

Quick Stats

	Change from	
	H2 09	H1 10
Investment Turnover	↑	↑
Prime Rents	↑	↑
Prime Yields	↓	↓
Capital Values	↑	↑
SC Pipeline (U/C)	↓	↓

Hot Topics

- Economic performance slowly improves in CEE; SEE remains under pressure.
- Retail sales are on the rise, with Poland outperforming; retailers looking to expand.
- Decade of rapid development is over; markets moving towards more sustainable growth.
- Diverging performance based on quality; secondary property continues to struggle.
- CEE retail investment turnover doubled compared to 2009 and reached €1.8 billion in 2010.

OVERVIEW

• Economic performance slowly improves in CEE; SEE remains under pressure

Most of Central Europe's (CE) economies have recovered from recession. The main driver behind this growth has been the boost in exports across Europe, driven by Germany's economic revival. Domestic demand, however, is still lagging behind with fiscal consolidation now under way in a number of markets in the region. Economies in South-Eastern Europe (SEE) have generally remained weak. Consumer confidence reflects the fragility of the domestic fundamentals in Central and Eastern Europe (CEE) and remains lower when compared to the Eurozone as a whole.

• Retail sales are on the rise, with Poland outperforming; retailers looking to expand

In line with positive economic growth, retail sales improved considerably in H2 2010. Retail sales growth is strong especially in Poland, but sales are improving considerably in Hungary as well. Consumers elsewhere in the region have remained cautious with sales growth remaining low in most other markets. Based on new retailer entries, Poland and Romania were the favourites in 2010 with the Polish market expected to remain the key expansion market for retailers in 2011.

• Decade of rapid development is over; markets moving towards more sustainable growth

With 1.6 million sq m of new SC developments across the region (excluding Eastern Europe), the growth of modern retail stock in 2010 has slowed down by 20% compared to previous years. Expected deliveries in 2011 are at the same level as in 2010 with the main focus being on Poland. Construction activity in Czech Republic, Hungary and Romania has remained low, a factor which is expected to help markets in recovering over the next few years.

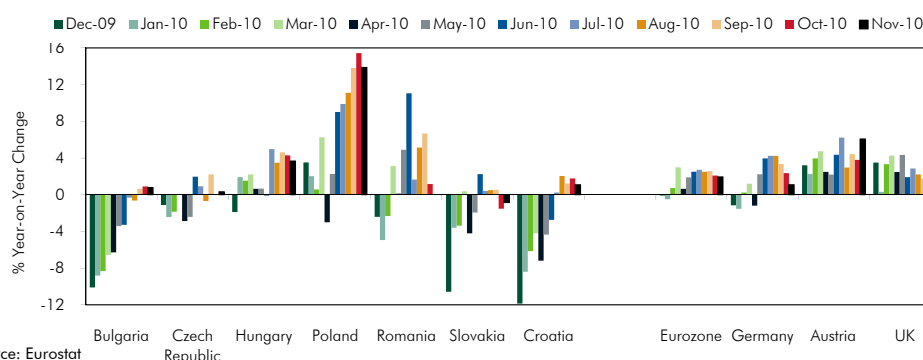
• Diverging performance based on quality; secondary property continues to struggle

Base rents have remained relatively stable in most markets in CE on the back of relatively stable exchange rates. The only exception to this was Bratislava where a new prime scheme opened and set the new benchmark. Prime rents are on the rise in major Eastern European (EE) cities and there is continued pressure on retail markets in smaller SEE markets. Prime yield compression took place in H2 2010 in CEE except for in the SEE markets.

• CEE retail investment turnover doubled compared to 2009 and reached €1.8 billion in 2010

Continued interest in defensive retail assets and the completion of some prime transactions resulted in 2010 turnover reaching €1.8 billion, twice the level registered in 2009. This growth was far from even with Poland accounting for more than half of the total turnover in 2010. Poland was not only the most liquid market but was also one of the few markets with a strong cross-border investor basis. In most other markets, especially in EE, local buyers and non-institutional purchasers have become more important. Market liquidity has increased across most markets, but due to restricted trading of prime product in markets such as Czech Republic the number of transactions has remained relatively low. The level of distress during 2010 steadily increased. The expectation is that this trend will continue in 2011.

Retail Sales in CEE and Selected Western European Countries



Source: Eurostat

RETAIL ECONOMICS

Most CEE economies are back on track and are posting economic growth above the EU-15 again. Poland is the market that is leading the pack with GDP growth expected to be around 4.4% in 2011*. At that level, economic growth in Poland is back at levels seen before the crisis hit. Other countries, however, are still struggling to find their way out of the crisis. Romania registered a strong fall in confidence towards the end of 2010 as a result of the announcement of significant austerity measures. Despite positive growth expected in 2011 most of SEE will probably need another year to recover from the crisis.

With the exception of Poland, domestic demand is still not contributing properly to economic performance. Dynamic growth of manufacturing in CE is assisting economies to recover although this is focused on exports rather than on local consumption. Weak domestic fundamentals are also reflected in the dip in the consumer confidence index in CE. Having held up steadily during H1 2010, CE decoupled from the positive trend seen in Western Europe in H2 2010. In SEE consumer confidence improved towards the end of 2010, but is still close to the lowest point reached since 2001.

RETAIL DEMAND

With the exception of Poland, retail sales growth has remained weak in the majority of CEE. Most major markets in Western Europe have managed to keep retail sales growing, although increases have been rather modest. In CEE most markets underperformed the Eurozone. Polish retail sales nevertheless showed a strong improvement on the good results achieved in 2009. Besides Poland, retail growth outperformed the Eurozone only in Hungary and Romania over this period, with most of this growth resulting from the low base reached in 2009.

Retailers became more optimistic towards the end of 2010. A growing share of international brands reconsidered expansion again after a steep fall in activity in recent years. Overall retailer interest is expected to be strong for CEE, especially amongst mid-range and value retailer brands. Retailer demand has been focused on the large CEE countries with Poland and Romania attracting over a dozen newcomers in 2010.

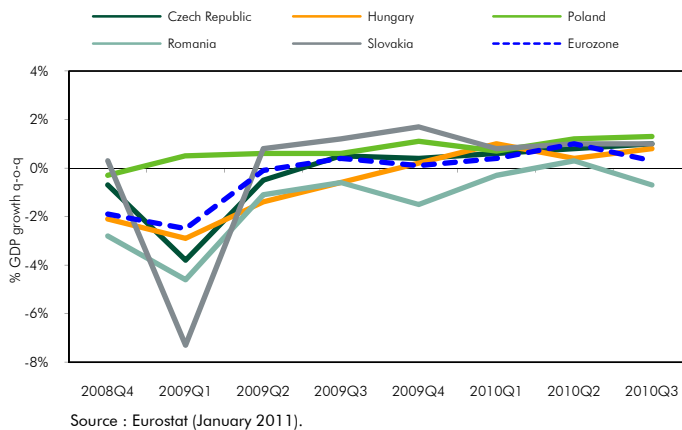
Looking ahead, country preferences seem to have changed slightly when examining expansion plans for 2011. Poland remains the key target for most retailers. Other core CEE markets such as Czech Republic, Russia and Hungary have improved their ranking. More volatile or smaller markets such as Romania or Slovakia are expected to be targeted by a lower number of retailers in 2011.

RETAIL STOCK

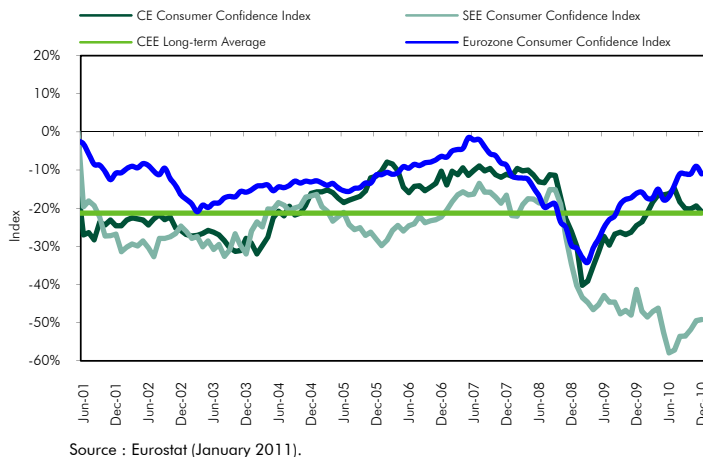
Modern shopping centre stock in CEE (excluding EE) has increased by 1.6 million sq m since year end 2009. As a consequence the level of annual completions in 2010 was down by 20% compared to 2009. The volume of new completions fell in most markets in the region. The only exception to this trend being Bulgaria where growth to retail stock increased significantly in 2010 as a result of differences in the timing of the development pipeline.

* UniCredit CEE Quarterly (2011 Q1)
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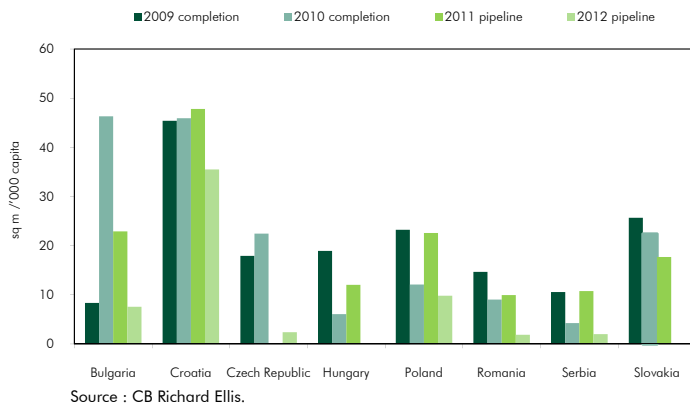
Economic Growth (q-o-q)



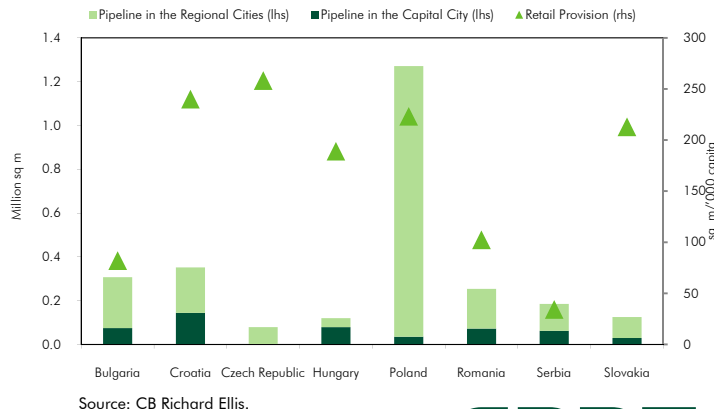
CEE Consumer Confidence



CEE Completion and Pipeline per Capita



CEE Retail Provision and Pipeline Under Construction



CEE Shopping Centre Prime Rents & Prime Yields

Market	Prime rent €/sq m/year	q-o-q change	y-o-y change	Prime yield (%)
Belgrade	€ 420	0%	0%	8.50
Bratislava	€ 1,020	13%	6%	7.00
Bucharest	€ 600	0%	0%	9.15
Budapest	€ 1,200	0%	0%	7.00
Kyiv	€ 1,256	4%*	8%*	14.00
Moscow	€ 1,364	2%*	6%*	12.50
Prague	€ 1,020	0%	-15%	6.75
Sofia	€ 300	-11%	-17%	9.00
Warsaw	€ 960	0%	0%	6.50
Zagreb	€ 276	-8%	-12%	8.30
CEE	n/a	1%	-3%	9.76
CE	n/a	2%	4%	6.78

Shopping centre prime rents measure base rent only and do not take into account turnover rent.

* Changes in rents in Moscow and Kyiv measured in changes to USD rents because rents are denominated in USD in these markets.

Source : CB Richard Ellis .

Bulgaria - and to a lesser extent Croatia – saw the opening of the first large, modern shopping schemes taking place in the regional markets. Completions in Czech Republic and Slovakia were mainly driven by the delivery of a number of smaller sized retail parks across the country, suggesting that the wave of larger scale developments is over now.

Looking ahead, the level of new SC deliveries in CEE (excluding EE) in 2011 is set to reach a similar level as that achieved in 2010. With many projects still under way, pipeline supply (U/C) remains high in most of SEE which raises concerns about letting prospects for schemes not of the highest standard. New developments have started mainly in Poland and Slovakia on the back of strong and/or improved economic fundamentals.

Most development is currently focused on regional markets across the region. Following a recent trend that happened in Czech Republic, Poland’s regional supply pipeline (U/C) is now spreading beyond the larger cities into many cities of small and medium size.

RENTS, YIELDS & CAPITAL VALUES

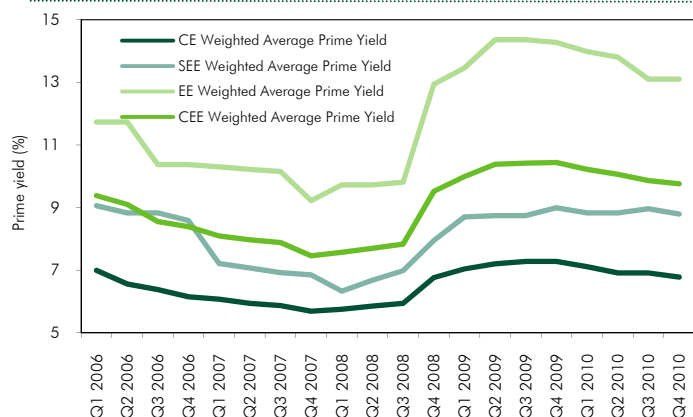
Rental growth in CEE is diverging based on countries’ economic and property market performance. Base rents in Poland have remained stable, despite strong economic growth. It is expected, however, that continued economic growth, combined with a strengthening Polish Zloty may start having a positive influence on base rents as well as increasing turnover levels. Prime rents in Prague decreased in 2010 as market values corrected during the crisis. Bratislava registered an increase in it’s prime rent as a result of a new benchmark being set. Prime rental growth was registered in EE, however, partly as a result of a strong USD. Prime rental declines were registered in Zagreb and Sofia as a result of challenging economic fundamentals combined with an increase in supply.

During H2 2010, CB Richard Ellis’ CEE weighted average prime SC yield compressed by 30 bps to 9.76%. Yield compression was generally modest. Prime yields in EE fell considerably, however, as a result of the more volatile character of the markets there. Prime yields in H2 2010 in Bucharest were unsteady as a result of uncertainty around the economic and property market fundamentals. The yield trend turned positive in Q4 2010 following austerity measures that were the main point of focus in Q3 2010.

Year-on-year prime capital values turned positive again across CEE, with the exception of SEE markets. SEE is still seeing rental values negatively impacting on capital values. Properties in EE cities have seen the strongest gain in value over the last year but are still down by a third compared to the levels achieved three years ago.

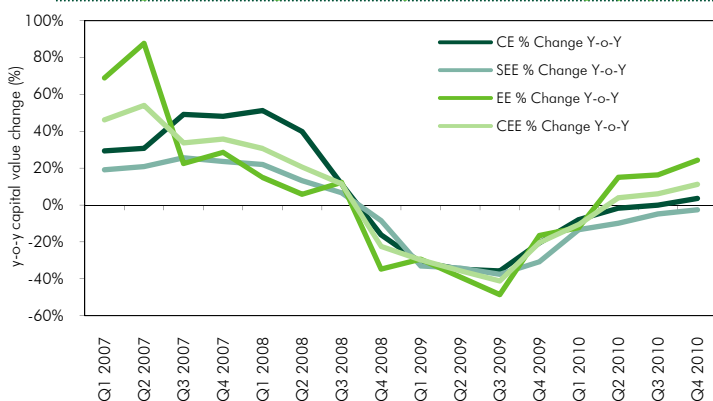
Outside of the prime segment retail sales growth combined with less favourable property market fundamentals in several markets has lead to high(er) vacancy rates and downward pressure on rental levels, especially in less mature markets. Poland is benefitting from this factor due to lower SC provision rates and solid economic growth.

CEE Weighted Average Prime Office Yields (%)



Source : CB Richard Ellis.

CEE Weighted Average Prime Capital Value Change (% pa)



Source : CB Richard Ellis.

INVESTMENT ACTIVITY

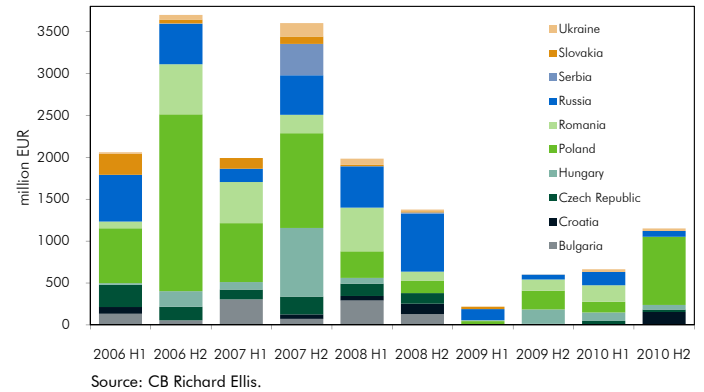
Retail investment turnover has been on a steady rise since it reached the bottom in early 2009. CEE retail investment turnover totalled €1.8 billion in 2010, double the level registered in 2009. Despite this significant increase in volume, most markets have remained rather illiquid and investment activity is far from that typical before the crisis hit the markets. Poland reached a share of over 50% of CEE's total investment turnover. The Polish retail investment market was dominated by institutional investors. Buyers in Russia were mainly private Russian investors. On top of that a number of corporate retail transactions took place (not included in CBRE's investment volumes) of which the takeover of Kopeyka by X5 Retail Group is an example. Liquidity in Romania increased somewhat as a result of the final transfer of the remaining shares in JV's as well as increased distressed sales coming to the market.

Local buyers were involved in every second transaction in 2010, accounting for a quarter of the overall investment value. This increase of local purchaser activity was partly driven by increased activity in more niche-segments of the retail investment market. Although shopping centres made up the majority of the turnover, other assets such as big-box retail units and supermarkets were also sought after.

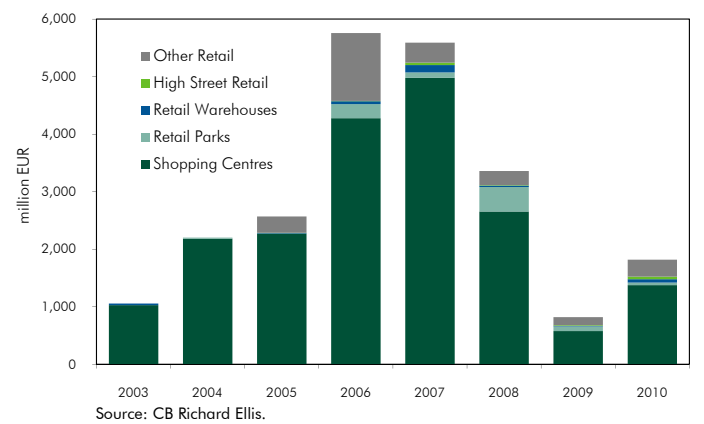
Several portfolio transactions were closed in 2010 including the acquisition of Wilenska and Arkadia shopping centres by Unibail-Rodamco, as a part of a Pan-European shopping centre portfolio. Portfolio sales were also registered in Czech Republic and Croatia. These transactions were mostly related to supermarkets being sold. Sale & leaseback transactions were practically non-existent in 2010. One exception was Bayerische Versorgungskammer's acquisition of a TESCO scheme in Poland.

Despite some improvement across the region, overall liquidity in the SC segment has remained low. In markets such as Romania, some distressed transactions amongst investors and developers resulted in an increase in properties sold. In many countries, however, the fact that most prime properties are in the hands of specialised retail investors has resulted in lower trading volumes. This situation is likely to persist as long as secondary retail markets do not show improved performance. Prime retail schemes being sold were the driver of volumes in markets as Croatia and Hungary, supporting the view that the flight to quality is continuing. Polish liquidity was supported by the sale of shopping centres with a proven track record.

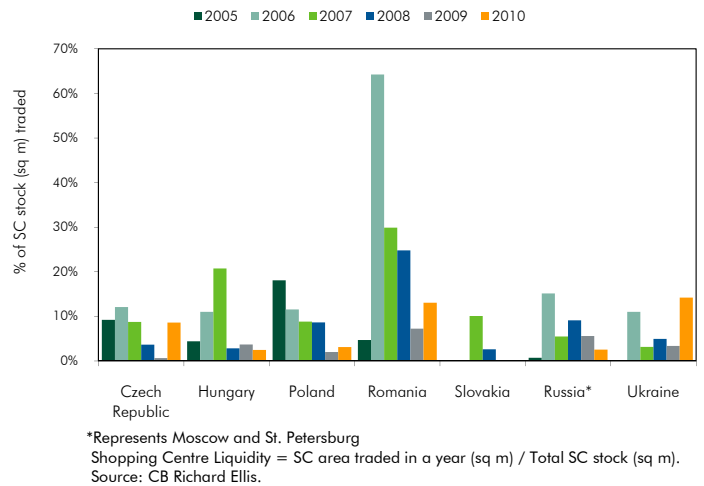
CEE Retail Investment Turnover by Country



CEE Retail Investment Turnover by Type of Property



CEE Shopping Centre Liquidity



Selection of the Largest CEE Retail Transactions in H2 2010

Country	City	Name	Q	Size (sq m)	Purchaser	Price (€ in million)
Poland	Warsaw	Arkadia SC & Wilenska SC	3	98,107	Unibail-Rodamco	Cca. 500
Poland	Poznan	Galeria Malta	4	54,000	Heitman	131
Croatia	Zagreb	Arena Centar (50% share)	4	60,000	Heitman	Cca. 110
Poland	Slupsk	Jantar	4	22,250	AEW Europe	92
Poland	Konin	Ferio Konin	4	29,495	Rockspring	47

CEE MARKET ANALYSES

In **Bulgaria** retail stock doubled in 2010 and reached 627,000 sq m. The development market remains active with another 300,000 sq m of retail still under construction. Demand, however, has remained weak both in Sofia as well as in the regional cities. Vacancy levels have increased in most centres during 2010. Retailers are more optimistic about 2011 and expect turnover figures to rise again after steep declines in 2010.

Retailers on the **Croatian** market are expected to remain in the driving seat in 2011. Market conditions remain challenging with the consequent need for landlords to be highly flexible and competitive with rents and contributions. The market may start stabilizing when the current supply pipeline dries up. Until then vacancy levels may increase further, however, not to the extent as seen in 2010. Rents are expected to level out in 2011 after significant declines in 2010.

The **Czech** retail market has seen several smaller projects added to the stock during H2 2010. By the year end Galerie Harfa - around 42,000 sq m - opened in Prague and some new retailers came to the Czech market (examples are Ulla Popken and Kapahl). Prime rents corrected downwards in Q3 2010 and have remained flat since then. The retail pipeline is expected to remain relatively low during the next two years. The main reason being the high retail provision in Czech Republic and struggling retail schemes in the secondary markets. Future developments are trending more towards extensions of existing shopping centres and revitalizations. The main project under construction is Multi's Nova Karolina in Ostrava.

Growth in **Hungarian** retail stock slowed in 2010 with the largest delivery being Corvin Atrium opened in Budapest with around 35,000 sq m. Developers remain focused on Budapest. The exception being ECE, currently constructing 41,000 sq m in Szeged. The supply pipeline in Budapest consists of smaller sized centrally located schemes with a particular focus on retailers not yet present in the market. Debenhams and Hard Rock Café have already released their plans to open flagship stores in downtown shopping schemes in Budapest.

The **Polish** retail market is clearly leading the pack with strong economic performance and increased development activity following a considerable slowdown in activity during the crisis. Despite a more cautious approach from financiers the pipeline has reached around 780,000 sq m of new shopping centre space to be delivered in 2011. Occupational fundamentals and investment appetite are strong, a factor which is helping capital values to increase across the country. Compared to other CE peers, Poland still has considerable growth potential in terms of retail development. Retail sales have remained strong in 2010 and outperformed the EU-15.

Romania's retail market has passed its development peak and is now moving towards more sustainable growth. The only major opening during 2010 was Gold Plaza in Baia Mare. For H1 2011 no new openings are scheduled. Major retail schemes such as Colosseum, Maritimo Shopping Center, Palas Iasi are, however, scheduled to open in H2 2011. Hypermarket operators are developing retail parks or shopping centres outside of Bucharest. International retailers such as H&M, Inditex, Takko and McDonald's are pushing for expansion in prime locations in order to benefit from strategic market opportunities now the market is working towards equilibrium.

Moscow's retail market increased by another 200,000 sq m during H2 2010. As demand for retail space is continuing, vacancy has continued to decline and prime rents have started to increase. Large projects came to the market in **St. Petersburg** during H2 2010, however, the opening of the largest shopping complex - Leto on Pulkovo Highway - has been postponed until H1 2011. Rental levels in shopping centres remained stable.

Serbian retail market growth was mainly caused by some smaller scale retail schemes which opened in Belgrade during H2 2010. Total modern retail stock in the country is now around 250,000 sq m and further considerable growth is unlikely as most developments are pending. On the demand side, retailers have expressed greater interest for the Serbian market; new brands such as Armani and Burberry have established their presence in the luxury segment.

In **Slovakia** retail developers have started targeting larger regional cities. Recently 52,000 sq m of new retail space opened in Zilina and another 135,000 sq m is under construction in the regional cities. The downturn emphasized the increased gap between performing and underperforming shopping centres. Despite stronger economic growth, retail spending growth has remained relatively low, raising some concerns about the outflow of consumer spending as a result of the introduction of the Euro.

The positive trends signalled in H1 2010 on the **Ukrainian** retail market continued in H2 2010. Consumer demand continued strengthening with retail turnover showing an 8% increase compared to 2009. New supply in 2010 reached 45,000 sq m. Prime rents grew by 4% in the last quarter and are up by 8% compared to 2009. Secondary rents remained stable. Occupancy levels in the most successful schemes are close to 100% and average vacancy is around 5%. Prime rents are expected to grow by a further 5 to 10% while vacancy should remain at the same low level in 2011.

CB Richard Ellis employs over 300 retail consultants in 36 countries across the EMEA (Europe, Middle East and Africa) region. The team provides expert, practical advice on all types of retail environment – from high street, to shopping centres, to out of town. Working with our network of research analysts, we are able to provide insight into retail investment market trends as well as more conventional property market analysis.

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Methodology Definitions

Shopping Centre – a retail property that is planned, built and managed as a single entity, comprising units and “communal” areas, with a minimum Gross Lettable Area (GLA) of 5,000 sq m. The standards used in this Market View are according to the definition of the International Council of Shopping Centres (ICSC).

Central and Eastern Europe (CEE), which includes the following countries: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russia, Serbia, Slovakia and Ukraine. **Central Europe (CE)** includes Czech Republic, Hungary, Poland and Slovakia. **South Eastern Europe (SEE)** includes Bulgaria, Croatia, Romania and Serbia. **Eastern Europe (EE)** includes Russia and Ukraine.

Currency effects, - the rents and capital values in Russia and Ukraine are based on indices denominated in US Dollars (USD) and are therefore influenced by exchange rate effects.

Prime Rent – Represents the top open-market tier of rent that could be expected for a unit of standard size commensurate with demand in each location, of the highest quality and specification and in the best location in a market at the survey date. The Prime Rent should reflect the level at which relevant transactions are being completed in the market at the time, but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, the quoted figure will be more hypothetical, based on expert opinion of market conditions.

Prime Yield - represents the yield that an investor would receive when acquiring a grade/class A building in a prime location (for offices in the CBD, for example), which is fully let at current market value rents. Prime Yield should reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, a hypothetical yield should be quoted, and is not a calculation based on particular transactions, but it is an expert opinion formed in the light of market conditions, but the same criteria on building location and specification still apply.

Prime Capital Values represent the hypothetical value of a square meter of prime space that is let at its full rental value. It is calculated directly from the (annual) prime rent and the prime yield.

Distressed Sale – a(n) (urgent) sale of a property at a deeply discounted price.

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