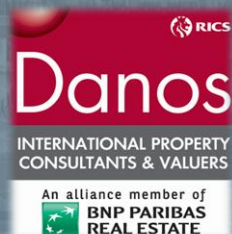




MARKET INSIGHTS REPORT

-SERBIA-

H1 2019



Research by: DANOS AND ASSOCIATES D.O.O., Belgrade, Serbia

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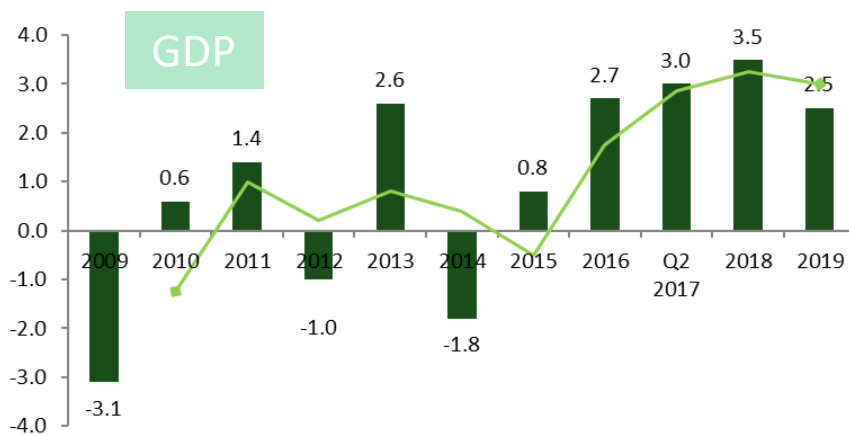
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Economic Overview Serbia

Real growth in gross domestic product in the first quarter of 2019, compared to the same period last year, amounted to **2.5%**. The seasonally adjusted data shows us the GDP growth in the first quarter of 2019 is **0.3%** in comparison with the previous quarter. Also, in the first quarter of 2019, compared to the same period last year, a significant growth in the gross value was recorded in the construction sector, by **12.3%**.

GDP growth in 2018 (highest in a decade) was driven by investments and exports, as well as labor market recovery. Growth trend continues in Q1 and Q2 2019, despite the global slowdown. After moving at an average level of 2.0% in 2018 and finishing the year at the same level, inflation continues to move in the lower half of the target tolerance band (1.5% y/y in June), in line with NBS forecast. Throughout the forecast horizon, inflation is expected to move within the target tolerance band, more likely in its lower half. Inflation expectations are anchored around the central target point (3%). Government budget posted a surplus in 2017 and 2018 (1.1% and 0.6% of GDP, respectively), and the same trend continued in Q1 2019 (surplus of 0.9% of GDP). As a result, public debt share declined by over 18 pp of GDP (cumulative) since its peak in 2015, with an improved currency composition after repayment of two Eurobonds (USD 1.75 bn), and refinancing of additional USD 1.1bn on international markets in June.

In the coming years Serbia will maintain a strong, sustainable and broad-based growth.



Alongside signs of recovery across Europe, GDP advanced 0.9% in Q1 (q/q), driven by all key sectors with construction and fixed investment beating expectations. Quarterly growth in Q2 is expected to pick up further to 1.5% q/q and remain robust throughout the year, leading to annual growth of 3.5% in 2019. Acceleration of growth in Q2 will be driven by construction, fixed investment and net exports performance. After slowing down in the late 2018, manufacturing output is recovering and is expected to contribute to growth in 2019. Risks to GDP growth arise from global economic activity slowdown, as well as monetary policies of leading CBs and commodity prices. On the other hand, domestic factors will continue to provide strong support to economic growth, which is why we estimate risks to projection as symmetrical. Factors to support sustainable medium-term growth of around 4% include macroeconomic stability, improved business environment, strong private and public investment and effects of past monetary easing.

In the next five years, Serbia will gradually converge towards more developed countries in terms of GDP composition

Fiscal balance remained in surplus in 2018 (0.6% of GDP) and the positive trend continues in Q1 2019 with a surplus of 0.9% of GDP. Public investments growth in 2018 was around 50% y/y, reaching 3.9% of GDP and exceeding the projections from the Fiscal strategy, and double-digit growth continued in Q1 2019.

The declining trend of public debt continued in 2019 (51.8% of GDP in May). The Government's Fiscal Strategy entails a medium-term deficit target of 0.5% of GDP, consistent with steady debt reduction and sustainability.

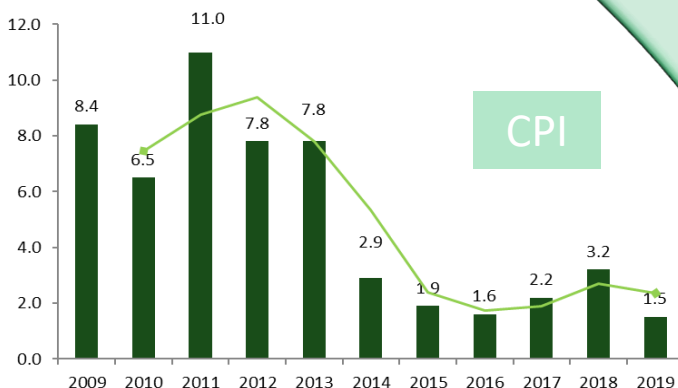


Economic Overview Serbia

Low Inflationary Pressures. Inflation will continue to move in the lower half of the target band

After moving at an average level of 2.0% in 2018 and finishing the year at the same level, inflation continues to move in the lower half of the target tolerance band (1.5% y/y in June), in line with NBS forecast. Throughout the forecast horizon, inflation is expected to move within the target tolerance band, more likely in its lower half. Inflation expectations are anchored around the central target point (3%).

Prices of goods and services for personal consumption in June 2019, compared to the same period last year, increased by 1.5%, while compared to December 2018 increased by 1.7%. In June 2019, comparing with the month before, the fall in prices was recorded in the group Furniture, equipment and maintenance for about -0.2%. Inflation is expected to move within the target tolerance band. Inflation movements in the coming period will be determined by growth of aggregate demand, faster growth of administered prices in 2019 and waning of the effects of past appreciation. Though it will be trending temporarily closer to the target midpoint at the beginning of 2019, due to low base effect. Inflation forecast is at 2.9% this year, 3% in 2020.



In the first quarter of 2019. The number of employed amounted to 2.810.500, while the number of unemployed 387 100. The employment rate of the population aged 15 and over was 47,4% and the unemployment rate of 12,1%.

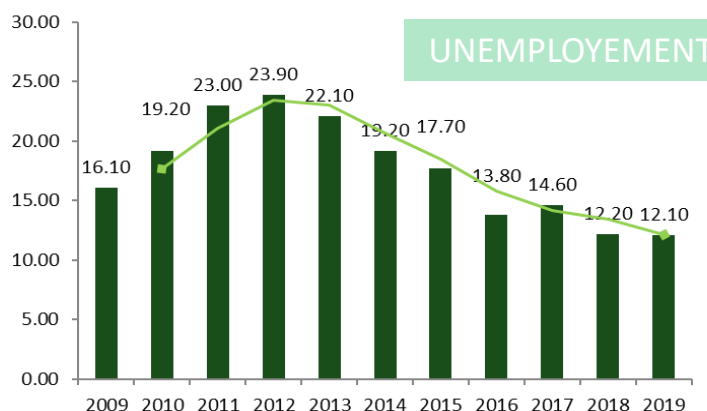
Compared to the first quarter of 2018, contingent workforce increased by 40.700 persons. Number of employees is 122.300, which the number of smaller to 81.600. The employment rate is increased by 2,3 percentage points (pp), and the unemployment rate is reduced by 2,7 pp Within the overall employment declined informal employment (18.100) and growth of formal employment (140.300). Informal employment rate decreased by 1,5 pp and amounted to 17,1%.

Compared to the fourth quarter of 2018, employment declined by 6.900, while the number of informally employed decreased by 27.200, while the number of formally employed increased by 20.300 unemployed are most other people with low and medium level of education, while in the category of highly educated persons there was employment growth in the period. The employment rate decreased by 0,1 pp



The unemployment rate in Serbia is forecast to be at 12%, that it will drop to 10.9% in 2020.

The average earnings (gross), calculated for April 2019 amounted to 75,441 dinars, while the average salary without taxes and contributions (net) amounted to 54,645 dinars. The growth of gross wages in January-April 2019, compared to the same period last year, amounted to 9.7% in nominal terms or 6.9% in real terms.



At the same time, net earnings increased by 9.9% in nominal terms and by 7.1% in real terms. Compared with the same month last year, average gross earnings for April 2019 was nominally higher by 11.1% and really by 7.8%, while the average net wage increased by 11.3% in nominal and 8.0 % real.

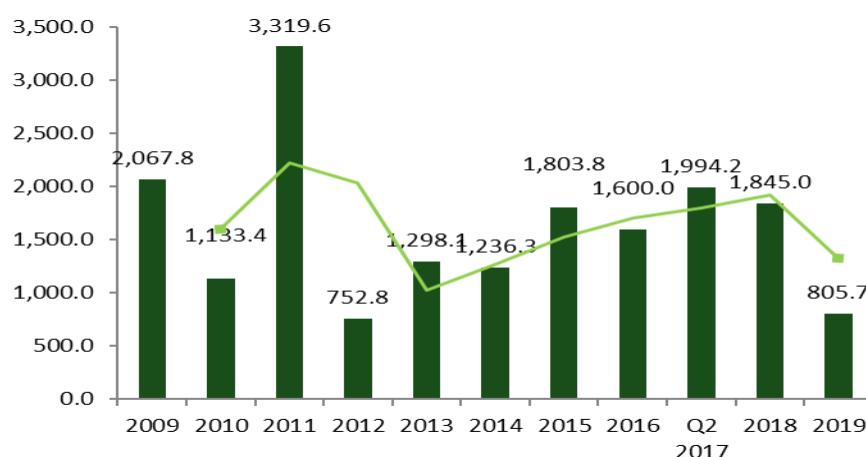
The median net earnings for April 2019 amounted to 41,773 dinars, which means that 50% of employees gained the earnings to the said amount.

Economic Overview Serbia

Serbian economy - Stable growth in productivity

Macroeconomic stabilization and improvements to the business environment contributed to sustained FDI growth (EUR 1.4bn in the five months of 2019), mainly directed to export-oriented sectors

Net FDIs amounted to EUR 3.2bn in 2018, marking one of the best years on record and outperforming the projection. In the five months of 2019 net FDI inflow increased further (14.6% over last year's high base), reaching EUR 1.4bn. The largest part of net FDIs in 2019 were outright equity transactions, followed by reinvested earnings. We expect a continuance of strong performance in 2019, with net FDI inflows projected at 5.3% of GDP (EUR 2.4bn).



NET FDI

During 2013 – 2018 an increasing share of FDI inflows has been directed to export-oriented sectors. Within manufacturing, most FDI inflows are directed to the automobile, base metals, food/beverage and chemical industries. This resulted in high growth of manufacturing employment, output and exports.

FDI inflows are diversified by region of origin as well, with a greater share of countries from the Asia Pacific and Middle East regions, alongside Serbia's major investment partner - the European Union.

Since 2015 Serbia's current account deficit has been fully financed by net FDI, an indicator of long-term external sustainability. In the medium term, we expect CAD to be around 4-5% of GDP, while FDI inflows will remain more than sufficient to finance the CAD.

The appreciation pressures that prevailed in the previous two years, persisted dominant since the start of 2019 as well. Strengthening of the dinar is stimulated by better Serbia's fundamentals, good performance and favorable growth prospects, which contributed to FX inflow on account of FDI and portfolio investment, and also tourism receipts.

In the last four years, the highest growth of productivity has been recorded in manufacturing branches with the largest FDI inflows - steel, chemical and pharmaceutical industries, as well as in rubber and plastics industry

Foreign Direct Investment in Serbia increased by 337.50 EUR Milion in April of 2019. Foreign Direct Investment in Serbia averaged 232.49 EUR Milion from 1997 until 2019, reaching an all time high of 3322.60 EUR Milion in November of 2006 and a record low of -476.60 EUR Milion in January of 2012

Office Market

Supply and Demand

At the end of first half of 2019 the office stock in Belgrade almost reached the number of 900.000 sq m. According to the current status of construction sites that figure will be significantly increased during the next year. Still, the New Belgrade is a dominant area for Class A office building while in city center old office building class B and C are renovated for co-working spaces.

We are facing with the permanent reduction of available free space and the pre-lease reached the high level in previous months.

Leasing activities kept the trend from 2018. There are strong demand from IT companies such as call centers, IT developers and supports. The largest lease in H1 2019 was the leasing of one of newly build GTC Green Square buildings. The most successful Serbian company Nordeus company rented 6.000 sq m

The NCR started construction of 30.000 sq m office building in business district of New Belgrade, with the total value of 90 mil.dol.

AFI Europe i Shikun & Binui Group completed project of Business Garden and first companies entered the new office building in May 2019.

PIPELINE OFFICE PROJECT			
Project/Investor	Location	Area (sq m)	Status
NCR	New Belgrade	30.000	Under construction
Usce Tower 2 / MPC	New Belgrade	22.000	Under construction
N House	Block 21/New Belgrade	10.700	Under construction
Green Heart / GTC	New Belgrade	46.000	Under construction
BIG CEE office project	New Belgrade	90.000	Announced
Airport City 5th phase	Block 65/New Belgrade	15.000	Announced
Skyline / AFI	Belgrade	30.000	Under construction
Immortal Sirius office (2nd phase)	Block 43/New Belgrade	12.500	Under construction
West 65 Tower	New Belgrade	70.000	Under construction
Navigator 2 / MPC	New Belgrade	27.000	Under construction
Kalemegdan Business Center	Belgrade	17.000	Under construction
Green Escape/Imel Group	New Belgrade	65.000	Announced

Rents

**Class A office buildings
in CBS €/sqm**

15-16.5

**Class B office
buildings €/sqm**

10-12



Vacancy rate

5 % ↓

New Belgrade below 3%

Retail Market

Supply and Demand

Belgrade's retail market is experiencing significant expansion investors that more often choose Serbia for their future business operations and this trend will continue in the years to come. It is expected that Belgrade will in a rather short period be able to compare with more developed in terms of offer and quality of the construction works.

New shopping malls and retail parks are under development across Serbia and are attracting new comer brands to the market.

Retail Park schemes are showing great success in Serbia, especially in secondary cities.

Lesnina XXXL, a furniture retailer owned by the XXXLutz Group, celebrated the opening of its first department store in Serbia, located in Novi Sad.

Lidl continue expansion in Serbia with 2 new supermarkets. Gigatron the one of the largest consumer electronic in Serbia has open mega store in New Belgrade on 1.500 sq m.

Zara started online sales in Serbia.

PIPELINE RETAIL PROJECT				
Project/Investor	Location	Area (sq m)	Delivery data	Status
Ada Mall/GTC	Belgrade	31.000	H1 2019	Under construction
BW Gallery/Eagle Hills	Belgrade	93.000	2020	Under construction
Big Fashion Vidikovac/BFC	Belgrade	70.000	2019	Under construction
BeoShopping Center/MPC	Belgrade	43.000	1 H 2020	Under construction
Nest/RC Europe	Uzice	7.000	2H 2019	Under construction
IKEA Retail Park	Belgrade	n/a	n/a	Announced
Stop Shop/ImmoFinanz	Sremska Mitrovica	7.000	2019	Under construction
Delta Planet Nis/Delta	Nis	30.000	n/a	Announced
West 65 Mall/PSP Farman	Belgrade	n/a	2020	Announced



- **ADA MALL BELGRADE – 31.000 sq m**
- **CAPITOL PARK ZAJECAR – 7.600 sq m**
- **CAPITOL PARK LESKOVAC – 6.500 sq m**



New openings

KARE – Novi Sad
Samsonite – Usce Shopping Mall
Lego Store – Usce Shopping Mall
Adidas Originals – Knez Mihailova Str.

Rental levels in Belgrade



Shopping centers
€ 20 - € 40

High streets
€ 30 - € 80

New entries

Starbucks	Rajiceva
MI Store	Usce Shopping Mall
Cropp	Ada Mall
Mohito	Ada Mall
Penti	Ada Mall
Piazza Italia	Ada Mall
Sinsey	Ada Mall
The Body Shop	Ada Mall

Residential Market

Supply

As per data published by Republic Geodetic Authority, 17,820 apartments were sold in whole Belgrade (including all 17 municipalities) in 2018, marking an increase of 13% in comparison with the number of sold units in 2017. The largest number of units were sold in Zvezdara Municipality, followed by New Belgrade, Palilula, Vozdovac and Zemun.

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

Apartments' prices in Belgrade are lower than in Zagreb and Ljubljana, the capitals of Croatia and Slovenia, and more expensive than in Skopje, Podgorica and Sarajevo.

The highest imbalance, in favour of investors in 2019, will witness municipalities Zvezdara, New Belgrade, Palilula, Cukarica and Stari Grad.

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.

Despite some forecasts that prices are unrealistic and should be reduced, no such thing has happened and they have continued to grow.

Demand

Serbia's capital needs 100,000 additional square meters of new apartments since the demand is that much higher than the supply.

There is a 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.

The increase of demand has further accelerated off-plan sales in 2018 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 in 2019.

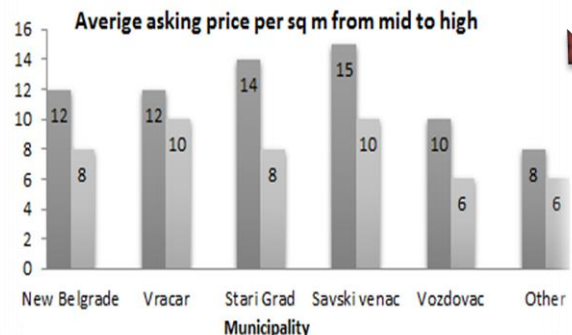
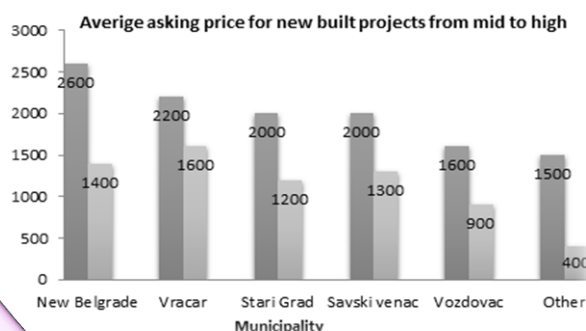
The demand for luxury and upper-mid quality projects show sustainable fundamentals, while the visible recovery has been seen in the middle market segment.

Following the trend from the previous years, Zvezdara Municipality, New Belgrade and Stari Grad are one of the most wanted areas that people are choosing to live in. According to that we can see new projects emerging especially in New Belgrade. But, despite many of them, people are deciding to move to Zvezdara, which is the flow that the new investors are expected to follow in the previous period.

SELL

Demand drives up prices of new units.

RENT



Residential Market

Residential Projects					
Projects	Location	Investitor	Total Units/Phases	Status	Finish date
A Block	New Belgrade	Deka Inzenjering	841units / 4 th phase	Under Construction	H2 2019
Savada	New Belgrade	Neimar V	500 units / 3 rd phase	Under Construction	N/A
Wellport	New Belgrade	Shikun & Binui Group	500 units/ 1st phase	Under Construction	N/A
Blok 32	New Belgrade	PMC Inzenjering	127 units	Under Construction	01.05.2020
Exing Home 65	New Belgrade	Zepter Group	147 units	Under Construction	H2 2019
Park 11	New Belgrade	Energoprojekt	134 units	Under Construction	May 2020
Sakura Park	New Belgrade	Goldberg Real Estate	228 units	Announced	Jun 2021
Blok 43	New Belgrade	BAUWELT doo i ZAP doo	55 units	Under Construction	N/A
Central Garden	Stari Grad	AFI Europe, Shikun & Binui Group	500 units	Completed	H1 2019
K. District	Stari Grad	AGNS INVEST	N/A	Announced	N/A
Skyline	Savski venac	AFI Europe	1s phase * 134 units	Under Construction	2021
BW – Vista, Parkview and magnolia	Savski venac	Eagle Hills	1st phase * 296 units 2nd phase * 228 units 3rd phase * 244 units 4th phase * 110 units	Under Construction	Total for the project 10 years
Kneza Milosa Residences	Savski venac	Yossi Avrahami Ltd. And Energogroup	226 units	Under Construction	31.10.2020
Vozdove Kapije	Vozdovac	Shikun & Binui Group	700 units / 3rd phase	Under Construction	N/A
Panorama Vozdovac	Vozdovac	CEP	187 units / 3rd phase	Under Construction	Septembar 2019
Paunov Breg	Vozdovac	CPI Group	107 units / 4th phase	Completed	
Kopernikus Panorama	New Belgrade	Partner Gradnja ZND	87 units	Under Construction	N/A
Green Avenue	Zemun	Montex Real Estate	400 units / 4th phase	Under Construction	November 2019
Gornji Zemun	Zemun	World Trade Capital	184 units	Completed	H1 2019
Zemunske kapije	Zemun	The Building Directorate of Serbia	1700 units / 3rd phase	Under Construction	2020
Sunnyville	Vracar	Constantine the great	252 units / 3rd phase	Under Construction	N/A
Kapije Vracara	Vracar	Aleksandar group	250 units	Under Construction	N/A
East Side	Zvezdara	East Side Development	347 units	Under Construction	Jun 2020
HillSide	Zvezdara	Expertus	41 units	Under Construction	H2 2019

Industrial Market

Supply

RECENT NEW SUPPLY			
Project/Investor	Type	Location	Size
A MM Manufacturing	Light Industrial	Kragujevac	17.000sqm
Aptiv / Delphi	Production	Leskovac	> 27.000sqm
Mint / Adient	Light Industrial	Loznica	N/A
Simens	Light Industrial	Kragujevac	40.000sqm
Essex Europe	Light Industrial	Zrenjanin	15.000sqm
Kromberg&Schubeit	Light Industrial	Krusevac	23.000sqm
Zumtobel	Light Industrial	Nis	40.000sqm
Egston	Light Industrial	Pancevo	N/A
Henkel Somat	Production	Krusevac	N/A
Wood feel	Furniture	Kursumlija	7.000sqm
Ariston	Light Industrial	Svilajnac	4.000sqm
Calzedonia	Production	Kula	12.000sqm
Amphenol automotive technology	Light Industrial	Trstenik	7.000sqm
Bekament	Light Industrial	Arandjelovac	N/A
LebanTek	Light Industrial	Leban	12.700sqm
Health Care Europe – 2 phases	Light Industrial	Ruma	N/A
IMI	Light Industrial	Nis	14.000sqm
GLM	Light Industrial	Zrenjanin	N/A
Baby Food Factory	Production	Dobanovci	13.600sqm
Melm Ta	Light Industrial	Obrenovac	55.000sqm
ZF Friedrichafen	Light Industrial	Pancevo	25.000sqm
IPB 4	Distribution Warehouse	Simanovci	15.670sqm
PIPELINE PROJECTS			
Project/Investor	Type	Location	Size
Eyemaxx	Distribution Warehouse	Stara Pazova	18.000sqm
Parilab Alibunar	Light Industrial	Alibunar	1.000sqm
Log Max Beta	Distribution Warehouse	Stara Pazova	30.000sqm
IPB 5	Distribution Warehouse	Simanovci	15.670sqm
IPB 6	Distribution Warehouse	Simanovci	N/A
Quass	Distribution Warehouse	Indjija	5.000sqm
Rimaster	Light Industrial	Paracin	N/A
Leoni	Light Industrial	Kraljevo	60.000sqm
Kleemann	Light Industrial	Simanovci	N/A
Vorwerk Autotec	Light Industrial	Cacak	40.000sqm
Tai Group	Light Industrial	Kraljevo	N/A
Wieland	Light Industrial	Cacak	N/A
Health Care Europe – with phases 3 and 4	Light Industrial	Ruma	Up to 70.000sqm
Yura	Light Industrial	Leskovac	N/A
Albon	Light Industrial	Ruma	11.000sqm
Caminda	Light Industrial	Subotica	2.000+2.000sqm
Zastava Oruzje	Light Industrial	Kragujevac	4.000sqm
Hirsch	Light Industrial	Backi Petrovac	N/A
Mayekawa	Light Industrial	Smederevo	2.000+6.000sqm
Feka Automotive	Light Industrial	Cuprija	N/A
Treleborg	Light Industrial	Ruma	10.000sqm
Le Beller	Light Industrial	Kikinda	N/A
CTP Park Belgrade West	Industrial park	Belgrade	14.110sqm
CTP Park Novi Sad	Industrial park	Novi Sad	24.340sqm
CTP Park Belgrade North	Industrial park	Belgrade	25.660sqm
CTP Park Kragujevac	Industrial Park	Kragujevac	24.525sqm
Bosh	Production	Simanovci	N/A

Industrial Market

Demand

Rental levels for new industrial developments throughout Serbia are in the range of EUR 3 – 5/sq m/month.



Development activity in first semester 2019 remained high.

Thanks to the numerous incentives available to investors in the last years, Serbia has attracted many exports-oriented companies in the manufacturing and production sector which consider secondary cities favourable locations for the development of facilities. The most of market activities were noted by companies from the automotive sector.

Rising development activity within industrial and logistic sector influenced with government reforms, stable economic growth, continuous investment in infrastructure market second semester 2018.

The industrial production in the Republic of Serbia January 2019 decreased by 5,5% relative to January 2018.

By sector:

Mining sector – decrease of 11%

Electricity, Gas, Steam and air conditioning supply - decrease of 9,5%

Manufacturing sector – decrease of 3,6%

Capital products in Serbia grows by 2,2 percent in 2019.

CTP Ha signed a deal with BMTS production for the future extension in CTPPark Novi Sad for 10.000sqm and 5.000sqm.



Rental levels

Class B
1.3€

Class A
3 - 5€

The main drivers were in construction of new distribution and logistics facilities, as well as expansion of investors already present on the market and extension of existing production halls.

Logistic development in the proximity of Belgrade and secondary cities will be enlarged with the delivery of pipeline projects – industrial parks, mainly with light industrial and production.

During H1 2019 demand for modern industrial / logistic schemes was majorly driven by automotive, manufacturing and distribution companies. The demand is higher for modern warehouses within secondary cities. New projects in pipeline include expansions of existing capacities and the delivery of new projects on proximity to Belgrade and secondary cities. Several speculative schemes were noted in the proximity of Belgrade. The Dutch company CTP Invest has started building a distribution-logistics center in the industrial zone in Simanovci, on an area of 2.5 hectares, the completion of which is expected in mid-2019. In addition to this investment, the Dutch company has bought a facility on a parcel of 3.5 hectares, making their total investment in the area around EUR 20 million.

The construction of Nelt's fifth logistics building.
Construction of MIND Park industrial complex in Kragujevac in progress.

In wider Belgrade area, prime headline rents for modern logistic premises in H1 2019 range between EUR 3/sq m/month and EUR 5/sq m/month. While average rental levels for older and refurbished industrial premises range from EUR 1 to EUR 2,5/sq m/month. For "built-to-suit" space, rent level is in range EUR 4-5 sq m/month.



DANOS SERVICES

CAPITAL MARKETS AND INVESTMENT SERVICES

PROJECT, PROPERTY AND ASSET MANAGEMENT

CORPORATE SOLUTIONS

REAL ESTATE MANAGEMENT SERVICES

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