

## Economy Quick Stats

	Change from	
	q-o-q	y-o-y
GDP growth	↓	↓
Unemployment	↑	↑

- Key economic data for Slovakia, remains strong with GDP of 2.7% growth predicted.

## Property Investment Market Quick Stats

	Change from 2007
Turnover	↓
Yields	↑
Average transaction size	↓
Capital Values	↓

### Property Investment Market:

- Investment turnover reduced by 63% in 2008 against 2007.
- Average transaction size reduced from ca. €29 million in 2007 to ca. €15 million in 2008.
- Transactions in the industrial sector rose in 2008.
- The most dramatic decrease in transactions was in the retail sector, which fell by 83% in 2008, against 2007.

## ECONOMIC OVERVIEW

January 1, 2009 was an important date for the Slovak economy. On this day, the Euro adoption proceeded successfully and Slovakia became the 16th European Union country to adopt the Euro.

In light of the current financial crisis, the European Commission revised its estimates for Slovakian GDP growth and real GDP growth for 2009. This has been revised to reflect a decrease to 2.7% growth y-o-y. Despite the decrease, Slovakia is still expected to retain its position as the fastest growing economy in the Eurozone, with domestic demand remaining the driving engine for GDP growth.

According to the National Bank of Slovakia, the banking industry is relatively healthy, although a continuing decrease in property prices could have a negative effect in the future. This could be related to the historically low lending and stricter lending criteria.

Household consumption is generally expected to remain stable in terms of relative growth and a decrease in inflation is also expected. After years of exports positively contributing to GDP, it is expected that this will change in 2009, in light of falling global demand. One of the largest contributors to GDP in Slovakia is the car manufacturing industry, which is experiencing some difficulties in the current market.

Inflation (y-o-y) measured by HICP declined in December to 3.5 %. This decrease in the inflation rate can be predominantly explained by the decrease in food and fuel prices. Despite the monthly decline, inflation (measured by HICP) in 2008 as a whole accelerated and reached 3.9%, but still allowed Slovakia to safely meet the Maastricht inflation criterion and consequently adopted the Euro on the 1 January 2009. The introduction of Euro has removed the currency risk for potential investors and is expected to make Slovakia more attractive for potential investors in the future.

The unemployment rate increased in December to 8.4%, representing an increase of 40 basis points (bps), resulting in an immediately available workforce of ca. 219,000 in Slovakia. This is generally expected to increase in 2009, in response to the global economic situation putting external pressure on the manufacturing and industrial sector. Some big producers in Slovakia have already announced reductions plans. The large number of international employers in Slovakia means that international changes are starting to impact on the unemployment rate and are also expected to create wage pressures, which could make Slovakia more competitively priced in terms of labour.

### Macroeconomic data and forecast

	2007	2008e	2009f	2010f
GDP per capita (EUR)	10,155	12,086	13,071	13,953
GDP (constant prices y-o-y %)	10.4	6.7	1.8*	3.3
Private Consumption, real, y-o-y (%)	7.0	6.0	2.5	3.3
CPI (year end, y-o-y %)	3.4	4.4	2.7	3.7
Unemployment rate (%)	11	9.8	11.7	11.6
FDI % GDP	4.4	2.8	2.3	2.8

## PROPERTY INVESTMENT MARKET

Increasing global pressure and a deteriorating global economic outlook have significantly affected the Slovakian property investment market. The country saw a reduction in the number of transactions and the number of investors looking to purchase in the market, leading to less confidence in the market. We experienced disparities between the price expectations of sellers and buyers and therefore the weaker market activity. With more property available, and fewer investors able to purchase, there has been some movement seen in the yields paid.

### TURNOVER

Investment activity considerably slumped in 2008 to ca. € 130 million, representing a decrease of 63% in known transactions against 2007. The average transaction size in 2008 was ca. €15 million compared to ca. €29 million in 2007. The average European deal size fell to €29 from €42 in 2007, and this is a similar situation in Slovakia in light of strengthening lending criteria and global economic crisis. Indeed, no acquisitions above €50 million were recorded in Slovakia in 2008. This decline can be attributed partly to the difficulties of financing larger investments but also the size of the market in general means large projects have not been that common.

### TRANSACTIONS

2008 saw nine publicly known transactions completed in the Slovakia property market. Bratislava remains the most active market with 85% share of total turnover in the country.

### INVESTORS

Foreign purchasers dominated the market but we witnessed more activity from local investors. The most active investors in Slovakia are Austrian, French and German institutional funds. With fewer debt-driven investors in the market, we expect ongoing transactions to be equity driven. We also see some potential for distressed asset transactions, although there is limited evidence of this phenomenon so far across Central & Eastern Europe.

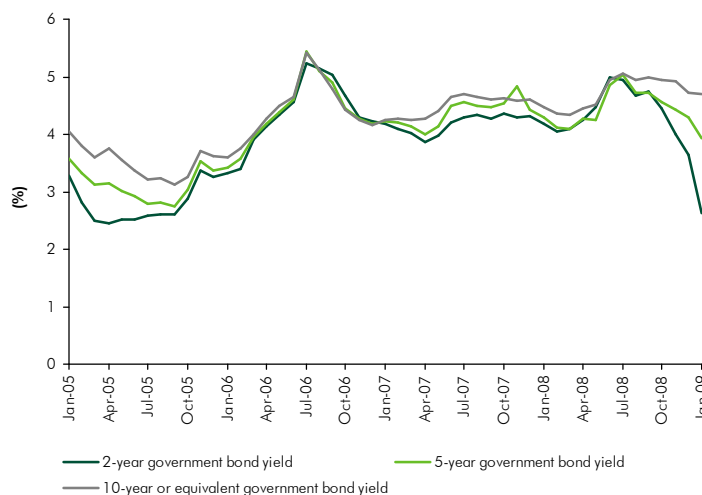
### YIELDS

The lack of buyers and the impact of credit-squeeze pushed yields upwards in 2008. The impact on the property market was felt more significantly in H2 2008, when prime yields were generally believed to have started to move.

Our research also indicates that real prices are currently believed to be below where prime yields suggest and we expect that yields will increase further in 2009, as competition for a limited pool of purchases decreased.

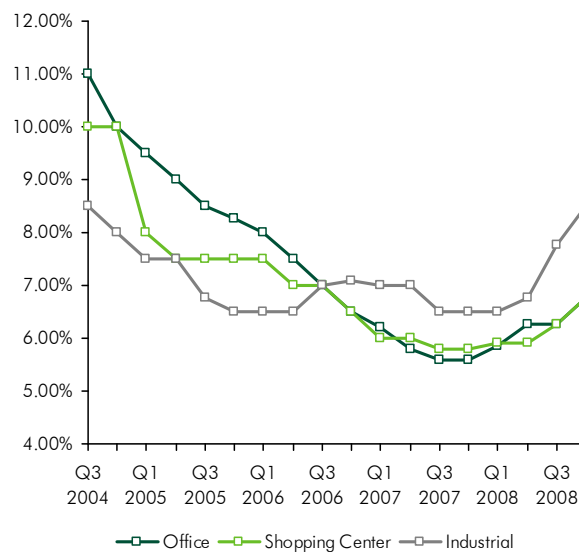
Shopping centre yields rose in H2 2008 by 50 bps to 6.75%, followed by prime office yields increasing by 85 bps to 6.75%. The biggest yield shifts have been seen in the industrial sector, with the increase in yields by 175 bps to 8.5%.

### Yield-to-maturity of selected Slovakian government bonds (in percentage per annum, monthly averages)



Source: CB Richard Ellis

### Prime Investment Yields in Bratislava Region



Source: CB Richard Ellis

### Slovakia Prime Yields in comparison to EU-27 Average Prime Yields in Q4 2008

Segment	EU-27 Average Prime Yield (%)	Slovakia Prime Yield (%)
Retail	5.54**	6.75*
Office	6.13	6.75
Industrial	7.6	8.5

Source: CB Richard Ellis

\* - based on shopping centres as prime retail

\*\* - high street retail

## OUTLOOK

Key economic data for Slovakia, remains strong with GDP of 2.7% growth predicted.

With Slovakia being a relatively small, emerging market, the majority of investors have been neighbouring cross-border based in recent years. We expect therefore that activity in Slovakia will be dictated by available investment options elsewhere, as well as competitive pricing. A number of Slovak developers are halting development plans until market conditions improve. With the introduction of the Euro and general confidence in Slovak companies in comparison to others in the region, along with the anticipated economic strength of the country, it would be expected that Slovakia will not be hit as hard as other countries in the region.

We would expect that the turnover slowdown in property investment market will continue in, at least, the first half of 2009, as the market must re-price, in line with the rest of Europe, before competitive sales can occur.

Currently sellers and buyers expectations are not aligned, although this is showing signs of change. Moving further forward, we hope that the strength of the economy, introduction of the euro and slowing in the development pipeline will result in a more positive investment environment.

### Selected deals in 2008

City	Segment	Name	Size (sq m)	Volume (€ mil.)
Bratislava	Office	Dell building	13,500	43*
Bratislava	Retail	Shopping Center Hron	11,500	16
Skalica	Retail	Tesco	7,000	15
Bratislava	Office	Rozadol office	4,900	13

Source: CB Richard Ellis  
\* - estimated

### Definitions

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

Prime Yield reflects 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 is 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.

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