

CEE H1 2021

What's going on in Real Estate Investment?



AVISON
YOUNG

Avison Young (AY) releases its H1 CEE Property Investment Overview reporting significant structural market shifts not seen since the aftermath of the 2008 financial crisis.

Revolution or evolution?

Both actually. The market landscape has shifted; catch the following headlines.

1

What's HOT and what's NOT?

- **Industrial and Logistics:** the biggest loser in 2008, now the biggest winner. Almost every institutional investor is seeking this asset class and yields are sharpening every quarter. Czechia registers the lowest prime logistics yields at 4.50%; Hungary and Romania look exceptionally good value with prime yields at 6.50% and 7.50% respectively.
- **Retail Parks:** over the past 12 months every geography in our CEE region has recorded yield compression in the Retail Park sector. Typically smaller lot sizes mean this segment does not factor highly in terms of absolute numbers. But investor demand is strengthening and prime yields in Czechia (5.75%) are now converging towards those of Shopping Centres (5.50%). AY expect this trend to continue as investors seek "Covid-proof" assets; so investors could grab a bargain at a retail park in Poland where prime yields are currently 7.00% against Shopping Centre yields of 5.75%.
- **Office:** our old friend that we have missed dearly whilst working from home. As is almost always the case the office segment dominated total investment volumes accounting for €1.95 billion or 46% of total volumes. The office is far from dead; in fact if you read AY's report on the **MULTIVERSE OF WORK** you'll see it's going to be a lively place. Investment volumes evidence the fact that investors share this belief, albeit they are diversifying into other asset classes mentioned here.



2

There's a new Asset Class on the Block and it's so hot the market standard is to forward sell

- Multi-family Residential properties for the Private Rented Sector (PRS) and Build-to-Rent (BTR) sector are **popping up** on the shopping lists of all major institutional investors; domestic and international. Competition is high and yields are extremely low, as investors count on long-term capital value growth.
- The emergence of this sector has been bubbling for a number of years as developers were slow to adapt their projects and sales channels, from private individuals to bulk sales. Now the product has hit the market and it is **sold out before completion**. Investors fight to secure this limited asset class and are happy to forward commit funds to do so. We have seen a handful of deals so far, but this winter “RESI is coming” and we will see a surge in transactions as numerous deals across the CEE are in due diligence.
- Yields are ranging from 3.50% in Prague to 6.00%+ in Bucharest.

3

Investment volumes down 30% Y-O-Y but demand is not the issue

- H1 investment volumes are down 30% falling from €6.1 billion in 2020 to €4.2 billion in 2021. But it should be noted that Q1 2020 volumes were not yet affected by the Covid-19 pandemic. Both **Slovakia and Romania** are reporting increased volumes over the period and **Hungary** records a very strong start. **Poland** remains the no.1 spot for placing cash, attracting over €2 billion of the total €4.2 billion in CEE. That is still ca. €1 billion below last year's H1 performance. **Czechia** is trailing behind with €790 million against €1.9 billion in H1 2020.
- Have the two darlings of the CEE market, Poland and Czechia, fallen foul of investor appetite in the aftermath of Covid-19? Far from it; a **lack of available property** is the single most limiting factor in these two countries; the number of funds and volume of equity chasing assets in these geographies continue to grow placing ever increasing downward pressure on yields.
- The result: **falling yields across all sectors except Shopping Malls and High Streets**. Plus, the remainder of CEE is very attractively priced against the backdrop of record low yields in Poland and Czechia.

4

Once a trickle, now a flood; the march of domestic CEE capital into new territories is reminiscent of the post-2008 era

- **Czech investment funds dominate the CEE market** accounting for 17% (€740 million) of total investment volume.
- **Hungarian equity** takes second place as it makes **major acquisitions at home and abroad** in Poland and Romania; Avison Young Hungary is registering interest from Hungarian funds across Czechia, Slovakia, Poland and Romania.
- The growth and dominance of domestic capital today is reminiscent of 2008-2012 when local equity dominated the transactional landscape; a fundamental difference this time is that the domestic equity is no longer simply “filling the voids” left by the Western Institutions fleeing “riskier” markets; it is **actively competing with Western equity**, and winning. This is a **mark of maturity of the CEE Market**; as local funds grow the liquidity base strengthens in CEE; and the region shifts from pricing based on “Western markets plus a premium” to market pricing based upon its own fundamentals.



5

Major transactions



Czechia

PROPERTY NAME	CITY	SECTOR	PURCHASER	PRICE (€m)
Proton Therapy Centre	Prague	Others	Raiffeisen - Leasing	97.5
Nová Karolina Park	Ostrava	Office	RT Torax Group	80 (estimated)
Parkview	Prague	Office	Deka Immobilien	77
Avenir Business Park A-D	Prague	Office	AFI Europe	66.5
Explora Business Centre	Prague	Office	Trigea	62 (estimated)
Arete Portfolio	multi-city	Industrial	Cromwell Euro REIT	51 (allocated)

Hungary

PROPERTY NAME	CITY	SECTOR	PURCHASER	PRICE (€m)
Univerzum Offices	Budapest	Office	GTC	above 150
Budapart	Budapest	Office; Residential	Hungarian Private	n.a.
Váci Greens F	Budapest	Office	Optima	75 (estimated)
Váci Greens D	Budapest	Office	GTC	50 (estimated)
BC140	Budapest	Office	Fosun Group	25 (estimated)

Poland

PROPERTY NAME	CITY	SECTOR	PURCHASER	PRICE (€m)
Industrial portfolio	Wrocław, Sosnowiec, Poznań, Gdańsk	Industrial	Ares	196.4
M1 portfolio	Olsztyn, Tychy, Opole, Kielce	Retail	EPP	106
Browary Warszawskie - Villa Offices	Warsaw	Office	KGAL	86.7
Alchemia Neon	Gdansk	Office	DWS	86.2
Office portfolio	Warsaw	Office	Indotek	72.0
Spark B	Warsaw	Office	Stena	70.1
Castorama Stryków	Stryków	Industrial	Savills IM	65.5

Romania

PROPERTY NAME	CITY	SECTOR	PURCHASER	PRICE (€m)
Campus 6.2 & Campus 6.3	Bucharest	Office	S IMMO AG	97
The Light One	Bucharest	Office	Uniqa REM	55 (estimated)
Bucharest Financial Plaza	Bucharest	Office	Immofinanz	36
Logistics parks	Arad, Timisoara, Caransebes	Industrial	CTP	23
Retail park	Arad	Retail	Confidential	20
IPW Arad & IPW Oradea	Arad & Oradea	Industrial	Globalworth	18 (estimated)
Solo Iasi	Iasi	Industrial	Oresa	15

Slovakia

PROPERTY NAME	CITY	SECTOR	PURCHASER	PRICE (€m)
Aupark Shopping Center	Bratislava	Retail	WOOD & Company	270 (60% of the total price)
ARETE Portfolio	multi-city	Industrial	Cromwell Euro REIT	62 (allocated)
Zuckermandel Offices	Bratislava	Office	ERSTE Realitná Renta	Confidential
Bratislava Business Center 1 and 1 Plus office complex	Bratislava	Office	WOOD & Company	Confidential
Cassovar Business Center I	Košice	Mixed use	InTeFi group	30
Immpark Žilina	Žilina	Industrial	CTP	Confidential

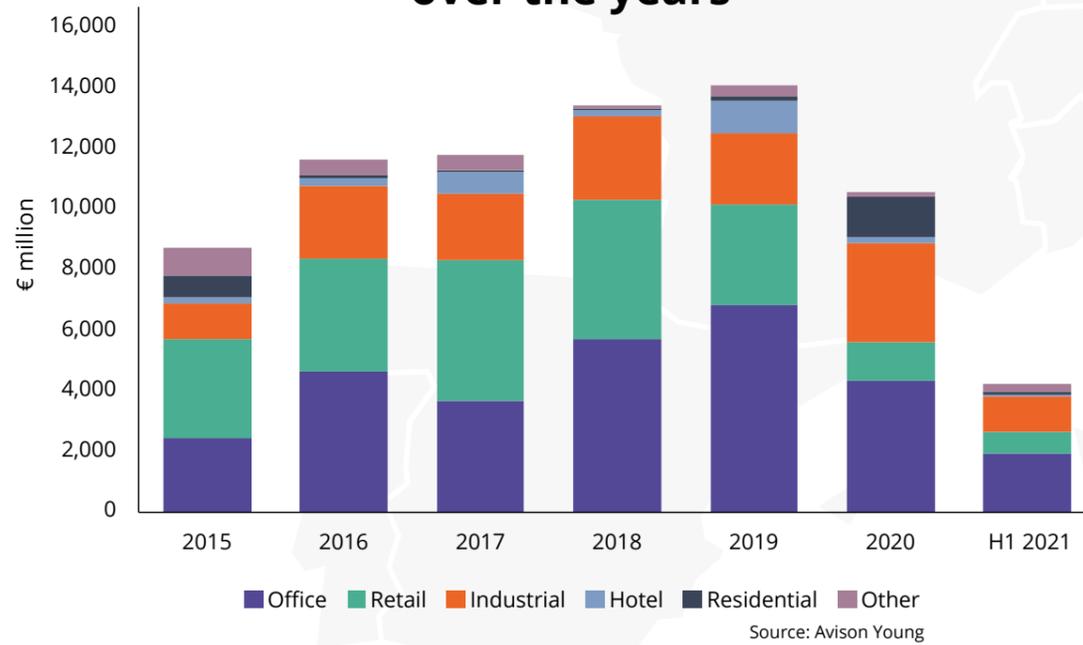
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CEE in numbers

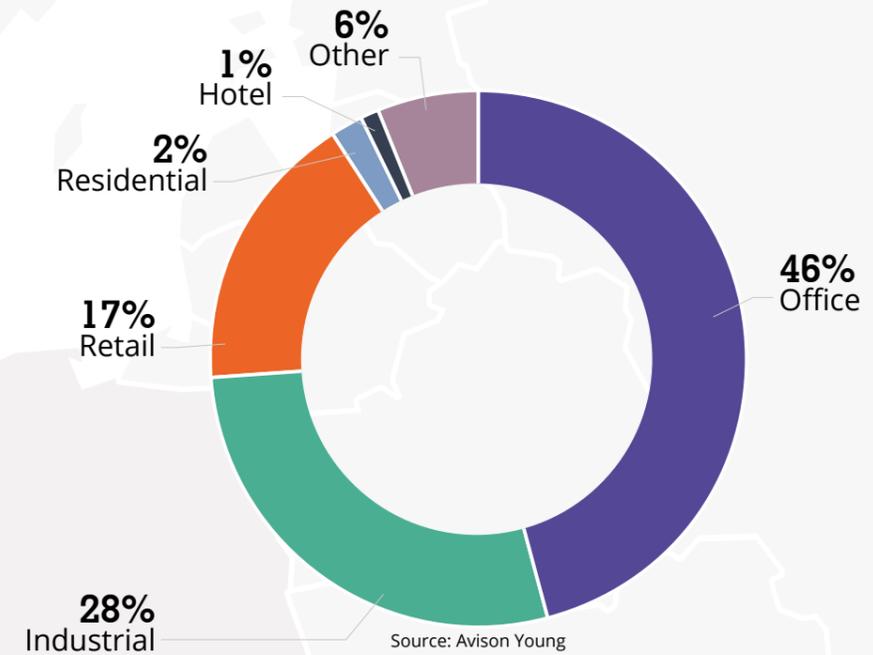
€ 4.2 bln
total volume CEE

-30%
Y-O-Y

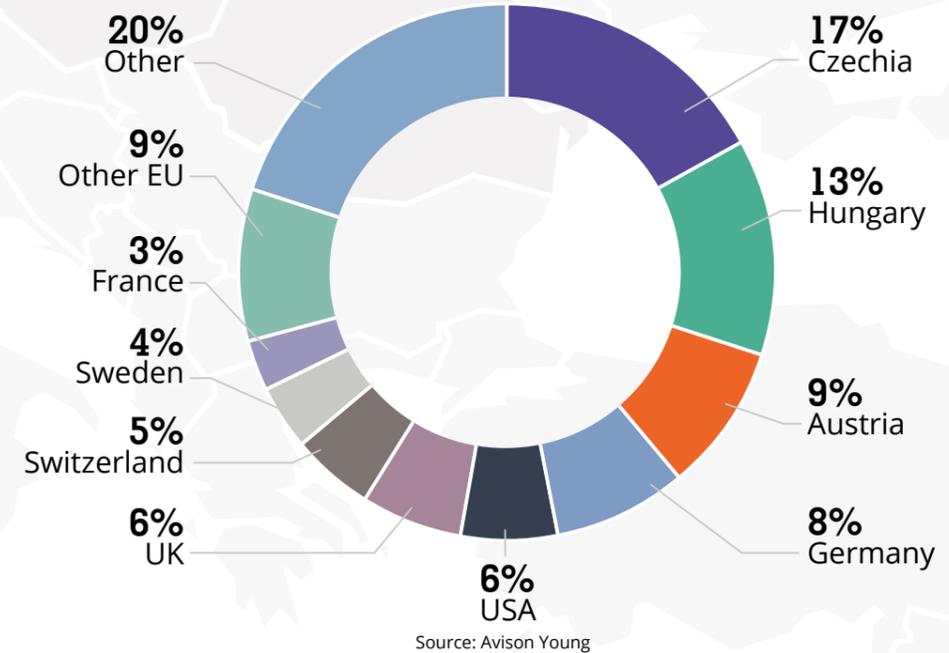
Investment volume shared by sector over the years



Investment volume shared by sector (H1 2021)

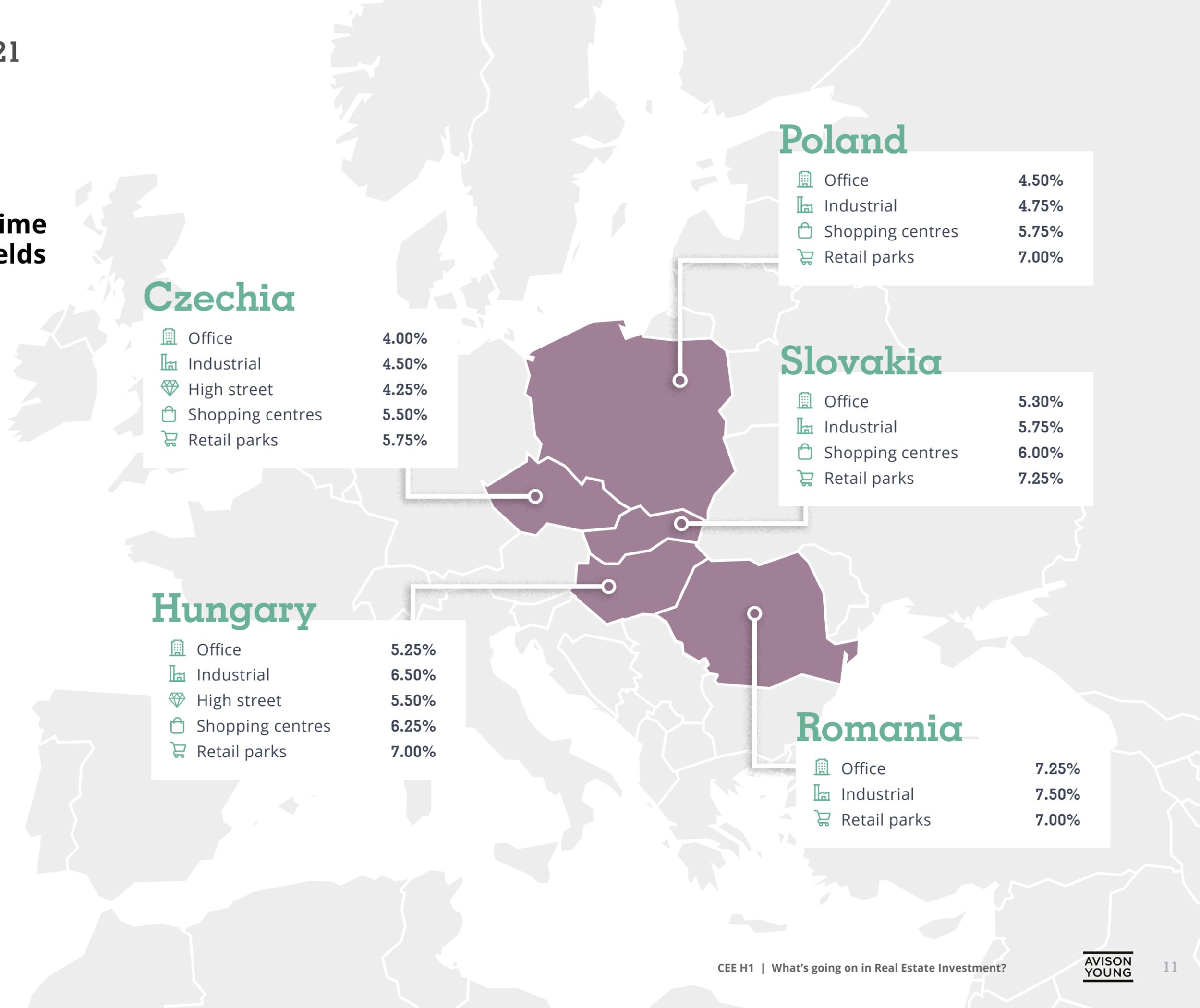


Investor activity by origin (H1 2021)



7

Prime yields





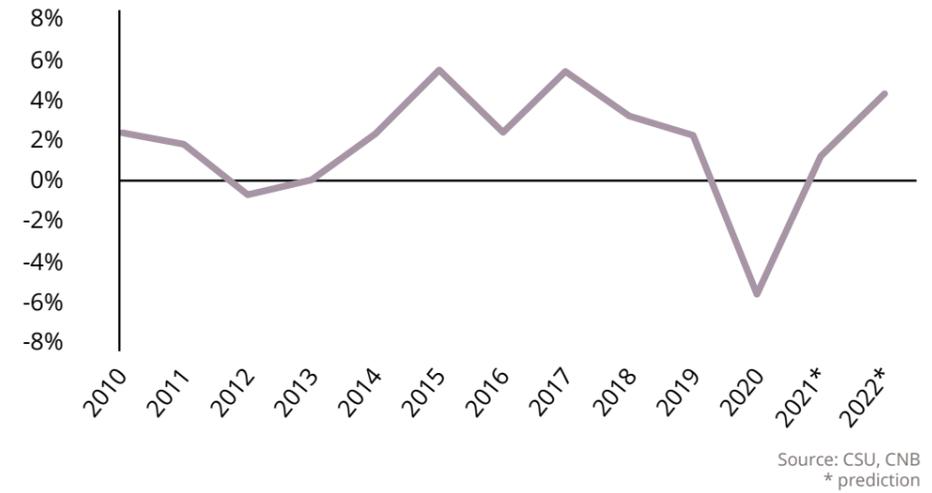
Annual labour costs



Taxation

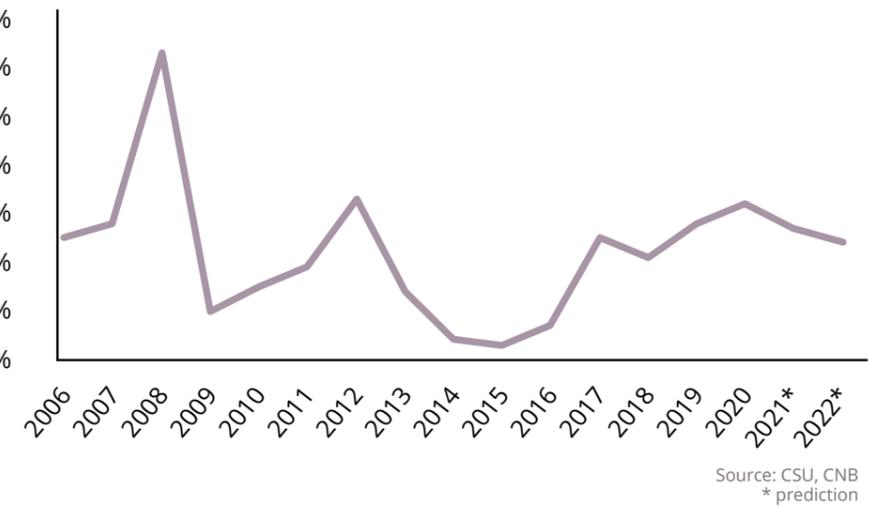
Type of tax	Asset deal	Share deal
Transfer tax	Transfer tax is not applicable currently due to Covid-19 related economic support packages; upon normalisation of the economic situation it is expected to return to 4% of Asset Value	0%
VAT residential	21% VAT - a reduced VAT rate of 15% will apply to the transfer of an apartment up to 120 sqm and to a house up to 350 sqm. The transfer of other real estate or land is charged at the standard rate of 21% VAT. The sale is exempt from VAT if the transfer takes place three years after acquisition or acceptance of the property.	0%
VAT commercial	The sale of buildings, flats and commercial buildings is exempt from VAT if the transfer takes place three years after acquisition or acceptance of the property. If above conditions are not met, the standard rate of 21% of VAT will be applied.	0%

GDP rate



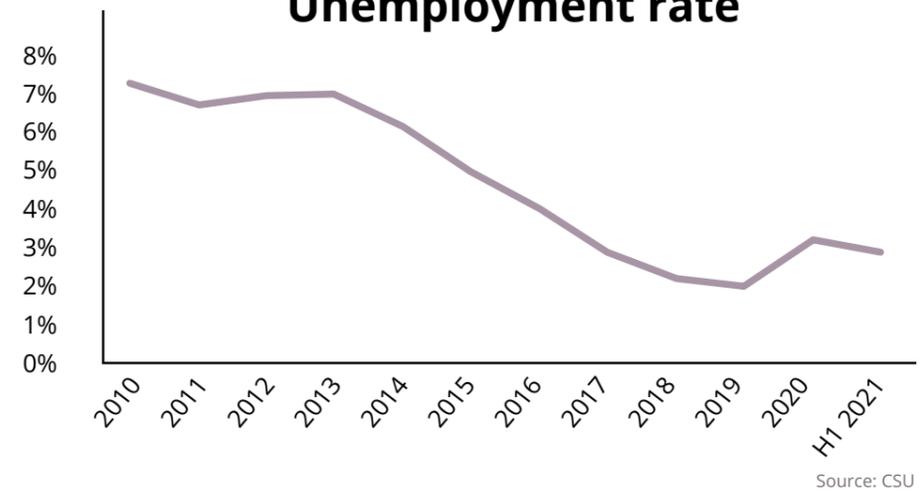
1.20% ↑
2021*

CPI (inflation) rate



2.70% ↓
2021*

Unemployment rate



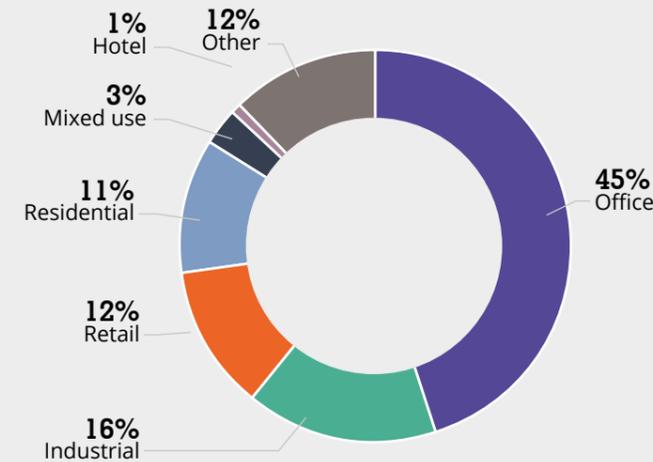
2.90% ↓
H1 2021



Investment market overview

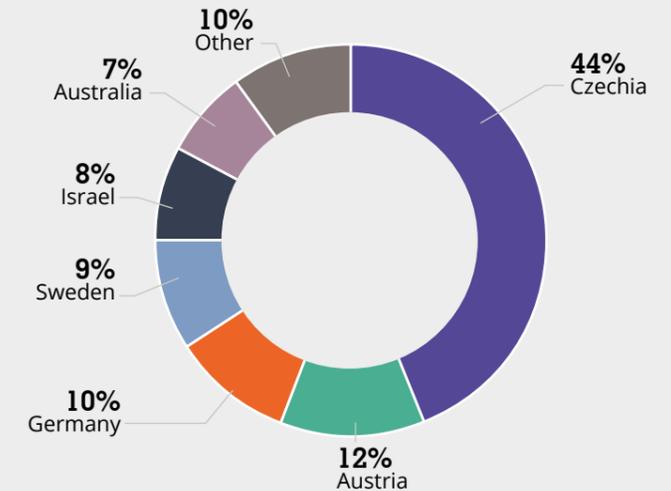
- H1 2021 total investment volume in real estate reached almost €790 million, down 59% compared to the same period last year. However, the Y-O-Y comparison is misleading as **H1 2020 recorded the largest ever transaction in the history of the Czech market**, the sale of the Residomo portfolio to the Swedish company Heimstaden Bostad for €1.3 billion.
- H1 2021 volumes were **dominated by office transactions** (45%), followed by industrial assets (16%).
- Czech buyers took a 44% share of volume followed by Austrian (12%) and German investors (10%).
- The impact of the Covid-19 pandemic is still evident, with **highly limited transactions in the retail and hospitality sector.**
- **Investor demand for real estate remains strong**, especially for logistics, residential and office assets in premium locations. There has also been an increase in demand in retail parks which has caused a **rapid compression in yields**. Prime retail park yields are now sub-6% in Czechia, with further compression expected in 2021.
- **The residential investment segment will feature more heavily in H2** as a number of high profile transactions are underway, being sold to international institutions; this market segment is expected to become a new pillar of the investment market as an increasing number of funds allocate equity to BTR acquisitions.
- Prime yields have compressed in the industrial sector also but have notionally increased in shopping centres and the high street segment. A lack of transactional data in the high street and wider shopping centre segment means that yield adjustments are largely reported based upon sentiment only.
- Avison Young believe **significant yield decompression is unlikely to be seen in core shopping centres** but the yield gap between core and secondary assets will grow significantly over the coming 12 months.
- **A lack of available investment properties** is the single largest limiting factor influencing transaction volumes, even greater than the Covid-19 pandemic.

Investment volume shared by sector (H1 2021)



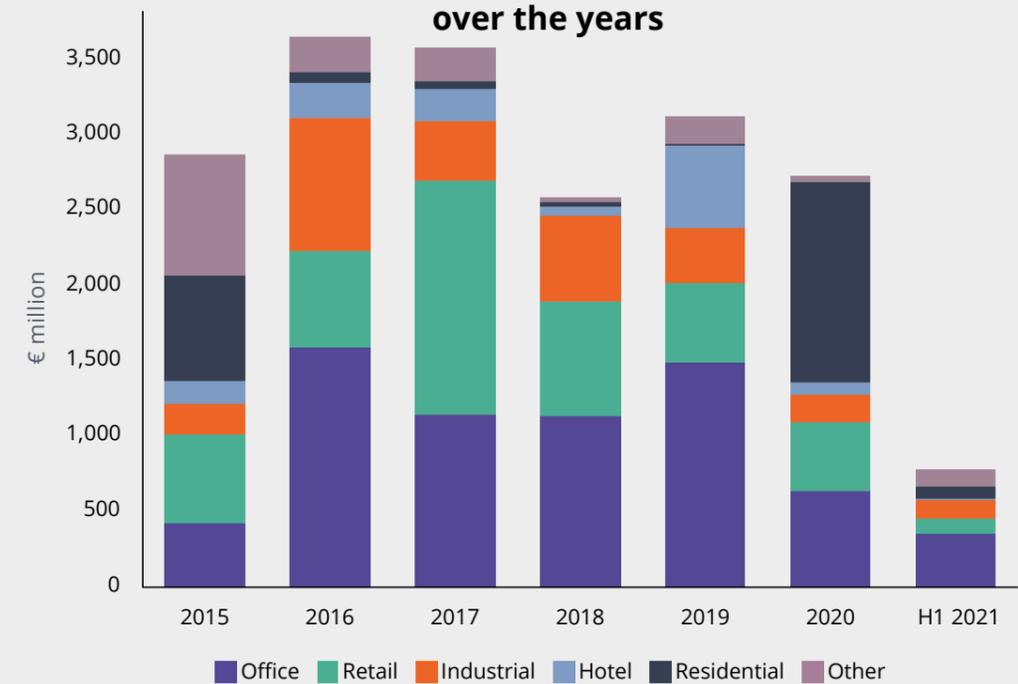
Source: Avison Young

Investor activity by origin (H1 2021)



Source: Avison Young

Investment volume shared by sector over the years

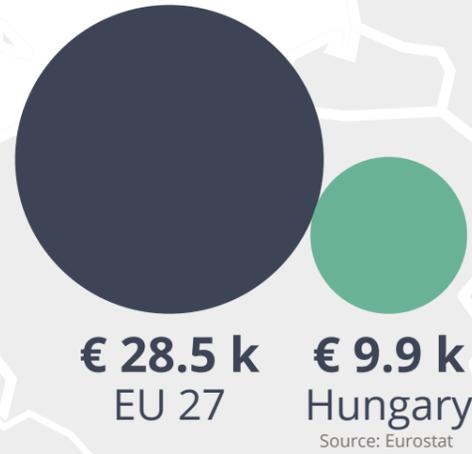


Source: Avison Young

Hungary



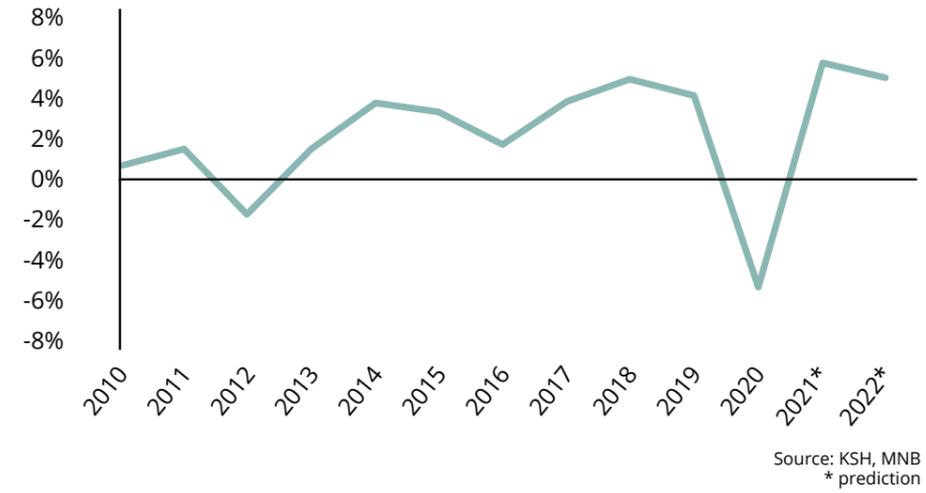
Annual Labour Costs



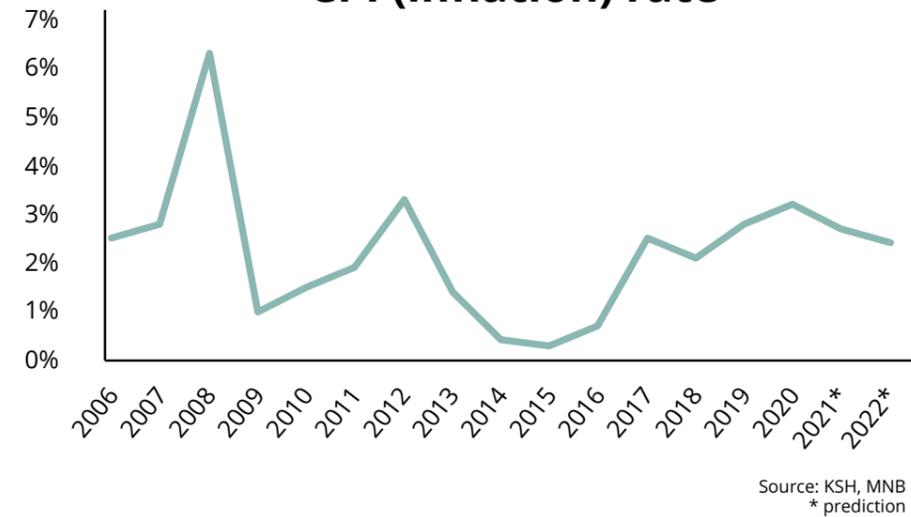
Taxation

Type of tax	Asset deal / Share deal
Transfer tax	4% of the market value up to HUF 1 billion and 2% above with a tax cap at HUF 200 million per real estate. Applicable to SPV and asset deals
VAT	27% VAT - a reduced VAT rate of 5% applies on new apartments with a size below 150 sqm and new houses with a size below 300 sqm
Corporate tax	9%

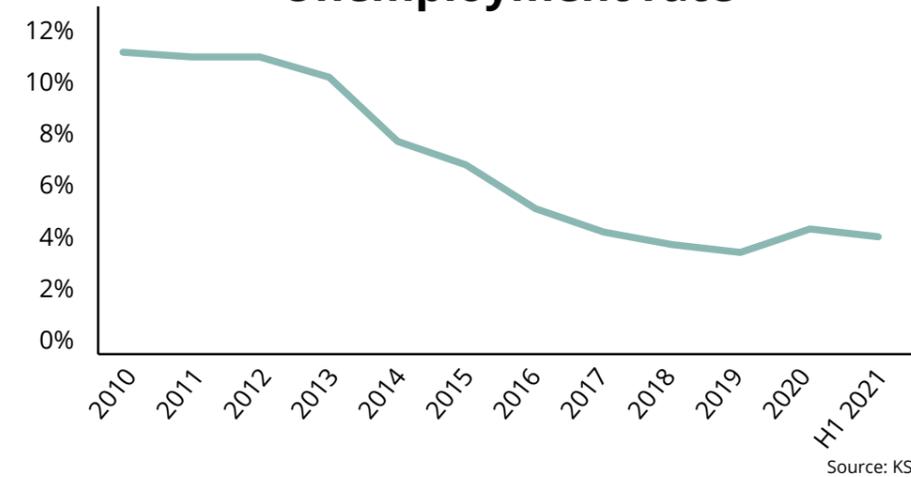
GDP rate



CPI (inflation) rate



Unemployment rate

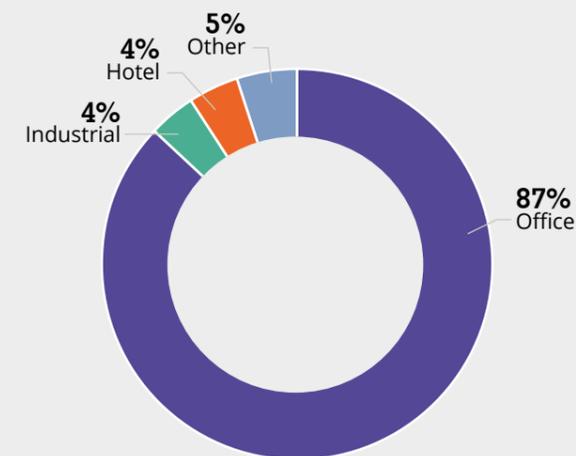




Investment market overview

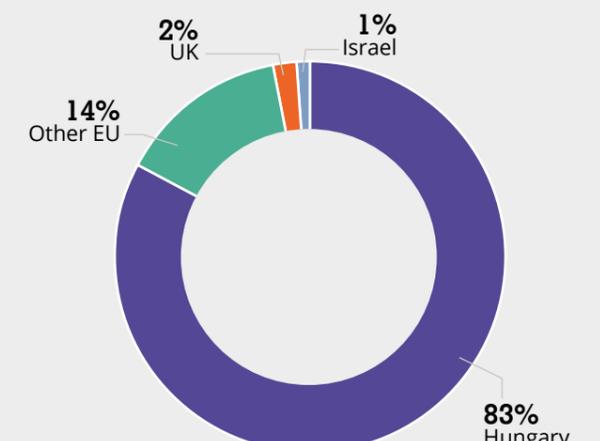
- Investment activity was subdued during the first half of 2021. While the total volume of transactions reaching some €590 million is in line with past year levels for H1, the number of deals reduced, and the **weight of local capital has increased as international investors were mainly absent**. Local capital secured more than 80% of the total volume of transactions. H1 2021 is also characterized by a very limited number of transactions. **Several high profiles deals launched in 2020 did not close and investors rather focus on off-market deals**. We expect the activity to pick up in H2.
- Without surprise, we count **almost no transactions in the segments the most directly impacted by the lockdowns, retail and hospitality**, the only significant deal being the acquisition of the 214-room B&B Hotel Budapest by Primonial REIM (acquired as part of a 2-property portfolio in Prague/Budapest).
- The **majority of the transaction volume is attributed to offices** accounting for more than 80% of the total. However, **demand remains very strong for industrial and grocery retail assets** and volumes are minimal due to the extremely constrained supply of such assets.
- The most notable transactions in the office asset class were the acquisition of Universzum Offices by GTC. The 2 buildings representing some 44,000 sqm were built-to-suit projects by WING for Ericsson (2017) and Evosoft, a subsidiary of Siemens (2020) and are located in the major office hub of Buda South between Infopark and the Danube bank. GTC also acquired the Váci Greens Building D while Building F was acquired by a local investment manager from the developer Atenor.
- One of the rare transactions among **international investors** was the acquisition by Fosun Group, through one of their European businesses, of the Váci Corridor BC140 office building sold by DWS's Grundbesitz Fund.
- Prime office yields are stable at 5.25%; industrial and logistics yields are compressing and currently stand at 6.50%; high street retail and shopping centres yields are decompressing and sit at 5.50% and 6.25% respectively.
- Based on the pipeline of transactions we expect the **2021 annual volume to remain in line with the last year's volume** of ca. €1.2 billion as a number of major transactions across all asset classes are expected in the second half.

Investment volume shared by sector (H1 2021)



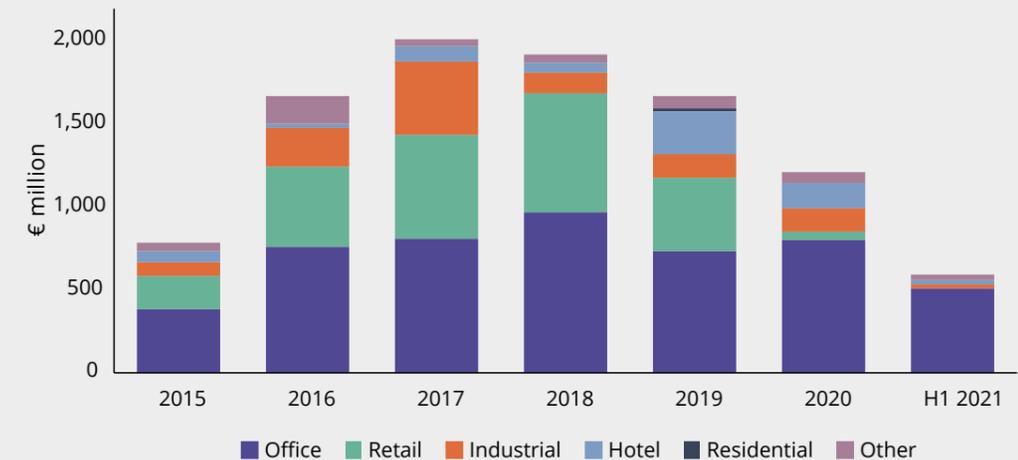
Source: Avison Young

Investor activity by origin (H1 2021)



Source: Avison Young

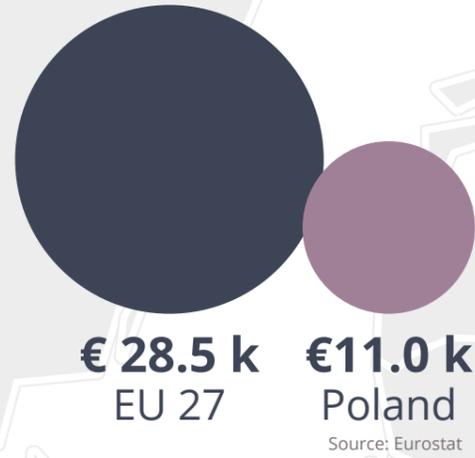
Investment volume shared by sector over the years



Source: Avison Young



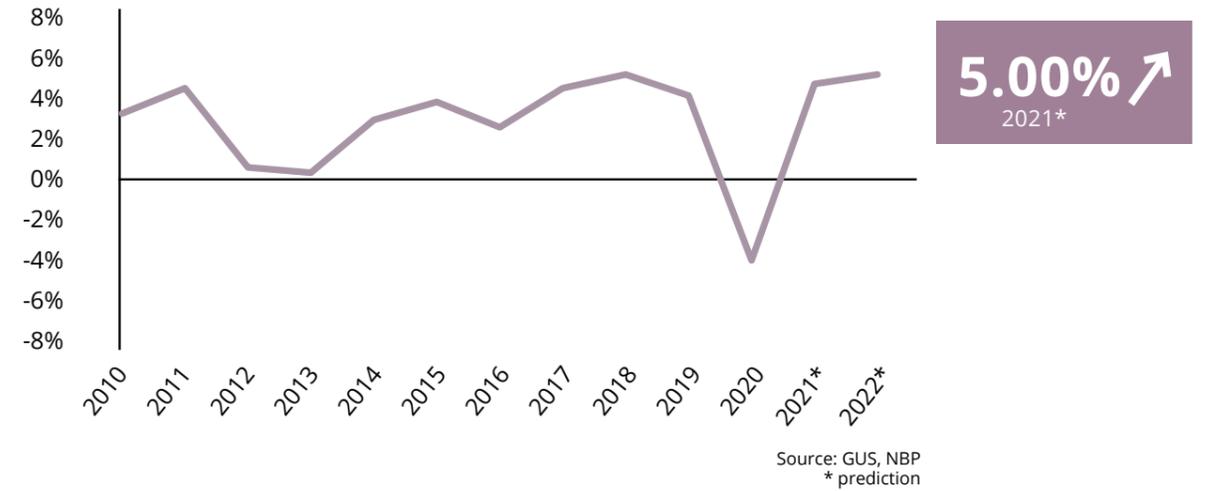
Annual Labour Costs



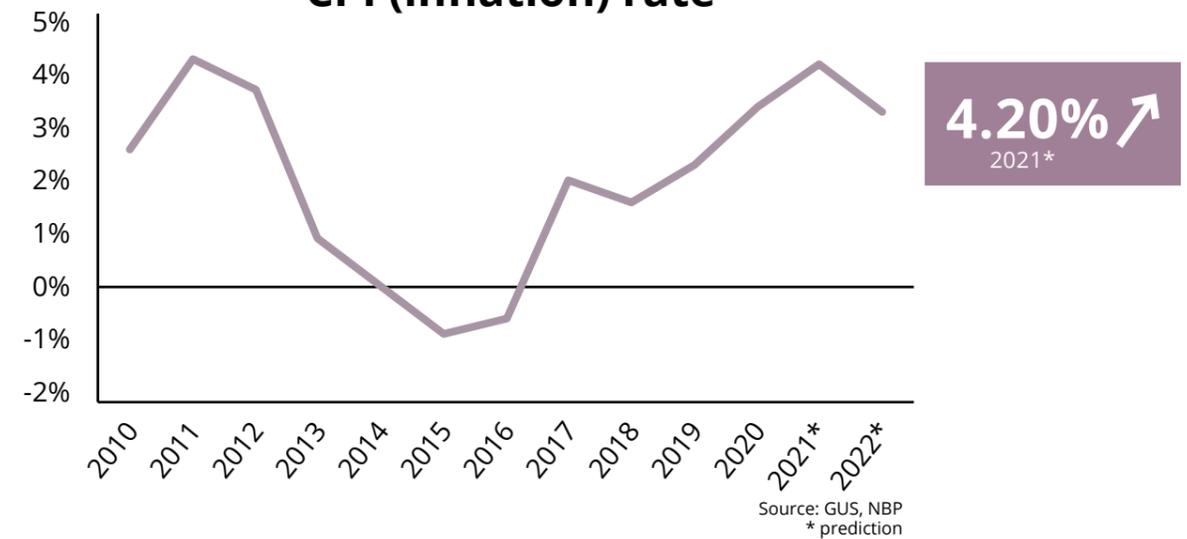
Taxation

Type of tax	Asset deal	Share deal
Transfer tax	0%	0%
VAT	23% VAT - commercial properties	
	8% VAT - residential properties	0%
	Possibility of VAT exemption	
Tax on civil law transactions	If the sale is VAT-exempt:	
	• 2% of the market value of the property	• 1% of the market value of the shares
	• 1% if there are different types of rights sold	• paid by the buyer
	• paid by the buyer	

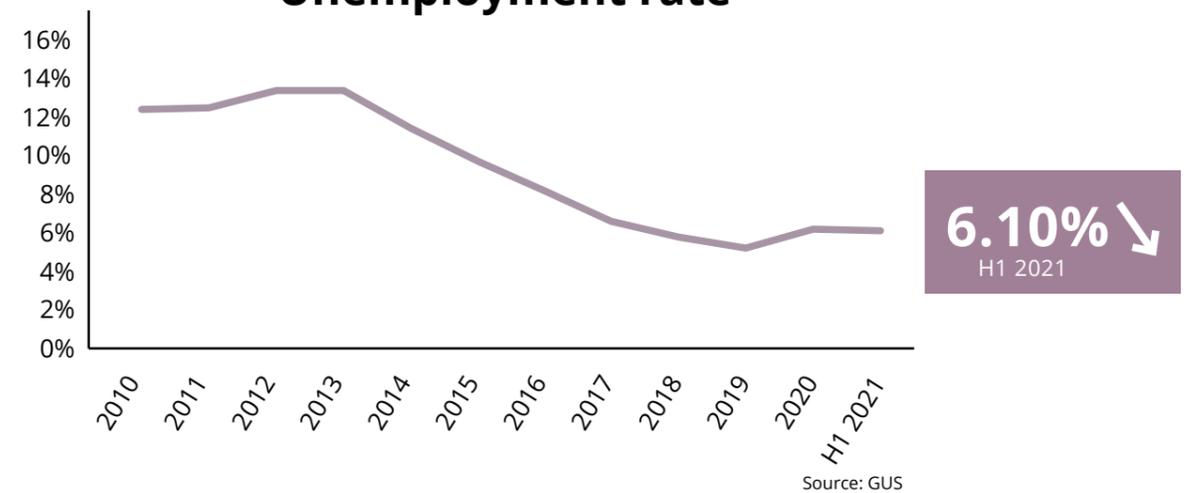
GDP rate



CPI (inflation) rate



Unemployment rate

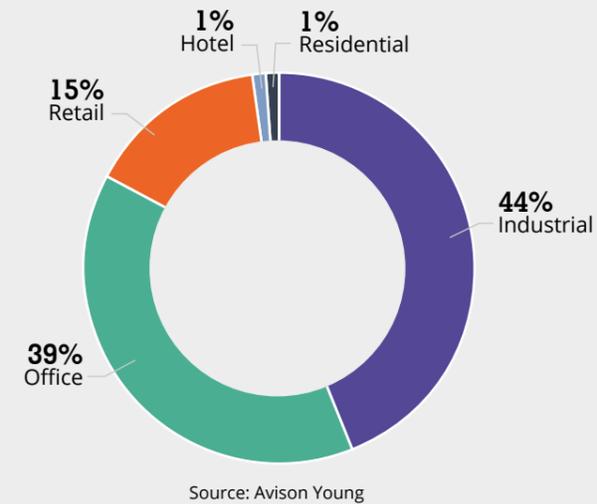




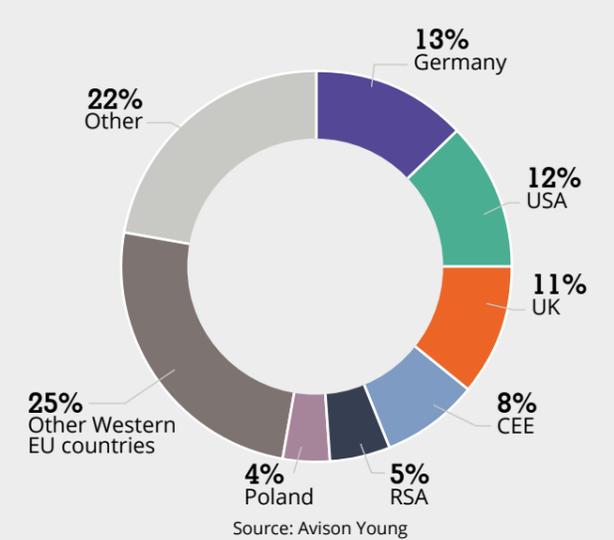
Investment market overview

- Total investment volume in the first half of 2021 reached €2 billion.
- Despite lower volume in comparison to previous years, **the investment market remains highly liquid**. H1 2021 recorded the highest number of transactions for the period. 62 transactions in total were closed.
- Investors however are selective and cautious in their acquisitions, tending to **focus on more liquid lot sizes** below €100 million. **Industrial sector dominates** in the investment volume and there is an **increase of interest in convenience retail**.
- There is a **clear dominance of Western European and US investors** in the market again, generally out-bidding Asian capital which is also targeting the same core asset classes.
- The **PRS sector has emerged rapidly and continues to gather pace**, AY are recording numerous forward purchases as investors scramble to secure suitable product.

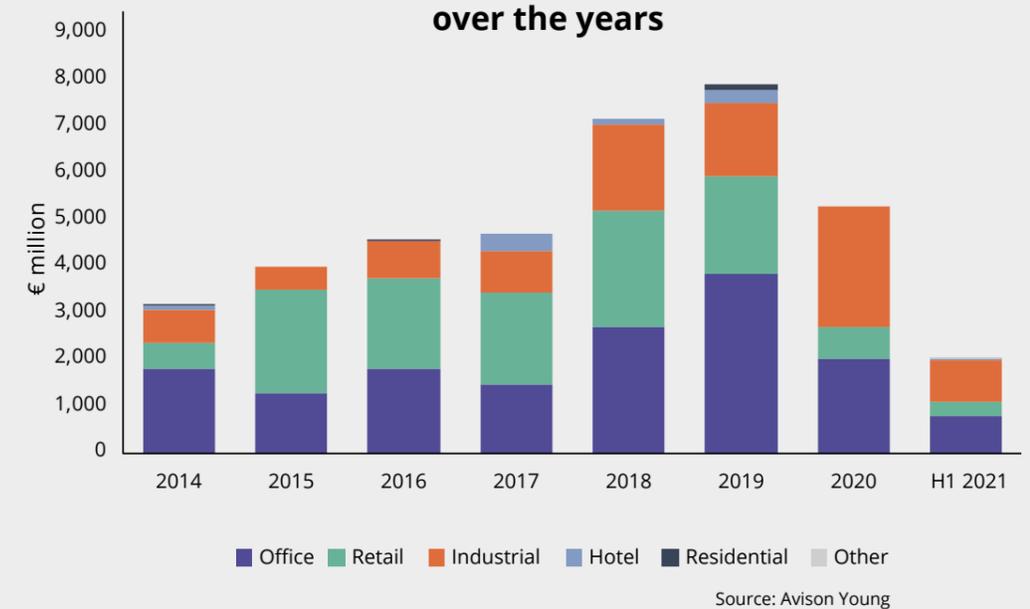
Investment volume shared by sector (H1 2021)



Investor activity by origin (H1 2021)



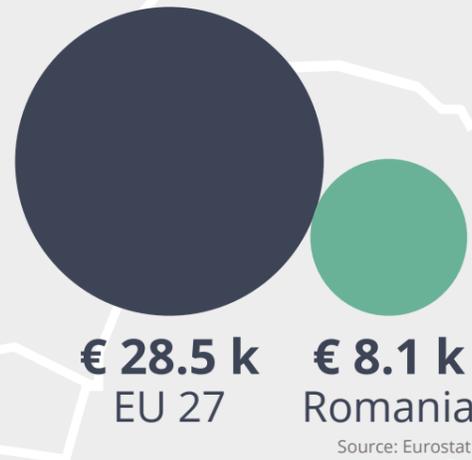
Investment volume shared by sector over the years



Romania



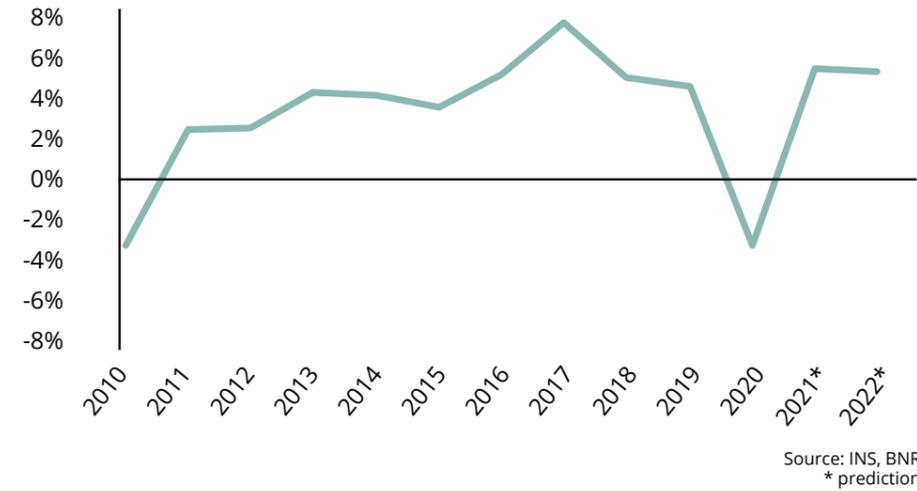
Annual Labour Costs



Taxation

Type of tax	Asset deal	Share deal
Transfer tax	0%	0%
VAT	19% 5% for social housing	0%
Tax on civil law transactions	3% - paid by the buyer	~€200 must be paid to register the transfer of the shares with the Commercial Registry

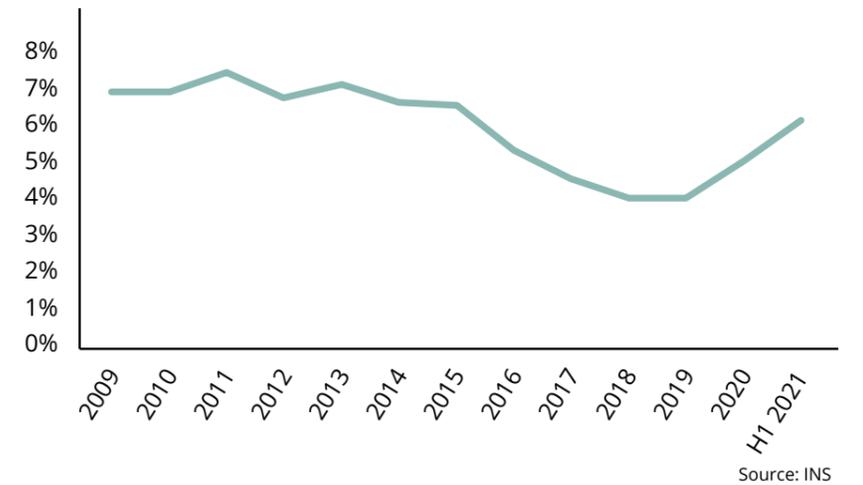
GDP rate



CPI (inflation) rate



Unemployment rate

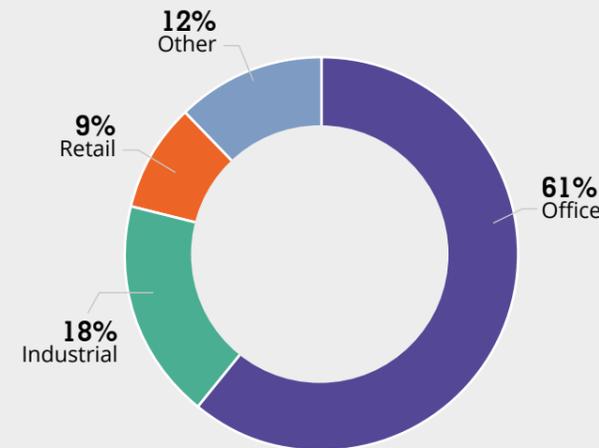




Investment market overview

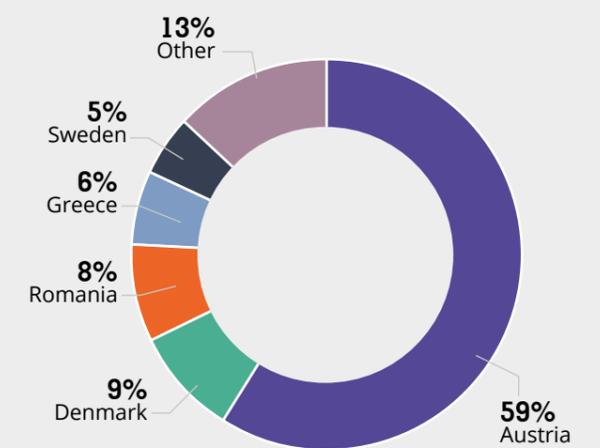
- In the first six months of 2021 the real estate investment volume recorded in Romania sums approx. €316 million. Compared with the same period in 2020, the **total investment value is higher by ca. 60%**.
- The **office sector attracted the largest share**, with deals involving office properties representing 61% of the total investment volume, followed by the industrial sector with 18%. **Investors' appetite for acquiring retail income-generating properties improved** Y-O-Y, with transactions involving retail projects representing 9% of the total investment volume registered throughout Romania.
- **Bucharest was again the most active region in Romania** for real estate investment transactions, with 72% of the investment volume. Outside the capital city regions such as Timisoara, Arad, Oradea and Iasi attracted 28% of the total investment volume, which represents an amount of approx. €89 million.
- **Foreign investors were the most active buyers**, while domestic players' appetite for investing in real estate assets represented approx. 8% of the total investment volume recorded in H1 2021.
- Real estate investment volume for the **second half of 2021 is projected to at least equal the value of what was recorded throughout the first half of the year**. Office investment deals will continue to have the highest impact on 2021's investment volume.
- On the other hand, the **transactional pipeline reveals that the contribution of the industrial and logistics sector to the overall investment activity might be significant this year**. This will be supported mainly by investors' plans to further expand their local portfolios in order to accommodate retailers' expansion plans, as consumer trends towards e-commerce have generated the need for more warehouse space.
- For H2 2021 **no major changes are expected regarding the yields** for prime real estate assets located in Romania.

Investment volume shared by sector (H1 2021)



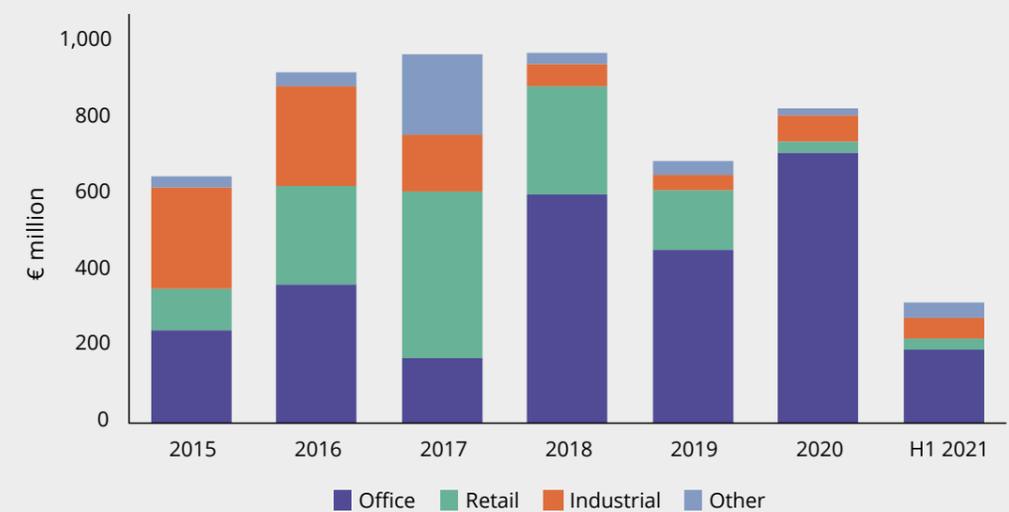
Source: Avison Young

Investor activity by origin (H1 2021)

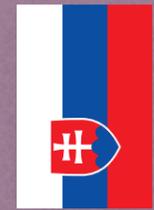


Source: Avison Young

Investment volume shared by sector over the years



Source: Avison Young



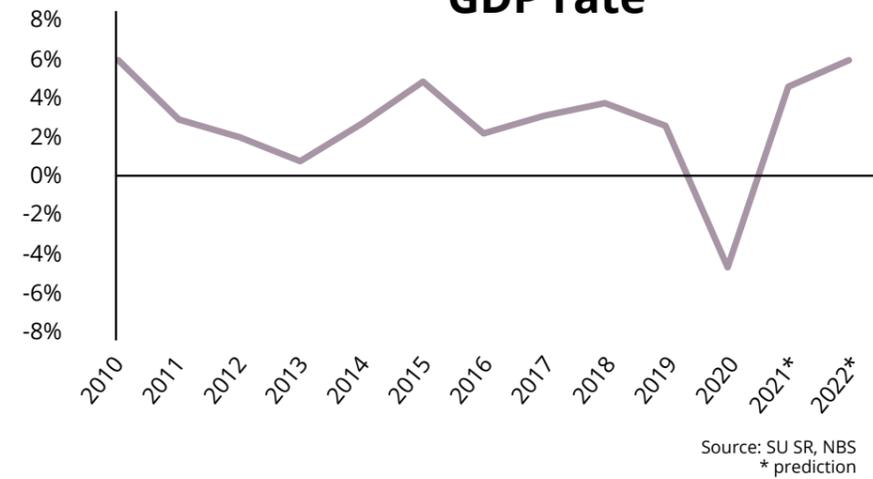
Annual Labour Costs



Taxation

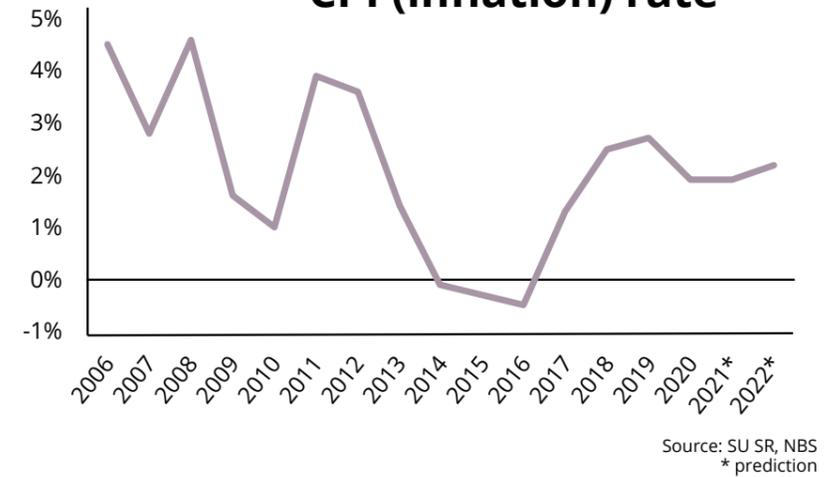
Type of tax	Asset deal	Share deal
Transfer tax	0%	0%
VAT	The transfer of buildings within 5 years from their construction (issuance of first use approval/permit) are subject to 20 % VAT. The supply of real estate is exempted after meeting the special conditions. These conditions are following: the supply is exempted after 5 years of issuing the occupancy permit of the real estate. If there is no occupancy permit to be issued, the supply is exempted after 5 years since the first usage of the real estate.	

GDP rate



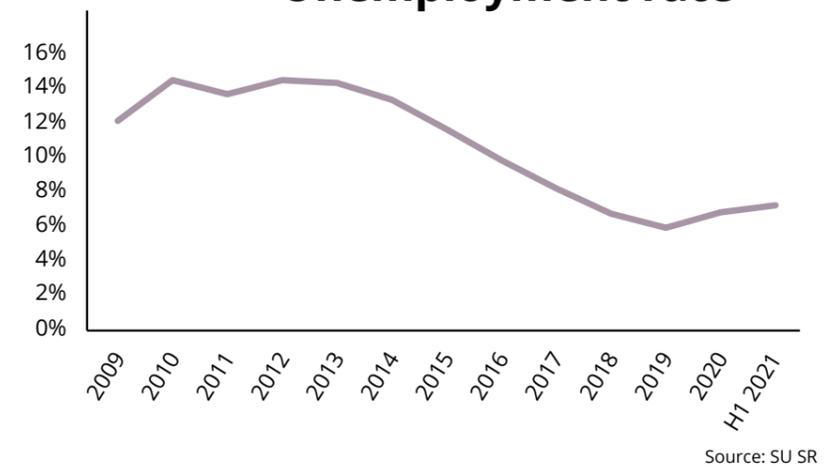
4.50% ↑
2021*

CPI (inflation) rate

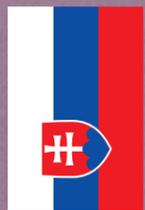


1.90%
2021*

Unemployment rate



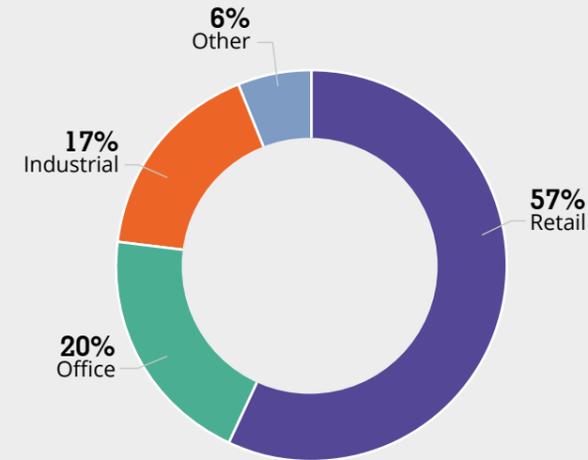
7.10% ↑
H1 2021



Investment market overview

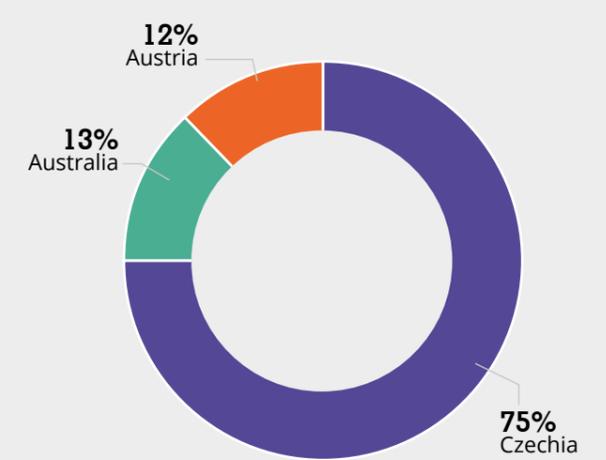
- H1 2021 total investment volume in real estate reached almost €480 million. It was **the highest H1 volume ever recorded** due to an exceptional retail transaction which is **the largest retail sale to ever be closed on the Slovak market**, the sale of Aupark Shopping Center from Unbail Rodamco to Wood & Co for €450 million. The transaction has been divided into four tranches with the first tranche paid in H1 2021 representing 56% of the total H1 2021 investment volume.
- Unsurprisingly the **retail segment dominated** (57%), followed by office (20%) and industrial (17%). Czech buyers took a 75% share on volume, followed by investors from Australia (13%) and Austria (12%).
- **Demand remains strong** for industrial, office and retail park product, but **supply is limited**.
- **Prime yields have compressed** in the office, industrial and retail parks sector. It remained stable in the shopping centre segment.

Investment volume shared by sector (H1 2021)



Source: Avison Young

Investor activity by origin (H1 2021)



Source: Avison Young

Investment volume shared by sector over the years



Source: Avison Young

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