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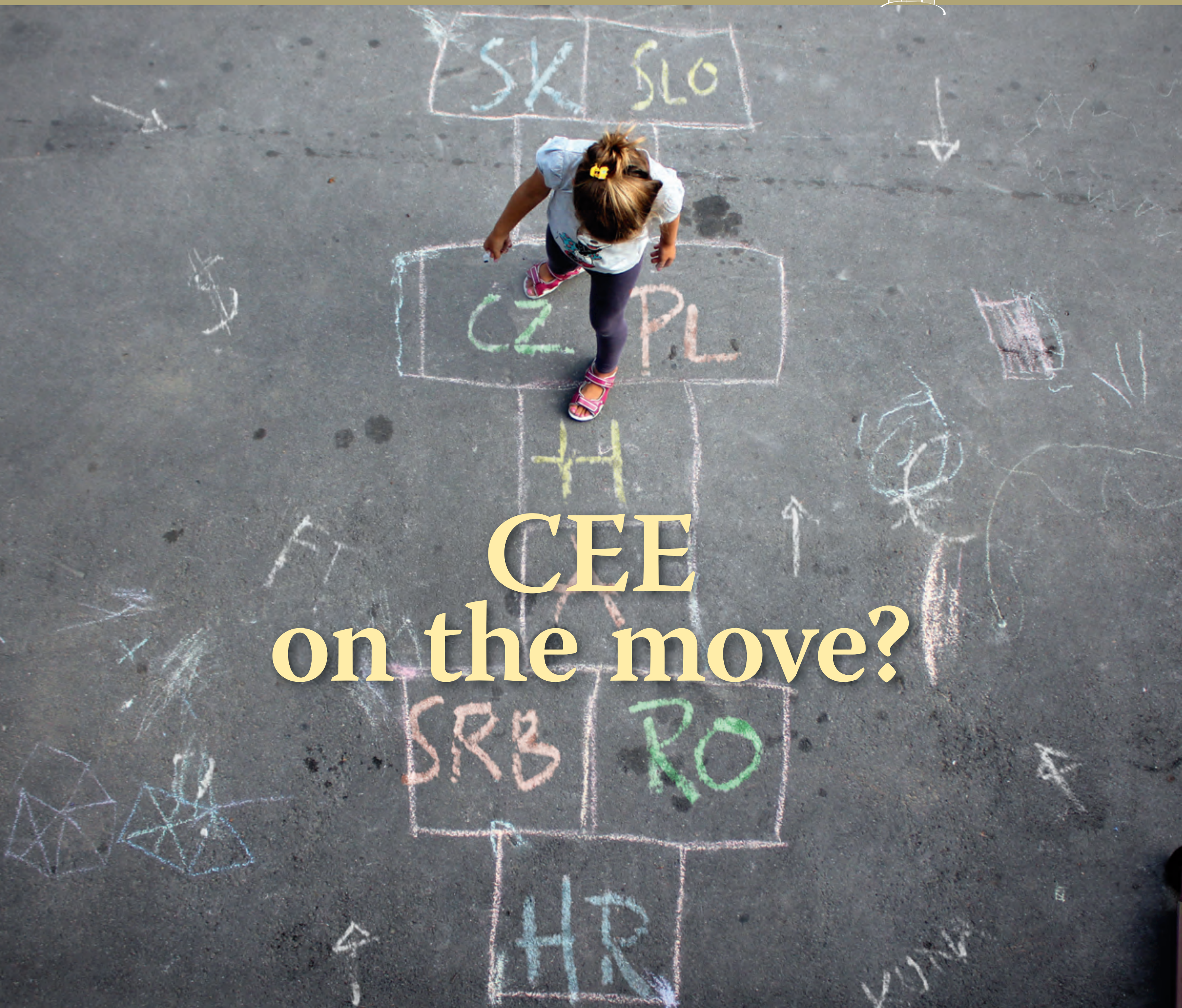
CEE/SEE Special Edition



CEE on the move?

INTERVIEW
Marcus Cieleback, Head of Research at Patrizia

ANALYSIS
Croatia on the doorstep of the EU

ANALYSIS
RICS Market Sentiment Survey for Hungary

FOCUS
CEE developers and developments

RICS

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- Development opportunities in the CEE region: Where and what to develop?
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COVER STORY

Around 10-15 years ago, Central Europe used to be the El Dorado of the European real estate market. The property sector generated enormous profits for market players and huge developments were realized all the way from Warsaw to Sofia, from Prague to Bucharest. Is CEE still attractive these days? Has this once uniform region now become heterogeneous? What are the current opportunities available on these markets?

ANALYSIS

With its EU accession this summer, Croatia will present investors and developers alike with significant opportunities. However, this is a harsher economic environment than that in which the first two waves of CEE EU accession occurred: real estate markets in Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria, Slovenia, and the Baltic States developed considerably after joining the EU.

INTERVIEW

What is the most attractive market in Europe these days? Why have investors started getting more cautious about Poland? We interviewed Dr. Marcus Cieleback, Head of Research at the German company Patrizia Immobilien AG. Patrizia plans to grow its assets under management to at least EUR 10 billion by 2015. This means that for 2013 and subsequent years, they anticipate an increase of at least EUR 1 billion per year.

INTERVIEW

Outlook for 2013-2014 on the CEE development and investment market. How is the CEE property market doing during a very difficult time in the Euro-zone? Which markets are the most attractive in CEE at the moment? Six leading CEE real estate decision makers shared their views with us.

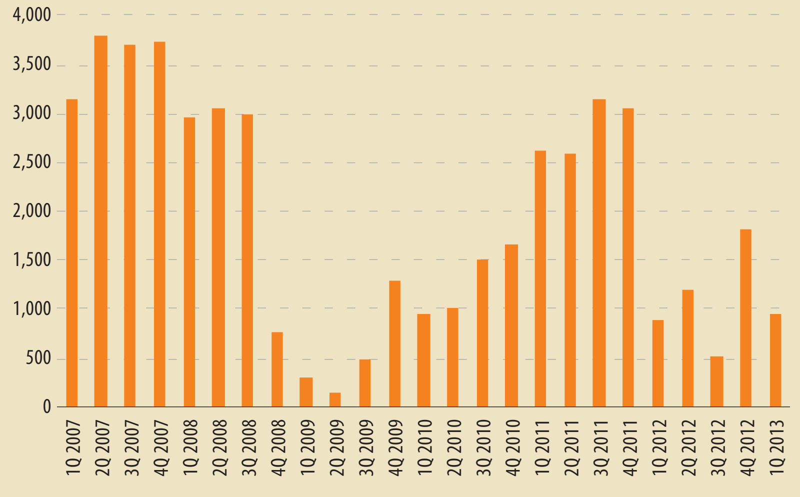
Csanád Csűrös
Editor-in-chief//csuros@portfolio.hu

Has Central Europe regained its momentum?

This edition of REsource Magazine focuses on the Central and Eastern European property market. What we are looking for is an answer to the question of just how attractive the region has remained from an investment point of view. Around 10-15 years ago, investors and developers who chose Central Europe could find unique opportunities. The property sector generated enormous profits for market players and huge developments were realized all the way from Warsaw to Sofia, from Prague to Bucharest. However, the global crisis, which befell us all in 2008, severely damaged most Central and Eastern European economies. Except for Poland, almost every CEE country suffered, to a lesser or greater extent, losses as well as financial and real economic turbulences. Poland was clearly the star in those years following 2008, with solid economic growth and a continuously liquid investment market.

In this, our latest issue, we investigate exactly what kind of investment and development opportunities are currently available in the region. We ask several property market decision-makers who are active in the CEE region what they expect for the next few years and which markets they consider the most attractive. Is Poland still alluring or is the biggest market in the region already overheated? With its highly favorable price level, what kind of opportunities does the Budapest property market hold in store? These are the questions we asked experts from Bluehouse Capital, Colliers, Cushman & Wakefield, Raiffeisen Evolution and TriGranit, among others. This edition also takes an in-depth look at Southern Eastern Europe's emerging markets, paying special attention to Croatia, which finally joins the European Union on 1 July of this year.

Property Investment Transaction Turnover in CEE (Million €)



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Editor-in-chief
Csanád Csűrös – *csuros@portfolio.hu*

Editor
Gergely Ditróy – *ditroy@portfolio.hu*

Contributors
Piroska Kádár, David Lawrence, Katalin Major, Bálint Nagy, István Palkó, Gábor Patkó

Advertising coordinator
Anita Gombos-Nagy – *nagy.anita@portfolio.hu*

Translator
András Nagy

Hungarian copy editor
Judit Maruszki

Copy editor
Esther Holbrook

Photo
Lázár Todoroff, Fotolia.com, MTI, Profimedia.hu

Design & Layout
Bátor Márkó Benes – *benes@portfolio.hu*

Sales
Balázs Agócs – *agocs@portfolio.hu*
Csaba Égly – *egly@portfolio.hu*

Publisher
Zoltán Bán
NET Média Inc.
1033 Budapest, Polgár u. 8–10., Hungary
Phone: +36-1-327-4080, fax: +36-1-327-4081
E-mail: *resource@portfolio.hu*
www.resourceinfo.hu

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»OBSERVER« A MÉDIAFIGYELŐ

Hungary ranks first

Thanks to having one of the lowest labor costs within the European Union, to the country's central location, to its geographical and logistical features, and to its skilled work force. Hungary's office market is one of the top investment targets for domestic and international investors, as well as being a prime rental destination. In addition, Hungary has the lowest office cost per capita within the region, affirms the *Real Estate Development Roundtable* (IFK) who prepared a report on the subject together with **DTZ** real estate consultancy firm. This is how developers argue the case for Budapest.

Based on the latest survey covering global and regional investment market property, Hungary's situation is far from being good. We are amongst the countries with lowest investment volume and are actually at the very end of the list. The Czech Republic and Poland are both ahead of us. "In our latest survey, we identified a number of aspects that clearly revealed the Hungarian office market is facing drastic changes. I believe that Hungary will soon be the most attractive target for foreign or domestic companies looking for an office within the region for investment or leasing purposes, emphasized IFK President, *Ernő Takács*.

Why is the Hungarian office market attractive?

According to the latest forecast by *Eurostat*, the European Union's labor market will start to slowly decline from 2013. Only a few major cities will be able to resist this process. As a result of the shrinking population and of the increasing labor mobility, companies will be forced to reconsider their office leasing strategies. Budapest – with its 1.7 million population and 2.4 million commuters – is Eastern Europe's largest city. The population within the capital and its vicinity is expected to grow by 6% over the next 20 years, due to the domestic and regional labor inflow. This estimated rate is 2.5 times higher than the Central European average.

Eurostat has forecasted the inflow of 267,000 foreign workers to Hungary/Budapest between 2010 and 2030, the highest rate estimated for Central and Eastern Europe. The majority of immigrants are expected to be skilled workers coming from neighboring countries like Romania, Ukraine, Serbia, and Slovakia. Such an influx would bolster Budapest's leading role in the region.

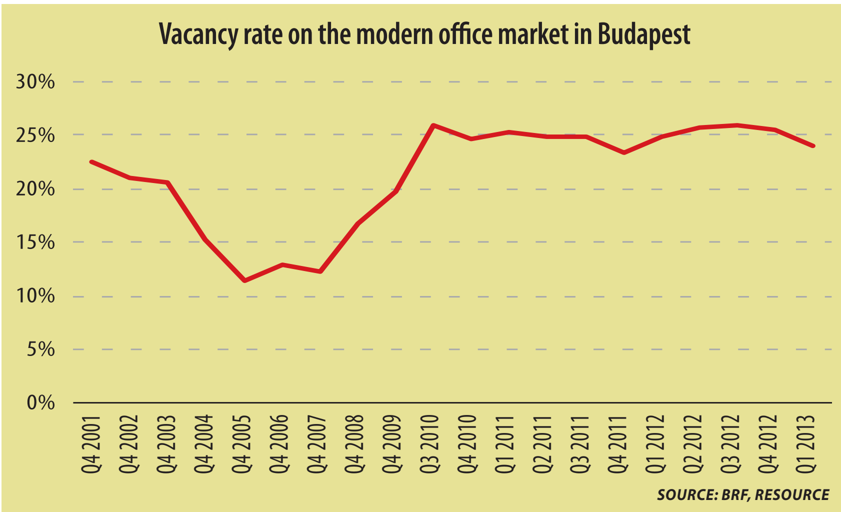
Low labor and office costs

In 2012, the EU's average hourly labor costs for the economy as a whole (excluding agriculture and public administration) was EUR 23.4. For the Euro zone, this average was EUR 28. However, these averages conceal significant differences between Member States: the hourly labor cost varies from EUR 3.7 (Bulgaria) to EUR 39 (Sweden). Hungary has the sixth lowest labor rates, EUR 7.5, far below the European average. According to analysis from DTZ, nearly 9% of companies' total expenses are related to property or office leases.

In Eastern Europe, tenants face greater challenges than in other parts of Europe: in the CEE region, 12% of the output per employee goes toward for office rent while this ratio is only 7.8% in Western Europe. In the CEE region, office rental costs are in fact 35% lower than in other European countries, yet, at the same time, the output generated by the employees is 56% lower than the European average. Budapest has not only the lowest property costs in nominal terms in Europe, but – according to *Oxford Economics* – only 6% of the output generated by an average employee is used for office costs. This is half of the CEE average and even lower than in Western Europe. This means Budapest has a significant competitive advantage compared to the other cities in the region.

Budapest at the center of "New Europe"

With Croatia's accession to the EU and with the growing stabilization of Serbia and the other ex-Yugoslav countries, Central Europe's center has begun to shift further south. Consequently, Budapest could soon be the center of "New Europe." After all, the Hungarian capital is in the center of all major transportation hubs, with direct connections to all major cities in the region. In the coming years, CEE's office market is sure to develop significantly, as the current office stock won't be able to cover tenant demand. While the average office area is 11 sqm/person in the Western European capitals, this value is only 2.5 sqm/person in CEE. This means that a significant number of tenants in these cities are still not leasing spaces in modern office buildings. Yet, it seems they would like to move to better quality offices. Thanks to improving economic conditions, an increasing number of companies can afford the move and Budapest, where most new office needs get absorbed, is in the best position within the region.



SKANSKA GREEN TOWERS, WROCŁAW

Good news from the investment business

According to **Cushman & Wakefield**, investment activity in the key Central European markets of Poland, Czech, Slovakia, Hungary and Romania was maintained in Q1 2013, with EUR 958 million invested, some 6% above the five-year average. Whilst down from the previous quarters, positive investment sentiment and underlying activity suggests investment volumes for this year should match those achieved in 2012.

Commenting on the level of activity in Q1 2013, *Charles Taylor*, partner at Cushman & Wakefield, said, "investor activity has increased marginally. Some investors are considering taking more risk and reviewing the more developed and relatively mature parts of CE and finding, not just a yield advantage and better relative economic growth than in the West, but also an improving level of liquidity." Investment volumes in Poland, the Czech Republic, and Hungary increased by some EUR 258 million following the **Norges** joint venture with **Prologis** regarding a high quality distribution facilities portfolio. This single transaction represents 50% of total investment into the industrial sector across CE during 2012. Despite the fact that a significant part of the Prologis/Norges portfolio is located in Poland, this market saw volumes decline in Q1 2013 – with EUR 465 million invested compared to EUR 818 million in Q1 2012 and EUR 618 million in Q1 2011. The Czech market saw a recovery in Q1, with six transactions closed and volumes up at EUR 237 million, compared to just EUR 20 million for the same period in 2012. Similarly, Hungary attracted EUR 159 million in Q1 2013, significantly up from the same period in 2012. Investors' sector preference remained the office sector with some EUR 646 million invested into offices. Significant transactions including the purchase of *New City* in Warsaw by **Hines**, **PZU**'s purchase of **Skanska**'s *Green Towers* in Wrocław and the purchase of *Andel Park B* in Prague by **GLL**. **Allianz**, **Invesco**, **NEPI**, **Kulczyk Silverstein Properties** and **Hannover Real Estate** also made investments into the office sector during this quarter. In contrast, retail investment activity was at its lowest since 2009, with the only notable transaction being Blackstone's acquisition of *Galeria Leszno* in Poland. Commenting on the prospects for the remainder of the year, Taylor added, "we remain optimistic for the region, evidenced by a strong pipeline of transactions in due diligence. Investment demand continues to be patchy, being country and sector focused with an emphasis on core product located in liquid markets. That said, we are encouraged to see activity returning to the Czech market partly as a result of some re-pricing."

Four-year record on the regional property market

According to the latest report by **CBRE**, total commercial real estate investment volume in Central and Eastern Europe reached EUR 2.6 billion in Q1 2013. According to the study, the total investment volume for CEE is three times higher than the level achieved during Q1 2012. The most active markets were Russia (EUR 1.8 billion) and Poland (EUR 600 million). The good news is that total investment volume for the CEE region is three times the level achieved during Q1 2012 and is also the best first quarter result in the last four years. Offices and retail continue to dominate – representing 44% and 37% of the CEE market, respectively. Industrial properties are becoming increasingly popular and constituted 19% of total property investment volume for Q1 2013 in CEE and 17% in Poland. The larg-

GALERIA LESZNO, POLAND

est transactions were in Moscow where, for instance, *Metropolis* shopping centre was acquired for around EUR 900 million by **Morgan Stanley Real Estate Investing**. In Poland, the most significant deals were both in Warsaw: **RREEF**'s acquisition of *Green Corner* from **Skanska Property** Poland for EUR 94.6 million and **Hines Global REIT**'s acquisition of *New City* from **ECI** for EUR 127 million.

Are foreign homebuyers returning?

According to data provided by the authority in charge of authorizing the acquisition of real estate by foreigners, approximately 1,186 foreign nationals obtained permission to acquire a total of 1,110 properties located in Hungary last year. According to the data available on the government's website, most of the buyers were Russian citizens and most of the properties are in Budapest. Based on the report published by the Ministry of Public Administration earlier, a total of 1,019 foreigners bought 998 properties in 2010 and 1,120 foreigners bought 1,069 properties in 2011. Thus, the 2012 data indicates a slight increase. Regarding the nationality of the buyers, it can be established that Russians (445) are on the top of the list, followed by Chinese (150) and Ukrainians (128). In the past few years, investors have been more interested in the capital rather than the countryside. Before EU accession, the capital received only 17% of foreign buyers interest. However, by 2006 this ratio had grown to 36.32%. Budapest's prevalence increased steadily over the period between 2007 and 2009 and then, in 2012, property in the capital was the most popular amongst foreign buyers: 47.6% of the properties purchased last year were located in this area. Apart from Budapest, foreigners mostly bought properties in Zala (194) and Pest (60) counties. Regarding the type of acquired property, it is clear that – in 2012 as in previous years – apartments and houses were the most attractive to foreign buyers, totaling 80% of all real estate acquisitions. Vacant lots accounted for 9% of the acquired property last year, 1.7% were holiday houses, and 0.4% were farmsteads.

Eurohypo sells massive portfolio

Eurohypo, a subsidiary of **Commerzbank,** has announced that it is sell- ▷

ing its EUR 3 billion property loan portfolio. This is followed by the news that a US consortium, consisting of **Lone Star** and **Wells Fargo,** will be the buyers. Lone Star, a private equity firm, intends to purchase (together with Wells Fargo) Eurohypo`s UK property loans portfolio. Wells Fargo & Co has expressed interest in acquiring the performing property loans, while Lone Star Funds has its eye on the non-performing debts. Based on the announcements, the performing loans will be sold at a 10% discount, while the non-performing ones come at a 25% discount. The EUR 3 billion portfolio includes 13 UK properties. Commerzbank's move to sell the UK property loans is part of its goal to shed off one of Europe`s biggest pre-crisis loan portfolios. **Europhone** was active throughout Europe and disbursed hundreds of millions of euro in property loans, also in Hungary. Its worst performing domestic project was finance of the office complex **Tópark**.

Increasing interest in the region

According to the latest report by global property advisor **CBRE**, total commercial real estate investment volume in CEE reached EUR 2.6 billion in Q1 2013, three times the level achieved during Q1 2012 and the highest first quarter result since 2008. The most active markets were Russia (EUR 1.8 billion), although smaller economies within the CEE have also seen an increase. The largest transactions were in Moscow: **Morgan Stanley Real Estate Investing** acquired *Metropolis* shopping centre for around EUR 900 million and **AFI Development** completed acquisition of the remaining 50% of *Aquamarine BC III*, a project close to the Kremlin. In Poland, significant deals included **RREEF**'s acquisition of *Green Corner* and **Hines Global REIT**'s acquisition of New City, both in Warsaw. Offices and retail continue to dominate the scene, representing 44% and 37% of the market respectively. Industrial properties are significantly increasing in popularity, however, they currently constitute 19% of the total property investment volume for Q1 2013. *Jos Tromp*, head of CEE Research and Consulting for CBRE, said, “interest in industrial property is driven by a variety of factors including relatively low rental rates, limited development activity (in both cases, with the exception of Russia), and a relatively high income component in total returns – compared to more traditional asset classes.” *Mike Atwell*, CBRE head of Capital Markets for CEE and Poland also had this to say: “The upswing in interest in the CEE is entirely in line with the forecasts made in CBRE's 2012 Real Estate Investor Intentions survey. Our 2013 research casts light on how the market may expect to change in the coming year. Specifically, of the 14% of investors who see the CEE as the most attractive investment choice for 2013, the majority also considers Poland to be the most attractive market and the preference for Poland exceeds that of France, Spain, and the Nordic countries. In terms of cities, Warsaw was seen as the third most attractive city for purchases in 2013. Clearly, this is very positive news for Poland and, with generally improved market circumstances, we hope to see a knock-on effect elsewhere in the region.”

Immorent launches mega investment

Immorent, the Austrian-based subsidiary company of the **Erste Bank Group**, announced a 150-thousand sqm industrial real estate development in the Czech Republic and in Slovakia. It has already received the construction permits for its project called Immopark Praha. The 131-thousand sqm logistic project in Prague will consist of seven halls. Additionally, Immorent, already present also in Hungary, plans to extend its property in Kosice, *Immo Park Kosice*, (currently 250 thousand sqm) by a further 17.5 thousand sqm. Concerning the massive development plans, the company's CEO, *Richard Wilkinson*, said that, with these plans, they are responding to increasing regional demand for logistic property. Unlike the booming Czech and Slovak markets, this segment is rather subdued in Hungary. Q1 data reveals a lack of new developments and yet, at the same time, occupancy rates appear to be rising.

IMMO PARK, KOSICE

Hope for the real estate market

Real estate investment company **Atrium Real Estate Europe** has completed placement of a EUR 350 million bond in the CEE region. The company bonds, listed on the Vienna and Amsterdam stock exchanges, have received oversubscription by four times. The bond bears a fixed coupon of 4.00% and matures by 2020. **Standard & Poors** and **Fitch** both rated the company BBB-. Atrium Europe Real Estate owns a EUR 2.18 billion portfolio, including 156 properties in the CEE region. The company has 25 properties in Hungary worth a total of EUR 83 million. According to the company`s press release, part of the EUR 350 million will be used to refinance existing debts and the other part for financing new acquisitions.

Norwegian pension fund's money transfers into real estate business

In just one quarter, the Norwegian state pension fund, **Norges Bank Investment Management** (NBIM), has increased the value of its real estate portfolio by 50%. The pension fund`s asset value was equal to EUR 4.8 billion at the end of Q1 2013, which

BUSINESS QAURTER IN MÜNICH / BERLIN

translates to a nearly 50% increase compared to the previous quarter. The property portfolio yield was – 0.3% in Q1 and 0.49% in Q4. (The funds negative yield was due to the foreign exchange rates losses and to the transaction costs of the new deals. Without these, the yield in Q1 would have been 1.5%.) As we reported earlier, the EUR 550 billion Norwegian pension fund intends to increase the share of property within its portfolio from 1% to 5% in the coming years. The pension fund has become one of the most active real estate investors in West Europe. The Norwegian giant has not yet purchased any property in Central Europe.

Investors trust Germany

According to **Savills**, Germany's total commercial investment volumes in Q1 2013 reached EUR 6.65 billion, representing a year-on-year increase of 21% – the highest level for a first quarter in five years. The trend of a stronger focus on the top six locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, and Munich) observed last year continued in Q1 2013. According to Savills' records, the investment volume increased year-on-year in all six markets with EUR 3.7 billion invested. The Savills report highlights the largest single-asset transactions of Q1: the purchase of an **IVG** open-ended special fund for approx. EUR 500 million and **Dundee**'s purchase of an eleven-office property portfolio for circa EUR 420 million from **SEB**. Office buildings dominated Q1 figures with over EUR 2.4 billion – 36% of the total transaction volume – invested in the sector, representing a 62% increase year-on-year. Hotel investments saw the strongest growth – over 150% – plus, an investment volume of EUR 8 million. Although the retail segment is still an important submarket, Q1 2013 figures reveal that it has become less paramount. Retail investments, totaling circa EUR 1.9 billion, once again this quarter, slightly decreased in market share (– 9%).

Logistics market booms in Europe

Investment in European logistics and industrial assets showed a strong start to the year with over EUR 3 billion transacted in Q1 2013. According to research by **Jones Lang LaSalle**, this was up by 111% compared to the Q1 2012 and up by 5% compared to Q4 2012. The total volume was driven by a significant joint venture portfolio transaction (**Prologis/Norges Bank**) with assets, distributed across multiple European countries, totaling EUR 1.2 billion and representing 40% of the European total. Europe's top three markets; the UK, Germany and France, all recorded an increase in transactional volumes for the equivalent period last year. At 7.50%, the prime European yield remained stable for the third consecutive quarter in Q1 2013.

CA Immo won't exit Hungary

A long-term presence in Hungary and in other primary markets, a focus on key offices' asset class, the sale of nearly 10% of its real estate portfolio, as well as improved cost efficiency – these are **CA Immo**`s long-term plans to improve the company`s credit record, market confidence, and increase its efficiency. After having achieved significant growth in Germany and Eastern Europe between 2006 and 2011, its property assets have increased by EUR 2 billion over the last five years, now amount to EUR 5.3 billion. CA Immo, an international real estate investment company, says it is planning to "re-dimension" its asset portfolio. The clear objective for 2013-2014 is to increase creditworthiness, profitability, and establish an equity share of at least 40%, while opti- ▷

mizing risk with a view to stabilizing the company over the long term. In the future, the company intends to focus on its primary markets of Germany, Austria, Hungary, Poland, Czech Republic, Romania, and Slovakia. It reiterates that it is planning to stay in these countries for the long term. At the same time, CA Immo plans to gradually reduce its exposure in the Bulgarian, Croatian, Serbian, Slovenian, Ukrainian, and Russian markets. In particular, the company plans to sell off hotel, logistics, and residential asset classes in these countries. CA Immo intends to focus mainly on the office market and, consequently, in the mid-term, the company plans to sell off real estate not classified as part of its core business. This relates primarily to hotel, logistics, and residential asset classes; although, size and tenant structure will certainly also be key criteria in the sale of the individual properties. The intention is to sell assets worth EUR 300-400 million in order to reduce the whole portfolio by 7-10%. In 2013, the partial sale of the *Tower 185 office building* in Frankfurt will be an important item on their agenda. "Balancing and redefining the capital allocation within the portfolio is also targeted for the next periods, in order to increase our profitability. Funds generated through the sales will be used to repay loans and other financial liabilities and to ensure a dividend is paid," outlined Managing Director CA Immo Hungary, *Ede Gulyás*. Contrary to previous years, the main focus will now be stabilizing the portfolio, which means fewer new projects will be launched. Around EUR 300 million has been earmarked for construction projects in 2013 and these will be located exclusively in Germany (specifically in Munich, Frankfurt, and Berlin). CA IMMO Hungary`s plans are in line with the above-stated focus, maintaining the current office portfolio – amounting to nearly 200,000 sqm – and stabilizing occupancy rates (currently above 80%), added Gulyás.

Skanska expands in Poland

Swedish company **Skanska** is currently developing a 40-thousand sqm office building in Warsaw, Poland. The EUR 42 million investment is seeking LEED certification. Although it will be built in a secondary Polish city, the project shall exceed the total volume of handovers forecasted for Budapest in 2013. This project serves as another excellent illustration of the difference between the activity in Polish and the Hungarian real estate markets.

Blue skies for Europe's real estate market

European real estate investment market trends are quite positive these days. Not surprisingly, market players are more trusting of the main European markets, while Poland is the main target in East Europe, say Hungarian and international professionals at **CBRE**. Last year, nearly half of the total volume transacted was invested in the UK. Buyers' clear favorite is London. Among the top 10 European investment targets, several German cities rank high and this clearly illustrates the strength of the German market. At the same time, France's position has slightly weakened. Apart from the core markets, Poland and Dublin also ranked among the top 10 targets. Capital coming from overseas (especially from America) is gaining a more dominant role, generating an increasing amount of activity on the market. Investors are less focused on risks; fears regarding recession, lack of capital, or the risks relating to the Euro zone's future are no longer afflicting the market, says *Tim O'Sullivan*, head of Capital Markets at CBRE Hungary. In respect to yields, positive trends continue and the market is shifting towards further declines in the rates, especially for the core markets. However, at the same time, rental rates have not increased significantly. Poland not only has a dominant role at the regional level, but also on the European level. In fact, Warsaw is more attractive than many other strong European locations. Besides its favorable macroeconomic conditions, this can also be mainly attributable to the market's size and liquidity. In addition to Poland, Russia is another attractive target in the CEE region. Unfortunately, Hungary is not among the top three targets. Investment activity on the Hungarian, Czech, and Slovak markets is still not very visible. Although there is some activity on the Hungarian market, apart from the closing of one or two major transactions, not much is going on. The market is divided into two parts, one where investors concentrate on prime products and another where investors look for high-risk products. "The picture is more colorful than it used to be: besides all the capital coming from the traditional directions (previously, German institutional investors maintained quite a dominant position on the Hungarian investment market), Greek and Israeli investors are now arriving, said *Gábor Borbély*, head of Research and Consultancy at CBRE Hungary. However, yields are still at around 7.5% in Hungary.

TOWER 185, FRANKFURT

Tarlós: 27 major investments by 2020

Budapest City Mayor, *István Tarlós* has announced that "Budapest's municipality is working on twenty-seven major (above EUR 50 million) projects. Between 2014 and 2020, the capital will apply for EU funding. Tarlós declared that, besides the "salvage" of the former legacy projects, additional projects are already in progress and the legal, technical and financial preparation has already begun. For the first time in three decades, a detailed and complex urban development concept has been prepared. The Danube area development plan, which fills a 20-year gap and will follow through to 2030, fits this concept, Tarlós emphasized. The mayor confirmed that the capital's short and long-term projects are to be realized in cooperation with the government. Of the HUF 1,100-1,300 billion projects now planned, the mayor mainly highlighted transport development investments such as: the modernization of metro line three (M3) and its northern extension; the second phase of the tram and trolleybus vehicle project; the modernization of metro line one (M1) and its eastern extension; the renewal of the cogwheel railway, the clean-up of its environment and its extension to *Széll Kálmán tér*; linking the Csepel/Ráckeve suburban train (HÉV) to Astoria tér; and putting 400 new buses into service. Furthermore, plans include the development of sewer canals/system, the renovation of the *Chain Bridge* and the *Váralagút* (throughway tunnel), the renovation of the thermal bathhouses and of Városháza tér (near Deak tér), the development of the *Budapest Zoo and Botanical Garden*, and utility works. Tarlós pointed out that, besides the metro line four (M4) project, there are several other ongoing projects, like the development of the bus corridor in Rákoskeresztúr and the development of tramlines 1-3, the Buda tramline project, the development of the selective waste collection system, and the renewal of Széll Kálmán tér. Tarlós also said that Budapest is developing – not chasing dreams. Following the preparatory phase, we will be able to target EU funds in 2014. The government is expected to decide in favor of a number of these projects in the coming days. Tarlós noted that, similar to the 'White Paper' prepared about two years ago, a new publication is due to be published next month. In this, they intend to report on the progress the city has achieved concerning the previously mentioned "critical issues."

CET

Fee increase to finance Danube developments

Budapest City Council representatives may already decide in April on a uniform price regulation for ports and quays. The municipality will finance this with additional income developments, says Urban Development Deputy Mayor, *Balázs Szeneczey*. According to Szeneczey, the price increase is a good starting point in the effort to eliminate chaos along the capital's Danube waterfront. Szeneczey said the capital currently has an income of HUF 100 million from public land usage fees; however, flood prevention costs exceed HUF 250 million. Within the first year, the capital hopes to collect half a billion forints. Under the new regulation, instead of the current two categories – public and private transportation – 18 categories will be defined, for example, based on occupied water surface, on channel usage, and on the extent of environmental burden.

CET to host cruise ships

The new recovery plan for Budapest's Danube River waterfront has been finalized. Based on the concept envisaged by the *BKK* (Budapest Transportation Center), the capital is to found its own cruise reception company and shall build two cruise ship terminals: one at *CET* in the south and another at the wharf next to *Szent István Park*. The plan envisages several large-scale developments at the wharf, including a floating pedestrian zone on the Buda side. The southern terminal, at CET, would be located within the Ferencváros coastline (parallel with Közraktár utca). Based on the plans, this area would be suitable for 10-130 meter long boats. All the supplementary services would be located ▷

within the CET building (some of these are, in fact, already available). The terminal at Szt. István Park would be located at the lower wharf between Radnóti Miklós utca and Révész utca. The planned length is 1.4 km. In the 30-35 meter wide coastal zone, a track for serving vessels and for short-term waiting alongside a pedestrian walkway and a bicycle path are envisaged. Based on the original concept, 16-20 cruise ships could land in this area. Based on the available data, the revenue that can be generated by the mooring fees of these ships exceeds HUF 1.3-1.5 billion per year; thus, it seems a quite reasonable decision for the capital to try to exploit this potential. Besides the BKK report, another study (entitled The Development of Areas Along the Danube) has also tackled this concept. This study defines 13 coastlines, which based on their environmental, traffic, and navigation features could be used as cruise ship ports. The Ministry for the National Economy has also recently addressed this issue in its National Maritime Strategy. The results of the various studies, however, sometimes appear to contradict each other and, so far, no consensus has been reached in this regard.

Kossuth tér complete by March 2014

The renovated square, developed under the framework of *Steindl Imre Program* (SIP), will be car-free, complete with an underground visitor center and a parliamentary museum. The project design can currently be viewed publicly on SIP's homepage. Completion of the Parliament building's changes have made the reconstruction of Kossuth Square utterly urgent, impressed *Tamás Wachsler*, program director of SIP. 'The Nation's Square' will be asphalt and car-free, it will become greener and more spacious, the number of (carefully selected) shrubs will triple in volume, and large water surfaces will appear across the space, he added. On the building's north side, there will be four underground stories: the first three will be occupied by a 600-car garage and the upper one will house the Parliament building's visitors' center. "Since the start of the program, we have obtained all necessary licenses and the tender for selecting the main contractor has been completed successfully, assured Wachsler. During this last stage, we carried out a so-called 'online descending price auction' with the suitable candidates, wherein the candidates could bid based on each other's offers. **KÉSZ Inc.**, who offered the lowest price (at HUF 14.63 billion) won the tender. The main contractor has already begun the work: the civil engineering work already on progress at the north part of the Parliament is progressing well and the utility channel change has been already completed by the water works. Wachsler confirmed that the new Parliament museum would be established by covering and reconstructing the Parliament's yard (Nr. 15). He says that they are already working on compiling a museum collection. The museum's pre-WWII collection is almost complete, however, many valuable items have long since been destroyed in a "barbaric way" when many of the city's statues were melted down, he lamented.

Budapest takes share hold in RÁC spa complex

Budapest's municipal government has become majority owner of the *RÁC Thermal Bath*, recently purchasing the **Hungarian Development Bank**'s (MFB) share. The deal now closed, the capital has acquired the bath for HUF 2.7 billion (one third of the MFB loan of HUF 7 billion). Budapest is set become majority owner of both the renovated thermal bath and of **Rác Nostalgia Inc.**, the company developing the four-star hotel adjoined to the bath. The mayor's press office has confirmed the details above; however, MFB's press office did not want to comment. The renovated bathhouse and adjoining hotel have been ready for three years and yet they have remained empty ever since. Several international companies have offered to operate the complex, however, internal conflicts between the owners and the disagreement regarding the loan repayments have made opening impossible so far. The likelihood that they will open now, under the new circumstances, seems to be more realistic.

RÁC SPA

Can the banks survive without the real estate investment market?

With the exception of Poland and a brief flurry of investment transactions in the Czech Republic in 2011 and early 2012, the rest of the Central European investment market has been in a virtual investment deep freeze for the last five years. This is due to a number of factors including the instability of the EU in general, currency concerns, unpredictable investment environments etc. However, the freeze is mostly due to the lack of available debt financing from the commercial banks.

Whilst investors in real estate are looking to alternative sources of funding such as mezzanine debt, commercial mortgage-backed securities (CMBS), real estate funds, pension funds, sovereign wealth funds, insurance companies, and private equity funds, the issue of whether the so-called "soft landing" will continue for another three or another ten years depends to a very great extent upon these banks.

The simple reason for this is not just that these markets are not mature enough to have developed alternative sources of funding but more importantly, because the banks are increasingly dominant owners of real estate through their takeover of distressed real estate assets. Furthermore, since 2008, the 20-30% drop in market value for income producing real estate assets has wiped out the value of equity in highly leveraged assets, taking banks loan to value ratios to 100% in many cases. The banks are therefore the fully exposed owners of a high percentage and effectively the majority owners of almost all leveraged real estate in the region!

Any investor who has actively approached banks with an interest in financing in general (or purchasing distressed assets in particular) during the last five years in CEE has been met with a range of responses, from indifference to guarded and hesitant negotiations at unrealistically high prices or low levels of leverage. Only in very few cases have banks indicated a willingness to actively engage with investors at both realistic pricing and with the offer of meaningful debt finance. Even at the prime, blue chip investment end of the market, obtaining more than 50% debt is extremely difficult and securing any loan can take up to a year. As highlighted above, as the dominant owners of real estate in the region, this surely cannot be in the banks best interests, short or long term.

If the largest banks do not come up with a strategy to first stabilize and then grow the real estate market, they will have to keep writing-down losses on their ever-increasing portfolios of distressed property for the next ten years. This will continue to have a negative effect on the health and stability of the banks, which in turn will require continued government support. Banks boards of directors should be very concerned that their future stability depends upon the whim of politicians and the increasingly dissatisfied and unemployed European electorate. The sooner they can escape from this insecure reliance, the better the chance of their long term survival.

Clearly a strategic plan for recovery is urgently required. So what would a bank strategy for recovery look like?

Firstly it must involve a change of mindset. Banks have, understandably, developed an over sensitivity to real estate due to the size of the problem and the threat that it poses to their continued existence. From the outside at least, it seems as if some banks have tried to avoid bringing the problem on balance sheet for as long as possible and others have become positively hostile to the real estate sector. Whatever the emotions may have been, these reactions don't seem to be in the best interest of the bank's shareholders as they do nothing to help protect the value of their existing commitments. The problem is only going to get bigger without active intervention.

By this I do not mean that they should set up a real estate division to quantify the losses, sort out legal problems and ensure the basic security of the asset. This is a necessity, but one which - if it is allowed to continue for too much longer - will create costs which exceed the benefits of any slow recovery in asset values. What is urgently needed is that the banks need to devise a holistic approach to the whole real estate problem. Hopeless cases have to be written off more quickly and fire sold, before they cost more to hold than their remaining value.

Clear internal guidelines in respect of property classes and sectors need to be drawn up. How might they look? Well, for a start, banks should properly restart lending to finance the best blue chip investments. This is the lowest risk sector and the effect of investment sales at this end of the market will bring confidence and more importantly a deeper pool of international investors back into the markets.

In the retail sector, banks should most importantly support retail businesses with credit to finance shop fit-out works and investment in stock, as well as assisting them with advice on how best to manage exchange rate risk. Similar direct and indirect strategies can be adopted for all classes of property, with the possible exception of development land, which will naturally recover with an overall recovery of the market.

Banks also need to think more strategically about leverage. Is it really risky to provide a 70% loan to a buyer of a modern distressed property when the value is 60% of its build cost? Or a prime investment where there is an existing DSCR of 2 times or more? Can risk departments really not be persuaded

that the possibility of resale of the distressed asset in the event of loan default at the underwritten value of 42% of build cost is very low, or that the new loan, even at 70% leverage must be secure at this level? After all, 70% leverage for the best properties, at values which have declined 20-30% in the last five years is equivalent to around the 50% leverage rate that banks wish they had loaned at the peak of the market!

At the moment my experience is that banks are unwilling to lend more than exactly that level, 50%. To do so now, is in my view nonsensical. Yes, banks should universally adopt a policy that however enticing and potentially profitable real estate financing may be, the golden rule is to never lend more than 70% - ever! But the current policy of dropping leverage to 50% is simply counter-productive. In the distressed example given above, it would underwrite the loan at a value equivalent to 30% of build cost and let us not forget that this includes the value of the land!. This may well meet the "zero risk" policy which bank management is directing to its project financing teams, but it is certainly not high enough to attract investors away from the more developed western European markets where they can achieve unleveraged returns of 6-8%.

It seems to me that this policy is a case of closing the stable door after the horse has bolted. It is not a strategy which will rebuild the value of the real estate portfolios which the banks – unwillingly – hold, anytime before 2020. The banks, in fact, control the answer to their own problem. With clear vision and an objective strategy, they could significantly improve their own situation as well as facilitate the rebirth of the entire Central European investment market.

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Is Central Europe still attractive?

CSANÁD CSŰRÖS

Around 10-15 years ago, Central Europe used to be the El Dorado of the European real estate market. Has this once uniform region now become heterogeneous?What are the current opportunities available on these markets? This time, all eyes are on Budapest, Bucharest, Prague and Warsaw.

The Central European real estate investment market has been doing quite well recently. It is almost old hat to mention that the region's most attractive investment choice is Poland, and Warsaw in particular. Property investment in Central and Eastern Europe tripled to EUR 2.6 billion in the first quarter (Q1 2013), compared to Q1 2012. So, we have decided to focus our analyses here on the Central European region in the more narrow sense of the phrase, excluding Russia.

Total Q1 investment volume for the traditional CEE markets (Poland, the Czech Republic, Slovakia, Hungary, Romania, etc.) was EUR 800 million. (The most active market in Q1 was, in fact, Russia.) Around 75% of the total investment volume (approx. EUR 600 million) came from Poland. The Polish market's popularity in Central Europe is undeniable. Still, the weight of the country – with a EUR 40 million domestic market – is greater than its population or economic importance would justify.The population and nominal GDP of the Czech Republic, Hungary, and Romania combined are bigger than those of Poland: nevertheless, the Polish investment market is over three times bigger than the three markets combined.

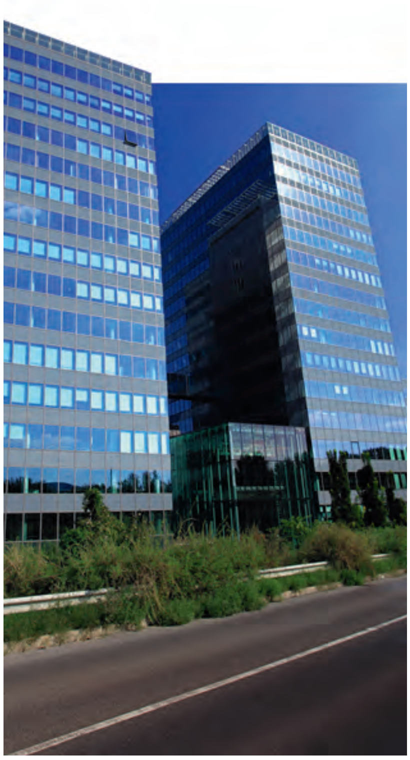
Warsaw's popularity is also reflected in the pricing. Investment yields in Warsaw are between 6 and 6.25%, making the Polish capital the most expensive city in the CEE region. Warsaw is then followed by Prague, with 6.25-6.5% yields. After Warsaw and Prague there is a relatively big gap, and then Budapest comes in with yields estimated at around 7.5-7-75%. Bucharest yields are even higher; typically 8.25% has to be paid for a premium office here. As we see, it is clear that yields are now spread in a band across 200 basis points. Thus, the region is surely not homogeneous.

While Warsaw is booming, Budapest is in recovery

Not only yields vary significantly across the region, but other office market indicators show discrepancies, too. For instance, while Warsaw's vacancy rate is currently below 10%, it is above 20% in Budapest. Prague (13%) is closer to Warsaw is terms of their vacancy rate, while Bucharest (16%) comes in closer to Budapest in this respect.

Much like the vacancy rates, the amount of development activity also quite varies from country to country on the CEE markets. The relatively strong rental demand, interest from investors, and the rather low vacancy rate have all generated a wave of development in Warsaw. Based on analyses from **CBRE**, over 300 thousand square meters (sqm) of office space is now under construction. This means that the total Warsaw office supply will grow by 8-10% by 2013 and this will most likely increase occupancy rates, too.

It is worth comparing Warsaw to Budapest. In fact, the biggest differences can be best illustrated comparing these two cities. Due to the high vacancy rates, speculative development has virtually disappeared from the Hungarian capital. At present, over 20 thousand sqm of office space is due for delivery in 2013. This means that the currently 3 million sqm of office stock will only grow by half a percent this year. In principle, this suggests that the vacancy rate will start to fall sooner or later.



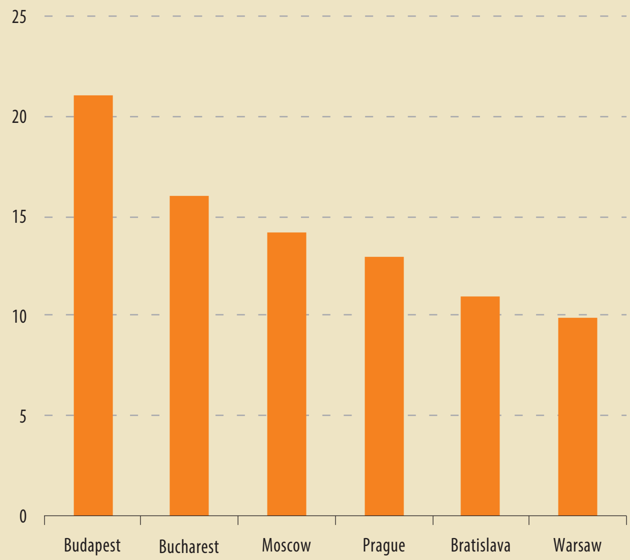
There is still a chance

It is clear that Central Europe is full of good real estate products. In Warsaw, Prague, Budapest, and Bucharest, investors can choose between many modern, premium offices, shopping centers, and logistics properties, all with high occupancy rates. For risk-averse investors who may be satisfied with lower yields, Warsaw or Prague is clearly their best bet. However, those who are willing to risk a little more, have the chance to earn a lot of money today in Budapest or in Bucharest.

Europe split into two

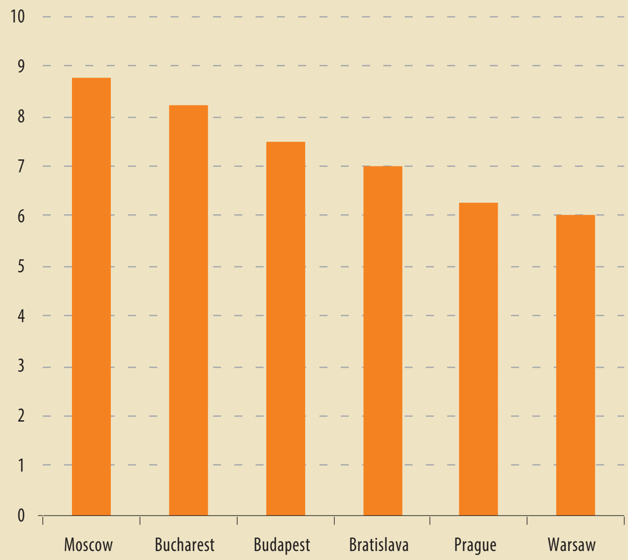
CBRE's worldwide survey indicates that, for the majority of the world's big cities, the number of office leases have not fallen at all. South and North American cities perform best, while rental rates have increased everywhere throughout these regions. In Asia, the picture is more complex as rental rates have fallen in most the major markets. According to the CBRE

Office market vacancy in CEE (%)



SOURCE: CBRE, JLL, RESOURCE

Prime office yields in CEE (%)



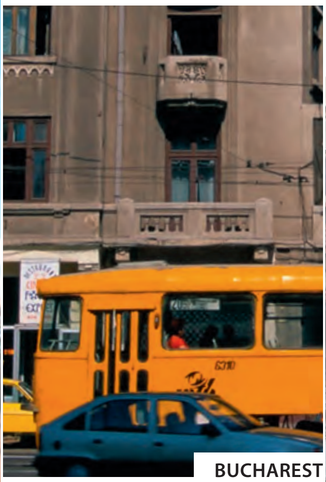
SOURCE: CBRE, JLL, RESOURCE

survey, the European market is clearly split into two; the first group contains the stable performers, while the second group includes the declining markets. Germany, the UK, Switzerland, Scandinavia, Poland, and Russia with all have increasing rent levels. They are all typically places with a stable economy. To the contrary, rental rates are falling in Greece, Spain, Portugal, Italy, and Hungary and these are considered the worst performing European countries, with ailing economies.

Budapest is lumped together in the same group with Barcelona, Lisbon, Madrid, Milan, and Rome. In these markets, the drop in office rental rates has slowed down, thus, it is believed that the lowest point is close. According to CBRE, however, to the contrary, Bucharest and Prague have already reached their low points. In Moscow and Warsaw, the increase in rental rates has also started to get back on course. On one hand, Budapest is, therefore, amongst the worst office market performers; rental rates have dropped continuously in the past few years and, consequently, we have become the cheapest European office location. On the other hand, due to the cyclical nature of real estate market, Budapest is slowly recovering. The region's most popular city, the darling Warsaw, is currently at the other end of the cycle, so, it is still due to eventually reach its peak. So, an optimistic reading of Budapest's domestic situation is that it will be again on an upward path sometime in the foreseeable future.

WARSAW

BUDAPEST



BUCHAREST

… OR PRAGUE?

Strategy or Service?

This spring, Portfolio.hu held its forth annual Facility Management Conference. Property operators, property managers, asset managers, tax consultants, and real estate professionals came together to discuss the current issues, challenges, and opportunities of property management (PM) and facility management (FM).

KATALIN MAJOR

The conference started with a presentation by *Johnny Dunford*, the Global Commercial Director of RICS (Royal Institution of Chartered Surveyors). Dunford presented the global research recently conducted by RICS. According to RICS`s research, surveying over 400 industry experts, property management and facility management need to be given a strategic role within a company in order to have an efficient business.

According to the study entitled "Raising the Bar: Enhancing the Strategic Role of Facility Management," corporate decision-makers officially agree with the approach (cited in the title here), yet, experience shows that, in practice, neither of these two areas receive enough attention. Most heads of FM still spend most of their work life on day-to-day operational activities and the most common measure of a FM's performance is its financial performance. The survey clearly shows that when a FM is not treated as a supporting activity than companies and corporate real estate managers are losing out in terms of cost efficiency, added value, and quality.

Importance of financial performance

During the conference's first panel discussion, the guest speakers discussed real estate taxation. Esteemed professionals in their field, they all agreed that changes to taxation are capable of overturning an entire development budget and can contribute to massive losses within a company.

It was suggested that a business model should suit the optimum tax regime and tax advisors should be involved in the earliest stages of development, in order to minimize tax costs. Very accurate and clear contracts must be stipulated to avoid future problems, declared Managing Director of **Hochtief Development Hungary Ltd.**, *Ferenc Daróczi.*

Participants also discussed FM's and PM's role in creating value. They all agreed that FM/PM have an increasingly important role, and yet owners still emphasize cost and revenue as the key measures, with profit taking center stage. Hopefully, they agreed, owners across the board will soon recognize that this area can add much needed value to a business.

"Reducing costs through additional investments is an important issue and, thanks to these additional operations, cost savings can be achieved," emphasized Director of PM at **STRABAG Property and Facility Services**, *Katalin Honi* . However, as the head of property and asset management at **Cushman & Wakefield**, *Zoltán Scharek*, points out, "FM and PM services have to adapt to the management's style, policies, and intentions. The managed properties should meet shareholders expectations and should be capable of adapting to the market conditions. A well-operated building is obviously more valuable and can be sold with better conditions."

Insourcing or outsourcing?

"How do companies currently consider investments and the alternative capital cost?" "How can facility managers develop a stra-

tegic vision?" *Balázs J. Barts* FRICS, head of the RICS Corporate Real Estate Professional Group asked these and other provoking questions to startup the discussion on the financial impact of the issue. According to participants, the answer is simple: we still need to educate business leaders.

Many agreed that the key element of strategic planning is outsourcing. According to *Péter Szijártó*, CEO of **B&V FM Ltd.** (part of B&V Group), we can not clearly opt for either outsourcing or insourcing. The company itself defines its strategy, rather than its way of thinking. Some tasks can be outsourced, while others need to be resolved internally for the sake of cost-effective operation. "Rather than a passive facility management, an active one is a must, alongside prioritizing portfolio management," asserts Szijártó.

Is the Hungarian market already too small?

Basically, there have been no new developments on the domestic market. Thus, it is obvious that Hungarian developers are considering foreign expansion. The biggest market is, of course, the same as in other sectors; Poland, says Managing Director of Commercial Property at **TriGranit Management Inc.,** *Attila Molnár*. He believes that Hungarian tenants are more conscious as competition is much more acute here than anywhere else in region. Tenants here are ready to dedicate an entire team in their organization to the task of optimizing FM and PM costs. Concerning the local peculiarities of the countries in our region, *Csongor Csukás*, CEO of **BNP Paribas Real Estate**, says that property owners in Romania and Poland are open to innovation, as high revenues do not allow price based competition. Price is not the main focus in Romania either and other factors also matter to them, too. The same is true in the Czech Republic, although this can well be attributed to the market's maturity. The Czech market is more closed and it is difficult to enter as a foreign company, notes Csukás. "Competition is on the rise also in the foreign markets where entry barriers are low and there are always new entrants," Csukás added.

Managing distressed properties

In the past few years, it is banks who have established the biggest real estate portfolios. Thus, they have been forced to weld a professional hand to property and facility management. They will often outsource these activities, but it is not uncommon to have an 'own team' dedicated to these tasks, says *Dr. Mrs. Ágnes Drajkó Koháryné*, head of the PM Department at **Erste Bank**.

Indotek Group is purchasing - among other investments - foreclosed properties. So, they hold a differing opinion. According to *Gábor Vörös*, head of the PM department at **Indotek Group**, it is worth purchasing foreclosed or distressed property if it is feasible to achieve at least a 20% profit margin. "A professional FM manager has better options for increasing efficiency and saving costs. Obviously, property management is not one of a bank's core businesses. Further, by restructuring the lease agreements, significant revenue increases can be achieved," Vörös added.

Budapest on the world map

We interviewed Johnny Dunford, Global Commercial Property Director for RICS, at Portfolio.hu's Facility Management Conference. He has worked in a wide range of areas on the CEE regional property market. He even lived in Budapest for a few years. Johnny Dunford currently oversees RICS' contribution to the development of international standards for the commercial property sector.

KATALIN MAJOR

You were the keynote speaker at the conference; how did you like the event?

I thought that it was a really good conference. It's a great location and I was intrigued how you managed to invite representatives from banks (and other players) from almost every market segment. It was a real mixture of participants, which is encouraging. Also, I'm glad to see how everybody wants to talk about facilities management under the current market situation. The most important questions for everybody are how we can further reduce the costs while maintaining the quality of services and how FM and PM can add value for companies and occupants.

What is your field of specialty as the global commercial property director? What kind of projects are you currently working on?

I am responsible for RICS commercial property operations around the world. I am also responsible for professional standards development around the world, with particular emphasis on FM, Corporate Real Estate, and agency standards in Brazil, the USA and Asia. In the last few years, we have spent a lot of time on facilities management in RICS because we realized that there's a real market need. In times of recession, everybody wants to make their property work better, so, FM is becoming increasingly important. That's why we started on this piece of work called "Raising the Bar". Our feeling was we needed to get to the occupiers – those who actually use FM services – and find out what they are doing, what their needs are, to discover how one can add value to it. Recently, we did another survey called "Corporate real estate investment in global cities", which looked at global property markets from the corporate real estate residents' perspective. And we've got two other projects which are coming later: one is the second part of "Raising the Bar" and the other one is a study called "RICS Facility Management Guidance," intended to give best practice guidance to people working in FM.

You used to work in the CEE regional property market and you've lived in Budapest for several years.

I lived in Budapest for about three years, between 2005 and 2008, and it was great. I really enjoyed it. I worked around the region and I traveled quite a lot around Poland, the Czech Republic, Russia, and so on. I also worked in Prague when I was managing director at DTZ.

This was the period at the end of the golden years, before the crisis. What was your impression then?

I guess we are all very wise when we look back, which is a natural part of human nature. No one ever believes that the good news is going to end. My impression now is that we made a mistake when everyone was just very keen to get on to the growth path and use every opportunity. At the same time, too many people – too many businesses and countries – just grew too fast and lost sight of the fundamentals. Property tends to fall into two categories: "very good" and the rest. Unfortunately, a lot of property fell into the second category and the crisis underlined this difference in a number of situations and for many people because only very good property has proven to be really resistant to the crisis. It was definitely a good time, it was a lot of fun living in Budapest and it's just a shame that we have all gone backwards a little bit. My sense is that good always comes out of these situations, you learn from your mistakes.

I suppose that you are still following what's happening on the CEE property market. How do you see Hungary's position compared to other regional property markets?

Yes, I do follow the events on the regional markets, but, of course, there are plenty of people today who know it better than me.

Hungary has to face a number of challenges and I think Budapest has to work quite hard to get back to the same position where it used to be. I'm really pleased to see that the last quarter results for Hungary were in the positive territory. That's obviously good news. There are also great people in Budapest, they're well educated, and the city is very nice to live in. However, as it was mentioned several times today at the conference, there are a number of issues. So, for example, the tax regime or the uncertain economic environment, and other critical factors which create a less favorable environment than before. For example, I'm thinking about Malév not operating, which has reduced the volume of flights and made it more expensive to get here. All those sorts of things make a difference to investors.

On the modern property market you really need to think international. So, for example, if you want to attract HSBC, Nokia or Yahoo – a big global player to your property – you've got to think much bigger than just what the Budapest market, the Hungarian market, or the Central and Eastern European market wants. Multinational companies compare Hungary to other emerging markets – like Brazil, for example – and, as I mentioned Yahoo, I'm pretty sure that they would be looking at five or six different locations in Central Europe alone.

Considering the regional market, I think that companies naturally gravitate toward the big markets – like Poland, of course – as there are a lot of people there, there is very good infrastructure, and travel arrangements are also good. Prague has always been popular and I think it will continue to be so, as it's a very stable country.

One of the roundtable talks at the conference was about distressed property. You used to work as an investment professional, an asset manager at a private equity company. What do you think about these opportunities?

We've been talking about distressed property probably since about 2007. It's very interesting and I think everybody was surprised that there was not a rush of assets flooding onto the market with people and banks all needing to sell them, to get rid of them. The short answer is yes; there are definitely opportunities in distressed assets. However, I think the bottom line is that it's not as easy as it first appears. It's not easy to get a really valuable asset at a low price. First of all, these assets are very hard to value and it's also a real challenge to find financing for these projects. My experience is that most effective asset managers covering distressed properties are very innovative. So, for example, you might find that something that has been a poor office building and falls into distress; the new owner does something completely different. They turn it into flats or put retail in or give a big facelift, do some repositioning and then find a new market. There's always opportunity. Yet, I think you've got to be very clear with your business plan to pull off such a project.

You are a global property market professional. What is Europe's position right now on the international market?

Investment is all about perception, it's all about sentiment and many people would look at Europe and say: "I'm not sure what's happening." I think that's a really tough question and many political brains and economic geniuses are trying to work it out. Unfortunately, I don't know the answer either. What's plain is that it has been a crisis, it probably still is a crisis, and it will certainly continue to be a worry for all market players for some time.

Recent trends (e.g. euro crisis, recession) have tainted investors' view of Europe. Basically, there is a lot of money that has gone into property and there is a lot of money waiting to go into property, but big investors now look at the world as a whole, so, if Europe has got a question mark over it, even if it only affects one country (e.g. Spain or Italy), a lot of investors will just put a ring around Europe and say that it's all of Europe. It's simple: they choose from a world market and they will take their money to India, China, or New York just for a safe bet.

One of your specialties is the emerging countries' property markets. Following China and India, it's Brazil and Africa that are now gaining more attention. What is your impression of this trend?

There is always a rush to new opportunities. China has had a lot of interest, too, so people have rushed in there, but not so much anymore. Brazil holds a lot of very interesting opportunities. The scale is enormous; Sao Paolo alone has 20 million people. They also have the football world cup and the Olympics coming up, the weather is fantastic, and the language is easier to manage than, for example, in China. The country is certainly more naturally aligned with European mentality and culture. In addition to the property sector, there are a number of really big opportunities, for example, in the service sector and in infrastructure.

Another place that I think hasn't had a lot of interest just yet, but I think will become very interesting is India. Again, the scale is enormous and it does have a number of advantages: English tends to be the dominant language, which is relatively easy for most Europeans. The population density is very high and there is a real appetite for services, education, and infrastructure development. It may prove to be a slightly easier environment than Brazil.

The Middle East used to be one of the favorites for property market investors. What kind of changes do you see?

The challenge with the Middle East is twofold. Interestingly it's the opposite of places like Brazil and India. You've got relatively small populations with a lot of money, whereas, in Brazil, you've got a lot of people and each person has got a small amount of money. In Brazil, governments can be quite difficult to understand, the regulations can be quite complex. In the Middle East, if a particular leader decides that something is going to happen, it happens very quickly. Inevitably, there are also other complications for investors that wouldn't come up elsewhere and the environment is not so easy to live in, so, it's not very attractive for an international tenant to go there. I think that the Middle East will continue to grow, but in my mind it's a very different opportunity and the region is probably a little bit low down the priority list for most investors right now.

Hungarian Market Sentiment Survey

Yield levels remain unchanged and pressure on rental rates in Hungary continues to be prevalent confirms the Market Sentiment Survey, a joint study conducted by Eltinga, Portfolio.hu, and RICS. The survey was designed to determine Hungarian senior real estate professionals' assessment of the current yield levels and rental rates, as well as their general market expectations. Meanwhile, the Budapest Commercial Property Index dropped to its lowest figure so far: 90.35.

CSANÁD CSŰRÖS

Opinions on yields have been either confidently or gradually increasing, depending on which submarket is under scrutiny. The lowest level, 7.5%, is currently awarded to the Top 5 shopping Malls, having increased from 7.0%, as reported earlier. The only sector where a clear, upwardly mobile yield pattern can be observed is retail ,where all three submarkets are now seen to command yields 0.5% higher than at the outset 18 months ago.

The pressure on rental rates remains a central theme, as most median figures for typical rental rates exhibit a decrease, with only a few examples of buildings having managed to maintain their previous levels. In fact, this statement applies both to changes starting six months ago as well as to the overall trends from the beginning of 2011 and on. Cheap (non-central) offices and expensive (Top 5) retail have held up fairly well over the last 18 months, whereas the weakest mid-term performers have been prime non-CBD offices and mall-type retail parks.

Under general comments made by participants, a recurring theme is the notably low-level of market activity stemming from a lack of investor confidence and difficulties in securing capital. Citing weak market fundamentals, several respondents also pointed out that Hungary's external image is poorer than in reality. Cautious optimism has appeared towards the opportunistic investment market, now helped along by banks' increasing asset sales, as well as in regards to certain macroeconomic indicators.

Individual real estate categories

In addition to questions about general market sentiment and expectations, the survey respondents shared their forecasts for yield levels and typical rental rates for eight different property types. In terms of rental rates, they had the chance to provide minimum, maximum, and typical values. Participants in the Market Sentiment Survey were asked to give market characteristics for nine property categories and we were able to glen reliable results for eight of them. The categories are: top CBD office building, prime non-CBD office building, good quality non-central office building, prime out-of-town logistics center, small business unit, one of the Top 5 shopping malls, retail park, and big box retail.

BCP at record low

The first survey took place in the second half of 2011 (H2 2011) and the starting

point value of this index is 100.00. Having been between 95.00 and 97.00 in the subsequent two rounds, the value has decreased to 90.35 by H1 2013.

Office sector

Survey participants' attitude towards rental rates and yields across the entire office sector has not changed significantly. However, marginal upward and downward trends can be observed in three areas over the last four surveys. Maximum rental rates for top CBD offices show some increase (EUR 18/sqm/month, in the last survey) while a downward trend has been indicated by respondents in regards to typical rates for prime non-CBD (EUR 11) and minimum rates for non-central offices (EUR 8.5). In summary, regarding rental rates across all the three market categories, it can be stated that fierce competition rages on. Apart from the most expensive offices in the best CBD locations, rates appear to still be under significant pressure.

Regarding yields within the office sector, responses suggest a marginal outward movement in all three categories, in line with historic trends (yields results from the previous three surveys). Accordingly, the survey shows average yields stand at 7.625%, 8%, and 8.725%, for the three categories respectively.

Retail sector

The most significant change recorded in the survey was in the retail sector, specifically the outward yield movement in the Top 5 shopping malls category, where – according to respondents – prime yields increased from 7% to 7.5%. Following two steps in the direction of reported growth, rental values have now moved back in the negative direction, too (30% in terms of minimum rates and about 12% in terms of typical rates). The typical rental rate has decreased from EUR 40/sqm/month to EUR 35.5 over the last half year, entirely reversing the growth seen in the previous 12 months. This has been one of most influential factors included in the sentiment index.

Similar movement has appeared within the big box retail category and mall-type retail parks, where yields have moved, according to respondents, from 8% to 8.5%. According to the respondents, rental rates for big box retail appears to have remained relatively stable. Opinion on mall-type retail parks rental values have, however, fallen (about 10% on typical and 24% on minimum rates). According to the participants, the typical rental rate for a big box retail space is currently around EUR 7.5/sqm/month, only a slight adjustment to the EUR 8/sqm/month reported at the beginning of the survey. Typical mall-type retail park rental rates are currently estimated at EUR 11/sqm/month, compared to EUR 12/sqm/month reported one and a half years ago.

Logistics sector

When questions turn to logistics, respondents seem to express very solid opinions. Sentiment regarding the investment yield remained as before (at 9.00%), both in regards to prime out-of-town logistic centers and the small business unit category. This is not surprising, especially considering that no actually transaction to place in this market sector.

It seems that the active demand in H2 2012 was cause for optimism amongst professionals and their opinion has changed in the last six months, resulting in a Euro 25 cent decrease in respect to each out-of-town logistics scheme rental type. Considering results from last year's survey, there is no change, however, that can tells us how the rents vary within a fairly narrow range.

While, according to Sentiment Survey's results in the last three rounds, typical rental rates for a city logistics scheme is fixed at EUR 4/sqm/month, the question on minimum and maximum rental rates caused dilemmas for respondents. Based on the answers, the deviation is significant; the highest estimate was four times greater than the lowest.

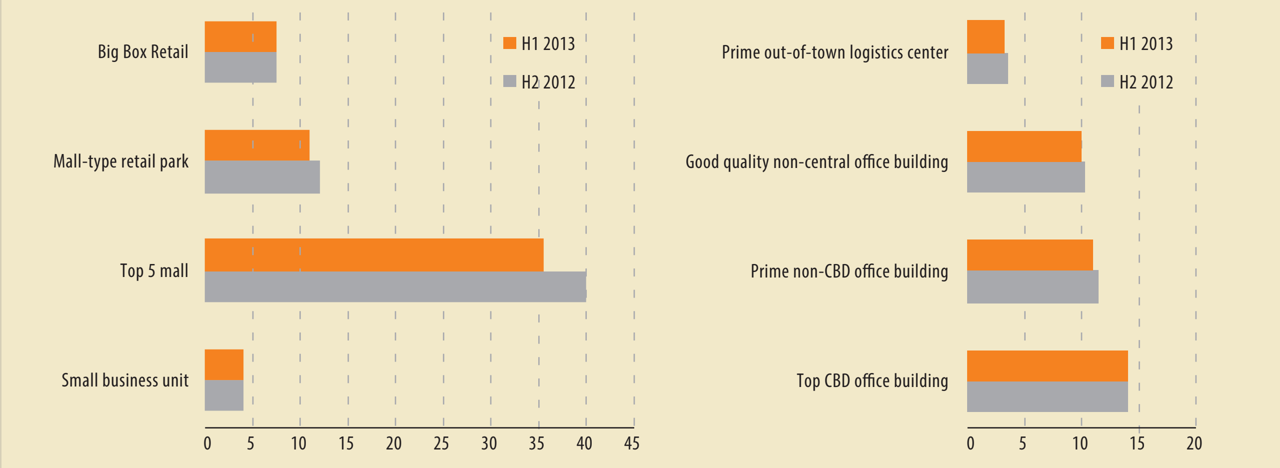
Survey participants

A total of 38 real estate professionals, around 25% with RICS Hungary's membership, participated actively in the current Market Sentiment Survey. Of the respondents, 70% were full RICS members and over 70% of them have more than 10 years professional experience. The surveys completed indicate that about 55% of respondents work for international companies.

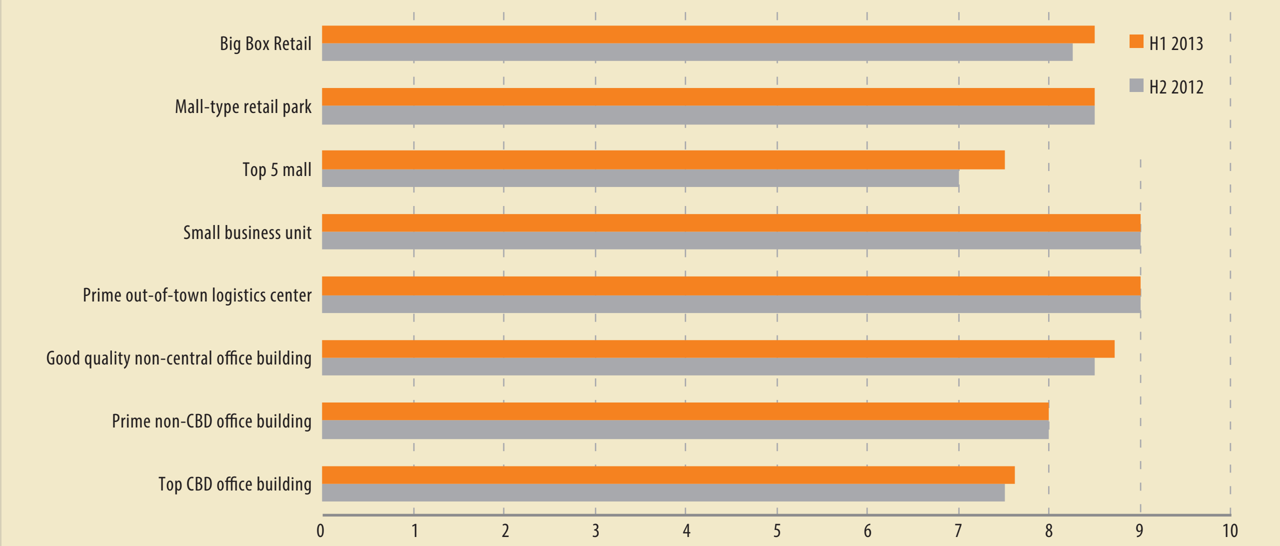
About the survey

The Market Sentiment Survey is a biannual publication produced as a collaboration between the Eltinga Centre of Real Estate Research, Portfolio.hu, and RICS. It has been designed to determine Hungarian senior real estate professionals' assessment of current yield levels and rental rates, as well as general market expectations. The purpose of the Market Sentiment Survey is to improve market transparency by establishing a benchmark for sentiment, drawing on a wide range of professional expertise. All Hungarian RICS members (full members as well as candidates for membership) were invited to fill out the questionnaire, which was prepared by RICS and Portfolio.hu. The survey asked participants to express their opinions on current market yields and rental rates as well as future market expectations. We used median values to assess the estimates, which acts as a way to filter extreme values, providing a clear picture of the current market consensus. All values included in the tables and in the article are median values.

Change in rent opinions (euro/sqm/month)



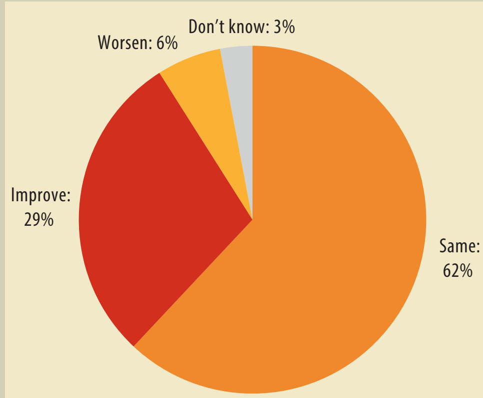
Change in yield opinions (between H1 2013 and H2 2012)



Market Sentiment Survey: All results in one table (all median figures)

	Yield (%)	Rent (€/sqm/month)		
		Typical	Mini-mum	Maxi-mum
Top CBD office building	7.63	14	12	18
Prime non-CBD office building	8	11	9.75	13.5
Good quality non-central office building	8.73	10	8.5	12
Prime out-of-town logistics center	9	3.25	2.5	4
Small Business Unit	9	4.00	3.13	5.5
Top 5 shopping malls	7.5	35.5	22.5	55
Mall-type retail park	8.5	11	7.25	16
Big box retail	8.5	7.5	6	9

How do you think investment appetite for property will change over the next six months?



SOURCE: ELTINGA, RICS, RESOURCE

A billion Euros every year

What is the most attractive market in Europe these days? Why have investors started getting more cautious about Poland? We interviewed Dr. Marcus Cieleback, Head of Research at the German company Patrizia Immobilien AG.

What has Patrizia recently acquired and what are the plans for 2013-2014, in terms of new acquisitions?

Growth remains at the very top of our agenda. Our aim for the coming years remains growing our assets under management to at least EUR 10 billion by 2015. For 2013 and subsequent years, we anticipate an increase of at least EUR 1 billion per year, so, we are planning to be active on the buying side in the coming years.

How do you see the euro zone debt crisis? Is the worst already over or yet to come?

The worst might be over, but it will be a long time before we will return to normal. I do not believe that any country will leave the euro zone mostly because, in that case, speculation against other euro zone countries would start immediately, which could then lead to a situation where not enough rescue funds would be available. Ultimately, this would lead to the end of the European integration as we know it today. Therefore, I think it is very unlikely that any member country of the euro zone would leave the currency union.

In terms of yields and investment volumes, what do you expect for European real estate markets in 2013-2014?

Prime yields will harden further as investors search for prime products and as a result of their great aversion to risk, still a very influential factor in Europe. At the same time, secondary yields will remain stable at best. Total returns will, therefore, remain in the single digits and most likely

not return to double digits in the foreseeable future.

What about the CEE property markets? May we still speak of 'one big CEE region'?

We do not have one CEE market any more. Poland and the Czech Republic can be considered one market and they are very close to the old, pre-crisis, CEE-levels. The rest of CEE is more or less a region risk-averse, core investors are still trying to avoid, at least in 2013 and possibly also in 2014.

Most institutional investors prefer Poland these days. Don't you think that, to some extent, a market bubble is taking shape in Warsaw? Are you looking at other CEE markets as well?

All in all, Poland is also our favorite in the CEE, but you are right in pointing out the risks associated with high demand, limited supply, and Poland's deteriorating economic outlook. We have one investment in Hungary and are looking for opportunities in other markets, too. However, our investors remain skeptical about the rest of the region. I think Croatia's EU accession will not boost institutional investments in the short term, rather possibly in two to three years' time.

What is your favorite market and favorites asset type in Europe at the moment?

Ireland is one of my favorites right now, especially the emerging REIT sector over there and prime office and retail in Dublin, also. Additionally, I would have a look at Denmark.

Some are soaring, some are still falling

The 2008 crisis hit almost every sector in the world. However, thanks to the earlier developed bubble, it really was the real estate sector (and, in particular, the housing market) that was most greatly affected by the global recession.

GERGELY DITRÓY

Continents and countries have been disproportionately damaged, thus, we can see significant discrepancies in the level of damage experienced by various countries' housing markets: the U.S. is recuperating, Europe is stagnant and polarized, and the CEE region is still unable to recover.

USA vs. Europe

According to the latest **S&P/Case-Shiller** *Home Price Indices*, the U.S. housing market is experiencing a visible and durable revival. The national composite rose by 1.2% in the first quarter of 2013, compared to the previous quarter, Q4 2012. The annual increase was almost staggeringly above 10%, with New York realizing just over 2% growth. European housing prices are not on the rise; on the contrary, according to some country indicators, they are still dropping. Estonia, Latvia, Malta, and Luxemburg are some positive EU examples, even if it should be annexed that Baltic countries actually recorded a nearly 40% drop in 2009. Norway and Iceland (outside the EU) are also performing well. According to officially available data, not surprisingly, the countries from the CEE region going through the most serious economic difficulties (Spain, Portugal, Slovenia, Romania) have also experienced the biggest drops in prices. Interestingly, the Netherlands, which has again entered into recession but is still quite stable, has experienced a very serious fall in prices, probably also explainable by the burst of a previous price bubble.

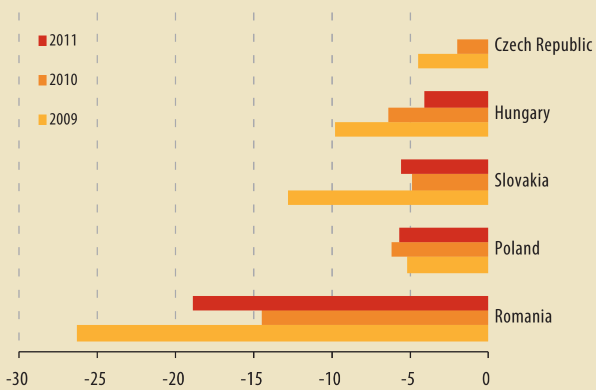
After all, it looks like the U.S is recovering from the bubble burst. Although its price increase is quite impressive, it is not likely to be as dynamic as it was prior to the 2007 peak. All in all, the trend, complete with smaller and larger swells, is clearly positive. Some corrections, however, are still expected in the coming years, especially in certain submarkets.

Europe, in the meantime, is still looking to find its way. Compared to the relatively uniform picture of the U.S., the European market is much more polarized. On one hand, there are high-performing countries experiencing significant price increases and on the other, there are countries with long-term economic problems, where simply minimizing the price fall remains their primary objective. Yes, the CEE countries belong to the lesser-performing group, yet outlook on a whole for the coming years is positive, thus, they could very well find themselves as investment targets for domestic and international investors.

Regional trends

What we can say about our region is that, as is the case with other real estate submarkets, it is Poland whose housing market is the strongest and most developed. This is true whether we compare the housing price indices or the number of new dwellings completed. The number of newly built homes and price changes are typically closely related (except in exceptional cases) as developers gravitate to countries where they foresee potentially

Growth in residential price indices (annual change in %)



SOURCE: EUROSTAT, RESOURCE

Quarterly and annual house price developments

	Percentage change compared with the previous quarter				Percentage change compared with the same quarter of the previous year			
	2012				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Czech Republic	-0.4	0.1	-0.2	-0.1	-1.5	-2	-1.6	-0.7
Hungary	1.2	-3.8	-0.8	-2.2	-1.5	-4.4	-3.9	-5.6
Poland*	c	c	c	c	-2.2	0.3	-1	0.8
Romania	3.8	-0.6	-4.2	-7.9	-9.5	-8.9	-5.6	-9.1
Slovakia	-0.2	-0.9	0.7	-2	-2.6	-2.1	-1.9	-2.4
Euro area	-0.4	-0.2	-0.7	-0.5	-0.6	-1.8	-2.2	-1.8
EU	-0.2	0	-0.4	-0.7	-0.7	-1.4	-1.7	-1.4

C=CONFIDENTIAL — *SOURCE: EUROSTAT, REAS, RESOURCE*

Capital city	Dwellings completed 2007–2011	New dwellings per capita[1]
Warsaw	75,668	4.5%
Budapest	38,894	2.3%
Prague	32,778	2.5%
Bratislava	15,756	3.4%
Bucharest	13,244	0.8%

SOURCE: JLL, REAS, 1=RESOURCE

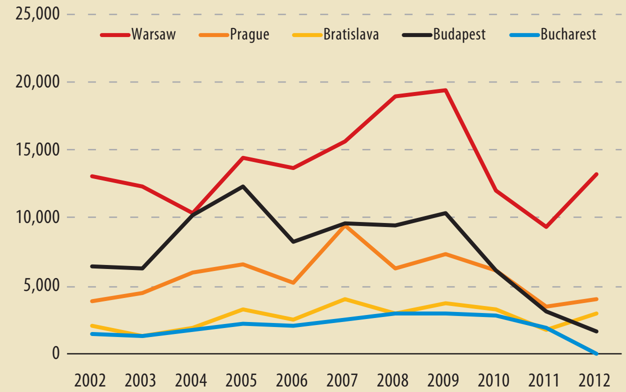
greater price increases. As soon as other regional countries – apart from Poland – begin to indicate rising price indices, the number of completed dwellings will probably also grow. Due to the variety in economic, social, and demographic features, it is hard to predict when the breakthrough will happen for individual countries and when exactly currently stagnant (or dropping) home price indices will begin to improve. However, there is a strong sense that the turning point is close, and investors have to pay close attention if they want to take advantage of the best timing for their buy.

A survey published by **REAS**, in cooperation with **Jones Lang LaSalle**, reports on the number of completed dwellings in CEE capitals between 2007 and 2011 as well as on the growth of the capitals' home price indices. Not surprisingly, Warsaw is leading the list with over 75 thousand new dwellings. Compared to the population, this represents a 4.5% share. Budapest is next on the list in terms of number of completed dwellings, followed by Prague, Bratislava, and Bucharest. Compared to the population, Bratislava has significantly more new homes, while Prague only a few more. Bucharest is the last on the list in every aspect. This city was hit hardest by the crisis, as a grotesque price bubble manifested within the pre-crisis period that proved unsustainable for many reasons.

Future prospects

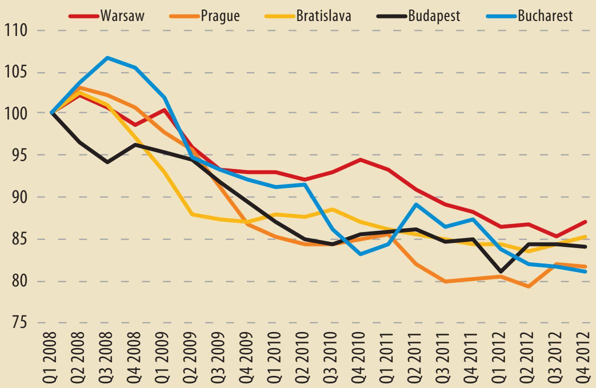
On a regional level, housing prices are still on the decrease. However, stabilization and a slight price increase can already be observed in some sub-markets and with some property types. All across the region, small towns and rural areas with limited economic growth potential and high unemployment are the most likely to experience further price decreases. Cities and regions that are able to attract capital, certain submarkets at the center of a given county's economy (like property targeting the creditworthy upper-middle class, or in a good location, and with good public transport connections), have already reached their lowest point. Investors are now enjoying a 'protracted moment', the point at which it is worth considering investing in the housing market of a CEE capital or of a major city.

Dwelling completions in CEE Capital Cities, 2002 – 2012



SOURCE: JLL, REAS, RESOURCE

Quarterly Growth in Residential Prices in CEE Capital Cities 2008 – 2012 (Q1 2008=100)



SOURCE: JLL, REASRESOURCE

1 QUESTION – 6 RESPONSES

Six people, six opinions

Outlook for 2013-2014 on the CEE development and investment market. How is the CEE property market doing during a very difficult time in the Euro-zone? Which markets are the most attractive in CEE at the moment? Leading CEE real estate decision makers shared their views with us.

CSANÁD CSŰRÖS

Árpád Török, CEO, TriGranit Development

TriGranit's flagship market is still Poland. We will soon unveil our latest project, the 164,000 sqm GBA City Center in Poznan, while we continue our development in Krakow. After successful opening of our first three office towers next to Bonarka City Center in Krakow, we are due shortly to deliver the latest addition to this project B4B "D".

The Torgoviy Kvartal in Naberezhnye Chelny, Russia is one of our most prestigious and popular projects. Following our successful past performance, we have now commenced development of Phase II of the mall.

Furthermore, we are making special efforts to complete Emonika City Center in Ljubljana, Slovenia.

There is a sensible deviation of subregions within the CEE. While Poland and Russia are performing generally well, the central and southern parts of Eastern Europe, including the Balkans, are experiencing a visible slowdown due to lack of capital and weaker demand. On the other hand, there are still good private opportunities where the combination of location, demand/catchment, and concept can result in some great projects. Nonetheless, very thorough preparatory work is definitely required before embarking on such a project.

TriGranit has widespread experience in new city center prototypes; suffice to say, the two examples exemplifying this are WestEnd City Center in Budapest and Silesia City Center in Katowice. Our key target is to develop combined commercial projects including retail, office, hotel, and transportation hub components.

At the same time, we still seek retail and office development opportunities within our target countries.

John Verpeleti Managing Director, Colliers International

We have interesting scenarios developing because the yield gap between the most popular and least-favored markets is greater than it has ever been. In theory, this should be creating a good deal of interest in markets that have fallen out of favor. The theoretical argument is reinforced by the yield-rent combination, as it gives an even more favorable picture than the one-dimensional yield figure. But there remain political and/or economic issues within several markets which international Investment Committees and/or Fund Managers remain very uncomfortable with. And the huge inhibitor in most markets has not gone away either: the lack of finance at a reasonable cost.

I cannot see any reason for major swings in yields in any market or sector, but much will flow from what happens in the region's leading city, Warsaw. Some are discussing a move away from the very dominant Poland, as the economic story is not what it was and in-market property issues (like pricing, product, and supply) make their impact.

There is continual talk about distress opportunities and increasing sale and leaseback activity, but I don't see any material uplift in numbers for either of these within the 2013-2014 review period. Secondary and tertiary properties will continue to struggle, although it is interesting to see re-pricing in the tertiary segment producing some activity. Limited contrarian interest is emerging and this may trend. The same can be said for opportunities to develop or co-develop prime stock – where it will be needed. But it is true to say that the investor pool remains limited and has not grown since it shrunk post-Lehmann. There is some local capital finding its way into markets, but not at levels to alter overall historic balances. I do not see the more expensive, new debt options that have been discussed doing much to alter the shape or practices of our markets.

The sector to look at? I have a soft spot for logistics; perhaps because it has suffered a lot and perhaps, partly, because I believe recovery will show signs there first. But that view is based on a "gut" feeling, rather than anything too scientific or analytical.

It is a timely reminder to note that the pioneers who picked well in the early days did extremely well when the markets turned, so, I do think we will be seeing increasing commitment to the CEE markets. But, as market-changing catalysts have yet to arrive, this will be part of a gradual process of change.

Ioannis Ganos, Investment Manager, Bluehouse Capital

I have a positive outlook for Central and Eastern Europe. I think that most of the CEE markets have been corrected, which means that a significant repricing has taken place in these countries both in terms of capital values and rent. Therefore, I think that (unless a radical exogenous negative shock hits these countries) the CEE-market will stabilize. Chances for a large exogenous shock are less than they were before, however, since it ▷

FROM LEFT TO RIGHT: 1. ÁRPÁD TÖRÖK, CEO, TRIGRANIT DEVELOPMENT; 2. JOHN VERPELETI, MANAGING DIRECTOR, COLLIERS INTERNATIONAL; 3. IOANNIS GANOS, INVESTMENT MANAGER, BLUEHOUSE CAPITAL; 4. CHARLES TAYLOR, MANAGING DIRECTOR – HUNGARY, CUSHMAN & WAKEFIELD; 5. RUDOLF RIEDL, MANAGING DIRECTOR FOR HUNGARY AND SERBIA, RAIFFEISEN EVOLUTION; 6. MICHAEL KLEMENT, HEAD OF INVESTMENT MANAGEMENT CEE/SEE/CIS, CA IMMO

is mostly a political issue, it is very difficult for investors to predict the outcomes. Yet, I think that ECB has realized the seriousness of the situation and has taken necessary measures to create a balance.

Of course, we have to acknowledge that the CEE region consists of countries with very different fundamentals, with Poland performing the best at the moment. Bluehouse Capital is planning to expand further into CEE, looking at potential acquisition targets mainly in Poland, the Czech Republic, and Hungary. Our focus is mainly the office and retail markets. You can find very attractive assets in all of these countries.

Charles Taylor, Managing Director – Hungary, Cushman & Wakefield

We continue to see a fair amount of interest in the region on the part of investors, with a notable focus on Poland and increased activity in the Czech Republic. Investment volumes in Poland for 2014 are likely to – at the least – match those from last year, whilst activity in the Czech Republic could double, given the transactions currently in due diligence. That said, investment demand continues to be very specific with its targets, with increased caution for places where the development pipeline appears to be gorged. Liquidity remains a key concern for most investors.

Core money continues to target dominant shopping centers in Poland, as evidenced by Allianz's recent acquisition of Silesia City Center for EUR 412 million. This follows transactions of similar proportions at Zlote Tarasy and Manufaktura last year. Arguably, investor appetite for trophy office assets in Warsaw is slightly less prevalent than it is for their retail counterparts, as concerns have surfaced regarding the sustainability of office rental rates. Vacancy rates also show signs of being on the rise, as the development pipeline picks up the pace. The sale of New City to Hines and Senator to Union demonstrates a high level of demand in the EUR 100 – 200 million bracket; whilst the competition amongst investors for the below EUR 100 million category is even stronger.

Regional cities in Poland have begun to attract investor's attention, too, (for instance, as they have with RREEF and Deka) and target locations include Warsaw, Krakow, and the Tricity metropolitan area.

Meanwhile, the logistics sector continues to attract investment interest across the CEE region. Norges completed a joint venture with Prologis, creating a pan European portfolio with significant CEE exposure. Blackstone remains acquisitive, with its core money targeting prime logistics rentals with long-term leases.

CEE market prospects continue to give off mixed signals, as investors continue to focus on risk aversion. Poland remains the darling of the region, despite moving into a more challenging part of the cycle with a slower, but still healthy, level of economic growth. Despite a small contraction in the Czech Republic's economy, fundamentals now look encouraging and, with the increasing liquidity of this market, investors who have bought in Poland (or who find current pricing too rich for their blood) are expected to turn their attention towards Prague where quality products are available. Hungary and Romania remain for the brave at heart, but there are some more positive signals being sent out from here and it is merely a matter of time before activity starts to pick up.

Rudolf Riedl, Managing Director for Hungary and Serbia, Raiffeisen Evolution

Raiffeisen Evolution is present in most Central and Eastern European countries. I think that the CEE region itself is quite diverse, with vast differences between the particular countries. Poland is still the best performing market, even though acquiring bank finance is increasingly difficult there, as well. The Hungarian investment market is currently at standstill; there are no transactions, mainly due to the lack of political predictability. In Romania, certain parts of the country are doing relatively very well, notably, some larger cities in Transylvania and Bucharest. Raiffeisen Evolution is currently developing a shopping mall in Bucharest that due to open this autumn, which is already nearly completely leased out. Croatia and Serbia are countries with a relatively positive outlook, too. Croatia will join the European Union in July 2013, which will bring a sort of dynamism to this market. Serbia is applying for a membership and market sentiment is positive there. Even though securing capital is a problem and interest rates are quite high, the market is working and the market is developing (especially in Belgrade, the gateway to all the Balkan countries; be it Bosnia, Montenegro, or Macedonia). Actually, it's Austrian market players who are currently the biggest investors in Serbian big cities, investing in, for instance, Belgrade, Nis, Novi Sad, and Kragujevac.

I think that Central and Eastern Europe's long-term prospects are rather positive. Right now, the euro zone is divided into two groups: the first are strong, export-driven economies such as Germany, Austria, North Italy and the second are weak, under-industrialized southern economies like Greece, South Italy, or Portugal. In this respect, CEE economies are attractive, since most of them are industrialized countries with high productivity and a highly skilled labor force. I think that once the euro zone overcomes its crisis, the CEE region will be, once again, the engine for economic growth in Europe.

Michael Klement, Head of Investment Management CEE/SEE/CIS, CA Immo

Following two years of strong expansion, CEE's office investment volume dropped by 35% in 2012. The sharp corrosion in economic conditions coupled with uncertainty and political risk made investors more averse to taking risks. At the same time, on the supply side, the reduction in development activity over the past four years has led to a lack of prime assets for sale in some CEE markets. 2013 will remain stable in terms of investment volume and investors, but the core investors have become more selective.

In general, we don't feel the pinch in our portfolio. Tenant relations are pretty important in times like these. So is finding a proper solution for both occupants and landlords, as budgets are shrunk and shorted. Our portfolio has maintained a very high and healthy occupancy as a result of our hands-on asset management approach.

Regarding our preferences within CEE, Poland in remains top rank, followed by the Czech Republic. Then we see a bigger gap and there is Romania and Slovakia and, currently, Hungary is still under pressure due to the political situation. Mostly opportunistic investors are active and trying to maximize their return in those three countries. We, at **CA Immo**, are focusing on core office assets located in the CBD of the capitals in our five core markets, namely Poland, Czech Republic, Slovakia, Romania and Hungary.

SEE as the new investment destination

The SEE region offers potential development and investment opportunities with higher potential returns for increased risk profiles than do the more established, but increasingly competitive, markets in Central and Western Europe.

DAVID LAWRENCE

Push factors include: development and acquisition possibilities in relatively untapped markets, yield premiums in, for example, the following; Poland, the Czech Republic, Slovakia and North Europe, and favourable forecasts on GDP growth rates. Furthermore, Croatia will join the EU in July and Serbia, having been granted candidate status, is on its way.

However, a major obstacle to development of the markets in Romania, Bulgaria, Croatia, Serbia, Slovenia, and Montenegro remains the difficulty of obtaining development and investment debt finance, as SEE county risk has increased in the eyes of lenders, who are now pursuing very cautious strategies regarding SEE. Negative sentiment has also been expressed concerning corruption and other perceived difficulties that can make the planning and development processes expensive and time consuming. Further, a lack of liquidity is deterring developers and investors who require an exit strategy. Other potential drawbacks include limited access to accurate market information in largely opaque markets where many deals are off-market and there is a perception of unrealistic pricing expectations from vendors.

The economic downturn has severely restricted development pipelines in Romania, Croatia, Serbia and Bulgaria. Despite concerns over fiscal issues, GDP growth forecasts look promising for Croatia, Romania, and Serbia. They are forecast to achieve higher GDP growth rates than EU and Euro zone averages. According to **HS Global Insight**, Croatia's GDP growth is forecast at 1.2% for 2013 and 2.74 for 2014. Romania's GDP growth is forecast at 1.2% for 2013 and an impressive 2.74% for 2014. For Serbia, 1.96% growth is forecast for 2013 and a very positive 3.73% for 2014.

Obstacles that are commonly associated with development in Croatia are high taxes, various bureaucratic obstacles to obtaining permits, binding legal opinions, and the perception of corruption.

In response to the demands of tenants and investors, the majority of developers across SEE are seeking BREEAM, LEED, and DGNB certification. For instance, the latest project by **Portland Trust**, the EUR 80 million *Floreasca Park* in Bucharest, has a ground-sourced air conditioning pump system about 120 metres deep, which pre-cools or pre-heats the air before it gets into the building system. This is a first in Bucharest, as well as a novelty in CEE, and should result in around electricity savings of around 30-40%, says Managing Director of Portland Trust, *Robert Neale*.

The 62,000 sqm business park includes 38,000 sqm of net office space, 25,000 sqm of which has been pre-leased to **Oracle** for a ten-year period. The lease met the 65% pre-lease requirement they needed to gain the required debt finance from the banks, says Neale. The project is currently 85% pre-let and is due for completion in October 2013.

Neale paints the development process in Romania in a positive light. "There has generally been a one-point yield differential between Prague and Warsaw and I have to assume this is due to the psychological or country risk, since it is no harder to do business in Bucharest than it is anywhere else in the region. From a real estate perspective, there are good tax structures, freehold title, improving infrastructure, and a choice of international contractor. The country has an unfortunate reputation, however, in my opinion, this is mostly unfounded. The regulations and planning guidelines in Western Europe are clearer and more predictable in regards to receiving planning permission, whereas, here, it tends to be inconsistent and open to interpretation."

Neale further argues that it is more complicated to get the infrastructure lined-up in Romania and you have to through a lot more procedures in order to acquire the necessary permits. "Whether it is water, sewage, gas, or electricity; you have to get a building permit for each one. Whereas, in the Czech Republic, the institutions are more organised and transparent and there is a price per meter and you know what it's going to be and it's easier to work out the cost of connections. In Romania, it is a bit blurred."

Due to the perceived 'greater' country risk, SEE has to offer a significant premium on investments in order to attract companies away from the more established markets. **Jones Lang LaSalle** (JLL) put prime office yields in Belgrade at 9.25% and both Bucharest and Zagreb at 8%. This compares to 6.25% in Warsaw and 6.50% in Prague.

"The only reason they are going to look at SEE is the yield gap. The problem we have in Serbia is that the majority of buildings are owned by local developers. They, perhaps, don't see and appreciate the gap in pricing between Poland, the Czech Republic, and Serbia. That price reflects the country risk, plus the additional risk associated with investing in Serbia. For example, some investors will not look outside the EU. The biggest difference between Croatia and Serbia is the EU," emphasises *Andrew Peirson*, Managing Director of JLL Serbia.

Although SEE has not attracted the top institutional investors, leading companies such as **Europa Capital**, **Immorent** and **Chayton Capital** have all been active as investor/developers in the region. For instance, one favoured investment vehicle is for an investor to undertake a project in partnership with a local developer or constructor.

Croatia has ample opportunities for development and investment along the Adriatic coast. **Hypo Alpe-Adria Bank**, for one, is selling its 380-guest room *Le Méridien Lav Hotel,* plus adjoining resort and marina (totalling 4.4 hectares of prime beachfront property). "Le Meridien Lav Hotel and Resort offers a unique opportunity to purchase an internationally branded, market leading five-star hotel and resort. Croatia's ascension into the EU in July of this year is anticipated to improve the country's long-term stability and boost its tourism industry," said *Angus Wade*, Executive Vice-President at JLL Hotels & Hospitality, the company managing the sale.

While Romania did not attract institutional investors during the peak of its pre-economic downturn, still, a landmark transaction took place in the purchase of the *Central Business Centre* (CBC) in Timisoara by South African investor **NEPI** for a reported EUR 95 million. This was a serious milestone for the Romanian market as it was the first prime office complex located in a city other than the capital to be traded to an international investment fund.

SWAN OFFICE & TECHNOLOGY PARK, BUCHAREST

"In the short term, people will be enthusiastic about joining the EU and the event will be a big party. From the mid-term, if we look at it from the perspective of 2013, 2014, and into 2015, we can expect some major positive changes and we are already seeing interest from new international players and tourism in logistics centres in Croatia and office space in Zagreb. Obstacles to change remain the slow administrational system and corruption. What we lack is a positive approach to new investors coming to Croatia," commented Director of Colliers International Croatia, *Vedrana Likan,* on Croatia's imminent EU accession.

As for increased activity in SEE, much relies on the availability of debt finance and continued economic growth in the region.

EU accession brings development opportunities to Croatia

With its EU accession this summer, Croatia will present investors and developers alike with significant opportunities. However, this is a harsher economic environment than that in which the first two waves of CEE EU accession occurred: real estate markets in Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria, Slovenia, and the Baltic States developed considerably after joining the EU.

DAVID LAWRENCE

A FURTHER concern is that Croatia still faces its own fiscal hiccups; having slipped back into recession in 2012 and facing the IMF forecast that the economy is due to grow by less than 1% this year. Further, unemployment has hit 20% and real estate investment volume has been low, with a limited supply of investment grade product. With regard to the development process, Croatia has a reputation for bureaucracy and unpredictability and the various market sectors suffer from a lack of visibility.

"In the short term, people will be enthusiastic about joining the EU and the event will be a big party. The reality will hit when we realise that nothing major or instantaneous will change for the Croatian economy and real estate and construction markets are a large component of this. From the mid-term, if we look from the perspective of 2013, 2014 and into 2015, we can see some major positive changes; there is really no space for more negative trends in Croatia, as we have really hit the bottom. From a positive view, we are already seeing an interest in logistics centres in Croatia, office space in Zagreb from new international players and tourism. We can expect a major turn in the economy in 2015 and not before. Obstacles to change remain the slow administration system and corruption," said Managing Director of **Colliers International Croatia**, *Vedrana Likan*, commenting on EU accession.

Since 2004, regional investors have been active on the Croatian market, with a number of acquisitions and development projects. Further, developers such as **Immorent**, **GTC**, **TriGranit** and **HB Reavis** have undertaken development projects in partnership with local developers and constructors. Major planned projects include TriGranit's 40,000 sqm office component of the *Arena Centar* in Zagreb and two development sites overseen by GTC, who does not rule out proceeding with the development of at least one of these. HB Reavis plans to develop a EUR 60 million, 34,000 sqm office tower in Zagreb scheduled for handover in 2014. This year, *Sky Office* complex in Zagreb is also due to receive a second tower.

In general, it is hoped that EU membership will improve sentiment towards the Croatian markets. "First of all, accession to the EU should change the perception of the Croatian market and increase investor interest in quality investments. If the government manages to implement

new legislation regarding the promotion of investment and the law on strategic investments then 2013 could bring some positive changes in the level of direct foreign investments. EU accession should improve business sentiment and bring changes in investors' perception of Croatia," says Likan.

With the implementation of government investment measures in Croatia, expected GDP growth is forecast to help solidify current yield levels. "I would put yields at 7.5-8.5% for prime office and retail and 9.0-10.0% for industrial. However, it is only when we have seen some transactions take place that we will really know where yields are at," commented *Arn Willems*, Country Manager at GTC Croatia.

According to Colliers International, prime yields in retail rose to 8.5% due to the depressed retail sector and drop in private

consumption, which strongly affected retail trade performance. Prime office yields are put at 8.5% and industrial yields remain unchanged at 10.5%. However, yields, characterised by low liquidity, face uncertainty in the current market environment.

"EU accession will make retail somewhat more favourable, as there will be no customs tax. This should also give a certain level of comfort to retailers looking to enter the market. In the office sector, there will also be an impact in the sense that there should be an increase in activity for many companies, which will result in a need for more office space. Perhaps the biggest change will be that more institutional investors will start to take Croatia seriously into consideration when deciding where to invest, which should lead to more liquidity on the investment market. This means that we will see more property (shopping centres, office buildings, logistics parks, hotels, etc.) exchanging hands more regularly which creates a 'healthier' market," explained Willems.

The key challenge facing the retail industry is how to deal with the abundance of supply brought on by the rapid development that took place in the previous decade as well as the sharp decline in consumer spending and growth that followed. This predicament is already leading to fierce competition for tenants between landlords and the balance of power during negotiations has shifted dramatically in the favour of tenants. The retail market will be mostly driven by positive expectations regarding disposable income growth, which would increase sales volume and also put positive upward pressure on rental levels. However, this indicator is has not yet shown signs of recovery for 2013.

According to some pundits, investors' interest is expected to move from the construction of office space and shopping centres towards hotels and other service-related real estate activities. Naturally, there are significant opportunities for development and investment along Croatia's Adriatic coastline. For example, **Hypo Alpe-Adria-Bank** has appointed **JLL Hotels & Hospitality Group** to sell its 380-room *Le Méridien Lav Hotel* (as well as the adjoining resort and marina spanning 4.4 hectares) located on the Adriatic coast. Another Croatian group is looking for international investors and developers for a massive leisure, residential, and hotel complex close to Dubrovnik. The proposed first phase would develop around 1 million sqm of real estate space.

However, not everyone is convinced. *Tim Norman*, Chief Executive of **Europa Capital Emerging Europe** sees some red flags for the development process. "All real estate in Croatia is overpriced, although there are possibilities in logistics and the coastline needs to be developed. However, having looked at this seriously ourselves, the planning laws are so complicated that, even if you can get a project that follows all the rules, you could still find that there is sufficient corruption to stop you."

The logistics market remains subdued, as the only significant transaction last year was an 18,000 sqm project located near Zagreb, developed by Immorent and delivered to **Immopark**. However, EU accession will be coupled with the entry of new retailers and cargo. Distribution players could act to stimulate the industrial market, increasing its appeal to foreign investors and operators.

"Obstacles that are commonly associated with the investment market in Croatia are high taxes, various bureaucratic obstacles such as obtaining permits, binding legal opinions, as well as the high perception of corruption in Croatia. However, changes are expected to bring positive changes in investment activities in the following years," concluded Likan.

Hungary has become a Baltic State

Similar to the Baltic States, Hungary is far behind even in the imaginary regional competition for bank loans. In the other countries, everything is a bit less: less Forex debt, less government burden, and a slighter, more modest decline in domestic lending activity.

ISTVÁN PALKÓ

Corporate lending: the region divided in three parts

The question as to whether it is that a credit boom would set off economic growth or, rather, it is the other way round is a classic 'chicken or the egg' problem. The region could soon become an interesting laboratory, as the picture, in regards to GDP development and lending activity, is quite diverse. In any case, it's safe to say one thing about Hungary: climbing out of the recession, which Q1 2013 data suggests is now happening, won't be attributed to the resurface of lending activity. Capital loans are still at their lowest levels here in Hungary and the investment rate is currently slightly above 15%, which is the average for the EU's periphery countries. The drop in domestic demand is further exacerbated by the scarcity of bank credit, clearly the consequence of parent banks' deleveraging.

Based on their corporate lending activity during (and after) the crisis, countries can be divided into three main groups. The first group includes the Baltic States and Hungary. Here, corporate lending activity has dropped durably and clearly: the credit portfolio is nearly one fourth of what it used to be five years ago. The second group, consisting of the Czech Republic and Slovenia, shows a moderate decline, yet both with very different timing. In the Czech example, a significant fall was registered between 2008 and 2010 and, in Slovenia, this happened only after 2011. The Slovenian banking sector is in a transitional stage: the sector still has privatization and portfolio cleaning ahead, thus, the Slovenian drop is certainly not yet over. On the contrary, the Czech Republic's credit activity is growing, despite the recession. This intermediate group includes also Slovakia where, similarly to the Czech Republic, corporate lending is still at 2008 levels. The third ("lucky") group includes Bulgaria, Romania, and Poland. In these countries, the situation started to deteriorate only in 2012, hand in hand with the slowdown in economic growth. Despite the slowdown, banks' corporate loan portfolio is 13-17% higher today than it was before the crisis. But, in fact, this split is not only typical in this region - lending activity in the euro zone is falling in the periphery countries (the places hit hardest by the crisis), while it is actually increasing, albeit moderately, in core EU countries.

In most countries across the region, credit conditions tightened dramatically between 2008 and 2009. The alleviation in 2010 was followed by a recent, more moderate tightening of the lending reigns. Conditions for corporate loans have not tightened considerably during the last few quarters (except in Slovenia). Slovenian and Romanian banks have the strictest policies regarding clients: Attributed to the elevated credit losses, credit denominated in the domestic currency hold the highest premiums (around 4% or higher). Slovenia is then followed by Hungary, where corporate lending premiums stand at around the EU average. Generally, companies in

the region can obtain credit in their local currency (and in Euro) for similar or lower interest rates than they could before the crisis (the decrease is particularly true for Hungary, as the base rate was cut several times). However, non-price related conditions are much more restrictive than they used to be half a decade ago. Collateral-based lending has clearly taken a fall, as a company's cash flow generating ability has become the top priority for banks. Accordingly, the number of loans related to property-based projects is insignificant for a majority of the countries in the region.

Retail Loans: Hungary tops the price charts

In regards to retail lending, the picture is somewhat different as its stages of development were already rather dissimilar country-to-country before the crisis. The Hungarian problems, arising from Forex loans, are well known. Similar problems are not observable in other countries, or to far lower extent. Consequently, other governments have been more patient. Meanwhile, Hungary removed almost one fifth of its mortgages, causing banks to suffer HUF 260 billion in losses with its loan repayment option. Therefore, it is worth filtering this specific impact from the regional data.

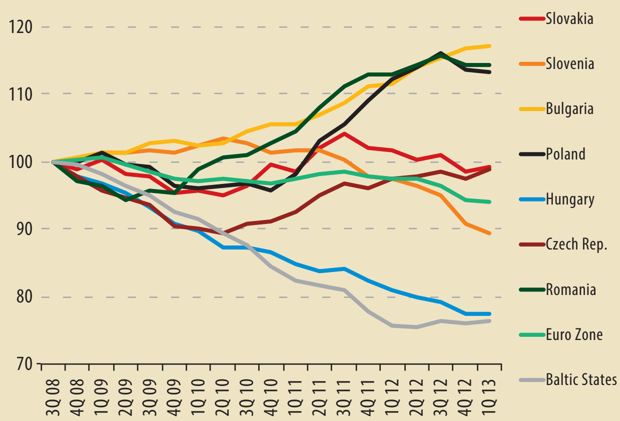
Unlike in the corporate lending sector, Bulgaria and Romania are not the best performers in retail lending. Poland, however, maintains an outstanding performance, although growth has slowed down there also. Slovakia is also performing well. Since the introduction of the Euro, the population enjoys the lowest interest rates in the euro zone. In this extremely torn market, the Czech Republic, Bulgaria, and Romania have been stagnant since 2008 (and Slovenia since 2011). In these countries, customers pay back roughly the same amount of credit as they take out. In recent years, repaid loans in Hungary amount to HUF 300-400 billion more than newly taken ones do. Hungary sits somewhere near last place in the region, alongside the Baltic States.

In terms of lending conditions, the Hungarian processes are also considered to be unique. The non-performance loan ratio being above 18%, the bank levy, the early repayment option, the over exposure in Forex loans and the general tightening of relatively stringent credit conditions, have all forced banks to increase margins. As a result, the premium on new housing loans (calculated based on the total cost of credit) is almost 5% higher than the base rate. This figure is around 3% for the euro zone and, in fact, throughout the region. To compare, the average total cost of credit in the local currency is around 10% in Hungary, 4% in the Czech Republic and in Slovenia, and 5% in Slovakia.

Different bank fates

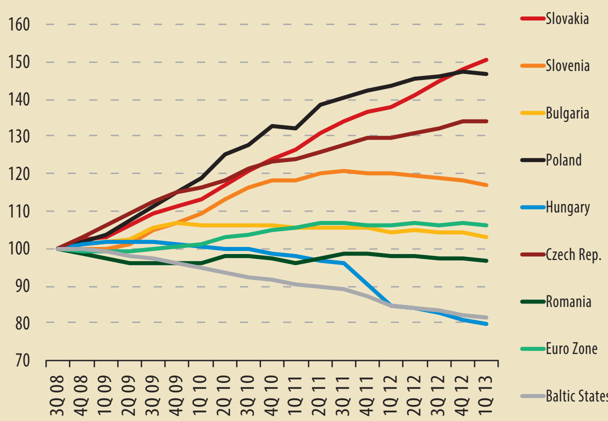
Banks' balance sheets well reflect their lending activity. The once dominant Austrian banks (**Erste** and **Raiffeisen**) have been left with stagnant or moderately decreasing credit portfolios in the last quarters. Analysts express concerns about their capitalization, as it might limit their opportunities for dynamic growth. Nevertheless, from time to time, acquisition rumors, about how the above-mentioned banks are supposed to be the buyers in the transactions, take flight. In fact, the scarcity of credit on the market squeezes **OTP Bank**'s Hungarian activity as well. Its above-average margin and consumer lending programs that it launched throughout the eastern markets have made the bank resistant to domestic constraints and, thus, to the resulting credit losses. Czech and Polish banks, both focusing on one market, are performing well and their profitability is surprisingly stable compared to Hungary.

Changes in outstanding corporate loans (October 2008 = 100, exchange rate adjusted)



SOURCE: MNB, RESOURCE

Changes in outstanding household loan (October 2008 = 100, exchange rate adjusted)



SOURCE: MNB, RESOURCE

The FHB Home Price Index – A unique service for Hungary

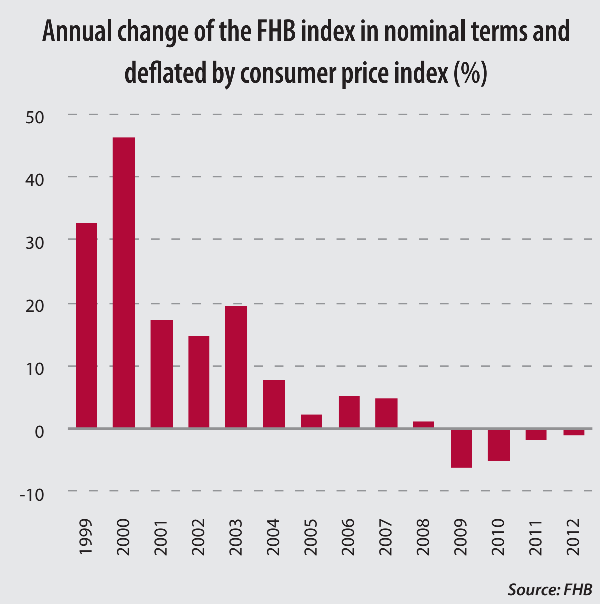
Why is the FHB Home Price Index a unique service on the Hungarian residential market? How does this index contribute to increased transparency of the residential real estate market? Which market players stand to profit the most from this new service?

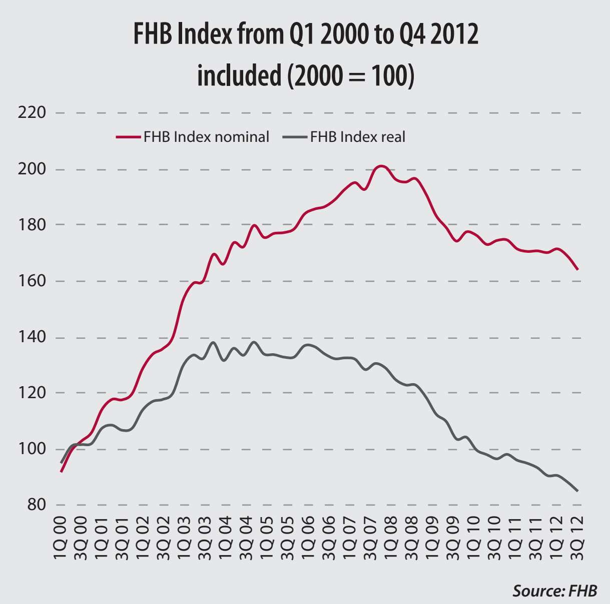
The FHB Home Price Index is Hungary's first transaction-based, residential real estate price index. A unique feature of the FHB index is that it is the first indicator resource that is based on transactional prices. In short, it displays changes in Hungarian used residential property transactional prices from the year 1998 to present, provided in quarterly breakdowns.

The real estate sector traditionally struggles with transparency problems. For one, compared to the financial sector, the real estate market is clearly less transparent. Lack of transparency is demonstrated both in terms of average pricing levels and within the features of residential market transactions. All this stems, fundamentally, from the nature of the real estate market. Everywhere you go the real estate market is amongst the least transparent sectors. However, Hungary significantly lags behind the more developed countries in this respect.

Indeed, since no transparent index (based on actual transactions) has ever existed in Hungary before this point in time, the FHB Home Price Index is truly a stopgap service. Players on the Hungarian market can now keep track of the changes on the residential market, making use of an index that provides statistics based on actual transactions and compiled using transparent methodology. The FHB Home Price Index reliably reports on the mood of the sector as well as on the basic residential market processes in play and the changes in the overall index for the country. In this way, this index assures a significant increase in Hungarian residential market transparency in, and through, its data.

FHB's service is more than your typical national residential price index. In addition to being a nationwide index, the FHB publishes supplementary quarterly reports offering its clients detailed, tailored indices. These indices provide breakdowns by area and/or type of property. Subscribers who order this service will receive a detailed picture of the current climate for any given segment of the residential market, in accordance with their own special strategic business needs and areas of interest.





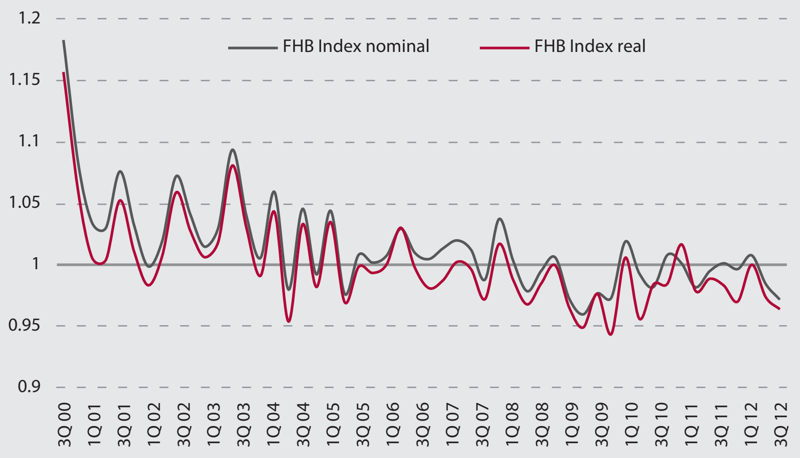
From full speed ahead to full stop

The FHB Home Price Index covers residential market events from the past 15 years. With this analytical data, we can divide the decade behind us into four distinct eras. The first period (from 1998 to the end of 2000) represents a radical increase in both nominal and adjusted inflation prices. Over a period of three years, the value of homes increased by 132% and their value, adjusted for inflation, almost doubled. Favorable changes in the macro economy were responsible for this trend. The population's disposable income grew by 46% during this period and preparations for the home subsidy system increased positive expectations towards the residential market. It must be noted, however, that it was not only residential prices that increased in Hungary during this period, but inflation clocked double digits and consumer prices grew by 30% within these three years.

Residential prices continued their upward trend from the beginning of 2001 on to end of 2003. Yet, compared to the above scenario, it was much more sedate with its average 11% increase in value, when adjusted for inflation. Demand increased after discounted financing faced a revitalized supply market, once new home construction began increasing from 2001. By 2003, the system of subsidies had become untenable for the budget and that is when the first stringency measures took effect and this also affected the homes prices.

Tightening the subsidies system had an effect on the residential market, too, with home values' steep, upward trend finally breaking its course in 2003 and, in the following years, only a 4% rate of increase would be recorded. In other words, at that point, the price increase was keeping pace with the rate of inflation. Despite the reigning in

Change of the FHB Home Price Index (Q/Q)



Source: FHB

of the subsidies system, competition in lending meant lenders were still able to maintain demand, and the volume of loans granted, at levels similar to the previous period, for a few more years. After the subsidies were withdrawn, foreign currency loans, with their lower interest rates, became much more popular and, thus began the rise of the Hungarian population's foreign currency debt. This long, upward trend was due to change course at the end of 2007 when, all of the sudden, news of another development took the foreground: several important residential market indicators began to all point in the same direction, announcing that supply was saturated, demand had decreased, available income had, firstly, leveled off and was, secondly, starting to decrease, and there were an increasing number of reports from abroad concerning the end of the real estate boom.

In FHB home index's historic timeline, the maximum value turns up in the first quarter of 2008, whence the gradual decline in residential prices begins. Compared to the to-date record high residential price levels, national averages were 8.6% lower in the second quarter of 2008. The gradual decline in residential prices took place alongside comparatively lower turnover, which could be seen more in regards to the turnover for used homes, rather than in a decline in the number of newly built ones.

The power of prediction

The greatest advantage of FHB's service package, in addition to its unparalleled collection of data, is its equally exceptional market prognosis. Along with quarterly data, FHB also provides its clients with a range of residential market forecasts. A one-of-a-kind service in Hungary, FHB considers this as an essential tool for aiding its subscribers in making timely economic decisions. For subscribers who are interested in a specific subsection or market sector, FHB also has the capacity to design specialized research products, based on individual client's distinct and specialized needs. These products can provide a company with fully detailed analysis on a specific period of time, a certain geographical area, and/or a particular type of property.

Being able to accurately foresee future trends and predict changes in residential prices is especially important for players on the residential market, since both mid – and long-term the best business decisions always involve keeping one step ahead of the game. The service packages offered by FHB can provide you with the most accurate, reliable forecasts on future changes to residential process and market trends and we see this information as fundamental to any company's future success.

Methodology

The FHB Home Price Index measures the development of Hungarian residential real estate prices. The index is made up of quarterly reports, starting with the first quarter of 1998.

Quarterly disclosures will also contain data from the previous quarter. The first publication, released this October, contains 46 data points – the last of which applies to the second quarter of 2009. The value of the index is normalized using the average for the year 2000 (i.e., the average index value in 2000 is, thus, 100). The index is based on actual sales transaction data from the residential real estate market and was prepared by processing data from over 800,000 residential properties located in over 3,000 Hungarian municipalities from 1998 onwards. The source of this data includes FHB records as well as a database purchased from APEH (the Hungarian tax authority) and from duty offices (prior to 2008).

As not every single piece of property is sold every quarter, our observation is that – even if the transactional data is complete – information often relates to a restricted sample from the real estate stock and that sample is not necessarily representative. In such cases, the development of simple indicators (i.e., the average and median price) is affected by the type of property in transaction during the given period (in other words, by the composition of the sample). When computing the FHB House Price Index, we manage to use a "composition effect," a sort of hedonic method widely used within the field. The composition effect is created when there are changes in the regional distribution. If, for instance, there were more transactions in Budapest during one certain period (as compared to other periods) then the hedonic method corrects for these.

FHB INDEX
URL: www.fhbindex.hu
E-mail: fhbindex@fhb.hu
Direct line:
+36 (1) 452-7999
Address: 1082 Budapest,
Üllői út 48.

ZSOLT MOLNÁR
Vice-managing Director
FHB Real Estate Zrt.
Phone: +36 (1) 452-9208
Mobile: +36 (30) 748-3913
E-mail: Molnar.Zsolt@fhb.hu

DR. GYULA NAGY
FHB Mortgage Bank Nyrt.
FHB Index Project Manager
Phone: +36 (1) 452-5930
Mobile: +36 (30) 964-6087
E-mail: Nagy.Gyula@fhb.hu

All quiet on the Western front?

While the macroeconomic outlook is far from promising, some European retailers are still planning further expansion in 2013. The available prime space is quite limited in the mature markets; thus, emerging markets offer far greater opportunity for expansion. With multichannel retailing becoming increasingly prominent, online shopping remains on par with store expansion as an important area of growth in 2013.

BÁLINT NAGY

The macroeconomic outlook, also backed by the latest surveys, suggests that 2013 won't be a year of expansion for most retail chains' European locations. Research by **CBRE** indicates that ambitions towards expansion have dropped most significantly in Italy, Russia, Portugal, Hungary, and in Greece. Apart from Germany, only Oman was able to improve its figures: 6% of retailers plan to expand in 2013, compared to the 4% in 2012.

Reflecting its strong economy within the euro zone, the most important target for retailers in 2013 is Germany (54%). In the first half of 2012, twenty new international brands entered the German market with the luxury and high-end market sector providing most of the new arrivals, including **Paule Ka**, **Belstaff**, **Stone Island**, **Loiza**, **Zadig & Voltaire**, **Tory Burch** and **J. Lindberg**. In the CEE region – where most retailers have at least partly given up their expansion plans – Poland (23%) is the most attractive destination, followed by the Czech Republic (15%), Russia (12%) and Romania (9%). Hungary (5%) lags significantly behind, ranking above only Slovakia (4%), Bulgaria (3%) and Serbia (3%).

Although 2013 won't be the year of European expansion, those brave few setting course for expansion have very ambitious plans. Around 20% of retail businesses plan to open over 30 stores and this, compared to the 25% of retailers from last year, this is slight decrease. However, 33% of retail businesses plan to open 11-30 stores this year, which is more than last year. Further,

around 44% of retailers plan to open 10 stores or less. All in all, given the difficulty in accessing prime space in many markets, most of these plans reflect an ambitious, and yet still realistic, level of expansion.

All quiet on the Western front?

Retail chains plotting future expansion (such as global brands like the Spanish clothing company **Inditex**) have a host of good opportunities available to them in Europe. Across Europe, shopping centre development increased by 10% year-on-year, now totaling 1.71 million square meters (sqm), and a large proportion of this is located in Eastern Europe. The fact that a substantial majority of new shopping centre developments in Europe are located within the emerging markets is greatly significant. Prime space is in short supply in mature markets and retailers are increasingly turning to these emerging, but increasingly promising, alternatives.

Based on **CBRE**'s report, Istanbul was the most active European development market last year. It saw the hand over of seven new centers, including *Marmara Park* (94,000 sqm) and *Trump Towers* (41,000 sqm). Istanbul will be the most active development market in coming years with 32 centers currently under construction. Europe's other highly active development market is Russia. In St. Petersburg, new residential areas – complimented by renovated road and rail links – are driving the shopping centre development market forward, with half a million sqm now under construction. Moscow has the largest development pipeline, with 815,000 sqm due to be yielded over the next two to three years. In neighboring Ukraine, Kiev has eight centers, totaling 445,000 sqm, under construction: attracting a record-high 40 new international retailers last year, it is the fourth most active development market in Europe. Scandinavian countries and Austria are also strong in new developments.

There are, however, markets that are simply not doing well. In Hungary, for instance, practically nothing is being built. "The economic situation is critical in Eastern Europe, not many new brands are planning to enter the market; Hungary is not the target for large-scale expansions," commented Head of Retail at CBRE Budapest, *Anita Csörgő*. According to Csörgő, the situation is much better in the Czech Republic, Slovakia, Poland, or even in Romania. In these countries, apart from having more developments, construction leases are much more convincing. The Hungarian situation, however, still represents good opportunities for local brands. Low consumption and high vacancy rates beat retail rental prices down. This could be a market breakthrough point for the so-called "pop-up stores," mostly representing local brands.

Are online sales the future?

Multichannel strategies are becoming increasingly important for European retailers. Alongside the opening of new stores, online sales will also be key in 2013. The increasing importance of multichannel sales is no surprise, as the popularity of the new media and of social networking sites clearly back it up. With the help of digital tools, consumers can be reached easier. A more direct contact established between consumers and retailers can not only build their brand, but also build up an associated lifestyle branding. CBRE's survey shows that 40% of retailers this year (compared to last year's 28%) are planning geographic expansion via the online market. Increasing web shops' product range was a top priority in 2012.

Online sales, however, are a big challenge for global retail brands. The competitive advantage and experience of e-commerce companies is clear. A good example is **Amazon**, whose global expansion has caused other international brands quite a headache. Amazon has established its first European warehouses in the UK, France, Germany, and in Italy. Recently, they have established their first warehouse in the CEE region near Bratislava; a clear sign they have intentions for regional expansion. Currently, their Czech, Polish, and Slovakian markets, are all supplied from here. According to recent reports, the company is planning to enter simultaneously the Hungarian, Croatian, and the Romanian markets in 2013.

The expansion of Amazon and other global electronic companies can create anomalies, especially for the electronic store and book-trade sector and specifically for the electronic books market. The biggest battle is clearly preparing to take place on the electronic stores market, as the price advantage of global supply channels is clear. Domestic electronic stores, neither traditional nor online stores, can hardly compete with their prices.

Fashion brands are Europe's traditional strong bastions, as traditional on-site store purchasing is still highly practiced amongst local consumers. In addition, impulse purchases continue to be the exclusive privilege of traditional shops. Thus, for fashion brands, online sales are complementary to traditional sales rather than their replacement. However, structural changes are inevitable. The speed of these changes is largely dependent on how quickly online companies can expand and on the available marketing budget. Recognizing this, most of the global fashion brands will focus on increasing their online market share in the future.

The whole region can not be lumped together

The prolonged crisis well demonstrates that countries in the CEE region can not be lumped together. While some countries – hit by the first waves of the crisis – are slowly recovering, others (considered, thus far, the crisis-resistant role models) are even edging back in decline. In any case, it can be said that, in the years to come, this emerging European region won't be seeing another boom.

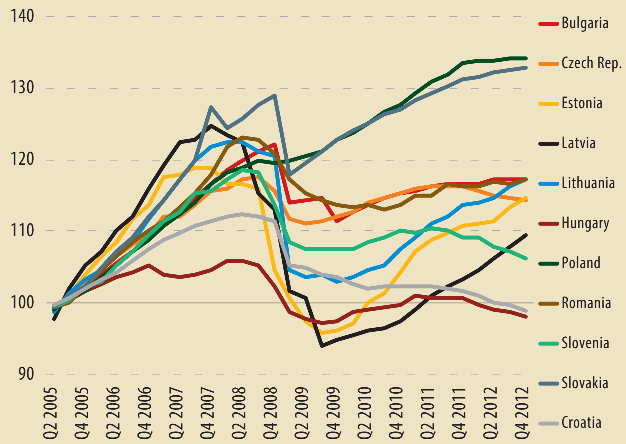
PIROSKA KÁDÁR

The first waves of the crisis exposed the region's vulnerable spots and clearly exhibited the differences between its parts. For example, in 2009, the Hungarian economy's performance shrunk by nearly 7% and the Slovenian one by 8%. Already back then, Hungary had been enjoying IMF support and Slovenia may be supported by the euro zone's permanent rescue fund, according to market speculations. Both the Hungarian and Slovenian real estate sector collapsed during the crisis. Slovenia pulled through the first few years; the country's vulnerability was reduced by the fact that public debt was below 40% of the GDP. Meanwhile in Hungary, public debt was around 80%. The Slovenian government planned to stimulate the economy by releasing the budget for few years. The crisis, however, did not take the expected V-shape as anticipated, but rather formed a wide-lying U. As a result, Slovenia is now forced to enforce long-delayed reforms and engage in fiscal tightening. Their debt ratio has doubled and the economy is expected to remain in recession, not only this year but in the next year as well. Slovenia has gone from being an exemplified role model into one of the worst performers in the region. Furthermore, a local bank crisis is also forecast: the Slovenian state, which owned roughly 80% of the banking sector, has been forced to give up a few of its banks and non-performing loans now make up one quarter of the GDP.

The prolonged crisis has not even spared Poland, a country thought to be crisis-resistant. Poland was the only country in Europe that got through the crisis without a recession and, due to its distinguished result, they started to regard Poland as one of the core countries of the EU. It seems, however, that Poland's dynamic growth has come to a close; the economy's performance was stagnant last year, with Q1 GDP growth only 0.5% higher compared to the previous quarter. In comparison, Polish growth in 2011 had been above 4%.

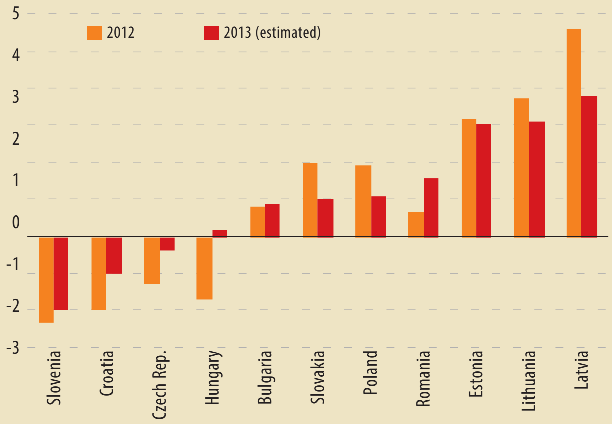
More surprisingly, the Czech economy is also underperforming. In fact, last year its economy showed weaknesses similar to that of Hungary, where the economy shrank by 1.7% on average. The Czech economy shrank by 1.3%. Nevertheless, while a slow recovery is expected in Hungary this year, the Czech economy expects an additional 1% decline. It might be the

GDP relative to 2005 output level (%, 2005=100)



SOURCE: EUROSTAT, RESOURCE

GDP growth in 2012 and estimated growth in 2013 in selected CEE countries



SOURCE: EUROSTAT, RESOURCE

only Visegrád country to remain in recession. If we consider the broader region, in fact, perhaps only Slovenia's economy might do worse. As it were, the Czech Republic is experiencing its longest recession since the regime change.

What are the reasons behind the Czech economy's slowdown? The basic answer is that the Czech economy is strongly linked to the euro zone. Exports account for approximately 80% of the GDP and most of these are sent to the EU. A decline in foreign demand hit the economy hard. Yet, the main reason for the 2012 recession was the decline in consumption. Household consumption decreased by 3% (year-on-year) due to the budget constraints introduced by the government (i.e. increase in VAT). The drop in consumption was bigger only in the countries that were explicitly in crisis. This year, the tables turned and consumption can increase, however, growth was dragged down by the export figures. The Czech industry is mainly driven by car production. Automotive companies present in the Czech Republic are not performing well. Czech economy is only expected to recover in the second half of the year. Production at the **Toyota-Peugeot-Citroën** factory – located about 30 km from Prague – dropped by one fifth.

The Baltic States, included in the broader interpretation of the CEE region, are considered to have the highest growth potential in the coming years. They are far from having escaped significant losses (18-20%) during the crisis, however, tough measures have made a rapid restructuring possible. This time, unlike during the real estate balloon in the 2000s, growth has not been overheated. Furthermore, in 2011, Estonia was the first Baltic state to join the euro zone. Latvia is expected to join in 2014 and Lithuania, too, in 2015.

However, not even the so-called "Baltic Tigers" can expect growth above 4% and forecasts for some of the other countries in the region are even more unfavorable. The Romanian economy – slowly recovering from the recession – is expected to grow by 2%. According to the baseline scenario, the Slovakian economy should expand by only 1%. The pre-crisis growth rates of 7-8% or above are not going to repeat themselves, not even in the fastest growing countries in the region.

Therefore, while the CEE region preserves its growth advantage compared to the developed countries, its countries still consider this period a kind of "lost decade", just as euro zone countries do. Yet, every country will come out of this period – characterized by an unsustainable pre-crisis situation followed by a sort of evolutionary adaption afterwards – differently. The economic policies employed in the years ahead will significantly determine who will escape into the future and who will continue to be trapped in the present day economic mire.

Real estate developers in CEE

Company name	Company headquarters/ regional headquarters (country, city)	Type of real estate development					Current main projects in the region and in Hungary – name, planned delivery year	Where are you present in the region?							Company headquarters contact – phone number, website, e-mail
		office	retail	industrial, logistics	residential	hotel		Hungary	Czech Republic	Poland	Romania	Austria	Slovakia	other	
ABLON Real Estate Developer Kft.	Budapest, Hungary	✓	✓	✓	✓	✓	N.A.	✓	✓	✓	✓	–	–	–	P: +36 1 225 6600 www.ablon.hu ablon@ablon.hu
AIG/Lincoln Kft.	Budapest, Hungary	✓	✓	✓	–	–	The Quadrum Phase II., III. (HU) – 2015, 2018	✓	–	–	–	–	–	–	P: +36 1 382 5100 www.aiglincoln.hu info@aiglincoln.hu
Codic Hungary Kft.	Brussels, Belgium	✓	✓	–	–	–	V48 (HU) – Q3 2015 Margit Corner (HU) – Q3 2015 Dózsa Office Complex (HU) – Q1-2 2016	✓	–	–	✓	–	–	–	P: +36 1 266 6000 www.codic.eu www.v48.hu www.margitcorner.hu p.szilvasi@codic.eu
ConvergenCE	Budapest, Hungary	✓	✓	✓	–	–	N.A.	✓	–	–	–	–	✓	–	P: +36 1 225 0912 www.convergen-ce.com office@convergen-ce.com
CTP	Humpolec, Czech Republic	✓	–	✓	–	–	CTPark Brno, CTPark Plzen, CTPark Ostrava	–	✓	–	✓	–	✓	–	www.ctp.eu
ECE Projektmanagement Budapest Kft.	Hungary, Budapest, Germany, Hamburg	✓	✓	–	–	–	Árkád Örs vezér tere Budapest 1–2. (HU, Budapest) – 2013	✓	✓	✓	–	✓	–	–	www.ece.com info@ece.hu
Echo Investment S.A.	Kielce, Poland	✓	✓	–	–	–	Mundo Center (HU) – 2015-2016	✓	–	✓	✓	–	–	Ukraine	P: +36 30 429 2333, +48 41 33 33 333 www.echo.com.pl orsolya.stefankovits@echo.com.pl office@echo.com.pl
Goodman Group	Brussels, Belgium	–	–	✓	–	–	Goodman Üllő Airport Logistics Centre (HU), Goodman Kraków Airport Logistics Centre (PL), Pomeranian Logistics Centre (PL), Goodman Mlada Boleslav Logistics Centre (CZ), Goodman Senec Logistics Centre (SK)	✓	✓	✓	–	✓	✓	–	www.goodman.com
HB Reavis Hungary Kft.	Slovakia, Bratislava	✓	✓	–	–	–	Forum BC I (SK, Bratislava) – Q2 2013 River Garden II-III. (CZ, Prague) – Q1 2014 Váci Corner Offices (HU, Budapest) – Q2 2014 Gdanski BC I.-II. (PL, Wrocław) – Q2 2014	✓	✓	✓	–	–	✓	Croatia	P: + 421 258 30 30 30 hbreavis@hbreavis.com

Real estate developers in CEE

Company name	Company headquarters/ regional headquarters (country, city)	Type of real estate development: office	retail	industrial, logistics	residential	hotel	Current main projects in the region and in Hungary – name, planned delivery year	Where are you present in the region?: Hungary	Czech Republic	Poland	Romania	Austria	Slovakia	other	Company headquarters contact – phone number, website, e-mail
Orco Property Group	Luxembourg, Luxembourg	✓	✓	✓	✓	✓	Szervita Office Building (HU) – Q4 2013 Złota (PL) – Q4 2013 Bubenska (CZ) – Q3 2015	✓	✓	✓	–	–	✓	Slovakia, Croatia, Russia, Germany	P: +352 264 7671 www.orcogroup.com luxembourg@orcogroup.com
Penta Investments	Bratislava, Slovakia	✓	✓	–	✓	–	Bory (SK), Bory Mall (SK), Čulenova (SK), Digital Park (SK), Florentinum (CZ), Košice – Pereš (SK), Košice – VŠA (SK), Masaryk Station Investment (CZ), Nová terasa (SK), Ružinov (SK), Tesla (SK), Waltrovka (CZ), Záhorské sady (SK)	–	✓	–	–	–	–	–	www.pentainvestments.com
Portus Buda Group Zrt.	Budapest, Hungary	✓	✓	–	✓	–	CDO – Calasanz Downtown Offices (HU) Inspired Garden Project (HU) Port@ (SRB, Zrenjanin)	✓	–	N.A.	N.A.	–	–	Serbia	P: +36 1 488 7476 www.portusbudagroup.com office@portusbudagroup.com
Prologis	Warsaw, Poland Budapest, Hungary, Prague, Czech Republic, Bratislava, Slovakia, Bucharest, Romania	–	–	✓	–	–	Prologis Park Wrocław V DC2 (PL) – Q2 2013	✓	✓	✓	✓	–	✓	–	P: +48 22 218 36 00 www.prologiscee.com info-pl@prologis.com
Raiffeisen evolution project development GmbH	Vienna, Austria	✓	✓	–	✓	✓	2nd Central – Office am Park (AT, Vienna) – 2013 Floreasca City, Promenada Mall (RO, Bucharest) – 2013 Leninskiy Prospekt 119 (RU, Moscow) – 2013 Kerepesi Business Park, (HU, Budapest) – 2016 San Gally Park (RU, St. Petersburg) Plößlgasse 15 + 17 (AT, Vienna) – 2013	✓	✓	✓	✓	✓	–	–	P: +36 1 346 6400, +43 171 7060 www.raiffeisenevolution.com office@ raiffeisenevolution.com
Shikun & Binui R.E.D. Hungary	Budapest, Hungary Amsterdam, Holland	✓	✓	✓	✓	✓	Kamaraerdő residential project (HU, Budaörs), Tükörhegy residential projekt (HU, Törökbálint), Méta street logistics project (HU, Budapest), Búlcsú street office project (HU, Budapest), residential project (HU, Üröm)	✓	✓	✓	✓	✓	–	–	P: +36 1 437 8376 www.shikunbinui.hu gyozo.gabor@ shikunbinui-red.com
Skanska Commercial Development Europe	Warsaw, Poland	✓	✓	–	–	–	Riverview (CZ, Prague) – 2014, Nordic Light (HU, Budapest) – 2015, Green Court Bucharest (RO, Bucharest) – 2015, Green Horizon (PL, Lodz) – 2013, Green Towers (PL, Wrocław) – 2013, Malta House (PL, Poznan) – 2013, Atrium 1 (PL, Warsaw) – 2014, Green Day (PL, Wrocław) – 2014, Kapelanka 42 (Pl, Krakow) – 2014	✓	✓	✓	✓	✓	–	–	www.skanska.com/property
TriGranit Fejlesztési Zrt.	Budapest, Hungary	✓	✓	–	✓	✓	Poznan City Center (PL, Poznan) – October 2013 Bonarka 4 Business Building D (PL, Krakow) – Q4 2013 Torgoviy Kvartal extension (RU, Naberezhnye Chelny) – Q1 2015 Arena Office Park (HR, Zagreb) – 2018 Emonika City Center (SI, Ljubljana) – 2015 ERA City (MK, Skopje) – 2015	✓	–	✓	✓	–	✓	Slovenia, Croatia, Macedonia, Russia	P: +36 1 374 5600 www.trigranit.com info@trigranit.com

Real estate developments in CEE

Name of real estate development	Country	Location of real estate development	Name of real estate developer	Total gross size of the building(sqm)	Est. monthly rent (€/sqm)	Est. time of delivery	Real estate developer/Leasing agent(s)	
							phone	website, e-mail
2nd Central Office Park	A	Vienna, Austria	Raiffeisen evolution	20,339	N.A.	2013	P: +36 1 346 6400 +43 171 7060	www.raiffeisenevolution.com office@raiffeisenevolution.com
Administrativní centrum Lomnickeho	CZ	Prague, Czech Republic	Green Cape International s. r. o.	7,000	N.A.	Q1 2014	N.A.	
AP2	H	Klapka street 4., Budapest XIII., Hungary	WING Zrt.	114,802	N.A.	prelease + 20 month	P: +36 1 451 4280	www.wing.hu sales@wing.hu
Arena Office Park	HR	Zagreb, Croatia	TriGranit Fejlesztési Zrt.	GLA,55,000	N.A.	2018	P: +36 1 376 6500	www.trigranit.com info@trigranit.com
Artgen	CZ	Argentinská, Praha 7, Czech Republic	PPF	22,040	13.5	Q4 2014	N.A.	www.joneslanglasalle.cz
Atrium 1	PL	Warsaw, Poland	Skanska Property Poland	18,000	N.A.	2014	–	www.skanska.pl
Aviatica	CZ	Radlická, Praha 5, Czech Republic	Penta Investments	27,500	13.5	2015	–	www.joneslanglasalle.cz
Bartók Udvar Office Building Phase II.	H	Bartók Béla út 105–113., Budapest XI., Hungary	IB Irodaház Kft.	32,000	office: 10.9-13.9 werehouse: 5.9 shop: 13.9-17.9	2015	Benkő Orsolya P: +36 1 481 4522, +36 20 432 3846	www.infogroup.hu
BB Centrum Delta	CZ	Vyskočilova, Praha 4, Czech Republic	Passerinvest	36,520	13.9-14.25	2014	–	www.joneslanglasalle.cz
Blox	CZ	Evropská 11 – 13, Praha 6, Czech Republic	BPD Development	30,824	15.8	Q1 2014	–	www.joneslanglasalle.cz
Bonarka 4 Business (B4B)	PL	Krakow, Poland	TriGranit Fejlesztési Zrt.	GLA 37,000	N.A.	D Building Q4 2013	P: +36 1 376 6500	www.trigranit.com info@trigranit.com
Borská Pole	CZ	U letiště 2/1074, NC Borská pole, 320 11 Plzeň, Czech Republic	Catinvest	8,500	N.A.	Autumn 2014	–	www.joneslanglasalle.cz
Bory Mall	SK	Bratislava, Bory, Slovakia	PENTA Investments	55,000	N.A.	Autumn 2014	–	www.joneslanglasalle.cz
Bubenská 1	CZ	Bubenská 1, Prague 7 – Holešovice, Czech Republic	Orco Property Group	30,000	office: from 11.5-13 retail: from 15-30	Q4 2015	P: +420 221 416 311	www.bubenska1.cz leasing@orcogroup.com
Buda Palota	H	Krisztina krt. 6–8., Budapest XII., Hungary	WING Zrt.	25,000	N.A.	prelease + 24 month	P: +36 1 451 4280 Jones Lang Lasalle P: +36 1 489 0202	www.wing.hu sales@wing.hu www.joneslanglasalle.com
Budapesti Északi Városközpont	H	Váci út – Róbert Károly Körút corner, Budapest XIII., Hungary	Alpha Tower Kft., Beta Tower Kft. (Carion Group)	180,000	N.A.	Q1 2017	P: +36 1 346 7161	kornis.gabor@carion.hu szilagyi.istvan@carion.hu
CDO – Calasanz Downtown Offices	H	Váci street, Budapest, Hungary	Portus Buda Group Zrt.	21,000	5-18	N.A.	P: +36 1 488 7476	www.cdo.hu cdo@portusbudagroup.com

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Name of real estate development	Country	Location of real estate dvelopment	Name of real estate developer	Total gross size of the building(sqm)	Est. monthly rent (€/sqm)	Est. time of delivery	Real estate developer/Leasing agent(s)	
							phone	website, e-mail
Centrum Krakov	CZ	Murmanská 1475, Praha 10, 100 00, Czech Republic	Centrum Krakov a.s	14,000	5-40	Q3 2013	DTZ: Ptera Macháčková +420 605 296 541	petra.machackova@dtz.com
City Home	H	Mester u. 83., Budapest IX., Hungary	Nanette Real Estate Group	23,500	N.A.	C Building Q2 2013	P: +36 1 472 2828	www.nanette.hu marketing@nanette.hu
City West Phase C1+C2	CZ	Prague, Czech Republic	FINEP CZ a.s.	24,000	N.A.	Q4 2014	–	www.citywest.cz
Clark 1	H	Clark Ádám tér 1., Budapest I., Hungary	WING Zrt.	3,500	N.A.	prelease + 18 month	WING Zrt.: P: +36 1 451 4280 Cushman & Wakefield: P: + 36 1 268 12 88	www.wing.hu, sales@wing.hu www.cushmanwakefield.com info.budapest@ eur.cushwake.com
Copa Center Národní	CZ	Prague, Czech Republic	Copa Centrum Národní s.r.o.	16,200	N.A.	Q3 2014	P: +420 221 017 111	www.copa.cz
Cornerstar Office Building	H	Búlcsú street, Budapest, Hungary	Shikun & Binui R.E.D. Hungary	17,000	12	2015	Győző Gábor P: +36 1 437 8376	www.shikunbinui.hu gyozo.gabor@ shikunbinui-red.com
Crystal	CZ	Vinohradská, Praha 3, Czech Republic	GES Group	13,648	16.5-17.5	2014	–	www.joneslanglasalle.cz
Dózsa Office Complex	H	Dózsa György út 144-148., Budapest XIII., Hungary	CODIC Hungary Kft., Pesti Házak Zrt.	40,000	14.5	Q1-2 2016	P: +36 1 266 6000	www.codic.eu, www.v48.hu p.szilvasi@codic.eu
Duna Passage	H	Kvassay Jenő road 1., Budapest IX., Hungary	WING Zrt.	220,000	N.A.	N.A.	P: +36 1 451 4280	www.wing.hu sales@wing.hu
Eiffel Palace	H	Bajcsy-Zsilinszky road 78., Budapest V., Hungary	Horizon Development	14,500	16-21+VAT	December 2013	P: +36 1 473 1209	www.eiffelpalace.hu www.horizondevelopment.hu
EMONIKA City Center	SLO	Ljubljana, Slovenia	TriGranit Fejlesztési Zrt.	GLA 110,000	N.A.	2015	P: +36 1 376 6500	www.trigranit.com info@trigranit.com
Enterprise	CZ	5. Května, Praha 4, Czech Republic	Erste Group Immorent	31,691	14.9-16.5	N.A.	–	www.joneslanglasalle.cz
ERA City	MK	Skopje, Macedónia	TriGranit Fejlesztési Zrt.	GLA 55,000	N.A.	2015	P: +36 1 376 6500	www.trigranit.com info@trigranit.com
Erzsébet Irodaház „A" building	H	Erzsébet királyné útja 1/c, Budapest XIV., Hungary	Elsbet Ingatlan-fejlesztési és – hasznosítási Kft.	9,700	10-12	May 2014	P: +36 1 428 6070	marketing@revital.hu
FEI	CZ	Černoviská terasa, Brno, Czech Republic	CTP	industrial: 25,000 office: 10,000	N.A.	Q1 2014	DTZ: Martin Šumera P: +420 602 224 102	martin.sumera@dtz.com
Floreasca City, Promenada Mall	RO	Bucharest, Romania	Raiffeisen evolution	65,365	N.A.	2013	P: +36 1 346 6400, +43 171 7060	www.raiffeisenevolution.com office@ raiffeisenevolution.com
Florentinum	CZ	Na Florenci 19, Praha 110 00, Czech Republic	Penta Investments	office: 49,000 retail: 8,000	19	Q2 2014	DTZ: Pavel Domalewski P: +420 736 109 313	pavel.domalewski@dtz.com

Real estate developments in CEE

Name of real estate development	Country	Location of real estate dvelopment	Name of real estate developer	Total gross size of the building(sqm)	Est. monthly rent (€/sqm)	Est. time of delivery	Real estate developer/Leasing agent(s)	
							phone	website, e-mail
Forum Business Center	SK	Prievozská/Bajkalská Street, Central Business District, Bratislava, Slovakia	HB Reavis	18,648	12.45	7/2013	Martin Marko P: +421 908 729 331	www.hbreavis.com, martin.marko@hbreavis.com
Friday	CZ	Lomnického 13, Praha 4, Czech Republic	Budějovická 377	7,800	N.A.	Q3 2014	–	www.joneslanglasalle.cz
Futurama Business Park Phase 3	CZ	Sokolovská 136, Praha 8, Czech Republic	Erste Group Immorent	9,300	14-14.5	N.A.	–	www.joneslanglasalle.cz
Galéria	H	Baross tér 7–9., Budapest VIII., Hungary	Gestesa	27,000	office: 13-15 retail: 20-25	N.A.	DTZ Hungary P: +36 1 269 6999	www.dtz.com/hungary budapest@dtz.com
Gdański Business Center I.	PL	Taśmowa 7, 02-677 Warsaw, Poland	HB Reavis	47,012	18.5-20.5	Phase I.: 3/2014 Phase II.: 5/2014	Aleksandra Rafalowska P: +48-22-203 4420	aleksandra.rafalowska@hbreavis.com
Goodman Gliwice Logistics Centre	PL	ul. Eiffel'a, Gliwice, Poland	Goodman	50,837	N.A.	N.A.	–	www.goodman.com/pl poland@goodman.com
Goodman Gyál Logistics Centre	H	M5 – M0 Intersection, Gyál, Hungary	Goodman	21,000	N.A.	N.A.	–	www.goodman.com/hu info-hu@goodman.com
Goodman Kraków Airport Logistics Centre	PL	ul. Komandosów 1, Modlniczka, Poland	Goodman	141,499	N.A.	N.A.	–	www.goodman.com/pl poland@goodman.com
Goodman Łódź Logistics Centre	PL	ul. Lutomierska, Pabinice, Poland	Goodman	26,902	N.A.	N.A.	–	www.goodman.com/pl poland@goodman.com
Goodman Mlada Boleslav Logistics Centre	CZ	Plazy – Mlada Boleslav, Czech Republic	Goodman	57,800	N.A.	N.A.	–	www.goodman.com/cz info-cz@goodman.com
Goodman Poznań Airport Logistics Centre	PL	ul. Batorowska, Wysogotowo, Poland	Goodman	49,560	N.A.	N.A.	–	www.goodman.com/pl poland@goodman.com
Goodman Poznań Logistics Centre	PL	Niepruszewo, BUK, Poland	Goodman	50,191	N.A.	N.A.	–	www.goodman.com/pl poland@goodman.com
Goodman Senec Logistics Centre	SK	Dial'ničná cesta 18, Senec, Slovakia	Goodman	180,000	N.A.	N.A.	–	www.goodman.com/sk info-sk@goodman.com
Goodman Toruń Logistics Centre	PL	Łysomice k/Toruń, Poland	Goodman	91,911	N.A.	N.A.	–	www.goodman.com/pl poland@goodman.com
Goodman Üllő Airport Logistics Centre	H	Zsaróka út 8., Üllő, Hungary	Goodman	155,000	N.A.	N.A.	–	www.goodman.com/hu info-hu@goodman.com
Goodman Warsaw Logistics Centre	PL	Emilianów, Warszawa, Poland	Goodman	54,697	N.A.	N.A.	–	www.goodman.com/pl poland@goodman.com
Goodman Wrocław East Logistics Centre	PL	ul. Kiełczowska, Wrocław, Poland	Goodman	51,768	N.A.	N.A.	–	www.goodman.com/pl poland@goodman.com

Real estate developments in CEE

Name of real estate development	Country	Location of real estate dvelopment	Name of real estate developer	Total gross size of the building(sqm)	Est. monthly rent (€/sqm)	Est. time of delivery	Real estate developer/Leasing agent(s)	
							phone	website, e-mail
Graphisoft Park	H	Hungary 1031 Budapest, Záhony u. 7.	Graphisoft Park Ingatlanfejlesztő Kft.	88,000	15.5	continuous	Kocsány János P: +36 20 661 2401	www.graphisoftpark.com jkocsany@graphisoftpark.com
Green Court Bucharest	RO	Bucharest, Romania	Skanska Romania	Phase I. 19,000	N.A.	2015	–	www.skanska.ro
Green Day	PL	Wrocław, Poland	Skanska Property Poland	15,900	N.A.	2014	–	www.skanska.pl
Green Horizon	PL	Lodz, Poland	Skanska Property Poland	33,000	N.A.	2013	–	www.skanska.pl
Green Towers	PL	Wrocław, Poland	Skanska Property Poland	23,100	N.A.	2013	–	www.skanska.pl
Haid Center Linz – Enlargement and Refurbishment	A	Ikeaplatz 2-8, 4053 Haid, Upper Austria	ECE Projektmanagement Austria GmbH	GLA 43,000	N.A.	Q4 2014	Birgit Haglmüller P +43 676 4353459 Eva Büll P: +43 699 11356152	birgit.haglmueller@ece.com, eva.buell@ece.com
Hungária 95 Business Park	H	Hungária krt. 95., Budapest XIV., Hungary	Hungária 95 Business Park Kft.	26,000	N.A.	2015	–	www.bernheim.hu
Ingersoll-Rand Equipment Manufacturing	CZ	Industrial zone Kolín-Ovčáry, Czech Republic	Goodman	28,501	N.A.	August 2013	–	www.goodman.com/cz info-cz@goodman.com
Inspired Garden Project	H	Svábhegy, Budapest, Hungary	Portus Buda Group Zrt.	9,000	N.A.	N.A.	P: +36 1 488 7476	www.portusbudagroup.com office@portusbudagroup.com
Jindřišská 16	CZ	Prague, Czech Republic	Immofinanz Group	6,000	N.A.	Q4 2013	–	www.jindrisska16.com
Jungmannova 15	CZ	Prague, Czech Republic	Immofinanz Group	6,800	N.A.	Q3 2014	–	www.jungmannova15.cz
Kapelanka 42	PL	Krakow, Poland	Skanska Property Poland	12,200	N.A.	2014	–	www.skanska.pl
Karcagi Ipari Park	H	Penny u.1., Karcag, Hungary	Karcagi Ipari Park Kft.	18,000 saleable area 15 ha	N.A.	continuous	Infogroup Management Kft. Benkő Orsolya P: +36 1 481 4522, +36 20 432 3846	www.infogroup.hu
Kerepesi Business Park	H	Budapest, Hungary	Raiffeisen evolution project development Kft.	65,000	11	2016	P: +36 1 346 6400, +43 171 7060	www.raiffeisenevolution.com office@ raiffeisenevolution.com
Korona Gallery	RO	Calea Dorobantilor 239, 3rd Floor 010567 Bucharest, Romania	Echo Investment SA	Phase I. GLA 35,000	N.A.	Q1-2 2015	P: +40 374 200 384	www.korona-brasov.ro tomasz.domon@echo.com.pl
Leninskiy Prospekt 119	RUS	Moscow, Russia	Raiffeisen evolution	25,241	N.A.	2013	P: +36 1 346 6400, +43 171 7060	www.raiffeisenevolution.com office@ raiffeisenevolution.com
Libeňské doky Phase E1	CZ	Czech Republic	Karlin Group	9,000	N.A.	Q3 2013	P: +420 226 251 080	www.karlingroup.cz

Real estate developments in CEE

Name of real estate development	Country	Location of real estate development	Name of real estate developer	Total gross size of the building(sqm)	Est. monthly rent (€/sqm)	Est. time of delivery	Real estate developer/Leasing agent(s)	
							phone	website, e-mail
Malta House	PL	Poznan, Poland	Skanska Property Poland	15,700	N.A.	2013	–	www.skanska.pl
Margit Corner	H	Dózsa György út 144–148., Budapest II., Hungary	Codic Hungary Kft.	5 000	14.5	Q4 2015	P: +36 1 266 6000	www.codic.eu www.margitcorner.hu p.szilvasi@codic.eu
Mega Mall Bucharest	RO	On the junction of Pantelimon and Iancului Streets, Bucharest, District 3, Romania	Real4You	240,000	N.A.	N.A.	DTZ Echinox P: 021 310 3100	www.dtz.com/ro info@dtz.ro
Metrodom – Mátyás tér 11.	H	Mátyás tér 11., Budapest VIII., Hungary	Metrodom Kft.	7,167	N.A.	October 2013	Media Services Kft. P: +06 30 522 2236	www.metrodom.hu, marketing@metrodom.hu
Metrodom – Rozsnyay u. 33.	H	Rozsnyay u. 33., Budapest XIII., Hungary	Metrodom Kft.	2,880	N.A.	October 2014	Media Services Kft. P: +06 30 522 2236	www.metrodom.hu marketing@metrodom.hu
Mundo Center	H	Csömöri út – Bosnyák u., Budapest XIV., Hungary	Echo Investment Hungary Kft.	GLA 34,500	N.A.	2015-2016	P: +36 30 429 2333	www.echo.com.pl orsolya.stefankovits@ echo.com.pl
Na příkopě 14	CZ	Prague, Czech Republic	Immofinanz Group	4,200	N.A.	Q4 2013	P: +420 221 883 270	www.immofinanz.com
Nordic Light	H	Budapest, Hungary	Skanska Property Hungary	26,200 sqm: Phase I. 19,600 + Phase II. 6,600	12.95-13.50	2015 (Phase I.)	–	www.skanska.hu
Office Garden III.	H	Alíz utca 4., Budapest XI., Hungary	GRT Group	18,500	12.5-13	2015	Robertson Hungary Kft. P: +36 1 327 2050	www.robertson.hu office@robertson.hu
Office Islands	CZ	Prosecká, Tupolevova, Beranových, Praha 9, Czech Republic	Hochtief Development	76,800	12.5	2015	–	www.joneslanglasalle.cz
Palác Stromovka	CZ	Prague 7 – Holešovice, Czech Republic	Lordship a.s.	7,000	N.A.	Q1 2014	P: +420 257 530 071	www.lordship.eu
Palmovka Park II	CZ	Prague, Czech Republic	Metrostav a.s.	14,500	N.A.	Q4 2013	P: +420 266 709 110	www.metrostav.cz
Pauler Ház	H	Pauler u. 15., Budapest I., Hungary	OTP Ingatlan Zrt.	3,577	N.A.	Q2 2014	–	www.otpingatlan.hu/ ingatlan/Pauler_haz www.paulerhaz.hu
Plößlgasse 15 + 17	A	Vienna, Austria	Raiffeisen evolution	8,870	N.A.	2013	P: +36 1 346 6400, +43 171 7060	www.raiffeisenevolution.com office@ raiffeisenevolution.com
Polgár Ipari Park	H	Hajdú u. 40., 4090 Polgár, Hungary	Polgár Invest Kft.	120,000	2.5-4	Q3 2014	–	www.polgariparipark.hu info@infogroup.hu
Pomeranian Logistics Centre	PL	ul. Kontenerowa 21, Gdańsk, Poland	Goodman	515,761	N.A.	N.A.	–	www.goodman.com/pl poland@goodman.com
Port@ – Cultural Center	SRB	Zrenjanin, Serbia	Portus Buda Group Zrt.	3,000	N.A.	N.A.	P: +36 1 488 7476	www.portusbudagroup.com office@portusbudagroup.com
POZNAN City Center	PL	Poznan, Poland	TriGranit Fejlesztési Zrt.	GLA 60,000	N.A.	October 2013	P: +36 1 376 6500	www.trigranit.com info@trigranit.com

Real estate developments in CEE

Name of real estate development	Country	Location of real estate dvelopment	Name of real estate developer	Total gross size of the building(sqm)	Est. monthly rent (€/sqm)	Est. time of delivery	Real estate developer/Leasing agent(s)	
							phone	website, e-mail
Prologis Park Wrocław V DC2	PL	ul. Ryszarda Chomicza, Nowa Wieś Wrocławska, Poland	Prologis	17,800	N.A.	Q2 2013	P: +48 22 218 36 00	www.prologiscee.com info-pl@prologis.com
Promenade Gardens	H	Váci út 80–84., Budapest XIII., Hungary	Horizon Development	25,000	14.5+VAT	N.A.	P: +36 1 473 1209	www.horizondevelopment.hu
River Garden Office II-III.	CZ	Karlín, Prague, Czech Republic	HB Reavis	26,046	14.25 – 14.50	Q1 2014	Ladislav Szabo P: +420-225 001 900	ladislav.szabo@hbreavis.com
Riverview	CZ	Prague, Czech Republic	Skanska Property Czech Republic	7,000	N.A.	2014	–	www.skanska.cz
S9 Florenc	CZ	Sokolovská 9, Praha 8, Czech Republic	J&T Real Estate	3,185	17.95	Q1 2014	–	www.joneslanglasalle.cz
San Gally Park	RUS	St. Petersburg, Russia	Raiffeisen evolution	88,435	N.A.	N.A.	P: +36 1 346 6400, +43 171 7060	www.raiffeisenevolution.com office@ raiffeisenevolution.com
Spectrum Office Corner	H	Hungary, Budapest 1191, Üllői út 180.	RZT Kft.	8,775	11-12	built to suit	Robertson Hungary Kft. P: +36 1 327 2050	www.robertson.hu office@robertson.hu
Szervita Office Building	H	Hungary, 1052 Budapest, Szervita tér 8.	Orco Property Group	5,400 4,700 office	N.A.	Q4 2013	P: +36 1 880 7258	www.szervita.com hungary@orcogroup.com
Tetris Office Building	CZ	Budějovická/Sedlčanská, Praha 4, Czech Republic	Budějovická 377	4,667	15.5-15.8	July 2013	–	www.joneslanglasalle.cz
The Mark	RO	Calea Grivitei 82–102, Bucharest, Romania	s Immo	GLA 20,500	N.A.	N.A.	–	www. joneslanglasalle-romania.com
The Quadrum Pase 2, Phase 3	H	Hungary, Vecsés, Lincoln út 1.	AIG/Lincoln Kft.	Phase I.-IV. 22,000	N.A.	Phase II. 2015 Phase III. 2018	P: +36 1 382 5100	www.aiglincoln.hu info@aiglincoln.hu
Torgoviy Kvartal extension	RUS	Naberezhnye Chelny, Russia	TriGranit Fejlesztési Zrt.	GLA 53,800	N.A.	2015	P: +36 1 376 6500	www.trigranit.com info@trigranit.com
V17	H	Váci út 17., Budapest XIII., Hungary	WING Zrt.	22,200	N.A.	prelease + 18 month	WING. P: +36 1 451 4280 Eston Int'l: P: + 36 1 877 1000 Jones Lang LaSalle: P: +36 1 489 0202	www.wing.hu, sales@wing.hu www.eston.hu www.joneslanglasalle.com
V48	H	Váci út 48/e-f, Budapest XIII., Hungary	CODIC Hungary Kft.	13,500	13.5	Q3 2015	P: +36 1 266 6000	www.codic.eu www.v48.hu p.szilvasi@codic.eu
Váci Corner Offices	H	Hungary, 1138 Budapest, Váci út 150.	HB Reavis Group	38,520	12.5-13.5	May 2014	P: +36 1 238 0359	www.vacicorneroffices.com info@hbreavis.com
Váci Greens	H	Váci út 117–119., Budapest XIII., Hungary	Atenor Group	16,000	11.5-12.5	Q2 2013	P: +36 1 785 5208	www.vacigreens.hu borbely@atenor.hu roman@atenor.hu
Vision Park Karlin II.	CZ	Prague, Czech Republic	North-Line a.s.	9,500	N.A.	Q1 2014	CBRE P: +420 224 814 060	www.cbre.cz
Złota	PL	Złota 44/46 Str ,00-120 Warsaw, Śódmieście, Poland	Orco Property Group	68,400 35,800 apartment 973 commercial	N.A.	Q4 2013	P: +48 22 595 4900, +48 607 408 401	www.zlota44tower.com

The list was compiled by REsource. No claim is made as to the accuracy of the information. The database was compiled based on information by real estate developer companies and real estate agencies as of June 4, 2013.

VÁCI UTCA CENTER
1056 Budapest,
Váci u. 81.

V. kerület Váci utcában A kategóriás irodaházban irodák 75 m² nagyságtól kiadók.

Méret	Ár/ m²/hó	Parkoló	Légkondi	Metró-közeli	Emelet	Liftek száma	Épült	Felújítás éve	Érdeklődni
9,600	€ 10-13	166	✓	✓	9	6	1996	2010	Tel: 411 0442 vaciutca@ vaciutcacenter.hu
Size	Price/sqm/ month	Parking places	Air cond'ng	Metro close	Floor level	Elevators	Year built	Year refur-bished	Information

Offices to let in A-category office building in 5th district Váci utca, starting from 75 sqm.

Budakeszi Kereskedelmi Park

robertson real estate advisors

Eladó fejlesztési telkek – Budakeszi Kereskedelmi Park

Beso-rolás	Beépíthetőség	Legkisebb zöld terület:	Kínálati ár	Telek	Összte-rület	Közmű-ellátás	Elérhetőség
Gksz:-3	Max. 30%	35%	27 550 HUF/m²	2,700 – 15,800 m²	68,800 m²	✓	+36 1 327 2050 industrial@robertson.hu
Zoning code	Building footprint	Minimum green cover	Asking price	Sites from	Total size	public utilities	Contact

Budakeszi Commercial Park – development sites for sale

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