H1 2018

CEE Investment Market

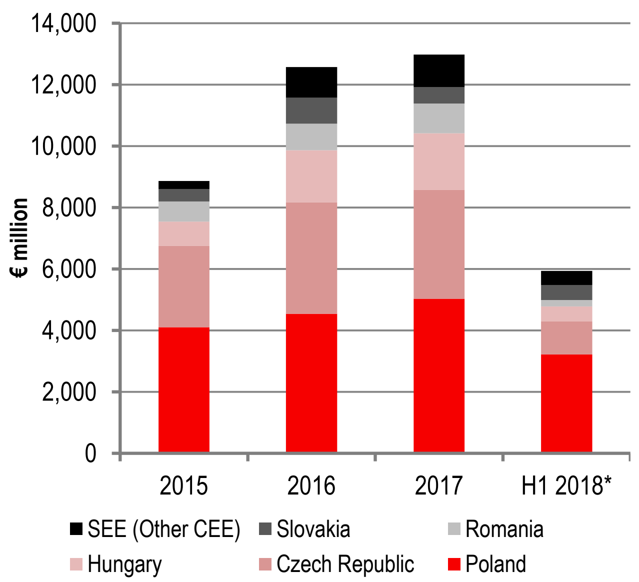
The CEE region continues to be a key target for both international and domestic investors. The CEE region's macro-economic story, encouraging retail performance levels plus very strong office and industrial occupational markets, together with an attractive yield profile provides for a very positive story for investors.

There are minor differences across the region itself with Poland still demonstrating high investment volumes whilst other markets are showing slightly lower levels of activity which is predominantly driven by a lack of product. Of interest is the growth of domestic capital in the Czech Republic and Hungarian markets where domestic volumes are growing year-on-year and, for H1 2018, make up 67% and 43% respectively.

The outlook for the rest of the year is continued activity - investor demand is certainly not reducing and if anything we see stronger demand for core prime assets with secondary assets in poorer locations beginning to suffer to a certain extent.

At ca. €5.93 billion, regional volumes for CEE in H1 2018 recorded a 6.3% increase over H1 2017 (€5.58 billion) The first half year breakdown saw Poland record a significant regional share of 54%. This was followed by the Czech Republic (18%), Hungary (8%), Slovakia (8%), SEE markets (8%) and Romania (3%).

CEE Investment Volumes 2015 – H1 2018



Source: JLL, Q2 2018 (*Preliminary figures)

Our forecast for the full year suggests that CEE regional volumes will reach or exceed ca. €12.0 billion, which may not set a new record but will be inline with 2016 and 2017 levels.

CEE Prime Yields (%) – Q2 2018

Country / Sector	Office	Retail (SC)	Industrial
Poland	4.75	4.90	6.50
Czech Republic	4.85	4.85	5.75
Hungary	6.00	6.00	7.50
Slovakia	6.00	5.25	7.00
Romania	7.50	7.00	8.50

Source: JLL, Q2 2018

Poland Highlights

The Polish Investment market, which saw €4.991 billion traded in 2017, continued to perform strongly in H1 2018, with already €3.216 billion traded. The sector split for 2018 to date comprised ca. €1.866 billion in retail, ca. €938 million in offices, ca. €344 million in warehousing and the remaining ca. €69 million in the hotel sector.

Following the record first quarter of 2018, when the market saw retail investment transactions with an overall volume exceeding €1.750 billion, the second quarter was remarkably less active, with the total volume slightly in excess of €110 million.

The H1 volume of retail transactions resulted largely from transactions that started in 2017 and so far included four major portfolio deals and two major regional shopping centres sales.

These transactions included:

Project Chariot, a portfolio of 28 properties, including 9 M1 shopping centres, 12 standalone hypermarkets, 4 retail parks and 3 standalone stores, which was sold by ARES / AXA / Apollo Rida to a Griffin-led consortium for a price of approximately €1 billion;

The Griffin-led consortium subsequently sold four M1 shopping centres (Krakow, Zabrze, Czeladz and Lodz) to EPP for €359 million. The sale of a further 8 assets has been agreed and will be completed in two tranches in the course of 2019 and 2020;

Newbridge acquired three Carrefour-anchored shopping centres (Czyzyny in Krakow, Guliwer in Lodz and Bielawy in Torun) from Aerium for ca. € 110 million;

Meyer Bergman sold a prime shopping centre located at the main train station in Silesia, Galeria Katowicka, to EPF for price that remains confidential.

The sale of the Aura shopping centre in Olsztyn by Rockspring to NEPI Rockcastle for €64.9 million. This was the last property that Rockspring sold in Poland ahead of its merger with Patrizia and Triuva.

The acquisition by CPI Property Group of the Hop Stop portfolio from Katharsis Development, consisting of four existing retail parks and one under development (in Warsaw, Zamość, Radom and Siedlce) for an undisclosed price.

These transactions confirm that international investors remain very active on the Polish retail investment market. Prime yields achievable for best-in-class, dominant, major shopping centres in Poland currently stand at a level of 4.90%, while prime retail parks are expected to trade at approximately 7.00%.

Given the number of on-going transactions and the availability of product, we envisage that retail investment will exceed €3 billion in volume for the entire 2018.

After a relatively quiet first quarter, with only ca. €142 million traded, the office sector picked up pace in the second quarter of 2018, with ca. €796 million traded, bringing the volume for H1 2018 to ca. €938 million.

A key Warsaw office transaction was the purchase of a 50% stake in the landmark Warsaw Spire Tower by Madison International Realty from Ghelamco for ca. €175 million.

In the regional cities, Revetas and Goldman Sachs completed Project Keystone, purchasing a wide ranging portfolio from TPG, including B4B in Kraków and Silesia Towers in Katowice. The Polish office component equated to an estimated €325 million.

Also in Kraków, Growthpoint continued their fast acquisition pace with the purchase of Quattro Business Park from Starwood Capital for €139 million. This complimented their earlier H1 acquisitions of Warta Tower, Warsaw (ca. €55 million) from Kulczyk Investments and West Link, Wrocław (ca. €35.8 million) from Echo Investment.

Thus far in 2018, regional cities have traded ca. €569 million compared to ca. €369 in Warsaw. By the end of 2018 the balance is expected to have swung back in favour of the Capital city.

Sentiment in the office market is optimistic and the second half of 2018 looks set to continue this strong trend, with a number of large schemes waiting to close post PSPA, such as Spektrum Tower, Gdanski Business Centre C&D and Green2Day, Wrocław. Furthermore, there are a number of flagship projects in advanced due diligence, scheduled to complete in either Q3 or Q4 2018. Prime office yields in Warsaw now stand at 4.75%, underpinned by a number of deals in due diligence. Core regional city yields now stand at 5.75%.

Activity in the logistics market in 2018 has been high, although limited to single asset transactions. The ca. €205 million traded in Q2 across 5 deals complimented the ca. €139 million traded in Q1 across 4 deals.

The stand-out logistics transaction of H1 2018 was the purchase of Amazon Szczecin by Vestas Investment Management from Invesco for ca. €110 million.

In H2 2018, there is an expectation for multiple logistics portfolios to trade, adding volume in excess of ca. €700 million to the year-end totals. Thus bringing the forecast for 2018 to in excess of €1 billion in the logistics market, reflecting a sector record.

There continues to be strong, but selective, appetite in the logistics market, focusing on best-in-class assets in primary sub-markets with rental growth projections.

Prime warehouse yields stand at 6.50% with exceptional, long leased assets trading well below 6.00%.

H1 2018 has seen three institutional hotel transactions totalling ca. €69 million. Two of the deals involved Union Investment purchasing from UBM Development. They acquired the 256 room, Holiday Inn in Warsaw for ca. €41 million and the 152 room, Park Inn by Radisson in Krakow for €26 million.

The H2 2018 pipeline; committed, in due-diligence and in advanced marketing lead us to believe that all-time record volumes with be achieved with over €5.5 billion trading in Poland across all sectors.

Czech Republic Highlights

The performance of the Czech Republic's macro-economic story continues to shine with some of the highest ratings within CEE. The office occupational market shows excellent signs of out-performance leading to very strong real estate fundamentals.

With this in mind, it is of no surprise that the Czech Republic continues to be a key target destination for both international and domestic capital. In fact in the first half of 2018, domestic capital has registered a 67% share of the total investment volume which stands at €1.075bn for H1 2018.

The most significant office investment transactions in H1 2018 were Praha City Centre in Prague 1 sold by Tristan and Portland Trust to Amundi Asset Managment, Metronom office building in Prague 5 sold by HB Reavis to Reico, Explora Business Centre, also in Prague 5, sold by Avestus Real Estate to Golden Star Real Estate and Visionary in Prague 7 sold by Skanska Property to CA Immo. Total office investment volume recorded for H1 2018 was €527 million, making up approximately 50% of the total investment volume.

The most significant and highest volume retail transaction was the sale of Futurum Hradec Kralove, acquired by CPI from Meyer Bergman. Other retail transactions were mainly smaller retail centers, supermarkets and retail parks. The total retail investment volume reached approximately €400 million.

Industrial/logistics volumes totalled approximately €100 million spread across 6 smaller transactions all across the country with two thirds being acquired by domestic capital.

This sector traditionally suffers from lack of available A class product with the majority of stock controlled by the four major logistics players of CTP, Prologis, P3, and VGP/Allianz.

The Czech Investment Market has shown a fall in investment volume compared to 2017 but this is primarily due to a lack of product and is certainly not due to a lack of investor interest and demand for product.

Our views on prime yields are as follows: offices and prime shopping centres now stand at 4.85%, industrial and logistics stand at 5.75%, with a significant premium for trophy assets. Prime retail parks are traded at 6.00% while High Street assets are at 3.50%.

Hungary Highlights

In H1 2018, the Hungarian investment volume reached a level of ca. €490 million, significantly below the 2017 level of €1.1 billion despite strong interest from investors and significant liquidity on the market.

This disappointing volume is the consequence of the limited availability of core products of scale as we only saw 2 transactions with a volume of above €40 million in H1 2018, namely Vaci Green D and Premier Outlet Centre. Larger transactions are expected in the second half of the year. Offices remained the main trading class with a 58% share of the total volumes, followed by retail assets with 31% and industrial with 10%.

Among the noticeable office transactions, we can mention the second acquisition in Budapest by FLE (part of the Paris based Groupe LFPI) with Residence office building located in Central Buda. Infopark D located in the immediate vicinity of the WING HQ developments for Ericsson and Evosoft was acquired by the Hungarian developer, who as a result became one of the leading landlords in the submarket. Furthermore, Millennium Gardens, currently under construction, was transacted as part of Trigranit's CEE platform, acquired by Revetas and Goldman Sachs from TPG. In the city center, Central Udvar was acquired by Goldman Sachs in 2017 and the European SEB portfolio was sold to Vienna based asset manager GalCap. This is the second purchase of GalCap in Budapest, after their acquisition of Merkúr Palota, the HQ of Prezi, last year.

The main retail transaction was the sale of Premier Outlet Centre by Lone Star to DWS. The asset will complement the existing Polish Fashion House portfolio of outlet centers acquired by DWS in 2017. WING acquired three retail assets from Atrium including Eurocenter in Budapest, a Family Center strip mall and a Praktiker DIY big box, both situated in Szombathely. Furthermore the countrywide Penny Market portfolio was bought by the discount supermarket chain.

In the logistics asset class, Prologis sold its 32,300 sq m Hegyeshalom logistics park to Horváth Rudolf Intertransport along with a significant land bank (24 ha.), whereas in Dunaharaszti (Greater Budapest), the 26,600 sq m South Base logistics park was acquired by IAD Investments.

Six assets with individual volumes above EUR 100 million are in due diligence or under marketing with closing expected in H2. Due to this robust pipeline for H2 we keep our yearly volume forecast at around EUR 1.7 -1.8 billion.

We keep our views on prime yields unchanged at 6.00% for shopping centres and offices, 7.50% for logistics and 5.25% for high street retail.

Romania Highlights

The H1 2018, the property investment volume for Romania is estimated at circa €205 million, a value almost half the one registered in the same period of 2017 (€481 million). However, there are a number of transactions in different stages of negotiations that will most likely be concluded during the remainder of 2018. The number of transactions decreased, however, the average deal size increased, standing at approximately €40 million.

Bucharest accounted for over 78% of the total investment volume, mainly due to a very large office transaction which was closed in Q2. Market volumes were dominated by office transactions (88%), while retail accounted for ca.12%.

The largest transaction registered in first half of 2018 was the acquisition of Oregon Park, a 68,500 sq m office park in the Floreasca Barbu Vacarescu sub-market in the north of Bucharest by Lion's Head Investment. This is the first acquisition of the fund created by the joint-venture between South African investment fund Old Mutual Property and AG Capital in Romania, after previous investments in Sofia, Bulgaria.

Other notable office transactions in Romania were the acquisitions by Hagag Group of two historic buildings on Calea Victoriei, the main high street of Bucharest for €10 million, which they plan to reconvert into office buildings and the acquisition of Maestro Center in Cluj-Napoca. The latter is the first office transaction in Cluj-Napoca in the last 5 years which involved an international, institutional buyer. The 6,400 sq m office building was bought by First Property Group for €9.3 million.

The largest retail transaction of the year was the acquisition of the Festival Shopping Center project of Primavera Development in Sibiu by NEPI Rockcastle for €21 million. This is the second acquisition of the South African group in Sibiu after they bought an existing asset, Sibiu Shopping City in 2015.

The other retail transaction, closed in Q1 2018, was the acquisition of Magnolia Brasov by a local investor from Miller Developments. The 7,500 sq m shopping center, opened in 2006, was sold for €4 million.

The macro-economic forecast for Romania continues to be positive, despite some recent concerns. The country was the EU's top performer in 2017 (with GDP growth estimated at 6.9%) and is expected to hold this position in 2018 as well, with GDP forecast at over 5.0%. On the financing side, terms and conditions are getting closer to what can be expected in the core CEE markets. Consequently, sentiment is strong, with a total volume for 2018 estimated to reach the €1 billion mark.

Prime office yields are at 7.50%, prime retail yields at 7.00%, while prime industrial yields are at 8.50%. Yields for office and industrial are at the same level as 12 months ago, while retail yields have compressed by 25 bps over the year. There is a very soft downward pressure on yields.

Slovakia Highlights

The total investment volume in Slovakia for H1 2018 reached just under €500 million, a significant amount compared to the €535 million for the entire 2017 and record breaking €850 million in 2016. This is the result of several mid-volume level deals slipping from 2017 Q4 to 2018 Q1/Q2, as well as increased liquidity and investment activity on the Slovak market.

From an occupational perspective, Slovakia is enjoying a positive evolution of market conditions in both, industrial as well as office markets with low vacancy levels and a healthy development pipeline, resulting in stable to increasing headline rents and reasonable incentives. On the other hand, leasing cycles affect the overall gross take-up, with several large tenants signing lease contracts in previous quarters, mainly in the Bratislava office sector. Net absorption, however, remains at an all-time high across all sectors.

The investment market is boosted by increased demand from Slovak and CEE based investors, currently buying mainly core assets. There is also ongoing appetite for value add products at distressed prices, which is a very scarce product. Interestingly, more and more money is heading towards the regions – a trend which started in the retail and industrial sectors, now arriving also into offices. Slovakia again currently provides and is scheduled to provide several prime and risk-wise core opportunities, as well as core assets in non-prime locations. Combined with competitive yields compared to other CEE countries, investors may likely find the right product in Slovakia.

Out of the 17 individual deals closed in H1 2018, retail transactions topped the investment volumes with a 45% share; followed by offices with a 35% share and the highest number of transactions. Industrial deals recorded a 10% share and none of the traded assets were part of a portfolio.

The retail sector is experiencing strong investor interest for both prime shopping centres as well as smaller regional schemes across the country, despite the limited availability of product. The retail asset class is dominated by sector specialists and distributed among a few players. In H1, NEPI increased its market share through the acquisition of an important prime shopping centre, Mlyny in Nitra, from local developers. A private investor also acquired an important prime shopping centre, City Arena in Trnava, again from a local HNWI.

The office sector in Bratislava experienced strong interest from Wood&Co, which acquired the 27,000 sq m Lakeside Park, anchored by AT&T from TriGranit and the 33,000 sq m Aupark Tower anchored by ESET from Heitman. Further mid-sized and larger transactions will likely close in H2 2018.

The industrial sector, usually the most active market, was relatively inactive, with only one major transaction closed – REICO acquired Dubnica Park, a 90,000 sq m warehouse and logistics asset on the D1 highway in Western Slovakia. Other industrial transactions will close in H2 2018.

We estimate that the second half of the year will likely see an additional €300 to 330 million in commercial property transactions, so the total investment volume is expected to reach a level of €800-830 million. The record Slovak investment volume (ca. €850 million in 2016) could be targeted in case one or two large trophy assets are traded. However, the total number of deals will definitely be higher than the previous year.

Our views on prime yields as of Q2 2018 are as follows: Shopping centres 5.25%, Offices 6.0%, Retail warehouses 7.0%, High Street at 7.0%, Industrial and logistics at 7.0% and prime hotels (operations) in the capital at 7.25%.

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Key Deals – H1 2018

Property name	City, Country	Approximate sale price (€ million)	Vendor	Purchaser
Project Chariot (28 retail properties)	Various, PL	1,000	Ares/Axa/Apollo Rida	Griffin led Consortium
M1 Czeladź, M1 Kraków, M1 Łódź, M1 Zabrze	Various, PL	359	Griffin led Consortium	EPP
Guliwer Łódź, Bielawy Toruń, Czyżyny Kraków	Various, PL	110	Aerium	Newbridge
Galeria Katowicka	Katowice, PL	Confidential	Meyer Bergman	EPF
Prologis Park Sochaczew	Sochaczew, PL	Confidential	Prologis	Ares
Warsaw Spire A (50% of shares)	Warsaw, PL	350 (50% of shares)	Ghelamco	Madison International Realty
Aura Centrum Olsztyna	Olsztyn, PL	65	Rockspring	NEPI Rockcastle
Quattro Business Park	Krakow, PL	140	Starwood	Globalworth Poland RE
Amazon Szczecin	Szczecin, PL	110	Invesco	Vestas
Atrium Centrum & Atrium Plaza	Warsaw, PL	80	Peakside	CPI
Futurum Hradec Kralove	Hradec Kralove, CZ	>100	Meyer Bergman	CPI
Metronom Business Centre	Prague, CZ	93	HB Reavis	REICO

Source: JLL, July 2018

Key Deals – H1 2018

Property name	City, Country	Approximate sale price (€ million)	Vendor	Purchaser
Visionary	Prague, CZ	68	Skanska Property	CA Immo
Praha City Centre	Prague, CZ	ca. 60	Tristan/Portland Trust	Amundi Asset Management
Explora Business Centre	Prague, CZ	ca. 50	Avestus Real Estate	Golden Star Real Estate
Hadovka Office Park	Prague, CZ	Confidential	Europa Capital	Wood & Company
OC Sestka	Prague, CZ	est. 38	Wood & Company	Private Individual
Moutpark Pilsen	Pilsen, CZ	Confidential	Mountpark	Prologis
Millennium Gardens	Budapest, HU	Confidential	TPG	Revetas/Goldman Sachs
Premier Outlets Center	Budapest, HU	Confidential	Lonestar	Deutsche Asset Wealth Management
Váci Greens D	Budapest, HU	Confidential	Atenor	Confidential
Residence 1-2	Budapest, HU	Confidential	Raiffeisen Development	FLE
Atrium retail portfolio	Budapest, HU	ca. 40	Atrium	WING
South Base Business Park	Dunaharaszti, HU	Confidential	IPD	IAD
Prologis Park Hegyeshalom	Hegyeshalom, HU	Confidential	Prologis	Horváth Rudolf Intertransport
Oregon Park	Bucharest, RO	Confidential	Portland Trust	Lion's Head Investment
Festival Shopping Centre	Sibiu, RO	21	Primavera Development	NEPI Rockcastle
Dubnica Park	Dubnica, SK	ca. 40	Invest4SEE	REICO
Geleria Mlyny	Nitra, SK	ca. 123	Local HNWIs	NEPI
City Arena	Trnava, SK	ca. 85	Local HNWI	Private Investor
Lakeside Park	Bratislava, SK	Confidential	TriGranit	Wood & Company
Aupark Tower	Bratislava, SK	Confidential	Heitman	Wood & Company

Source: JLL, July 2018