CEE Property Investment

Hot Topics

- CEE property investment slowing again, on the back of Eurozone uncertainty
- Restricted funding availability is driving markets once more
- Opportunities open-up for equity buyers
- 2011 still has potential to become the third most active year in CEE history

OVERVIEW

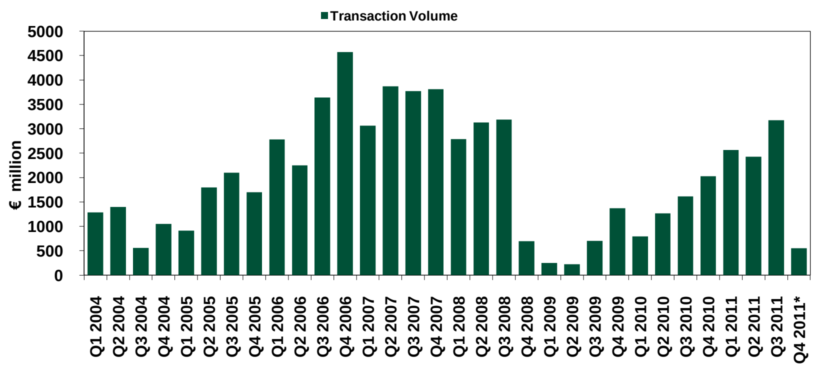
- **CEE property investment slowing again, on the back of Eurozone uncertainty**
  Overall property investment volumes in Central and Eastern Europe (CEE) amounted to more than €8.7 billion by the end of November 2011. This is close to twice as high when compared to the same period in 2010. Continued and intensifying uncertainty surrounding the sustainability of the Eurozone has now started to affect property investment deal flow in most CEE markets. Despite a slowdown of activity the continued domination by the Polish, the Russian and the Czech markets is visible, based both on transactions closed as well as on the significant pipeline of deals waiting to be closed. Increased risk perception across Europe has started affecting the Hungarian and South Eastern European (SEE) markets again recently.

- **Restricted funding availability is driving markets once more**
  A new wave of uncertainty has started to significantly impact the availability of financing. Since CEE is still strongly dependent on Western European banks, this is likely to restrict deal flow into 2012. The direct impact is that transactions take longer to complete and / or collapse. Larger scale transactions are particularly feeling the impact, with some of them being postponed to 2012 depending on bank finance. With all of this uncertainty in the market, it is unlikely that investment volumes will increase further during Q1 2012. Recent strong increases in investment volumes in CEE were dependent on some large transactions taking place, a factor less likely to remain a driver in the short to medium term future.

- **Opportunities open-up for equity buyers**
  With many investors struggling to negotiate bank finance, equity investors are now seeing less competition for conservative prime investments in most markets. Based on their risk/return-profiles it is likely that these investors will continue to focus their attention largely on prime assets in Poland and Czech Republic.

- **2011 still has potential to become the third most active year in CEE history**
  Despite the volatile market sentiment in recent years, CEE has managed to attract a significant amount of capital to be invested in real estate. On the one hand this is to be explained by value-add and opportunistic money flowing to Russia. On the other hand Poland and the Czech Republic, in particular, keep convincing by attracting risk-averse investments. It is likely that CEE will keep this ambivalent character into 2012, with one difference compared to recent years: a significantly reduced pipeline under construction which is expected to lead to a further divergence in the performance of prime vs. non-prime.

CEE Property Investment Transaction Turnover



Source: CBRE. * Investment volume for Q4 2011 contains data for October and November 2011 .

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