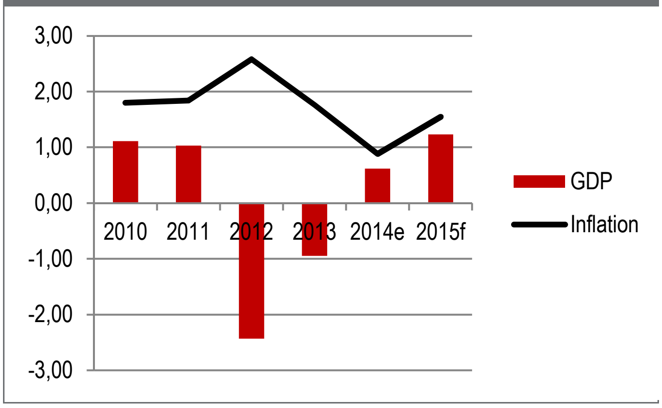
LJUBLJANA

Economy/Investment

Economy

During the first quarter Slovenian GDP increased by 1.9% compared to the same quarter in 2013. In comparison with the previous quarter, seasonally adjusted GDP decreased by 0.3%. Oxford Economics suggests that expected GDP growth will be 0.6% this year, and based on the strong exports 1.2% in 2015 and 1.8% in 2016. Due to Eurozone improvements, export volumes rose by 2.7% on the year 2013. The monetary support enhanced broader private sector investment by getting variety of projects started. For the first time in more than two years, private spending recorded growth of 0.3%. Inflation is expected to remain low, averaging 0.9% this year.

GDP & Inflation



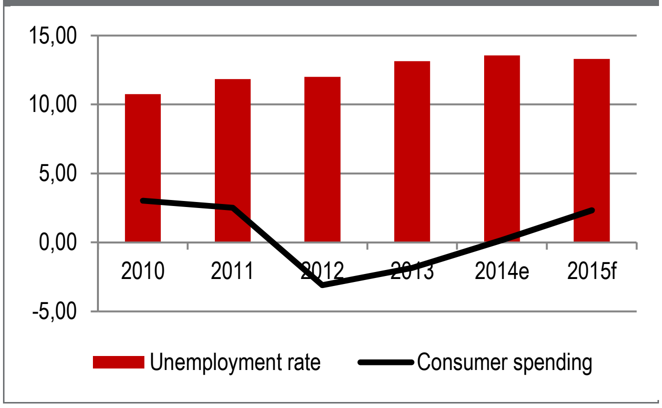
Source: Oxford Economics, July 2014

The asset quality review of Slovenia's eight largest banks was completed in December and the results pointed out that the total cost of reforming banking sector is €4.8 billion. Consequently, budget deficit is expected to exceed 15% of GDP. The Government injected €3.2 billion into five leading banks with the aim of covering immediate concerns revealed by the street assets. Moreover, two largest banks which are mainly state owned transferred a significant part of their bad loans (€3.2 billion) to the newly established bank, The Bad Asset Management company (BAMC), and received in return €1.1 billion in short term bonds.

According to the National Statistical Office the annual growth of consumer prices during June 2014 stood at 0.8%. Compared to the corresponding period in 2013, the largest price increase was seen in sector of alcoholic beverages and tobacco (6.0%), followed by transport (2.1%), restaurants and hotels and miscellaneous goods and services (both 1.7%), housing, water, electricity, gas and other (1.3%) and health and communication (both 0.6%). The biggest drop was seen in sector of clothing and footwear (-1.3%) and food and non-alcoholic beverages (-1.0%).

During the first quarter, average monthly net earnings were €639, which is 0.1% lower than previous quarter and corresponding period in 2013.

Unemployment & Consumer spending



Source: Oxford Economics, July 2014

Labor force survey results showed that the unemployment rate in Slovenia during April was 13.4%, showing drop of 0.5 percentage points compared to the previous month. This trend continued during May when monthly fall of 3.2% was recorded.

Political Situation

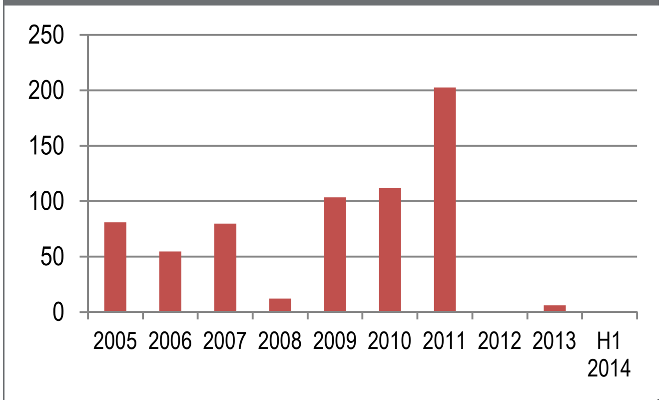
During February 2013 the coalition government fell and Alenka Bratusek of the center left Positive Slovenia party replaced Janez Jansa as prime minister. She led a four party coalition with thin majority which contributed her resignation during May 2014. After fresh elections on 13th July it is important that privatization continues, as well as lowering government debt and improving links between politics and business. The government will prioritize kick starting growth, balancing public finance, protecting and developing public sector and restoring people's trust in state institutions.

Office Market

Supply

Traditionally the office market has been led by owner occupier buildings either in existing Class B buildings, historic and public buildings or new office development. As the trend started changing from owner occupation to letting, more quality projects were developed and became available. Due to the lack intelligible evidence about Ljubljana office market, there is no exact data about office stock. The last finished project was Situla office building, which added approximately 6,400 m^2 to the market and comprises mixture of office space and luxury apartments. There is one office project under construction Tobačno city which will add approximately 67,000m^2 of business premises. It will become important business, administrative, residential, service, cultural and educational center. Project Dunajski Kristali is in the fourth stage with finishing work left to be done. Other significant projects in pipeline are Emonika, Gemini and Litostroj which will include large mixed use projects. Most of the proposed new developments are concentrated in the city center, however many of them are on hold due to unfavorable market conditions such as large amount of available space and limited market demand.

Office stock in Ljubljana



Source JLL, 2014

Demand

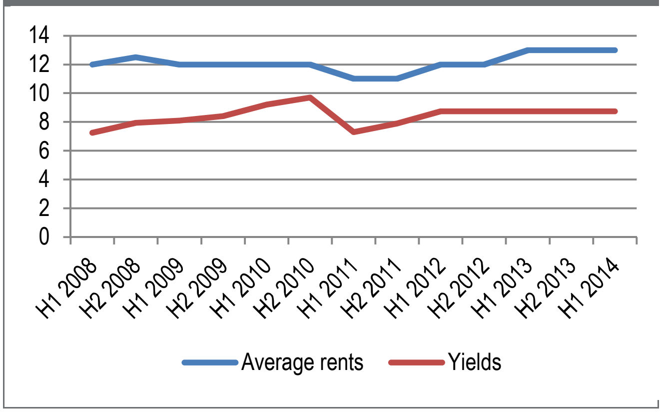
The demand for office space in Ljubljana is very much influenced by the challenging economy the country is facing. It is mainly driven by international and local companies, wanting to expand and relocate to newer offices, with better parking, lower rents, rent free period and free fit out. Companies are mainly interested for medium and smaller office plates up to 200m^2. The strongest occupancy level is seen in modern and high quality buildings on the best locations, while outdated buildings have higher vacancy rates. Since the recession, vacancy rate has been facing increasing trend and we estimate its range among 10- 30% depending on the location, quality, and access.

Rents

The headline rent in Ljubljana currently stands at 15 €/m2. Average rents for the Class A office space is in range 12-15€/m2 , and for office space at secondary location it is from 9-11 €/m2. We expect that office rents for modern premises will remain stable in the coming years, whilst outdated premises' rents will face decreasing trends.

Practice of rather selling office space units then leasing has virtually stopped as companies became more constrained by their cash flows and budget. However, companies shifted to renting instead of buying for their operations. The sale price for class A office premises usually ranges from 1,300-1,700€/m^2.

Average Class A Office rents and yields in Ljubljana



Source: KF Finance, JLL 2014

Forecast

Market activity will remain constrained as Slovenian market continues to struggle. Once the economy stabilizes, investment opportunities will increase and true institutional investment quality product will become available. Investors focus more on the markets where there is greater amount of finance available.

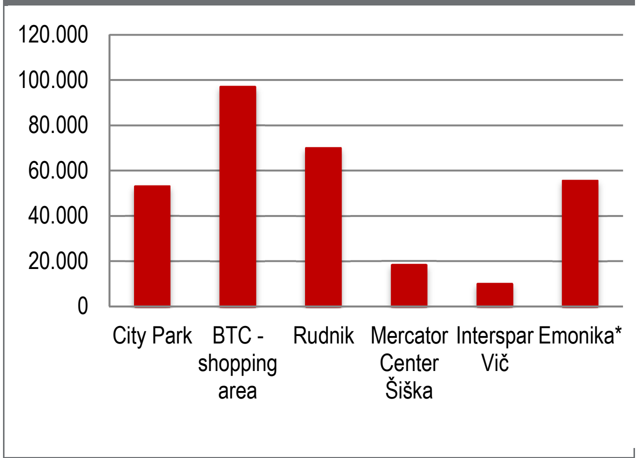
Retail Market

Supply

The retail market in Ljubljana is situated within four shopping centers namely BTC City including City park, Supernova Rudnik, Interspar Vič and Mercator Center Šiška. The shopping center stock is estimated at 248,000m^2 or 886 m^2 per thousand inhabitants. Ljubljana's retail market is relatively saturated and the need for further development with current market conditions is quite uncertain.

Most of retail stock came from converting industrial facilities in the BTC City, which nowadays represent large part of retail stock. It is placed among the largest business, shopping, recreational and entertainment centers in Europe, which offers around 450 shops, more than 30 restaurants and snack bars, multiplex cinema and other cultural, business and entertainment centers. Center is constantly adopting new trends and attracts approximately 21 million visitors from Slovenia and abroad each year. There were no new retail developments on the market in the recent years; however Mercator Center Šiška and City Park were partially refurbished during 2012/13.

Shopping center stock in Ljubljana



Source: KF Finance, JLL 2014 *future stock

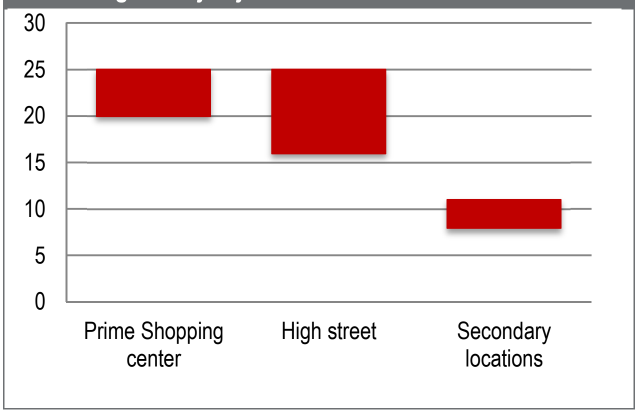
There is one planned project Emonika City Center which will include shopping center with 200 shops, multiplex cinema, casino, children's play area and other entertainment sectors. The whole complex will offer a combination of business tower, shopping and entertainment center, hotel and congress center, and residential area.

Demand

Retail demand is directed toward modern retail premises and it comes directly from international and local retailers. Although there has been a decrease in demand for retail space, there is still a number of international retailers looking to expand directly into Slovenia, and we estimate that they will consider Ljubljana as their potential location. Swedish furniture retailer Ikea, is considering 84ha land plot purchase from Triglav insurance company, with plans to start construction in 2015. During May, the leading Serbian lingerie retailer Extreme Intimo opened new store located in BTC Hall.

The main high street shopping zone includes area around Old Square, Čopova and Slovenska street. This area hosts brands such as Calzedonia, Tom Tailor, Tally Weijl, and Mc Donalds. However many brands have relocated to BTC due to parking issues within the center.

Rental ranges in Ljubljana



Source: KF Finance, 2014

Rents

Rental level for prime shopping centers ranges from 20 to 25€/m^2/monthly, while the secondary rents are from 8-11€/m2/monthly. Furthermore, rents in the prime high street, remained on similar level as in shopping centers from 16-25€/m^2/monthly.

Market Practice

Leasing Market Practice

Lease Length

- The average lease length is 3 to 5 years (office) and 3 to 5 years (retail).
- In a few cases longer leases can be agreed. 3 year break options are increasingly common.

Payment Terms

- Rents are quoted and paid in €. Rents are payable monthly in advance. Occasionally, rents are paid quarterly in advance for logistics properties.

Rental Deposit

- It is common to agree on a cash deposit or bank guarantee equal to 3 months' rent.
- The Deposit or guarantee can be a 3 month cash deposit or bank guarantee (retail and office) or a bank guarantee, debenture bond or promissory note for logistics premises.
- Indexation is annually in line with European HICP.

Other Charges

- Other charges consist of Service and energy charges. (Utilities and direct consumption are paid separately)(Offices and industrial).
- Other charges consist of Service charges and marketing costs (retail).

Insurance

- The landlord covers costs of building insurance (recovered by service charge). The Tenant covers insurance of own premises, inventory, contents and civil liabilities.

Incentives

- Incentives may be offered by the landlord. This can typically be in the form of rent free periods, fit-out contributions or contribution towards moving costs.

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