



MIDDLE EUROPE INVESTMENTS

# Real Estate were Europe grows

August 2007





# Topics

- I. Middle Europe Investments
- III. Fund management
- V. Organization structure
- VII. The CEE Real Estate Market



# I. Middle Europe Investments

- Middle Europe Investments is active as an independent investment company in Middle Europe since 1992
- Headoffice in Lochem the Netherlands also offices in Prague, Bratislava, Bucharest, Sofia and Moscow;
- Management of investment funds
  - o MEI - Tsjechië en Slowakije Fonds N.V. (TSF)
  - o MEI - Roemenië en Bulgarije Fonds N.V.(RBF)
  - o Middle Europe Real Estate N.V. (MERE)
  - o Participation company, MEI - Middle Europe Opportunity Fund N.V. (not listed)
  - o Middle Europe Opportunity Fund II N.V. (MEOF II - not listed)
  - o Middle Europe Opportunity Fund III N.V. (MEOF III – not listed)
- We put largest appraise on our independence, both directors and fund managers are owners of the company
- Assets under management over €300 million



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## II. Fund Management



### **Dr. R.E. de Rooy**

For 25 years active in the banking sector, 20 years as investment banker at ABN-AMRO, Chase Manhattan Netherlands, Crédit Lyonnais Netherlands and Fortis/MeesPierson;

Director/Shareholder MEI since 2002;

Director TSF, MERE, RBF, MEOF



### **Ing. P.H.M. Winkelman**

Active in Middle Europe since 1991.

Holds several positions in Supervisory Boards of companies in the Czech Republic and The Netherlands;

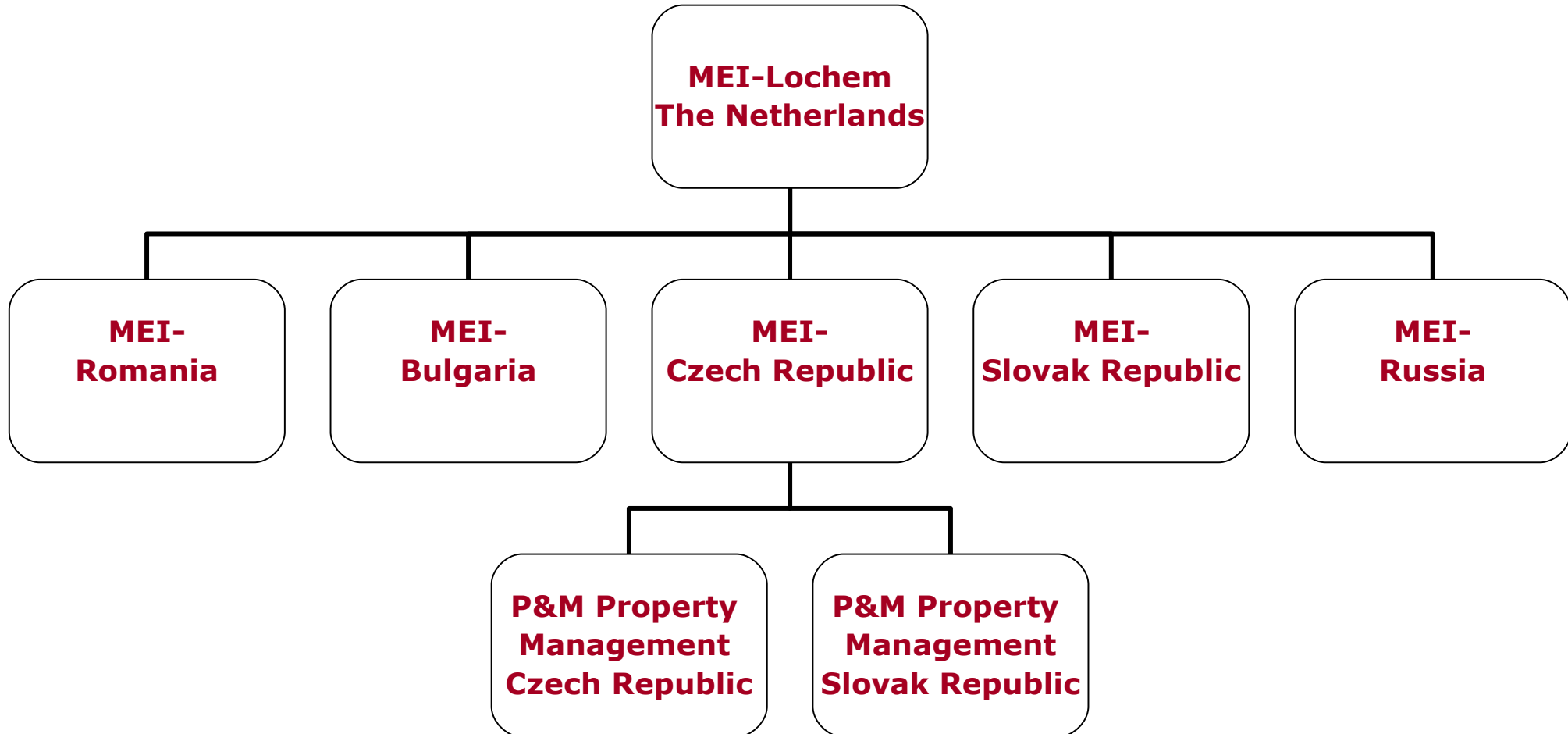
Director/Shareholder MEI since 1993;

Fund manager TSF, MERE, RBF, MEOF



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### III. Organization structure MEI



## IV. The CEE Real Estate Market

### ☐ Central & Eastern Europe (CEE)

- ☐ The focus region included in this presentation includes the following countries:
  - Czech Republic
  - Slovak Republic
  - The three Baltic States
  - Poland
  - Bulgaria
  - Hungary
  - Romania



## IV. The CEE Real Estate Market

- ❑ **Market Characteristics - Economic Characteristics**
  - ❑ GDP growth continues to exceed Western Europe
  - ❑ Foreign investments and exports accelerate growth
  - ❑ Large investments in infrastructure
  - ❑ Fast expanding consumer market



## IV. The CEE Real Estate Market

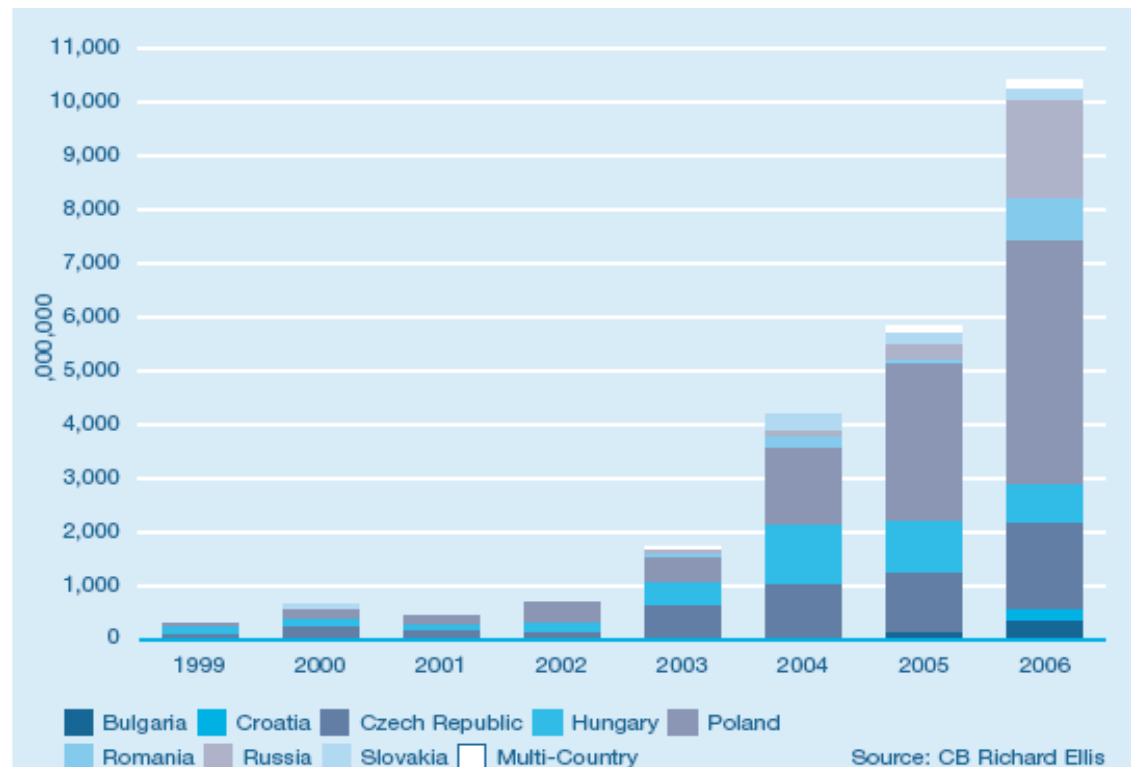
- ❑ ***Market Characteristics - Real Estate Characteristics***
  - ❑ Growing need for commercial real estate
  - ❑ Low vacancy rates
  - ❑ Increasing property values
  - ❑ Many development opportunities in under-supplied capital and regional cities



## IV. The CEE Real Estate Market

### ❑ *The CEE – Facts*

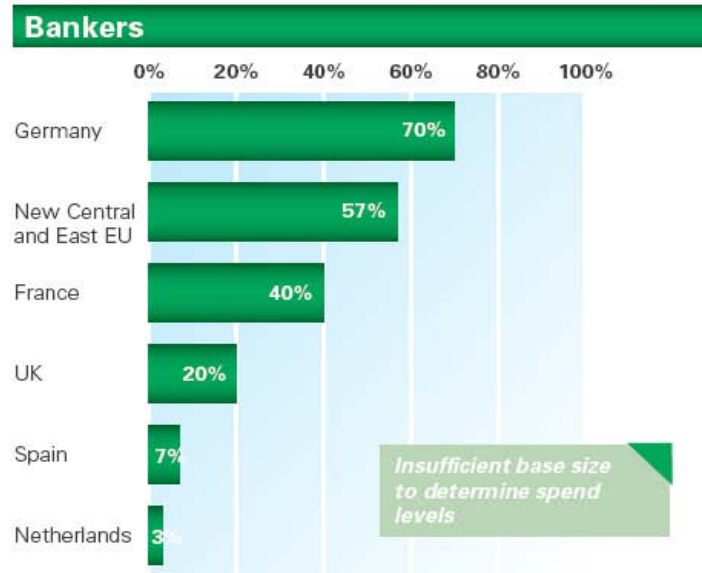
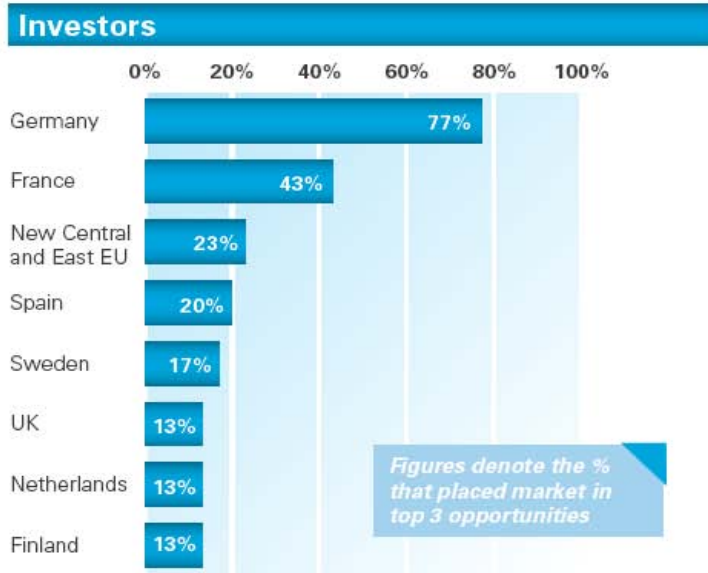
#### ❑ Investments into CEE (1999 – 2006)



## IV. The CEE Real Estate Market

### □ **The CEE – Facts**

#### Top 3 market opportunities 2007



Base: 30 investors, 30 bankers

Q7: On a pan-European level, which 3 countries or zones do you feel offer the best commercial property investment/lending opportunities in 2006?

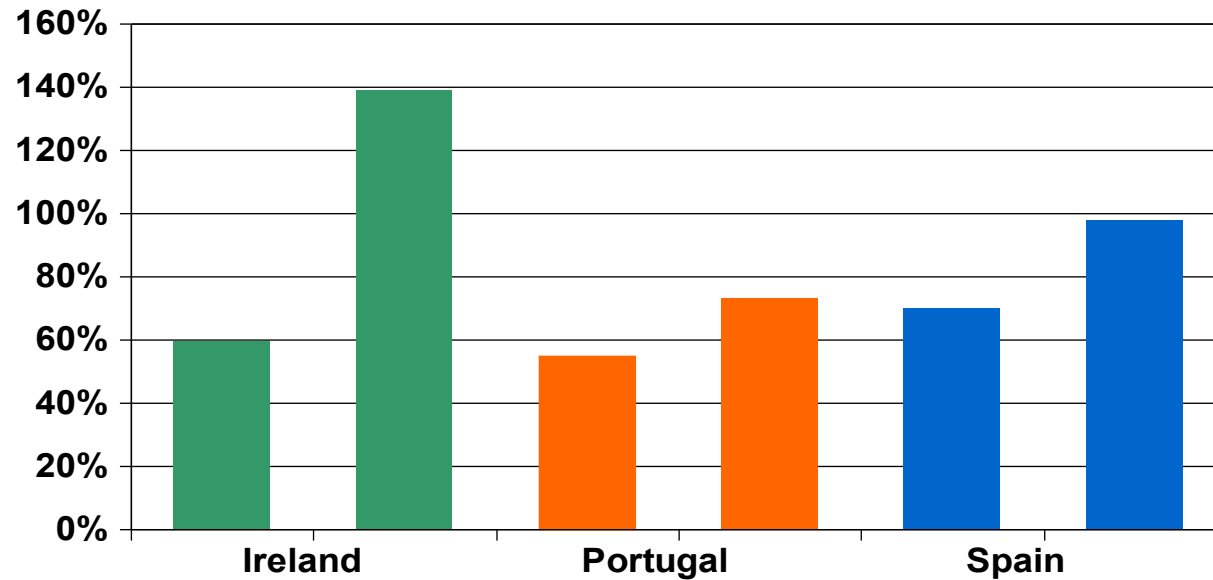
## IV. The CEE Real Estate Market

- ❑ Reasons to invest in the CEE
  - ❑ Economic growth of CEE is the main contributors to development of real estate market:
    - ❑ A gradual decrease in unemployment
    - ❑ Low inflation
    - ❑ Increase in volume of consumer credits
    - ❑ Income growth



## IV. The CEE Real Estate Market

### □ Reasons to invest in the CEE



- GDP per capita relative to EU (EC) average: 2 years before accession and 2004

## IV. The CEE Real Estate Market

- ❑ **Reasons to invest in the CEE Real Estate**
  - ❑ There is a structural shortage of good quality commercial real estate in all sectors: office, retail, residential, etc.
  - ❑ Office space
    - ❑ Demand is increased by inflow of foreign capital and entry of foreign firms to the market
    - ❑ An increasing number of domestic firms is seeking for higher quality office space

## IV. The CEE Real Estate Market

- ❑ Foreign Direct Investments in the CEE
  - ❑ The enlargement of the EU eastwards has contributed to the central and eastern European countries' success in attracting FDI:
    - ❑ dramatic improvements in the regional business environment
    - ❑ the region's geographic centrality in the pan-European theatre;
    - ❑ its impressive endowment of human capital
  - ❑ With a collective population of just over 100 million, the CEE-10 attracted **\$174.1bn of FDI** between 2001 and 2006:
    - ❑ During the same period, Brazil (with a population of 186 million) received **\$99.8bn of FDI**, Russia (142 million people) **\$65.7bn**, and India (1.1 billion people) **\$37.1bn**



## IV. The CEE Real Estate Market

- ❑ Who are the investors in the CEE?
  - ❑ CEE's locational assets have attracted major investments by leading multinational corporations in motor vehicles, information technology, branded consumer, energy and other sectors.
  - ❑ The **most active** countries:
    - ❑ Germany, Austria, Netherlands, Ireland, UK, USA, Middle East (Israel), Denmark, Norway, France



## IV. The CEE Real Estate Market

- ❑ ***From our experience***
  - ❑ Good due diligence is of crucial importance
  - ❑ A good local network is mandatory
  - ❑ Access to good property management
  - ❑ Important to have access to local knowledge



## IV. The CEE Real Estate Market

- ❑ ***Real Estate Market*** – *An selection of countries*
  - ❑ The Czech Republic
  - ❑ The Slovak Republic
  - ❑ Bulgaria
  - ❑ Romania

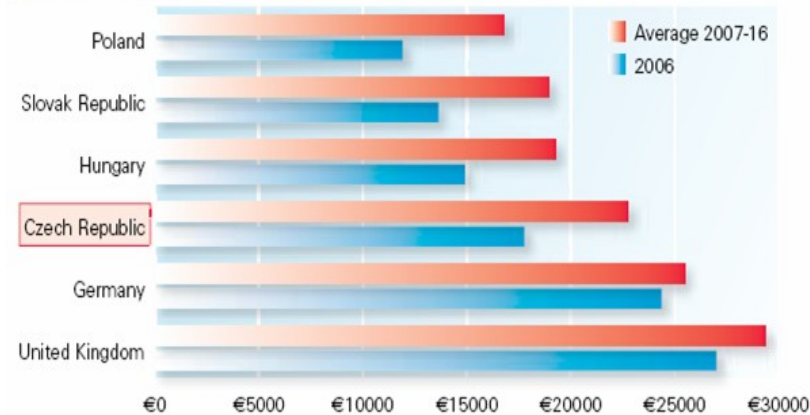


## IV. The CEE Real Estate Market

### □ **The Czech Republic** – General Information

- The Czech Republic is strategically located at the centre of Europe.
- The economy continues to benefit from the effects of EU accession.
- GDP growth is expected to slow to 5.2% in 2007. About twice as high as the Eurozone growth.

Chart – GDP per capita



Source: Experian / King Sturge, March 2007

Key economic indicators – Czech Republic

	2005	2006	2007*	2008*
GDP growth in %	6.1	6.1	5.2	4.6
Average annual CPI	1.9	2.5	3.0	2.9

Footnote: \* forecast

Source: Experian / Czech National Bank / Oxford Economics / King Sturge, March 2007

## IV. The CEE Real Estate Market

### ❑ ***The Czech Republic*** – The Real Estate Market

- ❑ The Czech **commercial real estate market** is one of the largest markets in Middle Europe with an investment volume of \$3.8 billion in 2006 (\$6.6 2007 forecast)
- ❑ **Industrial market** is interesting especially located near highways in Prague
- ❑ **Regional area's** like Brno and Plzen are developing well
- ❑ **Retail and logistics** are increasingly attractive in the regional cities
- ❑ **Offices market** is interesting in regional cities and area's like Prague 4 till 8
- ❑ Prague **office market** is a well established and liquid investment market with prime yields currently sub 6%
- ❑ **Offices** with parking places are important in de cities; prices up to €150 in Prague 1

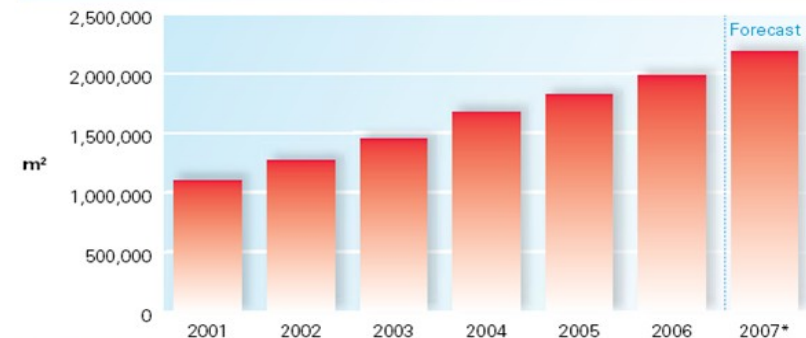
## IV. The CEE Real Estate Market

### □ **The Czech Republic** – The Real Estate Market (1)

#### Office Market

- **Modern office stock** in Prague approached 2 million m<sup>2</sup> in 2006
- **Demand for office space** reached a record, with an **increase** in volume of 44% p.a.
- In the short to medium term, new **supply** is likely to be **absorbed by occupier demand**
- **Vacancy rates** dropped to 7.70% and lead to upward pressure on rents for prime buildings.
- **Prime office investment yields** are between 5.50% and 6.10%

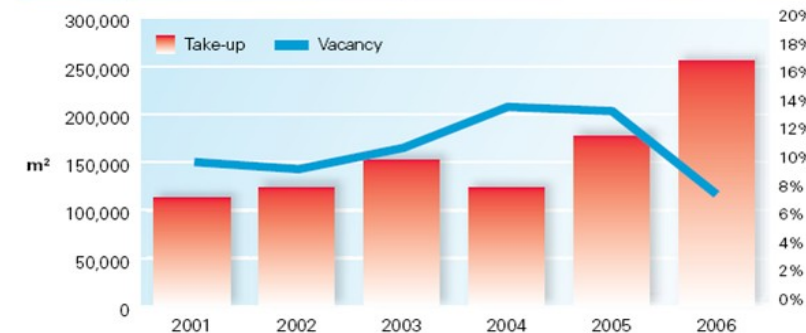
Class A office stock – Prague



Footnote: \*forecast

Source: King Sturge, March 2007

Take-up and vacancy – Prague



Source: King Sturge, March 2007

## IV. The CEE Real Estate Market

### □ ***The Czech Republic*** – The Real Estate Market (2)

#### Office Market

##### Prime office rents - Prague

Location	€/m <sup>2</sup> /month
In town	19.00 – 20.00
Out of town	13.50 - 14.50

Prime net rents for 2006 detailed. Rents assume an office of 500m<sup>2</sup> to 1,000m<sup>2</sup>. Figures quoted are asking or headline rents where rents are measured on gross internal floor area with common areas rentalised. Rents exclude occupational costs such as service charges and incentives.

*Source: King Sturge, March 2007*

## IV. The CEE Real Estate Market

### ❑ ***The Czech Republic*** – The Real Estate Market (3)

#### Logistic Market

- ❑ The Czech capital is the **largest** market in the country
- ❑ The **modern stock** in the Prague is just below 1 million m<sup>2</sup> of Class A space
- ❑ **Demand for logistics** has dramatically increased in 2006, driven by logistics companies
- ❑ **Prime rents** were stable in 2006 and range between €4.50 and €5.25 a month in Prague, and from €3.50 to €4.25 a month in regional hubs
- ❑ **Investment yields** for distribution warehouses range from 6.50% to 7.30%

## IV. The CEE Real Estate Market

### □ **The Czech Republic** – The Real Estate Market (3)

#### Retail Market

##### Prime rents – Czech Republic

Type	Location	Prague	Brno
Shopping centre		5 - 50	5 - 40
High Street	Prime location	50 - 120	35 - 70
High Street	Adjacent location	40 - 70	n/a
Retail warehousing		9 - 11	8 - 11

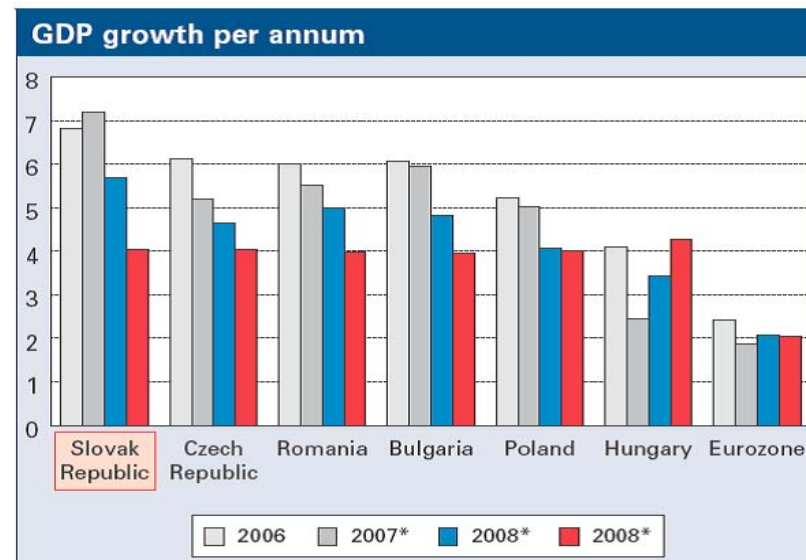
Source: King Sturge, March 2007

- **Shopping centre yields** are between 6.50% and 7.50%
- Opportunities in major towns and cities are **saturating** – refocus on regional centres
- Polarisation between **stronger and weaker retail property** will see a more competitive investment market

## IV. The CEE Real Estate Market

### ❑ **The Slovak Republic** – General information

- ❑ Slovakia plans to **adopt the euro** on 1 January 2009 and entered the Exchange Rate Mechanism (ERM) II
- ❑ **Growth rates forecast** by Experian of 7% for 2007
- ❑ **Average gross income** of EUR 527 per month in 2005 (among the lowest in Central Europe)
- ❑ Slovakia is located on three important roads, rail and waterway **transport networks**



#### Key economic indicators – Slovakia

	2006	2007*	2008*	2009*
Real GDP growth in %	6.8	7.2	5.7	4.0
Retail price inflation in % (average)	2.7	4.6	3.2	2.6

Footnote: \* forecast

Source: National Bank of Slovakia /Experian/ Oxford Economic Forecasting

## IV. The CEE Real Estate Market

- ❑ ***The Slovak Republic*** – The Real Estate Market
  - ❑ The **economic expansion** is expected to grow with above 6% in 2007
  - ❑ The country's real estate landscape is fast modernizing
  - ❑ Real estate is attractive in the Bratislava area but its a small market
  - ❑ There is a **high demand** for shopping malls in the Bratislava area
  - ❑ **Enormous growth** in car plants
  - ❑ Parking places in Bratislava are also very interesting
  - ❑ The **Bratislava office market** in 2006 is marked by very low availability but booming construction activity
  - ❑ **Prime office and retail yields** in Bratislava: 6%- 7%

## IV. The CEE Real Estate Market

### ❑ ***The Slovak Republic*** – The Real Estate Market (1)

#### Office Market

- ❑ The Slovak Republics capital has **a small office stock**, which is expanding fast.
- ❑ **A-class office space:** 432,950 m<sup>2</sup> at end of 2006
- ❑ 280,000 m<sup>2</sup> of **office space** will be added to the market by the end of 2009
- ❑ **Demand for office property** is robust
- ❑ **Prime rents** for existing stock range from €7.5-€12 month in Bratislava V, up to €14-€18 month in the CBD of Bratislava.



## IV. The CEE Real Estate Market

### □ **The Slovak Republic** – The Real Estate Market (2)

#### Rents

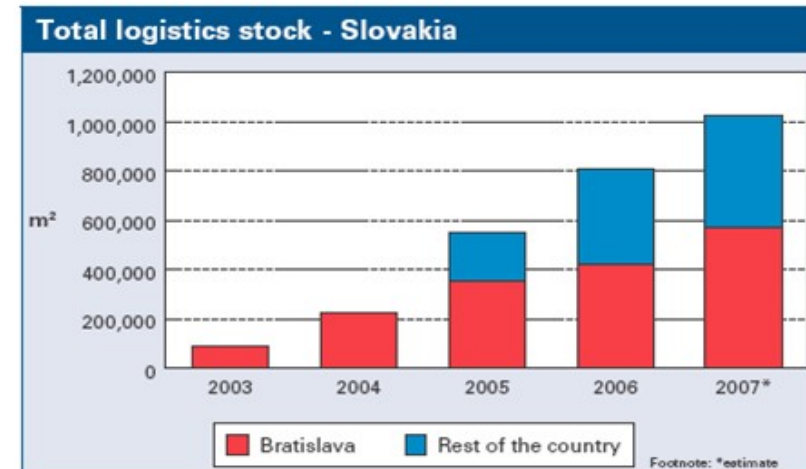
Prime office rents - Slovakia	
Location	Range €/m <sup>2</sup> /month
CBD - refurbished	14.00 – 18.00
Bratislava II (wider business district)	9.00 – 13.00
Bratislava III	7.00 – 12.00
Bratislava V	7.50 – 12.00
Emerging locations:	
Žilina	5.25 – 7.75
Košice	5.75 – 9.00
Trnava	7.50 -10.50
Banská Bystrica	5.25 – 8.25
<p>Prime net rents for H2 2006 detailed. Rents assume an office of 500m<sup>2</sup> to 1,000m<sup>2</sup>. Figures quoted are asking or headline rents where rents are measured on gross internal floor area with common areas rentalised. Rents exclude occupational costs such as service charges and incentives.</p>	
<p><b>Source: King Sturge, January 2007</b></p>	

## IV. The CEE Real Estate Market

### ❑ *The Slovak Republic* – The Real Estate Market (3)

#### Logistics Market

- ❑ Slovakia has become the **leading car manufacturer** (per capita) in Europe
- ❑ The location of manufacturers often becomes a **hot spot** for industrial development
- ❑ The **total stock** of modern warehousing in the Bratislava region is estimated at 420,905m<sup>2</sup>
- ❑ **Prime rents** are currently between €3.25 and €4 month in Bratislava



#### Prime industrial rents – Bratislava

Location	Range €/m <sup>2</sup> /month
Bratislava – Prime location	3.25 – 4.00
Bratislava – Secondary location	3.20 – 3.80
Trnava	3.20 – 3.80
Košice	3.00 – 3.80

Prime net rents for H2 2006 detailed. Rents assume a distribution warehouse of over 5,000m<sup>2</sup>. Net rents are exclusive of VAT and service charges. Net rents are for pure industrial use on built surface areas on an overall basis, assuming a provision of office area.

Source: King Sturge, January 2007

## IV. The CEE Real Estate Market

### ❑ ***The Slovak Republic*** – The Real Estate Market (5)

#### Retail Market

- ❑ **Five to ten years behind** the 'Big 3' Central European countries on the retail maturity curve
- ❑ **Significant opportunities for development** of modern retail floor space, focussing on large towns and highly populated area's

#### CENTRAL EUROPE

##### At a Maturing Crossroads

Hungary

Czech Republic

Poland

##### Lower down the Maturity Curve

Slovakia

Romania

Bulgaria

##### Bottom of the Maturity Curve

Russia

Serbia

Croatia

Lithuania

Latvia

Estonia

## IV. The CEE Real Estate Market

### ❑ **Bulgaria** – General information

- ❑ **Strategic geographical crossroad position**
- ❑ Highly-skilled, multilingual **workforce** at Europe's most competitive wages
- ❑ The **lowest operational costs and tax rates** in a European market economy



## IV. The CEE Real Estate Market

- ❑ **Bulgaria** – The Real Estate Market (1)
  - ❑ Dynamic and aggressive improvement of the **real estate market**
  - ❑ **Property prices** have increased between 20 and 70 percent and will continue to increase
  - ❑ The **Sofia market** has the activity highest in land sales and construction;
  - ❑ **Sofia office market** has a large stock of Class B and C office in city centre and emerging Class-A (e.g. airport area);
  - ❑ The modern **warehousing and distribution market** is yet to take off in Sofia
  - ❑ There is a shortage of modern **industrial facilities** for leasing

## IV. The CEE Real Estate Market

### ❑ **Bulgaria** – The Real Estate Market (2)

#### ❑ **Office Market**

- ❑ Projects over 5,000 m<sup>2</sup> are scarce
- ❑ Large-scale office buildings are concentrated in the suburbs of Sofia, Plovdiv and Varna
- ❑ Average rent price €8 to €4 a month , sales price €800 – €1,200

#### ❑ **Retail Market**

- ❑ The supply of large-scale areas within the downtown area or larger city districts is very limited
- ❑ Five to ten years behind the 'Big 3' Central European countries (Poland, Hungary, Czech Republic) on the retail maturity curve
- ❑ Significant opportunities for development of modern retail floor space focussed on large towns and highly populated area's

## IV. The CEE Real Estate Market

### ❑ **Romania** – General Information

- ❑ Romania exploits benefits of being a full EU member with a GDP growth of 7,7%
- ❑ **GDP** is expected to grow more than 5% per year from 2007 to 2009
- ❑ Fast-growing **construction sector** that will expand in connection with residential and non-residential projects



### Real Estate Market – Romania

- ❑ **Romania** – The Real Estate Market (1)
  - ❑ **The first institutional transaction** in real estate happened in January 2004
  - ❑ The **Bucharest office market** is one of the most dynamically growing regions
  - ❑ In 2005 there was 570,000 m<sup>2</sup> modern stock in Bucharest, demand is still growing through EU-accession
  - ❑ Market characterized by **scarcity**: vacancy rate Class A-B offices is around 3%
  - ❑ The supply of **modern shopping centre** can reach a growth of 300% in 2007 - 2008
  - ❑ The **retail market** is strongly developing outside of Bucharest
  - ❑ The **industrial real estate** market is growing fast

## IV. The CEE Real Estate Market

### ❑ **Romania** – The Real Estate Market (2)

#### ❑ **Office market**

- ❑ Since 2003, the supply of **modern office space** is doubled and exceeds 700,000m<sup>2</sup>
- ❑ **Demand** is high and the development of rentals for high-quality office space is stable, currently €15- €19 month
- ❑ Total **office space per capita** was still low in 2006, with vacancy rates ranging from 1-4%, depending on quality

#### ❑ **Retail market**

- ❑ There is **high growth potential** for retail and the markets are extremely attractive for international retail chains
- ❑ **Demand** for modern retail areas is strong and there are almost no vacancies



MIDDLE EUROPE INVESTMENTS

## IV. The CEE Real Estate Market

### ❑ ***Closing remarks***

- ❑ Coming off a record year there is much optimism for continuing real estate investment into CEE
- ❑ Declining yields are leading to a change in investment patterns with more focus on higher return opportunities through moving into less invested countries



## V. MIDDLE EUROPE INVESTMENTS

### **The funds of MEI are all:**

- Listed on Eurolist by Euronext Amsterdam
- No hedge funds
- No offshore funds

	<b>ISINcode</b>	<b>Reuters</b>	<b>Bloomberg code</b>
<b>Middle Europe Real Estate</b>	NL0000287340	MERE.AS	MERENVF NA
<b>MEI-Tsjechië en Slowakije Fonds</b>	NL0000290575	TSJE.AS	TSJEC NA
<b>MEI-Roemenië en Bulgarije Fonds</b>	NL0000287282	MERB.AS	MEIREBE



## VII. Summary

### Contact details

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