

UP- AND HEADWIND IN 2010

Strategies for Investors, Banks and Municipalities

Major Issues of 2009 Valuation and Data

The past months showed what vast economic damage can be caused when accounting for fair value at times when the yield to be applied increases by 100 basis points or even more. Within the current economic environment, companies face imminent destabilising falls in value by potentially 10 to 20 %. Thus BulwienGesa's approach incorporates detailed consideration of individual cases instead of standardised valuation methods.

Especially at times of flat markets and only few transactions in the market, it is crucial to claim all possible sources available for the analysis. Our research-network, has grown over the years and comprises currently a broad spectrum of

market players, including both prospective buyers and potential sellers. This network counts among BulwienGesa's irreplaceable assets.

Furthermore, our comprehensive databases have been thoroughly fostered for many years and thus they allow to link scant information on current transactions with other data (e.g. floor space or rent) in order to derive the yield. In doing so we were able to verify that several German submarkets managed to evade last year's downward trend. This applies for both core property in the most prominent office markets as well as residential investments in different regions of Germany. The few concluded transactions within these segments were evidence for the fact, that the actual falls in value in some German submarkets were lower than in some foreign markets.



Dear Readers,

Despite some overlaps and blending experiments, business and Christmas do not match up, do they? Many colleagues have been complaining about the end of the year delivery pressure, boozed Christmas parties, "Merry Christmas" e-mails etc.

But still, we appreciate not only your professional, but also your personal strengths. For this reason, and since this is the most appropriate time to do so, we wish you sincerely and personally:

**Thank you for the cooperation
over the last year!**

We appreciated your encouragement, when defending our own opinions on certain issues. We are grateful for the stability, resulting from long-term business relations and look forward to new analyses and discussions in 2010!

**Merry Christmas
and a Happy New Year!**

Yours
BulwienGesa AG

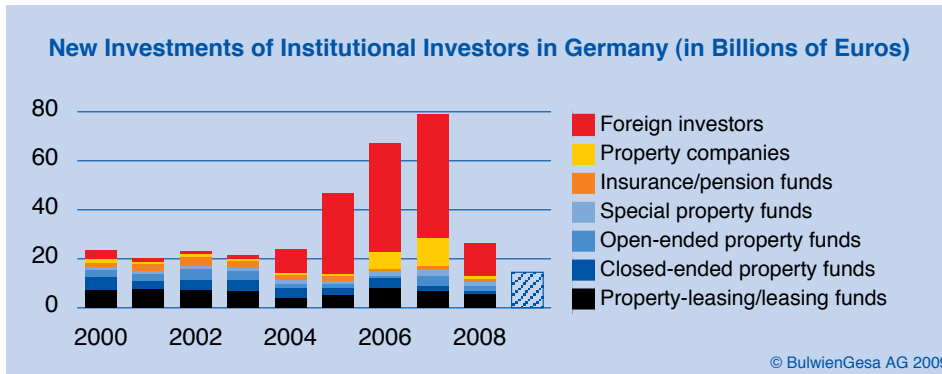
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Property Transactions Germany, Austria, Switzerland and Central Europe 2009

Property, Location	Type of Use*	Purchasor	
Q1 Nisa Liberec, CZ	SC	ING	125
Q1 oci Zweibrücken, DE	Retail	Neinver-Gruppe	110
Q1 Atmos Munich, DE	Office	Unilmmo	106
Q1 Alsterhaus Hamburg, DE	Retail	IVG	94
Q1 BMW NL Stuttgart, DE	Autohaus	LHI, BMW	51
Q1 Jungmannova Plaza, Prague, CZ	Office	Deka	41
Q1 BPH SA HQ, Waarsaw, PL	Office	Bank BPH SA	38
Q1 Schwarzenbergplatz, Vienna, AT	Office	conwert	29
Q2 Die Mitte, Berlin, DE	SC	CGI	127
Q2 West-Park Zurich, CH	Office	Unilmmo	106
Q2 West Erding Park, DE	RP	Hahn	50
Q2 Radisson Blu, Krakow, PL	Hotel	Unilmmo	32
Q2 Log Center, Plojesti-Targo, RO	Logistics	Immoeast	n/a
Q2 Horizon Plaza, Warsaw, PL	Office	IVG	n/a
Q3 Lenbach Gärten, Munich, DE	Office/Hotel	AM alpha	200
Q3 Mercado, Hamburg, DE	SC	Unilmmo	164
Q3 Radisson SAS Hotel, Hamburg	Hotel	Invesco	155
Q3 HTC-Columbus Haus, Hamburg	Office	Warburg-Henderson, HIH	74
Q3 E.on-Zentrale, Regensburg, DE	Office	Real I.S. AG	70
Q3 Sony HQ, Schlieren, CH	Office/Residential	Gebäudevers. Kanton Zürich	38
Q3 BSU, Hamburg, DE	Res./Commercial	Quantum	54
Q3 Ziegelei-Areal, Dusseldorf, DE	Residential	Nordrhein. Ärztevers.	40
Q3 Fashion House Sosnowiec, PL	FOC	AIB	14
Q4 JuVZ, Wiesbaden, DE	Office	Hannover Leasing, Sachsenfonds	130
Q4 Siemens Airport City, Düsseldorf	Office	Hesse Newman Capital AG	63
Q4 European Retail Park Braila, RO	RP	New Europe Property Invest.	40
Q4 Alfa Centrum 2, Olsztyn, PL	SC	Arka BZ WBK 2 FIZ	22

Source: RIWIS * SC: Shopping Centre, RP: Retail Park; FOC: Factory Outlet Centre

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Transactions 2009: Beyond 50m Euros

In 2009, the property investment market featured numerous transactions beyond the level of 50m euros, yet not enough to hinder the collapse. In Germany alone, the volume of investments fell below the long-term average. Security- and long-term-oriented investors are basically the only ones currently active in the market.

The 50 million euros-mark is especially crucial in case of property assessment. The opinion, that incalculable risks should be interpreted and market adjustments factored in for investment of this dimension, should be reconsidered in every particular case. Apparently, the market has great interest in qualitative property with reliable tenants generating firm cash flows and sustainable impulses for the regional economy.

Shopping centres and office buildings in all relevant Central and Eastern European countries were traded in 2009. Not only that they offer attractive yields, many investors have been pursuing the strategy of focusing on more exotic markets that the European main players (here especially German, France and Great Britain).

Expectations for 2010: Bottoming Out Nearly Completed

Continuous moderate recovery is expected for Germany in the course of the next year, especially due to the improved macroeconomic situation on the global market. It shall also result from the economic growth e.g. within the construction industry, induced by the second economic stimulus package (Konjunkturpaket II) launched by the German government.

More and more evidence indicates that the bottoming out phase within the property economy may soon be completed. The King Sturge Real Estate Economy Index has for months been showing a consequent recovery of the sentiment among market players. Though a "double dip", a second major market downturn during the upcoming months, cannot be ruled out definitely, yet the probability of this scenario decreases as the recovery of the market proceeds.

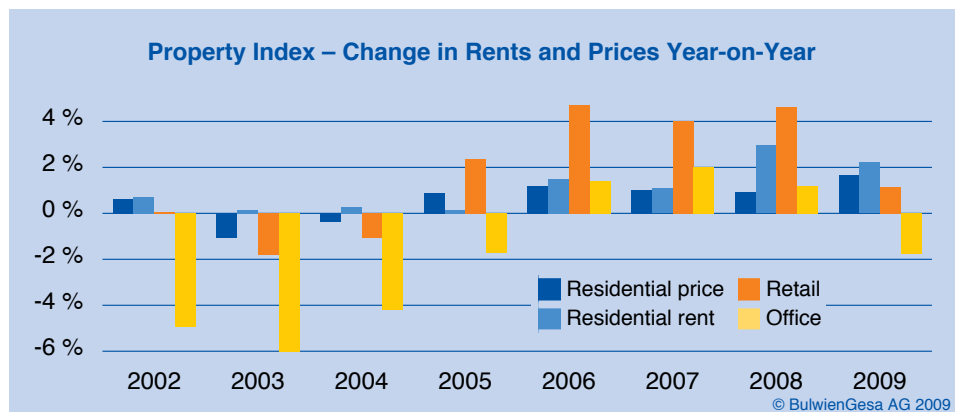
Rents and Prices Increased 2009 According to the Property Index

An analysis of current property market data for 2009, already available in RIWIS Online as well, shows that the slump in prices, as forecasted by some market players for 2009, has not yet occurred as drastic as expected. It can be much rather observed, that both companies and private households are willing to sign new contracts at high prices, despite the financial crunch. Furthermore, introduction of the German Energy Saving Act in October 2009 lead to a rise in prices within the residential market.

For 2010 we expect a further stable constitution of residential markets: rents in existing buildings shall decrease only in selected locations, due to demographic effects on the property market. According to the survey conducted by IAB (German Institute for Employment Research), only a slight percentage of SGB II (Social Security Code II)-recipients is willing to move to a different town motivated by better employment chances. This quite restricted mobility of labour force generates no impulses for the residential property market. Plots remain scarce, so that hardly any developments can be expected, putting some pressure on the market for terraced and detached houses.

Regarding residential purchases, considerable interest for this asset class has occurred in 2009. Despite more stringent equity demands on behalf of banks and saving banks, the market share of residential purchases shall further increase in 2010, since interest rates reached their all-time low. Some considerable regional and sectoral differences to this tendency are expected. Generally speaking, prices of new residential developments are more likely to rise, furthermore are Southern German cities as well as all A-markets the most expensive locations.

Regarding the commercial property sector, especially the volatile A-markets (Hamburg, Berlin, Dusseldorf, Cologne, Frankfurt/Main, Stuttgart and Munich) have been worst affected by the crisis. At the same time, the overall German index value decreased not as strongly as expected. Retail rents remain stable in secondary locations, whereas in top locations they keep rising, even if at a lower mo-



mentum than last year. Consequently, we expect some decreases in both retail and office rents to occur in 2010.

From Red Lantern to Engine of Economic Growth

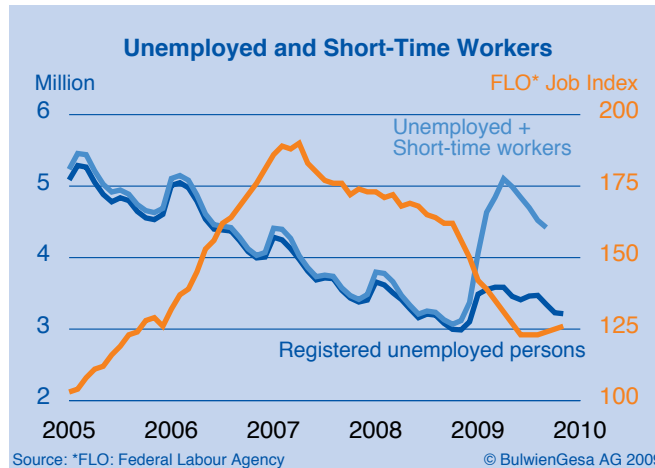
Times change: During the last cyclical downturn (2002 to 2004), triggered at the beginning of 21st century by the end of the IT and communication industry boom, experts analysed reasons for Germany's poor economic growth and, according to their political colour, they called for different reform measures. Germany, formerly known as the engine of economic growth in Europe landed on the bottom of Europe's economic scale and the "red lantern" image stuck to it.

The following economic cycle ended abruptly with the international financial crunch. A systemic collapse of the international financial system was avoided only due to exceptional measures in fiscal and monetary policy terms that were implemented. Eventually, these measures managed to slow down contraction forces of the real economy and stabilised the demand for goods and services on a low level.

From the statistical perspective, the first recession in the ten-year history of the

European monetary union ended in the third quarter of 2009. Europe's economy recovered quicker than it had been assumed half a year ago, not least because of Germany's strong contribution (0.7 %) to the GDP growth within the euro zone. Shall Germany rise and become Europe's growth engine again?

Rise in Unemployment Expected in 2010



A solid labour market started into the winter. The number of unemployed decreased in November 2009 to 3.215 million persons. Yet the influence of the economic stimulus package as well as short-term measures such as short-time compensation or some new methods of statistical coverage of unemployed blur the true view of the economy's condition. The economic recession has definitely not yet reached the bottom; further necessary adjustments on the labour market can be expected in 2010 and 2011. The follow-up regulations resolved by the cabinet a few days ago, extending the length of entitlement regarding short-time compensation from 18 to 24 month, has a fundamental share in market's stability. Still, the 1.07 million short-time workers reported in September correspond to less than 320,000 full time equivalents. For the time being, the sword of Damocles is still hanging over the German labour market.

Stabilisation of the Financial System – Latent Risks Still Exist

Implemented fiscal and monetary policy measures prevented a systemic collapse

of the international financial system and meanwhile financial markets have been recovering from the crunch. Yet the feeling of insecurity remains. Speculative developments took Dubai to the limits of insolvency, Greece fears facing problems concerning the country's debt burden in the short- or long-term. These circumstances create shock-waves, signalling at irregular intervals all market players that there are some more challenges as a consequence of the financial crisis still to come.

Exemplary are losses from securisation instruments, which have not yet been written off completely. Model-based estimations by the Bundesbank (Financial Stability Review 2009) assume, depending on the economic trend, that book loans could generate value-corrections totaling 50 to 75 billion

euros. Increasing failure rates regarding commercial property loans as well as high liquidity in the market (even if companies do not benefit from it adequately) keep the market in suspense. In this context "credit squeeze" and "exit strategy" – both concepts originating from expansive monetary policy – are currently being discussed in the market.

Germany, the new engine of economic growth, picks up speed. Occasional, sometimes unscheduled stopovers should be taken into account when planning the journey for 2010.

What are Potentials for Municipalities?

The demographic change became an issue for German local authorities, since it is evident, that more and more municipalities in East and West Germany shall face stagnating or even declining population development within the next 20 years. Additionally to large-scale alterations, in some densely settled regions growing and shrinking tendencies shall involve directly adjacent municipalities.

