



BNP PARIBAS
REAL ESTATE

BELGRADE RESIDENTIAL MARKET

1 H 2009

Real Estate
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Danos

INTERNATIONAL PROPERTY
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.

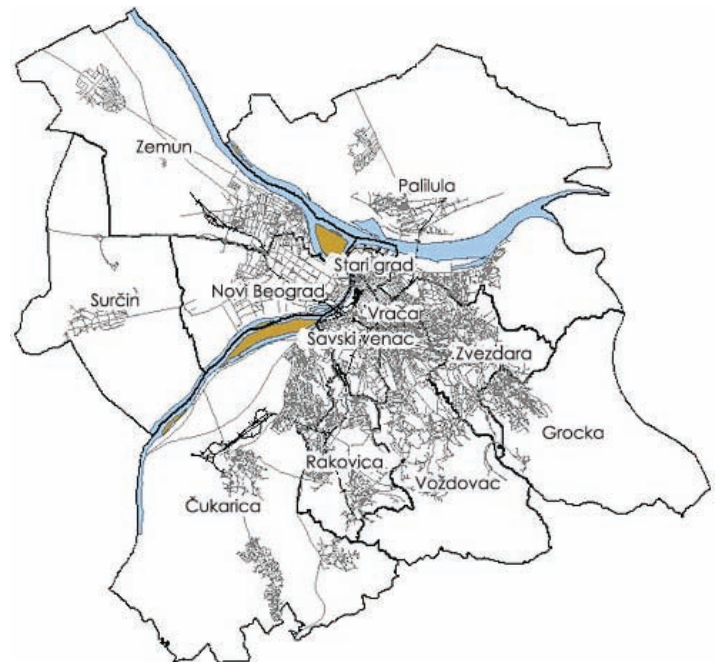
The capital of Republic of Serbia, Belgrade, is situated on the confluence of rivers Danube and Sava, with population of 1,576,124 according to the Census 2002.

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

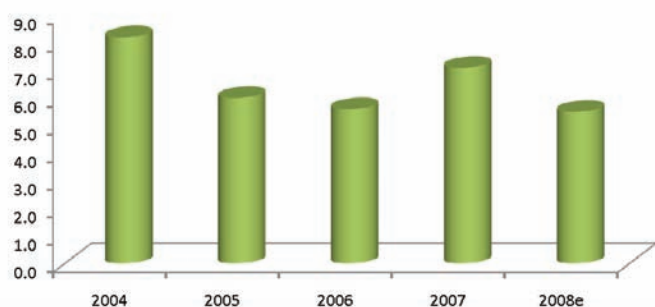
In 2008 Serbia signed SAA Agreement (Stabilization and Association Agreement) with EU which opens Serbia towards EU market. In particular, main economic and political focus in Serbia presents improvement of economic stability and continuing with EU Association process.

Due to the global financial crises, in 1Q 2009 GDP growth recorded downfall to - 5.2%, while pre-

dictions 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.

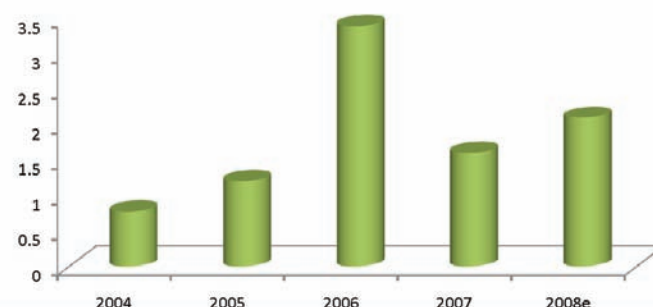
Most of foreign direct investments (FDI) comes from EU countries. The largest investment recorded so far in Serbia came from Norway, Greece, Austria and Hungary, but also from Slovenia, France, Great Britain, Italy etc. The largest portion of FDI is generated from privatization process, which is conducted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

GDP Growth, in %



Source: NBS

Net FDI (EUR/bn)



Source: NBS

Serbian Residential Market

Since 2000 Serbia recorded growth in real estate industry which directly was consequence of political changes in Serbia. Since then many foreign companies invested in this industry through privatization and through direct foreign investments (Greenfield). Major foreign investments came from Austria, Israel, Slovenia, Greece, etc. Government authorities are also proactively involved in forming attractive investment policy in order to develop this industry through more simplified and adjustable laws, regulations and approvals.

The strong activity in the Serbian residential real estate market over the past years has been a result of continued construction activity in the three largest cities (Belgrade, Nis and Novi Sad). In other Serbian cities and towns construction activity remains low.

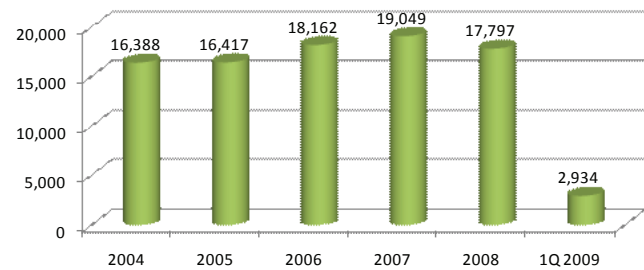
Recovery in the residential sector was driven by:

- Strengthening of the Serbian macro-economic situation.
- Mortgage loans, which are becoming more secure to the banks following the government's creation of the National Corporation for Housing Loans Insurance.

The Serbian government was very active in the field of resolving housing problems.

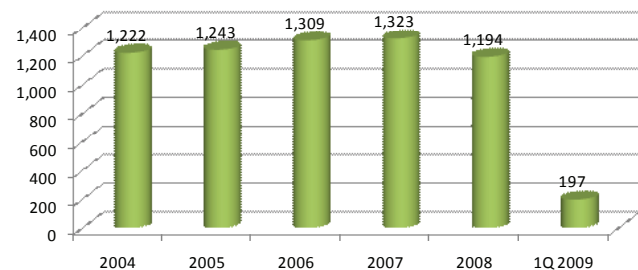
First the value added tax (VAT) rate on new apartments was decreased in June 2005 from 18% to 8%. Also, buyers of first home are not in obligation to pay VAT. Government also setup the National Corporation for Housing Loans Insurance, which covers 75% of the loss in the case that the user of the loan does not fulfil his obligations to the bank. As a response on this State measures, all banks instantly reduced interest rates on the mortgage loans. Also in the end of the 2005, the Serbian Government adopted a new mortgage law, which enabled banks to place mortgage on unregistered properties.

Number of constructed apartments in Serbia



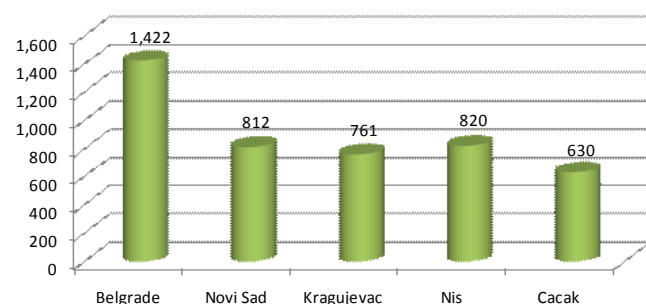
Source: Republic Statistic Office

Number of constructed apartments in Serbia, in 000 sq m



Source: Republic Statistic Office

Average prices of apartments in major Serbian cities



Source: Republic Statistic Office

Belgrade Residential Market

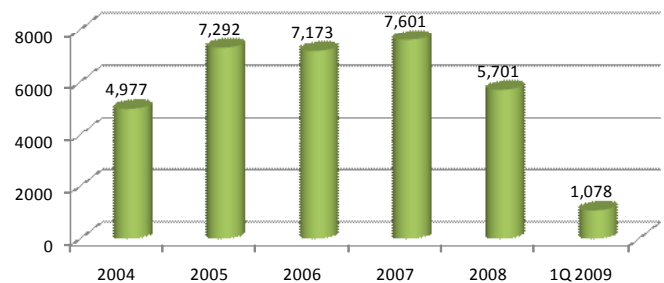
Residential market recovery, in past years, was most obvious in Belgrade, thanks to the highest number of new investors. The increased number of favorable home mortgage largely contributed to this situation. New home construction activity is largely concentrated in Belgrade, where more than 30% of newly built homes and building permits were issued. The largest construction activity, 33% from total, is located along the main boulevards in New Belgrade – Avnoja, Arsenija Carnojevic Boulevards and nearby Arena Sports Center. Also, a considerable number of quality developments were completed in the municipalities of Vracar, Savski Venac, Cukarica, Zvezdara and Vozdovac. The upper end segment is expanding mostly in the areas of Vracar and Dedinje.

Supply of apartments recorded a decrease in 2008. According to Republic Statistical Office, total number of built apartments in 2008 was 5,701 units, which presents a decrease of 25% in comparison with 2007. In 1Q 2009 the number of newly built apartments was 1,078.

Residential property market records an increasing trend regarding Net Built Area (NBA), increasing from 172,766 sq m in the year 2003 to 343,389 sq m in year 2007. It was estimated that GBA will continue to grow proportionally, but due to crises, that number fell to number of 338,142 sq m of built apartments in 2008. Also, the crisis has influenced construction activity in 2009, with decrease in number of issued construction permits and decision of most of investors to postpone new projects mainly caused by lack of funds and unfavorable financing terms.

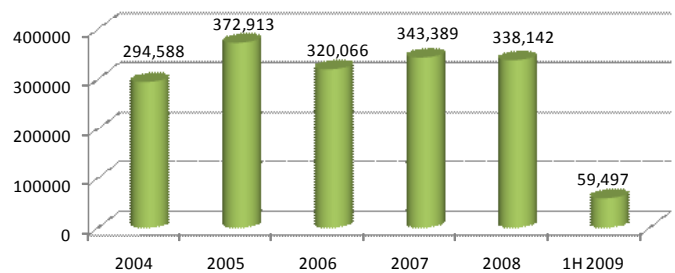
Most of residential buildings currently under construction are small in size and consist between 10 and 30 apartments. Larger residential developments available at the market are B2 project in Balkanska Street, Gallery Apartments in Francuska Street. In New Belgrade few of the largest projects already developed and under construction are Belville in block 67, Savograd in block 20 and Maxima Center in block 11a. One of large scale pipeline projects is announced construction of apartment buildings in Airport City complex that will bring additional 60,000 sq m of modern residential space.

Number of constructed apartments in Belgrade



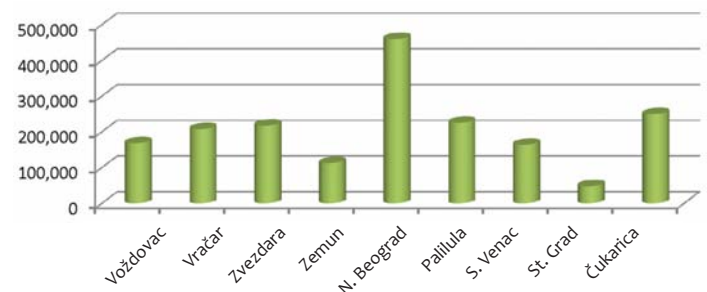
Source: Republic Statistical Office

Newly built apartments in Belgrade, in sq m



Source: Republic Statistical Office

Total constructed apartments by Belgrade municipalities (in sq m), from 2000 - 2007



Source: Republic Statistical Office

Belgrade Residential Market (Cont.)

In 2007, the largest shares of new apartments were One-room apartments with 32% of the total number, followed by Two-room apartments recording 27% in total share. One room apartments are recording the strongest increase on year-to-year compared with other categories.

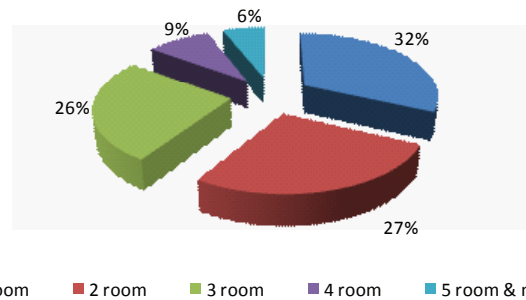
Demand for the apartments in the 1st quarter of 2009 is experiencing slow down due to economy crisis that caused contraction in market activity. More conservative lending policy of banks together with increase of interest rates has influenced lower availability of home mortgages to most of the buyers. Also, economy slow down resulted in higher level of cautiousness of potential buyers together with expectation of price reducing. Potential demand is still high which stipulate that newly built apartments in prime locations maintain high prices despite the narrow target groups.

Location of an apartment in Belgrade, as well in other major cities in Europe, is the most important factor governing its value and desirability. Compared to the other CEE capitals, selling prices in Belgrade are considered high.

Sale prices have experienced decrease due to economy slowdown that caused limited offer of housing loans and slowing of market activity. Compared to 2008, beginning of 2009 saw decreasing demand and prices especially for mid level apartments located at the outskirts of the city. Prices of apartments have recorded the highest decrease of 20% in suburban parts of Belgrade, while apartments in central locations experienced decrease of 10-15% on average and we can emphasize that this is the first decrease of residential prices since 1999.

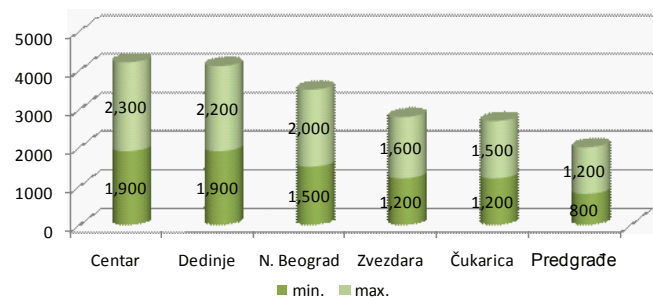
Sale prices range from average €1,100 – 1,300 sq m in the city's periphery up to €2,000 - €3,000 in the city centre and Vracar and €2,000 - €2,500 in Dedinje, Senjak and central part of New Belgrade. The city centre and Vracar remain the most exclusive areas. All these prices can be 10% - 20% higher if the property has luxury fittings. In New Belgrade, average prices are between €1,500 - €2,500 per sq m, although some location and newly built apartments can achieve higher prices.

Structure of newly built apartments, in 2007



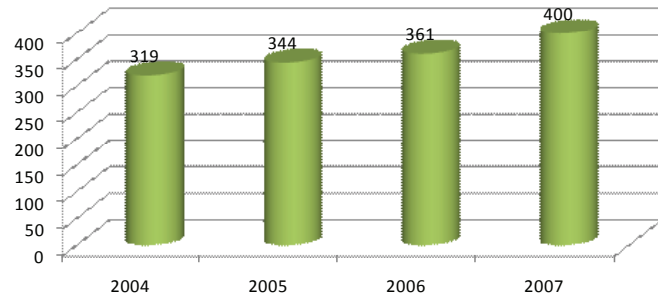
Source: Republic Statistic Office

Average selling prices by Belgrade locations, in EUR/sq m



Izvor: Danos Srbija

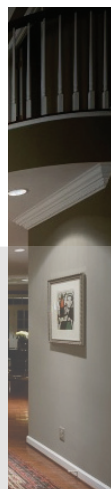
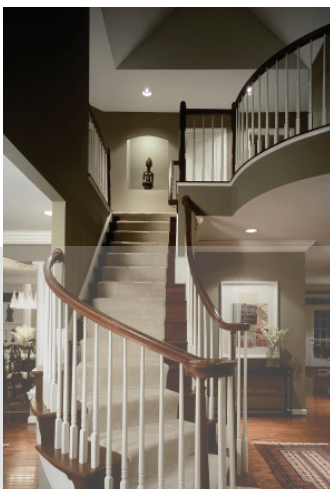
Average prices of land, in EUR/sq m



Source: Republic Statistic Office

Major Residential Projects in the Pipeline

Municipality of Stari Grad				
Project	Location	Area (sq m)	Investor	Deadline
B2	Balkanska Street	23,703	Mali Kolektiv	H1 2009
Kalemegdan Park Apartments	Corner of Tadeusa Kosciuska and Cincar Jankova Street	12,100	Hypo Consultants	H1 2009
Gallery Apartments	Francuska Street	12,000	Ocean Atlantic Int / Immo East	H1 2009
Engel Dorcol Marina	Dorcol Marina	43,000	Engel East Europe	n.a.
Municipality of Savski Venac				
Project	Location	Area (sq m)	Investor	Deadline
Dedinje Panorama	Dedinje	15,000	Meridian Balkans	n.a.
Koling	Dedinje	20,000	UniCredit Bank	n.a.
Municipality of Zvezdara				
Project	Location	Area (sq m)	Investor	Deadline
Forum Beograd	Corner of Ustanicka and Revolution Blvd.	n.a.	Okruglica IGM	2,009
Zvezdara Horizons	Zvezdarska suma	8,577	Investment Engineering doo / Hypo Alpe Adria Group	2009
Municipality of New Belgrade				
Project	Location	Area (sq m)	Investor	Deadline
Avenue 19	Corner of Jurija Gagarina Street and III Blvd.	60,000	GTC International	2009
Savograd	Vladimira Popovica Street	14,911	Neimar V / CA Immo / Kemoimpex	H1 2009
Belville	Jurija Gagarina Street	172,000	Delta Holding / Hypo Alpe Adria Bank	2009
Maxima Center	Blok 11a	22,000	Imperial Gradnja	n.a.
Goce Delceva	Goce Delceva Street	n.a.	Neimar V / Nikolas	n.a.
Airport City	Omladinskih Brigada Street	60,000	Africa Israeli Group	2011
Municipality of Vozdovac				
Project	Location	Area (sq m)	Investor	Deadline
Vojvode Stepe 1	Vojvode Stepe Street	12,000	n.a.	H1 2009
Vojvode Stepe 2	Vojvode Stepe Street	4,500	DLD Pro	n.a.
Mirijevski Cvet	Mirijevo	n.a.	GPA Gradnja	2009
Municipality of Vracar				
Project	Location	Area (sq m)	Investor	Deadline
Celjska	Celjska Street	3,000	Imperial Gradnja	n.a.





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