

Bratislava Property

Q3 2008

Slovakia continued to record strong GDP growth, higher than much of Europe

Euro adoption is set for January 2009

2008 has been another record year for industrial

Yield shifts are starting to make investment in Slovakian property more competitive

Bratislava Research Forum was formed aiming to provide a more accurate picture of office stock and demand

Q3 2008 OFFICE MARKET AT A GLANCE

- Take-up ↓
- Supply ↑
- Vacancy rate ↑
- Rental values →

MARKET OVERVIEW

Slovakia 's Strong GDP Growth Continues

The National Statistical Office announced year-on-year (y-o-y) GDP growth of 7.6% in Q2 2008. This is in line with consistent GDP growth in the last few years, which has resulted in Slovakia having one of the highest GDP growth rates in Europe. GDP growth has been, in part, supported by increased spending, while increases to wages have slightly outstripped increases in production output, and further decreasing unemployment has also facilitated this.

Office Market

The office market continued to see strong take-up in Q3 2008, although lower than last year. The average take-up size was 655 sq m, with 36% of the take-up this year in pre-let schemes, and with only 6.3% of take-up this quarter in refurbished buildings.

Additionally, the Bratislava Research Forum was formed, with the main agencies in Slovakia collaborating to provide a more accurate picture of office stock and demand.

Industrial Market

The industrial market has seen record take-up this year, with figures for the first three quarters of 2008 surpassing the total figure for 2007 already. In comparison with the first three quarters of 2007, take-up this year is up 38% y-o-y.

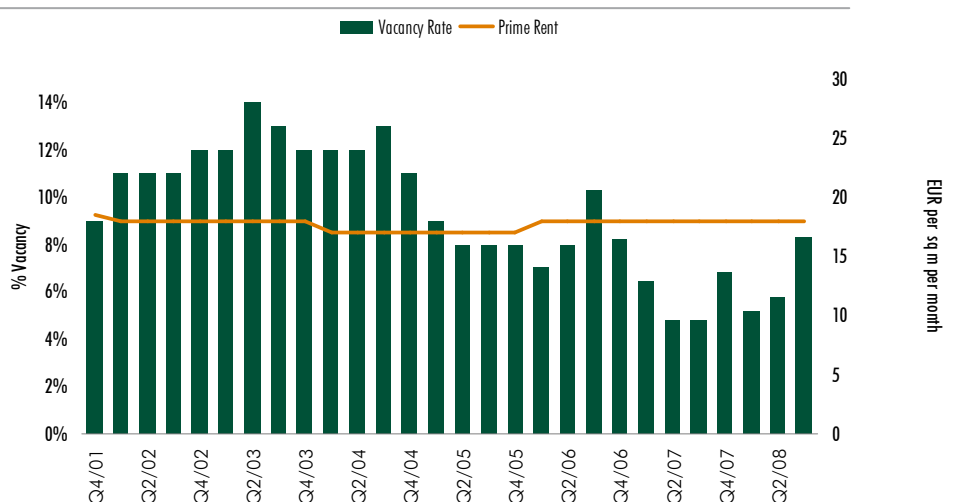
Retail Market

Existing modern shopping centre stock increased to ca 295,000 sq, in Bratislava. With the exception of one smaller scheme (Lightpark, ca 5,000 sq m), there were no schemes completed in Q3 2008 in Bratislava. In terms of the pipeline, the opening of Avion's second extension this year is expected in Q4 2008. The pipeline for Bratislava has a considerable volume of projects, but with only the Soravia expansion and Eurovea Phase One currently under construction.

Investment Market

The Slovak Investment Market continued to slow as the global impact of the credit crunch is being felt. There have been additional investments available, but very few sales are actually occurring. It is currently believed that prime yields will have shifted ca 75-150 bps by the end of the year from the beginning of 2008.

OFFICE VACANCY AND RENT



Source: CB Richard Ellis

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ECONOMIC OVERVIEW

Slovakia maintained its position, in terms of GDP growth, as one of the fastest growing economies in Europe. GDP growth was partly driven by domestic demand, but net exports are not contributing as much as was previously expected. Exports grew by 8.7% in real terms, with imports slightly higher at 9%. The National bank of Slovakia has revised the GDP predictions for the year to growth of 7.3%. A large contributor to Slovakia's overall GDP is the automobile manufacturing industry. In light of the likely slowdown of global demand, the statistical office has revised GDP expectations for the next few years. The expected financial support of VW by Porsche has increased in the last few weeks the strength of the largest manufacturer in Slovakia.

Inflation accelerated to 4.5% y-o-y in September, and expectations exist that the imminent introduction of the Euro in January 2009 could contribute to further inflation.

The unemployment rate for Slovakia is 7.54%, representing a decrease of 0.76 p.p. compared to last year. The unemployment rate in Bratislava is currently estimated at 2.26%. (Upsvar, September 2008).

The average gross monthly wage increased to SKK 21,459 (EUR 712) in Q3 2008. This represented an increase of 4.8% y-o-y, compared to an increase in production of 4.6%.

BRATISLAVA OFFICE MARKET OVERVIEW

Supply

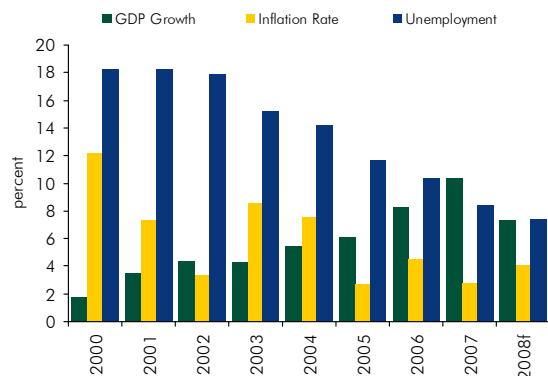
By the end of Q3 2008, the modern office stock in Bratislava amounted to 1,164,000 sq m. Supply arriving to the market in Q3 2008 consisted entirely of newly built schemes, with no refurbishments being completed. The third quarter saw an increase of 70,456 sq m to Bratislava's total stock, mainly with the following completed projects:

- Apollo Business Center II – second phase (40,600 sq m), developed by HB Reavis
- Slovenska Sporitelna – new headquarter (24,000 sq m), developed by Slovenska Sporitelna
- Logibox (4,405 sq m), developed by ICT Istroconti
- Litexco Building (1,451 sq m), developed by Litexco

Demand

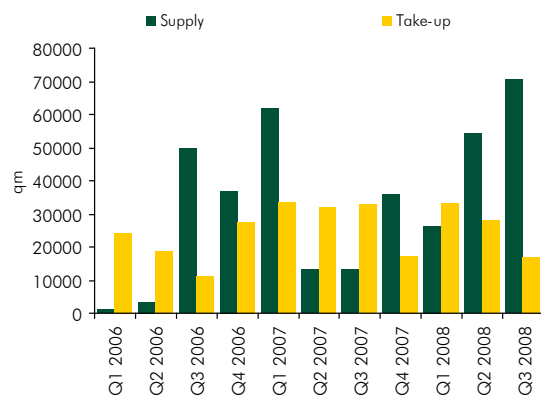
Office demand decreased in Q3 to 17,023 sq m, bringing the total take-up for the first three quarters of 2008 to 77,850 sq m. This is a decrease of 20% on the same period last year. There were 26 office transactions this quarter with an average transaction size of 655 sq m. This brings the average transaction size for 2008 to 763 sq m, which is a decrease from the average transaction size for 2007 of 880 sq m.

SLOVAKIA ECONOMY – BASIC INDICATORS



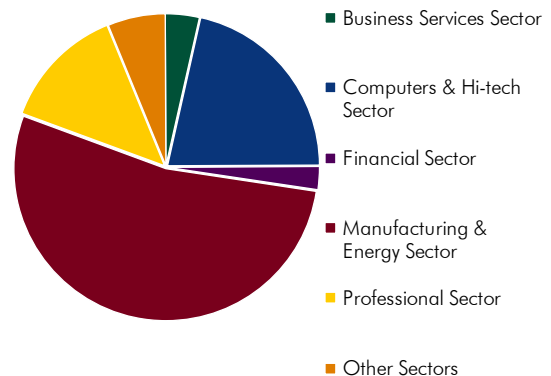
Source: NBS, BA-CA

OFFICE TAKE-UP AND SUPPLY LEVELS



Source: CB Richard Ellis

OFFICE TAKE-UP ACCORDING TO BUSINESS SECTOR IN Q3 2008



Source: CB Richard Ellis

93.7% of office leases signed this quarter were located within newly built offices. This is a change from 2007, when 35% of office space leased was in refurbished buildings. The manufacturing sector accounted for the largest percentage of take-up this quarter at ca 50%, followed by the computers and high tech sector with 21.4%, and the professional sector at 13.5%. This represents an increase for the manufacturing sector from 22% in Q1 2008.

Pre-leases accounted for 41.9% of the total lettings this quarter; this represents an increase of 15 % on last quarter.

Around 74% of total take-up was in the Inner City area, with the Inner City centre making up 12% of take-up and the Outer City area accounting for 14%. International companies represented 90.4% of the total take-up this quarter, which is up from 65% last quarter.

Vacancy & Development Pipeline

The city-wide vacancy rate increased from 5.75% to 8.3% this quarter, representing an increase of 2.55 p.p. on Q2. The largest amount of supply is in the Inner City market, where the vacancy rate is highest and currently stands at 9.7%. An additional 30,000 sq m is expected to be completed by the end of the year. The largest project in the pipeline is the last remaining tower of the Apollo Business Center II project with 16,000 sq m, developed by HB Reavis. The other two remaining projects expected to be completed by the end of this year are:

- AC Petrzalka (9,326 sq m), developed by IDO Group
- IP Centrum (5,100 sq m), developed by IP Development

Our revised estimate for 2009 pipeline forecasts that 161,000 sq m of office space will be constructed. The larger projects in the pipeline include:

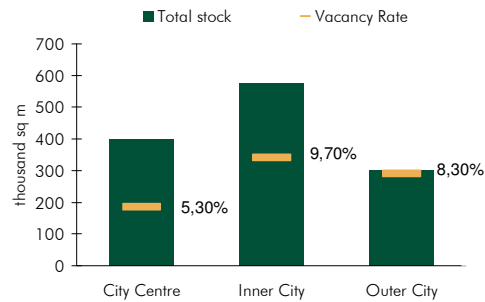
- Digital Park II (38,000 sq m), developed by Penta Investments
- River Park (25,000 sq m), developed by J&T
- Galvaniho BC IV (21,863 sq m), developed by Lindner
- Emporia Towers (11,000 sq m), developed by Quinlan Private Golub
- Jarosova (11,000 sq m), developed by GTC Group

Rents & Terms

The prime rent has remained stable for some time at 18 EUR/sq m/month. In recent quarters our research indicates a slight increase in average rents in the deals concluded in 2008. This is in part due to increasing flexibility and incentives, and is most seen in deals in the Inner City submarket where the vacancy has been increasing. Headline rents in this area tend to be in the range of 12-14EUR/sq m/month. Headline rents in the Outer City area tend to be lower at ca 9-12EUR/sq m/month.

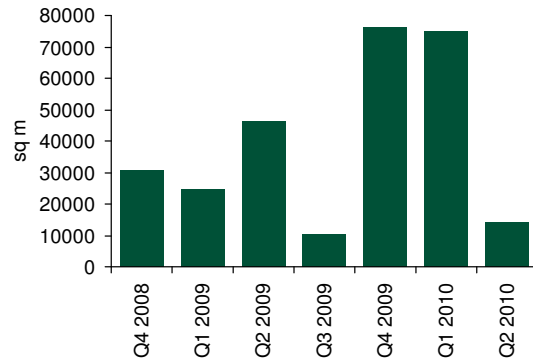
The minimum lease period asked for by developers continues to be 5 years with annual indexation.

STOCK & VACANCY RATE BY SUBMARKET



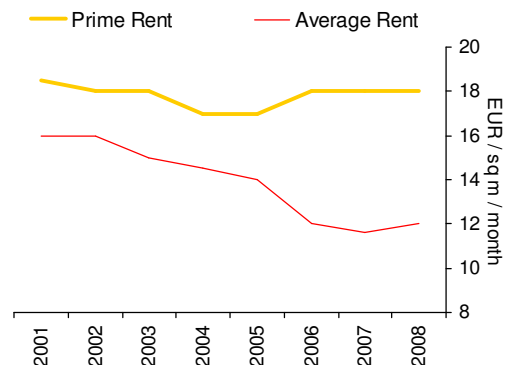
Source: CB Richard Ellis

OFFICE PROJECT DEVELOPMENT PIPELINE



Source: CB Richard Ellis

AVERAGE AND PRIME OFFICE RENT IN SLOVAKIA



Source: CB Richard Ellis

INDUSTRIAL MARKET OVERVIEW

By the end of Q3, 2008, the total modern warehouse space in Slovakia amounted to ca. 734,000 sq m. This quarter has seen a slight shift towards the pan-Slovakia market, with 16% of industrial space now located outside of Bratislava; this is an increase on the 10% recorded in Q2 2008. This increase is predominantly attributed to decreasing costs outside of the Bratislava area, along with the expansion and continued expansion plans for the D1 Motorway, Slovakia's main motorway. Headline rents remained stable at 3.65 EUR/sq m/month.

Total take-up in 2008 reached 264,894 sq m. This already surpasses the figure for the whole of 2007 (253,000 sq m) and represents an increase of 37% on the first three quarters of last year.

Take-up in Q3 2008 was 71,718 sq m with 12 deals in total. Take-up in Q3 2008 was 60% lower than take-up in Q2 2008, but a similar pattern was seen last year, with a spike in the Q2 figures in 2007. The average deal size was down in Q3 to 5,977 sq m, compared to 7,591 sq m as the average take-up for 2007.

ProLogis continues to dominate the market with 54% of take-up in 2008 being within their buildings. This is followed by Pinnacle (12%), J&T/IIG (9%) and HB Reavis (7%). Take-up in Q3 resulted in a slight drop to the vacancy rate, bringing it down to 4.75%. For the most part, this drop demonstrates the sensitivity of the figures in this smaller market.

GREATER BRATISLAVA AREA

Supply

By the end of 2008, the total stock of developer-led warehouses amounted to 623,681 sq m of warehouse/logistics space. This is located along the D1 and D2 motorways.

Over 226,000 sq m of new warehouse space is currently under construction in eight projects in the Greater Bratislava area. Five of these are located along the D1 motorway. ProLogis Park Galanta (96,000 sq m) and Senec Logistics Centre developed by Goodman (45,000 sq m) are currently the largest developments on the D1. VGP is currently constructing a 12,500 sq m warehouse on a speculative basis in Malacky, on the D2.

Demand and Vacancy

There were 11 lettings in Q3 2008 totalling 68,718 sq m. The increased number of smaller-sized deals resulted in an average transaction size of 6,247 sq m.

The vacancy rate fell to from 9.05% to 4.47% in Q3. The total available space in the Bratislava area currently amounts to 28,000 sq m.

Rents and Terms

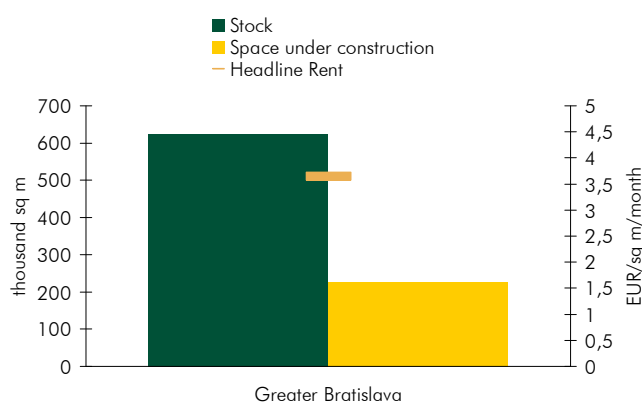
Prime industrial rents in the Greater Bratislava Area remained relatively stable and range from between 3.10 – 4.50 EUR/sq m/month. However, due to strong competition in this area, developers are offering increasing incentives, meaning that net effective rents are in some cases considerably below this range. This is determined by the tenant, lease terms and size of the requirement.

PAN SLOVAKIA

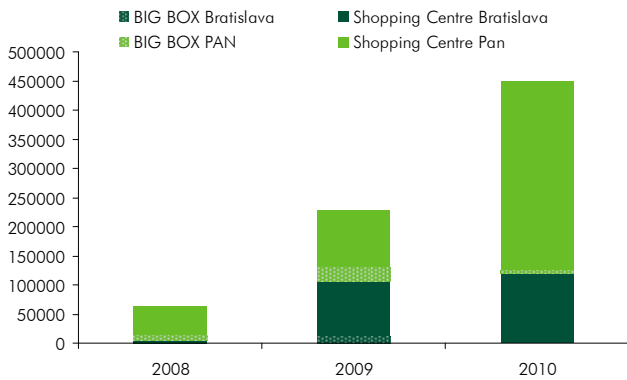
By the end of Q3 2008, the amount of modern, developer-led warehouse stock amounted to 110,992 sq m. The largest speculatively built industrial park was completed in Nove Mesto by ProLogis and consists of ca 36,000 sq m of modern warehouse space, which was fully let on completion. An additional 8,000 sq m of warehouse space was completed in Zilina, as a speculatively built industrial park by Istrofinal.

There is currently only one speculatively built warehouse unit under construction. This is being developed by Immoeast, in Nove Mesto, and is expected to be ca 22,500 sq m in total. Additional hubs are currently in the pipeline, although construction has not yet begun and it is not known how many of these projects will be seen in the immediate future. These include Trencin, Martin, Presov and Kosice.

DIVISION OF GREATER BRATISLAVA STOCK AND SPACE UNDER CONSTRUCTION IN Q2 2008

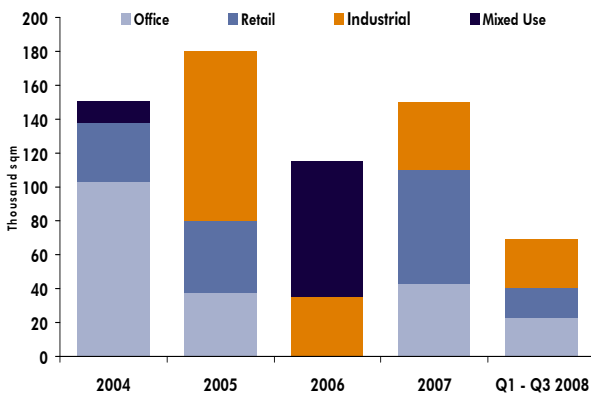


Source: CB Richard Ellis



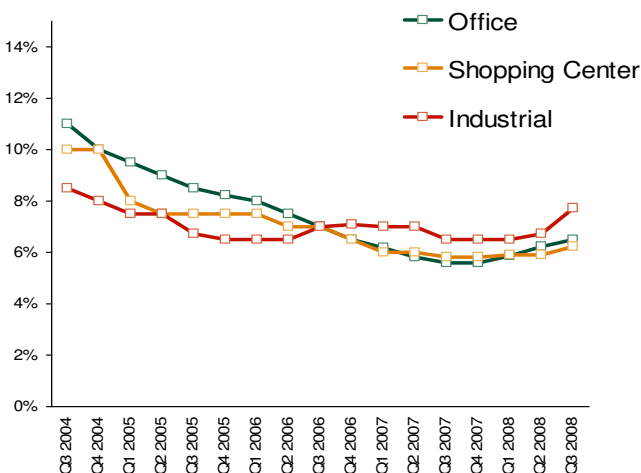
Source: CB Richard Ellis

INVESTMENT ACTIVITY IN BRATISLAVA REGION



Source: CB Richard Ellis

PRIME INVESTMENT YIELDS IN BRATISLAVA REGION



Source: CB Richard Ellis

RETAIL MARKET

The existing modern shopping centre stock increased to ca 295,000 sq m in Bratislava. With the exception of a smaller scheme (Lightpark, ca 5,000 sq m), there were no schemes completed in Q3 2008 in Bratislava. In terms of the pipeline, the opening of Avion's second extension this year is expected in Q4 2008. The pipeline for Bratislava has a considerable volume of projects with only the Soravia expansion and Eurovea, Phase One currently under construction.

It is not known how many of the projects in the pipeline will see construction begun. The main projects in the pipeline are without finalised planning permission and include:

- IPR's Main Train Station, ca 60,000 sq m
- HB Reavis' Twin City, ca 90,000 sq m
- Quinlan's South City, ca 100,000 sq m
- Penta's The Port, ca 80,000 sq m

In terms of locations outside of Bratislava, there continues to be considerable expansion in a number of smaller cities, and in some cities there are more than three shopping centres in the pipeline. In light of current changes in the credit markets and the fact that a number of these units are in the pipeline, news has begun to appear of projects where construction has not yet started and is expected to be postponed.

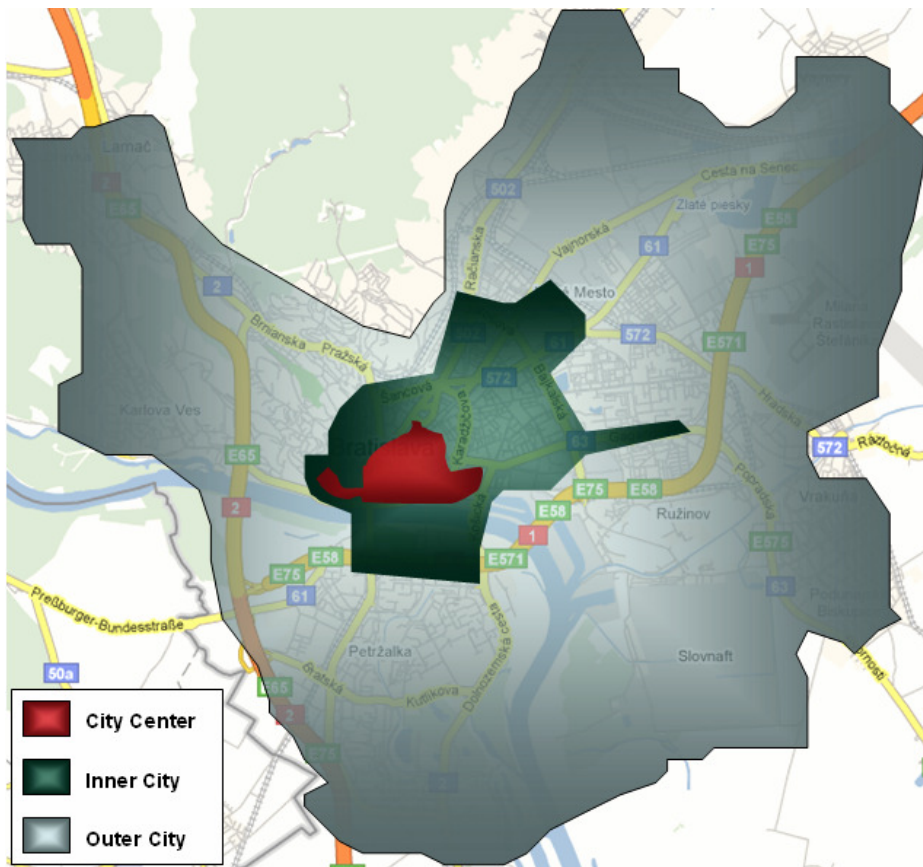
Outside of Bratislava, the retail market expanded with a number of schemes under construction and in the pipeline. While it is not expected that all of these units will be completed, there is currently 289,000 sq m under construction and a total of 1,086,000 sq m in the pipeline for the next few years. A number of these schemes (14.5%) are big box schemes rather than regional Shopping Centres.

INVESTMENT MARKET

Increasing global pressure and a shortage of buyers has slowed the investment market further this quarter. This stems predominantly from turmoil in the financial markets and a shortage of available and attractive debt. While debt driven purchasers have been absent from the market, it is also the case that equity purchasers are adopting a wait-and-see approach to the market. As has been characteristic elsewhere, deals have slowed as a reconciliation between buyers and sellers expectations is occurring. It is increasingly obvious that potential purchasers are acting based on global options and therefore, that activity in Slovakia will be dictated by available investment options elsewhere, as well as competitive pricing.

We have seen some activity within the office investment sector, which is similarly been seen elsewhere. This would re-iterate an interest by investors in quality rather than secondary units, where investments are competing with other international investment options

Bratislava Office Submarkets



Source: CB Richard Ellis

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