INVESTMENT MARKET

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Total investments in CEE countries in 2018 exceeded 13.36 billion EUR, which is historically the highest number. Record investments were made in the Polish market in the amount of 7.3 billion EUR.

Investments in the Czech Republic amounted to approximately 2.6 billion EUR in 2018, which is a 28% decrease compared to 2017. Czech investors significantly strengthened their positions, and their share in the total volume exceeded 60% last year. Investors focused the most capital in office real estate and retail space.

Prime yield in premium real estate has seen a continuing moderate decline in the Czech Republic, other CEE markets and in most major European markets. Along with the expected rise in interest rates, yields are also expected to gradually stabilize.

THE INVESTMENT MARKET IN CENTRAL EUROPE

The volume of investment in the five key markets of Central and Eastern Europe[1] exceeded 13.36 billion EUR in 2018, which is a 14% increase compared to 2017 and the historically highest volume of investment. More than half of the total volume was realized last year in Poland (53%), 19% in the Czech Republic and 16% in Hungary.

POLAND

In 2018, 7.3 billion EUR was invested in real estate in Poland in more than 100 transactions, surpassing the previous year's record. Most investments in Poland were in offices, amounting to up to 2.75 billion EUR (38% of the total volume). One of the most prominent retail transactions was the sale of a portfolio of 28 real estate properties sold by Apollo Rida / Axa / Ares to a consortium consisting of Redefine, Pimco and OakTree for one billion EUR. There was also interest in Polish logistics real estate, once again lead by portfolio transactions such as the Hillwood and Prologis portfolios, and the acquisition of Blackstone, several Hines real estate properties and development company Goodman. The Polish market is traditionally dominated by investors from the US, the UK and Germany, and the interest of Asian investors, particularly Korean capital, is also increasing in recent years. Last year BNP Paribas REIM bought the Szczecin Amazon distribution center for Korean Vestas, and GLL also bought CEDET for a Korean investor. Due to the strong economy, sufficient investment products and the continuing interest of investors, the yield rates of premium real estate have fallen sharply over the year.

There is growing investment from the East – we are ceasing to be an understandable environment for Western investors.

Miroslav Šajtar, Architekti Headhand

HUNGARY

The most traded asset in the Hungarian market last year were offices, accounting for more than half of the total volume of 1.738 billion EUR, and retail, with a share of more than 40%. The largest transactions include Mammut Shopping Center, Corvin Offices (6 existing buildings and two under construction), Promenade Gardens, MOM Park and Mill-Park office buildings. As in the Czech market, in Hungary we see a significant increase in the activity of domestic investors, who have invested a record amount. The most active domestic investors included OTP RE Fund, Diofa, Wing, Indotek and others.

I expect the investment market to remain alive and attractive for investors this year.

Zdenka Klapalová, Knight Frank

ROMANIA

In Romania, investments in office real estate dominated last year, the bulk of investments also being realized in the capital. The most significant transaction was the acquisition of The Bridge office park by Romanian group Dedeman. The most significant retail acquisition is the purchase of 50% stake in shopping center Park Lake in Bucharest, made by Sonae Sierra.

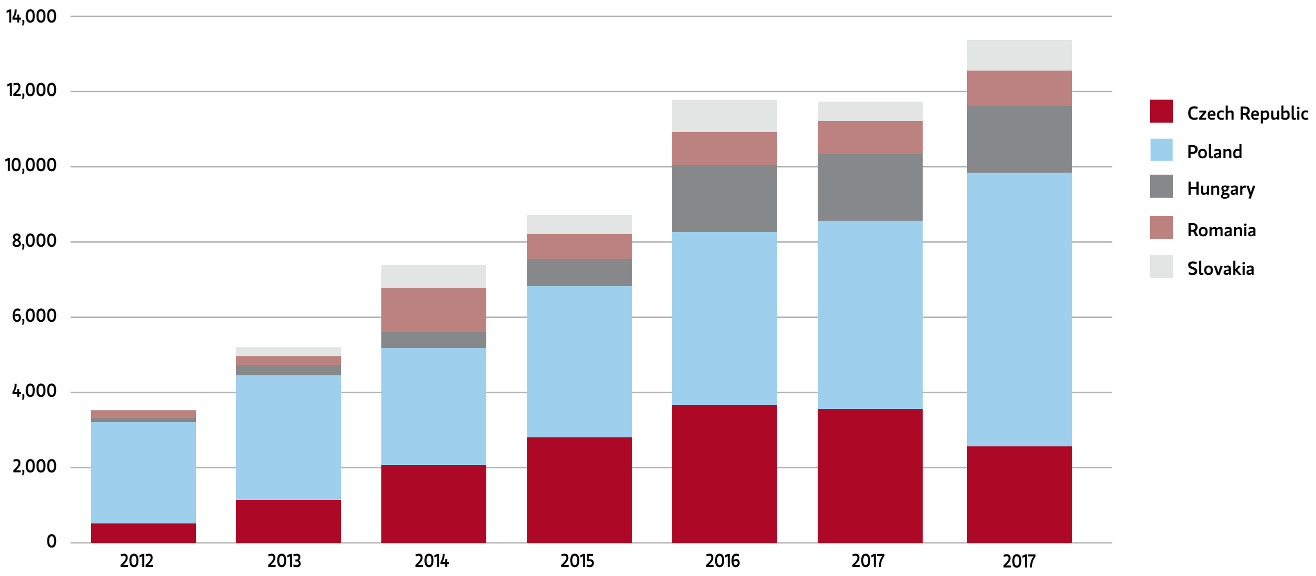
SLOVAKIA

In contrast with 2017, when investments in warehouses prevailed, 2018 was characterized by retail and office investments. The drop in investments in warehouses is primarily due to a lack of the product, not investors' interest. In 2018 the activity of Slovak and Czech investors strengthened significantly. The most significant acquisitions include the purchase of Lakeside Park, Aupark Tower and BBC V by investment group Wood & Company. In retail, the most significant acquisitions include Forum Poprad ZFP Investments and the acquisition of the Tatra Asset Management retail park portfolio.

[1] Poland, Czech Republic, Hungary, Slovakia and Romania

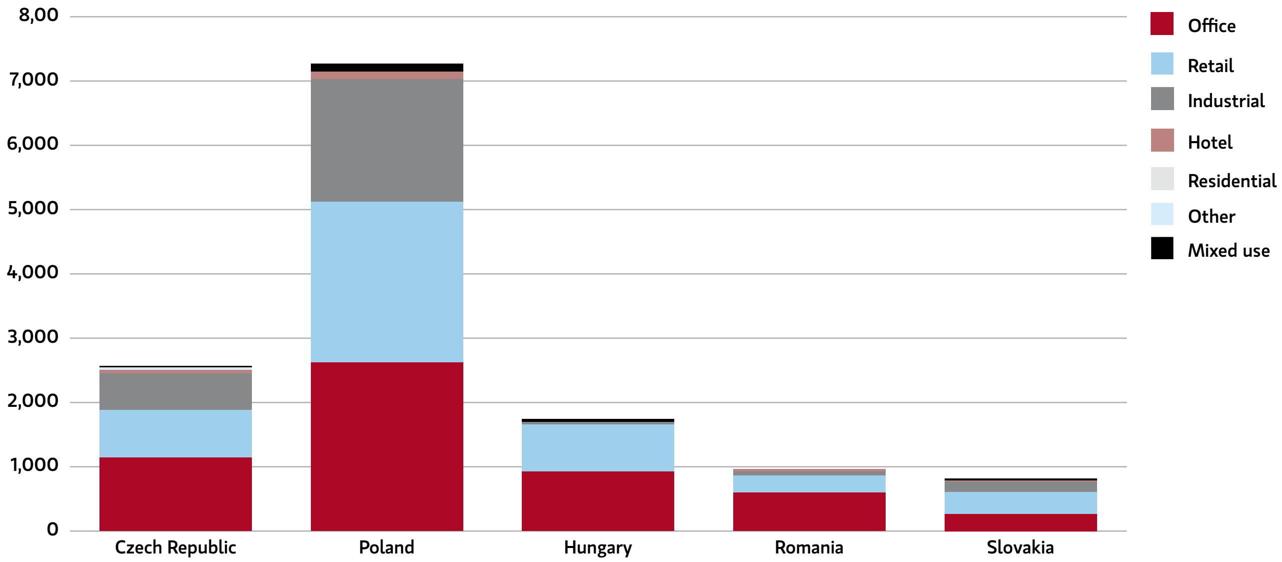
GRAPH Investments in Central Europe (in millions of EUR)

Source: BNP Paribas Real Estate, 2019



GRAPH Investments in Central Europe according to sector (in millions of EUR)

Source: BNP Paribas Real Estate, 2019



CZECH REPUBLIC

The total volume of real estate investment transactions amounted to 2.6 billion EUR in 2018; in comparison with 2017, this represents a decrease of 28%, but this is a comparison with the year in which the historically second highest volume of investments was achieved.

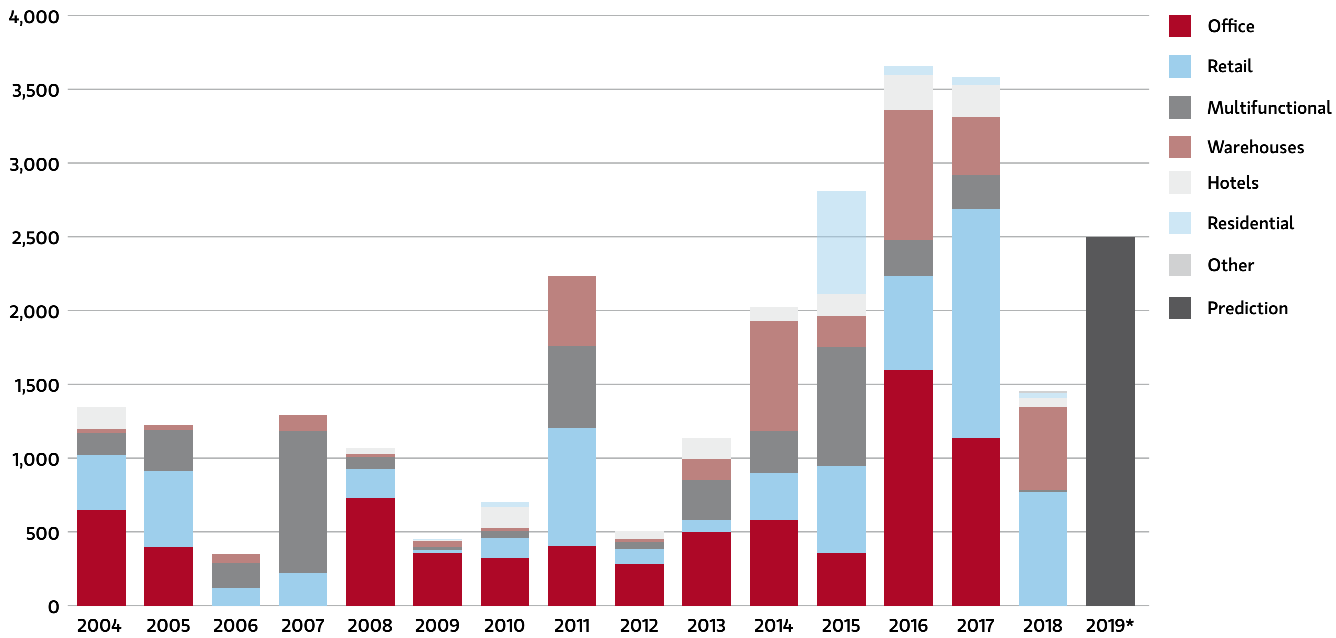
The largest amount of investments (1.23 billion EUR) was realized in the last quarter. This was due to the completion of the largest transaction last year, the sale of a CTP park portfolio worth a total of 460 million EUR; the biggest transfer of an individual real estate property was the acquisition of the Forum Ostrava Nová Karolina shopping center (209 million EUR) by the Česká Spořitelna real estate fund REICO.

Approximately 69 transactions were concluded, and the average investment was 37 million EUR; in comparison with 2017 when 80 transactions were concluded with an average value of 44 million EUR, this is a slight decline. Most realized investment transfers were for real estate valued at 10–20 million EUR (21) and 20–50 million EUR (19). 16 of the publicized transactions were concluded for buildings with a price under 10 million EUR, and 9 were in the range of 50–100 million EUR. Four transactions exceeded 100 million EUR.

The long-term average over the last ten years (2009-2018) is 1.96 billion EUR. After the two extremely strong years of 2016 and 2017 when the volume of investment in real estate was around 3.6 billion EUR, 2018 experienced a decline, but it was still 31% above the mentioned long-term average. In recent years, relatively few new office and retail projects have been completed, so the supply of new real estate for purchase is limited. In addition to this, in recent years real estate was primarily acquired by „long-term" investors who want to keep the properties for a long time, which reduces the supply.

GRAPH Investment volume (in millions of EUR)

Source: BNP Paribas Real Estate, 2019

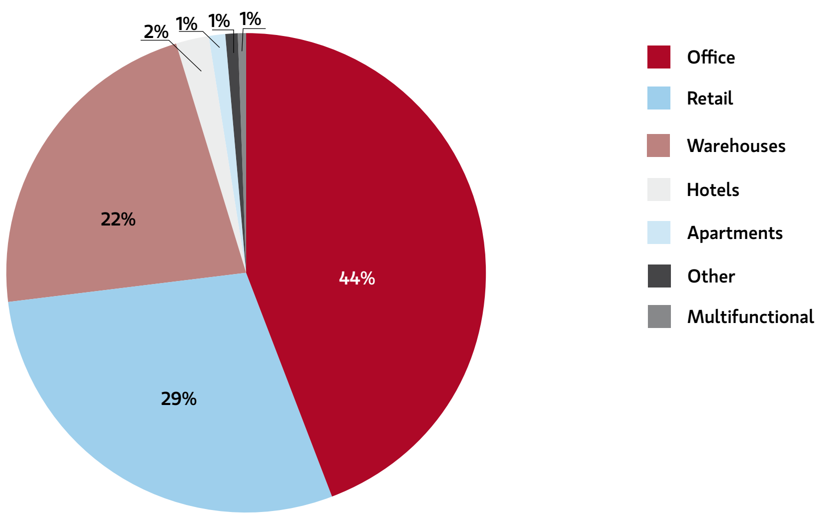


INVESTMENT ANALYSIS

In comparison with 2017, when investment in retail prevailed, last year offices (44%) followed by retail real estate (29%) and warehouses (22%) were the most traded. Warehouses were most traded during the last quarter (39%), which was mainly due to the sale of the CTP portfolio.

GRAPH Investments in real estate according to sector in 2018

Source: BNP Paribas Real Estate, 2019



Czech investors dominated the total volume of investments (62%), followed by German funds (22%). The predominance of Czech investors was therefore even more pronounced than in recent years, when they were behind about 30-40% of all realized transactions. In contrast, Poland is dominated by foreign investors.

In addition to established investors such as REICO and CPI Property Group, other players such as Wood & Co, DRFG, Investika and others were active. New players, such as family company Siko, also entered the commercial real estate market. BH Securities also set up a fund for real estate investments, and in 2018 the first investment in the fund realized the Oregon House office building in Prague 5 and office complex The Orchard in Ostrava. In 2018, investment company Patria placed the RSBC portfolio and the City West B1 office building in the managed fund.

Other active entities that realized investment transactions this year include Infond, Trikaya a Opifer, ICP Capital Partners and Českomoravská nemovitostní. It is also true for these entities that investment in real estate is a method of capital appreciation, which still offers an interesting yield. The value of real estate, and hence the rental yield, can be further enhanced by active management or renovation of buildings.

COMMENTS: INVESTMENTS IN REGIONS

The market in regions is still alive. Real estate in bigger regional cities such as Plzeň, Pardubice, Hradec Kralové and Olomouc is the focus of both funds (mostly of Czech origin) and strong domestic investors. Of course, the share of domestic entities in transactions in regions is quite dominant.

Buyers of real estate in smaller towns are only local. If a property is sold in a good location with an interesting tenant (most often banks such as Česká spořitelna, Komerční banka or Československá obchodní banka) and a competitive process is ensured, the yields are often the same as prime yields recorded in Prague.

Many regional buyers work with a very long investment horizon. They invest in real estate with the intent of long-term holding, and the property serves them as long-term allocation of funds. Most local investors in small towns have earned their money through entrepreneurship and it is their first real estate investment..

Local investors know the location well and they know how to work with potential risks; for example, they are able to fill vacant spaces with their own company, making it possible to achieve higher sales prices than would correspond with expected revenues.

It's also worth mentioning that we see a rise in retail space rental rates in central locations, so owners can also count on higher incomes.

The interest in investing in regional real estate was also affected by the fact that interest rates were very low for a long time, making real estate seem as not only a relatively safe investment, the long-term return is also interesting in this context.

We can also observe a trend of some institutional owners selling their regional properties, whether these are office or business spaces. Administration and remodeling of these buildings outside Prague often require active participation and care in the given location. Without local "long distance" presence, the competitiveness of the product cannot be maintained. For this reason, these buildings find their way into the hands of either local investors with an intention or who use the property for their own purpose, or funds or entities investing in regions that have built an efficient infrastructure and possess their own regional asset management, or cooperate with consultants who have such a qualified infrastructure.

KNIGHT FRANK alone has sold: 29 properties in the amount of 1.353 billion CZK, with yields ranging between 5.50–7.50% in 2018 in Czech regions.

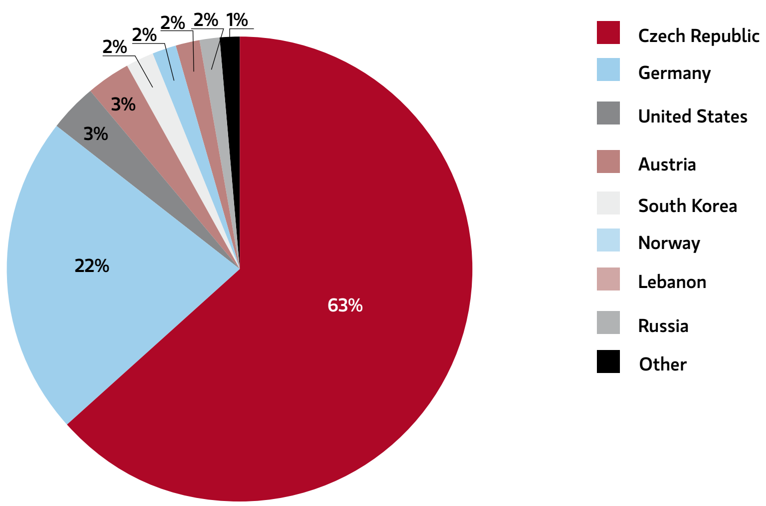
Trends:

• We expect continued interest from institutional owners in selling regional real estate or entire portfolios that require or will require active management and uplift investments.
• We expect a gradual decline in the banking sector's real estate supply, as domestic bank portfolios are undergoing gradual optimization and most redundant branches have already been sold.
• We do not expect a significant decline in interest in regional real estate as interest rates rise, as many of these transactions are self-funded and the return on investment is often not the buyer's main motive.
• For regional real estate in attractive central locations with secure and stable income, premium prices can be achieved at the level of prime yields, i.e. approximately 5-6%.
The regional real estate market will increasingly be the domain of local investors.

Zdenka Klapalova, David Sajner, Knight Frank

GRAPH Investment transactions according to capital origin in 2018

Source: BNP Paribas Real Estate, 2019

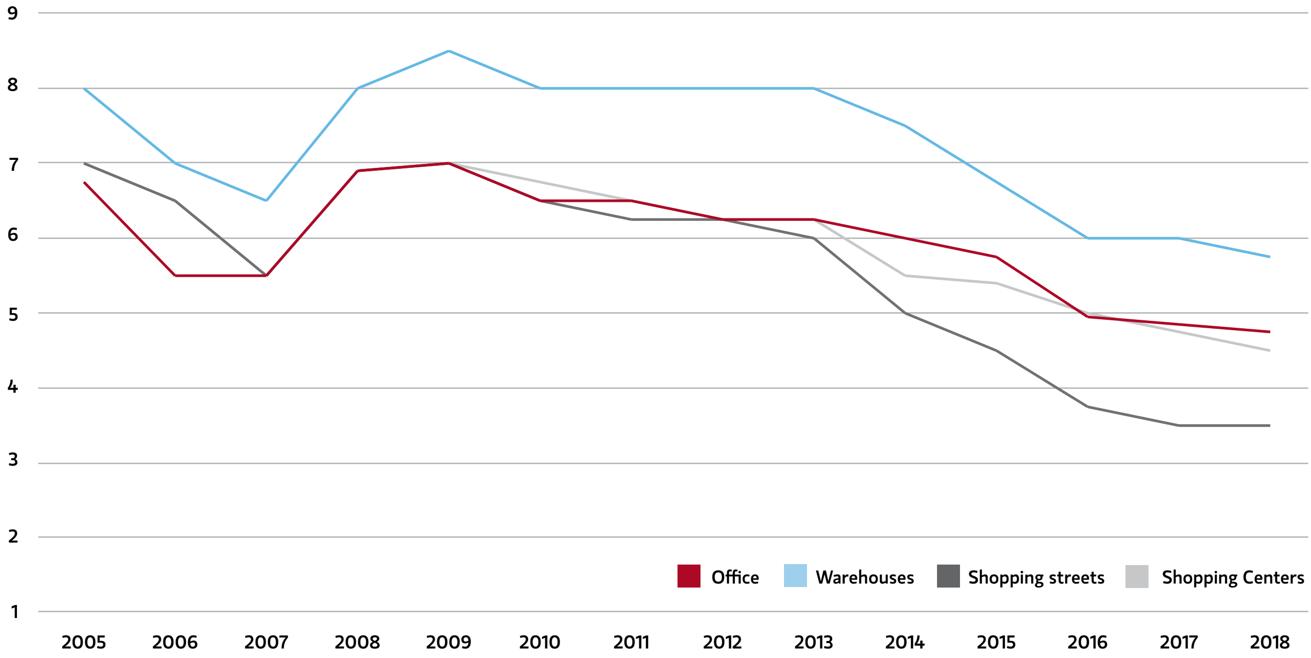


YIELD RATE

In 2018 the yield rate (prime yield) experienced mild compression. It is currently at 4.50–4.75% for premium offices, 3.25–3.50% for real estate on main shopping streets and 4.25–4.50% for shopping centers. Warehouses in the best locations with long-term rental locations dropped to 5.50–5.75%.

GRAPH Yield rate – development (%)

Source: BNP Paribas Real Estate, 2019



Persistent strong investor demand and the rise in rental rates in 2018 were behind the rise in the capital value of real estate. Rental rates increased across market segments.

The yield rate for premium offices declined last year in European markets as well. The most expensive offices are currently in Berlin (2.70%), along with Munich (2.8%) and Frankfurt (2.95%). Brussels (-60 basis points), Warsaw (-40 bps), Berlin, Milan, and Amsterdam experienced a significant year-on-year decline, where yields declined by 20 basis points. Investment in Europe exceeded 260 billion EUR, which is only 2% less than in 2017 when the historically highest volume of investment was recorded. Investor activity was therefore very strong last year. Most markets experienced an increase in total investments, with the exception of Italy (-22%) and Great Britain (-10%); the most significant increases were in Ireland (45%), Poland (42%) and Belgium (36%).

2019 OUTLOOK

The strong investment cycle of domestic real estate is at its peak. The question is how long this peak will last. Investors' demand remains strong, and the volume of capital is still high; this trend should continue this year. We continue to see new funds and investors with Czech capital as they look at the real estate investment market and make the first purchases.

In the prime real estate segment, we expect a continuing increase in rental rates, which will continue to support capital values of real estate. However, the yield rate should slowly stabilize this year. The expected gradual increase in interest rates will affect investors' expectations of the yield rate. We expect the continuing dominance of administrative buildings in the total volume of investments. The focus of primarily domestic investors will also continue to turn to regional administrative centers, where interesting yields can be achieved in comparison with the capital. Thanks to the acquisitions of long-term investors in recent years, we expect a lower supply of retail real estate for purchase to continue. Warehouse properties are very attractive to investors due to the boom of e-commerce and the demand for logistics companies, but there is also a limited supply of the product, as most players hold real estate for a long time. Czech investors will remain very active, and we expect that they will be better able to cope with potential market fluctuations in the future. In 2019 we can also expect an influx of Asian, and predominantly Korean, capital, which has so far mostly been visible in Western Europe.

This year's investment activity balance could be similar to last year's balance of about 2.5 billion EUR, which continues to exceed the long-term average of the Czech market.

LENKA ŠINDELÁŘOVÁ, MRICS
BNP Paribas Real Estate APM ČR