

# P R E S S   R E L E A S E

## **CEE PROPERTY INVESTMENT 37% DOWN ON 2007 FIGURES € 3.5 billion of unleveraged equity waiting to be invested in CEE**

**Prague, 15 January 2009** – CB Richard Ellis Group, Inc.'s forthcoming publication - *CEE Property Investment MarketView Full Year 2008* - reports that total investment turnover in commercial real estate in Central and Eastern Europe (CEE) reached €9.5 billion in 2008. This is 37% down from the 2007 figure, but 47% up on 2005 results. The fourth quarter was extremely slow with a deal volume of around €580 million. Jos Tromp, Head of CEE Research & Consulting, explains: "This low volume is a direct result of a combination of the impacts on overall investment turnover of (1) the temporary freeze of a number of German Open Ended Funds that were active earlier in 2008, (2) the limited lending that is taking place, and (3) unclear prospects on pricing."

As banks are likely to remain restrictive in their lending policies, equity will be key in 2009. Even though the amount of available capital in the market has declined sharply, there is equity available to invest in real estate. Based on a survey done by CBRE among active, mainly opportunistic, investors across Europe, it was calculated that more than €3.5 billion of unleveraged equity is available to be invested in property across CEE, excluding German Open Ended Funds. In the record years of 2006 and 2007, there was approximately four to five times more equity targeting CEE than today. Pavel Schanka, Director CEE Capital Markets comments: "The current state of the market takes us back to 2005 market standards. The total size of the CEE investment market at that time was approximately €6 billion. By 2006/2007 standards this looks small, but interestingly enough the market did not appear small at that time. Moreover, the €3.5 billion of equity for 2009 does not take into account that some of the most active buyers in 2008 – the German Open Ended Funds – might return to the market in 2009."

The main reason behind falling investment volumes has been banks' unwillingness and / or inability to lend money, which is entirely related to the global financial crisis. The number of banks financing property investments in CEE is limited and, as some of them are facing tight liquidity levels, the situation is not likely to change in the short term. Banks will remain risk averse in 2009 and therefore trading of anything but the best properties will be difficult. Equity is essential in concluding deals. Loan to value ratios (LTV) have fallen from 80/20 towards 50/50. A light at the end of the tunnel is that banks need to issue loans to support their shareholders' expectations.

Therefore, they are likely to start lending to certain key clients again in the latter half of 2009, but will be restrictive on LTVs and will not finance speculative developments.

One difference between the market in 2005 compared to current market conditions is that the development market was much smaller in 2005. If all office and retail projects under construction are delivered as planned in 2009, real estate with a potential value of around €3 billion will come onto the market. This is likely to have a stimulus effect on investment volume. In addition to this “developer to investor market”, it is likely that the “investor to investor market” will be picking up too. Even though no significant forced sales took place on the open market in 2008, we may see more product being forced onto the market in 2009. “Banks will probably be first in line when these distressed sales begin taking place,” comments Schanka.

“As prime yields are still below - but close to - their long-term average (since 1990) in some of the major Western European markets, further decompression of yields remains realistic. Investors with equity are applying and will apply stock picking, but they cannot wait too long. Property markets are not equity markets, and prime products can be sold to another party if the decision process takes too long. The price correction that is currently under way in property worldwide will offer chances for investors, and also in CEE. For equity investors who are currently preparing a market comeback, markets will present opportunities in 2009. Now that repricing is under way, we expect pan-European investors to start looking at CEE again,” concludes Tromp.

## **Top 3 Recommendations**

### **Purchasers**

#### **1. Focus on prime, secondary to face challenging future**

The limited number of buyers active in the market will focus on prime product only. Some of these buyers will focus only on trophy assets. These buyers are not in a hurry to spend as most of them have an investment span of 2-3 years. These opportunistic investors believe that yields will recover to a certain extent after a period of further outward movement. As soon as the price level for prime properties is set, it will become clear where pricing for secondary property is. Before this, the risks involved in investing in secondary property are perceived to be high, with limited upside potential.

#### **2. Focus on income producing properties**

Even though occupier markets in CEE are still performing relatively well, it is clear that occupier markets are changing. As it is uncertain what the effect of slowing economies will be on Business Process Outsourcing (BPO) – one of the main drivers behind office take-up in CEE – investors should focus on buildings that have strong occupancy, a strong tenant base and relatively long contracts. Asset management will become more important in retaining clients, but less important in increasing value.

### **Vendors**

#### **3. Timing of sales important factor in optimising returns**

Investors willing – or needing - to sell should be realistic in terms of pricing. As yields move out the market is changing quickly. Currently the market is relatively static, as most buyers' and vendors' expectations are not aligned. For now occupier markets are keeping up relatively well and the number of sellers is limited, which means that the effect on pricing is less severe than it potentially could be in certain segments of the market. Therefore, timing will be decisive in optimising returns.