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Investors Looking to Buy In Europe Push to the East

By SARA SEDDON KILBINGER
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Real-estate investors continue to flock to Central and Eastern Europe, to the point where there aren't enough buying opportunities to go around.

As countries join the European Union, they are viewed as more stable, making investors more likely to jump in with their money. EU membership also has driven down yields because of reduced risk. Still, yields, or the annual percentage return expressed as a ratio of annual net income to the capital value of a property, remain largely higher than equivalent properties in Western Europe.

Around €5.8 billion (\$7.1 billion) in real-estate deals took place last year in Bulgaria, the Czech Republic, Hungary, Poland, Romania, Russia and Slovakia -- among the region's most established markets. That is a 38% increase from €4.19 billion the previous year, according to advisory firm CB Richard Ellis in London.

Of the total, the Czech Republic, Hungary and Poland accounted for 85.6% of investment, with Poland capturing 48.7%, the Czech Republic 19.5% and Hungary 17.4%. (Slovakia and Romania attracted less investment than a year earlier because of a lack of properties available for sale.) Office investments accounted for 44% of transactions, with retail a close second at 39% of total real-estate investment in the region, says CB Richard Ellis.

Andreas Ridder, who heads the firm's regional office in Vienna, said one constraint this year will be enough properties to satisfy investor demand. "We think that investors have earmarked around €20 billion to invest in Central and Eastern Europe this year, if they can find a home for it all," he said. In contrast, he put demand at around €12 billion in 2005 and €6 billion in 2004.

Prime yields, or yields for the best properties, across Central and Eastern Europe continue to fall, sometimes sharply, says CB Richard Ellis. Prime-office yields in Bucharest, for example, fell to 8.5% at the end of last year, from 13% in 2003, when yields were considered high. In Prague they fell to 6.75% last year, compared with 8% in 2003.

Shopping-center yields have also fallen: In Prague prime yields fell to 7.75% at the end of 2005, from 9.5% in 2003. Such declines narrowed, but didn't eliminate, differences with Western Europe, where office yields are often around 4% to 5%, with retail generating yields as low as 5.5%.

Despite falling yields, Central and Eastern Europe's expected growth in the region's still-low rents in the mid- to long term makes "a big difference," said Karim Habra, managing director of GE Commercial Financial Real Estate, a unit of **General Electric Co.**, in Central Europe.

GE Real Estate invested around \$350 million in the region last year, in seven deals. While the company continues to focus on core markets such as the Czech Republic and Poland, it also hopes to close deals in Romania and Russia this year.

"Obviously, it's very competitive, but if we could invest \$500 million [in the region], then we would," said Mr. Habra.

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