

S&P's LTFC Rating

BB+/Negative

Hot Topics

- According to data received from the Central Bank of Montenegro, GDP in 2009 decreased by 5.3%.
- In Q1 2010, number of tourist arrivals and overnights declined by approximately 13% compared to the first quarter of 2009.
- Rental levels of office space recorded the decrease of 10% compared to Q4 2009.
- In accordance with the research of Central Bank of Montenegro, in Q2 2010 the average price of residential units recorded the increase of 6% in comparison with March 2010.

Office Quick Stats**Change from
H2 2009**

Supply	↑
Prime Rent	↓
Vacancy Rate	↑

**Shopping centers
Quick Stats****Change from
H2 2009**

Supply	↑
Prime Rent	↓
Vacancy Rate	↑

According to IMF, the Montenegrin economy has been strongly hit by the economic crisis. The GDP decreased by 5.3% in 2009 and according to the Ministry of Finance GDP is expected to experience further lowering by up to 2.5% in 2010. In the first quarter of 2010, a slight recovery of 0.5% of GDP has been recorded. Public debt in the first three months 2010 was 36.5% of GDP. When comparing the industrial production in the first five months of 2010 to the same period in 2009, the greatest decrease has been recorded in the manufacturing 22.3%, followed by mining and quarrying 20.1%, while electricity, gas and water production increased by 17.1%. In European Commission report on Montenegrin economy it is said that retail sales recorded a 3.4% annual decline in real terms during the first four months of 2010.

Montenegrin government is preparing to issue Eurobonds of up to EUR 200 million in H2 2010. They are also considering the possibility of entering into an arrangement with the IMF to finance the budget and repay the current debts. Consumer price inflation in April 2010 equaled 0.4%. The unemployment rate in the first quarter decreased compared to H2 2009 to 12.46%; moreover, owing to the summer tourism season the unemployment rate retained decreasing tendency reaching 11.8% by the end of June.

In the period January-March 2010, the overall FDI inflow increased by 25% compared to the same period of last year partially due to the recapitalization of the telecommunication company MTEI. Despite the positive figures, the decrease in the number of greenfield projects reveals the fact that international companies are still cautious concerning the new investments. However, the structure of FDI is continually changing, the investments in domestic banks and companies are increasing while the real estate investments record decrease.

OFFICE MARKET

Podgorica office market is slightly improving. Class A office buildings Europoint and Normal Tower, delivered to the market in 2009 and H1 2010, increased the current stock of office space to the level of 36,300 sq m, which is still far from the trends of other cities in the region.

It is expected that office space will be enriched by up to 60,000 sq m by the end of 2010 with the completion of Atlas Capital Center. Although office market has noted positive tendency, it is still immature in comparison with other cities in the region.

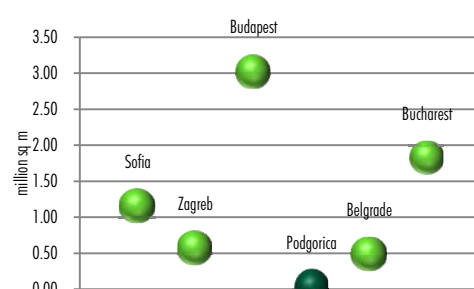
Main business areas are Boulevards of George Washington and Sv. Petar Cetinjski which are becoming recognized as important retail areas as well.

With regard to the prospective projects, Celebic company has presented the project of modern Business City office building comprising approximately 20,000 sq m of office space and 10,000 sq m of parking space situated at the attractive location opposite Delta City. There is also a tendency of building mixed-use projects which will include office, retail and residential units.

Office Market Indicators in Podgorica

Podgorica	H2 2009	H1 2010
Total Stock	30,000	+ 6.300

Source: CB Richard Ellis

Office Stock in the region, end of Q1 2010 (million sq m)

Source: CB Richard Ellis

The beginning of 2010 year brought the slight decline in rental levels of modern office space as compared to Q4 2009. The average rental levels in the centre of Podgorica remained highest, while the lowest prices were recorded in lower quality office space located in the old part of the city.

Recently completed modern office space commands asking rental values of approximately EUR 18-20/sq m/month, while the office space under construction records asking rental levels of EUR 15-18/sq m per month which represents a decrease of 10% as compared to H2 2009.

RETAIL MARKET

World economic crisis has considerably affected smaller shopping centers in Podgorica. Delta City still remains the most visited shopping centre and the only one that marks 0% vacancy rate. Nikic business centre will change its concept and will try to revive the old manufacturing stores. Based on the official data from Guintas Inc., the first phase of Mall of Montenegro development was put into operation at the end of 2009. The developer is planning to complete the second phase (including fashion floor and food and entertainment floor) together with the hotel managed by the renowned hotel group Ramada, by the end of 2010.

With the opening of Mall of Montenegro, the total stock of modern shopping centres in Podgorica has reached app. 50,000 sq m. According to a number of sq m of modern shopping stock, Podgorica with its app. 290 sq m of shopping stock per 1,000 inhabitants is below the average ratio of the capital cities of the region, amounting to 450 sq m per 1,000 inhabitants.

Podgorica high-street zone, along with modern shopping centers, still represents the crucial point for retailers, due to excellent visibility and accessibility. The main retail and pedestrian zone in Podgorica is Hercegovačka Street, primarily part of the street between Njegoseva and Sloboda Streets. The prices stand around 23 EUR/sq m which represents a slight decrease of 10% compared to the previous period. High quality properties situated in prime locations, such as Vektra Square, have recorded asking rents of up to EUR 40/sq m/month. Prime rents recorded in modern shopping centers vary between EUR 25/sq m/month and 50/sq m/month with a downward tendency.

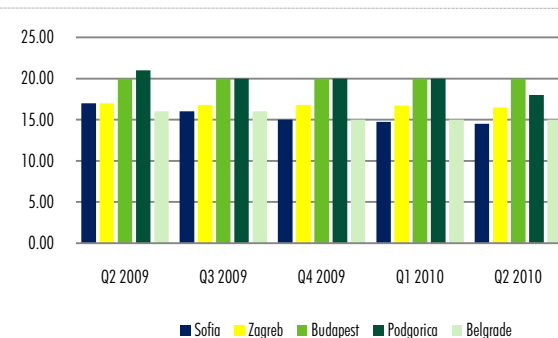
In addition, a mixed-use development, Atlas Centre is planned for completion by the end of 2010. The complex will offer approximately 14,000 sq m of retail space, 24,000 sq m of office space and 13,000 sq m of residential space.

In terms of shopping centers market at the seaside, local company Napredak AD opened in H1 2010 its first modern shopping center at the seaside, in Kotor, called Kamelija, comprising 14,000 sq m of retail space. The shopping centre welcomes several worldwide famous brands and contributes to the overall modern image of Montenegro seaside.

RESIDENTIAL MARKET

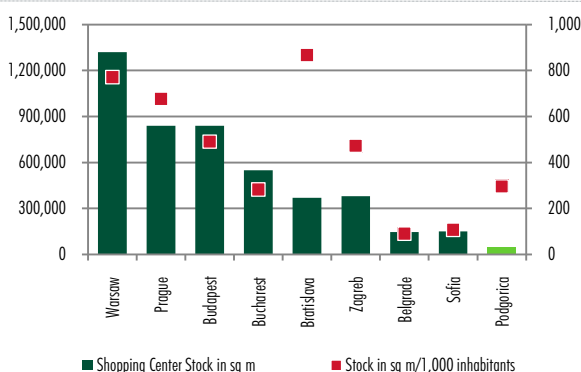
The residential property market is by far the most active market segment in Montenegro. However, global economic crisis has influenced certain fluctuations in this sector of the market. Most developers are focused on finishing the existing residential units such as Toloska Suma apartments. Toloska Suma project, situated in a peaceful part of Podgorica, which consists of 85 high-end residential units ranging from 30 sq m to 120 sq m, enters its final phase and is planned to be completed by the end of 2010. The asking price stands around EUR 1,800/sq m.

Prime office rents in the cities across the region (EUR/sq m/month)



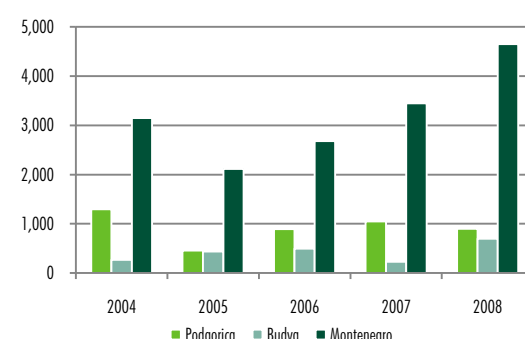
Source: CB Richard Ellis

Stock of modern shopping centres per capita, after Q1 2010



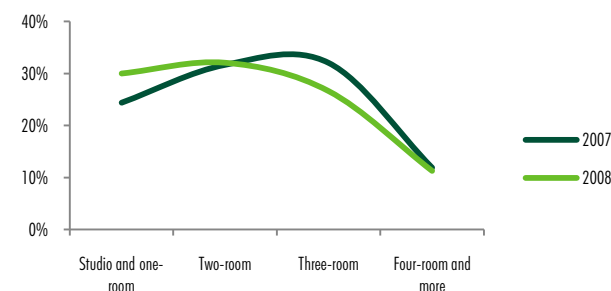
Source: CB Richard Ellis

Number of constructed apartments in period 2004-2008



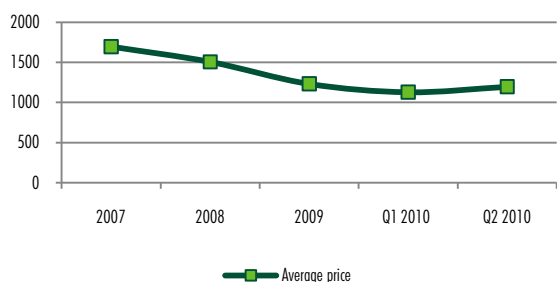
Source: MONSTAT

Structure of units constructed during 2007-2008, (%)



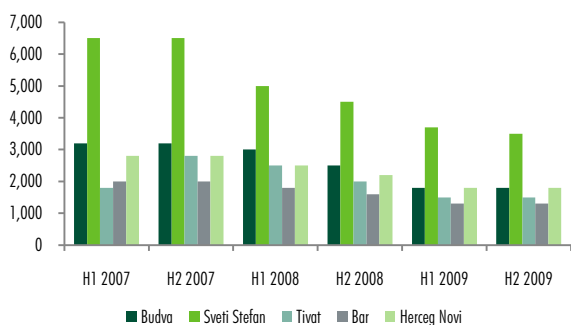
Source: MONSTAT

The average price in Podgorica (EUR/sq m)



Source: Central Bank of Montenegro

The average price in several towns on Montenegro coast (EUR/sq m)



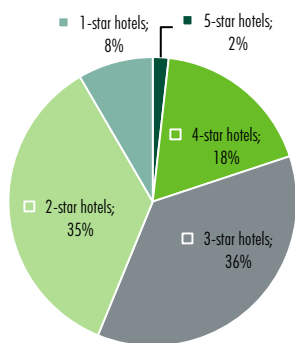
Source: CB Richard Ellis

Selected large scale projects planned or under construction at Montenegro Seaside

Podgorica	Size	Location
TQ Plaza	130 apartments	Budva
Belvedere Residence	71 apartments	Becici
Poseidon Apartments	174 apartments	Becici
Royal Montenegro	66,000 sq m	Budva

Source: CB Richard Ellis

Hotel stock in Montenegro in 2008



Source: : Horwath&Horwath consulting, 2008.

With the completion of Atlas Capital Centre, the residential property market will be enriched by the additional 12,900/sq m of residential space. Local company Celebic with its City Kwart project is maintaining the dynamics of the construction by finishing sixth out of fifteen planned residential buildings.

Since 2007, the average prices of residential units per sq m in Podgorica have shown constant downward tendency. However, according to the research of Central Bank of Montenegro, in Q2 2010 the average residential price was EUR 1,196/sq m which reflects the slight increase of 6% compared to March 2010. The rigidity of the prices is notable in high-quality developments situated in the attractive city zones which stand at EUR 2,500/sq m.

Montenegro Seaside

The first half of 2010 follows the tendency from the previous period concerning the asking prices of residential units. The supply still exceeds the demand causing further pressure on asking sales prices. The rapid growth of prices during the period 2006-2007 was replaced by their downward trend during 2008 and 2009.

In terms of overall supply, large number of projects is currently under construction. Residential business complex TQ Plaza in Budva encompasses 48,000 sq m of GBA. 10,000 sq m of space on the first floor will be a modern shopping centre with over 50 retail units. Residential part starts from the fourth floor, where 130 apartments will be 54 to 220 sq m large. The project is due for completion in the third quarter of 2010.

The exclusive complex Tre Canne in Budva comprising the 38,000 sq m of GBA announced the selling of the residential units with the asking price of up to EUR 3,000/sq m depending on the size of the residential unit, its position and sea view.

Egyptian company Orascom Development Holding presented the future project of a resort town located in Lustica peninsula, which will, on a surface area of 6.8 million square meters, construct several three to five star hotels with a total capacity of app. 2,200 rooms, app. 1,600 apartments, about 750 villas, a golf course, a marina and additional sports and commercial facilities. The first phase of the project will commence in Q1 2011 and is planned to be finished by 2013.

HOTEL MARKET

The hotel stock in Podgorica includes 18 categorized hotels, 11 four-star, 6 three-star and 1 two star lodging facility. Podgorica's hotel market will be enriched by few international hotel chains which offer quality level amenities recognized all over the world. Currently, only internationally affiliated hotel is Best Western Premier Montenegro which is located in the emerging Business District of Podgorica, Roman Square.

According to the announcements of the Bolici company, future hotel complex in the centre of Podgorica will be run by world-wide known Marriott hotel chain. Also, Hilton took over the management of hotel Crna Gora and the reconstruction of the hotel is planned for H1 2011.

Furthermore, in terms of perspective supply, projects such as Atlas Centre and Mall of Montenegro are planning to include a hotel development in their complexes.

MONTENEGRO MAP



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