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# RESOURCE

## SEE Property Forum 2014

29 May 2014, Hotel Metropol, Belgrade, Serbia

# Sailing into new waters

## SEE on the move

**INTERVIEW**
Pál Baross: What have we gained from the crisis?

**ANALYSIS**
Development possibilities in SEE

**ANALYSIS**
Rising interest in CEE investment markets

**FOCUS**
SEE developers and developments

# PROPERTY

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## FOCUS

The South Eastern Europe region offers development possibilities across the different market sectors and has investment potential with higher potential returns than the more established, but increasingly competitive markets in Central and Western Europe. There are countless excellent opportunities in such an untapped market. At the same time, risks are also considerable. The picture is very complex, but the coming years will be certainly exciting in this region. In this issue, the SEE countries are in the spotlight.


## INTERVIEW

None of the real estate sectors, which have been in continuous transition since the crisis, escaped serious re-thinking, transformation, the depositing of new funds and new standards. Some became losers in this renewal while others have become stronger. We spoke to Pál Baross FRICS, Chairman of the board at BFVK, about important questions affecting the profession, the South Eastern European region's potential and about the decade long non-existing governmental real estate policy.

## OPINIONS

The post crises period brought changes to every market in Eastern Europe, and now new stars are emerging in the region. CEE markets are picking up, while SEE draws more and more attention. Who are going to be the winners? Is it time for entering these emerging markets? What opportunities do investors and developers have in the region?

**Katalin Major**
Editor-in-chief//major@portfolio.hu

# Winds of change

For the first time this year we are organizing a conference together with RICS in Belgrade and due to this event the current issue is dedicated to the South-East European (SEE) countries. We analyzed this topic from many points of view in order to understand what this region has in store for real estate developers and investors.

A few years ago Eastern European countries meant mostly Central and Eastern European property markets but currently the SEE region is getting much more and more attention. The Balkan region is so diverse that it is best not to generalize. However, what all countries in this region have in common is that their real estate market history is still in an early stage, with rare exceptions. There is huge potential in such an untapped market. At the same time, risks are also considerable and what is worse, in many cases, unpredictable. The infrastructure in the region, in addition to the legal and institutional frameware, is problematic. The real estate market is not transparent and suffers from a lack of liquidity. This situation is currently discouraging most international developers and investors from these upswing markets. However, the region is getting closer to joining the European Union which has increased the confidence of international market players and makes the regulatory, legal and institutional framework more transparent and familiar.

To understand the trends in the region we also evaluated the opportunities of the CEE markets allowing for a more detailed insight into trends in Hungary and Budapest. Among others, we analyzed CEE office market processes, investment opportunities and the shifting Budapest office market.


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# Rebirth of the Tőzsdepalota

There are not many better office development locations in Hungary than Szabadság Square, located in downtown Budapest. The construction, or for the time being internal demolition works, has recently started on one of the most prestigious office buildings, the Tőzsdepalota, which was the former Hungarian state television headquarters. The €100 million restoration project will deliver 35,000 sqm of luxury office and retail space, and significant number of parking plots at the purchased Lipót Garage.

The owner of Exchange Palace is a subsidiary of the Canadian based Tippin Corporation. An investment fund belonging to Tippin Corporation purchased MKB's claim on the building in 2012, and the bank stopped financing the project. The building permit was approved in September 2013 and the demolition of the non-structural internal elements began. According to public records, Tippin has won Cougar Real Estate as co-investor for the project.

"According to the plans we will renovate the total area of the 50,000 sqm eclectic Art Nouveau building. 27,000 sqm will be occupied by offices and 8,000 sqm by premium service and retail space. Where possible, we will try to keep the original features, indoor and outdoor spaces. The completely destroyed internal spaces will be reworked with modern glass and steel solutions," said Michael Tippin, owner of Tippin Corporation. The Exchange Palace will be restored based on the designs of Beyer Blinder Belle Architects while the demolition and construction work will be lead by AIG/Lincoln. The restoration is planned to be completed by 2017 and this is when the first tenants will move in.

The restoration of the grand Art Nouveau building originally built in 1905 is big news for everyone who wants to see the renewal and restoration of late 19th century and early 20th century buildings. Luckily there are many more of these initiatives, for example the recently completed Eiffel Palace office building or the currently underutilized but already completed Váci1 Business House. Others include the Paris Department Store, Castle Bazaar or the Parliament and a number of similarly renovated hotels, apartment buildings, churches and thermal baths.

## Record take-up for Central and Eastern Europe

Take-up in the Central and Eastern European (CEE) region exceeded all previous levels and hit a new record high of 1.4 million sqm of office space being transacted in 2013, according to Cushman & Wakefield. The market report analyses Bratislava, Budapest, Prague and Warsaw where the total combined office stock equates to nearly 12 million sqm, tempered by limited new supply being released in the region (circa 436,000 sqm).

According to Cushman & Wakefield's review of the office markets in the capital cities of Central Europe, the ranking of office markets by total office stock remains unchanged with Warsaw retaining the largest office stock equating to 4.1 million sqm, followed by Budapest with 3.2 million sqm, Prague in third place with nearly 3 million sqm and Bratislava in fourth position with 1.5 million sqm of existing supply.

New released supply in the CEE region equated to 436,000 sqm for 2013, which can be viewed as stable, and was generally delivered equally in H1 and H2 of the year, down slightly on the new supply released in 2012. The highest amount of new space was delivered in Warsaw (nearly 300,000 sqm), then Prague (nearly 80,000 sqm), followed by Budapest (33,000 sqm) and Bratislava (26,000 sqm). Currently there is close to 600,000 sqm of office space under construction in the CEE region which is planned to be delivered in 2014. This equates to a 27 percent increase in new supply compared to 2013.

Prime rents in the central business districts (CBD) of the four Central European capital cities remained stable, with the exception of Warsaw and Prague where they fell slightly this year and currently stand at €25.00/sqm/month and €20.25/sqm/month respectively. Prime rents in the Budapest CBD have remained unchanged at €21/sqm/month since 2010 whilst Bratislava's headline rent of €15/sqm/month has remained unchanged since the end of 2012.

The CEE vacancy rate of 14.1 percent in H1 2013 further increased to 14.3 percent. ▷

GOMBA

The vacancy rate outlook is forecast to rise further across the region as new speculative space is delivered to the market. Vacancy rates are the lowest in Warsaw (11.7 percent) followed by Prague (13.2 percent), Bratislava (15.2 percent) and Budapest (18.4 percent).

## Housing market recovering

According to the data published by the Central Statistical Office in the first three months of 2014, 1692 new dwellings were built, 51 percent more than a year ago. The number of dwelling construction permits rose year-on-year by 20 percent to 1654. Regarding new home construction, the proportion of dwellings built by enterprises and those built for sale increased.

Although historically the first quarter is the "low season", the sharp fall has come to an end on the housing market and we see signs of recovery. According to the seasonally adjusted data, the number of construction permits and dwellings put to use has increased, so clearly 2013 H2 was the historical low point, when this number did not even reach 2000.

Despite the apparent increase, the number of dwellings put to use remained extremely low, at barely a third of the first quarter performance of the last pre-crisis year, 2008. The number of dwelling construction permits also increased, but it makes up only 18 percent of the first quarter level of 2008.

529 new dwellings were put to use in Budapest, which was more than double of that of a year ago.

However, it remained below the 2012 level as it was less than 70 percent of the first quarter value of 2012. The 2014 numbers are more or less in line with the 2012 year end figures. This is a weak result but for the time being we cannot hope for much more. The crisis was a big one and recovery will take many more years.

Year-on-year, there was a change in the group of builders. The proportion of homes built by private

individuals fell year-on-year from 70 percent to 56 percent, while the proportion of homes built by enterprises rose from 29 percent to 43 percent. In Budapest, 83 percent of all new homes were built by enterprises. The increasing number of homes built by companies also indicates that the market is recovering. Interestingly mortgages increased in the first quarter by 51 percent, indicating that demand has been increasing. The main reason might be interest rate cuts as the cut in mortgage rates slowly displaces subsidized loans.

## Handover of Gomba

Following many years of uncertainty the redevelopment of Újbuda's best-known building, the Gomba (Mushroom) has finally been completed. Zsigmond Móricz Square's most famous building was unused for many years, and was slowly deteriorating. Finally it has been reformed and will now be used as cultural facility. The 70-year-old, highly run down building has been turned into a modern public pavilion. The fountain in the courtyard will be renovated together with the fountain tanks and green surfaces. The historic building retains its architectural character but gains some new functions. Finally together with the handover of Metro Line 4, the square's ten year-long restoration has come to an end.

The project is part of the Újbuda Cultural Program. The local government invested considerable effort into the organization and implementation of this program. The program covers the area from St. Gellért Square up to and including Móricz Zsigmond Square.

## First chairman of RICS Hungary has passed away

Chris Bennett, the former chairman of the Royal Institution of Chartered Surveyors (RICS) Hungary and one of the pioneers of modern Hungarian commercial property industry has died at the age of 69. The British professional spent more than 20 years in Hungary.

Chris Bennett FRICS was based in Hungary since 1 February 1991. Before moving to Hungary, he was also Chairman of the Industrial Agents' Society in the United Kingdom before leaving Richard Ellis and setting up his own development company. He joined PricewaterhouseCoopers in Budapest in 1991 to run their real estate practice in CEE. In 1994 he left to join DTZ to build their network throughout CEE. He was the first chairman of RICS in Hungary and in 2008 he joined Europa Capital's Emerging Europe Fund which specializes in Ukrainian, Romanian, Bulgarian and the Western Balkan markets.

In the last few years he worked for Budapest-based real estate investment company Indotek Group. Chris was a member of the executive board overseeing the acquisitions and the asset management. Chris Bennett was one of the most senior members of RICS in Hungary and the wider CEE region. He took an active role in building the organization in this part of the world, not only by mentoring and interviewing many future members, but also by sharing his vast knowledge and experience at conferences and seminars.

## RICS: the mood in the Hungarian real estate market is getting better

Both the occupier and investment sentiment indices turned positive in the first quarter of 2014 for the first time since 2011, with demand increasing for both the lease and purchase of commercial property, according to the Commercial Property Monitor published by RICS. Demand has been increasing more than supply, resulting in decreasing vacancy rates mid-term. Despite the limited supply rents remained unchanged for the time being. Investors' interest is clearly growing, especially in the retail and industrial segment, and for properties in need of renovation and repositioning available at very low prices.


DUNA OFFICE CENTER

Michael Smithing FRICS, Chairman of RICS Hungary, stated "The Property Monitor confirms general market sentiment that the Hungarian real estate market is regaining trust. This is in line with the increasing optimism of international investors and domestic market players. Although most probably the sectors activity will not return to pre-crisis peaks, vacancy rates are definitely expected to improve due to better economic growth. The coming years will be ideal for purchasing or renting in Hungary as most probably due to increasing demand, both purchasing prices and rental rates will increase."

RICS has first produced independent quarterly country reports for Bulgaria, the Czech Republic and Romania. All the indices turned positive to different extents in the various countries and sectors.

## New green office in Budapest

Duna Office Center located in Váci Road and operated by BNP Paribas Real Estate Hungary has received the Building Research Establishment Environmental Assessment Method (BREEAM) In-Use International Certificate for the building and for its operation practice with a "good" rating.

Duna Office Center (12,700 sqm office building), asset managed by CE LAND Holding Ltd., has been one of the first buildings of the Váci Road corridor. The building is currently in its third life cycle and has undergone several renovations in recent years. It has been internally and externally renovated in line with the latest require- ▷

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Visszabérlés: 450 m$^2$

ments. The building belongs to Volksbank Group and has thus become a valid competitor of the newly built 'A' class offices.

"There are more and more BREEM certified office buildings in Hungary. Since our company is committed to environmental awareness and sustainability, we are very proud of the fact that out of the 25 BREEM certified buildings we are managing two of them (Váci Greens, Duna Office Center). The certification of an additional six buildings is in progress," said Csukás Csongor, CEO at BNP Paribas Real Estate Hungary.

## Central and Eastern Europe goes green

Green building certification has been rapidly expanding in the CEE region over recent years and currently stands at over 1.75 million sqm. Poland leads the CEE with over 40 percent of the region's green building certification (730,000 sqm).Hungary ranks third among the five regional countries with more than 200,000 sqm of green space ahead of Romania and Slovakia, based on JLL's research report on green offices.

At least 2.5 million sqm of existing developments or pipeline projects in the CEE region were registered and are targeting green certification, with Poland accounting for around 700,000 sqm. However, it should be clearly noted that many planned projects have not yet been registered, so the final volume of potential pipeline in Poland will be even higher.

In the majority of markets, a very high percentage of new projects in the pipeline, 100 percent in some markets, will be targeting green certification. Pipeline projects also include the first green buildings from Serbia and are on the up in Hungary, Romania and Slovakia. In the pipeline of office certifications projects, less operations and maintenance certifications and more new build certifications are being seen, which is due to the large pipeline in Poland (mainly Warsaw) and a gradual return of development to other parts of the region.

In line with the 2010/31/EU Directive that by the year 2020, all new buildings in the European Union will have to prove that they are nearly zero-energy buildings. By the year 2050, carbon emissions from all buildings need to be as near to zero as possible.

## Budapest office market is stable

According to the Budapest Research Forum (BRF) the total stock of the Budapest office market, including owner occupied and speculative buildings, reached 3,184,500 sqm


EIFFEL PALACE

at the end of Q1 2014. Speculative stock amounted to 2,558,150 sqm, and owner occupied stock amounted to 626,350 sqm. BRF recorded one new office delivery, the Eiffel Palace (14,500 sqm) and it was handed over by Horizon Development in the CBD. BRF made the usual annual revision of the stock, resulting in a negative correction of 2,400 sqm in speculative stock.

Domestic real estate statistics have been indicating for a while now that the worst is over but even if we see positive signs, the real breakthrough is not here yet. Total leasing activity in Q1 2014 was 57,200 sqm, which is the lowest recorded quarterly figure since Q1 2012. Take up (total leasing activity excluding renewals) amounted to 37,200 sqm. Vacancy rate remained flat with only a 0.1 percentage point increase on the Q4 2013 figures. If we only consider the leased properties the change is even lower, which is a positive sign given the stock correction.

During Q1 2014, BRF registered 158 lease agreements. The largest transaction was a renewal signed by Lufthansa in Infopark E on a total area of 4,500 sqm. The largest new lease was registered in Krisztina Palace on 3,150 sqm. General Electric further expanded their office space in Váci Greens (2,900 sqm), making it the largest expansion in the quarter. In general, new leases took the highest share in total leasing activity (44.1 percent), followed by lease renewals (35 percent) and expansions (20.9 percent).

Members of the BRF include CBRE, Colliers International, Cushman & Wakefield, DTZ, Eston International, Jones Lang LaSalle and Robertson Hungary.

## Positive signs regarding home loans

The latest data published by the National Bank of Hungary clearly shows that residential lending has started to recover. Compared to last year, the volume of home loans has increased by 50 percent in the first quarter. Of course last year's figures were extremely low, thus compared to the pre-crisis period this number is very small.

Mortgage rate decreased year-on-year from 9.4 percent to 7.1 percent in average while banks only paid on average 2.1 percent interest on short term deposits instead of 4.8 percent.

## The housing market has to start from deep down

Housing statistics clearly show a positive trend, while in the case of housing prices a breakthrough is yet to come.

2013 year end prices for newly built homes are at 92.3 percent of the year end 2010 level, after they fell by 4.8 percent compared to last year's October-December period following 2 years of stagnation. The price of used homes was at 81.7 percent of the 2010 level. This means an 8 percent fall compared to the previous quarter and is a historical low point since the index started in 2009.

The data confirms what we suspected already: 2014 started with record low housing prices. However, recently published data shows positive change. Housing market data of the first quarter shows a significant growth in the number of transactions. Real estate companies own housing price indexes show stagnation, which is a positive sign after years of decline, but also means that the breakthrough has not yet arrived.

It is important to note that the stagnation is the result of two opposite processes. On the one hand it is positive that in the capital and in other big cities, where employment chances are higher, prices have been growing and this is expected to continue. On the other hand, there are some parts of the country and certain property types, which have been lagging behind and in the case of the latter, further price declines are possible.

## FTC stadium almost ready

FTC's new stadium might be completed in May and may be open to the public by August. The facility was built in a record 14 months. The construction work began in early 2013 and might be completed on 30th May at Albert Florian Stadium. This will be followed by two months of a handover period and test operations. The facility with 22,500 seats will open to the public in August.

## Renewed Gate of Lake Velence

Located at the former public beach at Lake Velence, the Gate of Velence project has been completed. The HUF 2.2 billion project consists of 10 elements, including a sandy beach, and indoor and outdoor promenade, a lakeside boardwalk, a renovated harbor and an event space. The main building is occupied by thirty different shops and services, a banquet hall for 120 people and a new civil marriage office.


Photo: Zoltán Máthé/MTI

GATE OF LAKE VELENCE

Lake Velence's largest tourist development was built on an eight-acre area. 70 percent of the project was financed by EU and state funds and the rest by the local government. Originally plans as a shopping mall was planned to be built there, but this was not fulfilled as the subcontractor went bankrupt.

## Occupancy increases in industrial properties

The total volume of lease transactions reached 55,650 sqm in Q1 of 2014.

Although this level represents a substantial increase over the corresponding period of 2013, it was driven mainly by renewals. BRF's industrial Report shows that last year's vacancy rate decrease was not stable, in Q1 2014 it started increasing again.

In Q1 2014 the size of modern industrial stock in Budapest and its surroundings totaled 1,847,995 sqm. In the first 3 months of the year one building came to the market with a gross leasable area of 11,090 sqm. The building was a built-to-suit development for GE Oil&Gas in East-Gate Business Park.

BRF did the annual stock revision and as a result, the size of modern industrial stock increased by an additional 3,260 sqm on top of the new supply. Based on the latest update from owners, historical revisions were also included.

The total volume of lease transactions reached 55,650 sqm in Q1 2014 which represents a 77 percent increase over the corresponding period in 2013. In total, nearly 72 percent (39,910 sqm) of the total leasing activity was made by renewals while new leases and expansions represented only 28 percent (15,740 sqm).

The rationalization and optimization of leased premises continued. The vacancy rate increased slightly to 21.50 percent, reflecting approximately 25 bps growth, both quarter-on-quarter and year-on-year. While availability managed to decline slightly (12 bps) quarter-on-quarter in logistics parks, it witnessed a much sharper jump in city logistics parks with a 358 bps increase.

## ECE starts construction of Polish mall

German developer ECE has started construction of a €150 million shopping centre in Poland. Zielone Arkady located in Bydgoszcz is the largest project undertaken to date by ECE's Polish business. It will comprise a leasable area of 50,000 sqm with 200 shops and restaurants over three levels and will be the biggest shopping centre in the city. ECE said it will invest around €150 million in the mall, which is due to open in the winter of 2015. Almost 40 percent of the areas are currently pre-let, with tenants including fashion retailers Zara, Pull&Bear, Massimo Dutti, Bershka, Stradivarius and Oysho.

RE FOCUS ON SOUTH-EAST EUROPE

# Huge potential in a complex market

A few years ago Eastern European markets meant mostly CEE property markets but currently the South-East European (SEE) region is getting more and more attention. The Balkan region is so diverse that it is best not to generalize. However, what all countries in this region have in common is that their real estate market history is still in an early stage, with rare exceptions, like Romania and Bulgaria. There is huge potential in such an untapped market, at the same time, risks are also considerable and what is worse, in many cases, unpredictable. The infrastructure in the region, in addition to the legal and institutional framework, is problematic. The real estate market is not transparent and suffers from a lack of liquidity. This situation is currently discouraging most international developers and investors from these upswing markets. However, the region in general is getting closer to joining the European Union which has increased the confidence of international market players and makes the regulatory, legal and institutional framework more transparent and familiar to them. The picture is very complex, but the coming years will be certainly exciting in this region. In this issue, the SEE countries are in the spotlight.

# Development possibilities in SEE

**Very limited pipeline, higher returns on investments, encouraging EU harmonisation, excellent locations, and economic, political, legal and procedural concerns, lack of visibility and liquidity at the same time. What chances do the SEE markets have?**

DAVID LAWRENCE

The South-East Europe (SEE) region offers development possibilities across the different market sectors and has investment potential with higher potential returns than the more established, but increasingly competitive markets in Central and Western Europe. However, SEE has a reputation for bureaucracy and unpredictability that can make the development processes expensive and time consuming. Further, the countries are regarded as suffering from a lack of visibility and liquidity and an obvious exit strategy for developers, as international investors have been reluctant to enter the markets due to economic, political, legal and procedural concerns.

Fabijan Matosevic, Co-Director of Victorios Investment Managers, argues that the development process in Serbia needs to be simplified in addition to the establishment of a more reliable judicial process. "The European Union (EU) will lead to an improvement of the judicial and legal system in Serbia, which will improve the local investment climate and hence benefit the investment market in the long term. From an international perspective, Serbia still lacks much of the institutional and judicial transparency which is crucial to attract investors and developers," he said.

These sentiments are echoed by Zlatko Greguric, Principle Banker for Property & Tourism at the European Bank for Reconstruction and Development (EBRD), with regard to Croatia. "We already have the structures in place to create a development and investment market. However the structure is not being properly implemented in the key areas of urban planning and permitting. This is why a number of serious developers and investors have been stuck at the very first block. They have often been frustrated after having tried to resolve the bureaucracy and red tape for up to 2 years and simply walked away."

Belgrade, Zagreb and Bucharest are generally viewed as offering office development possibilities despite being at different points in the development cycle. Belgrade has close to zero vacancy with limited stock while Zagreb has high vacancy and an "overheated" office market. However development opportunities are anticipated with an economic upturn in the Croatian economy in the next 2-3 years. The conventional wisdom is that developers need to forward plan in anticipation of an economic recovery. "Developers need to look 3-5 years ahead and therefore should now start planning for the future," commented Tomislav Greguric, Managing Director of the Zagreb-based Renova Property Consultants.

In contrast to Zagreb, Belgrade has almost zero vacancy and low levels of stock. EU candidate status is also benefiting Serbia from a trade and economic perspective. Office supply in Belgrade remains low, even by Central and Eastern Europe (CEE) standards, at a little over 600,000 square meters (sqm) and only 50 percent of this is Class A according to JLL.

Pipeline is very limited and CBRE argue that the almost complete absence of projects and solid demand will result in a lack of space for potential tenants. Only 3,200 sqm of new supply is expected to be completed in 2014 with the delivery of the Old Mill office and hotel complex located in New Belgrade where 90 percent of Belgrade office stock is located. The renovation project by the Austrian Savavia Group will deliver the 240 room Radisson Blu Old Mill Hotel in addition to office space that has received financing from the EBRD.

Only two major office projects are in the pipeline, Globe Trade Centre (GTC) are due to start construction of the first 10,000 sqm phase of a 27,000 sqm development. In another mixed-use development, Immorent are developing the Sirius office and hotel project, also located in New Belgrade.

In a major development for the city, the Dubai-based Eagle Hills have released plans for the Belgrade Waterfront proj- ▷

AFI PARK1

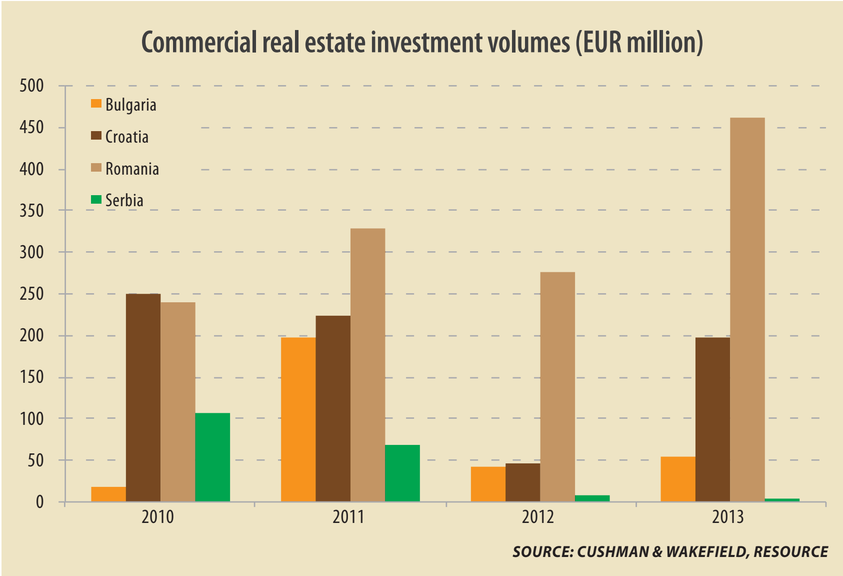
ect that is planned to deliver commercial, retail, hospitality and residential space. The complex will consist of a 60 percent built area including a 220 metre tower and 40 percent open space. Construction of the first retail phase is due to commence this year. The project is being undertaken against the background of a trade agreement between the Serbian and Abu Dhabi governments. "Available office space in quality buildings is close to zero in Belgrade and this projects draws attention to the city," said Diana Klott, Managing Director of the Belgrade-based consultants NAI-atrium.

Developers are increasingly attracted to the Bucharest office market. The latest delivery was the €80 million Floreasca Park by Portland Trust in partnership with the New York-based Apollo Real Estate Advisers (AREA). In another project segment AFI Europe are developing the 50,000 sqm AFI Business Park Bucharest comprising four office buildings and an office tower. Skanska is due to complete the first 19,500 sqm phase of Green Court this year; the complex is expected to be fully let on opening. On completion it will consist of 52,000 sqm of space in three buildings. "We regard the entry of Skanska into the Bucharest office market as an endorsement of Romania," commented Sinziana Frangeti, Associate Director at Colliers Romania.

It is hoped that Croatia's EU accession will attract new retailers and cargo and distribution players could stimulate the market, increasing its appeal to foreign investors and operators. Sinisa Dadic, Partner at 3D Consulting argues that Croatia is in a position to act as a corridor from central and northern Europe to ports such as Rijeka.

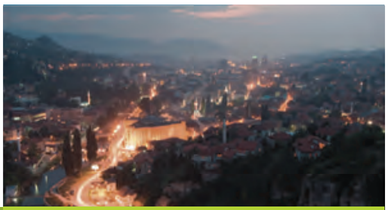
Investor interest could also move from the more established sectors to the hotel and hospitality sector as Croatia has significant opportunities for hotel and leisure development and asset management on the Adriatic coast. "Hospitality is the number one brand and investor interest is growing in for example former state-owned properties. The key is in extending the summer season," said Filip Vucagic, Head of Investment & Valuation at Colliers Croatia.

From an optimistic perspective, Uros Grujic, senior consultant at JLL Serbia comments that there will be plenty of opportunities once Serbia becomes more EU friendly and once foreign investors start to feel comfortable with Serbia. "Figures for vacancy rates, take-up, limited pipeline and the number of people within Belgrade will all contribute to upcoming investments. Further, Belgrade is the largest and most populated city within the region and geographically ideally positioned," he concluded.




# Facts about South-East European countries

**Source: CIA World Factbook**
- **Population:** July 2014 estimates
- **Ethnic groups:** only groups comprising more than 1% of the population are listed, 2011 estimates
- **Language:** only official languages are listed
- **Independence:** current form obtained after the dissolution of Yugoslavia
- **GDP and GDP per capita:** 2013 estimates



### Albania

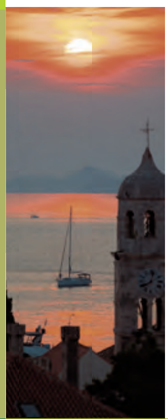
**Capital:** Tirana
**Area:** 28,748 km$^2$
**Coastline:** 362 km
**Population:** 3.01 million
**Ethnic groups:** 95% Albanian, 3% Greek
**Language:** Albanian
**GDP (PPP):** $26.73 billion
**GDP (PPP) per capita:** $8,200
**Currency:** Lek (ALL)

### Bosnia and Herzegovina

**Capital:** Sarajevo
**Area:** 51,197 km$^2$
**Coastline:** 20 km
**Population:** 3.87 million
**Ethnic groups:** 48% Bosniak, 37% Serb, 14% Croat
**Language:** Bosnian, Croatian, Serbian
**Independence:** 1992
**GDP (PPP):** $32.16 billion
**GDP (PPP) per capita:** $8,300
**Currency:** Convertible mark (BAM)

### Croatia

**Capital:** Zagreb
**Area:** 59,594 km$^2$
**Coastline:** 5,835 km
**Population:** 4.47 million
**Ethnic groups:** 90% Croat, 4% Serb
**Language:** Croatian
**Independence:** 1991
**GDP (PPP):** $78.9 billion
**GDP (PPP) per capita:** $17,800
**Currency:** Kuna (HRK)



### Bulgaria

**Capital:** Sofia
**Area:** 110,879 km$^2$
**Coastline:** 354 km
**Population:** 6.92 million
**Ethnic groups:** 77% Bulgarian, 8% Turkish, 4% Roma
**Language:** Bulgarian
**GDP (PPP):** $104.6 billion
**GDP (PPP) per capita:** $14,400
**Currency:** Lev (BGN)

### Macedonia, FYR

**Capital:** Skopje
**Area:** 25,713 km$^2$
**Population:** 2.09 million
**Ethnic groups:** 64% Macedonian, 25% Albanian, 4% Turkish
**Language:** Macedonian, Albanian
**Independence:** 1991
**GDP (PPP):** $22.57 billion
**GDP (PPP) per capita:** $10,800
**Currency:** Macedonian denar (MKD)

### Montenegro

**Capital:** Podgorica
**Area:** 13,812 km$^2$
**Coastline:** 294 km
**Population:** 650 thousand
**Ethnic groups:** 45% Montenegrin, 29% Serbian, 9% Bosniak, 5% Albanian, 3% Muslim
**Language:** Montenegrin
**Independence:** 2006
**GDP (PPP):** $7.429 billion
**GDP (PPP) per capita:** $11,900
**Currency:** Euro (adopted unilaterally)

### Kosovo (partially recognised)

**Capital:** Pristina
**Area:** 10,887 km$^2$
**Population:** 1.86 million
**Ethnic groups:** 92% Albanian
**Language:** Albanian
**Independence:** 2008
**GDP (PPP):** $14.11 billion
**GDP (PPP) per capita:** $7,600
**Currency:** Euro (adopted unilaterally)

### Romania

**Capital:** Bucharest
**Area:** 238,391 km$^2$
**Coastline:** 225 km
**Population:** 21.73 million
**Ethnic groups:** 83% Romanian, 6% Hungarian, 3% Roma
**Language:** Romanian
**GDP (PPP):** $280.7 billion
**GDP (PPP) per capita:** $13,200
**Currency:** Lev (BGN)

### Serbia

**Capital:** Belgrade
**Area:** 77,474 km$^2$
**Population:** 7.21 million
**Ethnic groups:** 83% Serbian, 3.5% Hungarian, 2% Roma, 2% Bosniak
**Language:** Serbian
**Independence:** 2006
**GDP (PPP):** $80.47 billion
**GDP (PPP) per capita:** $11,100
**Currency:** Serbian dinar (RSD)

## OPINIONS

# *Pioneers could get their rewards*

**The post crises period brought changes to every market in Eastern Europe, and now new stars are emerging in the region. CEE markets are picking up, while SEE draws more and more attention. Who are going to be the winners? Is it time to enter these emerging markets? What opportunities do investors and developers have in the region?**

KATALIN MAJOR

### John Verpeleti, Chairman of the Management Board, Colliers International, Eastern Europe

It is true that the pace of development has differed for various countries, but I am not sure this can be put down solely to the crisis, as differentiation was already starting to occur before. Poland arguably presented the best economic and political credentials shortly after the crisis and it has emerged as the biggest winner. Many argue that it is a core European market these days. The numbers certainly indicate investors favored the country over the many other options in the region. The other recent trend has seen the pool of dominant investors shrink considerably and it is now a smaller number of names associated with deals. A few years ago the list of interested parties was significantly longer, but these days conservative money is not as enthusiastic about entering the Central Eastern Europe (CEE) market as it once was. Many expected distressed assets to provide opportunities but this has not eventuated, partly because of market size issues. Adventurous money often needs bigger deals in order to make it worthwhile. Another change, particularly in markets where the finance tap has been turned off for some time, is that financing is once again becoming available. This will be great for getting the wheels moving properly again.

The interest in the region comes mainly from Western Europe and the United States. Most of the investment came from these sources as there was, and remains, limited domestic capital. I would be hesitant to pick a specific country winner in CEE and South-East Europe (SEE) moving forward as both have their advantages and disadvantages at the moment. The Czech Republic will benefit from any overflow out of Poland and Romania has a sufficient critical mass to keep certain investors interested. Contrarian investors are looking at all markets, but the opportunities need to be good and we do not have much conversion of this interest into actual action just yet.

As always, I think pioneers prepared to take risks in the more difficult markets could do well, but barriers to entry in the smaller markets sometimes still remains high. Risk is being looked at differently these days and uncertainty, which is slightly different, has occasionally added an unwanted dimension. An investor is prepared to accept a normal range of exposures, but if there are unexpected and/or unprecedented govern-

ment interventions in business, a market's appeal can be significantly reduced. Conversely, consistent government performance or behavior finds favor with investor communities.

The region remains safe, although the situation in Ukraine is posing serious challenges and it will continue to do so. As always, CEE and SEE provide abundant and sound opportunities, but the trick is to pick the sector and specific property correctly and not ignore market fundamentals as some have in the past.

## Andrew Peirson MRICS, Managing Director, JLL, South East Europe

The investment market across SEE looks positive for the next 12 months. While the majority of investor focus is currently on Romania, the Western Balkans is starting to gain more attention following years of rental decrease and very little investor appetite.

The market across the region has suffered due to over-development and as a result, rents have fallen and investors have shifted their attention away from this market. The lack of development finance in the last 2 years has resulted in vacancy rates reducing, and as such rents have stabilized, and in parts, started to rise again. Therefore, confidence is returning and we fully expect investors to return to the region, with particular focus on Romania, Serbia and Bulgaria.

In the case of Serbia, the market is under developed, and with the country now on the road to EU accession, the reputation of the country is expected to improve. Development is needed across every commercial sector and investors will find countless opportunities in Belgrade, a city that has been largely ignored over the past 10 years.

On the other hand, Bulgaria has witnessed far too much development (mainly as a result of its EU entry, and liquidity flooding the market too quickly) and is taking time to absorb the huge amount of development. This situation is now stabilizing, just like in Croatia, and investors will find a much healthier market place than 12-24 months ago.

The key to the investment market is the will of the banks to refinance. A number of high profile assets are highly leveraged, and with the majority of the finance coming from Greece, Italy and Austria, it will require the banks to potentially acknowledge a decrease in value and to refinance existing debt.

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# SEE: a good place to do business?

**South-East Europe (SEE) is probably the least developed, but definitely not the least competitive region of the continent as it has produced some surprising results in this year's global competiveness reports. Like most emerging markets, SEE countries can offer higher yields on investments, but their underdeveloped institutional framework combined with political and financial instability can make them a risky choice to do business.**

ÁKOS BUDAI

THE REGION CONTAINS 9 countries; 4 of them are members of the European Union (EU) and 7 of them were part of the former Yugoslavia. These countries are sometimes referred to as Balkan countries, however economically speaking, Slovenia is usually not considered one, because of its level of development. Still, for comparison, Slovenia's results as well as Hungary's are displayed in our tables.

The World Economic Forum's Global Competitiveness Report for 2013-2014 concluded with some disappointing results regarding the region's competitiveness. The report included an index based on various factors, including infrastructure, government policies, the quality of the workforce and many others. According to their findings, the region's best performer was Bulgaria, placing 57th out of the 148 countries surveyed, while the worst performer was Serbia (101th). Looking at the category scores, we don't see much variation. On a scale of 1 to 7, almost all countries scored around 4.5 in the first category that mostly measures the quality of infrastructure and institutions. The variation in scores in the second category was even less, which shows that the efficiency of goods, labor and financial markets is quite low in SEE countries. The most disappointing scores were in the third category which measured innovation and business sophistication. The two most problematic factors for doing business are also shown in our table for each country. Limited access to financing and corruption is a widespread problem in the region, but crime and overcomplicated tax regulations also present challenges.

| Economy | GCR Rank (out of 148) | Score | Basic requirements | Efficency enhancers | Innovation and sophistication factors | Biggest problems |
|---|---|---|---|---|---|---|
| Bulgaria | 57 | 4.3 | 4.7 | 4.2 | 3.3 | corruption, access to financing |
| Slovenia | 62 | 4.3 | 5.1 | 4.1 | 3.9 | access to financing, inefficient governemnt bureaucracy |
| Hungary | 63 | 4.2 | 4.6 | 4.3 | 3.6 | access to financing, policy instability |
| Montenegro | 67 | 4.2 | 4.6 | 4.0 | 3.6 | access to financing, corruption |
| Macedonia, FYR | 73 | 4.1 | 4.6 | 4.0 | 3.4 | access to financing, inadequate infrastructure |
| Croatia | 75 | 4.1 | 4.7 | 4.0 | 3.5 | inefficient governemnt bureaucracy, policy instability |
| Romania | 76 | 4.1 | 4.3 | 4.1 | 3.3 | tax rates, corruption |
| Bosnia and Herzegovina | 87 | 4.0 | 4.4 | 3.8 | 3.4 | access to financing, policy instability |
| Albania | 95 | 3.8 | 4.2 | 3.7 | 3.1 | corruption, access to financing |
| Serbia | 101 | 3.8 | 4.0 | 3.8 | 3.0 | corruption, inefficient governemnt bureaucracy |

*SOURCE: WORLD ECONOMIC FORUM*

The World Bank Group has produced its Doing Business 2014 report, in which they tried to show how difficult it is to start and operate a local business in different countries. According to the report, the best performer of the region is Macedonia, ranking 25th out of the 189 countries surveyed, surpassing nations such as Japan or France. 2 other countries from the former Yugoslavia hold a place in the top 50, while the worst performer of the region was Bosnia and Herzegovina, ranking among the world's worst countries to do business in, in almost every category.

Starting a business is very easy in Macedonia; it only takes 2 days compared to the Organisation for Economic Cooperation and Development (OECD) average of 11 days, but it can be rather difficult in other Balkan countries, except for Serbia where numbers are similar to those in developed countries. However, in Bosnia and Herzegovina, for example, it takes 37 days to start a business.

## A challenging environment…

The region had the worst results in dealing with construction permits, which can be

| Economy | Rank (out of 189) | Starting a Business | Dealing with Construction Permits | Getting Electricity | Registering Property | Getting Credit | Protecting Investors | Paying Taxes | Trading Across Borders | Enforcing Contracts | Resolving Insolvency |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Macedonia, FYR | 25 | 7 | 63 | 76 | 84 | 3 | 16 | 26 | 89 | 95 | 52 |
| Slovenia | 33 | 38 | 59 | 32 | 83 | 109 | 14 | 54 | 48 | 52 | 41 |
| Montenegro | 44 | 69 | 106 | 69 | 98 | 3 | 34 | 86 | 53 | 136 | 45 |
| Hungary | 54 | 59 | 47 | 112 | 45 | 55 | 128 | 124 | 70 | 15 | 70 |
| Bulgaria | 58 | 65 | 118 | 135 | 62 | 28 | 52 | 81 | 79 | 79 | 92 |
| Romania | 73 | 60 | 136 | 174 | 70 | 13 | 52 | 134 | 76 | 53 | 99 |
| Kosovo | 86 | 100 | 136 | 121 | 58 | 28 | 98 | 43 | 121 | 138 | 83 |
| Croatia | 89 | 80 | 152 | 60 | 106 | 42 | 157 | 34 | 99 | 49 | 98 |
| Albania | 90 | 76 | 189 | 158 | 119 | 13 | 14 | 146 | 85 | 124 | 62 |
| Serbia | 93 | 45 | 182 | 85 | 44 | 42 | 80 | 161 | 98 | 116 | 103 |
| Bosnia and Herzegovina | 131 | 174 | 175 | 164 | 96 | 73 | 115 | 135 | 107 | 115 | 77 |

*SOURCE: THE WORLD BANK*

quite discouraging for real estate developers. While in most SEE countries it usually takes the same number of steps and time to deal with construction permits as in OECD countries, the cost, relative to the income level of the country, can be 12 times as high as the average in developed nations. However, Balkan countries have income levels 5 times lower than the EU average, so a foreign company should not be discouraged by these numbers.

Registering property can be also challenging in the region. Surprisingly, in Slovenia and Croatia it takes 109.5 and 102.5 days respectively to register property compared to the OECD average of 24.1 days, while in Serbia, Romania and Bulgaria it is faster and cheaper to register property than in most developed nations. The cheapest place to register property is Kosovo, where only 0.3 percent of the property value is charged. In other SEE countries it usually takes more steps and/or more time to register property than the OECD average. Similarly to construction permits, it is also more costly, but here the cost is high related to the property's value, not the country's income level. For example, in Albania it is 11.1 percent of property value compared to the OECD average of 4.4 percent.

According to the rankings, getting credit is the region's strongest suit. In this category the ranking measures the strength of legal rights of both borrowers and lenders, and also the depth of credit information available. Except for SEE's worst performer, Bosnia and Herzegovina, all Balkan countries ranked in the world's top 50, outperforming most developed countries. A region-specific feature is that, except for Macedonia and Serbia, a higher percentage of individuals and firms are listed in a public registry than by a private bureau, which is the opposite of what usually happens in developed countries.

Paying taxes in SEE countries is usually more difficult than in other European countries, as the number of payments per

year and the time spent filing taxes is higher than the developed nation's average. However, the total tax rate paid by businesses is lower than the OECD average (41.3 percent) in every SEE country except for Romania. In Macedonia, for example, it is only 8.2 percent.

## ...with promising prospects

What these reports do not necessarily show is that doing business in these countries is much less formal than numbers would suggest. According to experts, it is always advisable to enter the market through local partners, since traditional business communication is based on trust, friendship as well as political and personal influences. Although this environment might be very different for developers accustomed to Western business norms, with the right partner and financing, a well-chosen project with solid fundamentals can easily be successful in this region of endless opportunities.

Additionally, the EU has had and will have an important role in making SEE countries more attractive to foreign investors. Serbia, Montenegro and Macedonia are official candidates for EU membership, while Albania has also submitted its application. In the case of Serbia and Montenegro, accession negotiations have already started, which means that they will have to comply with EU law, a process that should improve their institutional framework and thus make it easier to do business in the 2 countries. In the long run, as official negotiations start, similar developments might be expected in other SEE countries.

# Constructing new European capitals

**Major cities of South-East Europe have had to face many challenges: wars, earthquakes and the drastic redevelopments of the socialist era. Today, they are trying to rebuild themselves and become modern, European capitals. We look at three countries, three capitals – and three very different plans for city developments.**

ÁKOS BUDAI

## Sarajevo: restricted development

The last two decades saw major urban transformations in Balkan cities, mainly fuelled by rebuilding projects. These projects usually intended to modernize cityscapes with new residential and office buildings, often neglecting public places. In the case of many city squares, real estate developers failed to maintain or build the infrastructure necessary to make city squares pleasant public places.

This was the case with the capital of Bosnia and Herzegovina, Sarajevo. The city has seen major real estate developments, mostly before the financial crisis, with new skyscrapers opening every year. The biggest development is probably the Sarajevo City Centre which is the largest commercial attraction in the country, providing 49,500 square meters (sqm) of shopping, leisure and office space. The construction, financed by a Saudi business named Al Shiddi, started in 2008 and after a series of delays, the centre opened in March 2014.

Revitalization of public squares and buildings is going much slower in Sarajevo. The city's biggest public project is the reconstruction of the Vijecnica, a building from the Austro-Hungarian era which had served both as a city hall and as a library. The European Union (EU) has donated €9 million since 2000 for the restoration of Vijecnica, more than half of the total cost of €16 million. The building is supposed to be ready for the 100th anniversary of the assassination of Archduke Franz Ferdinand.

However, urban development in the country is usually still restricted as a result of the Dayton Agreement of 1995, which put an end to the Bosnian War. Since the agreement, property transfers in the country are overseen by the Office of the High Representative, which has banned the sale of state-owned land (comprising 53 percent of the entire country). This ban has been delaying the redevelopment of one of the city's most iconic landmarks, the Jajce Barracks. Plans for the former military site include a €50 million luxury hotel by Prince Alwaleed of Saudi Arabia.

## Skopje: a newly constructed past

While many Balkan countries spend huge amounts on constructing modern buildings to distance themselves from the socialist past, Macedonia's government

SARAJEVO

SKOPJE

BELGRADE

has chosen a different path and turned to antiquisation. In 2009, they released a video that displayed ambitious plans for the city centre of Skopje, aiming to give it a more classical appeal by the year 2014. The plans seemed unrealistic at the time, but now almost everything – around 20 buildings and 40 monuments – is near completion.

The Skopje 2014 project includes the building and reconstruction of many attractions from statues through new museums to a triumphal arch, in many architectural styles from baroque to neoclassicism. They are erecting as many public landmarks in just 4 years as some European capitals have put up in 3 centuries.

Skopje 2014 is not just about giving tourists and locals a nice city centre. It is also a tool to express Macedonia's newfound national pride, which is one of the many reasons why residents of Skopje have mixed feelings about the development. Some fear that putting up so much history can have a negative effect on the fragile state of peace in the country, torn by ethnic conflicts for centuries. Others argue that turning Macedonia's capital into a "mini Las Vegas" is only a way to distract people from the country's economic problems including high unemployment and poverty.

Although after years of neglect everyone welcomes the fact that something finally has been done to improve the cityscape, many say that some designs are too over the top and that "nationalistic historicist kitsch" is being constructed. Also, many questions arise about the cost of the project and about the transparency of the contracts given to architects and designers. After local elections in April, the government revealed that it has spent €208 million so far on the project, but according to estimates, the total cost of Skopje 2014 could easily reach €500 million.

## Belgrade: focusing on water

More and more cities around the world are rediscovering the potential that lies in their waterfronts. Transforming old and dysfunctional industrial zones into lively areas with mixed uses has been trending for many years now. The Serbian capital has one of the most ambitious waterfront plans in the world, "Belgrade on Water". Headed by the Serbian government, the project aims to improve Belgrade's cityscape and economy. They plan to create the "Manhattan of Serbia" by redeveloping a large flat area between the Danube and rail tracks.

A new company called Eagle Hills, chaired by Dubai-based developer Mohamed El-Abbar, would develop and finance the project, with Serbia contributing the land, the government said. The Emirati company plans to build 1.5 million sqm of residential, commercial and leisure space on 90 hectares of land. The biggest attraction of the project would be the 210 metre tall Belgrade Tower, resembling the world's tallest building, the Burj Khalifa in Dubai. The area would also include a large shopping mall and a marina for luxury boats, although so far only the overall concept has been released, individual facility and building plans are not yet finished.

The estimated cost of Belgrade on Water is €2.5 to €2.8 billion. According to Prime Minister Vucic, the project is set to be completed in 2019 – the same year Serbia plans to join the EU. Many questions were raised about the ambitious deadline, the lack of a public tender, the unclear details of the financing and the necessity of the project, but Belgrade on Water is fully supported by the government and the city management.

Several different projects have been planned for the banks of the Sava and Danube rivers over the last decades, but so far none of them materialised. Belgrade on Water is the most ambitious plan to date, but it is unknown when and how much of it will be implemented. The fact that this project was announced a couple of weeks before the parliamentary election usually does not come with a high probability of implementation, but according to the latest information the first plot should be ready for development by September 2014.

# Where is the holiday home market heading?

**Sandy beaches and nice warm summers – that's what all tourists want on a vacation. But is this really enough for success?**

TÜNDE MADUROVICZ-TANCSICS

The world has become more accessible as travel conditions have improved and low-cost flights have emerged. At the same time, interest in foreign holiday homes and real estate from Western Europeans in search of relaxation has grown. The first popular destination was Spain, where real estate was at a much lower price than properties back home. Conditions were basic in the beginning, but developers discovered potential in the market. Soon, the profit decreased due to market growth, and authorities began demanding more and more from the developers. The burst of the housing market bubble experienced in northern Europe postponed the increase of price differences. As a result of shrinking yields, developers turned towards Central and Eastern Europe (CEE).

Airport accessibility was a given for these CEE countries and low land prices combined with low construction costs were the main drivers of a major construction boom. Additionally, CEE countries are taking the path of European integration or have become member states of the European Union (EU), which further increased political security. This was not enough for success however, as conditions had to be met in order to manage this new upsurge in interest. An increasing number of Westerners wanted to purchase properties in these countries and prices started to increase as a result of the growing demand. Rising prices made many people believe that purchasing properties in this region would be a good investment.

Holiday home investors and developers first discovered Croatia and Bulgaria in the South-East European (SEE) region. Montenegro is currently the latest destination still in the upturn stage. But given the shrinking yields, which country will be the developers' next target?

Albania is expected to become the next holiday home target in the region. It has all the natural endowments to make this happen as the sandy beaches and the sunny climate attracts tourists. Also, the political situation is getting better. In 1997 armed groups kept the country under control after the post-World War II communist regime's removal but Albania joined NATO in 2009 and it has also submitted its application to the EU with negotiations starting soon.

## Albania is following its neighbours' path

Among SEE countries Bulgaria's, Croatia's and Montenegro's coastline has already been discovered by tourists. In the case of the 2 former countries, the sector picked up in the 2000s, while Montenegro was discovered after it became independent in 2006. The number of nights spent by tourists in these countries shows a rising trend. Furthermore, according to the World Travel and Tourism Council's (WTTC) impact study, Montenegro is among the top 3 fastest growing countries.

Albania is still trailing its neighbors, but like the previously mentioned countries, its beaches are becoming increasingly popular among tourists. Based on The World Bank's data, the number of tourists to Albania has increased tenfold between 1995 and 2011. Albania had more than 3.5 million tourists visit it in 2012, while in 2004 only 300,000 people visited the country. Due to growing interest, British Airways nad other airline have expanded its routes. In the future, tourism numbers might improve further as infrastructure develops and a possible new airport in the south might help exploit the entire country's tourism potential. Tourists might be swayed by the low prices, the food and services cost only a fraction compared to Western prices. Prices are 50 percent lower than in neighboring Croatia, Greece or Italy.

## The holiday home market is booming

Before interest in the holiday home market in Albania increased, foreigners had

LALZIT BAY RESORT

discovered Bulgaria's and Croatia's coastline in 2000, alongside the boom in the tourism sector. After these countries became an international investment target, the demand for apartments and houses increased. During the market surge developers had plenty of prospects, but due to the growing number of investments, opportunities started to decrease. In Bulgaria in 2004 land prices and construction costs were very low, and the first developments made great profits. Sales prices were a third or a quarter of Western ones. However, by 2006 land prices had significantly increased and so had sales prices which increased to €2000 per square meter (sqm) due to two-digit annual price increases. In 2008 residential property prices increased by fourfold compared to those in 2002, therefore they became less competitive and the markets halted. A similar situation took place in Croatia, although prices "only" doubled here. However the 2008 crisis put an end to the "golden age" of the holiday home market in these countries and prices have fallen significantly. Currently only properties on the coast and which are rentable are purchased by investors.

Another promising holiday home market destination is Montenegro, where prices are still in the upswing phase. Between 2006 and 2008, housing prices rose by an annual average of 20 percent. In some special cases they even increased by 100 percent. In recent years, significant developments have been made in the country, and a significant number of new homes have been built.

## Where does Albania stand right now?

Tourism in Albania is growing, which is a major attraction for real estate development. Albania is considered one of the locations with the most potential in Europe, followed by Bulgaria, Croatia and Montenegro. However, Albania is currently 50 years behind the most popular holiday destinations. There are only sandy beaches at present, but there are plans for future developments. However, developers will continue to deal with corruption and the uncertain land ownership situation.

Foreign investors began to be interested in the country's real estate market in 2006. Properties are still significantly cheaper than in Bulgaria, Croatia or Montenegro, where prices for newly built homes exceed €2000 per sqm. In contrast, an Albanian apartment with a sea view can be purchased for €35,000. There are positive signs in Albania indicating that the country might follow Croatia's and Montenegro's example in terms of infrastructure and tourism developments. The first phase of Lalzit Bay Resort – a 49-acre development on the Adriatic coast, 30 kilometers from the capital Tirana – might be completed in 2014.

However, many have doubts about the Albanian holiday home market upturn. In their view, the current European environment will not allow the country to become a major holiday destination and they believe investors might consider this emerging market as "too emerging".

# What does the SEE housing market have in store?

**Residential property is in demand all over the world and a key element of the world economy. But what are the main characteristics of the South-East European housing market?**

TÜNDE MADUROVICZ-TANCSICS

Although the South-East European (SEE) countries have different historical backgrounds, what they have in common is that the Second World War was followed by 40-45 years of communism. This made housing markets in the region very similar. After the regime change in the 1990s, and with the arrival of the free market, the housing market situation has changed considerably. The largest construction companies were privatized along with a significant proportion of previously state-owned housing stock. Contrary to popular belief, the share of state-owned rented properties was not dominant, as only 19 percent of homes belonged in this category. Therefore, at the time of the regime change, the share of owner-occupied properties was already high.

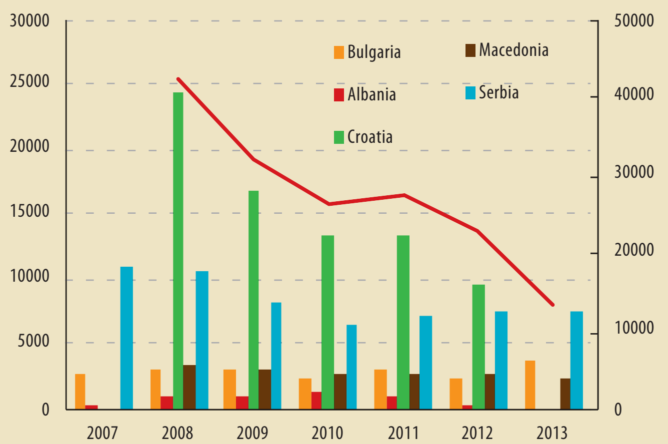
Real estate development became a part of the private sector, which was a radical change. Due to high interest rates and low incomes, housing development activity was relatively modest in the early 1990s. Despite this, there were early entrants to the market and thanks to improving quality, prices started to increase. Bureaucracy has also been an issue in the region with construction works completed without a permit posing serious problems. In Romania for example, 20 percent of the buildings completed in 1998 were built without permission.

During the transition period, the political instability lead to internal and external political conflicts and resulted in the exodus of citizens out of SEE. As a result, there were precarious conditions in the housing sector and many apartments in the countryside were left empty while there was a shortfall in capital. This situation was aggravated by the outbreak of the Yugoslav Wars, which not only increased uncertainty and instability but also lead to the destruction of a great part of the housing stock.

After the aftermath of the war, developments gradually started up again in SEE. Developers first discovered Romania and Bulgaria and their European Union (EU) integration process had a great role in this. From the 2000s onwards, major developments started. Between 2000 and 2012 housing stock increased by 7.6 percent in Romania and reached 8.5 million. Prices increased by tenfold between 2002 and 2007. There were also huge developments in Bulgaria between 2000 and 2008. In both cases, investors had very high hopes and the promised reforms fell short and then the economic crisis put an end to the "golden age". The Romanian construction industry has been struggling ever since, with developments having stopped and prices continually falling in the last four years. The situation is better in Bulgaria as the number of housing transactions have increased this year, although the Bulgarian market also suffered a large drop (residential properties cost 39 percent less than they used to in 2008). Prices seem to be stable and the number of construction permits rose in 2013.

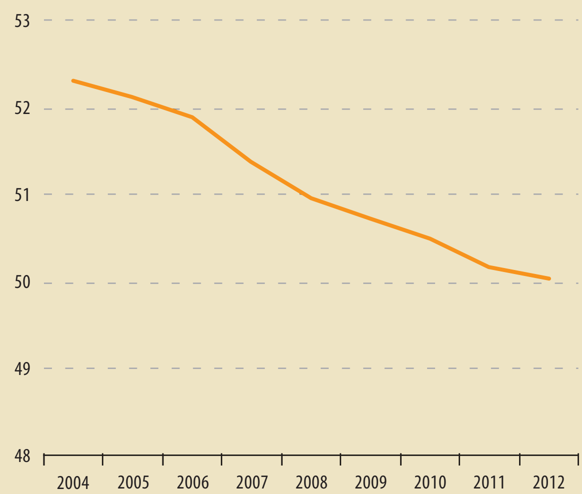
Post-war Croatia became a popular investment and development target. The country's coastline has huge potential. The Croatian market also experienced a sharp price increase, which was mainly contributable to the forthcoming EU accession. Similarly to Romania and Bulgaria, the housing bubble burst following the crisis, and since then prices have been continuously falling. The statistics show that residential real

**Number of construction permits in SEE**




*SOURCES: CROATIAN BUREAU OF STATISTICS, NATIONAL STATISTICAL ISTITUTE OF THE REPUBLIC OF BULGARIA, STATISTICAL OFFICE OF THE REPUBLIC OF SERBIA, STATISTICAL INSTITUTE OF THE REPUBLIC OF ALBANIA, STATE STATISTICAL OFFICE OF THE REPUBLIC OF MACEDONIA, AGENCY FOR STATISTICS OF BOSNIA AND HERZEGOVINA*

**Change of the population of SEE between 2004 and 2012**




*SOURCE: WORLD BANK*

estate developers are no longer willing to invest, as the number of issued building permits has sharply dropped since 2008 as in 2013 it was 32 percent lower than a year ago. Montenegro also turned into a main development target after it became independent and started the path to EU integration. The new state suddenly found itself in the middle of a real estate boom, which has continued ever since.

Many predict the next popular real estate destination will be Albania. Even if based on the number of building permits, this is not a massive construction wave in the residential real estate market, but rather about a fall. The international market players consider Albania mainly as a holiday housing market. Bosnia-Herzegovina and Macedonia are currently the two poorest former Yugoslav States, which investors still avoid. The Serbian housing market is more promising. The market is growing and prices increased between 2000 and 2010 by more than 250 percent, although prices have fallen since then by an annual rate of 10 percent in real terms.

## Are the others catching up?

For the SEE countries yet to be explored, like Albania, Serbia, Macedonia and Bosnia-Herzegovina, creating a stable political environment and economic security is a key pre-requisite in order for the housing market to pick up. Looking at other countries, it is obvious that EU integration strongly correlates with the willingness of investors to enter the market. Serbia has already started accession negotiations with the EU, and the General Affairs Council will re-address the Albanian status in 2014. Macedonia's situation is more problematic as the name dispute with Greece is still ongoing (a region in Greece is called Macedonia) and because of this, the Greeks continue to oppose any progress of the Macedonian case. Bosnia-Herzegovina and Kosovo are for the time being only "potential" candidates, making them far away from the integration process.

For the countries being explored, another important question is to what extent the demand in the housing market is growing and how much potential they have. Based on national income per capita, Macedonia, Serbia, Albania and Bosnia and Herzegovina are significantly behind the rest of Europe. However, economies are growing steadily above the EU average, which is a major attraction for real estate investors.

Additionally, decreasing unemployment and increasing wage incomes is key for sound demand and the region is performing well in both aspects. Most of the countries had to face similar problems after the regime change. The expanding service sector could not absorb the shortfall of work places taking place in the industrial sector in the 1990s. High unemployment rates, low

employment and low labor market participation characterized these young labor markets. However, employment has significantly improved since then and wages have also increased considerably. Bosnia and Herzegovina is the only exception as unemployment has been growing steadily since the crisis. The quality of the housing stock is still poor, which could further boost demand. Based on these facts, it can be concluded that there is plenty of demand for new modern housing and thanks to growing incomes, a sound demand could match these needs in the future.

## Barriers of the housing market

An additional issue at play, is that while the Western European population is increasing slightly and is stagnant in Central Europe, population is decreasing in SEE.

The region's population significantly declined between 2004 and 2012 as 2 million fewer people are now living in the region. This is mainly due to Romania, where the population decreased by 1 million. The population in Slovenia, Macedonia and Albania has been stagnant in recent years. The proportion of young people decreased, although it is still high compared to the rest of Europe. However, due to a further decrease in those aged between 18 to 29 years, potential first home buyers might generate less demand in the housing market. In addition, unemployment is increasing among young people, thus solvency is worsening.

Migration has also had a big impact on the housing market as increasing numbers of people from SEE are choosing to work abroad. Therefore, they look for housing in foreign markets. In Albania, for example, according to a 2011 survey, 2 out of 3 young people want to work elsewhere. Countries in the EU however, are mainly looking for qualified labor, which is a disadvantage for Balkan youngsters with poor academic backgrounds. Additionally, many EU countries are trying to get stricter in the employment of foreigners, and the current market environment also makes it more difficult in finding a job abroad.

## What is next?

It is clear that there is plenty of demand for new housing in the emerging Balkan states although solvency is the main issue. But what about Romania, Bulgaria, Croatia and Montenegro – countries which have already gone through the development boom? Is there still demand for housing? The answer is definitely yes, if we look at the number of overcrowded households. Compared to the EU's 17.2 percent average, 44.5 percent of the Bulgarian population lives is crowded residential properties, while this is as high as 51.6 percent in Romania. Moreover, 41.1 percent of the Croatian population lives in properties where there is not enough room, compared to family size. Therefore, there is plenty of room for residential real estate investments in the entire SEE region. The question is when the economic environment will allow developers to take action.

# Prices hit a record low on the Hungarian housing market

**Due to the continuous falling of prices, Hungary now has one of the least expensive housing markets in the European Union. The low price levels favor buyers, and the decreasing interest rates on mortgage loans and increasing government support are now coupled with a modest new housing supply. The FHB House Price Index provides a deeper understanding of Hungarian housing market processes, providing an accurate picture of the current price levels and predicting future trends.**

## How did Hungary become the cheapest?

FHB's House Price Index covers residential market events over the past 15 years. With this information, 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 real prices. Over the period of three years, the value of homes increased by 132 percent and their value adjusted for inflation almost doubled. Favorable changes in the economy were responsible for this trend. The upward trend in residential prices continued between the beginning of 2001 and the end of 2003. Yet, compared to the above, it was much more sedate, with an average 11 percent increase in value, when adjusted for inflation. Demand increased since discounted financing faced a revitalized supply, as new home construction also started increasing from 2001 onwards. The system of subsidies became untenable for the budget by 2003 and the first stringency measures took place at this point, likewise affecting the price of homes.

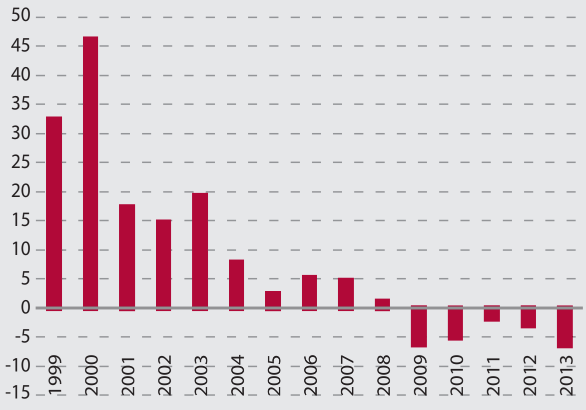
The reigning in of the subsidy system had an effect on the residential market with home values' steep upward trend finally breaking course in 2003. In the following years only a 4 percent rate of increase was seen as at that point the price increase was just keeping pace with the rate of inflation. Despite tightening control over the system of subsidies, competition in lending was able to maintain its level of demand for a few years, with the volume of loans granted on par with the previous period. After the subsidies were withdrawn, foreign currency loans, at that point featuring lower interest rates, became much more popular – and thus began the population's foreign currency indebtedness. This long upward trend was about to change at the end of 2007 when, suddenly, several important residential market indicators began to point in the same direction: supply was saturated, demand decreased, the available income (that had at first leveled off) started decreasing, and there were an increasing number of reports from abroad declaring the end of the real estate boom.

In the FHB Home Price Index's historic timeline, the peak value is located in the first quarter of 2008, where the gradual decline in home prices begins. Compared to the then-highest residential price levels, national averages were 6.3 percent lower in 2009. The gradual decline in residential prices took place alongside a decrease in turnover, which was more visible in decreasing turnover for used homes than in a decline in the number of newly built ones.

## Low price levels in the European Union

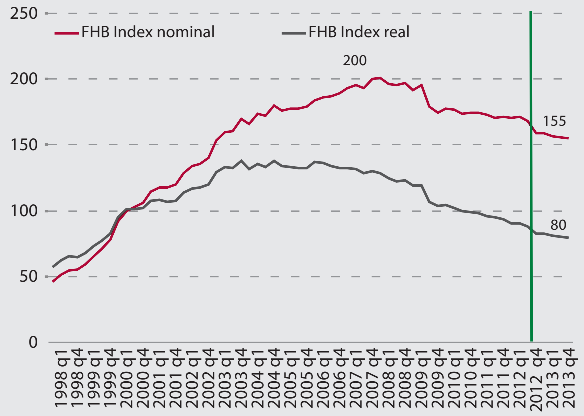
Since 2008, the trend has been clear: nominal housing prices in Hungary continue to decline, thus, we have been experiencing a downward trend for the last six years. Thanks to this, Hungary now has one of the lowest average prices in the European Union (less than € 1,000/square meter) as well as a very modest number of newly built homes. Hungarian prices are considered low even for the CEE region.

**Annual change of the FHB Index in nominal terms (%)**



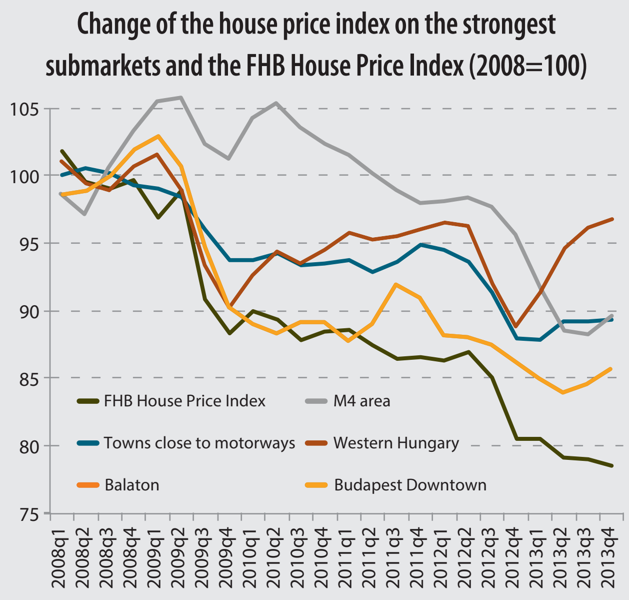

*Source: FHB*

**FHB Index from Q1 2000 to Q4 2013 (2000 = 100)**

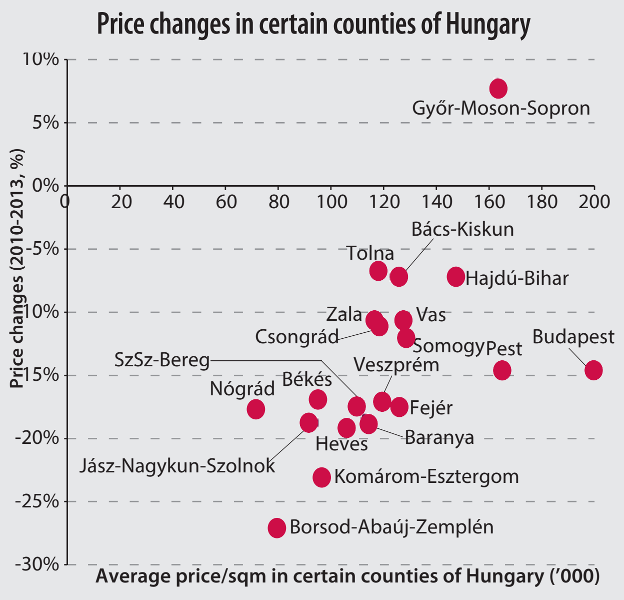



*Source: FHB*

Recently, however, several factors that influence the housing market have begun evolving in a positive direction in Hungary. For one, the government is supporting home purchases more actively through various measures. Meanwhile, it seems that the Hungarian economy is slowly beginning to recover. Though not spectacularly, the economy has at least started to grow. Thirdly, interest rates have been steadily decreasing over the past year. The Hungarian National Bank (MNB) has lowered its rate to a record low (2.50 percent on the 30th of April 2014). In addition to all these positive factors, the Hungarian housing market has accumulated a considerable amount of



Source: FHB, REsource



Source: FHB, REsource

postponed demand, since the number of sales transactions has been quite low over the last six years.

The so-called First Home Buyers segment – analyzed separately by FHB – will profit from this. Thanks to increasing income and more generous state subsidies this segment has more favorable entry opportunities, and the Hungarian housing market has become more affordable.

## To whom is the House Price Index useful?

The FHB House Price Index and its associated real estate professional services are useful to all economic entities that are in any way related to the housing market. An adequate understanding of the market is essential to making sensible, solid decisions. This applies to every developer, financial institution, agency, or fund management firm dealing in real estate.

For example, if a developer plans to launch a housing project on a given site, it is crucial they have an understanding of the immediate and wider implications relating to the development area's environment and that they be able to identify the trends associated with the planned development type. In fact, this information is not only essential for the developer, but also for the bank that is funding the project, since an essential understanding of the market plays an important role in the final decision to finance it. Last but not least, this holds true for the real estate agencies as well: a realistic pricing strategy is key to the success of a new residential project. Without an intricate knowledge of the market, this is impossible. While the nation-wide statistics regarding the current situation in the housing market are not very positive, there is already a sense of movement, and in fact there are submarkets where change is imminent. The geographical breakdown of data from the FHB House Price Index also highlights that there are significant differences between the various submarkets. Average national trends do not apply consistently in all regions. The national market is clearly polarized, with positive (Győr-Moson-Sopron) and negative (Borsod-Abaúj-Zemplén) extremes in the counties.

In the same way that various submarkets reacted differently to the crisis (weaker markets suffered more), change is also going to happen in different ways. The strongest submarkets will be the first to improve, so firstly positive changes are expected in the highly developed areas of Western Hungary, in the inner districts of downtown Budapest, and in the cities that can be reached within two hours from Budapest by motorway (Győr, Kecskemét, Székesfehérvár, Szeged and Szekszárd). The outlook is also more optimistic regarding real estate in Budapest with connections to the Kelenföld railway station and metro 4, and in cites near Balaton. At the same time the Index also shows that the value of flats and houses in the eastern counties decreased further, and that they are increasingly threatened by forced sales. Another important factor is the proportion of force-sold real estate in each submarket, because this figure is a good indicator of the tenacity of a certain market.

The current situation reflects a sensitive stage in the real estate market cycle, where detailed breakdowns of comprehensive and accurate data, as well as high-quality real estate consulting services are vitally important.

FHB offers much more than a basic nationwide housing price index. Alongside the indexes that are published quarterly, FHB offers its clients access to updates on a range of detailed indicators. These indicators allow us to give detailed breakdowns in terms of region and property type. This means our subscribers receive tailor-made analyses of the evolution and/or the current situation of a specific housing market segment, according to their business and strategic needs or their interests.

## FHB also produces forecasts

FHB has launched another unique service, beside the House Price Index: the FHB House Price Forecast. It includes a one year forecast and is updated every six months. The method used in forecasting is based on three pillars. First, based on Hungarian and international experience a certain correlation was identified between selected macroeconomic indicators, financial and credit market indicators and the sales volume and prices of housing. Second, FHB also uses verified local assessments for its forecasts.

In addition, other empirical facts, obtained from the analyses of other real estate crises cannot be ignored either. Thus the experience gained from similar international crises and related observations are also built into the model. FHB's projection model not only provides information about the future development of housing prices, but also takes into consideration the dynamics of the prices given the modifying effect of the crisis.

# First-time buyers and investors could kick-start the market

**People buying their first home and buyers looking for investment and leasing opportunities could help the real estate market get out of the depression that has been characterizing the market for years now. The macroeconomic environment is now offering more support to the market in terms of economic growth, low inflation, and record-low interest rates.**

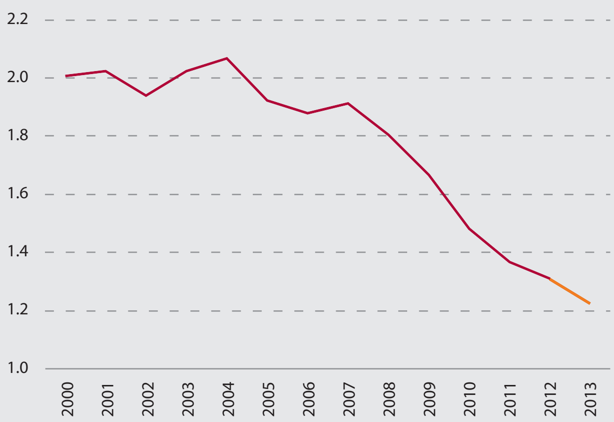
The economic crisis that started in 2008 still affects the markets and market players have inevitably prepared for a slow recovery. The trends, however, have varying effects on households in different situations. FHB is paying special attention to the first-time, young homebuyers demographic, which is one of the reasons it started analyzing the situation for first-time home buyers in 2011. The web diagram analysis, featuring the five most important aspects of such sales, shows that the situation in 2002 was completely different than it was in 2013. Replacing the importance of the subsidy system, it is now lower interest rates and more affordable flat prices that influence a young families ability to buy their first home. Compared to 2010, the new indexes indicate the situation has clearly ameliorated. While decreasing prices have affected current homeowners unfavorably, they are also offering better opportunities to buyers. In addition, interest rate subsidies and the "socpol" (the Hungarian state subsidy for families with children) for new-builds have eased the burdens of the first few years for first-time buyers.

## Household incomes are improving

Low inflation caused a 1.9 percent increase in real wages, compared to the same quarter in the previous year. Thus, the increase in net wages has been coupled with a growth in real wages. Should these trends remain unchanged and employee expectations remain optimistic (that the trends will hold), then this could have a notable impact on the demand for residential real estate. Taking into account the correlation between personal income and housing prices, FBH's First Home Buyers report can conclude that lower prices combined with growing income has indeed put home buyers in a much more favorable position.

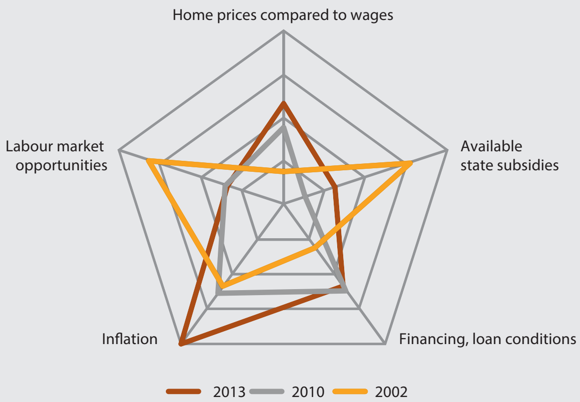
Namely, the lower the index and the shorter the period necessary for raising the capital equivalent to one square meter of flat property then the greater the chances buyers have to reach a successful transaction. The improvement gauged from last year to this year can be attributed to two factors: increasing personal income and a 2 percent drop in housing prices.

**Affordability: Average price per sqm /average monthly wage**




*Source: FHB*

**First Home Buyers**




(The further from the center the better the position on the graph)

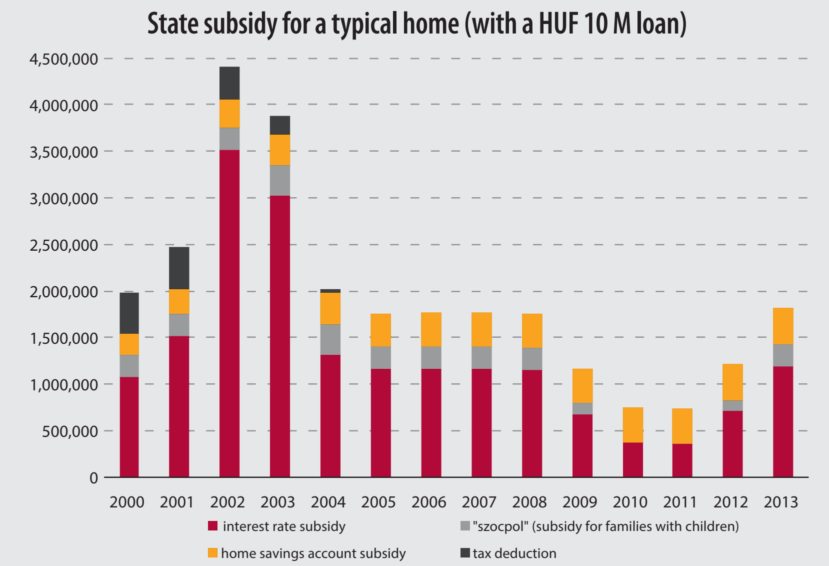
*Source: FHB*

## Trends for major cities

While the trend is beneficial for first-time home buyers nationwide, it also has had an interesting impact on some of Hungary's larger cities (for example, for Budapest, Győr, and Debrecen). Namely, major cities have seen a strong decrease in buying power: ever since 2004, one has to work less per each square meter of property, but one must work longer in big cities than one does in towns and villages. Since we estimate the average net income for each city by deducting the tax per taxpayer by the tax base value per tax payer, this means those in Budapest must work longer (approximately one and a half months) for each square meter (sqm) of property. Whereas both wages and housing prices are typically higher in Budapest than in the other parts of the country, the difference in housing prices, compared to other Hungarian cities, is greater than the income difference. In 2010, the average price per sqm in Budapest was around HUF 255,000, while the average monthly net income was around HUF 165,000. In comparison, the average price and average monthly income were almost identical in Miskolc (price/sqm was estimated at around HUF 130,000, while income/month was around HUF 134,000).

If we employ the above-mentioned data, we can also calculate an average-sized flat's worth in working months. In the case of a 60 sqm Budapest flat, we would have to work for 92.4 months (or over 7.5 years) to be able to buy the flat (if we don't spend on anything else), whereas in Győr it would take a little over six years and in Szolnok or Miskolc it is only five years or even less.

The data indicated here is especially important for first home buyers that are newcomers to the property ladder and, therefore, not nec-



*Source: MNB, Portfolio.hu*

essarily able to finance their first property by selling a previous one. For many, the lending environment is especially important to them.

## Home loan interest rates continue to decline

As the rate of inflation drops, so do deposit and mortgage rates: subsidized home loans are currently available for interest rates starting as low as 6 percent. For example, FHB's State Subsidized Loan scheme is available at a starting interest rate of 6 percent, with an annual percentage rate of charge (APRC) of 5.86-8.45 percent.

Considering the typical 15-year duration of a mortgage, a low-interest environment means that each installment will represent a more moderate burden for first-time home buyers. We can say that the opportunities provided by taking out a forint-based loan (free of currency risk) are not substantially different from the opportunities that foreign currency loans used to offer when they dominated the market in the middle of the last decade. The available subsidies are, in fact, even brighter in the overall picture.

Most likely due to favorable subsidies and positive interest rate trends, the recovery of the loans markets we began to see in the first quarter of the year has slowly maintained course. Lending volume has increased and mortgages totaled HUF 14.5 billion in March 2014 (versus HUF 9.2 billion in March 2013). Further, we expect these trends to continue for the remainder of the year.

## Subsidies are diverse, but not just in Hungary

It's not unusual for first-time home buyers to get special attention from the government and other market players. They are often the targets of programs designed to facilitate home buying. FHB has analyzed the value of available subsidies for a typical home loan for a typical family throughout the years and found that 2004 was the last time when the situation was more favorable for first-time home buyers than it is right now.

"Socpol", the Hungarian state's non-refundable subsidy for home-building or the acquisition of newly-built homes, provides a maximum amount of HUF 3.25 million to families or couples planning families: the amount of the subsidy increases depending on the number of children (or planned family size). In addition, families can rely on the support available from the savings and loan banks. From January 2013, the duty tariff decreased for first-time home buyers under the age of 35. If the price of the property doesn't exceed HUF 15 million, only half of the normal duty is charged. Currently, buyers under 35 can now ask for a 12-month installment scheme in order to pay off the tariff, however, as of next year, every first-time home buyer will be entitled to this payment option.

There are also numerous international examples of subsidies provided for this segment of the population. In some countries, these are tied to central government policies. In others, they are the result of local government policies requiring a single mortgage bank to provide discounts. Overall, when compared to the range of examples and sample solutions, the Hungarian subsidy system clearly provides a broad range of favorable opportunities to buyers.

## Subsidies and economic growth can lay the groundwork for change

Recovery from the economic crisis and incentive systems can together provide the long awaited turn for the housing market. For FHB Bank, one of the greatest signs of an upswing is the growing demand for loans. The second most powerful indicator is that investors and first-time homebuyers are representing a greater number of clients on the buyers' side. FHB Ingatlan Zrt's real estate broker branch reports that 25-30 percent of potential enquirers come from private individuals seeking their first home. For many, their final decision to buy or not is often hinged on their financial limits, so, the introduction of the so-called "half-socpol" subsidy could very well give some potential buyers a real boost. After the significant drop in rental rates experienced up until around 2010, rates for residential property in more popular locations have now risen demonstrably. Considering this alongside available gross yields of 8 percent (or even more) on the rental housing market, clearly justifies (in addition to first home buyers) investors and rental market buyers also choosing to buy now. As oversupply slowly decreases and the economy's fragility slowly buffers, housing prices are expected to drop even further this year. Uncertainty remains regarding the ability of debtors to pay their debt, forecasting a prolonged and slow turnaround. However, the role first-time buyers, rental market buyers, and investors play could very well have a positive influence in the way things turn out.

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# A region of missing connections

**The road network in South-East Europe (SEE) is in bad condition with the motorway network being fragmented and incomplete. The most important north-south and east-west corridors are yet to be built but continuous developments give us reason to be optimistic. Great potential lies in the Balkans and with the right infrastructural developments, it could turn into a favorite region for investors.**

IVÁN HÁMOR–ÁKOS BUDAI

Past ethnic tensions in the Balkans have resulted in an inability to cooperate and this is only one limitation in the region's economic development. Another major obstacle is the lack of infrastructure necessary for investors. The condition of the road network and the lack of motorways are also major problems.

The fact that countries in the SEE region do not, or barely have any motorways causes significant damage to their economies and impacts transit traffic as well. Even when motorways are present, they are not linked with neighboring countries to form a network. What they all have in common is the use of tolls. In order to understand the seriousness of the situation, we only need to look back to Hungary 8 or 10 years ago. The only Hungarian motorway to reach the border was the M1 in the west, and the capacity and quality of the M0 meant accidents were guaranteed to happen on a daily basis and meant hours of waiting for numerous cars and trucks. Anyone heading east or south soon realized that after only a few kilometers the motorway suddenly ended and that they had to continue their journey on a two-lane road. Thankfully this period is over, and even if the price per kilometer was not the lowest, motorways have reached or almost reached the borders. In the direction of the M1, M0 and M5 which handle the biggest transit traffic, Röszke, the Serbian border station can be reached on motorway. In a south-westerly direction the M7, and the M70 stretch to the Croatian and the Slovenian border, respectively. Some sections of motorway are still needed to reach Romania and Ukraine, but Ukraine currently has bigger problems to deal with.

Trucks, that transport goods from and to Asia Minor through Hungary and the countries of the Balkans have to face with the fact that the speed of travel is significantly slower in their region. This negatively impacts the countries in the region as well as transit traffic. Non-existing motorways are sometimes called expressways to justify a toll payment and are often dangerous. Traffic jams are frequent, and by setting unreasonable speed limits, local authorities create a great source of income in the form of speeding tickets.

In order to improve and increase growth in Balkan economies, development of the motorway network is needed, but so far no such plans have been forthcoming. In Bulgaria at least, something has started with the launch of a construction of 2 motorways connecting the capital with the sea. However, this construction mostly benefits inland traffic because the transit route crosses the country in a north-south direction, but that route also leads through Romania. After these 2 countries became members of the European Union, many carriers chose to travel across them, because this way they could get rid of a lot of documentation, but this was at the cost of increased transport time. Except for a few bypasses around cities which are part of a planned nationwide network, the only completed motorway in Romania is located south of the Carpathians and east of Bucharest. Several foreign investors, including Renault, have already pointed out this deficiency of the country to the government. The French company also hinted the possibility of manufacturing future Dacia models in other countries. An investor's "warning" or suggestion of this type reveals a lot about the relationship with the given country.

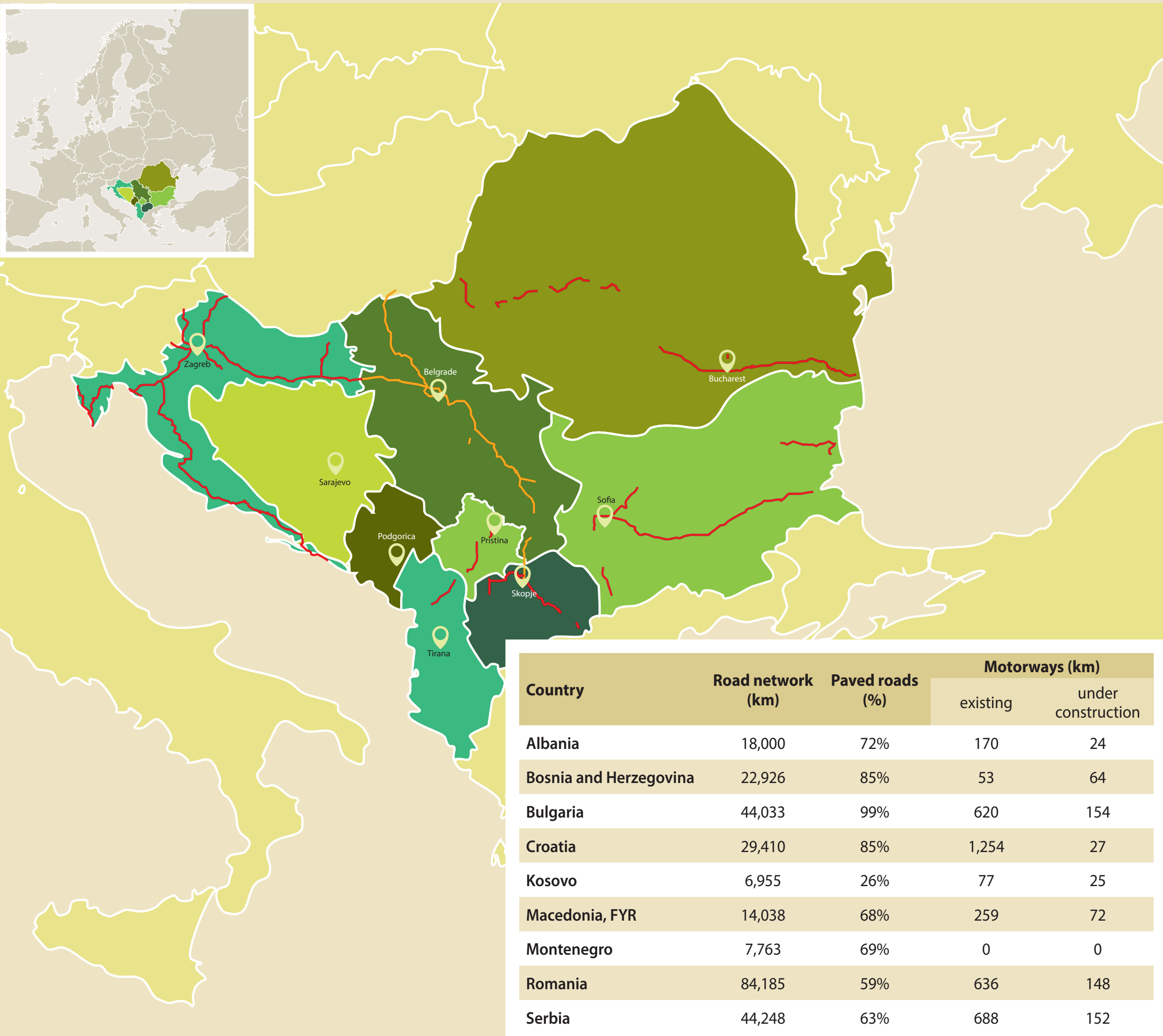
In terms of kilometers, Croatia is the best in the region. The Croatian motorway network is connected to the Hungarian and Slovenian motorways and thereby to the European networks. However, a big problem is the lack of south-eastern connections. Croatia's most important motorway has been built parallel to the coastline to serve the needs of tourists and is not expected to reach neighboring Montenegro for quite some time.

Hungary's southern neighbor, Serbia has a relatively extensive motorway network, although it often does not meet European standards. This network is linked to countries with a connection on the other side, Croatia and Hungary. The most important Serbian motorway crosses the country from north to south, but there is a long section missing in the south close to the Macedonian border. The north-south motorway in Macedonia is more or less complete, but further south the missing parts of the Greek network means it is not possible to travel on a motorway from Budapest all the way to Thessaloniki.

The situation is even worse in the other countries of the former Yugoslavia as they do not have motorways in the European sense of the word. Even the expressways are full of level crossings, which is a major limitation for foreign capital as well as domestic investments. Due to ethnic tensions the two countries with an Albanian majority, Albania and Kosovo, have decided to build a connected motorway, but for now they are not planning to establish links to other countries. The common motorway is less than 300 kilometers long and is not yet complete. A 77 kilometer long section in Kosovo has already opened and cost €1.13 billion which is nearly equal to the total annual budget of the state at €1.5 billion. The high construction costs suggest corruption is significantly impeding the infrastructural developments of the region.

The only country in SEE without a motorway is currently Montenegro. However, according to plans, and after several delays, the construction of the first motorway that will cross the country will start this year. The 169 kilometer long section will be funded by the Chinese and it is expected to be one of the most expensive European motorways of all times. The planned costs will reach €809 million primarily due to the special ground conditions in Montenegro and 40 percent of the motorway will consist of tunnels, viaducts and bridges. The route connecting the Serbian border with the popular coastal holiday destination of Bar will include 42 tunnels and 92 viaducts and bridges.

## Motorways in South-East Europe




| Country | Road network (km) | Paved roads (%) | Motorways (km) existing | Motorways (km) under construction |
|---|---|---|---|---|
| Albania | 18,000 | 72% | 170 | 24 |
| Bosnia and Herzegovina | 22,926 | 85% | 53 | 64 |
| Bulgaria | 44,033 | 99% | 620 | 154 |
| Croatia | 29,410 | 85% | 1,254 | 27 |
| Kosovo | 6,955 | 26% | 77 | 25 |
| Macedonia, FYR | 14,038 | 68% | 259 | 72 |
| Montenegro | 7,763 | 69% | 0 | 0 |
| Romania | 84,185 | 59% | 636 | 148 |
| Serbia | 44,248 | 63% | 688 | 152 |

*SOURCE: CIA WORLD FACTBOOK*

# Railways in SEE – poor prospects

**The state of infrastructure can be a crucial determining factor for all sorts of developments in a country, including real estate developments. Railways can connect people and properties, so we took a look at rail networks in South-East Europe (SEE) and found that in the past two decades declining passenger traffic has been a common problem in the region, while increasing freight traffic has come as a surprise in the region.**

ÁKOS BUDAI

THE MAIN reason behind improving freight numbers is that most of these countries are highly dependent on imports and railways present a relatively cheap way to import goods. Also, due to their geographic position many Balkan countries serve as transit countries and privatization after the dissolution of Yugoslavia has improved rail freight companies. The region's railway infrastructure is aging, it is in poor condition, it is a very slow way to travel and combined with the lack of attractive coaches, this makes railways an unattractive choice for travelers. The average speed of trains in the former Yugoslavia is less than 50 km/h. The average age of train cars is 30 to 45 years, and as a result railways are not fuel efficient and are often unreliable. Although most countries in the region have implemented railway reforms over the last two decades, progress is very slow. Also, rail companies often struggle to find the financial sources necessary to improve existing conditions.

## Fragmented networks

The former Yugoslavia used to have an extensive railway network, but after new countries came into existence, they formed their own railway companies, ending decades of integration. Due to this, most national networks are isolated in SEE. Serbia is the only country in the region that has railway connections with all neighboring countries.

In Albania, where the existing infrastructure has been upgraded, drivers often have to drive slowly to avoid accidents due to people trespassing on the lines. In Bosnia and Herzegovina, a country deeply divided by ethnic conflicts, the fact that there are two regional state owned railway companies complicates things. Croatia has the most dense railway network in the Balkans, but the country has been focusing too much on building a motorway network and only the most important railway lines that have a role in Pan-European traffic have been upgraded in the last 20 years.

Kosovo is the newest entity in the Balkans and its railways are in a surprisingly good shape, despite limited maintenance. This is due to low traffic. The average train speed is 70km/h, higher than the regional average. Still, there are problems. Kosovo Railways have less than 20 passenger wagons (all donated by Sweden and Austria) and after the country declared its independence in 2005, rail services in the northern part of the country to neighboring Serbia were discontinued. According to the European Commission Liaison Office to Kosovo, the country has ambitious plans to improve its railway infrastructure, including the electrification of existing and the building of new tracks.

Macedonia serves as a transit country, so its railway companies are highly dependent on international freight traffic. In order to improve its position as a transit country, a new 56 km extension to the Bulgarian border is under construction. This would be part of a Pan-European corridor connecting Albanian and Bulgarian seaports. Together with another corridor project, the Macedonian state plans to spend €900 million up until 2017 on railway infrastructure upgrades.

Montenegro has the smallest network in the region, with only three lines. One of them is used only for freight transport. An additional passenger transport line was only reintroduced after an extensive reconstruction project between 2006 and 2012 which saw operating speeds reaching 100 km/h.

Serbia is trying to modernize its railways. In 2010, the European Bank for Reconstruction and Development (EBRD) gave the state railway company four loans in support. Several new Russian trains were ordered and results showed that passenger usage skyrocketed on lines operated by the new trains. Last year, Serbian Railways signed a contract with Stadler for the acquisition of 21 new passenger trains to be delivered between 2014 and 2016. Railroad tracks are also under reconstruction and new tracks are being built.

## The European Union helps…

Changes in railway management structure were made in most SEE countries to comply with European Union (EU) laws and to increase effectiveness. National railway companies were usually split into two separate joint stock companies—a public enterprise in charge of infrastructure management and a transport company in charge of passenger and freight operations.

Unlike Balkan countries, Romania started its transition to a market economy with one of the largest, most dense and most frequently-used railway networks in Europe. However, conditions severely deteriorated during the 1990s. In the 2000s, Romanian railways improved significantly as a lot of money was spent on modernizing rolling stock and extending the Inte City network.

As part of a major reforms package, parts of Romanian railways were privatized by divesting certain operations to private com-

# Sustainability is gaining value – the green approach of Laurus Offices

Sustainability and environmental consciousness have become decisive factors on the office market globally. Tenants' needs as well as development concepts are following this trend in Hungary too. It is a cardinal issue as buildings account for more than 40 percent of the world's energy consumption and their heating, cooling and lighting is responsible for 25 percent of total carbon dioxide emissions. While the energy and environmentally conscious approach is primarily in the interest of society, it can also bring increasing financial and business benefits for developers, operators as well as tenants.

**Environmental consciousness can be a mutual benefit**

According to some studies conducted in Western Europe, more than 50 percent of tenants already consider sustainability criteria when choosing a building, and for 25 percent of them these aspects are expressly among the decisive factors. Sustainability is getting in the focus for tenants in Hungary too. There is a strong demand for environmentally friendly and cost efficient green offices on the market. An important advantage of green offices is the lower operational cost which results in significant savings in the long run, even at a slightly higher lease fee.

Today sustainably developed real estate still represents a considerable competitive advantage on the domestic office market, but for future developments compliance with one of the certification systems is almost a requirement. This competitive advantage is helping developers and lessors in several ways. It is easier to find tenants for a certified, environmentally conscious office building, and buildings developed with sustainability in mind are definitely more attractive to investors on the market. The tenant mix of green offices can be more beneficial as it usually consists of international firms with a solid background that follow the direction of the parent company and identify themselves more with the principles of social responsibility and environmental consciousness. The positive return is that the efforts to protect the environment have a beneficial impact on the image of the owners, the lessors and the tenant companies as well. Thanks to these factors, all office buildings currently under development in Budapest have applied for one of the green certifications, and after delivering the currently developed buildings, the proportion of green certified office space will increase to around 10 percent within the speculative office stock in Budapest.


**Laurus Offices: the office building with the highest post construction certificate in Budapest**

Delivered in 2011 and built with energy efficiency, environmental protection and creating the optimum working environment in mind, Laurus Offices was a pioneer in this regard on the Hungarian market. This was one of the first office developments in Budapest that paid special attention to sustainability considerations. Accordingly, it was also one of the first projects in Hungary to receive a "very good" international post-construction certification from Building Research Establishment Environmental Assessment Methodology (BREEAM). "During the development of the building complex we focused maximum attention on energy efficient solutions, ergonomic design, energy consciousness and the use of passive systems. These were our main considerations," said Ágnes Vuk, the project leader of Laurus Offices. The convenient transport connection to the facility, the direct access to metro and other public transportation and the cyclist-friendly infrastructure allows for reaching the offices through environmentally friendly modes of transport and this contributes to the environmentally conscious use of the office.

The building complex was built by following the latest European energy requirements and uses modern technical solutions such as thermal insulation technology, noise and heat protection on the facades which is more efficient than current standards, external electronically controlled solar shades, active environmentally friendly interior design materials, and thermal bridge free structures. "One of the major advantages of the building complex is the detailed energy measurement system which not only helps to keep operational costs low but also acts as an incentive to save energy by measuring tenant spaces individually. In addition to the modern HVAC systems, there are other solutions to serve energy efficiency. For example the external motorized shades decrease cooling needs, while the sufficient number of windows that can be opened enable the natural ventilation of office spaces," said Gábor Lipcsei, the project director at ÓBUDA Group responsible for certifying the building, as he highlighted a few of Laurus Offices' unique solutions. The design of the three separate buildings offers flexibility and the possibility of full customization for tenants: dividable spaces; outstanding floor-to-ceiling height; windows with light filtering glass that can be opened in every room; ventilation systems with controlled and treated air and the unique floor lamps have energy efficient light and presence sensors to increase sustainability. Bathrooms and tea kitchens are fitted with water efficient systems, waste is managed selectively and the inner green area serves the improvement of the ecological quality. Thanks to its groundbreaking solutions, currently Laurus Offices has the highest post construction certification in Hungary which reflects the completed state of the building, added Gábor Lipcsei.


panies. The number and the share of these companies have continuously increased since 1999, especially in freight transport. In 2010, the market share of private freight railway companies was about 50 percent, which puts Romania first among EU member states.

In 2012 the EBRD extended a €175 million loan to Romania's state railway company to back further reforms. The investment enabled Romanian railways to restructure its balance sheet by repaying its short-term liabilities and thus free money for vital investments and maintenance works.

Despite all of this, there are still major problems with Romanian railway infrastructure. For example, some rural routes in Bukovina still use rolling stock from the 1940s. In April 2013, under pressure from the International Monetary Fund (IMF) to reform the state sector, the government offered to sell a 51 percent stake in CFR Marfa, the state's freight railways business. The sale was supposed to happen by September 2013, but due to conflicts with the Transport Ministry, the deadline has been pushed to 2015.

Neighboring Bulgaria's rail network also has its advantages as it has a high level of electrification, at 68 percent, compared to the EU average of 52 percent. Thanks to their EU membership, Bulgaria and Romania are traversed by many Trans-European Transport Network (TEN-T) rail corridors, which present opportunities for future infrastructure improvements, financed by the EU.

## ...but Europe is getting further away

Citing economic difficulties and low passenger numbers, railway operators in SEE have cancelled more than 45 international routes since 2012. The real reason for these cuts is that many countries subsidize international passenger traffic less and charge fees from rail stakeholders for the use of railway infrastructure.

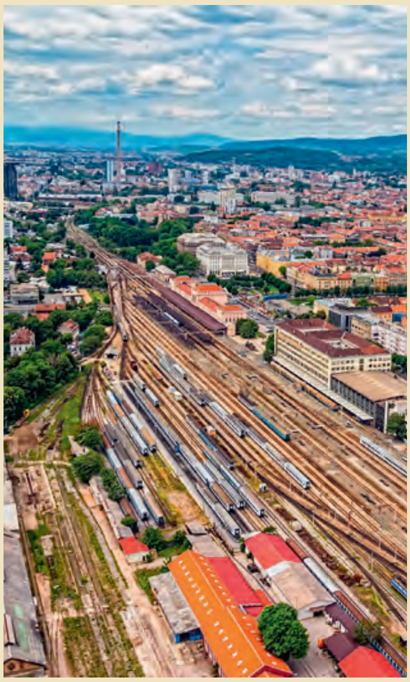
Railway routes to the Western Balkans and Western Europe were suspended after Croatian Railways introduced a €700,000 annual access fee. This was too expensive for Serbian and Bosnia and Herzegovina railways. The situation is similarly disappointing in other SEE countries. Albania's only international rail link to Montenegro has only been used for freight transport for many years. Even Bulgaria suspended international passenger services towards neighboring Greece and Macedonia as of 2011.

The only promising spot in the region is Romania, where the state-owned railway company is opening up new international lines. Firstly they improved train services to Hungary and Serbia. New routes to Bulgaria have been operating since May 2014 as the second bridge between Romania and Bulgaria opened last year.

What's next for SEE railways? The region's countries share common characteristics including modest size and a fragmented railway service, so experts believe that infrastructure problems would be best addressed through cooperation and common solutions.

| | Length of railways (km) | Railway density (m/km²) | Electrified tracks (%) | State support (% of GDP) |
|---|---|---|---|---|
| **Albania** | 447 | 15.5 | 0 | 0.1 |
| **Bosnia and Herzegovina** | 1,017 | 19.9 | 76 | 0.2 |
| **Bulgaria** | 4,070 | 36.7 | 68 | 0.6 |
| **Croatia** | 2,723 | 48.2 | 41 | 1.1 |
| **Kosovo** | 430 | 39.4 | 0 | 0.1 |
| **Macedonia, FYR** | 925 | 36.0 | 34 | 0.2 |
| **Montenegro** | 250 | 18.0 | 90 | 0.3 |
| **Romania** | 22,298 | 45.2 | 76 | 0.6 |
| **Serbia** | 4,092 | 46.3 | 29 | 0.5 |

***SOURCE: THE WORLD BANK***

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# Poland and Czech dominate CEE investment

**The investment strategies of international investors with regard to the Central Eastern Europe (CEE) region could best be described as varied, reflecting the very different "sentiment" of investors to the countries in the region.**

DAVID LAWRENCE

Although investor interest in CEE is generally regarded as rising, a clear gulf exists between Poland and the Czech Republic and rest of CEE, where investors are taking a more cautious approach. However, there are signs that investors are again examining possibilities in Slovakia, Hungary and Romania as they provide a yield premium on Poland and the Czech Republic and invest grade product is becoming increasingly difficult to source. In general, the CEE region is facing competition for investment funds from a resurgent southern Europe and Ireland, countries that are recovering from the eurozone crisis and offer premium product at discounted prices.

In what is described as the "largest single office transaction in Poland" Deutsche Asset & Wealth Management has acquired the landmark 66,000 square meter (sqm) Rondo 1 skyscraper in Warsaw. "There are numerous large transactions ongoing and other potential large volume deals due to come to the market. So the market is up, activity is there, the volume is there and investor demand is there. The weight of capital is still looking at Poland where I expect an increase in investment volume based on transactions currently at an advanced stage and deals that will be coming through or are out in the market. Volumes for the Czech Republic will be at a similar level to last year or will increase if a big volume deal goes through," commented Mike Atwell, Head of CEE Capital Markets at CBRE, who acted on the deal.


DANCING HOUSE, PRAGUE

With the "weight of capital" looking at Poland the country is expected to equal or top the circa €3.5 billion in investment volume achieved last year. The Czech Republic is forecast to top €1 billion, although much depends on the conclusion of large volume transactions that are known to be out in the market. Core investors are essentially considering prime office in Prague and Warsaw and retail in Poland and the Czech Republic. Further, investors are considering the industrial sector with portfolio deals.

The general view is that in the current climate there should be a 100-150 basis point differential between Warsaw and Budapest. Troy Javaher, Head of CEE Capital Markets at JLL puts prime yields in Warsaw at 6 percent compared to 7.5 percent for Budapest and sub-8 percent for Bucharest.

The rising price and competition for product is causing investors to look for assets beyond centrally located prime according to James Chapman, Head of Capital Markets for the CEE region at Cushman & Wakefield. "The weight of new core international and domestic capital is spreading to Polish regional cities for best-in-class assets and Budapest has come back onto the radar in the search for strong value characteristics. We are also experiencing growing investor demand for first or second generation offices that are in excellent locations within Prague and Warsaw and have the opportunity to be repositioned. This will be a strong trend for the next 24 months. We can say that the office sector continues to be the dominant sector for investment activity in 2014," said James Chapman, Head of Capital Markets for CEE region at Cushman & Wakefield.

In what is described as the "largest single asset transaction in the Prague office market" Aberdeen (DEGI) sold The Park to Starwood Capital for a reported €300 million. In another major transaction, Deka Immobilien acquired the 17,300 sqm City Green Court office centre from Skanska Property for a reported €54 million. The office centre was the first in the Czech Republic to be pre-certified with LEED Plat-


RONDO 1, WARSAW

inum status according to Skanska. Also in Prague, CBRE Global Investors have sold the 4,000 sqm Tančící dům office building, also known as the Dancing Building, located on the River Vltava in central Prague. The iconic building was purchased by Václav Skala, a private investor.

In Slovakia several investment deals are under due diligence and 2014 is expected to be the best year, post-crisis, for investment in the view of Miroslav Barnas, Managing Director of JLL Slovakia. In a recent deal, Tatra Asset Management (TAM) has acquired three buildings in the CBC office complex from HB Reavis.

According to Andrew Thompson, Managing Partner of Cushman & Wakefield Slovakia, the market will demonstrate even further liquidity in 2014, focused on prime. “The attraction/pull of Poland as an investment location slows the potential growth of other CEE countries like Slovakia and even the Czech Republic. That said, it does not make sense to me that a regional city in Poland, where the only office market is shared service centres, attracts demand from some investors whilst the capital city of Bratislava is not on their target list.”

More investors are said to be considering Hungary despite the perceived political risk that has placed it further up the risk curve. “Core investors that are focused on prime office in Warsaw and Prague and prime retail in Poland are starting to reconsider Budapest and seriously consider Bucharest. Budapest is regarded as attractive due to its past, its good product and low current capital values while Bucharest is seen as a future growth story,” commented Troy Javaher.

In Budapest, Skanska’s fully let Green House is under due diligence. In Bucharest Skanska is due to complete the first 19,500 sqm phase of Green Court this year and the complex is expected to be fully let on opening. On completion it will consist of 52,000 sqm of space in three buildings. This, along with the AFI Europe projects, is expected to attract more investors to Romania as prime product is entering the market.

# Office developers active in Poland and Czech

Developers have been particularly active in the Warsaw and Prague office markets in the post-eurozone crisis period. However, these leading Central Eastern Europe (CEE) markets are victims of their own success as concerns over rising vacancy rates are causing developers to re-consider the Budapest and Bucharest office markets, although vacancy is high in these cities.

From a development perspective, it is equity rich developers and those able to secure preleases that are going ahead with developments across CEE. The standard of buildings in the region is generally regarded as on a similar level to those found in Western Europe as developers need to meet the requirements of tenants and investors in order to successfully let a building, facilitate debt finance and attract investors. Prime product is being constructed in accordance with, for example Building Research Establishment Environmental Assessment Methodology (BREEAM) and Leadership in Energy and Environmental Design (LEED) certification, in order to conform to European Union (EU) legislation and this is now a basis requirement in conforming to the specification requirements from tenants and investors.

In Warsaw Ghelamco are constructing the 220 metre high Warsaw Spire that will provide over 80,000 square metres (sqm) of office space adjacent to the Palace of Culture. Ghelamco are one of a number of leading international developers and investors with ongoing projects in Warsaw. The conventional wisdom is that the city is the major business centre of Central Europe. The development of high visibility skyscrapers is the current fashion as the city seeks to live up to its reputation as a leading European city. The status of Warsaw is reflected in prime city centre rents that are put at €25 per sqm per month compared to €21 for Budapest.

Take up in Central Europe hit a record high of 1.4 million sqm of office space being transacted in 2013 according to Cushman & Wakefield (C&W). Total stock in Bratislava, Budapest, Prague and Warsaw equates to nearly 12 million sqm. Currently there is close to 600,000 sqm of office space under construction in Central Europe, which is planned to be delivered in 2014.

Vacancy in Central Europe has increased to 14.3 percent and this is expected to rise further as new speculative space is delivered to the market. Warsaw still has the lowest vacancy at 11.7 percent followed by Prague with 13 percent, Bratislava with 15 and Budapest with 18 percent.

“The Central European office market shows a clear revival, particularly in Poland with take up continuing to grow in both Warsaw and regional cities. Despite this, rents are still relatively subdued due to increasing vacancy levels, especially in Warsaw where vacancy rates are expected to grow to around 14 percent by the end of 2014,” said Richard Aboo, Head of CEE Office Agency at C&W.

According to Savills, Warsaw office stock is expected to reach 5 million sqm within the next three years. “Development activity is now much higher, in particular in the city centre, where over 260,000 sqm of new office space is under construction, of which circa 46 percent is to be delivered this year,” said Tomasz Buras, head of office agency at Savills Poland.

Over-supply is a concern in Prague where almost 170,000 sqm of space is expected to be completed in 2014 as vacancy rises. “Portland Trust is not developing any new buildings in Prague at this current time. Healthy take up is being tempered by a more than adequate level of supply,” commented Robert Neale, Managing Director of Portland Trust, who have been active in Prague for several years. ▷

Despite potential oversupply, Skanska Property has started the speculative construction of the 17,300 sqm Corso Court after disposing of the 17,300 sqm City Green Court office project to Deka Immobilien for a reported €54 million. With regard to pipeline, the Austrian Immofinanz Group is undertaking its first development project in the Czech Republic with the €25 million refurbishment of the 6,800 sqm Jindřišská 16 building in the old town of Prague.

In contrast to Prague and Warsaw, office pipeline supply in Bratislava is limited as 15 percent plus vacancy rates have caused many projects to be put on hold until preleases are signed. The major pipeline project is the 35,000 sqm Westend Gate business centre by the Slovak developer J&T Real Estate. "In general quality is seen as comparable to any class A product in CEE and even Western Europe as major developers are aware of the absolute need for prime if they want their schemes to be successful and liquid," said Andrew Thompson, Managing Partner of C&W Slovakia.

Due to economic and political concerns combined with high vacancy there has also been limited office pipeline in Budapest. This has brought vacancy down to below 19 percent for the first time since 2009. However critics argue that the vacancy rate is not a true reflection of the market as there are several outdated first generation buildings that should be taken out of the equation.

In the latest delivery, the Hungarian developer Horizon Development has completed the Eiffel Palace, a new building that has been constructed with the original 1890s facade. A 9,000 sqm prelease was agreed with PricewaterhouseCoopers for the 12,000 sqm gross leasable area (GLA) that facilitated financing from UniCredit Bank. "Without a prelease we would not have been able to start the project," said István Kerekes, Leasing and Marketing Director of Horizon Development.

In another project, the Hungarian CEE developer Futureal is close to completing the 6,200 sqm Corvin Corner. Another office project by the company is the 23,500 sqm Vision Towers in the ever popular Váci Road corridor business district, for which a built-to-suit deal has been signed for around percent of space with KPMG. The company has just launched the €170 million Budapest One business park adjacent to the new Metro 4 line. The 70,000 sqm scheme will be constructed in stages depending on prelets. "Vacancy is high but there are not many possibilities for 10,000 sqm requirements. Also technical specifications from tenants are changing very quickly. Companies are looking 3-4 years ahead and

with preleases we will be able to secure the financing," commented Tibor Tatár, CEO of Futureal on the new project.

Also in Váci Road, Skanska Property are set to commence construction of the first phase of the 26,000 sqm Nordic Light. The company has the choice of undertaking construction of a larger or smaller phase of the centre depending on prelets.

The Bucharest office market is picking up and it is estimated that new Bucharest office supply will reach 150,000 sqm in 2014, in a city with a total stock of a little over two million sqm, significantly lower than Prague, Budapest and Warsaw.

CORSO COURT, PRAGUE

# What have we gained from the crisis?

**None of the real estate sectors, which have been in continuous transition since the crisis, escaped serious re-thinking, transformation, the depositing of new funds and new standards. Some became losers in this renewal while others have become stronger. We spoke to Pál Baross FRICS, Chairman of the Board at BFVK, about important questions affecting the profession, the South-Eastern European region's potential and about the decade long non-existing governmental real estate policy.**

GERGELY DITRÓY

**The crisis has almost completely changed the domestic and global real estate development environment. For example, changing valuation methods, financing and long-term strategies. Are we going to return to the "old" administration soon or are we going to live with this new, subdued picture of the future?**

The same drive and development boom will not return, neither here in Hungary or in the world. The property development market will remain cyclical and will be more closely aligned with economic development. It is hard to say how economic development will go in Hungary. The country has an economic recovery strategy, which is based on a very strong government program financed by European Union (EU) funds. The current handovers and developments are almost all linked to factories or factory service providers. This means that Budapest's privileged position will weaken from this point of view. Others major cities will also recognize that the key to their development is attracting industry and manufacturing.

**And will these developments attract other office, retail and apartment-type developments in the future?**

Basically, yes. These industrial properties will not include independent office buildings, thus this won't enhance office developments in small towns. Yet the new labor environment (secure jobs, competitive salaries) will boost the local housing market and trade. A few new shopping centers might be built in the future, but the retail segment could benefit the most from the fast penetration of online stores. Furthermore, small town shops, where people carry out everyday shopping, could also return. Based on my experience in the region, I still see opportunities for the development of large, regional shopping centers. But I am not sure whether the profession understands this genre. A few of these centers could have a place in Hungary.

**All over the world there is positive news regarding the different sectors of the real estate market, yet this "good news" is quite limited here in Hungary, although there have been lots of little positive signs, proving that the real estate market is slowly recovering from the crisis.**

We should not be afraid, but we will not reach former highs for a long time. In my view, the housing market will probably be the one to take off again first. Many postponed their purchases due to the uncertainty. For these people, however, the conditions have changed in a very positive way.

**It seems that the aversion towards credit has not changed.**

People are not taking on so much credit for vacations, and they have cut back on household appliances and replacing their cars. But sooner or later you have to buy an apartment. As long as the ownership mentality does not change in Hungary and real estate agents offering rentable properties do not appear, as in Western countries, the situation will remain as it is. Of course, in many countries the rental market was facilitated by the fact that real estate prices were, or are, simply unattainable. Therefore, for many people it is not a question of whether to rent or buy as buying is precluded.

**Is the domestic real estate sector already dealing with the Real Estate Investment Trust (REIT)? Could this be the solution for rental properties?**

It is a good solution in many countries. It has the advantage that wealthier peo- ▷

ple can join together in a project and a manager manages the particular property. The main idea behind this type of co-operation is to find investors for specific projects and then manage these projects. However, if the institutional environment changes I imagine the elderly could shift towards the rental sector with additional services. Senior people could release the capital from their properties and invest in these ones. This is a relatively well-developed product in America and Western Europe. Properties set up like dormitories are the most lucrative forms of investment.

**Why does no one in Hungary see this potential? Is it better to build an office building with a quick return?**

And there is experience. I saw interest before the crisis. I think investors will look for this market segment from Austria, Germany, or Spain and they will search for domestic expertise and management. My guess is that as soon as Hungary's reputation improves, these investors will start appearing. The fact that there is basically no traditional rental market in Hungary will affect foreign investors. All of them are asking how it is possible that in a major European capital 90 percent of the properties are owner-occupied.

**What impact does this high number of owner-occupied properties have on prices?**

There is no connection. If someone wants to sell, and the market is not good, you cannot sell.

**A lot has changed since the crisis. But perhaps the most important change is that much more thoughtful developments have been built since. If you could buy just one office building in Budapest, would you choose among the ones developed after the crisis or the ones that have successfully survived the crisis?**

I recently talked to someone who is actively looking for an office for sale. He said that almost every building built before 2000 can no longer meet requirements. Once you have to adjust the building engineering, a much bigger investment is needed. Of course, you can buy them cheaply, but if you want to compete with modern buildings you have to invest a lot in renovation. If I were an investor I would certainly concentrate on new buildings.

"The government's current thinking and dictionary does not include the words "real estate". There are words like "construction," "building," "infrastructure."

**Another important consequence of the crisis, apart from more thoughtful developments, is that every major new development is focused on getting a green rating. This has become some kind of essential public relations campaign and is of course important for several reasons. However, some studies show that a green rating is not an important aspect for tenants.**

I have also seen such surveys but I have some doubts. Only new tenants should have been questioned and respondents should have been broken into small and large groups of tenants. Then the outcome would be very different. Also, the operation of these buildings is sometimes problematic as often tenants are not provided with information on how to live in such buildings. Showing the effects of the cut in public utility costs, as introduced by the government, should also be adopted in offices, so that tenants see the actual results of savings. Unfortunately this does not happen.

**Rating systems, financing, build-to-suit developments, etc. have ultimately affected the value and property valuation, which also went through a major transformation worldwide. How much has real estate appraisal changed as a result of the crisis?**

Property valuation has always been an important issue for commercial real estate management. The crisis brought some innovations, which are clearly visible in the Royal Institute of Charted Surveyors' (RICS) Red Book. Property valuers have to make slightly longer term projections (in years) about the evolution of the property's value. Previously, 3 months was the standard. This has changed radically and valuers have much more responsibility but there is also a greater need for them.

**No matter if we talk about housing, office buildings or office developments, currently there is no political will to join the sector.**

I have to agree, unfortunately.

**Do you think this will change?**

The government's current thinking and dictionary does not include the words "real estate". There are words like "construction," "building," "infrastructure" and the added value generated by these developments such as "economic growth" and "new jobs". These developments can be nice (like stadiums), useful (like infrastructure), and provide local economic stimulus (like spa hotels) but as "real estate" they are atrocious.

**Budapest 2030 is the new (the latest) document on the long term development of the city. Could this have a positive impact on the neglected real estate market?**

Unfortunately, this document does not even mention the words real estate market. It deals a little bit with city management but does not contain breakthrough designs. On the whole, this is not the best way to understand the real estate market.

**Do you think a city's long-term development concept should also cover the real estate market in detail?**

If it deals with real estate market regulation and the promotion of urbanization, then I think it should. But the city's plan only deals with the structure of the city and it is formulated on an architectural level. For example, the Podmaniczky plan covered brownfield problems, but it could not properly understand what kind of actual burden this is for the city.

**As a result of further EU expansion, possible new development destinations are possible, such as in the Balkans. Concerning the development of the Balkan countries what kind of opportunities do you see for domestic or international real estate players?**

These are basically small countries with small economies and different development levels. Liquidity has always been a very important factor for Hungarian developers and investors. If there is not enough room for movement in a given market, then this determinates the development opportunities. Another important point is that there are few cities in this region where a real estate market, similar to the one in Budapest, could develop. This is the main drawback for the region's potential. Romania is a big country, but plenty of basic infrastructure investments are still needed. In the former Yugoslavia, the coast and tourism can be a decisive factor. I see further potential in hotel and other recreational developments, housing and other real estate investment sectors are only secondary.

**Does the different legal and social environment of Balkan countries support or inhibit developers?**

Unpredictability always discourages developers, but if there is money developers will arrive. Just think about Russia, Kazakhstan, etc.

**Finally, there is much talk about the low number of new developments while renovations are becoming increasingly important. What do you think of this, do you think this will improve in the future?**

Yes. One of my favorite "real estates" is the FOTEX Plaza next to the MOM Park shopping center in Buda. This used to be a classic, aesthetically socialist construction. During the renovation, the original structure was maintained and renovated and it evolved into a skyscraper-like building. Location is always important. In the end this makes the difference whether it is worth renovating a given property. For example, if the 13th district had been really creative, then it would have made Váci Road a viable "office-boulevard". They could have come up with a solution for the traffic, and created more public space and green areas. This way, the area could have become a premium location, while as it is, it has simply remained a mass market. But as long as there is still a need for mass markets, then Váci Road will remain successful. For a while at least.

# Slow but steady

**It seems that the optimism in European real estate markets is permeating to Eastern Europe and finally has reached Hungary. The projections and figures reflecting activity in recent months are encouraging. At the same time, while they indicate that we are moving in the right direction, it is also clear that the road will be bumpy.**

KATALIN MAJOR

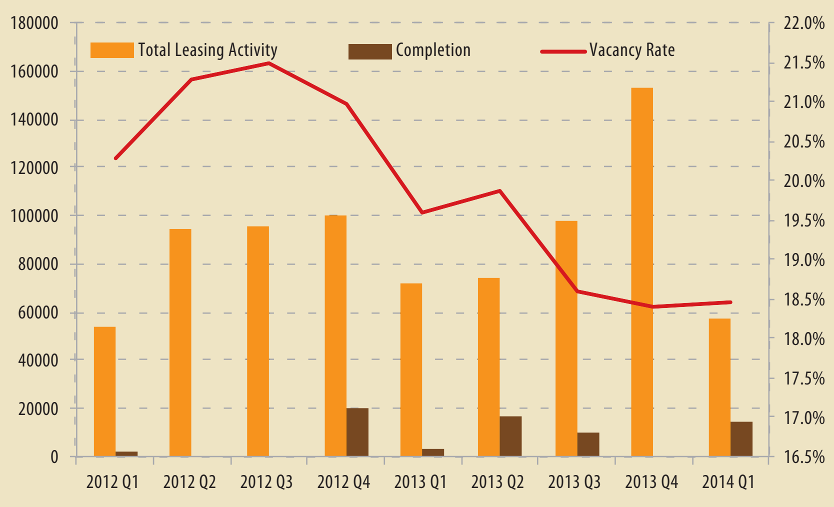
OVER THE past 6 months there has been a lot of positive news regarding the Hungarian real estate market. It seems that the optimism in European real estate markets' is permeating to Eastern Europe and has finally reached Hungary. The latest report of The Royal Institution of Chartered Surveyors (RICS) which surveys the market probably the most accurately indicates a clear turnaround. According to the report, for the first time since 2011 leasing demand is increasing, exceeding supply, resulting in decreasing vacancy rates in the medium term. Increasing demand for both leasing and purchasing of property is expected in the coming 12 months. Therefore, the forecast is clearly positive and the figures reflecting activity in recent months are also encouraging. At the same time, while they indicate that we are moving in the right direction, it is also clear that the road will be bumpy.

Office market figures from the last 12 months also indicate a positive turn. The total stock of the Budapest office market, including owner-occupied and speculative projects, reached 3,184,500 square meters (sqm) at the end of Q1 2014. Speculative stock amounted to 2,558,150 sqm and owner occupied stock amounted to 626,350 sqm. While total leasing activity in Q4 2013 reached to a 3 year record high at 153,505 sqm (although most of this was boosted by year end renewals) total leasing activity in Q1 2014 was 57,200 sqm, which is the lowest recorded quarterly figure since Q1 2012. Nevertheless, the vacancy rate remained stable compared to the previous quarter. It remained flat with only a 0.1 percentage point increase on the Q4 2013 figures. Considering only the speculative buildings the change is even smaller (excluding the owneroccupied stock), remaining 23 percent. Despite the stagnation in the last 2 quarters, the decrease on a year-on-year basis is more significant. But more importantly the numbers show a turnaround .

## Brick and mortar

Along with the predictions and market data there are also some more tangible signs of a positive turn. Increasing development activity is one of the signs of growing confidence. According to the Members of Hungary's Property Developers Roundtable Association (IFK) construction of 71,000 sqm of building space of a value of €152 million is expected this year. This means 29 percent growth in value and 41 percent expansion in terms of area over last year. It is also important to note that this is still only marginally above the 2004 level and the record high level of 1.31 billion in 2008 is still far away. Not something you qould call a boom, but definitely an encouraging sign that developers seem to think it might be worth developing in the domestic market again. Located at the terminal station of metro line 4 at Kelenföld, Budapest One is possibly one of the most impressive projects to start in 2014. As part of Futureal's large multifunctional project, it will be situated at the newly opened metro line. During the first phase of the project, four towers will be built on a 2 hectare area, on a total area of 70,000 sqm. Meanwhile, the company continues to expand the Corvin Project with the development of Corvin IV, a 43,000 sqm office complex. Additionally, Cordia Park Residencia, which is a new residential block, will also start. Skanska Nordic Light, located on Váci Road, will start in the second quarter of the year. The 26,000 sqm office building will be completed in 2016. One more project will be launching this year in the Váci office corridor near Lehel Square. Wing will start constructing its 7 storey office block V17. Another prestigious project was launched this year – the reconstruction of one of the most beautiful buildings in Budapest. Restoration started a few weeks ago on Tőzsdepalota (The Stock Exchange Palace, which is the former Hungarian state television headquarters located in Szabadság Square. The res-

**Total leasing activity, completion and vacancy rate on the Budapest office market**




SOURCE: BRF, RESOURCE

VISION TOWER

EIFFEL PALACE

toration project will deliver 35,000 sqm of luxury office and retail space in 2017. The project requires €100 million investment including the previously purchased Lipót Garage. Graphisoft Park's expansion will also be started this year with the construction of a new 7000 sqm office this year. The volume of new handovers is also growing. The first handover has already taken place: Horizon Development has turned Eiffel Palace (former Pesti Hírlap headquarters), into a 14,000 sqm "A" category office, that is mainly rented by the Pricewaterhouse-Coopers consulting firm. Futureal's project on Váci Road, Vision Towers, will be completed this year and will also be occupied in a significant part by a big four company. Futureal will also complete a small office building in Corvin Promenade and the 6200 sqm property is almost entirely rented out. The logistics market's 7000 sqm expansion is due to Prologis' handover.

## We can move on

The Budapest market seems to be ready to progress. At this point in the cycle, it has hit rock bottom and it seems that it can only go up from here. The volume of developments is still very low, even though the new handovers listed above indicate growth. In parallel with a modestly increasing demand for leasing, vacancy rate is moving in a positive direction, and in the next 12 months we can expect a further significant decline. Also, we have to emphasize that analyzing these figures it is clear that these higher values are mainly due to lower quality and/or to a fragmented office stock while there is shortage in the market for good quality, larger office spaces. As for rents, according to market consensus, prices are unlikely to fall any more and a further decrease in effective rents is not expected. The Hungarian market is in the stabilization phase, nevertheless Budapest is still a tenants' market. The increase in demand in partly due to the low prices. Recently renegotiations and moves have dominated the market, where tenants tried to take advantage of the present favorable situation, but hopefully new tenants will arrive soon. The leasing consultants of various real estate firms we interviewed said there were more and more new entrants in the market, along with international tenants that are also getting more active (e.g. global companies' service centers are looking for offices in Budapest). This is a key tendency considering that the office market's significant and lasting recovery and the launch of new developments are impossible without new tenants absorbing larger spaces. The growth of tenant activity will certainly result in higher rents, however this will be a slow process rather than a jump.

## Cheap Budapest

Budapest is cheap, and this is not only true for rents. It is relatively cheap to buy commercial property in the Hungarian capital compared to other cities in the region and the Budapest market is offering more attractive yields than its competitors in the region. Although there are not many transparent transactions, considering a theoretical yield level, the Budapest office market is offering a 150-200 basis point premium over the Warsaw market. It is no coincidence that in recent months the investment market is also experiencing some revival. There are several transitions in progress and most of them will be completed soon. Properties in need of renovation and repositioning are especially in demand, but in Budapest there is no shortage of good quality, institutional category products. The absence of international institutional investors has been a huge barrier for market recovery but it seems that Budapest might become a target again. This is partly due to the performance of the domestic economy and to the improving macro data which is boosting investor confidence in Hungary. However, it is also important to see that institutional investors looking for higher volume investments are having difficulties in finding good quality products. Opportunities are decreasing not only in Europe but in the main CEE markets as well, making Budapest a realistic alternative. Market liquidity is also backed by the Funding for Growth Scheme that supports domestic investors. These funds can be sufficient for a major real estate transaction (relative to the size of the domestic market). The upper limit of the credit amount is HUF 10 billion (cca. EUR 33,3 million).

# Strained relationships – Extremely low operating costs

The Facility Management and Energy Efficiency Conference was organized for the fifth time this year. Real estate professionals looked for answers to real estate management and operational issues at the Portfolio.hu FM 2014 conference.

Experts unanimously think that the leasing market is improving which suggests that the crisis is over to some extent. Attendees at the conference believe the market has begun to split as one group of tenants is looking for quality and is willing to pay for it, while the second group is cost-sensitive, looking for offices with the least cost burdens. These tenants are ready to make compromises and opt for lower quality and cheaper offices.

Property owners are also characterized by this division. Some building owners want to maintain the quality of their buildings and an increasing number of buildings are now getting green certificates. But not every property owner can meet growing tenant needs, and this is due to financial issues which does not allow for modernization.

Due to a lack of this type of investment, several "A" category offices have been reclassified to a "B" category. However, experts agreed that there is still a need for these buildings. There have always been buildings with different levels of quality on the market and this will remain unchanged in the future. Experts also pointed out that an office building should not provide services above its grading, so a "B" category building should not offer "A+" services.

## How different is the public sector?

The management of public assets is different to private ones. In the case of public or municipal properties we cannot talk about owners but about asset managers and this is a big difference. Private owners respond more quickly to market challenges. Asset managers of state owned properties move much more slowly and are not particularly concerned about market values or needs. Due to bureaucracy and an overregulated system, decisions are made slowly. At best in a year, but in some cases it takes more. However, state and municipal property managers have an advantage over the private ones as they manage a full range of properties, including schools, museums or office buildings.

The new Civil Code which recently entered into force has not brought significant changes for business and lease contracts, experts noted. The new legislation is considered to be market friendly and it was drafted based on market practice. The provisions on the protection of property have not changed. The biggest change is that in the future disputes can be resolved not only by notaries but also in court.

## Sharing the same plate – the facility management market

During facility management panel discussions it was noted that property management is taking over the duties of facility management. As a result, their relationship is not an easy one. Due to the shrinking market, they are "sharing the same plate". Experts expressed hopes that the two professions will not be active in one segment in the near future. In their view, real estate operators' activities are often invisible and in most cases only become visible if the facility management is not performed properly. The pressure to reduce costs is presently the biggest challenge for operating companies trying to do a quality job. They added that property managers often force operators into such tight cost frames that this does not allow them to do a proper job. This is bad for both the property manager and for the tenants. Property management and facility management are supposed to work together in the interests of a low-cost operation.

## Only price matters?

Property managers claim they should say no in certain situations. For example, to overly low prices which do not allow for a quality service and which may ultimately result in a loss of prestige. However, there is always someone willing to lower prices in order to win a tender, so there is no such thing as a minimum price. Dramatically low prices are not sustainable. In the long run they could cause a building's deterioration, which is not in the interest of the property manager or the tenants. Setting a limit price could be a good solution.

Representatives of the profession said they already tried to set certain limits for facility management costs, in order to filter out unrealistic bidders. At present, the lowest price almost always wins but this does not necessarily mean quality service. It is planned that a national organization for facility managers will be set up, which would support the industry to unify communication with tenants and property managers.

During discussions it also turned out that the attendees of the conference avoid public tenders. In their opinion, it does not make any sense to participate in tenders as they require too much effort and the system needs to be reviewed. Public institutions have significant debts and therefore managing public property does not necessarily pay off.

Banks have become major property owners and property managers in recent years. For the time being they are only learning these new "roles" as they acquired these properties "unintentionally". Experts pointed out during discussions that this is a situation in which facility management companies could gain new opportunities.

# Real estate developers in SEE

| 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 | | Bulgaria | Romania | Serbia | Montenegro | Croatia | Slovenia | Macedonia | Albania | Other | |
| ABLON/CPI | Prague, Czech Republic | ✓ | ✓ | ✓ | ✓ | ✓ | N.A. | – | ✓ | – | – | – | – | – | – | | P: +420 281 082 110<br>www.cpi.cz<br>cpi@cpi.cz<br>P: +36 1 225 6600<br>www.cpigroup.hu<br>cpi@cpigroup.hu |
| ADAMA Group | Bucharest, Romania | – | – | – | ✓ | – | Copou Bellevue (RO) - Q4 2014 | – | ✓ | – | – | – | – | – | – | | P:+40 31 405 17 00<br>www.adama.ro<br>info@adama.ro<br>alexandra.manea@adama.ro |
| AFI Europe N.V. | Amsterdam, The Netherlands | ✓ | ✓ | ✓ | ✓ | – | AFI Green City (RO)<br>AFI Park (RO) - 2017<br>AFI Gardens (RO)<br>Lagera Tulip Phase II and III (BG) | ✓ | ✓ | ✓ | – | – | – | – | – | | P: +31 204 218 928<br>afi-europe.eu<br>info@afi-europe.eu |
| AIG/Lincoln Kft. | Budapest, Hungary | ✓ | ✓ | ✓ | – | – | N.A. | ✓ | ✓ | – | – | – | – | – | – | | P: +36 1 382 5100<br>www.aiglincoln.hu<br>info@aiglincoln.hu |
| CODIC International S.A. | Brussels, Belgium | ✓ | ✓ | – | – | – | DN1 Business & Technology Park -(RO) - 2016 | – | ✓ | – | – | – | – | – | – | | P: +32 26 600 070<br>www.codic.eu |
| ECE Projektmanagement Budapest Kft. | Budapest, Hungary | – | ✓ | – | – | – | N.A. | ✓ | ✓ | – | – | – | – | – | – | | P: +36 1 434 8208<br>F: +36 1 434 8218<br>www.ece.com |
| Echo Investment S.A. | Kielce, Poland | ✓ | ✓ | – | ✓ | ✓ | KORONA Gallery (RO) - 2016 | – | ✓ | – | – | – | – | – | – | | P: +36 30 429 2333,<br>+48 41 33 33 333<br>www.echo.com.pl<br>orsolya.stefankovits@echo.com.pl<br>office@echo.com.pl |
| Erste Group Immorent AG | Vienna, Austria | ✓ | ✓ | ✓ | ✓ | ✓ | Sirius (SRB)<br>Ypsilon (SLO),<br>Immopark Zagreb (HR)<br>Buzin Multipurpose Business Park (HR) | ✓ | ✓ | ✓ | – | ✓ | ✓ | – | – | | P: +43 (0)5 0100 27000<br>F: +43 (0)5 0100 27204<br>office.at@immorent.com<br>www.erstegroupimmorent.com |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | office | retail | industrial, logistics | residential | hotel | | Bulgaria | Romania | Serbia | Montenegro | Croatia | Slovenia | Macedonia | Albania | Other | |
| Futureal | Budapest, Hungary | ✓ | ✓ | – | ✓ | – | Gold Plaza (RO) | – | ✓ | – | – | – | – | – | – | | P: +40 21 260 7845<br>www.futureal.hu<br>www.goldplaza-baiamare.ro |
| Globe Trade Centre S.A. | Warsaw, Poland | ✓ | ✓ | – | – | – | Ana Tower (RO)<br>Avenue Mall Subotica (SRB), Avenue Park (HR)<br>Galleria Bistrita (RO), Galleria Bucharest (RO)<br>Galleria Russe (BG), Istria Golf (HR) | ✓ | ✓ | ✓ | – | ✓ | – | – | – | | P: +48 22 60 60 700<br>www.gtc.com.pl |
| KÉSZ Csoport | Budapest, Hungary | ✓ | – | ✓ | – | ✓ | N.A. | ✓ | ✓ | ✓ | – | – | – | – | – | | P: +36 1 476 6900<br>www.kesz.hu<br>kesz@kesz.hu |
| Plaza Centers Group | Amsterdam, The Netherlands | ✓ | ✓ | – | – | – | Belgrade Plaza - MUP (SRB), Belgrade Plaza - Visnjicka (SRB), Casa Radio (RO), Constanta Plaza (RO), Hunedoara Plaza (RO), Iasi Plaza (RO), Shumen Plaza (BG), Slatina Plaza (RO), Targu Mures Plaza (RO), Timisoara Plaza (RO), Cina Plaza (RO) | ✓ | ✓ | ✓ | – | – | – | – | – | | P: +31 20 344 9560<br>www.plazacenters.com<br>info@plazacenters.nl |
| Portus Buda Group Zrt. | Budapest, Hungary | ✓ | ✓ | – | ✓ | – | N.A. | – | – | ✓ | – | – | – | – | – | | P: +36 1 488 7476<br>www.portusbudagroup.com<br>office@portusbudagroup.com |
| Prologis | Warsaw, Poland / Budapest, Hungary | – | – | ✓ | – | – | N.A. | – | ✓ | – | – | – | – | – | – | | www.prologiscee.com<br>iwww.prologisceesearch.com |
| Raiffeisen Evolution Project Development GmbH | Vienna, Austria | ✓ | ✓ | – | ✓ | ✓ | N.A. | – | ✓ | – | – | – | – | – | – | | P: +36 1 346 6400,<br>+43 171 7060<br>www.raiffeisenevolution.com<br>office@raiffeisenevolution.com |
| Real4You Group | Vienna, Austria | ✓ | ✓ | – | ✓ | ✓ | Mega Mall Bucharest (RO) - 2015<br>Mega Mall Focsani(RO) - 2015<br>Mega Mall Satu Mare (RO) - 2015<br>Mega Mall Sofia (BG)<br>Mega Mall Targu Mures (RO) - 2015 | ✓ | ✓ | – | – | ✓ | – | – | – | | P: + 43 7229 88 0 80 - 0<br>www.real4you.at<br>office@real4you.at |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | office | retail | industrial, logistics | residential | hotel | | Bulgaria | Romania | Serbia | Montenegro | Croatia | Slovenia | Macedonia | Albania | Other | |
| S IMMO AG | Vienna, Austria | ✓ | ✓ | – | ✓ | ✓ | N.A. | ✓ | ✓ | – | – | ✓ | – | – | – | | P: 43 (0) 50 100-27521<br>office@simmoag.at |
| Skanska Romania | Bucharest, Romania | ✓ | ✓ | ✓ | – | – | Green Court Bucharest (RO) | – | ✓ | – | – | – | – | – | – | | P:+40 372 301 300<br>www.skanska.ro |
| Tishman Management Company EOOD | Sofia, Bulgaria<br>London, United Kingdom | ✓ | – | ✓ | – | – | Sofia Airport Center (BG) | ✓ | ✓ | – | – | – | – | – | – | | www.tishmanmanagement.com<br>infobg@tishmanintl.com |
| TriGranit Fejlesztési Zrt. | Budapest, Hungary | ✓ | ✓ | – | ✓ | ✓ | N.A. | – | ✓ | – | – | ✓ | ✓ | – | – | | P: +36 1 374 5600<br>www.trigranit.com<br>info@trigranit.com |

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# Real estate developments in SEE

| 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 |
| AFI Gardens | RO | Bucharest, Romania | AFI Europe | 277,340 | N.A. | planned | P: +40 2 14120 220 | afi-europe.eu |
| AFI Green City | RO | Bucharest, Romania | AFI Europe | 305,000 | N.A. | planned | P: +40 2 14120 220 | afi-europe.eu |
| AFI Park | RO | Bucharest, Romania | AFI Europe | 115,000 | N.A. | Phase II. Q2 2014 Phase III and IV planned | P: +40 2 14120 220 | afi-europe.eu |
| Ana Tower | RO | Bucharest, Romania | Globe Trade Centre S.A. | 8,919 | N.A. | planned | P: +48 22 60 60 700 | www.gtc.com.pl |
| Avenue Mall Subotica | SRB | Subotica, Serbia | Globe Trade Centre S.A. | 12,362 | N.A. | planned | P: +48 22 60 60 700 | www.gtc.com.pl |
| Avenue Park | HR | Zagreb, Croatia | Globe Trade Centre S.A. | 12,000 | N.A. | planned | P: +48 22 60 60 700 | www.gtc.com.pl |
| Belgrade Plaza (MUP) | SRB | Belgrade, Serbia | Plaza Centers Group | 63,000 | N.A. | 2017 | P: + 381 11 715 1577 | www.plazacenterserbia.rs office@plazacenters.rs |
| Belgrade Plaza (Visnjicka) | SRB | Belgrade, Serbia | Plaza Centers Group | 32,000 | N.A. | 2015 – 2016 | P: + 381 11 715 1577 | www.plazacenterserbia.rs office@plazacenters.rs |
| Belgrade Waterfront | SRB | Belgrade, Serbia | Eagle Hills | 167,225 | N.A. | 2019 | P: +971 4 367 3333 | www.emaar.com |

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|---|---|---|---|---|---|---|---|---|
| | | | | | | | phone | website, e-mail |
| Bucharest One | RO | Bucharest, Romania | Globalworth Real Estate Investments Ltd. | 48 732 | N.A. | 2015 | P: +40 21 319 3566/67 | www.globalworth.com<br>enquiries@globalworth.com |
| Buzin Multipurpose Business Park | HR | Zagreb, Croatia | Erste Group Immorent AG | 64,600 | N.A. | in development | P: +43 (0)5 0100 27000<br>F: +43 (0)5 0100 27204 | www.erstegroupimmorent.com |
| Casa Radio | RO | Bucharest, Romania | Plaza Centers Group | 555,000 | N.A. | 2014-2017 | P: + 40 21 315 4646 | www.plazacenters.com<br>office@plazacenters.ro |
| Cina Plaza | RO | Bucharest, Romania | Plaza Centers Group | 4,786 | N.A. | 2015-2016 | P: + 40 21 315 4646 | www.plazacenters.com<br>office@plazacenters.ro |
| City Business Centre Timisoara | RO | Timisoara, Romania | ModaTim Investment S.A. | 43,000 | N.A. | N.A. | P: +40 25 649 1042 | www.business-centre.ro<br>info@business-centre.ro |
| Constanta Plaza | RO | Constanta, Romania | Plaza Centers Group | 18,000 | N.A. | 2015 | P: + 40 21 315 4646 | www.plazacenters.com<br>office.@plazacenters.ro |
| Copou Bellevue | RO | Fagului Str. 2-8, Iasi, Romani | Adama Group | 3,588 | N.A. | Q4 2014 | P:+40 31 405 17 00 | www.adama.ro<br>info@adama.ro<br>alexandra.manea@adama.ro |
| DN1 Business & Technology Park | RO | Ploiesti, Romania | CODIC Group | Zone 1: 227,000<br>Zone 2: 121,000<br>Zone 3: 141,000<br>Zone 4: 118,000 | N.A. | N.A. | Gabriel Sfetcu<br>P: +40 752 08 88 84<br>Alexandru Mihai<br>P: + 40 741 12 16 79<br>Daniel Nistor<br>P: + 40 740 11 73 73<br>Gabriel Nada<br>P:+ 40 743 20 42 06 | gabriel.sfetcu@eur.cushawake.com<br>alexandru.mihai@eur.cushawake.com<br>daniel.nistor@eur.cushawake.com<br>gabriel.nada@eur.cushawake.com |
| Ethos House | RO | Strada Georghe Titeica 212-214, Bucharest, Romania | Ethos House | 8,000 | N.A. | Q4 2014 | P: +40 21 233 9366 | www.ethoshouse.ro<br>office@ethoshouse.ro |

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|---|---|---|---|---|---|---|---|---|
| | | | | | | | phone | website, e-mail |
| **Galleria Bistrita** | RO | Bistrita, Romania | Globe Trade Centre S.A. | 28,064 | N.A. | planned | P: +48 22 60 60 700 | www.gtc.com.pl |
| **Galleria Bucharest** | RO | Bucharest, Romania | Globe Trade Centre S.A. | 123,500 | N.A. | planned | P: +48 22 60 60 700 | www.gtc.com.pl |
| **Galleria Russe** | BG | Russe, Bulgaria | Globe Trade Centre S.A. | 34,368 | N.A. | planned | P: +48 22 60 60 700 | www.gtc.com.pl |
| **Gold Plaza** | RO | Str. Victoriei Nr. 73., Baia Mare 430122, Romania | Futureal | 30,000 | N.A. | N.A. | P: +40 21 260 7845 | www.futureal.hu contact@parculprivighetorilor.ro |
| **Green Court Bucharest** | RO | Bucharest, Romania | Skanska Romania | Phase I. 19,500 | N.A. | Q4 2014 | P: +40 372 301 300 | www.skanska.ro |
| **HBC Dorobanti** | RO | Bucharest, Romania | Nima Property Development Srl | 4,000 | N.A. | Q2 2014 | P: +40 21 310 8999 | www.hbcdorobanti.ro office@hbcdorobanti.ro |
| **Hunedoara Plaza** | RO | Hunedoara, Romania | Plaza Centers Group | 14,000 | N.A. | 2016 | P: + 40 21 315 4646 | www.plazacenters.com office.@plazacenters.ro |
| **Iasi Plaza** | RO | Iasi, Romania | Plaza Centers Group | 58,000 | N.A. | 2016 | P: + 40 21 315 4646 | www.plazacenters.com office.@plazacenters.ro |
| **Immopark Zagreb** | HR | Zagreb, Croatia | Erste Group Immorent AG | 174,000 | N.A. | under construction | P: +43 (0)5 0100 27000 F: +43 (0)5 0100 27204 | www.erstegroupimmorent.com www.immopark.com |

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|---|---|---|---|---|---|---|---|---|
| | | | | | | | phone | website, e-mail |
| Istria Golf | HR | Istria, Croatia | Globe Trade Centre S.A. | 1,260,000 | N.A. | planned | P: +48 22 60 60 700 | www.gtc.com.pl |
| Korona Gallery | RO | Calea Dorobantilor 239, 3rd floor 010567 Bucharest, Romania | Echo Investment S.A. | Phase I. GLA 35,000 | N.A. | Q1–2 2015 | P: +48 41 33 33 211 | www.korona-brasov.ro tomasz.domon@echo.com.pl |
| Lagera Tulip | BG | Sofia, Bulgaria | AFI Europe | 15,811 | N.A. | Phase II and III are planned | P: +359 2 4898 180 | afi-europe.eu |
| Mega Mall Bucharest | BG | Strada Pierre de Coubertin Nr. 3-5, 21901 Bucharest, Romania | Real4You | 70,000 | N.A. | 2015 | P: + 43 7229 88 0 80 - 0 | www.real4you.at office@real4you.at |
| Mega Mall Focsani | RO | B-dul Bucuresti Nr. 4, 620144 Focsani, Romania | Real4You | 24,000 | N.A. | 2015 | P: + 43 7229 88 0 80 - 0 | www.real4you.at office@real4you.at |
| Mega Mall Satu Mare | RO | Bulevardul Lalelei Nr. 2, 440167 Satu Mare, Romania | Real4You | 18,000 | N.A. | 2015 | P: + 43 7229 88 0 80 - 0 | www.real4you.at office@real4you.at |
| Mega Mall Sofia | BG | Blvd. Tsaritsa Yoana 15, 1324 Sofia, Bulgaria | Real4You | 25,000 | N.A. | under construction | P: + 43 7229 88 0 80 - 0 | www.real4you.at office@real4you.at |
| Mega Mall Targu Mures | RO | Strada Gheorghe Doja Nr. 62 540146 Targu Mures, Romania | Real4You | 21,000 | N.A. | 2015 | P: + 43 7229 88 0 80 - 0 | www.real4you.at office@real4you.at |
| Old Mill | SRB | Bulevar Vojvode Misica 15, 11000 Belgrade, Serbia | Soravia Group GmbH | 25,000 | N.A. | Q3 2014 | P: +43 171 690 | www.soravia.at office@soravia.at |

# Real estate developments in SEE

| 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 |
| **Shumen Plaza** | BG | Shumen, Bulgaria | Plaza Centers Group | 20,000 | N.A. | 2016 | P: + 359 2 851 8984 | www.plazacenters.com<br>office.bulgaria@plazacenters.com |
| **Sirius** | SRB | Belgrade, Serbia | Erste Group Immorent AG | Phase I. 25,790<br>Phase II. 19,385 | N.A. | in development | P: +43 (0)5 0100 27000<br>F: +43 (0)5 0100 27204 | www.erstegroupimmorent.com<br>office.rs@immorent.com<br>www.siriuscomplex.rs |
| **Slatina Plaza** | RO | Slatina, Romania | Plaza Centers Group | 17,000 | N.A. | 2016 | P: + 40 21 315 4646 | www.plazacenters.com<br>office.@plazacenters.ro |
| **Sofia Airport Center (SAC)** | BG | Sofia, Bulgaria | Tishman Management Company EOOD | 180,000 office<br>28,000 logistics | N.A. | Phase I. - 10/2012<br>Phase II and III<br>next 5-7 years | Mrs. Olga Stoichkova - commercial manager<br>+359 (2) 492 3800 | www.tishmanmanagement.com<br>www.sac.bg<br>infobg@tishmanintl.com |
| **Targu Mures Plaza** | RO | Targu Mures, Romania | Plaza Centers Group | 10,000 | N.A. | 2016 | P: + 40 21 315 4646 | www.plazacenters.com<br>office.@plazacenters.ro |
| **The Office Cluj-Napoca** | RO | Cluj-Napoca, Romania | ModaTim Investment S.A. | 54,000 | N.A. | Phase I. Q2 2014<br>Phase II. 2015<br>Phase III. 2016 | P: +40 256 491 042<br>+40 21 232 1398 | info@theofficecluj.ro |
| **Timisoara Plaza** | RO | Timisoara, Romania | Plaza Centers Group | 38,000 | N.A. | 2016 | P: + 40 21 315 4646 | www.plazacenters.com<br>office.@plazacenters.ro |
| **Tobacna City** | SLO | Ljubljana, Slovenia | IMOS Group | 65,000 | N.A. | Phase II.<br>2013-2018 | P:+ 386 147 333 00 | www.imos.si<br>info@imos.si |
| **Ypsilon** | SLO | Ljubljana, Slovenia | Erste Group Immorent AG | 10,700 | N.A. | design planning phase | P: +386 (0)15 13 88 00 | www.erstegroupimmorent.si<br>office.si@immorent.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 May 14, 2014.

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