

Quick stats

	Change from H2 2010
Take-up	↑
Supply	→
Vacancy	↓
Rents	→

S&P'S LTFC Rating

BB/Stable

Hot Topics

- Vacancy reached the level of 2009, and currently stands at app. 24%
- Unemployment rate in April 2011 stands at 22.2%, an increase of 3% from October 2010
- The total take-up in office market segment during H1 2011 amounted to app. 24,000 sq m of GLA

H1 2011 From expert's point of view

Goran Zivkovic, Director of Agency Services:

"Driven by new market entries and by stable demand, vacancy rate continues its downward trend currently standing at around 24%. Due to the postponement of completion dates of new deliveries, the vacancy is expected to further fall throughout the year."

ECONOMIC OVERVIEW

The World Bank had approved a financial guarantee to Serbia of up to EUR 300 million (\$400 million), in February, to help the country to support its budget and refinance its debts at a reduced cost.

Serbia and the EU signed bilateral protocol on the liberalization of markets for goods and services within the framework of Serbia's accession to the World Trade Organization (WTO) in January.

In accordance with the data from the Statistical Office of Republic of Serbia, the retail trade turnover in the Republic of Serbia in the period January - June 2011, compared to the same period 2010 decreased by 1.9% at current prices and by 13% at constant prices.

The industrial production in the Republic of Serbia in June 2011, when compared to June 2010, increased by 3.3% and in relation to 2010 average, it increased by 4.4%. In the period January- June 2011, relative to the same period 2010, industrial production increased by 4.8%.

The average net salaries and wages paid in the period January – June 2011 in the Republic of Serbia, compared to the average net salaries and wages paid in the period January – June 2010, rose by 10.6% in nominal terms and dropped by 2.2% in real terms.

Unemployment rate in April 2011(22.2%), increased by 3%, compared to October 2010, while in the city of Belgrade it amounted to 18.9%

Policy rate reached its' peak as the National bank of Serbia Monetary Policy Committee rose the key policy rate by quarter of the percentage point in March, when it equaled 12.50 percent. June brought a slight relaxation with a quarter of a percent, marking a year to date change of 50 basis points, and at the end of H1, the policy rate is standing at 12%.

According to the National Bank of Serbia, inflation has reached its maximum in the second quarter of this year, after which it is expected to slowdown and approach the upper limit of the tolerance of the goal. Inflation decline from mid-2011 is expected to come as a result of past monetary policy measures, weakening of the cost-push pressure on food prices, low aggregate demand and stronger dinar.

Consumer prices in June 2011 increased by 12.7% in relation to June 2010, while the inflation is expected to return within the target tolerance band in the first half of 2012, and come close to the target midpoint in the second half of that year (end-2012 target: 4±1.5%).

Total annual GDP in 2010, obtained as the sum of four quarters, increased by 1.8%, when compared to 2009. The real GDP growth in the 1st quarter of 2011, compared to the corresponding period of the previous year, amounted to 3.4%. According to seasonally adjusted GDP data, the economic performance increased by 1.5% in the first quarter of 2011, as compared to the previous quarter.

Key economic indicators - Serbia

	2008	2009	2010	2011F	2012F
Nominal GDP (EUR bn)	32.7	28.9	28.6	33.5	37.3
Per capita GDP (EUR)	4,443.5	3,942.7	3,917.1	4,607.4	5,150.4
Net FDI (EUR bn)	1.8	1.4	0.9	2.0	2.0
Real GDP, yoy (%)	3.8	-3.5	1.8	2.7	3.5
Inflation (CPI), yoy, avg. (%)	11.7	8.4	6.3	12.5	7.9
Unemployment rate (%)	13.7	16.1	20.0	19.5	18.8
Exchange rate RSD/EUR, eop.	89.8	96.2	106.1	100.0	103.0
Exchange rate RSD/EUR, avg.	81.5	94.1	103.1	101.0	101.5
Current account balance/GDP (%)	-21.6	-7.2	-7.3	-8.3	-7.8
FDI/GDP (%)	5.6	4.8	3.0	6.0	5.4
Budget balance/GDP (%)	-2.6	-4.5	-4.7	-4.5	-3.9
Total foreign debt/GDP (%)	66.7	78.9	83.3	77.7	77.8

UniCredit Group New Europe Research Network June 2011

BELGRADE OFFICE MARKET

The contemporary Belgrade office stock of Class A and Class B buildings remained unchanged and at the end of first half 2011 equaled app. 500,000 sq m of GLA. The stock of modern office space per one thousand inhabitants, currently stands at app. 311 sq m in Belgrade, some three times lower than in Bucharest and Sofia.

SUPPLY

With no active construction realised during the first two quarters, the development of announced 50,000 sq m of GLA Class A office space remains uncertain.

In terms of relative development, Belgrade market has been enriched with almost a quarter of a million of sq m of office space over a four-year period. Compared to other capital cities in the SEE region, Belgrade had a modest development. Bucharest and Budapest noted a development of over a million sq m each, while Sofia developed more than three-quarters of a million. The only regional capital not to witness great development was Zagreb, with less than 100,000 sq m of modern office space.

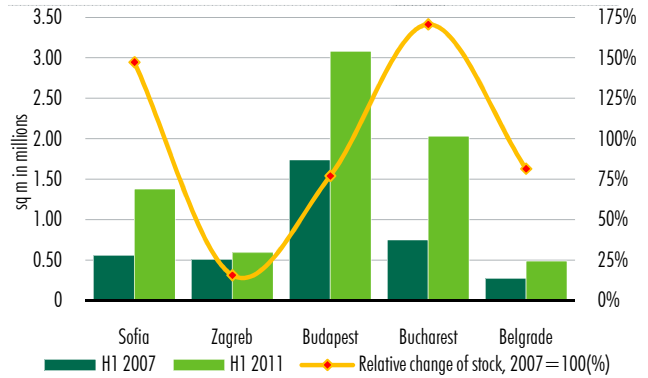
DEMAND (TAKE-UP)

Belgrade office market continued to record stable demand, as the results accomplished in the first two quarters are higher when compared to take-up realized in first or second half of 2010, amounting to over 24,000 sq m of GLA. Compared to the same period of previous year, take-up in H1 2011 showed the increase of app 36% and an increase of around 42% compared to the previous half.

The analysis of the size of office requirements in the first half of 2011 indicates that around 42% of the signed lease acquisitions are lower or equal to 300 sq m. Around 50% of companies that take on office space of less than 300 sq, are new entrants which initially start off with smaller areas and then expand as the business activities pick up. Whereas the rest of office recorded transactions were equally distributed among deals in-between 300-600 sq m and larger than 600 sq m of space.

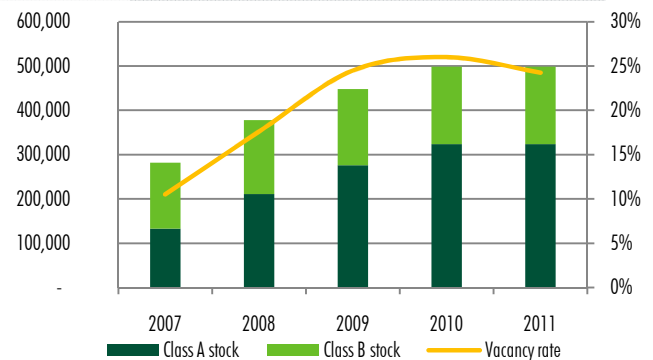
In terms of occupier profile, IT sector was the most active sector, accounting for almost the third (30%) of all lease agreements. The second most active sector was Professional Services with 16% of lease agreements and 15% of leased space during the observed period. Public sector came in third with app.11% of space leased. Manufacturing, strong in number of lease agreements (11%), makes up for around 6% of leased space.

Modern office stock and relative change in SEE region, H1 2007- H1 2011



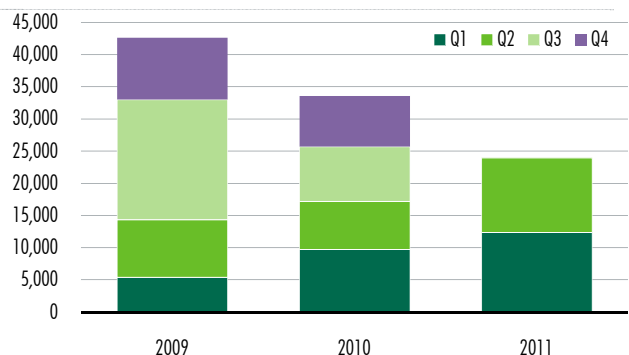
Source: CB Richard Ellis

Belgrade office stock (sq m GLA)



Source: CB Richard Ellis

Quarterly leasing activity 2009-2011 (sq m in GLA)



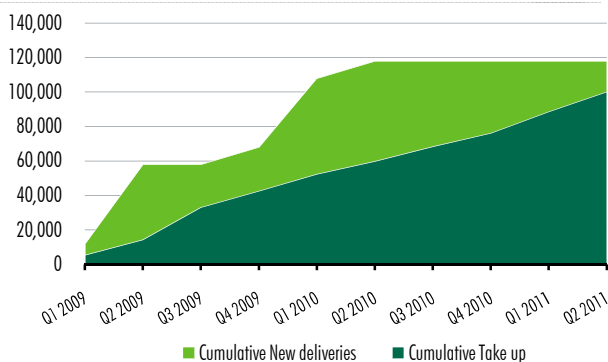
Source: CB Richard Ellis

Selected lease transactions in H1 2011

Tenant	Building	Size (sq m)
SGS	Union Plus	900
Lidl	NTC	900
Sanofi Aventis	Bluecenter	850
SunGard	Red Stripe	670
Cacanska Banka	M-Invest	570
Boehringer Ingleheim	Sava Business Center	525
Wrigley	Airport City Belgrade	360
ASUS	Airport City Belgrade	240
Alcatel	West End	230

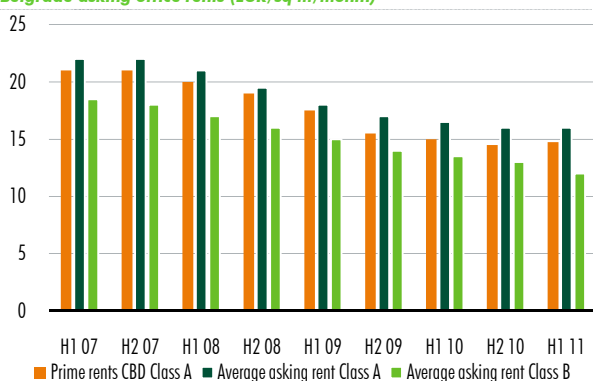
Source: CB Richard Ellis

The comparison of cumulative take up and cumulative new deliveries to the market, starting with Q1 2009 till Q2 2011 (in sq m of GLA)



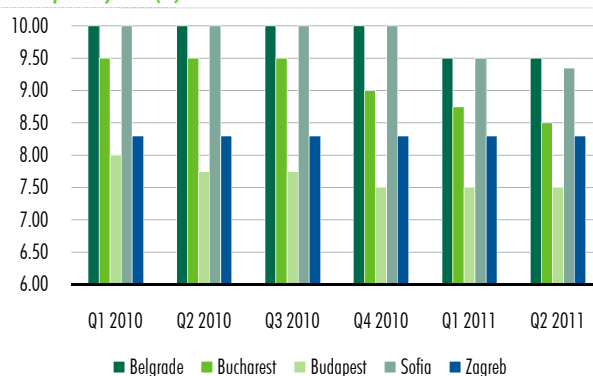
Source: CB Richard Ellis

Belgrade asking office rents (EUR/sq m/month)



Source: CB Richard Ellis

Office prime yields (%)



Source: CB Richard Ellis

Office projects currently under development or in pipeline

Project	Location	Developer	GBA (sq m)	Completion date
B23	New Belgrade	Verano Group	53,000	N/A
Eurocentar II	Downtown	Lion Belf	7,000	Q3 2011
Tri Lista Duvana	Downtown	MPC	17,000	Q1 2012
Raiffeisen Bank HQ	New Belgrade	Raiffeisen	21,000	Q1 2012
Falkensteiner Hotel	New Belgrade	Falkensteiner Group and MOF Beta Estate AG	24,000*	Q4 2012
Banca Intesa HQ	New Belgrade	Banca Intesa	32,000	Q4 2013

*Office part- cca.6,000 sq m
Source: CB Richard Ellis

In terms of distribution of total lease activities for 2011 by location, New Belgrade submarket remains the target area for a large portion of tenants, primarily due to the better choice of modern Class A buildings currently offered. The interest in downtown area is still strong, but without the introduction of more modern and refurbished office buildings, the tide is on the New Belgrade, which has asserted its' role as new central business district.

VACANCY

Due to the fact that the office stock retained the achieved levels by H1 2010, vacancy is continuing to mark a downward trend and similar to the yearend 2009, currently stands at around 24%. The downward vacancy rate trend is expected to continue throughout the year.

RENTAL LEVELS

Rental levels of both Class A and Class B office space remain mostly stable and unchanged compared to Q4 2010. Asking rental values of Class A office buildings vary between EUR 14-16/sq m/month, while average asking rents of Class B stock amount to around EUR 12/sq m/month.

However, the achievable rental levels, with incentives included, are standing at around EUR 13.5 EUR/sq m for Class A and EUR 10/sq m/month for Class B buildings. Nevertheless, a slight rise of EUR 0.5/sq m of the prime rent is notable as compared to the previous half.

The landlords are still offering more flexible incentive packages in contract negotiations (whether in terms of rent-free period, fit-out contribution or better parking ratio).

FUTURE SUPPLY

Despite the fact that in recent years, office market was considered as very attractive segment for the investors, the turmoil on the world's financial market has influenced the investors to be rather cautious with regard to new investment decisions and projects. This means that majority of projects, although planned for development, are put on hold or postponed for uncertain period.

Owner occupier office buildings, currently under construction Raiffeisen HQ and announced Banca Intesa HQ, might further affect the vacancy (in an upward sense), but due to the lack of considerable new projects currently in early construction phases, it is expected that in longer term vacancy rate will continue to note a decreasing trend.

Further higher tenant expectations, particularly in terms of rent free periods and other incentives are expected, although rents are expected to remain at their current levels.

Definitions

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.

Stock – modern office space in Class A and Class B buildings excluding owner occupied/governmental buildings

Pipeline developments – office space currently being developed/under construction

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

Take-Up – office space leased or pre-leased in a given period

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

Belgrade office space submarkets



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