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MarketView

Belgrade Retail Market

H1 2010

Quick stats

	Change from H2 2009
Supply	↑
Vacancy	↑
Rents	↓

S&P'S LT FC Rating

BB-/Stable

Hot Topics

- In 2009 Serbia's positioning improved as per the number of present internationally recognized brands, from 17 to 22%.
- The average salaries and wages paid in June 2010 in the Republic of Serbia amounted to EUR 459.
- The tenant change in shopping centers is certainly the trend that has marked the first year-half.
- Unemployment rate in April 2010 increased by 2.6% when compared to October 2009.

H1 2010 From expert's point of view

Vladimir Mijatovic, Head of Retail:

" According to CBRE International annual research on the presence of internationally recognized retailers, in 2009 Serbia's positioning improved as per the number of present brands, from 17 to 22%, which now ranks it 39th on the global list. Belgrade itself takes 88th place, among 148 cities which participated in the research across the world. "

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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 overshot 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 RETAIL MARKET

In accordance with the official data published by the Statistical Office of the Republic of Serbia, retail trade turnover in Serbia in May 2010 compared to May 2009, increased by 2.2% at current prices and decreased by 3.3% at constant prices. Turnover of retail trade in the period January – May 2010, compared to the same period 2009, decreased by 0.9% at current prices and by 7.2% at constant prices.

In terms of turnover by type of goods for Q1 2010, food and non-alcoholic beverages accounted for the largest share of total turnover with 40.9%; followed by housing, water, electricity, gas and other fuels with 16.8%.

SHOPPING CENTERS

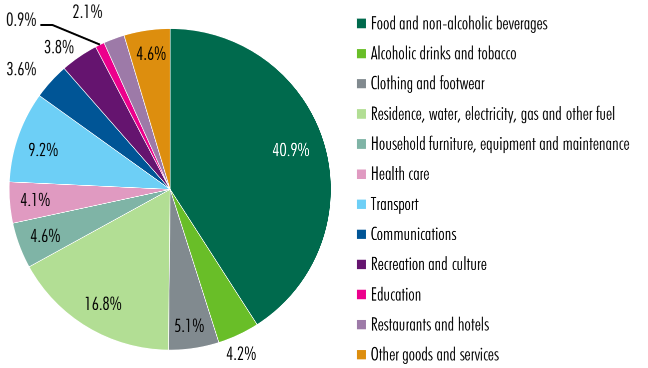
The tenant change in shopping centers is certainly the trend that has marked the first year-half. Another significant trait is that the existing tenants are reducing the size of units they currently hold, enabling thus the landlords to introduce new brands while keeping the existing ones. Since there was no new deliveries to the market, the total stock of modern shopping centers in Belgrade remains at the level of 150,000 sq m of GLA.

As expected, the opening of Usce shopping centre in March 2009 has influenced the positioning of Belgrade and Serbia on the global retail map. Namely, according to CBRE International annual research on the presence of internationally recognized retailers, in 2009 Serbia's positioning improved as per the number of present brands, from 17 to 22%, which now ranks it 39th on the global list. Belgrade itself takes 88th place, among 148 cities which participated in the research across the world.

Further increase in modern shopping center stock is uncertain, since pipeline developments are still pending. Most significant among them are the following projects: Plaza Centers's project Visnjicka Plaza (48,000 sq m of GLA); Ashtrom International's center in Rajiceva Street (20,000 sq m of GLA) and Verano Group's large shopping centre called Trosarina (32,500 sq m of GLA). The only shopping center which will increase Belgrade offer in the following period is Point Center in Grocka municipality of 5,500 sq m of GLA, which will, based on its size, be considered as small neighborhood center.

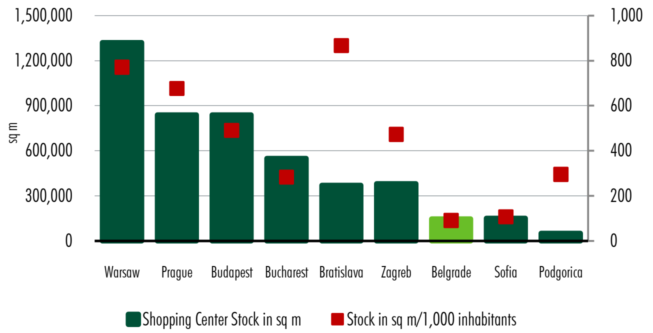
The Serbian retail market remains interesting for developers. Aviv Arlon has opened its first Retail Park in Pancevo, by opening Dis hypermarket of 4,500 sq m of GBA. The second phase will include construction of 5,000 sq m, while the whole complex is planned for completion in six phases. BIG CEE has plans to commence the construction of its first retail park in Novi Sad, holding 32,000 sq m of GBA.

Average Serbia Household Expenditure Q1 2010



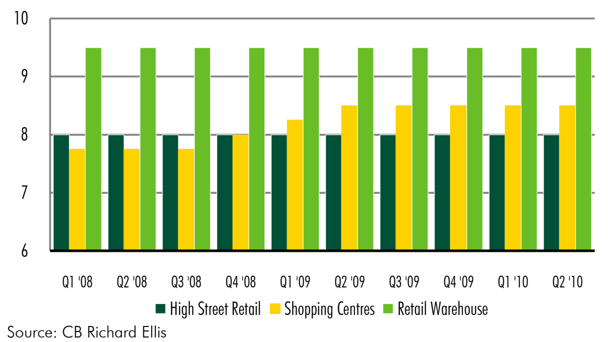
Source: Statistical Office of the Republic of Serbia, Household budget survey, Q1 2010

Shopping centre stock and stock per capita, after Q1 2010



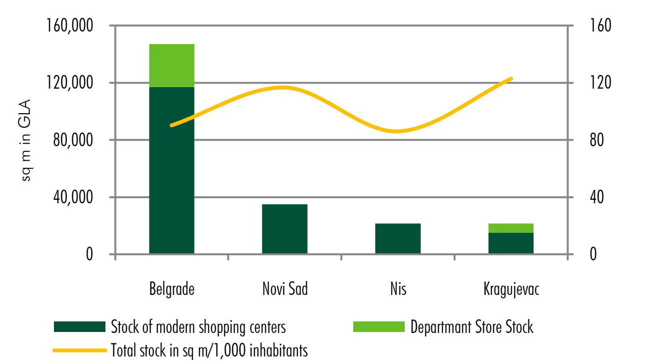
Source: CB Richard Ellis

Belgrade prime yields (%)



Source: CB Richard Ellis

Retail stock in Serbia (sq m of GLA)



Source: CB Richard Ellis

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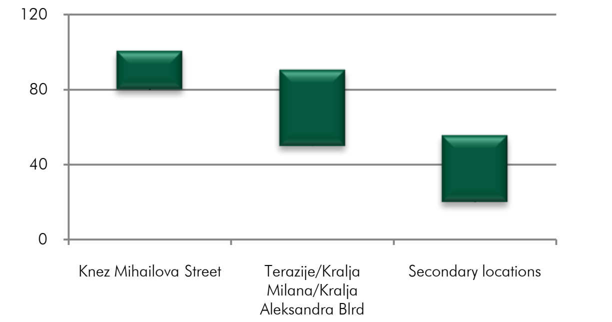
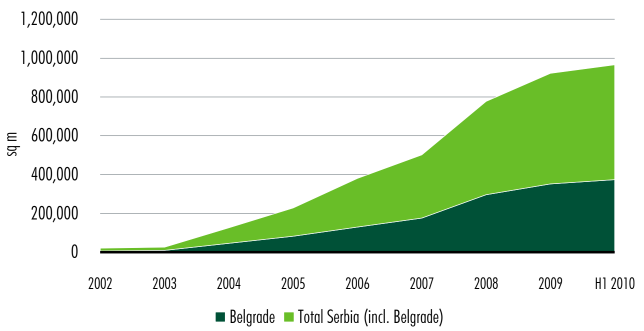
Prime retail rents (EUR/sq m/month)



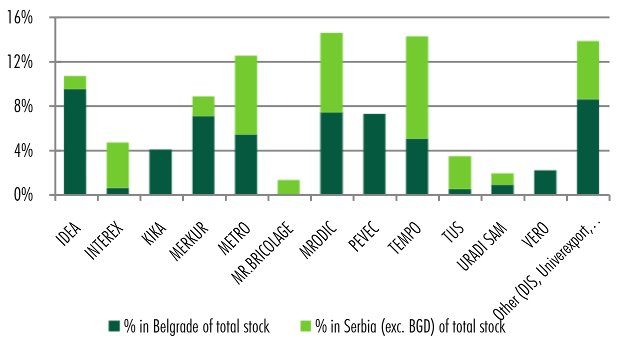
Source: CB Richard Ellis

Warehouse retail stock in Belgrade and Serbia – end of H1 2010



Source: CB Richard Ellis

Big box size of selected retail operators in Belgrade and Serbia



Source: CB Richard Ellis

Selected modern shopping centres in pipeline in Belgrade and Serbia

Project	Location	GBA (sq m)*	Opening year planned
Pluto	Leskovac	11,400	2010
Park City	Novi Sad	12,000	2010
MPC	Nis	15,000	2011
BIG CEE	Novi Sad	32,000	2011
Delta park	Kragujevac	23,000	2011
Rajiceva	Belgrade	46,000	n/a
Plaza Center	Belgrade	100,000	n/a
Trosarina	Belgrade	71,000	n/a

• GBA: Gross Building Area
Source: CB Richard Ellis

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HIGH STREET RETAIL

During H1 2010, demand has slightly fallen for high street properties due to the significant rental levels. Vacancy rates have increased in all segments (even in prime central streets), while secondary areas were most affected. In addition, certain number of units experienced tenant change over the past few months, as the rent levels are somewhat higher as compared to the achieved income.

The prime retail levels at top locations, in particular high street zone, have remained mostly stable with slightly downward corrections, standing between EUR 50 and 100/sq m/month at prime locations, such as: Terazije Square and Kralja Milana Street, with top rents in Knez Mihailova Street. While top locations still resist financial instability due to a limited supply of prime units, secondary or tertiary locations are witnessing increased pressure on rents.

Belgrade high street retail zone remains very important retail environment, attracting well-known international brands.

RETAIL WAREHOUSE

During H1 2010, Serbian trade company Real market opened the biggest hypermarket in Belgrade. Its HiperCort is situated next to Belgrade-Zagreb highway and occupies the surface of 22,000 sq m of GBA.

After opening its first facility in Nis in 2009, French hypermarket chain "Mr. Bricolage" which sells "do-it-yourself" articles, has completed the construction of its second facility in Serbia, in the city of Novi Sad, holding 2,000 sq m of GBA.

FUTURE SUPPLY

In the second year half and through the year 2011, warehouse retail segment is expected to mark a notable expansion. One of the leading distribution groups, French chain Carrefour and well-known German "Do It Yourself" concept store OBI have plans to enter the Serbian market in 2010/2011.

Many retailers have plans to continue expanding their store networks, such as: Veropolus, Delta, Interex and IDEA.

In June 2010, German self-service wholesale trade company Metro Cash and Carry has started the construction of its seventh store in Serbia, located in Subotica, holding 11,500 sq m of GBA. They have also announced the construction of their third store in Belgrade, located in Cukarica municipality.

EXTERNAL TRADE AND TRADE AGREEMENTS

The overall external trade in the Republic of Serbia for the period January – May 2010 amounted to EUR 7.419,5 million, which represents a 7.0% decrease compared to the same period 2009. The export - import ratio equaled 56.0% and was higher if compared to the same period last year when it was 48.4%.

On December 7 2009, EU foreign ministers decided to unfreeze the Interim Trade Agreement with Serbia, starting with February 1, 2010. In addition, the Free Trade Agreement (FTA) with EFTA members (Norway, Switzerland, Iceland, and Liechtenstein) was concluded in December 2009.

MARKET	TRADE REGIME
European Union	Preferential Trade Regime
United States	Generalized System of Preferences
Russia, Turkey, Belarus	Free Trade Agreement
South East Europe	CEFTA
Norway, Switzerland, Iceland, and Liechtenstein	EFTA

Source: SIEPA

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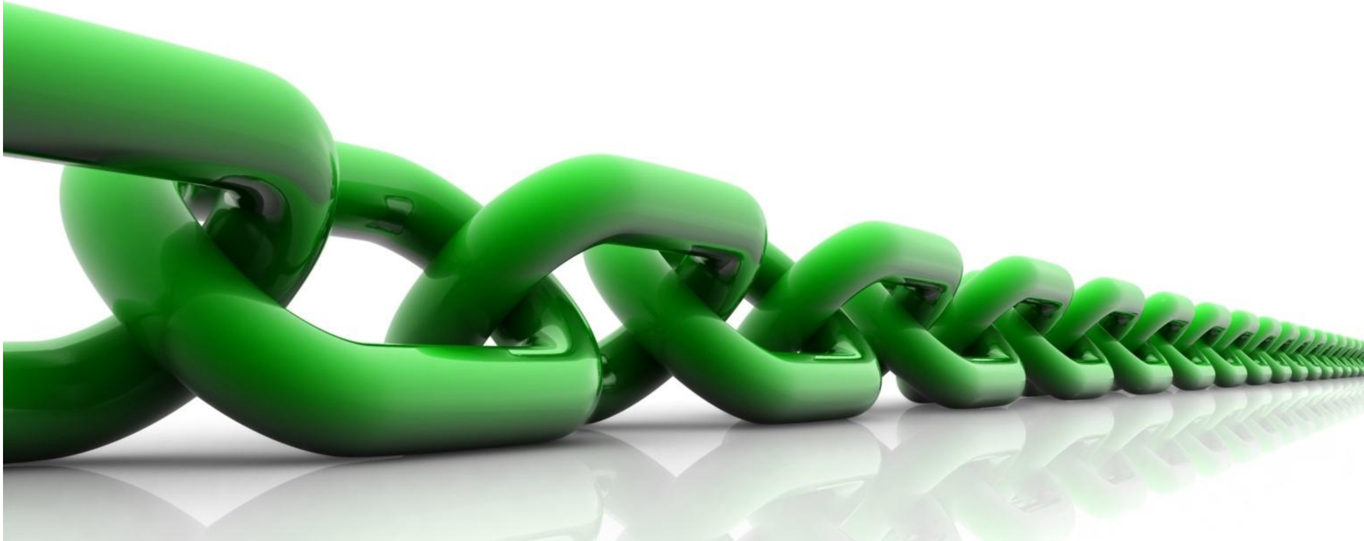

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