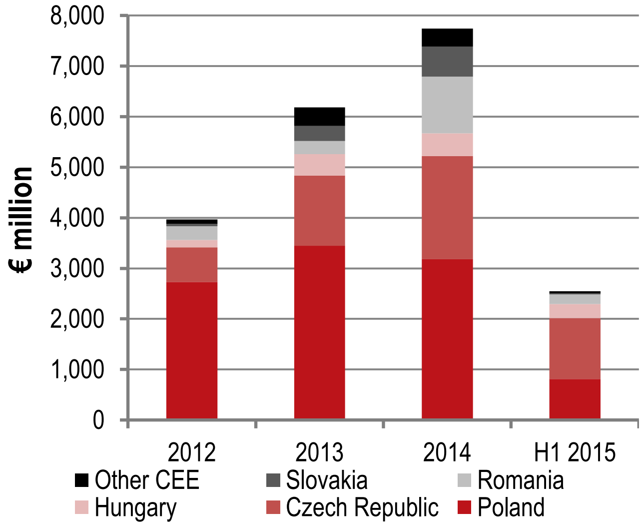
CEE Investment Pulse

H1 2015

At almost €7.8 billion, 2014 represented the third highest CEE regional investment volume on record and the highest for many markets since the crisis. Investment volumes in the first half of 2015 reached approximately €2.55 billion which is 12% lower than the corresponding period of 2014 (€2.9 billion).

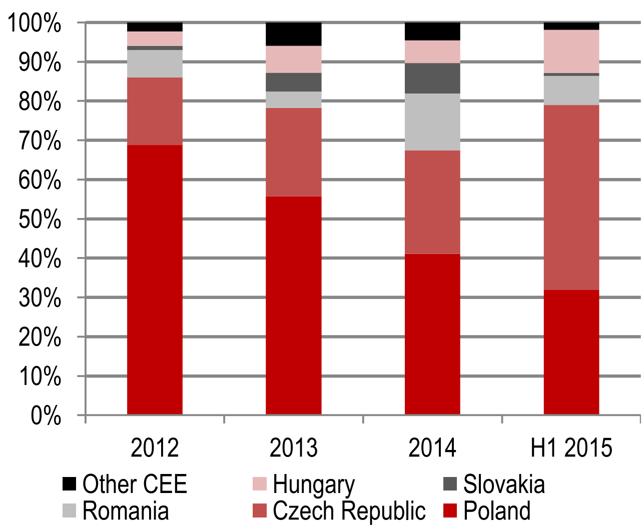
CEE Investment Volumes 2012 – H1 2015



Source: JLL, 2015 (Preliminary figures)

Despite the relatively slow start, Poland's investment volumes show no sign of slowing, yet it is important to note that other markets are increasing their overall share.

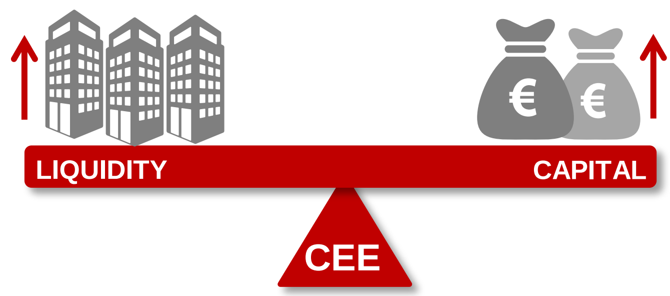
CEE Volume Share Breakdown 2012 – H1 2015



Source: JLL, 2015 (Preliminary figures)

The Czech Republic currently leads the region in terms of transactional volumes with a share of circa 47% in CEE, followed by Poland (32%), Hungary (11%), Romania (7.5%), Slovakia (0.5%), and the SEE (other CEE) markets (2%).

Increased liquidity as a wall of capital hits CEE



As prime returns began to tighten, we first saw capital spreading into the UK regions and throughout Germany, before heading into Ireland and now Spain. Secondary pricing spreads are back to normal for the best assets in the UK hence, other locations are beginning to look more attractive elsewhere.

CEE will benefit further from the next wave with Poland and the Czech Republic closely behind Germany. Other CEE capital cities along with Poland's regional markets will also be highly sought after as liquidity returns.

The weight of international capital seeking core CEE opportunities has provided increased liquidity for large lot-size properties and portfolios. As the prime European market returns become increasingly tight, the positive economic news from CEE is attracting capital and re-pricing.

Prime office yields, for example, have sharpened in recent quarters but have not yet reached pre-crisis lows. Further compression is expected, although at a slower pace than seen previously.

In addition to the above, attractive and more easily-achievable financing has widened the pool of investors who are able to offer more competitive pricing. This is especially the case for sources of capital which previously looked only at opportunistic product. Nowadays, they can achieve healthy results on less aggressive assumptions on rental growth and/or yield compression.

Focus on Poland

H1 2015 resulted in a transaction volume of €813 million. This was just below 57% of the figure recorded in H1 2014. The split between sectors include €385 million in offices, €285 million in retail and €143 million in warehouse deals. The H1 2015 performance was somewhat expected given the notable lack of big ticket transactions changing hands in the first half of the year. However, there are a number of significant high-profile deals which are on-going and fairly advanced. These deals have slipped into H2 2015, and consequently we expect to see a notable increase in the second half of the year. Poland remains the top target for investors in the CEE region given its size and its strong economic performance.

The most notable deals in H1 2015 included: Enterprise Park, acquired by Tristan Capital Partners in Kraków, Green Horizon, purchased by Griffin in Łódź, a portfolio of offices comprising of Europlex, Wiśniowy A and Irydion in Warsaw and Millenium in Katowice acquired by Lonestar, Sarni Stok in Bielsko Biała and Focus Mall Rybnik acquired by Union Investment, Solaris Centre in Opole purchased by Rockcastle as well as the Europolis/CA Immo and FM Logistics industrial portfolios closed by TPG and WP Carey respectively. All of these transactions were medium sized deals ranging between the €50 to €100 million.

It is important to mention three main observations in the office investment sector during H1 2015. First, regional cities continued to strengthen their position on the investment map, achieving a considerable result of over €234 million across six transactions. This is a few percentage points up compared with the activity of the similar period in 2014, which was a record year in terms office transaction volumes in regional cities. Second, in the office sector in H1 2015, there were more transactions concluded in regional cities (59% share) than were concluded in Warsaw (41%).

Among key regional deals, there was the acquisition of Enterprise Park and Kazimierz Office Center in Kraków, Green Horizon in Łódź and West Forum in Wrocław. Third, we observe a continued and increasing interest in portfolio / platform deals. Examples of those are the Octava purchase of the Obrzezna Building and Baltic Business Center from BPT Optima and the Lonestar acquisition of Wiśniowy A, Irydion, Millenium and Europlex assets from Aviva and Akron. We estimate prime office yields to remain stable at around 6.00%, with possible compression for assets of uniquely prime nature.

The warehouse investment market reported €143 million in transacted deals, all of which happened in Q1 2015. This figure resulted from 3 transactions, out of which 2 were portfolio deals. WP Carey concluded a sale and leaseback transaction with FM Logistics at ca. €54 million, acquiring assets located in Tomaszów Mazowiecki and Mszczonów, comprising part of a larger CEE portfolio. P3/TPG purchased the CEE Europolis/CA Immo Industrial Portfolio with assets spread between Poland (Błonie and Piotrków Trybunalski) and Romania (Bucharest) for almost €200 million. Finally, Hillwood bought a warehouse in Wrocław from Skalski for ca. €14 million.

It is evident that portfolio transactions are continuously on the rise, which at the same time leaves concern for the availability of large-scale sales in the near future. With a number of transactions slipping into H2 2015, this year is again expected to deliver strong results, benefiting from landmark deals driven by portfolio trades. We estimate that the final 2015 warehouse investment volume will stand at around the €600 million mark. Truly prime warehouse yields are expected at or below 7.00%.

Retail investment saw a relatively slow performance so far with only ca. €285 million of deals closing, yet there are a number of major transactions currently underway which should close in the coming months. Significant deals recorded in secondary and tertiary cities include: the purchase of Sarni Stok shopping centre in Bielsko-Biała (ca. 180,000 inhabitants) by Union investment in Q1 2015, the acquisition of Solaris shopping centre in Opole (ca. 120,000 inhabitants) by Rockcastle, also in Q1 2015, for ca. €52 million and the most recent sale of Focus Mall in Rybnik (ca. 140,000 inhabitants) by Aviva Investors to Union Investment in Q2 2015. Retail yields, for best-in-class products, are oscillating at around 5.50%. The wave of capital actively looking for retail opportunities is putting strong downward pressure on yields.

Overall, it is expected that the total transaction volume from 2014 at the level of €3+ billion will be repeated or exceeded in 2015, with retail playing a more significant role to the total figures when compared to that of 2014.

Focus on Czech Republic

H1 2015 saw a transactional volume of €1.2 billion as the momentum from 2014 shows no signs of abating. An 89% increase on the same period of the previous year's figure was underpinned by the sale of Palladium: Union Investment paid €570 million to acquire Hannover Leasing's prime Prague shopping centre. H1 2015's volumes have only once been higher – 2007's record €1.50 billion figure also featured Palladium, that time as a forward sale.

Ongoing deals and the continued weight of capital targeting Prague carry the potential of a record year in 2015. Importantly, the market is no longer relying on prime property only; liquidity has returned to both core-plus and value-add profiles as the much vaunted search for yield provides movement up the risk-curve, having already spread liquidity eastwards across Europe via the prime sector.

A key trend observed in H1 has been the continued emergence of Czech Qualified Investment Funds. Following pension reforms, QIF's are now active, competitive parties across a range of risk profiles and on increasing lot-sizes. Their development looks set to permanently bolster liquidity, adding further maturity and depth to the Czech property investment market.

Retail volumes totalled €878 million for the first half of the year with Palladium and Arkady Pankrac standing as the largest deals. Regionally, Campus Square in Brno was sold by AIG to CBREGI, while a portfolio of secondary retail assets was sold by Atrium to Peakside. Ongoing transactions show fierce competition for strongly performing centres with a deep buyer pool comprising of domestic, European and global capital.

Industrial transactions totalled €85 million over four transactions, the largest being IAD's Q1 acquisition of TREI's Penny Market distribution centre for ca. €29 million. The logistics market is well consolidated in the Czech Republic, a situation which causes significant competition for smaller product whilst also increasing the attractiveness of limited portfolio opportunities.

Office volumes were €79 million and included the sale of Riverview by Skanska and the purchase of a mostly vacant building in Florenc by Creditas from J&T Real Estate. There are additional, significant office deals in the pipeline, while larger lot activity continues to be limited by a lack of available, quality stock.

Looking forward, a supportive financial environment and yield arbitrage against ~~to~~ western European markets continues to reinforce the attractiveness of Czech real estate. Given known and anticipated demand-side pressure, even additional stock unlocked via improved liquidity will not be sufficient to halt further yield compression. Our views on prime office yields are at 6.00% (heading significantly sub 6.00%), prime logistics are now sub 7.00%, whilst prime retail yields are at 5.25% with a significant premium for trophy, high street and portfolio assets.

Focus on Hungary

The positive momentum of the real estate investment market in Hungary is getting stronger. The total transaction volume in the first half of 2015 reached some €280 million, which is in line with the volume recorded in the corresponding period of 2014. Furthermore, we expect the 2015 annual investment volume to exceed the 2014 volumes by 20-30% by the end of the year.

The renewed investor appetite for Hungarian assets is due to improving economic fundamentals, market conditions and the relative pricing, making prime assets particularly attractive. Among the various asset classes, the leasing performance of the Hungarian office and industrial market is especially convincing as the vacancy rate is on a downward trend due to improved occupier markets and moderate speculative development activity.

The most sought after asset class in H1 2015 was office, representing 34% of the transactional volume, followed by retail with 26% and industrial with 22%. The remaining 18% was made up of a mix of vacant assets ready for redevelopment.

In the logistic / industrial asset class, the most significant transactions of the first half included the sale of the M1 Logistic Park by CA Immo to Prologis and the acquisition of the inNove Business Park by Diófa REIM, which has became one of the most active investors in Hungary in recent quarters.

Notable transactions for offices are mainly composed of portfolio transactions. Europa Capital and Convergence have acquired a value-add office portfolio including the 3 foreclosed offices of Volksbank Austria composed of Kalvin Centre, Duna Office Centre and the B52 office building. According to an official announcement, the transaction volume of the portfolio stood at around €30 million.

Another high profile portfolio transaction was the disposal of a city centre mixed scheme portfolio by ORCO / Unicredit, comprising Vaci1 shopping gallery, Paris Department Store and Szervita Square, a major redevelopment site in the CBD. No official press release was made about the transaction to date, however DVM / Horizon Development is reported to have acquired Vaci1 and the Szervita Square project while the State is said to have exercised its pre-emption right on the Paris Department Store located on Andrassy Avenue.

The largest retail transaction in the first half of the year was the disposal of Premier Outlet Centre's two phases by AVIVA to Lone Star as part of a CEE portfolio of some €200 million of assets.

Finally, a few hotel transactions took place in regional cities, taking the hotel transactional volume close to €30 million for the first half of 2015. The main asset transacted was the Lotus Thermal Hotel & Spa sold by CIB Bank to Russian investors.

Based on the half-yearly statistics the average transaction size has increased dramatically with the return of institutional investors and portfolios. Based on the latest transactional evidence and expectations created by pipeline deals, the prime office yield compressed by a further 25 bps and stands at 7.00%. Prime retail is also at 7.00% and prime logistics now stand at 8.75%. Further compression expected by the year end.

In our opinion, 2015 will see increasing interest for Hungarian assets from both international investors and local funds. We also expect the National Bank to continue its real estate investment programme. Based on the pipeline of deals, we predict a target transaction volume of €700-750 million for the full year in 2015.

Focus on Romania

Coming off the back of an impressive 2014, when the total volume was approximately €1.15 billion, placing Romania amongst the top investment destinations within CEE after Poland and the Czech Republic, 2015 saw a relatively slow start. The property investment volume in the first half of the year is estimated at approximately €190 million, a significant decrease when compared with the same period of 2014. However, there is strong evidence that transaction volumes will bounce back in the second half of the year, as a number of key buildings across all market sectors are in advanced stages of negotiation.

H1 2015 market volumes were heavily dominated by logistic transactions which accounted for around 80%. The most active buyers were P3/TPG, who acquired Europolis Park in Bucharest from CA Immo, and CTP who acquired Mercury Logistics Park in Bucharest from Heitman and Cefin Logistic Park in Arad. There is a great deal of movement in the logistic market, which is likely to remain the most dynamic segment this year, as a number of players are trying to secure a dominant position on the Romanian market.

Prime office yields are at 7.50%, prime retail yields at 7.75% and prime logistic yields at 9.25%. Yields have compressed by 50 – 75 bps in the last 12 months, with limited further compression expected in the near future.

Despite the favorable macroeconomic environment, there is still a major pricing gap between Romania and the main CEE markets, with prime yield levels at 150 – 250 basis points higher than those in Prague and Warsaw. The weight of money and the compression of the yields in markets such as Poland and the Czech Republic have prompted more investors to look at Romania, which has translated into the highest level of interest since 2008.

On the financing side, over the last 12 months, there have been clear signs that the number of banks willing to lend to the right project and sponsor has increased and financing terms have improved.

The sale of large NPL portfolios in Romania is accelerating in 2015. The largest portfolio which is currently on the market consists of a €2.7 billion unpaid loan balance (mostly collateralized by property) and €3.55 billion including unpaid accrued interest payments, penalties and swap liabilities. It is very likely that many of the underlying assets will be offered for sale in the near future, increasing the supply of residential and secondary commercial product.

Focus on Slovakia

The improving economy and strong market confidence is being reflected in the real estate investment market. The industrial market is currently the most active. In H1 2015, two smaller deals were successfully closed. The light industrial park Ryoka was sold in Nitra, Western Slovakia, to a local investor and the former Panasonic factory in the Eastern Slovakia was acquired by domestic investor as well. There are three other industrial deals with scheduled closing during the summer and another three should close by the end of 2015. Office investment volumes are expected to increase in July and at least two other major office transactions are scheduled for the autumn. Retail is considerably behind the very strong results of last year as only one transaction in Bratislava was closed in H1 2015. The only retail transaction was a portfolio deal in which Hron, a smaller sub-urban shopping center in Bratislava was sold by Aviva to Lone Star.

Currently, the investment volumes are at low levels compared to the total expected volume, as the majority of deals will close in the second half of 2015. We do not expect the total yearly volume to exceed last year's record of €610 million, however the number of deals will outperform last year levels.

International players now play a dominant role in the investment market as they have significantly increased their appetite for portfolio products, even in smaller regional cities. The gap in pricing expectations between vendors and bidders has almost disappeared, as bidders are now willing to employ more resources than before. Slovakia in general has become an attractive investment destination, mainly due to the availability of financing, interesting portfolio offerings, favourable market conditions and attractive pricing when compared to other CEE markets.

In alignment with the market situation in other parts of CEE, and as a result of improving market conditions, yields have already lowered and are expected to compress even further in Slovakia in Q3. Our view on prime yields now stands at 7.00% for offices, 6.75% for shopping centres and 8.00% for industrial & logistics and retail warehousing.

Focus on SEE

Despite the limited investment activity over the past 3 years, the South Eastern European sub region has great potential, with its most active markets Bulgaria, Croatia, Serbia and Slovenia. Regardless of the lack of activity, we have witnessed increased interest in the past 12 months, with a large portion focused especially on retail opportunities, followed by office market assets. We expect transactions in the second half of 2015 to increase confidence for institutional investors to enter the region and take the advantage of these underdeveloped markets.

Among the aforementioned markets, Serbia is the least developed. We believe that with EU membership progress, the country will witness more intensive development, which was the case with other EU members. One significant investment incudes a recently signed agreement on a joint venture between the Serbian government and the United Arab Emirates real estate developer Eagle Hills. The Belgrade Waterfront development project is worth €3.5 billion, which will include 1.8 million sqm of gross construction area of residential and commercial properties.

Over recent years, the majority of activity has occurred in Bulgaria, followed by Croatia, while Serbia and Slovenia have noted less activity. Going forward we expect more activity in Serbia and Slovenia, particularly given the strong GDP per capita figures in Slovenia supporting a healthy retail and leisure sector. In terms of yields, the increased attraction of SEE has resulted in yield compression and our view on prime office yields are at 8.25-8.5%, prime retail 8.0 - 8.75% and prime logistics from 9.25-10.25%.

Key Deals – H1 2015

Property Name	City, Country	Approx. Sale Price (€ million)	Vendor	Purchaser
AICEPF Portfolio	Various, CEE	Confidential	AVIVA	Lone Star
FM Logistics	Various, CEE	Est. 54	FM Logistics	WP Carrey
Europolis Industrial Portfolio	Various, PL	80	CA Immo / EBRD	P3/TPG
Enterprise Park 90%	Krakow, PL	Est. 66	Avestus	TCP
Green Horizon	Lodz, PL	65	Skanska	Griffin Group
Europlex	Warsaw, PL	61	Akron	Lone Star
Factory Outlet Annopol, Factory Outlet & Futura Kraków 50%	Various, PL	Est. 60	Neinver	TH Real Estate
Solaris Opole	Opole, PL	Est. 52	IGI	Rockcastle
Nestlé House	Warsaw, PL	50	Kronos Capital	Hines
Kazimierz Office Center	Krakow, PL	42	GTC	GLL
West Forum	Wroclaw, PL	Est. 25	Archicom	Javin Group
Sarni Stok	Bielsko Biala, PL	Confidential	CBRE GI	Union Investment
Focus Mall Rybnik	Rybnik, PL	Confidential	Aviva Investors	Union Investment
Palladium	Prague, CZ	570	Hannover Leasing	Union Investment
Arkady Pankrac (75%)	Prague, CZ	165	Unibail-Rodamco	Atrium
Campus Square	Brno, CZ	50	AIG/Lincoln	CBRE GI
Penny Market DC	Greater Prague, CZ	29	TREI	IAD
West Gate	Greater Prague, CZ	23.5	Europa Capital	Prologis
Volksbank portfolio	Budapest, HU	32	Volksbank	Europa Capital
Smichov Business Park	Prague, CZ	22	CPDP2 (Ceska Sporitelna)	Finecont/CBE
Riverview	Prague, CZ	20	Skanska	Invesco
M1 Business Park	Páty, HU	Confidential	CA Immo	Prologis
Mercury Logistics Park	Bucharest, RO	10	Heitman	CTP
Civis Center (projects) Brasov/Timisoara	Brasov/Timisoara, RO	10	Riofisa	Tiriac Imobiliare
Mega Mall Satu Mare	Satu Mare, RO	10	Real4You	NEPI
Praktiker Craiova	Craiova, RO	9	Bluehouse	Secure Property Development & Investment
Cefin Logistics Park	Arad, RO	Confidential	Volksbank	CTP
Delea Noua	Bucharest, RO	5	Delenco	Secure Property Development & Investment
Ryoka	Nitra, SK	Confidential	Ryoka	J&S Plastic
Europark office building	Sofia, Bulgaria	11	CA Immo	Bernard Investment

Source: JLL, July 2015

Contacts

Troy Javaher
Head of Capital Markets CEE
+420 224 234 809
troy.javaher@eu.jll.com

Kevin Turpin
Head of Research CEE
+420 224 234 809
kevin.turpin@eu.jll.com

www.jll.com