



SERBIAN MARKET OVERVIEW


Economic Overview



Serbian economy achieved growth of 0,9% in Q4 of 2015, while it is expected to grow another 2,5% in 2016.

Projection of budget deficit for 2016 is around 2.5% amounting to the level of 0,8 billion EUR. In 2015 deficit was 4,8% (1,6 billion EUR).

The income of Foreign direct investment (FDI) was 460 million EUR in Q1, compared with 307 million EUR in the same period of 2016. That represents a growth of 14% compared between the two periods.

 In the last months of the year 2015 the inflation was 1,1% which is considered as the best result.

The whole external trade for the period of January – April 2016 was almost 10 billion EUR.

The export of goods amounted to 4,251 billion EUR, while the import amounted to 5.42 billion EUR.

External trade deficit for this period is 1,17 billion EUR, which represents covering import with export with 0.78%. That results is in the vein with other positive economic figures.

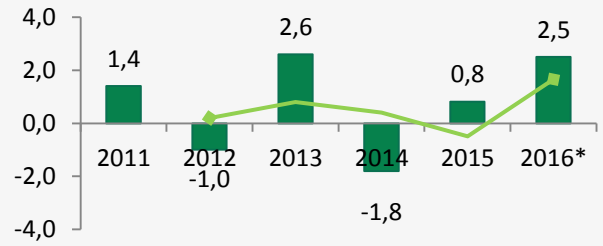


The unemployment rate in the Q1 of 2016 amounted to 19%, and increased by 12%, or 2,3 pp compared to 2015.

Average nominal net salary in the Republic of Serbia in Q1 was 49.485 RSD (400 EUR) and it was similar to the last year.

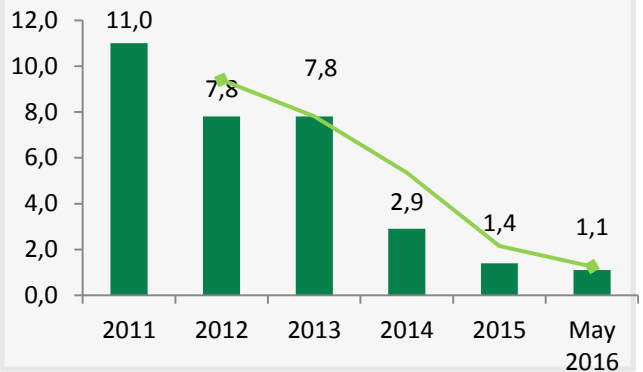
The reference interest rate was reduced by 0,5 percentage points to 4,25 percent.

GDP



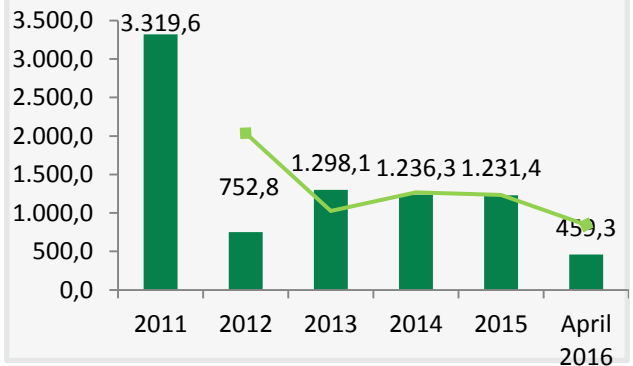
Source: Ministry of Finance of Republic of Serbia, Danos research

CPI



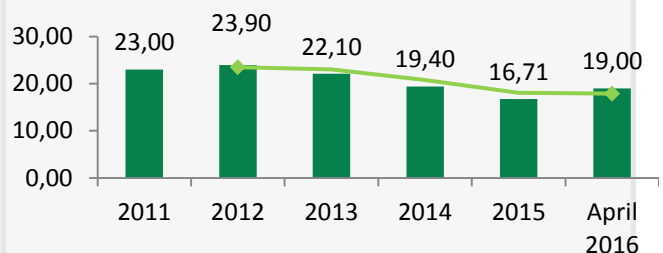
Source: Ministry of Finance of Republic of Serbia, Danos research

NET FDI



Source: Ministry of Finance of Republic of Serbia, Danos research

UNEMPLOYMENT



Source: Ministry of Finance of Republic of Serbia, Danos research



Supply and Pipeline

Dynamic construction activity from 2015 has continued during first half of 2016, when Belgrade market marked delivery of one Grade A office building – Building No.1 as 4th phase of Airport City complex, adding 12,000 sq. m GLA to modern office supply. End of H1 2016 has recorded total modern office stock of Grade A and B in amount of 608.000 sq. m GLA.

By the end of 2017, Belgrade market will witness delivery of several office buildings, out of which four speculative projects will be placed at New Belgrade. 2nd phase of GTC Forty-one and 4th phase of Airport City represent further expansions, followed by ongoing developments of Navigator Business Centre and 1st phase of Sirius offices, which will be delivered though two phases. Growing demand has caused expansion of BOP office building with additional construction of 5,000 sq. m at the top of the building.

PIPELINE OFFICE PROJECTS

Project / Investor	Location	Area (sq m)	Purpose	Delivery Date	Status
GTC "Fortyone"(phase 2)	Block 41, New Belgrade	8,000	Speculative	H2 2016	Under construction
Airport City (phase 4) – building 2	Airport City complex, New Belgrade	12,000	Speculative	H2 2017	Under construction
MPC "Navigator Business Centre"	Block 43, New Belgrade	14,900	Speculative	H2 2016	Under construction
Deneza office building	Tosin Bunar, New Belgrade	2,900	Speculative	H2 2016	Under construction
Societe Generale	Bvd. Zorana Djindjica, New Belgrade	7,700	Owner occupation/Speculative	H2 2016	Under construction
EDB	Block 32, New Belgrade	5,000	Owner occupation	H2 2016	Under construction
Immorent "Sirius offices" (phase 1)	Block 43, New Belgrade	18.500	Speculative	H1 2017	Under construction
Granit Invest	Mutapova st, Downtown area	2,700	Speculative	H2 2016	Under construction

Demand

During H1 2016, main drivers of market activity were recognized relocation deals – majority of them being transfer of tenants to newly developed office buildings at New Belgrade submarket. Significant activity was related to renewals and expansions of tenants within current locations. When analyzing demand per business sector, traditionally greatest portion was related to IT sector. An average deal size during H1 2016 stood at about 700 sq. m.

Yields

Estimated prime office yields are ranging between 8.5% - 8.75%.



Vacancy rate

Modern office space supply which does not meet demand trends related to continual increase has caused further decline in vacancy rate during H1 2016, standing at level of 4% at the end of this period. Current trends at Belgrade office market have recorded rapid absorption of ongoing office projects majorly related to New Belgrade CBD zone. The slight increase is expected in vacancy rate upon delivery of all announced pipeline office projects.

Rental levels

First half of 2016 has recorded stable rental levels of modern office supply. Prime rents for Grade A office buildings are ranging from EUR 15 to 17 per sq. GLA, while for Grade B price range is between EUR 10 and 12 per sq. GLA.



Supply

At the beginning of H1 2016 retail stock in Serbia is estimated at 790,000 sq m. Modern shopping center stock in Belgrade is estimated at 260,000 sq m, while the prime shopping center stock is 105,000 sq m of GLA.

Retail parks in H1 2016 remain the most developed sub-sector for investors due to the fact that represent most of retail investments in Serbia.

Two retail parks has been opened in first half of 2016 – Shoppi with total gross leasable area of 10,000 sq m in Subotica, developed by MPC Properties, and StopShop Nis with total GLA of 13,000 sq m developed by Austrian Immofinanz group.

With figure of 78, Belgrade still have the lowest density (GLA/1.000 population of modern retail stock) in Central and Eastern Europe.

Retail brands

In H1 2016, new brand – JUMBO, entered the Serbian market.

Zara home and Calvin Klein opened their first stores in Belgrade, in shopping center Ušće.

Sports brand 4F announced entry on Serbian market..

Pipeline

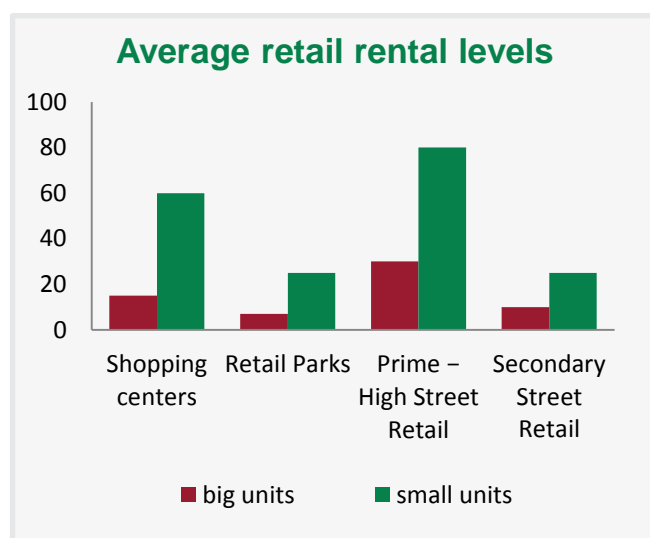
Market activity in retail sector is likely to continue to benefit from investors interest for new projects.

Demand

Strongest demand among both local and international retailers is recorded for the retail park projects and shopping centers.

The slight demand has been marked in street retail. Only prime retail units have recorded leasing transactions in short period of time, while the average ones remain vacant for a longer period of time.

Rental levels



Yields

Yields remain stable at 8.5% for prime shopping malls and 9 – 9.5% for retail warehouses.

PIPELINE RETAIL PROJECT

Project/Investor	Location	Area (sq m)	Delivery Date	Status
Belgrade Plaza / Plaza Centers Serbia	Visnjicka Street-Belgrade	32.335	H1 2017	Underconstruction
Rajiceva Shopping Mall / Avital	Knez Mihajlova-Belgrade	15.500	H2 2017	Underconstruction
Shoppi Borca retail park / MPC Properties	Borca-Belgrade	13.000	H2 2016	Underconstruction
Stop Shop retail park / Immofinanz	Valjevo	6.000	H2 2016	Underconstruction
IKEA	Belgrade	30.000	H2 2017	Underconstruction
Capitol park / Poseidon Group and Mitiska REIM	Rakovica-Belgrade	21.000	H2 2017	Pipeline
Ada mall / GTC	Radnicka Street-Belgrade	32.000	H2 2018	Pipeline

Residential Market

Summary

The residential market in Belgrade in first half of 2016 continued trends from 2015. Strong development with persistent demand makes this market very attractive. For that reason, more and more foreign investors are showing interest in investing in this sector. They are offering modern residential complexes with higher quality-price ratio. Due to location, apartment structure, unit mixes and additional contents those complexes are taking over primate in residential market. Existing average buyers are no longer interested only in apartment quality but also in additional content such as shops, children playgrounds, cafeteria and other content that make life more convenient and entertaining.

New Belgrade municipality is still the biggest building site in Belgrade for such complexes due to it's large construction lots and broad boulevards. Most expensive parts of town such as Dedinje, Senjak and Vracar offer only small scale projects but with high class quality of construction works and interior design. Downtown is also facing a lack of space for new projects and there is a noticeable renovation of existing buildings.

Based on all the above, Serbian government passed new law on planning and construction in order to speed up building process.

Supply and demand

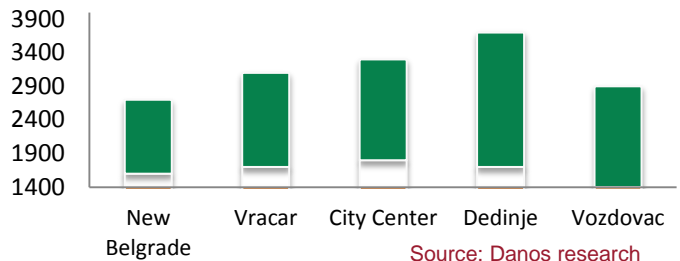
Large scale projects such are A-Block, Savada, SunCity, West 65, Paunov breg, Central Garden continue to be built according to announced phases.

Furthermore, the Eagle Hill developer of Belgrade Waterfront also adheres to deadlines and plans, giving the old river bank a new look pushing boundaries and standards of everything constructed so far in Belgrade.

Another new residential project has been announced recently. The investor is Energoprojekt and the project is called Sunnyville in Visnjicka Banja settlement. The complex will contain 215 residential units, 9 retail units and 233 parking places in underground garages. It will include 3 buildings with total area of 24.600 sq. m.

According to official statistic, 9.500 apartments have been sold in Belgrade in 2015. Demand is on the same level as in last year, while around 60% of apartments from projects mentioned so far were sold while the construction was on going.

Average asking prices for new built projects from mid to high

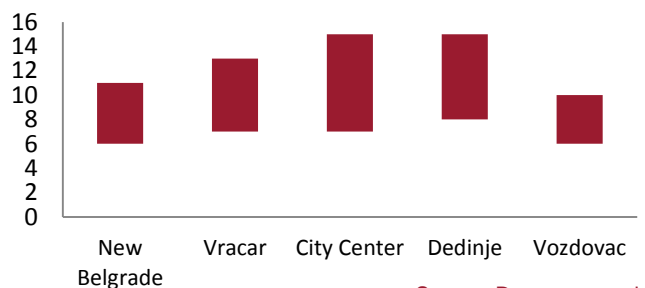


Source: Danos research

Rental levels

Expansion of office project in New Belgrade was also reflected in the demand for apartments for lease in this area. The demand is generated by foreigners who are working in international companies with headquarters at New Belgrade. Dedinje and Senjak are still first choice for couples with children due to the fact that most of houses with gardens are situated there. Also almost all international schools are located there. Vracar and Downtown is most attractive for singles and young couple.

Average rents per sq. m from mid to high



Source: Danos research



Supply

The majority of new construction activities were focused on development of industrial facilities;

The development of free zones in cities contribute to the development of industrial facilities;

Belgrade's wider area remain the most attractive in terms of new developments of logistic facilities;

Industrial market has been influenced by economic situation, export-import policy of the country, quality of the transportation network and growing retail sector.

The government provides incentives for the development of new investments.

Demand

The demand is mostly focused on a modern industrial/logistic facilities despite the large number of brownfield properties;

The demand comes from the transportation, automotive and distribution companies.

Rental levels

Rental levels for prime logistics warehouses that are contemporary equipped and located in the surroundings of Belgrade is EUR 3.5 – 5 per sq. m.

In the neighboring municipalities of Belgrade (Dobanovci, Šimanovci, Stara Pazova etc.) rental level is in range EUR 3 – 4 per sq. m. The rest of Serbia, at the less attractive location, marks rents ranging from EUR 1.5 – 3 per sq. m.

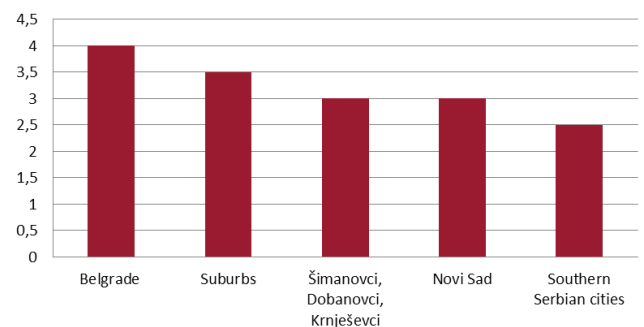
Older facilities with lack of modern features achieve lower rental level.

Finished developments		
Investor	Distribution/production	Region
Dr Oetker	Production	Šimanovci
Johnson Electric	Production	Niš
Mitros	Production	Sremska Mitrovica
Flash SRB	Production	Apatin
Carbotech	Production	Smederevo
Enson led	Production	Niš
Delta Danube	Production	Kovin

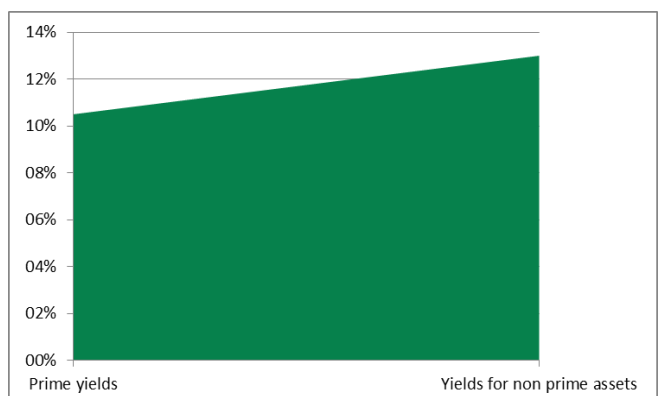
Pipeline Projects		
Investor	Distribution/production	Region
Lidl	Distribution	Nova Pazova
Gomex	Distribution	Zrenjanin
Al-Rafideen	Production	Leskovac
IGB Automotive Comp	Production	Indija
Yura (Phase II)	Production	Leskovac
Philip Morris	Production	Niš
Lear	Production	Novi Sad

Announced		
Investor	Distribution/production	Region
Siliko	Production	Sombor
CCM mode	Production	Čuprija
Tiesse	Production	Šabac

Average rental levels



Yields





Supply

Serbia has 3.3 mill hectare of arable land;

Orchards cover area of 240.000 hectare;

Vineyards cover area of 50.000 hectare;

Forest cover area of 2,25 mil. Hectare.

Demand and trends

The highest demand is for agricultural land in the territory of Vojvodina;

The most interesting are larger plots because they reduce costs and facilitate the production itself;

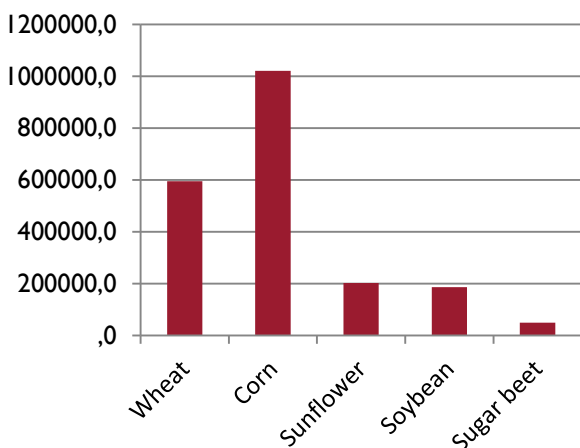
Larger land plots with flat topography achieve higher prices;

Smaller number of transactions were recorded in the first half of the year due to lower prices of agricultural products;

Investment in agricultural land certainly represents the safest way of investments.

Sown area

(he)

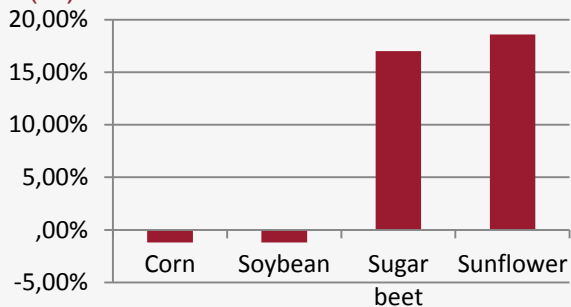


Wheat production has increased by 18.8% compared to last year;

Maize production is lower by 1.2% compared to last year;

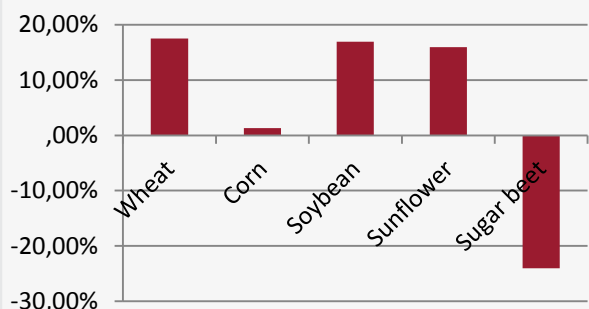
Sown area compared to last year

(%)



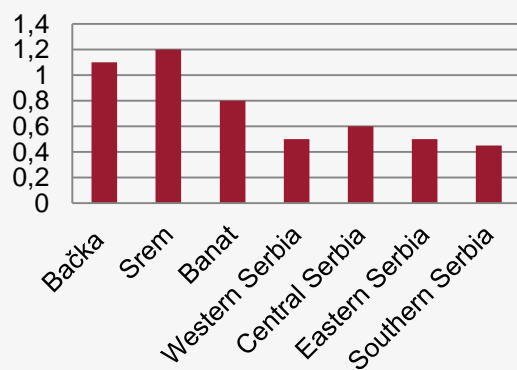
Production compared to ten-years average

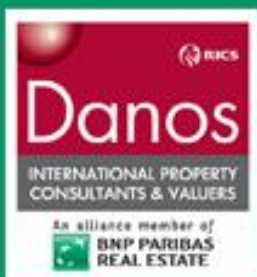
(%)



Land plot - sales prices

Eur/sq m





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