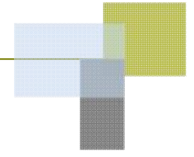


Belgrade | Q4 2015



Residential Market Outlook





Economy

Outlook

Despite austerity measures, Serbia has recorded modest GDP growth which is estimated at 0.7% in 2015. Latest upgrade in Fitch rating at B+ with positive outlook is based on better than expected economic growth, consistent implementation of fiscal consolidation measures and reducing external imbalances.

Fostering the business environment improvements, public sector structural reforms and a consolidation of the banking sector will be major tasks for 2016. Recent opening of the first chapters in EU negotiations is important step towards future integration and sign of certain system amendments. Anticipated growth of 1.7% in 2016 is a signal for moderate improvement in business sentiment.

Austerity measures implemented during 2015 have brought some positive results, such as reduced budget deficit and external imbalances together with weak GDP growth. Implementation of toughest and unpopular measures, including layoffs in the public sector and ending the long term process of restructuring companies, has been postponed for 2016.

After experiencing floods-related recession in the second half of 2014, negative trends were halted in Q1 2015. Shift in GDP growth has started from Q2 2015 when GDP grew by 0,9% and 2,2% in Q3 2015 y-o-y, based on recovery of mining and energy sectors and faster manufacturing growth. After the period of serious decline, construction sector has witnessed revival in 2015, with real GDP growth of 12.6% in the second quarter and 18.3% in the third quarter.

Industrial production recorded a growth of 7.6% in the first 9 months of 2015 compared to the same period last year, with the highest results achieved in mining sector (20.7%) in September. The automotive industry remains a key export driver as many car part manufacturers have decided to locate or expand their business in Serbia, thus benefiting from competitive labour costs and its strategic geographical position. Positive progress in 2016 is expected, mainly on the grounds of consolidated industrial production and agricultural performance.

Serbia's FDI inflow increased by 20% in the first 9 months of 2015 in comparison to the same period in 2014, as a particular consequence of implementation of reforms in fiscal policy, new construction law and upcoming new investment law and regulation on land usage and property rights.

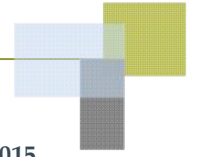
According to the National Bank of Serbia, net FDI inflow in the first eight months of 2015 amounted to EUR 1 billion, while expected inflow of EUR 1.6 billion in 2015 is 20% higher than the year before.

Serbian unemployment rate recorded a decrease to 17.5% in Q2 2015, which represents a significant improvement on the unemployment statistics from previous years. The decrease was partly influenced by an increase in informal employment, as well as the change of methodology for calculating the unemployment rate. As a result, these indicators do not give the most realistic insight into the real situation on the labour market.

The average net salary in September 2015 in Serbia was RSD 43,925. The average net salary in the period January - September 2015 was lower by 2.1% in real terms compared to the same period in 2014 as a result of wage cuts in public sector and administration. The average net salary in Belgrade in September was RSD 55,116.

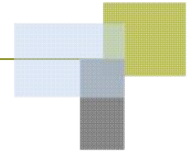
Construction sector has recorded a positive evolution in the last 12 months in terms of new building permits, but overall residential market has achieved lower performances over the same period. Looking ahead; the market should remain supported by stronger economic growth and expansion in employment, underpinned by higher pace of new FDI.

According to the IMF (International Monetary Fund) forecast, estimated GDP growth in 2015 has been revised to 1.7%. Addressing the number of structural problems will be on agenda in 2016. Current year was in a way a year of stabilization and it is realistic to expect that the next phase will be a period of sustainable growth.



Macroeconomic indicators	2008	2009	2010	2011	2012	2013	2014	2015
GDP (EUR mil)	33,705	30,655	29,766	33,424	31,683	34,263	33,075	33,307
GDP per capita (EUR)	4,586	4,187	4,082	4,620	4,401	4,783	n.a.	n.a.
GDP (constant prices y-o-y, %)	5.4	-3.1	0.6	1.4	-1.0	2.6	-1.8	0.8
CPI (average y-o-y, %)	8.6	6.6	10.3	7.0	12.2	2.2	1.7	1.9
Central Bank reference rate	17.8	9.5	11.5	9.75	11.25	9.5	8	4.5
Monthly wage, nominal (EUR)	400.5	337.4	330.1	372.5	364.5	388.6	379.3	371.3
Unemployment rate, in %	13.6	16.1	19.2	23.0	23.9	22.1	18.9	17.9
Budget balance / GDP (%)	-1.7	-3.2	-3.4	-4.0	-5.9	-5.2	-6.4	-3.5
Public debt (in % of GDP)	28.3	32.8	41.8	45.4	56.2	59.6	71.0	74.1
Current account balance (EUR mil)	-7,126	-2,032	-2,037	-3,656	-3,671	-2,098	-1,985	n.a.
Current account balance (% of GDP)	-21.1	-6.6	-6.8	-10.9	-11.6	-6.1	-6.0	-4.6
Net FDI (EUR mil)	2,486	2,068	1,133	3,320	753	1,298	1,236	1,600
FDI (% of GDP)	7.4	6.7	3.8	9.9	2.4	3.8	3.7	4.1
Exchange rate to EUR (period average)	81.4	94.0	103.0	102.0	113.1	113.1	117.3	120.7
Credit rating (Fitch)	BB- /negative	BB- /negative	BB- /stable	BB- /stable	BB- /negative	BB- /negative	B+ /stable	B+ /positive

Source: National Bank of Serbia
 Ministry of Finance and Economy
 * Unicredit Bank



Residential Market & Trends

Activities aimed to support housing market, such as government financed affordable housing projects and subsidies for home buyers, have not delivered sustained results.

New supply has achieved a record low performance in 2014, together with 17% decline in number of mortgages being released. Mortgage activity in 2015 does not indicate a change, which is partially a consequence of subsidized loans suspension in 2014-2015 period.

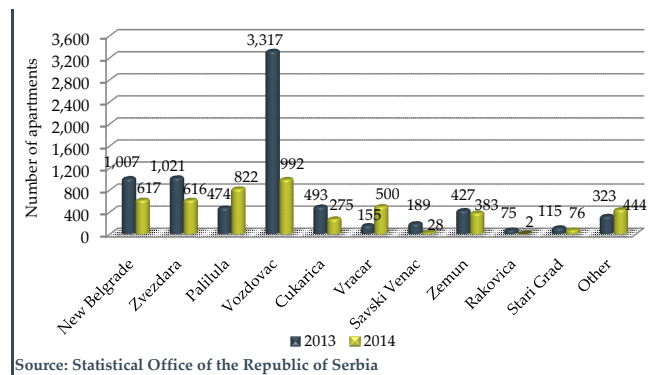
Certain accelerating of construction activity in Belgrade is visible through 2015, indicating 35.8% increase in announced new residential developments, according to issued building permits. Commencement of construction of “Belgrade Waterfront” project in September 2015, will bring a distinctive offer in the upper-market residential segment.

Supply

Record low supply of only 4,370 apartments in metro area of Belgrade in 2014 can be considered as a result of the massive influx of new units in 2012 and 2013, mainly due to the completion of government financed project “Stepa Stepanovic” in Vozdovac municipality.

Prolonged cycle of recovery coupled with renewed recession in 2014 and fiscal consolidation measures in 2014/2015 have had a negative impact on overall market confidence, leading to a visible slowdown in construction activity and buyer’s demand.

Number of constructed apartments in Belgrade municipalities

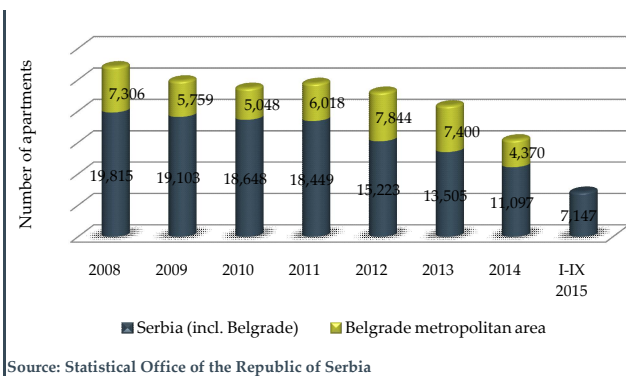


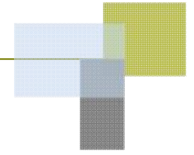
New supply in 2014-2015 has shifted a focus toward upper middle class segment of buyers, offering them higher quality products. The current evolution of the segment appears to be a healthy and sustainable one, as it is not based on speculative elements which were distorting the market during the boom period.

Data on issued building permits in first 3 quarters of 2015, indicates 35.8% increase in announced new residential developments in Belgrade, compared to decrease of 5.7% recorded in 2014.

Also, steady increase in size of planned schemes for development is visible in last 36 months and the first three quarters saw continued

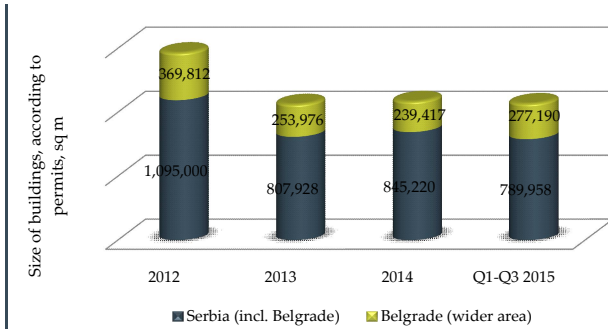
Number of constructed apartments in Belgrade & Serbia





progress in this respect, with a 11.6% larger average size of future developments, year on year.

Number of residential sq m based on building permits



Source: Statistical Office of the Republic of Serbia

Based on the number of issued permits, the highest pace of construction activity in next period will be in Savski Venac municipality which is a precedent related to commencement of construction of “Belgrade Waterfront” project in September 2015. Other municipalities that will witness higher development activity are New Belgrade, Zvezdara and Palilula. In the structure of new supply in the coming period larger share of upper-quality apartments is expected.

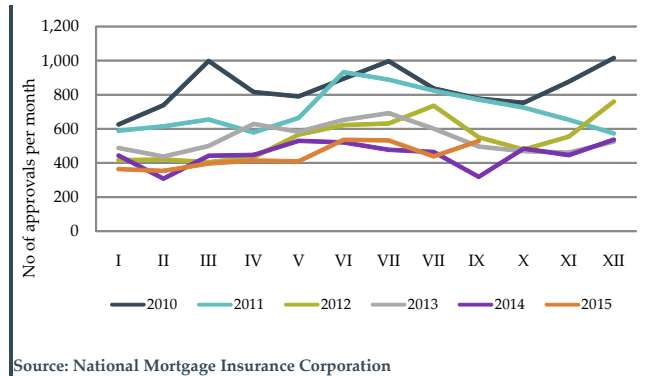
The number of approved residential construction permits in 2015 in Belgrade and Serbia indicating a likely increase in construction activity over the next 12–24 months.

Demand

2015 was a year of fiscal consolidation and range of incentives for first homebuyers was halted in 2014/2015. Salary cuts for public administration and public sector workers and cancellation of subsidized loans have hampered mortgage financing for many, despite exceptionally low interest rates offered by banks. Having in mind average loan amount of EUR 33,000 it is clear that the lower end and medium market segment has been mostly affected.

In the first 9 months of 2015, the mortgage activity in Serbia (number of approved loans) remained at the same level compared with the same period last year and totaled 3,967 loans (according to the National Mortgage Insurance Corporation), which is still 22% less than in the same period 2013. The biggest obstacle to more households getting onto the housing ladder is not the cost of mortgage payments but the level of deposit required, which is currently 20%.

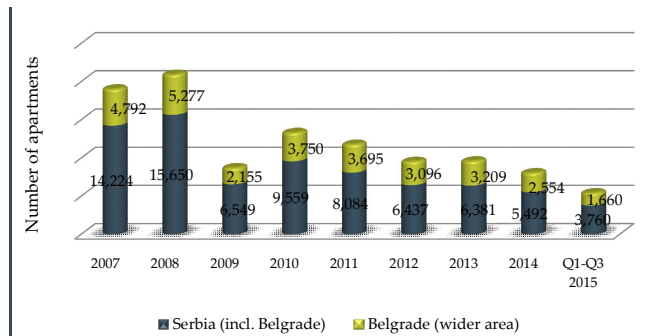
Mortgage approvals in Serbia



Source: National Mortgage Insurance Corporation

Number of secured loan transactions in central Belgrade municipalities has decreased by 11.3% in the first three quarters of 2015, compared to the same period last year.

Number of sold* apartments in Belgrade & Serbia



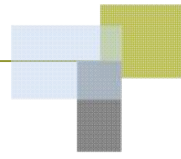
Source: National Mortgage Insurance Corporation

* Number of secured (loan) transactions

Total number of all transactions, including used (second-hand) apartments, in central Belgrade municipalities in the first 10 months of 2015 is 6,200 apartments. Having in mind previous year, expected decrease in 2015 is around 15%. The highest demand was registered in New Belgrade, Vozdovac and Zvezdara municipalities.

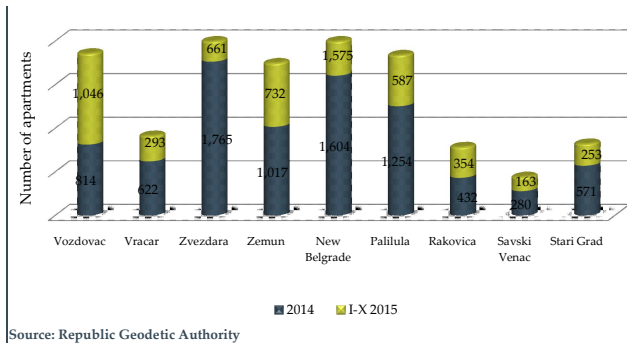
Demographics and internal migrations have also played their part in the persistent demand pressure. In 2010-2014 period, 53,000 people moved to Belgrade on average per year. Economic and education reasons were the main motivators for moving.

In order to generate better absorption for the Government financed and fully completed residential complexes, such as “Stepa Stepanovic” (4,616 apartments) and “Dr. Ivan Ribar” (707 apartments), Building Directorate of Serbia who manages the projects, has offered interest-free loans in the amount of up to 20% of the value of the apartment, which can be used as a minimum



participation for commercial loan. However, these initiatives designed to help more people to get on the property ladder, have had limited effect in 2015.

Number of sold apartments in Belgrade municipalities



On the other hand, few higher quality residential products offered to the market have revived the upper-middle class demand, showing that the best quality/price ratio can bring a viable success. Also, this can be an indicator of the maturing residential market and the evolution of buyer's demand toward more sophisticated products.

Upper middle projects appeared as best performing segment of the market in the moment. In these projects we saw an increase in off-plan sales, as number of developers have managed to sell most of the apartments before the buildings' completion. Such transactions took place mainly in projects with good track records.

Government austerity measures imposed, will continue through 2016, making the demand for affordable housing very fragile. Expected return to steady economic growth in 2016, underpinned by lower interest rates, will continue to boost demand for upper-middle class properties.

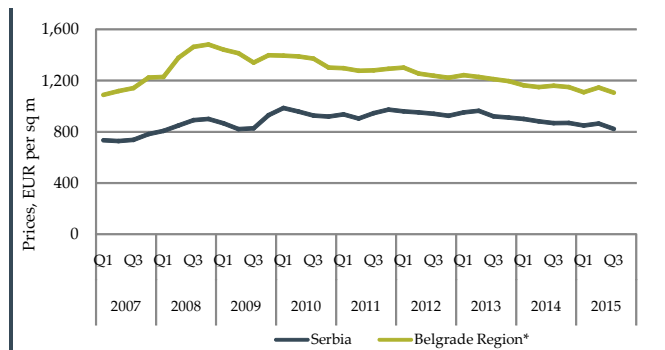
Prices & Affordability

Price decline has been slowed during 2014, while stabilization and slightly positive trend is visible for schemes that benefit from good location and quality. Average price correction in the first 9 months of 2015 was 2.6%, compared to Q4 2014 and 3.3% when compared to the same period in 2014.

The local real estate market has consolidated over the last 12 months as the gap between owner/landlord asking prices and rents and the expectations of buyer/tenant has narrowed.

As can be seen from the graph below, current prices are at the level of the first half of 2007.

House prices trends**



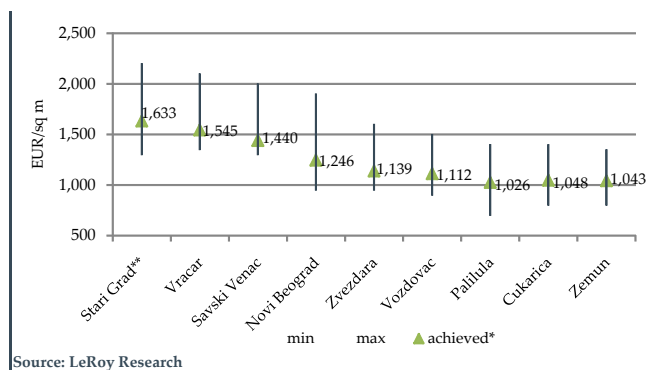
Source: National Mortgage Insurance Corporation

*including suburbs

**secured (loan) transactions

Asking prices for upper-mid quality projects depend mainly on municipality and micro location and vary between EUR 1,700 – 2,000 per sq m. High quality development prices are between EUR 2,100 – 2,400 per sq m on average, while the highest price range goes up to EUR 3,100 per sq m.

Average apartment prices in Belgrade municipalities in 2015

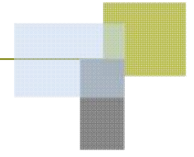


* National Mortgage Insurance Corporation data (secured transactions)

** Downtown

Achieved prices of apartments in secured (loan) transactions in these locations are close to the lower level of rank. Achieved prices are official statistics from the National Mortgage Insurance Corporation. Average apartment prices shown on the above graph are for both new and old stock.

The ability of people to use the mortgage market to make the transition from renting to owning appears to be weakening in last 24 months. This trend threatens to lock large segments of society out of the housing market, especially those on middle or low incomes.



Developed & Under Construction

Several larger projects currently under construction are expected to be delivered during 2015-2016 period. Most of the developments are designed for mid-market buyers, but upper-market segment appears to be rising. Some of noteworthy deliveries are presented below.

After a period of announcements and preparations, large scale urban redevelopment mixed-use scheme, “Belgrade Waterfront”, has been initiated. The project of revitalization of Sava amphitheater, an area along Sava river bank will take more than 30 years to complete and the first phase has been started in September 2015.

The first phase will consist 2 residential buildings with 296 apartments, hotel, shopping center and office tower. Investor of the project is company Eagle Hills (68% share) from UAE, with the Serbian government as co-investor (32% share). Development completion of the residential part of the project has been announced for 2018.

The highest development activity and new supply is expected in New Belgrade area.

The biggest project currently under construction is the “A block” complex in block 67a. During the first half of 2015 the first stage was completed bringing 296 new apartments and 23 retail units. The second stage is to be completed in spring 2016, bringing additionally 230 apartments and 13 retail units. The entire development envisages 840 apartments.

In neighboring part of the same block 67a is developing residential project “Savada”. Investor is company Neimar V and the first stage bringing 303 apartments should be completed soon and the new stage with 200 apartments is announced for delivery in 2017.

Second stage of construction of the project “West 65” complex in block 65 with 100 new apartments will be finished in January 2017. During the first half of 2013 the first stage of the residential complex “West 65” in New Belgrade was completed bringing 150 new apartments and 19 retail units.

In downtown, first phase containing 89 apartments, in the project “Central Garden” has to be delivered by the end of 2015. Second phase has already been initiated, with 99 new apartments and expected completion in September 2016. The total number of apartments in the complex will be 500.

Project	Location	No of units	Deadline	Investor
A block	New Belgrade, block 67a	840	Completed 1st phase; 2nd phase 2016	Deka inzenjering
West 65	New Belgrade, block 65	514	Completed 2nd phase; 2015/2016	PSP Farman
Atrium 63	New Belgrade, block 63	91	2015	Basal
Savada	New Belgrade, block 67a	303	1st phase 2016	Neimar V
Central Garden	Downtown	500	Completed 1st phase; 2nd phase 2016	AFI Europe
Belgrade Waterfront	Downtown	296	1st phase 2018	Eagle Hills
Sun City	New Belgrade, block 63	200	Announced	Energogroup

Source: LeRoy Research

Outlook

Performance of the housing market in the upper-middle class segment and the expansion of well-performing projects have positive influence on improving sentiment among potential investors and drawing renewed interest from international investors.

Furthermore, as compared to 2014, the number of approved residential construction permits in 2015 increased in Belgrade, indicating a likely stepping up of construction activity over the next 12–24 months. Prices have remained broadly stable with growing tendencies among the most successful projects.

Weak labor market and downward pressure on household disposable income will be the major setback for the affordable housing market segment in next 12 months.

The projected economy growth in 2016-2017 will lift housing momentum, but short to medium term demand will be tempered by the weaker development and stagnant job market of recent years.

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