



BELGRADE RESIDENTIAL MARKET 1st QUARTER 2009



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.

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).

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.



Picture: Belgrade's municipalities



Picture: Knez Mihailova Street



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 stable growing market economy. Despite difficult conditions in the past, the country's economy accomplished respectful 8.4% 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.

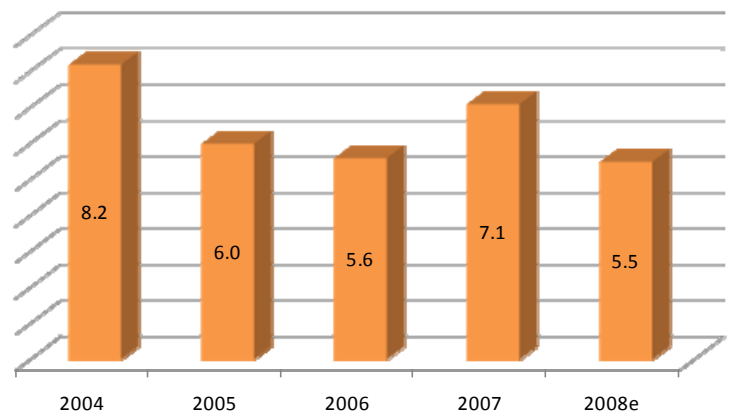
Most of foreign direct investments (FDI) comes from EU countries. The largest investment recorded so far in Serbia came from Norway, Greece, Austria and Hungary, but also from Slovenia, France, Great Britain, Italy etc. The largest portion of FDI is generated from privatization process, which is conducted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

Graph: Key Economy Indicators

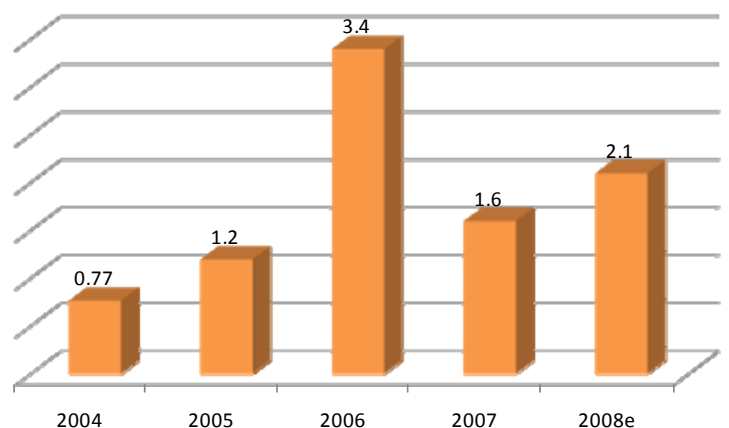
Macroeconomic Indicators	2006	2007	2008e
GDP (EUR bn)	24.3	29.1	33.2
GDP per capita (in EUR)	3,278	3,948	4,513
GDP growth (y-o-y %)	5.6	7.1	5.5
CPI (y-o-y %)	6.6	10.1	6.8
Central Bank reference rate	14.0	10.0	17.8
Exports of goods (in mil. EUR)	5,103	6,432	4,383
Imports of goods (in mil. EUR)	10,463	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 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.

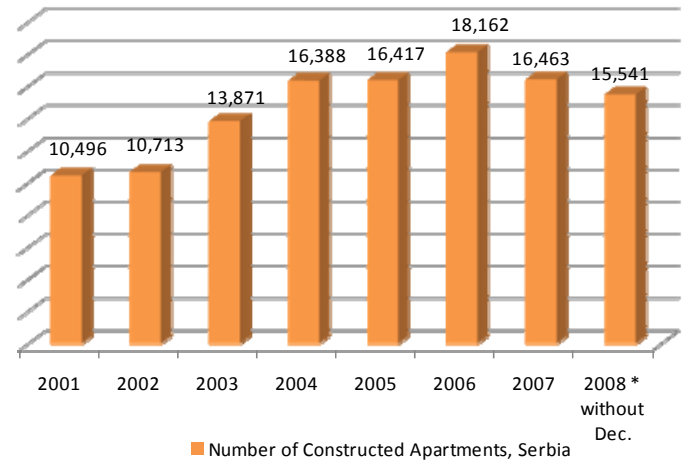
Recovery in the residential sector was driven by:

- 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.

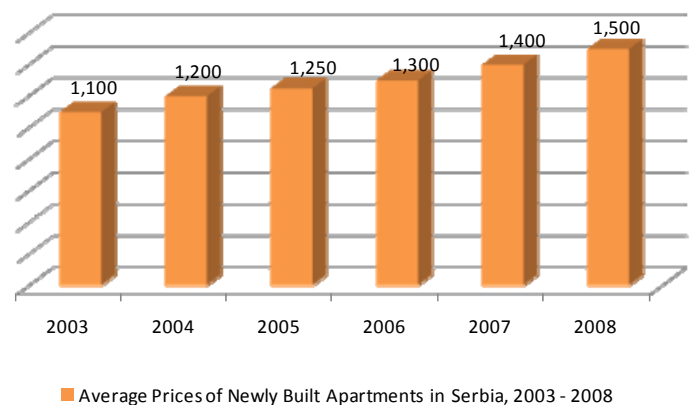
First the value added tax (VAT) rate on new apartments was decreased in June 2005 from 18% to 8%. Also, buyers of first home are not in obligation to pay VAT. Government also setup the National Corporation for Housing Loans Insurance, which covers 75% of the loss in the case that the user of the loan 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.

Graph: Number of constructed apartments in Serbia, from 2001 - 2008



Source: Statistical Office of the Republic of Serbia

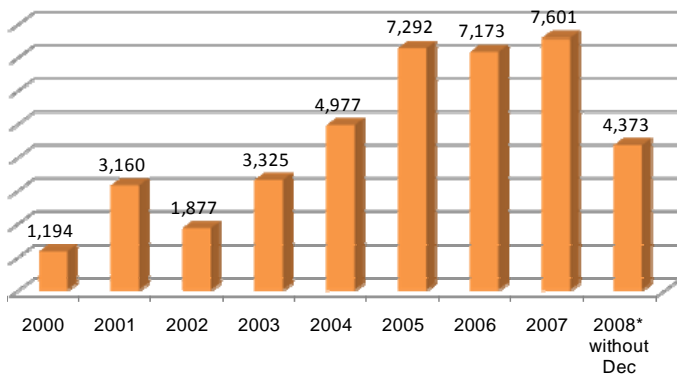
Graph: Average prices of apartments, from 2003 - 2008



Source: Statistical Office of the Republic of Serbia

4. Belgrade Residential Market

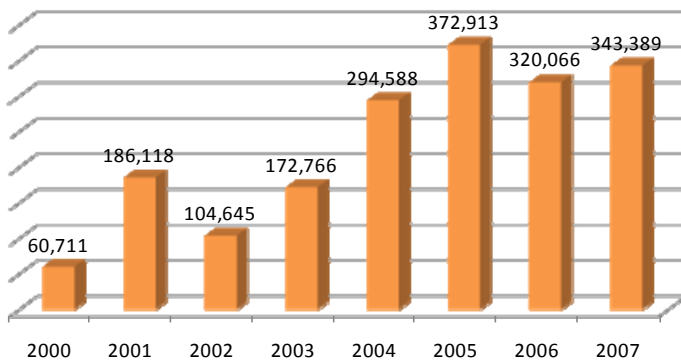
Graph: Number of constructed apartments in Belgrade from 2000 – 2008



■ No. of constructed apartments, Belgrade

Source: Republic Statistic Office

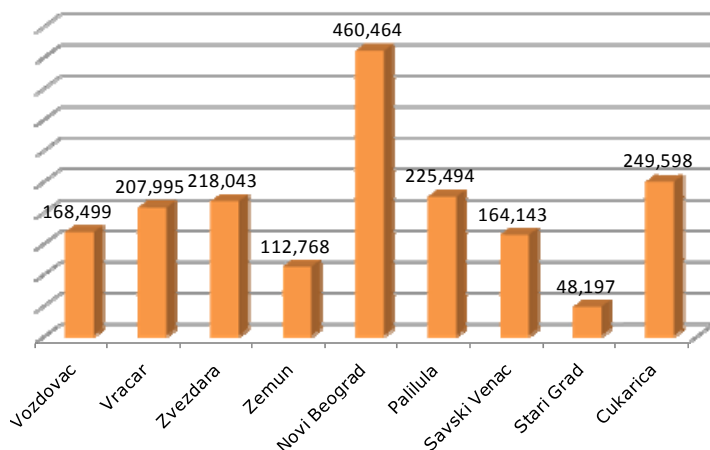
Graph: Newly built apartments in Belgrade



■ Newly built apartments, in sqm

Source: Republic Statistic Office

Graph: Total Net Area (in sq m) by municipalities during period 2000-2007



■ Total net area, by municipalities

Source: Republic Statistic Office

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 activities are located along the main boulevards in New Belgrade - Avnoja and Arsenija Carnojevic Boulevards. 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.

Demand for the apartments is clearly exceeding supply. Considering the success of residential developments in recent years, demand will remain relatively high (especially for smaller apartments) and is expected to increase with home mortgages becoming available to more buyers. Newly built apartments in prime locations maintain high prices despite the narrow target groups. The lack of available land and great demand for residential development can push prices higher.

Supply of residential units has an increasing trend. According to Belgrade Statistical Office, total number of built apartments in 2005 was 7,292 units, while slight decrease is recorded in the year of 2006, (7,173 residential units). In 2007 the number of newly built apartments was 7,601.

Residential property market records an increasing trend regarding Net Built Area (NBA), increasing from 186,118 sq m in the year 2001 to 343,389 sq m in year 2007. It is estimated that NBA will continue to grow proportionally, due to increase of supply of apartments in the residential market.

4. Belgrade Residential Market (Cont'd)

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.

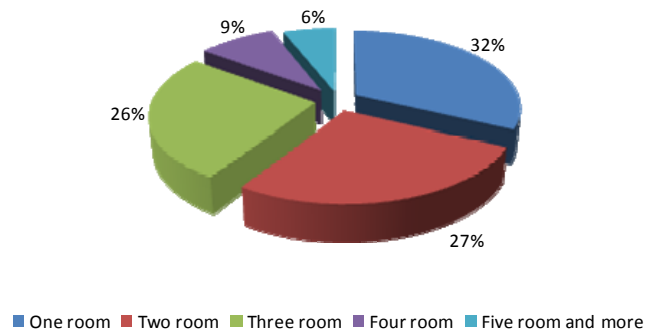
Location of an apartment in Belgrade, as well in other major cities in Europe, is the most important factor governing its value and desirability. Compared to the other CEE capitals, selling prices in Belgrade are considered high. Sale prices range from € 1,300 / sq m in the city's periphery up to €2,000 - €3,500 in the city centre and Vracar and € 2,000 - € 3,000 in Dedinje, Senjak and "Arena" Sports Center area at 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 € 1,300 - € 2,500 / sq m, although some location and newly built apartments can range higher prices.

High residential prices in Belgrade are influenced by the high values of construction land and the difficulties in its acquisition. Land can be acquired through:

- Lease of land from the city/municipality for 99 years, comprising payment of both the rent and the so-called "land arrangement fee"
- Acquisition of an existing building bearing a "right to use" the land beneath it and building a new structure instead of the previous one
- Private ownership

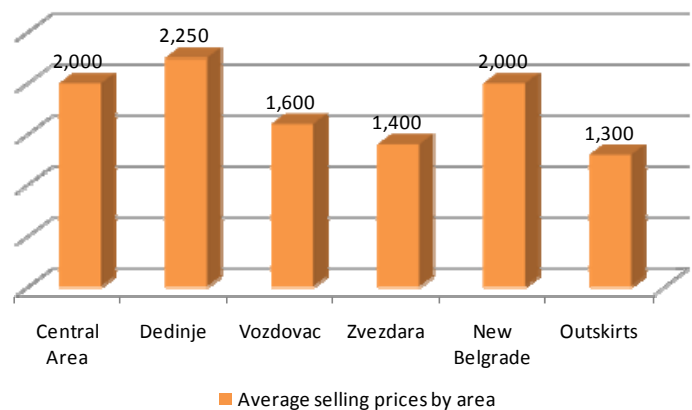
Investors have the obligation to pay fee for construction land to the local government, which in the case of Belgrade is "Beoland". Price differs depending on the zone and is payable to the NBA of the future building.

Graph: Structure of newly built apartments, 2007



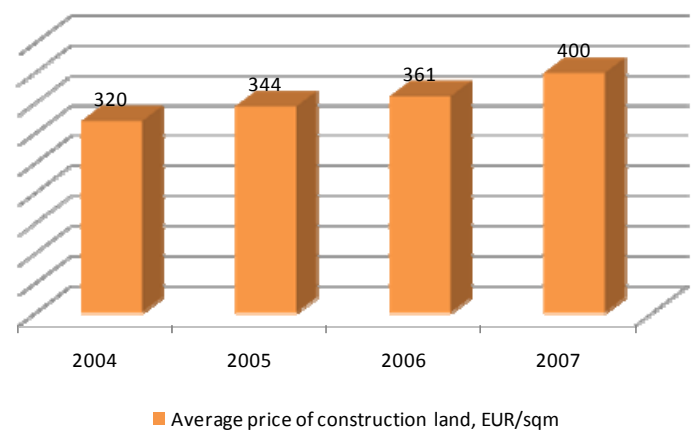
Source: Republic Statistic Office

Graph: Average selling prices by area, in EUR per sq m



Source: Republic Statistic Office

Graph: Average prices of land, in EUR per sq m



Source: Beoland, Republic Statistic Office

5. 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 Koscuska 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	Zivka Davidovica Street	n.a.	Okruglica IGM	n.a.
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 G5 & G6	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.
Mirijski 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.

Source: Beobuild, E Kapija



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