

# CEE Offices

## Central & Eastern Europe

THIRD QUARTER 2008

### CEE capital values under pressure, but year-on-year growth remains positive

CEE weighted capital values retained their positive year-on-year (y-o-y) growth, but the growth rate declined from 35.1% in q2 2008 to 5.6% in q3 2008. The q3 results marked the second consecutive quarterly decline this year. Capital values decreased with 5.0% quarter-on-quarter.

Prime capital values in Central & Eastern Europe are under pressure mostly as a result of yields decompressing, while rents in most markets are still being supported by strong market fundamentals. The CB Richard Ellis Central & Eastern European prime yield index registered an outward movement in the aggregated yield of 35bps in the third quarter of 2008. The weighted average prime yield is now 7.51%.

Significant differences exist by sub-region. Please find the results by sub-region on pages 2-4 of this report.

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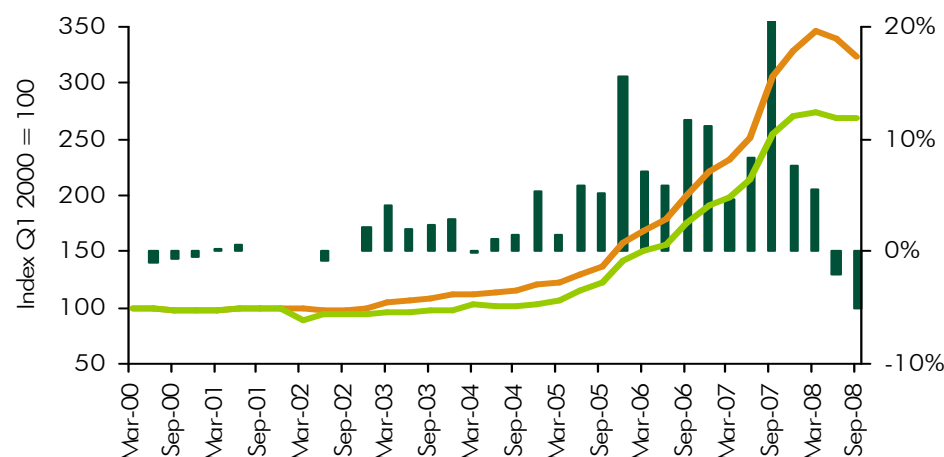
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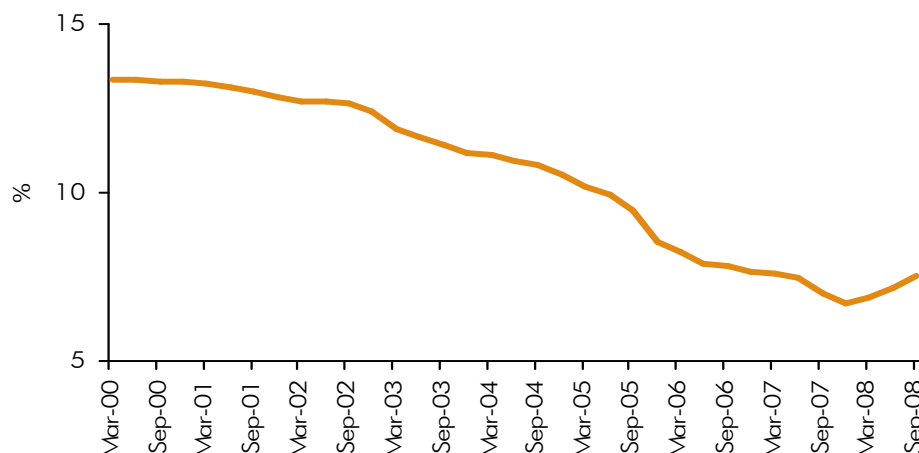
#### CENTRAL & EASTERN EUROPEAN CAPITAL VALUE INDEX

■ % Change per quarter (Euro / USD)    — CEE Index Euro / USD\*    — CEE Index Euro  
\* For explanation - see definition list on page 5.



#### CENTRAL & EASTERN EUROPEAN PRIME YIELD INDEX

— CEE Weighted average prime yield



Source: CB Richard Ellis

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## CENTRAL EUROPE

### Prime Rents

After two years of continual growth, the Central European office rent index remained stable in q3 2008 after a 2.8% increase in the second quarter. The q2 2008 increase was the highest quarterly growth rate since q3 2007. Year-on-year rental growth slowed from 15.7% in q2 to 4.6% in q3 2008. This is the lowest y-o-y growth rate since q3 2006. Recent growth has been driven primarily by Warsaw.

Most prime locations in Central European capitals offer strong demand, limited (quality) supply and development opportunities are limited. Therefore, upward pressure on rents remains realistic in Central Europe.

### Prime Yields

The Central European weighted average yield index showed further decompression in q3 2008, which follows the trend that started in the first quarter of this year. It now stands at 5.97% - compared to 5.83% last quarter. In the last three quarters, the weighted average yield has moved out by 53bps.

Prime yields in Warsaw and Bratislava remained stable in q3 2008. Prime yields in Prague increased by 35bps and in Budapest by 25bps. The Central European weighted average yield is now close to its q1-q2 2006 level.

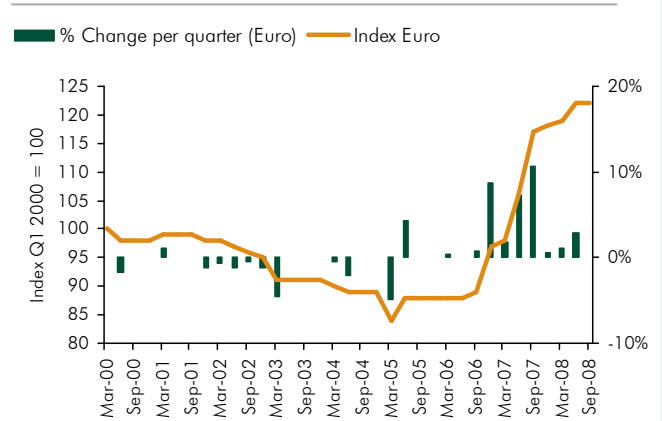
### Prime Capital Values

The Central European capital value index fell by 2.3% compared to a year ago. This is the first yearly decline since q3 2003. As a result, the index is back to the level it reached a year ago. The index is down 2.8% on its q2 2008 level. Although this was the second consecutive quarter showing negative growth, the overall impact on capital values in Central Europe remains limited.

Prime capital values declined in Prague and Budapest purely as a result of yields decompressing. Even though rents have been stable, we currently still see strong market fundamentals.

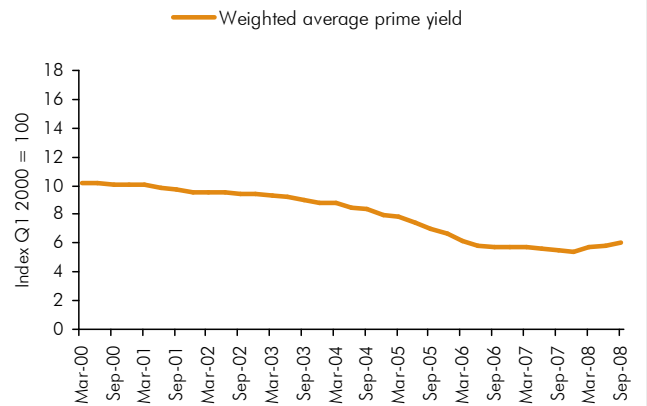
The property investment markets in Bratislava and Budapest have been relatively illiquid so far this year, with limited transaction evidence as a result. Both have a significant pipeline under construction and the latter has a relatively high vacancy rate. In the short term, Budapest has potential as an opportunistic investment market.

### CENTRAL EUROPE OFFICE RENT INDEX



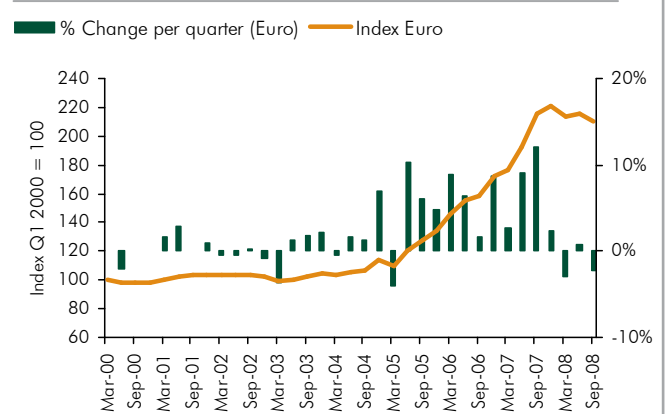
Source: CB Richard Ellis

### CENTRAL EUROPE OFFICE YIELD INDEX



Source: CB Richard Ellis

### CENTRAL EUROPE OFFICE CAPITAL VALUE INDEX



Source: CB Richard Ellis

## SOUTHEASTERN EUROPE

### Prime Rents

The Southeastern European rent index remained nearly stable in q3 2008, with a marginal decrease of 0.3% quarter-on-quarter. Year-on-year growth, however, remained positive at 6.4%.

After a slight increase in the first quarter of this year, prime rents in Sofia decreased by 1.5% in q3 2008. Prime rents there are under pressure as a result of increasing alternatives from its significant (confirmed) pipeline. Zagreb, on the other hand, showed an increase of 1.2% quarter-on-quarter. Prime rents in Bucharest and Belgrade remained stable – despite rising vacancy rates.

### Prime Yields

After several years of significant yield compression, 2008 thus far has brought an aggregated re-correction of 158bps in Southeastern Europe. The fact that yields are decompressing quickly shows the combined impact that rapid yield compression in recent years and changes to financial markets are having on property investment and development in this sub-region.

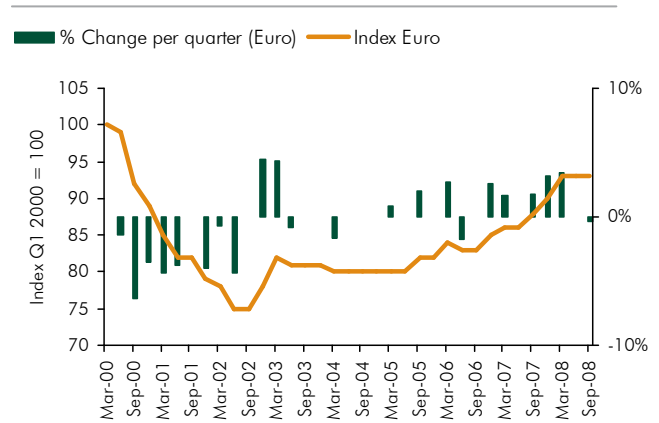
Romania and, more recently, Bulgaria have shown significant outward yield movement, while yields in Serbia and Croatia have remained relatively resilient.

### Prime Capital Values

Southeastern Europe's prime capital values remained under pressure this quarter with a decline of 9.0% quarter-on-quarter. This marked the third consecutive quarter with declining capital values. The year-on-year growth was close to -10.5%. As a result capital values are back to their q1 2007 levels.

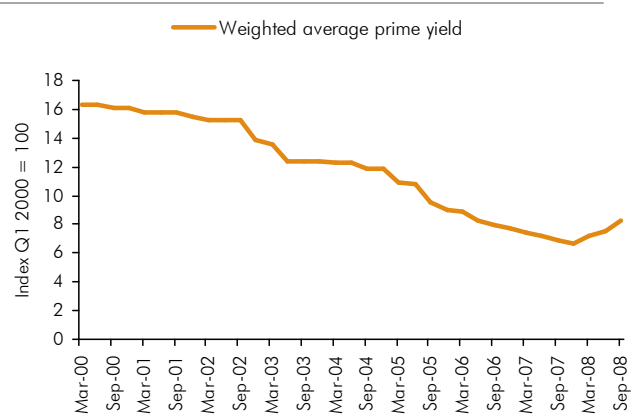
Most of the changes in capital values in Southeastern Europe are the result of outward movement of prime yields. Because some of the markets are facing significant (confirmed) pipelines and Southeastern European economies are more vulnerable to the changing financial climate than others in Central & Eastern Europe, the outlook for this sub-region has become more challenging.

## SOUTHEASTERN EUROPE OFFICE RENT INDEX



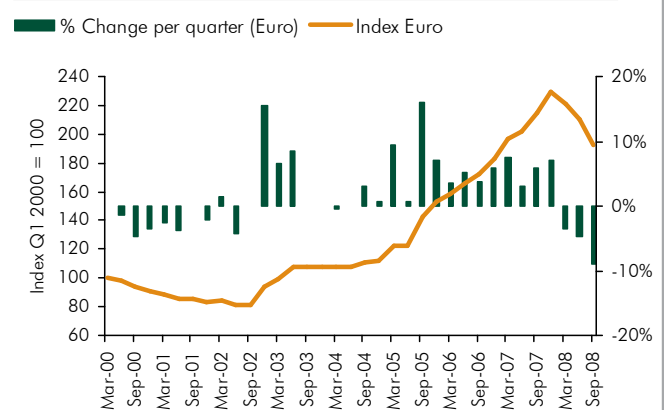
Source: CB Richard Ellis

## SOUTHEASTERN EUROPE OFFICE YIELD INDEX



Source: CB Richard Ellis

## SOUTHEASTERN EUROPE OFFICE CAPITAL VALUE INDEX



Source: CB Richard Ellis

## EASTERN EUROPE

### Prime Rents

The prime rent index in Eastern Europe (denominated in USD) is stabilising after a strong period of growth and showed its first quarter-on-quarter decrease (-1.5%) since q4 2001. Year-on-year growth slowed from 46.5% in q2 to a still robust 22.5% in q3 2008.

Strong market fundamentals in inner-city locations in Moscow and Kyiv continue to put upward pressure on rents. Even though rents were stable in these cities, further but slower rental increases remain realistic. Prime rents in St. Petersburg decreased by 8% in q3 2008.

### Prime Yields

After strong compression in 2007, yields in Eastern Europe have decompressed by 82bps in 2008 thus far. The current weighted average yield stands at 8.64%, 41bps higher than compared to the end of q2 2008.

Moscow has been driving the upward movement of yields in this sub-region with a total decompression of 100bps in 2008. In q3 2008, yields in Kyiv decompressed by 50bps. Yields in St. Petersburg have remained stable in 2008. The yield gap between Moscow and St. Petersburg now stands at 50bps.

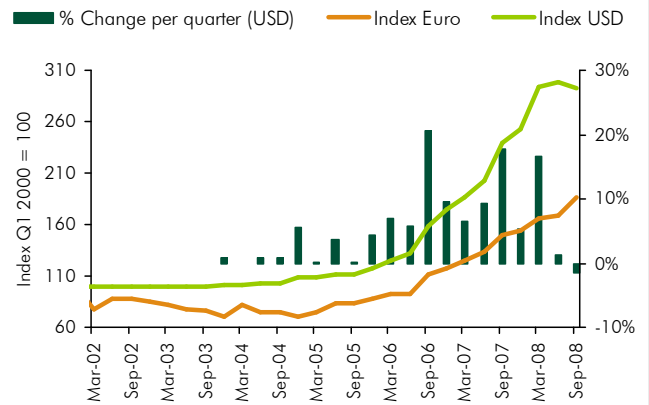
### Prime Capital Values

After several quarters of strong increases, the Eastern Europe capital value index registered its second consecutive quarterly decrease in q3 2008. Capital values decreased by 6.3% quarter-on-quarter. As a result, year-on-year growth decreased from 72.7% to a still strong 19.2%.

The three Eastern European cities that form the index showed similar declines in capital values in q3 2008. As discussed above, the underlying reasons differ, though.

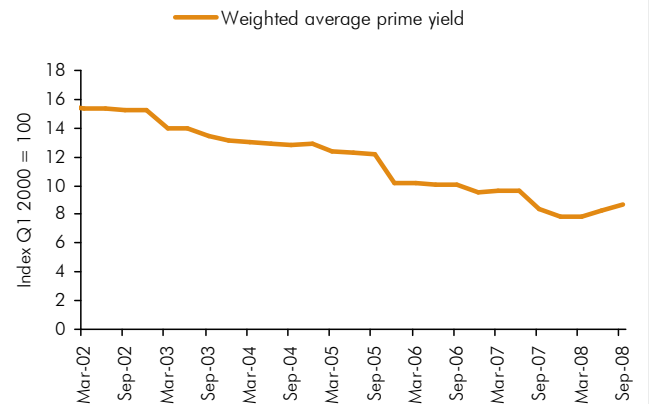
Besides the impact of the repricing of risk, the sustainability of rent levels / rental increases in this part of CEE will determine how capital values will change over the months to come. Ongoing uncertainty on the financial and commodity markets makes forecasting demand in this region more challenging. Based on present information, the short- to medium-term occupier market fundamentals seem to remain strong.

### EASTERN EUROPE OFFICE RENT INDEX



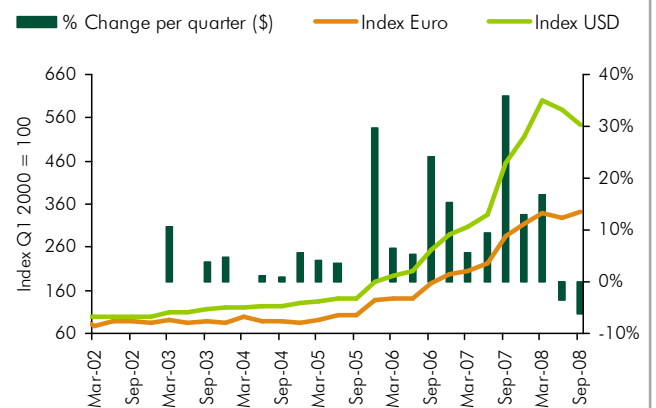
Source: CB Richard Ellis

### EASTERN EUROPE OFFICE YIELD INDEX



Source: CB Richard Ellis

### EASTERN EUROPE OFFICE CAPITAL VALUE INDEX



Source: CB Richard Ellis

## Definitions

**Prime Rent** - Represents the top open-market tier of rent that could be expected for a unit of standard size commensurate with demand in each location, of highest quality and specification and in the best location in a market at the survey date. Prime Rent should reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, the quoted figure will be more hypothetical, based on expert opinion of market conditions, but the same criteria on building size and specification will still apply. For offices, the Prime Rent should represent the typical "achievable" open market headline rent that a blue chip occupier would be expected to pay for:

- an office unit of standard size commensurate with demand in each location, typically 1,000 sq m (10,000 sq ft)
- an office unit of highest quality and specification
- an office unit within the prime location (CBD, for example) of a market

It is assumed that the occupier will also be agreeing to a package of incentives that is typical for the market at the time.

**Prime Yield** - Represents the yield that an investor would receive when acquiring a grade/class A building in a prime location (for offices in the CBD, for example), which is fully let at current market value rents.

Prime Yield should reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, a hypothetical yield should be quoted, and is not a calculation based on particular transactions, but it is an expert opinion formed in the light of market conditions, but the same criteria on building location and specification still apply.

**Prime Capital Values** - This indicator represents the hypothetical value of a square meter of prime space that is let at its full rental value. It is calculated directly from the (annual) prime rent and the prime yield – based on the definitions mentioned above.

Example: If the prime rent is €20 /sq m/month and the prime yield is 10%, the 'derived' capital value will be ((20\*12)/0.1) or € 2,400 /sq m)

**Weighting indices** - At a national level, the relative importance of locations is determined by the relationship of each country's GDP. The weighting at a national level is then allocated between the cities within that country.

**Currency effects** - The outputs for Central Europe and Southeastern Europe are based on indices denominated in Euros. Rents in Eastern Europe are mostly denominated in US Dollars (USD) and are therefore influenced by exchange rate effects. Therefore we decided to include a Euro index and an index that does not express the exchange rate effect (Euro / USD index).

### Make-up of CEE sub-regions

#### Central Europe

Czech Republic, Hungary, Poland, Slovak Republic

#### Southeastern Europe

Bulgaria, Croatia, Montenegro, Romania, Serbia

#### Eastern Europe

Russia, Ukraine

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Amsterdam (31) 20 626 2691	Liverpool (44) 151 227 4611
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Kosice (421) 911 611745	Zagreb (385) 1 6187 346
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