

Quick Stats

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

Hot Topics

- Despite a likely contraction of GDP in 2009, Slovakia's economic growth is still expected to be ca. 2% above average economic growth in the Eurozone.
- Small sized schemes continued to dominate the shopping centre market, representing a 77% out of the total shopping centre stock.
- For 2009, we expect ca. 115,000 sq m of modern shopping space to be delivered to the market, in line with the 2008 supply.
- We expect a shift in retailing outside of Bratislava, with a stronger pipeline in regional cities.

ECONOMIC OVERVIEW

In light of the current financial market, the NBS officially announced a revision in GDP estimates that indicates for the first time an anticipated recession for 2009. Despite this likely contraction, economic growth in Slovakia is still expected to be ca. 2% above the average Eurozone economic growth rate (the decline in the Eurozone is estimated at be ca. 3 % in 2009). According to the recent Fitch country rating, the Slovak economy is currently the least exposed in terms of the decline in global trade, financial flows and the deleveraging process, and has awarded Slovakia with an A+ rating and Stable outlook.

According to UniCredit Bank, Slovakian GDP will contract in 2009 by 0.5% y-o-y. The global recession has been rapidly transmitted to Slovakian exports, which are expected to fall by around 10 % y-o-y. Exports of goods are equivalent to 79% of GDP in Slovakia, making the country highly dependant on growth through the trade channel. The negative impact is enhanced by the concentration of cyclically sensitive industries in the country. For example, Slovakia currently has the highest car production per capita in the world and industrial production was down by 27% y-o-y in January 2009. However, domestic demand is expected to decline in a more moderate way, since the recession is expected to be balanced by lower inflation.

Inflation measured by HICP (Eurostat methodology) declined in February from 2.7% to 2.4%. However, y-o-y inflation increased in February to 3.8%. It is expected to decrease further in coming months.

The unemployment rate increased to 9.7% in February, representing an increase of 1.88 p.p. y-o-y (Upsvar). It is generally expected to increase in 2009, as the global economic situation puts external pressure on manufacturing and industrial sectors, although recent government policies are trying to address this with tax incentives for maintaining some employees.

The introduction of the euro has removed the currency risk for potential investors and is expected to make Slovakia more attractive for potential investors in the future. However, more immediately, the strength of the euro has increased labour costs in comparison to the surrounding CEE countries.

Macroeconomic data and forecast

	2007	2008e	2009f	2010f
GDP (constant prices y-o-y %)	10.4	6.7	-0.5	3.1
CPI (year end, y-o-y %)	3.4	4.4	1.8	2.7
HICP (year end, y-o-y %)	2.5	3.5	1.0	1.8
Unemployment rate (%)	11	9.6	12.8	12.8
10Y yields (% p.a.,Dec)	4.6	4.0	4.3	4.5
FDI % GDP	4.4	2.5	1.7	2.5
Public Finance Deficit (% of GDP)	-2.2	-2.0	-4.1	-3.5

SLOVAKIA SHOPPING CENTRE STOCK AND NEW SUPPLY

By the end of Q1 2009, modern shopping centre space in Slovakia was ca. 720,400 sq m, which equates to almost double the stock in 2005. The increase can be explained by strong economic fundamentals, increasing private consumption and increased retailing demand.

By the end of Q1 2009, Slovakia had 133 sq m of shopping centre space per thousand inhabitants. The highest density is in Bratislava, where the current ratio stands at ca. 680 sq m per thousand inhabitants.

In Q1 2009, there were 44 modern shopping centres in Slovakia, representing an increase of 26% y-o-y. In terms of total number of shopping centres in Slovakia, small sized schemes dominate the market (77 %), followed by medium sized schemes (16 %). In terms of GLA, this dominance is also confirmed; small sized schemes represented 52 % of total SC stock and medium sized schemes 28 %. Larger schemes account for 7% of all shopping centres compared to 20 % of the total SC stock in terms of GLA.

There was one project completed in Q1 2009, with a total area of nearly 12,000 sq m. This was a decrease of 52% compared to Q1 2008. Approximately 111,000 sq m of modern shopping centre space was delivered to the market in 2008 (approximately equal to the annual supply in 2007). The main completed (or extended) projects since Q1 2008 have been;

- Optima OC extension (16,300 sq m) – developed by Atrium European Real Estate
- Avion Shopping Park extension (12,000 sq m) – developed by Ikea
- StoreLand Trnava (12,000 sq m) – developed by BZ Group
- Tesco Galeria Lamac (15,900 sq m) – developed by Tesco Stores SK

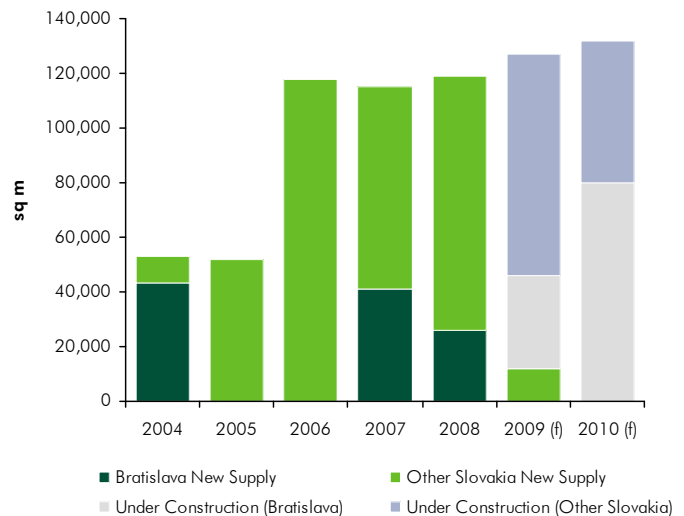
Bratislava is more mature in terms of retailing than other Slovakian markets and the only market with large shopping centres. The advantages of large schemes include the ability to attract a higher number of customers and international retailers, as well as being able to offer a wider range of services.

OUTLOOK

For 2009, we expect ca. 115,000 sq m of modern shopping space to be delivered to the market, of which 32% will be located in Nitra, 30% in Bratislava and 23% in Trencin. This is indicative of a shift to cities other than Bratislava in terms of retail. As a consequence of current economic turbulence, we expect some projects to be postponed or reviewed in the longer term pipeline.

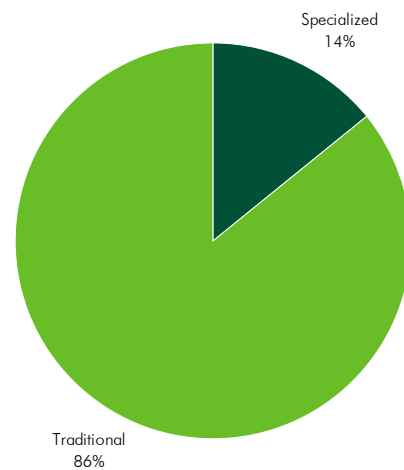
Our research indicates that another 132,000 sq m of modern shopping centre space currently under construction is expected to be completed in 2010. Around 60% of this space will be located in Bratislava. We would expect that, given the existing stock, this pipeline could cause some downward rental pressure and upward pressure on vacancy rates in some shopping centres.

Shopping Centre Development in Slovakia



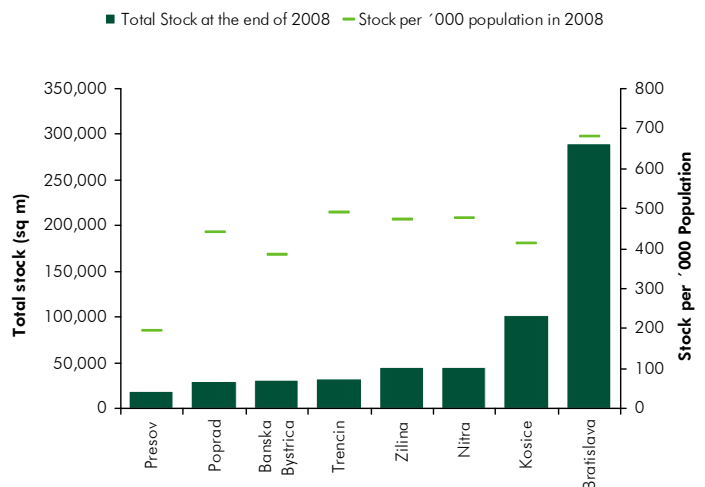
Source: CB Richard Ellis

Total Stock according to Type of Scheme



Source: CB Richard Ellis

Slovak Cities SC Stock & SC Provision Rates



Source: CB Richard Ellis

BRATISLAVA SHOPPING CENTRE STOCK AND NEW SUPPLY

Bratislava currently accounts for 40 % of the total shopping centre stock in Slovakia. The Outer City submarket accounts for 64 % of the Bratislava stock, with the remaining 36% located in the Inner City Submarket. With ca. 60,000 sq m in the immediate pipeline for the City Centre area, we expect the City Centre market to account for ca. 25% of the total Bratislava modern SC stock by Q1 2010, when the Eurovea Trade Centre is expected to be completed.

BRATISLAVA HIGH STREET

Bratislava does not have a defined High Street retail area. The traditional central shopping streets encompass two areas: from Obchodna to Postova and from Michalska to Hviezdoslavovo Nam. Obchodna has a larger share of local fashion retailers, while Michalska has the larger proportion of food outlets (cafés, bars and restaurants). The more recent refurbishment of both of these areas has led to increased presence of larger brands, although the trading hours can still be erratic.

The vacancy rates in these areas are generally low. Most of the premises are owned by private individuals and leases vary substantially in term and rent. Rents tend to be around 25-45 Euro/sqm/month, although in prime areas of Michalska prices can be up to 70 Euro/sqm/month or more.

RENTS AND YIELDS

The prime rent for an averaged sized unit that is well located in a prime shopping centre is ca. €80/sq m/month, although naturally the average for the centre as a whole varies. The average size of the units has also been increasing in Bratislava and is currently estimated to be around 200 sq m per unit, up from 130 sq m in 2004.

For shopping centres located in other Slovakian cities, the average rent for an average sized unit is ca. €13 - €20/sq m/month. Kosice sees a slightly higher average unit size rent of €20 - €35/sq m/month.

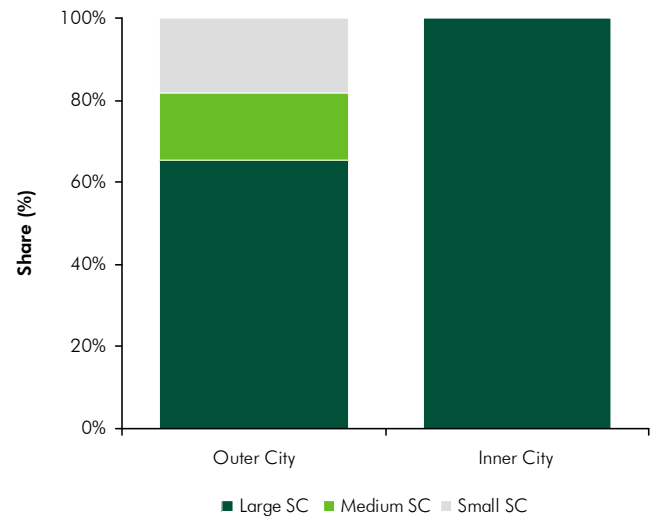
Yield movement in retail has been affected by the global economic changes. Slovakia has been experiencing a slowing in investment transactions and therefore a softening of yields. The prime yield for Bratislava is estimated at 7.00% at the end of Q1 2009.

OUTLOOK

As competition in the Bratislava retail market has grown, we have seen expansion and refurbishment plans in existing centres that are trying to maintain their market share. We would expect this competition to create a more diverse and mature retail market in Bratislava.

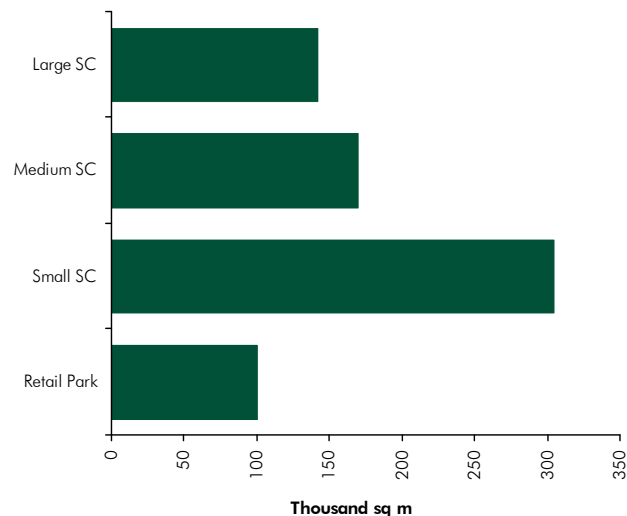
The close proximity of the Austrian border and in particular, Vienna, has continued to impact shopping habits in Bratislava. The completion of the motorway connection in 2008 has made this more accessible. The lower proportion of international retailers currently present in Slovakia, as well as the commonly believed "higher retailing prices" go some way to explaining this.

Bratislava SC Stock according to Submarkets in Q1 2009



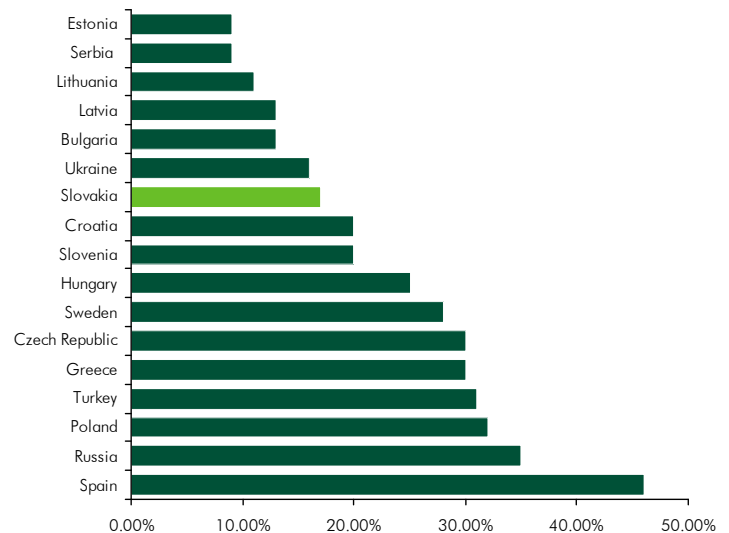
Source: CB Richard Ellis

Retail Stock According to Type in Slovakia



Source: CB Richard Ellis

% of International Retailers Present



Source: CB Richard Ellis

* extension

Project Name (City)	Size (sq m)	Developer	Delivery
Shopping Palace (Bratislava)*	33,900	Soravia Invest	2009
Centrum Mlyny (Nitra)	28,500	Mlyny	2009
Laugaricio (Trencin)	26,000	CSPF	2009
Eurovea (Bratislava)	60,000	Ballymore Properties	2010
Aupark (Zilina)	24,000	HB Reavis	2010

Source: CB Richard Ellis



Definitions

SHOPPING CENTRE STOCK – modern shopping centre (SC) space with a Gross Leasable Area of more than 5,000 sq m

SC SIZE – Small SC (5,000 – 19,999 sq m of GLA), Medium SC (20,000 – 39,999 sq m of GLA), Large SC (40,000 – 79,999 sq m of GLA), Very Large (GLA of 80,000 sq m and above); based on ICSC definitions

RENT – rent negotiated and paid by tenant as a part of the letting, not reflecting the value of any other incentives that they might have negotiated; expressed in Euro per sq m /month

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