

Quick stats

	Change from H2 2009
Take-up	↓
Supply	↑
Vacancy	↑
Rents	→

S&P'S LT FC Rating

BB-/Stable

Hot Topics

- The average salaries and wages paid in June 2010 in the Republic of Serbia amounted to EUR 459.
- In February 2010, Serbia's official rating by the Organization for Economic Co-operation and Development (OECD) had increased, moving up from the sixth category into the fifth.
- Unemployment rate in April 2010 increased by 2.6% when compared to October 2009.
- The total take-up in office market segment during H1 2010 amounted to app. 17,000 sq m of GLA.

H1 2010 From expert's point of view

Goran Zivkovic,

Head Of Brokerage Operations:

"The analysis of the size of signed lease acquisitions in the first half of 2010 indicates that more than 55% of the deals presumed office requirements lower than 300 sq m, and less than 20% of office deals were larger than 600 sq m of space, showing that the companies still require smaller offices, which is in line with overall cost-cutting policies of the companies in light of the financial crisis."

ECONOMIC OVERVIEW

The Executive Board of the International Monetary Fund (IMF) completed the fourth review of Serbia's economic performance under a program supported by a Stand-By Arrangement (SBA), which enables the immediate release of EUR 383.2 million. The Serbian Government has indicated that the drawing of the full amount would bring total disbursements under the program to EUR 1.80 billion.

In June 2010, on a meeting in Luxembourg, the EU foreign ministers have agreed to recommend the ratification of the Stability and Association Agreement (SAA) with Serbia.

According to results published by the Statistical Office of Republic of Serbia, in Q1 2010, GDP increased by 0.6 percent in comparison to the corresponding period of the previous year. Observed by activities, in the first quarter, the highest growth in the gross value added was noted in the section of transport (8.6%), section of financial intermediation (6.3%) and in the section of mining and quarrying (4.0%), while the major drop was recorded in the section of hotels and restaurants (14.1%), the section of construction (12.0%) and the section of trade (6.8%).

Although inflation was a record low 3.7% yoy in May, the risk of the central bank's end of year target of 6% being overshoot remains, especially as the currency is depreciating.

The average salaries and wages paid in the period January – June 2010 in the Republic of Serbia, compared to the average salaries and wages paid in the period January – June 2009, were by 6.5% increased in nominal terms and by 2.3% increased in real terms.

In accordance with the Labor Force Survey, which was conducted in April 2010, unemployment rate in Serbia amounts to 19.2%; i.e. 20.6% in Central Serbia, 20.9% in Vojvodina region and 14.0% in Belgrade.

After reviewing current economic developments, on May 11, the National bank of Serbia Monetary Policy Committee reduced the key policy rate by half the percentage point, which equals 8.0 percent.

In accordance with the latest statement of The International Monetary Fund (IMF), Serbia would be returning to a high rate of growth of its gross domestic product (GDP) in 2012 and 2013. The IMF's new report on Serbia published on its official site, states that the growth of the GDP will speed up to five percent in 2012, and 5.5 percent in 2013. Additionally, the significant growth in exports from Serbia is expected in 2011, whereas GDP is expected to see an increase of two percent in 2010 and three percent in 2011. The report notes that the inflation rate would continue to drop in Serbia and would stabilize at about four percent annually, taking into consideration monetary and fiscal policies.

Key economic indicators - Serbia

	2007	2008	2009	2010F	2011F
Nominal GDP (EUR bn)	28.8	33.4	30.5	29.4	29.1
Per capita GDP (EUR)	3,900	4,545	4,170	4,036	4,006
Net FDI (EUR bn)	1.8	1.8	1.4	1.3	2.3
Real GDP, yoy (%)	6.9	5.5	-3.0	0	2.2
Inflation (CPI), yoy, avg. (%)	6.5	11.7	8.4	5.1	6.3
Unemployment rate (%)	18.1	13.7	16.1	17.0	16.5
Exchange rate RSD/EUR, eop.	78.79	89.78	96.17	110.00	115.00
Exchange rate RSD/EUR, avg.	79.98	81.49	94.05	102.50	112.50
Current account balance/GDP (%)	-16.0	-17.3	-5.7	-6.7	-7.8
FDI/GDP (%)	6.3	5.5	4.5	4.2	7.7
Budget balance/GDP (%)	-1.6	-2.0	-4.2	-5.1	-4.0
Total foreign debt/GDP (%)	61.8	65.3	74.6	84.1	92.8

Source: Bank of Austria, June 2010

BELGRADE OFFICE MARKET

Although Belgrade office market was enriched with few brand new office buildings during H1 2010, its contemporary office stock can hardly be compared to the stock in other capital cities in the region.

The stock of modern office space per capita currently stands at 294 sq m in Belgrade, some twenty times lower than that in Vienna i.e. some six times lower than in Budapest.

SUPPLY

The completion of new office buildings has pushed the volume of modern office stock towards app. 490,000 sq m at the end of H1 2010. In comparison with year-end 2009, Belgrade office stock has been enlarged by app. 11%.

The biggest office buildings which were brought to the market during H1 2010 (Bluecenter, VIG Plaza and West End) are located in New Belgrade area. Permanent investors' focus on this area has brought the great prevalence of office buildings located in New Belgrade, comprising 75% of the total supply in H1 2010.

Although, the realization of several projects has been announced for 2010, the completion dates have been postponed, indicating that the second year-half 2010 should offer additional 26,000 sq m of GLA to the market.

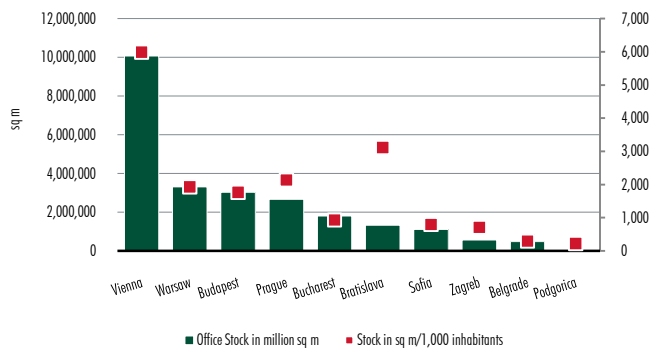
DEMAND (TAKE-UP)

Belgrade office market continued to record renewed demand which commenced with the second half of year 2009, when the market witnessed significant price reductions. Initiated by more attractive market conditions, companies are relocating in search of more competitive lease conditions.

The total take-up in the first two quarters of 2010 amounted close to 17,000 sq m of GLA, while the quarterly analysis indicates that the take-up level in Q2 2010 was below the level achieved in Q1. As compared to the same period of previous year, take-up in H1 2010 showed the increase of app. 19%.

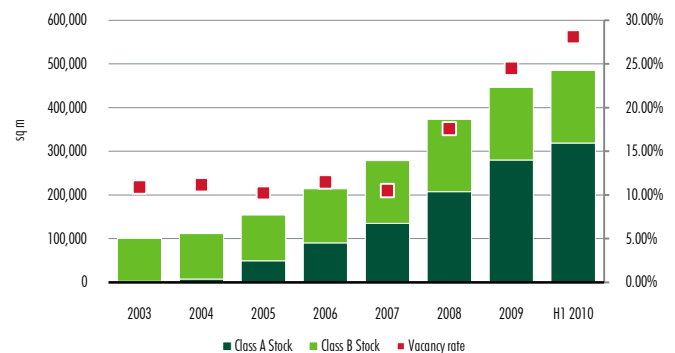
The analysis of the size of signed lease acquisitions in the first half of 2010 indicates that more than 55% of the deals presumed office requirements lower than 300 sq m, and less than 20% of office deals were larger than 600 sq m of space, showing that the companies still require smaller offices. In terms of market share, Banking and Insurance sector accounted for the largest share of total leasing activity this year-half with 33%; followed by Manufacturing with 26%. For the last few years, these two sectors are dominating demand for modern office space in Belgrade.

Modern office stock and stock per capita in the region, end of Q1 2010



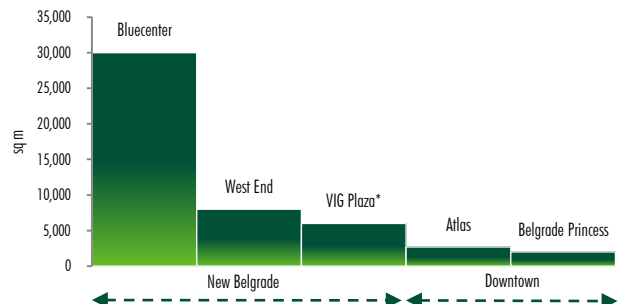
Source: CB Richard Ellis

Belgrade office stock



Source: CB Richard Ellis

Selected office buildings completed during H1 2010 (sq m in GLA)



* Part for renting. The rest is for owner-occupied purposes
Source: CB Richard Ellis

Selected lease transactions in H1 2010

Tenant	Building	Size (sq m)
NBG Bank	MPC Plaza	~2,500
Nestle	GTC Square	1,500
Triple Jump	19 Avenue	900
Ericsson	Savograd	900
Energy consulting	Bluecenter	700
Alapis Sumadijalek	Airport City	350

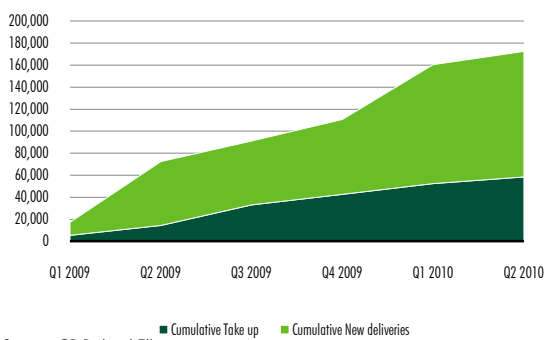
Source: CB Richard Ellis

Belgrade lease transactions ratio



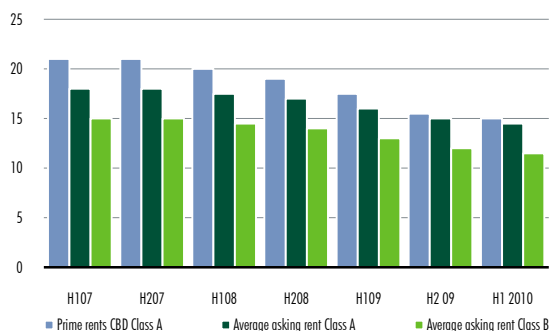
Source: CB Richard Ellis

The comparison of cumulative take up and cumulative new deliveries to the market, starting with Q1 2009 till Q2 2010 (in sq m of GLA)



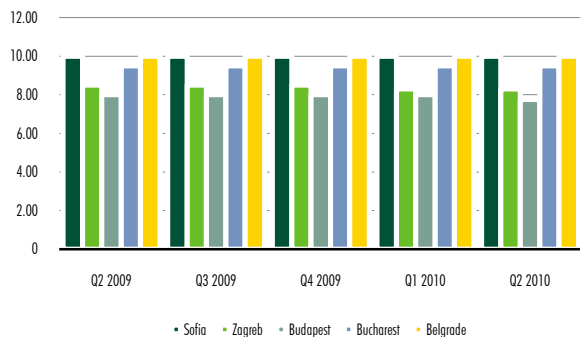
Source: CB Richard Ellis

Belgrade asking office rents (EUR/sq m/month)



Source: CB Richard Ellis

Prime yields (%)



Source: CB Richard Ellis

In terms of distribution of total leasing activity for H1 2010 by location, the tenants continued to target New Belgrade submarket. Although New Belgrade has become new central business district, interest in downtown still exists.

VACANCY

Ongoing changes in Belgrade office stock and unmatched demand have resulted in further increase in vacancy level, reaching app. 28% at the end of H1 2010. Vacancy level reached 25% at the end of 2009, while in 2008 it was 17.6%.

Bearing in mind that new office inventory delivered during H1 2010 resumes Class A office buildings, the vacancy rate of Class A office space has marked a much faster growing pace than the vacancy rate of Class B office space. New deliveries to the market are not expected to cause sharp changes in vacancy levels until the year-end.

RENTAL LEVELS

Having faced rather challenging market conditions and more intensive competition among office projects, the landlords are forced to offer more flexible incentive packages in contract negotiations (whether in terms of rent-free period, fit-out contribution or better parking ratio).

Rental levels of both Class A and Class B office space remain mostly stable as compared to H2 2009. Asking rental values of Class A office buildings vary between EUR 14-16/sq m/month, while average asking rents of Class B stock amount to EUR 12/sq m/month. However, the achievable rental levels are much lower, standing at around EUR 13 /sq m/month for Class A and EUR 10/sq m/month for Class B buildings.

FUTURE SUPPLY

Due to limited new deliveries to the market planned for the year-end 2010, not expected to exceed 26,000 sq m of GLA, the vacancy rate is not to be the subject of significant changes. As far as new supply is concerned, year 2011 is expected to stay close to the figures achieved during the year 2010. Among the most significant projects to be completed in 2010/2011 are Verano's B23 in block 23, MPC's project Tri Lista Duvana downtown and Office building within Dedinje's Zeland complex.

However, further downward pressure on rents and higher tenant expectations, particularly in terms of rent free periods and other incentives are expected. Due to the turmoil on the world's financial market, investors are quite cautious with regard to new investment decisions and projects, meaning that only a limited number of office projects are currently in planning phase. In terms of the longer term pipeline, our research indicates that a large number of planned projects are still on hold, whereby their construction has not yet begun.

Belgrade office space submarkets



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Definitions

Classification

Class A: Best space available – i.e. new or high-quality secondhand space at good location, with top specification and prominent market image.

Class B: Good-quality secondhand space - i.e. no longer prime because of factors such as age or location.

Stock – modern office space in Class A and Class B buildings excluding owner occupied/governmental buildings

Pipeline developments – office space currently being developed/under construction

Vacancy Rate – the ratio of vacant office space to total stock

Take-Up – office space leased or pre-leased in a given period

Prime Rent – typical ‘achievable’ open market headline rent (can be hypothetical) for a unit of standard size of the highest quality and specification and in the best location in the market, at the survey date. It does not need to be identical to any of the transactions, particularly if the deal flow is limited or made up of unusual one-off deals

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