RICS

Danos

INTERNATIONAL PROPERTY CONSULTANTS & VALUERS

BELGRADE RETAIL 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.

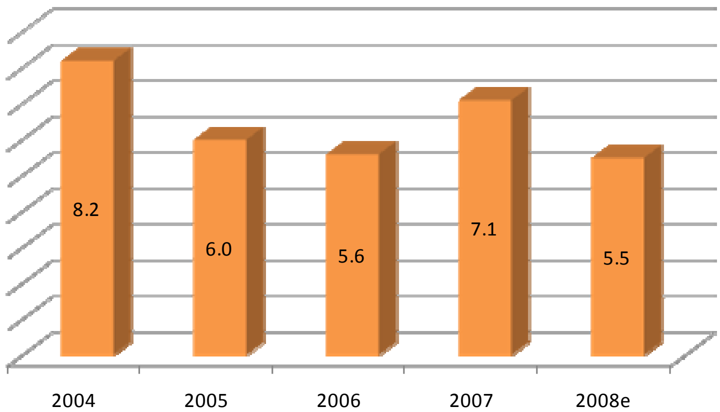
Over the past few years, Serbia has developed into a stabile growing market economy. Despite difficult conditions in the past, the country's economy accomplished respectful 8.4% annual GDP growth in 2004 but dropping back to 5.5% in 2008. Still, for years, Serbia has the biggest growth in economy in 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.

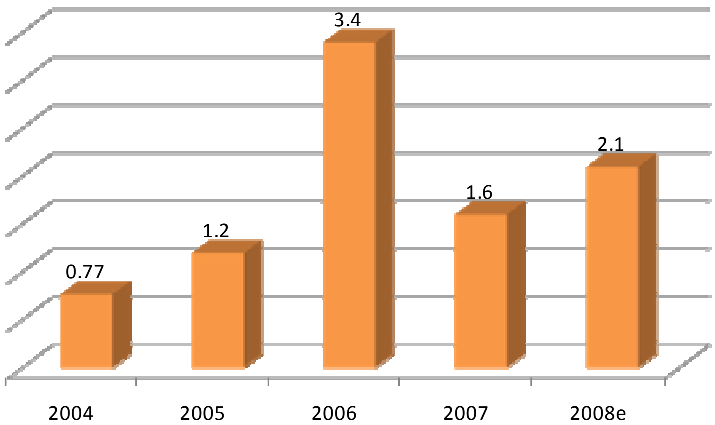
Graph: Key Economy Indicators

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 Retail Market

In past few years, Serbia experienced a rapid growth in demand for retail space, so therefore the construction of commercial area also grew. The most concentrated retail concepts are still to be found along main-street locations and within the expanding network of retail warehousing. On the other way, numerous shopping malls announced construction or are in the planning phase. Belgrade and Novi Sad are the main building centers, but in recent years many retailers expanded their presence in the cities like Sabac, Nis, Cacak, Kragujevac.

Numerous shopping centers have been built in past few years and some of them are: Merkator, Rodic, Super Vero, Delta City, Zira etc. Prognosis is that in the next few years approximately 400,000 sq m of commercial area will be constructed.

Biggest international retailers in Serbia are:

- Metro (Germany) – 5 shopping malls, total area of 46,730 sq m
- Idea (Croatia) – 2 shopping malls, total area of 22,500 sq m
- Mercator (Slovenia) – 5 shopping malls, total area of 152,300 sq m
- Merkur (Slovenia) – 2 shopping malls, total area of 19,600 sq m
- Veropoulos (Greece) – 3 shopping malls, total area of 17, 100 sq m

Biggest domestic retailer is Delta Holding, which holds:

- Delta City shopping mall (85,000 sq m)
- Super Maxi Hypermarket (4,500 sq m)
- 27 supermarkets across Belgrade and 45 supermarkets in Serbia, all with area between 1,000 and 2,000 sq m

Key players are concentrated in Belgrade and Novi Sad, however in recent years many retailers expanded their presence in the cities like Sabac, Nis, Cacak, Kragujevac and Subotica.

Picture: Mercator

Graph: Review of some of the most prominent shopping centers in Belgrade

Project	Type	Location	Developer	GLA (sqm)	Parking	Opened
Mercator	SCII	New Belgrade	Mercator, Slovenia	20,000	916	2002
ImmoCenter	SCII	New Belgrade	MPC, Serbia	8,000	170	2006
IDEA	SCI	New Belgrade	Konzum, Croatia	2,000	550	2006
Rodic	SCI	New Belgrade	Rodic, Serbia	23,000	769	2007
Zira	SCII	Palilula	Verano Invest	7,000	450	2007
Delta City	SCII	New Belgrade	Delta Holding, Serbia	30,000	1,700	2007
Usce	SCII	New Belgrade	MPC Properties	40,000	1,300	2009

Source: Beobuild

4. Belgrade Retail Market

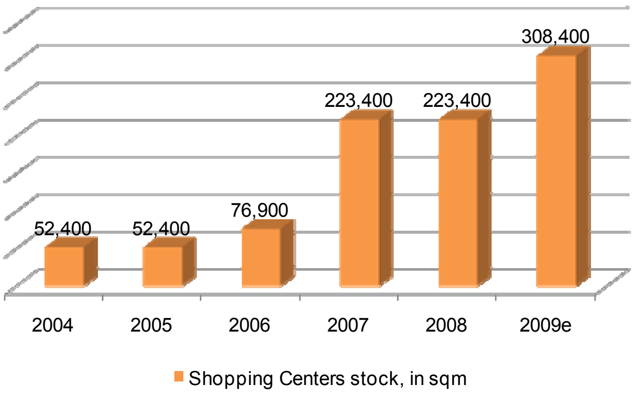
As a capital city with almost two million inhabitants, Belgrade offers a great potential to retail developments. Due to the sudden recognition of the Belgrade market potential among the local and foreign shopping center's operators, the market competition is about to rise on the mid-term period, positioning retail real estate as currently the most effective market segment in Serbian real estate industry. In 2007, major activities were reflected with the opening of two modern shopping centers in Belgrade: Delta City (30,000 sq m)–located in New Belgrade, and Zira located in down town area.

Picture: Delta City

Picture: Zira Center

Supply of new generation of shopping centers in Belgrade started to develop more intensively in 2002 with the opening of two neighborhood shopping centers - Greek Veropoulos and Slovenian Mercator at New Belgrade. These centers have recorded a huge success, especially the Slovenian Mercator: total built-up area of 52,400 square meters, located in New Belgrade, it encompasses a hypermarket with a shopping arcade located on two levels. Mercator has its own concept which always includes the following tenants: Intersport, Beautique (perfumery), Avenija Mode (department store), café Santana, furniture and white electrics store and a restaurant, which cover the area of 11,135 square meters. Major presented brands are Planika, Peko, Alpina, Sisley, Rašica, Benetton, Champion USA, Women's Secret, Bata and Springfield

Graph: Shopping Center stock in Belgrade



Source: Danos Serbia

The "first generation shopping centers" being developed were the ImmoCenter, IDEA and Rodić, all of which located in the emerging area of New Belgrade. During 2007 opening of "second generation" shopping centers in Belgrade increased the shopping centers stock by almost 70,000 sq m GLA.

Graph: Projects in the Pipeline

Project	Location	Developer	GLA (sqm)	Status
Immo Center	Cerak	MPC, Serbia	N /A	Under construction (Deadline 2010)
Plaza Center	Downtown	Plaza Centers	100,000	Approved (Deadline Unknown)
Visnjicka Plaza	Visnjica	Plaza Centers	48,000	Approved (Deadline Unknown)
Delta Planet	Autokomanda	Delta Invest,	80,000	Approved (Deadline Unknown)

Source: Beobuild

5. Belgrade Street Retail Market

Downtown of Belgrade represents main shopping and pedestrian zone, with great number of domestic and foreign brand tenants. Prime retail streets are Knez Mihaila, Cika Ljubina, Vase Carapica, Zmaj Jovina, Kralja Petra, Kolarceva, Terazije, Kralja Milana, Makedonska, Svetogorska and Nikole Pasica Square, while main secondary streets are Bulevar Kralja Aleksandra, Pozeska, Balkanska, Blvd. Despota Stefana, Nusiceva, Decanska and Slavija Square.

An elite shopping street is Knez Mihaila with 113 outlets, from which main tenants, such as Morgan de Toi, Zara, Mango, Escada, Miss Sixty, Terranova, Legend, Hugo Boss, Replay, Diesel, VIP Mobile, Telenor, Nike, Adidas, Bata, Benneton etc., have leased areas from 500 – 1,000 sqm, while smaller areas are occupied by coffee shops, bakeries, IT shops, exchange offices, cosmetic salons, bank branches etc.

Boulevard Kralja Aleksandra represents main secondary shopping street and is the longest shopping area in Belgrade. It is one of the most popular shopping areas, with many international brands, such as Nike, Woman's Secret, Puma, Bata etc., which occupies about 20% of total number of outlets.

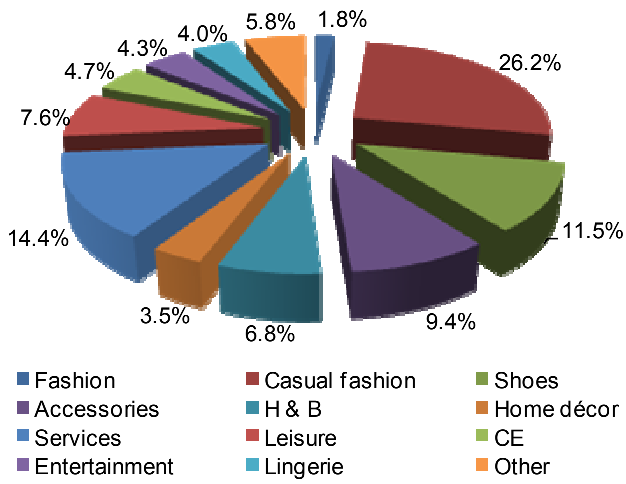
Vacancy rate in high streets is 0%, with lease period of minimum 10 years, while in secondary streets vacancy rate is approx. 10% and typical lease period is 5 years.

Most expensive rental levels are recorded in Knez Mihaila Street, with average monthly rents from EUR 150 – 200 per sq m/month. Also, this street recorded highest investment sale; in 2007, an "Jugoexport" outlet, area of 361 sq m, was sold for EUR 15 million, or EUR 42,000 per sq m.

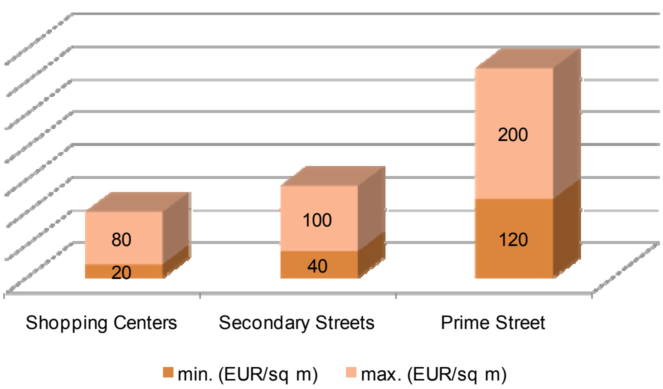
Secondary street locations recorded rent levels from EUR 40 – 100 per sq m/month, while less attractive locations, mainly in suburban areas, recorded rent levels from EUR 10 -30 per sq m/month.

Picture: Major shopping streets

Graph: High street retail categories



Graph: Rental levels, monthly



6. Warehouse Retail Market

Graph: Warehouse retail projects in Belgrade

Project	Location	Developer	GLA (sqm)	Opened
SuperVero	New Belgrade / Milutina Milankovića	Veropulos,Greece	3,500	2002
Metro Cash & Carry	Belgrade / Krnjača	Metro Group	N /A	2005
Tempo	New Belgrade / Kvantaš	Delta Holding, Serbia	18,000	2006
Interex	New Belgrade / Tošin bunar	Interex, BIH	2,500	2007
Roda	New Belgrade	Rodić, Serbia	8,500	2008
Tuš	New Belgrade / Block 62	Tuš, Slovenia	3,000	2008

Source: Beobuild

Picture: Tempo

Graph: Warehouse retail stock in Belgrade

Source: Danos Serbia

Picture: Metro Cash & Carry

Graph: Warehouse retail monthly turnover

Retail - Daily Turnover in EUR	Eur/month
Metro Cash & Carry / Zemun	150,000
Tempo Cash & Carry / Viline Vode	225,000
Tempo Cash & Carry / Kvantaš	250,000
IDEA Hypermarket / Block 65	190,000
Rodić Hypermarket / Block 65	155,000

Source: Danos Serbia

7. Rental Levels

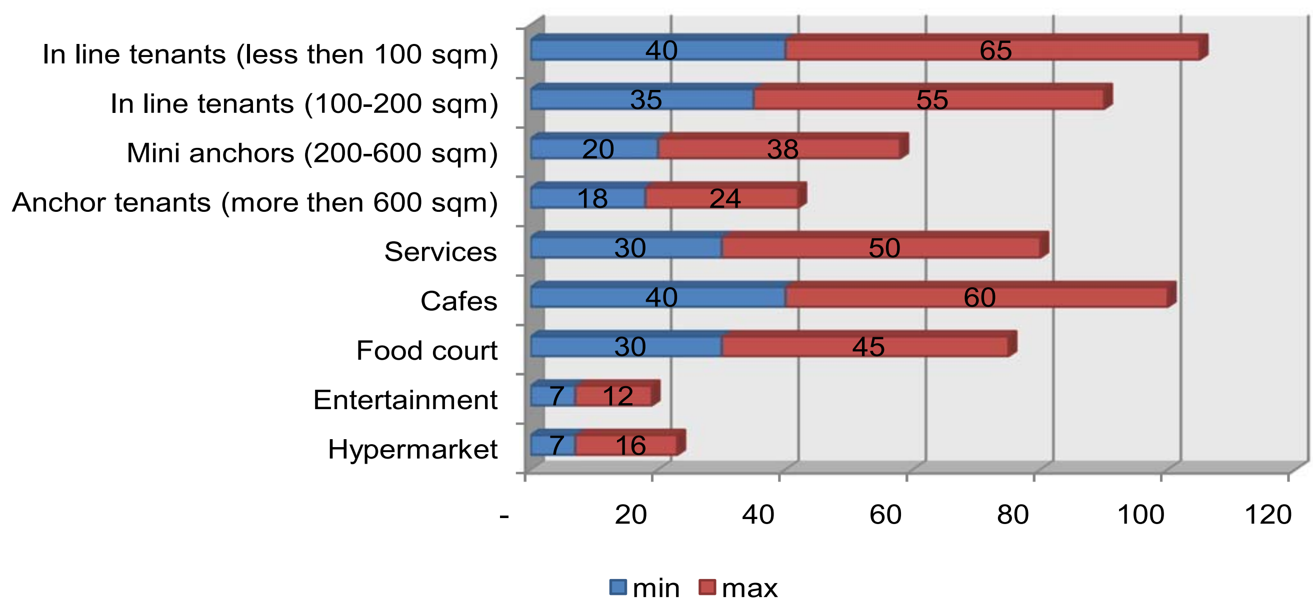
Rents of the retail majority in the international-style shopping centre Mercator (except anchor tenants) are approximately between EUR 25 and 50 sq m per month, but vary depending on the size, position and foot-traffic. Recorded rents for Immocenter vary between EUR 25 and 33, for units between 100 and 150 sq m. Rents in Delta city are approximately EUR 30-50, for units between 100 and 200 sq m and average price for units less than 100 sq m is EUR 50 per sq m per month. Rents in other shopping centers - New Millennium Centar, City Passage, Futura and Piramida vary significantly more. For example in City Passage and Piramida price range is EUR 15 -30 per square meter per month. Shops in New Millennium Centar achieve prices of EUR 40-80 per square meter per month. Considering that several projects of shopping malls are currently underway based on our market knowledge, assumption for future rental level is within a range for hypermarket of EUR 7-11 per sqm.

There are four main factors that influence the base rent for each store in the mall: size and shape of the store, linear frontage and visibility, position of the store inside of the mall, and intended use. In addition to the base rent, a CAM (Common Area Maintenance/service charges) and marketing fee should be charged. It is customary with pre-leasing of new shopping centers to charge a "percentage rent" (percentage of the turnover) on top of the base rent.

Yields for prime street locations are at 5.75% and for shopping mall from 7 - 8%.

Graph: Selected asked price for retail premises

Rental Levels



Source: Danos Serbia

Greece		Cyprus	
Athens	Thessaloniki	Nicosia	Limassol
1 Eratosthenous & Vas. Konstantinou	3, Ionos Dragoumi	35, I.X'' Iosif	69, Gladstonos
116 35 Athens	546 25, Thessaloniki	2027, Nicosia	3040 Acropolis Centre (Shop 10)
Tel.: + 30 210 7567 567	Tel.: + 30 2310 244 962	Tel.: + 357 22 31 70 31	Tel.: + 357 25 34 39 34
Fax: + 30 210 7567 267	Fax: +30 2310 224781	Fax: + 357 22 31 70 11	Fax: + 357 25 34 39 33
E-mail: info@danos.gr	E-mail: info.thes@danos.gr	E-mail: danosa@spidernet.com.cy	E-mail: danosa@cytanet.com.cy
www.danos.gr		www.danos.com.cy	

Albania	Bulgaria	**Serbia**
Tirana	Sofia	**Belgrade**
Blvd Deshmozet e kombit	Blvd. Hristo Botev 28	**6, Vladimira Popovića Street Office B31**
Twin Towers, Building 2, Tirana	Sofia	**11000, Belgrade**
Tel.: +355 4 22 80 192	Tel.: +359 2 953 23 14	**Tel.: +381 0 11 2600 603**
Fax.: +355 4 22 80 195	Fax.: +359 2 953 23 99	**Fax.: +381 0 11 2601 571**
E-mail: info@danos.al	E-mail: info@danos.bg	**E-mail: office@danos.rs**
www.danos.al	www.danos.bg	**www.danos.rs**

www.realestate.bnpparibas.com

Market Report prepared by Danos & Associates Serbia, Valuation and Investment Advisory Department.

CONTACT:

Žana Šipovac

Head of Valuation and Investment Advisory Department

zana.sipovac@danos.rs

Srđan Runjevac

Valuation Consultant

srdjan.runjevac@danos.rs