

ANNUAL PROPERTY SURVEY SERBIAN MARKET 2010



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INTRODUCTION

Serbia Key Facts

Market indicators began to expand again in 2010, as presented in the National Bank of Serbia Annual Report. The First signs of economic recovery led the country to the modest improvement of overall market conditions.

In the first half of 2010, the EU Council decided to unblock process of the Stabilization of Association Agreement (SAA) with Serbia. Although this process could be long, it remains important that Serbian ruling political elite insists on EU integration targeting future membership candidate status, improving international community and investors' perception Serbia and attracting an additional portion of FDI.

Serbia's rating at the Organization for Economic Cooperation and Development (OECD), an entity that is relevant for business risk insurance evaluation, increased and passed



Picture: Europe map

from category six to five, positioning Serbia as the only country whose rating improved during this period.

Also, international agency Dun & Bradstreet increased Serbia's rating from DB5a (high-risk) to a moderate-risk (DB4d) referring to overall general positive economic and political trends.

The payment balance deficit increased to 7.9% of GDP, as a primary consequence of the lower level of

net current transfers during the fiscal period of 2010.

The Latest IMF report predicts that the Serbian GDP will be increase by 5% in 2012 and 5.5% in 2013 due to the successfully completed sixth review of the IMF stand-by credit arrangement - during the first half of 2010 and the privatization of Telekom Srbija - during the first half of 2011.

Furthermore, the Serbian government announced the completion of Corridor X, the most significant highway in Serbia, which will boost the attractiveness of Serbia as an investment destination in the midterm period.

The macroeconomic outlook in Serbia, as of 2010, shows that economic activities, following a decreasing trend during 2009 in almost all sectors, contrary to 2008, when the Serbian economy reached its peak,

General demographic indicators

			Belgrade	Serbia
Population	1991	Cenzus	1,552,151	7,576,837
	2002	Cenzus	1,576,124	7,498,001
	2010	e	1,635,132	7,306,677
Households	1991	Cenzus	515,040	2,707,402
	2002	Cenzus	567,325	2,521,190
Employment	2007		617,737	2,002,344
	2010	e	624,145	1,851,000
Average net salary	2009		420	347
	2010	e	380	320

Source: Statistical office of Republic of Serbia

have dropped to the bottom and started climbing steeply, moving towards recovery.

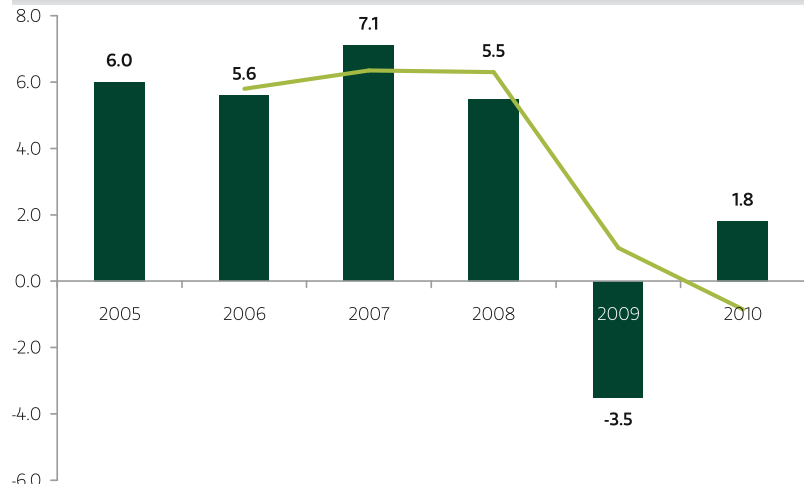
After one year of constant decline for the most important indicators of economic activity, GDP finally registered an increase of 1.8%. This growth must be observed carefully due to a low comparison base. External debt reached EUR 24 M, which is 81% of GDP.

Modest acceleration of inflation occurs during H1 2010, initiated by the growth of electricity, energy, and consumer prices, such as the prices of tobacco products, petrol and gas derivatives. In the 2nd half of the year inflation stabilized while the nominal exchange rate between EUR and RSD depreciated to 9% which is the most significant annual depreciation rate of the local currency in the last 10 years. In order to bring some fiscal relief, NBS decided to continue with cutting 2W repo rate which was 9.5% in 2009. However in 2010 it reached 11.5% with expectation of a deteriorating trend in the near future.

FDI recorded an inflow of EUR 1bn, presenting significant growth referred to the level of EUR 283M that it had initially after the first half of 2010. FDI in 2011 will reach more than EUR 2.2bn, mostly due to expected inflows from the privatization of Telekom Srbija, the national telecommunication company.

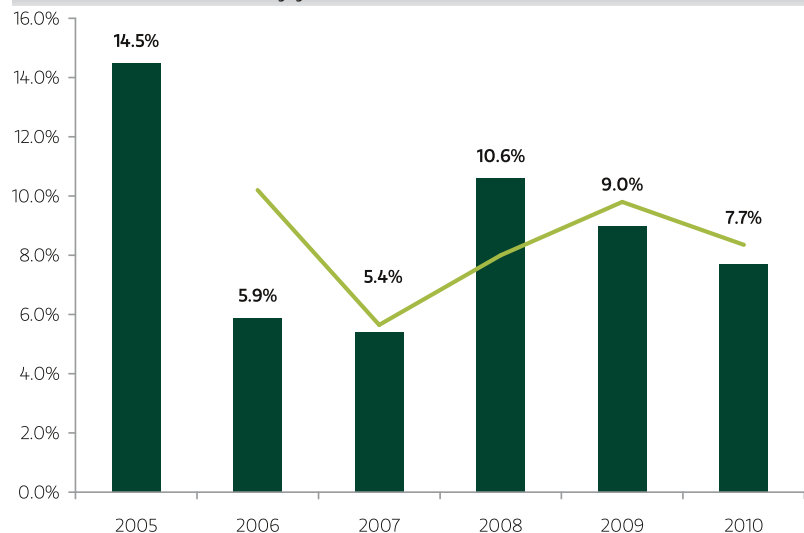
In 2010, the number of employees decreased by 8% against the previous year. Net salaries and wages decreased in 2010 mostly due to the

GDP Growth, in %



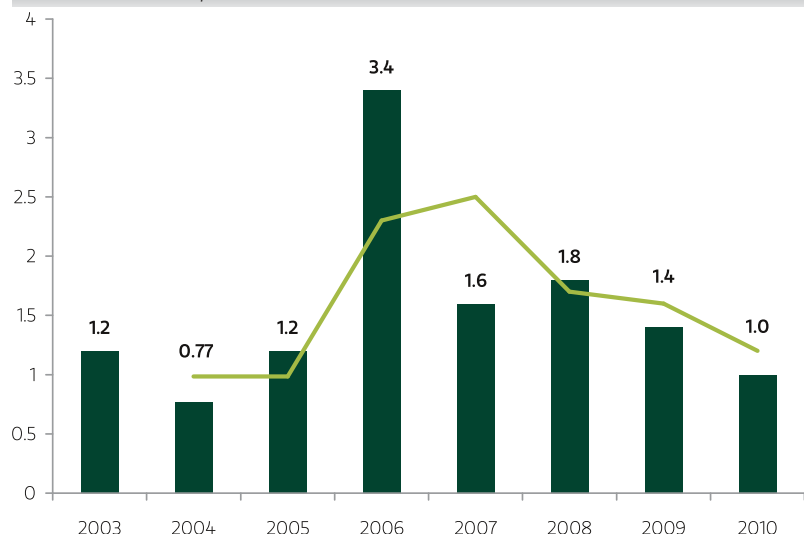
Source: NBS, Danos RESEARCH

Inflation rate in Serbia, by years in %



Source: NBS, Danos RESEARCH

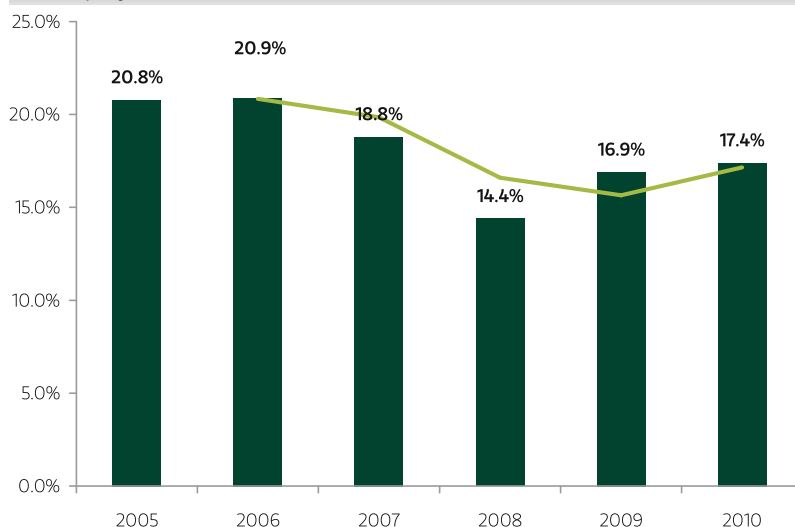
Net FDI in Serbia, in EUR/bn



Source: NBS, Danos RESEARCH

Major developments for Construction Industry

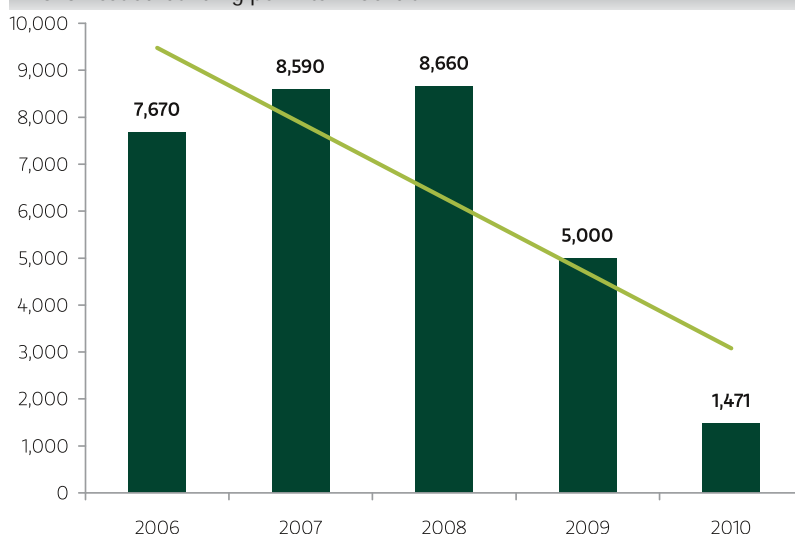
Unemployment rate in %, Serbia



Source: NBS, Danos RESEARCH

Macroeconomic Indicators	2008	2009	2010e	2011f
GDP (EUR bn)	33.4	29.9	29.6	30.3
GDP per capita (in EUR)	4,545	4,099	4,072	4,184
GDP growth (y-o-y %)	5.5	-3.1	1.8	2.7
CPI (y-o-y %)	11.7	8.4	6.3	9.4
Central Bank reference rate	17.8	9.5	11.5	10.5
Exports of goods (in mil. EUR)	7,416	5,947	7,196	8,215
Imports of goods (in mil. EUR)	18,843	13,577	14,960	14,527
Gross foreign debt (% of GDP)	65.3	76.1	81.0	85.7
Gross foreign debt (EUR bn)	21.8	22.8	24	25
Current account (as % of GDP)	-21.1	-7.0	-7.9	-8.9
Net FDI (EUR bn)	1.8	14	1.0	2.2
FDI (as a % of GDP)	5.5	4.7	3.4	7.3
Population (in mil)	7.4	7.3	7.3	7.2
Unemployment rate (%)	13.7	16.1	20.0	18.8
Exchange rate to EUR	89.8	96.2	106.0	112.5
Inflation rate (%)	10.6	9.0	7.7	6
Average net salary (in EUR)	433.0	347.0	320	340

No. of issued building permits in Serbia



Source: Republic Statistic Office and Belgrade Statistic office, Danos

depreciation of the local RSD currency. Still, unemployment remains a major challenge for the Serbian economy given its high double-digit figure of 17.4%, as recorded by the end of 2010.

Economic growth in 2011 should be on a higher level than in 2010, with continued investments in the real estate and automotive sectors, backed by government subsidies.

However, the overall trend for 2011 and 2012 still holds a substantial level of uncertainty, waiting for clearer signs of the real economy's recovery.

Bank loans needed to boost the construction industry are still expensive, due to major fiscal risks in Serbia. Moreover, banks are reluctant to support existing projects in the construction sector, due to weak signs of overall recovery.

In March 2010 regulation for construction land at the price which is under the market value or without any fees was put into effect. In accordance with the new Construction and Spatial Planning Law, construction land that local self-governments can sell or rent under these conditions must be intended for construction of property of social importance, with the precondition of increasing the number of employees by at least 1%.

Key Real Estate Drivers for 2010

At the beginning of this year, the Government of Serbia adopted a regulation for subsidizing low-price apartments, with prices ranging from EUR 695 to EUR 1,595 per square meter, depending on location and infrastructure. At the end of 2010, the amount of EUR 100 M was earmarked for this purpose and the first low-price apartments will be built in Nis, Novi Sad, Kragujevac and Belgrade.

The Ministry of Environment and Spatial Planning adopted regulations on governing the phase construction that enables more efficient issuing of building permits, in a period shorter than 30 days, for residential projects, whose surface exceeds 800 square meters. A prerequisite for this faster way of building permits issuance is that legal ownership relations for the plots are resolved, without any legal or restitution claims.

The regulation for conversion from the right-of-use to the ownership title of construction land is officially adopted, which brought the first successful conversions mostly in the New Belgrade municipality. In addition, in the first week of 2011, the Government of Serbia increased the tax on temporarily closed construction plots and all buildings that are less than 80% finished.

This act should bring higher efficiency of all construction activities by investors.

The Government of the Republic of Serbia has adopted the Law on Stimulating the Construction Industry in Serbia, in response to the new conditions of the real economy, caused by overall recession. The Law is in force for a definite period of time (until December 31, 2011) with the goal of accelerating the activity of the domestic real-estate sector that is mostly affected by the global economic crisis.

Turnover executed (Value of works done) by the Serbian construction sector decreased by 13.6% year-on-year. Moreover, the number of issued construction permits in 2010 compared with the previous year slumped from 5,000 to 1,471. Although forecasts for the construction industry are still cloudy, the government has prepared several investment incentives in order to contribute to the sector's improvement.

According to the report from the Serbian Business Registry, in 2010 more than 3,500 companies from the construction sector were closed, with a significant number of layoffs, which had a strong impact on overall conditions of the real economy.

Residential market in 2010



Picture: Belville

- Koling Zeland (investor: Metropolitan project company, residential space at an attractive location in the elite Dedinje quarter with 22,000 sq m)
- Metropolitan apartments (investor: Zeland - Koling's subsidiary, mixed-use complex of residential (80 app.) and office space (18 spaces) in the broader center, across the street from the Pionir sports hall. In accordance with data from the Serbian Statistics Bureau, the largest share of new apartments is for two-room residences, followed by one and three-room units.

The slight increase of residential property investment in 2010 may be a result of the implementation of the new Law on Planning and Construction, approved by the state in September 2009. The law aims to improve the investment climate, simplifying the process of securing building permits, allowing a transferrable frame, with the legalization of buildings built without permits in the previous period, along with long-anticipated legislation for investors to have private ownership over urban land, previously resolved through right-of-use or long-term lease policy.

Moreover, the National Bank of Serbia reduced the key repo rate to 11.5% in 2010, from an average of 13% in 2009. The measure was executed predominantly in order to boost demand for residential property in Serbia for the future.

We registered a 26% decrease in completed apartments, while a 23% de-

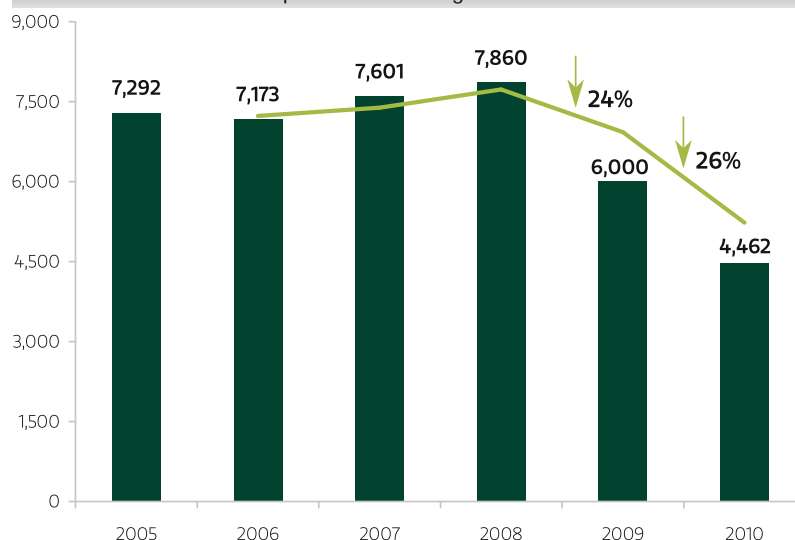
cline was seen in total delivered area (sq m) during 2010, compared with the same period of 2009. Residential projects which were delivered in 2010 are:

- Block 11a, Maxima Center (investor: Imperial Gradnja, mixed-use complex of residential and office space at an attractive location in New Belgrade with 28,300 sq m)

Pipeline for 2011 is:

- Gardenia in the Zvezdara municipality (investor: Aviv Arlon, 280 housing units – 32,000 sq m);
- 4. Juli Vozdovac (investor: Serbian Government, 4,700 housing units, from 30 to 70 sq m)

Number of constructed apartments in Belgrade



Source: Belgrade Statistic Office

Market drivers

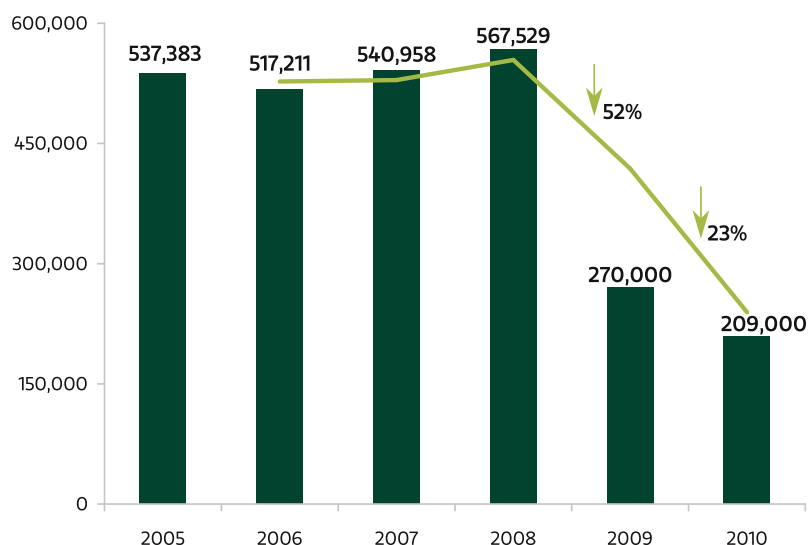
Demand in 2010 presents an increasing trend, especially during the 2nd semester, bringing stability in the market. However increased demand has not affected rents, which remained unchanged in Belgrade and Vojvodina.

Supply of new housing units in Belgrade in 2010 is estimated at 5,000 to 6,000 units annually. Considering Belgrade's population, the current residential stock, increasing demand and the fact that the market is undersupplied provide a strong development opportunity for investment. The majority of residential property targeted mid-end market, where major supply is recorded in the Vracar, New Belgrade, Cukarica, Banjica and Zvezdara municipalities. High-end dwellings remain the major developments in the areas of Dedinje and Senjak, along with some prominent districts within Vracar. Apart from higher quality finishing works, new developments usually include one or two garage/parking spaces per apartment.

According to data from the Association of Serbian banks, the number of housing loans increased by 14% against 2009.

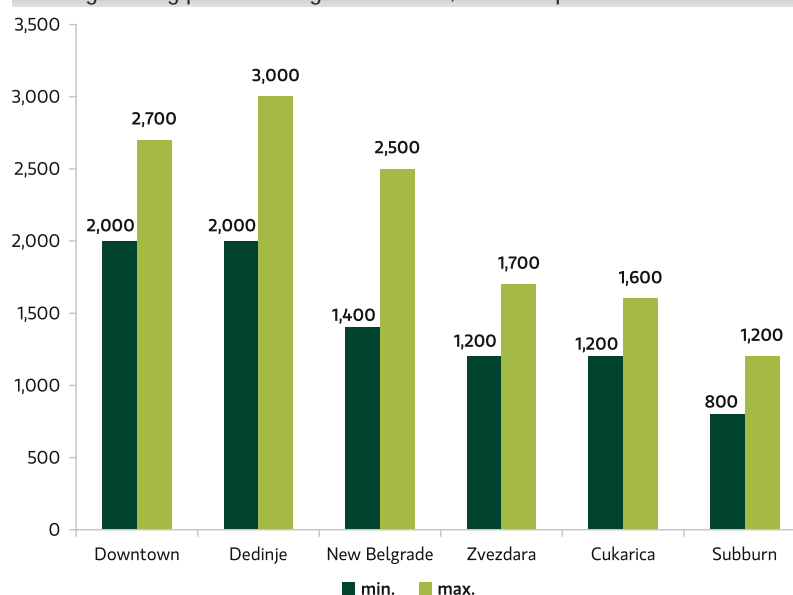
However, the major reason for undersupply, especially for affordable housing in Belgrade, lies in the lack of new vast development areas, leading to an unsatisfactory level of newly built apartments. Taking this

Number of constructed apartments in Belgrade, in sq m



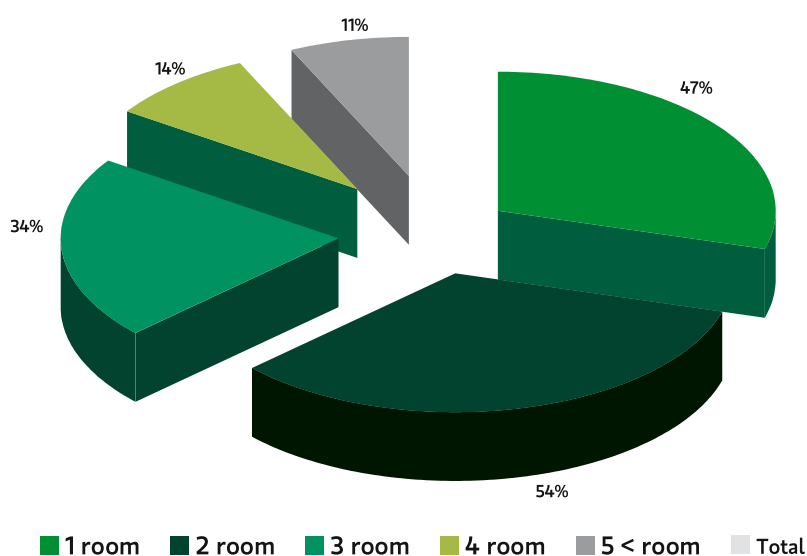
Source: Belgrade Statistic Office

Average asking prices in Belgrade in 2010, in EUR/sq m



Source: Danos Serbia

Structure of newly built apartments in Belgrade, in 2010



Source: Belgrade Statistic Office

number of constructed apartments in Belgrade, in sq m into consideration, prime residential locations are still expensive, where major anticipation of market improvement depends substantially on the city administration's measures, to improve major infrastructure and further development of urban areas, with the already presented plan for the creation of a new zone called "third Belgrade."

Secondary cities saw an increase of residential stock in Kragujevac, Novi Sad, Indjija, Subotica and Jagodina, while Nis is at a similar level as in 2009. It is important to note that an increase of residential construction outside Belgrade is revitalized for the first time since the beginning of the global financial crisis.

Price ranges depend on the attractiveness of the location, quality and general conditions of developments. For high-end apartments prices are between EUR 3,000 and EUR 4,000 per sq m, while prices of mid-end projects, fluctuated between EUR 2,000 and EUR 2,500.

Rental prices are between 8-15/sq m, whereas year of construction and estate location are the most important price drivers.

Projects Under Construction

Municipality of Stari Grad			
Project	Location	Area (sq m)	Deadline
Kalemegdan Park	Downtown	12,000	n.a.
Municipality of Vračar			
Project	Location	Area (sq m)	Deadline
Danex gradnja	Cerska street	1,500	2011
ADOC	Rudnička street	5,000	2011
Municipality of Zvezdara			
Project	Location	Area (sq m)	Deadline
Prestige	Mis Irbijeva Street	56,000	2010
Exclusive	Dimitrija Tucovica Street	11,000	2010
Municipality of New Belgrade			
Project	Location	Area (sq m)	Deadline
PSP Farmen	Blok 65	152,437	2013
Maxima Center	Blok 11a	22,000	2010

Source: Danos Serbia

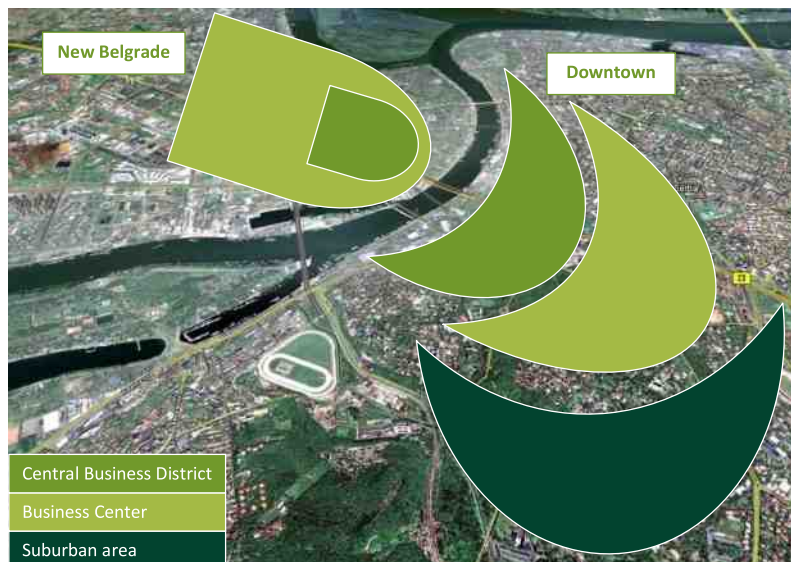
Belgrade Office Market

The modern office market in Serbia started to develop after 2000, when Serbia opened its doors for international business, initially bringing a significant inflow of foreign companies and organizations, which were the key indicator for developers in order to start new, modern and quality office developments after almost 15 years of inactive construction in the country.

Due to increased demand for modern class A office premises, investors started with the strong development of the new CBD (Central Business District) zone of Belgrade, where New Belgrade presented major advantages for this type of construction, considering an adequately large portion of land, traffic and general infrastructure, compared with downtown's traffic and general infrastructure.

The real expansion of office space stock started in 2004 and 2005, and continued following the same trend over the following years.

The first signs of market saturation appeared in 2008 with many new deliveries, while the financial crisis, which reached Serbia in late 2008 and the beginning of 2009, causing further market contraction on the demand side. All of these factors have affected rental levels, which experienced sharp declines over the course of 2009, proceeding with a moderate price decrease in the 1st quarter of 2010, but at the end of the first half of 2010 prices indicated some elements of rental level stabilization, un-



Picture: Belgrade Business Districts, Source: Danos Serbia

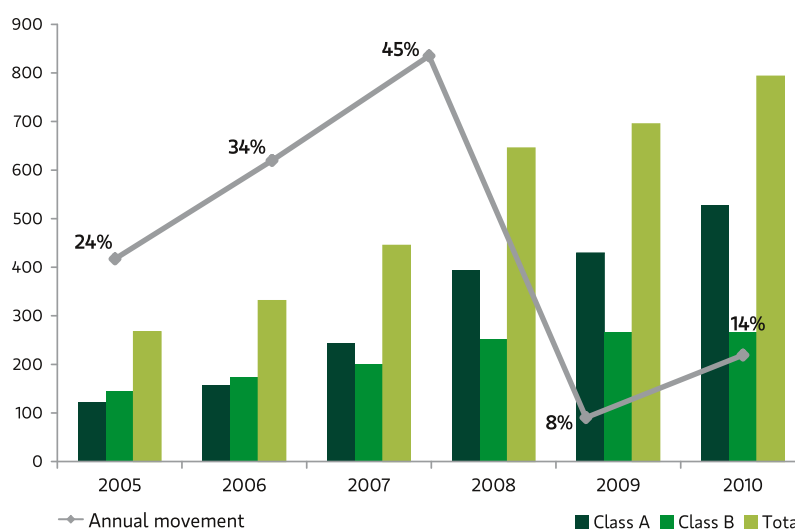
der current market conditions. Thus, from the 1st quarter of 2010 rental levels remained the same, with significantly lower volatility compared with 2009.

The diversification of the Belgrade office market expands the Central Busi-

ness District (CBD), the Broad Center area and the Suburban Area.

The CBD area of Belgrade encompasses a part of Downtown (Dorcol, Knez Mihajlova Street, Terazije Street, Slavija Square and Kneza Mi-losa Street) and New Belgrade (Zor-

A and B class, x1000 sq m and annual movement of delivered office space



Source: Danos Serbia

Rental levels, EUR/sq m/monthly



Source: Danos Serbia

ana Djindjica Blvd, Mihajla Pupina Blvd, III Blvd and Omladinskih Brigada Street as the most prominent business areas in New Belgrade).

The Business Center Area includes wider locations in old Belgrade, while New Belgrade's business center areas

are Jurija Gagarina Street and Nikola Tesla Blvd.

The suburban area encompasses the wider city area, along with major streets and access roads to the city (especially on the route from and to the Nikola Tesla airport).

Total stock of office premises in Belgrade in H2 2010 was around 800,000 sq m of GBA, which presents an increase of 105,500 sq m or 14% compared with the end of 2009. Most new developments are still concentrated in New Belgrade.

On the other hand, Banca Intesa Serbia has announced that it will start the construction of its new office building by 2q 2011, with the estimated value of about 45m EUR and 20,000 sq m GLA. As per the latest announcements of 2010, PSP Farman will start to develop a large residential and office complex in Block 65 spanning 158,000 sq m GLA, which is targeted for completion in 2014.

Supply of business premises and some new projects, which are under construction are still located mostly in New Belgrade. Five new office buildings were delivered in 2010:

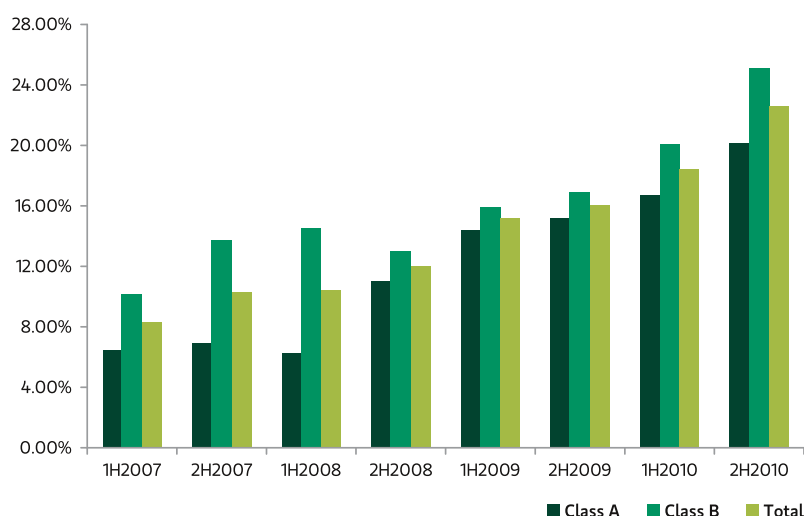
1) West end complex in Block 60 with 12,500 sq m GLA of retail and primary office space,

2) VIG Plaza features approximately 16,200 sq m GLA of Class A office space, situated at the prime New Belgrade location in Block 11a

3) Blue Center, modern office space, located on Mihajla Pupina Blvd., with 33,000 sq m GLA of Class A office space

4) Red Stripe located in Milutina Milankovica Blvd. with 2,500 sq m GLA office space

Vacancy rates, in %



Source: Danos Serbia



Picture: Azzaro Business Center

5) Airport City Belgrade, which will cover an excess of 186,000 sq m GLA when the last phase of construction is finished in 2011.

Another 50,000 sq m of office space in New Belgrade's Blok 23 are in the pipeline, but it is still under construction by Verano Invest and should be delivered according to official announcements by late 2011.

The downtown area offered a new class A office building – Atlas House Business Center (4,933 sq m of office space, located at the corner of Takovska Street and Kosovska Street), while in the near vicinity, the new development of MPC Properties TLD (Tri Lista Duvana) is due to reach completion during 2011, according to official data.

Also, Raiffeisen Bank in Serbia recently announced that it has started developing its own administrative building in Belgrade, in which a total

of about 35M EUR would be invested. The new administrative building (spanning 21,000 sq m) of Raiffeisen Bank will be built at a very attractive location in the business zone of New Belgrade and will be finished by 2012.

The highest rents for B class in New Belgrade were about EUR 11/sq m/month and the lowest was about EUR 9/sq m/month, while in Down-

town, rents fluctuated from EUR 6 to EUR 8/sq m/month.

Yield and short-term outlook

Compared with last year, office yields in 2010 saw a decrease from 9.7% to 9.25. In 2009 and 2010, due to increased vacancy and the oversupplied office market, investors decided to postpone their investment activity for 2011 and 2012. As a consequence, the current level of net yields is likely to remain at the same level going forward with insignificant fluctuations. Estimated yield for class A office in Belgrade is 9.25 %, while class B is at the level of 11%.

Moreover, due to a tenant-driven market, investors are more than ever ready to offer incentives, which are often in the form of significant rent-free periods, conspicuously more attractive prices for parking space and flexibility in lease duration. During the previous period the usual prac-



Picture: Office and Residential areas - Blok 20

tice was 5+5 years, whereas now the majority of investors allow for 3 (three) years with the possibility of an exit strategy, while in the cases of 5 (five)-year lease contracts common practice is the acceptance of rent review after the first two years of contract.

The transaction market saw the acquisition of an office building in New Belgrade – Hypo Plaza, owned by MPC Properties, which was sold for 9 M EUR to the largest Serbian cable network operator – SBB. The same investor sold construction plots in Block 43 to Immorent. According to other announcements, early in 2011, Serbia's Banca Intesa announced it will auction a 4,156 sq m office building in Belgrade at the starting price of 7.8 M euro (\$10.1 M).

Demand for high quality office premises in Belgrade is also showing some elements of recovery – the total take-up in 2010 was about 20,000 sq m of GLA, which is an increase of about 80% year-on-year.

The highest demand (more than 55%) was for small offices – less than 300 sq m, and less than 25% of demand was for larger space – more than 600 sq m. Compared with the end of last year, the level of rent for A and B class remained similar, with a slight decrease. In CBD, the average rents for A class premises are in range – EUR 14-15/sq m/month and average asking rents for B class premises fluctuated around EUR 11-12/sq m/month. As opposed to the requested price,



Picture: Airport City

achievable prices were at the lower level – EUR 13.5/sq m/ month for A class business units and even below EUR 10.5/sq m/month for B class premises.

Class A Rents

Average monthly rental for Class A office premises have been declining since 2007. In 2009 the highest rental levels were registered in CBD, where in H2 2009 average rents varied between EUR 15 and EUR 17 per sq m/month, while rents in the wider Center Area were fluctuating from EUR 13 to 15 per sq m/month.

Class B Rents

Average monthly rentals for Class B office premises have the same trend. In H2 2010, in the most expensive location is CBD Area average rents varied between EUR 10.5 to 11.5 per sq m/month, while rents in the Wider Center Area were fluctuating from EUR 7 to 9 per sq m/month.

Belgrade Retail Market

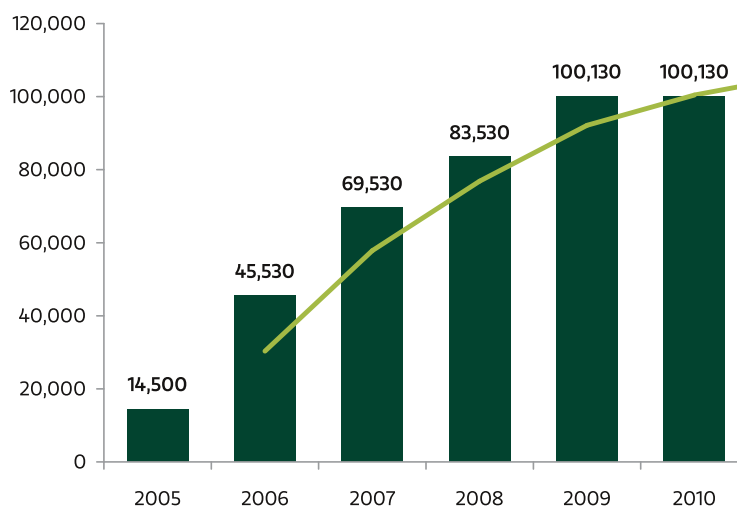
In addition, Vojvodina-based retail chain Univerexport opened a supermarket in Belgrade. Lidl's entry into the market will significantly boost competition and introduce the new concept of discount shopping.

Furthermore, latest market feedback speculates that one of the foreign retailers is mulling over withdrawing from the Serbian market, which is still uncertain, while the equity sale of more than 50% of the largest Serbian retailer, Delta Maxi, to Delhaize is close to be finalized in the first half of 2011.

The second half of 2010 brought a certain rise in the total stock of local type modern shopping centers in the Belgrade area. In October 2010, the Belgrade company Immo Point opened a new shopping center in the Kaludjerica municipality, spanning 10,000 sq m. Moreover, in December 2010 the Pasino Brdo shopping centre opened in the territory of the Vozdovac municipality, located between Juzni Bulevar Boulevard and Vojislava Illica Street, close to the E-75 highway. Pasino Brdo shopping center is a retail center of local type that comprises 30 shops on 4,910 sq m. Meanwhile, Delta Real Estate has announced the opening of their biggest shopping mall in Autokomanda sometime in 2013, which will certainly be the largest pipeline retail project of the next few years.

As a consequence of this dynamic activity, the development stock of

Shopping center stock in Belgrade (in sq m)



Source: Danos RESEARCH

supermarkets, hypermarkets and mega markets is at a higher level compared with the previous period, with an increase of 10% annually.

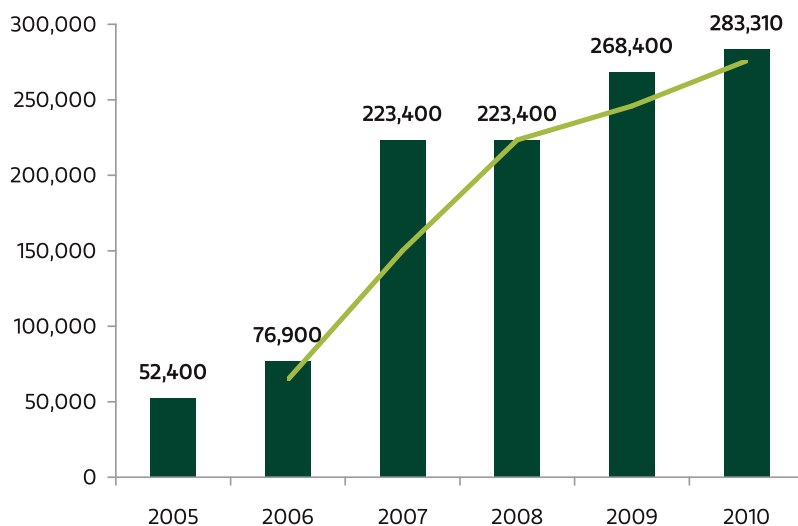
During the second half of 2010 the company Metro Cash & Carry has continued developing its network of supermarkets. A large supermarket

was opened in October 2010 in Subotica (total area of 10,500 sq m with 250 parking places). As a consequence of this dynamic activity, the development stock of supermarkets, hypermarkets and mega markets is at a higher level compared with the previous period,



Picture: Usce Tower and Mall

Big box stock in Belgrade (in sq m)



Source: Danos RESEARCH

with an increase of 10% annually. It is important to mention that this company announced the construction of one more property in Belgrade, which will be finished at the end of Q1 2011 and will be the biggest Metro supermarket in Belgrade.

High street areas are located in downtown Belgrade, and the major shopping units located within the Knez Mihailova, Kralja Milana and Terazije pedestrian zone, still have a rich retail offer of domestic and foreign brands. In 2H 2010 a few

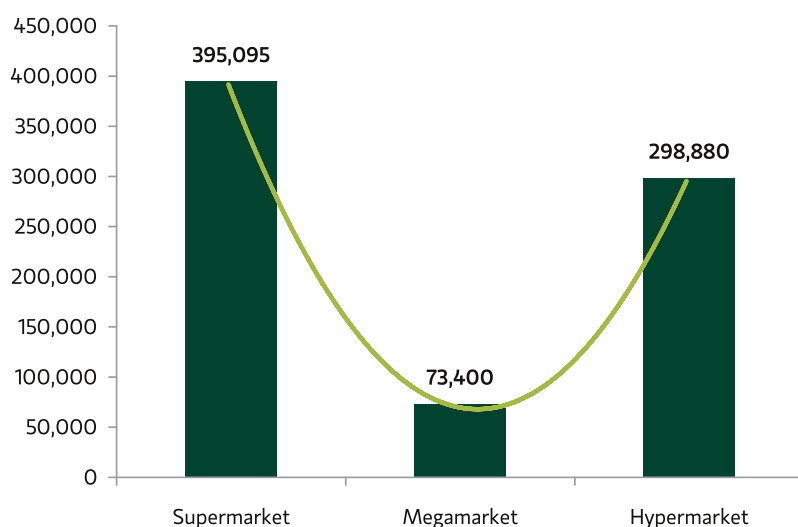
famous brands came into Belgrade downtown shopping area like Burberry, Armani, Gap and Ferre

Compared with the first half of the year, rent for prime locations (Knez Mihajlova Street, Kralja Milana Street and Terazije) are at the same level and range from EUR 30/sq m to EUR 60/sq m. The case is the same with rents in the second zone, which includes Kralja Aleksandra Blvd., Nusiceva Street and Decanska Street and their range fluctuated between EUR 10/sq m and EUR 30 /sq m.

Yields for shopping malls amount to about 6.5% - 8%, for prime street locations about 7% and for retail warehouses about 9.5%.

The retail market expects new deliveries in the next few years, but for the majority, the announced pipeline projects have a yet unknown completion deadline.

Super/Mega/Hypermarket stock Serbia (in sq m)



Source: Danos RESEARCH

Apart from other new projects, Mercator group opened the first Roda Cash and Carry supermarket in the Jablanica region in December 2010, spanning 4,500 sq m.

It is important to mention that Dis Komerc in December 2010 leased one of the largest hypermarkets close to the Nikola Tesla airport in Belgrade – Hypercourt. Delta Maxi opened its first Tempo hypermarket in Kragujevac and announced plans to invest EUR 92.4m in developing 75 new supermarkets in the region, out of which 22 will be opened in Serbia.

Idea, part of Croatian company Agrocor, has opened two more supermarkets in Smederevo and Krusevac while Verano Group has opened a department store in Bor boasting 4,000 sq m.



Picture: Tempo – Delhaize



Picture: Delta City 67

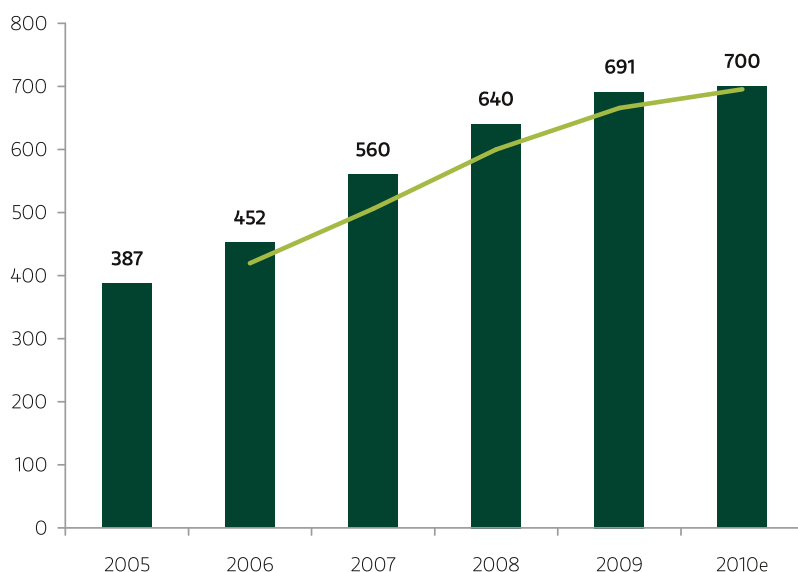
Major retail centers development pipeline

Project	Location	Developer	GLA (sqm)	Status
Immo Center Cerak	Cerak	MPC, Serbia	N / A	Under construction (Deadline Unknown)
Plaza Center	Downtown	Plaza Centers	100,000	Approved (Deadline Unknown)
Visnjicka Plaza	Visnjica	Plaza Centers	48,000	Approved (Deadline Unknown)
Rajiceva Shopping Mall	Downtown	ABD	45,000	Under construction (Deadline Unknown)
Delta Planet	Autokomanda	Delta Invest, Serbia	80,000	Approved (Deadline 2013)
Ada Huja Shopping Mall	Ada Huja	BRIF	57,000	Dedline Unknown
Delta Retail Park	Block 53	Delta Real Estate	70,600	Dedline Unknown
Trosarina Shopping Mall	Vozdovac	Verano Group	71,000	Dedline Unknown

Source: Beobuild, Danos RESEARCH

Industrial/Logistics Market

Number of newly built industrial and warehouse facilities in Serbia

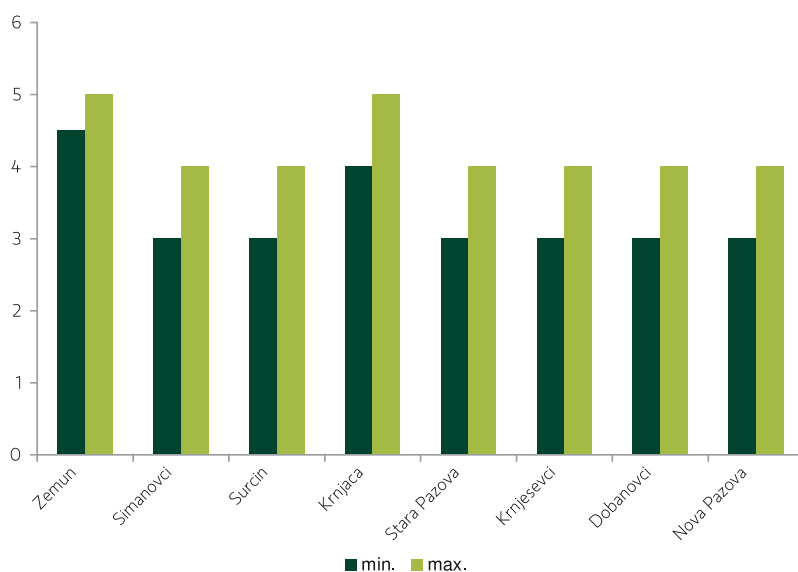


Source: Serbian Statistic Office

Having a favorable geostrategic position, the country offers easy access to the EU market, but also provides transit to the East. Strategic transportation corridors 10 and 7 connect Western Europe and the Middle East through Serbia, representing favorable geography for future regional logistics centers, which may effectively cover the Western Balkan region.

During the real estate market expansion of the Belgrade region in 2005-2008, the value of land at this location was exceptionally high, mostly due to speculative investors who bought land in the early years and held it until the price peak. At that time, during the real estate boom, land prices reached an average range of EUR 50-100 per sq m, while some lots reached even higher prices (depending on infrastructural equipment, size, shape and future development opportunity).

Class A rents in area around and in the city of Belgrade, in EUR sqm/ month



Source: Danos, Serbia

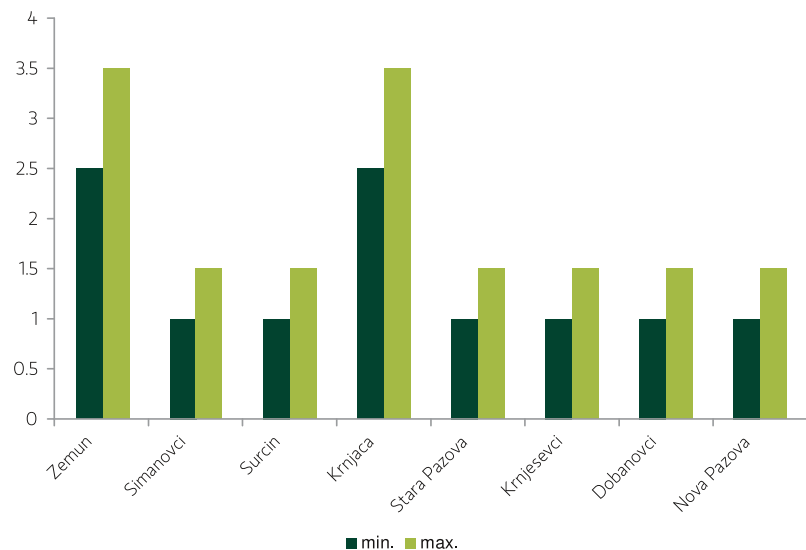
The most attractive industrial and logistic zones are located in the wider Belgrade, such as Simanovci, Stara and Nova Pazova, Indjija, Ruma, but also within Belgrade boundaries, such as the Belgrade Free Industrial Zone in Palilula municipality, Dobanovci, Surcin, Krnjaca, Zemun, Grocka.

Supply

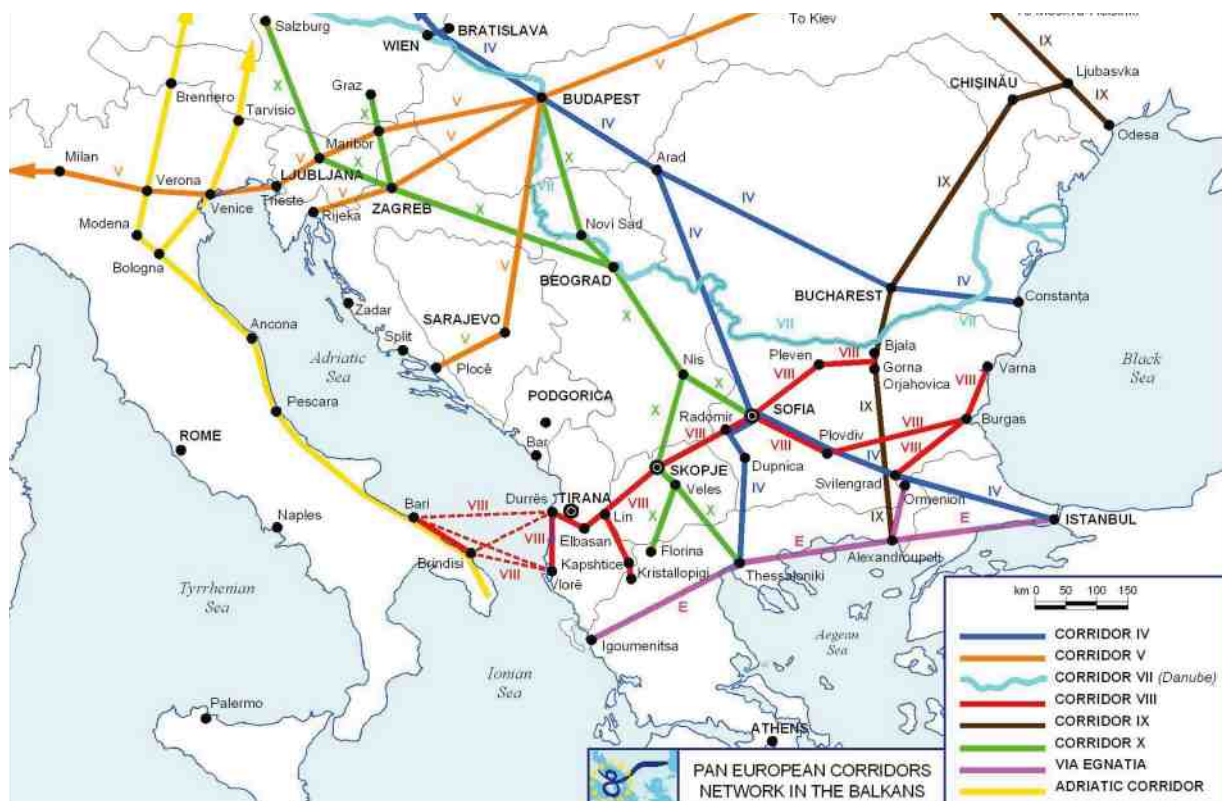
According to urban parameters, indicated by the existing Belgrade Zoning Plan, predictions are that the majority of prospective industrial and logistics developments in the city should take place in north-east city areas - along the highway E-75 (Novi Sad-Szeged-Budapest) and highway E-70 (Zagreb-Ljubljana-Vienna). New possibilities for the development of industrial/logistics zones in the city came with the construction of the Belgrade beltway.

Belgrade's logistics stock is largely concentrated in the popular areas of Zemun and Krnjaca, and also along

Class B rents in area around and in the city of Belgrade, in E sq m/ month



Source: Danos, Serbia



Picture: Road network and Serbian connectivity with Europe:



Picture: Industrial Market

the highway E-70 toward Zagreb, with the most developed areas such as Simanovci, Dobanovci, Surcin. In the mid-term, Belgrade's authorities will establish four main industrial / logistics zones within the city territory - Surcin, Grocka (100 Ha), Mladenovac (270 Ha) and Obrenovac (255 Ha).

Furthermore, some of the companies from the construction sector announced their plans for acquisitions of land plots in the wider Belgrade

area while some Austrian 3PL logistics companies are thinking about entering the Serbian market through the construction of new logistics facilities.

Rental levels depend on many factors, such as the number of tenants seeking modern and flexible warehouse space, with a well-developed transportation infrastructure at attractive locations. These facilities could be classified as Class A, and are

mostly located in the wider Belgrade area.

On the other hand, Class B industrial and warehouse facilities are mostly located in areas around the Pancevo Bridge, along the Danube River (Vilina Vode and Belgrade Port area), but also in the wider Belgrade area.

The most interesting areas for investors at this moment are Dobanovci with 3,118 Ha of land, the

Simanovci area with 250 Ha, Stara and Nova Pazova with the Krnjesevci area (800 Ha) and Indjija with 382 Ha of land.

Estimates say that total modern warehouse and industrial facilities in Serbia in 2010 spanned around 600,000 sq m, with a total of 2,000 facilities. Since 2005, construction activity in this real estate segment has been seeing an upward construction trend, in the number of facilities from 14% to 24% per year, while as a consequence of the financial crisis, new logistic developments span 15,000 sq m and more.

According to the Belgrade Statistical Office, in the last few years, the average construction dynamic of new logistic developments was 30,000 sq m per year.

The majority of these developments spanned 2,000-15,000 sq m, with few facilities encompassing constructions from 15,000 sq m and larger.

In H2 2010 the demand for logistic and industrial space remained at the same level as in 2H 2009.

The average size of warehouse inquiries decreased, ranging between 1,000 and 3,000 sqm.

Pipeline

The logistics market experienced a substantial change in 2009, due to lack of demand, which caused many developers to postpone their activities for an indefinite period. We did

not record any changes or any new projects in the market during 2010. Many proposed logistic developments are currently stopped and uncertain.

A logistics and cargo center is due to be built in Nis, near the airport, with a total area of 136,000 sq m, which will be developed in phases. The developer is the Austrian company Eye-maxx. Commencement of construction is still unknown.

RENTS

In 2010 Class A premises saw a slight decrease in rental levels compared with 2009. Facilities at less attractive locations registered an average range of EUR 3 – 4 per sqm/month, while rental prices for modern and equipped facilities range from EUR 4.5 - 5 per sq m/month.

Class B premises recorded average rental levels from EUR 2.5 – 3.5 per sqm/month for less attractive locations, while locations in areas close to Belgrade and within city boundaries recorded higher average rental levels from EUR 2–3 per sqm/month.

The main characteristic of the industrial / logistics investment market is the lack of adequate facilities with limited construction.

Most of the facilities are owner occupied; therefore few transactions have been recorded in the open market.

The estimated yield ranges from 12% to 13%.

Belgrade Land Market

Land values were exceptionally high during the real estate market expansion (2005-2008) mainly due to speculative investors interest.

During the real estate boom, land prices reached an average range of EUR 50 to 100 per sq m, while some land lots reached even higher prices (depending on infrastructure, size, shape and future development potentials).

Nowadays, land prices of the subject location have significantly dropped, predominantly due to lack of investment activities.

The most interesting areas offering available land plots are located in Cukarica, Zemun, Surcin and Palilula. Cukarica presents one of the biggest Belgrade municipalities and is located in the south-west part of Belgrade. The northern part of Cukarica is bordered by the Sava river and is located in the extension of the older part of Belgrade. It is connected to New Belgrade by the Gazela Bridge, while the future bridge across Ada Ciganlija, which will be completed in 2011, will increase attractiveness of the respective municipality.

The Cukarica municipality became very interesting to investors, especially settlements such as Zarkovo, Banovo Brdo and Suncana Padina, mostly for their residential developments. In this area the highest prices are recorded for land plots in the immediate vicinity of the Ostruznica bypass and the Ibarska Road. In this area prices range from



Picture: Land zones

EUR 20/sq m to EUR 40 /sq m.

The Surcin municipality is located west of Belgrade and borders with Zemun (north) and New Belgrade (east). The entire western border of the municipality is the administrative border of the province of Vojvodina while the Sava river forms the border to the Cukarica (south-east) and Obrenovac (south) municipalities.

The Surcin municipality was among the first wider areas of Belgrade

where the real estate boom started due to its various advantages (vicinity to the airport, E-70 highway, Ostruznica bypass, railway, future Obrenovac Bridge, vicinity of the Sava river etc.). Many domestic and international developers searched for a suitable land plot for various purposes: car dealerships, warehouses, production facilities, petrol stations, retail big boxes etc.

The boom of prices during 2007 was mostly recorded in this area, while

today prices of land plots range from EUR 20 to EUR 40/sq m.

Palilula is an urban area and one of the 17 Belgrade municipalities that covers the largest surface. It is located in the northern part of Belgrade and spans 451 km². Palilula is located on both sides of the Danube, while the Danube divides Palilula into two parts – the Sumadija part and the Banat part. Land in the Palilula municipality did not see a real estate boom like other Belgrade areas despite many advantages. The only part of the municipality that saw some developments is Krnjaca and the area around the Pancevo Bridge, where prices of land reached almost unrealistic levels in 2007. In 2H 2010 average prices of land plots ranged from EUR 20 to EUR 60/sq m.

The Zemun municipality is located in the central-western section of Belgrade, along the right bank of the Danube. Zemun borders with the province of Vojvodina in the west (Nova Pazova municipality), and Surcin in the south, New Belgrade in the south-east and Palilula and Stari Grad across the Danube.

Zemun did not experience a real estate boom like some other Belgrade areas, despite its various advantages (vicinity to the E-70 Highway, Ostruznica bypass, future Zemun-Borca Bridge, vicinity of Danube river etc.). The only area that has seen new commercial/industrial developments, while other outskirts of Zemun stayed relatively underdeveloped due to the presence of old formerly state-owned industrial facilities, is the area around

the E-O highway and Batajnici Put Street. Moreover, a large portion of land in Zemun is farmland, and many investors have not bought it as they could not be sure of its future zoning and purpose. This location, reached very high, almost unrealistic, land prices, especially around and along the E-70 highway, while land prices in areas such as Ugrinovci and Batajnica saw lower land prices. The average price of land in this area was around EUR 70-150 per sq m, depending on location, area, zoning and utilities. Nowadays, these prices have significantly dropped, 30–50% on average, as demand decreased, while supply remains at the same level.

The Grocka municipality is located east of Belgrade in the northern part of the Sumadija region. The northern part of Grocka is also the northern part of Podunavlje, macro-region in the Danube river valley, and the south part of Grocka, is located around the Ralja river, tributary of the Velika Morava river.

The land in the territory of Grocka also has not seen a real estate boom, compared with other Belgrade areas, despite its various advantages (vicinity to the river, downtown and highway, etc.). The only area that registered new commercial / industrial developments is Lestane, while other parts relatively underdeveloped.

This location, has very high, almost unrealistic, land prices, especially around the Krujni Put area in Lestane, where many commercial units have been built over the past few years.



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