

Belgrade Residential Market

H1 2010

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BB-/Stable

Hot Topics

- In June 2010, Serbian government adopted a special RSD 30 billion program for supporting the construction industry. The government and local self-government bodies will provide RSD 3 billion for this purpose, while remaining 80% of the sum will come from loans from commercial banks. The construction industry will get loans in RSD without a foreign currency clause, with a repayment period of five years, at the annual interest rate equaling National Bank of Serbia's reference rate of interest, plus 2.5%. The program is intended for the construction of residential buildings, schools and kindergartens, hospitals and health facilities, sports centers and buildings for cultural activities.
- The average salaries and wages paid in June 2010 in the Republic of Serbia amounted to EUR 459.
- Unemployment rate in April 2010 increased by 2.6% when compared to October 2009.

H1 2010 From expert's point of view

Vladimir Popovic, Head of Residential:

"The first half of 2010 has marked by somewhat improved demand for apartment purchase. This can be justified by two reasons; firstly, the reintroduction of subsidized government housing loans and secondly more balanced apartment prices due to economic crisis."

ECONOMIC OVERVIEW

The Executive Board of the International Monetary Fund (IMF) completed the forth 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 RESIDENTIAL MARKET

In January 2010, Serbian Government adopted Decree on financing the construction of low-cost apartments in Serbia and the regulation on conversion of land usage right into ownership right. According to current plans, 10,000 low-cost apartments will be constructed in Belgrade, Novi Sad, Nis and Kragujevac. The state will subsidize the interest rate of up to 7%, so that the investors will be obliged to pay the interest rate of 2% on these loans. This year's budget has allocated RSD 2 billion (app. EUR 20 million) for this purpose. The maximum prices of apartments per zones have been established by the Decree and will range from EUR 695 to EUR 1,595/sq m depending on the city and the zone.

SUPPLY

Positive movements in Belgrade residential market, in terms of supply and demand, that the yearend 2009 brought, continued to spread over the first year half 2010 and are expected to mark the entire year. A number of residential projects, both high-quality and mid-end projects, are currently under construction which will enrich the residential property market in the next several years.

Based on the official statistics, a number of constructed residential units in Serbia and Belgrade constantly grew till 2008, noting the first downward trend in year 2009. In comparison to 2008 when 7,860 apartments were completed in Belgrade, year 2009 recorded the figure of 6,150. Only four Belgrade municipalities have recorded somewhat more intense development activity in 2009 as compared to 2008: Surcin (33.3%), Vozdovac (16.8%), Vracar (9.6%) and New Belgrade (4.3%). The biggest drop in development activity has been marked in municipalities Palilula (55.8%), Savski Venac (54.1%) and Sopot (54.0%).

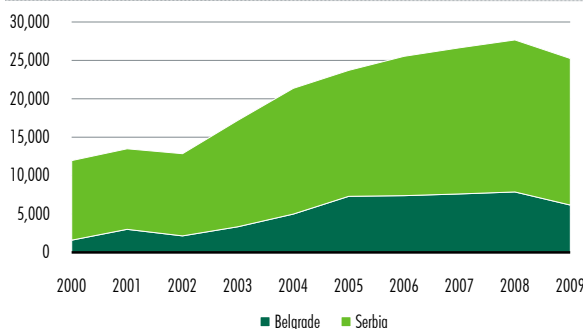
In the last 6-12 months the residential market has seen the completion of several residential mid-end to high-end projects, of local and international developers such as Ocean Atlantic Galerija Apartments (18,500 sq m GBA) and Casa di Gloria (4,900 sq m GBA) both located downtown; Belville (120,000 sq m of GBA), Nicola's (15,500 sq m of GBA) and Savograd (12,000 sq m of GBA) located in New Belgrade. Edil Italiana's project, Casa di Gloria, exclusive residential complex located in Kneginje Zorke Street which comprises 30 apartments and 45 underground garage spaces, has enriched the high-end residential market in Belgrade.

In terms of positioning, the largest portion of high-end projects are located in Dedinje, Vracar, Senjak and New Belgrade municipalities, while mid-end projects are mainly located in Zvezdara and Palilula. Besides New Belgrade and the central city areas, certain suburban neighbourhoods with great potential are also being considered as promising development areas.

The maximum price per sq m in Belgrade's second zone will be EUR 1,595, the third zone will cost EUR 1,290, fourth zone will be EUR 945, while the prices in other zones in the capital will be around EUR 695 per sq m. Low-cost apartments are not planned for construction in Belgrade's first and extra zone.

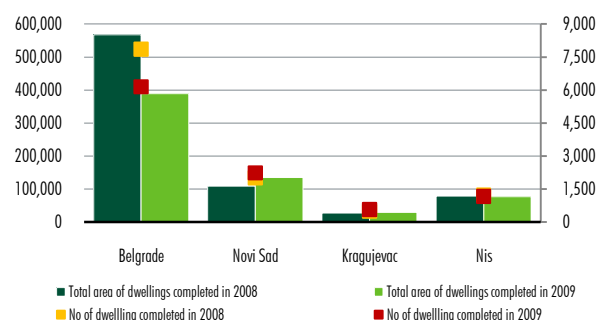
In Vozdovac settlement, in Belgrade, at the location of 4th July Barracks, the construction of the first low-cost residential complex with 5,000 apartments is expected to commence during forthcoming autumn. The maximum price per sq m will be 1,290 EUR.

Number of completed apartments in Serbia and Belgrade during 2000-2009



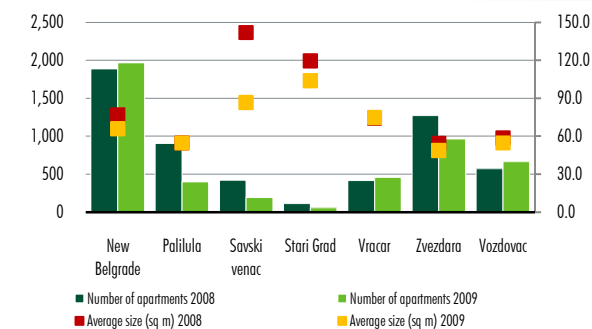
Source: Statistical Office of the Republic of Serbia, compiled by CB Richard Ellis

Residential construction in Serbian major cities (2008-2009)



Source: Statistical Office of the Republic of Serbia, compiled by CB Richard Ellis

Number of constructed apartments and their average size per Belgrade's municipalities in 2008 and 2009



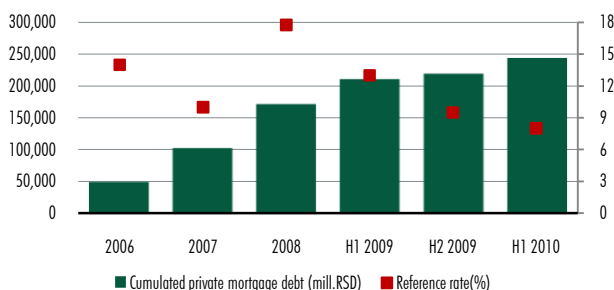
Source: Statistical Office of the Republic of Serbia, compiled by CB Richard Ellis

Selected residential projects in development in Belgrade

Project	Location	GBA (sq m)
Maxima Center Imperijal gradnja	New Belgrade	22,000
Metropolitan project	Palilula	16,500
MPC Kalemegdan Park Apartments	Downtown	12,100
Koling Zeland (residential complex)	Dedinje	10,000
ADOC Bokeljska	Vracar	4,200

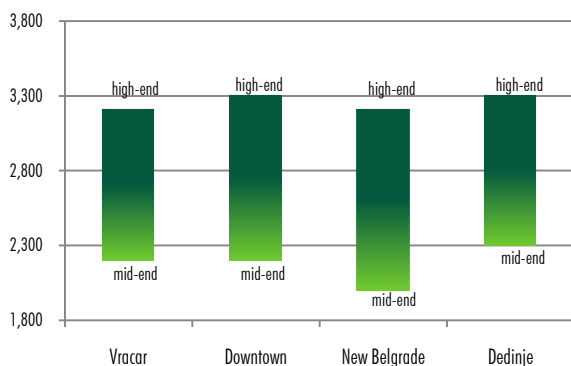
Source: CB Richard Ellis

Cumulative growth of private mortgage debt



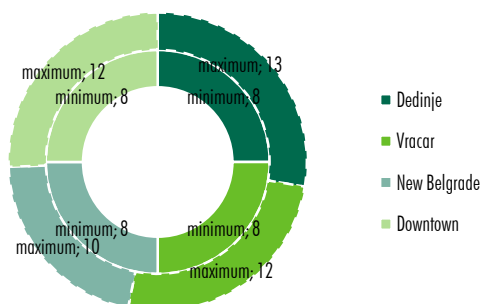
Source: NBS, compiled by CB Richard Ellis

Average asking prices of high-end and mid-end projects in Belgrade (EUR/sq m, VAT incl.)



Source: CB Richard Ellis

Rental levels in H1 2010 in Belgrade (EUR/sq m/month)



Source: CB Richard Ellis

DEMAND

Having in mind the government supportive measures and incentives for housing loans, demand keeps marking the positive tendency, since for the majority of buyers the main source of financing is taking out a loan. According to Association of Serbian banks, the number of housing loans taken out by Serbian citizens constantly increases, and has grown by 60% in H1 2010 as compared to the same period of the previous year. As at May 2010, the total number of housing loans granted to citizens is 65,000, 70% of which are insured by the NMIC (National Mortgage Insurance Corporation).

Additionally, the willingness of landlords to meet buyers' requests in terms of lowering the asking prices, sometimes even by 15-20%, also certainly influences the demand. High-class projects are usually characterized by stable demand, as high-income population has not been greatly affected by economic situation.

SALES PRICES

The asking prices of high-quality projects remained mostly unchanged in H1 2010 in comparison with the previous year-half, varying between EUR 2,700-3,200/sq m (VAT included), whereby the key decisive factors in apartment purchase are definitely attractiveness of location, quality of finishing works and investor's reputation. Mid-end projects, characterised by medium quality of finishes, range between EUR 1,800-2,300/sq m (VAT included).

Important consideration is that, in case of cash buyers, sales prices are usually up to 5-10% lower than when paid in instalments.

Dedinje, Vracar and Stari Grad municipalities are still recording the highest price levels, followed by some parts of New Belgrade. The lowest prices recorded are in the municipalities of Rakovica and Krnjaca.

RENTAL LEVELS

The first year-half of 2010 marked the increase in rental demand. The most attractive municipalities for international companies and embassies are Dedinje, Senjak, Vracar and New Belgrade. Although the previous year brought the decline in rental prices in before mentioned municipalities by 20%, the beginning of this year noted the certain rent stabilizations, standing between EUR 8-13/sq m/month, depending on the location and apartment quality.

Prime residential prices have remained high when compared to the prices in the capital cities of the neighbouring countries. Sales prices and rental levels are expected to face further blattancies over time as market becomes more competitive. The price corrections will, however, depend on the development of demand, which mainly depends on the revitalization of the Serbian economy.

Map of Belgrade municipalities**For more information regarding the MarketView, please contact:**

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