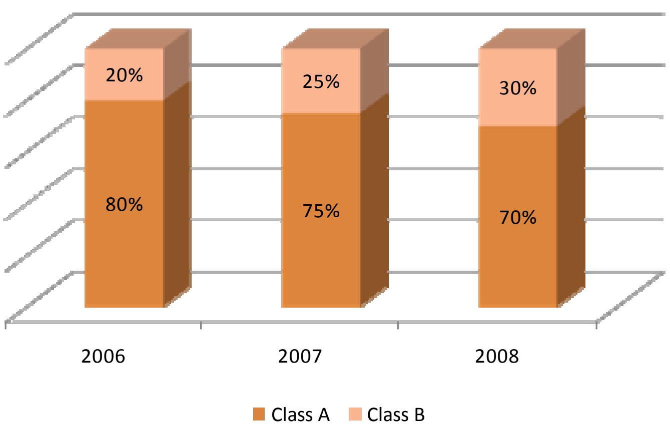
Source: Statistical Office of the Republic of Serbia

Graph: Vacancy rate



Source: Statistical Office of the Republic of Serbia

Graph: Demand by type of office



Source: Statistical Office of the Republic of Serbia

Total stock of office premises in Belgrade, in 2008, was around 522,000 sq m which presents an increase in stock by 47,445 sq m or 10% comparing 2007. Most development is still concentrated in New Belgrade, while the only development of Class A office building in downtown was B2 building, near Terazije Street, area of around 24,000 sq m, from which 4,000 sq m for offices. Class A office premises recorded stock of around 300,000 sq m, while Class B stock records 223,000 sq m from total.

Supply and largest scale of development is recorded in New Belgrade, where most office stock belongs to Class A units. Reason for this lies in fact that New Belgrade has large stock of construction land that is undeveloped and is totally flat, which makes easier to build. Also, the architecture in New Belgrade allows more modern concepts then in old city and allows higher floor buildings. For an example, Usce tower has 25 floors and is biggest office building in Belgrade.

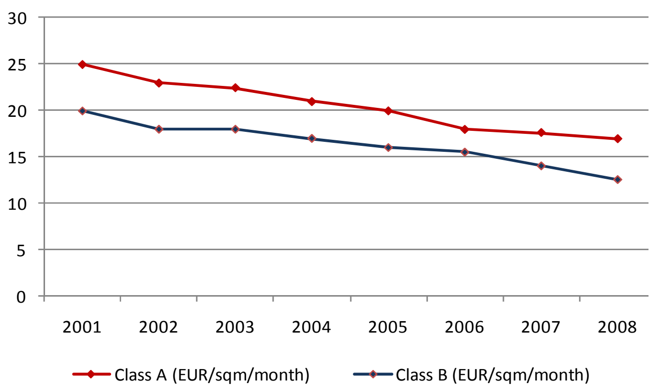
Vacancy rate in total office stock recorded an increase from 9% in 2007 to 11% in 2008. Class B office stock recorded an increase in vacancy rate from 12% in 2007 to 14% in 2008, while Class A stock recorded an increase from 7% in 2007 to 8% in 2008. Most units are preleased in construction period, and it specially counts for Class A office premises. Predictions for 2009 are not optimistic; new development will increase stock, which will drastic increase vacancy rate, especially for there are no new FDI and expansion plans due to world financial crisis.

Demand for quality and high standard office premises in Belgrade has one of the highest ratios in the region. The biggest demand (almost 70% from total) is for small and medium office premises, areas from 200 – 1,000 sq m, which are almost impossible to find in Belgrade. Overall, in 2008 demand has recorded a drop of 5% for Class A office premises, mainly due to the delivery of a Class B office building in GTC Square in New Belgrade.

4. Belgrade Office Market (Cont.)

Rental levels have a descending trend during the last few years, because of new developments and more competitors on the market. In a comparison to 2007, there was a downfall in Class A office rents by 2%, which means that rental level has dropped from EUR 17.7 to EUR 17 per sq m/month. Also, Class B rental levels in 2008 dropped by 10.7% in comparison to 2007, which means that average rents dropped from EUR 14 in 2007 to EUR 12.5 per sq m/month.

Graph: Average rents in Belgrade from 2001 – 2008



Source: Statistical Office of the Republic of 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 by 2% in comparison to 2007.

Regarding location, the most expensive location is CBD Area, where in 2008 average rents vary between EUR 19 and 23 per sq m/month, while rents in Wide Center Area were fluctuating from EUR 16 to 19 per sq m/month.

Graph: Average rents by location

Year	2006	2007	2008
Class A (CBD)	18.0 - 23.0	20.5 - 24.0	19.0 - 23.0
Class A (Wide Center Area)	16.5 - 22.0	18.0 - 18.5	16.0 - 19.0
Class A (Suburban Area)	n.a	n.a.	n.a.

Source: Statistical Office of the Republic of Serbia

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 by 10.7% in comparison with 2007.

Regarding location, the most expensive location is CBD Area, where in 2008 average rents vary between EUR 11 and 18 per sq m/month, while rents in Wide Center Area were fluctuating from EUR 9 to 12 per sq m/month.

Graph: Average rents by location

Year	2006	2007	2008
Class B (CBD)	14.0 - 22.0	13.0 - 21.0	11.0 -18.0
Class B (Wide Center Area)	13.0 - 16.5	10.0 - 14.0	9.0 -12.0
Class B (Suburban Area)	10.0 - 17.5	11.5 - 13.0	n.a.

Source: Statistical Office of the Republic of Serbia

4. Belgrade Office Market (Cont.)

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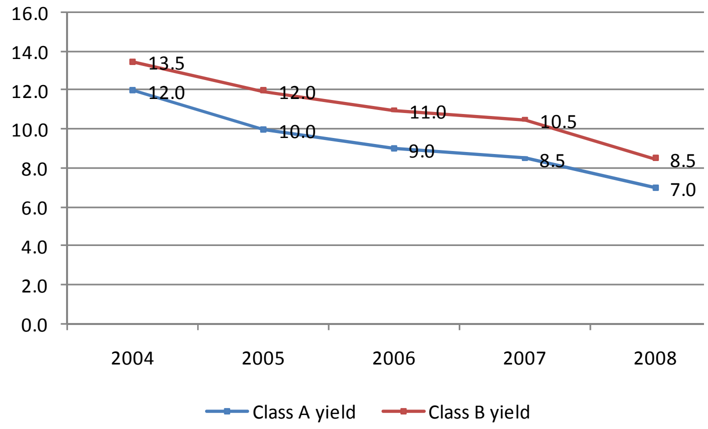
Investment Sales

Average yields of Class B Offices are estimated at 9.5%, whereas for Class A Offices are estimated at 8.5%

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:

Graph: Yields (%) from 2004 - 2008



Source: Danos Serbia

Graph: Selected asked price for office premises

Location	Area (sqm)	Asked Price (EUR/sqm)	Class
Wide Center	5,700 gross / 3,800 net	1,500	A
CBD	1,200 gross / 1,000 net	1,650	B
CBD	2,000 gross /1,500 net	3,000	B
CBD	2,450 gross / 2,150 net	2,200	B
Source: Danos			

Graph: Selected investment sale in region

Project Name	Area (sqm)	Buyer	Location	Price (per/sqm)	Yield	Year
Charles de Gaulle Plaza	22,000	Immoeast	Bukurešt	3,318	8.5%	2004
S-Park	35,000	Immoeast	Bukurešt	3,143	6.5%	2006
Victoria Park	22,000	Immoeast	Bukurešt	2,955	6.5%	2006
Cubic Center	44,000	Fabian Capital	Bukurešt	1,364	7.6%	2006
Sema Parc 2	32,500	Europolis	Bukurešt	2,000	8.4%	2006
Landmark Business Centre	10,000	Landmark	Sofija	1,770	9.2%	2005
Challenger Building	3,000	Blue House	Sofija	1,167	9.2%	2005
Sofia Tower	10,000	GE; Quinlan Private	Sofija	1,500	8.8%	2006
Airport area- Sofia	8,000	Landmark	Sofija	1,625	8.9%	2007
Hotel Tower	27,000	Hypo Alpe Adria Group	Zagreb	2,407	n/a	2005
Zagreb Tower	27,500	n/a	Zagreb	1,818	n/a	2006
Source: Danos						

Graph: Approved Projects in pipeline

Project	Location	Area (sqm)	Investor
Airport City 1700 *	Wide Area / New Belgrade	11,800	Africa Israeli Group
19th Avenue *	CBD / New Belgrade	20,000	GTC International
Bluehouse block 26 *	CBD / New Belgrade	49,700	Bluehouse Capital / Alpha Bank
Sava Business Center *	CBD / New Belgrade	21,000	CA Immo / Neimar V
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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