

Residential Market Outlook



Economy Overview

Improvement of key macroeconomic indicators has brought a surge in optimism among investors and GDP growth in 2016 was predominantly led by investments, net exports and final consumption.

Construction industry growth records positive rates in six consecutive quarters together with housing loans increase over the first eleven months of 2016. According to preliminary data, GDP grew by 2.7% while construction industry grew by 6% in 2016.

The National Bank of Serbia maintains its policy rate at a historic low of 4% (since July 2016). Political stability, structural reforms, halting further debt accumulation and progressing towards EU membership are assessed as main drivers of recovery and sustainable growth.

Accelerating private consumption and declining unemployment

Despite the private consumption consolidation and the slight improvement in disposable income, the wave of optimism has yet to reach companies, which are not increasing their exposure to bank loans, in spite of the record low level of financing costs. There is still lot to be done to remove existing bottlenecks to economic growth that will foster private sector job creation and raise living standards.

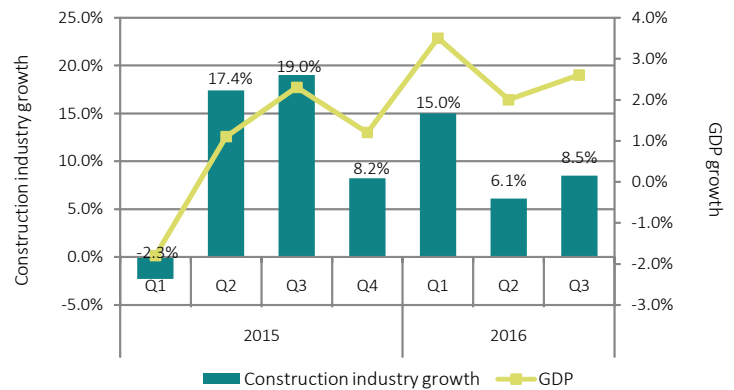
Better prospects in the mid-run

In the coming period GDP growth is expected to gradually step up, reaching 3.0% this year and 3.5% in 2018, while keeping favourable growth structure driven by net exports and investments.

FDI inflow remains the same as in 2015, amounting to EUR 1.8 billion, while FDI/CAD coverage for the first eleven months of 2016 stood at 145.6%.

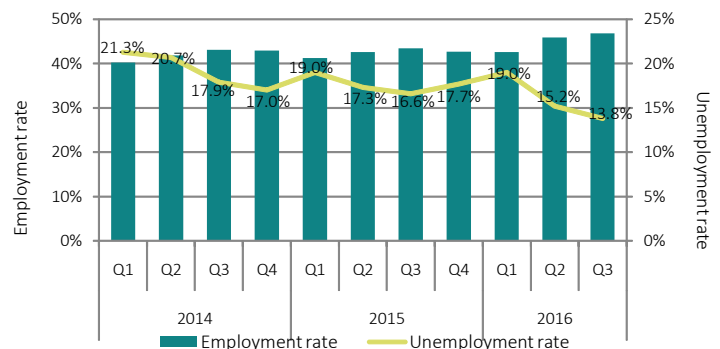
In the short term, the outlook remains positive thanks to continuing low interest rates, mortgage affordability, rising employment, household income and consumer spending and below target inflation.

GDP & Construction Industry Growth



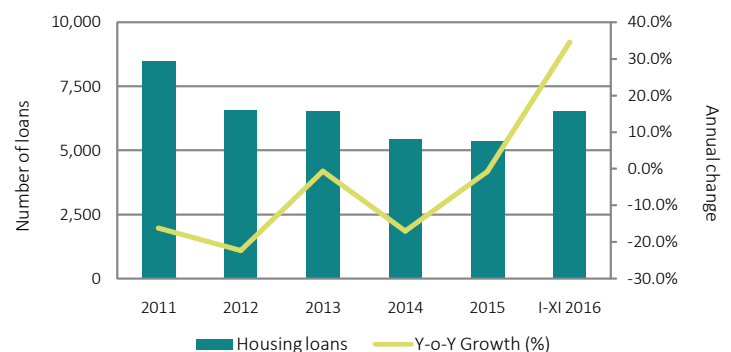
Source: Statistical Office of the Republic of Serbia

Employment & Unemployment



Source: Statistical Office of the Republic of Serbia

Mortgage Approvals in Serbia



Source: National Mortgage Insurance Corporation

Residential Market Outlook

Record low interest rates and economic growth over the last 7 quarters have underpinned the market demand and brought the resurgence of real estate investment activity in the Belgrade residential market.

Reduced level of new supply in 2015 has accelerated off-plan sales within the most successful residential projects in 2016, which uplifted investors' confidence and reinforced development pipeline starting from the second half of 2015.

Ever-lower interest rates enticed new buyers

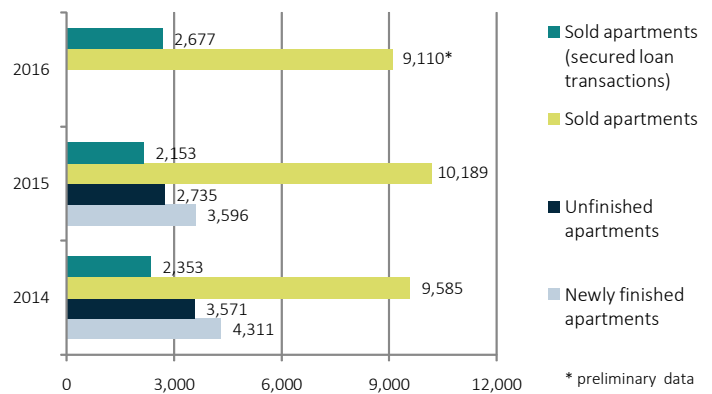
After the contraction, whose effects were seen in 2014-2015 period, residential market seems to be getting back on healthy level of activity supported by growth in buying demand and attractively-priced offer. Tempting interest rates introduced throughout 2016 have also spurred latent demand, which resulted in growth of approved housing loans by 34.6% in the first 11 months of 2016 compared to the same period previous year, in the entire country. However, these modest improvements with confidence gradually recovering and favourable forecasts should be taken cautiously as many systemic risks are still prevailing, such as fragile economic recovery in Europe, high level of debt and unsustainability of low interest rates in the long term.

New supply diminished for the second year in a row

On the supply side, 2015 has recorded delivery of only 3,596 new apartments within metropolitan area, which is annual decrease of 16.6% and the lowest market performance since 2004. The highest development intensity was seen in New Belgrade and Vracar municipalities with 4.7 completed apartments per 1,000 inhabitants, which is twice higher than the city average of 2.4 new units per 1,000 inhabitants.

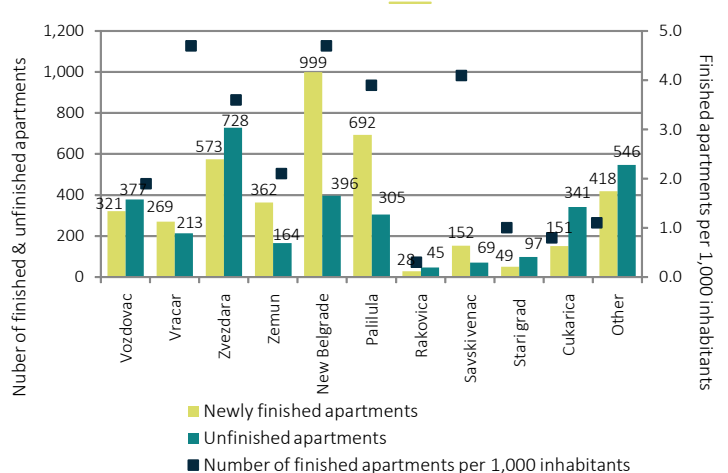
Accelerating pace of new development has continued through 2016 in virtually all areas of the city and the current volume of housing construction will give effect during 2017, when we expect increased number of new apartments coming onto the market. New Belgrade will accommodate large part of new supply, followed by Zvezdara and Vozdovac.

Number of newly finished, unfinished & sold apartments in Belgrade metropolitan area



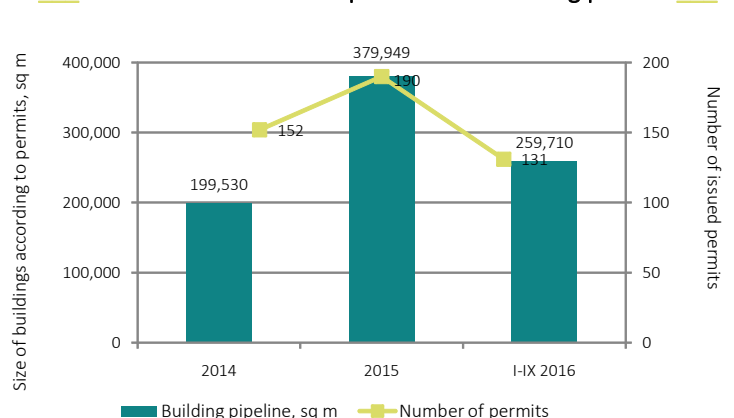
Sources: Statistical Office of the Republic of Serbia & Republic Geodetic Authority

Housing development intensity in Belgrade municipalities in 2015



Source: Statistical Office of the Republic of Serbia

Number of residential sq m based on building permits



Source: Statistical Office of the Republic of Serbia

Dominant share of new supply consists of mid and upper-mid quality schemes located in the wider city centre while remaining part is located on the city outskirts. Data on issued building permits in the first 2 quarters of 2016 indicates similar level of development activity (pipeline) as 2015.

Soaring demand for new apartments keeps resale market stable

The total volume of property transactions including resale market, increased by 6.3% during 2015 and preliminary data for 2016 indicate similar level of market activity. Low interest rates have pushed up number of secured loan transactions in 2016 by 24.3%, which is still 20% lower than average for the period 2011-2013.

Upper-mid quality projects are generating stable absorption, which is partly attributable to the overall supply shortfall in the capital that will continue to play in favour of investors through strong off-plan sales and slightly higher prices. New Belgrade leads the market demand, providing the most distinctive offer of new apartments, together with Zvezdara and Vozdovac. Developers responded to increased demand with an accelerating pace of new developments, which will result in larger number of new units, thus enabling supply to catch up with increased demand.

Both prices & rents stayed flat over the last 12 months

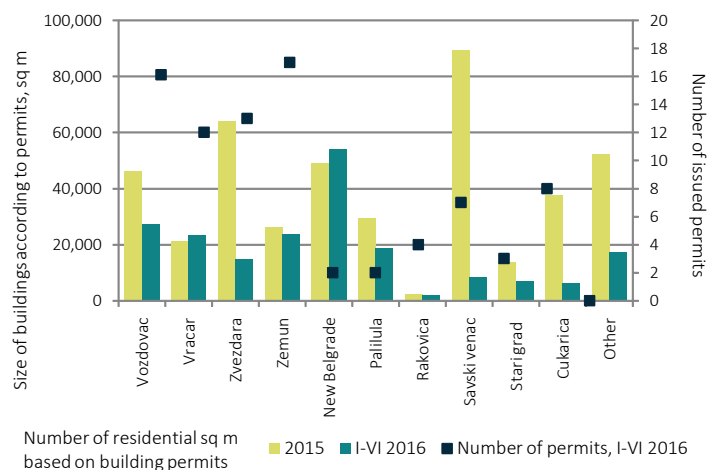
Prices have broadly stabilized in all Belgrade municipalities and we expect to remain relatively steady in the nearest future. The market activity is also dependent on the interest rates which may change with potential unexpected developments in global financial markets. Therefore, despite modest demand increase and strengthening economic growth in 2017, more realistic attitudes amongst buyers will curtail house price growth.

Average apartment prices in Belgrade metropolitan area are EUR 1,225 per sq m. Asking prices for new units within upper-mid quality complexes depend heavily on micro location and are within the range of EUR 1,700-2,000 per sq m, while prices of older apartments range EUR 1,000 – 1,250 per sq m. Higher quality apartments prices are between EUR 2,100-2,400 per sq m on average, while the offer of luxury new units is very limited and the price ranges between EUR 2,800-3,000 per sq m.

Major projects are developing as scheduled

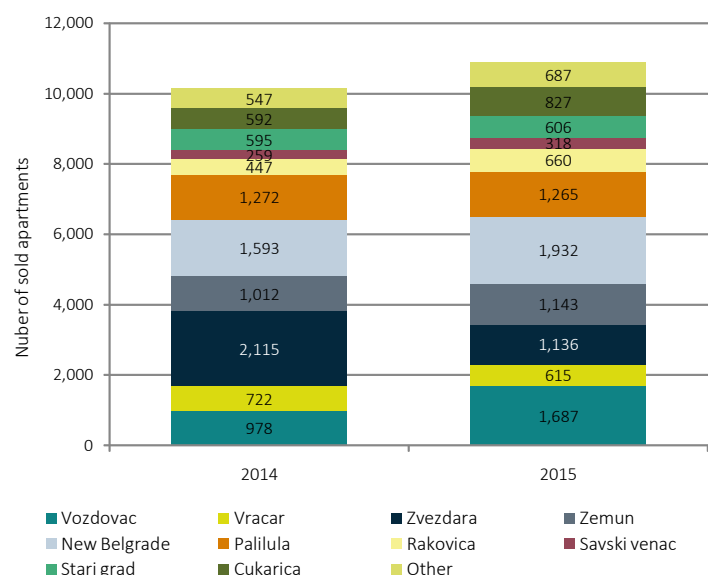
Successful multi-phase residential projects in New Belgrade and downtown have continued their development, while new schemes such as "Zelena avenija" in Zemun and "Sunnyville" in Palilula have been launched in 2016. This diversified stock targets the widest range of buyers from the affordable segment to the upper middle buyers.

Residential development pipeline in Belgrade municipalities



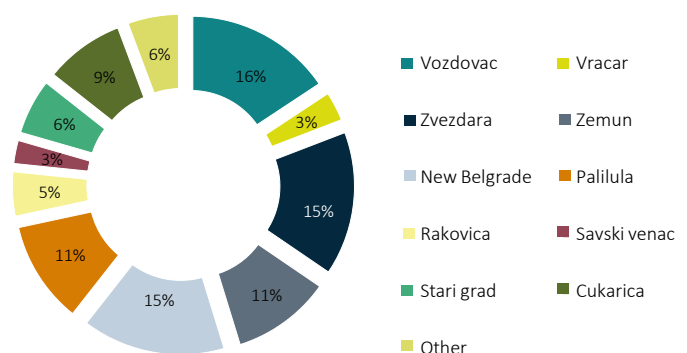
Source: Statistical Office of the Republic of Serbia

Number of sold apartments in Belgrade municipalities



Source: Republic Geodetic Authority

Distribution of sales transactions per municipalities in 2016



Source: Republic Geodetic Authority; compiled by LeRoy

Introduced new projects expect to take shape in downtown

Two landmark locations in downtown have captured investors' attention and long-awaited new projects have been introduced.

Israeli investor "AFI Group" in May 2016 took over the former building of the Federal Ministry of the Interior, located in Kneza Milosa Street. Their plan is to develop landmark mixed-use scheme (60,000 sq m), including both residential and office space. The beginning of construction is announced for April 2017.

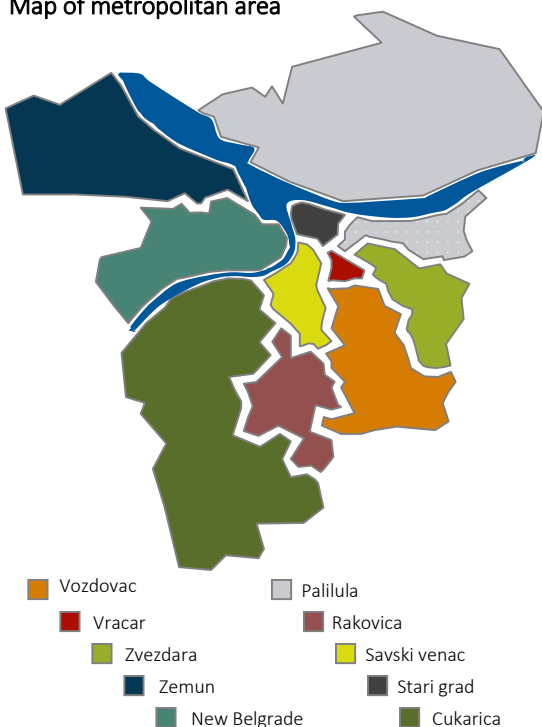
In the close surrounding, Israeli companies "Yossi Avrahami" & "Almogim Holdings" have purchased former building of the American Embassy in September 2016. The investors have announced construction of luxury mixed-use complex including 220 residential units.

These new developments together with "Belgrade Waterfront" project will certainly uplift the spirit of the downtown and its landscape.

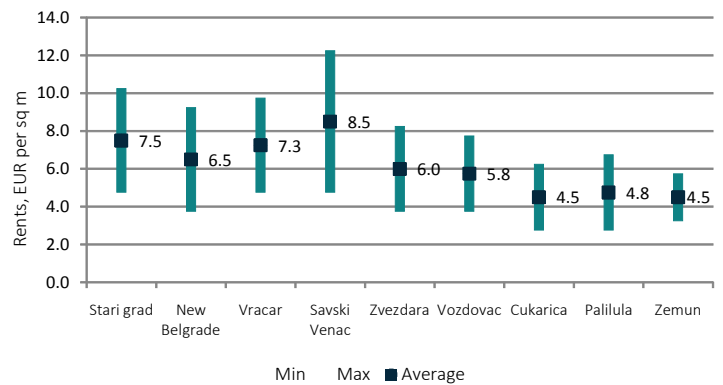
Economic recovery will keep demand elevated

Supported by an overall positive market sentiment and amplifying demand, which is in coordination with existing and developing supply, major price changes or shock effects are not expected in the foreseeable future. Financing is of utmost importance for the market to maintain its stability and enable growth, so any changes in this segment may significantly impact the market activity. The announced supply in the next period should be absorbed if the present market fundamentals prevail.

Map of metropolitan area

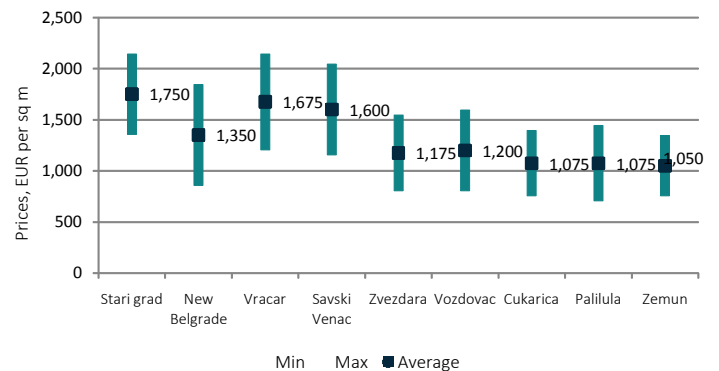


Average apartment rents in Belgrade municipalities, 2016



Source: LeRoy

Average apartment prices in Belgrade municipalities, 2016



Source: LeRoy

Project	Location	No of units	Status	Deadline	Investor
Belgrade Waterfront	Downtown	296	In construction	1st phase 2018	Eagle Hills
		228	Announced	2nd phase N/A	
A Blok	New Belgrade, block 67a	526	Finished	1st & 2nd phase	Deka inzenjering
		273	In construction	3rd phase 2017	
Central Garden	Downtown	188	Finished	1st & 2nd phase	AFI Europe
		129	In construction	3rd phase 2017	
West 65	New Belgrade, block 65	250	Finished	1st & 2nd phase	PSP Farman
		100	In construction	3rd phase 2017	
Savada	New Belgrade, block 67a	303	Finished	1st phase	Neimar V
		200	In construction	2nd phase 2017	
Zelena Avenija	Zemun	236	In construction	2017/2018	Montex Real Estate
Sunnyville	Palilula	215	In construction	2017	Energoprojekt
Sun City	New Belgrade, block 63	174	In construction	2017	Energogroup
Zrmanjska	Cukarica	49	In construction	2018	Finvest
Former American Embassy	Downtown	220	Announced	N/A	Yossi Avrahami & Almogim holdings
Former Federal Ministry of Interior	Downtown	n.a.	Announced	N/A	AFI Europe
Block 32	New Belgrade	127	Announced	N/A	PMC Inzenjering
Zemunске kapije	Zemun	1,700	Announced	N/A	The Building Directorate of Serbia

Source: LeRoy

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