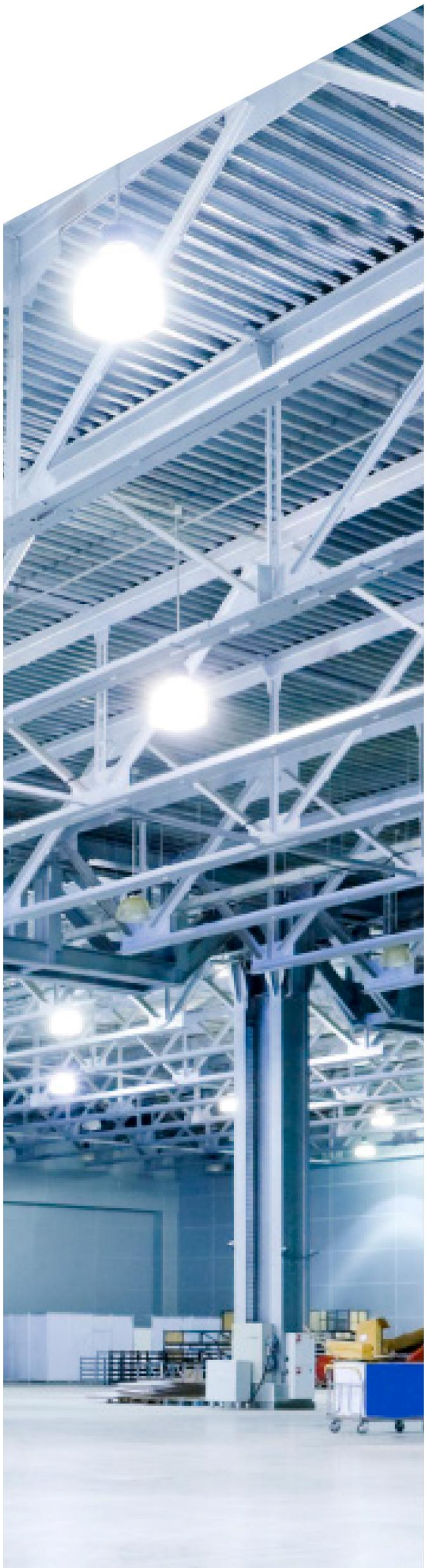
LeRoy

REALTY CONSULTANTS

RICS



# Market Snapshot

H1 2016

# ECONOMY
## OVERVIEW

Serbian economic growth has undoubtedly contributed to the overall stabilisation and activation of the real estate market. Positive trends continue in Q1 2016, while the main growth driver was new construction triggered by revival of private sector investments in new residential and commercial developments.

Political stability, positive movements in Fitch, S&P and Moody's credit rating, monetary easing measures of National Bank and lowering interest rates provide positive short-term outlook for private investments.

## Encouraging forecasts

In comparison to the period before the crisis, current structure of GDP is more balanced, driven by increased exports and new investments. After an accomplished recovery of having 0.7% GDP growth in 2015, according to IMF, forecasted growth for this year will amount to 2%. The assessment is supported with the most recent data indicating 3.5% GDP growth in Q1 2016 driven by investment and export growth. Nonetheless, estimated increase for 2017 is 2.5%.

The National Bank reference rate reached its historical minimum of 4.25% in Q1 2016.

Key challenges in medium run will remain the same, such as: continuous increases in budget deficit and public debt, high dependence on international credit arrangements and far above ground unemployment.

## Investment growth ensures stronger recovery

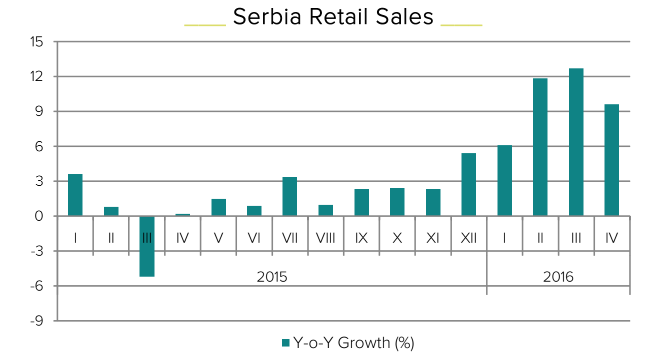
Implementation of structural reforms and favourable conditions in the global financial markets has led to improved inflow of FDI and revival of private investments. According to the National Bank of Serbia, net FDI inflow in 2015 has increased by 45.6%, in comparison to previous year and amounted to EUR 1.8 billion.

In 2016, the National Bank has projected FDI inflow of EUR 1.6 billion. In years to come, this projected FDI is expected to cover current account deficit.

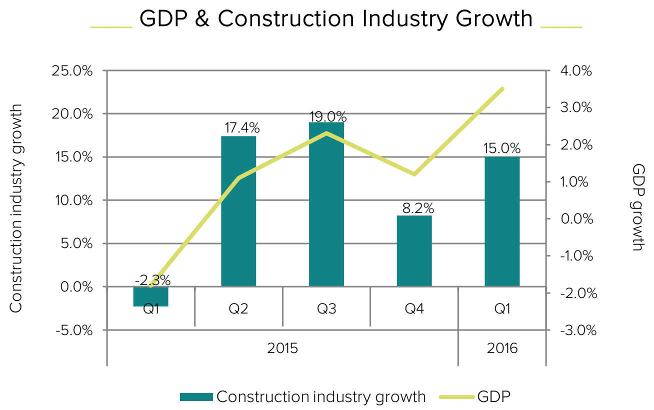
Positive trends have been translated into slightly improved consumer confidence and retail sales acceleration in 2016. Interest rates for loans in local currency fell due to monetary easing measures and play an important role in boosting demand for new consumer and mortgage loans.

## Construction growth followed by new legal regulations

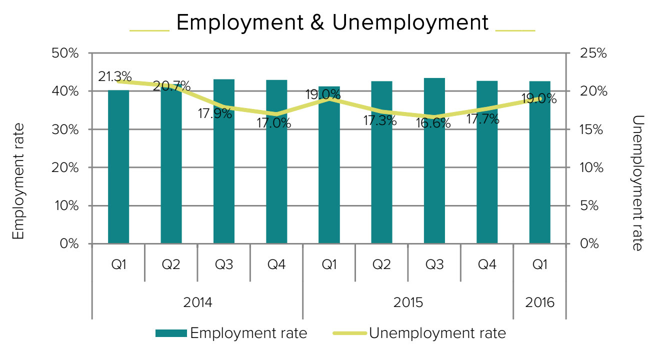
The introduction of new legislative frameworks through new law on planning and construction has brought unified procedure for issuing construction permits and faster adoption of planning documents, which had a positive impact on the growth in construction sector, making it the fastest growing industry in 2015, with 26.3% more construction permits issued.




Source: Statistical Office of the Republic of Serbia




Source: Statistical Office of the Republic of Serbia



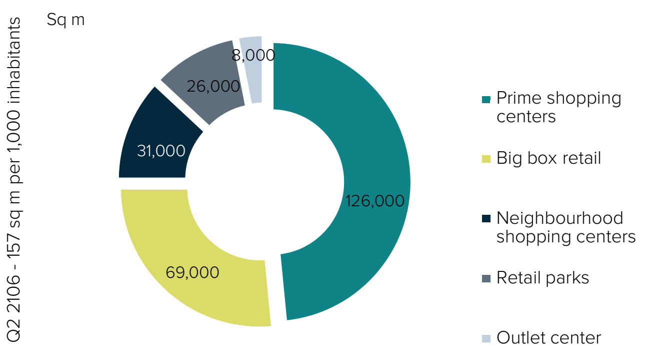

Source: Statistical Office of the Republic of Serbia

# RETAIL
## MARKET SNAPSHOT

Rising level of activity from international investors in the region began to spill over into the Serbian market, which has previously been 'off the radar'. A focus on prime shopping centres in Belgrade has resulted in first investment transactions at the end of 2015 and beginning of 2016, thus low availability of prime stock and first mover advantage continues to entice attention.

Atterbury Europe has acquired one-third of seven Serbian shopping centres' portfolios with MPC Properties, including the country's largest mall "Ušće shopping center" for the amount of EUR 259 million. Second prime shopping center "Delta City" in Belgrade together with "Delta City" in Podgorica, were acquired by South African Hyprop, for a total of EUR 202.7 million, which is the largest single asset deal in South Eastern Europe in five years. Market yield compressed to 8%.

Shopping center stock structure in Belgrade




Source: LeRoy

## Focusing on Secondary Cities

Beside prime locations, secondary cities are gaining their momentum through development of new retail schemes, supported by retailers who increasingly began looking into secondary cities. Lack of supply and competitiveness are the main drivers which give investors opportunity to seize this unsaturated market segment. Retail parks became a dominant concept in these cities.

MPC Properties introduced a new retail park concept "Shoppi". The first one was opened in March 2016 in Subotica (10,000 sq m).

Austrian Immofinanz has opened its first retail park "Stop.Shop" in Nis (13,000 sq m) in April 2016, and another "Stop.Shop" centre has been opened in Valjevo (6,000 sq m) in May 2016.

## Upcoming deliveries in 2017

Currently few projects are at different stages of development in Belgrade, all of which will be delivered in 2017. Long-awaited "Ikea" store is now well underway and set to open in 2017.

Next year will be remarkably active with approximately 110,000 sq m of new retail space expected to be delivered in Belgrade and suburban areas. Given the volume of new schemes, we expect to see new market entrants and better brand diversity. Expansion of low to medium category of retailers still dominates the market.

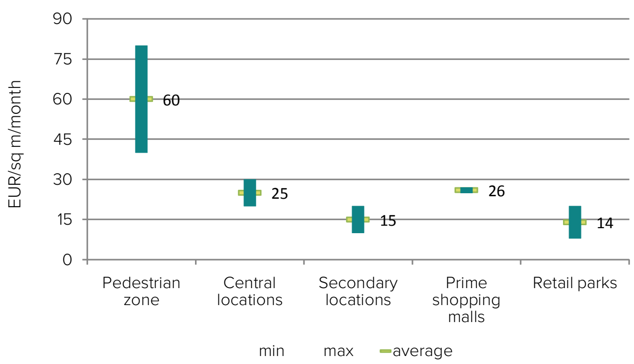
| Project | Investor | Location | Type | Area, sq m | Deadline |
|---|---|---|---|---|---|
| In construction | | | | | |
| Rajiceva | Avital / Ashrom Group | Belgrade | Shopping mall | 15,000 | 2017 |
| Visnjicka Plaza | Plaza Centers | Belgrade | Shopping mall | 32,300 | 2017 |
| IKEA | IKEA | Belgrade | Big box | 30,000 | 2017 |
| Shoppi Borca | MPC | Belgrade - Borca | Retail park | 12,000 | 2016 |
| Announced | | | | | |
| Capitol Park | Poseidon Group / Mitiska REIM | Belgrade - Rakovica | Retail park | 21,000 | 2017 |
| Ada Mall | GTC | Belgrade | Shopping mall | 32,000 | 2018 |
| Delta Planet | Delta Real Estate | Belgrade | Shopping mall | 80,000 | - |
| Capitol Park | Poseidon Group / Mitiska REIM | Sombor | Retail park | 6,000 | 2017 |

Source: LeRoy

## Market stability and lower rents

Dominant shopping centres operate very well with notably low vacancy rates 1-2%, while high street becomes secondary retail destination. Over the past year retail market has considerably stabilized.

Average rents in Belgrade




Source: LeRoy

With further developments and upcoming projects, average rents in shopping malls are likely to be adjusted at a somewhat lower level.

# OFFICE
## MARKET SNAPSHOT

Higher occupier demand continues to support absorption, which led to accelerated vacancy compression in the last 18 months and overall improvement in the market sentiment. Current vacancy rate of the speculative stock is 5.1%, which triggered new development cycle.

Thus the need for spreading out the stock appeared in 2014 and positive drifts have unlocked this segment of the market and boosted new investments in 2015/2016.

## Ongoing increase in supply

At the end of Q2 2016, available modern office stock was 684,000 sq m, of which Class A amounted to 65% and Class B 35%. AFI Group and Tidhar have completed a new office building within Airport City Business Park, adding to the stock additional 12,000 sq m of class A space, which together with one smaller project of 3,000 sq m makes total delivery of 15,000 sq m in H1 2016.

Based on the ongoing developments, total new supply of office space is expected to increase by more than 60,000 sq m in 2016/2017. Thus the level of new supply due for completion will reach similar levels as in 2009. Despite the significant volume of new supply that is planned to be deliveredin the market, the sentiment for 2016 remains positive.

As a matter of fact, new investment activities are a direct outcome of record high rent transactions in 2015, whereas 19% of the total growth is related to new leases, which are unquestionably the indicator of office market recovery. Currently, IT & communication sector are the main drivers of demand, while banking & finance sector have reduced the claim. Thus, the request for Class A office space has augmented, increasing the amount of average rented area on 600 – 700 sq m.

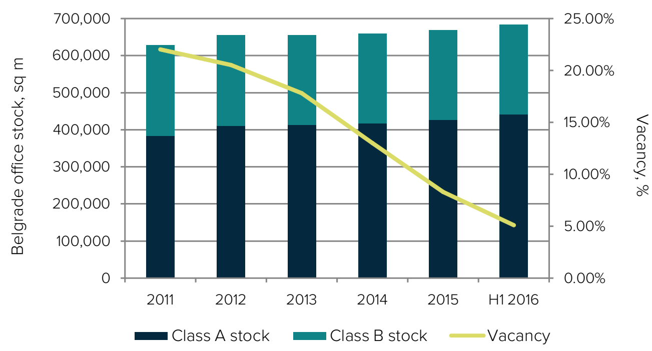
## Increase in rent sustained by the supply gap

Strong pre-leasing activity has been recorded during the course of 2015, reaching a volume of 15,000 sq m, which with deficit of new office supply, has provoked escalation in rent. After a couple of years of stability, growing trend of rents has emerged in 2014, but the first 6 months of 2016 indicate rent stabilisation, despite very low vacancy (class A – 3.8%; class B – 7.4%). Significant supply additions are expected to lead to an increase in the vacancy rate over the upcoming months.

At this moment, rents for Class A office buildings are between EUR 15-17/sq m/month, while for Class B range between EUR 10-12/sq m/month. Additionally, Class C office space has recorded increased marketability based on elevated occupier demand, generated primarily by local firms. Asking rents for these offices in central locations are EUR 9-12/sq m/month.

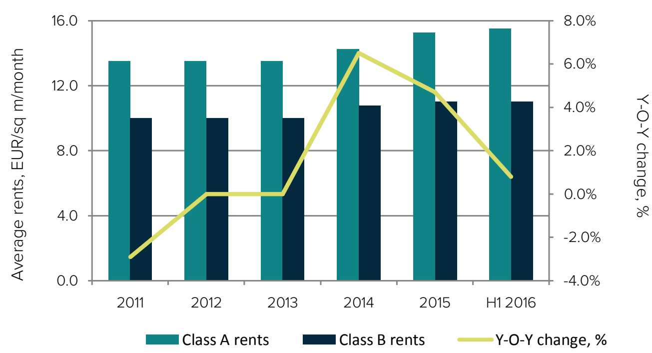
Headline rents are expected to remain stable over the next year, however net effective rents may decline. Lease incentives such as rent free periods and fit-out contributions will continue to be stimulus to tenants. Relocations and expansions are expected to be prevailing drivers of market activity. Prime office yields are between of 8.75 – 9.00%.

Belgrade office stock & vacancy




Source: LeRoy

Belgrade office rents & trends




Source: LeRoy

| Project | Location | Size, sq m | Investor | Deadline |
|---|---|---|---|---|
| | | In construction | | |
| Fortyone - II phase | N. Belgrade | 7,600 | GTC | 2017 |
| Airport City | N. Belgrade | 12,000 | AFI Group | 2017 |
| Navigator | N. Belgrade | 14,600 | MPC | 2016/2017 |
| Societe Generale | N. Belgrade | 11,000 | Societe Generale | 2016/2017 |
| Sirius - I phase | N. Belgrade | 18,600 | Immorent Singidunum | 2016/2017 |
| EDB | N. Belgrade | 5,000 | EDB | 2017 |
| | | Announced | | |
| Sirius - II phase | N. Belgrade | 12,500 | Immorent Singidunum | - |
| Tosin bunar | N. Belgrade | 2,700 | Deneza | - |
| Fortyone - III phase | N. Belgrade | 9,000 | GTC | - |

Source: LeRoy

# INDUSTRIAL
## MARKET SNAPSHOT

Healthy economic growth of 3.5% in Q1 2016, good export performances and increase in industrial production, have triggered new investments that outperformed the trend, from the same period last year. Positive sentiment in stronger recovery has translated into considerable increase in a number of building permits issued for industrial & logistics properties in January and February 2016.

The number of building permits issued in the first two months of 2016 for new industrial and logistics buildings in Serbia increased by 70.6% compared to the same period in 2015, while the total size of new buildings approved for the construction according to licenses issued, increased by 73.4%.

## Wider Belgrade and Vojvodina region lead in new developments

Increased industrial production and exports, along with the activation of retail sector, boosted the demand for development of industrial and logistics spaces in this area. Development dynamics in the first two months of 2016 have substantially outperformed the trend from the same period last year, thus supporting overall positive market sentiment.

According to the data from 2015, the supply structure is dominated by industrial facilities, which make up 60% of the total newly built area in Serbia.

The offer of new logistics space is mainly concentrated along the highways E-70 and E-75, on the wider Belgrade territory, as well within municipalities of Pecinci and Stara Pazova. In 2015, the supply in these zones has increased by 23.6% while investment activity in Pecinci has almost doubled in 2015, having in mind the total area intended for construction according to the permits issued.

Considering the take-up structure, the highest demand in 2015 was recorded in Vojvodina region, but increased interest has been recorded also in Belgrade area and the region of southern & eastern Serbia. Other regions have experienced reduced interest in 2015, when compared to year 2014.

Dominant occupiers continued to be the manufacturers from automotive industry, food processing and pharmaceuticals, while FMCG sector and particularly food retailers drive the demand for logistics.

Newly adopted Master Plan of Belgrade defines development possibilities, along with the extension of existing industrial zones within the city area. The most attractive zones for potential investors are those along Pancevo road and highway E-70 towards Belgrade Airport, as well as zones in wider area of Zemun and zones in Batajnica and Dobanovci.

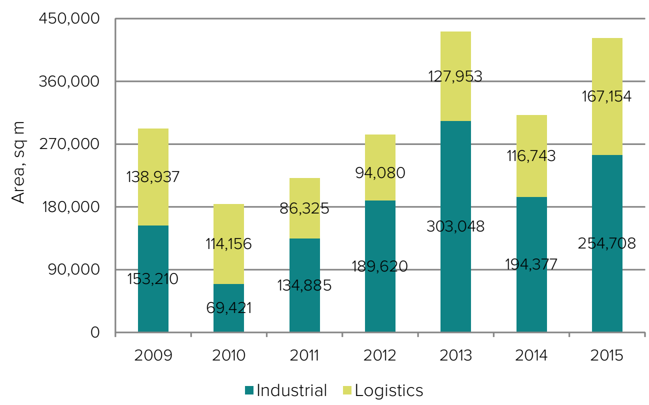
## After bottoming out rents have stabilised

In 2015, after reaching their lowest point, the rents have significantly stabilised. At this point, industrial & logistics real estate market shows considerable stability in terms of rents.Properties in immediate surroundings of major transportation corridors have recorded a slight increase in rents, up to 10%.

The demand is mostly concentrated in the Belgrade city area, where prime properties achieve the highest level of rents, between EUR 4.0-5.0/sq m/month. Rents for warehouses and industrial buildings in wider area of Belgrade, along the highways E-70 and E-75, range from EUR 2.0-3.0/sq m/month, while properties in poorer state of maintenance, depending on the location, are let for EUR 1.0-1.5/sq m/month.

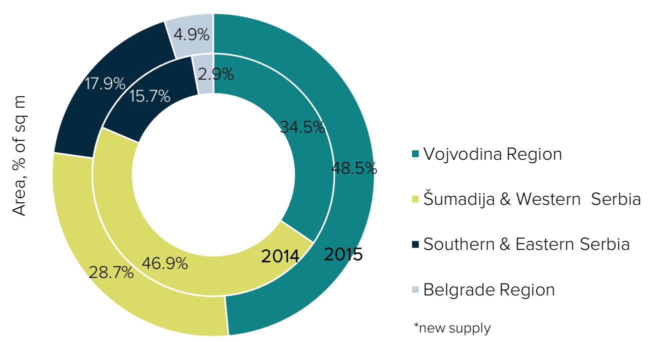
Decreased rents have led to a slight yield compression, which currently stands between 9.75-10.00%.

Industrial & logistics supply according to construction permits issued in Serbia




Source: Statistical Office of the Republic of Serbia

Take-up* structure by region




Source: Statistical Office of the Republic of Serbia; LeRoy

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