

# Real Estate in CEE – The Road Ahead

14 September 2010, Ljubljana



# Agenda

- Impact of the Financial Crisis on CEE Property Markets

- Is there any money out there?

...and if yes: where, how much and where will it go?

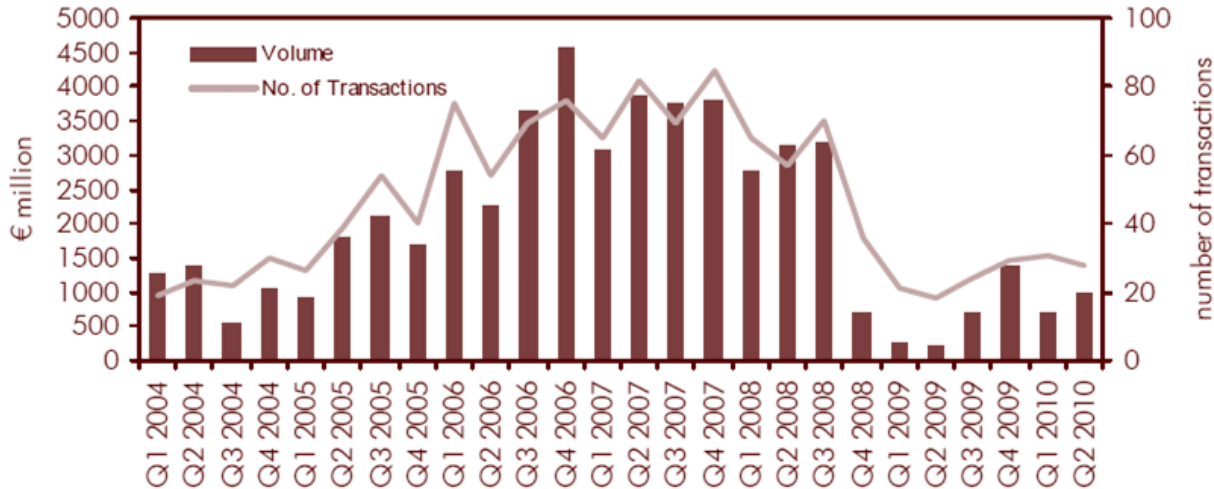
# Emerging Trends in Real Estate Europe 2010



# Central European cities – market snapshot

- Investment volumes down but starting to return – H1 2010 almost tripled vs. H1 2009
- But uncertainty lingers, economic and political picture developing, but expected to stabilise
- Liquidity: severe lack of debt making it difficult to commence new projects
- Supply pipeline limited by lack of current development

Property Investment Transactions - CEE



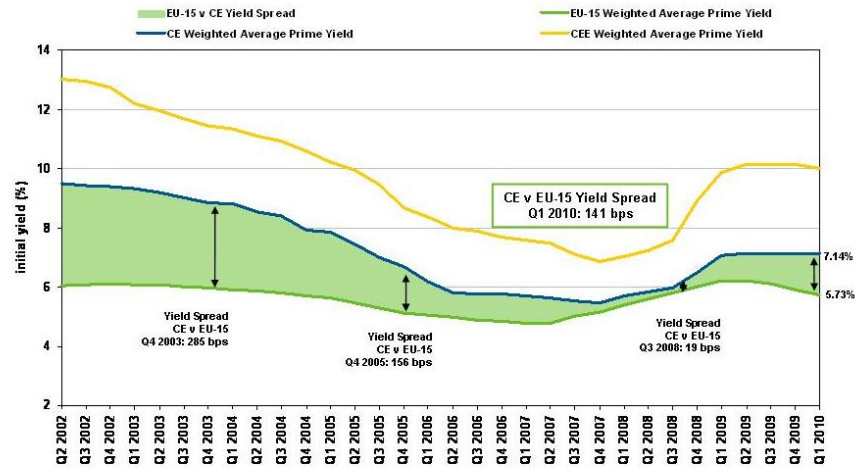
Source: CB Richard Ellis. \* All investment volumes reported in this MarketView exclude the Europolis portfolio.

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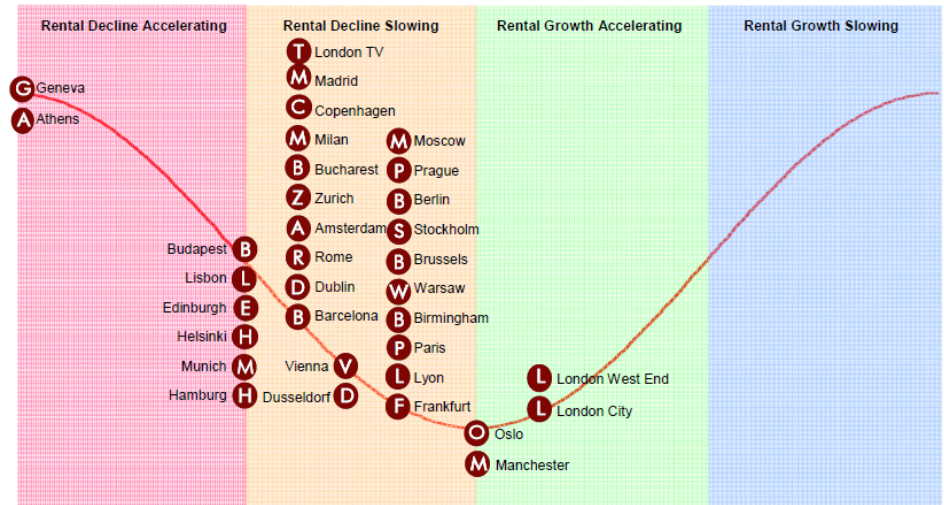
# Central European cities – market snapshot

- Yield decompression pervasive in 2009: quoted prime yields range from cca 7% in the more developed markets to double-digits further east
- But major inconsistencies between countries and compression anticipated in some markets
- Rental levels have been under pressure, but there is inconsistency between countries
- The IRR model remains heavily dependent on debt financing to provide adequate returns to investors

## CE vs. EU-15 prime office yield



## EMEA rental cycle, Q1 2010



The rental cycle is intended to show the trend in net effective rents. Markets are positioned in relation to their own cycle and do not necessarily move along the cycle in the same direction or at the same speed as other markets.

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Availability of funding

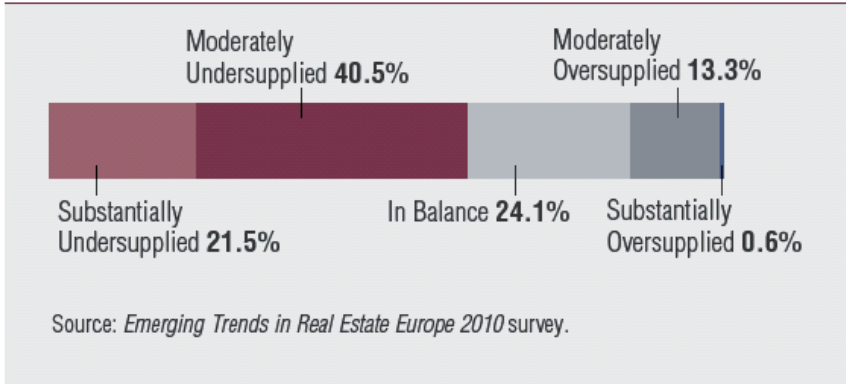
Is there any money out there?

# Financing solutions available for development projects

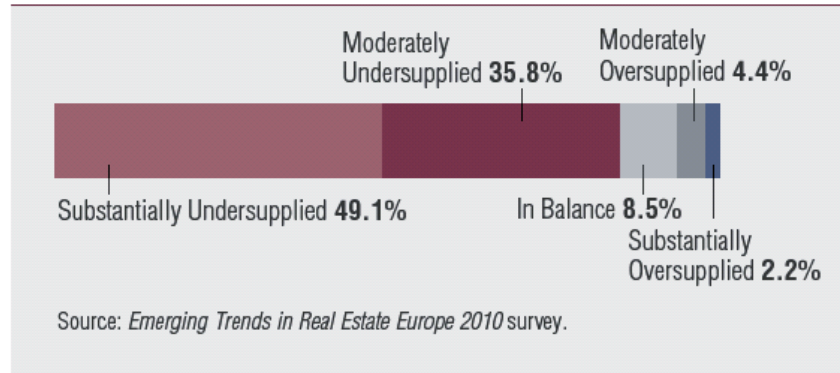
“There’s a great deal of money out there that’s feeling much more confident and looking for a home.” That may be true of equity, but for debt it’s a different story. “Debt will be rationed for a long time and the price will be high.”

Equity	Available – with restrictions
Hybrid (Mezzanine)	Possible
Debt	Difficult

## Real Estate Equity Capital Market Balance Prospects for 2010



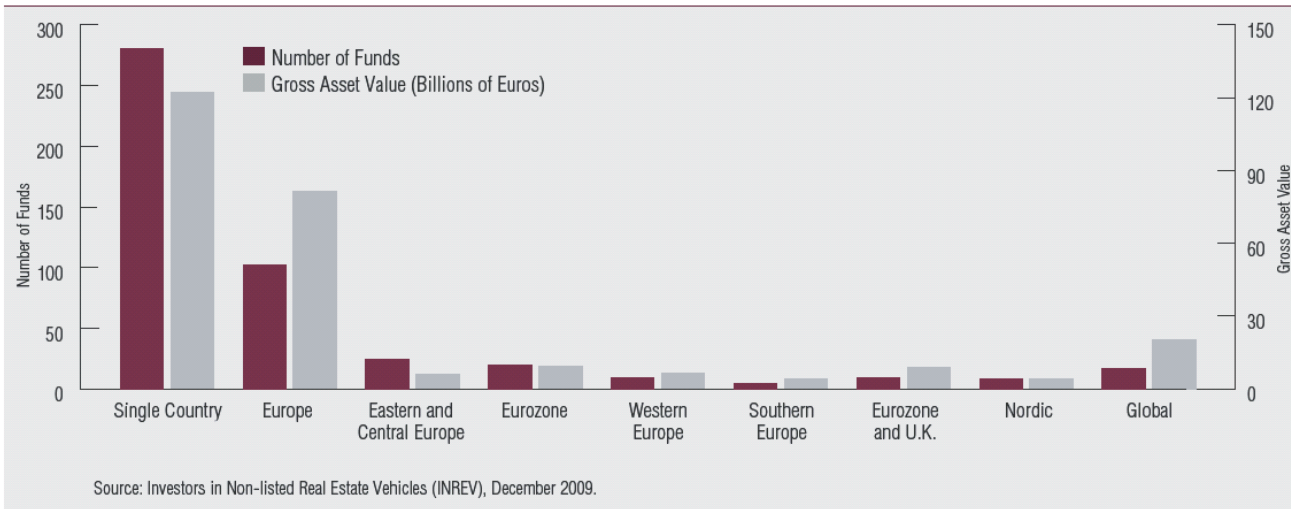
## Real Estate Debt Capital Market Balance Prospects for 2010



# There are large amounts of equity in the market:

- Insurance companies, pension funds, open-ended funds (?)
- Private equity is sitting on untapped funds – but form and focus have changed
- Funds consolidate – fewer funds, fewer managers
- High net worth individuals
- New mezzanine providers
- CEE not likely to be a key focus

Private Property Vehicles by Target Location



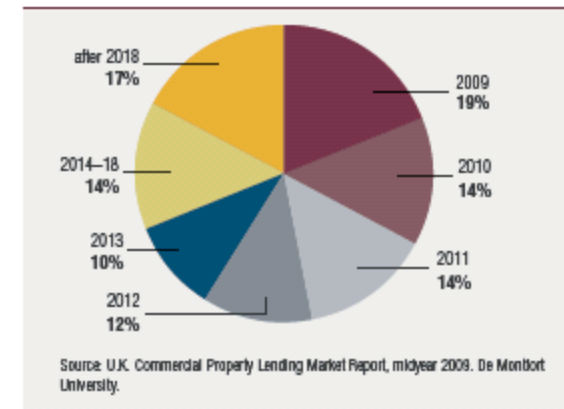


# Will banks lend again?

Credit stays tight as banks decide what to do with their property-laden loan books. And new loans will be harder to get:

- Low loan to value ratios with high margins
- Strict underwriting
- Increased focus on income generation and on prime assets
- Increased covenants
- Increased focus on loan conditions and legal wording
- Very little debt for anything remotely risky
- CMBS unlikely to be active in the next years

U.K. Commercial Real Estate Loan Maturities



# Where is money likely to go?

- No more quick wins – competence and experience
- Ground control – direct investments with more control
- Both equity and debt providers very reluctant to risk... for some years => straightforward projects, prime location and top quality only
- Liquid markets top-priority => Slovenia?

# Lessons from other countries/cities

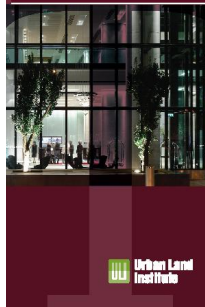
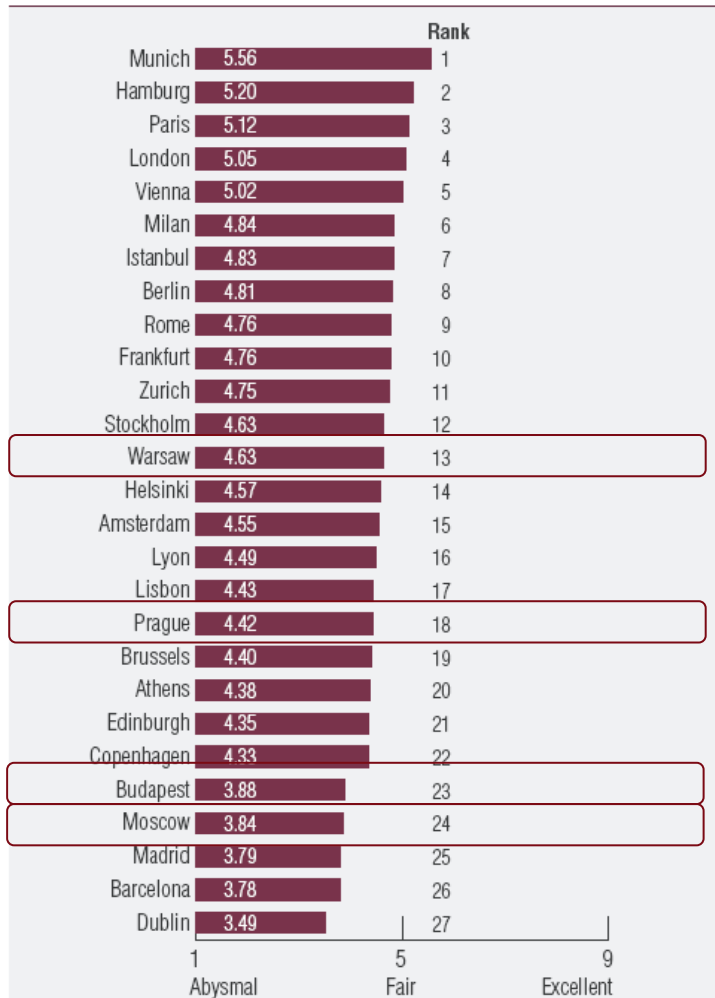


EXHIBIT 3-2

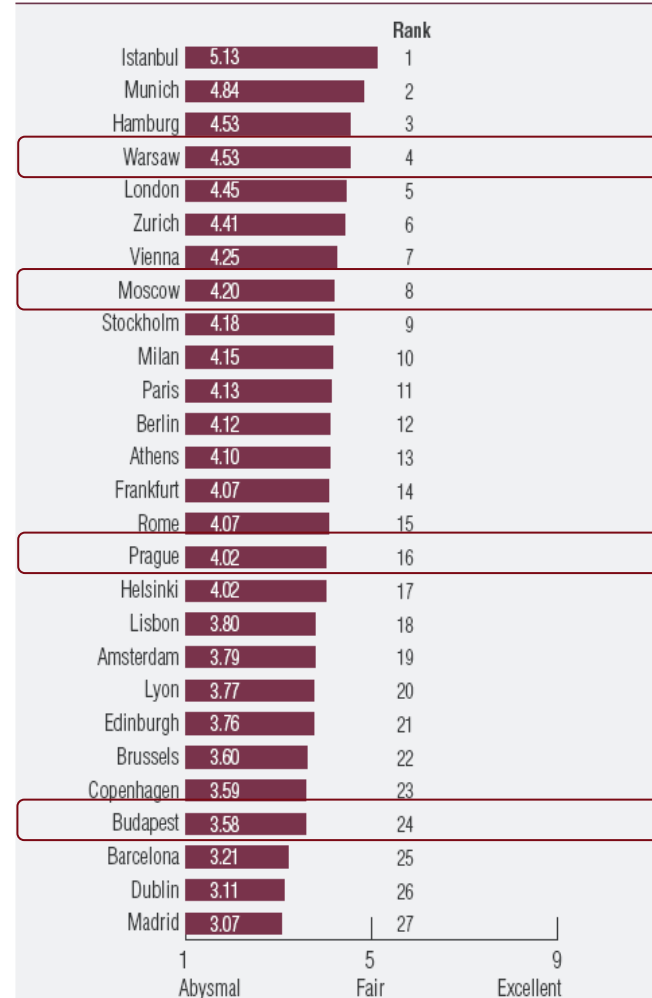
## City Investment Prospects: Existing Property Performance



Source: Emerging Trends in Real Estate Europe 2010 survey.

EXHIBIT 3-4

## City Development Prospects



Source: Emerging Trends in Real Estate Europe 2010 survey.

# Top tips

- In “Revenue Generating Property” the key words are “Revenue Generating”, not “Property”
- Best buys – stick to core and core plus (retail, city centre offices)
- Keep it simple – “plain vanilla” investments. One vehicle per asset, readability and traceability from the start
- Green is good – slowly moving from “nice to have” to “must have”
- People power – invest and retain human capital
- Work on your timing - anticipate exit from the beginning and when negotiating funding.

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