Jones Lang LaSalle

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CEE Investment Market Overview

H1 2012

Economy

Continued ripples coming from the EU and Eurozone will no doubt prolong economic uncertainty in the short term, however, it was announced at the EU Leaders' summit at the end of June that the bailout fund would be able to directly support struggling banks, without adding to government debt.

A €120 billion growth package was also agreed, including a €10 billion boost of capital for the European Investment Bank and a pilot launch of EU project bonds worth €4.5 billion for infrastructure projects.

The economic climate in the CEE region remains varied with each of the individual countries having differing degrees of success, stability or challenges, both in the economic and political spheres. The following table demonstrates the recent, current and short term view on economic growth in the region.

Y-o-Y GDP Growth %

	2008	2009	2010	2011	2012F	2013F
Poland	5.11	1.62	3.95	4.32	3.23	3.47
Serbia	3.82	-3.51	1.02	1.61	0.17	2.62
Romania	7.30	-7.10	-1.30	2.50	1.66	2.60
Slovakia	5.75	-4.93	4.18	3.35	2.09	2.45
Czech Rep.	2.89	-4.54	2.58	1.66	-0.48	1.90
Croatia	2.17	-5.99	-1.19	-0.04	-0.62	1.35
Hungary	0.68	-6.65	1.24	1.70	-0.45	1.08
EU	0.24	-4.29	2.00	1.57	-0.09	1.07
Eurozone	0.25	-4.28	1.85	1.52	-0.40	0.73

Source: IHS Global Insight, July 2012

Poland maintains is positive run of economic growth whilst Croatia, the Czech Republic and Hungary are forecast to creep back into a mild recession in 2012. By 2013, all of the CEE countries covered in this report are forecast to have stronger growth than both the European Union and Eurozone averages.

2012 Transparency Index

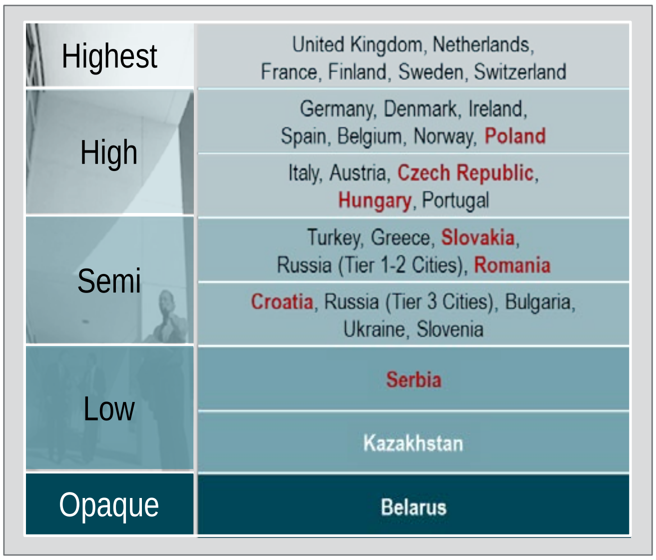
The 2012 Global Real Estate Transparency Index, a proprietary Jones Lang LaSalle survey that calculates transparency in 97 real estate markets worldwide by weighting 83 different factors, provides investors and corporate occupiers with data and analysis critical to transacting, owning and operating in global markets. The Index also assists governments and other industry organizations interested in improving transparency.

The 2012 index highlights that the gap in transparency between Western Europe and some of the main Central European markets has been virtually eliminated as core CEE markets approach the mainstream. Ranked 19th globally, Poland for example has transparency levels comparable to Western Europe and is now considered by some investors as a 'core' market.

Environmental sustainability has emerged as an important transparency factor with the United Kingdom, Australia and France the most transparent markets in terms of real estate sustainability. The Czech Republic, CEE leader in sustainable development, has occupied 5th position in the world-wide ranking.

The Index reaffirms the ascent of the MIST growth markets (Mexico, Indonesia, South Korea and Turkey), which all feature among the leading improvers. Turkey once again leads in transparency improvement, with Romania and Croatia rated 4th and 5th respectively.

2012 Real Estate Transparency Index – Europe



Source: Jones Lang LaSalle, June 2012

CEE Key Market Indicators

		Office				Shopping Centres				Warehousing			
		Prime Rent m² pa	Prime Rent QoQ(%)	Prime Yield (%)	Yield Shift QoQ(bp)	Prime Rent m² pa	Prime Rent QoQ(%)	Prime Yield (%)	Yield Shift QoQ(bp)	Prime Rent m² pa	Prime Rent QoQ(%)	Prime Yield (%)	Yield Shift QoQ(bp)
Belgrade	EUR	186	n/a	9.00	n/a	780	n/a	9.00	n/a	48	n/a	10.25	n/a
Bratislava	EUR	192	n/a	7.00	n/a	840	n/a	6.50	n/a	48	n/a	8.50	n/a
Bucharest	EUR	234	0.0	8.00	0	840	0.0	8.25	0	48	-3.6	9.50	0
Budapest	EUR	240	0.0	7.50	0	720	0.0	7.00	0	60	0.0	9.00	0
Prague	EUR	252	0.0	6.50	0	1,140	0.0	6.25	0	54	0.0	8.00	0
Warsaw	EUR	300	0.0	6.25	0	1,140	5.6	5.75	-25	70	0.0	8.00	0
Zagreb	EUR	180	0.0	8.00	0	540	0.0	8.0	0	69	-4.2	9.50	0
		Office				Shopping Centres				Warehousing			

Definitions

Prime Rent

Prime Rent represents the top open-market rent that could be expected for a notional unit of the highest quality and specification in the best location in a market, as at the survey date.

Office Sector

The rent quoted normally reflects prime units of over 500 m² of lettable floorspace, which excludes rents that represent a premium level paid for a small quantity of space.

Retail Sector

The rent quoted reflects a notional shopping centre unit of 100 m².

Warehousing Sector

The rent quoted is based on a prime unit of over 5,000 m² gross internal, with ceiling heights over 8 metres, used primarily for distribution/warehousing uses.

The Prime Rent reflects an occupational lease that is standard for the local market. It is a face rent that does not reflect the financial impact of tenant incentives, and excludes service charges and local taxes. The Prime Rent represents Jones Lang LaSalle's market view and is based on an analysis/review of actual transactions for prime office space, excluding any unrepresentative deals. Where an insufficient number of deals have been made for prime office space, an assessment of rental value is provided by reference to transactions generally in that market adjusted accordingly to equate to prime.

Prime Yield

Represents the best (i.e. lowest) "rack-rented" yield estimated to be achievable for a notional property of the highest quality and specification in the best location in a market, as at the survey date. The property should be let at the prevailing market rent to a first class tenant with an occupational lease that is standard for the local market. The prime initial net yield is quoted, i.e., the initial net income at the date of purchase, expressed as a percentage of the total purchase price, which includes acquisition costs and transfer taxes. The Prime Yield represents Jones Lang LaSalle's "market view", based on a combination of market evidence where available and a survey of expert opinion.

CEE Investment Market

The Central and Eastern European real estate market has seen an approximate 40% drop in volumes transacted compared to the same period in 2011. For H1 2012 we have recorded a regional investment volume of €1.26 billion. Poland remains the most active market with close to 70% of the total regional transaction volume and only falling short of its 2011 comparison by 6% in the same period. Slovakia, Croatia and Serbia are yet to register any transactional activity. The breakdown of volumes in H1 2012 are as follows:

Country	*Volume (€ Millions)
Poland	877
Czech Republic	224
Romania	92
Hungary	71
Slovakia	0
Croatia	0
Serbia	0

Source: Jones Lang LaSalle, July 2012 - * See definition Pg. 6

Focus on Poland

A strong performance, despite market slow-down. H1 2012 recorded € 877 million of transactions across all sectors in Poland. It represents a marginal drop of 6% over the corresponding period of 2011. At the same time it confirmed that despite a general market slow-down, investor sentiment for Poland continues to be very positive. Total assets transacted included over €283 million in offices, almost €460 million in retail, and ca. €113 million in the industrial sector.

The number of H1 2012 deals was a result of postponed 2011 closings and almost none of the most significant transactions were both initiated and closed within the first 6 months' period. Transactions in general are now taking longer to close. The largest transaction closed in H1 2012 was the sale of the 77% stake in the mixed-use retail and office scheme Złote Tarasy in Warsaw. ING Real Estate sold to a consortium of Unibail-Rodamco and CBRE PFCE for a reported price of €475 million. Other significant transactions in the retail sector included Galeria Tęcza in the regional city of Kalisz (traded by Rank Progress to Blackstone for approximately €37 million) and Alfa Centrum in another regional city – Olsztyn – sold by Arka Fund to Rockspring at a price of approximately €84 million.

The office sector has seen a total of 6 deals with the largest being Harmony Office Centre II in Warsaw's Mokotow District, sold by Polish developer Eko Park to Spanish investor – Azora – for the price of approximately €54 million. The second biggest deal was concluded between Spanish fund – Falcon Investments (arm of CBREI) – who sold the Renaissance Building in Warsaw to GLL Partners at the price rumoured to be at the level of €27 million.

One interesting observation is that industrial investment transactions (with deals such as the Prologis portfolio acquired by Hines at just below €100 million and the Ideal Idea deal closing at sub €10 million) have already almost outpaced the entire 2011 results (just below €116 million). With other transactions under preliminary agreements and/or in due diligence, it is expected that the entire 2012 industrial investment volume may significantly exceed the record 2007 results (just above €318 million).

Going forward, we believe that the overall investment sentiment and outlook for Poland will continue to be good and, that the total investment volume in 2012 may reach between €2 and 2.5 billion (compared to a total of €2.75 billion in the very strong 2011). At the mid-year point we estimate prime office yields to be at 6.25%, retail yields at 5.75% and warehouse yields at around 8.0%. We forecast prime yields to remain stable in the short term but, this will highly depend on how the situation in the Eurozone and the banking sector evolves over the coming months. The yield gap between prime and secondary product is 100 to 200 bps and we expect this spread to continue.

Focus on the Czech Republic

Following a very active 2011 when investment volumes exceeded €2 billion, the first half of 2012 was slow with limited activity. Activity in H1 2012 reached approximately €225 million, representing a significant y-o-y decrease of 65% compared to ca. €650 million of transactions in H1 2011.

The highest activity was seen in the office sector with three properties transacted in Prague and one in Ceske Budejovice. The first transaction this year was sale of the office project known as 4D Kodanská Office Centre by Orco's Endurance Fund to Daramis Group for ca. €20 million. This was followed by the sale of the Radio Free Europe Building to American private equity group L88 for a quoted price of USD 94 million (ca. €74 million). Finally, German fund Deka acquired City Green Court from Skanska for circa €54 million, with PwC as the main tenant. After limited investment activity in the regional office sector, German fund Hannover Leasing sold an office project leased to E.ON in Ceske Budejovice to a private investor.

The second most active sector was retail with two portfolio transactions. CPI acquired the remaining stake in a retail portfolio owned by VT Holding for €34 million. A new entrant to the Czech market, private equity real estate investment management firm Bluehouse Capital, acquired a portfolio comprising an Interspar hypermarket in Znojmo and Euro Center in Hradec Kralove from Carpathian Asset Management.

There was one hotel transaction concluded, whereby Frankfurt-based HPI Germany Hotelbesitz GmbH (an affiliate of Pentahotels), acquired the IBIS Hotel in Prague 8 from Quinn Group.

There is currently more than €1 billion of commercial real estate investment product being marketed across the Czech Republic. The more active investors are relatively busy reviewing new opportunities and undertaking due diligence. The limited activity in H1 is a result of a number of factors, but specifically the fact that banks are highly selective and conservative to whom they will finance, on which projects and on the terms of debt. Projects without any transferable debt, or where new financing is required, are more difficult to win investor focus unless absolutely prime in nature.

Focus on Romania

As expectations about the direction of the main macroeconomic indicators were positive, we noticed an improvement in investor sentiment at the beginning of the year. In February 2012, the market recorded a key transaction in the office sector, with the acquisition of City Business Centre in Timișoara by the AIM listed fund New Europe Property Investors. This transaction represented an important milestone for the Romanian market as it was the first truly prime office complex located in a regional city which was traded to an international investment fund. The complex deal structure and its volume - significant for a regional office project in the CEE - were noteworthy. (Jones Lang LaSalle exclusively represented the vendor in this transaction).

The remaining investment activity registered in H1 2012 comprised of joint-venture agreements and land acquisitions for projects in the retail sector.

The debt market remains restricted. The current political confusion brought by the recent impeachment proceedings will furthermore increase the funding costs. We expect to see an increased focus on asset management activity and addressing “difficult” or non-performing loan portfolios in an attempt to maximise the equity recovery process. With a significant portion of outstanding loans set to re-gear towards the second half of 2012, new loans will be highly restricted to proven, prime institutional stock in established locations. New development financing for all sectors will continue to be extremely scarce in the absence of significant, secured pre-leasing.

While Romania's demographics and attractiveness as an outsourcing destination have remained relatively constant, the Romanian market now features truly institutional products delivered by regional developers, less investor competition, a constrained supply pipeline and a return to more sustainable rental levels. Despite the constrained debt market, we expect to see activity on the investment front, with at least one key asset transacted by the end of the year.

Focus on Hungary

With just over €70 million transacted in Hungarian assets during the first half of 2012, the Hungarian market is characterised by a lack of liquidity. The momentum created by the pick-up of activity at the end of 2011 did not transform into a sustained improvement in transaction volumes.

The activity during the first half of the year was limited to a few assets. The only prime asset to be transacted was Le Meridien Hotel. The 218-key 5-star hotel was purchased by the Al Habtoor Group. The company is a Dubai based conglomerate with significant hotel activity in Dubai and now an asset in Beirut and Budapest. Similar to the disposal of the Four Seasons Hotel at the end of 2011, the transaction was supported by the financing bank.

The disposal of 2 retail assets were concluded in Q2 (along with 2 other assets located in the Czech Republic) by the Carpathian fund to Bluehouse Capital, the Athens based real estate private equity company active in emerging Europe with a focus on South Eastern markets. The assets transaction price was not reported and we understand that the transfer of ownership was related to the takeover of the debt already in place.

Further developments on the investment market are highly dependent upon the evolution of the financial markets and the availability and cost of bank finance or alternative debt sources.

Based on our assessment of the market we keep our views on prime yields unchanged compared to Q4 2011 but, we see a clear re-pricing of non-core assets (secondary locations, class-B assets…). While transactional evidence for this class is thin, certainly no more abundant than for prime assets, the feedback of investors and banks is clear on this matter.

Focus on Slovakia

After the successful year 2011, where approximately €556 million was transacted, we have not seen any major investment transaction in H1 2012. The high level of uncertainty in the Eurozone and availability of debt has frozen investment activity across all sectors in Slovakia.

Currently, we see an increase in activity of local vendors bringing some institutional products to the market. This will test the appetite of investors for grade A product in Slovakia. At the moment we see interest mainly for office products in Bratislava and industrial buildings located in the prime logistics hubs.

Following the elections in March 2012, the new government has indicated changes in the taxation system due to the consolidation of public debt and these changes may well affect investment sentiment in Slovakia for some months to come.

Focus on Croatia

To date there have been no significant investment transactions in 2012. Investors continue to have a strong preference for core markets which are considered to have better levels of liquidity and a greater availability of attractive and performing assets.

However we are of the belief that the property investment fundamentals in Croatia are strong. There is good quality product, predominantly situated in the capital Zagreb, which boast strong international tenants. There is no major oversupply in any of the market sectors and the returns on prime stock are attractive with prime office and shopping centres yields estimated to be between 8 – 8.25% giving investor's considerably better returns than some of the more advanced property markets.

The lack of debt financing which affects the peripheral European markets continues to be the main drag on local capital market activity. As Croatia is without any significant local commercial banks, it relies primarily on Italian, French and Austrian banks for funding. Thankfully financing is available for well let, prime product and investors with a reasonable level of equity including those assets which are currently being sold.

We anticipate that with the impending accession into the EU, which is due to take place on July 1st 2013 that more international investors will consider the Croatian market. It is anticipated that this will provide impetus for investment at a time when the economy will be recovering slowly.

Focus on Serbia

The Serbian market has not had any significant deals in the past 12 months. However, there are several institutional grade products available for sale in the closed market that would provide investors with acceptable risk adjusted returns.

The fairly recent change of the Serbian government will not change the way of doing business significantly and it is business as usual. There has been good news from new international consumer product producers that would like to use Serbia as a regional production centre. This is due to significant business incentives offered to firms wanting to set up businesses in Serbia.

Investment Volumes Definition

Refers to the purchase of individual commercial property assets or portfolios of assets (or shares in special purpose vehicles that own assets).

Includes: All transactions over $ US 5m. Sectors covered are office, retail, hotels, industrial, mixed-use and 'other' (includes nursing homes, student accommodation, etc.)

Excludes: Entity-level transactions; development projects; and multi-family residential investment.

The data includes property company M&A, including REIT formations, where the following conditions are met:

- The transaction is essentially a Real Estate transaction,
- And significant assets over and above the real estate assets (e.g. workforce, Intellectual Property, "goodwill" etc.) are not transferred.
- 70% + of revenues come directly from rental income
- Transactions involve a significant change of ownership (30%+)
- Transaction must be at 'market price'
- Only includes the percentage sold to new investors at the IPO price
- **Entity Level Deals** Refers to corporate acquisitions, where significant assets over and above the real estate assets are transferred (e.g. workforce, Intellectual Property, "goodwill" etc.). E.g. REIT privatisation 'Transaction churn' - e.g. where a company sells real estate assets to a majority-owned subsidiary.
- **Development Deals** - Refers to transactions categorised as 'forward funded' development and 'land' transactions.
- **Exchange Rates** - We convert transaction values into USD at the average daily rate for the quarter in which the transaction occurred.
- **Grossed-up Figures** - Volumes are grossed-up to reflect market coverage.

H1 2012 – Key Investment Deals

Property Name	City, Country	Sale Price (€ million)	Vendor	Purchaser
Złote Tarasy (77% stake)	Warsaw, PL	475	ING Real Estate	Unibail-Rodamco and CBRE PFCE
Prologis Portfolio	Various, PL	98	Prologis	Hines
Alfa Centrum	Olsztyn, PL	84	Arka Fund	Rockspring
Harmony Office Center II	Warsaw, PL	54	Eko Park	Azora
Galeria Tęcza	Kalisz, PL	37	Rank Progress	Blackstone
Renaissance Building	Warsaw, PL	27	Falcon Investments	GLL Partners
Arkonska Business Centre	Gdansk, PL	25	Torus	PZU AM
Radio Free Europe	Prague, CZ	74	Orco Property Group	L88 Companies
City Green Court	Prague, CZ	54	Skanska Property	DEKA Immobilien
City Centre CB	Ceske Budejovice, CZ	28	Hannover Leasing	Private
4D Office Centre	Prague, CZ	20	Orco Endurance Fund	Daramis Group
Le Meridien Budapest	Budapest, HU	55	Yuli Ofer	Al Habtoor Group LLC
Family Centre	Gyula / Ozd, HU	12	Carpathian	Bluehouse Capital
City Business Centre	Timisoara, RO	n/a	Modatim Investment	New Europe Property Investors
Duke Portfolio	Bucharest, RO	7	Millennium One SRL	GED Capital

Source: Jones Lang LaSalle, July 2012

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