

S&P'S LT FC Rating

BB-/Negative

**Office market
Quick stats**Change from
H2 2008

Supply	↑
Prime Rents	↓

**Shopping centers
Quick stats**Change from
H2 2008

Supply	→
Prime Rents	↓
Vacancy Rate	↑

Hot Topics

- According to data received from the Central Bank of Montenegro, GDP in 2008 increased by 8.1%. In 2009, the GDP is predicted to decrease by 2.6%.
- Industrial production for the first 6 months of 2009 decreased by 20.2% compared to the same period last year. Major decline was recorded in mining and manufacturing, 52% and 34% respectively.
- Number of tourist arrivals and overnights decreased by approximately 6% compared to the same period last year.

ECONOMIC OVERVIEW

According to IMF, the Montenegrin economy will be in recession this and next year. It is forecasted that GDP will decrease by 2.7% in 2009 and by 2% in 2010. The Prime Minister of Montenegro stated that the country's GDP is very likely to decrease by 2.6% in 2009.

In months to come, the government of Montenegro will start a discussion regarding the loan from IMF. It is believed that the IMF loan will be a necessary tool in overcoming the impacts of the economic crisis. Furthermore, according to the Chief Economist of the Central Bank of Montenegro, the economy of Montenegro will experience some improvement due to the sale of Elektroprivreda shares, bank recapitalization and loans approved by international financial institutions.

The latest statistics from the Ministry of Tourism indicated that the number of tourists for the first six months of 2009 decreased by 6%. However, the Minister of Tourism believes that tourism revenues in 2009 will be over EUR 500 million and will exceed last year's figure.

OFFICE MARKET

Podgorica office market is still underdeveloped. With the completion of EuroPoint building the current office stock increased to 30,000 sq m of GBA (including owner-occupied buildings).

Due to the newly passed law, which states that companies can no longer use converted residential apartments and houses as office space, we believe that the vacancy rates of existing office buildings will decrease and the need for good quality office space will significantly increase.

There are currently two office developments under construction in Podgorica. The completion of 9,000 sq m of office space (Normal Tower) which was announced for June 2009 is postponed. The second development, Atlas Capital Centre is under construction and the completion is forecasted for mid 2010. With the completion of these developments, the office stock in Podgorica will increase to approximately 63,000 sq m of GBA.

Rental levels of office space decreased mildly compared to Q1 2009. The average rental levels at Vektra Square remain the highest while the lowest level was recorded in lower quality office space located in the old part of the city.

Office Market indicators In Podgorica

Podgorica	GBA (sq m)*	H1 2009 Q2 2009
Total Stock	30,000	+20%

* GBA – Gross Building Area
Source: CB Richard Ellis



EuroPoint Office Building

Recently completed modern office space command asking rental values of approximately EUR 20-22/sq m/month, and the office space under construction record asking rent levels of EUR 17-22/sq m/month, depending on the location and technical properties of a building. High quality properties situated in prime locations, such as Vektra Square, have recorded asking rents of up to EUR 35/sq m/month.

RETAIL MARKET

The current retail stock of 31,000 sq m of GLA in Podgorica remained the same as in Q1 2009. Smaller shopping centers such as Nikic and Palada are still struggling to keep their vacancies down. Delta City still remains most visited shopping centre and the only one that marks 0% vacancy rate.

Prime rents recorded in modern shopping centers vary between EUR 25/sq m/month and 55/sq m/month with a tendency to go down. With the opening of two announced shopping centers, Mall of Montenegro and Atlas Centre, the total retail space in Podgorica will amount to approximately 60,000 sq m of GLA by the end of 2010.

Based on the official data from Guintas Inc., Mall of Montenegro development will be put in operation by the end of 2009. This mixed-use development will offer approximately 20,000 sq m of retail space and 12,000 sq m of parking space. The plans also suggest that the developer is planning a construction of a hotel, however this project will not be actualized by the end of this year. In addition, a mixed use development, Atlas Centre is planned to open by the end of 2010. The complex will offer approximately 14,000 sq m of retail space, 24,000 sq m of office space and 13,000 sq m of residential space.

HOTEL MARKET

Hotel market in Podgorica lacks recognized international hotels which offer quality level amenities recognized all over the world. There are currently 18 categorized hotels, 11 four-star, 6 three-star and 1 two star property.

The only internationally affiliated hotel is Best Western Premier Montenegro which is located in the emerging Business District of Podgorica, Roman Square.

One of the major hotel developments announced, is a reconstruction of Hotel Crna Gora, located in the city centre. The management of the hotel signed a pre-agreement with Hilton which will be in charge of managing the property after renovation.

Furthermore, projects such as Atlas Centre and Mall of Montenegro are planning to include a hotel development in their complexes.



Guintas Shopping Mall

Selected modern shopping centers in pipeline in Podgorica

Project	Developer	GLA (sq m)*	Opening year
Mall of Montenegro	Guintas Inc.	20,000	2009
Atlas Centre	Atlas Group	14,000	2010

* GLA- Gross Leasable Area
Source: CB Richard Ellis

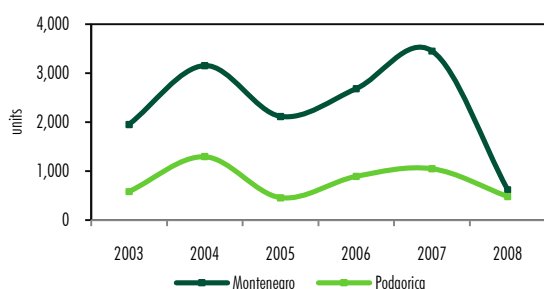


Best Western Premier Montenegro

RESIDENTIAL MARKET

Residential property market remains most active segment of Montenegro market. But, due to global economic trends, many previously announced developments have been postponed for the indefinite period of time.

Number of constructed apartments



Source: Montenegro Statistical Office

Structure of units constructed during 2006 and 2007 in Montenegro (%)



Source: Montenegro Statistical Office

Development of average prices in several towns on the sea coast in H2 2008 (VAT included)



Source: CB Richard Ellis

PODGORICA SUPPLY AND SALES PRICES

As in 2007, mid-end residential developments record the highest construction activity and consequently the highest absorption rates in 2008. Majority of projects feature 20-40 apartments, insuring fast sales tempo. It is not uncommon that the sales start even before the start of construction, and all apartments are usually sold before construction end.

During H1 2009, mid-end residential developments record asking prices of EUR 1,000-2,000/sq m (net of VAT), depending on location and finishing works. High-end developments located at very attractive locations have recorded the asking levels of even EUR 3,000-3,500/sq m (net of VAT).

Based on the latest analysis of Central Bank of Montenegro the average price of sq m of apartments in Podgorica decreased to EUR 1,402 which represents a decline of 8.09% compared to November 2008 and of 19.3% compared to March 2008. The average price of sq m of houses decreased by 7.4% compared to November 2008 and now it amounts to EUR 1,325.

SEA COAST SUPPLY AND SALES PRICES

Global economic situation has caused both the postponement of commencement of construction of announced projects and the postponement of completion of the ones currently in construction phase.

Demand for the residential units on the coast wholly depends on international investment demand that is the ultimate driving force behind property value appreciation.

During 2008, the boom in property sales on the sea coast shifted and is now showing downward tendency, which implies that the apartments can hardly be sold at last year's price. In all coastal towns, property sales in 2007 have doubled in comparison to previous year's sales figures but the sales have reached a complete standstill in 2008 and the first half of 2009. The rapid growth of prices in the last two years has been replaced by their downward trend in year 2008 and in the first half of 2009.

Definitions

Development Completions - these include new buildings, redevelopments behind existing facades and buildings undergoing substantial refurbishment to provide high quality accommodation.

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.

Class C: Poorer quality space – i.e. older and/or non-air conditioned with a lower standard of amenities and service provision.

Stock – modern office space in Class A and Class B buildings.

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

Take-Up – office space that has been leased in a given period including; leases, renegotiations, pre-leases, subleases and owner occupied take-up.

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

Montenegro Map



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