Belgrade | 3Q 2013

Retail Market & Trends Outlook

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REALTY CONSULTANTS

For further market information, please contact

Zana Sipovac
Head of Valuation and Investment Advisory
zana.sipovac@leroy.rs

Srdjan Runjevac, MSc
Senior Valuation Consultant
srdjan.runjevac@leroy.rs

T + 381 11 26 32 300
F + 381 11 32 84 647
17, Cara Urosa Street - Belgrade
office@leroy.rs
www.leroy.rs

Economy Outlook

3Q 2013

In the first three quarters of 2013, Serbia recorded a modest economic recovery after it slipped into the recession in 2012 when a downfall in GDP rate of -1.7% was recorded. The main Serbian economic issues, that influenced the latest Fitch rating as BB- with negative outlook, represents a continuous increase in budget deficit, increasing public debt, fragile economic recovery mostly depending on the automobile industry and high dependence on the international credit arrangements.

The economy slowdown was also driven by a decrease in loan instruments that became more expensive due to high interest rates, as a consequence of more cautious and restrictive measures instructed from the banks. Therefore, vast majority of public and private entities are facing a high level of illiquidity issues and credit repayment inabilities.

The restructured Serbian government has announced the adoption of several austerity measures in October 2013 in order to reduce budget deficits and improve the conditions for economic growth in 2014. Without implementation of strict and unpopular measures, including layoffs in the public sector and ending the long term process of restructuring companies, expected improvements will not be possible in the short term.

According to the official data, after the negative GDP growth rate of -1.7% in 2012, Serbian economy recorded a modest GDP growth of 0.2% in 2Q 2013, mostly affected by growth in information and communication sector (9.6%), electricity, gas and steam supply (3.2%), and mining and quarrying (2.8%). The most significant decline was recorded in the construction sector (-42.5%) as the most severely affected by the global crisis.

According to the preliminary data, GDP growth was strengthened in 3Q 2013 to 3.2%.

Industrial production recorded strong growth by 13.4% in September 2013 compared to September 2012, with growth in electricity, gas, steam and air conditioning supply sector by 19.8%, followed by manufacturing (12.2%) and mining (10.4%). During the period January – September 2013 it recorded an increase of 6.4% comparing to the same period last year.

In the 1H 2013, construction sector in Serbia was faced with continuous slump that started as a consequence of the global financial crisis in 2008. The value of construction works in the period January - June 2013 decreased by 34.9% compared to the same period 2012, also followed by the decrease in total number of issued building permits by 4.4%.

Serbia's FDI inflow reached its lowest level in relation to all the years of crisis. According to the National Bank of Serbia, net FDI inflow in the first three quarters of 2013 amounted to EUR 584 million, while expected inflow of EUR 800 million is 20% less than the year before.

In March 2013, Serbia started negotiations with the companies from UAE. The Al Dahra Company signed a preparatory agreement with the Serbian government that implies investing USD 400 million in Serbian agriculture sector. The Serbian government signed a strategic partnership agreement with the Etihad Company in August 2013, by which former air-transportation company "Jat Airways" will be restructured into a new company entitled "Air Serbia".

Total exports of goods in the period of January - August 2013 amounted to USD 9.237 billion, as a 28.1% increase comparing to the same period last year.

In 2012, Serbia recorded the highest level of annual inflation rate of 12.2%, while 1Q and 2Q 2013 reflected a gradual decrease in inflationary pressure. However, consumer prices in September 2013, compared to September 2012, increased by 4.9%, while compared with the previous month an increase of prices was noted in communication sector (0.7%), housing, water, electricity, gas and other fuels (0.5%), transport (0.4%), restaurants and hotels (0.3%), and food and non-alcoholic beverages (0.2%). The highest price decrease was noted in the group recreation and culture (-5.4%).

Serbian unemployment rate recorded a modest decrease from 1Q's 25% to 2Q's 24.1% in 2013. However, according to the latest predictions, 2013 will end with the highest rate of 26.5%. The announced reforms in 2014 will increase this rate, placing this issue as a top priority of any economic strategy.

The average net salary in September 2013 was RSD 42,866, which represents an increase of 1.5% in real terms, and an increase of 6.5% in nominal terms when compared to September 2012.

According to the IMF (International Monetary Fund) forecast, estimated GDP growth in 2013 has been revised to 2%. Due to a number of structural problems waiting to be solved, it is difficult to expect positive changes in the real estate and construction sector in 2014.

National Bank of Serbia is to succeed in bringing the rate to the level of 4.1% by 2015.

The announced austerity measures will also contribute to the economy slowdown, since it will influence the further decline in domestic demand and a possible increase in the unemployment rate. In 2013, the European Commission recommended that Serbia should be granted a date for the start of negotiation for accession to the EU, which should improve business climate in the country, attract new investments and enable access to the EU funds. However, the exact date will be provided at the beginning of 2014, as it was previously conditioned by progress in the Belgrade – Pristine negotiations.

A new privatization and restructuring cycle of the remaining large state owned companies is expected in the following period, as well as a new credit arrangement with the IMF.

Table 1

Macroeconomic indicators

	2008	2009	2010	2011	2012	1Q 2013	2Q 2013	2013f*	2014f*
GDP (EUR bn)	32.6	28.9	28.0	31.4	29.9	7.4	8.1	32.3	33.5
GDP per capita (EUR)	4,456	3,945	3,981	4,288	4,800	n.a.	n.a.	4,537	4,708
GDP (constant prices y-o-y, %)	3.8	-3.5	1.0	1.6	-1.7	2.1	0.2	1.8	2.1
CPI (average y-o-y, %)	8.6	6.6	10.3	7.0	12.2	11.2	9.8	10.0	7.0
Central Bank reference rate	17.8	9.5	11.5	10.5	10.3	11.7	n.a	10	9.5
Monthly wage, nominal (EUR)	402.4	337.9	330.1	372.5	364.5	370.8	394.8	n.a.	n.a.
Unemployment rate, in %	13.6	16.1	19.2	23.0	23.9	25.0	24.1	26.5	25.7
Budget balance / GDP (%)	-1.7	-3.4	-3.7	-4.2	-5.7	-6.0	-5.2	-5.8	-4.5
Public debt (in % of GDP)	29.2	34.7	44.5	48.2	59.3	62.5	60.6	65.8	65.9
Current account balance (EUR mil)	-7,054	-1,910	-1,887	-2,870	-3,155	-622	-268	-2,754	-2,527
Current account balance (% of GDP)	-21.6	-6.6	-6.7	-9.1	-10.5	-8.4	-3,3	-8.5	-7.5
Net FDI (EUR mil)	1,824	1,373	860	1,827	1,006	155.3	n.a.	800	800
FDI (% of GDP)	5.5	4.8	3.1	5.6	3.4	4.4	n.a.	2.5	2.4
Gross foreign debt (EUR mil)	21,088	22,487	23,786	24,125	25,721	26,722	26,072	27,814	28,219
Exchange rate to EUR (avg)	81.4	94.0	103.0	102.0	113.1	111.7	112.2	116.0	120.0
Credit rating (Fitch)	BB- /negative	BB- /negative	BB- /stable	BB- /stable	BB- /negative	BB- /negative	BB- /negative	BB- /negative	n.a.

Source: National Bank of Serbia
Ministry of Finance and Economy
* Unicredit Bank; Hypo-Alpe-Adria Group

Forecast

It is expected that GDP growth during the 2013 will keep the positive rate. However, the latest predictions for the year-end results are below those initially forecasted, with a modest GDP growth of 1.8% y-o-y. This gradual recovery of Serbian economy mostly depends on external exports that recorded a strong increase of 26.4% in 1H 2013 compared to the same period last year, mostly due to higher exports of FIAT cars and good agricultural season.

Inflation continues to represent one of the biggest challenges with an estimated double digit rate of 10% y-o-y in 2013. The main goal of the

Retail

Market & Trends

3Q 2013

Development of new shopping centers and other retail schemes has been reactivated in 2012, bringing a change after a long period dominated by expansion of supermarket chains. Occupier activity increased with the entrance of a few new brands that began an active market expansion.

High-street vacancy moved upward in 2013, since shopping centers are the focus of many international retailers. Development activity is driven by strong occupancy levels of modern retail concepts, while sustained reductions in consumer spending and unstable GDP growth continues to slow implementation of announced projects.

During the last 12 months, retail market was mostly characterized by increased occupier activities at the prime shopping mall locations, reconstruction and reorganization of the existing retail concepts and its tenant mix, new shopping mall developments, as well as entrance of new brands to the Serbian market.

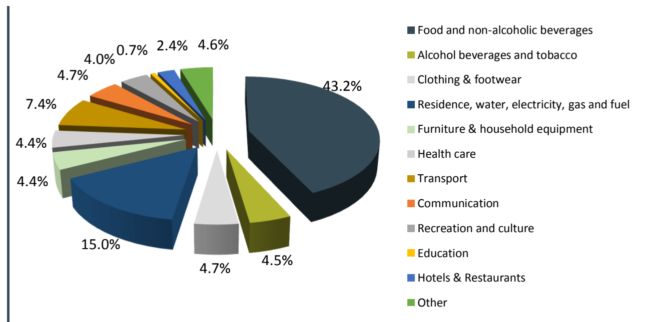
Shopping malls and modern retail parks represent the most prosperous retail concepts, with stable demand and rather low vacancy rate, while high streets units are facing an increase in the vacancy, more frequent tenant changes and sharp rent decrease.

In April 2013, online payment system PayPal established its operations in Serbia, which will provide new shopping experience as well as certain changes in shopping perception in the period to come. As the growth of on-line sales increases rapidly internationally, it is also expected that Serbian retailers will soon adjust the access to the on-line purchase system.

Overall retail trade turnover in the period January – September 2013, compared to the same period 2012, increased by 0.1% in current prices and decreased by 7.3% in constant prices. The average Serbian household consumption decreased and recorded a negative rate of – 1.2% compared to the same quarter last year, with no major deviation in the level of participation of goods and services.

Chart 6

Structure of retail sales in Serbia, 2Q 2013



Source: Statistical Office of the Republic of Serbia

Household purchasing power is expected to remain fragile, as salary cuts in the public sector and other structural reforms have been announced and should be implemented by the government during 2014, which will further weaken the demand.

Supply

Expansion of supermarket chains was a dominant segment of the new supply throughout the periods of 2010-2011. After three years of delay, 2012 witnessed more vibrant activity in retail sector and the emergence of new retail deliveries throughout Serbia, such as retail parks and new shopping centers. The overall new supply in Serbia during 2012 was 76,000 sq m of GLA, which is a significant increase compared to 23,000 sq m delivered in 2011. During the first three quarters of 2013, shopping centers stock in Serbia increased by new 43,000 sq m of GLA with opening of the new shopping center "Stadion" in Vozdovac, re-opening of the shopping center "Merkur" in Karaburma and opening of a new stage of retail park "Aviv" in Pancevo.

Food retailers have changed their development strategy, putting more focus on smaller, neighborhood shops while larger supermarkets are usually opened within shopping centers and retail parks. New supermarket growth slowed down in 2012 and the trend continued during the first 3 quarters of 2013, recording an increase of app. 22,000 sq m.

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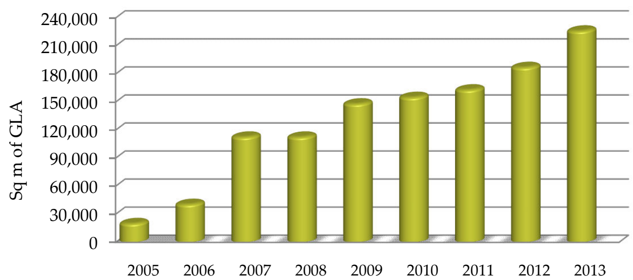
Chart 7

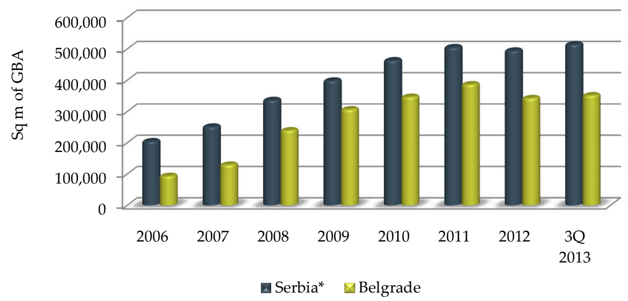
Shopping center stock in Belgrade



Source: LeRoy Research

Chart 8

Big-box stock in Serbia & Belgrade



Source: LeRoy Research

*without Belgrade

Croatian chain "IDEA" announced a takeover of 53% shares of Slovenian retailer "Mercator" in the following period, which would make it the regional leader.

The Belgian retailer "Delhaize" continued the renovation process of its units across Serbia after the takeover of "Delta Maxi" chain in 2011, which resulted in certain stagnation in the expansion. The Group's main activities in 1H 2013 were focused on the reorganization of its operations in the region by selling their retail chain in Albania and Montenegro as well as on introduction of a new retail concept called "Shop&Go" that will replace "Mini Maxi" shops in Serbia.

The German discount retailer "Lidl" continued its activities regarding land purchase for its future network development in Serbia. They secured locations in Valjevo, Subotica, Novi Sad, Zrenjanin, Nis and Smederevo for their supermarkets (average size of 800 – 1,300 sq m), while they confirmed the acquisition of land plot in Belgrade in August 2013.

In Belgrade, only the best locations and retail formats with strong tenant mix maintained rental rates and operational performance.

Also, a group of international retailers strategically increase their market presence through active expansion within new retail schemes, probably anticipating growth rates above average to follow the pace of the market recovery.

In the 1H 2013, Serbia witnessed the entrance of the long announced and anticipated international renowned Swedish brand "H&M", which opened its first store within "Delta City" shopping center in August and the second in "Stadion" shopping center in September. Another well-known clothing brand "Desigual" opened its first store in Belgrade's "Usce" shopping center in May, while the famous watch brand "Rolex" opened its representative store in Belgrade's downtown in August.

__Belgrade__

The shopping center supply pipeline shrank rapidly during last 4 years, as many schemes were delayed or cancelled altogether. However, the best quality retail concepts, such as prime Belgrade shopping centers, continue to display strong performance, while the secondary shopping centers remain less popular and still struggling to attract demand. Despite the challenging business environment and low consumer confidence, only 136 sq m of modern retail space per 1,000 inhabitants in Belgrade is the key motivation factor for potential investors and the Belgrade retail market is showing signs of recovery as projects put on the sidelines during the recession attract renewed interest from developers.

Belgrade saw delivery of two shopping centers during the 1H 2013 that boosted stock for additional 39,000 sq m of GLA, and introduced to the market the first new community shopping center after 2009. The shopping center "Stadion" was opened in Vozdovac municipality in April and covers an area of 28,000 sq m of GLA. Anchor tenants are "Roda" supermarket and fashion retailers "H&M", "C&A" and "New Yorker", while other retailers are "Deichman", "Koton", "Tally Weijl", "Takko Fashion", "Planeta sport", "Lilly drogerie", "Julia & More", etc. This shopping center diversified itself by positioning a football field on its roof, hosting Football Club Vozdovac. The investor of this project is the Austrian company Daun & Cie.

The Slovenian DIY retailer "Merkur" redeveloped its previous retail space in Karaburma district into a neighborhood shopping center with an area of 11,000 sq m of GLA in March 2013. The shopping center hosted brands such as "Takko Fashion", "JYSK", "C&A", "Deichmann", "Roda" supermarket etc., while reorganizing and reducing space of its DIY store on the ground floor.

The Danish "everything for the home" retail concept "JYSK" continued to strengthen its market presence by opening four new stores in Belgrade. It opened the store in Kaludjerica's neighborhood shopping center "Point" in March, followed by opening the stores within "Stadion" shopping center and "BN BOS" outlet center in June. Their latest opening was a store within the department store "RK Beograd" in Miljakovac municipality in September.

Supermarket chains continue with expansion, now focusing on small neighbor stores. In this segment, the Croatian retailer "Agrokor" dominated, with the opening of "IDEA" supermarkets. They enriched the Serbian capital city by eight smaller markets with areas between 60 – 300 sq m, with the latest opened supermarket of 900 sq m in Juzni Bulevar Street in September.

The Slovenian retailer "Mercator" also keeps pace with expansion through opening the new hypermarket "Roda" (4,000 sq m) within the "Stadion Shopping Center" in Belgrade.

Serbia

Expansion of new retail schemes in Serbia dominated through 2012, after a long period of standstill, bringing new 76,000 sq m of retail space. Developers agree that Serbia's retail market has not reached its potential, but unsecured market fundamentals prevent better development dynamics.

Among the largest new projects delivered during 2012 are the retail park "Fashion Outlet Park" (15,000 sq m of GLA) in Indjija and the "BIG CEE" (10,000 sq m of GLA) retail park in Novi Sad, as well as the shopping center "Plaza" (22,000 sq m of GLA) in Kragujevac and the shopping center "Roda" (15,000 sq m of GLA) in Krusevac. The third phase of the retail park "Aviv" (8,000 sq m of GLA) in Pancevo was delivered in May 2012.

Another phase of the retail park "Aviv" in Pancevo was delivered in June 2013, bringing new 4,000 sq m of GLA.

In Q4 2013, the second stage of the retail scheme "BIG" is expected to be opened in Novi Sad. The second stage will contain a shopping center (34,000 sq m of GLA) that will be a part of a complex consisting of a retail park and a shopping center, totaling 44,000 sq m of GLA.

Food chains have changed their expansion strategy, putting more focus on development of small neighborhood stores, as a response to the constant decrease in the purchasing power of the population. Only few larger supermarkets were delivered during 2013.

The Serbian retailer "DIS" continued with their strong expansion during 2013 by opening a hypermarket (4,000 sq m) in Pozarevac, also taking over the space of the French DIY retailer "Mr. Bricolage" (5,500 sq m) in Nis and reopening it as a hypermarket (4,000 sq m) including few smaller tenants such as: DIY store "Woby Haus", a bank, a pharmacy, etc. New hypermarkets in Kraljevo (4,000 sq m) and Vrsac (4,000 sq m) should be opened in October.

The Croatian "IDEA" supermarket chain opened four supermarkets in Novi Sad and one in Cacak, Trstenik and Krusevac. In August, they opened their first store in Sid with an area of 800 sq m.

The Slovenian retailer "Mercator" opened the "Roda" supermarket in Pozarevac (2,500 sq m) in January, while the local chain "Univerexport" continued with expansion in Novi Sad and re-opened a renovated and expanded supermarket in March (4,000 sq m) and a new supermarket (1,500 sq m) in the sport center "Spens" in September.

Table 2

New retail deliveries in 2013

Project	Location	Type	Size (Sqm of GLA)	Delivery date
Roda	Smederevo	Supermarket	2,500	Jan-13
Univerexport	Novi Sad	Supermarket	4,000	Mar-13
Stadion	Vozdovac	Shopping center	28,000	Mar-13
Merkur	Zvezdara	Shopping center	11,000	Mar-13
JYSK	Kaludjerica	Everything for the home	800-1200	Mar-13
JYSK	Novi Sad	Everything for the home	800-1200	May-13
JYSK	Zemun	Everything for the home	800-1200	Jun-13
JYSK	Vozdovac	Everything for the home	800-1200	Jun-13
JYSK	Miljakovac	Everything for the home	800-1200	Sep-13
Roda	Vozdovac	Supermarket	4,000	Apr-13
DIS	Nis	Shopping center	5,500	Apr-13
AVIV retail park*	Pancevo	Retail park	3,800	Jun-13
DIS	Pozarevac	Supermarket	4,000	Aug-13
Univerexport	Novi Sad	Supermarket	1,500	Sep-13
Idea	Vracar	Supermarket	900	Sep-13
JYSK	Leskovac	Everything for the home	800-1200	Sep-13
BIG CEE	Novi Sad	Shopping center	34,000	End of 2013
DIS	Kraljevo	Supermarket	4,000	End of 2013
DIS	Vrsac	Supermarket	4,000	End of 2013

Source: LeRoy Research

*stage

Demand

International retailers that entered the market in the period after 2011 and their expansion strategy create a demand for quality retail space within modern shopping centers and retail parks. Retailer interest appears to have re-emerged in the last 12 months, especially amongst mid-range and value retailer brands, which can be confirmed by the entrance of the renowned Swedish brand "H&M", which opened its first store (2,500 sq m) within "Delta City" shopping center in August 2013, and the second store in the "Stadion" shopping center in September, announcing further market expansion.

Annual footfall remains strong in the prime shopping centers in Belgrade which is the basis of a stable demand, despite frequent changes of tenants. Secondary shopping centers do not match similar performance, which can be explained by lower quality tenant mix and absence of 'high profile' retailers.

Development of new retail schemes, such as retail parks, appeared as a winning strategy for many retailers looking for expansion, due to more efficient cost structure including lower rents and operating costs. The best locations and shopping centers will continue to benefit from domestic and cross border retailers keen to capitalize on the counter-cyclical opportunity to expand into high quality space at a lower cost.

Spending patterns of the population are still negative, which prevents stabilization of this market segment. In this environment, retailers will remain cautious, with further rationalization of underperforming stores especially in high street locations. The demand for high street locations is slowed down influencing the increase of vacant units that had been unoccupied for more than 4 months. Secondary locations have seen the highest vacancy so far and absorption of these units will require time and improvement of the economy conditions. The structure of tenants is changing at these locations as well, with a considerable increase in the number of newly opened coffee bars and fast food restaurants in the prime zone.

The demand in the **retail warehousing** segment is also reduced compared to 2010 – 2011 period, characterized by aggressive expansion of food chains. Today, these activities are mainly slowed and the market is expecting the opening of supermarkets of the German discount retailer "Lidl". The French chain "Carrefour" has announced its market entry, as well as the Swedish "Ikea".

Despite challenging business environment in Serbia, we can expect moderate demand and strengthening of market position of international tenants through their strategic expansion in the local market, primarily within new retail schemes. In 2014, the Serbian economy will be confronted by similar themes and challenges as in 2013; the consumption will be a volatile category again, and the retailing environment is set to remain difficult over the next two years.

Vacancy

The average high street vacancy rate of app. 10-12% in the capital (prime and secondary locations), reached its highest level since the beginning of the recession. One of the reasons for the increased vacancy rates lies in the process of restitution, which is nearing completion in the case of a part of the disputed properties. On the other side, changes in the consumption habits and customer preferences, together with rather high rents and inadequate space structure of downtown shops, focus a number of brands toward modern shopping centers and retail parks.

The announced closure of the "GAP" store along with a number of short term lettings coming to an end, will further affect slower absorption of vacant units. The trend of rising vacancy on secondary locations continued and these locations will continue to suffer demand shortage in the following period, as well.

Prime shopping centers in Belgrade keep the vacancy rate at very low to zero level, while secondary and neighborhood shopping centers achieved the highest average vacancy of app. 12%. The shopping centers "Usce" and "Delta City", which succeeded in keeping its vacancy rate close to zero over time, continued with the trend of changing tenants, regardless of rents decrease and more flexible landlord's approach.

Average vacancy rates in modern retail schemes are still low despite the challenges that the market is facing, primarily due to delays in the development. Every new retail project will increase city-wide vacancies over the next 12 months.

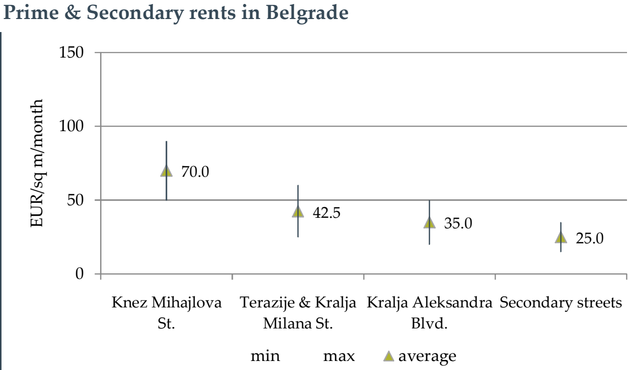
Rents

Difficult retail climate is still putting pressure on rents, but the prime shopping centers appeared to be most resilient, recording only slight decrease. Average high street rents decreased by 9% in the last 12 months, but when we consider the upper rent levels, the market indicates even higher rent decrease.

Shopping centers rents maintained mostly the similar levels from EUR 30 to EUR 60 per sq m, while rents in retail parks range between EUR 6 – 15 per sq m depending on retail category. Downtown prime street rents (Terazije, Kralja Milana and Knez Mihajlova Street) have dropped to average EUR 35 to EUR 80 per sq m, depending mainly on the size and position of the unit (smaller units maintain higher range of average rents). Secondary locations rents move between EUR 15 to EUR 35 per sq m on average.

Chart 9

Prime & Secondary rents in Belgrade

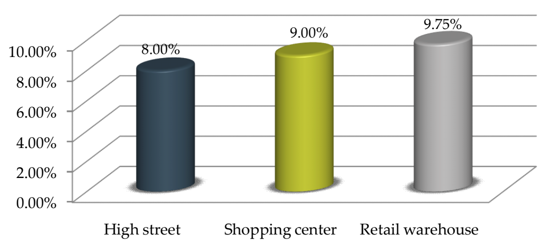


Source: LeRoy Research

Downward pressure on high street lease rates will remain until consumer spending picks up, while the lack of competition in the prime retail segment in next 12 months will be a guarantee of maintaining similar rental performances. Increase in spending power is not foreseen in 2014 and the rental growth is unlikely.

Chart 10

Indicative retail yields, 3Q 2013



Source: LeRoy Research

Table 3

Project	Investor	Location	Type	Size (sq m of GLA)	Delivery date
UNDER CONSTRUCTION					
Big Center	Big CEE Serbia	Novi Sad	Shopping center	24,000	4Q 2013
IBC Power Center	EBRD / Jerusalem Economy Ltd / Industrial Building Corporation Ltd	Zemun	Retail Park	15,000*	2H 2014
Capitol Park	YU Kapital / Poseidon Group	Sabac	Retail Park	9,850	1Q 2014
ANNOUNCED					
Visnjicka Plaza	Plaza Centers	Belgrade / Palilula	Shopping Center	48,000	N/A
Delta Planet	Delta Real Estate	Belgrade / Vozdovac	Shopping Center	75,000	N/A
Vivo retail park	Vivo shopping park	Jagodina	Retail park	10,000	N/A
Blok 41a	Napred	Belgarde / New Belgrade	Shopping Center	40,000	N/A
Rajiceva	Avital / Ashrom Group	Belgarde / Old Town	Shopping Center	15,000	N/A
Ada Mall	GTC	Belgrade	Shopping Center	30,000	N/A

Source: LeRoy Research

Pipeline & Announced

Retail market in 2013 will achieve similar performances, with total delivery of 77,000 sq m of GLA of new retail space during 2013 and 25,000 sq m of GLA currently under construction.

Belgrade is facing the growing interest of investors in different retail schemes, but the majority of previously announced large scale projects are postponed, since the projects are frequently delayed by the search for financing and tenants, as well as all types of appeals.

The final phase of the "BIG CEE" retail scheme in Novi Sad, consisting of a shopping center, is scheduled for delivery in November 2013. The development will comprise 24,000 sq m of GLA and the entire complex will contain 34,000 sq m of new retail space.

Being recognized as the most feasible retail concept at the moment, a few retail park projects are under construction across Serbia and Belgrade's surroundings. The Israeli investors "Jerusalem Economy Ltd" and "Industrial Building Corporation Ltd" commenced the construction of the "IBC Power Center" retail park with 15,000 sq m of GLA in Zemun municipality, with the announced completion date during the 2H of 2014.

The retail park "Capitol Park" is currently under development on the outskirts of the city of Sabac as a joint investment of the Slovenian "YU Kapital Holding" Company and the English "Poseidon" Group. Upon completion which is expected in 1Q 2014, the park will comprise 9,850 sq m of GLA.

Forecast

In correlation with wider economy, the retailing environment is set to remain difficult over the next two years, while the number of projects currently under construction indicates a slowdown in delivery in the next 12 months. Relatively undeveloped market in terms of new supply and lack of competition are the main reasons for the increased investor's interest and the entry of new brands on the market. However, there are several barriers to the development and completion of new supply, such as limited scope of retailers currently present in the market and their expansion potential, as well as limited sources of capital available for such developments.

After targeting the capital city, retail operators are gradually changing their focus to other major Serbian cities. Retail parks will be a dominant concept in these cities in the following years, enabling lower rents and additional costs for occupiers.

Despite the increased activity and development of modern retail schemes, the retail market in Serbia is still volatile and the future market prospects will be dependent upon the project type, area and location. Prime projects are expected to continue to successfully cope with changes, both in terms of occupancy and rents, while new developments in emerging locations may struggle with increased vacancy.

Being faced with a decreased tenant demand, high street locations will continue to struggle with rising vacancies.

The market will continue to suffer the lack of confidence among retailers, influencing further suppression of their expansion in the short term.

LEROY REALTY CONSULTANTS

17, Cara Urosa Street
11000 Belgrade, Serbia
T +381 11 26 32 300
F + 381 11 32 84 647
www.leroy.rs | office@leroy.rs

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