

SERBIAN

MARKET OVERVIEW

1st semester 2017

Economic Overview



✓ Serbia economic activity has marked continual positive trends during 2017, recording modest **GDP** growth of 1% in line with the projections at the end of first quarter of 2017 as comparing to the same period in 2016. In the upcoming period GDP growth is expected to gradually step up, reaching 3% by the end of 2017 and 3.5% in 2018, while retaining favourable growth structure.

✓ From the beginning of 2017 **inflation** has been moving within the targeted figures driven mainly by increase in energy prices. Core inflation remained low and in June amounted to 2%. According to NBS forecasts **inflation** will remain moving within the target tolerance band with the expected decline to the 3% target at the beginning of 2018.

✓ Net FDI inflow for the period January-May 2017 amounted at €768 million mostly concentrated in tradable sectors. Net FDI prognosis for 2017 is expected to reach 1.7 billion.

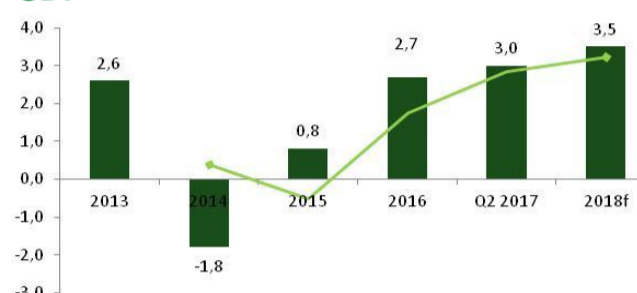
✓ Based on the Labour Force Survey in Q1 2017 unemployment rate has recorded level of 14.6% marking decrease of 4.5% compared to the same period in 2016.

✓ The average gross wage in May 2017 amounted to €527, while average net wage amounted to €383. When compared to the same month in 2016 average gross wages has recorded increase of 7.2% in nominal and 3.6% in real terms.

✓ Business environment improvement in Serbia underpinned by macroeconomic stabilization along with the global risk aversion has significantly pushed down country's risk premium (c.150 bp).

✓ Moody's has improved Serbia's rating outlook from 'B1' to 'Ba3' with a stable outlook. In June, S&P affirmed Serbia's 'BB-' rating with a positive outlook and Fitch affirmed its 'BB-' rating with stable outlook.

GDP



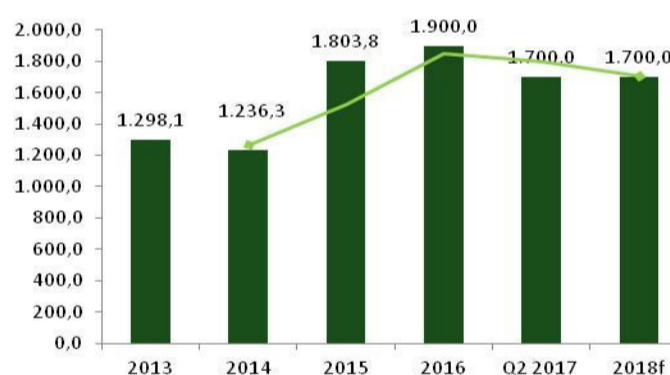
Source: NBS, Danos research

CPI



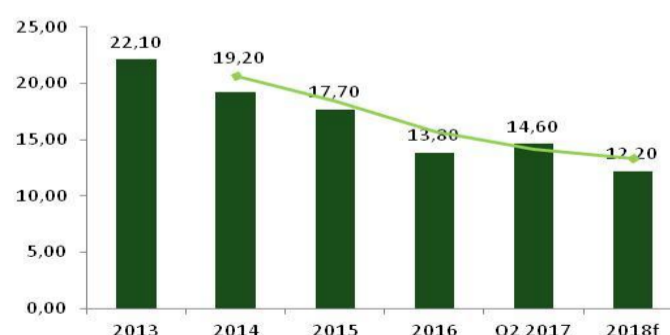
Source: Ministry of Finance of Republic of Serbia, Danos research

NET FDI



Source: Ministry of Finance of Republic of Serbia, Danos research

UNEMPLOYMENT



Source: NBS, Danos research

Office Market



Supply and Pipeline

First half of 2017 has marked continual rise of the Belgrade office market with delivery of two modern office projects in New Belgrade CBD zone enlarging total office stock for nearly 24,500 sq m GLA. Office project GTC 41 has been completed with the completion of the third phase occupying approximately 10,000 sq m, while first phase of the office project Sirius spreading over 14,500 sq m GLA. Total modern office stock including Class A and B at the end of first half of 2017 amounted to 689.500 sq m GLA marking 4% increase on annual level. In line with the announced new office projects, construction activity will remain strong during 2nd semester of 2017.

PIPELINE OFFICE PROJECT					
Project/Investor	Location	Area (sq m)	Purpose	Delivery Date	Status
Deneza	New Belgrade	2.650	Speculative	2017	Underconstruction
Atrijum 63	Block 63, New Belgrade	5.000	Speculative	2017	Underconstruction
Starine Novaka (AFI & Tidhar)	City Centre	16.000	Speculative	n/a	Announced
Usce Tower 2 (MPC)	New Belgrade	22.000	Speculative	n/a	Announced
Napred office building	Block 21, New Belgrade	13.000	Speculative	2017	Reconstruction - ongoing
Airport City (5th phase)	Block 65, New Belgrade	75.000	Speculative	n/a	Announced
Immorent Sirius office (2nd phase)	Block 43, New Belgrade	12.500	Speculative	n/a	Announced
GTC Green Heart	Block 41, New Belgrade	46.000	Speculative	n/a	Announced
Ziegel House	Vracar	5.500	Speculative	2017	Underconstruction

Demand

New occupation and relocations were recognized as main drivers of market activity during 1st semester of 2017. When analyzing business sector, traditionally IT sector remained most active.

Rental levels

During 1st semester of 2017 rental levels remained stable compared to the first half of the year. Prime asking rents for Class A office buildings in CBD zone vary from €15 to 17 per sq m GLA monthly, while Class B rental levels are ranging between €9 & 12 per sq m GLA monthly.

Vacancy rate

Even though new office projects were delivered to the market during 1st semester of 2017, high demand has pushed down vacancy rate at 6% for the Class A and B office buildings.

Prime Yields



Retail Market



Supply



Modern SC
155,000 sq.m GLA

Retail Parks
54,000 sq.m GLA

Demand

The market still faces the lack of available space within modern shopping center and prime high streets which limitates new brand entries to Belgrade market.

In Q1 Big Fashion Centers started construction of Shopping centre Vidikovac settlement, Belgrade. Ikea postponed the opening for August 2017.

General indicators in Serbia are indicating that the last year has been very dynamic in retail sector. Retail market is currently gaining much importance and enjoys increasing popularity especially in fashion retail sector.

Reserved announced the opening in Big Fashion Karaburma in August 2017.

New entries: Funky Buddha (Big Fashion Karaburma) and Tezenis (Big Fashion Karaburma).

CCC opened its first shop in Big Fashion Karaburma and after it in Shopping center Stadion.



PIPELINE RETAIL PROJECT					
Project/Investor	Location	Area (sq m)	Delivery Date	Status	
Rajiceva Shopping Mall / Avital	Knez Mihajlova - Belgrade	15.500	H2 2017	Underconstruction	
IKEA	Belgrade	30.000	H2 2017	Underconstruction	
Capitol Park / Poseidon Group and Mitiska REIM	Rakovica-Belgrade	21.000	H2 2017	Underconstruction	
Ada Mall / GTC	Radnicka Street - Belgrade	31.000	H2 2018	Underconstruction	
BW Gallery / Eagle Hills	Belgrade	93.000	2020	Pipeline	
Big Fashion Vidikovac / Big Fashion Centers	Vidikovac	70.000	2019	Pipeline	
Promenada / NEPI	Novi Sad	50.000	H2 2018	Pipeline	



BIG SHOPPING CENTER-BIG FASHION – KARABURMA 32.000 sq.m
Tenants – HM, Inditex group, CCC, LC Waikiki, Lindex...



Rental levels in Belgrade

Location	< 50 sq. m	50-150 sq. m	150-500 sq. m	>500sq.m
Knez Mihajlova Street	Up to 120	80-100	60-80	40-60
Terazije Square/Kralja Milana Street	50-70	40-60	25-50	20-40
Kralja Aleksandra Blvd	70-100	50-80	30-60	20-50
Secondary street	30-50	30-40	15-30	okt20
Retailparks	Up to 20	15-20	Up to 15	Up to 10
Modern Shopping Centers	Up to 70	50-70	40-60	Up to 40

Investment

In the Q1 2017 Israeli company BIG Cee has acquired Big Fashion shopping developed by Plaza Centres.

Residential Market

Summary

The residential market in Belgrade in 1st semester of 2017 continued trends from the second half of 2016, with small improvement.

The inflow of foreign capital is still growing. New Belgrade municipality still hosts the largest number of ongoing residential projects.

Deka inženjering, with A block third development phase, is building additional 270 units, and the finishing deadline is September 2017. Further enlargement of New Belgrade residential supply is supported by the development group PSP Farman with 100 units more in third phase of Block 65 – West 65. With 514 units in complete, West 65, along with A block, it is still the most popular project in New Belgrade. Energo Group's SunCity's additional 200 units is in the final phase of development, expected to be finished in middle of 2017.

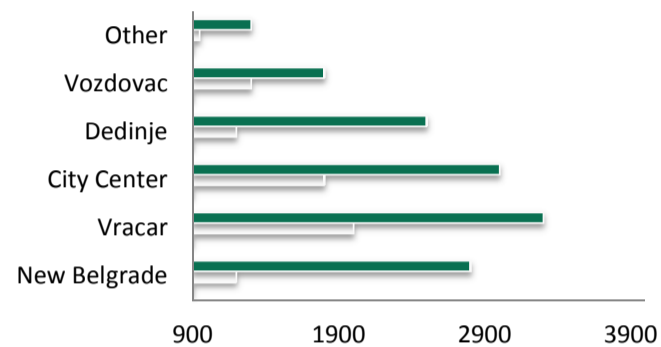
Complete finishing is reserved for Neimar's Savada, expected to be in July of 2017.

Supply and demand

Large scale projects such as A-Block, Savada, Sunnyville, Sun City, West 65, Central Garden and alike, continue to be built according to announced phases.

Vozdovac and Vracar are more and more recognized as multi-family building areas.

Average asking price for new built projects from mid to high

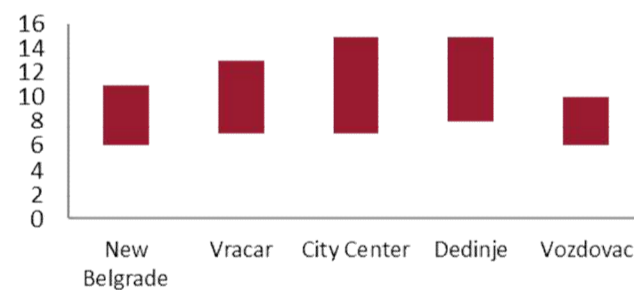


Source: Danos research

Rental levels

The sales prices remain unchanged, ranging between EUR1,500 – 2,200, VAT included, for mid-end projects, while the apartments in older buildings, in need of renovation, record a smaller decline in the price that ranges from EUR 950 – 1,100.

Average rents per sq. m from mid to high



PIPELINE RESIDENTIAL PROJECT				
Project	Investor	Location	Total Size	Status
Central Garden	AFI Europe and Shikun & Binui Group	Belgrade Down Town	500 units	Under Construction
Vozdove kapije	Shikun & Binui Group	Vozdovac	700 units	Under Construction
A Block	Deka inženjering	New Belgrade	800 units	Under Construction
Savada	Neimar V	New Belgrade	500 units	Under Construction
Sun City	Energo Group	New Belgrade	174 units	Under Construction
West 65	PSP Farman	New Belgrade	514 units	Under Construction
Sunnyville	Energoprojekt	Palilula	215 units	Under Construction
Vracar Gates	Aleksandar Group	Vracar	250 units	Under Construction
Panorama Vozdovac	CEP	Vozdovac	187 units	Under Construction

Industrial Market



Supply

In 2017 industrial production in the Republic of Serbia increased in comparison to 2016.

Development of industrial facilities are stable, but development of logistic facilities are growing.

Greater Belgrade, along with Vojvodina province, remains of interest for the development of logistics facilities while factory complexes are being built in smaller cities of Serbia.

Industrial market has been influenced by economic situation, export-import policy of the country, quality of the transportation network and growing retail sector.

Demand

The demand for modern industrial / logistics facilities with a developed infrastructure and good transportation connection, still stands.

The demand majorly comes from the transportation and distribution companies.



RECENT COMPLETIONS				
Project	Type	Location	Size (sqm)	
Phoenix	Distribution centre	Šimanovci	7,000	
Hutchinson	Light industrial	Ruma		
Knott Autoflex	Light industrial	Becej	9,500	
Univerexport	Distribution centre	Novi Sad	30,000	

FUTURE INDUSTRIAL PROJECT				
Project	Type	Location	Size (sqm)	
LIDL	Distribution centre/administrative buildings	Nova Pazova	78,500	
EYEMAXX / phase 2	Distribution centre	Stara Pazova	30,000	
Industrial Park Belgrade 3	Distribution centre	Šimanovci	7,200	

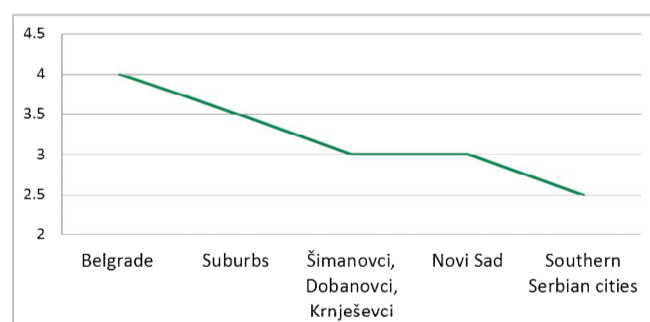
Rental levels

Rental level for prime stock remains stable in the first half of 2017.

Older facilities with lack of modern features achieve lower rental level.

Rents for prime logistic / industrial space in Belgrade and in the neighboring municipalities of Belgrade (Dobanovci, Šimanovci, Stara Pazova etc.) is in range €4 – 5 per sq m.

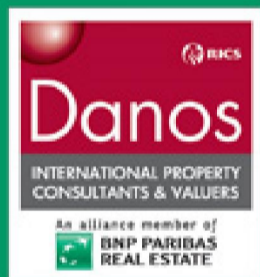
Average rental levels



Prime rents

€3.5 – 4 per sqm monthly





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