

## Belgrade Residential Market

H1 2011

## Quick stats

	Change from H2 2010
Supply	→
Demand	↓
Prices	→

## S&amp;P'S ITC Rating

BB/Stable

## Hot Topics

- Inflation moved to the upper limit of this goal in H1. Consumer prices in June 2011 increased by 12.7% in relation to June 2010.
- Unemployment rate in April 2011 stands at 22.2%, an increase of 3% from October 2010
- 1.6 billion dinars made available for subsidized housing loans.
- LTV ratio changed from 90% to 80%, effective as of July 1<sup>st</sup>. LTV-The loan-to-value ratio expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property

## H1 2011 From expert's point of view

Vladimir Popovic, Head of Residential:

"The Government decision to change the LTV ratio (from 90% to 80%) might have a negative effect on future lending process dynamics. Belgrade's offer should prove more competitive with the commencement of several high scale projects and will offer a variety of choice to future potential owners."

## 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%

## 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 RESIDENTIAL MARKET

In order to mitigate the effects of the global economic crisis in 2011, the government has approved the programme of subsidizing housing loans. The loans will be approved according to the same criteria as last year, except that the percentage of citizens' participation in financing was increased to 10% from the previous 5%. The amount made available for this purpose is 1.6 billion dinars, marking a reduction of 1.2 billion from 2.8 billion dinars made available last year for subsidized housing loans. This programme applies only to newly constructed housing units.

Despite of certain slowdown in construction activities in the winter period, a drop of 33% in a number of issued building permits for new residential buildings in 2010 compared to 2008, and postponements of announced projects, 2011 brought positive movements in Belgrade residential property segment.

### SUPPLY

The signs of recovery and certain positive movements in Belgrade residential market, in terms of supply, are becoming more evident. A significant number of residential projects, both high-quality and mid-end projects, are currently under construction, which will further enrich the residential property market in the next several years.

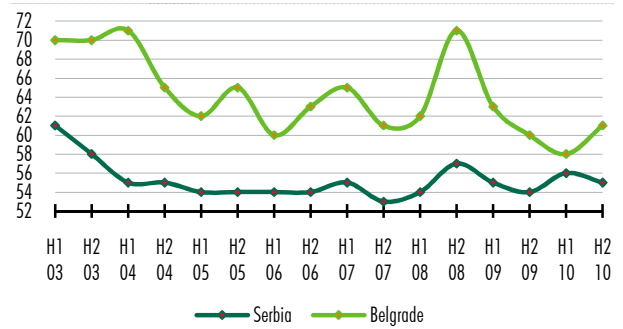
Currently, the largest future project is located in Vozdovac residential area, where the Building Directorate of Serbia is managing the development of Stepa Stepanovic building site, on behalf of the Government of Serbia. In February the construction commenced. Currently, there are 2,600 units under construction, totalling around 250,000 sq m of residential area. The entire complex will consist of 4,578 apartments.

In terms of prospective offer for second yearhalf, Adoc's Bokeljska 7 project, is going strong with the completion deadline set for August. By the yearend, the high end market offer will be refreshed with the completion of Imperial gradnja's Maxima Center second phase.

The end of March brought the start of new construction development, West 65 in New Belgrade, the developer being PSP Farman. The residential part is to hold 514 residential units, totalling around 50,000 sq m of GBA, while the development is divided into eight stages and the entire residential complex is scheduled for completion by Q1 2014.

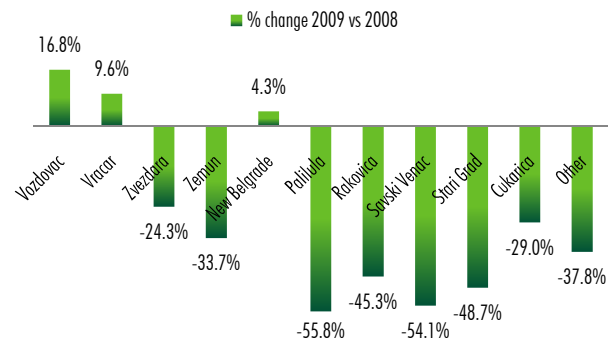
FMP group has announced its' plans to develop a commercial-residential complex holding a total of 130,000 sq m at the former location of FMP production factory in Cukarica. The residential part of this complex will consist of 500 units or around 30,000 sq m GBA. Completion dates are still uncertain.

Average size of newly constructed apartments in Serbia



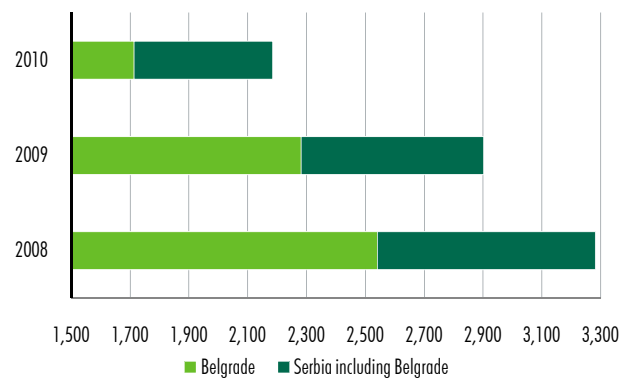
Source: Statistical Office of the Republic of Serbia

Change of constructed apartments in Belgrade's municipalities



Source: Statistical Office of the Republic of Serbia

Number of issued permits for new residential buildings 2008-2010



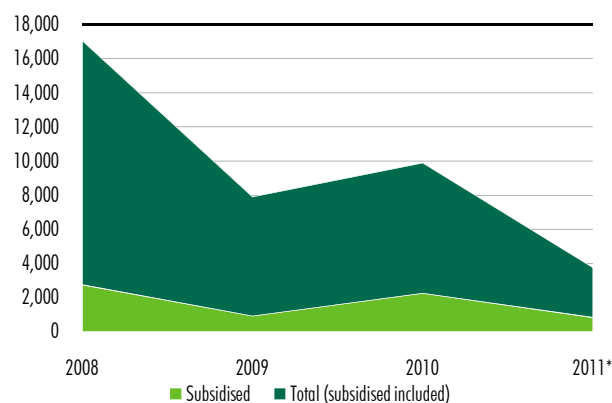
Source: Statistical Office of the Republic of Serbia

Selected residential projects in development in Belgrade during H1 2011

Project	Location	GBA (sq m)
Stepa Stepanovic	Vozdovac	250,000
Bokeljska	Vracar	7,500
Koling Zeland (residential complex)	Dedinje	10,000
Maxima Center Imperijal gradnja	New Belgrade	22,000
West 65	New Belgrade	50,000
Golf 8	Banova Brdo	31,000
Marmil Land	Vracar	18,000

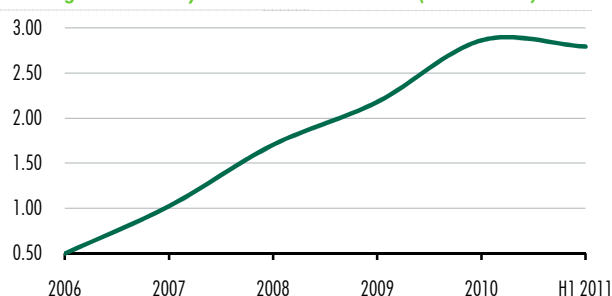
Source: CB Richard Ellis

Number of housing loans taken by Serbian citizens from 2008



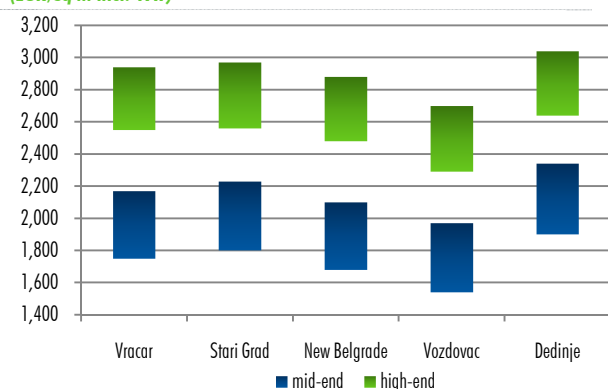
\*June half  
Source: National corporation for insurance of housing loans

Housing loans taken by Serbian citizens from 2006 (in billion EUR)



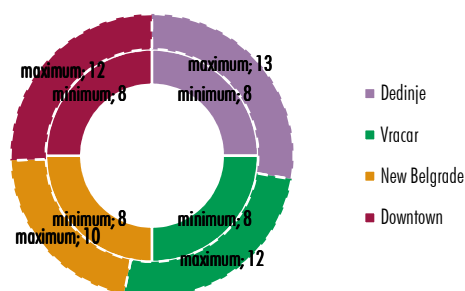
H1 - Jan-May  
Source: Association of Serbian banks

Average asking prices of high-end and mid-end projects in Belgrade (EUR/sq m incl. VAT)



Source: CB Richard Ellis

Rental levels in H1 2011 in Belgrade (EUR/sq m/month)



Source: CB Richard Ellis

## DEMAND

As there is no evident rise in living standard, most of population whose main source of financing is taking out a loan, are postponing their decision.

According to the Association of Serbian banks, the number of housing loans taken out by Serbian citizens fell by less than 1% in March 2011 as compared to 2010-year-end, and this is the first time in the past few years that all forms of loans are on the decline. Thus far, loans have been the mayor driver in residential demand.

At the recommendation of the National Bank, banks may approve mortgage loans provided that the amount of the loan does not exceed 80% of the value of the property mortgaged as determined by an authorised appraiser and reduced by the amount of other receivables secured by the first rank mortgage over the property. The Government subsidised loans remained unaffected by this measure since the loan holder participates with 10% and the government with 15%, which combined, caps the minimal of 20%. Remains to be seen if the change of LTV ratio (The loan-to-value (LTV) ratio expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property) will greatly influence the borrowing process, which is already showing receding signs. This Government measure came into effect as of July 1<sup>st</sup>

According to the Statistical Bureau of Serbia, the number of sold newly built apartments in the Republic of Serbia in 2010 decreased by 24.3% as compared to 2009. Nonetheless, we are still recording high level of interest for one bedroom units at central Belgrade locations with budgets around EUR 100,000 and 2- bedroom units for cca. EUR 120,000.

## SALES PRICES

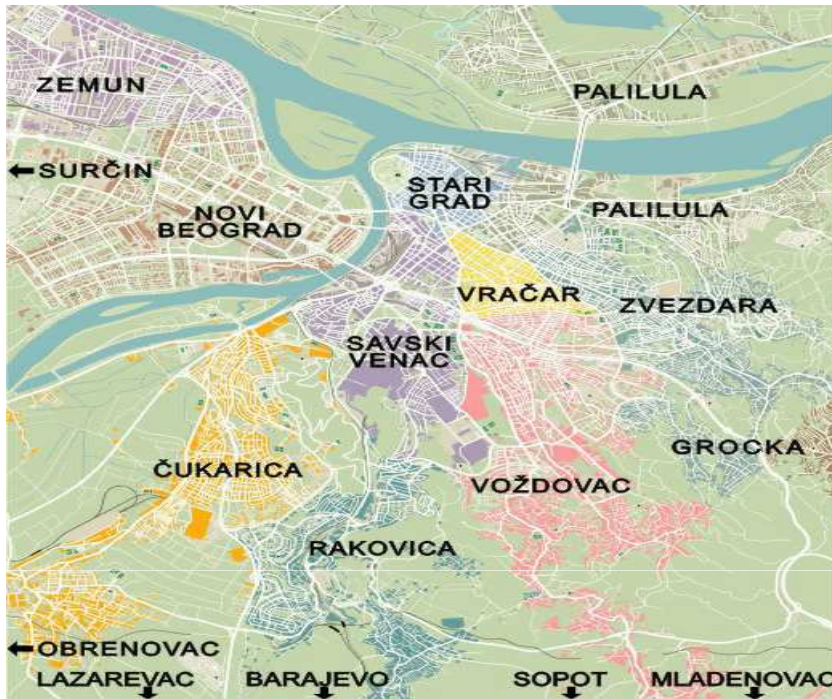
As the prices of residential units depend on the attractiveness of location, proximity to downtown, quality of finishing works and general condition of the property, the asking prices of high-quality projects remained mostly unchanged in comparison with the previous year half, varying between EUR 2,300-3,000 inclusive of VAT, while mid-end projects, characterised by medium quality of finishes, range between EUR 1,500-2,200 inclusive of VAT.

Government project Stepa Stepanovic, is aimed at supporting the construction industry alleviate the effects of economic crisis as well as helping general population resolve primary housing needs. Although the quality of construction works indicates a mid-end range, the project price is slightly below the mid-end, ranging between 1,250-1,290 EUR per sq m.

## RENTAL LEVELS

Although the previous year brought the decline in rental prices, the beginning of this year noted the rent stabilization. The first half of 2011 marked a steady rental demand, with rental levels remaining the same as in the previous half, standing between EUR 8-13/sq m, depending on the location and quality of finishing works. Dedinje, Senjak, and Vracar still remain the most interesting locations for foreign expatriates.

### BELGRADE MAP OF MUNICIPALITIES



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