

Press release

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Valuations of property companies in CEE look particularly attractive in a historical comparison

- **Discounts to Net Asset Values have reached historic high levels. Stabilization and narrowing of gap expected after first ECB rate cuts in 2009.**
- **CEE - a safe haven compared to troubled Western Europe and risky CIS.**
- **Investors should not look at short term P&L results, but at companies with a good balance sheet, prime assets and prudent financial management.**

The stock prices of listed real estate companies have fallen sharply over the past 12 months. CEE real estate stocks have fallen as much as 70% amid fears from the financial crisis. As a result, valuations of property companies in CEE, with an average P/BV 2008e of 0.33x, look particularly attractive in a historical comparison. However, as book values decrease in Western Europe, the ratio is around 0.7x for the main European real estate stocks.

The main story driving real estate is the tightening of lending conditions and a rise in interest rates for the sector. While EURIBOR rates have increased by about 70bp y/y, Erste Group analysts estimate that average margins on loans for real estate increased by 50-100bp in CEE, up to 200bp in SEE and (some reports suggest) as much as 200-300bp in CIS. *As required equity returns also increased by some 200bp (looking at real estate bond yields), it is no surprise that rental yields have started to grow from their lows in 3Q 07 and still have room for a substantial increase,* says Günther Artner, co-head of CEE Equity research.

As we believe the ECB will need to support economic growth in the EU next year, we expect that a lowering of ECB rates should set the roof for rental yields in 2009 and contribute to stabilization and the beginning of the sector's recovery, he continues.

Only slowdown of rents in CEE expected

What matters in CEE is the expected supply. *We see the credit crisis creating downward revisions of development pipelines all the time – so the lower expected GDP growth is balanced by lower supply levels. As we believe that large local institutions and public authorities will continue to seek more efficient office space in an environment of stable low GDP growth, we expect a slowdown, not a substantial decrease in rents in CEE,* points out **Gernot Jany, CEE real estate sector analyst at Erste Group.**

The only strong justification for low valuations of local real estate stocks is the lower liquidity and imbalance on CEE investment markets and low recurring cash flows of some stocks. As highly leveraged buyers disappear from the market and developers seek to unlock value from finished projects to replace frozen bond and equity financing, the situation seems to be unchangeable right now. However, loans remain available for good projects as local banks have strong deposit bases. Also, for defensive equity investors CEE is a safe haven compared to troubled Western Europe and risky CIS, say Erste Group analysts.

No overshooting of rental yields expected

Yields will need to go up substantially due to increased cost of financing (equity & debt) and higher share of equity in investment deals. However, decreasing interest rates and later on also risk premiums in the future should help to lower yields as early as near the end of 2009. *The implications for stocks are that one necessarily does not need to look at short term P&L results, but should rather look at companies with good balance sheets, prime assets and prudent financial management at current valuations,* concludes Günther Artner.

Erste Group analysts recommendation and target price overview:

9/23/2008	Rep. Curr.	Mcap (EURmn)	Price Current (LC)	Price Target	Recommendation	Performance (EUR terms)			
Company						1M	3M	6M	12M
CA IMMO	EUR	694	7.95	13.0	Hold	-20.5%	-42.8%	-41.8%	-58.2%
CA IMMO International	EUR	209	4.80	9.7	Buy	-29.2%	-53.6%	-51.6%	-63.9%
ECM	EUR	49	11.47		Under review	-39.3%	-57.2%	-63.6%	-80.0%
ECO Business-Immo	EUR	136	4.00	7.7	Accumulate	-40.3%	-44.4%	-45.2%	-60.4%
GTC	EUR	1,491	22.41	31.0	Hold	-12.3%	-29.7%	-31.4%	-48.7%
Immoeast	EUR	1,668	2.00	4.0	Accumulate	-54.5%	-67.2%	-64.8%	-75.0%
Orco	EUR	204	18.91	41.0	Buy	-18.4%	-47.7%	-66.3%	-81.9%
Sparkassen Immobilien	EUR	341	5.01		Not rated	-11.8%	-29.8%	-24.9%	-41.0%

Source: Erste Group estimates, Prices as of Sep. 23, 2008

- We initiate coverage on the **CA Immo** stock with a Hold rating and a target price of EUR 13.0. Although we believe that the company is well-managed and also has had the right company structure from the beginning, the major acquisition of the Vivico assets in 2008 and the accompanying major necessary developments prevent us from giving a better recommendation. Nevertheless, we believe the stock is a conservative investment with low downside risks on current valuation levels.
- We upgrade to rating of **CA Immo International** from Accumulate to Buy. The company has recently cut back its development pipeline and also stated that they would only do “bargain hunting” in case real market opportunities arise. The stock is not absolutely liquid, but we believe it has the perfect conservative strategy for this difficult market situation with an estimated LTV ratio of only 12% at the end of 2008. Additionally, the holding company CA Immo is constantly increasing its stake to already 59%. Investors buying the stock at these levels can also enjoy a projected dividend yield of around 6% while they are waiting for the stock to pick up steam again towards 2009.
- We confirm our Accumulate recommendation for the **ECO Business-Immo** stock and set our new 12-month target price at EUR 7.70. The company is well-managed, but also suffers from the small-cap factor currently. The focus on Austria and Germany is a clear advantage in these rough times for CEE properties. Sooner or later, we expect that conwert (its 24.9% shareholder) will file a voluntary takeover bid. There is no rush, however, as the 6-month average stock price (the minimum for a takeover bid) is constantly declining.
- We cut the rating for **GTC** from Buy to Hold and have also lowered our short-term estimates for the company. The downgrade is also based on the fact that the stock is still traded at significantly higher multiples than most of its peers. GTC remains a relatively safe bet thanks to its quality portfolio, high current margins on commercial projects, expansion to CIS markets and strong balance sheet. However, we have lowered our 12M target price from PLN 47 to PLN 31 per share due to low

expected margins on residential projects in Poland and Romania and slower execution of development projects.

- We cut the rating for **Immoeast** from Buy to Accumulate and set our new target price at EUR 4.0. We believe the company is too big to fail, but the recent happenings have made us somewhat alarmed. The target price includes a 20% corporate governance discount, as we believe that a company like Immoeast would never have lent EUR 1.8bn to another real estate company, if the management was not the same. The fact that Immofinanz has now even increased its borrowing in the past months, which puts a brake on Immoeast's growth financing capabilities, is, in our view, clearly detrimental to Immoeast shareholders. Due to the 0.21x 2008/09e P/NAV multiple, we still see a clear upside for the Immoeast share. Probably, this will only be realized as soon as Immofinanz starts to pay back its inter-company loan.
- Our 2nd favourite in the CEE real estate sector is **Orco**. With the latest news about the renewed step-up equity program and six development projects put on hold, we confirm our Buy recommendation for Orco and set our target price at EUR 41. The high 76% discount to 2008 NAV is no longer justified by liquidity concerns, in our view. Orco is the 2nd stock in our coverage universe that offers upside of >100%.
- We continue not to put a rating and target price on the **Sparkassen Immo** stock given Erste Group's 9% shareholding. The company has a EUR 750mn investment and development pipeline to finance, which should not be a major problem, however, given the Erste Group is a major shareholder and the estimated 52% LTV ratio for 2008 (excluding the participation certificates), the company's investment focus on prime locations has turned out to be a real advantage.

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Erste Group is with its more than 54.000 employees one of the leading financial providers in CEE, serving over 16 million clients in almost 3,000 branches in 8 countries (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia, Serbia, Ukraine). As of 30 June 2008 Erste Group has reached EUR 214.2 billion in total assets, a half-year net profit of EUR 636.6 million and an after-tax ROE of 14.7%.