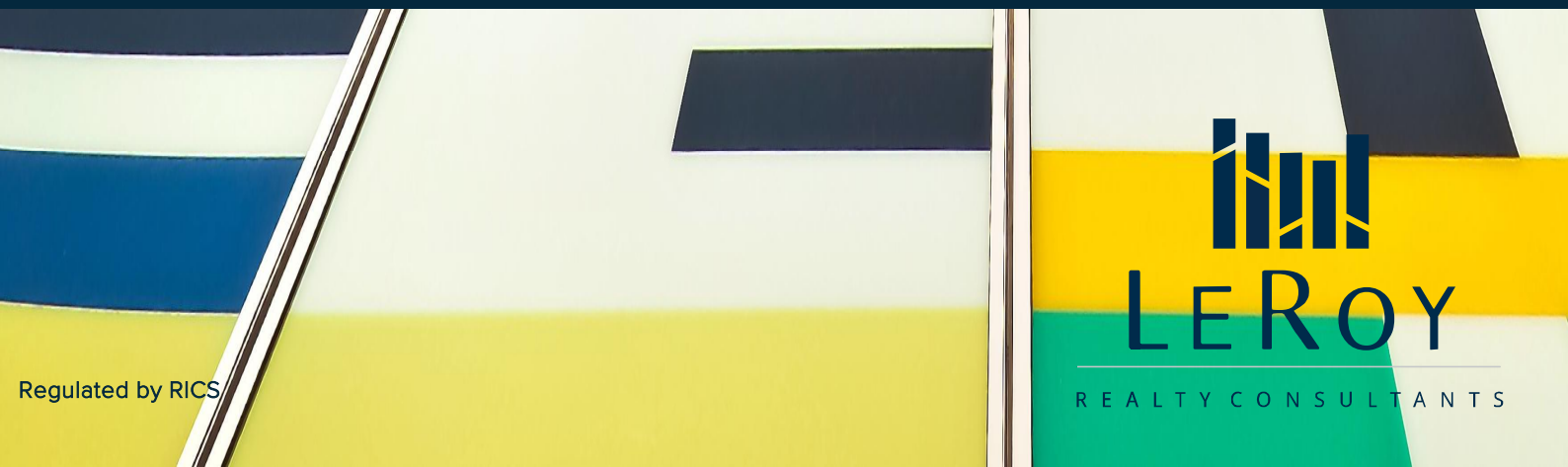


Residential Market Outlook

Belgrade | Jan 2018



LEROY

REALTY CONSULTANTS

Serbia’s overall economy health has been reinforced further in 2017, which lifted up the country’s credit rating from BB- to BB¹, with a stable outlook in December 2017. The outlook for this year shows growth accelerating

The GDP growth of 1.8% in 2017 was lower than projected, but its structure points toward underlying changes that will shape the economic expansion in the coming years. The growth is primarily driven by the increased investment, private consumption, exports and FDI. On the other hand, the growth of the construction industry outperforms that of the local economy in the last 3 years, with positive future prospects.

FDI inflow in 2017 stood at EUR 2.3 billion, which is up by 37.5% y-o-y thus exceeding the projection for 2017.

The Central Bank has decided to cautiously loosen monetary policy, to support a boost in domestic economic activity, and decreased its key policy rate at a historic low of 3.5% on October 2017, which contributed to the decline in the EUR-indexed lending.

Elevated levels of business and consumer sentiment

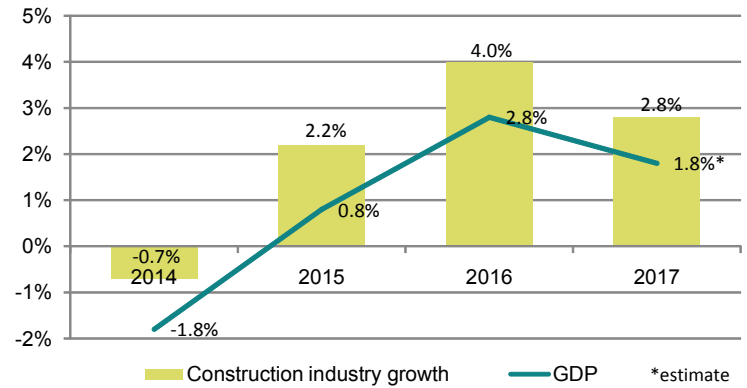
Labor market conditions have continued to improve in 2017, even faster than previously expected, with the unemployment rate falling to 12.9% in the third quarter of 2017, coupled with two consecutive years of wage growth.

Private consumption and residential investment growth should benefit from further improvements in labour market conditions and better loan availability.

Structural changes and sustainable prospects

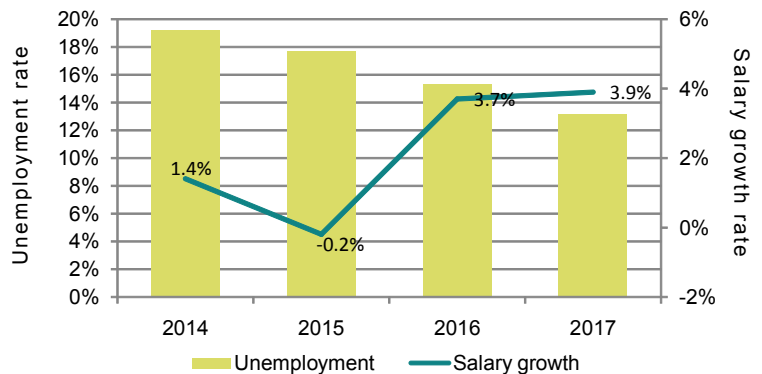
Keeping public debt under control, the effects of monetary easing policies, investment in export-oriented sectors, higher government capital spending and demand growth should be the drivers of accelerated growth in 2018-2019, which is estimated at 3% in 2018.

GDP & Construction Industry Growth



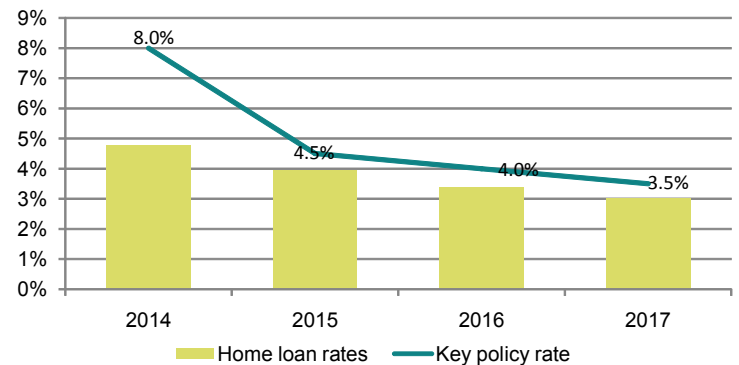
Source: Statistical Office of the Republic of Serbia

Unemployment & Salaries



Source: Statistical Office of the Republic of Serbia

Mortgage rate & Key policy rate



Source: NBS

¹ S&P Global Ratings

Belgrade residential market rebounding

Demand surge for three years in a row and a relatively inelastic supply, especially over the 2015 – 2016 period, have triggered strong rebound of off-plan sales and the accelerated completion of many multi-phase residential projects.

A decrease in interest rates continued, further fuelling housing demand in Belgrade metropolitan area, which grew at a pace of 12% during 2014-2017. Buyers' and investors' confidence is improving steadily, supported by the improved labor market and positive economic growth trends.

The supply lag puts upward pressure on prices

New construction activity significantly lags behind the increasing demand, causing a very low volume of completions during 2015-2016.

After stagnation in 2016, the number of building permits in the first ten months of 2017, increased substantially, which should partially reduce the gap. The construction of new 4,045 apartments is planned, indicating the growth of 40% compared with the same period in 2016. Zemun, Vozdovac and Zvezdara municipalities will host a large part of the new supply. In terms of volume per 1,000 inhabitants, the highest development intensity can be expected in Savski Venac with 13.3 apartments per 1,000 inhabitants, followed by Vracar with 7.3 and Zemun 5.4 apartments per 1,000 inhabitants. New Belgrade, as the one of the most sought-after locations among new buyers, has the pipeline of only 0.6 apartments per 1,000 inhabitants, according to the issued permits in the period Jan-Oct 2017.

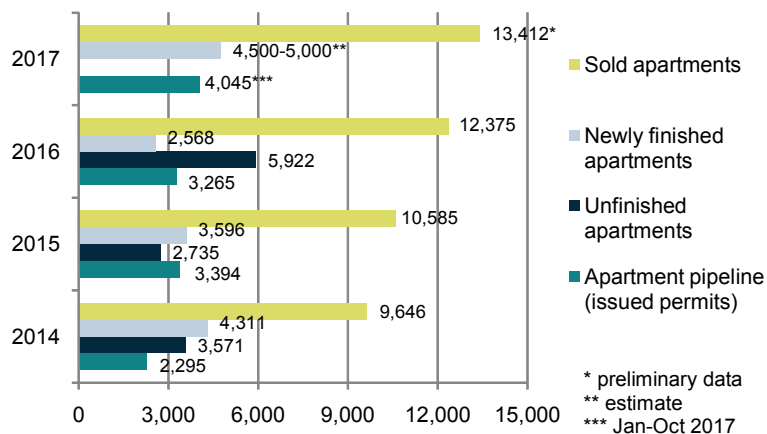
The highest imbalance, in favour of investors in 2018, will witness municipalities Zvezdara, New Belgrade, Palilula, Cukarica and Stari Grad.

More buyers are joining the market

An increase in lending has opened the market to so many more buyers and this trend will prevail in 2018. The total volume of property transactions, including the resale market, has increased by 8.4% during 2017, according to preliminary data.

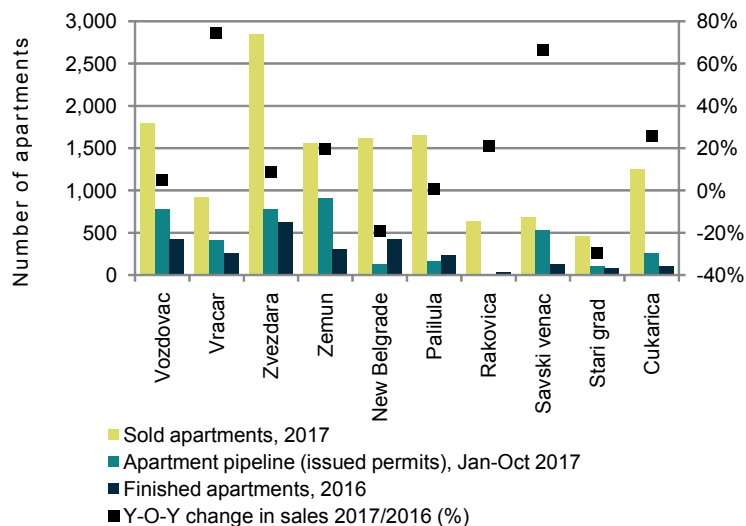
The increase of demand has further accelerated off-plan sales in 2017 and investors will still be in control, as the housing supply is not expected to catch up with buyers' demand in the short run. Somewhat better market balance can be expected as of 2019.

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



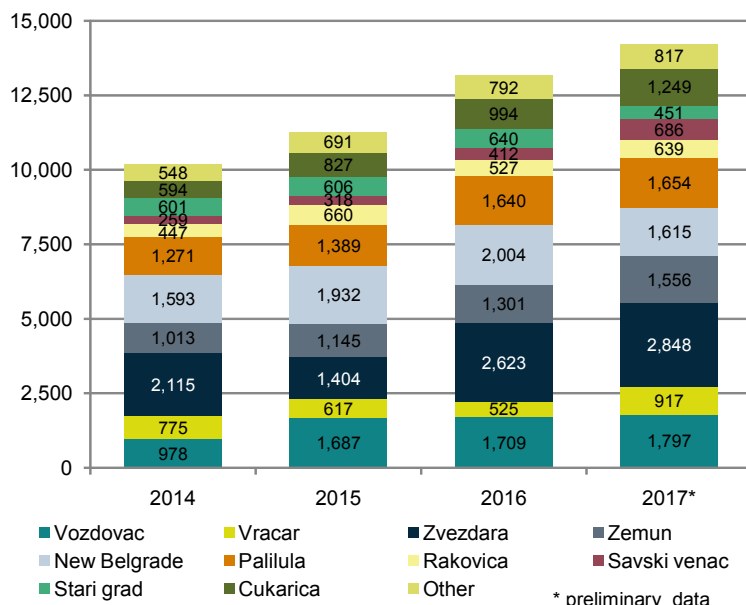
Sources: Statistical Office of the Republic of Serbia, Republic Geodetic Authority

Residential market dynamic in Belgrade municipalities



Source: Statistical Office of the Republic of Serbia

Number of sold apartments in Belgrade municipalities



Source: Republic Geodetic Authority

A considerable surge of demand in 2017 has been registered in the areas offering solid supply of new apartments, such as Vracar (+75%) and Savski Venac (+67%) municipalities, while a drop was recorded in the areas with the insufficient new offer, such as Stari Grad (-30%) and New Belgrade (-19%).

The demand for luxury and upper-mid quality projects show sustainable fundamentals, while the visible recovery has been seen in the middle market segment.

Demand drives up prices of new units. Resale market is lagging behind

Residential prices in Belgrade increased by 5 – 6% in 2017, following a prolonged contraction period. A considerable growth of 12 – 15% was recorded within new projects in mature stages of development, while in the upper market segment prices rose by 10.5% on average.

A large discrepancy between demand and supply in Zvezdara area has led to a double-digit annual price gain of 16%. During 2017 the volume of sales in this municipality accounted for 21% of the total transactions in Belgrade metropolitan area, followed by Vozdovac with 13% share, where prices grew by 10% in the same period.

The prices in the bottom tier of the resale market grew insignificantly in the same period.

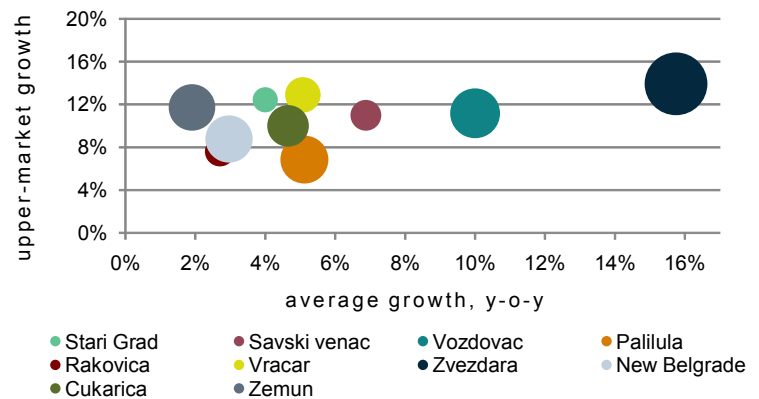
Asking prices for new units within upper-mid quality projects depend heavily on the micro location and are within the range of EUR 1,700-2,200 per sq m, while the prices of older apartments range EUR 1,000 – 1,300 per sq m. Higher quality apartment prices are between EUR 2,350-2,800 per sq m on average, while the offer of luxury new units is still limited and the price ranges between EUR 3,000-3,500 per sq m.

Trend fuelled by low interest rates will persist in 2018

Low interest rates, better employment prospects and the supply bottleneck will be the key drivers in 2018, while the market will largely be an investor-driven. The overheated prices of new apartments will consequently put upward pressure on prices in the resale segment, whose upswing is likely to continue over 2018.

The pace of growth in new apartment prices is likely to slow down in the next 12 months.

Price growth & participation in sales - Belgrade municipalities, 2017

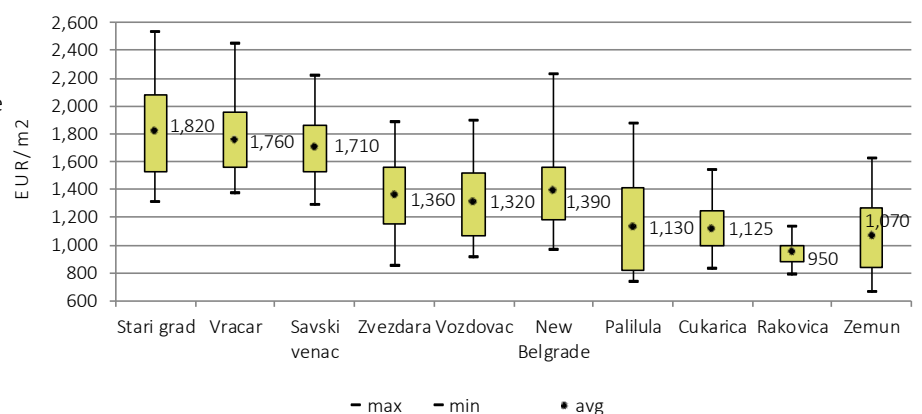


Source: LeRoy

Project	Location	No of units	Status	Deadline	Investor
Belgrade Waterfront	Downtown	296	In construction	1st ph. 2018	Eagle Hills
		472		2nd ph. 2019	
		220		2nd ph. 2020	
A Blok	NBG, block 67a	799 N/A	Finished In construction	1st, 2nd & 3rd ph. 4rd ph. 2019	Deka inženjering
Central Garden	Downtown	317 67	Finished In construction	1st, 2nd & 3rd ph. 4rd ph. 2018	AFI Europe
West 65	NBG, block 65	400	Finished In construction	1st, 2nd & 3rd ph. 4rd ph. 2018	PSP Farman
		114			
Zelena Avenija	Zemun	236	In construction	2018	Montex Real Estate
Sunnyville	Palilula	215	In construction	2018	Energoprojekt
New South	Vracar	129	In construction	2018	Ex-Ing B&P
Kapija Vracara	Vracar	252	In construction	2018/2019	Aleksandar Group
Vozdove kapije	Vozdovac	235	In construction Announced	1st & 2nd ph. N/A	Shikun & Binui Group
		465			
Panorama Vozdovac	Vozdovac	187	In construction	2019	Alpros Invest
Paunov breg	Vozdovac	106	In construction	3rd ph. 2018	CPI Construction
		323			
Zemunske kapije	Zemun	366	In construction In construction Announced	1st ph. 2018 2nd ph. 2019 N/A	The Building Directorate of Serbia
		1,011			
		1,011			
Kneza Milosa Residence	Downtown	260	Preparation works	2019/2020	KMR Development
Skyline Belgrade	Downtown	N/A	Preparation works	1st ph. 2019 2nd ph. 2021	AFI Europe
Savada 3	T. bunar, NBG	N/A	Announced	N/A	Neimar V
K District	Kalemegdan	N/A	Announced	N/A	Pinnacle

Source: LeRoy

Average apartment prices in Belgrade municipalities



Source: LeRoy

For further market information, please contact

Žana Šipovac MRICS | RICS Registered Valuer

Head of Valuation and Advisory

zana.sipovac@leroy.rs

Marijana Dolaš

Associate, Valuation and Advisory Services

marijana.dolas@leroy.rs

T + 381 11 26 32 300

F + 381 11 32 84 647

17, Cara Urosa Street - Belgrade

office@leroy.rs

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