CB RICHARD ELLIS | MARKET VIEW

CEE Investment

Central & Eastern Europe

MID YEAR 2006

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CEE INVESTMENT MARKET AT A GLANCE - MID YEAR 2006

Investment Volume ⬆

Prime Yields ⬇

MARKET OVERVIEW

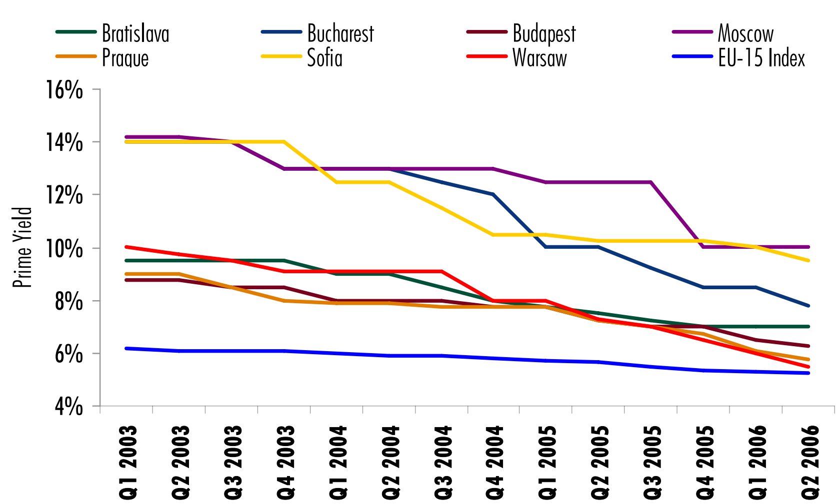
The property investment market in CEE shows signs of being another record-breaking year in 2006. Transaction activity in the first half of 2006 in the more established markets – Bulgaria, Czech Republic, Hungary, Poland, Romania, Russia and Slovakia – reached Euro 3.9 billion. This surpasses the total investment volume witnessed in the same period during 2005, accounting for 21% of total investment in the region since 1998. The last 2.5 years account for over 75% of total investment alone.

The majority of first half 2006 investment was once again in offices (43% of total volume) and retail assets (40% of total volume), 75% of which are shopping centres. In fact, over 83% of the total investment volume in CEE has been in office and retail property. The remaining 17% has been split evenly between mixed-use, industrial and hotel property. These other property sectors have the most untapped potential, although a large proportion of industrial stock is typically held by developers in their own portfolios or by bespoke distribution facilities and service providers.

As the geographical exposure of investors widens there has been a noticeable shift in the proportionate distribution of funds across the CEE region. Although the bulk of funds invested remains in the core Central European markets – the Czech Republic, Hungary and Poland – comprising 79% of the market, this is down on 2005 levels by 8%. Poland was responsible for 35% of the total volume in H1 2006, down 6% on 2005, whilst the Czech Republic accounted for 19% (the same as 2005) and Hungary 17% (down 10% on 2005). Russia has become a more noticeable recipient, accounting for 7% of overall CEE investment. The remaining investment last year was primarily in Slovakia, Bulgaria and Romania (listed by total amount invested), with Croatia now part of the picture.

Prime yields for all property sectors in CEE continue to fall. In the core office markets yields show signs of slowing as they close on the EU-15 average. The newer 'emerging' markets still show room for further compression as these markets improve economically and in terms of transparency.

PRIME CEE OFFICE YIELDS



Source: CB Richard Ellis, CB Richard Ellis Noble Gibbons, Elta Consult

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CEE PROPERTY INVESTMENT MARKETS

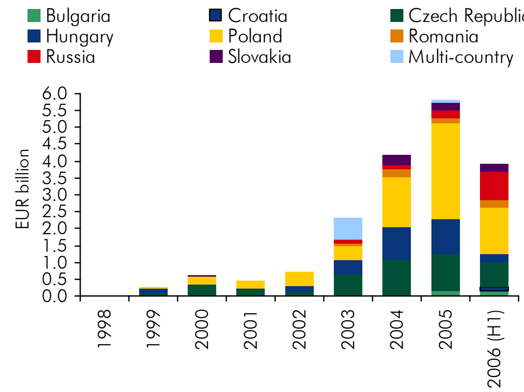
A total of EUR 3.9 billion was invested into institutional property in the main CEE markets during the first half of 2006. This equates to an increase of 26% compared to the first half of 2005. This total investment volume is calculated based on aggregate transaction figures for Bulgaria, Czech Republic, Hungary, Poland, Romania, Russia and Slovakia although the bulk of this money continues to be invested in the larger more established markets of the Czech Republic, Hungary and Poland.

This brings the total amount of money invested into the institutional property markets in the main CEE markets to EUR 18.2 billion. The institutional property investment market largely began in 1998. Despite the marked increase in total investment into property in CEE, it is evident in the ever-increasing prices that supply is still significantly insufficient in terms of quality and quantity to satisfy the growing demand for real estate.

It is estimated that only a very small portion (less than 10%) of the currently available, investible property (property that is of a size, quality and occupier covenant to be attractive to the institutional market) in CEE has been acquired. The investment transactions in CEE have been confined largely to prime offices (43% of total volume) and retail assets (40% of total volume), 75% of which are shopping centres. In fact, over 83% of the total investment volume in CEE has been in office and retail property. The remaining 17% has been split evenly between mixed-use, industrial and hotel property. These other property sectors have the most untapped potential, although a large proportion of industrial stock is typically held by developers in their own portfolios or by bespoke distribution facilities and service providers.

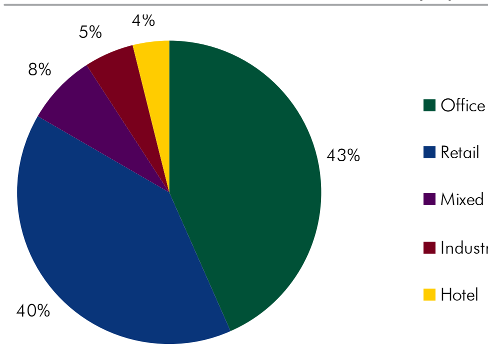
Investment into regional cities and locations accounted for 35% of the value of all transactions - 30 out of 101 deals - in CEE during the first half of 2006. Of this figure, the bulk were retail transactions, predominantly retail shopping centres which comprised a total of 17 deals. There were six industrial, three hotel, but only four office deals in the regional markets. All the regional office deals were in larger Polish cities. The fact that office transactions are confined largely to the capitals is primarily a question of available product and economic growth. Nevertheless, as regional office markets continue to develop, more investment transactions will naturally follow.

ANNUAL CEE INVESTMENT VOLUME BY COUNTRY



Source: CB Richard Ellis, CB Richard Ellis Noble Gibbons, Elta Consult

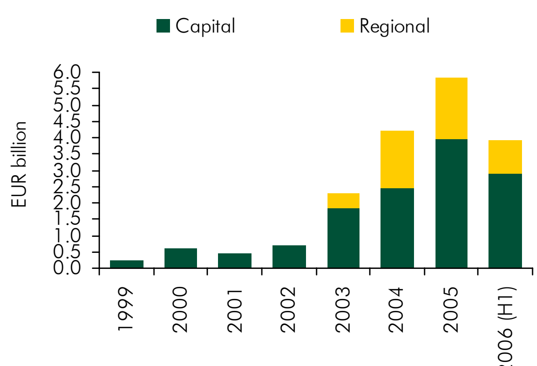
PROPERTY INVESTMENT BY SECTOR, 1998-2006 (H1)



Total investment turnover = EUR 14.3 billion

Source: CB Richard Ellis, CB Richard Ellis Noble Gibbons, Elta Consult

CEE INVESTMENT VOLUME BY LOCATION (CAPITAL VS REGIONAL CITIES)



Source: CB Richard Ellis, CB Richard Ellis Noble Gibbons, Elta Consult

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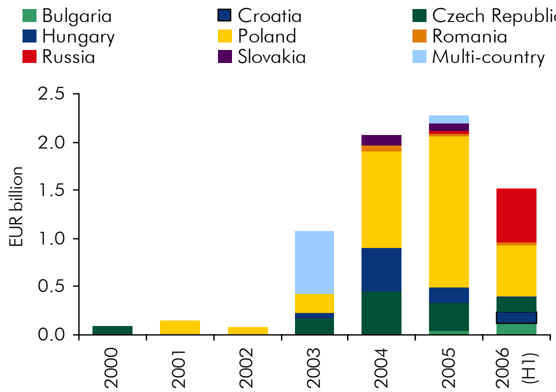
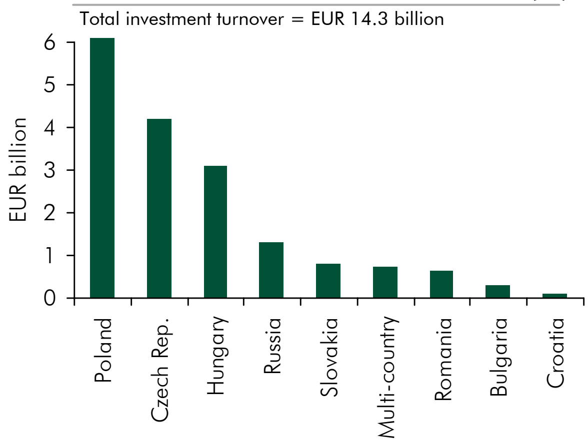
RETAIL INVESTMENT IN CEE



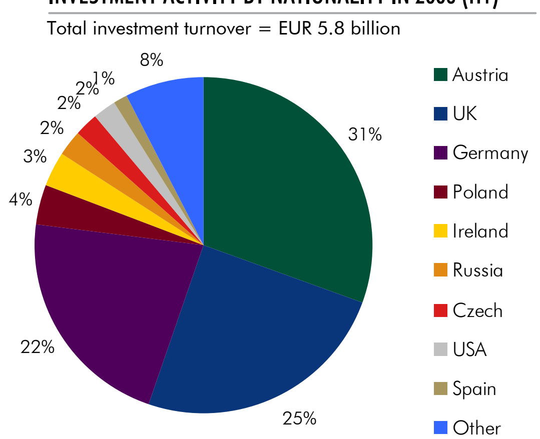
Source: CB Richard Ellis, CB Richard Ellis Noble Gibbons, Elta Consult

CEE INVESTMENT VOLUME BY DESTINATION, 1998-2006 (H1)



Source: CB Richard Ellis, CB Richard Ellis Noble Gibbons, Elta Consult

INVESTMENT ACTIVITY BY NATIONALITY IN 2006 (H1)



Source: CB Richard Ellis, CB Richard Ellis Noble Gibbons, Elta Consult

Retail transactions, which comprise primarily shopping centre deals, accounted for 39% of the total investment into CEE in the first half of 2006. This remains stable compared to 2005, when retail also comprised 39% of market volume, but a marked decrease from almost 50% of the total investment in 2004. The overall amount of investment into retail property, however, increased in actual terms for the first half of 2006 to EUR 1.52 bln. If the same volume continues through the second half of the year this will equate to ca. EUR 3 bln for 2006, up from EUR 2.3 bln in 2005 and EUR 2.1 bln in 2004.

Poland was the beneficiary of 35% of retail investments in the first half of 2006, almost half the amount witnessed in 2005 when 61% of total investment into retail property took place in Poland. Investment in Russia, meanwhile, is significantly higher comprising 37% of total mid-year retail investment in 2006. Croatia marked its entrance into the institutional market with the first retail transaction in Zagreb whilst the remainder of funds was invested in the Czech Republic, Hungary, Romania and Bulgaria.

As the geographical exposure of investors widens there has been a noticeable shift in the proportionate distribution of funds across the CEE region. Although the bulk of funds invested remains in the core Central European markets – the Czech Republic, Hungary and Poland – comprised 79% of the market, this is down on 2005 levels which amounted to 87% of total 2005 investment. Poland was responsible for 35% of the total volume in H1 2006, down 6% on 2005, whilst the Czech Republic accounted for 19% (the same as 2005) and Hungary 17% (down 10% on 2005). Russia has become a more noticeable recipient, with 7% of overall investment. The remaining investment last year was primarily in Slovakia, Bulgaria and Romania (listed by total amount invested), with Croatia now part of the picture. Investment into the latter four markets only began during the last three years and are slowly beginning to emerge. Multi-country portfolio transactions account for 4% of total investment.

Austrian and German investors continue to dominate the CEE investment market, with Austrian investors in particular becoming more aggressive. In total their percentage share increased by 10% in the first half of 2006 to 48% of the market. UK investors are also more prevalent, accounting for 23% of the market. Collectively they make-up for 71% of overall investment, shifting markedly from a more diverse investor pattern in 2005.

The other interesting trend relates to the activity of funds domiciled from within the region, with Polish (4%), Russian (2%) and Czech Republic (2%) investors now active. While the Irish and USA domiciled investors are still active, their market share is diminishing. Spanish investors are new to the market accounting for only 1% of investment, whilst French and Dutch investors which featured in 2005 no longer have a significant representation. Those which comprise 'others' include investors domiciled in Luxembourg, Australia, Norway, Italy, Hungary, Canada, Cyprus and the Middle East.

Over 60% of all investment in CEE was made by the top ten investors in the first half of 2006, comprising a total of 19 deals. In terms of the actual number of transactions, this only equates to 19% of the total number of transactions made. The leading investor was Meinl European Land which acquired two large retail deals in Moscow and in Mladá Boleslav, located ca. 60km from Prague. ImmoEast were also particularly active acquiring property across a wide range of locations including Bratislava, Budapest, Moscow, Prague and Zagreb. Other active investors include Equest, London and Regional, HGA, DEGI, Signa, PBW Real Estate and Dawnay Day Carpathian.

Prime yield levels continue to fall in CEE markets, most rapidly in the more emerging markets. New stock is being released to the market, but it is not becoming available fast enough to satisfy the ever-increasing appetite for institutional property. As a result of the disparity between demand and supply in a market of stable rents, prices continue to increase pushing yields down. It is important to remember, however, that there is a shortage of available stock throughout Europe. This has resulted in the prime yield indices for Western Europe (EU 15) to fall again during the last twelve months by approximately 60 basis points to H1 2006. This compares to a fall of 74 basis in CEE over the same time period.

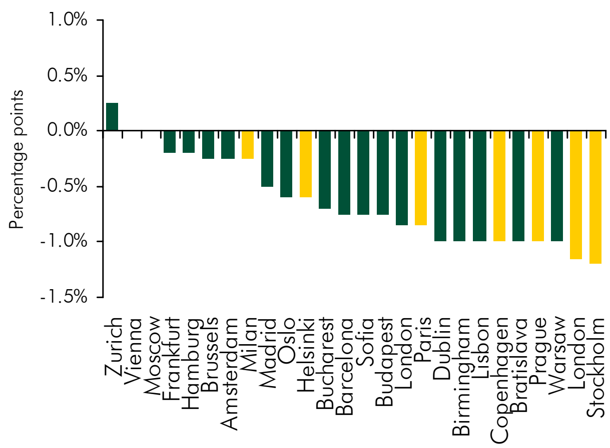
Current prime yields in CEE range between 5.75% and 10.00% for offices (down from 6.50% and 10.25% in 2005), 6.50% to 11.70% for shopping centres (down slightly from 7.00% to 11.70% in 2005) and between 7.25% and 11.00% for industrial product (down from 8.00 - 15.00% in 2005). Industrial markets represent the strongest falls since the start of 2005, falling from an upper range of 20% to 11% - virtually 100%. Yield decreases have actually been highest in Core Central Europe – Prague and Warsaw in particular.

MOST ACTIVE INVESTORS IN CEE IN 2006 (H1), BY VOLUME

INVESTOR	SUM (Euro Millions)	NO. OF DEALS
Meinl European Land	430	2
ImmoEast	386	5
Equest	328	4
London & Regional	260	1
HGA	252	2
DEGI	236	2
Signa	217	1
PBW Real Estate	150	1
Dawnay Day Carpathian	127	1

Source: CB Richard Ellis, CB Richard Ellis Noble Gibbons, Elta Consult

CHANGE IN PRIME OFFICE YIELDS, 12-MONTH CHANGE TO Q4 2005



Source: CB Richard Ellis, CB Richard Ellis Noble Gibbons, Elta Consult

PRIME YIELDS, Q2 2006

	OFFICE	RETAIL*	INDUSTRIAL
Bratislava	6.00%	7.00%	8.50%
Bucharest	7.80%	9.00%	9.50%
Budapest	6.25%	6.50%	7.25%
Moscow	10.00%	11.70%	12.5%
Prague	5.75%	6.80%	7.00%
Sofia	9.50%	10.50%	11.00%
Warsaw	5.50%	6.50%	8.00%

Source: CB Richard Ellis, CB Richard Ellis Noble Gibbons, Elta Consult
*Shopping Centres

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MARKET BRIEFING

Croatia had its first active investment year during the first half of 2006, with EUR 115 million invested. The investment transactions consisted of large retail shopping centre deals in Zagreb. The active players were Degi and ImmoEast.

In the **Bulgarian** real estate investment market investment reached EUR 155 million as seven significant deals comprising a mix of retail, office and hotel assets transacted. The three main were for retail shopping centres, two of which were outside of the capital market of Sofia.

The investment volume in the **Czech Republic** reached EUR 717 million. Office transactions represented the majority (70%) of the total transaction volume, a 10% increase on 2005. Retail transactions fell again in monetary terms representing only 20% of the total volume, compared to 27% the previous year.

Hungary experienced a lull in investment activity, down to only EUR 256 million following a record year in 2005, when it surpassed EUR 1 billion. Orco Property Group and ImmoEast continue to be active, but not to the same degree as in 2005. Additional players in the market include ING, Invesco, Redevco and Raiffiessen. The majority of deals were for offices which amounted to 69% of all transactions closed, the remainder being for retail and industrial properties. Of the eighteen deals closed only three were outside Budapest.

Poland continued to be the most popular market in the first half of 2006 with almost EUR 1.375 billion of investment activity. As a result, investment into Polish real estate represents just over one third of the total investment in CEE during 2006 to date. Office investment has become more popular amounting to ca. 50% of all transactions. Poland also experienced continued growth in regional cities which equated to more than 40% of total investment (compared to 35% on average for CEE).

The investment market in **Romania** rallied from the lows of 2005 during H1 2006 to almost match total investment volume in 2004, with EUR 212 million invested. The increased interest in Romanian real estate is evident in continually falling yields. As office transactions made up 75% of all deals, prime office yields fell again to 7.8% from 8.5% at the end of 2005.

The property investment market in **Russia** matured further in the first half of 2006 reaching EUR 871 million. This represents a significant increase of 370% on the whole of 2005 on the back of strong demand from international and local funds. Retail deals comprised the bulk of the market, reaching 64% of total investment. Although purchasers from the UK and Russia have been most active in recent years, the new entrants ImmoEast and Meinl Land, both Austrian players, have made the most significant deals to date in 2006.

Despite a very strong second half of 2005 for **Slovakia**, there has only been one deal in 2006 – a mixed-use deal in Bratislava purchased by ImmoEast.

MARKET OUTLOOK

With the investment volume consistently surpassing all conservative expectations, it is difficult to know how high the investment volume will climb in 2006. It appears that a total volume of EUR 7.0 billion in 2006 is not unrealistic, as the weight of capital increases rather than subsides. While yields continue to compress there appears to be three major trends developing to help investors achieve the yields they require.

Firstly, a growing trend toward forward purchases over standing investments is becoming noticeable, especially in the more established core markets of Prague, Warsaw and Budapest. Over 10% of all investment transactions in the first half of 2006 were forward purchases.

Secondly, many investors feel that the low level of rental increases over the last 6 years is about to change, with increased take-up and falling vacancy. Investors in Poland for example are highly confident that solid rental growth in the coming years will improve the yield performance of their assets and are thus willing to buy at such low levels.

The third trend appears to be a move toward the higher risk/higher opportunity markets. The recent Meinl Land investments in Ukraine and Russia and DEGI deal in Croatia are early signs of this trend. In light of the fact that Romania and Bulgaria account for only ca. 9% of total investment in the region as of H1 2006, the prospects for investment growth in these large countries with strengthening economies and a current lack of product is significant. The Ukraine, Serbia and other Balkan and Baltic states provide further opportunities moving forward.

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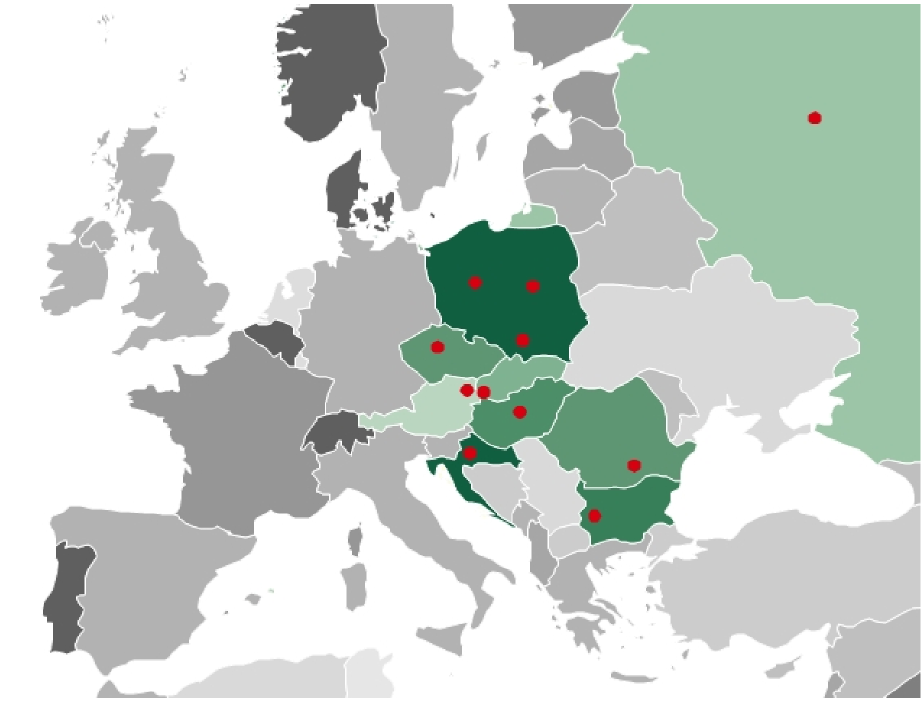

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