



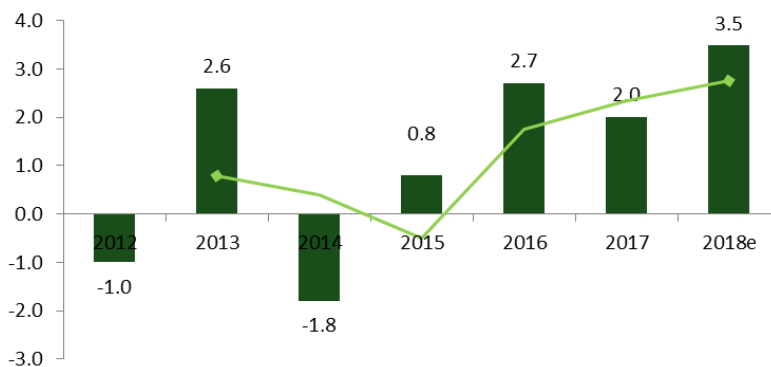
SERBIAN MARKET OVERVIEW H2 2017



Continuation of Macroeconomic Stabilization in 2017

- ✓ Serbia economic activity has marked continual positive trends during 2017, recording modest **GDP** growth of 1% in line with the projections at the end of 2017 as comparing to the same period in 2016. In the upcoming period GDP growth is expected to gradually step up, reaching 3% to 3.5% in 2018, while retaining favourable growth structure.

GDP



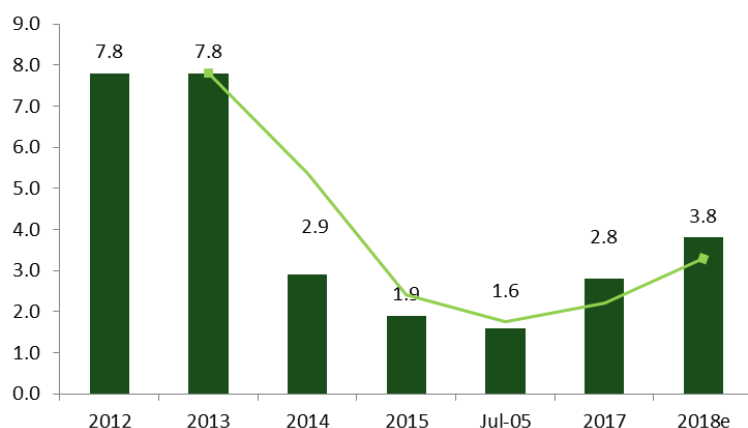
Source: Ministry of Finance of Republic of Serbia, NBS, Danos research

- ✓ By estimations the total economic activity in 2017, measured by GDP and expressed in constant prices, recorded a real growth of 1.9% compared to the same period in 2016.

- ✓ Inflation and inflation expectations stayed within the NBS target tolerance band throughout 2017

- ✓ In December y-o-y inflation stood at the target midpoint (3.0%). NBS expects a drop in y-o-y inflation in the first half of 2018, as last year's one-off price increases drop out of the y-o-y comparison.

CPI



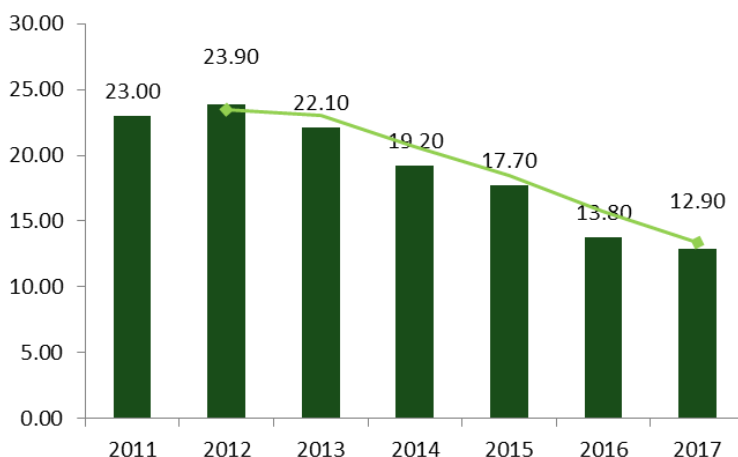
Source: Ministry of Finance of Republic of Serbia, Danos research



- ✓ Based on the Labour Force Survey in Q2 2017 unemployment rate has recorded level of 12.9% marking decrease of 1.8% compared to the same period in 2016.

- ✓ The average gross wage in december 2017 amounted to EUR 629, while average net wage amounted to EUR 400 in real terms. When compared to the 2016, average gross and net wage are nominally higher by 3.9% and real terms by 0.9%.

UNEMPLOYMENT



Source: NBS, Danos research

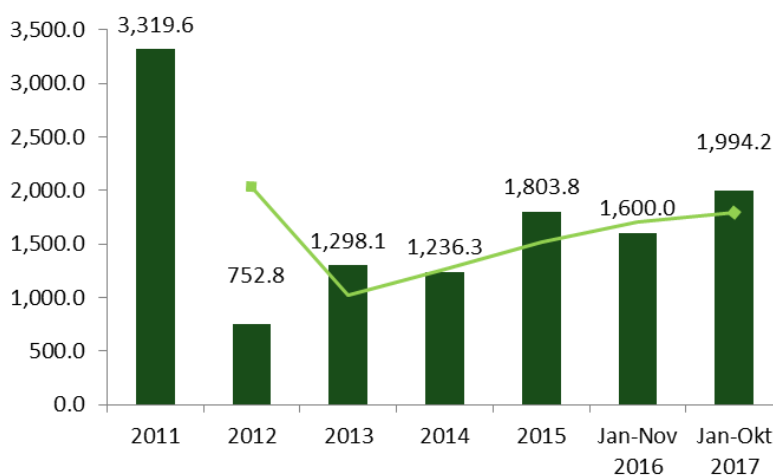


✓ Net FDI inflow in the first ten months of 2017 amounted at EUR 1.6 billion (up by 12,6 percent yoy), a projection is again revised upwards and at the end of 2017 reaches amount of 1.994 billion euros.

✓ Net FDI prognosis for 2018 is expected to increase for 5%.

✓ The last quarter of 2017. registered accelerated growth of domestic demand driven by growth in private consumption and private investment. This is supported by real wage growth and employment in the private sector, the growth of new loans to households (cash and housing), growth in retail sales, as well as growth in the value of completed construction works.

NET FDI



Source: Ministry of Finance of Republic of Serbia, Danos research

✓ Business environment improvement in Serbia underpinned by macroeconomic stabilization along with the global risk aversion has significantly pushed down country's risk premium (c.150 bp).

✓ Serbia's foreign trade continued trend of positive growth in the period January-October 2017, and amounted to 28.5 billion euros, an increase of 13.7 percent compared to the same period last year. Rates of export and import in the first nine months of 13.5 and 13.9 percent, respectively. Trade deficit in the observed period amounted to 3.4 billion, and the import-export was 78.9 percent (0.3 percentage points lower compared to the same period the previous year).



✓ Moody's has improved Serbia's rating outlook from 'B1' to 'Ba3' with a stable outlook. In December, S&P upgraded Serbia's 'BB-' rating to 'BB-' stable outlook.

✓ In the past year, Serbia has improved regulations for operating in an absolute sense, as measured progression by the World Bank's Doing Business in 2018 (Doing Business list). Improving regulation in 2016/17. was significantly facilitated the establishment of business entities by reducing administrative fees for verification of signatures and by increasing the efficiency of the registry, thus reducing the time it takes to register a business. Consequently, the cost of starting a business fell from 6.5 % to 2.3 % of income per capita. Also, Serbia has improved the reliability of the system of cadaster using the geographic information system.



Supply and Pipeline

Office take up in Belgrade increased in 2017 for the third year in row. Belgrade is seeing strong construction activity that will increase supply. Further developments are underway predominantly in New Belgrade. Completion of several office projects in 2017 added nearly 30.000 sq m to the Belgrade office stock leaving total moder office stock of Grade A and B above 700.000 sq m.

PIPELINE OFFICE PROJECT			
Project/Investor	Location	Area (sq m)	Status
Deneza	New Belgrade	2.650	Underconstruction
Business Garden / AFI	City Center	16.000	Announced
Usce Tower 2 / MPC	New Belgrade	22.000	Announced
N House	Block 21/New Belgrade	10.700	Underconstruction
Green Heart / GTC	New Belgrade	46000 renovation+new	Underconstruction
Roaming office building	Belgrade	4.500	Underconstruction
Airport City 5th phase	Block 65/New Belgrade	75.000	Announced
Skyline / AFI	Belgrade	30.000	Announced
Immorent Sirius office (2nd phase)	Block 43/New Belgrade	12.500	Announced
Zigel House / Trgomen	Vracar/Belgrade	5.500	Underconstruction
Navigator 2 / MPC	New Belgrade	27.000	Announced



GTC has acquired office building BBC size 17.900 sqm in New Belgrade

Demand

New occupation and relocations were recognized as main drivers of market activity during H2 2017. When analyzing business sector, traditionally IT sector remained most active followed by call centers.



Rental levels

Class A office buildings in CBS

€ 15 - € 17

Class B office building

€ 15 - € 17

Vacancy rate

In 2017, the vacancy rate for office space Grade A and B reach the level of 7% with the possibility of additional reduction due to high demand.



Supply



PRIME SHOPPING CENTER STOCK-Belgrade	170.000 sq m GLA
TOTAL SERBIA STOCK	> 700.000 sq m GLA

Retail sector in Serbia was quite dynamic with the increased interest of both domestic and foreign brands. Several new projects will certainly increase the supply of available space in the next year and for sure it will attract new entries.

New openings in secondary cities such as Capitol park in Sombor, Stop Shop in Lazarevac, retail park Nest in Kraljevo and Shoppi in Smederevo enable the expansion of retailers in smaller cities Serbia.

The developments of retail parks was the growing trend in 2017.



- **RAJICEVA SHOPPING CENTER** (Belgrade)
15.300 sq.m
- **CAPITOL PARK RAKOVICA** (Belgrade)
21.000 sq m
- **IKEA** (Belgrade)
30.000 sq m

Demand

There was significant interest of the retailers which are still not present at the market. They are in the stage of market research and the increase of new project will create conditions for their entry on the market. Some of international big box retailer continue searching for the suitable spaces.

While preparing the first opening in 2018, Lidl is searching for the new locations.

New entries in H2 2017

- Raiceva shopping center - Calvin Klein, Armani Exchange, Lego Shop and Miamaya
- Big Fashion – Manila Grace, Tezenis, Funky Budha, Reserved
- Delta City – Mango Man
- Usce – Under Armor and Manila Grace
- Merkator Shopping Center – Meli Melo

Rental levels in Belgrade



Shopping centers
€ 30 - € 60

High streets
€ 30 - € 80

PIPELINE RETAIL PROJECT

Project/Investor	Location	Area (sq m)	Delivery Date	Status
Ada Mall / GTC	Belgrade	31.000	H2 2018	Underconstruction
BW Gallery / Eagle Hills	Belgrade	93.000	2020	Underconstruction
Big Fashion Vidikovac / Big Fashion Centers	Vidikovac	70.000	2019	Underconstruction
Promenada / NEPI	Novi Sad	50.000	H2 2018	Underconstruction
Stop Shop / Immofinanz	Pozarevac	7.000	H1 2018	Underconstruction

Residential Market

Supply

According to the last available official data, number of issued construction permits for the residential buildings within new developments within Belgrade region has recorded significant increase of 49% in the 11 months of 2017 compared to the same period last year. With new deliveries in second half of 2017 of Energo Group -Sun City and Deka Inzinjering – A Block 3th phase New Belgrade keeps the domination in developments of new residential complexes.



BKA Development has acquired the land plot 4.136 sq m for commercial and residential use in Kralja Aleksandra Blvd.

Energoinvest Group has acquired the land plot 5.913 sq m for building commercial and residential complex in Block 61 in New Belgrade.



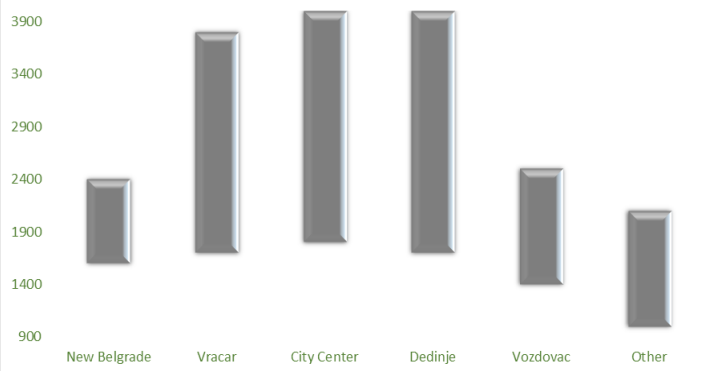
Source: Danos research

Demand

Since the last evaluation of the H1 Residential market 2017 in Belgrade, it is certain that the number of units that was sold is slightly lower (approx.10 000) that the ones from 2016 (12 839). However, New Belgrade still holds the position of a 'Hot Spot' for the place that people want to settle in, because of it's urban and business districts.

With the new projects on the way , like: WEST 65, A Block, Belgrade Waterfront, SunCity, Sunnyville...etc. Belgrade shows it's determination to become one of the "Modern", "Smart" and "Green" cities, which entails an increase of demand for the residential market.

Average asking price for new built projects from mid to high



Source: Danos research

PIPELINE PROJECTS

Project	Location	Investor	Total size (units)/phase in progress	Status
Central Garden	Belgrade Downtown	AFI Europe, Shikun & Binui Group	500 units /4 th phase -67 units	Under Construction
Vozdove kapije	Vozdovac	Shikun & Binui Group	700 units / 2 nd phase -129 units	Under Construction
A Block	New Belgrade	Deka Inzenjering	900 units / 4 th phase - 108 units	Under Construction
Savada	New Belgrade	Neimar V	3 rd phase	Announced
West 65	New Belgrade	PSP Farman	514 units / 3 rd phase - 100 units	Under Construction
Belgrade Waterfront	Downtown - Center	Eagle Hills	1 st phase - 296 units; 2 nd phase - 228 units; 3 rd phase - 244 units	Under Construction
Sunnyville	Palilula	Energoprojekt	215 units	Under Construction
Vracar Gates	Vracar	Aleksandar Group	250 units	Under Construction
Paunov Breg	Voždovac	CPI Group	200 units / 2nd phase - 94 units	Under Construction
New South	Juzni Boulevard	EX-ING B&P	129 units	Under Construction
Panorama Vozdovac	Vozdovac	Alpros Invest	187 units	Under Construction
Zemunke kapije	Zemun	The Building Directorate of Serbia	1700 units / 1st phase - 323 units	Under Construction
Green Avenue	Zemun	Montex Real Estate	236 units / 2nd phase - 50 units	Under Construction
Residential complex in Kneza Milosa	Center	Almogim Holding&Yosi Avrahami	260 units	Announced



Supply

In the second half of 2017, development activity within industrial sector was related to expansion of distribution centres schemes majorly within industrial-logistic zones in close proximity to Belgrade where the majority of the logistic stock is situated.

Logistic supply within this area will be enlarged with the delivery of Lidl distribution centre and adjoining office building, the expansion of Eyemaxx logistic complex through development of 2nd phase and expansion of Industrial Park Belgrade upcoming phase .

In course of logistic development in secondary cities, Novi Sad saw delivery of Univerexport distribution centre. Tertiary cities remain considered as favourable locations for the development of production facilities.

RECENT NEW SUPPLY			
Project	Type	Location	Size (sqm)
Phoenix	Distribution centre	Simanovci	7,000sqm
Knott Autoflex	Light industrial	Becej	6,000sqm
Ametek Business Campus	Light industrial	Subotica	10,000sqm
Univerexport	Distribution centre	Novi Sad	30,000sqm
Eyemaxx	Distribution warehouse-first phase	Stara Pazova	12,000sqm
Lear	Light Industrial	Novi Sad	29.000sqn
Yazaki	Light industrial/Training center	Sabac	30,000sqm
M&B Trans	Logistic center - first phase	Indija	10.000sqm

Logistic development in the secondary cities with be enlarged with the delivery of pipeline projects, mainly light industrial.

Demand

During H2 2017 demand for modern industrial / logistic schemes was majorly driven by transportation, manufacturing and distribution companies.

The demand is highest for modern warehouses with adjoining office space with surfaces between 3,000 sq m and 8,000 sq m.

PIPELINE PROJECTS			
Project	Type	Location	Size (sqm)
LIDL	Distribution warehouse/administrative buildng	Nova Pazova	78,500sqm in IV phases
Eyemaxx	Distribution warehouse - second phase	Stara Pazova	30,000sqm
Industrial Park Belgrade 3	Distribution warehouse	Simanovci	7,244sqm
Quass	Light industrial	Indjija	5,000sqm
Zumtobel	Light industrial	Niš	40.000sqm
M&B Trans	Logistic center - second phase	Indija	10.000sqm



Rental levels

Prime headline rents for modern logistic premises in H2 2017 range between EUR 4/sq m/month and EUR 5/sq m/month.

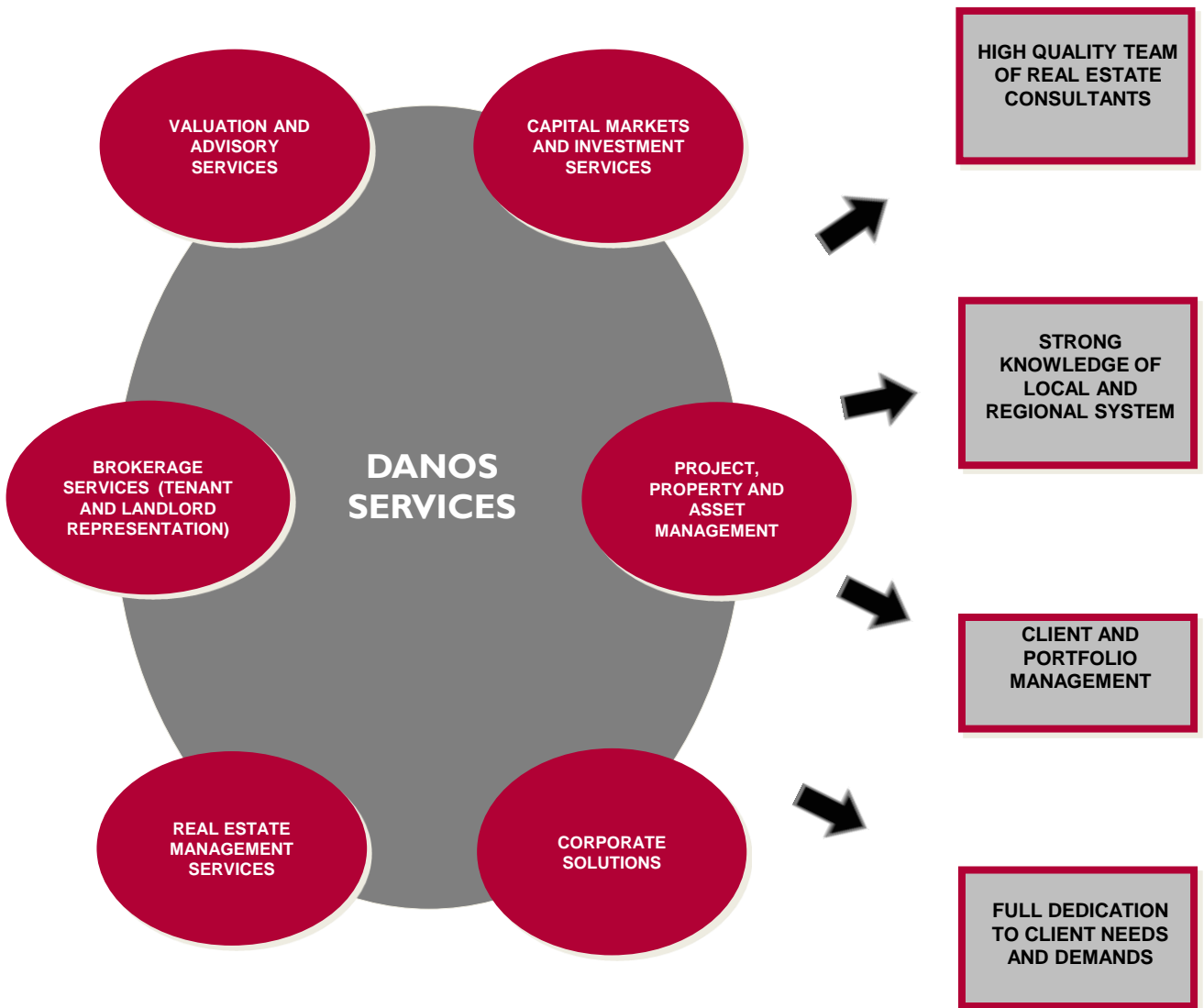
While average rental levels for older and refurbished industrial premises is ranging from EUR 3 to EUR 4/sq m/month.

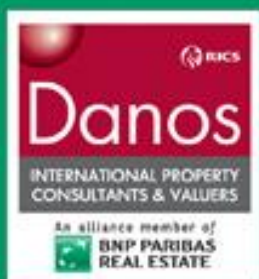
Prime headline rents

EUR 4 – 4.5 per sqm monthly



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