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BNP PARIBAS REAL ESTATE

SERBIAN REAL ESTATE MARKET REPORT 2009

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INTERNATIONAL PROPERTY CONSULTANTS & VALUERS

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SERBIA - KEY FACTS

Serbia Key Facts

Located in Southeast Europe, Serbia represents central part of the Balkan Peninsula, at the intersection of Pan European Corridors N° 10 and N° 7. The Republic of Serbia encompasses an area of 88,412 square kilometers and is divided into 150 municipalities, 23 cities and the City of Belgrade. The estimated 2009 population of Serbia is 7,334,950.

Serbia borders with Bulgaria, Romania, Hungary, Croatia, Bosnia and Herzegovina, Montenegro, Albania and FYROM.

The capital of the Republic of Serbia is Belgrade with a population of 1,576,124 (Census 2002).

Picture: Europe map

In 2009 the EU decided to unblock the Interim Trade Agreement followed by Visa's abolishment, after which Serbia filed for EU candidature. Serbia also signed a Free Trade Agreement (FTA) with Iceland, Lichtenstein, Norway and Switzerland in 2009, after existing agreements such as:

- CEFTA, with all neighboring countries
- FTA with the Russian Federation, offering access to market of 150 M people
- FTA with Belarus and Turkey (also in 2009)

Serbian economic stabilization and growth in recent years was mostly dependant on available foreign funds and direct investments, whose number have seriously declined due to the global recession. Major FDI comes via privatisation process and the latest FDI in 2009 recorded an amount of EUR 100mn of first payment from total amount of EUR 600mn in FIAT Group's privatisation process of "Zastava Automobili". The total amount of FDI in 2009 decreased by 25% in comparison with year 2008.

Macroeconomic Indicators	2008	2009e	2010f
GDP (EUR bn)	33.2	31.5	32.0
GDP per capita (in EUR)	4,513	4,304	4,428
GDP growth (y-o-y %)	5.5	-2.9%	1.5
CPI (y-o-y %)	6.8	7.8	6.5
Central Bank reference rate	17.8	17.0	14.5
Exports of goods (in mil. EUR)	7,428	7,194	7,148
Imports of goods (in mil. EUR)	15,580	12,590	12,519
Gross foreign debt (% of GDP)	67.0	76.8	78.6
Gross foreign debt (EUR bn)	22.3	21.8	n.a.
Current account (as % of GDP)	-17.8	-10.7	-8.6
Net FDI	1.8	1.1	2.0
FDI (as a % of GDP)	6.2	3.6	4.1
Population (in mil)	7.5	7.3	7.3
Unemployment rate (%)	13.3	21.0	20.5
Exchange rate to EUR	89.8	94.2	103.5
Inflation rate (%)	10.6	9.0	n.a.
Average net salary (in EUR)	433.0	347.0	329

Source: NBS, UniCredit Group

Economic slowdown was also driven by a decrease in loan instruments that became more expensive due to high interest rates, as banks became more cautious following restrictive measures instructed from their HQs. They were also faced with high level of illiquidity issues and credit repayment inabilities.

In order to lessen the crisis impact, the Serbian government reached an agreement with the International Monetary Fund (IMF) in March 2009, for a stand-by credit arrangement in amount of EUR 3 bn, so as to fulfill budget deficit and cover public expenditure.

The main goal during the mid-term period is also to keep one-figure inflation, especially since domestic currency depreciated to its lowest value, as well as achieving positive GDP in 2010.

In 2009, the number of employees decreased by 5.1% if compared with the previous year. Net salaries and wages increased in 2009, in nominal terms, so that, in comparison to 2008, they showed growth of 8.5%. In real terms, they decreased by 0.1%.

Savograd

BlueCenter

B-23

RESIDENTIAL MARKET 2H 2009

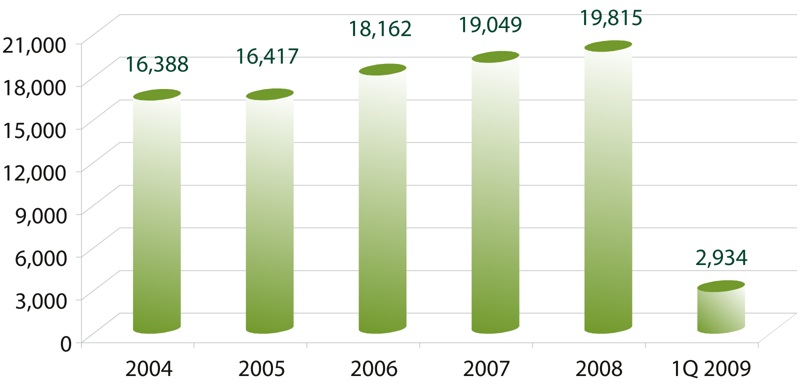
Serbian Residential Market

The construction industry in Serbia recorded a decrease in its activity of 19.9% in 2009 due to the global financial crises. The crisis impact on real estate industry is also evident through a decreased number of issued construction permits of some 16% in 1H 2009 comparing with the same period in 2008. The number of constructed apartments in 2009 is predicted to be significantly lower in comparison with 2008, which will halt an increasing construction trend since 2001.

The main characteristics of the residential market in Serbia in 2009 are decreasing a number of new developments. A delay in issuing of construction permits, limited availability of project financing options and significant decrease in demand, which all led to an almost insignificant number of sales transactions in the market.

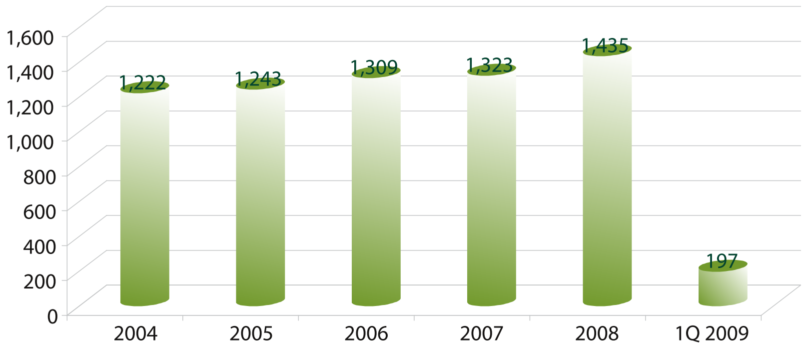
A major improvement regarding real estate industry in 2009 was the adoption of new Construction and Planning Law in August, as an initiative to attract new and reactivate present investors in the market. Major changes in the regulations imply a possibility of land conversion from agriculture into construction land and a possibility of full ownership over construction land instead of right to use (which is also valid for real estates gained in a privatisation process). The Law also predicts obtaining a location permit within 15

Number of constructed apartments in Serbia



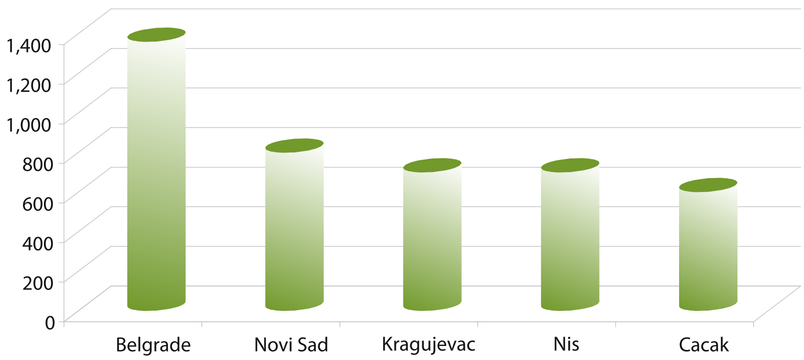
Source: Danos, Serbia

Number of constructed apartments in Serbia, in 000 sq m



Source: Danos, Serbia

Average prices of newly built apartments in 2H 2009, in EUR/sq m



Source: Danos, Serbia

days and construction permit within 8 days.

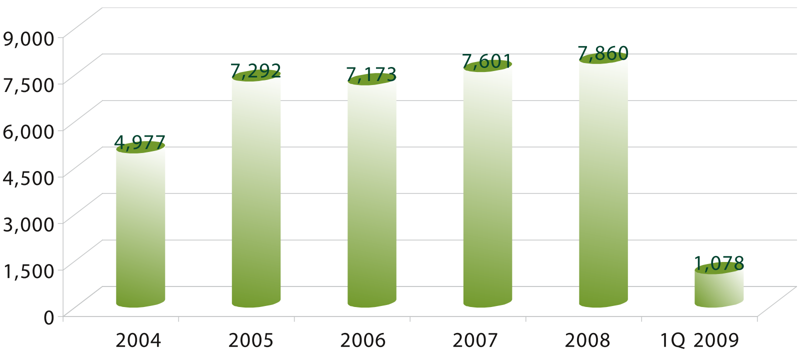
The Serbian government, together with major construction companies, is about to adopt a mid-term plan on construction of "cheap apartments" across Serbia in order to stimulate real estate industry and improve market activities, along with a renewed process of reinsuring mortgages in National Corporation for Loan Insurance, a total amount of EUR 1.5bn of insured loans.

Belgrade Residential Market

New household construction activity is mostly concentrated in Belgrade, with 24% of issued construction permits out of the total number in Serbia. However, due to the crisis, Belgrade construction industry recorded a decrease in the number of issued permits of 2.5% in 2008 compared to 2007. A decreasing trend continued also in January 2009, with only 80 permits issued in Belgrade, which is 36% less in comparison with the same period in 2008.

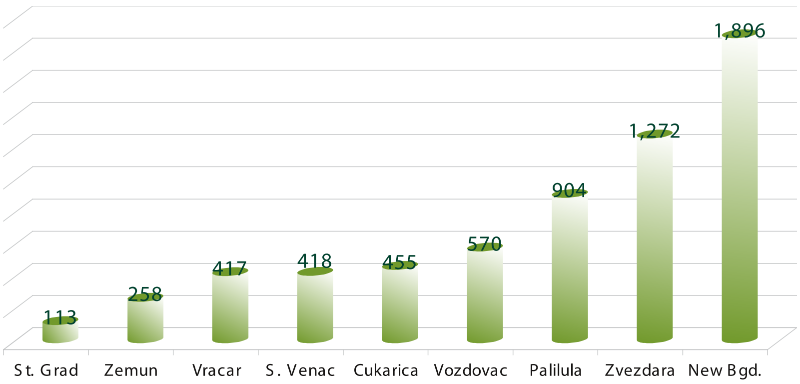
The supply of new apartments recorded an increase in 2008. According to the Republic Statistical Office, total number of built apartments in 2008 was 7,860 units, which indicates an increase of 3.3% in comparison with 2007. In 1Q 2009 the number of newly built apartments was 1,078. Largest construction activity in 2008 was recorded in the municipality of New Belgrade with 1,896 of newly built apartments, which represents a share of 24% from Belgrade's total new construction, followed by Zvezdara with 1,272

Number of constructed apartments in Belgrade



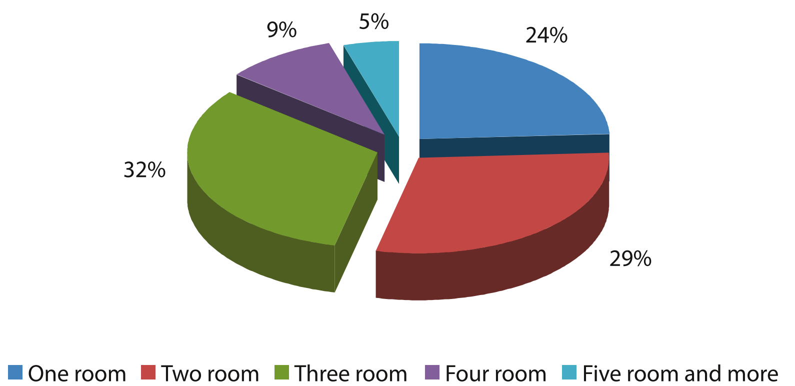
Source: Danos, Serbia

Number of constructed apatments by Belgrade's urban municipalities, in 2008



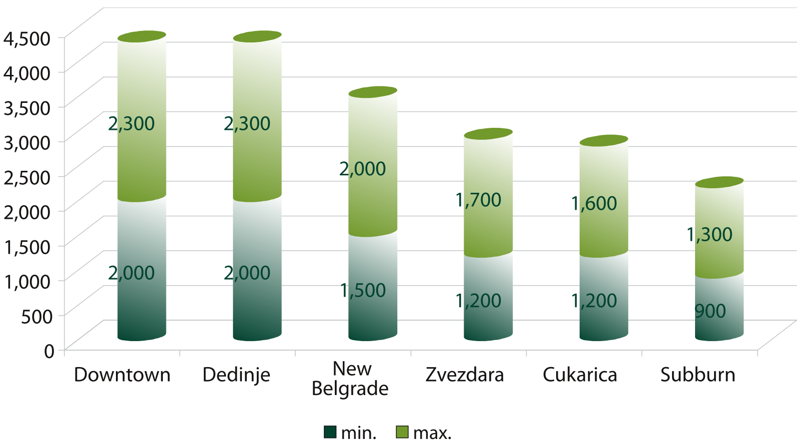
Source: Danos, Serbia

Structure of newly built apartments in Belgrade, in 2008



Source: Danos, Serbia

Average asking prices in Belgrade in 2H 2009, in EUR/sq m



Source: Danos, Serbia

of new apartments, Palilula with 904, Vozdovac with 570 etc.

Most of the residential buildings currently under construction are still small in size, and consist between 10 and 30 apartments. The largest residential developments delivered in 2009 was the "Belville" project in New Belgrade with 1,850 apartments, "Park Apartments" project in New Belgrade with 180 apartments and "Savograd" project, also in New Belgrade, with 15,000 sq m of residential space. In the beginning of 2010, one more large project will be delivered to the market in the city's downtown - "Galerija Apartments" project, with total area of 12,000 sq m.

In 2008, the largest share of new apartments were three-room apartments with 32%, followed by two-room apartments recording 29% and one-room apartments with 24% in total share. It is important to emphasize that for the first time in several years three-room apartments make the largest share in the total number of new developments.

Demand for the apartments in the 1st quarter of 2009 is experiencing a rapid slow down compared to 2008. A more conservative lending policy of banks together with increase of interest rates has influenced lower availability of home mortgages to most of the buyers. Also, the economic slow down resulted in higher level of prudence of potential buyers, together with expectation of price reductions.

Low demand dynamics also continued in the 2nd quarter of 2009, and were mainly caused by tight credit policy and increased caution of the population. Despite the demand trend, the supply is still low, which stipulates that newly built apartments in prime locations still maintain artificially high prices.

Sales prices have experienced decrease due to economic downturn which caused limited offer of housing loans and slowing of market activity.

Compared to the price expansion in 2008, the whole of 2009 saw a decrease in both demand and prices, especially for mid level apartments

Projects under construction

Municipality of Stari Grad			
Project	**Location**	**Area (sq m)**	**Deadline**
Kalemegdan Park	Downtown	12,000	n.a.
Gallery Apartments	Downtown	12,000	H1 2010
Municipality of Savski Venac			
Project	**Location**	**Area (sq m)**	**Deadline**
Koling	Dedinje	20,000	2010
Municipality of Zvezdara			
Project	**Location**	**Area (sq m)**	**Deadline**
Prestige	Mis Irbijeva Street	56,000	2010
Exclusive	Dimitrija Tucovica Street	11,000	2010
Municipality of New Belgrade			
Project	**Location**	**Area (sq m)**	**Deadline**
Maxima Center	Blok 11a	22,000	2010

Vojvode Petka

located on the outskirts of the city. Apartment prices have recorded the highest decrease of some 20% in the suburban parts of Belgrade, while apartments in the central locations experienced a decrease of 10-15% on average. We can further emphasise that this is the first decrease of residential prices since 1999.

Sale prices range from average €1,100 – 1,300 sq m in the city's periphery, up to €2,000 - €3,500 in the city centre and Vracar, and €2,000 - €3,500 in Dedinje, Senjak and central part of New Belgrade. The city centre and Vracar remain the most exclusive areas. In New Belgrade, average prices range between €1,500 - €2,500 per sq m, although some location and newly built apartments can achieve even higher prices.

Gruzanska

Belville

Mlatisumina

Mekenzijeva

RETAIL MARKET 2H 2009

Serbian Retail Market

Most influential domestic retailers are Delta Holding, which holds:

- Delta City shopping mall (85,000 sq m) with Maxi Hypermarket of 4,500 sq m
- 69 supermarkets and 177 small markets across Belgrade and 48 supermarkets in Serbia, all with area between 1,000 and 2,000 sq m

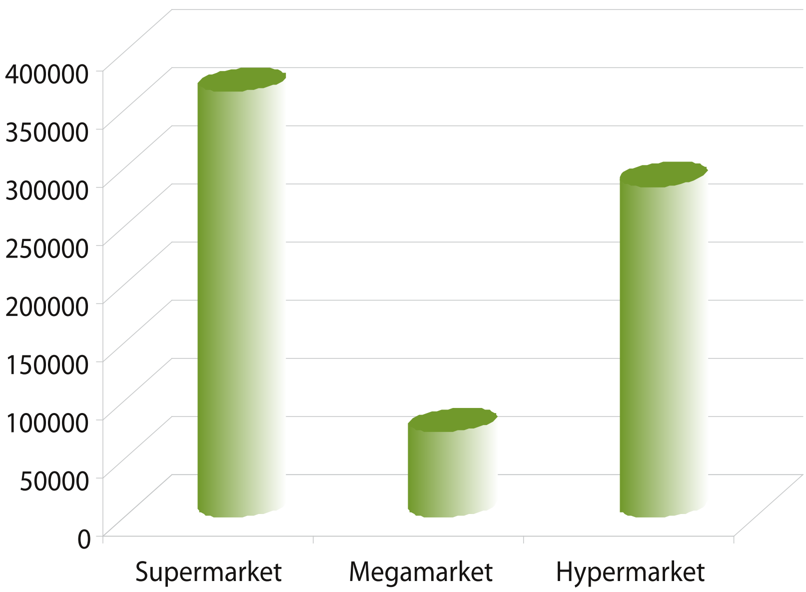
and MPC Properties which holds:

- Usce shopping center
- Immocenter
- Fashion Centar
- Department Store in Nis

Other local retailers that continuously expand their network are DIS hypermarket chain and newly founded Familija supermarket chain, who is the main supermarket operator in Department Stores "Beograd".

In a short term period, development activity will be at least slowed down, but on a mid and long term period, Serbia will maintain the most interesting emerging market for real estate development, especially in retail sector.

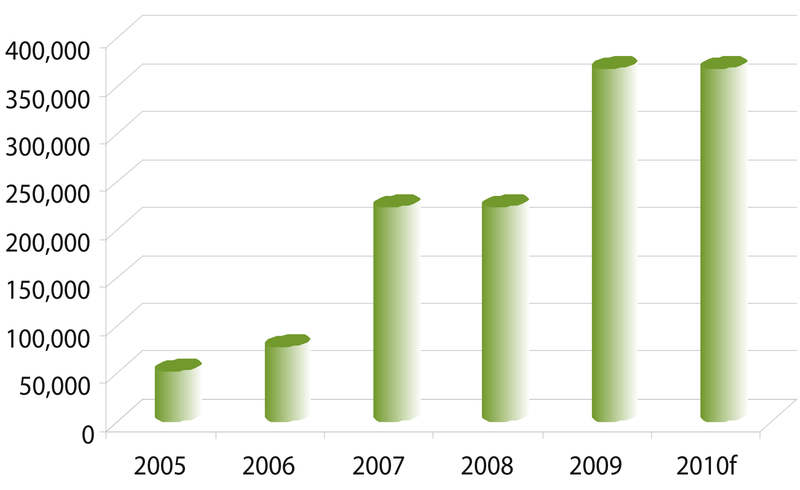
Super/Mega/Hypermarket stock Serbia (in sq m)



Source: Danos, Serbia

In past few years, Serbia experienced a rapid growth in demand for retail space, hence the construction of various types of retail premises grew.

Shopping center stock in Belgrade (in sq m of GBA)



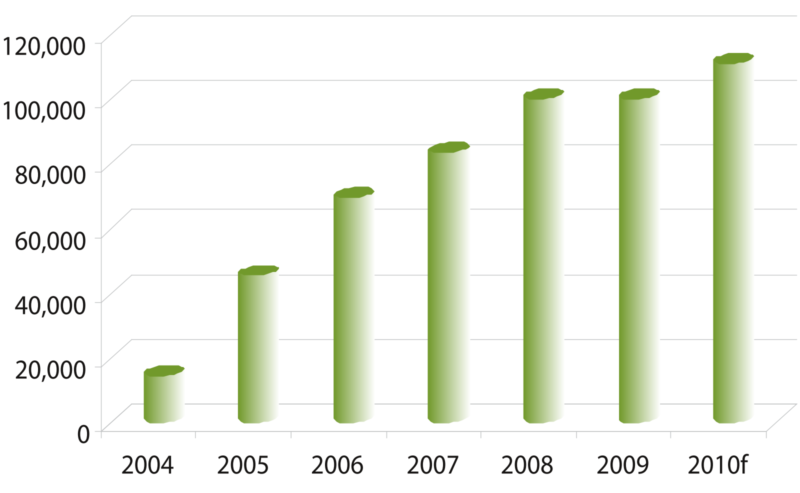
Source: Danos, Serbia

However, Serbian retail sector is still under-served and fragmented compared with more mature markets, with only 25m2 of retail space per 1,000 inhabitants, compared with the EU average of 270m2. The most concentrated retail concepts are still to be found along main-street locations and within the expanding network of retail warehousing.

On the other hand, numerous shopping malls announced or are planning construction. Belgrade and Novi Sad are the main construction centers, but in recent years many retailers expanded their network in the cities like Sabac, Nis, Cacak, Kragujevac.

Novi Sad encompasses some 93,000 sqm of retail stock, while Kragujevac at the moment has 60,000 sq m and Subotica with 40,000 sq m of retail stock. Modern shopping centers/retail big boxes have been built in past

Big box stock in Belgrade (in sq m of GLA)



Source: Danos, Serbia

few years and most of them are in Belgrade: Merkator, Rodic, Super Vero, Delta City, Zira, Usce etc.

The biggest international retailers in Serbia are:

- Metro (Germany) – 5 objects, total area of 46,730 sq m
- Idea (Croatia) – 3 objects, total area of 39,500 sq m
- Mercator (Slovenia) – 5 objects, total area of 152,300 sq m
- Merkur (Slovenia) – 3 objects, total area of 49,300 sq m
- Veropoulos (Greece) – 3 objects, total area of 17, 100 sq m

Belgrade Retail Market

In 2009, major activity in this segment was reflected with the opening of third modern shopping center in Belgrade: Usce– (130,000 GBA sq m) located in New Belgrade, opening of renovated Department Stores "Beograd" and Austrian Kika (23,000 GBA sq m) furniture retailer in Bezanijska Kosa. Due to the current financial and economic crisis, the retail sector had only one shopping mall opening in 2009, while 2010 so far does not feature any shopping malls in the pipeline. At the same time, all previously proposed projects are on the hold such as Ada Huja, Delta Planet and Plaza Center shopping malls.

Supply at the end of March 2009 Belgrade saw the opening of the largest shopping mall in Serbia, Usce shopping mall with 130,000 sq m of GBA and 43,500 sq m of GLA on four aboveground and two underground levels. Usce shopping mall presented to retail market additional brands such as: Stiefelkoeing, Koton, Brown Shoe, U.H.S. Taubner, Mandarina Duck and many more. Together with this opening, modern shopping center stock in Belgrade achieved 155,000 sq m of GLA.

The chain of department stores "Beograd" started with the opening of refurbished units in Belgrade. Retail store in Miljakovac which was opened in February with a total area of 6,850 sq m. In May 2009 department store "Beogradjanka" in Kralja Milana Street was opened with total GBA of 16,000 sq m. Until the end of 2009 a total of five renovated stores have been opened within the Belgrade area.

New Merkur store in Karaburma was opened in October 2009 and consists of 29,000 sq m of GBA and that is its second retail store in Belgrade.

In November a new furniture retailer entered the market with opening of the largest furniture store in Bezanijska Kosa. It is Austrian furniture and home décor store Kika, which opened its retail center with total area of 23,000 sq m, while it's selling area covers 11,000 sq m.

The High Street Downtown of Belgrade represents main shopping and pedestrian zone, with great number of domestic and foreign brand tenants. For the first time in many years demand for high street retail units has decreased and available retail space appeared. High street zone ex-

Picture: Major shopping streets

perienced a more rapid change of tenants and this trend has continued in 2H 2009. All of these changes will contribute to further rental reductions and more flexible lease terms.

Downtown Belgrade represents the main shopping and pedestrian zone, with a great number of domestic and foreign brand tenants. For the first time in many years demand for high street retail units has decreased and available retail space appeared. The high street zone experienced a faster change of tenants and this trend has continued in 2H 2009.

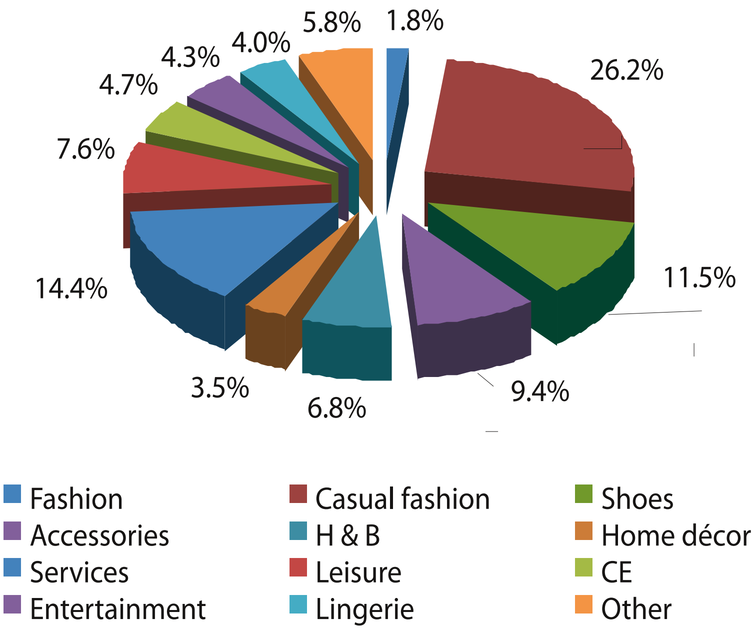
Retail warehousing is still an active retail segment in Belgrade and Serbia with two openings in Belgrade in 2H 2009 (Merkur and Kika). This retail segment has appeared as dynamic also in other towns in Serbia. Namely, Interex supermarket chain opened supermarket in Obrenovac (3,500 sq m) while French "Do it yourself" chain

Delta City

Mr.Bricolage (5,800 sq m) was opened in November in Nis. Local chain Tempo opened supermarket in Cacak (8,000 sq m) while two supermarkets are currently under construction in Kraljevo and Uzice.

Vacancy rate in high streets increased due to the crises, since many tenants faced financial difficulties caused by decrease of retail turnover. For the first time we have observed that several tenants vacated premises in both prime and secondary streets and that some were several moths unoccupied. In 2010 the opening of Department store "Beograd" is expected in Knez Mihajlova steet with 5,033 sq m of GBA.

It is noted that increased voids in shopping centers have caused landlords to become more flexible and agree to renegotiate current rents at lower levels. Hence, current market conditions improve the position of tenants in terms of rental conditions, rent levels and availability of supply. This goes in favor of big retailers and brands that now have an opportunity to reposition themselves in Belgrade and other bigger cities throught Serbia.

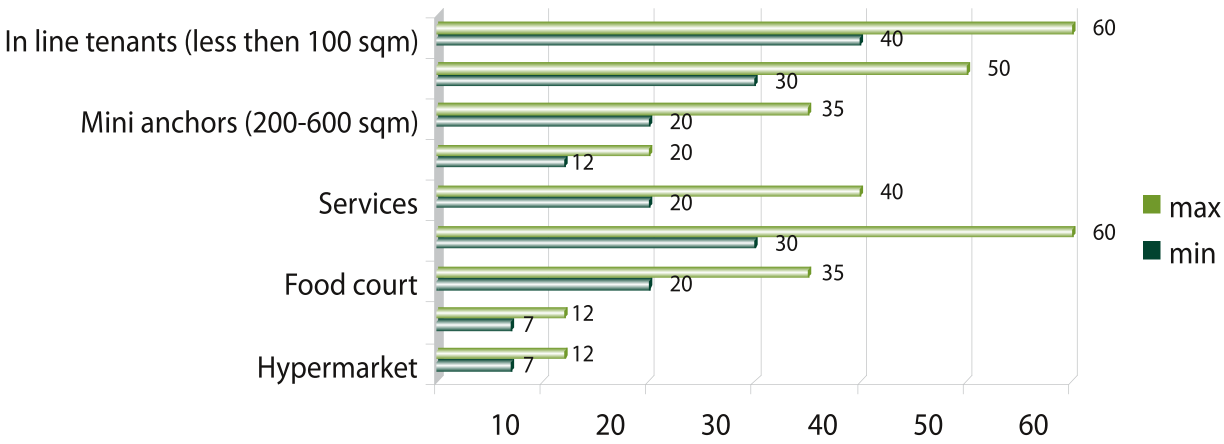


Graph: High street retail categories

Warehouse Retail Market

Pipeline Shopping centre stock in Belgrade will remain stable in 2010 while new deliveries are expected in 2011. There are announcements that the Swedish furniture company Ikea will enter the market in 2010 with development of the first shopping

Selected asking prices for retail premises



Source: Danos, Serbia

center in Belgrade. Rental levels as a result of the global financial crisis toll on the real economy, the rentals have dropped 15-30% on average. Average achieved shopping centers rents are in range of EUR 25-60 per sq m.

The most expensive rental levels are recorded in Knez Mihaila Street, with average monthly rents from EUR 100 – 140 per sq m/month. Secondary street locations recorded rent levels from EUR 30 – 90 per sq m/month, while less attractive locations, mainly in suburban areas, recorded rent levels from EUR 10 -25 per sq m/month.

Indicative yields for prime street locations are at around 7% and for shopping mall from 8.5 - 9%.

Usce

Merkator

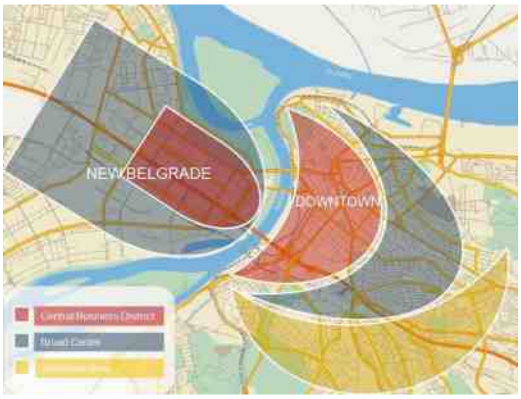
OFFICE MARKET 2H 2009

Belgrade Office Market

The Serbian modern office market started to develop after the political changes in 2000. At that time, the country opened its doors for international business and cooperation causing an influx of foreign companies and organizations in significant need for quality office premises. Due to increased demand for modern class A office premises, investors started with strong development of new CBD (Central Business District) zone of Belgrade.

The real expansionary phase of office space started in 2004 and 2005 and continued through following years. The first signs of market saturation started to appear during 2008 with many new deliveries while the economy crisis in 2009 influenced further market contraction especially on demand side. All of these factors have affected rental levels which experienced sharp decline during 2009.

The Belgrade office market can be divided by location on Central Business District (CBD), Broad Center Area and Suburban area.



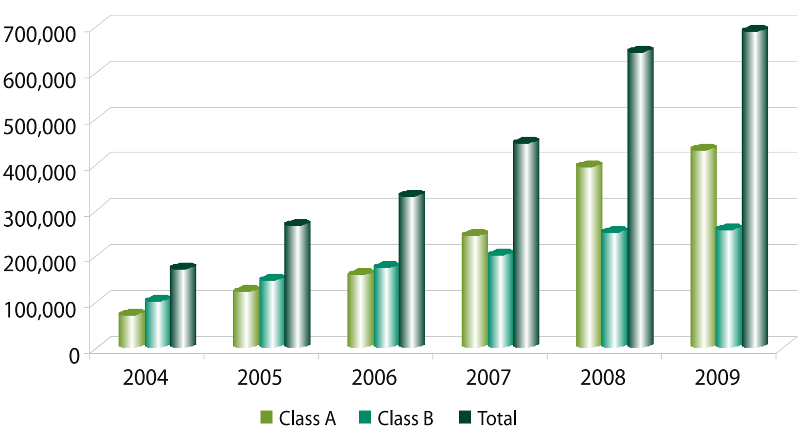
Picture: Belgrade office districts

CBD Area of Belgrade encompasses an area of downtown (Dorcol, Knez Mihailova Street, Terazije Street, Slavija Square and Knez Milosa Street as most prominent downtown business areas) and New Belgrade (Blvd. Dr. Zorana Djindjica, Blvd. Mihaila Pupina Street, III Blvd. and Omladinskih Brigada Street as the most prominent business areas in New Belgrade).

Broad Center Area includes the wider downtown area, both on New Belgrade and Downtown. In New Belgrade most prominent business areas are Jurija Gagarina Street and Blvd. Nikole Tesle Street, while on “the other side of the river” those areas would be along Blvd. Kralja Aleksandra Street, Vracar area, Autokomanda area, Belgrade Fair area and along Blvd. Oslobodjenja Street.

The Suburban Area encompasses wider city area, along major streets and roads which enter into the city.

Total stock of Class A and Class B, in sq m, yearly

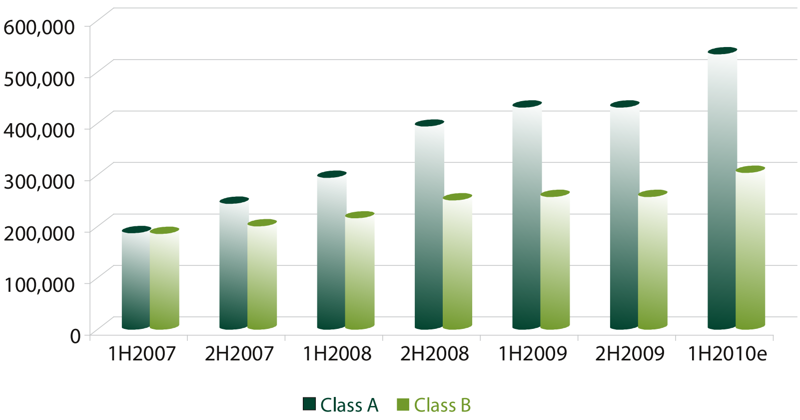


Source: Danos, Serbia

Belgrade Office Market

The total stock of office premises in Belgrade in 2H 2009 was around 690,000 sq m of GBA, which presents an increase in stock by 49,500 sq m or 8% comparing to the end of 2008. The overall stock increase in 2006 was 24% while in 2008 recorded increase was 45% which delivered to the market additional 200,000 sq m. Most new developments are still concentrated in New Belgrade. Class A office premises recorded stock of around 431,000 sq m, while Class B stock records 260,000 sq m of GBA in

Total stock of Class A and Class B, in sq m, quarterly



Source: Danos, Serbia

total. Many new projects intended for delivery during 2H 2009 were postponed for 2010 due to lack of demand.

Supply and most developments are still recorded in New Belgrade, with prevailing Class A office premises. The reason behind this we can find in the fact that New Belgrade has a large stock of undeveloped construction land with clear and valid ownership issues. Major developments and deliveries in 2009 were Savograd (20,000 sq m), Airport City Tower (12,000 sq m) and Belgrade Office Park (16,000 sq m). Most of developments scheduled for completion in 2H 2009 were postponed for 2010. Currently under construction is approx. 150,000 sq m of modern office space that is to be completed in 1H 2010.

The vacancy rate in total office stock recorded an increase from 12% at the end of 2008 to 15.5% in 2H 2009. Class B office stock recorded an increase in vacancy rate from 13% at the end of 2008 to 18.0% in 2H 2009, while Class A stock recorded an increase from 11% in 2008 to 13.8% in 2H 2009. These vacancy figures relate only to completed buildings. Future developments that started with pre-leases are not included in office stock nor are calculated in vacancy for these developments.

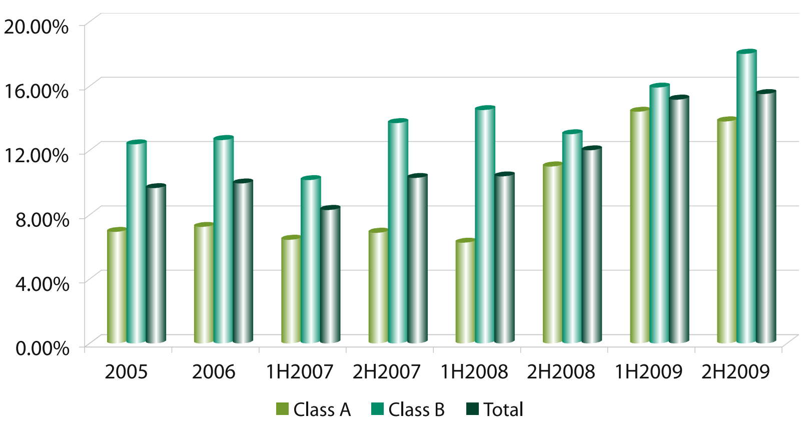
The market slowdown together with significant increase of office stock in 2008 and 2009 with expected new deliveries in 2010 will considerably change the picture of the office market. Predictions for 2010 aren't optimistic; a significant amount of postponed new developments will be delivered during 2010 which will considerably increase stock and vacancy rate, especially concerning the fact that there are no new FDI and expansion plans until the recovery of the global economy.

Belgrade Office Market (Cont.)

Demand for quality and high standard office premises in Belgrade is continuously decreasing. Decrease of demand is noted from the second half of 2008 and has continued into 2009. Most businesses have decided to postpone their expansion plans and there is no interest among potential investors to enter the market at this specific moment. Therefore, we can conclude that demand in 2009 has experienced some change.

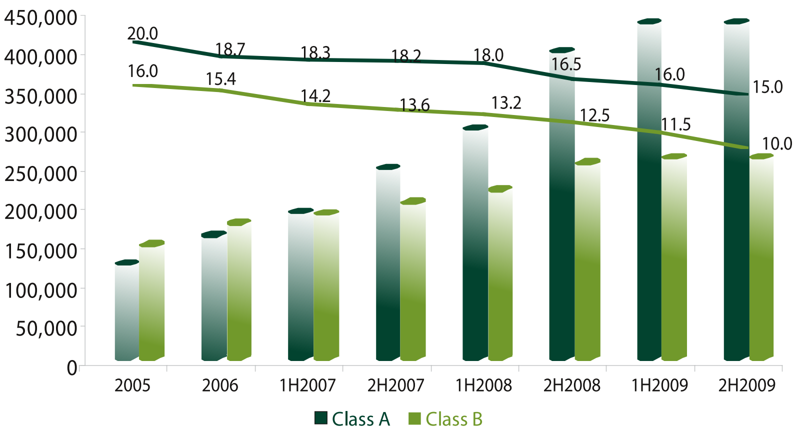
Due to the increase of available office space under favorable rents some tenants have decided to relocate to either better quality buildings or to more attractive areas. Relocation represent the main driving force in the market especially in the banking sector.

Vacancy Rate, in %



Source: Danos, Serbia

Rent levels, in EUR / sq m / month



Source: Danos, Serbia

The highest demand (almost 70% of total) is for small and medium office premises, areas ranging from 200 – 1,000 sq m. The decrease in demand, together with announced completions in 2010, will maintain the downward pressure on rental levels, but the pace of decrease is expected to be lower than in the previous period.

Rental levels continue their decreasing trend in 2009 due to overall demand contraction and increase of available office space in the market. Average asking rents for class A office premises in CDB area are EUR 15-16 per sq m/month, while certain market transactions indicate an even lower range. Asking rentals for class B premises are EUR 11-11.5 per sq m/month.

In comparison towards the end of 2008, there was a downfall in Class A office rents by 10-15% and approximately 10% in Class B office rents.

Class A

Average monthly rentals for Class A office premises have a descending trend since 2001. In 2008, an average rental level was EUR 17 per sq m/month, and dropped to EUR 15 per sq m/month in 2H 2009. The highest rental levels are recorded in CBD Area, where in 2H 2009 average rents varied between EUR 15 and 17 per sq m/month, while rents in Wide Center Area were fluctuating from EUR 13 to 15 per sq m/month.

Class B Rents

Average monthly rentals for Class B office premises have the same trend. In 2008, an average rental level was EUR 12.5 per sq m/month, which dropped to EUR 11 per sq m/month in 2H 2009.

Regarding location, the most expensive location is CBD Area, where in 2H 2009 average rents varied between EUR 10.5 and 11.5 per sq m/month, while rents in Wide Center Area were fluctuating from EUR 7 to 9 per sq m/month.

Pipeline for the 1H 2010 will be very extensive, having in mind all of the deliveries that were under construction during 2009. The first class A office delivery in 2010 will be Blue Center (52,000 sq m), located in the CBD area of New Belgrade – Block 26. Opening is set for February and this project will offer to the market a premium class A building with highest standards, amenities and services.

In 1H 2010 the VIG Plaza (16,000 sq m) project in Block 11a, New Belgrade, will be delivered. Two Class B office buildings (34,000 sq m) in Belville will be opened in January 2010. At the end of 1H 2010 the delivery of Tri Lista Duvana (10,500 sq m) project is announced, which is one of the major class A office developments in downtown area.

Indicative Yields for Class B Offices in CBD zone are estimated at 10.5%, whereas for Class A Offices are estimated at 9.5%.

Graph: Average rents by location

Year	2007	2008	1H 2009	2H 2009
Class A (CBD)	20.5 - 24.0	17 - 20	16 - 18	15 - 17
Class A (Wide Center)	18.0 - 18.5	13 - 15	14 - 15 .5	13 - 15

Source: Danos, Serbia

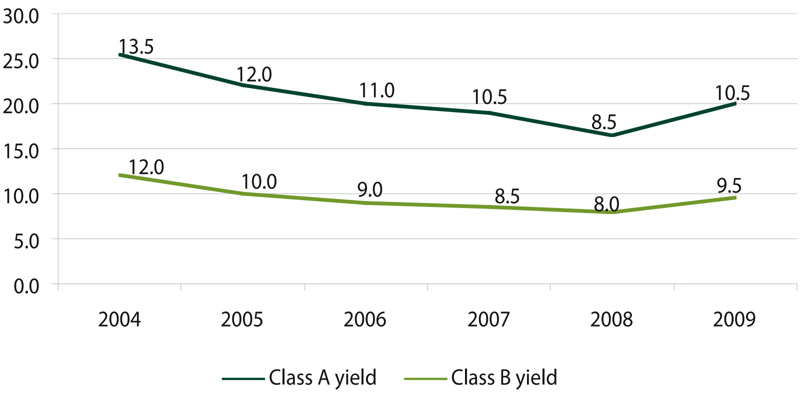
Year	2007	2008	1H 2009	2H 2009
Class B (CBD)	13 - 21	11 - 16	10.5 - 15	10.5 - 11.5
Class B (Wide Center)	10 - 14	9 - 12	8 - 10	7 - 9

Source: Danos, Serbia

Projects under construction	Location	GBA (sqm)	Delivery Date	Investor
Blue Center	CBD / New Belgrade	52,000	1H 2010	Bluehouse Capital
Tri lista duvana	Downtown	10,500	1H 2010	MPC Holding
B23 Center	CBD / New Belgrade	53,000	n.a.	Verano
VIG Plaza (Vienna Insurance)	CBD / New Belgrade	16,000	1H 2010	Vienna Insurance
Belville - Central unit	Wide Area / New Belgrade	13,879	1H 2010	Delta Holding
Belville - Side unit	Wide Area / New Belgrade	20,318	1H 2010	Delta Holding
West End	Wide Area / New Belgrade	12,500	1H 2010	City Investment
Blok 43	CBD / New Belgrade	25,000	1h 2010	MPC Holding

Source: Danos, Serbia

Yields, in %



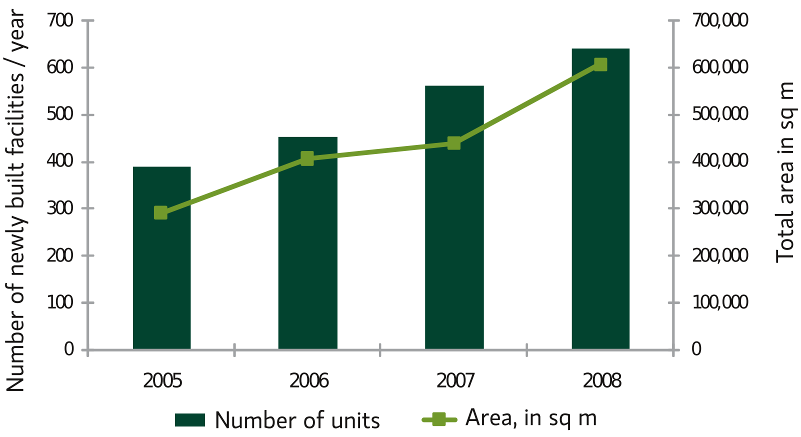
Source: Danos, Serbia

Vig Plaza

Airport City

INDUSTRIAL & LOGISTIC MARKET 2H 2009

Number and area of newly built industrial and warehouse facilities in Serbia



Source: Danos, Serbia

Picture: Major industrial and logistic centers in Serbia

Industrial and Logistic Market

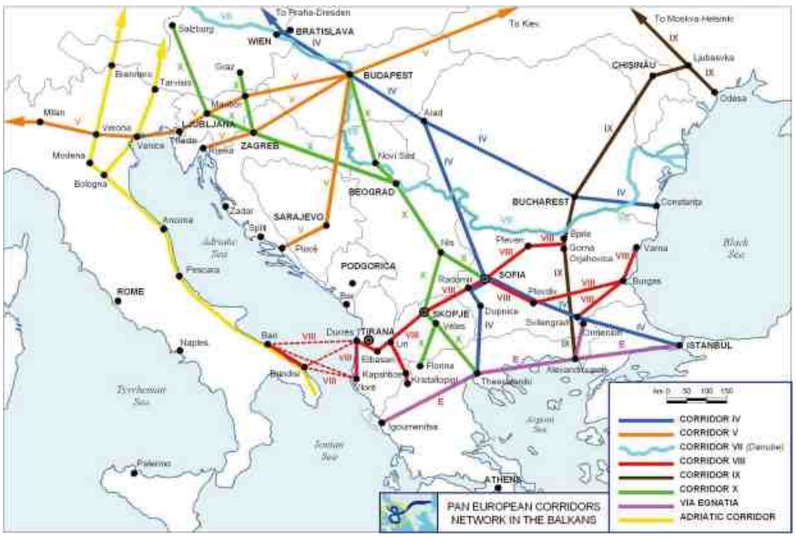
With a favorable geo-strategic position offering the possibility to access EU market easily, but also providing transit to the East, Serbia provides remarkable opportunities for industrial and logistics developments in the future. Via strategic transportation corridors 10 and 7 the country links Western Europe and the Middle East, representing excellent location for future regional logistics centers which may effectively serve West Balkan Region.

Regarding future development and expansion of this sector, the Serbian National Investment Plan identifies 49 industrial development zones, from which 17 are located in Belgrade, 20 in Vojvodina and the remaining in central and southern Serbia.

Apart from Industrial zones, city authorities across Serbia have also recognized the concept of Free Industrial Zone potentials, as an investment initiative to attract foreign industrial and logistic operators.

The most attractive industrial and logistic zones are located in Belgrade wide area, such as Simanovci, Stara and Nova Pazova, Indjija, Ruma, but also within Belgrade boundaries, such as Belgrade Free Industrial Zone in Palilula municipality, Dobanovci, Surcin, Krnjaca, Zemun, Grocka. Other major cities are also becoming more and more interesting for investors, such as Kragujevac, Sabac, Subotica, Nis, Novi Sad.

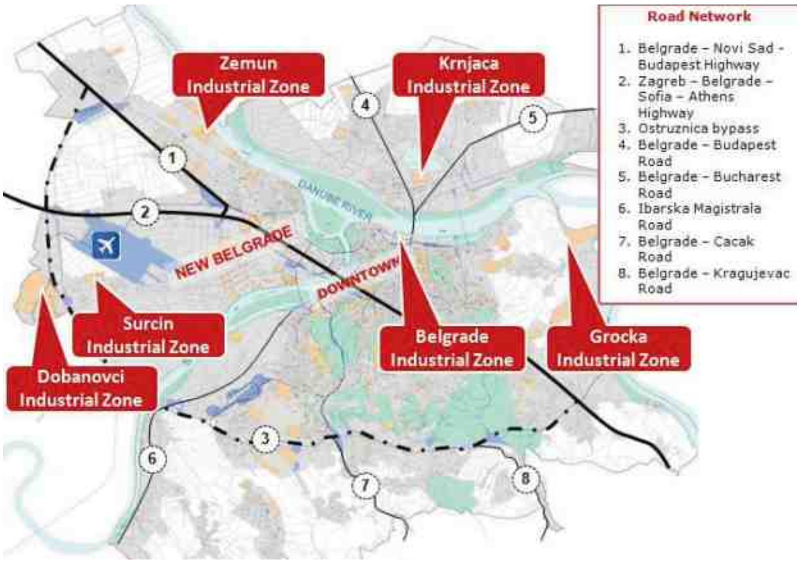
Supply - It is estimated that total stock of modern warehouse and industrial facilities in 2008 in Serbia was around 600,000 sq m, with a total of 2,000 facilities. From 2005



Picture: Serbian road network

construction activity in this real estate segment recorded an increasing construction trend in the number of facilities from 14% to 24% per year. In 2008, Serbia recorded 640 new industrial and warehouse units, which represents an increase of 12% compared to 2007.

According to the Belgrade Statistical office, in the last few years average construction dynamic of new logistic developments was 30,000 sq m annually. The majority of these developments range in size between 2,000 - 15,000 sq m, while very few range from 15,000 sq m and above.



Picture: Belgrade Industrial Zones

The largest supply of modern warehouses is recorded in the wider area of Belgrade. New supply of logistic space in 2009 comes from local developers that built premises mainly on speculative basis. Estimated total stock of logistic space in Belgrade is approximately 300,000 sq m.

Belgrade Area Industrial and Logistic Zones

Belgrade's logistics stock is largely concentrated in the popular areas of Zemun and Krnjaca, but also along the highway E-70, towards Zagreb, where most developed areas are Simanovci, Dobanovci, and Surcin.

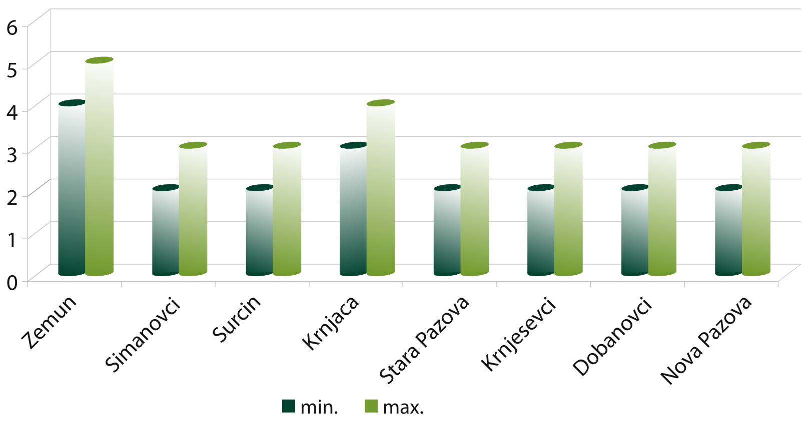
During the medium-term, Belgrade's authorities plan to establish four main industrial/logistics zones within the city territory - Surcin, Grocka (100 Ha), Mladenovac (270 Ha) and Obrenovac (255 Ha).

Currently, the most interesting areas for investors are in Belgrade's wider area towards Vojvodina, such as Dobanovci with 3,118 Ha of total land, Simanovci area of 250 Ha, Stara and Nova Pazova with Krnjesevci area of 800 Ha, Indija with 382 Ha of land.

Demand has recorded a decrease in 2H 2009 , which is reflected by the decline in the number of inquiries and size of requested premises. Demand mainly comes from logistic operators, pharmaceutical and retail companies. The average size of warehouse inquiries decreased, ranging between 1,000 and 3,000 sq m.

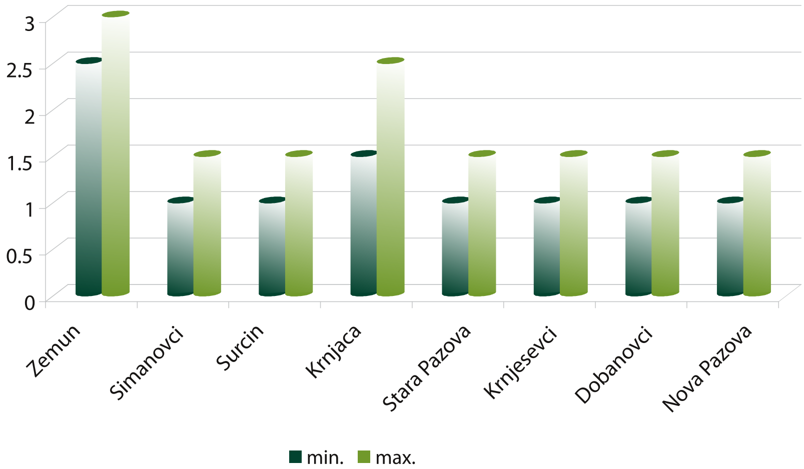
Pipeline The logistic market experienced substantial changes in 2009 due to lack of demand which caused many developers to postpone their activities for an indefinite period. Many proposed logistic developments for 2009-2010 have been halted and their completion is uncertain. In the following period we can expect that number of speculative developments will remain limited and

Rents for Class A in area around and in the city of Belgrade, in EUR/sq m/month



Source: Danos, Serbia

Rents for Class B in area around and in the city of Belgrade, in EUR/sq m/month



Source: Danos, Serbia

Location	Land Price, EUR / sq m	
	min.	max.
Simanovci Krnjesevci Indjija Ruma Stara / Nova Pazova Lestane	20	50
Grocka Dobanovci Surcin	30	65

Source: Danos Serbia

the only developments that will be based are on built-to-suit option.

The largest proposed development in 2009 is the logistic and cargo center in Nis, near to the airport, with a total area of 136,000 sq m, which will be developed in phases. The developer is the Austrian company Eyemaxx. Commencement of construction works is still unknown.

Rental Levels and Land Prices

Rental levels depend upon many factors. A Large number of tenants are seeking modern and flexible warehouse space, with built up transportation infrastructure on attractive locations, with ceiling heights 9 - 12 meters, independent power supply, temperature control, loading docks, ramps etc. These facilities could be classified as Class A, and are mostly located in the wider Belgrade area.

On the other hand, Class B industrial and warehouse facilities are mostly units located in the boundaries of the city of Belgrade, such as areas in surrounding of Pancevacki Bridge, along the Danube River (Viline Vode and Belgrade's Port area), but also in wider Belgrade area. Premises are characterized as older facilities with poor equipment, ceilings between 6 - 7m of height, without ramps etc.

Class A premises recorded a slight downturn in the rental levels comparing to 2008, but we can still confirm relative stable prices despite the crisis. Facilities in less attractive locations recorded average range from EUR 3 – 5 per sq m/month, while modern and equipped facilities range from EUR 4 – 6 per sq m/month.

Class B premises recorded average rental levels from EUR 2.5 – 3.5 per sq m/month for less attractive locations, while locations in close Belgrade areas and within the city boundaries recorded higher average rental levels from EUR 3 – 4.5 per sq m/month.

the main characteristic of the industrial/logistics investment market is that it is still constrained by a lack of facilities and limited speculative construction. Most of the facilities are under owner occupancy, so very few transactions have been recorded in the open market.

The estimated yield ranges from 11 - 13%.

Danos in Alliance with BNP Paribas Real Estate, first year of Serbian operations

Jovan Jovanovic
Director of Danos Serbia

During its 42-year history as an international eminent property adviser, Danos Group has developed a large database of the users of services, which includes public companies, financial institutions, market chains, corporate clients, private investors and other users of services.

The Company "Danos & Associates" started doing business in Serbia in alliance with "BNP Paribas" group, one year ago. The company's headquarters are located in Belgrade, with a local team of experienced professionals. Regarding the situation at real estate market in Serbia, we asked Jovan Jovanovic, Director of Danos Serbia.

What is your opinion on the current state of the Serbian real estate market and what do you expect will happen in the following period?

I believe that there is not going to be a significant increase in the volume of commercial real estate transactions when compared to 2009. We at the Danos Company have observed a slight growth of queries related to the lease of office and retail space in the first two months of 2010, primarily within the territories of Belgrade and Vojvodina.

Business space tendencies remain focused on Class A real estate, where new lessees are quick to recognize the chances for negotiating additional benefits when agreeing on rent and the specific obligation aspects of lease agreements, where we are observing the biggest growth in demand for small and mid-sized office space, ranging from 150 to 400 square metres.

As for retail, the market itself finally reached a new point at the beginning of this year, where the owners of real estate came to better understand the situation and managed to adjust their profit expectations to match the actual financial moment. It was this viewpoint shift that enabled the increase in the number of successfully closed transactions for our company, primarily for the main pedestrian zones of downtown Belgrade, as well as retail developments across Serbia.

To what extent is Serbia truly open to foreign investments?

Since the democratic changes, Serbia has maintained, on paper, that it was open to foreign investments. Unfortunately, what we, as a country, failed to accomplish during the ten years of our transition is to provide a clear, transparent, and, most important of all, affirmative legal framework.

This component is critical in the eyes of foreign investors, and weighs heavily in the decisions they are making when they allocate capital in the region of South-eastern Europe.

Until now, our neighbours have shown much more sensitivity to constructing legal frameworks suited to attracting foreign investments; however, the announcements issued by the Government of Serbia over the past few months, which spoke of the final simplification and speeding up of ownership transfer procedures, are encouraging.

What is your advice to potential investors?

I would advise those investors who are already present to use this moment to consolidate their operations in order to reach conditions where they can optimize their business operation expenses in Serbia.

Our advice to new clients in the Serbian market, which the Danos Company – together with our parent network BNP PARIBAS Real Estate – points towards the most profitable investments, is to focus on affordable residential development in Serbia; next, we firmly believe that logistic centres are one of the most prospective sectors; finally, investing money in land acquisition is always good longterm venture. Also, FDIs are heavily needed for primary infrastructure in Serbia, helping the development of commercial real estate and, by inference, our economy in general.

What are your predictions regarding the prices of real estate in the next year?

I think the entire professional community understands very well that the recovery process for the market will be long and arduous, and we see 2010 as the period of stabilization and synchronization.

Realistically speaking, the business space sector will bear most of the consequences of the World Financial Crisis, but we also expect the banks to finally become more sensitive to the need for financing development projects, which is crucial in order to make the first step towards definitive market recovery.

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Danos Company operates for 42 years in Greece and Cyprus, while in 2009 offices in Belgrade, Tirana and Sofia were opened.

Since 2008 Danos is a member of the international network of BNP Paribas. In particular Danos is part of specialized property division BNP Paribas Real Estate, which operates through 80 offices in Europe, Middle East and the United States, having over 3.500 employed professionals.

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