DTZ INSIGHT

CEE INVESTOR SURVEY

Increasing appetite to invest

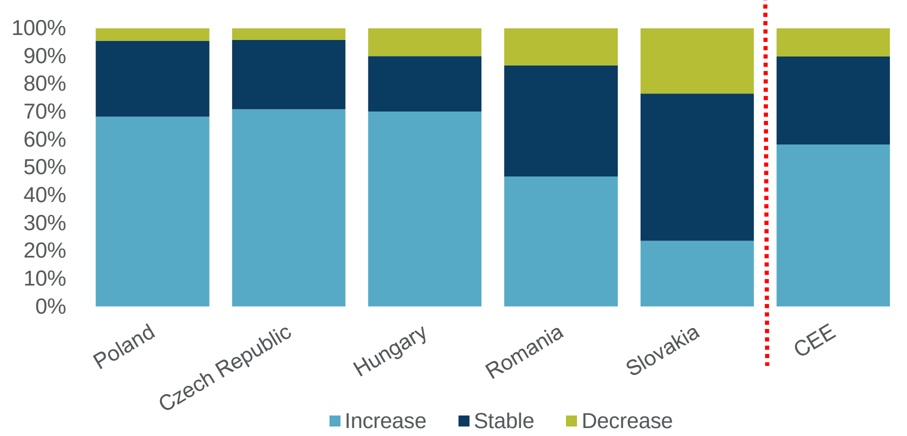
CEE Q2 2015

29 June 2015

Contents

- Strong investor demand coupled with high volumes of available capital combine to drive yield compression in the CEE region. The latest DTZ CEE Investor survey shows a positive investors´ sentiment. Expectations for acquisition strategies and value growth in the coming 12 months are growing in the region as is the interest in higher yielding value-add investment opportunities. There is a marked increase in the number of investors that expect to increase the real estate allocation of their portfolios as opposed to 6 months ago.
- Retail properties, followed closely by offices are the most attractive asset class as most investors expect to increase their retail allocation in the coming 12 months. Industrial continues to be attractive but mainly for a smaller select group of industrial developers and property companies.
- Poland and the Czech Republic continue to dominate investor demand in the CEE region. Polish offices, followed by Czech retail are ranked as first country sector preferences, according to our survey.
- Only marginal concerns have been raised on the sustainability of investment funds with key concerns related to the lack of suitable product together with some risk of overpricing in Poland.
- The yields compression and the decline in vacancy rates are perceived to be key drivers of capital value growth alongside the supply pipeline.
- The prevailing focus on value-add opportunities and further yield compression coupled with a perceived lack of product indicates that the difference between prime and non-prime should continue to converge.

Figure 1
Future allocation by country in the CEE region



Source: DTZ

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CEE Investor Survey Q2 2015

DTZ presents the second edition of its CEE Investor Survey which aims to capture investors´ real estate market sentiment in the 5 countries of the CEE region; the Czech Republic, Poland, Slovakia, Hungary and Romania. The purpose of the survey is to gather indicators of market opinion rather than to produce scientifically proven data. This report presents the results from the latest survey, which was conducted between April and June 2015.

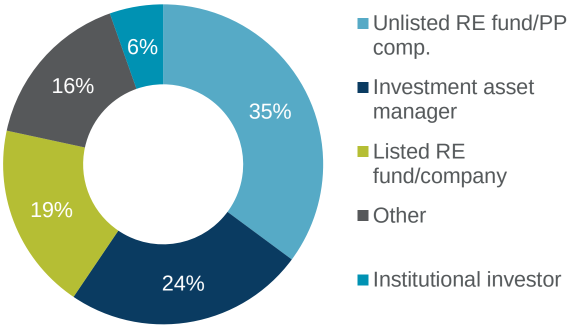
Respondent ID

Approximately 40 selected property investors focusing on investment opportunities in the Czech Republic, Slovakia, Poland, Hungary and Romania have submitted the survey. Answers from the 17 questions give a good understanding of the general sentiment among property investors with exposure in the CEE region. Respondents based in a range of countries including all the CEE countries, Germany, Austria, UK, France and Spain provided their view of the market going forward.

The majority of respondents represent unlisted real estate funds or private companies but there are also a number of asset managers and listed real estate funds and companies as shown in Figure 2.

Figure 2

Distribution of respondents



Source: DTZ

Real estate allocation by country and sector

Investors expect an increase in their portfolio allocation in all the analysed countries except Slovakia where more respondents anticipate portfolios to remain stable (Figure 1). This is a marked differentiation to the previous edition when the majority expected stable allocations across the region.

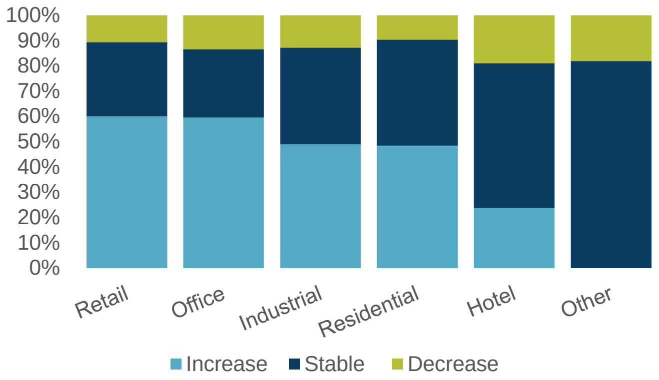
In the two established investment markets; Poland and the Czech Republic, the highest number of respondents expect increases in retail and offices.

Additionally, Hungarian office and Romanian retail portfolio allocation is likely to increase.

Across the entire CEE region the highest number of respondents expects an increased allocation to retail, followed closely by offices in the coming 12 months (Figure 3). The key change from the previous edition is the increased appetite to purchase retail properties across the region. Retail replaced traditionally leading office investments in many instances during the last 6 months.

Figure 3

Future allocation by sector in the CEE region

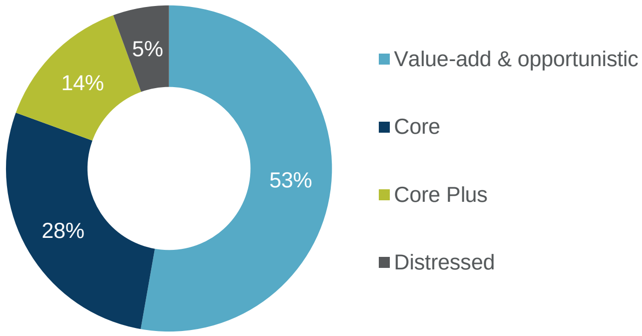


*Source: DTZ, * Other includes hotel and residential*

More than half of the respondents has indicated that they target value-add & opportunistic properties with potential for value increases via active asset management or refurbishment. 28% are interested in core rack-rented properties in prime locations (Figure 4).

Figure 4

Property type target for future investment



Source: DTZ

More than a third of respondents are interested in alternative assets, mainly student housing and health care; indicating that the region is moving in a direction similar to the one seen in Western European countries.

Investors in the CEE region mainly target small to medium lot sizes, this is connected with the limited availability of very large investment products across the region. Around 41% of the respondents target properties with a lot size in the range of €25-50m, 23% target lot sizes of around €0-25m. Lot sizes of €50-100m are attractive for 21%. Large lot sizes of €100-200m and €200-500m are sought after by just 9% and 6% of investors respectively.

Real estate yields

Prime yields have continued compressing in all the analysed countries and sectors during the first half of 2015 as a result of the strong weight of capital chasing opportunities in the region.

Table 1

Prime yields as of Q2 2015, %

	Office	Retail	Industrial
Warsaw	5.90	6.00	7.25
Prague	5.75	5.00	7.00
Bratislava	7.00	6.75	8.00
Budapest	7.50	7.50	8.75
Bucharest	7.75	7.5	9.5

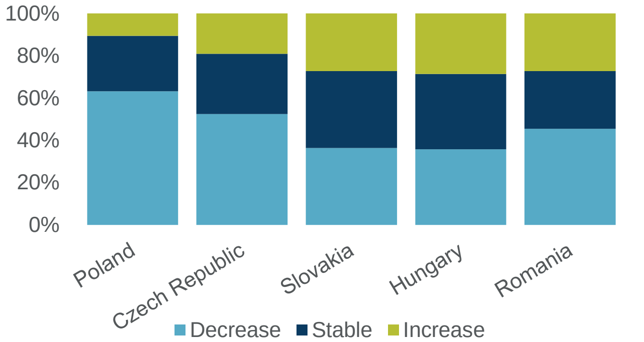
Source: DTZ

Going forward, investors expect yield compression to continue in the coming 12 months in all sectors and countries (Figure 5). In Slovakia office yields are expected to compress while other sectors should remain stable.

This is a change compared to the previous edition when stable yields were expected and yield compression was anticipated by the respondents in industrial yields in the Czech Republic and Hungary. This indicates expectations of continued strong investor demand which drives capital values and yield compression.

Figure 5

Development of prime retail yields in 12 coming months



Source: DTZ

Financing & Values

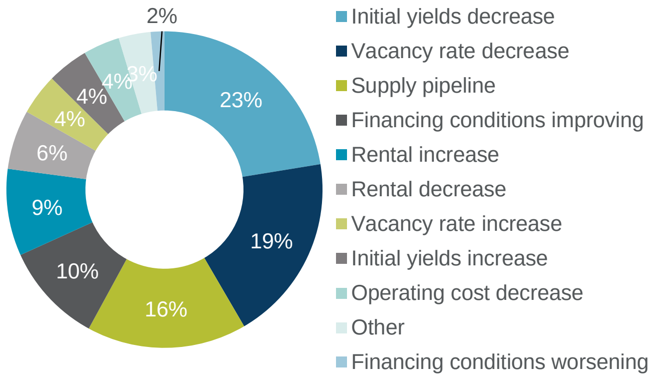
50% of respondents believe that financing conditions should improve, down from 66% a year ago. There are still 47% to believe they should not change in the coming 12 months. This may be a reflection of the fact that in many cases the financing conditions cannot improve any more as interest rates already reached absolute lows.

The expectations of the development of the value of the investors´ portfolios aside from any acquisition and disposal activity remained broadly unchanged since our last survey in winter 2014. Overall 74% of respondents expect an increase in the value of their portfolio compared to 72% previously, whereas now 23% believe it will remain unchanged (25% in Q4 2014) and only 3% anticipate a decrease in value.

The expected value uplift is expected to be driven mainly by a decrease in yields and vacancy helped by limited supply pipeline (Figure 6). The development of rents continues to be perceived as having less impact on the value in line with the situation 6 months ago.

Figure 6

Key factors impacting portfolio value in the CEE



Source: DTZ

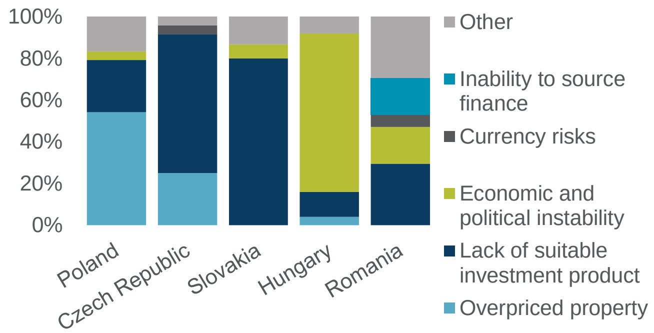
Hot markets

The respondents were asked to rank countries and sectors by preference and select the three most attractive country and sector combinations in CEE. The highest number of respondents chose Polish offices, followed by Czech retail and Polish retail. Similar preferences were seen in relation to country and segment selection as second preference; for instance those respondents who selected the office market in Poland as their top investment sector also selected the office market in the Czech Republic second and vice versa. Czech offices followed by Polish retail and Czech retail were ranked by most respondents as their second preference. The third preference selection included Hungarian offices, Czech retail, offices and industrial and Polish industrial.

Respondents were finally asked to select key risks and obstacles they observe when investing in individual countries (Figure 7). Whereby the key risk in Poland is overpriced property, in the Czech Republic, Slovakia and Romania investors expect to be faced with a lack of investment product. Hungary´s economic stability or lack thereof is considered their main risk.

Figure 7

Risks in investing in the CEE region



Source: DTZ

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