



SERBIAN

MARKET OVERVIEW

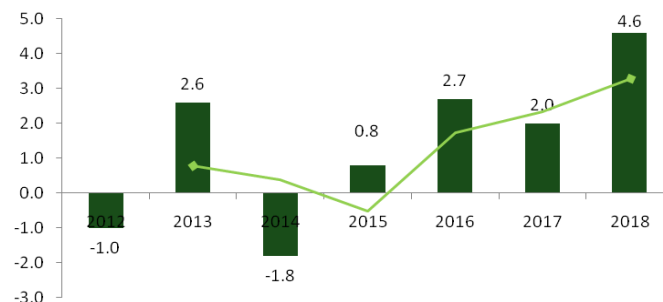
H1 2018



Low inflation and stable growing economy in 2018. Macroeconomic stabilization contributed to stronger FDI growth, of 27.1% y-o-y in 2017 (reaching 6.6% of GDP), and favorable trends have continued from the beginning of 2018.

- ✓ GDP growth picked up in Q1 2018 to 4.6% y-o-y backed by investments.
- ✓ Q1 growth was dominantly led by investment activity (14.9% y-o-y), both government and private, strong growth in construction on the production side, industrial production and private sector services, followed by higher consumption and supported by strong export growth.
- ✓ GDP composition has shifted towards less consumption and more net exports and investments.

GDP

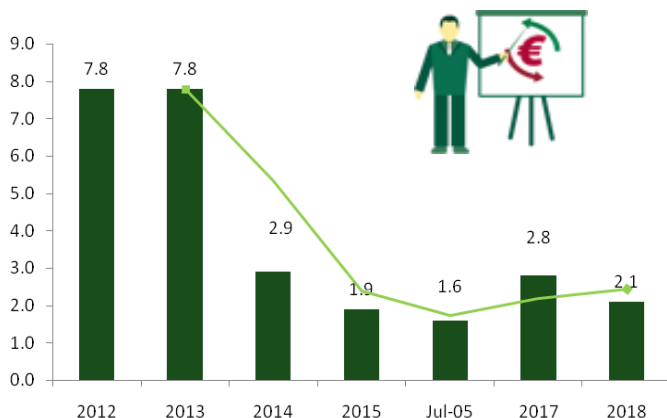


Source: Ministry of Finance of Republic of Serbia, NBS, Republican Bureau of Statistics RS, Danos research

- ✓ Strong private and public investments, expansion in exports and sustainable rise in consumption will be the main drivers of GDP growth of 3.5 % in 2018 and 2019.

CPI

- ✓ Inflation will remain closer to the lower bound of the target until end – 2018, while gradually approaching central target level during 2019.
- ✓ Consumer prices in May 2018 compared to the same month of the previous year, increased by 2.1%, while compared with December 2017 increased 1.8%.
- ✓ Q1 2018 market movements in overall labour market. By the Labour Force Survey for Q1 2018, employment rate was 45.1%, up by 0.9 pp compared to Q1 2017.



Source: Ministry of Finance of Republic of Serbia , Republican Bureau of Statistics RS, Danos research

- ✓ Unemployment rate stood at 14.8%.

- ✓ Favorable trends in the formal segment of the labour market in the previous period came from private sector employment which grew by 12.7% (April 2018/April 2014). This increase in number of employees came, by and large, from manufacturing, followed by private sector services and most recently by construction. Largest employment gains were recorded in industry.

UNEMPLOYMENT

- ✓ The average gross wage in April 2018 amounted to EUR 575, while average net wage amounted to EUR 416 in real terms. When compared to the same period in 2017, average gross wage are nominally higher by 6.2% and real terms by 5.0%, and net wage are nominally higher by 6.7% and real terms by 5.5%.



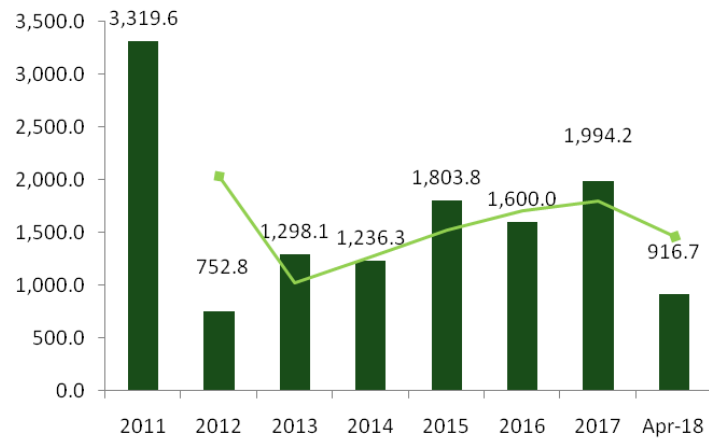
Source: NBS, Republican Bureau of Statistics RS, , Danos research



Improved Business Environment Supporting High FDI Inflow

- ✓ In four months of 2018 net FDI inflow amounted to EUR 870 mn (12.7% y-o-y growth). Inflows were mostly concentrated in export industries.
- ✓ Improvement of the business environment is evidenced by advancement on the WB Doing Business list – Serbia moved up from rank 91 (2015) to 47 (2017) and 43 (2018).
- ✓ According to FT (August 2017), Serbia has the best global performance index for Greenfield FDI
- ✓ Expectations in 2018, are continuance of strong performance, with net FDI inflows standing at EUR 26 bn (6.6% of GDP).

NET FDI



Source: Ministry of Finance of Republic of Serbia, Republican Bureau of Statistics RS, , Danos research

- ✓ Sustainable Economic Prospects are confirmed by Serbia's Improved Rating. Serbia's risk premium reached its all – time low early this year



- ✓ Serbia's foreign trade continued trend of positive growth in the period January-May 2018. In total amounted for January-May 2018 to: In dollars: 18,488.3 million dollars - an increase of 24.3% compared to the same period last year; In eur: 15,143.6 million euro - an increase of 9.3% compared to the same period last year.
- ✓ Trade deficit of 2073.6 million, an increase of 26.2% compared to the same period of the previous year.

- ✓ Moody's has improved Serbia's rating outlook from 'B1' to 'Ba3' with a stable outlook. In December 2017, both S&P and Fitch upgraded Serbia's issuer rating from BB – to BB, with a stable outlook for further credit rating improvement.

- ✓ In the past year, Serbia has improved regulations for operating in an absolute sense, as measured progression by the World Bank's Doing Business in 2018 (Doing Business list). Improving regulation in 2016/17. was significantly facilitated the establishment of business entities by reducing administrative fees for verification of signatures and by increasing the efficiency of the registry, thus reducing the time it takes to register a business. Consequently, the cost of starting a business fell from 6.5 % to 2.3 % of income per capita. Also, Serbia has improved the reliability of the system of cadaster using the geographic information system.



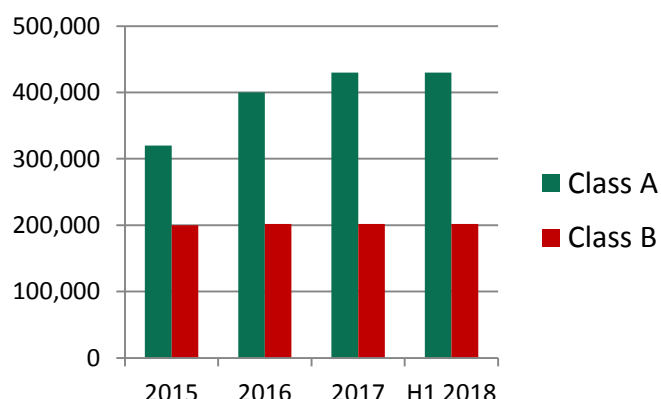
Supply and Pipeline

Total stock of class A office space in Belgrade will significantly increase with completion of new projects, started during 2017 and 2018. MPC Properties started construction of Usce Tower 2 and Navigator 2. The project of Business Garden developing by AFI Europe and Shikun&Binui Group will host new tenants till the end of the year. The first phase of construction works in GTC Green Heart are expected to be finished in H2 2018.

There is also a new trend of investments in co-working spaces and beside Regus there are new companies on the market offering that kind of services. Refurbishment has become a new way to increase supply of office space.

PIPELINE OFFICE PROJECT

Project/Investor	Location	Area (sq m)	Status
Business Garden / AFI	City Center	16.000	Under construction
Usce Tower 2 / MPC	New Belgrade	22.000	Under construction
N House	Block 21/New Belgrade	10.700	Under construction
Green Heart / GTC	New Belgrade	46.000	Under construction
Roaming office building	Belgrade	4.500	Under construction
Airport City 5th phase	Block 65/New Belgrade	75.000	Announced
Skyline / AFI	Belgrade	30.000	Announced
Immorent Sirius office (2nd phase)	Block 43/New Belgrade	12.500	Announced
Zigel House / Trgomen	Vracar/Belgrade	5.500	Under construction
Navigator 2 / MPC	New Belgrade	27.000	Under construction
PMC Inzenjering	Blok 32/New Belgrade	8.400	Announced



Demand

Beside new requests there are interests for relocation and expansion. New Belgrade is most wanted location with periodical interest for offices in down town. The companies from IT industry were most active together with related industries.



Rental levels € per sq m

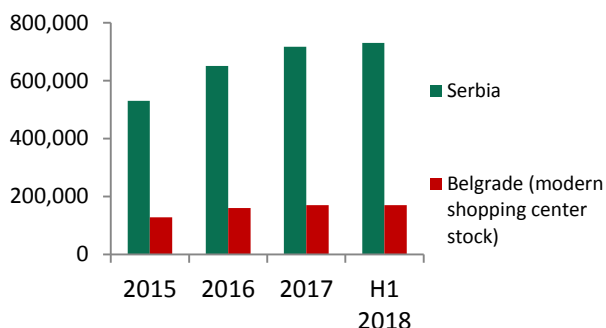


Vacancy rate

Due to high demand vacancy rate in H1 2018 came under 6% and still is dropping.



Supply and Demand



Source: Danos research

Retail sector is still most dynamic sector on real estate market in Serbia. Along with new openings, new announcements and constructions ongoing will continue strong interest both retailer and investors in whole 2018. Constant interest of new brands and expansion of existing ones are excellent confirmations for developers that they are on the right track.

The British company Poseidon Group announced two new retail park projects in Leskovac and Zajecar and the second phase of Capitol Rakovica in Belgrade.

Poseidon Group

Capitol park Belgrade	2.150	H2 2018
Leskovac	6.500	H2 2018
Zajecar	9.000	H1 2019



Belgrade H2 2018

DECATHLON 3.700 sq m within Big Fashion Belgrade

The developments of retail parks as a growing trend in 2017 continues the same trend in H1 2018. The opening of two new Stop Shop as an investment of Immofinanz Group in Pozarevac and Vrsac confirms those facts.



- **STOP SHOP POZAREVAC – 7.200 sq m**
CCC, Reserved, LC Waikiki, Sinsay...
- **STOP SHOP VRSAC – 8.250 sq m**
DM, Deichman, LC Waikiki, Reserved...

New enteries

Meli Melo - SC Stadion

Mini So - SC Stadion

Francomina - SC Merkator

DM continues to expand its retail network in Serbia by opening a new store in Hilton Hotel Belgrade. Aksa opened new shop in Pancevo size 1.000 sq m and with the third shop in Serbia opened in Nis, Emmezeta strengthens its position on the market.

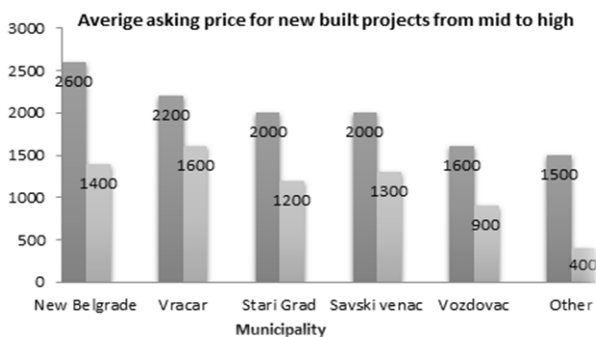
Rental levels in Belgrade



Source: Danos research

PIPELINE RETAIL PROJECT

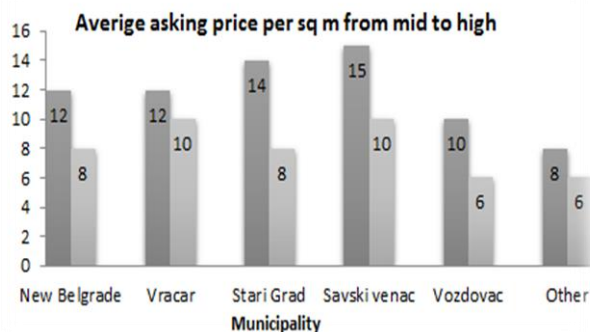
Project/Investor	Location	Area (sq m)	Delivery Date	Status
Ada Mall / GTC	Belgrade	31.000	H2 2018	Underconstruction
BW Gallery / Eagle Hills	Belgrade	93.000	2020	Underconstruction
Big Fashion Vidikovac / Big Fashion Centers	Vidikovac	70.000	2019	Underconstruction
Promenada / NEPI	Novi Sad	50.000	H2 2018	Underconstruction



SELL



RENT



Source: Danos research

Source: Danos research

Supply

The first place for sold residential units in Belgrade, this year Zvezdara Municipality takes the lead with 155 sold spaces along with New Belgrade that is not far behind (114 units).

In the first half of 2018 the market shows a major increase of the residential demand (and prices – by 6%), which the current offers on the market can't meet.

With the new projects on the way, like "Wellport", "Skyline" and "Blok 32", we could expect, not only that the demands on the market to be fulfilled, but also for the demand to increase.

Demand

We can see that more investors tend to demand that the new projects meet "Green Standards". With the new environmental problems that emerge in the world, it is nice to see that Belgrade, who is yet in the proces of development, tries to grow along with the standards that the highly developed countries try to implement.

As for the areas that hold the title of this years "Hot Spot", holding it's first place for couple of years in a row, we still have New Belgrade, Vracar is right behind and an interesting increase is seen in the demand for Zvezdara.

PIPELINE PROJECTS

Project	Location	Investor	Total size (units)/phase in progress	Status
Central Garden	Belgrade Down Town	AFI Europe, Shikun & Binui Group	500 units / 4th phase - 67 units	Under Construction
Vozdove Gates	Vozdovac	Shikun & Binui Group	700 units / 2nd phase - 106 units	Under Construction
A Block	New Belgrade	Deka Inzenjering	800 units / 4th phase * 108 units - Apartments * 109 units - Business Apartments	Under Construction
Savada	New Belgrade	Neimar V	500 units-2 nd phase - 200 units	Under Construction
SunCity	New Belgrade	Energo Group	174 units	Under Construction
West 65	New Belgrade	PSP Farman	514 units / 4th phase - 100 units	Under Construction
Sunnyville	Palilula	Constantine The Great	252 units / 2nd phase - 94 units	Under Construction
Sunnyville	Palilula	Energoprojekt	215 units	Completed project
Vracar Gates	Vracar	Aleksandar Group	250 units	Under Construction
Panorama Vozdovac	Vozdovac	CEP	187 units	Under Construction
Green Avenue	Zemun	Montex Real Estate	236 units / 3 rd phase - 90 units	Under Construction
Belgrade Waterfront	Downtown - Center	Eagle Hills	1 st phase - 296 units; 2 nd phase - 228 units; 3 rd phase - 244 units.	Under Construction
Gornji grad Zemun	Zemun	World Trade Capital	184 units	Under Construction
Zemunske kapije	Zemun	The Building Directorate of Serbia	1.700 units 2nd phase - 320 units	Under Construction
Paunov Breg	Vozdovac	CPI Group	107 units / 2nd phase - 94 units	Under Construction
Wellport	New Belgrade	Shikun & Binui Group	500 units / 1st phase 95 units	Under Construction
Nova 45	New Belgrade	Autocentar Jovanovic	80 units	Under Construction
Stepin Breg	Vozdovac	Nobnek d.o.o	76 units	Under Construction
Skyline Belgrade	Stari Grad	AFI Europe	134 units	Under Construction
Blok 32	New Belgrade	PMC Inzenjering	127 units	Under Construction

Industrial Market



Supply - Serbia boasts a great potential to grow into a logistics hub of the South East Europe.

Rising development activity within industrial and logistic sector influenced with government reforms, stabile economic growth, continuous investment in infrastructure market first semester 2018. Expansion of investors already present on the market showing stability and stabile enviroment.

Project expansions and new projects mostly took place on proximity to Belgrade and secondary cities.

Thanks to the numerous incentives available to investors in the last years, Serbia has attracted many exports-oriented companies in the manufacturing and production sector which consider secondary cities favourable locations for the development of facilities. Several speculative schemes were noted in the proximity of Belgrade.



Industrial market stock was pushed on approx. 329.000 sq m in Belgrade area and 664.000 sq m in rest of Serbia.

RECENT NEW SUPPLY			
Project	Type	Location	Size (sqm)
Agromarket	Distribution/Warehouse	Indjija	15,000sqm
Lidl	Logistic centre	Nova Pazova	45,000sqm
Leoni	Light industrial	Nis	20,000sqm
Fronery Adriatic	Production	Stara Pazova	23,500sqm

Logistic development in the secondary cities with be enlarged with the delivery of pipeline projects, mainly light industrial and production.

Demand

During H2 2017 demand for modern industrial / logistic schemes was majorly driven by automotive, manufacturing and distribution companies. The demand is higher for modern warehouses within secondary cities.

Rental level



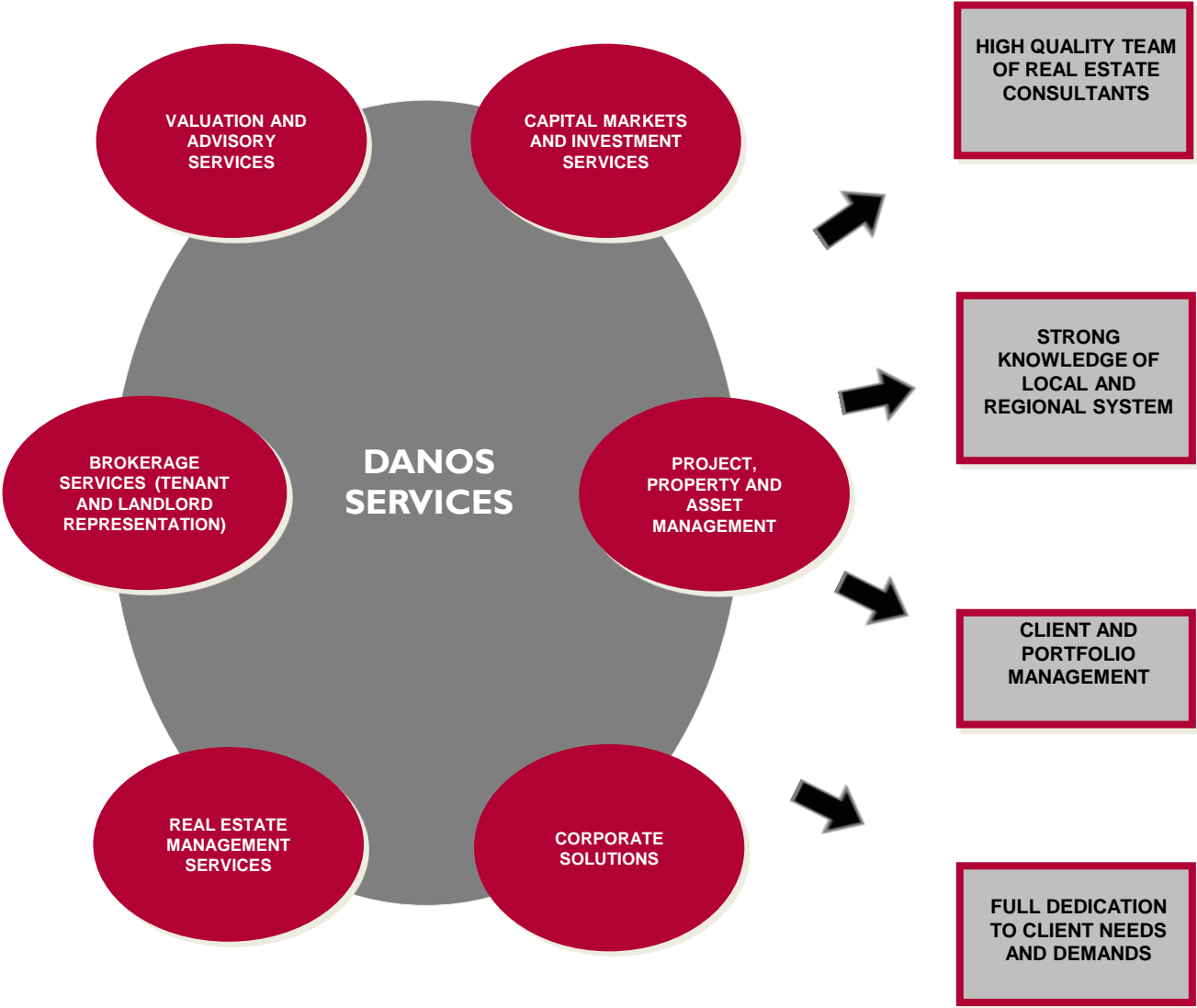
In wider Belgrade area, prime headline rents for modern logistic premises in H1 2018 range between EUR 4/sq m/month and EUR 5/sq m/month. While average rental levels for older and refurbished industrial premises range from EUR 3 to EUR 4/sq m/month. For "built-to-suit" space, rent level is in range EUR 5-7 sq m/month.

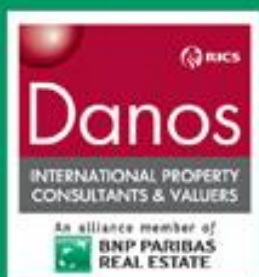
Rental levels for new industrial developments throughout Serbia are in the range of EUR 2,5 – 5/sq m/month.



PIPELINE PROJECTS			
Project	Type	Location	Size (sqm)
Eyemaxx	Distribution warehouse	Stara Pazova	30,000sqm
IPB 4	Distribution warehouse	Simanovci	n/a
Log Max Beta	Distribution warehouse	Stara Pazova	30,000sqm
Quass	Light industrial	Indjija	5,000sqm
Zumtobel	Light industrial	Niš	40,000sqm
Mei Ta	Light industrial	Obrenovac	55,000sqm
Leoni	Light industrial	Kraljevo	65,000sqm
Essex Europe	Light industrial	Zrenjanin	15,000sqm
ZF Friedrichshafen	Light industrial	Pancevo	50,000sqm
Vorwerk Autotec	Light industrial	Cacak	40,000sqm
Tai Group	Light industrial	Kraljevo	n/a
Delphy	Light industrial	Leskovac	25,000sqm
Health Care Europe	Light industrial	Ruma	10,000sqm
IMI	Light industrial	Niska banja	14,000sqm
Yura	Light industrial	Leskovac	n/a
Albon	Light industrial	Ruma	11,000sqm
Caminada	Light industrial	Subotica	3,000sqm

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