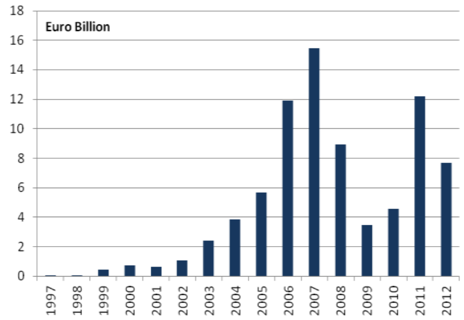
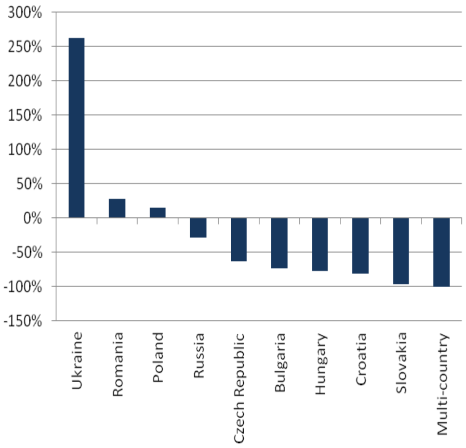
# 2012 Market Summary

**Investment Transaction Volumes**
[1997-2012, € billion]



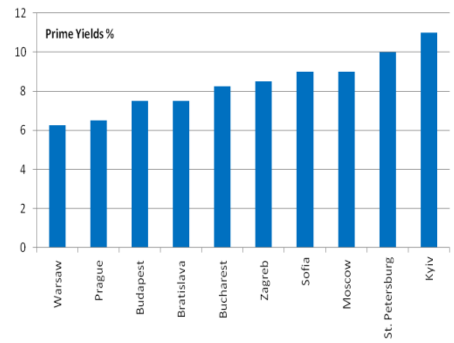

Source: Colliers International

**Change in Turnover 2011 – 2012**
[%, y-o-y]




Source: Colliers International

**Prime Yields per Key Market**
[Q4 2012]




Source: Colliers International

** Turnover figures relate to income-producing assets only, excluding land & end-user deals These figures only include deals which have been publically confirmed as closed at 30 Jan 2013.*

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The Eastern European investment market witnessed €7.7 billion worth of investment transactions close during the whole of 2012*. This represents a significant downturn in trading across the market, with turnover reduced by over one third in comparison to the €12.2 billion which closed in 2011.

On the surface, this may paint a rather bleak picture of the Eastern European investment market in 2012 when viewing activity on a strictly year-to-year basis. A closer examination of transaction activity better highlights the main underlying trends, and puts these figures into greater context.

## MARKET DISTORTION

Firstly, investment market turnover in 2011 was driven by some very large 'one-off' deals such as the conclusion of the Europolis portfolio in Q1 2011 and the closing of Galeria shopping centre in St Petersburg in Q4 2011. Together these two deals accounted for €2.3 billion – almost 20% of the total transaction volume for the year. If these deals had been officially closed either side of 2011, the figure would be significantly lower.

Secondly, just as there were large deals skewing the annual statistics in 2011 there are a number of large deals in Moscow which were due to close in 2012 but, at the time of reporting at end January 2013, were not reported as closed. There are four deals which equate to over €2.2 billion in value – which if closed in Q4 2012, would halve the year-on-year drop in activity to 20%. If Galeria St Petersburg had closed in Q1 2012, rather than Q4 2011, the annual difference would be as low as 5%.

The point we are making here is the extent to which big deals distort the statistics. For example, Ukraine posted the highest year-on-year growth as a result of completing the most successful volume of transactions for the last five years. Yet transaction volumes comprised only a small number of known deals, dominated by one large, core asset in the shape of Ocean Plaza shopping center in Kyiv. This one-off transaction and similar transactions are unlikely to be repeated every year, especially given the emerging nature of the Kyiv investment market.

Bar Romania and Poland, all other markets posted a fall in activity, but we would expect an uplift in volumes in a number, if not all, of these markets longer term.

The clear underlying trend which is visible to us is that the markets which continue to attract real estate capital – despite wider European market concerns – offer a combination of the following:

1. Liquid capital markets, including competitively priced debt provision.
2. The availability of strong, core assets at reasonable pricing levels.
3. Positive economic and property market growth fundamentals.

The markets which most benefit from these conditions are Russia and Poland. They have been by far the largest recipients of real estate capital post-crisis (2008), accounting for around 65% of all transactions over a four year period. In 2012 they accounted for over 80% of all transactions and this trend is likely to continue into 2013, especially given the financing challenges outside of these markets.

## PROGNOSIS

The investment market has had to contend with numerous negative factors over 2012 including weakening economic sentiment and growth; the partial closure of traditional forms of debt via the banks outside of the main markets of Poland and Russia, the Czech Republic and Slovakia; and rafts of regulation impacting the capital markets industry generally.

The majority of these new regulations required measures to be in place by January 2013, so we hope to see greater operational capacity in the industry over the year ahead. Equally, the European economy should bottom-out in 2013 leading to improvements at the end of the year. Unfortunately, limited capacity for debt provision is likely to hold back any significant improvement in turnover for the foreseeable future, outside of core markets.