



Real value in a changing world

World Winning Cities

Global Foresight Series

Bratislava

A Winner of European Integration



Bratislava – A Winner of European Integration

Fig 1: City Dashboard

Size	Population (thousands) ¹	600
	GDP (EUR billions 2007) ¹	20.4
	Unemployment (% in 2007) ⁴	3.1
Growth	GDP (% 2007) ²	10.3
	Employment (% pa 2008–2017) ¹	
	Total	0.2
	Financial Services	3.0
Access	Business Services	2.3
	Air Passengers (millions, 2007) (Bratislava Airport)	2.24
Wealth	GDP/Capita (EUR, 2007)	
	Bratislava ¹	37,700
Education & Labour	Slovakia ²	21,800
	Students Enrolled in Tertiary Education ('000s, 2007) ³	58
	Yearly alumni ('000s, 2007) ³	10
	Average Wage Rates (in EUR, H1 2008) ⁴	980
Market Size	Grade A Office Stock ('000, H1 2008)	500
	Retail Stock ('000, H1 2008)	224

Executive Summary

- With double-digit GDP growth in 2007 Slovakia is one of the fastest growing economies in Europe, benefiting from EU, Schengen Zone and Eurozone (January 2009) accessions;
- Bratislava has been the major beneficiary of the country's ongoing transformation, its central location attracting ever increasing numbers of foreign investors gathered around the automotive industry;
- The Twin Cities of Bratislava and Vienna constitute the urban core of Centropa – the region at the crossroads of Europe with – 4.5 million inhabitants in four countries;
- With GDP per Capita at EUR 37,700 Bratislava is the one of the wealthiest capital city in Central and Eastern Europe, after Ljubljana and Prague;
- The city is already moving up the value chain and is boasting a competitive edge in the knowledge economy;

Bratislava's real estate market is booming across all sectors:

- The Office market is growing as Bratislava develops as a prime nearshoring location and on the back of demand from advanced technology producers;
- Retail is driven by the city's growing prosperity and residential boom;
- Logistics and Industrial premises are being built to support automotive production, offering competitive pricing and profiting from its hub location;
- The Residential market is being driven by demand from both local and international buyers;
- The high-end Hospitality market is catching up with growing business requirements.

¹ Bratislavský Kraj (Region). Source: BSL Experian

² Slovak Republic. Source: EIU

³ Bratislava. Source: The City of Bratislava

⁴ Bratislava. Source: National Statistics Institute, June 2008



City Overview

Bratislava gains from European Integration

Bratislava, the capital city and the business and cultural hub of Slovakia (Slovak Republic), is finally enjoying economic prosperity. Bordering with Austria, Hungary and the Czech Republic (7, 19, and 60 km from Bratislava's city centre respectively), Bratislava is one of the youngest European capitals, established only in 1993. With over 600,000 inhabitants in the city and its metropolitan area (418,000 and 182,000 respectively), Bratislava is also the largest city of Slovakia, a country of 5.4 million people.

Bratislava has revealed its potential only recently. In the dramatically changing landscape of central Europe, what was a major hindrance two decades ago – namely its border location, the proximity of the iron curtain and opaque Soviet Block frontiers – has now become the city's major asset. Benefiting from its EU membership since 2004, and consolidated by its entry into the Schengen Zone in December 2007, Bratislava continues to grow as a popular destination for major international businesses looking to set up operations in the fast developing economies of Central Europe. The forthcoming adoption of the Euro, scheduled for January 2009, will further integrate Slovakia and Bratislava with the surrounding "Centropa"¹ region.

With about 2.5 million people living in their joint metropolitan areas, Bratislava and Vienna constitute the urban core of Centropa – a region of 4.5 million people. Centropa embraces neighbouring regions of Slovakia, Austria, the Czech Republic and Hungary and, in addition to Bratislava and Vienna, includes cities such as Budapest and Győr. As linkages between Vienna and Bratislava increase, we expect these two cities soon to create a major Central European megalopolis.

Bratislava is benefiting from improvements in Slovakia's business environment, fiscal decentralisation and increasing linkages with Vienna. With a surge of new real estate development and strong growth drivers, as well as reinvigorated regional linkages and improving infrastructure, Bratislava is creating exciting opportunities – primarily for developers and occupiers, but also increasingly for investors – and features strongly on the real estate map as a rising CEE star. We expect that upon completion of a new suite of mixed-use projects, Bratislava's retail offer will to some extent compete with that of Vienna, while its office market will create niche and complementary – but considerable – opportunities for back offices and offshoring. The logistics market is expected to see rapid growth on the back of FDI in advanced technology production, particularly the automotive sector, and Bratislava's strategic location at the crossroads of three major European transport corridors.



Bratislava's Castle

Fig 2: Slovakia – In the Centre of Centropa

		Austria	Czech Republic	Hungary	Slovakia
Population	million	8.4	10.2	9.9	5.5
Population Change	2008–12 %	1.5	-0.4	-1	-1.1
GDP / Capita	EUR	39,970	23,980	20,060	21,810
GDP growth	2008–12%	2.0	4.5	3.3	5.6
FDI / GDP	%	47.4	43.5	75.3	27.1

Source: EIU

Fig 3: Key Capital Cities in Centropa

		Vienna	Prague	Budapest	Bratislava
Population	million	1.98	1.31	2.27	0.6
Population Change	2008–12%	0.3	-0.3	0.1	-0.1
GDP / Capita	EUR	39,500	41,400	26,200	37,700
GDP growth	2008–12%	2.1	4.4	4.3	4.8

Source: Experian BSL

¹ Centropa – a region encompassing parts of Slovakia, Czech Republic, Hungary and Austria

Economic Background

In the last five years
Slovakia has experienced high economic growth as a result of structural reforms

Rapidly growing economy

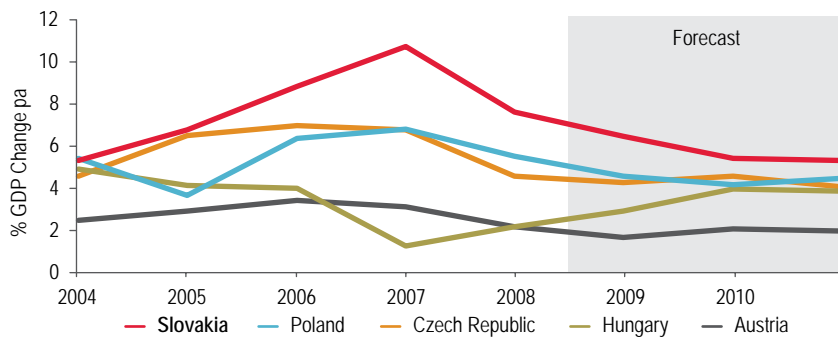
In comparison to its regional peers, Slovakia has had a particularly difficult path to political and economic stability. In its first decade following the separation of the Czech Republic and Slovakia in 1992, Slovakia lagged behind the major countries of the region. The country suffered from its separation from the wealthier Czech Republic and went through a turbulent transition period accentuated by Slovakia's reliance upon old industries, such as steel, and limited export opportunities.

However, this position has changed radically in the last five years and Slovakia has experienced consistently high economic growth levels as a result of structural reforms. In 2002, under the Slovak Democratic Coalition government led by Mikuláš Dzurinda, Slovakia embarked on a rapid and ambitious liberalisation programme, opening up its markets and enacting a flat tax regime.

In 2007, Slovakia's economy experienced record double-digit economic growth of 10.3%, after 8.5% in 2006, representing one of the fastest growth rates in Europe. The economy has benefited from a substantial influx of Foreign Direct Investment (FDI) in the automotive and electrical engineering industries as well as strong growth in household consumption.

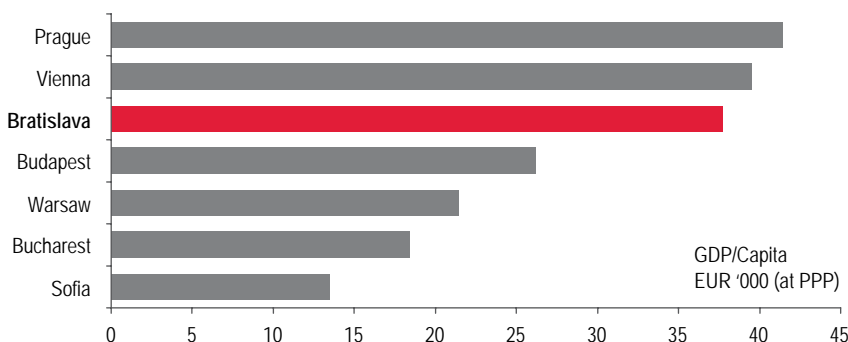
Moreover, despite fast economic growth, there are few signs that the economy is overheating (according to CSOB Bank). The economic outlook for Slovakia looks promising and Consensus Economics predicts further buoyant expansion throughout 2008 and 2009, with GDP growth figures around 7.4% and 6.3% respectively. Inflation will be kept tight and Slovakia will join the European Economic and Monetary Union in January 2009.

Fig 4: Economic Growth: Slovakia vs its Neighbours
Slovakia boasts highest economic growth in the region



Source: Consensus Forecasts, September 2008

Fig 5: Wealth, Major CEE Capitals
Bratislava already has one of the highest GDP per Capita in Central Europe



Source: Experian BSL

Bratislava is the country's economic engine

Comprising 11% of the country's population, the Greater Bratislava area generates over 23% of the country's GDP, recording productivity ratios twice as high as the rest of Slovakia. At over EUR 37,700 GDP per capita (on PPP basis) Bratislava ranks second highest in the CEE region, behind only Prague, and ranks better than Western European cities such as Bonn or Bologna (at EUR per capita 36,400 and 34,300 respectively). Bratislava acts as the main force behind growth in Slovakia, but underlying the GDP per capita figure is a substantial gap between the capital region and the rest of the country.

The bulk of Bratislava's GDP is generated by the service sector (69%). Financial and business services are already responsible for over 30% of GDP, a proportion that is likely to grow in the future.

Business Environment

Slovakia – automotive hub of Europe

Slovakia has seen a surge in FDI over the last five years, notably from the automotive sector, following a decade of low inward investment. The FDI profile substantially changed in 2003, when the French automobile maker PSA Peugeot-Citroën became the first major foreign investor to build a greenfield plant in Trnava, 45 km from Bratislava. Subsequent decisions by other international automobile manufacturers to build plants in Slovakia have helped to raise the country's profile and Slovakia is now firmly established as a major automobile manufacturing hub of truly global significance. Assembly and components plants of companies such as Volkswagen, PSA Peugeot Citroen, KIA Motors, Hyundai Mobis, Getrag Ford, and Yazaki were followed by others, as Slovakian car makers made a concerted attempt to persuade parts manufacturers to open plants in Slovakia in order to achieve supply chain efficiencies.

According to Business Monitor, the automotive sector currently employs 55,000 people but is expected to employ more than 100,000 in total after the construction of new car plants is completed by the end of 2008. Vehicle production accounts for around 30% of exports and 26% of industrial output and is expected to grow, as weakening demand from some Western European markets is outstripped by the increasing demand from other CEE markets. On the back of the automotive sector FDI inflows remain high, representing 7.4% and 4.4% of GDP in 2006 and 2007 with total cumulative FDI stock currently reaching 33% of GDP.

Foreign investors have taken notice of the more business-friendly environment, relatively low costs, strong skills, EU regulatory environment and solid infrastructure, as well as the country's proximity to markets in both Western and Eastern Europe. Another major bonus is the dynamism of Slovakia's information and communications technology (ICT) market. Fast growth in this segment – especially in IT services – is exerting a pull on Western companies. The telecom sector is represented by Atlantic West, Orange and Deutsche Telecom among others.

Significant “nearshoring” opportunities

In AT Kearney's 2007 Global Services Offshoring Index, Slovakia was ranked 12th, up from 16th in 2005. The country leads its regional peers and is outperformed only by Bulgaria. IT and BPO companies are all expanding their operations in Bratislava, proving the robustness of the local market:

- Since 2002, the Accenture Delivery Center in Bratislava has provided a broad range of technology services in application maintenance and application development. In 2004, Accenture also began providing business process outsourcing services to clients.
- Since the launch of Dell operations in 2003, its number of employees has increased to over 1,400 – an exceptional growth and proving Dell's ability to find highly qualified staff in Bratislava. Dell employs specialists in the areas of sales, finance, marketing, customer care, human resources and technology.
- The HP office has existed in Bratislava since 1997 and has grown to be an important part of HP's ECE region within the last few years.
- IBM operates its Innovation Centers for Business Partners in the city.

Bratislava is at the front of high FDI intake

Accounting for 67% of total foreign investment, Bratislava remains the prime FDI destination of the country. Although wages are much higher in Bratislava than elsewhere in the country, they remain very attractive compared to labour costs in other CEE economies. Key MNCs located in the Bratislava region include a flagship project of Volkswagen, MOL (Slovnaft), and Coca-Cola. In Volkswagen's Bratislava plant, 7,500 employees manufacture VW Touareg, Polo, Audi Q7 and Porsche Cayenne models.

Bratislava continues to attract FDI and experienced another surge of foreign investment companies in 2007 and 2008. Newcomers such as Stiebel Eltron, Doppelmayr Seilbahnen, Knauf Insulation, Johnson Controls, Hansol, Shinwha Intertek, Makino Europe and Ruebig are operating mainly in the production and advanced technologies sectors.

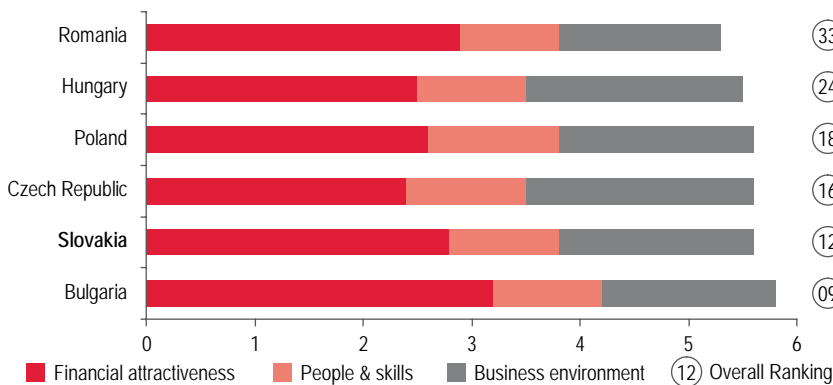


Other international offshoring companies have already followed including BASF, Alcatel, SAP and AXA, as well as Generali Holding and Kraft Foods who share a service centre. Nearshoring prevails, as the majority of offshoring projects have been initiated by European firms. Local offshoring suppliers include companies such as Gratex International, ASSET Soft, Delta, Tronet, PosAm, Softec, and HT Computers.

As the sophistication of the market grows and the price advantage diminishes, we expect the profile of FDI to shift once again. Generous incentives for greenfield investment are to be reduced and new incentive packages are to be used to lure foreign investors into high-technology industries. Bratislava will continue to attract higher-value services, as it offers the combination of good price/performance ratio together with physical proximity to Vienna and reliable intra-regional links. Infrastructure is in place with industrial parks and technology incubators, such as Science and Technology Park CEPIT in Vajnory, being set up.

Fig 6: Nearshoring possibilities

Slovakia is among the most attractive offshoring destinations in the world



Source: AT Kearney, Global Offshoring Index, 2007

Business-friendly environment

Slovakia boasts one of the most business-friendly environments among the transition countries of the CEE region. In its latest Index of Economic Freedom, the Heritage Foundation once again improved Slovakia's position, ranking it 35th among 165 countries and ahead of its CEE neighbours (Czech Republic was ranked 37th and Hungary 43rd), and falling just short of neighbouring Austria, which is ranked 30th on the list. Slovakia scored exceptionally high when fiscal freedom and freedom of trade is compared. The 2008 Jones Lang LaSalle Global Transparency Index puts Slovakia among other semi-transparent markets of the region. Market fundamentals alongside regulatory and legal environment and transaction processes all position Slovakia amongst the most developed economies of the region, but relative underdevelopment of its property market results in more limited availability of performance measurement indicators². According to the 2007 Transparency International Corruption Perception Survey, Slovakia has again seen a year-on-year improvement in transparency and is ahead of some better established EU countries. Corporates indicate incentives, minimal red tape and favourable tax regimes as key attractors to Slovakia.

Fig 7: Business Environment Ratings

Index	Transparency Index	Corruption Perception Index	Index of Economic Freedom	Long Term Sovereign Rating
Founder	Jones Lang LaSalle, 2008	Transparency International, 2007	Heritage Foundation, 2008	Moody's, August 2008
Austria	1.72	8.1	70.0	Aaa
Czech Republic	2.32	5.2	68.5	A1
Poland	2.37	4.2	59.5	A2
Hungary	2.50	5.3	67.2	A2
Estonia	2.64	6.5	77.8	A1
Slovakia	2.70	4.9	68.7	A1
Bulgaria	2.91	4.1	62.9	Baa3
Romania	2.92	3.7	61.5	Baa3
Ukraine	3.18	2.7	51.1	B1

10 – Corruption Free
0 – Highly Corrupt

100 – Maximum Freedom
0 – Lack of Freedom

Aaa – Bonds of Highest Quality and Minimal Risk
C – Lowest class of Bonds

² New Europe Joins the Race, Global Foresight Series, Jones Lang LaSalle, September 2008

City Politics & Policies

Less dependent on central government

Fiscal decentralization, implemented in 2005, significantly strengthened Bratislava region's administration. Despite many formal limitations imposed on budgetary expenses, the city is now in a position to collect local taxes including real estate tax, road tax and local fees in order to apply them to both current and capital expenses.

In December 2006 Andrej Ďurkovský, Bratislava-born designer and engineer, was re-elected as mayor. Over his second term in office, Ďurkovský is supported by the right-wing municipal council, consisting of Christian Democrats and the Slovak Democratic and Christian Union. Ďurkovský maintains that increased urban and regional connectivity is key to Bratislava's long-term success. At the top of his priority list are 'logistical assets': road improvements, a new high speed tram line to Petržalka (over the Danube), a fleet of new buses and trams as well as the refurbishment of the main transportation hub.

Bratislava's master plan, approved in 2007, has introduced better control over the quickly evolving city, but it failed to take into account such dramatic changes to the city environment as the entrance to the Schengen Zone and real estate boom of the last few years. In the meantime, new Bratislava suburbs begin to emerge to the south and west of the city on the Austrian side of the border and the local administration is under immense pressure from developers to authorize ambitious projects in various parts of the city. A reconnection of the city with the Danube River, the redevelopment of centrally-located industrial districts into lively, mixed-use neighbourhoods, and more strict control of urban form, as the current wave of haphazardly located skyscrapers is being largely contested, are key priorities. Also, there is an urgent need for a better coordination on the Bratislava-Vienna metropolitan level.

Business profiting from 3x19% tax rate

Thanks to the package of bold reforms introduced in 2003 and 2004, Slovakia now has one of the most liberal business environments in Central and Eastern Europe. Slovakia boasts a flat-rate income tax of 19% for both individuals and firms. Unification on the VAT tax rate (again at 19%) has completed the creation of this simple, efficient and competitive tax system. Proving that the tax reforms were right, Slovakia's 2007 budget deficit again saw a reduction to 2.7%, mainly due to strong tax revenues. Further simplification of the fiscal system has eliminated other forms of double taxation, such as gift, inheritance and dividend taxes as well as real estate transfer taxes.

Virtual Viewing recruits in Bratislava

This website design company from the UK offers outsourcing and offshoring recruitment services in Bratislava, advertising the city as 2 hours away from Stansted airport and as having a considerable cost advantage with no cultural clash risk. Virtual Viewing has operated in Bratislava since 2007 and values the city's business environment, availability of specialists and its being one of the lowest business costs in the EU.



Bratislava's Cityscape

Labour Market

Employment structure reflects shift toward knowledge economy

More than three quarters (77%) of Bratislava's working population are employed in the service sector and the city employment structure already reflects its shift towards the knowledge economy. Business and financial services are already responsible for a quarter of workplaces in the city. The financial service sector is expected to witness the fastest growth, according to BSL Experian, reaching on average nearly 3% per year between 2008 and 2017. Business services are also expected to grow by over 2% throughout the next decade. Although automotive plants only provide a few thousand workplaces, they have a very positive, indirect impact on job creation in the service sector. Bratislava's market quickly expands and workplace creation rate in the city remains the highest in the country. With some 35,000 new jobs created in 2007– and nearly 15,000 already in Q1 2008 – the city already provides one-third of all workplaces in Slovakia.

Great skill base

Bratislava boasts 8 universities and 30 colleges, with over 58,000 students and more than 10,000 alumni each year. The knowledge of foreign languages is widespread and, according to Eurobarometer, 97% of Slovaks speak at least one foreign language – typically German – while 93% in secondary education are studying English. According to Eurostat, the city is among Europe's top 5 performers when the relative ratio of students to overall population is compared. The potential of its graduate population has yet to be fully leveraged. Initiatives such as business and technology incubators are being introduced, but Slovakia still lags significantly behind its neighbours, mainly Czech Republic, in terms of research and development (R&D) activities.

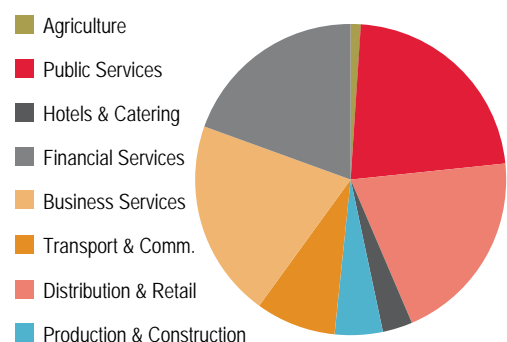
Salary pressures remain

The city's unemployment rate remains low at 3.1%, well below the national average of 8.8%, and the economic activity rate in Bratislava is the highest in Slovakia. According to the 2006 Urban Audit Perception survey, Bratislava scores among the top 10 European cities where employment opportunities were compared. As unemployment reaches its natural rate, and emigration of young and educated Slovaks continues, local skills shortages are expected to emerge and employers will increasingly compete for skilled and well-educated workers. This, in turn, will have an upward effect on wages and partly reduce the labour cost advantage. A competitive edge will remain, however, due to quickly improving productivity. According to the National Statistical Office, by the end of H1 2008 average monthly salaries in Bratislava reached EUR 980, representing a 16% y-o-y increase.

The largest employers in Bratislava include both foreign and domestic companies such as Volkswagen, Siemens, T-Com, Henkel, Kraft Foods, IBM, Orange, T-Mobile and E.ON. The city is also home to outsourcers such as Microsoft, Enel, Accenture, Deloitte and Lenovo as well as retailers such as Tesco and Carrefour. The financial sector is led by Austrian companies and the city hosts subsidiaries and agencies of many European banks including UniCredit, Citibank, KBC, Intesa, Erste, Dexia and Raiffeisen as well as insurance giants Allianz and ING.

Fig 8: Employment Structure

Bratislava's labour market is strongly service-oriented



Source: BSL Experian

Cross-Border Initiatives

In the centre of “Centropa”

Bratislava and Vienna are the urban core of Centropa, encompassing 4.5 million people across four countries of Central Europe. The comparative advantage of Centropa lies in its position between the established Western European markets and the rapidly growing Eastern European region. Bratislava is also a dynamic part of the ‘Golden Triangle’, which includes Vienna, and Budapest with Győr, and was identified by our World Winning Cities programme as one of Europe’s emerging megalopolis.

While being primarily a top-down political project, Centropa is gaining increasing support from EU structural funds as well as generating a growing interest from international corporates. EUR 60 million have been earmarked for the 2007–2013 European Territorial Cooperation programme, encompassing the Slovak and Austrian border regions. These funds are to be directed to cross border SME cooperation, cultural cooperation and tourism, education, transport and sustainability.

Twin City project to boost Bratislava growth

Historically strong links between Bratislava and Vienna are expected to receive a new boost with the latest opening of the borders. The physical links between the two cities located less than 60 km apart are being reinforced by a newly-completed highway and planned improvements to railway connections.

No other two European capitals are located in such close proximity, but there can be few places where the difference between Old and New Europe are so pronounced. We expect the twin capitals to develop into a genuine bipolar, central European metropolis, where Vienna stands for maturity, featuring critical mass of high order activities, and Bratislava boasts growth and opportunity. Given the potential of both cities, we expect Bratislava to compete, to some extent, with Vienna in terms

of its modern retail offer, while the office market will complement that of the more established Austrian capital, with many back office functions likely to be nearshored not only from Vienna but also from other European cities. While Vienna is now fighting to retain its position as an important European business hub, Bratislava’s easily accessible and more flexible labour market can add a necessary spin to Vienna’s service offer.

Roughly half the size of Vienna, in terms of total population and its labour market, Bratislava boasts considerable advantages when its business environment is compared. Far simpler and more robust than Austria, Slovakia’s tax system is attracting ever increasing numbers of international corporates to the city.

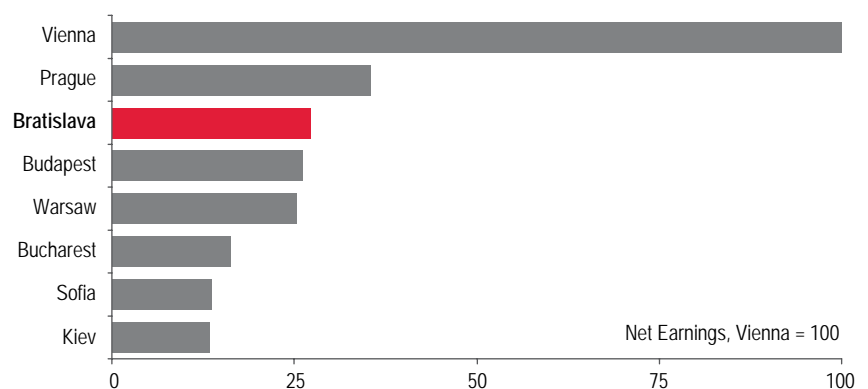
On the other hand, Bratislava has plenty to offer to the modern footloose workforce, with its low residential prices, low taxation, increasing retail and leisure offer and its proximity to spectacular scenery. According to the 2008 UBS Prices and Earnings Index, earnings in Bratislava are roughly one-quarter of those in Vienna. Vienna remains one of the more expensive capital cities in Europe, whereas Bratislava is one of the cheapest when living expenses are compared.



Apollo Bridge

Fig 9: Net Earnings

Earnings in Bratislava are a quarter of that in Vienna



Source: UBS Prices and Earnings Survey, 2008

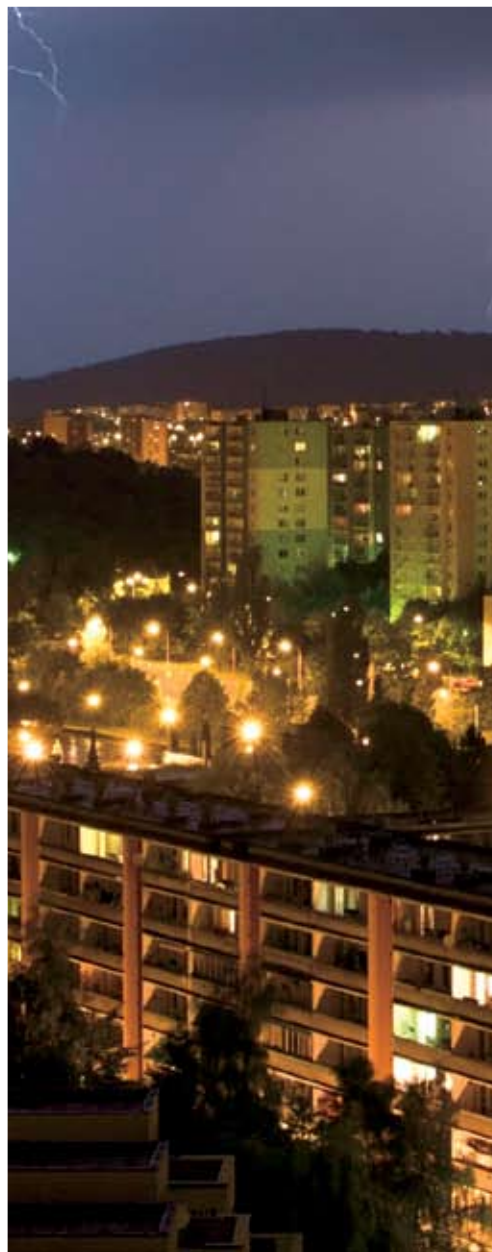
Urban Form

Reconnecting with the Danube

The availability of prime construction sites in prime locations is the key competitive advantage of Bratislava in enticing foreign investors. Bratislava is among the last European cities with an abundance of land available for construction in the city centre. In the new Master Plan, some 3,200 hectares of additional development land, coming from reclaimed brown fields as well as border zones, are earmarked for the construction of apartments, shops, offices and related infrastructure. Key areas of development include both banks of the Danube River and the fourth quadrant – the southwest areas of the Petržalka estate.

The city is expanding

Suburbanisation of Bratislava continues and the city centre is losing population in favour of its suburbs. The Schengen Zone boosts the development of areas to the west and south of the city. As the increasing numbers of Slovaks move beyond the Austrian border, profiting from competitive real estate prices in conveniently located border communities with quick access to Bratislava's city centre, the easternmost regions of lower Austria are becoming Bratislava's southwest suburbs. The authorities on the Austrian side are coming up with new master planning initiatives to accommodate growth, and territorial and service-related relations are being strengthened. Also, a new urban development encompassing some 8,500 dwellings and 25,000 workplaces is planned in Aspern, halfway between Vienna and Bratislava's city centres.



Infrastructure Projects

Transport infrastructure to see major overhaul

With heavy automobile usage (Bratislava boasts a ratio of 1 car per 2 inhabitants) road infrastructure is of the critical importance but the city is also planning the 'backbone public transportation system' including a new network of fast trams, restoration of historical tramway lines and the complete overhaul of the main transport hubs.

Both the main bus station and the central train station are to undergo SKK 900 million (EUR 27 million) worth of major overhauling, carried out by the strong domestic construction-developer group IPR Slovakia. The construction of a high-speed tram rail from Petržalka to the Bratislava town centre, another of the city's flagship projects, should cost approximately SKK 8 billion (EUR 240 million) including the purchase of a new tram fleet. The construction of Bratislava's 5th bridge over the Danube cost SKK3.6 billion (EUR 110 million) and was completed in 2005.

Bratislava is becoming Centropa's transport hub

The region has already established good connections to the European motorway network, yet on a national level motorway investment has priority, receiving a boost both from EU structural funds and public-private partnerships (PPP). While new investments encompass projects, such as highways from Bratislava to Zilina and to Kosice, the primary accent is on connectivity and greater integration between the Bratislava-Vienna Twin Cities. The long-awaited Bratislava-Vienna highway was opened in November 2007, and is decreasing travel time between the two capitals to less than 40 minutes.

The energy sector will see Slovakia expanding its nuclear-generating capacity, to respond to the quickly growing needs of the automotive manufacturing and advanced technologies sectors. So far Slovakia has been a net energy exporter, but environmental concern persists. Austria is a historical opponent of Slovakia's nuclear plants and outdated early soviet technologies used in

Bohunice and Mochovce power plants (80 and 130 km away from Bratislava) have been the subject of Austro-Slovak disputes. Prospects for an energy market liberalisation have been rendered more uncertain as a result of the government's intention to limit the price growth of electricity.

The relatively poor quality of fixed telephone lines and the unreliability of telecoms services have been a barrier to rapid growth in internet usage. According to Eurostat, only 27% and 11% of households in 2006 had internet and broadband connections respectively, compared with EU25 averages of 52% and 32%. T-Com (formerly Slovak Telecom), and Orange are planning to invest heavily in triple-play technology. A third mobile phone operator, Telefonica, entered the Slovak market in early 2007.

Bratislava Airport becomes Ryanair's Vienna

In 2007 Bratislava Airport served 2.24 million passengers, recording a 60%+ increase from 2005. An extension of Bratislava's airport is planned as Slovakia needs to build greater passenger handling capabilities in order to meet the rising demand which emanates from increased traffic in the Schengen Zone. The refurbishment of its existing terminal and the construction of a new one are now to be funded from public resources, after airport privatisation was cancelled in October 2007. Around SKK 3 billion (EUR 90 million) is being allocated to the project, compared to SKK 5–10 billion (EUR 150–300 million) planned to be invested by TwoOne, the winner of the now defunct privatization bid. According to TwoOne estimates, the number of passengers in this catchment area will increase from the current level of 16 million to about 30 million in 2015. Contrary to TwoOne expectations, despite the cancellation of airport privatisation, the synergies between Vienna and Bratislava are being reinforced with a growing number of airlines choosing Bratislava as the second – and more affordable – "Vienna" airport. Most of its flights are through domestic and low-cost airlines (such as Ryanair), which serve numerous European and some Middle Eastern locations.

Bratislava's nodal position in Centropa is being emphasized by infrastructure improvements

Real Estate

Booming Real Estate Market

Bratislava is now making up for its international business isolation of the 1990s and, nearly a decade after its regional peers, the city is undergoing a major makeover. Currently Bratislava is one of the most sought after localities in Europe and the booming real estate market in the capital has led to a local revival in the development and construction sector. Unlike in other countries of Central Europe, a lack of international players has enabled the growth of strong domestic developers such as the HB Reavis Group, J&T Real Estate, Cresco Group and IPR Slovakia, who are dominating the market.



Landmark mixed-use projects are reshaping the city

Domestic and regional developers are leading the current change and, as a result, Bratislava's commercial real estate is far better incorporated into the city structure than that of Warsaw or Bucharest. The success of mixed-use projects incorporating retail, leisure and office components among others, such as Aupark (developed by HB Reavis) and Polus (by TriGranit), show the direction of Bratislava's current development. Several large mixed-use developments will reshape the city within the next few years, turning Bratislava into a modern regional retail and office hub, as well as adding to the quality of the residential stock:

Fig 10: Real Estate Dashboard

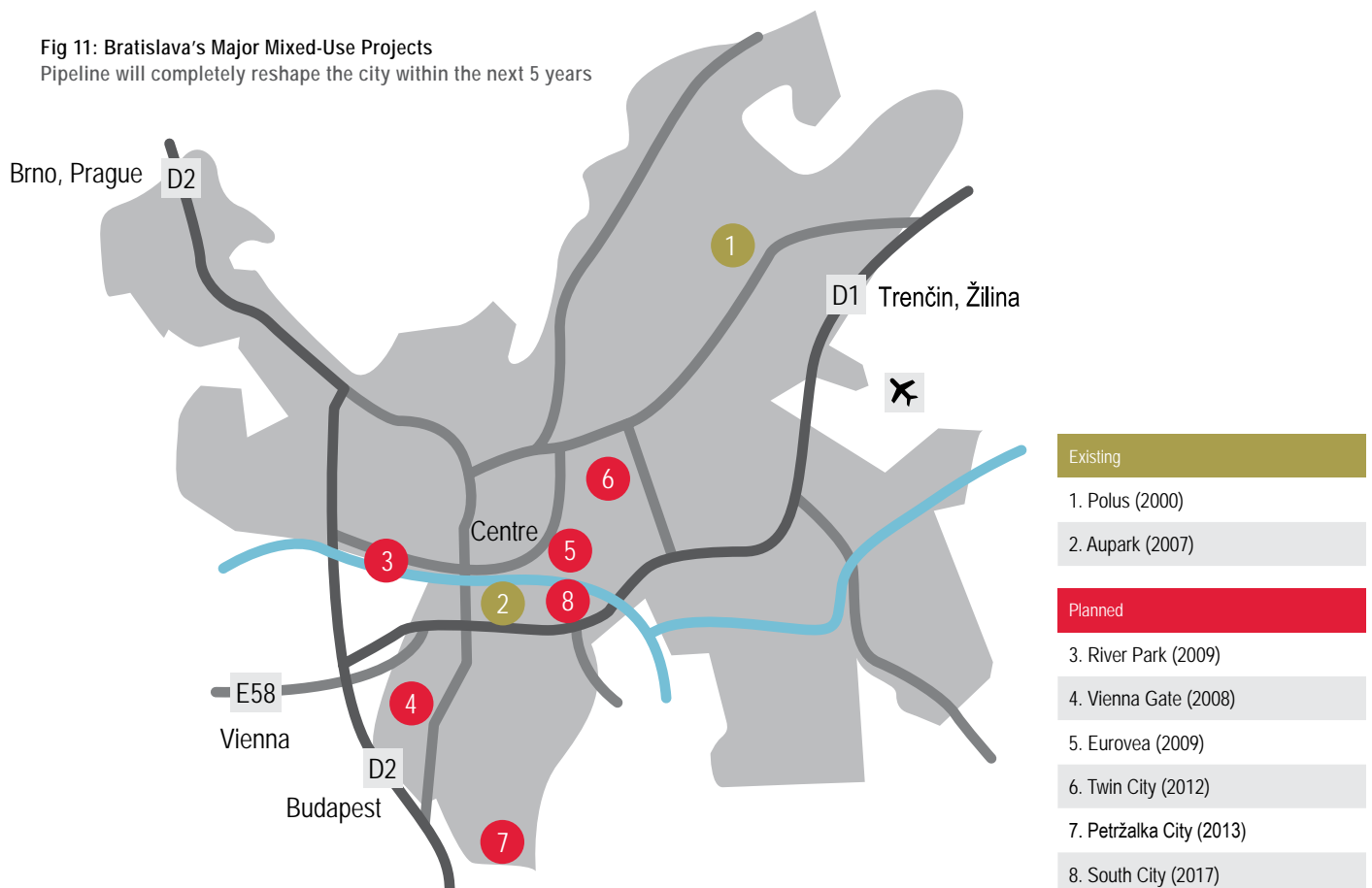
Market Size / Stock	
Offices Grade A ('000 sq m, H1 2008) ¹	500
Retail ('000 sq m, H1 2008)	224
Number of Five Star Hotels (H1 2008)	1
Market Activity	
Estimated Take-up ('000 sq m, 2008) ¹	100–130
Office Vacancy Grade A (% , 2008) ¹	5–8
Benchmark Values	
Offices Grade A – Rents (EUR per sq m pm)	18
Retail – Rents (EUR per sq m pm)	30
Industrial – Rents (EUR per sq m pm)	3.25–4
Hotels – Room Rates (Five Star, EUR)	160–230
Residential Prices (average, EUR per sq m)	1,150
Grade A Offices – Benchmark Yields (%)	7

¹ Provisional estimates

Source: Jones Lang LaSalle

Fig 11: Bratislava's Major Mixed-Use Projects

Pipeline will completely reshape the city within the next 5 years



Impressive pipeline of mixed-use projects



- Stretching over a 2.5 ha site, the River Park project, developed by J&T Real Estate, is designed as a town within the city. Scheduled for completion in 2009 and worth EUR 180 million, the River Park project will boast 42,300 sq m of residential space in over 200 apartments, some 23,000 sq m of office space and an equally sized Kempinski hotel, as well as 10,500 sq m of retail space.
- Vienna Gate, currently under construction and approaching its completion in H2 2008, is a mixed-use project in the vicinity of Petržalka station. The project will feature over 280 flats in two residential towers, linked through a 10,000 sq m retail and leisure platform.
- Irish developer Ballymore Properties leads the ambitious revitalisation project on the bank of the Danube River. The 230,000 sq m Eurovea International Trade Centre is currently under construction and the EUR 266 million project will consist of 58,000 sq m GLA of retail and leisure space, 23,000 sq m of office space, 250 flats and 207 hotel beds in a five star Sheraton Hotel. Apart from shopping arcades, Galleria Pribina Eurovea's scheme will create Bratislava's first high street upon opening in 2009. Phase two will comprise another 86,400 sq m of office space and 900 apartments.
- Replacing the remote central bus station, a 185,000 sq m of GLA Twin City project is currently the largest (in value) real estate project in Central and Eastern Europe. From the SKK 17 billion (EUR 450 million) earmarked for the project, one billion SKK (EUR 30 million) is to be absorbed by the construction of the new bus station. Set for completion in 2012, Twin City will comprise of about 60,000 sq m of Grades A+ office space and nearly 100,000 sq m of space which has been set aside for retail and leisure purposes. The concept will also deliver 320 premium standard flats and a 200-room hotel. This flagship project, designed by renowned designer Benoy and developed by HB Reavis, will be crowned by a 42-storey tower.
- Planned for completion in 2013, the Petržalka City project will add a genuine 400,000 sq m multifunction centre to the Petržalka housing estate, encompassing key landscaping and infrastructural projects. Infrastructure improvement will include the development of Petržalka centre, the largest housing estate in Central Europe, housing 115,000 people.
- Quinlan Private Golub is planning to build on a 90 hectare site, the largest mixed-use project in Slovakia, South City Bratislava. Planned for completion by 2017, the project will comprise of 8,500 residential units and over 1.2 million sq m of mixed-use space.



Active investment market since 2005

The market saw its first institutional real estate investment deals in the second part of the 1990s, but it has actively developed only since 2005. Tesco first led the retail market in 1996, buying the largest shopping centre in Bratislava in April 1996 before acquiring a further six shopping centres in the regional cities. The market took off in the latter part of 2005 when HB Reavis sold Apollo Business Park to Hannover Leasing and 50% of Aupark to Rodamco, and J&T sold Westend Business Park to AXA. Austrian institutional investors have been the biggest purchasers and domestic development companies the largest vendors.

The institutional investment market went quiet over the last few months as Bratislava, alongside other central European capitals, experienced the Credit Crunch 'Ripple Effect'. However, with current prime office yields in the region of 7%, the market boasts considerable premiums over the more mature CEE core, where the prime yields are below 6%.

Office market to see substantial stock increase

The office market took off relatively late compared to its regional peers. During the whole of the 1990s only one office complex was completed; comprising 33,000 sq m over four buildings, BBC I-IV was delivered by HB Reavis between 1997 and 1999. Following the success of its first project, HB Reavis is currently completing several projects: the final phase of Apollo Business Center, adding nearly 120,000 sq of office space in two phases; nearly 60,000 sq m in City Business Centre I-V; and over 31,000 sq m in Aupark. J&T West End Business Park offers 26,500 sq m of office space in its Tower, Court and Point buildings and soon the project will see another addition. J&T's Tower 115, the tallest building in the city, re-opened in 2006 after thorough refurbishment and is currently offering 32,000 sq m of office space over 28 floors.

A number of distinctive office submarkets have emerged, with HB Reavis's projects dominating the area between the Old Town and Ruzinov districts that develops as Bratislava's CBD, and the J&T-led project in Patronka submarket in Nove Mesto (New Town). Another office hub has emerged in the Petržalka district with the 22-storey Aupark Tower.

The office market in Bratislava currently comprises of some 500,000 sq m of space. With over 120,000 sq m delivered in 2007, the supply pipeline is expected to break another record between 2008 and 2010, to reach cumulatively over 370,000 sq m. This impressive pipeline includes such landmark developments as:

- Two Emporia Towers, offering 9,500 sq m of Grade A+ office space each, will be part of the South City project by Quinlan Private Golub, beginning construction in Q1 2008.
- Phase I of the TriGranit Lakeside Park project will feature 25,000 sq m of office space, while the whole project is to comprise of nearly 90,000 sq m.

We estimate that outstanding demand, primarily from rapidly growing financial and business services, will be able to accommodate a further 500–600,000 sq m of quality office space over the next five years. Although the supply has gradually started to catch up with demand, causing a rental freeze, Bratislava's office sector is characterised by fast growth and the market is not expected to reach a demand- supply balance earlier than 2012. Vacancy rates in 2008 stay at 5–8%, as nearly all of 2007 and 2008 new stock had been absorbed. Despite low vacancy rates, downward pressure on rents continues, with developers competing for tenants in the newly completed projects. Prime rents in Bratislava's CBD currently reach around 18 EUR/sq m/month, while average rents are in the range of 11–14 EUR/sq m/month.





Bratislava's Old Town

Top class retail offer emerging

As in the case of other market sectors, the political and economic environment led to the relatively late entry by a number of international retailers and, as a result, Slovakia remains at the bottom of the European list when shopping centre stock is compared. The shopping centre market has great potential as Bratislava, similar to many other CEE capitals, lacks a genuine high street.

The modern shopping centre stock in Bratislava stands at approximately 245,000 sq m and consists of 6 centres. The most successful projects include the IKEA-anchored Avion Shopping Park (completed in 2002) as well as Aupark (HB Reavis) and Polus (TriGranit), both opened in 2000. Aupark and Avion have extended in 2007, making them the two largest schemes in the city at 56,800 and 50,000 sq m respectively.

We estimate that Bratislava has further potential for more than 450,000 sq m of new shopping centres or extensions to existing schemes over the remainder of the decade. Some of the projects in the pipeline may not be delivered as this would result in market oversupply. However, market niches will persist as, for example, Bratislava has only one small retail park in the pipeline scheduled for 2010 by Immoproject.

Residential market is one of the hottest in Europe

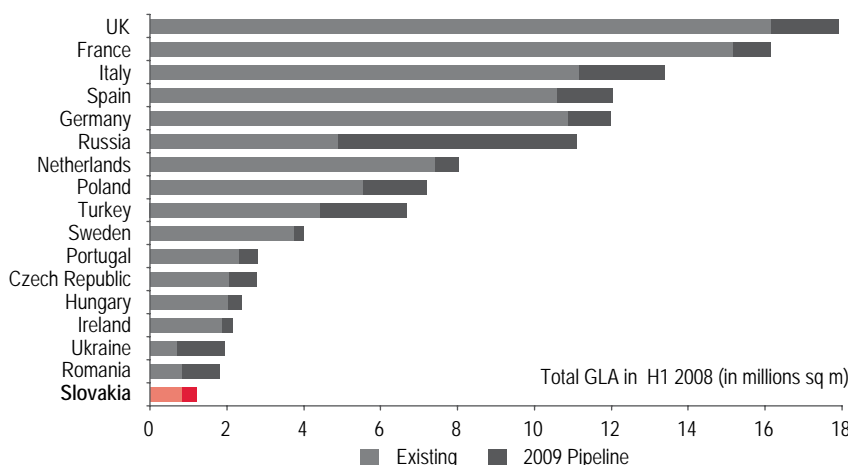
With Slovakia's economy booming, earnings increasing and Twin Cities integration creating considerable synergies, the residential market is expected to continue delivering high performance. Demand for quality space remains high; with only 19 sq m of living space per person (according to Urban Audit), Bratislava's housing market is among the least developed in Central Europe.

The clear success of good standard apartments, such as Karlovske Rameno Rozadol, Jesenova Residence, Koloseo, and Octopus Habitat has led to the current development boom. A market opportunity has been spotted and, apart from the considerable pipeline in mixed use projects, some benchmark residential developments are on offer off-plan:

- Cresco Group, together with Quinlan Private Golub are planning to build the III Towers project, comprising of three 24 storey-high skyscrapers encompassing over 160 apartments.
- Scheduled for delivery by 2010 the Retro project will comprise 300 residential units, a shopping centre spread out over three floors and will offer a range of services including a post office, a bank, restaurants, cafes, supermarkets and a medical centre, as well as parking facilities.
- Czech developer Sekyra Group is planning to develop a residential project with more than 17,000 sq m in the western part of the city.

Prices for new apartments typically vary between 900 and 3,200 EUR / sq m, with an average price now in the range of 1,150 EUR / sq m, recording a 24% y-o-y growth in 2007.

Fig 12: Shopping Centres – European Context



Strong potential in logistics

Compared with its regional peers, the logistics market in Slovakia began to emerge relatively late from 2005, but is now quickly catching up. The Western region of Slovakia, encompassing Bratislava, the Senec region and Trnava, presents better opportunities and infrastructure than the Eastern parts of the country. Three out of the ten Trans-European transport corridors cross Bratislava, positioning the city as a prime regional logistics hub not only for Slovakia and The Golden Triangle (encompassing Bratislava, Vienna, and Budapest) but also eastern Czech Republic and southern Poland. While automotive FDI is the main driving force behind the industrial market, the warehouse market is driven by retail and third party logistics operators, as well as automotive component suppliers. Also, some Austrian companies are moving across the border to more affordable warehouse premises near Bratislava.

Currently the total logistics stock in Bratislava is estimated to be around 500,000 sq m. The largest logistics parks in the Bratislava region include:

D1 corridor (north-south D1 links the city with Trnava and Vienna):

- The 62,000 sq m HB Reavis Logistics Center Bratislava-Rača has been operating since 2005. Offering good access to the city centre, this logistics park includes 7,500 sq m of office space hosts many 3LPs. In Svätý Jur, HB Reavis completed a 35,000 sq m logistics facility in September 2007.
- In Senec, Karimpol operates the 65,000 sq m Logistics Park Bratislava (with potential for 120,000 sq m).

- IPEC Park Senec, developed by IPEC and UBM, offers 45,000 sq m of logistics space while Senec Cargo Center will offer warehouses spread over 113 ha of land.
- Senec Warehouse Park will add up to 215,000 sq m of quality logistics in DLPark Senec;
- Also in Senec is Prologis Park Bratislava which has a total capacity of 184,000 sq m of logistics space;
- Industrial Park Trnava, a joint venture project of ImmoIndustry Group and J&T, has a capacity of some 180,000 sq m of light production and warehouse space.

D2 corridor (connecting Bratislava with Brno and Prague):

- AIG/Lincoln's 110,000 sq m Auto Logistics Park is Central Europe's first and largest automotive supplier park. Located in Lozorno near the Volkswagen Bratislava factory, the project was designed and built as a "Just-In-Time" (JIT), "Just-In-Sequence" (JIS) facility for VW suppliers;
- Also located near the VW factory, Drvenska Nova Ves (DNV) Logistics Park, developed by J&T, aims to provide 82,000 sq m of logistics facilities;
- HB Reavis' Logistics Center Bratislava-Rača offers up to 70,000 sq m of prime quality warehouse space;
- Pinnacle, a Czech developer new to the Slovakian market has entered the market with its Westpoint D2 Distribution Centre project in Lozorno, which in total will add another 79,000 sq m of quality warehousing;
- VGP Malacky, a new logistics park, will be developed 35km from Bratislava's centre and will offer some 220,000 sq m of logistics space.





Hotel market catching up with business requirements

Similar to other real estate sectors, the hospitality market in Bratislava is currently catching up with strong latent demand. Historically, to complement Vienna's high-end offer and to serve as 'budget Vienna', Bratislava has developed small hotels built to a local standard of 1–3 stars. However, in the past few years the city has witnessed a growing trend of developing larger hotels to international standards of 4–5 stars. Bratislava's hotel demand comes predominantly from business during the week with some price sensitive leisure demand during the week end.

Apart from the existing single 5-star hotel (Arcadia), two 4-star+ hotels (Marrolls and Radisson SAS Carlton), and some 17 4-star hotels, the city is awaiting an impressive pipeline. Some key projects include:

- **Starwood Hotels** is to operate a 207-room 5-star Sheraton Hotel to be built in the Eurovea project, developed by Ballymore Properties;
- **Riverpark** – a 231-room, 5-star Hotel Kempinski RiverPark, developed by J&T real estate, is to open in early 2009;
- **Abba Hotel** – in 2008 Spanish hotel operator Abba Hoteles opened a 120-room, 4-stars hotel near Presidential Palace;
- **Express by Holiday Inn** – construction of a 176-room hotel near the Airport and Avion Shopping Park began in 2007, expected opening in 2009;
- **Zelezna Studnicka** – a 4-star hotel proposed by Euro Active Group, s.r.o. Preliminary completion scheduled for late 2008;
- **Artmedia Stadium** – a new Hilton with 200 rooms has been proposed for completion in 2011 within the new complex to be built near the Petržalka side of the Old Bridge.
- **Petržalka City** is developing a 3+ star, 350 room conference hotel with a further 100 service apartments in the heart of Petržalka district. The Hotel will feature the largest conference venue in the city for up to 1,000 guests to capitalise on the shortage of quality meeting space in the city.

This pipeline of primarily 4 and 5 stars hotels, if realised, will create saturation in the top end of the market. We expect the trend to shift to modern 2–3 star hotels that could enjoy higher occupancies and lower operational costs offering reduced rates.

Final Observations

Nearly a decade after its regional peers, Bratislava's real estate market has finally taken off, driven by liberal changes to its political and business environment, and subsequent growth of interest from international investors and occupiers. Also, Bratislava has been the major beneficiary of the dramatically changing geography of Central and Eastern Europe. The city has 'moved' from the periphery to the centre of the Centropa region on the back of ongoing European integration. Two latest events, namely the extension of the Schengen Zone and Euro adoption in January 2009, have already had a great positive impact on the city's development.

The relatively late beginning of its commercial real estate markets has resulted in the emergence of strong domestic developers, a significant differentiator of Bratislava's market. Strong growth has encouraged the entrance of international developers, but the balance remains in favour of domestic players. Demand drivers are strong as Bratislava is still at the beginning of its evolutionary path and remains one of the most exciting property markets of Central and Eastern Europe.



Jones Lang LaSalle Regional Headquarters

Chicago
200 East Randolph Drive
Chicago, IL 60601
tel +1 312 782 5800
fax +1 312 782 4339

London
22 Hanover Square
London W1A 2BN
tel +44 20 7493 6040
fax +44 20 7408 0220

Singapore
9 Raffles Place, #39-00
Republic Plaza,
Singapore 048619
tel +65 6220 3888
fax +65 6438 3360

Jones Lang LaSalle CEE Offices

Prague
Myslpek Building
Ovocny trh 8
117 19 Prague,
Czech Republic
tel + 420 2 2423 4809
fax + 420 2 2423 9520
www.cz.joneslanglasalle.com

Warsaw
Saski Crescent
Królewska 16
00-103 Warszawa, Poland
tel +48 22 318 00 00
fax +48 22 318 0099
www.joneslanglasalle.pl

Budapest
Alkotás Point
Tower, Ground Floor
1123 Budapest, Hungary
tel +36 1 489 0202
fax +36 1 489 0203
www.hungary.joneslanglasalle.com

Bucharest
43-45 General Mathias Berthelot Street
010169, Bucharest 1, Romania
tel + 4021 310 9380
fax +4021 302 3401
www.joneslanglasalle-romania.com

Contacts

To find out how Jones Lang LaSalle can assist in making real estate decisions in Bratislava, contact:

John Duckworth
Managing Director
CEE
Warsaw
+48 22 318 00 00
email: John.Duckworth@eu.jll.com

Tewfik Sabongui
Managing Director
Czech Republic & Slovakia
Prague
+420 2 2423 4809
email: Tewfik.Sabongui@eu.jll.com

Kevin Turpin
Associate Director
CEE Head of Research
Prague
+420 2 2423 4809
email: Kevin.Turpin@eu.jll.com

Karina Kreja
Associate Director
World Winning Cities
London
+44 (0)20 3147 1201
email: Karina.Kreja@eu.jll.com

www.joneslanglasalle.com

COPYRIGHT © JONES LANG LASALLE IP, INC. 2008

This publication is the sole property of Jones Lang LaSalle IP, Inc. and must not be copied, reproduced or transmitted in any form or by any means, either in whole or in part, without the prior written consent of Jones Lang LaSalle IP, Inc. The information contained in this publication has been obtained from sources generally regarded to be reliable. However, no representation is made, or warranty given, in respect of the accuracy of this information. We would like to be informed of any inaccuracies so that we may correct them. Jones Lang LaSalle does not accept any liability in negligence or otherwise for any loss or damage suffered by any party resulting from reliance on this publication.