Summary

Recent Trends
Driven by the historically low interest rates across the eurozone and investor seeking opportunities, the Slovenian real estate market saw increased liquidity in retail and hotel and hospitality sectors in 2015. Despite being the least developed sector, the industrial market saw increased activity.

Market Prognosis
The Slovenian real estate sector expects several developments and transactions in 2016, underpinned by yield opportunities and improved investor sentiment. As most active markets in the coming year we see retail, office and hotel and hospitality sectors.
Economic Overview

Summary & Prognosis

Slovenia’s economy has expanded 2.9% in 2015 according to the Slovenian Statistical Office’s first estimate. The result indicates that the economy grew slower in 2015 after a post-recession/banking crisis rebound in 2014, when the growth rate was 3.1%.

The key underlying factors of growth were stronger net exports on the back of rising exports, which have grown 5.2% in 2015, the most in the last four years. Private consumption has increased 1.7% and was also an important factor of growth, amid improvements in the labour market, rising wages and persistently low inflation.

Inflation hit an all-time low in 2014 but the lower prices for oil added additional downward price pressure so at the end of 2015 deflation of -0.5% was recorded at the annual level.

For 2016, the Slovene GDP is expected to expand 2.2% whilst the inflation is projected to reach 0.6%. The Focus Economics panel sees the industrial output growth at 3.6% in 2016.

<table>
<thead>
<tr>
<th>Key Economic Figures</th>
<th>2014</th>
<th>2015</th>
<th>2016e</th>
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</thead>
<tbody>
<tr>
<td>GDP %</td>
<td>3.1</td>
<td>2.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Inflation (Core)</td>
<td>0.4</td>
<td>-0.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Private Consumption %</td>
<td>0.6</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Industrial production</td>
<td>1.6</td>
<td>4.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Unemployment %</td>
<td>9.7</td>
<td>9.4</td>
<td>9.0</td>
</tr>
</tbody>
</table>

Source: Colliers International on Focus Economics

Average monthly gross earnings (€/month)

Source: Colliers International on Statistical office of Slovenia

(GDP, annual var. in %)

Unemployment (% of active population)

(HICP inflation, annual variation in %)

Private Consumption (annual var. in %)

Source: Colliers International on FocusEconomics
### Office Market

#### Supply & Vacancy Rate

There were no substantial office schemes delivered to the market in 2015. Total office supply in Ljubljana stands at approx. 1 million m² including A, B and C class competitive stock, owner-occupied and mixed-occupied buildings. Competitive stock accounts for approx. 450,000 m².

Lack of new developments suggests that the market has reached its maturity stage but also signals weak investor interest for greenfield office projects.

Ljubljana’s office occupancy rate currently stands above 90% in prime buildings while the outdated buildings in secondary locations have very high vacancy rate which strongly affects the overall market’s average.

#### Rents

The prime headline rent in Ljubljana has been stable in the last few years and currently stands at €16/m²/month. An average rent in competitive stock has slightly increased and stands at €10.50/m²/month.

An average rent in Maribor, the second-largest city in Slovenia, stands at approx. €8/m²/month.

In order to attract tenants and increase occupancy levels, landlords continue to offer incentives for their major tenants. Standard market incentives are fit-out contribution, free parking and/or rent free period for a typical lease length of 3 to 5 years.

#### Demand

Demand is driven by new companies, expansion of those already present on the market, as well as companies currently occupying lower standard offices.

The majority of demand will continue to come from international and local companies that are actively looking to relocate from older and lower standard office buildings to newer and modern buildings.

#### Key office figures 2015 (Ljubljana)

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<table>
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<tr>
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<tbody>
<tr>
<td>Gross Take-up in m²</td>
<td>60.000*</td>
</tr>
<tr>
<td>Vacancy</td>
<td>25%</td>
</tr>
<tr>
<td>Prime Monthly Rent</td>
<td>€16/m²</td>
</tr>
<tr>
<td>Average Monthly Rent</td>
<td>€10.50/m²</td>
</tr>
</tbody>
</table>

*in newer buildings, completed after 1999
Source: Colliers International

#### Pipeline and Prognosis

The pipeline includes two office developments that will take place in the center of Ljubljana. These office developments will be components of the following mixed-use projects:

> **Erste Group Immorent’s project, City Tower Severna Vrata**, will comprise 21,500 m² in 23 above-ground floors; public space on the ground and first floor whilst the business premises will be placed on the remaining above-ground levels. This project has been in the pipeline for the past few years. It is unclear when the development phase will begin.

> **Šumi Center**, 25,500 m² mixed-use project, will consist of residential, office and commercial components. The planned net usable area of office component is 6,000 m². The investment value amounts to €63 million.

Demand will remain strongest for Central business district zone. An increase in average rent is expected as a result of domestic economy’s growth and small pipeline. We expect downward pressure on the rent levels in older buildings and buildings in suburban areas.
Retail Market

Supply and Demand

After several years of significant development on the Slovene retail property market, 2015 saw a slowdown in terms of new shopping centers.

Whilst the Ljubljana retail market is close to saturation, secondary and tertiary cities have witnessed increasing retailer activity.

Retail chains Spar, Lidl, Tuš, and Eurospin have continued their expansion in the country.

UK retailer Marks & Spencer has announced it is pulling out of 5 South-eastern European countries, including Slovenia. M&S operates one store in Slovenia, in Citypark Ljubljana.

New market arrivals include French sporting goods retailer Decathlon and certified Lego store. Both brands will open their first store in Ljubljana. Decathlon’s store will cover an area of 3,300 m² in BTC City. First certified Lego store in Slovenia will occupy 170 m² in Citypark.

Rents & Vacancy Rate

Average rent in shopping malls in Slovenia did not change in comparison to 2014 and currently stands at approx. €11/m²/month whilst the average rent in retail parks stands at approx. €9/m²/month.

The average occupancy level stands at 3% in retail parks and 6% in shopping malls. Rents in high street depend on the micro location and the size of the premise and range from €20/m² to €100/m²/month.

Pipeline and Prognosis

> SES Spar European Shopping Centers obtained a building permit for the construction of a new shopping center in the city district of Šiška, Ljubljana. The center is to be realized in several phases by 2018/19 and will add 32,000 m² of GLA to the market.

> It is still unclear when the construction of Emonika City Centers, one of the largest projects in the pipeline, will start.

> Swedish furniture giant Ikea is closer to opening its first store in Slovenia, following a successful purchase of 84,000 m² land plot in BTC shopping area.

> Rents and vacancy levels are expected to remain stable.

Key Retail Figures - Ljubljana Market

<table>
<thead>
<tr>
<th>Total Shopping Mall Stock</th>
<th>250.000 m²</th>
</tr>
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<tbody>
<tr>
<td>Prime Headline SC Rent</td>
<td>€25 m²/month</td>
</tr>
<tr>
<td>Prime High Street Rent</td>
<td>€35 m²/month</td>
</tr>
</tbody>
</table>

Source: Colliers International
Industrial/Logistics Market

Supply and Demand

The industrial and logistics sector remains the least developed real estate sector in Slovenia. Mercator group continued its expansion and opened two new distribution centres in 2015. The only significant transaction in 2015 was a distressed sale (insolvency proceeding) of Viator & Vektor’s Rudnik Warehouse Complex to Croatian businessman Benussi (importer of commercial vehicles).

Most of the existing modern logistics and industrial properties in Slovenia are owner occupied and built-to-suit warehouse facilities. Large proportion of warehouses, located in business zones, are out-dated and do not meet the requirements of modern logistics practice.

Demand is driven mostly by retail sector. Occupiers seeking expansion are confronted by shortage of quality space.

### Key industrial / logistics figures - Slovenia

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy</td>
<td>Less than 10%</td>
</tr>
<tr>
<td>Prime headline rent</td>
<td>€5.00–€6.00/m²/month</td>
</tr>
<tr>
<td>Secondary Rent</td>
<td>€2.50–€4.50/m²/month</td>
</tr>
</tbody>
</table>

Source: Colliers International

Rents & Vacancy Rate

In 2015, the majority of rentals for industrial/logistics space in Ljubljana ranged between €3 and €6.50 m²/month.

Vacancy rates on Slovenian modern industrial warehouse market are estimated at very low levels due to the lack of larger available surfaces. Current market vacancy rate stands below 10%.

Pipeline & Prognosis

Mercator Group has purchased a land parcel for new logistics center in Ljubljana–Moste. Construction of Mercator LDC will presumably be completed by the end of 2018. Complete with offices, the centre will comprise approx. 88,000 m².

According to the trends on logistic market we assume further corrections of land prices what will directly affect the attractiveness of this segment for investors and developers.

Planned and ongoing Government infrastructure investments in the port of Koper, the development of a third axis from Austria to Croatia, the development of an extended motorway and the railway upgrade will contribute to the further development of Slovenia as a logistic and distribution hub.

Looking ahead, investment activity in logistics and industrial sector is expected, especially via bank disposals. Key aspects for new logistics locations include high technical standards and good access from the highway.

Source: Colliers International
HTL Market

Summary

Slovenian tourism has experienced a record year in terms of tourist arrivals (+10% yoy) and overnight stays (+7% yoy). According to Slovenian Tourist Board there were 68.8% of foreign tourists and their number increased by 11.6% in 2015 compared to 2014.

Together with its indirect impacts, tourism accounts for 13% of total GDP, and with its 40% export it is the largest exporter of services providing 12% (103,500 jobs) of all jobs (indirectly and directly connected to tourism).

The largest share (61.7%) of overnight stays was recorded in hotels, followed by camps (13.4%). The top 3 growing markets in 2015 were Malta (+53), China (+49%) and Korea (+46%).

The average length of stay for tourists to Slovenia is 2.6 nights, reflecting the short-break / long-weekend demand from neighbouring countries and the growing importance of the domestic market.

The HTL market has been in stagnation in terms of new investments due to the large share of state-owned hotel companies and high level of non-performing loans.

The hotel and hospitality sector is among attractive sectors for developers and investors due to positive trend in tourist arrivals and overnight stays, available funding and attractive brownfield investment opportunities available through the privatisation of state-owned enterprises/RE portfolios.

Pipeline

> The Portorož-based hotel chain LifeClass, a member of Istrabenz Turizem, has announced an extensive investment drive after its high operating profit in 2015. LifeClass is currently upgrading Hotel Slovenija in Portorož from 4 to 5 stars with €9 million investment.

> Serbian company Delta Holding is currently developing a 5* InterContinental Ljubljana. InterContinental Ljubljana will be a first hotel in 5 star category in Ljubljana and should open in 2017.

Prognosis

Looking ahead, investment activity in the hotel sector is forecast to increase, especially in brownfield investments. New entrants on the market can be expected, notably regional and international hotel brands currently not present on the Slovenian hotel market.
Investment Overview

Summary

2015 saw a significant increase of real estate investment transactions in comparison to 2014. For investors seeking to buy into state-owned enterprises, timing is perfect as the government is preparing to dispose of its stakes under the sovereign holding law.

Capital Markets

The Slovenian CRE market saw an extension of the upward trend with the retail and HTL as the most attractive sectors for investors, proved by several transactions in 2015.

Retail sector saw three important deals:

> Revetas Capital has acquired two Supernova strip malls in Koper and Ljubljana (Off market, direct from bank). Total investment amounts to approx. €75 million.
> OBI in Murska Sobota has been acquired for €7.2 million by Corum AM.
> German DIY chain OBI and Supernova took over Austrian DIY Baumax including two properties in Slovenia.

HTL sector recorded the following transactions:

> Croatian Liburnia Riviera Hotels has purchased four Bernardin hotels in the Slovenian town Portoroz for approx. €24 million.
> „Bad bank“ Heta Asset Resolution sold Grand Hotel Rogaštka and its two wings Strossmayer and Styria to Russian investor Sergej Kacicjev.
> Serbian diversified conglomerate MK Group acquired Slovenian tourism company Istrabenz Portoroz, the owner of the five-star Kempinski Palace hotel.

The only transaction in the warehouse sector in 2015 was the distressed sale of 23,800 m² Rudnik complex for approx. €18.5 million.

Leading retailer in Slovenia, Mercator Group, and Slovenian Railways signed a purchase agreement for the land parcel on which a new Mercator logistics and distribution centre is to be built. The property is located at the freight railway station Ljubljana–Moste (BTC Letališka). Transaction value for 114,600 m² land amounts to €17 million, while planned investment is estimated at €100 million.

Gross yields - 2015

<table>
<thead>
<tr>
<th>Prime Office Yields</th>
<th>8.50%</th>
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<tbody>
<tr>
<td>Prime Retail Yields</td>
<td>8.50%</td>
</tr>
<tr>
<td>Prime Industrial/Logistics Yields</td>
<td>10.00%</td>
</tr>
<tr>
<td>Prime Hotel Yields</td>
<td>8.00%</td>
</tr>
</tbody>
</table>

Source: Colliers International

Prognosis

The Slovene real estate sector expects several developments and transactions in 2016, underpinned by yield opportunities and improved investor sentiment. After several years of low liquidity, 2016 will see strong investment transactions, especially in retail and office sectors.

Major announced deal:

> Austria’s HETA, the ‘bad bank’ of nationalized lender Hypo Alpe Adria, is seeking expressions of interest for its wholly-owned Balkans-focused real estate unit Centrice Real Estate GmbH. Centrice owns and manages 19 shopping and retail centers as well as 4 office buildings in Slovenia.

With the forthcoming supply, mainly driven by bank disposals, we anticipate several transactions closing in 2016 making it the record year in investment sale volumes.

Investment by origin of investor 2015 (by no. of transactions)

Investment by asset class 2015 (by no. of transactions)

Source: Colliers International on RCA
554 offices in 66 countries on 6 continents

United States: 153
Canada: 34
Latin America: 24
Asia Pacific: 231
EMEA: 112

$2.5 billion in annual revenue
2 billion square feet under management
16,000 professionals and staff

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