

S&P'S LT FC Rating

BB+/-Negative

Office market Quick stats

Change from H1 2009

Supply	↑
Prime Rents	↓

Shopping centres Quick stats

Change from H1 2009

Supply	↑
Prime Rents	↓
Vacancy Rate	↑

Hot Topics

- According to the Ministry of Finance, GDP in the first nine months decreased by 4.7% and the estimated decrease for 2009 is 5.3%.
- The total stock of shopping centers increased due to the opening of Mall of Montenegro

ECONOMIC OVERVIEW

International Monetary Fund (IMF) released preliminary conclusions on their five-day mission in Montenegro. In the report, it is stated that the Gross domestic product (GDP) is preliminarily estimated to have contracted by 7% and overall employment have fallen by 15%. Budget deficit and public debt deteriorated to 3% and 39% of GDP, respectively. IMF suggests increasing domestic savings, export expansion and import substitution as well as resolving the inconsistency between the level of public expenditure and tax rates (large public expenditure of 48% of GDP and low income tax rates of 17 and 9 percent, respectively). As for Montenegro's outlook, IMF expects 2010 to be another challenging year and 2011 to be the year of a more vigorous recovery.

According to Monstat, the net average monthly wage for 2009 in Montenegro amounted to EUR 463. In comparison with 2008 average wage without taxes and contributions increased by 11.3%. Consumer price inflation for the first eleven months of 2009 was 1.4% while the annual inflation rate was 3.6%.

Industrial production for the first nine months of 2009 recorded a decrease of 30.9% compared to the first nine months of 2008.

Again, in comparison to 2008, the decline in industrial production in the period January-December 2009 was recorded in manufacturing 38.6%, in mining and quarrying 65.5% and in electricity, gas and water production 2.4%.

Concerning the foreign direct investments, due to the partial privatization and recapitalization of Elektroprivreda, the net FDI inflow in the period January-September 2009 was EUR 764.7 million which is 69.3% more than in the same period last year. The overall FDI inflow in the first nine months of 2009 was EUR 857.5 million. However, FDI in real estate continued to decrease and its part in overall FDI inflow was 14.5% (124.4 million €) , which is 52.9% less than in the same period last year. The Government of Montenegro announced capital investments in 2010, such as the commencement of construction of highway Bar-Boljari, Port of Bar, Porto Montenegro, Lustica project with the mid-term period effects.

According to the Ministry of Tourism in the first nine month of 2009, the number of tourist arrivals increased by 2.25% and the number of tourist overnights decreased by 2.43% compared to the same period in 2008.

OFFICE MARKET

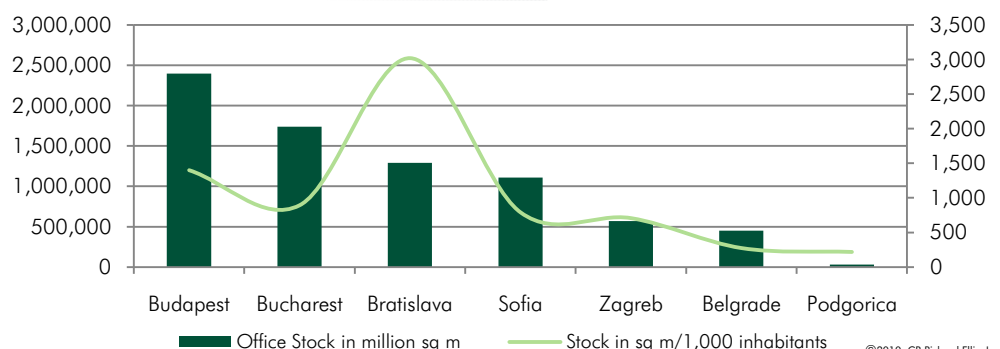
The total stock of modern office building totals 30,000 sq m of GBA indicating that Podgorica office market is still immature in comparison with other cities in the region.

The overall supply has been enriched with Class A modern office building Europoint,

that was completed during H2 2009, holding 8,800 sq m of GBA.

Recently completed modern office space command asking rental values of approximately EUR 20-22/sq m/month, depending on the location and technical properties of the building.

Office Market In Podgorica



* GBA – Gross Building Area
Source: CB Richard Ellis

In terms of prospective supply, Normal Tower offers additional 6,300 sq m of GBA of modern office space in new business centre of Podgorica. The completion of Normal Tower is expected in H1 2010. The second office development, Atlas Capital Centre which comprises business zone of 28,550 sq m, retail area of 13,900 sq m and residential space/business suits of 13,750 sq m is currently under construction and scheduled for completion for mid 2010. The completion of these developments will drive the total office stock to the level of 60,000 sq m of GBA.



Atlas Capital Centre

RETAIL MARKET

After the opening of Mall of Montenegro, the total supply of shopping centers in Podgorica exceeds 50,000 sq m of GLA. When compared to other capital cities, the average stock per capita of the capital cities of the region amounts to 450 sq m per 1,000 inhabitants, while Podgorica comprises 286 sq m per 1,000 inhabitants which represents an excellent starting point for further development of Podgorica as one of the regional retail centers.

Shopping centre stock and stock per capita, 2009



* GLA- Gross Leasable Area
Source: CB Richard Ellis

Mall of Montenegro, as a mixed-use development holds approximately 20,000 sq m of retail space and 12,000 sq m of parking space. During December 2009, the investor put in operation the first floor of shopping center, while the opening of the other two floors (fashion floor and food and entertainment floor) will be announced in the later stage of 2010.

Local company Napredak AD has commenced the construction of the first modern shopping center at the seaside, in Kotor, called Kamelija, comprising 14,000 sq m. The completion is expected in H1 2010.



Kamelija Kotor

Asking prime rents recorded in modern shopping centers vary between EUR 25 and 55/sq m/month with a tendency to go down. High-street zone still represents the focal point for retailers, especially the ones that are entering the market for the first time. The main retail and pedestrian zone in Podgorica is the Hercegovacka Street, primarily part of the street between Njegoseva and Sloboda Streets. The prices stand around 25 EUR/sq m.

HOTEL MARKET

Hotel supply in Podgorica will be enriched with the construction of hotel complex Bolici which is planned to commence in February 2010. According to the investors' plans, the hotel will encompass six floors, restaurant and shopping centre, totaling 51,000 sq m. Furthermore, investors such as Atlas Centre and Mall of Montenegro are planning to include a hotel development in their complexes.



Bolici, Podgorica



Best Western Premier Montenegro

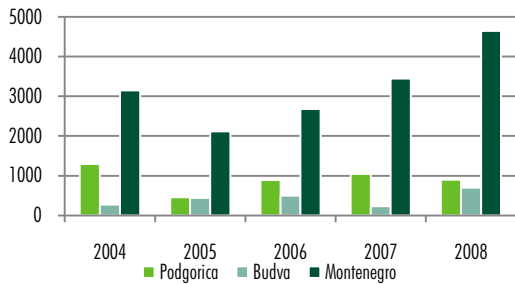
Podgorica hotel market still lacks renowned international hotel chains which offer quality level amenities recognized all over the world. The only internationally affiliated hotel is Best Western Premier Montenegro.

RESIDENTIAL MARKET

Residential property market remains most active segment of Montenegro market. However, during 2009, turmoil on the financial market has slowed down the activities on the residential market, causing the reduced demand and decrease in asking prices. In addition, the crisis affected many previously announced developments in a way that the investors postponed their projects for the indefinite period of time.

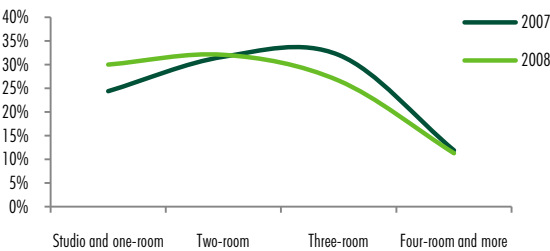
After a drop recorded in 2008 and H1 2009, during the second half of 2009, mid-end residential developments, characterized by medium quality of finishes, recorded stable asking prices of EUR 1,200-1,700/sq m, depending on the location and finishing works. High-quality developments located at very attractive locations noted the asking levels of up to EUR 2,500/sq m.

Number of constructed apartments in 2004-2008



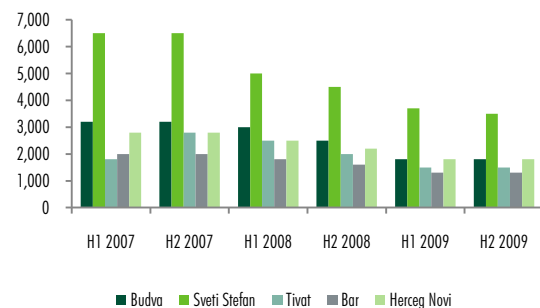
Source: Montenegro Statistical Office

Structure of units constructed during 2006 and 2007 in Montenegro (%)



Source: Montenegro Statistical Office

Development of average prices in several towns on the sea coast in H2 2009



Source: CB Richard Ellis

Montenegro seaside

The total supply of residential projects at the sea-side constantly grows, due to large number of projects, currently under construction. The complex of luxury villas Astra Montenegro holds 60,000 sq m, while the complex Royal Montenegro will include hotel, villas, lodges and condos.

The elite complex Belvedere Residence, developed by Russian company Sagio, is located close to Becici Beach. The residential complex features five buildings with seventy apartments, whilst its Poseidon Apartments complex consists of three buildings and 174 apartments. The residential-business complex TQ Plaza in Budva encompasses 48,000 sq m of GBA, whereby residential part includes 130 apartments and the shopping centre covers 10,000 sq m. The completion is planned for Q2 2010.

The investor Fab Live commenced the construction of exclusive residential and office complex Tre Canne in Budva in H2 2009, comprising close to 38,000 sq m of GBA.

In all coastal towns, the sales of property in 2007 doubled in comparison with the previous year's figures, yet the sales reached a complete standstill in 2008 and the first half of 2009. Additionally, the rapid growth in prices during the period 2006-2007 was replaced by their downward trend during H2 2008 and H1 2009. However, 2009 year-end brings the stabilization of prices and it is expected that the same trend will continue.

Definitions

Development Completions - these include new buildings, redevelopments behind existing facades and buildings undergoing substantial refurbishment to provide high quality accommodation.

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.

Class C: Poorer quality space – i.e. older and/or non-air conditioned with a lower standard of amenities and service provision.

Stock – modern office space in Class A and Class B buildings.

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

Take-Up – office space that has been leased in a given period including; leases, renegotiations, pre-leases, subleases and owner occupied take-up.

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

Montenegro Map



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For More information regarding the Market View, please contact:

CB Richard Ellis d.o.o.

Nikola Cetkovic

Managing Director

CB Richard Ellis d.o.o.

Babilonija bb

85 310 Budva, Montenegro

tel. + 382 33 459 744

mob: + 382 63 214 373

e: nikola.cetkovic@cbre.co.me

Tamara Aleksic

Consultant

CB Richard Ellis d.o.o.

Babilonija bb

85 310 Budva, Montenegro

tel. + 382 33 459 744

e: tamara.aleksic@cbre.co.me