

P R E S S R E L E A S E

CAPITAL VALUES FALL 41% ACROSS CEE DUE TO FALLING RENTS AND YIELD DECOMPRESSION

Declines more modest in Central & Southeastern European markets

Prague, 28 April 2009 – Capital values fell in Q1 2009 in office markets across Central & Eastern Europe (CEE) due to widespread yield decompression and falling prime rents in some markets, according to CB Richard Ellis' *CEE Offices Index MarketView* report. CEE weighted prime capital values fell by 41% year-on-year (y-o-y) and 22% quarter-on-quarter (q-o-q) in Q1 2009. Declines have generally been steepest in Eastern Europe (EE), but more modest in some Central European (CE) and Southeastern European (SEE) markets. Whereas the y-o-y decline to capital values in Q4 2008 was caused entirely by yield decompression, falling prime rents in several CEE cities started negatively impacting the capital value index across the region in Q1 2009 for the first time since Q1 2005.

Prime office yields moved out substantially across CEE in Q1 2009. The CB Richard Ellis CEE weighted office prime yield (including Russia & Ukraine) stood at 9.85% at the end of Q1 2009, an outward movement of 93 basis points (bps) q-o-q and 286 bps y-o-y.

Despite the considerable aggregate movements, significant differences now exist within CEE's sub-regions, as highlighted below:

Central Europe (Czech Republic, Hungary, Poland, Slovakia)

- The Central European capital value index fell by 13% q-o-q and 26% y-o-y in Q1 2009. Capital values have fallen more in Warsaw and Budapest, where prime rents have fallen in recent quarters. In Prague and Bratislava, prime rents have held steady through Q1 2009.
- Central Europe's weighted average yield moved outward to 7.1%, which is 70 bps higher than in Q4 2008 and 139 bps higher than in Q1 2008. Every CE office market experienced yield decompression in both Q4 2008 and Q1 2009.
- The CE office rent index fell by 5.3% q-o-q and 7.5% y-o-y in Q1 2009. It is likely that downward pressure will remain on CE prime rents, although CE market rents are more sustainable than most other CEE markets.

Jos Tromp, Head of CEE Research, comments: "While rents have moved down somewhat in Budapest and Warsaw, rental movement has been relatively modest so far in Central Europe. Central European markets, like all CEE markets, are faced with reduced liquidity, there is evidence of institutional investor interest in prime office buildings in Central Europe, especially in Prague and Warsaw. The Budapest office market is feeling the impact of a gloomy economic outlook and the market in Warsaw has expressed its more volatile character compared to Central Europe's other office markets. Outward movement of yields in Central Europe in Q1 2009 helped to reestablish a more significant yield gap compared with the EU-15, making pricing in Central Europe more aligned with its Western European counterparts."

Southeastern Europe (Bulgaria, Croatia, Romania, Serbia)

- Southeastern Europe's capital value index fell by 14.4% q-o-q and 29.1% y-o-y as yield decompression and moderate rental decreases took a toll on capital values. Capital values in SEE are now at levels comparable to late 2005.
- The SEE weighted office prime yield stood at 9.62% at the end of Q1 2009, 231 bps higher than its Q1 2008 level. Yields in Belgrade and Zagreb have moved out less thus far than those in Bucharest and Sofia.
- The SEE rent index fell by 4.4% q-o-q and 7.2% y-o-y in Q1 2009.

Tromp explains: "From the remaining pool of potential buyers, institutional investors are extremely cautious about Southeastern Europe purchases and opportunistic buyers require much higher returns. These factors are contributing to longer deal completion times and rising yields. On the occupational side, several Southeastern European markets still have substantial confirmed pipelines that will be delivered in the next two years, which is likely to put further pressure on rents."

Eastern Europe (Russia, Ukraine)

- The Eastern European capital value index fell by 33.0% q-o-q and 57.7% y-o-y in Q1 2009 (measured in USD). The index has been stung by rapid yield decompression and falling rents in every EE market in recent quarters.

- The EE weighted average yield was 12.81% at the end of Q1 2009, which is 128 bps higher than at the end of 2008. Yields have moved out sharply in every office market in the region in the last two quarters.
- The EE prime rent index fell by 26.0% q-o-q and 35.1% y-o-y in Q1 2009 (measured in USD).

Tromp comments: “After a period of rapid yield compression and rental growth from 2006 to early 2008 in Eastern Europe, investors are now returning to traditional risk profiling and the Eastern European markets are consequently repricing in line with this behaviour. Although the outlook for rents and yields in Eastern Europe is difficult to predict, existing political and economic risks in the sub-region make further outward yield movement and downward pressure on rents possible this year.”