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MarketView

Belgrade Residential Market

H1 2009

S&P'S LT FC Rating

BB-/Negative

Quick stats

	Change from H2 2008
Supply	↑
Demand	↓
Prices	↓
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
- The total household savings at the end of April 2009 reached 463.6bn dinars (foreign savings equaled 454.3bn dinars and dinar currency savings 9.3bn dinars) and as compared to December 2008 went up by 9.5% (foreign currency savings were up by 9.9%, while the dinar savings went down by 5.8%).

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which EUR 799 million were already transferred and by the end of 2009 two more installments of about EUR 2.15bn will be withdrawn.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.

Macroeconomic developments in the period January-April 2009 are characterized by unfavourable tendencies that started in the second half of 2008. A drop in economic activity primarily hit industry, export, import, transport, and domestic trade. In the 1st quarter of 2009, GDP decreased by 3.5 percent in comparison to the corresponding period of the previous year.

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

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BELGRADE RESIDENTIAL MARKET

Belgrade Residential Market is at a much more sophisticated level now, although lagging behind the key regional centers. It is still burdened by huge discrepancy between demand and supply, which is the legacy from the past, characterized by a decade of complete absence of construction activity. Ever higher housing needs have to be met to overbridge this gap.

Though the global financial crisis has slowed down activities generally in the market and has led to a complete standstill at the beginning of the year with extremely low demand, this market segment shall definitely be in focus of investors upon the recovery of the market as a whole.

SUPPLY

According to Belgrade Statistical Bureau, 7,860 residential units were constructed in Belgrade during 2008, only 3% more than in 2007, and 6% more than in 2006.

Due to the fact that some municipalities have better urban and infrastructural conditions for development, the distribution of residential supply per municipality varies. Main construction activities are in municipalities New Belgrade, Zvezdara and Palilula.

According to the official statistics, New Belgrade area experienced the largest increase in residential projects during 2008, with more than 1,800 residential units constructed. Although Vracar municipality has marked significant decrease in number of completed units in 2007, during 2008 427 residential units were constructed, which is 80% more than in 2007. Vozdovac area also marked the increase in number of completed units, marking the increase of 70% compared to the previous year.

The average size of apartments constructed during 2008 in whole Belgrade area was 72.2 sq m, only slightly above the average for the year 2007 being 71.2 sq m.

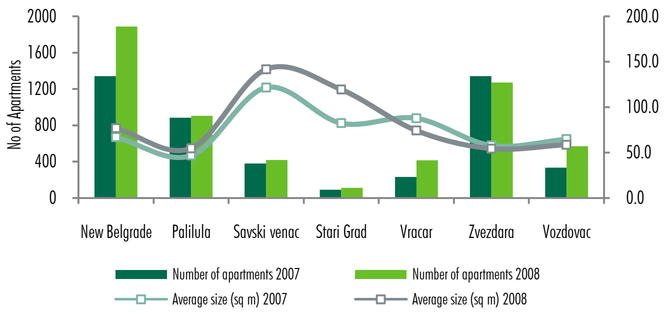
Belgrade real estate market has recently seen the completion of several mid-end to high-end residential projects, of local and international developers, such as:

- Dedinje Panorama, Meridian Balkans's project, holding 18,000 sq m of GBA in Dedinje area
- GTC's Park Apartments in Block 19a in New Belgrade covering 20,000 sq m of GBA
- Delta's Belville in Block 67 in New Belgrade, totaling 120,000 sq m of GBA, representing the biggest residential development in last five years in Belgrade
- Savograd, CA IMMO's project, amounting to 12,000 sq m of GBA, located in New Belgrade.

Structure of units constructed during 2006-2008, (%)

Source: Statistical Office of the Republic of Serbia

Number of constructed apartments in several municipalities in Belgrade and the average apartment size (in sq m) in 2007 and 2008.



Source: Statistical Office of the Republic of Serbia

Selected biggest current projects in Belgrade

Project	GBA (sq m)*	Date of delivery
Galerija Apartmani	18,500	2009
Goce Delceva Block 11 c	15,500	2009
Kalemegdan Park Apartments	12,000	2009/2010
Maxima Centar Block 11a	22,000	2010
Zeland Koling (residential part)	11,500	2010

Selected projects announced for development in Belgrade

Project	GBA (sq m)*	Date of delivery
Hipothet	10,000	2010
Airport City residential project	66,000	n/a
Lamda, Juzni Boulevard	10,000	n/a
Neimar –V, Radoja Dakica Street	7,000	n/a

* GBA – Gross Building Area
Source: CB Richard Ellis

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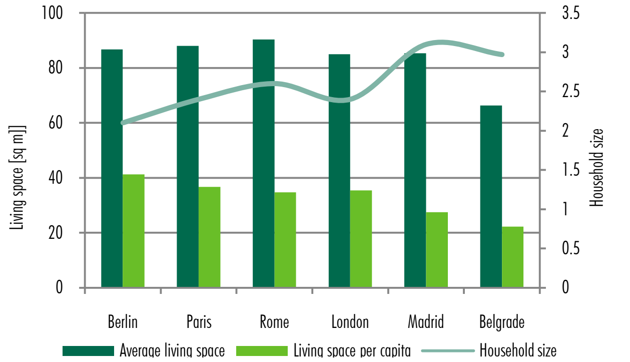
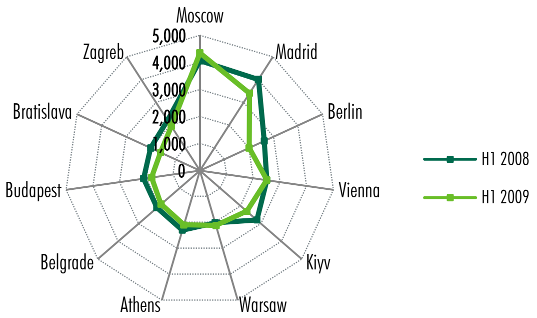
Comparison of average living space in sq m in European cities

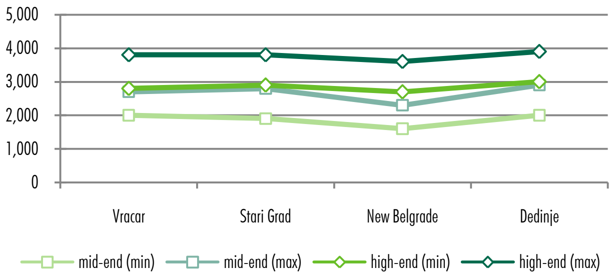


Comparison of new apartments' average prices in European cities (EUR/sq m)



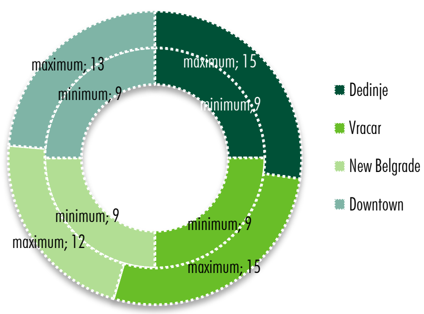
Source: CB Richard Ellis

Asking prices during H12009 (net of VAT) in Belgrade



Source: CB Richard Ellis

Rental levels in H1 2009 in Belgrade



Source: CB Richard Ellis

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DEMAND

With regard to research provided by Eurostat, an average living area per inhabitant in major Western European Cities is around 35 sq m, while in Belgrade the same criteria accounts for 22 sq m per inhabitant. In that sense, it would be necessary to construct another 20 million sq m of residential space in the next twenty years in Belgrade, to follow the European trend. In addition, real market needs indicate that Belgrade can absorb approximately 100,000 apartments in next 10 years, which is 10,000 apartments per one year.

However, during H1 2009 as a consequence of current global economic crisis, residential market recorded very poor performance in terms of actual requirements and sales transactions. The effective demand notably decreased in comparison to trends marked in 2008, with sales turnover drop by 10-15%.

After a considerable fall marked at the beginning of 2009, the number of housing loans taken out by Serbian citizens rose in May and continues the same trend in June 2009, amounting to RSD 208 billion (EUR 2.22 billion), which represents the increase of 22% as compared to 2008-year end, according to Association of Serbian banks. As for most buyers the main source for financing is taking out a loan, NBS adopted measures to stimulate bank lending and improve the stability of financial institutions, in order to encourage the purchasing of residential units in the forthcoming period.

SALES PRICES

According to Belgrade Statistical Office, the average prices of new apartments in Belgrade reached EUR 1,730/ sq m in H2 2008. This figure includes the price of construction land, construction costs and additional costs.

During H1 2009, turmoil on the financial market has slowed down the activities on the residential market, causing the reduced demand and decrease in asking prices by 10-15%, depending on municipality. Although Belgrade residential market witnessed the lowered demand, preferred locations in New Belgrade, Vracar, Stari Grad and Dedinje municipalities still continued to attract bigger portion of potential buyers.

Changes on economic market are expected to further influence potentially weaker demand and sales prices.

RENTAL LEVELS

Rental prices slightly decreased in comparison to the levels achieved during H2 2008. Demand is primarily oriented towards municipalities Dedinje, Senjak and Vracar, proven to be the most attractive for employees of foreign embassies and international organizations.

SERBIA MAP

BELGRADE MAP OF MUNICIPALITIES

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