

Serbia Property Market

2010 saw a significant amount of new office space being added to market. However, occupier activity remained subdued, pushing up vacancy levels across Belgrade.

Demand for prime logistics space continues to grow in and around Belgrade. However, the market remains relatively under developed, hampering growth in this sector. Once the economy picks up again, strong interest in the development of logistics schemes is expected.

Whilst demand for retail space remains strong, the fierce competition for the best pitches has decreased somewhat 2009 - 2010. There is a growing focus away from high street retailing to quality in-town mall and retail park developments.



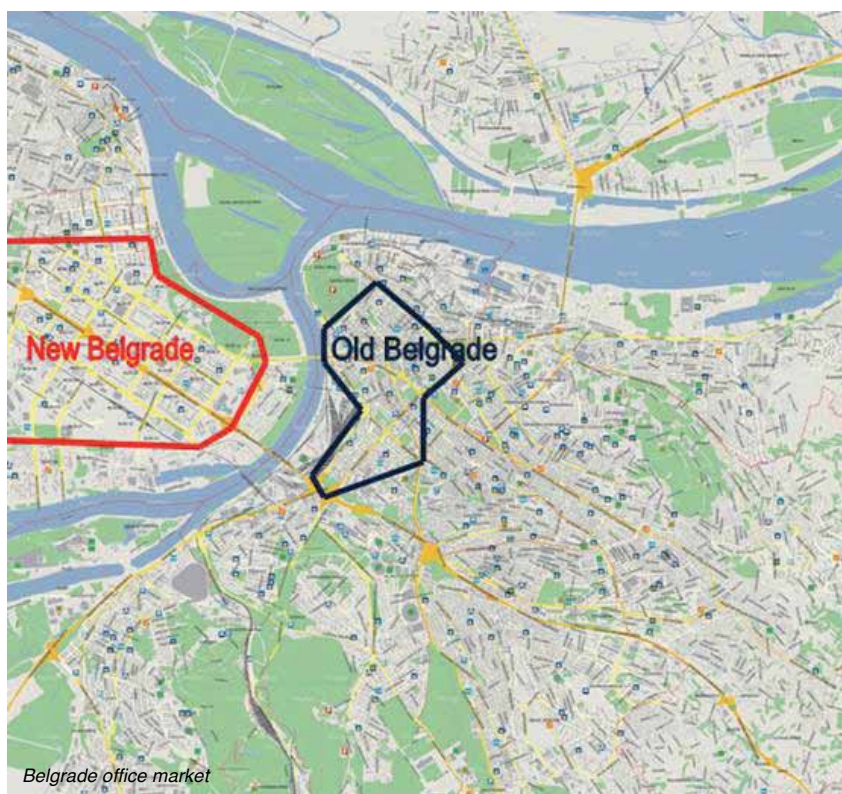
Office market

The Serbian office market is mainly focused on Belgrade. The vast majority of office stock is located in two areas: the traditional core of Old Belgrade, referred to as “downtown”, and New Belgrade across the river Sava.

Overview

Old Belgrade (Stari Grad)

The old town of Belgrade, the downtown, is located in the upper Dorćol area, from the streets off Cara Dušana up to Kneza Mihailova Street. Upper Dorćol is a mix of residential apartments and small converted offices, often sharing the same building. The area, close to the main retail shopping streets, is in particular popular with domestic companies. Furthermore, there are also two main office arteries heading out of downtown area: Kralja Milana/ Slavilja Square, and Kneza Miloša Street. Imposing government office buildings are located along the main artery between Bulevar Franše d'Eperea and Kneza Miloša Street. However, the main difficulty is the low availability of car parking in the centre. There is certainly demand for the city centre from international and domestic firms i.e. auditors and lawyers. The majority of buildings are 'C' Class office buildings located in this area with a few 'A' and 'B' Class office buildings refurbished and improved in the last couple of years. Furthermore, there are currently a few office locations being improved including “Tri Lista Duvana” building close to completion near the parliament and Atlas Group’s office location also adjacent to parliament.



New Belgrade (Novi Beograd)

In contrast to hilly, Old Belgrade, the area is completely flat, and set out on a US-style grid pattern, with numbered “blocks”. Since 2004, the majority of new development has been glass curtained office buildings and the home of the only two modern entertainment-focused shopping centres. Before 2007, the majority of development for office space was along Mihajla Pupina Street. However, development land became scarce and Milutina Milankovic Street became the location for the heaviest office development. Due to the sub-prime location, stock became more diverse as developers recognised that there were tenants that were looking for lower rents and were not as interested in high quality premises and medium quality was satisfactory. As a result, more Class B stock was constructed on this street than in any other part of the city.

The majority of new office space is located in New Belgrade, due to the ease of locating and purchasing development land, transparency of ownership, modern facilities and infrastructure, and availability of parking. However, one of the weaknesses in New Belgrade is the high initial development fee. More recently, the leasing of land from the city also became less transparent as the initial development fee is no longer the start bid price but the start bid price was the “Market Value” determined by the Tax Authorities.

Regional cities

The office market in regional cities continues to be weak as there is just not enough demand from high quality tenants. Most of the office stock outside Belgrade is considered to be Class B quality. There are usually only a few business centres in larger cities as a result of a lack of demand.

Supply

Whilst the years before the crisis saw strong growth in office development, Belgrade's office stock continues to be relatively low compared to other capital cities in Eastern Europe. As at the end of 2010, class A office stock was recorded at approximately 315,000 m², compared to for example 850,000 m² and 650,000 m² in Bucharest and Zagreb respectively. A further 50,000m² of office space development is under construction as of the end of 2010 and due to be completed by the end of 2012. The pipeline of 'A' and 'B' class projects are estimated to almost 160,000 m² in the next 5 years. Furthermore, we would expect more than this as this amount of time allows for the development of concept to realisation. However, it is possible that not all proposed projects will come to fruition, tempering the influx of new space to the market.

2010 saw the delivery of the Bluehouse, VIG Plaza and Belville II projects, adding approximately

60,000m² to the market. As a result of the financial and economic crisis many projects have been delayed and will not meet initial completion deadlines. Therefore in next three years we are expecting the deliveries of the projects that are now in construction phase.

The year 2011 should bring rentable office space supply of about 14,500m² which is less than was supplied in 2010. Supply in the period 2011 – 2015 is expected to drop below 40,000m² per annum, not exceeding total supply of 180,000 m² rentable office space over the next five years. Some of the projects which were in a pipeline for that period are highly uncertain due to the office market situation and availability of finance.

Downtown, the continuing process of privatisation means that there are opportunities for refurbishment of larger buildings in Old Belgrade in the future. However, it is not really possible to estimate the extent of potential redevelopment accurately

due to the plethora of variables to consider, not least the lengthy tender process, clarification of legal issues, planning and the permitting process.

Among international developers present in the market for several years are Global Trade Centre International (GTC), the Africa Israel Group; CA IMMO; Merrill Lynch Bank of America, and the Austrian company Durst & Vasko. Bluehouse Capital, an experienced Balkan developer, finished their flagstone Serbian development in 2010 in New Belgrade. The new law on town planning and construction made significant steps in the right direction towards ownership i.e. introduction of freehold interest but also have shown some reasons why Serbia is still a country in transition with the introduction of radical fee structures i.e. land conversion fee which is aimed at capturing state revenues from previously questionable privatisation deals. However, Serbia is continuing to make steps towards greater transparency which ultimately improves investor confidence and the overall business climate.

Demand

Demand in the Belgrade office market has been weak but still holding a pulse with leasing activity in 2010 amounting to approximately 17,000m². Around 55% of the 2010 lettings consisted of deals smaller than 300m² with just 20% of leasing deals above 600m². Two of the largest letting recorded in 2010 were NBG Bank in MPC Plaza in New Belgrade and Ringier Axel Springer in the Kompresor Building downtown, taking up 2,500m² and 4,000m² respectively.



Kompresor - Ringier Axel Springer.

The office market has suffered the weakest demand since the beginning of New Serbia. Although Serbia's GDP increase is one that would be normal in a developed economy it is lower compared to the recent years before the financial turbulence started. Once GDP increases sharply again, investors are likely to become interested again in office premises as demand for office space will almost certainly follow the economic trend. Even though, the recession has been shallower in Serbia due to banking safeguards, it still depends on the perceptions of risk by investors. This perception of risk will also be higher than its neighbours as the international community is still demanding fulfilment of several conditions before Serbia can be approved as an EU Candidate.

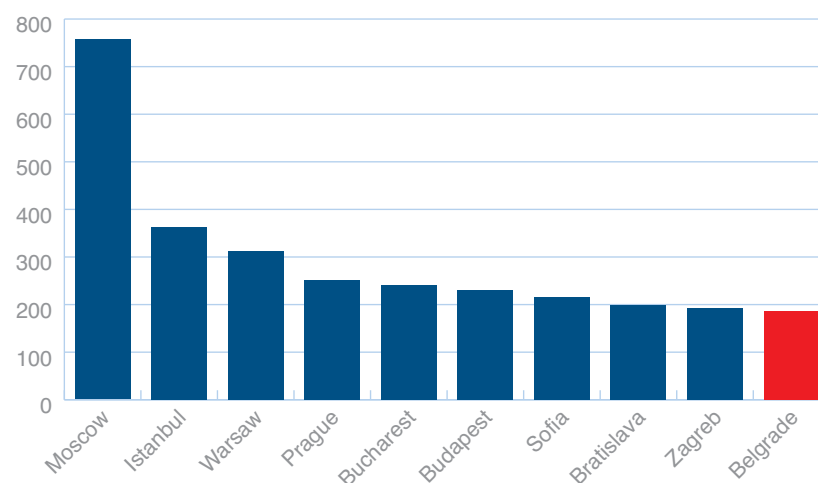
Vacancy

The amount of immediately available office space in the Belgrade market rose in the last 18 months due to the arrival of a couple of new office building i.e. Blue Center and VIG Plaza. We estimated that vacancy has increased to 23% and is likely to increase or remain stable for the short to medium term. There are still several large developments i.e. Verano B23 that will increase the stock and vacancy if brought to the market too early.

Rents

Prime rents currently stand at approximately €15.5/m²/month in Old Belgrade and approximately €15/m²/month in New Belgrade (Class A). With signs of economic improvement across Europe, prime rents remain rather stable. We are likely to see a stable outlook for the short term to medium term. However, some upward pressure is expected

Chart 1: Prime office rents Central & Eastern Europe Q4 2010 (€/m/year)



Source: King Sturge Research

in a couple of years time when office space becomes scarce as there are limited new development starts evident in the near future.

In comparison to other Eastern European cities, prime rents in Belgrade are the lowest in the region making it more appetising to occupiers but less so to investors.

Industrial market

Serbia is strategically located on the borders of the EU, neighbouring Hungary in the north and Romania and Bulgaria to the east. The attraction of a cheaper labour force and favourable tax regime, compared to the neighbouring EU countries, may tempt some investors to set up their production facilities and distribution warehouses in Serbia. Currently, there are only a few new modern logistics developments in Serbia, mostly owner occupied.

Overview

The undeveloped industrial market is rapidly changing as requirements for distribution warehouses to serve the expanding retail and service sectors increase, as well as the distribution activities of third-party logistics providers (3PLs). Improving market fundamentals and a stable growing economy suggest that this sector will

experience very intense development activity in the coming years. The year 2010 saw almost no industrial action except for possibly Nelt finishing its logistics facilities. Otherwise, we are not aware of any transactions that have transpired. However, what was startlingly apparent was “sell” sentiment of investors who are holding logistic designated land. However, the sentiment was not a “must sell” brought on by distressed conditions but by overall business strategy to reduce risk.

The majority of distribution warehouses and light industrial properties are located around important traffic links, along the path of expanding transport corridors and in the Port of Belgrade on the Danube river. Outside of Belgrade, industrial and technology parks have been developed in the regional cities Novi Sad, Indjija, Vršac in the north and Niš in the south.

Nikola Tesla airport & surrounding area

The area around the Nikola Tesla Airport and along the E70 motorway leading to the city is very attractive to FMCG companies, 3PLs and warehouse retailers. Land prices around the airport are higher than in other parts of Belgrade and consequently development in this area is likely to focus on office, hotel, research and development and airfreight service facilities.

The airport cargo terminal currently has two distribution warehouses of 5,500m² and 2,500m² for operative services and forwarding agencies. The airport reports it handles approx 35,000 tonnes of freight a year. A new cargo terminal and logistic centre is planned for the medium



term, which will double the airport’s freight capacity.

The main limitations around the airport are height and distance restrictions. In this regard, there are two more approvals that must be attained for building approval which are from the Airport Authority and Authority for Aircraft Control. This increases the risk to any given project in the area and increases the time of preconstruction.

Dobanovci

Dobanovci is experiencing a growing interest from developers due to its easy access to the airport and proximity to Belgrade. The district is located at the crossroads of the city ring road and the E70 motorway (leading to the Croatian border). It is estimated that the zone disposes of approximately 95,000m² of industrial/logistics premises. The main logistics player in this zone is Nelt, the company that in 2006 developed 32,700m². Mersteel Srbija purchased the old Celik company site in Dobanovci obtaining 6,000m² of storage space. Furthermore, the modern logistics supply was

enriched with the delivery of two modern logistics centers: Intereuropa (20,000m²) and Zora (13,000m²).

Krnješevci (Stara Pazova)

The industrial zone of Krnjesevci spreads towards highway E-70. It is situated 800 m away from the E-70, 20 km away from Belgrade and 12 km away from the airport. Milsped, one of the biggest logistics and distribution centres at 22,500m², is located in Krnjesevci. Other important investments in this zone are the development of the Soko Inzenjering site, MAN Trucknology Center, Mercedes Benz Logistic and Distribution Center among others.

Šimanovci (Pecinici)

If the municipality of Pecinci is business incubator, Šimanovci is characterized as a working zone, the center of investments. It occupies the total area of 160 ha and is divided into a South and North working zone. The north working zone is positioned between the settled part and the highway, while the South one stretches from Krnjesevacka Street to the municipality of Stara Pazova at the east and Belgrade at the west.

The municipality government has established building parameters - coverage coefficient of 30% and build-up index of 1.0 maximum for great production complexes that occupy the area of more than 10ha. There should be developed production buildings and adequate office buildings. Smaller construction parcels are for tertiary sector development and they are 25 meters wide, have an area of 3,000m², coverage coefficient up to 70% and build up index of 1.5.

Indjija

The most active segment of the real estate market in Indjija is the logistics/industrial sector due to the vicinity and good access to the international highway E75, the vicinity of Belgrade and Novi Sad that are 42km and 36 km away respectively and good connection to Belgrade Nikola Tesla Airport which is 35 km away.

Indjija has two fully equipped industrial parks with access to major transportation routes – Southeast and Northeast Industrial Park. The Southeast Industrial Park covers an area of 100 ha, and is located 1.5 km from the city centre of Indjija. All the locations within the Park are easily accessible and connected to the road M22/1 (Belgrade-Novı Sad) which runs through the town centre and leads towards Belgrade. The Northeast Industrial Park covers an area of 281.42 hectares and is located 2km from Indjija's town centre with easy access to pan-European Corridor 10 (section E-75 Belgrade – Novi Sad) and international railroad (Belgrade-Novı Sad Section). The construction of this industrial park commenced 7 years ago and so far 30% of its industrial capacities have been utilized. It is

equipped with all the necessary infrastructure, including water, sewerage, gas and electricity. Within the Northeast Industrial Park there is also an area designated as a Free Zone, facilitating import and export of finished goods and raw materials.

Regional cities

Aside from Belgrade, there are a few municipalities experiencing development activity in the distribution, logistics and light-industrial sectors. Worthwhile mentioning are the locations close to Novi Sad, where Carlsberg, US Steel and Ball Packaging operate their light-industrial production plants. The other important location is Niš, situated about 250 km south of Belgrade. Tigar Michelin, tyre manufacturers, and tobacco company Philip Morris have their operations in the Niš area.

The presence of these large production facilities in this area has triggered some associated development of distribution facilities and light-industrial units for supporting businesses. Indjija made an industrial park between the city and highway E-75 and has been one of the more active areas. This municipality has seen investment from companies such as Embassy Group, Henkel, Microsoft, Versil Legno, Mercator and TradeUnique among others.

Supply

The vast majority of the Industrial and logistics stock in Belgrade is not refurbished or well maintained due to financial problems or bankruptcy of the previous occupiers and landlords. Most of it was built before the 1990s and situated close to the port. The modern warehouse sector is greatly under developed and has been

taken by local 3PLs, who have been showing increased market activity over the last few years.

The total stock of modern warehousing in the greater Belgrade area is estimated at less than 90,000m², the majority of which has been built in last three years as owner-occupied projects. For example, Milsped, Dewaco-Man, Jupol, Pink TV, Don Kafa and ITM built their own facilities, although the majority has a light industrial use. The most modern logistics facility in the country is Milsped's facility in Savski Nasip, Belgrade at 22,500 m² (or 14,500 pallets).

As the market is undersupplied it has attracted attention from both domestic and international developers. Only local companies and a handful of international developers have built warehouse properties so far. Currently, the pipeline has dried up with many projects put on hold due to lack of funding and uncertainty with economic performance. Once the economy starts to pick up we expect a large interest in logistic schemes to take place.

As consumer spending continues to grow across Serbia more retail distribution will be required. Some international developers, like Helios are searching the market for suitable plots to start their operations in the country. However, difficulties in finding a site large enough as well as security of land ownership are the major obstacles to penetrating the market.

Demand

Demand for prime modern space continues to grow as Belgrade expands in response to increased

consumer spending and greater political stabilisation. The limited stock of modern industrial facilities and the prevalence of owner-occupied space mean that there is strong demand from prospective occupiers. Most warehouse requirements come from food retail distribution chains, transportation and pharmaceutical companies. It is expected that further demand for warehouse facilities and industrial units will follow after the improvement of the business environment and the increase of trade and industrial production.

Vacancy

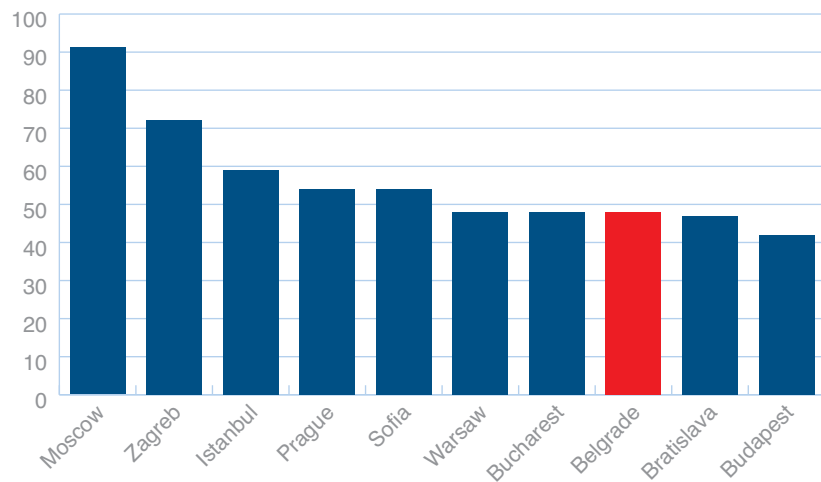
Currently, the vacancy rate is close to zero due to the majority of properties being owner-occupied. In the case of more speculative development being delivered to the market in next five years, a large amount of old stock in Belgrade may become empty as tenants upgrade their facilities, increasing overall vacancy. However, this stock, mainly located in the city centre, may swiftly be converted to residential or office schemes.

Rents

Industrial rents in Serbia are higher than those in the other Eastern European countries. Due to the high demand, almost non-existent speculative stock and the general immaturity of the market, rents can reach up to €4.5 - €5.0/m²/month for prime modern space. However, as the modern stock increases over the next few years, prime rents are expected to drop to a similar level as in other markets.

Production facilities are also seeing higher rent levels compared to the Eastern European average. As a result of limited stock and specific

Chart 2: Prime industrial rents Central & Eastern Europe Q4 2010 (€/m/year)



Source: King Sturge Research

occupiers' requirements, rents of up to €7/m²/month can be achieved for light-industrial unit. Rents for the old non-refurbished warehouses, mainly located in Belgrade's port, range from €1 to €2.50/m²/month. However, there is a limited evidence of market rents as most of the transactions are completed on an off-market basis.

Land values

With the entrance of foreign investors into Belgrade's market in the last three years, land values have been increasing. The supply of prime land in Belgrade is limited due to the fact that the vast majority is owned by state. Typically, the land for sale is fragmented and it is very difficult to find suitable plots for offices and retail development in the city and for industrial/ logistics development on the outskirts of Belgrade. As a general rule, the asking price of land depends on location. The planning consent is also a large consideration if the site density is low and there is demand for a particular product in that area. However, in many cases asking prices are unrealistically high as owners do not understand

the investment strategy. In cases where the land is owned by the state, the prices are centrally regulated and structured by zones and development category.

The Serbian legal framework recognises two land categories most commonly used for investment purposes: construction land and agricultural land, both mostly private and state-owned. The price of land is largely dependent on its category. The procedure to change the category from agriculture to construction land usually takes up to six months. Currently, potential investors can acquire building land only to a limited extent. However, an introduction of the new constitutional law will increase the security of land ownership for foreign investors.

Prices range from €15 to €60/m² for industrial land around Belgrade depending on zoning and location. Currently, the most expensive sites are residential and commercial sites in the core of Old Belgrade and sites for logistical purposes in close proximity to Belgrade's airport.

Retail market

Over the past year, we have seen demand for retail space gaining some momentum again. However, the retail market has seen a significant decrease in turnover, with landlords fighting increased vacancy rates and rising rent arrears. International retailers are mainly located in the core high street and modern retail schemes. The main barrier for retailers, other than recessionary uncertainty, has been the lack of adequate modern retail space.

Overview

In 2009, approximately 186,000m² of modern retail premises was delivered to the market; 2010 saw a 65% decreased retail development activity compared to the same period the year before. In 2009, lending institutions started requiring developers to have 50% binding HoTs (Heads of Terms). However, due to decreased retail turnovers, retailers slowed expansion plans and were more wary. Therefore, it could be said that the reduced development was a combination of

factors of more restrictive financing conditions and less aggressive expansion/ penetration strategies by retailers.

Overall, the development pipeline has decreased significantly with delays reported for many scheduled retail schemes. 2011 should mark the largest ever food retail chain transaction in Serbia. It is expected that Delhaize, the Belgium food retail giant (2009 revenues €19.9B) acquired 100% of Delta Holding's Maxi in the 1Q2011.

Sales may decline in Serbia over the short term, but the market is unlikely to see the kind of catastrophic scenes witnessed in Western countries. However, nervous retailers are no longer competing for space as they were until recently, it is predicted that there is a growing focus away from high street retailing to quality in-town mall and retail park developments, which offer a more reasonable pricing as well as a controlled and measured tenant mix.

Supply

There are four main retail channels of distribution: standard shops, shopping malls, community and galleria shopping centres and retail warehouses. No outlet centres exist at the present time except

ImmoCentar that changed their concept from a neighbourhood shopping centre to a "outlet shopping centre". However, it is expected that a new fashion outlet is opened in 2011 in Indjija.

Standard shops include traditional small outlets, kiosks, markets and bazaars. Despite the increasing modernisation of the retail market, this form of retailing still represents the mainstay of Serbian retail supply, particularly outside of Belgrade. The prime retail area for standard shops in Belgrade is located in the pedestrianised area around Knez Mihajlova Street, Bulevar Kralja Aleksandra and Terazije. In this district there are also arcades, such as the Millennium Centre, which comprises a number of small shops over four floors. This type of retail provision is typical of retail "centres" in Serbia at the present time.

Shopping malls are, by definition, freestanding, multi-level sites in town-centre locations, with a clothing-orientated retail proposition. These are still a relatively underdeveloped phenomenon in Serbia. However, Serbia lacks in supply of large size shopping malls developed according to western standards. Belgrade is the only Serbian city where such modern

Top 10 shopping centres by size, Serbia

City, Town or Borough	Scheme Name	Size GLA (m ²)	Year	Developer
Belgrade	Usce Shopping Center	43,000	2009	MPC Holding
Belgrade	Delta City	28,000	2007	Delta Holding
Belgrade	Mercator Center	22,000	2002	Mercator
Cacak	Mercator Cacak	18,000	2005	Mercator
Novi Sad	Mercator Novi Sad	16,000	2007	Mercator
Kragujevac	Roda Center	14,000	2008	Mercator
Nis	Mercator Center	14,000	2008	Mercator
Indjija	TQ Center	8,000	2010	Tradeunique
Belgrade	Zira	7,000	2007	Verano Group
Novi Sad	Sad Novi Bazaar	7,000	2006	Delta Holding

Source: King Sturge Research

retail schemes are located. Indeed, two modern shopping malls: Usce and Delta City have been developed by MPC/Merrill Lynch and Delta Holding respectively. These shopping malls includes well known foreign retailers such as Zara, Mango, Marks & Spencer, Carpisa, Via Spiga, Fratelli Rossetti and many others.

Community and Galleria shopping centres are purpose-built retail warehousing shopping centres, anchored by a major hypermarket, typically located in edge- or out-of-town locations. The hypermarket is supported by smaller retail units, often with a clothing focus. The Mercator Centre in New Belgrade is a prime example of a Belgrade galleria shopping centre. Anchored by the Slovenian food retailer Mercator, the centre comprises 50 shops and restaurants, covering 22,400m². It opened in the spring of 2003, and at the time was Mercator's largest investment outside of Slovenia, at a value of €37.4 million. The centre has dropped down two positions to be the third largest retail complex in the city.

Retail warehousing units tend to be stand alone sites, with the concept of retail parks yet to develop in Serbia. One of the most recent developments is the Merkur located in Palilula, on the edge of Karaburma and Visnjiska Banja. The store was completed in Q4 2009, and comprises of 28,000m² of commercial space. Another recent significant store opening is the 7,000m² big box retail furniture store, Kika, in Bezanijska Kosa.

The retail park concept will soon be introduced to the Serbian retail landscape, with BIG –CEE



scheduling to open by Q4 2011. BIG –CEE is a joint ventured company planning the first retail park in Serbia located in Novi Sad. This retail park is a hybrid of a shopping mall and retail park covering over 28,500m².

During 2009 and 2010 the Serbian real estate market has witnessed a very diverse increase in the retail supply with the openings of Merkur in Palilula, Kika furniture department store in Belgrade, two Mr. Bricolage DIY centers in Novi Sad and Nis, Roda shopping centres in Senta and Sombor, TQ City shopping mall in Indjija, Hiper Cort hypermarket in Belgrade and Tus supermarket in Kragujevac.

In the third quarter of 2010, Metro opened a 10,500m² Cash and Carry in Subotica and Serbian investor Univerexport spread its chain on Belgrade market with the opening of the 2,000m² Supermarket 011 in New Belgrade.

At the end of 2010, the shopping centre supply was enlarged by 6,000m² GLA with the opening

of Point Center developed by Immopoint in the wider Belgrade city area of Kaludjerica. One of the most recently announced developments in Belgrade is the IBC Power Center with plans to develop 27,500m² next to the METRO cash and carry located in Zemun, on the edge of Belgrade.

With the economy now recovering, the Serbian market is estimated to double its modern retail stock by the end of 2013. A strong increase is expected due to many large size projects that are mostly in the pipeline and whose construction was delayed due to an inconvenient economic environment and project financing difficulties. The most significant retail projects in the pipeline are: two Plaza shopping centers in Belgrade (the 48,000m² Visnjicka Plaza and the Plaza ex MUP site at Kneza Milosa Street which has a planned GLA of around 8,000m²) Plaza shopping center in Kragujevac (25,400m² GLA), BIG CEE retail parks in Novi Sad (30,000 m² GLA), Sabac (20,000m² GLA) and Jagodina (14,000m² GLA).

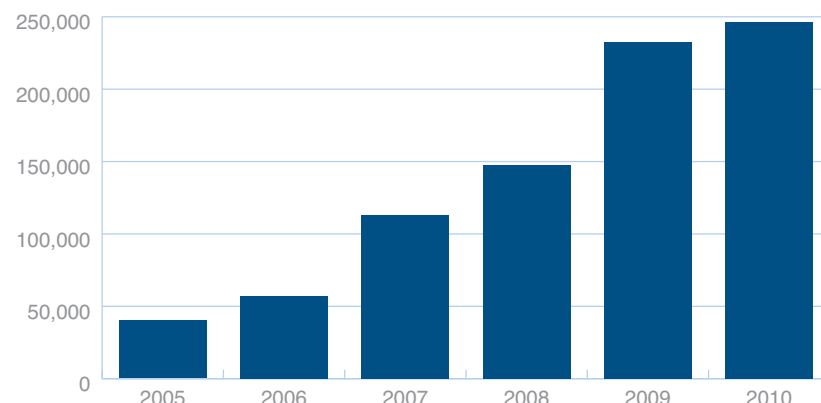
Demand

The Serbian retail sector is still fragmented, with the provision of retail floor space per capita extremely limited. Many of the most affluent local businessmen acquired rights to big name retail brands in the 1990s and 2000s. These same local businessmen believe in a vertical integration strategy and have thus built retail platforms to help sell their brands. Therefore, the retail real estate market continues to be dominated by local players. However, there are foreign companies that are interested in developing retail schemes; however, as of yet, a low percentage has been delivered. Some examples of foreign retailers active in the market include: Mercator and Rodic, InterEx, Idea, Veropoulos, Merkur and Metro all of which continue to expand aggressively.

Besides from traditional high street and shopping centre outlets, the majority of international products in the Serbian market are sold through franchise outlets and dealerships as a low risk way of entering the market, especially in the fashion and luxury goods sector most of which are owned by the Serbians.

A number of international brands entered the market in 2010 including: British retailers Quiz and Peacock, Italian fashion 7Camicie and Original Marines, French children’s fashion Sergent Major and Portuguese children’s fashion Porfois. In 2011, we expect German retailers Takko and Deichmann, Danish furniture retailer Jysk, Israeli fashion retailer H&O and French children’s fashion Tape a l’oeil to enter the market.

Chart 3: Modern shopping centre supply (m²)



Source: King Sturge Research

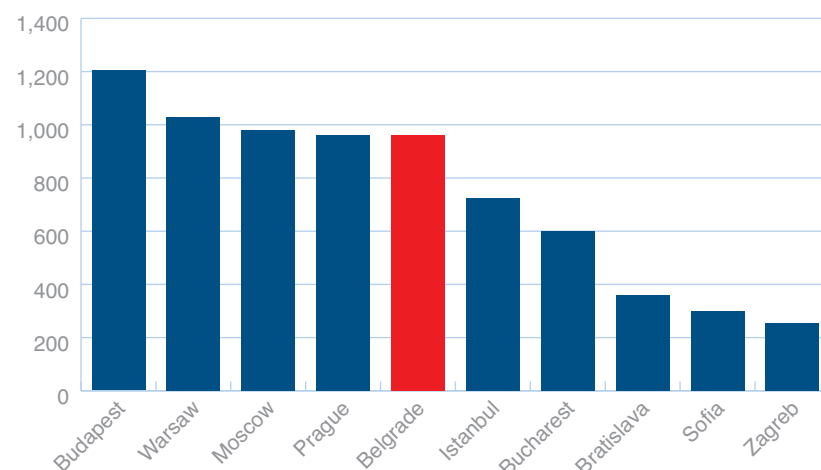
Rents

With demand for retail space still relatively low, rental levels tend to be under downward pressure for both high street units and shopping centres. With some tenants vacating schemes due to unprofitability, shopping centre landlords tend to offer more incentives and lower rents to attract new, good quality, tenants.

The average rental levels in shopping schemes in Belgrade tend to be between €26 and €29/ m²/month. SLUs pay anywhere between € 60/m²/month and €80/ m²/month, while anchor tenants

(LSUs) pay approximately between €12/m²/month and €25/m²/month. With the entrance of new, modern, shopping malls turnover rents have also become more widely used. This can be a significant addition to the revenue of a shopping scheme but during the last two years spending has been reduced and turnover rents have probably not been a huge contributor to the overall profitability of schemes. Moreover, due to the weaker economic environment and decrease sales, the failure to meet rental obligations is a rising concern.

Chart 4: Prime shopping centre rents Central & Eastern Europe Q4 2010 (€/m/year)



Source: King Sturge Research

Overall, the Serbian market continues to be a 'tenants market' - particular for the Anchor occupiers with retailers who will acquire floor space commanding significant discounts and financial incentives. Whilst there is still demand from existing, smaller retailers to explore opportunities outside the capital, new entrants into Serbia wish to have representation within Belgrade, at discounted rates, prior to committing elsewhere.

Investment market

The investment market in the past decade has been primarily focused on land deals or privatisations to acquire land. The main driver for this has been the opportunity that development has brought to a market without a vast spectrum of real estate products.

The result of a lack of modern real estate assets is that businesses such as Merkur, Metro, in need of space, turned to green field investment and development to satisfy their occupational needs.

In terms of retail, the majority of developments follow these lines of investment without the immediate strategy for resale. Others, such as new shopping centres, have a 'develop and hold' strategy for long-term income generating purposes. Office projects by international developers have also followed the latter strategy. The logistics market in Serbia is rather weak when it comes to the development of 3PL projects with only handful built so far. There are several international logistics players that have purchased land in Serbia including Eyemaxx, Europolis, but few have started development.

The early market players who entered Serbia have been the calculated risk players such as Israelis, Greeks and the Austrians. These investors understand the risks and adjust them by paying less or establishing relationships that reduce the development and business risk. We have seen some British companies testing the waters with funds checking if the values meet the risk in their designated investment zone. Domestic investor/

developers have a certain advantage and mitigate risk by having certain network advantages and better market knowledge. International investors recognise this advantage and many times create partnerships or JVs with domestic investors.

Investment deals of completed buildings have been few and far between. 2010 recorded two such transactions. The buildings sold were the Hypo Plaza building owned by MPC and purchased by SBB and the BB41 Building owned by Immorent and sold to a private buyer, both brokered by King Sturge. From this point of view, the year 2010 has been rather successful. However, due to the structural complexities of the transactions, it is hard to identify meaningful yield values. The BB41 Building in New Belgrade was sold for approximately 1,400 €/m². The high quality, but virtually empty, Class A Hypo Plaza office building was sold to SBB for 2,600 €/m². Moreover, King Sturge sold the parcel that was owned by Equest in Skadarlija to a third party private investor. Other minor investment deal conducted by King Sturge includes the sale of a British American Tobacco commercial real estate asset.

In 2010 we have seen significant improvement in the investment climate in countries like Poland and Czech Republic and we expect this sentiment to move towards the south in 2011.



The team



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