



HEITMAN



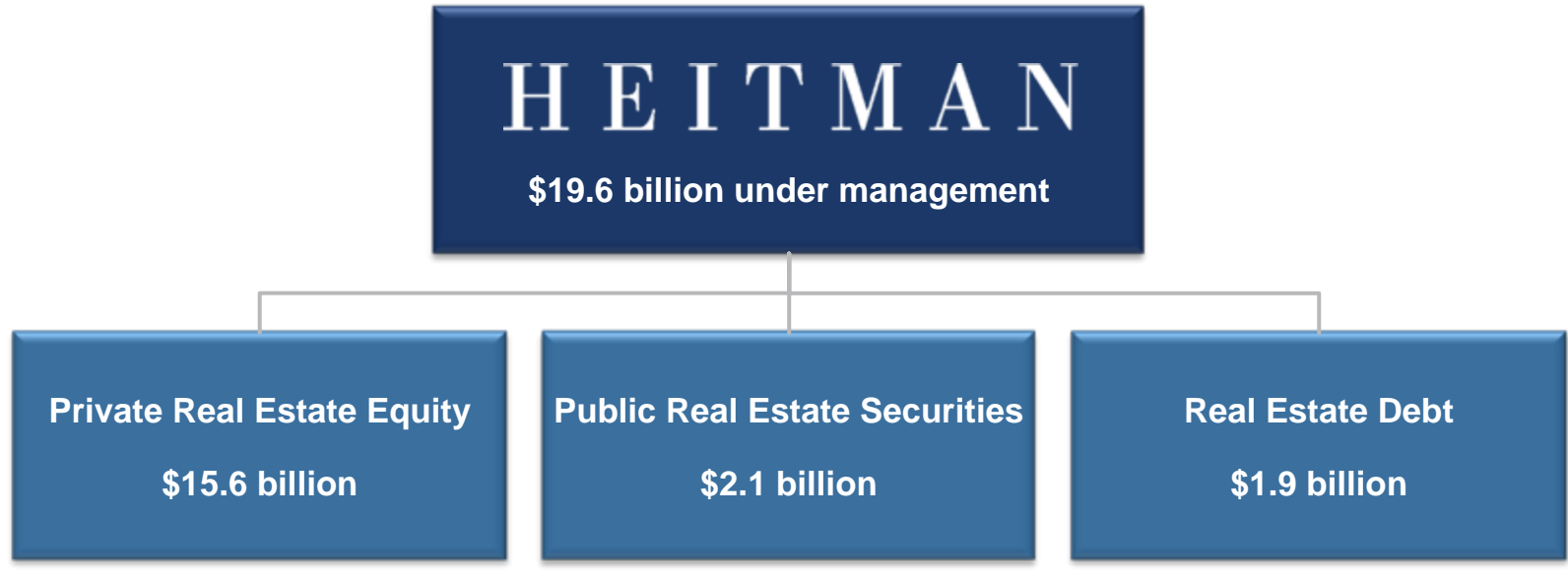
There is a
difference.

Due Diligence in Real Estate: Investor's prospects

AEB, 25 March 2009

Heitman is a Real Estate Specialist

As of 12/31/08



- Over 40 years of real estate experience; research-driven investment process
- Investing in North America, Europe, and Asia-Pacific
- 219 seasoned professionals serving institutional and individual investors across the globe
- Ownership structure creates alignment of interest



■ **Heitman Central Europe Property Partners**

- \$131 million (equity) closed-end fund
- Started in October 2000
- Poland, Czech Republic and Hungary

■ **Heitman Central Europe Property Partners II**

- €175 million (equity) closed-end fund
- Started in December 2002
- Poland, Czech Republic, Hungary, Slovakia, Slovenia, Romania, Estonia, Latvia and Lithuania



■ **Heitman European Property Partners III**

- €350 million (equity) closed-end fund
- Final Close: December 2005
- Poland, Czech Republic, Hungary, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Romania and Bulgaria

■ **Heitman European Property Partners IV**

- €380 million (equity) closed-end fund
- Started in September 2008
- Poland, Czech Republic, Hungary, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Romania, Bulgaria, Croatia, Russia and Ukraine

Due Diligence from an Investor's point of

Project Due Diligence

- Market sector
- Real Estate
- Location
- Technical/Environmental
- Legal/Title
- Financial – Cost/Income
- Tax

Partner Due Diligence

- Integrity
- Technical Capabilities
- Financial
- Track Record

Due Diligence in Retrospect

How things were back in 2006/2007:

- A wall of money chasing few quality properties
- Sellers dictated the terms
- Short exclusivity periods and “rushed due diligence”
- Biggest concerns:
 - Preventing escalating construction costs
 - Bureaucracy and permitting issues

Due Diligence Today

- Capital flight
- Buyers dictate the terms
- Thorough due diligence crucial
- Biggest concerns:
 - Macroeconomic Risks
 - Partner Risk
 - Lender Risk
 - Tenant/Income Risk

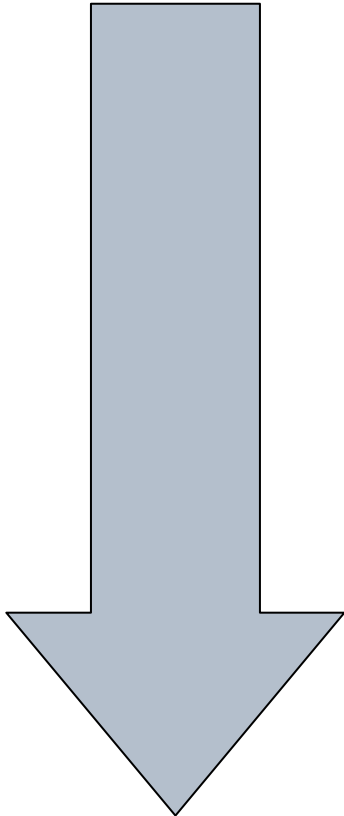
Due Diligence Focus

Macroeconomic Risks

	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Russia	Slovakia	Slovenia	Ukraine
INCOME STATEMENT													
GDP growth	MR	MR	MR	DE	DE	DE	DE	MR	MR	MR	RS	MR	DE
Market size	MR	MR	RS	DE	RS	DE	MR	RS	RS	RS	MR	MR	RS
Growth forecast dispersion	RS	MR	DE	MR	RS	DE	MR	RS	DE	MR	RS	RS	DE
Growth forecast volatility	MR	MR	DE	MR	MR	DE	DE	RS	MR	MR	RS	RS	DE
MARKET RISK MEASURE													
CDS spreads	DE	MR	RS	MR	MR	DE	MR	RS	MR	DE	RS	RS	DE
EXTERNAL FINANCING REQUIREMENT													
Current account deficit	DE	MR	RS	DE	RS	DE	MR	RS	MR	RS	RS	RS	RS
FDI vs. current account deficit	DE	MR	RS	MR	RS	DE	DE	RS	DE	RS	MR	MR	RS
Government budget deficit	RS	MR	MR	MR	DE	MR	MR	MR	DE	RS	MR	RS	MR
Government debt	RS	MR	MR	RS	DE	RS	RS	MR	RS	RS	MR	MR	RS
Gross external debt	DE	DE	RS	DE	DE	DE	MR	MR	RS	RS	MR	DE	MR
Short-term external debt	DE	RS	MR	DE	MR	DE	MR	MR	MR	RS	MR	DE	MR
CURRENCY RISK													
Peg abandonment risk	DE	MR	RS	DE	RS	DE	MR	RS	RS	RS	RS	RS	RS
Exchange rate volatility	RS	RS	MR	RS	DE	RS	RS	DE	DE	DE	RS	RS	DE
Central bank reserves	RS	MR	MR	DE	MR	DE	DE	DE	MR	RS	MR	MR	MR
Foreign currency indebtedness	DE	RS	RS	DE	DE	DE	DE	MR	DE	MR	MR	RS	DE
BANKING & CREDIT													
Recent credit boom	DE	RS	RS	DE	RS	DE	DE	MR	DE	MR	RS	DE	DE
Aggregate leverage level	DE	DE	RS	DE	MR	DE	DE	RS	RS	RS	RS	DE	DE
Mortgage leverage level	RS	MR	RS	DE	MR	DE	MR	RS	RS	RS	RS	RS	RS
Bank health (agency ratings)	DE	MR	RS	RS	MR	MR	MR	MR	DE	DE	RS	MR	DE
Loans vs. deposits	RS	RS	RS	DE	MR	DE	DE	RS	MR	DE	RS	RS	DE
POLITICAL RISK													
Political Stability	RS	MR	RS	RS	RS	RS	RS	RS	RS	MR	RS	RS	DE
COMPOSITE SCORE													
	MR	MR	RS	MR	MR	DE	MR	RS	MR	MR	RS	MR	DE

Due Diligence Focus

Partner Risk



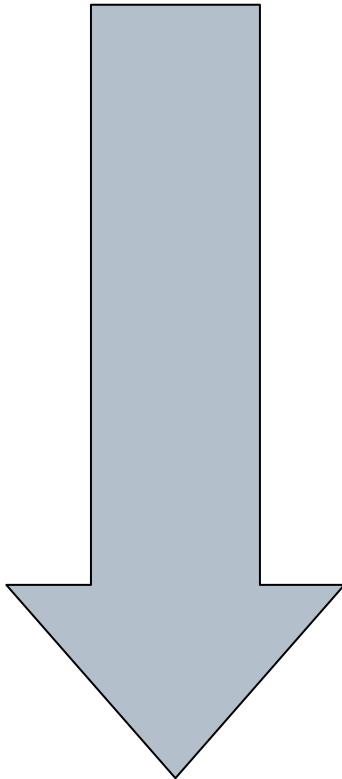
- Can the partner fund its share in a development project over a period of x months/years?
- Could the partner be forced to sell while the market is down?
- Could you end up with a defaulting partner in a joint-venture?

Due Diligence focused on:

- balance sheet strength/contingent liabilities
- vulnerability of cash flows
- industrial affiliations
- priority of the project under consideration

Due Diligence Focus

Income Risk



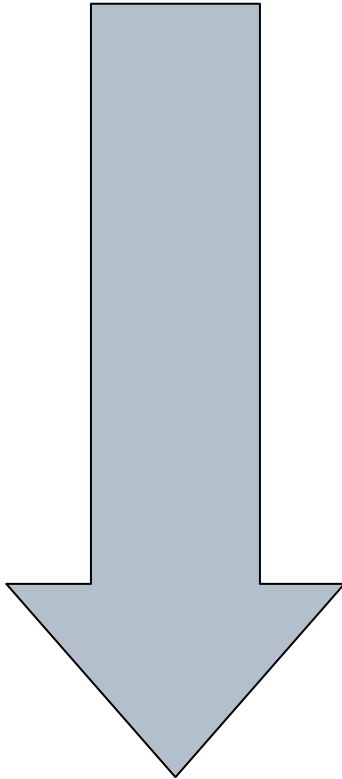
- Who is a good tenant today?
- Will tenants try to re-negotiate their rents?
- Will tenants go bankrupt?
- Could you re-let possible vacant space

Due diligence focused on

- creditworthiness of tenants
- exposure of tenants to exchange rate volatility
- parent guarantees
- project profitability/debt service capacity at reduced NOI
- demand for vacant space

Due Diligence Focus

Lender Risk



Will the lender

- **fund its commitment?**
- **try to renegotiate the terms?**
- **try to find a reason to call the loan?**
- **go bankrupt?**

Very difficult to assess but

- **ear constantly at the market**
 - **Conservative underwriting / leverage**
 - **Careful negotiation of covenants**
- help**

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