CEE Investment Pulse

H2 2016

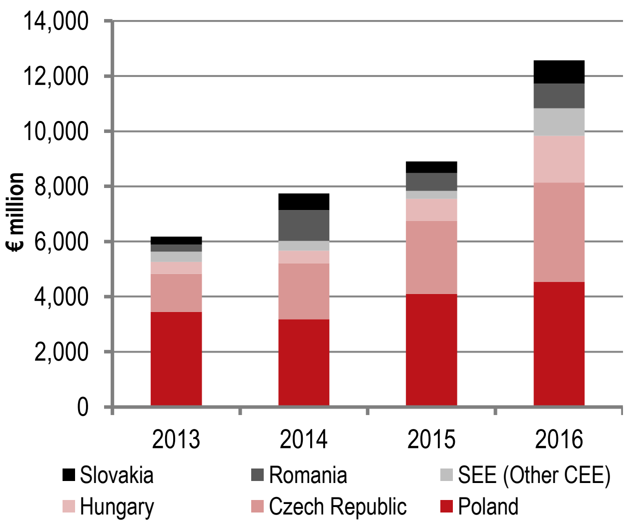
CEE Investment Pulse

H2 2016

At just over €12.56 billion, the 2016 investment volumes represented a 42% increase over 2015 (€8.82 billion) and is the third highest CEE regional investment volume since 2007 (€15.81 billion) and 2006 (€13.45 billion). 2016 has been a record breaking year at a country level with the highest ever volumes recorded in the Czech Republic and Slovakia and second best ever results recorded in Poland, Hungary and the SEE region. Our forecast for 2017 remains positive, provided that the supply of product can match the strong levels of demand.

The full year breakdown saw Poland record an overall transactional volume share of 36%, followed by the Czech Republic (29%), Hungary (13%), SEE markets (8%), Romania (7%) and Slovakia (7%).

CEE Investment Volumes 2013 – 2016



Source: JLL, 2016

2016 delivered some interesting results from the geopolitical arena with a 'leave' result to the UK's referendum on EU membership (Brexit) and a victory for Donald Trump in the US Presidential elections. There are also a number of important elections taking place in 2017 which will decide who will be next Hungarian, French, German and Serbian Presidents plus, the next Czech Prime Minister. However, one of the most anticipated elections within Europe for 2017 will be the vote for the next German Chancellor. Germany is a key partner for much of the CEE region and an anchor country for the EU so, any major upsets could have wide reaching repercussions for the region.

Focus on Poland

Following an exceptional year in 2015 (€4.1 billion total), momentum carried through the entire 2016, with a volume of €4.538 billion traded, representing the second best ever year in Polish investment transactional history. The sector split comprised ca. €1.958 billion in retail, €1.798 million in offices and €769 million in warehousing. Across all sectors, the full spectrum of investor profiles were represented; core through opportunistic, with deals ranging from small single-let assets through to complex platform transactions.

The headline deals for H2 2016 in the retail sector were 4 shopping centre acquisitions by Rockcastle which included Bonarka City Centre in Krakow for €361 million, the Focus Mall Portfolio (centres in Zielona Gora and Piotrkow Trybunalski) for €161 million and Galeria Warminska in Olsztyn for €150 million. In addition, another important purchase was closed by new Polish market entrant Prime Kapital who acquired Nova Park shopping centre in Gorzow Wielkopolski for €88.5 million. Prime retail yields stand at 5.00%.

In 2016, investors of South African origin remained the most active in the Polish retail sector, transacting €1.451 billion, equating to almost 75% of the sectors entire volume. Investor interest and pipline retail transactions for 2017 look promising. Volumes could potentially exceed those of 2016 and prime yields reaffirmed.

The volume of Warsaw office tranasctions for 2016 reached €1.146 billion. A new prime yield was established at 5.25% in H1 when Warburg-HIH Invest Real Estate purchased Prime Corporate Center from Golub GetHouse. Further transactions during H2 2016 in the vicinity included Invesco's purchase of Q22 from Echo Investment for €273 million (fully let price) at a yield of 5.35%, Hansainvest purchased Atrium 2 from Skanska at yield of 5.40% and Credit Suisse purchased Prosta Tower from Mavipol.

Malaysian Capital entered the Warsaw office market, with EPF via SIM, purchasing Gdanski Business Center (A&B) from HB Reavis for €186 million.

The forecast for 2017 is healthy with both core and opportnistic transactions in exclusivity and a robust pipeline. Prime yields are forecast to move to circa 5.00% with transactions currently in due dilligence. Prime capital values have been kept in check at €5,500 with the commercialisation of assets at the bottom of the rental cycle and sustainable rents being a key attraction for investors.

Whilst H1 2016 was dominated by regional city office transactions, the second half of the year saw the addition of just one further portfolio transaction, bringing the year end regional city figure to €651 million. As expected, volumes swung back in favour of Warsaw, however the activity in the regional cities underlined the established maturity, liquidity and performance of the top 7 cities in Poland. Further transactions in regional cities are expeted throughout 2017, with some key projects currently in marketing and exclusivity.

The warehouse investment market reported 5 transactions in H2, adding to the 9 deals transacted in H1 2016. H2 transaction highlights included the purchase of the Hillwood Industrial Portfolio by CBRE GI for over €150 million and the P3 Logistics Portfolio acquired by GIC carring a volume of €285 million. Prime warehouse yields stand at sub 7.00% with exceptional, long leased assets trading well below 6.00%.

Focus on Czech Republic

The second half of 2016 recorded a further €2.60 billion of transacted commercial real estate, providing a full-year volume of more than €3.6 billion. This represents the highest ever level of annual trading on record and a 36% increase compared to 2015. This volume is also ca. 26% higher when compared to 2007, the former peak-trading year.

The average transaction size in H2 was €73 million, which is derived from 36 transactions in total. The highest activity was in the office sector (18) followed by retail (11). Volume-wise, the main transaction of the period was the sale of the P3 industrial portfolio by GIC Real Estate from TPG Real Estate and its partner Ivanhoé Cambridge. The Singapore based fund completed its purchase in Q4 2016 for €760 million. Other significant transactions in 2016 were The Park - acquired by Deka for €360 million from Starwood Capital Group and Florentinum - purchased by CEFC for in excess of €280 million from Penta Investments. The latter was the first major office acquisition by a Chinese investor in the Czech Republic.

During 2016, international capital represented the majority investment share, accounting for ca. 65% of the total volume, with domestic capital accounting for the remaining 35%. Volume-wise in H2, the office sector dominated with 51% of total investments followed by industrial (31%) and retail (10%). The hotel and residential sectors accounted for the remaining 8% of the total commercial H2 volumes.

For 2017, we expect a robust transactional volume supported by a strong first quarter of the year. A significant pipeline of transactions across sectors remain, specifically retail, held over from 2016. In addition, the continued positive financing environment outlook gives us confidence that we will witness solid transactional activity although this may be limited by a scarcity of product for investors.

Our views on prime yields are as follows: industrial and logistics is at 6.00% with further compression anticipated, offices at 4.85% and prime retail (shopping centres) at 5.00% with a significant premium for trophy, high street assets, some way below 4%.

Focus on Hungary

At ca. €830 million, H2 2016 represented a 66% increase over the same period of 2016 and is the highest second half year volume in Hungarian investment since 2007 (€1.3 billion). Appetite for high yielding Hungarian assets increased further during the second half of 2016 and we witnessed a hive of investment activity in every asset class. Of the total amount, investment deals accounted for €740 million whereas the balance of €90 million is composed of plots or vacant buildings. The sector split of income producing assets comprised ca. €520 million in office, €160 million in retail, €43 million in warehousing and €17 million in hotels.

37 transactions (including both investment and non-income producing assets) in H2 provided an average transaction volume of above €23 million. The headline deal in H2 2016 was the sale of the 67,000 sqm Millennium City Centre office complex by the Heitman/TriGranit JV to CA Immo for a reported €175 million. This transaction was the largest single office deal in the history of the Hungarian commercial real estate market.

Similarly to the first half of the year, several new market entrants decided to take advantage of the competitive pricing of Hungarian properties in H2. Corpus Sireo entered the market with the acquisition of Park Atrium from GLL Real Estate Partners; Slovak fund manager - IAD Investments, purchased Váci Greens C from Atenor; FLE - an Austrian private equity firm, acquired Office Garden I while Al Habtoor carried out its first investments in the office asset class in Budapest with the purchase of Dorottya Udvar from AXA REIM and Rumbach Centre from Raiffeisen Evolution.

In the retail sector, the most notable transaction in the second half of the year was the acquisition of Váci 1, a recently refurbished multi-purpose development (housing the new flagship store of H&M), by GLL Real Estate Partners on behalf of Bayerische Versorgungskammer.

In the industrial asset class, CTP continued its acquisition spree with the purchase of WestLog DC in Biatorbágy and the manufacturing facility of Delphi Hungary in Szombathely from Industrial Securities, while Prologis acquired the M0 Central Business Park asset from IDI Gazeley.

The annual transactional volume reached a level of €1.7 billion in 2016, the highest volume since the peak of the market in 2007. Offices had a share of 47% followed by retail with 28%, industrial and hotels with 15% altogether and other assets for redevelopment purposes with the remaining 10%.

It is the fifth consecutive year of volume growth and 2016 witnessed a doubling of the volumes over 2015. Almost 60% of the annual volume was generated by portfolio transactions, which reflects the increasing motivation of investors to gain significant exposure to the market. The upswing of the investment market was continuous throughout 2016 and we expect the momentum to carry through into 2017, provided that the supply can keep up with demand.

In 2016, JLL recorded more than 10 new entrants to the Hungarian market mainly from the USA, Germany and Slovakia. Nevertheless, local investors generated the highest share of the annual volumes (30%) followed by US-based (20%) and German (14%) investors.

Our views on prime yields are as follows: offices are at 6.75%, shopping centres are at 6.50% and logistics are at 8.25%. As sentiment in the Budapest market is incredibly strong, we expect further yield compression over the next 12-18 months.

Focus on Romania

The 2016 property investment volume for Romania is estimated at €890 million, a value almost 35% higher than that registered in 2015 (€663 million). However, the number of transactions was slightly smaller, meaning that the average deal size increased.

Bucharest accounted for over 70% of the total investment volume, less than in 2015, showing that liquidity in secondary cities has somewhat improved. Market volumes were dominated by office transactions (45%), while retail and industrial accounted for close to 26% each.

The largest transaction registered in 2016 was the acquisition of 26.88% of Globalworth's shares by South African group Growthpoint for approximately €186 million. Globalworth is the largest owner of office space in Romania. The most notable retail transaction was the acquisition of Sibiu Shopping City by NEPI from ARGO for a total of €100 million, which represents the largest single asset deal outside of Bucharest since the economic crisis. In industrial, the largest deal was the acquisition of P3 Logistic Parks by GIC, the Singapore sovereign wealth fund, through the pan-European acquisition of P3.

2016 marked the entry of several new names on the Romanian real estate market, either through the purchase of regional platforms or, individual assets. Among them Logicor (Blackstone's European industrial division), GIC, PPF and Growthpoint.

Market fundamentals remain robust. The macro-economic forecast for Romania is positive. The country was the EU's top performer in 2016 (with GDP growth estimated at 4.8%) and is expected to hold this position in 2017 as well, despite a minor slowdown. Occupier demand is at record high levels in all market segments. Availability of quality product is increasing and there is significant yield spread between Romania and Poland or the Czech Republic. On the financing side, terms and conditions have improved significantly over the past year getting closer to what can be expected in the core CEE markets. Consequently, sentiment is strong, with transactions of approximately €630 million in different stages of negotiation.

Prime office yields are at 7.5%, prime retail yields at 7.25%, while prime industrial yields are at 9.00%. 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. However, there is downward pressure on yields and in 2017 significant compression in industrial and mild compression in offices and retail is likely.

Focus on Slovakia

The property investment volume in 2016 is estimated at €846 million, the highest level in the history of the Slovak market and 25% higher than the previous peak in 2005. The market is blooming thanks to attractive opportunities, reasonable buyers, high liquidity levels comparable with matured CEE markets, and the lack of products in other countries.

Unlike in previous years when higher volumes were boosted by only a few big ticket transactions, 2016 saw a number of smaller deals resulting in an average deal volume at €40 million. The beginning of the year was characterised by the arrival of new market entrants, while the second half was about increasing the exposure of existing investors. Out of the total of 22 individual deals in 2016, 16 were closed in H2, with Q4 being the busiest quarter. Approximately 35% of the investment volume were platform or portfolio deals vs. 65% of single asset deals. Furthermore, 85% were cross border transactions with at least one non-Slovak party.

The highest level of activity was in the retail sector, with 8 individual transactions representing 50% of the investment volume, followed by 6 industrial deals accounting for ca. 30%, 5 office transactions with a 15% share and the remainder being mixed-use properties. The retail sector experienced strong investor interest in both prime shopping centres as well as smaller regional schemes across the country. Volume-wise, the main transaction of the year was the sale of Central Shopping Center sold by local developer Immocap and bought by Allianz Real Estate. Significant transactions in H2 2016 included the sale of Korzo Prievidza and Aupark Piestany, regional shopping centres in tertiary cities – both acquired by NEPI; and the sale of the Stop Shops retail warehouse portfolio, acquired by Immofinanz. IAD Investments fund was a very active buyer in H2, having deployed its raised capital into Laugaricio shopping center, a prime 30,000 sqm mall in the regional city of Trencin and the first building of HB Reavis' Twin City complex, setting a new benchmark for prime office yields. The market saw also the change in ownership of the landmark Carlton Hotel & Savoy Offices, the iconic buildings in the very heart of Bratislava's historic city centre, now owned by local HNWIs. In H2, the largest deal by volume was the acquisition of the P3 platform by GIC Real Estate from TPG Real Estate and its partner Ivanhoé Cambridge. The second platform deal of the year, closed in H1, saw the entrance of Allianz Real Estate into the Slovak industrial market, through 50/50 JV partnership with VGP.

For 2017, we expect a continuance of the flow of capital into the Slovak real estate market and in particular a strong Q1 as a significant pipeline of transactions across sectors spilled over from 2016. In general, investors are increasingly looking at office opportunities in the capital with either institutional quality or asset management angles. In the industrial sector, after the large prime portfolios were recently sold, investors will be presented with several large single asset opportunities, B class locations and secondary assets. The upcoming year may also see prime, trophy retail assets changing hands.

Our views on prime yields are as follows: Offices 6.5%; Retail warehouses 7.5%, Shopping centers 6.0% and High-street at 7.0%; Industrial and logistics with standard WAULT of 3-5 years at 7.75% and prime hotels in the capital at 7.25%.

Focus on SEE

Following the increased investment activity in the first half of 2016, the SEE region also noted some significant transactions in the second half of the year bringing the SEE regional volume to almost €1 billion. Also, as was the case in the first half of 2016, investments were driven mainly by retail opportunities acquired by South African investors.

In June, South African REIT – Hystead, which is a joint venture between Hyprop Investments and Homestead Limited, made their second transaction in the region by acquiring Skopje City Mall, the most dominant shopping centre in the Macedonian capital of Skopje, for €92 million.

In addition, South African REIT – NEPI, which is already well-known in the region, made a new market entry by entering Croatia, with the largest single asset transaction in the SEE region – Arena Centar in Zagreb, which is also considered the most dominant shopping center in Croatia.

Furthermore, Greenbay Properties acquired Planet Tus, a shopping center located in Koper - Slovenia for €56 million, proving South African interest for the whole SEE region.

Other investors included Savana AG, a private company headquartered in Sweden, who acquired the second largest shopping center in Montenegro – Mall of Montenegro, along with Hotel Ramada, which is a part of the same complex, located in Montenegro's capital Podgorica for a total of €24 million. Regarding the logistics sector, Bulgarian Speedy Group acquired a majority stake in SOMAT's logistics base in Sofia, Bulgaria for approximately €23.5 million.

No major transactions occurred in the office sector in H2 2016. However, we see great potential when it comes to investments in this segment, taking in consideration that the major retail schemes in the region have already been transacted, but also the favourable office market conditions across most of the SEE countries.

As for developments, we are witnessing increasing development activity in Serbia, especially in Belgrade. Activity is driven by both the retail and office sectors. In the retail sector, GTC is starting its Ada Mall project, a 38,000 sqm shopping center in Belgrade and NEPI has acquired land plots in a number of smaller cities across Serbia in order to start developing retail parks. As for major office developments, GTC has announced the redevelopment of GTC Square (22,000 sqm), AFI Europe has announced further expansion of its business park in Belgrade and MPC has announced the development of another office tower (22,000 sqm) right next to its previously developed office tower - Usce Tower.

With recent transactions and new investors looking into the markets, we expect the increase in real estate transactions to continue. Increased attractiveness has resulted in yield compression in major SEE countries (Slovenia, Croatia, Serbia and Bulgaria) and our view on prime office yields are at 8.00% - 8.50%, with prime retail at 7.25% - 8.25% and prime logistics between 9.25% -10.25%.

Key Deals – H2 2016

[redacted]				
P3 Logistics Portfolio (CEE Assets)	Various, CEE	ca. 1,300	TPG / Ivanhoe Cambridge	GIC
Bonarka City Centre	Krakow, PL	361	TPG	Rockcastle GRE
Q22	Warsaw, PL	273	Echo Investments	Invesco
Gdanski Business Centre (A+B)	Warsaw, PL	186	HB Reavis	Savills IM
Hillwood Industrial Portfolio	Various, PL	ca. 183	Hillwood	CBRE GI
Galeria Warminska	Olsztyn, PL	150	Private	Rockcastle GRE
Konstruktorska Business Centre	Warsaw, PL	120	HB Reavis	Golden Star Group
Focus Mall Zielona Gora	Zielona Gora, PL	Confidential	Aviva Investors	Rockcastle GRE
Nova Park	Gorzow Wielkopolski, PL	88.5	Futureal	MAS Real Estate & Prime Kapital
Atrium 2	Warsaw, PL	88	Skanska	Hansa Invest
The Park	Prague, CZ	360	Starwood Capital	DEKA
Florentinum	Prague, CZ	>280	Penta	CEFC
City Tower	Prague, CZ	163	PPF	REICO
Enterprise	Prague, CZ	122	Erste Group Immorent	RSJ
Galerie Harfa	Prague, CZ	115	Lighthouse / GTC	Wood & Co
Hilton Old Town	Prague, CZ	85	Blackstone Group	M&L Offshore Investments
River Garden II & III	Prague, CZ	84	HB Reavis	LIM
City West (C1 & C2)	Prague, CZ	73	Ungelt	CFH Investment Bank

Source: JLL, January 2017

Key Deals – H2 2016

Property name	City, Country	Approximate sale price (€ million)	Vendor	Purchaser
Millennium City Centre	Budapest, HU	175	Heitman/TriGranit	Ca-Immo
Park Atrium	Budapest, HU	55-65	GLL	Corpus Sireo
Park Centre portfolio	Various, HU	60-70	confidential	Diófa REIM
Váci 1	Budapest, HU	50-60	Horizon Development	GLL
Váci Greens C	Budapest, HU	40-50	Atenor	IAD
Dorottya Udvar	Budapest, HU	Confidential	AXA REIM	Al Habtoor
Office Garden I	Budapest, HU	Confidential	Confidential	FLE
M0 Central Business Park	Szigetszentmiklós, HU	Confidential	IDI Gazeley	Prologis
26.88% of Globalworth Portfolio	Various, RO	186	Ioannis Papalekas	Growthpoint
Swan Office Park	Bucharest, RO	30	Unicredit & Volksbank	Smartown Investment
Electroputere Parc	Craiova, RO	Confidential	Belrom	Catinvest
Metropolis	Bucharest, RO	Confidential	Soravia	PPF
Laugaricio	Trencin, SK	65-80	Mint Investments	IAD
Stop Shops Portfolio	Various, SK	50-65	Austrian WM Invest GmbH	Immofinanz
Hotel Carlton & Savoy Offices	Bratislava, SK	50-65	SK Invest	ADS Property
Twin City A	Bratislava, SK	35–50	HB Reavis	IAD Investments
Aupark Piestany	Piestany, SK	35-50	HB Reavis	NEPI
Korzo Prievidza	Prievidza, SK	25-35	Marny Investissement	NEPI

Source: JLL, January 2017

Key Deals – H2 2016

Property name	City, Country	Approximate sale price (€ million)	Vendor	Purchaser
Arena Centar	Zagreb, HR	237	Heitman / Granit Polus	NEPI
Skopje City Mall	Skopje, MK	92	BALFIN	Hystead (Hyprop & Homestead)
Planet Tus	Koper, SLO	56	TUS Real Estate	Greenbay Properties
Mall of Montenegro	Podgorica, MNE	24	GINTAS	Savana AG

Source: JLL, January 2017

Contact

Kevin Turpin
Head of Research CEE
+420 224 234 809
kevin.turpin@eu.jll.com

www.jll.com