

## Quick stats

	Change from H1 2010
Take-up	↓
Supply	→
Vacancy	↓
Rents	↓

## S&amp;P'S LT FC Rating

BB-/Stable

## Hot Topics

- The average salaries and wages paid in December 2010 in the Republic of Serbia amounted to EUR 371
- Unemployment rate in October 2010 stands at 19.2%, the same level as of April 2010
- The total take-up in office market segment during H2 2010 amounted to app. 16,500 sq m of GLA

## H2 2010 From expert's point of view

Goran Zivkovic,

Director of Agency Services:

During H2 2010 office market has witnessed the stabilization of the prices. Since there are no new office developments in pipeline, and as the completion dates of the projects under construction are still uncertain, vacancy rate is expected to go down till year end. Furthermore, we also expect renewed interest of foreign investors in Serbia, which should positively influence price stabilization."

## ECONOMIC OVERVIEW

The Executive Board of the International Monetary Fund (IMF) completed the sixth review of Serbia's economic performance under a program supported by a Stand-By Arrangement (SBA). It enables the immediate release of EUR 373 million. The Serbian Government has indicated that the drawing of the full amount would bring total disbursements under the program to EUR 1.90 billion.

The Free Trade Agreement between the four EFTA States (Norway, Switzerland, Iceland, and Liechtenstein) and the Republic of Serbia was signed on 17 December 2009. Full application of the Free Trade Agreement between Serbia and the EFTA countries should commence in 2011, after it is ratified by the parliaments of Norway and Iceland, as the agreement has so far been ratified by other two member states.

According to the results published by the Statistical Office of Republic of Serbia, in Q3 2010, GDP increased by 2.7% in comparison with the corresponding period of the previous year. Observed by activities, in the third quarter, the highest growth in the gross value added was noted in the section of financial intermediation (8.7%), section of transport (7.4%) and in the section of mining and quarrying (6.2%), while the major drop was recorded in the section of construction (9.2%) and the section of electric energy production, gas and water (4.4%).

Inflation in Serbia is highly sensitive to changes of energy and food product prices

due to their major share in CPI (consumers price index) and the frequent price oscillations of these products. Although the inflation recorded year low of 3.7% in H1, central bank's end of the year target of 6% was widely overshoot. In December, the inflation reached double figure of 10.3% which as a result had the depreciation of currency during the last quarter.

The net average salaries and wages paid in the Republic of Serbia, according to the Statistical Office of Republic of Serbia, in the year 2010, compared to the average salaries and wages paid in the year 2009 increased by 7.6% in nominal terms and by 0.7% in real terms.

In accordance with the Labor Force Survey, which was conducted in October 2010, unemployment rate in Serbia amounts to 19.2%; i.e. 20.4% in Central Serbia, 20.0% in Vojvodina region and 15.8% in Belgrade. Compared to the previous survey in April, Belgrade has marked a rise in unemployment of 1.8%, but is still well below the national average.

Current economic developments have resulted in several reviews and the National Bank of Serbia (NBS) Monetary Policy Committee raises the key policy rate. From January 2009 NBS had cut the key policy rate by a cumulative of 925 basis points, a trend that was reversed in August 2010. Lastly in December, the rate stood at 11.5%, marking a rise of 350 basis points from May 2010, when key policy rate marked its historical low of 8.0%.

## Key economic indicators - Serbia

	2008	2009	2010E	2011F	2012F
Nominal GDP (EUR bn)	33.4	29.9	29.6	30.3	32.8
Per capita GDP (EUR)	4,545	4,099	4,072	4,184	4,546
Net FDI (EUR bn)	1.8	1.4	1.0	2.2	2.0
Real GDP, yoy (%)	5.4	-3.1	1.8	2.7	3.5
Inflation (CPI), yoy, avg. (%)	11.7	8.4	6.3	9.4	6.7
Unemployment rate (%)	13.7	16.1	20.0	18.8	17.5
Exchange rate RSD/EUR, eop.	89.8	96.2	108.0	117.0	112.0
Exchange rate RSD/EUR, avg.	81.5	94.1	102.7	112.5	114.5
Current account balance/GDP (%)	-21.1	-7.0	-7.9	-8.9	-8.8
FDI/GDP (%)	5.5	4.7	3.4	7.3	6.1
Budget balance/GDP (%)	-2.0	-4.2	-4.7	-4.2	-3.7
Total foreign debt/GDP (%)	65.3	76.1	81.0	85.7	85.3

UniCredit Group New Europe Research Network December 2010

## BELGRADE OFFICE MARKET

Although Belgrade office market was enriched with a few brand new office buildings during H1 2010, its present office stock can hardly be compared to the stock in other capital cities in the region.

The stock of modern office space per capita currently stands at 301 sq m in Belgrade, some six times lower than in Budapest, and less than a half of what Zagreb has.

### SUPPLY

The completion of new office buildings in the first half of the year has pushed the volume of modern office stock towards app. half a million (490,000) sq m, and in comparison with year-end 2009, Belgrade office stock has been enriched by app. 11%, with predominantly A class office buildings.

In terms of location, almost all completed office projects in 2010 are situated in New Belgrade area, which marked a high prevalence of office buildings located in New Belgrade, comprising 75% of the total supply.

Completion dates of several projects announced for 2010, have been postponed for 2011, indicating that the potential 50,000 sq m of GLA which is to come to the market remains uncertain at this point.

### DEMAND (TAKE-UP)

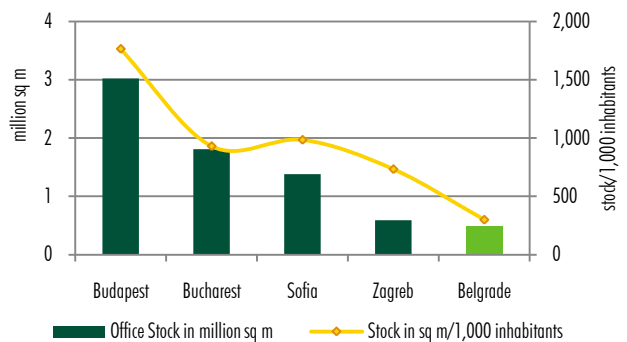
The demand in Belgrade office market in Q4 2010 amounted to 7,800 sq m of GLA. Observing the total take-up in the second half of 2010, it counted for app. 16,500 sq m of GLA, slightly below the results achieved in H1 2010. In comparison with the previous year, take-up in year 2010 showed the decline of app. 20%, although the total number of transactions remained close to the number of transactions realized in 2009 (app. 70); however, the volume of overall transactions is considerably lower as compared to the previous year.

The analysis of the size of signed lease acquisitions in 2010 indicated that even 75% of all deals presumed office requirements lower than 600 sq m, while only 25% of office deals were larger than 600 sq m of space. However, in 2009, the number of signed deals of more than 600 sq m was close to 30%.

Having in mind all recorded transactions in Belgrade office market, the average transaction size in 2010 was app. 510 sq m, lower than the average for the year 2009 being app. 590 sq m, proving that the companies continued to reduce their office space requirements due to cost cutting policies.

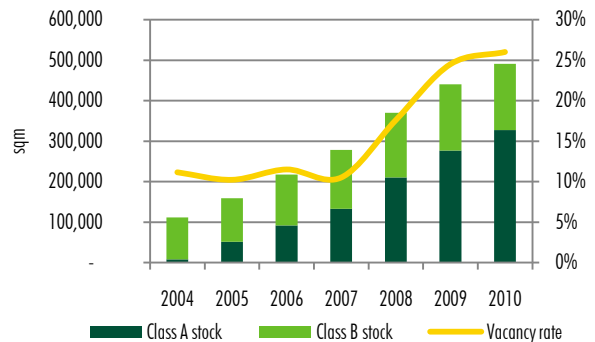
In terms of occupier profile, Banking and Insurance sector remains the most active sector, as in the previous period, with 24% share in H2 2010, which is followed by Advertising and Media sector (21%), IT sector (16%) and Professional Services sector (14%).

### Modern office stock and stock per capita in SEE region, end of Q4 2010



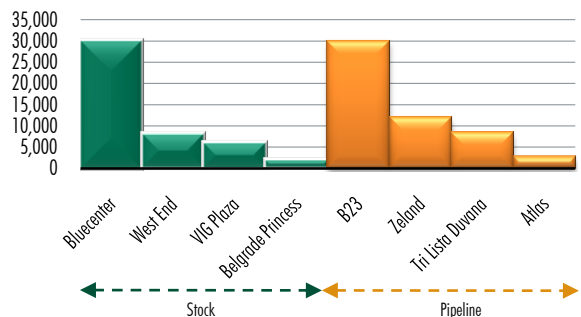
Source: CB Richard Ellis

### Belgrade office stock



Source: CB Richard Ellis

### Completed office buildings and pipeline during 2010 (sq m in GLA)



\* Part for renting. The rest is for owner-occupied purposes

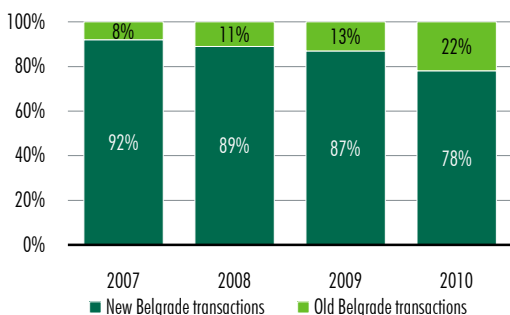
Source: CB Richard Ellis

### Selected lease transactions in H2 2010

Tenant	Building	Size (sq m)
Findomestic Bank	Napred	3,000
Blic-Ringier	Kompresor	3,000
Regus	19 Avenue	800
LG	Bluecenter	500
Puma	Airport City Belgrade	500
Adecco	19 Avenue	415

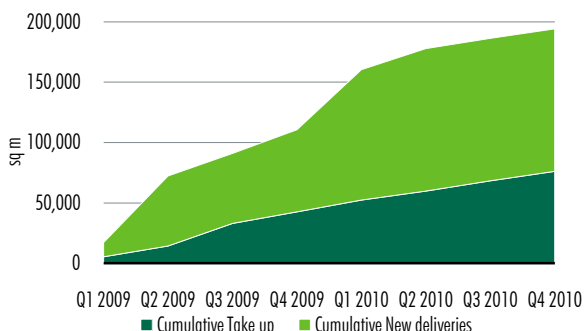
Source: CB Richard Ellis

**Belgrade lease transactions ratio**



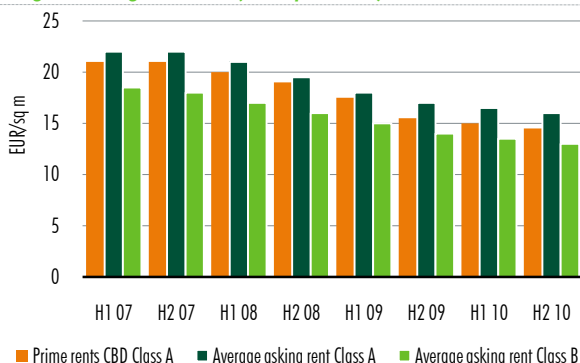
Source: CB Richard Ellis

**The comparison of cumulative take up and cumulative new deliveries to the market, starting with Q1 2009 till Q4 2010 (in sq m of GLA)**



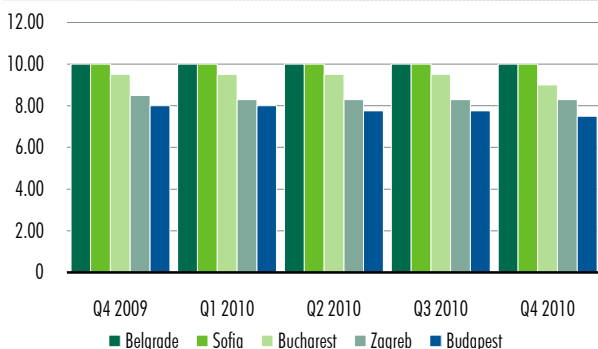
Source: CB Richard Ellis

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



Source: CB Richard Ellis

**Office prime yields (%)**



Source: CB Richard Ellis

In terms of distribution of total lease activities for 2010 by location, New Belgrade submarket remains the target area for a large portion of tenants. The interest in downtown area is still strong, although it is noticeable that New Belgrade has already become new central business district.

**VACANCY**

Ongoing changes in Belgrade office stock and unmatched demand have resulted in further increase in vacancy level, reaching app. 28% at the end of H1 2010. Due to the lack of new deliveries and more stable demand in H2 2010, vacancy dropped slightly and now stands at app. 26%. Compared to the vacancy levels at the end of 2009 (25%), and in 2008 (17.6%), vacancy level is high, but is expected to show a downward trend in the forthcoming period, especially taking into consideration the postponements of pipeline projects.

Bearing in mind that new office inventory delivered during 2010 presumes Class A office buildings, the vacancy rate of Class A office space has marked a much faster growing pace than the vacancy rate of Class B office space.

**RENTAL LEVELS**

Having faced rather challenging market conditions, the landlords are forced to offer more flexible incentive packages in contract negotiations (whether in terms of rent-free period, fit-out contribution or better parking ratio).

Rental levels of both Class A and Class B office space showed a slightly downward correction as compared to H2 2009. 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 EUR 12-13/sq m/month. However, the achievable rental levels are standing at around EUR 13/sq m/month for Class A and EUR 10/sq m/month for Class B buildings.

**FUTURE SUPPLY**

As far as future supply is concerned, the completion dates of the projects under construction are still uncertain. Once finished, the market would be enriched with 50,000 sq m of GLA. Among the most significant projects to be finished in 2011, depending on the construction dynamics, are Verano's B23 in Block 23, MPC's project Tri Lista Duvana downtown and Office Building within Dedinje's Zeland Complex.

However, further downward pressure on rents and higher tenant expectations, particularly in terms of rent free periods and other incentives are expected. Due to the turmoil on the world's financial market, investors are quite cautious with regard to new investment decisions and projects, meaning that only a limited number of office projects are currently in planning phase.

## 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

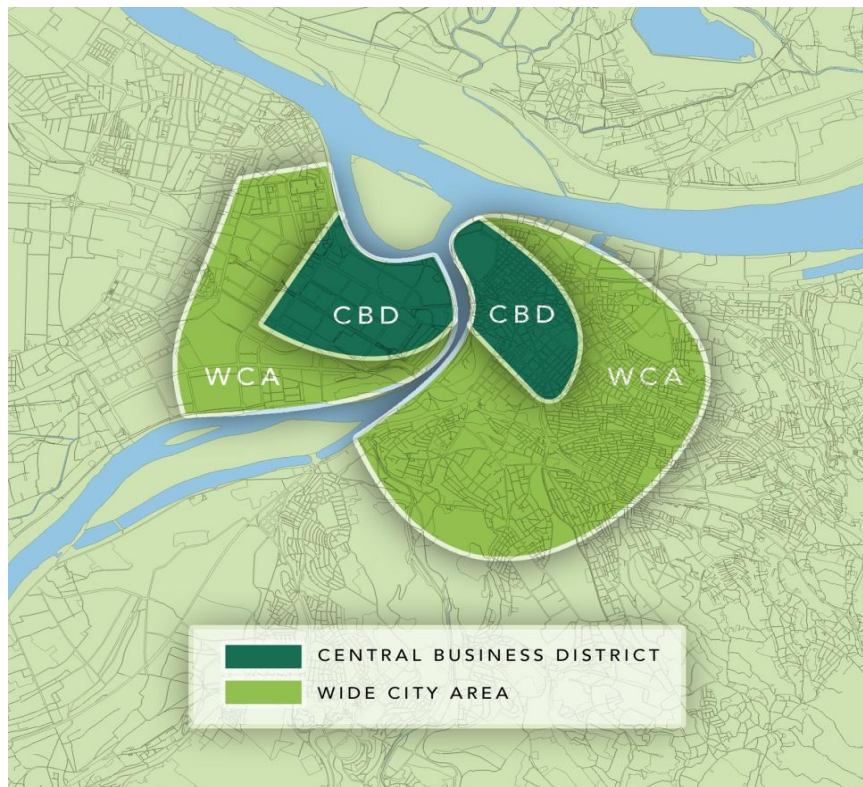
**Pipeline developments** – office space currently being developed/under construction

**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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