

MarketView

Bratislava Offices

Q3 2011

Quick Economy Stats

Q3 2011 compared to...

	Q2 2011	Q3 2010
Inflation	↑	↑
Unemployment	→	↑

• GDP in Slovakia is expected to grow 2.9% in 2011 and the country is therefore expected to remain one of the strongest performers in the Eurozone over the medium term.

Quick Office Stats

Q3 2011 compared to...

	Q2 2011	Q3 2010
Supply	↑	↑
Take-up	↓	↓
Vacancy	↑	↓
Prime rent	→	→

Hot Topics

- Total leasing activity in Q3 2011 reached 21,000 sq m with 35% of the space attributed to renegotiations.
- Bratislava market experienced a record quarterly supply of modern office stock of 40,400 sq m.
- Due to delivery of newly built office space vacancy rate increased by 170 bps q-o-q to 10.8%.

Q3 2011 – the expert's point of view

Oliver Galata, Head of Office Agency in Slovakia: 'Rather than expecting the pre-lease activity to grow dramatically, we anticipate the interest in B-class offices the increase given rising vacancy rate and favourable rental conditions'.

MODERN OFFICE STOCK

Bratislava modern office stock increased by 40,400 sq m of newly built office area and currently stands at approximately 1.43 million sq m. The distribution of modern office stock by location at the end of Q3 2011 was:

- City Centre submarket (32.6%), with a vacancy rate of 11.4%
- Inner City submarket (42.3%), with a vacancy rate of 9.8%
- Outer City submarket (25.1%), with a vacancy rate of 11.6%

Newly built schemes (constructed latest in 1998) currently account for ca 70% and refurbishments for 30% of the market. Grade B stock tends to be refurbished office space, which has limited standard of premises (e.g. no raised floors, no air exchange, general appearance of the building etc.).

NEW SUPPLY

In Q3 2011 we have recorded a significant addition to the existing modern office stock in Bratislava within four buildings completed by HB Reavis (CBC III-V, 22,600 sq m) and J&T (Westend Square, 17,800 sq m). We do not expect any significant office space to be delivered to the market until the end of this year.

TOTAL LEASING ACTIVITY

Total leasing activity (TLA) on the Bratislava office market in the third quarter of 2011 was in line with average TLA we have monitored since the beginning of this year. Transactions that have been completed in Q3 2011 represent a total amount of ca. 21,000 sq m. This is a decrease by approximately of 30% in comparison with the same period last year. Within total leasing activity a considerable share was represented by renegotiations (35%), while remaining 65% comprised new lease contracts including expansions of existing areas.

Generally, many tenants are choosing to roll over existing leases or take short-term expansion space as opposed to relocating. We expect this type of transactions to sustain a stable share within the leasing activity on the office market, at least until clearer signs of economic recovery emerge.

In relation to the distribution of total leasing activity in Q3 2011 by location, majority of transactions were finalized in the Inner City Submarket (64%) followed by City Centre (26%) and Outer City Submarket (10%).

Office Market Indicators, Q3 2011

	City Centre	Inner City	Outer City
Total stock (sq m)	465,400	605,000	359,000
Vacant space (sq m)	52,800	59,500	41,500
New supply (sq m)	0	22,600	17,800
Headline rent (€/sq m/month)	14.00-17.00	10.00-14.00	8.00-12.00

Source: CBRE

In terms of the market share this quarter, the majority of transactions were signed in IT sector, followed by Pharma/Medical sector with 24% and 22% share respectively. The long-term trend of IT sector predominance was thus confirmed reaching 39% of the market share year to date.

VACANCY AND NET TAKE-UP

From the start of economic downturn accompanied with limited supply, the vacancy level has been decreasing steadily and minor increase in Q3 2011 is rather an exception after six consecutive quarters of vacancy rate fall. By the end of this quarter the amount of vacant space reached ca. 153,800 sq m. This equates to a current vacancy rate of 10.8% and it is higher by 170 bps q-o-q. Comparing with the same period last year the vacancy decreased by 50 bps.

Approximately 44% of TLA (9,300 sq m) is formed by occupiers that moved from C-class standard to A/B-class premises, occupiers expanding their premises and new acquisitions coming to the market.

RENTS

Achievable prime headline rents for premium office space in Bratislava are estimated at approximately EUR 16.00-17.00/sq m/month in the City Centre location and are remaining stable. In non-prime locations the headline rents are within the range of EUR 12.00-14.00/sq m/month.

Effective rents could be lower by 8%-12% counting with incentives offered by landlords. However, the incentives largely depend on quality, location and vacancy of the individual office scheme.

We do not expect any decline in rental levels in foreseeable future, especially in A-class buildings. We rather expect a slight upward tendency in the level of headline rents in the next 6-12 months.

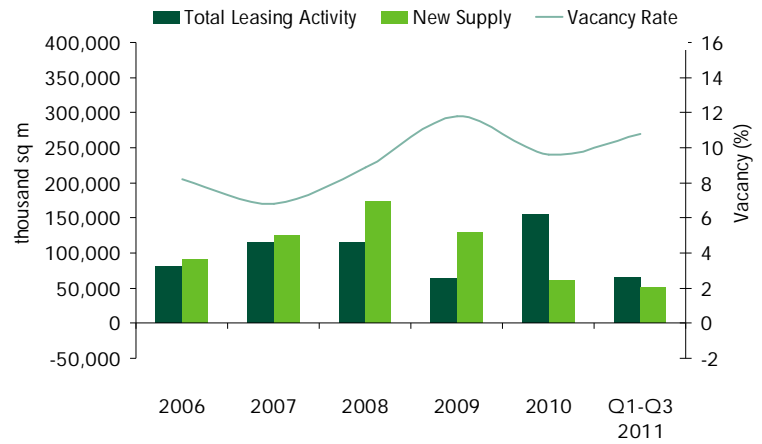
OUTLOOK

Additional 61,000 sq m of office space is currently under construction with completion planned for 2012, mostly the second half of the year. This is in line with the amount of stock brought to market in the years 2010 and 2011.

Based on the low level of future supply we expect the unoccupied space to be absorbed gradually especially in A-class office projects. However, older generation of buildings may suffer from increased vacancy and therefore experiencing slight pressure on rental levels.

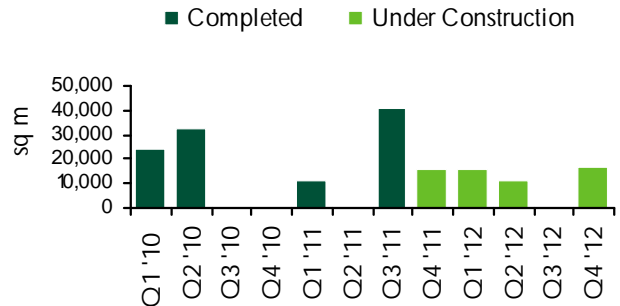
In terms of the level of demand for office space, we expect this to remain sustainable in the next six months.

Performance of Bratislava Office Market



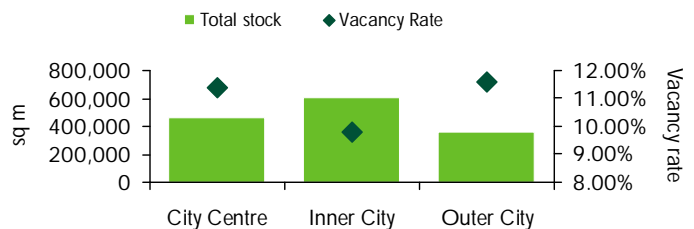
Source: CBRE

Development completions & pipeline 2009 - 2011



Source: CBRE

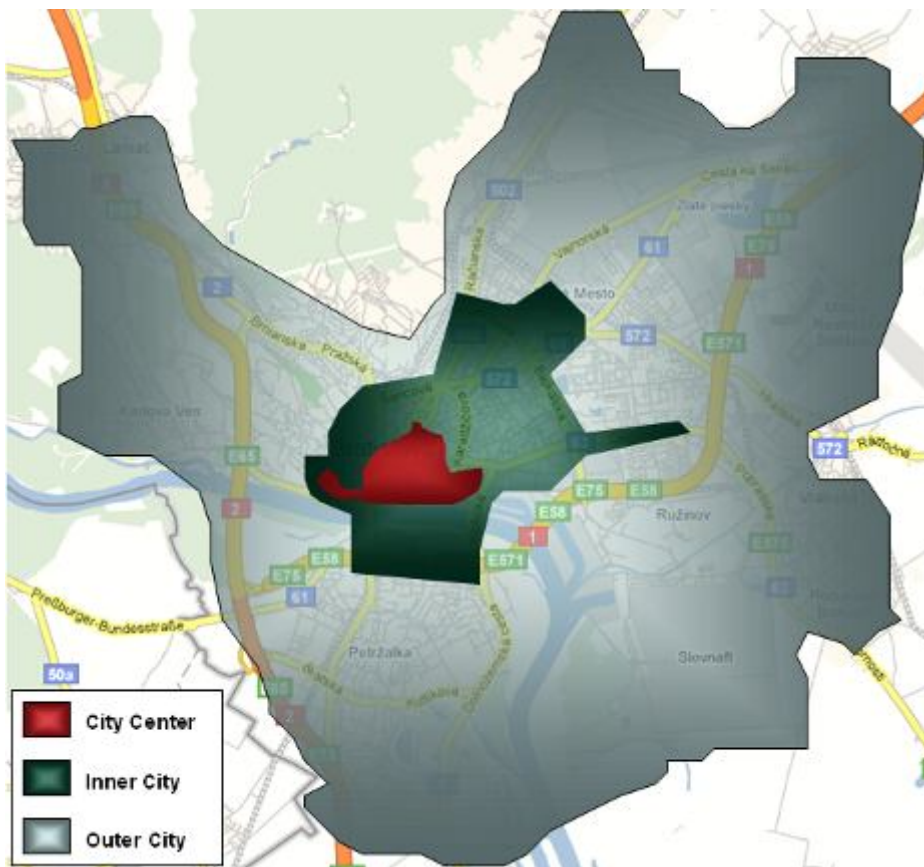
Stock and vacancy rate by submarket as at Q3 2011



Source: CBRE



Bratislava Office Submarkets



Definitions

STOCK – modern office space in class A and B buildings.

VACANCY RATE – the ratio of vacant office space to total stock.

TOTAL LEASING ACTIVITY – office space that has been leased in a given period including; leases, renegotiations, pre-leases, subleases and owner occupied take-up.

PRE-LEASE (PRE-LET) – take-up that was signed either in the planning or construction stage.

SUBLEASE – space currently leased by tenant, who needs to dispose of such space in order to lower its occupancy costs.

PRIME RENT – typical ‘achievable’ open market headline rent (can be hypothetical) for a unit of standard size of the highest quality and specification and in the best location in the market, at the survey date. It does not need to be identical to any of the transactions, particularly if the deal flow is limited or made up of unusual one-off deals.

SERVICE CHARGE – includes all applicable services and shared common costs, excluding measured energy consumption.

NB: There have been some adjustments to our total stock numbers, this is in line with changes from the Bratislava Research Forum.

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