

Belgrade Industrial Market

H1 2009

S&P'S LT FC Rating

BB-/Negative

Quick stats

Change from
H2 2008

Supply	↑
Rents	↓

Hot Topics

- Monetary Policy Committee decided to lower the key policy rate in H1 2009, leveling it to 13%, while the foreign currency exchange rate has stabilized
- In Q1 2009 GDP decreased by 3.5 percent in comparison to Q1 2008
- The World Bank approved the loan of USD 388m to Serbia on July 9, 2009 for highway "Corridor 10".

ECONOMIC OVERVIEW

The International Monetary Fund (IMF) granted a new stand-by arrangement to Serbia on May 22, 2009. The arrangement is worth EUR 2.94 billion of which EUR 799 million were already transferred and by the end of 2009 two more installments of about EUR 2.15bn will be withdrawn. The funds will be used exclusively for strengthening National Bank of Serbia (NBS) foreign exchange reserves and upkeeping macroeconomic stability.

In addition, The Board of Executive Directors of the World Bank approved the loan of USD 388m to Serbia on July 9, 2009 for highway "Corridor 10". This is the largest loan ever approved by that international finance institution to Serbia, and it will be used for financing the construction of three sections on Pan-European corridor. The project has four components: construction of two sections of M1 highway to Macedonia, construction of Nis - Dimitrovgrad section of M1 highway to Bulgaria and construction of highway around Dimitrovgrad.

The main contributors of negative GDP growth rate were manufacturing, trade and construction industry. Industrial output fell

sharply in 2009, in May y-o-y the decline was 19.5%. Manufacturing declined by 23.3% y-o-y, mainly as a result of US Steel's temporarily reduced production, followed by 14.4% drop in construction and 6.2% decline in trade sector. Retail prices went up by 0.4% compared to previous month and 9.8% y-o-y in June. Prices of services went up by 0.3% and goods became 0.3% more expensive in June alone. Industrial non-food products had the biggest increase of 1.3%, as opposed to agricultural products of which prices decreased by 6.4%.

Unicredit banking group has estimated that Serbia's unemployment rate will rise from 18 pct in 2008, to 21 pct at the end of this year. The average salaries and wages paid in the period January - May 2009 in the Republic of Serbia, compared to the average salaries and wages paid in the period January - May 2008, increased by 11.7% in nominal terms and by 2.4% in real terms.

The banking sector is avoiding crediting, however it met the crisis highly capitalized, and at least at first sight, endured the first shocks successfully.

Key economic Indicators - Serbia

	2006	2007	2008	2009f	2010f
Nominal GDP (EUR bn)	23.5	29.1	33.5	29.5	29.4
Per capita GDP (EUR)	3,177	3,946	4,552	4,003	3,993
Net FDI (EUR bn)	3.4	1.8	1.9	1.1	1.3
Real GDP, yoy (%)	5.6	7.1	5.5	-2.5	-0.7
Inflation (CPI), yoy, avg. (%)	12.7	6.5	11.7	7.8	6.5
Unemployment rate (%)	20.9	18.1	18.0	21.0	21.5
Exchange rate RSD/EUR, eop.	79.79	78.79	89.78	102.00	105.00
Exchange rate RSD/EUR, avg.	84.42	79.98	81.49	97.58	103.50
Current account balance/GDP (%)	-10.1	-15.9	-17.8	-10.8	-9.2
FDI/GDP (%)	14.4	6.3	5.6	3.7	4.4
Budget balance/GDP (%)	1.5	1.3	-2.0	-3.0	-2.0
Total foreign debt/GDP (%)	61.3	61.0	56.5	53.2	50.6

Source: NBS, Statistical Office of the Republic of Serbia, Bank of Austria

BELGRADE INDUSTRIAL MARKET

Political and economic isolation limited the development of Serbia's modern manufacturing industry till few years ago. Stronger development in this market segment has started in 2006, with investments occurring in Belgrade and its surrounding area as well as in Vojvodina region.

However, as the global economic crisis impacted the real estate market as a whole, Belgrade logistics market has also entered a period of stagnation and did not experience any significant changes compared to the previous period.

SUPPLY

Serbia is located at the intersection of Pan European Corridors 10 and 7 (Danube River), on the way from Europe to Asia. Pan European Corridor 10 is the most important European highway corridor passing through the country, leading from Salzburg through Belgrade and Nis and branching off to Athens and Sofia. Another branch of the corridor links the capital to Budapest. This corridor provides the most direct route for the transportation from Turkey to Western Europe, which may boost logistics demand along the corridor.

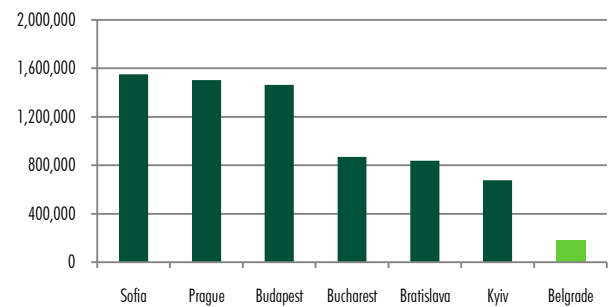
Belgrade is Serbia's largest domestic market and other cities are still years away from providing sufficient supply of modern logistics space that would support the construction of retail space. The primary logistics market is concentrated around Belgrade, along the highways E-70 and E-75, and locations in its close proximity, such as Stara Pazova, Simanovci Dobanovci and Krnjesevci. The loan approved by World Bank for highway "Corridor 10" will certainly influence supply and further investors' plans.

An Austrian company Eyemaxx has started the construction of large Cargo center, located in Nis, within "Constantin the Great" International Airport Complex. The whole project will comprise 135,000 sq m which will be completed in six phases, in next six years. Eyemaxx has also announced the commencement of construction of Logistics center in Stara Pazova, totalling 50,000 sq m of GBA.

A Dutch company Eurasian Real Estate, in cooperation with the local partner "Walschot Invest DOO", has started the development of an industrial and logistics park on Novi Sad - Zrenjanin highway, 20 kilometers away from Novi Sad. The park will spread on the area of 42 ha.

However, although several foreign investors have announced the development of modern logistics parks, the economic downturn has postponed or suspended some of these projects.

Total stock in Q1 2009 in region (in sq m)



Source: CB Richard Ellis

Selected Pipeline Developments

Project	GBA (sq m)*	Location	Expected date of delivery
Eyemaxx Log center	50,000	Stara Pazova	2010
Eurasian Real Estate	200,000	Zabalj	2011
TQ Indjija	250,000	Indjija	2011
Eyemaxx Cargo Center	135,000	Nis	2015

* GBA – Gross Building Area
Source: CB Richard Ellis

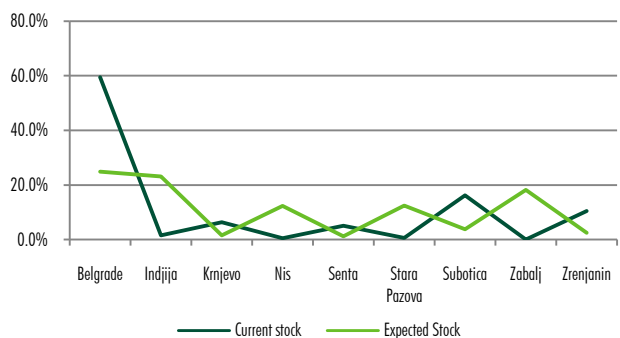


Eyemaxx Log center, Stara Pazova



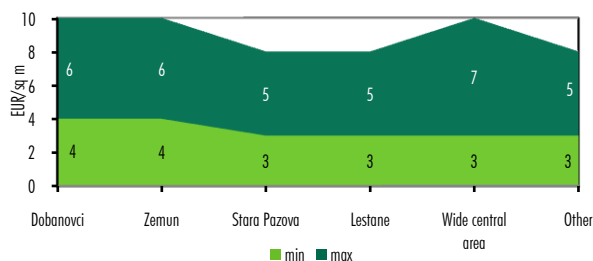
Eurasian Real Estate, Zabalj

Distribution of current stock and stock after completion of announced projects and projects in pipeline



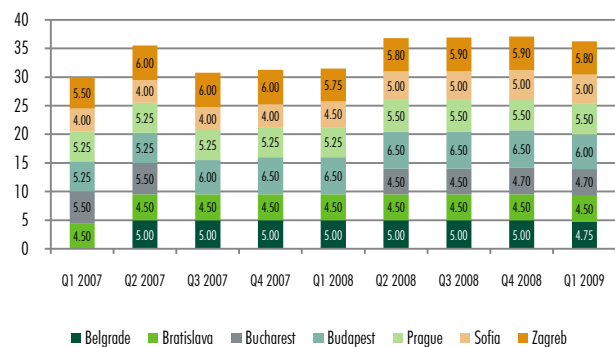
Source: CB Richard Ellis

Rental levels range in H1 2009 (in EUR/sq m/month)



Source: CB Richard Ellis

Rental levels in the region (in EUR/sq m/month)



Source: CB Richard Ellis

The total stock of modern logistics space reached app. 300,000 sq m, out of which 60 percent is located in Belgrade’s area including the suburbs. Upon completion of announced projects and projects currently in pipeline, logistics and industrial map will be drastically changed, i.e. enriched with several new modern logistics centers across Serbia.

DEMAND

The minimum requirements prospective tenants are now looking for are modern and flexible warehouse space with built-up transportation infrastructure at attractive locations. The requirements also include proper ceiling heights of 9-12 meters, independent power supply, temperature control, loading docks, etc.

In the past two years, take-up remained at the stable level. Demand for industrial and logistics space continued to increase in H1 2009 and mostly comes from transportation, logistics, distribution and pharmaceutical companies. However, the industrial market noticed the new trend of tenants decreasing their requests for space size and moving their operations towards smaller units, due to current economic situation and lowered business activities.

With the improvement of the business climate in Serbia and the anticipated increase in industrial production and commerce, the need for storage facilities and specialized warehouses is expected to continue to grow.

Additionally, European Union applies Good Manufacturing Practice (GMP) standards which ensure that products are consistently produced and controlled according to the quality standards appropriate for their intended use. These measures should be mandatory for all pharmaceutical manufacturers in Serbia as of August 1st 2009, which may positively influence further demand.

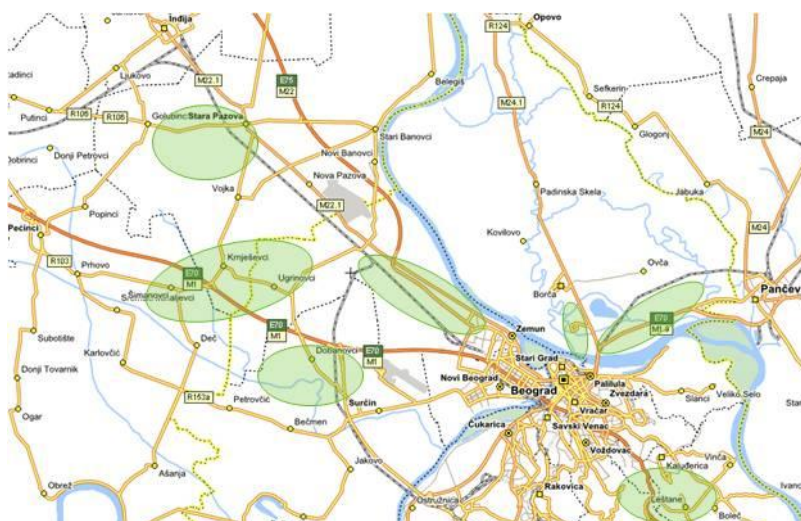
RENTAL LEVELS

Rental levels of industrial and warehousing facilities have slightly decreased during H1 2009. Rental levels of old industrial premises stand between EUR 1.5 - 3.0/sq m/month on average, while the average rental rates in modern premises reach EUR 4.0–6.0/sq m/month depending on the location and the amenities.

OUTLOOK

Over the next few years the logistics sector in Serbia should continue to mature, in particular benefiting from improvements in road infrastructure, linking the country to central European markets. Investment in new and improved infrastructure will reflect the greater number of optimal locations for logistics property.

POPULAR LOCATIONS FOR DEVELOPMENT OF INDUSTRIAL/LOGISTICS FACILITIES WITHIN BELGRADE CITY BOUNDARIES



SERBIAN CORRIDOR 10 MAP



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