

P R E S S R E L E A S E

CEE PROPERTY INVESTMENT SLOWS FURTHER IN Q1 2009

€220 million transacted in Q1 2009 – most markets less liquid

Prague, 15 April 2009 – Recorded property investment turnover in Central and Eastern Europe (CEE) slowed further in the first quarter (Q1) of 2009 to a level of approximately €220 million, according to CB Richard Ellis. This volume represents approximately one-third of the volume transacted in Q4 2008, a slightly stronger slowdown than that experienced in the overall European investment market over the same period. Investment volumes for Q1 2009 have seen the CEE market move back to levels seen earlier in the decade, before the region experienced significant growth in property investment turnover during 2005-2007.

Lack of liquidity is having an impact on every property investment market in CEE and is therefore profoundly affecting transaction numbers. The majority of all Q1 2009 CEE investment activity occurred in Russia and the Czech Republic. Russia's volume was driven by several office transactions and one hotel transaction. There is evidence to suggest that the more challenging conditions in Eastern Europe are impacting market transparency, making it more difficult to measure investment volumes accurately. In the Czech Republic, investment figures were largely driven by Deka's purchase of Jungmannova Plaza office building in Prague. This was the most prominent institutional transaction closed in CEE and the only transaction closed by a German Open-ended Fund (GOEF) in CEE in the first quarter.

Meanwhile, countries that have been drivers of CEE investment volume in recent years such as Poland and Romania recorded very low property investment volume in Q1 2009. Jos Tromp, Head of CEE Research & Consulting, comments: "What some of the low CEE investment volumes do not show is the considerable pipeline activity in some of the core markets in Central Europe. Several high quality assets are currently on the radar of institutional investors in the region, especially in the Czech Republic and Poland."

Less liquidity is also impacting the types of properties that are transacted, explains Tromp: "Offices remained the most heavily transacted type of property in CEE in Q1 2009. Conversely, there were no transactions involving industrial property and four retail property transactions in the first quarter in CEE. This marks a significant change from Q1 2008, when more than €1 billion

was invested in retail property alone in the region.” Prime retail is generally seen as a relatively secure investment in a downturn, due to more constrained supply and lower vacancy rates, therefore fewer investors are willing to sell prime properties at the moment. The large lot size of shopping centres is also negatively affecting deal flow in this segment. In the remainder of 2009, however, the trading of a limited number of good quality schemes is expected to result in an upward trend in investment volumes in CEE.

The less liquid nature of the CEE investment market has also changed the property investment market in other ways, at least in the short-term. Until now, foreign purchasers have driven investments in property in CEE, usually accounting for more than 80% of all volume. “Uncertainty about pricing and an inability to obtain financing have now forced many foreign buyers to the sidelines,” comments Pavel Schanka, Director CEE Capital Markets. “The remaining international buyers in the CEE market are a limited number of German Open-ended Funds - with a current focus on smaller deals of around €20 - €50 million - and a growing group of opportunistic buyers. Although this drives down the region’s overall investment volume, it has created opportunities for local purchasers.” Local purchasers accounted for around 50% of all CEE investment activity in Q1 2009, compared to about 15% for 2008 as a whole.

Yields have now moved out significantly across CEE since Q3 2008. There are now substantial differences in prime office yields across the region. Prime yields in Warsaw and Prague, for example, stood at 6.75% and 7.00% respectively at the end of Q1 2009, while yields in Moscow and Kyiv came in at 11.50% and 14.00%. Yield decompression has occurred in every CEE market in the last year, ranging from 100 basis points (bps) year-on-year outward movement in Warsaw and Belgrade to 400 bps in Moscow and 525 bps in Kyiv. According to Schanka: “We anticipate further yield decompression in many CEE markets at least in the next few months, as current yield premiums for property investment in CEE are not fully expressing the risks involved on macroeconomic, property market and political levels.”