INVESTMENT MARKET

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Poland and the Czech Republic retain the position as the most attractive investment markets in Central and Eastern Europe. Hungary is the mover of the year, with more than twice the volume of investments compared to 2015–2016.

The volume of investments in the Czech Republic reached circa 3.6 billion EUR, which is a 30% increase compared to 2015. In 2017 we expect an investment volume in the range of 3–3.5 billion EUR.

The reference yield (prime yield) in 2016 decreased in all the monitored sectors: under 5% in the case of top offices (-0.80 percentage points), to 5% in the case of shopping centers (-0.40 percentage points), to the threshold of 3.75% for real estate on shopping strees (-0.75 percentage points), and 6% in the case of warehouses (-0.75 percentage points).

INVESTMENT MARKET IN CENTRAL EUROPE

The volume of investments in CEE (in Poland, the Czech Republic, Hungary, Slovakia and Romania) exceeded 11.7 billion EUR in 2016, which represents an approximate year-on-year growth of 35%. One of the biggest transactions that closed in 2016 was the GIC's acquisition of the pan-European P3 platform of development company P3 by the Singapore state fund GIC Real Estate. The value of real estate in this portfolio in Central Europe is estimated at 1.3 billion EUR.

The most significant transaction last year in Poland was the change of ownership of the Echo Investment portfolio, which was purchased by the South African investment company Redefine Property. This was a 75% stake in a ten property portfolio of retail and office buildings valued at 1.2 billion EUR. The total volume of investments in Poland reached 4.6 billion EUR, with a predominance of retail investments, followed by offices. The uncertainty regarding the legal and tax environment in Poland, as well as social reforms and their long-term economic effects, are causing certain institutional foreign investors to approach investments in Poland with more caution. This leads to delays in the conclusion of investment transactions.

In addition to the Czech Republic, record investment results were also achieved in Slovakia, with a total volume of 850 million EUR. The most significant transaction in Slovakia was the acquisition of the Centrál shopping centre in Bratislava by Allianz Real Estate (179 million EUR). Additionally, due to the sale of the regional shopping centres of OC Laugaricio, Korzo Prievidza, Aupark Piešťany and the acquisition of the portfolio of retail parks by Immofinanz, the retail segment had the largest representation in real estate transactions. A key transaction in the office segment was the sale of Twin City A by IAD Investment.

In 2016, Hungary more than doubled its volume of real estate investments to a total of 1.77 billion EUR. The investment activity was primarily driven by offices. The largest transaction was the sale of the administrative complex Millenium City Centre at 175 million EUR, which was purchased by CA Immo. Similarly, investors in Romania placed the greatest amount of capital into office buildings. The most important transaction was the acquisition of a minority stake in Globalworth, which is (the largest owner of offices in Romania), by the South African investment group Growpoint.

During the year, there was a yield compression for prime real estate in monitored markets.

GRAPH Investments in Central Europe. (million EUR)

Source: BNP Paribas Real Estate

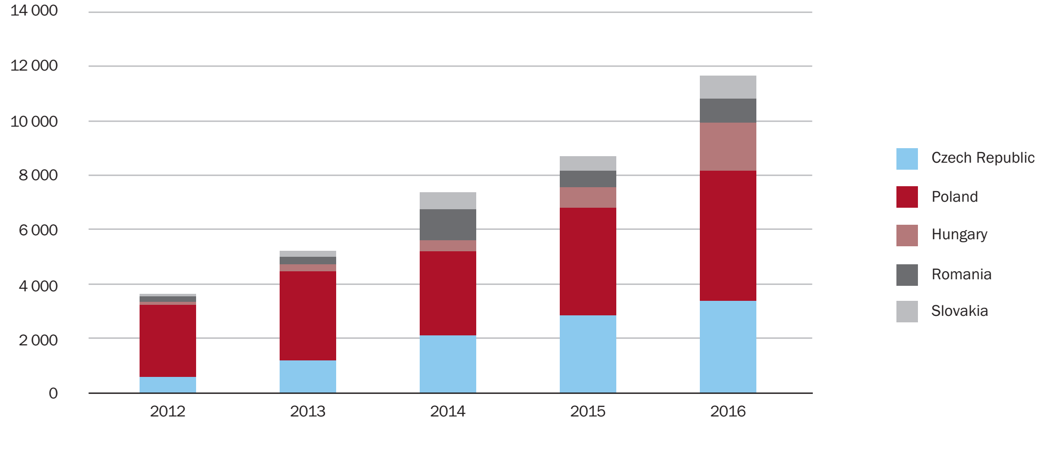


TABLE Prime yield. (%)

Source: BNP Paribas Real Estate, 2017

4TH QUARTER OF 2016	OFFICES	RETAIL	LOGISTICS
Czech Republic	4,95%	3,75%	6,00%
Slovakia	6,50%	6,00%	7,50%
Poland	5,35%	5,00–5,25%	5,50–6,50%
Hungary	6,75%	6,50%	8,25%
Romania	7,50%	7,25%	8,5%

It is expected that there should be a further slight reduction in yield rates across segments in 2017.

CZECH INVESTMENT MARKET

The Czech Republic benefits from the global availability of free capital and a low interest rate environment. In comparison with its Central European neighbors, investors also appreciate the stable economic and political situation and balanced real estate market. The total volume of real estate investment transactions exceeded 3.6 billion EUR in 2016, exceeding the record result from 2015 by 30%, when investments in the amount of 2.8 billion EUR were realized. Last year's record figures were greatly influenced by the transaction of European platform P3, where the value of the Czech part of the portfolio significantly exceeded 700 billion EUR. Similarly, a very specific transaction in 2015 was the sale of the portfolio of apartments RPG, with a value of 700 billion EUR.

As usual, investor activity accelerated towards the end of the year. In the 4th quarter of 2016 alone, transactions worth 2.2 billion EUR were concluded, which is more than 6x as much as in the same period in 2015, and 4x as much as in the 3rd quarter of 2016.

Throughout the year, a total of 69 investment transactions were realized, which is more than in 2015 when about 50 transactions were concluded. The greatest number of transactions were registered in the segment of 20–50 million EUR, namely 20 transactions, followed by the segment of up to 10 million EUR, amounting to about 17 transactions. The increasing number of transactions exceeding 100 million EUR is striking. The recorded number of such transactions was 7. In 2016 there were 7 such transactions, in 2015 there were 4, (including the residential portfolio RPG), and in 2014 there were only two.

The average transaction size, not including the P3 platform, reached 44 million EUR, similarly to 2015 (not including the RPG Apartments transaction). If we include these specific transactions, the average rises to 55 billion EUR in 2016, in comparison to 56 million EUR in 2015. The median value of the transaction in 2016 reached 24 million EUR.

Investor activity will not weaken this year. As early as in the first month of 2017, we saw the conclusion of major transactions, such as the sale of OC Letňany to Union Investments (233 million EUR). CPI Group is finalizing the acquisition of the Central European portfolio of CBRE Global Investors Global Investors, whose value should exceed 650 million EUR, and which includes 11 shopping centers in the Czech Republic, Hungary, Poland and Romania. Other significant transactions from the beginning of this year include the sale of the Komerční Banka building Na Příkopě 33, which was purchased by the Austrian CommerzReal, as well as the sale of several administrative centers. The sale of shopping centre Olympia Brno was concluded in Q1 2017. Another huge pan-European portfolio transaction of IKEA retail parks, including real estate in the Czech Republic, is being completed by British investment group Pradera.

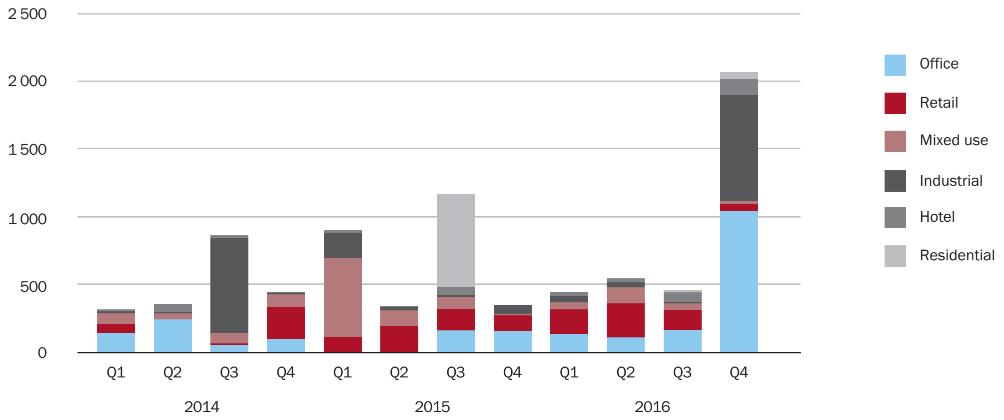
Already in Q1 2017, when real estate volumes exceeded 1.4 billion EUR, 2017 is ppoised for anoother strong result in real estate investments. It is not unrealistic that the investment volume could reach similar numbers as it did in 2016. We expect a result in the range of 3–3.5 billion EUR. The long-term average for the last ten years (2007–2016) amounted to 1.7 billion EUR.

SECTORS

With 44%, office real estate had the largest share of the total annual volume of investments. Without a doubt, last year's most significant office real estate transactions include the acquisition of the office complex The Park by German investment fund DEKA, City Tower by the Czech open-ended investment fund REICO, or Enterprise Office Center, which was acquired by the joint venture RSJ Private Equity and Avast.

GRAPH Quarterly volume of investments. (million EUR)

Source: BNP Paribas Real Estate



Retail real estate and retail-led mixed use projects accounted for 24% of real estate investments. Interest in regional real estate stepped up in 2016, largely led by retail (shopping centres)Significant transactions included Forum Ústí nad Labem, Forum Liberec nd Bondy Centrum Mladá Boleslav. The largest transaction was tzhe Atrium portfolio, acquired by Palmer Capital (Arcona Capital). In regions, the owners of shopping centers such as Forum Ústí nad Labem, Forum Liberec and Bondy Centrum Mladá Boleslav, were changed.

There is a great deal of interest in Prague high street retail. With the prospect of continued rental growth, the limited offer of space and tenants' high interest in prestigious locations, these "high street" investments attract foreign institutional investors, local private capital and private investors, as a form of wealth preservation the value of assets. The most significant transactions in this segment include buildings at Na Příkopě 23–27 purchased by the Lasalle Investments investment fund, Kotva shopping center purchased by PSN, a building at 28. Října 15 purchased by Generali Group, or Revoluční 1–3, which was acquired by Vienna Insurance Group.

Transactions in the logistics segment, with a 25% share in the total volume, consisted primarily of portfolio transactions or the sale of pan-European platforms in the Czech Republic and Europe. This includes the acquisition of the aforementioned portfolio by the Singaporean state fund GIC, the purchase of the Prologis portfolio by a Norwegian state fund (NBIM), or the transfer of the Central European logistics portfolio HB Reavis to Macquarie Bank of Australia. The attractiveness of this segment is due to the low vacancy rate, construction mainly limited to built to suit projects and a high demand fueled by the boom in e-commerce. Moreover, portfolio transactions in this segment offer large (and sovereign) investment funds the necessary diversification and the ability to place a substantial amount of capital.

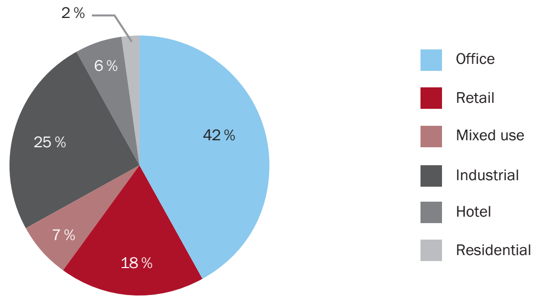
The hotel sector also reported positive news. There was also a record total volume of investments in this segment, and it represented almost 7% of the total volume of investments. This reflects the high efficiency especially of Prague hotels, supported by the high influx of tourists and good safety situation that Prague enjoys, in comparison with other Western European destinations. The hotels Mandarin Oriental, Park Hotel Praha and Hilton Prague Old Town, all transacted.

INVESTORS

Czech investors were responsible for more than a third of the completed investment transactions. Asian capital also for one third, mainly due to the two major acquisitions of the pan-European portfolio of platform P3 and the administrative complex Florentinum, as well as the acquisition of Hilton Old Town Prague. German investors significantly strengthened their activity with the acquisitions of The Park (DEKA) and the acquisition of OC Letňany by Union Investments, which will affect the statistics for 2017.

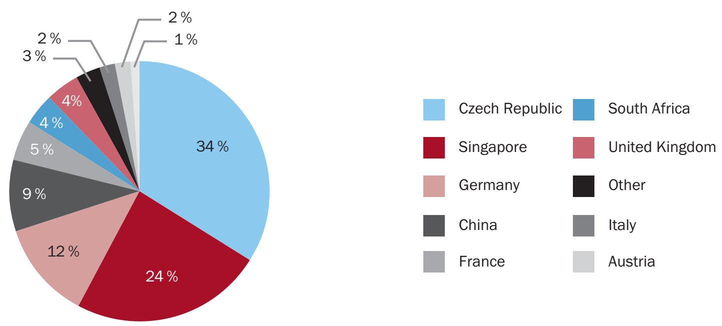
GRAPH Real estate investments by sector in 2016.

Source: BNP Paribas Real Estate, leden 2017



GRAPH Investment transactions according to the origin of capital in 2016.

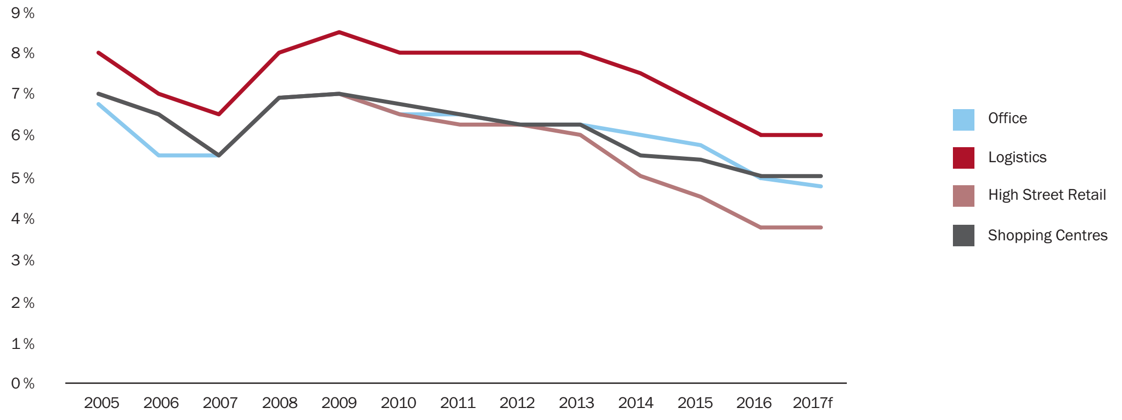
Source: BNP Paribas Real Estate, leden 2017



The high liquidity of the Czech investment market is also confirmed by the entry of new players. In 2016, entirely new entities completed transactions in the Czech market, including Macquarie Bank of Australia, Lasalle Investments and the British investment company M7 Real Estate. South African investors became active in the Czech market, such as Rockcastle and New Europe Property Investments (NEPI), primarily through acquisitions

GRAPH Development of yields. (%)

Source: BNP Paribas Real Estate, leden 2017



of the shopping centers Forum Liberec and Forum Ústí nad Labem. We can also expect investors from the Middle East to become active in the Czech market.

YIELD RATE

During the year, the compression of yield rates continued, by approximately 75 basis points year-on-year. This is due to the strong investor demand and excess of free capital, which investors are trying to place in an effort to achieve better returns than in alternative investments. The situation is also strengthened by attractive bank financing conditions, which are among the most favorable in the region of Central and Eastern Europe.

The yield rate (prime yield) dropped below 5% for for prime offices, 6% for prime warehouse space, 6% for attractive warehouse real estate, 3.75% for premium real estate on the main shopping streets, and circa 5% for top shopping centers. The reference transaction that shifted the prime yield for office real estate in Prague was the sale of the administrative complex Florentinum in Prague 1 by Penta Investments company Penta Investments. Yield rates are reaching historic lows in all monitored segments.

Despite yield compression for premium real estate, they still compare well to Western Europe. For prime yields in Munich or Berlin, the prime yield is approx. 3.3% in comparison with almost 5 % in Prague. German investment funds are therefore active in the Czech market again. German investors, who are traditionally more conservative, can achieve more attractive yields than in their domestic market or other Western markets at a relatively low risk due to the stable Czech real estate market. Just for comparison: the yield rate for top offices in Paris reaches 3.2%, and 3.5% in London.

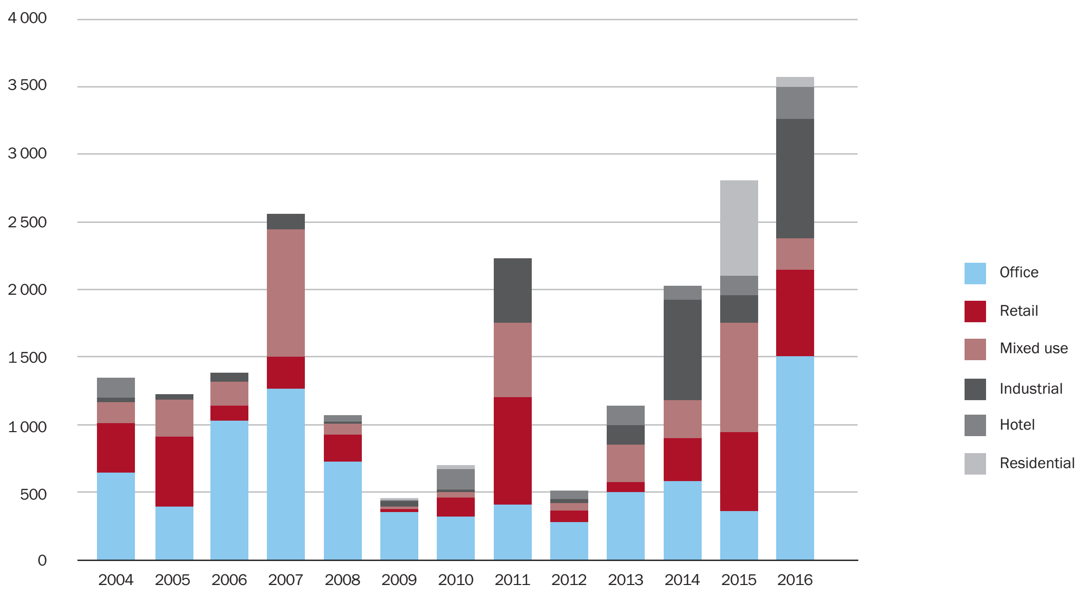
A comparison with alternative risk-free types of investments shows that real estate is a very desirable asset. Five-year yields of German federal bonds reaches 0.1%, and the yields of Czech ten-year government bonds reached a yield of 0.6%. The difference between the yield of government bonds and top yields from commercial real estate is shrinking, but real estate is still proving to be very attractive in comparison to bonds, where the difference in yield rates is higher than it was in 2006/2007.

FORECAST 2017

We expect the yield rate to gradually stabilize during 2017. However, we cannot rule out a slight compression of circa 25 basis points due to the continued strong investor activity, which is in line with the expectations of the ARTN survey respondents.

GRAPH Investment volumes. (2004–2016)

Source: BNP Paribas Real Estate, leden 2017



The most improtant event of 2017 was the abandonment of the currency intervention scheme by the Czech National Bank. Estimates of the impact of this change on real estate and real estate investment vary. Most rents on top "prime" real estate are denominated in euros, and real estate investment transactions are also implemented in this currency. In the segment of "B-real estate", rent is mostly denominated in Czech crowns, and transactions and financing are also implemented in the domestic currency. So far Czech Crown has not recorded significant strengthening. A period of exchange rate fluctuations is expected.

Experts agree that abandoning the intervention scheme will be accompanied by an increase in interest rates. This, together with the conservative approach of banks, may lead to more expensive debt financing of real estate investments.

The predicted continued growth of inflation will be reflected in the rental indexation and lead to increased rental income. Rents are also boosted by the stronger demand, and we therefore expect a year-on-year increase of 5–7% for offices. Along with the compression of yield rates, it will also contribute to the continued growth of market prices of commercial real estate.

In the context of the above assumptions, we expect the volume of capital that investors are trying to place in domestic real estate to decrease in 2017/2018. The European Central Bank extended the quantitative easing policy, although at a slower pace. It is believed that even the Czech real estate market and real estate investments will feel the effects of other political events, such as Brexit, the political decisions of the new US president Donald Trump, and maybe the geopolitical destabilization in the Russia – Ukraine relationship or the development in China.

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