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MarketView

Belgrade Retail Market

H2 2009

S&P'S LT FC Rating

BB-/Stable

Quick stats

	Change from H1 2009
Take-up	↓
Supply	↑
Vacancy	↑
Rents	↓

Hot Topics

- 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.

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

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RETAIL MARKET

In accordance with the official data published by the Statistical Office of the Republic of Serbia, retail trade turnover in Serbia in December 2009 compared to December 2008 declined by 7.2% at current prices and by 15.7% at constant prices. Year 2009 when compared to year 2008 shows decrease in retail trade turnover of 5.4% at current prices and of 12.3% at constant prices.

SHOPPING CENTERS

During Q3 2009, Immocenter has finished the tenant mix change and re-positioning of its shopping center, by opening its first outlet in Serbia, ImmoOutlet. Another retailer, Italtes previously opened Italian outlet mall in Surcin municipality, called Piazza Roma, that covers 2,000 sq m, again proving that outlet was considered to be attractive store concept in 2009.

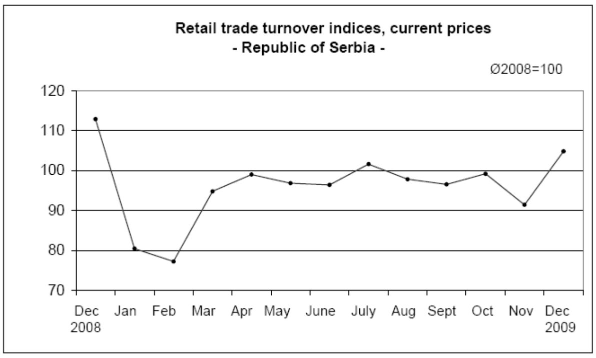
The total stock of modern shopping centers in Belgrade has not changed during H2 2009 compared to the previous period, holding close to 150,000 sq m of GLA. Additionally, in the past few months, the trend of tenant change in certain number of shopping centers has continued, while the small modifications in unit sizes have however been recorded, enabling landlords to introduce certain new brands and keep the existing tenants in the centers.

Rental demand for shopping centres comes mostly from international retailers with established regional presence, however domestic brands and retailers also show significant interest. International retailers are mostly present in the form of franchisers and rarely in the form of direct entrance. The two shopping centres (Delta City and Usce shopping centre) provided the suitable retail accommodation for an influx of international retailers to gain a foothold in the market. Namely, the opening of Delta City during 2008 led to the increase in the number of internationally recognized retailers present in Serbia, from 14 to 17%, ranking Serbia as 47th on the global list (the research conducted by CBRE International). However, it is expected that the opening of Usce shopping center in March 2009 which attracted certain new brands, will further influence Serbia's positioning on the global list.

Local company Immopoint has commenced the construction of Point shopping center, located in Belgrade municipality Grocka, of 9,000 sq m of GLA. Based on its size, the shopping center will be considered as small neighborhood center.

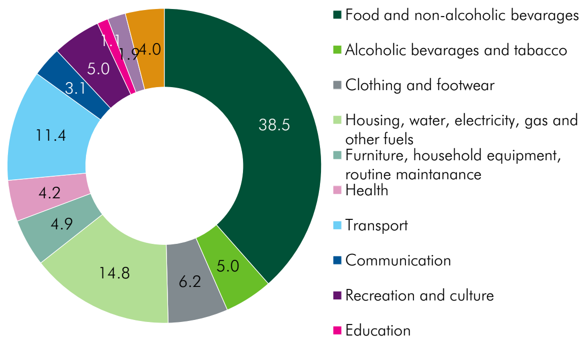
More significant pipeline of retail development in Belgrade is pending, including the following projects: investor Plaza Centers has plans to construct Visnjicka Plaza; Ashtrom International's center in Rajiceva Street while Verano Group will commence the construction of large shopping centre called Trosarina. However, the completion dates are still uncertain.

Retail trade turnover in Serbia



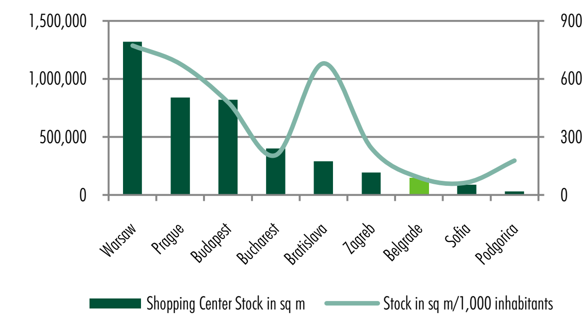
Source: Statistical Office of the Republic of Serbia

Turnover by type of goods, December 2009 (in %)



Source: Statistical Office of the Republic of Serbia - Consumer price index by COICOP

Shopping centre stock and stock per capita, after Q3 2009



Source: CB Richard Ellis

Modern shopping centres currently in pipeline/planning stage in Belgrade

Project	Location	GBA (sq m)*
Rajiceva	Downtown	46,000
Plaza Center	Visnjica	100,000
Trosarina	Vozdovac	73,000

• GBA: Gross Building Area
Source: CB Richard Ellis

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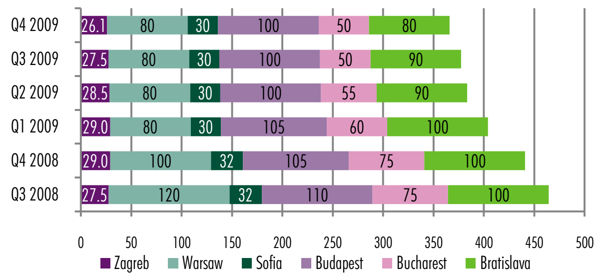
Average rents in shopping centres across region

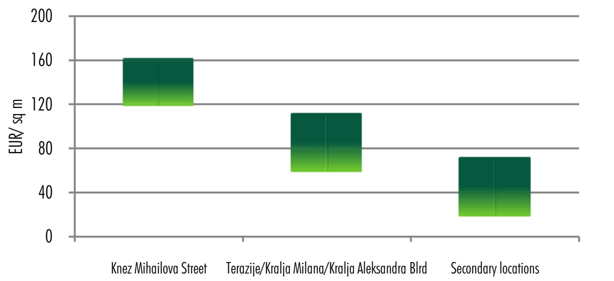


Selected modern shopping centres under construction in Serbia

Project	Location	GBA (sq m)*	Opening year planned
Pluto	Leskovac	11,400	2010
Park City	Novi Sad	12,000	2010
MPC	Nis	15,000	2010/2011
BIG CEE	Novi Sad	32,000	2010/2011
Delta park	Kragujevac	23,000	2011

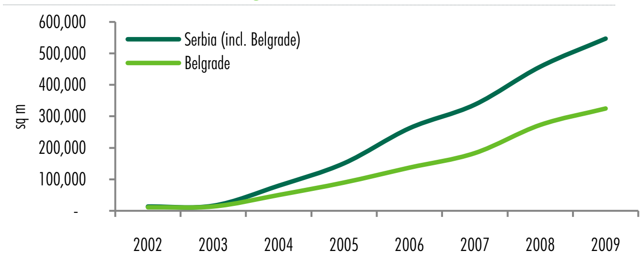
* GBA: Gross Building Area

Prime retail rents



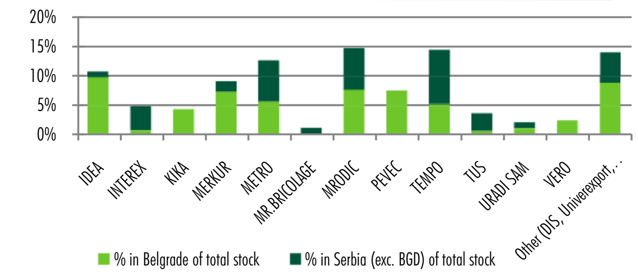
Source: CB Richard Ellis

Warehouse retail stock in Belgrade and Serbia – end of 2009



Source: CB Richard Ellis

Big box size of selected retail operators in Belgrade and Serbia



Prime rental values in modern shopping centres vary depending on the size and tenants scope of work, in general ranging from EUR 35 to 60/sq m/month. The cities across the region marked the downward trend over past few months.

The supply of shopping centers within Serbia has been enriched during Q4 2009 by opening of several shopping centers. Slovenian Mercator S opened Roda center in Sombor, occupying over 9,000 sq m of GBA. Within the scope of expansion of its retail network, Mercator S also opened new Roda center in Senta, holding more than 7,000 sq m. Local company TradeUnique has opened its residential-business project in Indjija, called TQ City. Year 2010 will welcome the completion of several projects, currently in construction phase.

HIGH STREET

As Belgrade has limited modern shopping centre stock, the high street retail remains very important retailing environment. The prime high retail streets have strong footfall and represent vital retail spot in the consumers' mindset. Often new market entrants initially aim to build brand awareness with a high street presence.

During H2 2009, demand has fallen for high street properties due to the significant rental levels. Vacancy rates have increased in all segments (even in prime central streets), while secondary areas were most affected. In addition, certain number of units experienced tenant change over the past few months, as the rent levels are somewhat higher as compared to the achieved income.

Overall, prime rental levels at top locations, in particular high street zone, have remained mostly stable with slight downward corrections, and despite the financial crisis are not expected to fall notably. Namely, the high street landlords are not willing to reduce the rents, which is further supported by limited supply of prime retail units. However, rents in secondary and tertiary locations have fallen up to 20%.

RETAIL WAREHOUSE

During Q4 2009, retail warehouse segment brought new international companies to the Serbian market. Austrian company Kika entered the market by opening its first store in Belgrade. The store of 11,000 sq m of GLA is located in New Belgrade, close to highway E-75. French hypermarket chain "Mr. Bricolage" which sells "do-it-yourself" articles, has completed the construction of its first facility in Serbia, in the city of Nis, of 5,800 sq m. Their further plans envisage the store in Novi Sad, which is planned for 2010.

Slovenian company Merkur opened its third center in Serbia and so far the largest object in the region of 3-level floor area, located in Karaburma municipality, totaling close to 29,000 sq m.

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FUTURE SUPPLY

During the next year, warehouse retail segment will persist to mark a significant development. Greek Veropolus announced the opening of its fourth store in Belgrade, while Delta, Interex and IDEA have plans to continue spreading their store network. German self-service wholesale trade company Metro Cash and Carry has announced the construction of its third store in Belgrade, and sixth in Serbia which will be located in Cukarica municipality.

EXTERNAL TRADE AND TRADE AGREEMENTS

The overall external trade in the Republic of Serbia for 2009 exceeded EUR 17 million, noting the decrease of 25% in comparison with the year 2008. The export - import ratio equaled 53.3%, whilst 2008-year ratio amounted to 48.0%.

On December 7 2009, EU foreign ministers decided to unfreeze the Interim Trade Agreement with Serbia, starting with February 1, 2010. In addition, the Free Trade Agreement (FTA) with EFTA members (Norway, Switzerland, Iceland, and Liechtenstein) was concluded in December 2009 and will be effective from April 2010. As of January 1, 2010, Serbia presides the Central Europe Free Trade Agreement (CEFTA) and several initiatives for joining the World Trade Organization have also been launched.

Market	Trade Regime
European Union	Preferential Trade Regime
United States	Generalized System of Preferences
Russia, Turkey, Belarus	Free Trade Agreement
South East Europe	CEFTA
Norway, Switzerland, Iceland, and Liechtenstein	EFTA

Source: SIEPA

SERBIA MAP

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