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

25.09.2008

- 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 Company	Rep. Curr.	Mcap (EURmn)	Price Current (LC)	Price Target	Recommendation	Performance (EUR terms) 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%

Quelle: Erste Group Schätzungen, Kurse vom 23. September 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 too 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.

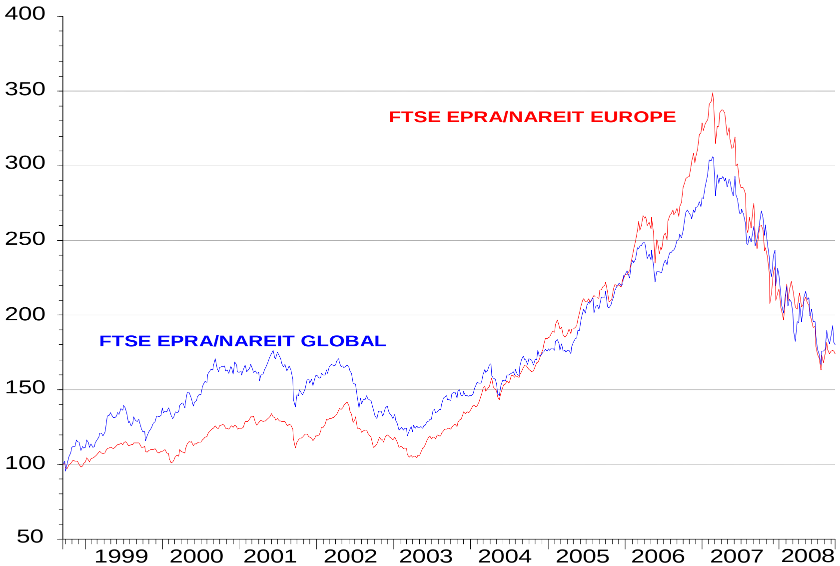
CEE Real Estate Sector

Günther Artner, CFA — **Co-Head CEE Equity Research**
Gernot Jany, CFA — **Real Estate Sector Analyst**

Executive summary

Steep losses of real estate stocks in the last 12 months

Real estate sector development



Source: Thomson Datastream

Coverage overview

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Orco	EUR	204	18.91	41.0	Buy
Sparkassen Immobilien	EUR	341	5.01		Not rated

Source: Erste Group estimates

- The stock prices of listed real estate companies fell sharply in the last 12 months. The global GPR 250 is off some 30% and European EPRA index some 50% from the peak in 2007. CEE real estate stocks fell as much as 70% amid fears over the financial crisis.
- To date, the main story driving real estate has been the tightening of lending terms and the rise in interest rates in the sector
- Our sector top picks are CA Immo International and Orco, both are “Buy” recommendations

Interest rate environment
Prevailing tensions on money and credit markets

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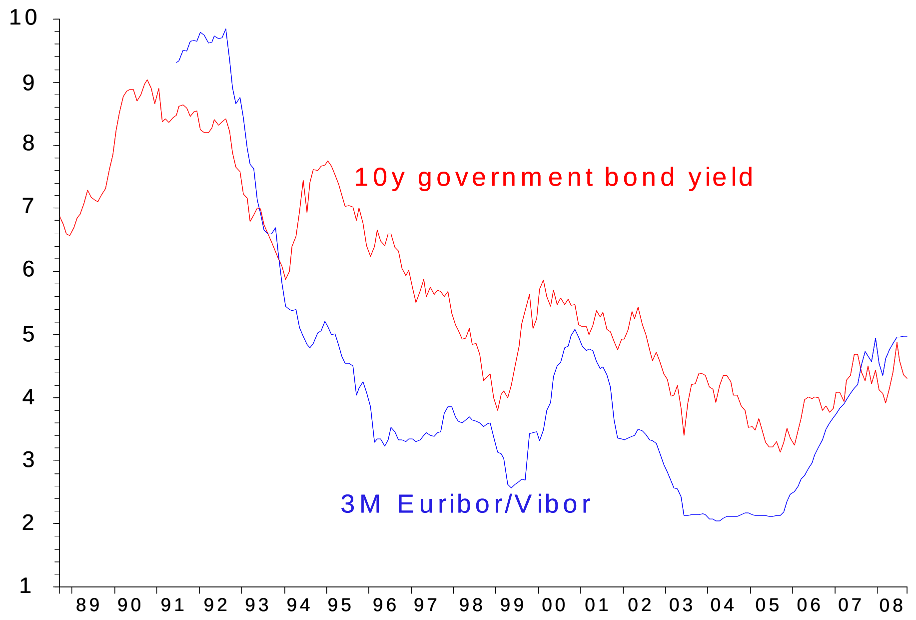
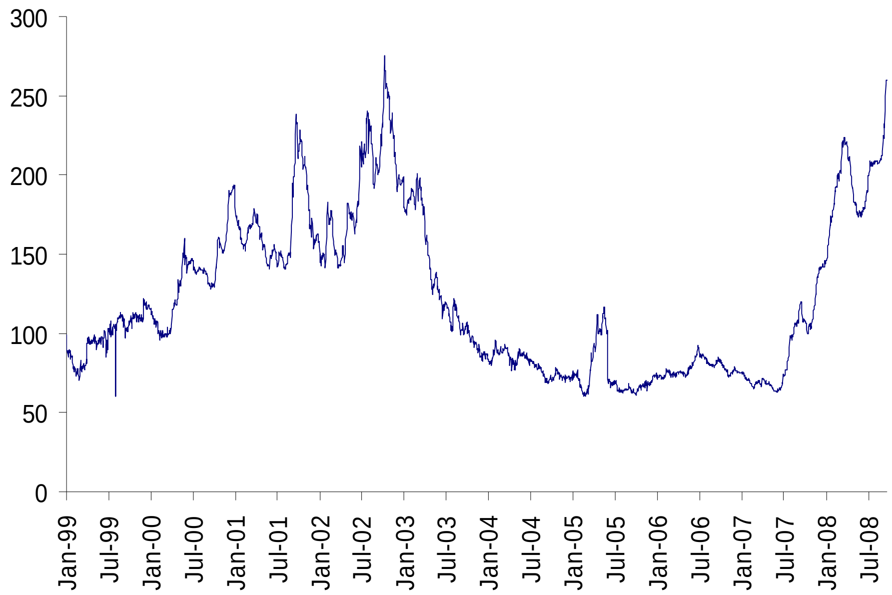
3M EURIBOR vs. 10y government bonds



Source: Thomson Datastream

EUR JP Morgan BBB Index



Source: Bloomberg

- Due to ongoing write-offs and capital needs in the European banking sector, but also driven by a worsening economic outlook, tensions on the money and credit markets are again on a very high level
- As a result, availability of financing has decreased and cost of debt has increased
- Euribor and 10y government bonds yields are at levels comparable to 2001 – just before the economic downswing

Macroeconomic overview
GDP per capita and GDP growth forecasts

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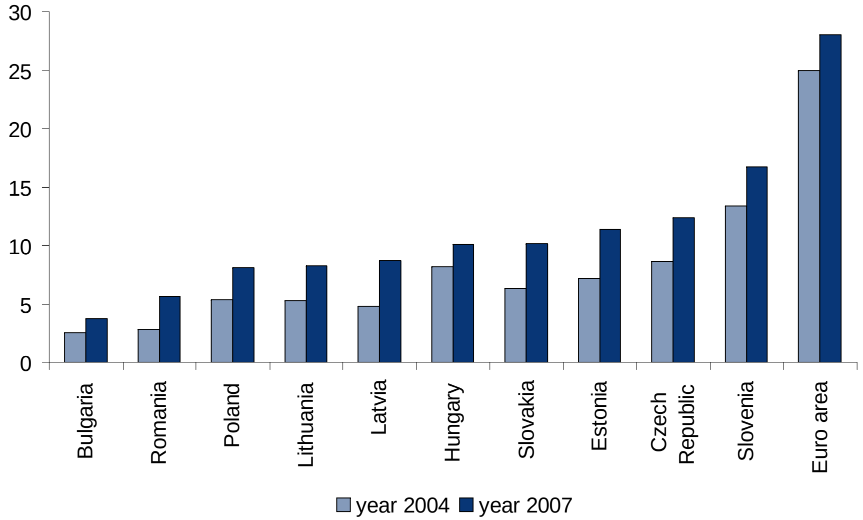
GDP per capita (in EUR tds)



Source: Eurostat, Erste Group Research

GDP growth forecasts (%)

GDP growth (%)	2006	2007	2008f	2009f
Czech Republic	6.8	6.6	4.3	4.1
Croatia	4.8	5.6	4.0	4.8
Hungary	3.9	1.3	2.3	2.8
Poland	6.2	6.6	5.3	4.6
Romania	7.9	6.0	8.3	6.0
Russia	7.4	8.1	7.8	6.7
Serbia	5.7	7.5	6.8	7.0
Turkey	6.9	4.6	4.1	4.7
Ukraine	7.1	7.6	6.6	6.0

Source: Eurostat, Erste Group Research

- We expect average economic growth in CEE to decelerate to 4.9% in 2009 from an estimated 5.5% in 2008. GDP growth will come closer to potential output, making economic growth in CEE more sustainable.
- The biggest risk for growth in CEE currently is a more extensive economic slump in Euroland, which would dampen external demand for CEE economies. A stagnating Eurozone economy in 2009 would have varying effects on the countries in the region, and shave about 0.5 percentage points from our recent 2009 forecasts.

Real estate market (1)
Declining investment volume across Europe

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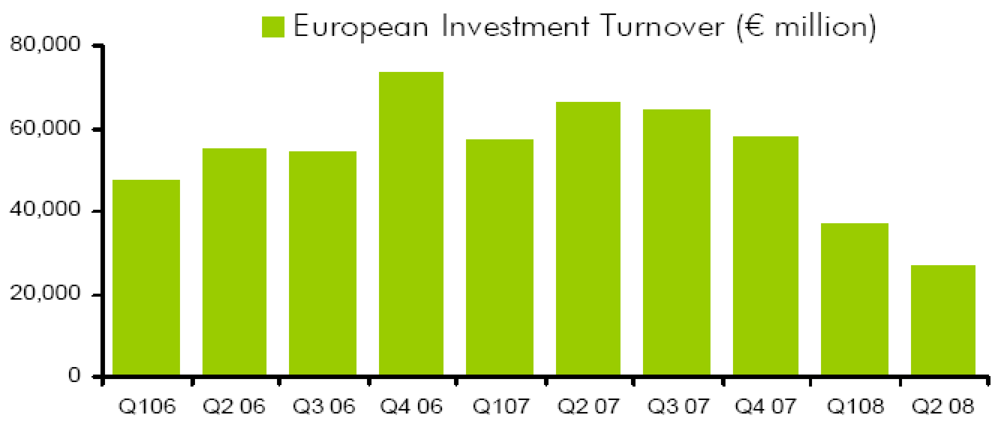
European investment volume (EURmn)



Source: CB Richard Ellis

European investment volume in detail (EURmn)

Investment Turnover (EUR bln.)	H1 2007	H1 2008	Change
United Kingdom	42,924	16,234	-62%
Germany	27,146	12,100	-55%
France	13,735	6,900	-50%
Italy/Portugal/Spain	10,595	8,386	-21%
CEE	6,611	5,224	-21%
Austria	**960**	**900**	**-7%**
Other	21,664	13,697	-37%
Europe	**123,635**	**63,441**	**-49%**

Source: CB Richard Ellis

- Lacking available finance and based on a further weakening of the economic outlook, investment activity across Europe’s real estate markets dropped the fourth quarter in row
- Sharpest drop in 1H08 was observable in UK (-62%), Germany (-55%) and France (-50%)
- Slowdown in CEE was more moderate (-21%) and investment turnover in Austria remained relative stable (-7%)

Real estate market (2)

Prime yields turned in 2H07 in all segments across Europe

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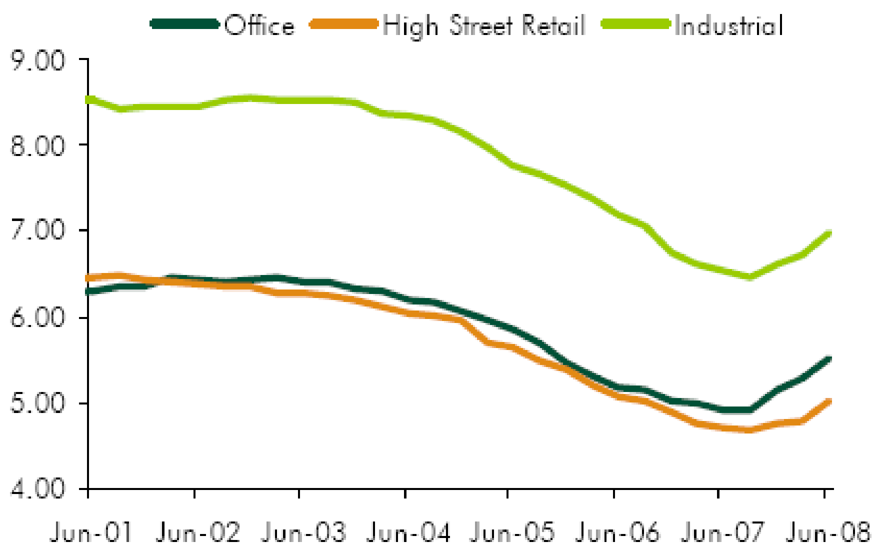
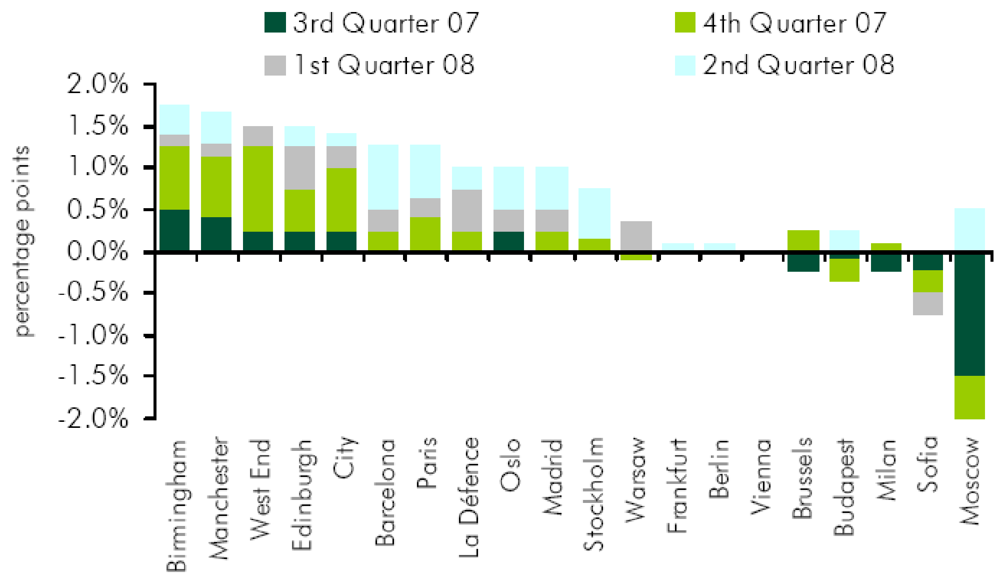
EU-27 average prime yields (%)



Source: CB Richard Ellis

Quarterly prime office yield movement (%)



Source: CB Richard Ellis

- Since 2H07 rental yields have started to rise in all segments across Europe
- Office sector was most affected with an upward lift of +60bps, followed by industrial (+46bps) and retail (+32bps)
- The biggest yield shifts have been observable in the markets with the lowest premium to government bonds

Real estate market (3)

Upward lift in CEE prime yields in 1H08

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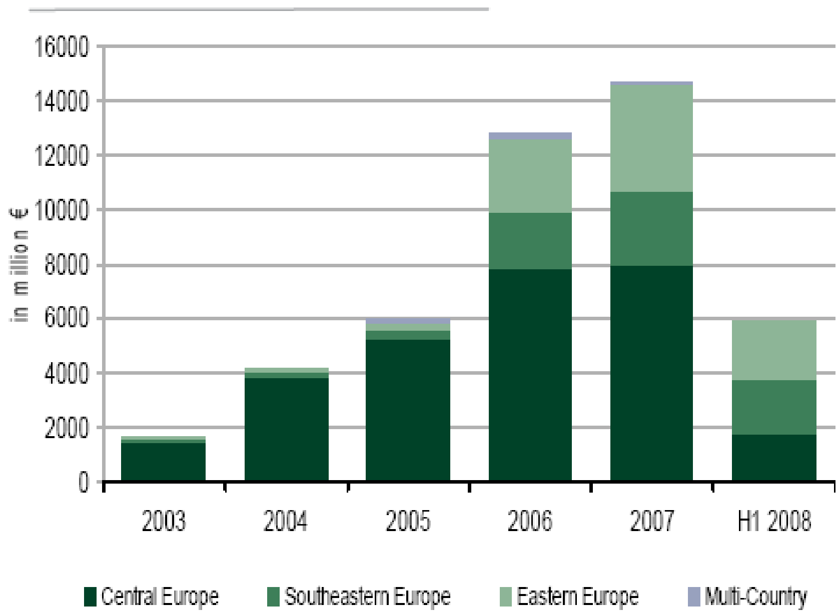
Annual CEE investment volume by region



Source: CB Richard Ellis

Office prime yields 2Q08

Market	Change Prime Yield Q4 07 – Q2 08 (bps)	Change CV (Euro) Q4 07 – Q2 08	Prime Yields Q2 2008
Belgrade	0	-5%	9.0%
Bratislava	+65	-10.4%	6.25%
Bucharest	+125	-12.7%	7.5%
Budapest	+25	-4.2%	6.0%
Kyiv	-50	34.5%	8.5%
Moscow	+50	+5.5%	8.0%
Prague	+47	-3.9%	5.65%
Sofia	-25	+5%	7.0%
Warsaw	+35	-0.4%	5.75%
Zagreb	+10	+0.9%	6.8%

Office

Source: CB Richard Ellis

- After a strong inflow of capital in the last couple of years, investment volume in CE4 countries declined sharply in 1H08, whereas market activity in SEE and CIS remained very robust
- The declining liquidity in the investment market resulted in an upward movement of prime rental yields across all countries and segments, except Kiev and Sofia, where we recognized further yield compression
- Prime office yields moved up by 34bps in average, ranging from -50bps (Kiev) to +125bps (Bucharest)

Real estate market (4)

Rents are still rising, but growth is slowing down

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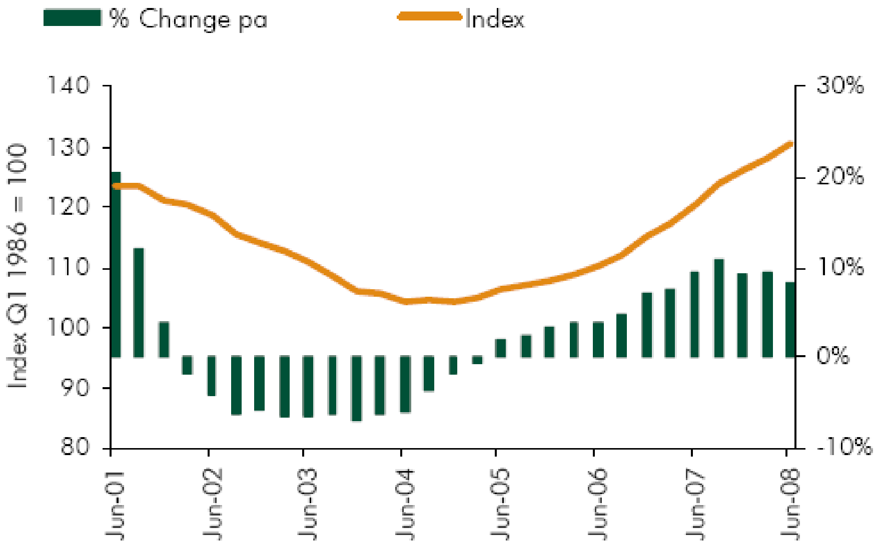
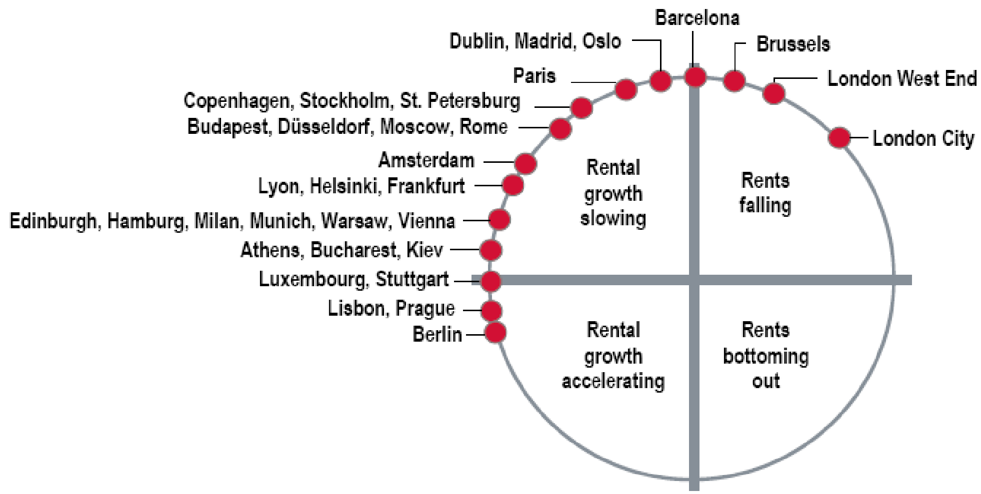
EU-27 office rent index (%)



Source: CB Richard Ellis

European office property clock 2Q08



Source: Jones Lang LaSalle

- Based on the changing market conditions (towards an occupier market), rental growth is slowing down across Europe.
- The increase in 2Q08 was supported by a strong development in Milan's and Rome's office market where rents rose by 14.6% and 7.5%, respectively. This development was mainly due to the strong occupier demand and shortage for high quality space in prime locations.
- In London, Paris and Barcelona rents have started to fall, and CBRE sees little support for prime rents at their current levels in Madrid and Dublin.

Real estate market (5)

Strong demand in CEE, but vacancy rate increased

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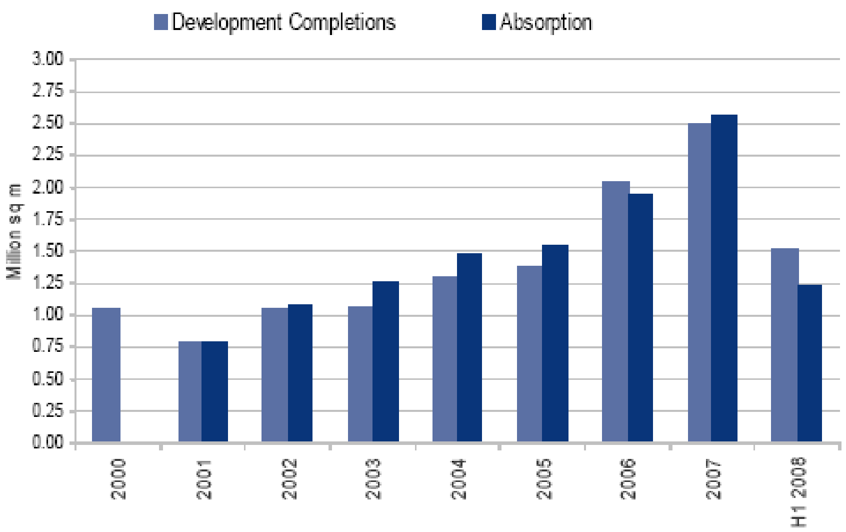
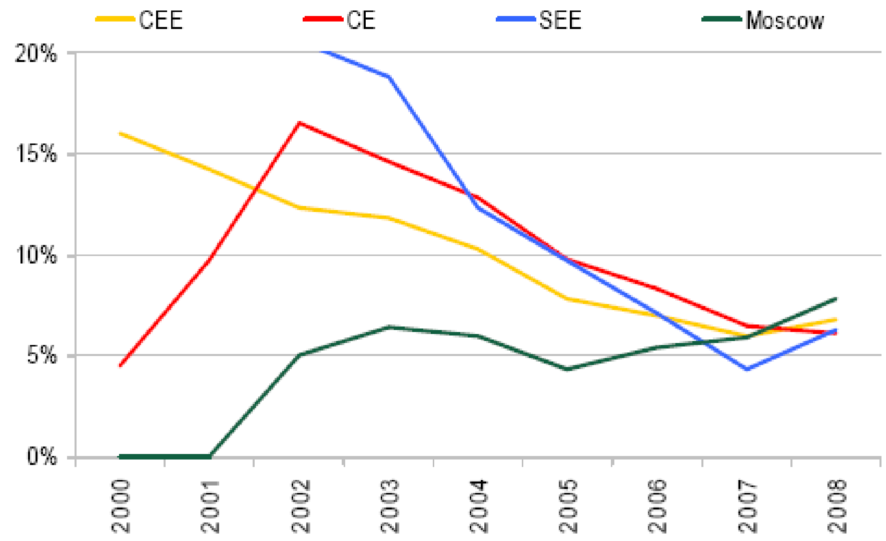
Development completions vs. take-up 2000 – 2008e



Source: CB Richard Ellis

CEE vacancy rate by sub-region (%)



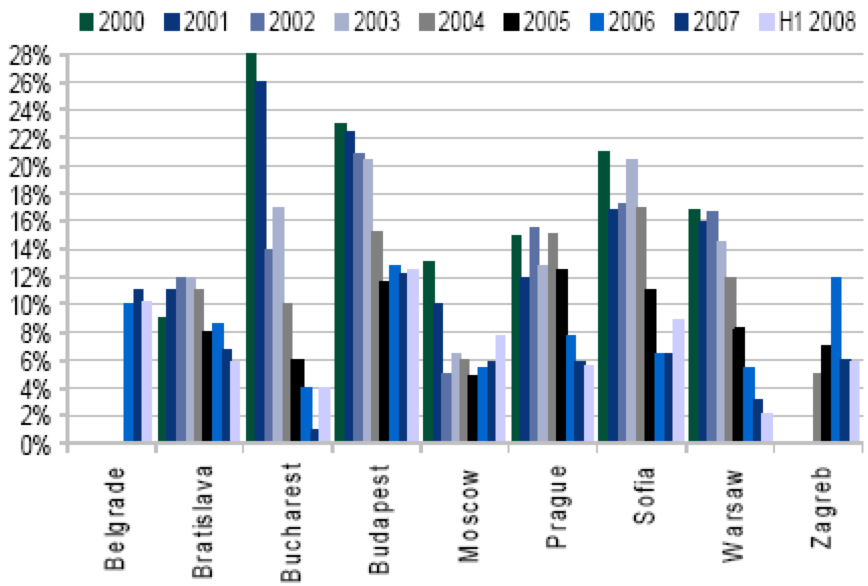
Source: CB Richard Ellis

- While occupier markets in Western Europe have begun to feel the impact of slowing economic growth, demand for office space in CEE has remained resilient during the first half 2008. Take-up in 1H08 was strong, but could not keep up with supply, resulting in negative absorption and an increase in vacancy rate
- After a period of declining vacancies, the vacancy rate in CEE bottomed-out in mid-2007 at around 6%. Mainly driven by a sharp increase in vacancy rate in Moscow (+200bps to 8%), but also in SEE (+200bps to 6.3%), the CEE region recorded the first increase since 2000, to a level of around 6.8% in mid-2008. In Central Europe vacancy rate further declined to 6.1% from 6.5% seen at end-2007.

Real estate market (6)

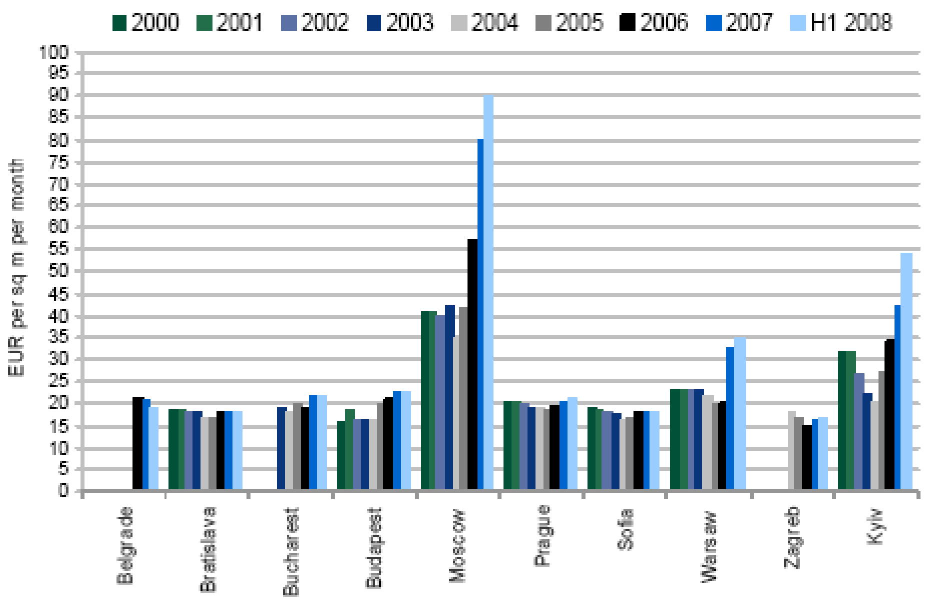
Closer look on vacancy rates and rents in CEE

CEE vacancy rate by market (%)



Source: CB Richard Ellis

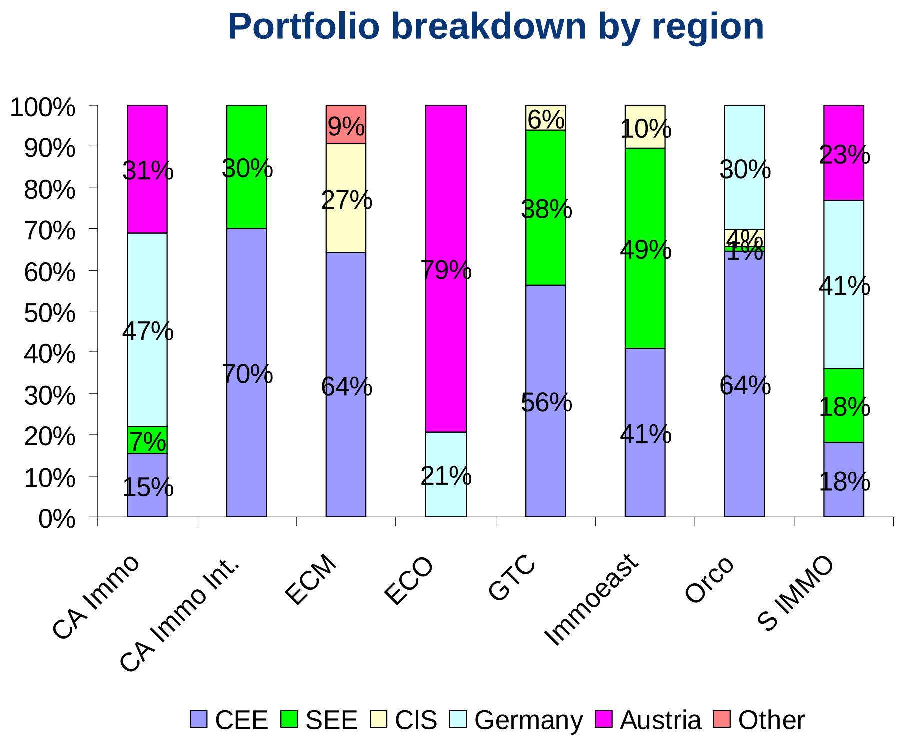
CEE prime office rents by market



Source: CB Richard Ellis

- In 1H08, five of nine CEE office markets showed declining vacancy rates resulting in tighter market conditions. In Warsaw, vacancy rate further declined from 3.1% to 2.1%.
- Based on a strong completion pipeline relative to market size, vacancies in some markets increased substantially. Vacancy rates in Bucharest moved from 1% to 4% and Sofia recognized an increased from 6.5% to 8.9%. Budapest and Belgrade still mark the backlight with 12% and 10%, respectively.
- Rents were rising in nearly all markets, but momentum is slowing down.

Sector overview (1)
Portfolio breakdown by region

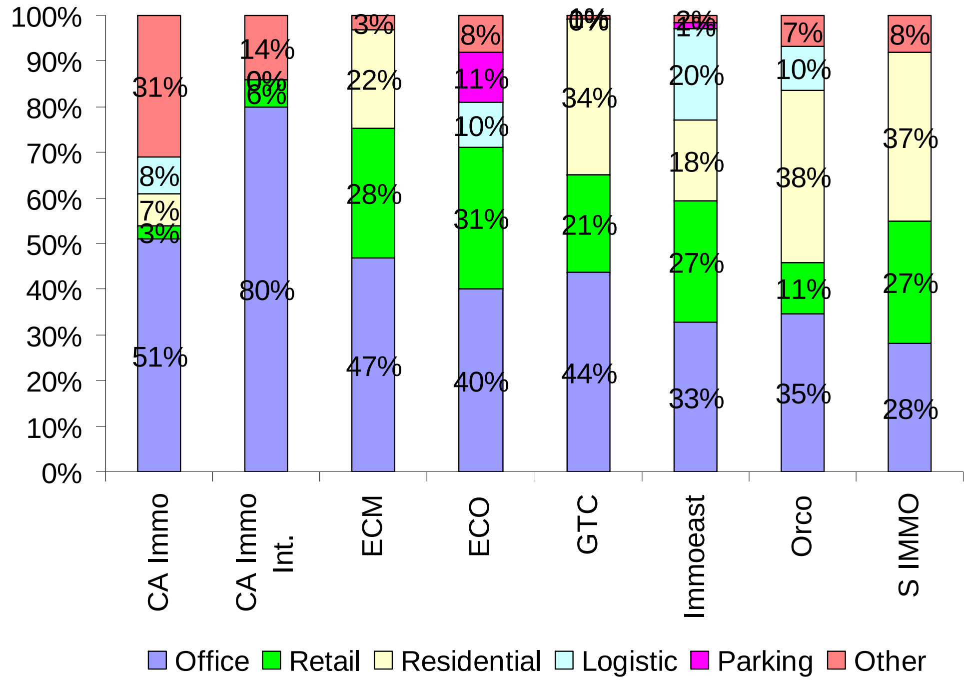


Source: Company reports, Erste Group estimates

- From our coverage universe, the two most broadly diversified are CA Immo and Sparkassen Immo (S IMMO), which both have Austria and Germany, but also a strong CEE/SEE investment focus.
- The companies with the clearest focus on CEE and SEE are CA Immo International and Immoeast. ECM and Immoeast are the two companies with a meaningful share of CIS countries, which certainly also adds political risk in these days .

Sector overview (2)
Portfolio breakdown by segment

Portfolio breakdown by segment

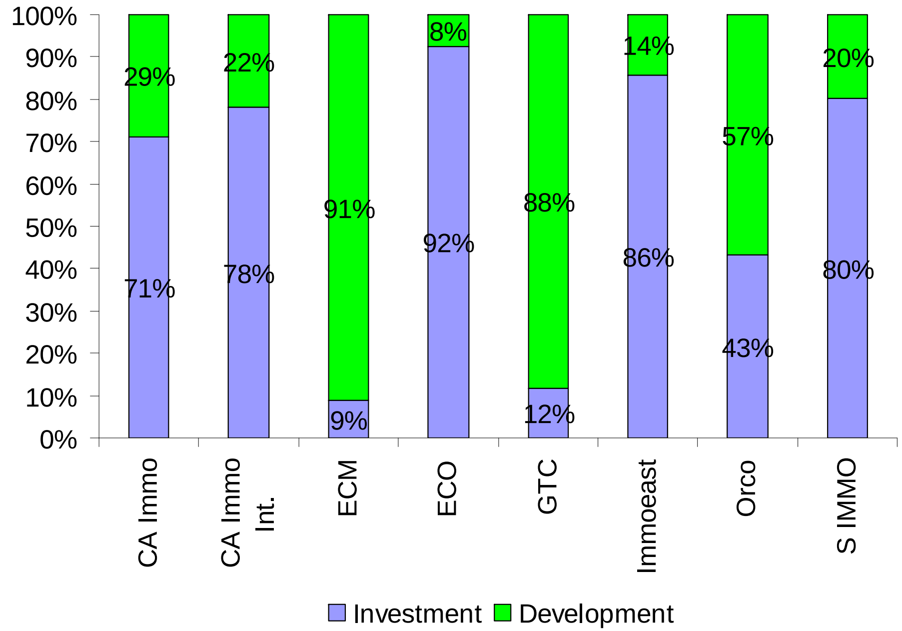


Source: Company reports, Erste Group estimates

- A broad diversification over various segments is important in terms of the stability of the companies' portfolios. On the other hand, too much diversity also means lower economies of scale.
- We thus continue to prefer companies with diversification, which does not burden ability to achieve economies of scale. In terms of liquidity, the office market is the most developed in Eastern Europe, while other segments lag behind

Sector overview (3)
Portfolio breakdown by investment/development

Portfolio breakdown by investment/development



Source: Company reports, Erste Group estimates

- Contrary to 2-3 years ago, a high share of development projects seems to be a clear disadvantage due to the required capex outlays in these days. However, most companies seem to be able to easily reduce their capex programs when needed, especially Immoeast has announced a drastic cut recently. The recurring cash flows and overall LTV is thus much more important, as well as the quality of the portfolio.
- Also, to be an investor does not mean 100% safety. Investors who acquired assets at low yields using high leverage and short term debt can now face not only refinancing problems, but are burdened by high interest costs as well in case they did not hedge.

Sector overview (4)
Financing structure in comparison

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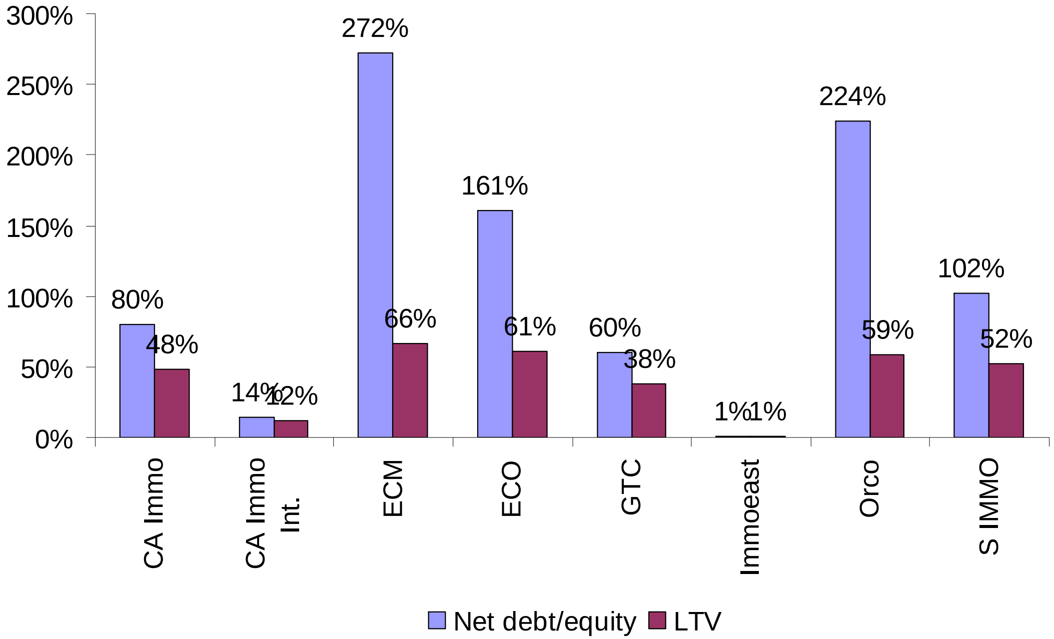
Gearing and LTV comparison 2008



Source: Company reports, Erste Group estimates

- Another important criterion – if not the most important one in these days – is the degree of leverage. In the period 2004-2006, the general opinion was that the higher the leverage the better. This has completely turned around after the severe financial crises and the difficulty of obtaining enough funding for its development projects.
- One of our top picks – CA Immo International – clearly has one of the lowest LTV ratios and also has cut back its developments recently. Orco – on the other hand – has quite a high gearing, but has confirmed to us that they have enough liquidity to pursue its business. The stock had been beaten heavily recently.

Valuation (1)
P/BV ratio seems to be bottoming-out

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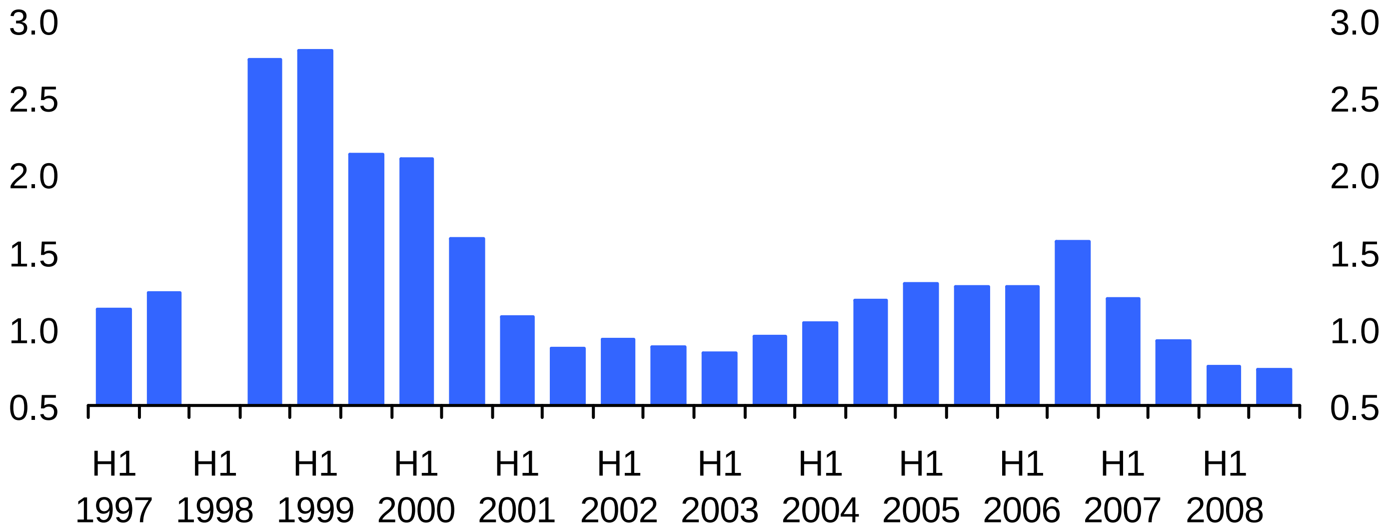
Historic evolution of P/BV multiples of European real estate stocks



Source: Erste Group calculations, Factset

- European real estate companies are traded at P/BV multiples of around 0.73x – this compares to around 0.85x – 0.90x during the economic downturn in the years 2002-03
- Due to the prevailing tensions on the money and credit markets and driven by a worsening of the economic outlook, the P/BV multiples are now the lowest in our whole period under review
- We expect discounts to BVPS/NAV for the sector to continue at least during the whole year 2009

Valuation (2)
Peer group overview

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	P/E				P/CE				P/BV			
	2007	2008e	2009e	2010e	2007	2008e	2009e	2010e	2007	2008e	2009e	2010e
CA IMMO	22.9	n.m	n.m	7.3	25.3	19.9	749.6	n.m	0.69	0.37	0.38	0.36
CA IMMO International	7.4	n.m	18.6	3.0	15.9	6.8	16.0	29.9	0.78	0.35	0.35	0.32
ECM	7.0	1.8	1.9	0.8	n.m	n.m	n.m	1.2	1.30	0.30	0.28	0.20
ECO Business-Immo	7.2	10.8	11.5	4.1	9.6	17.7	17.7	9.1	0.65	0.31	0.31	0.30
GTC	11.6	12.8	11.5	4.6	n.m	378.9	n.m	n.m	2.83	1.39	1.24	0.98
Immoeast	31.1	n.m	9.8	3.4	nm	5.3	6.6	6.1	0.69	0.22	0.21	0.20
Orco	8.9	n.m	6.8	2.8	n.m	n.m	n.m	n.m	1.20	0.31	0.33	0.29
Sparkassen Immobilien	20.3	25.5	28.2	8.6	12.0	19.7	n.m	n.m	0.87	0.54	0.53	0.50
Median CEE	**9.5**	**-2.4**	**10.6**	**3.8**	**9.6**	**12.3**	**11.3**	**3.7**	**0.74**	**0.33**	**0.33**	**0.31**

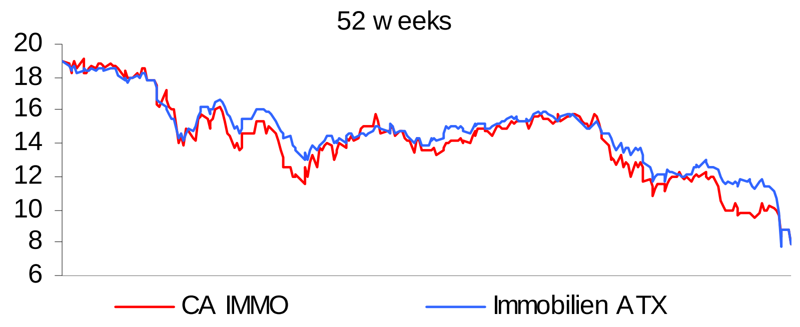
	P/NAV				EV/EBITDA				Dividend yield			
	2007	2008e	2009e	2010e	2007	2008e	2009e	2010e	2007	2008e	2009e	2010e
CA IMMO	0.68	0.36	0.37	0.36	31.9	19.3	25.7	28.2	0.0%	0.0%	0.0%	0.0%
CA IMMO International	0.73	0.33	0.32	0.30	23.6	12.6	27.8	16.3	3.0%	5.9%	6.0%	5.7%
ECM	0.79	0.20	0.19	0.16	n.m	309.7	39.6	7.9	0.0%	0.0%	0.0%	0.0%
ECO Business-Immo	0.62	0.30	0.30	0.28	24.4	20.3	20.6	16.7	0.0%	8.8%	8.8%	12.5%
GTC		0.64	0.67	0.69	96.2	33.7	39.2	28.8	0.0%	0.0%	0.0%	0.0%
Immoeast	0.64	0.21	0.20	0.19	45.2	8.4	8.9	6.7	0.0%	0.0%	0.0%	0.0%
Orco	0.89	0.24	0.26	0.23	49.4	70.7	75.2	32.6	1.2%	7.4%	4.2%	4.7%
Sparkassen Immobilien	0.80	0.50	0.49	0.45	22.4	23.9	29.8	22.1	0.0%	0.0%	0.0%	0.0%
Median CEE	**0.68**	**0.31**	**0.31**	**0.29**	**28.1**	**19.8**	**26.8**	**16.5**	**0.0%**	**0.0%**	**0.0%**	**0.0%**

- The mean P/BV multiple 2008e in our coverage universe is 0.33x, i.e. an average 67% discount to BVPS
- Companies like Immoeast are hit especially hard, as investors have concerns about the funding capabilities
- The companies with the highest multiples are those, where there are no concerns about the funding of the currently running projects, e.g. Sparkassen Immo or GTC

Companies covered
CA Immo – Hold, target price EUR 13.0

EUR mn*	2007	2008e	2009e	2010e
Total revenues	144.6	235.8	194.8	202.8
Revaluation result	65.4	-120.7	-84.0	92.9
EBIT	151.5	15.7	20.4	193.0
Net result after min.	52.1	-59.5	-49.1	94.5
EPS (EUR)	0.67	-0.68	-0.56	1.08
CEPS (EUR)	0.60	0.40	0.01	-0.37
BVPS (EUR)	22.0	21.4	20.8	21.8
NAV/share (EUR)	22.5	21.8	21.2	22.3
Div./share (EUR)	0.00	0.00	0.00	0.00
P/E (x)	22.9	-11.7	-14.1	7.3
P/CE (x)	25.3	19.9	749.6	-21.3
P/NAV (x)	0.68	0.36	0.37	0.36
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Historical ratios based on end-of-year stock prices.



Performance	12M	6M	3M	1M
in EUR	-58.2%	-41.8%	-42.8%	-20.5%

Share price (EUR)	7.95	Reuters	CAIV.VI	Free float	90.0%
Number of shares (mn)	87.3	Bloomberg	CAI AV	Shareholders	Bank Austria (10.0%)
Market capitalization (EUR mn)	693.7	Div. Ex-date			
Enterprise value (EUR mn)	2,749.5	**Target price**	**13.0**	Homepage:	www.caimmoag.com

- 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 inevitable entailing major developments prevent us from giving a better recommendation.
- Nonetheless, we believe the stock is a conservative investment with low downside risks on current valuation levels.

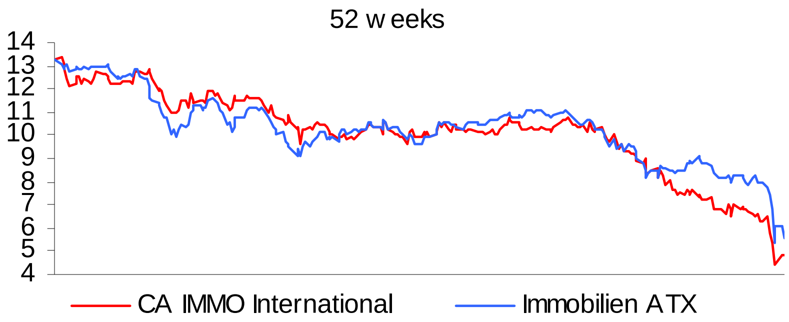
Companies covered

CA Immo Int. – Buy, target price EUR 9.7

ERSTE GROUP

EUR mn*	2007	2008e	2009e	2010e
Total revenues	52.3	51.9	46.8	56.7
Revaluation result	57.6	-60.2	-6.0	61.2
EBIT	82.9	-35.4	11.3	95.0
Net result after min.	68.5	-31.7	11.2	70.6
EPS (EUR)	1.58	-0.73	0.26	1.63
CEPS (EUR)	0.73	0.70	0.30	0.16
BVPS (EUR)	14.9	13.8	13.8	14.9
NAV/share (EUR)	15.8	14.8	15.0	16.3
Div./share (EUR)	0.35	0.28	0.29	0.28
P/E (x)	7.4	-6.6	18.6	3.0
P/CE (x)	15.9	6.8	16.0	29.9
P/NAV (x)	0.73	0.33	0.32	0.30
Dividend Yield	3.0%	5.9%	6.0%	5.7%

**Historical ratios based on end-of-year stock prices.*



Performance	12M	6M	3M	1M
in EUR	-63.9%	-51.6%	-53.1%	-29.2%

Share price (EUR)	4.80	Reuters	CAII.VI	Free float	41.0%
Number of shares (mn)	43.5	Bloomberg	CAII AV	Shareholders	CA Immo (59.0%)
Market capitalization (EUR mn)	208.6	Div. Ex-date	09/05/08		
Enterprise value (EUR mn)	336.6	**Target price**	**9.7**	Homepage:	www.caimmointernational.com/

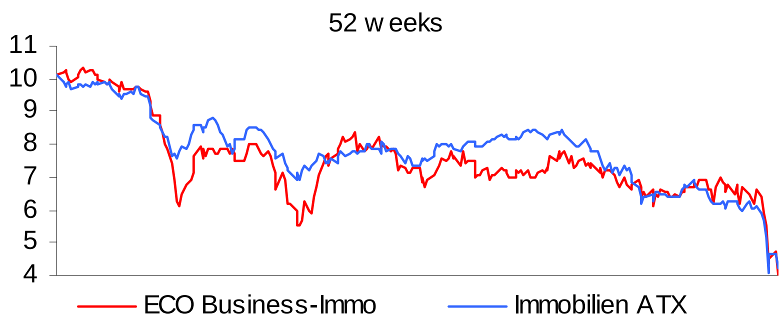
- We upgrade the rating of CA Immo International from Accumulate to Buy.
- The company has recently cut back its development pipeline and also stated that they would only do “bargain hunting” in the case real market opportunities arise.
- The stock is not perfectly liquid, but we believe it has the perfect 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 and already holds 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.

Companies covered

ECO Bussiness-Immo – Accumulate, target price EUR 7.7

EUR mn*	2007	2008e	2009e	2010e
Total revenues	48.6	71.4	72.0	85.7
Revaluation result	17.1	6.2	5.7	23.9
EBIT	60.8	48.7	50.1	80.3
Net result after min.	32.8	12.6	11.9	32.9
EPS (EUR)	1.11	0.37	0.35	0.96
CEPS (EUR)	0.84	0.23	0.23	0.44
BVPS (EUR)	12.4	12.8	12.8	13.4
NAV/share (EUR)	12.9	13.3	13.3	14.0
Div./share (EUR)	0.00	0.35	0.35	0.50
P/E (x)	7.2	10.8	11.5	4.1
P/CE (x)	9.6	17.7	17.7	9.1
P/NAV (x)	0.62	0.30	0.30	0.28
Dividend Yield	0.0%	8.8%	8.8%	12.5%

**Historical ratios based on end-of-year stock prices.*



Performance	12M	6M	3M	1M
in EUR	-60.4%	-45.2%	-44.4%	-40.3%

Share price (EUR)	4.00	Reuters	EBIV.VI	Free float	75.1%
Number of shares (mn)	34.1	Bloomberg	ECO AV	Shareholders	conwert (24.9%)
Market capitalization (EUR mn)	136.4	Div. Ex-date			
Enterprise value (EUR mn)	864.5	**Target price**	**7.7**	Homepage:	www.eco-immo.at

- We confirm our Accumulate recommendation for the ECO Business-Immo stock and set our new 12-month target price at EUR 7.7.
- The company is well-managed, but currently is also suffering from the small-cap factor.
- The focus on Austria and Germany is a clear advantage in these rough times for CEE properties. Sooner or later, we expect conwert (its 24.9% shareholder) to 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 coming down these days.

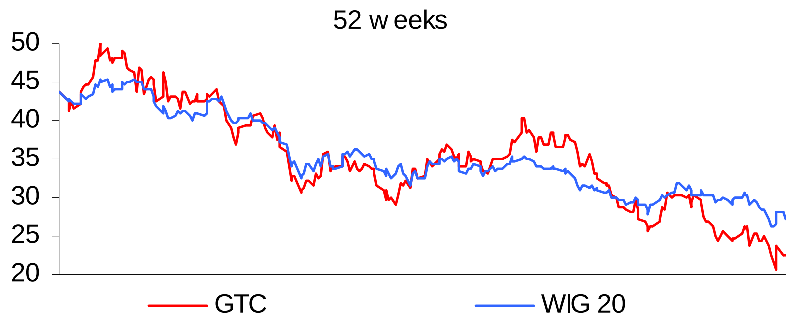
Companies covered

GTC – Hold, target price EUR 31.0

ERSTE GROUP

EUR mn*	2007	2008e	2009e	2010e
Total revenues	73.6	223.0	577.7	1,004.2
Revaluation result	292.4	113.5	143.4	412.2
EBIT	323.2	176.9	216.7	539.9
Net result after min.	234.4	116.7	129.9	324.1
EPS (EUR)	1.07	0.53	0.59	1.47
CEPS (EUR)	-0.30	0.02	-0.06	-0.40
BVPS (EUR)	4.4	4.9	5.5	7.0
NAV/share (EUR)		10.6	10.1	9.9
Div./share (EUR)	0.00	0.00	0.00	0.00
P/E (x)	11.6	12.8	11.5	4.6
P/CE (x)	-41.4	378.9	-110.7	-17.0
P/NAV (x)		0.64	0.67	0.69
Dividend Yield	0.0%	0.0%	0.0%	0.0%

**Historical ratios based on end-of-year stock prices.*



Performance	12M	6M	3M	1M
in EUR	-48.7%	-31.4%	-29.7%	-12.3%

Share price (PLN)	22.41	Reuters	GTCE.WA	Free float	42.1%
Number of shares (mn)	219.4	Bloomberg	GTC PW	Shareholders	TC Real Estate N.V. (46.1%)
Market capitalization (EUR mn)	1,491.1	Div. Ex-date			ING Nationale Nederlanden (5.2%)
Enterprise value (EUR mn)	2,164.6	**Target price**	**31.0**	Homepage:	www.gtc.com.pl

- 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 into CIS markets and strong balance sheet.
- However, we have lowered our 12M target price from PLN 47 to PLN 31 per share due to the lower margins expected on residential projects in Poland and Romania and the slower execution of development projects.

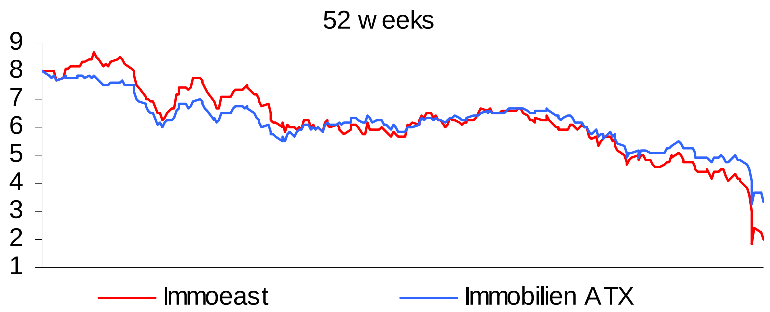
Companies covered

Immoeast – Accumulate, target price EUR 4.0

ERSTE GROUP

EUR mn*	2007	2008e	2009e	2010e
Total revenues	297.2	374.5	450.7	553.2
Revaluation result	11.1	-467.5	21.1	408.4
EBIT	15.0	-302.1	205.3	654.9
Net result after min.	167.8	-204.3	170.4	491.8
EPS (EUR)	0.21	-0.24	0.20	0.59
CEPS (EUR)	0.00	0.38	0.31	0.33
BVPS (EUR)	9.4	9.2	9.4	10.0
NAV/share (EUR)	10.3	9.7	10.0	10.7
Div./share (EUR)	0.00	0.00	0.00	0.00
P/E (x)	31.1	-8.2	9.8	3.4
P/CE (x)	nm	5.3	6.6	6.1
P/NAV (x)	0.64	0.21	0.20	0.19
Dividend Yield	0.0%	0.0%	0.0%	0.0%

**Historical ratios based on end-of-year stock prices.*



Performance	12M	6M	3M	1M
in EUR	-75.0%	-64.8%	-67.2%	-54.5%

Share price (EUR)	2.00	Reuters	IMEA.VI	Free float	45.4%
Number of shares (mn)	833.8	Bloomberg	IEA AV	Shareholders	Immofinanz (54.6%)
Market capitalization (EUR mn)	1,667.6	Div. Ex-date			
Enterprise value (EUR mn)	1,752.2	**Target price**	**4.0**	Homepage:	www.immoeast.at

- 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 too fail, but the recent events have alarmed us somewhat. 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 had not been the same. The fact that Immofinanz now even has increased its borrowing in the last 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 perceive clear upside for the Immoeast share. This will probably only be realized as soon as Immofinanz starts to pay back its inter-company loan.

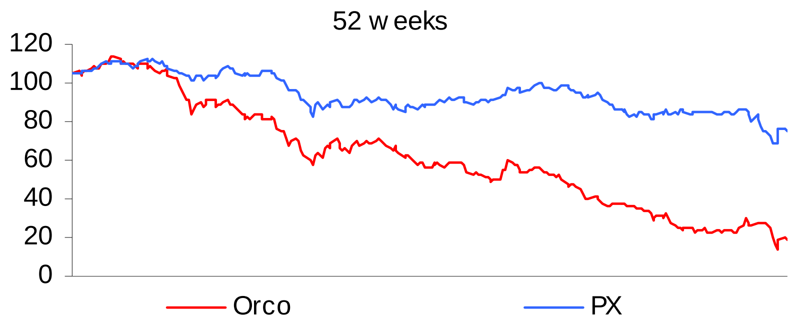
Companies covered

Orco – Buy, target price EUR 41.0

ERSTE GROUP

EUR mn*	2007	2008e	2009e	2010e
Total revenues	299.2	335.2	355.4	654.5
Revaluation result	147.4	-12.3	123.2	184.1
EBIT	177.1	-18.7	150.8	254.5
Net result after min.	87.5	-76.2	32.9	90.7
EPS (EUR)	9.15	-7.04	2.79	6.82
CEPS (EUR)	-7.01	-5.89	-7.68	-7.09
BVPS (EUR)	67.9	60.3	57.6	65.8
NAV/share (EUR)	91.7	78.7	73.9	83.2
Div./share (EUR)	1.00	1.40	0.80	0.88
P/E (x)	8.9	-2.7	6.8	2.8
P/CE (x)	-11.6	-3.2	-2.5	-2.7
P/NAV (x)	0.89	0.24	0.26	0.23
Dividend Yield	1.2%	7.4%	4.2%	4.7%

**Historical ratios based on end-of-year stock prices.*



Performance	12M	6M	3M	1M
in EUR	-81.9%	-66.3%	-47.7%	-18.4%

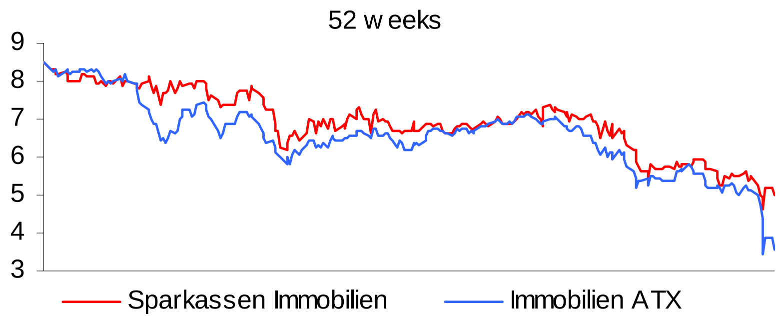
Share price (EUR)	18.91	Reuters	ORCOsp.PR	Free float	77.3%
Number of shares (mn)	10.8	Bloomberg	ORCO CP	Shareholders	Ott&Co, S.A. (12.3%)
Market capitalization (EUR mn)	204.1	Div. Ex-date			Bernard Gauthier (2.5%)
Enterprise value (EUR mn)	1,880.4	**Target price**	**41.0**	Homepage:	www.orcogroup.com

- Our second favorite 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 second stock in our coverage universe that offers upside of >100%.

Companies covered
Sparkassen Immo – Not rated

EUR mn*	2007	2008e	2009e	2010e
Total revenues	96.9	108.2	127.9	172.5
Revaluation result	41.1	2.5	27.3	63.5
EBIT	100.0	65.4	88.6	153.5
Net result after min.	25.9	13.4	12.1	39.8
EPS (EUR)	0.38	0.20	0.18	0.58
CEPS (EUR)	0.64	0.25	-0.11	-0.07
BVPS (EUR)	8.9	9.2	9.4	10.0
NAV/share (EUR)	9.7	10.1	10.3	11.0
Div./share (EUR)	0.00	0.00	0.00	0.00
P/E (x)	20.3	25.5	28.2	8.6
P/CE (x)	12.0	19.7	-45.3	-73.6
P/NAV (x)	0.80	0.50	0.49	0.45
Dividend Yield	0.0%	0.0%	0.0%	0.0%

**Historical ratios based on end-of-year stock prices.*



Performance	12M	6M	3M	1M
in EUR	-41.0%	-24.9%	-29.8%	-11.8%

Share price (EUR)	5.01	Reuters	SIAG.VI	Free float	81.1%
Number of shares (mn)	68.1	Bloomberg	SPI AV	Shareholders	s Versich. (VIG) (8.9%)
Market capitalization (EUR mn)	341.3	Div. Ex-date			Erste Group (9%)
Enterprise value (EUR mn)	1,611.0	**Target price**		Homepage:	www.sparkassenimmobilienag.at

- We continue to refrain from giving a rating and target price on the Sparkassen Immo stock in the light of Erste Group's 9% shareholding.
- The company has a EUR 750mn investment and development pipeline to finance, which should not be a major problem, considering that Erste Group is a major shareholder and the estimated LTV ratio for 2008 is 52% (excluding the participation certificates).
- The company's investment focus on prime locations has turned out to be a real advantage.

Key messages

ERSTE GROUP

Discounts to book values at historic high levels

- CEE real estate stocks fell as much as 70% amid fears over the financial crisis.
- As a result, the valuations of real estate companies in CEE appear particularly attractive in a historical comparison at an average P/BV 2008e of 0.33x. By contrast, as book values decreased in Western Europe, the ratio is around 0.7x for the main European real estate stocks.
- However, expected decreasing interest rates, and later on, also risk premiums set the roof for rental yields in 2009 and will contribute to stabilization and the beginning of a recovery in the sector.

CEE – a safe heaven compared to Western Europe and risky CIS

- CEE markets are much less saturated and we also believe the GDP growth in CEE has a cushion – not leverage – to the growth in matured countries.
- We see the credit crisis causing downward revisions of development pipelines all the time – so the lower GDP growth expected is offset by lower supply levels. We therefore expect a slowdown, but not a substantial decrease in rents in CEE.

Go for companies with good balance sheet, prime assets and prudent financial management

- Due to tighter lending conditions, we would recommend to look out for companies with a good balance sheet and a prudent financial management. Diversification across different segments and counties and focus on A class properties also helps to stabilize the portfolio.
- Pure developers financed on assets sales would be too risky in the current uncertain environment. Also, residential developers are expected to be faced with decreasing margins due to the double impact on project financing and mortgages caused by tighter lending conditions.

Our top picks

- Austria based: CA Immo International (Buy, target price: EUR 9.7)
- CEE based: Orco (Buy, target price: EUR 41.0)