CEE Investment, 2015

Record investment volumes in CEE driven by US money

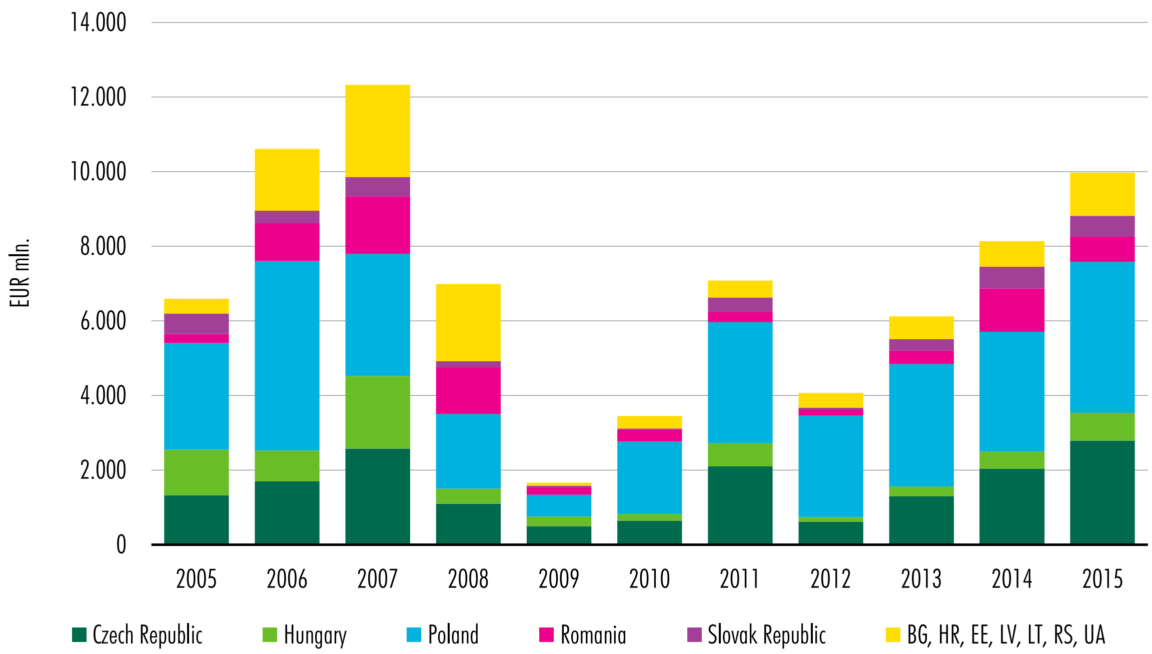
Investment volume
25% YoY

Investment Volume
23% QoQ

Core-CEE WA Office Yield
6.28%

CEE WA Retail Yield
6.05 %

Chart 1: Investment volume per country 2005 – 2015



Source: CBRE Research

Key Points

- The total investment volume for CEE (excluding Russia) in 2015 was of EUR 9.978 billion, up 25% compared to last year.
- The retail sector, fuelled by major transactions closed in Czech Republic and Poland, registered a record investment figure of almost EUR 4.5 billion, representing 45% of the total amount.
- US purchasers account for almost 30% of all CEE investment volume.
- Q4 investment volume was the best final quarter ever recorded, which gives indication for a powerfull 2016.
- CEE prime yields compressed for all sectors, with further compression expected in certain markets / sectors in 2016.

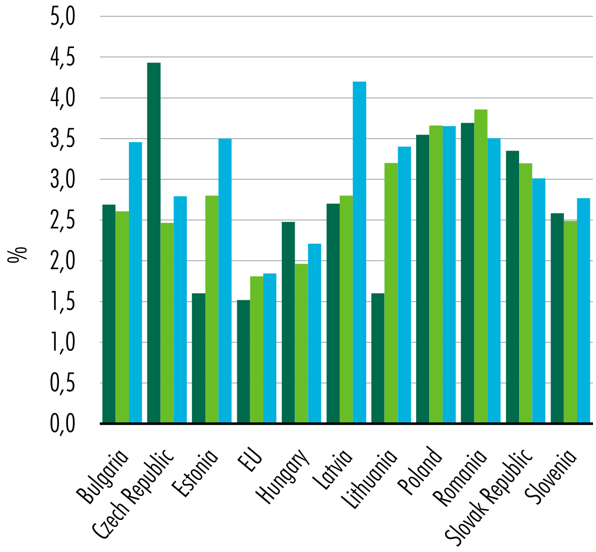
Macroeconomic indicatos

The GDP growth registered for 2015 ranges from 1.6% for Estonia & Lithuania and 4.4% for Czech Republic, significantly above the EU rate, of 1.5%. For the next two years, forecasts are similarly strong, with Baltic States, Poland and Romania to show growth rates, in excess of 3.5% annually.

Forecasts in Ukraine and Russia are less optimistic. Due to falling prices of oil and general commodities, coupled with local currency depreciation, the countries have faced recession in 2015, to continue in 2016.

Even if in positive territory, HICP inflation will remain at low levels (around 0.5%) throughout most of the CEE market. The outlook for interest rates in the Euro area remains very low with no signs of growth until the end of 2016.

Chart 2 : GDP Growth per country 2015 - 2017



Source: CBRE Research based on Oxford Economics

Investment activity

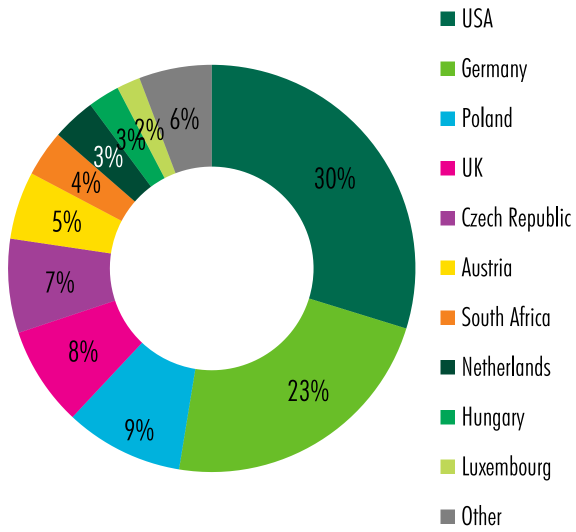
The investment volume in CEE in 2015 increased by 25% compared to 2014, reaching EUR 9.978 billion. While y-o-y increases were expected, the overall performance exceeds forecast and paint a picture of solid rebound within all CEE.

Foreign investors continue to dominate CEE, with US funds making large portfolio aquisitions (TPG – Trigranit, P3- CA Immo Logistics, Logicor – Immofinanz Logistics, Lonestar – Aviva Portfolio, Blackstone – GE Retail Portfolio Slovakia, Goldman Sachs – K+K Hotel Portfolio).

Top purchasers and their nationality in 2015 are: Union Investment (Germany), Round Hill (USA), Griffin Real Estate (Poland), TPG (USA), Rockcastle Global Real Estate (South Africa). CTP Invest (Netherlands).

It is evident that 2015 was the year of US funds, which made investments in all core-CEE countries, as well as Latvia. The re-entry of core funds like Morgan Stanley and Goldman Sachs is a sign of increasing investor confidence in CEE.

Chart 3: Investment volume by country of origin in 2015



Source: CBRE Research

Investment by Sector

The high appetite for good retail products, evident from 2013 and 2014 translated into strong numbers in 2015. For the first time, retail accounts for 45% of the total investment volume for CEE. This y-o-y increase is substantial – almost 160% and is based on a multitude of big-size investment deals done for prime, dominant shopping centers located in Czech Republic and Poland.

Last year, office products were most traded, especially in Poland, Czech Republic and Romania. While a 20% drop in office volume was accounted in 2015, we expect interest to regain momentum in 2016.

Industrial transactions were extremly popular in Romania, accounting for almost half of the country's total yearly investment volume.

One unique residential transaction closed in Czech Republic (RPG Byty 43,000 residential units portfolio), made a significant impact on the country's volume (almost 25%).

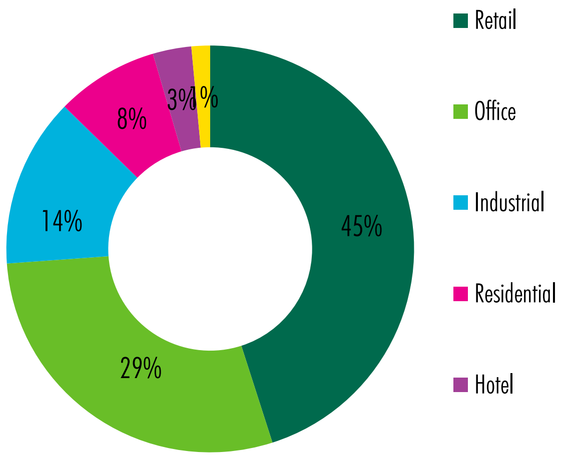
Pricing

A multitude of transactions closed in 2015 reflected the investor's appetite for the region, pushing yields down. This translates into a Core-CEE Weighted Average (WA) Yield for offices at 6.28%, while for entire CEE it stands at 6.94%.

In addition, a series of one-off transactions closed in Core-CEE (Amazon – Poland, Louis Vuitton – Czech Republic), reflected an even more agressive peak prime yield. These un-heard of before values are a testament to investors' interest in core, triple net properties, leased to a select group of occupiers. A longer lease term, compared to the country's norm, helps towards yield compression.

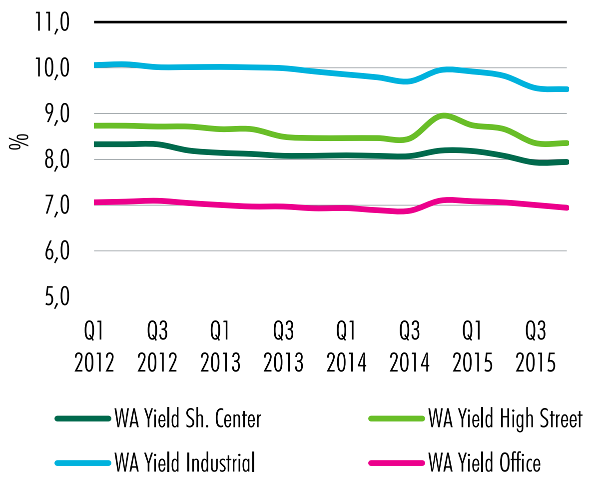
Cross-regional disparities in terms of pricing need to be assesed – while certain markets / sectors have almost reached the yields from the previous peak economic cycle (most notably Czech Republic and Poland), other countries have yet to reach their potential (Romania, Hungary, Croatia). As investment transactions for prime properties do not show any signs of slowing down, we might see yields moving into a new territory, beyond those from 2007.

Chart 4 : Investment volume by sector in 2015



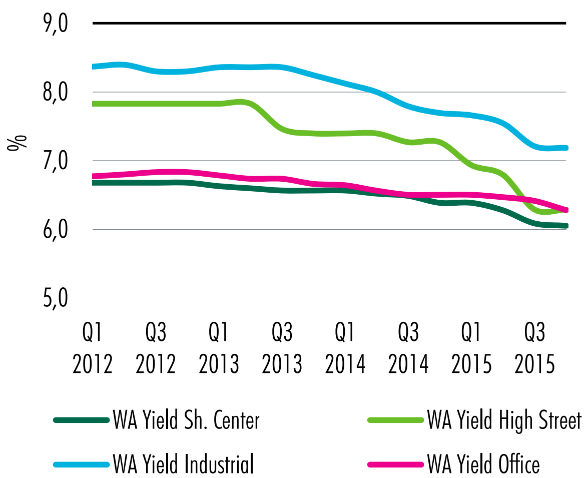
Source: CBRE Research

Chart 5: CEE Indices – Weighted Average Yield



Source: CBRE Research

Chart 6: Core-CEE Indices – Weighted Average Yield



Source: CBRE Research

Russia

With oil prices falling to new lows, and with clear indications that they will remain low for the foreseeable future, Russia entered recession in 2015 (-3.8%), which will continue in 2016 (-2.4% according to Oxford Economics). Oil prices decreasing, coupled with the rouble's volatility, rising inflation and tightening of the fiscal policy, all translate into a weak economic development.

Investment wise, volumes in 2015 (EUR 2.295 billion) were only slightly down compared to 2014 (-3%), a much smaller decrease than the one compared to the macro-economic performance. Office buildings in Moscow were the most traded product, as opportunistic funds are taking advantage of the ease in pricing. Office yields stand at 10.00%, up almost 140 bps compared to end of 2014.

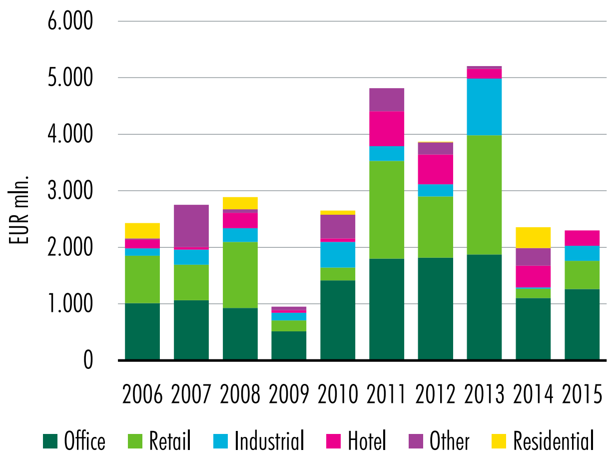
Outlook

The strong investment volumes within the region are a result of US and German investors looking to take advantage of relatively high yields and strength of available stock on the market. In 2016 we expect this to continue as the stage is set for strong economic growth in the CEE, relatively high yields compared to Western Europe and increasing interest from banks to finance in the region. In addition, another major factor which will contribute to higher interest is the strong expansion seen in the retailers' reported sales across the region. We also expect to see an increasingly diverse investor profile as Asian investors will aim to increase their presence within the area.

One potential detterent to the 2016 investment market is the scarcity of attractive product, available for transaction. As a consequence, office development in Warsaw and Bucharest is at record high levels, making use of investors' and occupiers' interest in the markets.

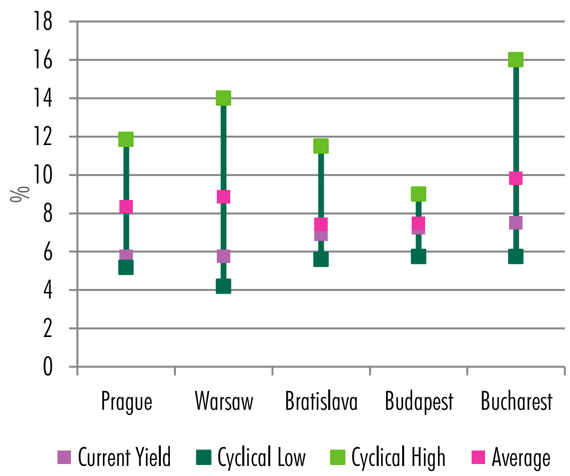
The gap between debt – equity in Core-CEE (now up to 60%) might narrow in coming months towards figures similar to 2006 – 2007, of over 65% and even 70%.

Chart 7 : Investment volume by sector in Russia



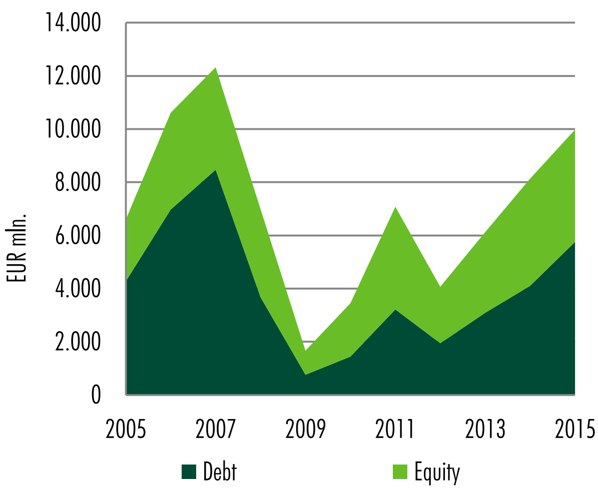
Source: CBRE Research

Chart 8: Prime Office Yields in Historical Context



Source: CBRE Research

Chart 9: Debt- Equity Split in Investment Volume Core-CEE



Source: CBRE Research

Table 1: Top five single-asset retail investment transactions 2015 (non-confidential)

Asset	Country, City	Purchaser	Price (EUR mln.)
Palladium	Czech Republic, Prague	Union Investment	570
Riviera	Poland, Regional (Gdynia)	Union Investment	291
Stary Browar	Poland, Reginal (Poznań)	Deutsche Asset & Wealth Management	290
Central Shopping Center	Slovakia, Bratislava	Allianz Real Estate	175
Arkády Pankrác	Czech Republic, Prague	AERE	162

Source: CBRE Research, companies

Table 2: Top five single-asset office investment transactions 2015 (non-confidential)

Asset	Country, City	Purchaser	Price (EUR mln.)
Dominikański I	Poland, Regional (Wrocław)	Union Investment	117
Empark	Poland, Warsaw	Immofinanz	90
Floreasca Park	Romania, Bucharest	GLL	90
Enterprise Park	Czech Republic, Regional (Kraków)	Tristan Capital Partners	65
Green Horizon	Poland, Regional (Łódź)	Griffin Real Estate	65

Source: CBRE Research, companies

Table 3: Top five industrial investment transactions 2015 (non-confidential)

Asset	Country, City	Purchaser	Price (EUR mln.)
Amazon Dobrovíz	Czech Republic, Regional (Dobrovíz)	AEW Europe	150
Europolis Logistic Park	Romania, Bucharest	P3	118
Bucharest West Logistic Park	Romania, Bucharest	CTP Invest	70
Millenium Logistic Park Tychy	Poland, Tychy	Deka Immobilien	62.6
Prologis Park West	Romania, Bucharest	CTP Invest	40

Source: CBRE Research, companies

Definitions

Central and Eastern Europe (CEE) includes the following countries: Bulgaria, Croatia, Estonia, Latvia, Lithuania, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Ukraine.

Core –CEE includes the following countries: Czech Republic, Hungary, Poland, Romania and Slovakia.

CEE Indices - a set of prime rent and yield indices for office, retail and industrial sectors across the CEE and Core-CEE markets.

Prime Rent – Represents the top open-market tier of rent that could be expected for a unit of standard size (commensurate with demand in each location), of the highest quality and specification and in the best location in a market at the survey date. The Prime Rent should reflect the level at which relevant transactions are being completed in the market at the time, but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, the quoted figure will be more hypothetical, based on an expert opinion of market conditions.

Prime Yield - represents the yield that an investor would receive when acquiring a grade/class A building in a prime location (for offices in the CBD, for example), which is fully let at current market value rents. Prime Yield should reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, a hypothetical yield should be quoted, and is not a calculation based on particular transactions, but it is an expert opinion formed in the light of market conditions, but the same criteria on building location and specification still apply.

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