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SERBIAN REAL ESTATE MARKET OVERVIEW H2 2015

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Macroeconomic indicators

The real decrease of gross domestic product in the first quarter of 2015, compared with the same period last year, was 1,8%. In Q2 economy achieved growth of 1% and in Q3 2,2%. Projection of deficit for 2015. is around of 4% of the budget and it will be on level of 1,2bn dollars. In period january-august the estimated income of Foreign direct investment (FDI) was 1.0 billion EUR and the estimated net income SDI for 2015 was 1,3 billion EUR.

Yoy inflation during the first and the second quarter this year continued to decrease under the lower acceptable limit. According to NBS, yoy inflation in January 2015 recorded a minimum value of 0,1%. In February started mild growth of 0,8%. Growth continued in March when inflation reached the level of 1,9%. In the last months of the year yoy inflation was 1,5% which is considered as the best result.

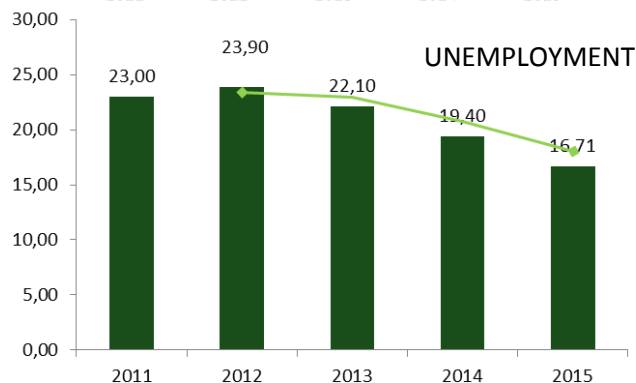
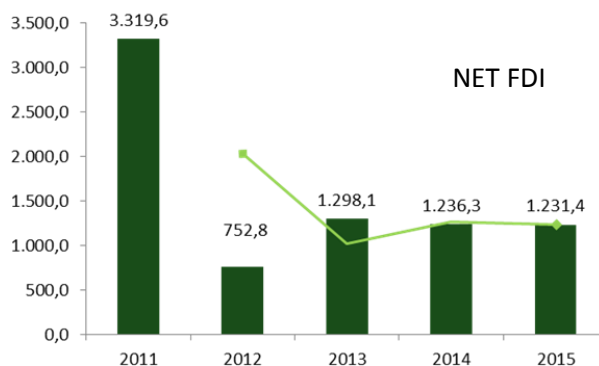
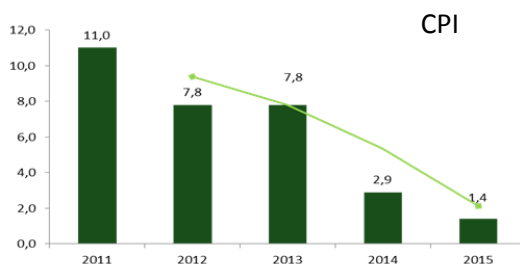
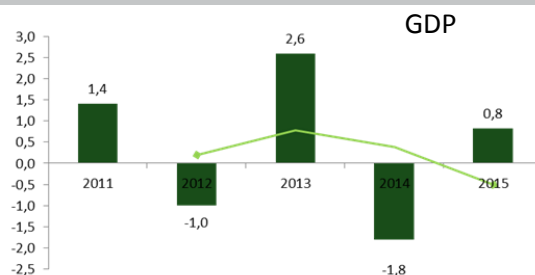
The whole extrenal trade between Republic of Serbia for the period of January – October 2015 is: 3,5 million eur – growth of 6,7% comparing to the same period last year.

The export of the goods was 10,05 million eur, and it represents a growth of 8,5% according to the same period last year. The import was 13,53 million eur, which represents a growth of 5,3% according to the same period last year. External trade deficit for this period is 3.051,5 million eur, which represents a decrease of 3,0% according to the same period last year.

The unemployment rate in the Q3 of 2015 amounted to 16,7%, and decreased by 14% compared to 2014.

Average nominal net salary in the Republic of Serbia in Q4 was 51.485 RSD (420 EUR) and it was similar as the last year, while comparing to the third quarter it increased by 15%.

At the last meeting of the NBS Executive Board on October 14th, the reference interest rate was reduced by 0.5 percentage points to 4.5 percent





Office market

Supply

During H2 2015 Belgrade market witnessed delivery of one Grade A office building – 1st phase of GTC Fortyone project enlarging total modern office stock for 10.000 sq m GLA. Second phase of Fortyone project with an area of 8.000 sq m GLA has started with construction in Q3 2015. With adjoining 3rd phase whole project will comprise total of 27.000 sq m GLA.

At the end of H2 2015 total modern office stock of Class A and B comprised the total of 600.000 sq m GLA, out of which Class A amounts to 63% and Class B to 37%.

Pipeline

Modern office stock is expected to increase in the following period due to future office development arrivals majorly within New Belgrade CBD zone.

PIPELINE OFFICE PROJECTS					
Project / Investor	Location	Area (sq m)	Purpose	Delivery date	Status
GTC "Fortyone" (phase 2)	Block 41, New Belgrade	8.000	Speculative	Q3 2016	Underconstruction
Airport City "2100"	Airport City complex, New Belgrade	12.000	Speculative	Q1 2016	Underconstruction
MPC "Navigator Business Centre"	Block 43, New Belgrade	14.600	Speculative	Q4 2016	Underconstruction
Deneza office building	Tosin Bunar, New Belgrade	2.981	Speculative	Q1 2016	Underconstruction
Societe Generale	Bvd. Zorana Djindjica, New Belgrade	11.000	Owneroccupation	Q1 2016	Underconstruction
EDB	Block 32, New Belgrade	5.000	Owneroccupation	Q3 2016	Underconstruction
Delta Holding Headquarters	Block 20, New Belgrade	20.000	Owneroccupation	n/a	Pipeline
Immorent "Sirius offices" (phase I)	Block 43, New Belgrade	18.500	Speculative	2016	Pipeline
Granit Invest	Mutapova st, Downtown area	2.700	Speculative	Q1 2016	Underconstruction

Demand

When analyzing market activity, during H2 2015 it was dominated by net take-up recording share of 85% for new lease and 10% for relocations, while renewals amounted to 5% of total gross take-up.

IT and Banking sector remained the main drivers of demand growth in the office real estate market.

Rental levels

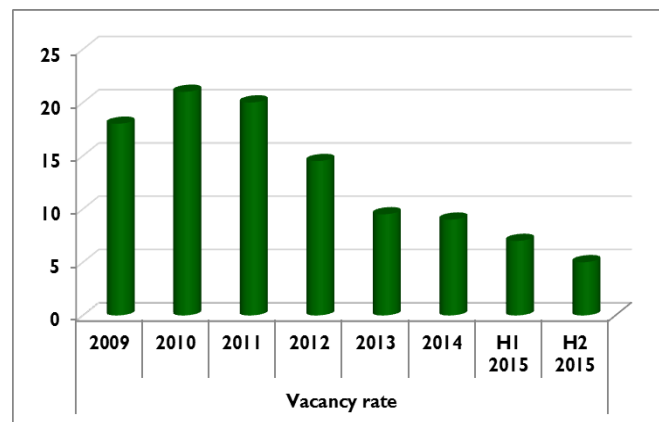
During H2 2015 rental levels remained stable recording prime asking rents for Class A office buildings in CBD zone in range EUR 15 -17 per sq m GLA, while for Class B in range EUR 11 -13 per sq m GLA.

Yields

Estimated prime office yields decreased ranging at levels of 8.5% - 8.75%.

Vacancy rate

Rapid absorption of modern office space and limited delivery of new office completions resulted in continual downward trend of vacancy, reaching level of 5% at the end of H2 2015. Due to the announced pipeline projects, the slight increase in vacancy rate is expected in following two years.





Retail market

Supply

Retail stock in Serbia is estimated at 790,000 sq m. Modern shopping center stock in Belgrade is estimated at 260,000 sq m, whereas the prime shopping center stock is 128,000 sq m of GLA.

Retail parks in H2 2015 remain the most developed sub-sector for investors due to the fact that make most of retail investments in Serbia. Aviv Arlon Holding the Israeli investor company has been open two retail projects Aviv Park in Zrenjanin in October 2015 and Aviv Park in Zvezdara in November 2015. It is almost 35.000 new sq. m on the market but despite of that with figure of 61, Serbia still have the lowest density (GLA/1.000 population) in Central and Eastern Europe.



Picture: Aviv Park, Zrenjanin

Pipeline

The company Plaza Centers Serbia announced that they received a building permit for construction of a shopping mall in Belgrade, Višnjica. Belgrade Plaza with 32.335 GLA is an investment worth EUR 80 million and is located in Visnjicka street near the River Danube. Construction began in October 2015, and completion is expected in the first half of 2017.



Picture: Aviv Park, Zvezdara, Belgrade

MPC Properties start construction of first retail park in Subotica with total area 10.000 sq m.

Capitol Park Rakovica, joint investment of the British company 'Poseidon Group' and the Belgian 'Mitiska REIM', will be the largest retail park in Belgrade and the first destination for shopping and entertainment in the municipality of Rakovica. The starting of construction works are expected in IQ 2016.

New opening were announced for 2017 from Avital in cooperation with Ashtrom International Israel for shopping center Rajiceva. GLA of this mall will be 16.500 sq m.

Extra Center Idea changed the concept after supermarket Idea left and now works as a community center with several large and small tenants such as Forma Ideale, DM, Takko and Jysk.

Work on the construction of a new retail center in Nis "Stop Shop" well underway, with completion and opening is expected in April next year. Shopping center, will be build as a series of ground-level shops and it is located on the site of a former motel "Median".



Retail market

Market activity in retail sector is likely to continue to benefit from investors interest for new projects.

Demand

The strongest demand amongst both local and international retailers is for retail park projects, which have been developed in the last several years, due to the lowest costs of leasing space in such projects. As for street retail, there is a slight demand. Only prime units are leased in short time, while the average ones remain vacant for a longer period of time or change several tenants in less than a year.

Retail brands

In 2015, only one new international brand **LC Waikiki** entered the Serbian market.



Investments / Acquisitions

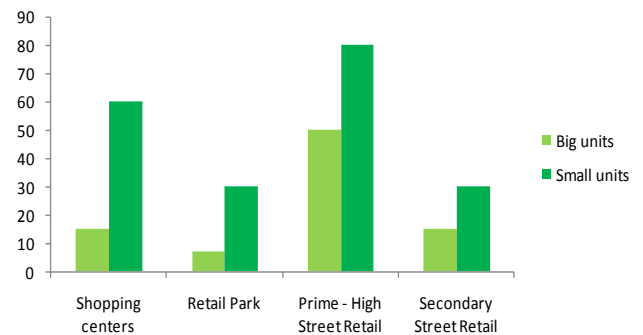
Investment company Atterbury Europe took over one-third share of one of the largest Serbian companies for real estate development, MPC Properties.

Rents

Average monthly rent in prime shopping centers has decreased and now stands at EUR 26 per sq m. In shopping malls rents range from 15 to 60 EUR per sq m, while in retail parks they vary from EUR 7 - 25 per sq m depending on the size and position of the shop. Some of the anchor tenants agree to pay only percentage of a turnover as monthly rent without minimum rent set.

Rents for prime locations in Belgrade range between EUR 30 – 80 per sq m per month. The same situation is with rents of secondary location and these range from EUR 10 – 25 per sq m per month.

Average retail rental levels



Source: Danos Research

Yield

Yield remains stable at 8.5% for prime shopping malls and 9 – 9.5% for retail warehouses.



Residential market

Supply and pipeline

In recent years Novi Beograd has been very attractive for investors due to its good position, excellent infrastructure, spacious areas for construction as well as a number of office buildings constructed in that part of town from 2007 till today. At the moment the biggest part of the ongoing projects are located in New Belgrade.

Construction of the first two residential buildings in the project Belgrade on water has begun on September with the total area of 68.000 sq. m and approx. 300 residential units.

Construction of the complex called Sun City in Block 63 at the corner of Jurija Gagarina Street and Gandijeva Street has been announced. The investor is Energogroup, the start of construction is scheduled for January 2016 and completion is scheduled for Jun 2017. The total area is 33,000 sq. m, with 194 residential units and 350 garages.



Picture: Sun City, New Belgrade

Project	Developer	Address	No of units
Savada	Neimar V	<u>Omladinskih brigada</u> , New Belgrade	303
ABlok	Deka Inženjering	<u>Omladinskih brigada</u> , New Belgrade	840 (2 nd phase 230 units)
Sun City	Energogroup	<u>Jurija Gagarina</u> , New Belgrade	194
BW Residence	Eagle Hills	<u>Savamala</u> , <u>Savski venac</u>	300 (1 st phase)
Central Garden	AFI Europe&Shinkun Binui Group	<u>Dalmatinska</u> , <u>Zvezdara</u>	500
Paunov breg	CPI	<u>Paunova</u> , <u>Vozdovac</u>	201 (2 nd phase 94 units)

According to available data, the total number of sold apartments in Belgrade is 8102 and the largest number of sold units in the second half of 2015 relates to the Novi Beograd and Vozdovac.



Source Republic Geodetic Authority



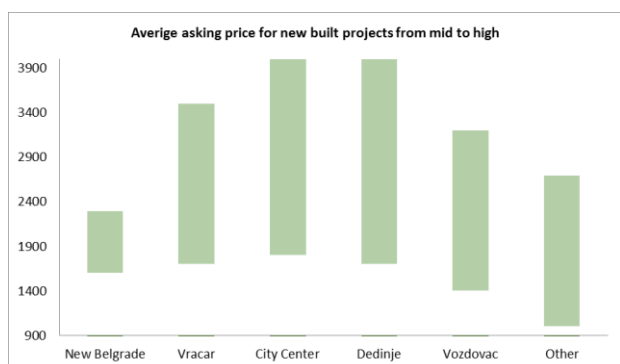
Residential market



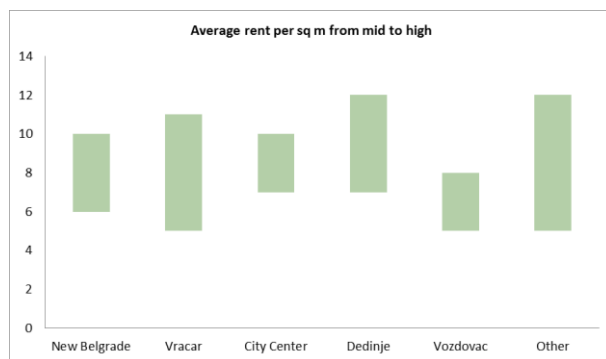
Picture: BW Residence, Belgrade

Demand

In the previous period the demand for the purchase of housing in New Belgrade is increasing and follows the trends of the first half of 2015. The reason for this is the modern and high-quality projects that are built or in the stages of construction. In addition with this is the fact that a large number of apartments, even a 50-60% has been sold in the initial stages of construction. Such is the situation for all stages of ABlok, Savada and a new residential complex called Sun City. For other parts of the city the highest number of transactions was in the municipality of Vozdovac and Zemun.



The demand for rental housing in the second half of 2015 remained at the previous level. Growing interest shown during September and October and concerns small housing units in the center of town while demand for larger and more luxurious units in exclusive parts of the city remained at the level of the first half of 2015. Senjak and Dedinje are still first choice for luxurious apartments and houses while Novi Beograd increasingly meets the demand of foreigners employed in multinational companies whose headquarters are in New Belgrade. The existing offer on the market is diverse and can meet the requirements of potential tenants according to their abilities and needs.



Sale prices

According to the available data, in H2 2015, the sales prices of apartments have remained unchanged in comparison to the H1 2015. For projects that are characterized by a higher quality of construction (mid-end), the selling price for most attractive municipalities are in range between 1.600 and 2.200 EUR / m², while the starting price of luxury residential building projects (high - end) is 2.200 EUR / m² and up.



Industrial and logistics market

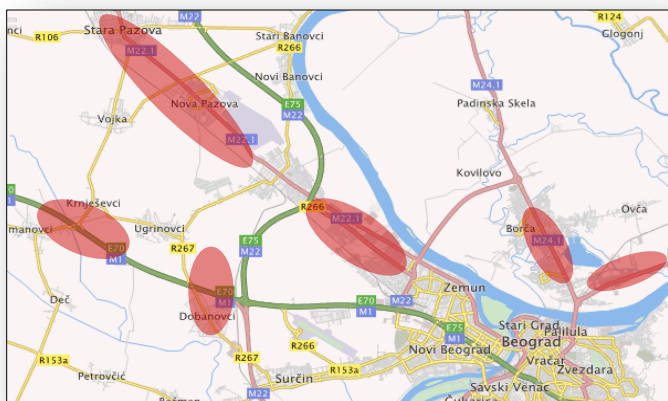
Supply

- Industrial market has been influenced by economic situation, export-import policy of the country, quality of the transportation network and growing retail sector;
- Logistic facilities continue to develop in wider territory of Belgrade in the closer area of the highway E75 and E70, while industrial facilities continues expansion in smaller regional cities;
- Development of industrial facilities has been more extensive than development of logistic facilities;
- During H2 2015 was recorded lack of modern logistics facilities.

Demand

- Strong demand for logistic facilities comes from retailers, manufacturers, distribution and transportation companies.
- Despite of slow economic recovery development of logistic facilities remains positive.

POPULAR LOCATIONS FOR LOGISTIC FACILITIES DEVELOPMENT



Finished developments

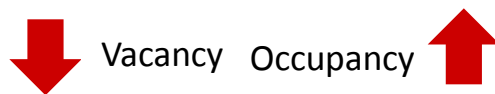
Investor	Distribution/production	Region	Size (sq m)
Gebruder Weiss	Distribution	Dobanovci	9.000
Johnson Electric	Production	Niš	10.000
DM Drogeriemarkt	Distribution	Šimanovci	5.000
Svarovski	Production	Subotica	15.000
Leoni	Production	Niš	25.000
Vibak	Production	Jagodina	70.000

Announced

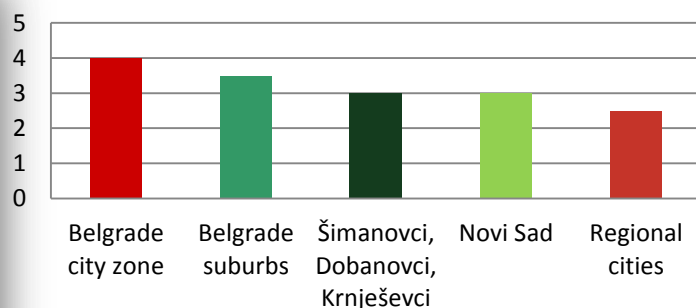
Investor	Distribution/production	Region
Lidl	Distribution	Nova Pazova
Gomex	Distribution	Zrenjanin
Triumf bis	Distribution	Zrenjanin
Truck-Lite Europe	Production	Čuprija
Al-Rafideen	Production	Leskovac

Rental levels

- Rental level for prime stock remain stable in the second half of 2015.
- Older facilities with lack of modern features achieve lower rental level.



Average rental rates





Agricultural Market

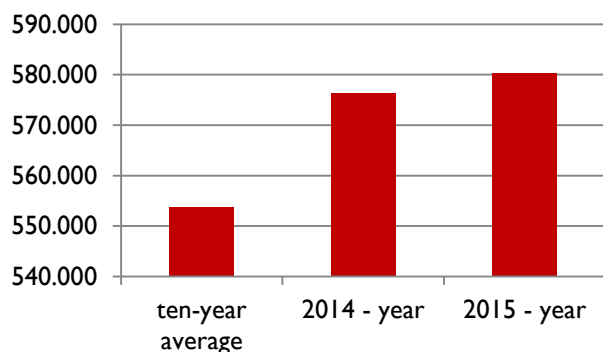
Supply

- Serbia has total of 5.06 mill hectare of agricultural area, out of which arable land occupies 3.3 mill hectare, which results in 0.70 hectares and 0.45 hectares per capita respectively;
- At the end of H2 2015, supply of state owned agricultural land stood at 830,000 hectares;

Demand and trends

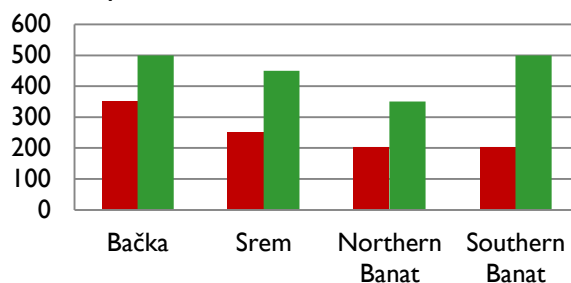
- Traditionally, arable land market is most active within Vojvodina area predominantly in Srem, Banat and Bačka;
- Adoption of Law on agricultural land in Q4 2015, contributed to further expansion of rental market of state-owned agricultural land. According to new regulations, 30% of total area can be leased to potential investors on a period up to 30 years;
- Investment in agricultural land certainly represents the safest way of investments.
- Size of agricultural land is one of the most important factors of its value;
- Traditionally, wheat, corn, sunflower and soybean are the most common culture on arable agricultural land in Serbia.
- The total sown area in H2 2015 is 737,127 hectares which recorded increase of 0.8% compared to 2014.

Sown area with wheat in the fall of 2015 (he)



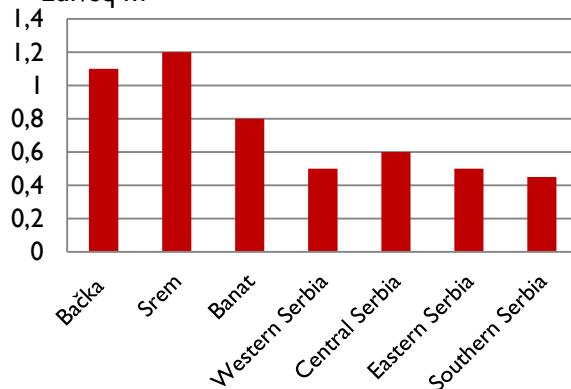
Rental Rates

Eur/he/year

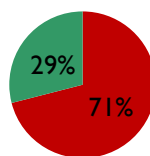
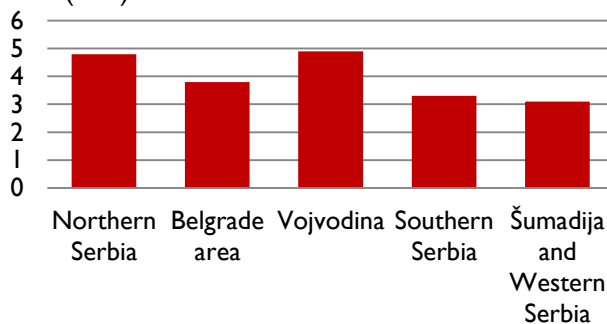


Sales Prices

Eur/sq m



Wheat yield (t/he)



- Cultivated land (arable land, orchards and vineyards)
- Grassy areas (meadow and grassland)



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