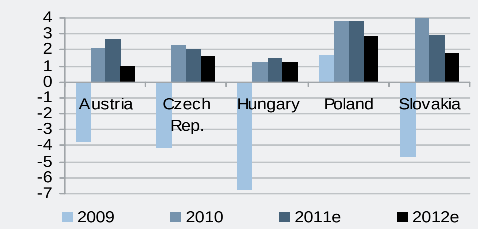
# Market Tracker Eastern Central Europe

November 2011

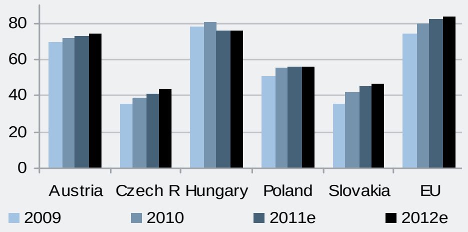
## Macroeconomic framework

### Economic growth in %



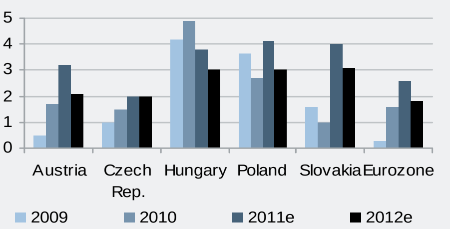

Source: IVG Research

### Public gross debt in % of GDP




Source: International Monetary Fund

### Inflation rate in %




Source: IVG Research

* Weaker confidence of consumes and producers: Consequence of slow global economic expansion, sovereign debt crisis in Eurozone and recent currency depreciation.
* Slow growth of net exports with repercussions on propensity to invest: Forecasts for growth of GDP and employment in 2012 revised downwards due to strong export-orientation.
* Fiscal consolidation, but sovereign debt no serious problem in Austria, Czech Republic, Poland and Slovakia: Public debt as share of GDP clearly below EU average.
* Inflation rates high in comparison to Eurozone average. Only exception: Czech Republic with moderate increase of consumer prices of around 2%.
* Enormous differences between the countries due to differences in dependence on exports and external financing, level of public and private debt etc.:

**Austria**: Expectation of economic stagnation in the next two quarters. Slight increase of unemployment rate expected due to end of public job training programs.

**Czech Republic**: Safe haven thanks to solid banking sector, but vulnerable due to high dependency on exports. Quantitative easing still an option to expand economic growth. Recently stagnation of economic activities (e.g. shrinking manufacturing orders and employment, slow GDP growth in Q2).

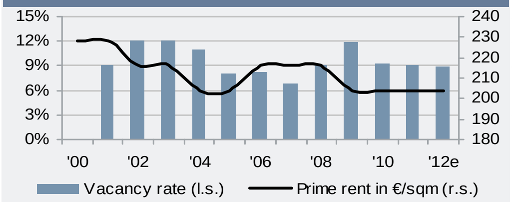
**Hungary**: Risk exposure relatively high due to high indebtedness of private households in Swiss francs (Forint depreciation!) and substantial participation of foreign investors in local bond market. Shock for foreign banks: New law in September giving household borrowers an option to prepay foreign currency loans at discounted exchange rates. Positives: Some progress in fiscal consolidation, government with the necessary power to drive reforms. But: Growing reputation of political unpredictability!

**Poland**: Relatively resilient thanks to higher dependence of economic growth on domestic demand. Dampening effect of measures to tighten public budget deficit.

**Slovakia**: Particularly vulnerable to economic slowdown in the Eurozone due to strong export-orientation. Reform to improve the flexibility on the labour market. Doubts about further improvements of the business environment in the short term, as the euro crisis has brought down Slovakia's government coalition.

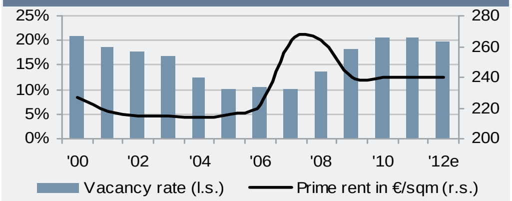
## Office letting markets

### Bratislava: Close to equilibrium



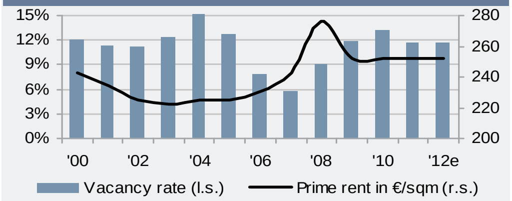

* Bratislava is a very small office market with a modern stock of only 1.4 mn sqm.
* Total leasing activity weaker than in strong year 2010, but on average level. High level of renegotiations.
* Vacancy rate has declined since 2009 from 11.8% to 9.1% recently due to low level of completions.
* Prime rents unchanged since 2009 at 204 €/sqm due to considerable short-term supply. Nominal rents kept stable by incentives: Effective rents 8%-12% below nominal rents, depending on quality and location of space.
* **Expectation**: After peaking in Q3/2011, completions will remain moderate in the following quarters. Vacancy rate therefore expected to remain stable, but a shift will take place within vacant space towards older buildings. Rents for high-quality properties forecast to hold their current level.

### Budapest: Market turnaround?



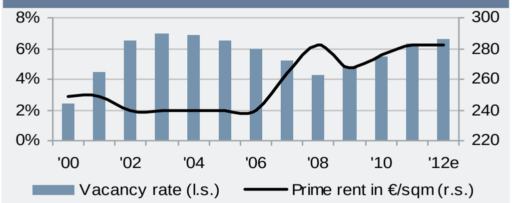

* Market characterised by enormous oversupply due to extreme construction and economic crisis in years 2007-2010.
* Take-up by Western European definition still at low level. Net absorption almost non-existent up to now in 2011.
* Vacancy rate of 20.7%. Many properties with considerable vacancy, but number of properties entirely vacant shrinking
* Prime rents have been held stable since 2009 by the way of generous incentives.
* Very low completions level in 2012. High percentage of prelettings (e.g. completions in Q4/2011 at 75% prelet).
* **Expectation**: Slow reduction of oversupply due to weak economic expansion, but shift within the supply structure as construction of new space remains low. Therefore prime rent might go up at the end of 2012, but rents in general will remain flat for a long time or even remain under downward pressure.

### Prague: Reduced vacancy rate



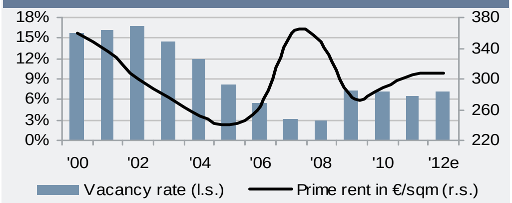

* Positive net absorption in spite of stagnating Czech economy. Lack of large lettings leading to a decrease of take-up in Q3/2011. Last quarter characterised by several renegotiations of large contracts.
* Since mid-2010, the vacancy rate has fallen steadily from 13.5% to 11.8% due to combination of need for additional space and low level of completions (newly built properties with high preletting level).
* No change of nominal rents in the last 12 months. Tenant incentives: 5 months rent-free in case of 5 year contracts.
* **Expectation**: No major increase of vacancy rate expected for 2012, as the level of completions will remain moderate. But economic slowdown will limit the demand for additional office space. Vacant space and rents therefore forecast not to forego major changes in 2012.

### Vienna: Safe haven in the long term




* Take-up in Vienna has not really recovered from the economic crisis, but it has at least evolved stable. No quarterly take-up > 100,000 sqm since autumn 2008. Net absorption insignificant until recently.
* Growing importance of green buildings on the letting markets. Rising acceptance of certificates.
* Steady increase of vacancy rate since end-2008 to 6.1% now due to high, although decreasing completions.
* But vacancy rate still very low by European comparison. Therefore no negative consequences on nominal rents. Prime rent has even trended upwards until recently.
* **Expectation**: Some large lettings might move up the annual take-up at end 2011, but demand will remain moderate in 2012 due to weaker economy. Further expansion of vacant space. Rents expected to remain stable.

### Warsaw: Highly dynamic market




* High office demand with annual take-up still corresponding to around 12% of office stock. Net absorption very positive.
* After falling from 8.1% to 6.1% since mid-2010, the vacancy rate reincreased to 6.7% in Q3 due to high completions.
* Warsaw one of the few European cities with a lower vacancy rate in non-central areas (6.4%) than in the CBD (7.2%).
* Recently, prime rents in the CBD have remained stable after increasing more than 6% year-to-year. Rents in secondary locations still trending upwards. Effective rents are 10%-15% below nominal rents, but gap declining.
* **Expectation**: Expansion demand for offices will result lower in 2012 than in 2010 and 2011 due to lower economic growth. At the same time, relatively high completions volume corresponding to more than 5% of stock. Vacancy rate therefore expected to increase slightly in 2012. Prime rents might take a break in their upturn movement.

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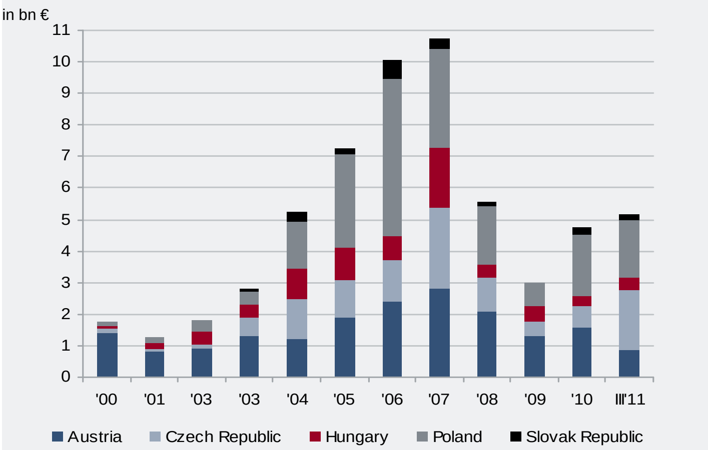
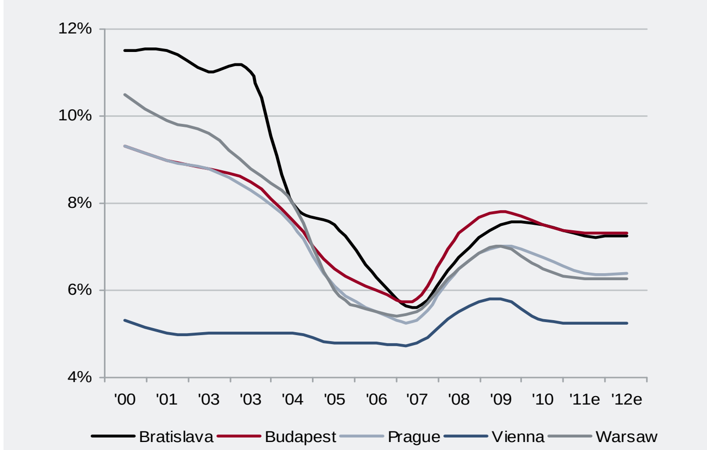
## Office investment markets

### Investment volumes




Source: IVG Research based on agents' information (all sectors included)

### Prime office yields




Source: IVG Research based on various agents (all sectors included)

**Comments**

* Strong expansion of transactions: 5.5 bn € were invested in Central European property in the first three quarters of 2011 compared to 3 bn € in the same period last year.
* Investment markets in the Czech Republic (1.9 bn €) – thanks to various shopping centre transactions in quarter 3 - and Poland (1.8 bn €) have been particularly active recently. Austria market with investments worth 850 mn € comparatively quiet. Hungary evolving from the ashes, although slowly (430 mn € invested in 2011 till September).
* Focus of investors mainly on offices, retail (shopping centres, especially in the Czech Republic and in Poland) and mixed-use properties (Austria).
* Active investors e.g. Deka, Immofinanz, Invesco, CA Immo, AEW Europe, Atrium, Unibail Rodamco, Union Investment, Heitman, ECE and Meyer Bergman.
* Rising importance of green buildings on the investment market regarding both the supply and demand side. Interest for certified properties (LEED, BREEAM) is increasing.
* After compressing slightly in the first half of 2011, prime office yields have remained more or less stable in the third quarter.
* Enormous yield differences between the markets considered: Vienna (5.25%), Warsaw (6.25%), Prague (6.5%), Bratislava (7.25%) and Budapest (7.25%).
* Explanation: Differences ins rental growth expectations (Warsaw particularly stong), market maturity (Vienna much better established, strong domestic investment market), letting market risks (oversupply in Budapest), perceived country risks (e.g. Fitch: Austria AAA, Czech Republic AA-, Hungary BBB, Poland A, Slovakia A+).

## Recent market indicators

| | | Prime Rent Level and Change | | | | Vacancy Rate | | | Investment Volume (€ mn)° | | | Prime Yields | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | in €/sqm | Q-o-Q | Y-o-Y | Outlook+ | Q2/11 | Q3/11 | Outlook+ | Q2/11 | Q3/11 | Outlook+ | Q2/11 | Q3/11 | Outlook+ |
| Bratislava | CBD | 204 | 0.0% | 0.0% | → | 9.1% | 9.1% | → | <100 | <100 | → | 7.25% | 7.25% | → |
| | Sec. | 168 | 0.0% | 0.0% | → | | | | | | | n.a. | n.a. | → |
| Budapest | CBD | 264 | 0.0% | 0.0% | → | 20.6% | 20.7% | ↘ | 170 | 197 | → | 7.25% | 7.25% | → |
| | Sec. | 186 | 0.0% | 0.0% | → | | | | | | | 7.50% | 7.50% | → |
| Prague | CBD | 252 | 0.0% | 0.0% | → | 11.9% | 11.8% | → | 190 | 1180 | ↘ | 6.50% | 6.50% | → |
| | Sec. | 204 | 0.0% | 0.0% | → | | | | | | | 6.75% | 6.75% | → |
| Vienna | CBD | 285 | 1.1% | 6.7% | → | 5.8% | 6.1% | ↗ | 300 | 350 | → | 5.25% | 5.25% | → |
| | Sec. | 192 | 0.0% | 0.0% | → | | | | | | | 5.75% | 5.75% | → |
| Warsaw | CBD | 306 | 0.0% | 6.3% | → | 6.1% | 6.7% | ↗ | 380 | 864 | → | 6.25% | 6.25% | → |
| | Sec. | 198 | 3.1% | 10.0% | → | | | | | | | 6.75% | 6.75% | → |

° Country level, all sectors + outlook for next 12 months

## Recent office investment transactions (examples from 3rd and 4th quarter of 2011)

* **Budapest/Hungary**: Private investor acquired Késmark Ofice Building (14,750 sqm) in the 15th district from Raiffeisen Real Estate Fund (first transaction regarding the 80 mn € heavy Raiffeisen portfolio at sale).
* **Czech Republic**: CPI acquires from Petr Kellner's investment fund PPF a portfolio of 19 office properties in Prague and various regional cities for 296 mn €.
* **Prague/Czech Republic**: Futurama Business Park (40,000 sqm) in the Karlin District bought by Invesco for around 50 mn €. Seller: Erste Group Immorent.
* **Prague/Czech Republic:** Invesco Real Estate acquired from UBM the property Andel City SO 11 (4,200 sqm) on behalf of Nordrheinische Ärzteversorgung.
* **Vienna/Austria**: Deka West Invest acquires from IC Projektentwicklung the property BIZ Zwei (Green Building, 18,500 sqm) in district Leopoldstadt.
* **Vienna/Austria**: Estrella Immoinvest sold office in Laxenburger Straße in the 10th district (seat of asylum court) to an Austrian company for 7.2 mn €.
* **Vienna/Austria**: Private investor acquired Prinz-Eugen-Straße 72 (2,800 sqm).
* **Vienna/Austria**: SixB4Seven bought H29/19 (7,900 sqm) in Heiligenstädter Lände (submarket Heiligenstadt/North).
* **Warsaw/Poland**: Allianz Real Estate acquired from GTC Global Trade Centre the Platinium Business Park (4 properties with 44,000 sqm of space) in submarket Mokotow.
* **Warsaw/Poland**: Immofinanz Group invested 102 mn € in Park Postepu in Mokotow (4 properties with 33,800 sqm). Seller: Echo Investment.
* **Warsaw/Poland**: Kulczyk Silverstein Properties realized its first investment in Poland: Stratos Office Center (10,678 sqm) acquired form Pramerica in Skorupki Street (Inner city).
* **Warsaw/Poland**: Swede Center sold office property in ul. Nowogrodzka 21 (3,500 sqm) to IVG for around 15 mn €.

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