Belgrade Residential Market

H2 2009

S&P'S LT FC Rating

BB-/Stable

Quick stats

	Change from H1 2009
Supply	↑
Demand	↑
Prices	→

Hot Topics

- Serbian Government adopted Decree on financing the construction of low-cost flats in Serbia and the regulation of conversion of land usage right into ownership right. According to current plans, 10,000 low-cost flats will be constructed in Belgrade, Novi Sad, Nis and Kragujevac. The maximum prices of flats per zones have been established by the Decree on support measures to construction industry through the subsidizing of interest on loans for financing housing construction in 2010, and amounted to EUR 695-1,595 depending on the city and zone.
- On December 22, 2009 Serbia submitted a formal application for European Union membership to Sweden, which currently holds the 27-country bloc's rotating presidency.
- After reviewing current economic developments, the National bank of Serbia Monetary Policy Committee decided to trim the key policy rate, which now equals 9.5 percent.
- According to Statistical Office of Republic of Serbia, gross domestic product (GDP) at constant prices decreased by 2.9% in 2009 in comparison with the previous year.

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ECONOMIC OVERVIEW

International Monetary Fund (IMF) has completed the second revision of the standby arrangement with Serbia, thus enabling the drawing of the second installment of USD 350 million. Along with the revision of the arrangement worth EUR 2.9 billion, the IMF Executive Board has granted the increase in the budgetary deficit of Serbia in 2009 of 4.5%. So far Serbia has drawn the first installment of EUR 788 million, and with the second the total amount of the credit will rise to 1.12 billion. Furthermore, the World Bank has approved USD 200 million loan to country, aimed at reducing public administration and improvement of the business climate in Serbia. This is the first installment of USD 400 million loan agreed at the meeting with the World Bank, held in October 2009. The remaining USD 200 million will be used for supporting the 2010 budget.

On December 1, 2009 global ratings agency Standard & Poor's (S&P) has revised Serbia's outlook from negative to stable due to reduced external pressures and its commitment to comply with an IMF program and added it has affirmed the country's 'BB-' long-term and 'B' short-term sovereign credit ratings.

GDP by individual economic activities, noted the increase in the following sectors: transport, storage and communications, financial intermediation, agriculture and governmental sector. Industrial production declined by 12.6% in 2009, whilst construction sector noted a fall of 19.9% in 2009. Retail trade also noted a decrease of 11.7%, while the decline of wholesale trade amounted to 4.1%. The National Bank of Serbia has announced annual Consumer price inflation in 2009 of 6.6%., while the Monetary Policy Program for 2010 envisages this year's inflation of 6%±2 percentage points.

Based on data obtained from the Labor Force Survey, unemployment rate in October 2009 amounted to 16.6%. Wages and salaries grew by 8.8% in 2009 in nominal terms and by 0.2% in real terms, in comparison with 2008. The average net wage in 2009 in Serbia amounted to RSD 31,733 (EUR 338), Belgrade recorded an average net salary of RSD 39,862 (EUR 424).

According to Serbian Government predictions, Serbia foresees economic growth of 1.5% in 2010, 3% in 2011 and 5% in 2012, while the country has to continue pursuing a very responsible budget and monetary policy. Serbia's economic growth in the forthcoming years could not be founded on the inflow of foreign capital and on recurrent spending; yet all planned investments had to be realized to achieve short-term growth, while the only solution for achieving medium-term growth is to increase export.

Key economic indicators - Serbia

	2007	2008	2009E	2010F	2011F
Nominal GDP (EUR bn)	29.5	34	31	31.4	32.9
Per capita GDP (EUR)	4,002	4,624	4,230	4,310	4,538
Net FDI (EUR bn)	1.8	1.8	1.5	1.8	2.3
Real GDP, yoy (%)	6.9	5.5	-3.2	-0.5	1.3
Inflation (CPI), yoy, avg. (%)	6.5	11.7	8.3	6.3	5.7
Unemployment rate (%)	18.1	18	18.5	19	18.2
Exchange rate RSD/EUR, eop.	78.79	89.79	96.23	100	100
Exchange rate RSD/EUR, avg.	80	81.49	94.07	98.12	100
Current account balance/GDP (%)	-15.6	-17	-7.4	-6.1	-6.8
FDI/GDP (%)	6.2	5.3	4.8	5.6	6.8
Budget balance/GDP (%)	-1.5	-2	-4.5	-4	-3.5
Total foreign debt/GDP (%)	60.2	64.1	73.5	78.8	81.9

Source: Bank of Austria, January 2010

BELGRADE RESIDENTIAL MARKET

Although the global financial crisis has slowed down activities in Belgrade residential property market at the beginning of the year, yearend brought moderate construction activity and revived interest of buyers.

In August 2009, Serbian government passed New Law on Planning and Construction, which will help investors to speed up their building process. The most significant changes the New Law introduces relate to more efficient procedure of obtaining planning documents, issuance of construction permits and granting the titles over construction land.

As part of an effort to support the construction sector through subsidies, Serbian government has allocated RSD 450 million (EUR 4.8 million) for subsidized housing loans, being effective as of October 1, 2009. Afterwards, Serbian government decided to allocate additional sum of RSD 100 million. Moreover, for 2010, Government has allocated RSD 2 billion for the continuation of the Program of subsidized loans for newly-built apartments.

SUPPLY

Based on the official statistics, a number of constructed residential units in Serbia and Belgrade constantly grows, noting the real expansion phase starting with year-2003. Accordingly, New Belgrade, Zvezdara, Palilula and Vozdovac municipalities are consecutively experiencing the largest increase in residential projects in Belgrade, due to better urban and infrastructural conditions for development.

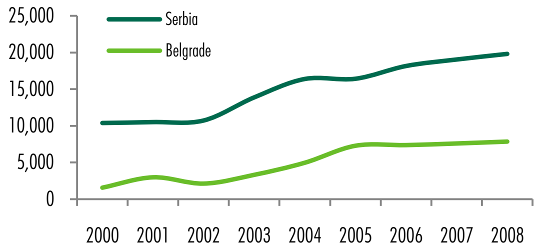
In terms of positioning, the largest portion of high-end projects are located in Dedinje and New Belgrade municipality, while mid-end projects are mainly located in Zvezdara and Palilula.

In spite of certain standstill in construction activities, lack of demand and postponement of announced large projects that characterized previous several months, yearend shows signs of recovery and brings positive movements in Belgrade residential property segment, in terms of supply, increasing demand and overall trend.

Recently, the residential market has seen the completion of several residential mid-end to high-end projects, of local and international developers, which significantly enlarged primarily the offer of high-class accommodation in Belgrade.

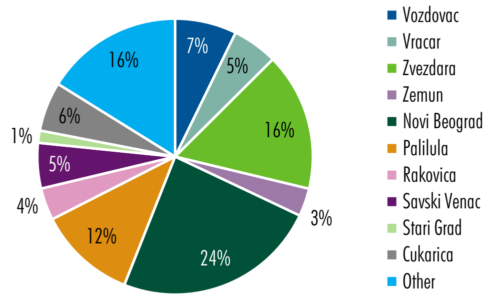
However, the market misses considerable offer of quality low to mid-end projects, that will meet the needs of wider group of potential buyers in terms of quality and favourable unit structure at affordable prices.

Number of completed apartments in Serbia and Belgrade during 2000-2008



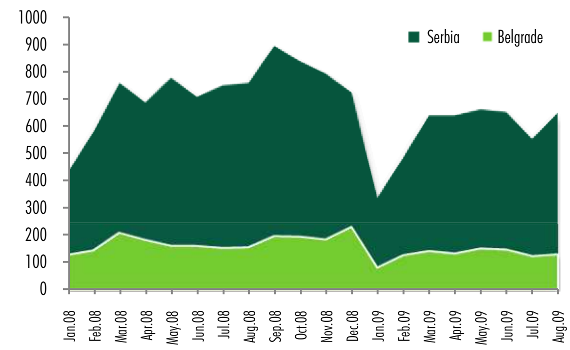
Source: Statistical Office of the Republic of Serbia

Number of constructed apartments per Belgrade's municipalities in 2008.



Source: Statistical Office of the Republic of Serbia

Number of issued permits for buildings per months in 2008 and 2009.



Source: Statistical Office of the Republic of Serbia

Selected completed residential projects in Belgrade

Project	Investor	Location	GBA (sq m)*
Dedinje Panorama	Meridian Balkans	Dedinje	18,000
Belville	Delta	New Belgrade	120,000
Savograd	CA IMMO	New Belgrade	12,000
Goce Delceva	Neimar V	New Belgrade	15,500
Gallery Apartments	Ocean Atlantic	Downtown	18,500

Source: CB Richard Ellis

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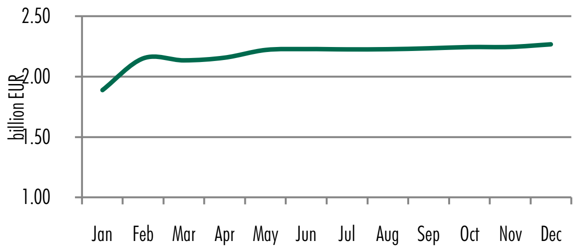
Selected projects in development currently in Belgrade

Project	Location	GBA (sq m)*
Prestige Ratko Mitrovic	Zvezdara	44,000
MPC Kalemegdan Park Apartments	Downtown	12,100
Koling Zeland	Dedinje	11,500
Metropoliatan project	Palilula	16,500
Imperijal gradnja Maxima Center	New Belgrade	22,000

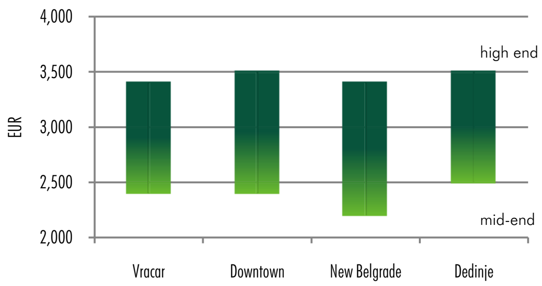
* GBA – Gross Building Area
Source: CB Richard Ellis

Housing loans taken by Serbian citizens during 2009



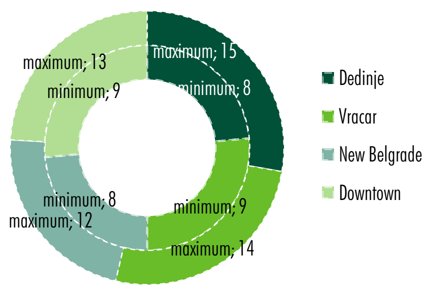
Source: Association of Serbian banks

Average asking prices of high-end and mid-end projects in Belgrade



Source: CB Richard Ellis

Rental levels in H2 2009 in Belgrade



Source: CB Richard Ellis

In the next couple of years, Belgrade market will witness the construction of several large-scale developments, introducing some of the most renowned international developers. The largest percentage of future projects will remain concentrated in New Belgrade and the central city areas while the certain suburban neighbourhoods with great potential are also being considered as promising development areas.

DEMAND

After months of somewhat weak overall demand marked at the beginning of the year, yearend brings more positive trend and far better outlook. Supported by the government incentives for housing credits, overall demand has been slightly improved as for the majority of buyers the main source for financing is taking out a loan.

Consequently, the demand was mainly oriented towards smaller apartments in lower-scale projects in case of credit buyers. However, the demand for high-class projects has remained stable as high-income population was not greatly affected by economic situation.

Following a fall marked in some months in first part of the year, the number of housing loans taken out by Serbian citizens constantly rose in the second half of year 2009, and grew by 2.8% in December only, noting the increase of 28% as compared to 2008-year end, according to Association of Serbian banks.

SALES PRICES

The first part of the year marked lower sales prices caused by the economic crisis as compared to the previous year. The downward trend has not, however, persisted and yearend notes rather stable prices.

The asking prices of high-quality projects depend on the location, investor and municipality and vary between EUR 3,000-3,500, while mid-end projects, characterised by medium quality of finishes, ranged between EUR 2,000-2,500, yet the actual achieved prices command the reduction of 10-15%.

RENTAL LEVELS

Rental prices showed downward trend in last months, recording the decline of 20% in comparison with the levels achieved at the beginning of year. Due to the lowered demand, the landlords are willing to decrease asking rents and enter further negotiations.

The most attractive municipalities for employees of foreign embassies and international organizations remain Dedinje, Senjak, Vracar and New Belgrade.

SERBIA MAP

BELGRADE MAP OF MUNICIPALITIES

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