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Real value in a changing world

/pulse/

CEE Investment Market – H1 2013

CEE Investment Market Pulse – H1 2013

In H1 2013, investment transactions with a volume of approximately €1.74 billion have been recorded in CEE. This represents a 38% y-o-y increase compared to volumes in H1 2012. Poland remained the leading regional market with a share of circa 56% in the CEE followed by the Czech Republic (23%), Hungary (10%), Slovakia (8%) and Romania (4%). In contrast, Bulgaria, Croatia and Serbia did not record any investment activity throughout 2013 so far. The breakdown of volumes in H1 2013 are as follows:

Country	*Volume (€ millions)
Poland	970
Czech Republic	400
Hungary	170
Slovakia	137
Romania	62
Serbia	0
Croatia	0
Bulgaria	0

Source: Jones Lang LaSalle, July 2013

Focus on Poland

According to Jones Lang LaSalle's initial analyses, total investment volumes for first half of 2013 amounted to approximately €970 million across all commercial real estate sectors in Poland. Of 2013's preliminary investment volumes so far, the vast majority was foreign investment.

In terms of particular market segments, the H1 transaction volumes reached €611 million in the office sector, €161 million in retail, €184 million in the industrial sector, with the hotel industry rounding things off with transactions accounting for €14 million.

Jones Lang LaSalle's preliminary investment numbers for Q2 2013 (total value – circa €330 million) break down as follows: €187 million for offices, €100 million in the retail segment, and €43 million recorded in the industrial sector.

Major transactions finalised in Q2 include Ghelamco's sale of its €120 million Senator office building in Warsaw to Union Investment and London & Cambridge Properties acquisition of Echo's retail portfolio in Tarnów, Radom and Piotrków Trybunalski for around €67 million. In the industrial sector, Segro acquired Żerań Park II for €43 million.

Importantly, these figures exclude a few major deals that were signed in Q2 but whose finalisations are expected in Q3. The total volume of these deals, yet to be finalised in the coming months of 2013, equates to approximately €800 million and takes into account transactions such as; Silesia City Center (€412 million, Katowice), which is the largest transaction on the Central Eastern European market this year; Galeria Dominikańska (€151.7 million, Wrocław); Charter Hall portfolio (€174.5 million) in the retail sector or Le Palais (Warsaw) in the office sector.

The Polish market continues to be perceived as a key destination for real estate investment in the CEE region which is reflected in circa 56% of all investment closed in CEE. We assume that Poland will further consolidate its leading position in the region by the end of 2013 and in subsequent years. At present we estimate prime office yields to remain stable at around 6.25% and retail yields for the best in class products at 5.75%. For truly prime warehouse assets, yields are expected at below 8.0%. In our opinion, prime yields should remain stable in the short term but, medium-to-long term will depend on the situation in the Eurozone. The yield gap between prime and secondary product is 100 to 250 bps and we expect this spread to continue, or widen further.

Focus on the Czech Republic

The total investment volume recorded in H1 2013 amounted to approximately €400 million. The vast majority of deals took place within the city of Prague, accounting for approximately 60% by traded volume.

In terms of individual transaction volumes, the largest office deal was the purchase of Andel Park, a prime office building. With an area in excess of 18,000 sqm, the Prague 5 located asset was acquired by GLL Partners from German open ended fund SEB, for a price of reportedly circa €65 million.

The most active sector in H1 was the office market with a total volume of almost €200 million. During the first half of 2013, there were no regional office transactions, with investors continuing to concentrate on the capital city. Notable transactions included eight property assets across the whole spectrum of pricing and strategic sectors. Mercury Business Centre in Prague 7 was acquired from Sberbank by PSN, whilst at the other end of the spectrum, Trianon at Budejovicka in Prague 4 was purchased by REICO from Union Investment for circa €54 million. Other transactions included the purchase of the office element of Galerie Butovice, sold by ING Bank to a private investor, the sale TMW Pramerica's CBD office buildings Stara Celnice to Invesco RE and Dvorana Office Centre in Prague 9 to Alder Capital SE. A private investor acquired Golden Cross from CPDP for circa €16 million.

In the retail sector, investment volumes amounted to €62 million. Greek fund, Bluehouse Capital, purchased Shopping Centre Rynovka in Jablonec nad Nisou from CPDP making this the third Interspar anchored investment in its Czech portfolio. Standard Life acquired the remaining share capital in the sale of Pradera's retail warehouse parks in Olomouc and Ostrava for circa €30 million, whilst the Parada Retail Park in Ceska Lipa was purchased by Pragorent from Lordship and made up the remainder of the sector's activity.

The volume in the industrial sector reflected a 75% increase compared to H1 2012 and was driven by the portfolio sale of a 50% stake in the Prologis European Portfolio to Norges Bank and the disposal of Plzen West, a newly built manufacturing asset from Japanese Kajima to a joint venture of NBGI and Panattoni.

Final trading volumes were accounted for mainly by the sale of Palace Hotel by Warimpex to a private Czech Investor. The new owner is set to take over operations from Vienna International Hotelmanagement AG.

There is currently a significant number of transactions under offer, across all sectors but, again dominated by offices and estimated to be approximately €380 million by volume, including the sale of The Park, a multi-leased office park located in the Prague 4 district in the region of €300 million and approaching closing at the time of reporting. A depth of product is also actively being marketed with targeted closing by year end 2013. Investor appetite remains for appropriately priced real estate opportunities, with the first half of 2013 showing a narrowing price delta between vendor and purchaser expectations. Diligence periods remain somewhat extrapolated due to repetitive investment committee review processes and debt compliance procedures.

Focus on Hungary

In line with the disappointing year in 2012, when less than €260 million of total volume transacted, the market remains characterised by a lack of liquidity. We are reporting a total volume of some €170 million for H1 2012, mainly produced by the Hungarian share of the pan-European Prologis/ Norges joint-venture deal and the transaction of the landmark Roosvelt building between 2 clients of the German Fund Manager, GLL Partners.

The market is more and more characterised by off-market approaches and direct negotiations and the first half of the year did not witness any closing of major assets under an open tender marketing format.

The largest transaction in H1 2013 was the disposal by the Accession Fund of the 29,000 m² Roosvelt 7/8, the prime Budapest CBD building. There was no public statement for this deal but we are estimating the volume at € 95 million with a yield close to 7.5%. The last retail and logistic units in the ownership of the retailers Match and Profi were also transacted with Hungarian investors and retailers.

While the traditional Austrian and German investors on the Hungarian market remain on the side line, largely due to the perceived unpredictability of government policy, we have witnessed the market entry of new capital from the US, Central Asia, the Middle East and South Africa, actively looking for opportunities. Those investors are attracted by the window of opportunity offered by appealing yield levels and/or low capital values and improving macro-economic indicators.

The Hungarian macroeconomic environment witnessed several positive changes during the first half of 2013. The most important improvement was the lift of the excessive deficit procedure. The European Union's Economic and Financial Affairs Council acknowledged that Hungary's general government deficit went below the EU's 3% threshold in 2012, and it projected that the fiscal deficit would remain below 3% for the next two years. According to the latest statistics Hungary's economy expanded by 0.7% q/q in Q1 2013, which was significantly better than the EU-27% GDP growth of -0.1%. The economy was stimulated by the expansion of the automotive sector, after several multinational companies located new production lines or expanded services in the country. In the meantime, the inflation reached record low levels, mainly due to base affects and utility price cuts. As inflation is expected to remain below the Central Bank's 3% target, the easing continued with the interest rate now set at 4.25% with further cuts expected before year end.

We keep our views unchanged with prime office yield around 7.50 - 7.75%, logistics at 9.25 - 9.50% and prime retail at 7.25 - 7.50% and we forecast a total volume around € 400 million for the full 2013 year.

Focus on Romania

The total investment volume recorded in the first half of 2013 is estimated at €62 million. The only significant transaction concluded was the acquisition of The Lakeview by the AIM-listed fund, New Europe Property Investors. This transaction is the largest institutional transaction in the office sector in Bucharest since 2010. The Lakeview is widely recognized as one of the landmark office buildings in Central and Eastern Europe, having won the top prize for "Best Office Development" at every one of the most prestigious regional real estate Award Galas and has secured a strong occupier line-up including Huawei, Philips, PricewaterhouseCoopers, Royal Bank of Scotland, Colgate-Palmolive and Alcon.

Although there were no transactions concluded in the second quarter of the year, there are several commercial real estate projects in advanced stages of negotiation across Romania, predominantly in the retail sector. The acquisition timeline remains lengthy and we expect to see transactions closing only in the latter part of the year.

Over the past few years, investors' interest has primarily been focused on the prime end of the spectrum, while secondary products have remained illiquid. In 2013, we have notice a shift in the preference of investors from core products to more value-add opportunities. These equity rich investors are looking to leverage their regional presence with their in-place local asset management teams to capture value enhancement opportunities.

Focus on Slovakia

Slovakia's near-term outlook is clouded by continued uncertainty in the Eurozone, but GDP growth should remain positive. Industrial output and exports have been the key drivers of the economic recovery since late 2009 and have experienced modest growth in first months of 2013 following a one-month drop in December. New industrial orders experienced a similar trend, while industrial confidence saw significant gains in March. Although industry is likely to keep Slovak GDP growth in positive territory in 2013, the risks of a renewed economic downturn remain high given that domestic demand continues to be weak.

After limited activity in 2012 when approximately only €20 million was transacted, we have experienced a significant revival in investment activity in H1 2013. The total investment volume recorded in H1 2013 amounted to circa €137 million and includes the acquisition of Apollo Business Centre 4 by Generali PPF, the acquisition of Maffrei production site in Sucany by Tatra Asset Management, the acquisition of River Par's Block F by investment arm of Postova Banka and the disposal of the Aquario Shopping Centre in Nove Zamky by Heitman to a private local investor. We also understand that there are several other deals under offer, one of them being officially announced as the sale of Aupark Shopping Centre to New Europe Property Investors (NEPI).

We now see increased initiative from local vendors bringing most of their products – not only institutional ones - to the market. This is interestingly and, for the moment, successfully testing the appetite of both types of investors – local and international institutions. The main focus remains on grade A office product in Bratislava, regional retail schemes and some industrial buildings located in the prime logistics hubs.

Prime office yield ranges between 7.15 - 7.25%, prime logistics remains unchanged between 8.75 - 9.00% and prime retail yield stabilised around 6.75 - 7.00%.

Focus on Croatia

2013 has yet to see any property investment transactions in Croatia. The size of the Croatian market and financing constraints remain the key obstacles for investors. However, as of the 1st July, Croatia is now a full member of the European Union which offers some hope to the market. We would anticipate that following entry, Croatia will be considered by some investment funds who previously would not contemplate such an investment.

Whilst maybe not creating the most accurate of impressions, it is possible to look at the impact of EU membership on other CEE countries. For example, Bulgaria who officially entered the union in 2007 recorded nearly double the volume of transactions in 2008 when compared to pre-accession 2006 and Romania recording an approximate 10% increase in the same period. Going further back in time and analysing data from three of the countries who entered the EU in 2004: Czech Republic, Hungary and Poland, saw property investment increases of 57%, 236% and 84% respectively between the years 2003 and 2005. Although economic conditions in the EU have deteriorated significantly since the heady days of the pre-crisis, these figures do offer some hope to landlords in Croatia.

We do not anticipate that risk adverse investors will suddenly enter the market but, we do see that those opportunistic investors who are prepared to operate higher up the risk curve could begin to recognise some of the favourable margins available over the existing European core cities. We also do not believe that property prices will rise and on the contrary, expect that those local landlords will need to be more realistic in their expectations.

Focus on Serbia

The Government of Serbia, although teetering on the brink of being dissolved, has received positive news from Bundestag regarding accession talks. Bundestag said that talks regarding EU entry can commence in January 2014; however, they must also fulfil the criteria of implementation of the agreement with Kosovo.

Classic capital market transactions are rather thin; however, smaller specialized (€1-3M) transactions are more frequent. Although there are still several negotiations on-going for larger + €20M lot sizes, predominately office deals, we hope to see some of these close by the end of the year. Most investors are still attuned to distressed asset sales but the banks are continuing to hold off or, delaying the collection of collaterals on delinquent receivables.

The perception of Serbia is finally showing some change. Whereas the majority of investors said that Serbia was off the radar a year ago, we are hearing Serbia mentioned when speaking about new investment with other countries in the region. However, we are still competing with other countries with a vast supply of real estate products and with banks more willing to dispose of distressed assets. Serbia is on track to have a plus year post recession, it has little in way of CRE development projects in the pipeline and it is still under supplied in retail real estate products. Therefore, we see the investment strategy as "BUY" in Serbia.

Investment Volumes Definition

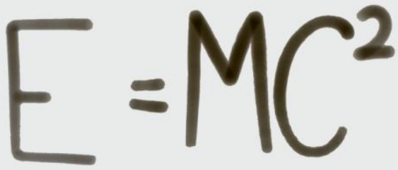
Refers to the purchase of individual commercial property assets or portfolios of assets (or shares in special purpose vehicles that own assets).

Includes: All transactions over $ US 5m. Sectors covered are office, retail, hotels, industrial, mixed-use and ‘other’ (includes nursing homes, student accommodation, etc.)

Excludes: Entity-level transactions; development projects; and multi-family residential investment.

The data includes property company M&A, including REIT formations, where the following conditions are met:

- The transaction is essentially a Real Estate transaction,
- And significant assets over and above the real estate assets (e.g. workforce, Intellectual Property, “goodwill” etc.) are not transferred.
- 70% + of revenues come directly from rental income
- Transactions involve a significant change of ownership (30%+)
- Transaction must be at ‘market price’
- Only includes the percentage sold to new investors at the IPO price
- **Entity Level Deals** Refers to corporate acquisitions, where significant assets over and above the real estate assets are transferred (e.g. workforce, Intellectual Property, “goodwill” etc.), e.g. REIT privatisation ‘Transaction churn’ - e.g. where a company sells real estate assets to a majority-owned subsidiary.
- **Development Deals** - Refers to transactions categorised as ‘forward funded’ development and ‘land’ transactions.
- **Exchange Rates** - We convert transaction values into USD at the average daily rate for the quarter in which the transaction occurred.
- **Grossed-up Figures** – Volumes are grossed-up to reflect market coverage



Key Investment Deals – H1 2013

Property Name	City, Country	Approx. Sale Price (€ million)	Vendor	Purchaser
New City	Warsaw, PL	127.0	Europejskie Centrum Investycyjne (ECI Group)	Hines REIT
Roosevelt 7/8	Budapest, HU	95.0	Accession Fund	Not disclosed
Green Corner & Nordea House	Warsaw, PL	94.6	Skanska	RREEF
Apollo Business Center IV	Bratislava, SK	75.0	HB Reavis	Ceska Pojistovna / Generalli PPF
Andel Park B	Prague, CZ	65.0	SEB	GLL
Green Towers	Wroclaw, PL	64.0	Skanska	PZU
The Lakeview	Bucharest, RO	61.7	AIG/Lincoln & Dinu Patriciu Global Properties	New Europe Property Investors (NEPI)
Trianon	Prague, CZ	53.8	Union Investment	REICO
Holland Park	Warsaw, PL	50.0	CBRE GI	Kulczyk Silverstein Properties
Zlote Tarasy (23.15%)	Warsaw, PL	ca. 50.0	City of Warsaw	Unibail-Rodamco
Zeran Park II	Warsaw, PL	43.2	AREA Property Partners & Appollo Rida Poland	SEGRO
Stara Celnice	Prague, CZ	38.0	Pramerica	Invesco
Ochota Office Park	Warsaw, PL	37.0	Mahler Project International	Adgar Group
Platinium Business Park	Warsaw, PL	33.9	GTC	Allianz
Pradera Retail Warehouse Portfolio	Olomouc / Ostrava, CZ	30.0	Pradera	Standard Life
Senator	Warsaw, PL	Not disclosed	Ghelamco	Union Investment
Galeria Leszno	Leszno, PL	Not disclosed	Energotech 1	Blackstone
River Park Office Block F	Bratislava, SK	Not disclosed	J&T Real Estate	Postova Banka
Pilsen West	Plzen, CZ	Not disclosed	Kajima	NBGI

Source: Jones Lang LaSalle, July 2013

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