

### Downturn except in CZR and Poland

25 July 2012

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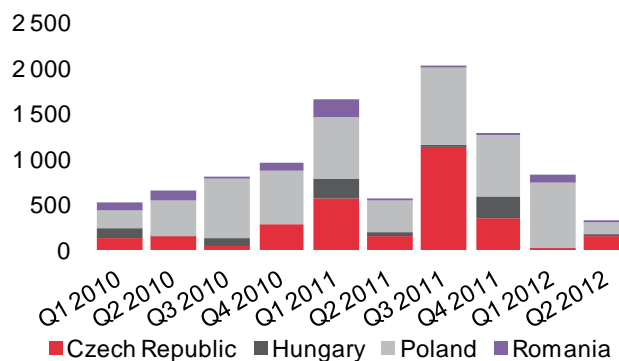
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- The investment market activity among CEE markets registered a strong slowdown in Q2 2012 with only €327 invested, down from €834m in Q1. This declining trend affected the local markets differently. However, the Czech Republic and Poland continued to dominate the CEE investment market in Q2.
- The resilience of Czech and Polish banks helped domestic investment to make their comeback in Q2, whilst overseas and intra-region investors reduced their market share.
- Market activity rebounded in Q2 in the Czech Republic following a muted activity in Q1. Identified as the most active market in CEE, the Polish market saw its volume decline to €122m in Q2 down from €717m in Q1.
- Offices became the preferred asset class among investors operating in CEE markets with €207m invested in Q2 while retail registered a strong decline to €106m from €471 on a quarterly average in 2010 and 2011. The lack of retail assets opportunities constrained clearly the market activity.
- Prime yields are expected to remain at high levels over the next years, as investors adapt to new market regulations and conditions. Prime office yields are ranged between 6.25% in Prague and Warsaw and 8% in Bucharest.

Figure 1

**Quarterly investment volume in CEE, EUR m**



Source: DTZ Research

# Investment Market Update

## CEE Q2 2012

### Economic context

Weaker economic context for 2012 in CEE. Poland appears more resilient to the European downturn

The European sovereign crisis continued to impact negatively the economic development in the Eurozone and in CEE as well. The year 2012 appears already as one of the most challenging with a 0.6% forecasted decline in the Eurozone, affecting the expected GDP performance for CEE. However, this negative impact will be moderate in Poland and Romania, which still anticipate a positive growth in 2012 with +2.7% and +0.5% respectively (Figure 2).

As in 2009, Poland managed to avoid the recession and continues to place itself as the financial core of the CEE. By contrast, the Czech and Hungarian economies are affected by the weaker foreign demand and therefore will face a contraction of their GDP in 2012.

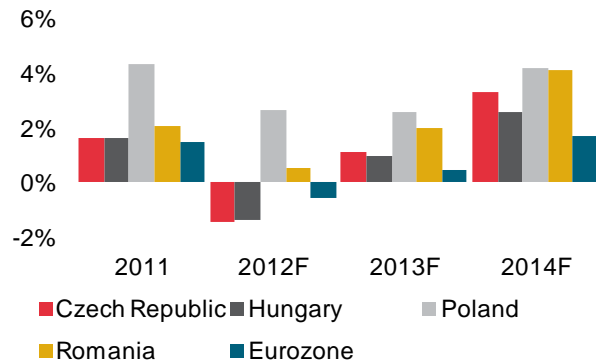
Among CEE countries, Hungary also struggles on the financial side. Their policy making has proven to be erratic lately and interest rates are among the highest in the region at 7%. Capital outflow is a reality and the economic prospect is heavily reliant by the outcome of the current negotiations with the IMF.

Bonds yields in CEE are ranged between 1.80% in the Czech Republic and 7.1% in Hungary, revealing very heterogeneous local markets. Five years bond yields stand at 4.7% in Romania and Poland in July 2012. From the beginning of the year, bond yields declined in a various proportion from 0.38% in Czech Republic to 1% in Hungary (Figure 3).

The impact of banks deleveraging is yet to be seen in the CEE countries. Local banks have proven to be strong as they have low reliance on external funding and benefit from a strong deposit base. However, Basel III regulations have induced a pull of funds by foreign banks and thus investment is expected to contract.

Figure 2

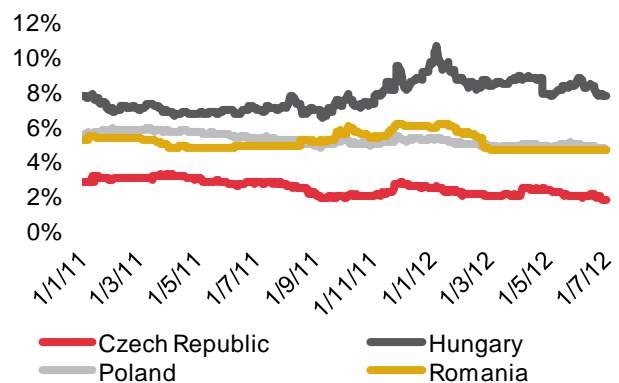
#### GDP annual growth



Source: Oxford Economics

Figure 3

#### 5 years bond yields



Source: Bloomberg

# Investment Market Update

## CEE Q2 2012

### CEE overview

### Investment volume

Slowdown in Q2 and H1 results are below the historical average.

After a 2 years streak of steady growth in 2009 and 2010, investment volume in CEE declined by 47% in H1 2012, with only €1.2bn recorded. The slowdown of market activity has been particularly pronounced in Q2 which record only €327m invested, posting a 60% decline q-o-q (Figure 4).

As a result, investment volume is down by 47% on a yearly basis and the H1 2012 performance with €1.2bn is by far below the H1 average recorded since 2001 standing at €1.6bn.

#### Local disparities in market activity

The decline in market activity recorded in H1 2012 was heterogeneous among CEE markets and its impact has been different in the local markets.

Poland, which usually dominates CEE market activity, has registered a strong decline from €717m invested in Q1 to only €122m in Q2. By contrast, the Czech Republic recorded an increase in investment volume with €159m in Q2 following a muted Q1. Together, these 2 countries accounted for 90% of market share in H1 2012. A subdued activity has been registered in Romania (€25m) and in Hungary (€20m) since the beginning of the year (Figure 5).

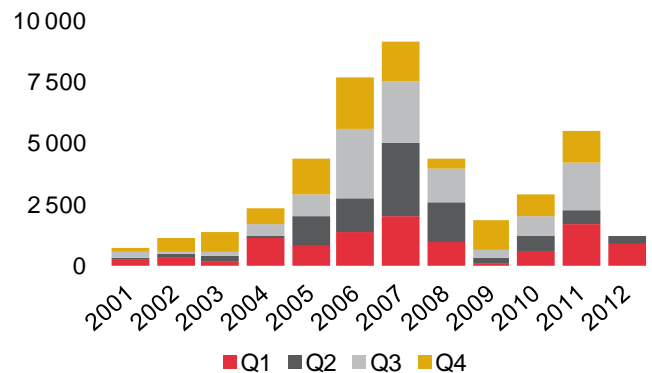
#### No deals above €100m in Q2

Investment activity by lot size reveals a higher proportion of deals between €50m and €100m in Q2 with 3 transactions identified in this range of price (one in Warsaw and 2 in Prague). Market activity in lot size above €100m was muted as no deals were registered in Q2.

As a result, the average lot size moved down to €27m in Q2 from €104m in Q1. The higher lot size registered in Q1 was mainly linked to the €475m acquisition realized by a fund of Unibail-Rodamco for 77% of stake into Zlote Tarasy, a retail office complex.

Figure 4

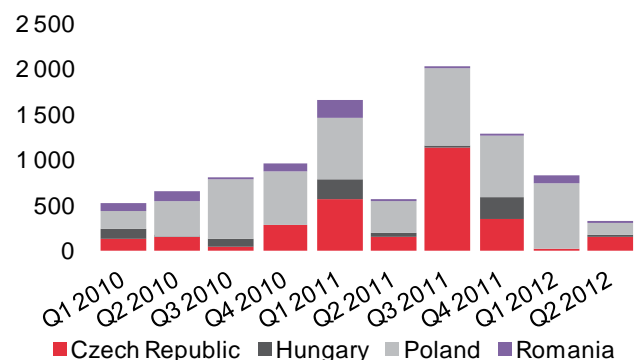
Investment volume in Central and Eastern Europe, EUR m



Source: DTZ Research

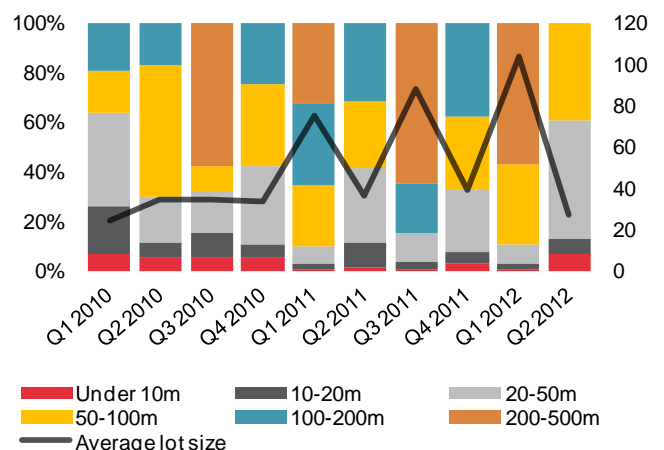
Figure 5

Quarterly investment volume in CEE, EUR m



Source: DTZ Research

Investment activity in CEE by lot size, EUR m



Source: DTZ Research

# Investment Market Update

## CEE Q2 2012

### Source of capital

Foreign banks pull funds as capital reserve regulations tighten.

As overseas and intra-region investors reduced their purchasing activity in Q2, domestic investors made their comeback with €100m of sales in Czech Republic and in Poland (Figure 7).

Intra-regional investors - those located in Europe but investing outside their home markets – were less active in Q2 with volume declining from €587m in Q1 to €156m in Q2. They focused on Grade A office buildings in Prague and in Warsaw and in the retail sector of Romania.

The capital flows coming from outside Europe remained subdued with one transaction done by an US investor in Czech Republic.

### Investor type

Institutional investors make a shy comeback

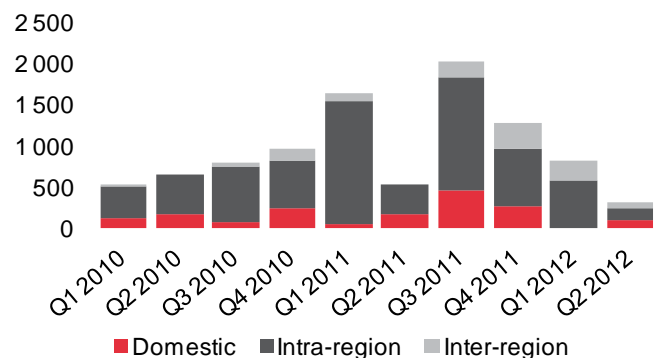
The uncertain economic outlook of the European economy induces a step back of investors from markets perceived as riskier. As a result, private property and quoted investors reduced their activity in CEE from €809 m in Q1 to €14m in Q2. Whilst institutional and especially private property companies took over the gap left (Figure 8).

Life insurance companies are expected to increase their exposure to the real estate market. Their acquisitions are still relatively modest with only €20m invested in H1 2012. However some recent announcements from Vienna Insurance Group and Allianz suggest a higher investment volume for the near term. Commercial real estate yields are currently much more attractive than bond yields in Western Europe.

Quoted investors continued to be more active on the sale side (Figure 9).

Figure 7

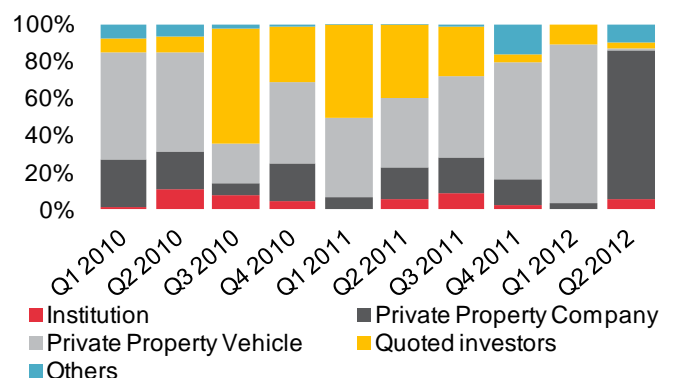
Investment activity in CEE by source of capital, EUR m



Source: DTZ Research

Figure 8

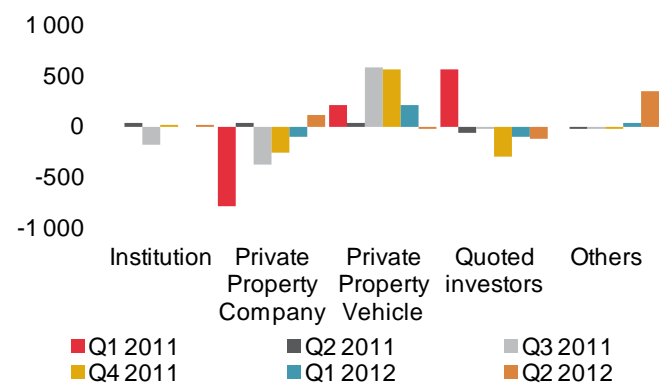
Investment activity in CEE by investor type



Source: DTZ Research

Figure 9

Net investment in CEE by investor type, EUR m



Source: DTZ Research

# Investment Market Update

## CEE Q2 2012

### Property type

Offices back in favour

Offices continue to be the preferred asset class among investors in CEE markets and accounted for 60% of the investment volume in Q2. Usually perceived as less risky than other asset classes, the office sector offers the best possible risk return ratio.

Investment in retail and industrial assets is far behind in terms of volume, while no investment in mixed-use assets was recorded in Q2. The lack of retail assets opportunities constrained the market activity; however investors willing to invest on this segment will operate with a high degree of selectivity to secure their rental income (Figure 10).

The slowdown of market activity has impacted both retail and office investment to varying degrees. Investment in retail accounted for €106m in Q2, far below the historical quarterly average of €471m since 2010. By contrast, investment in office appears as more resilient with €207m of acquisitions in Q2, below the historical average at €389m.

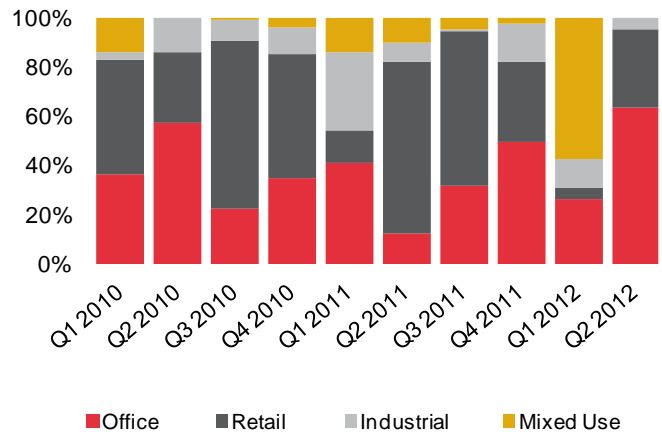
### Czech Republic and Poland on the top

The Czech Republic and Poland concentrated all office investment activity in Q2 2012. This is mainly explained by the appeal of Warsaw as the financial hub of CEE and to some extent of Prague (Figure 11).

Investment in retail was more diversified in terms of location with the biggest transactions registered in Czech Republic and Romania in Q2.

Figure 10

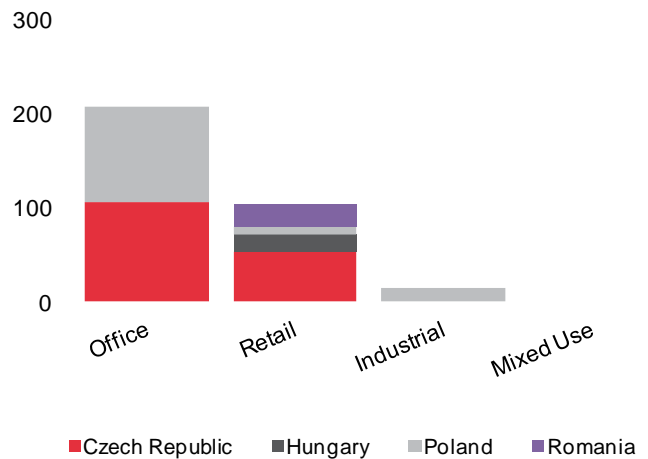
Investment in CEE by asset type



Source: DTZ Research

Figure 11

Investment by asset type and country, Q2 2012, EUR m



Source: DTZ Research

# Investment Market Update

## CEE Q2 2012

### Yield trends

Stable prime yields in the core markets. No further compression expected in the near term

Prime office yields remained stable across CEE. The split between the couple Warsaw-Prague and Budapest-Bucharest remained unchanged in Q2 2012 (Figure 12)

Warsaw and Prague are the most attractive markets in the region and this translates into their prime office yields standing at 6.25%. As in most mature markets in the region, yields volatility is less important there than in other CEE countries (Figure 13)

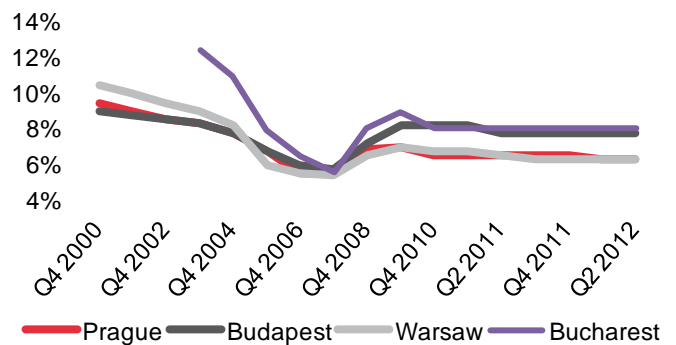
Budapest's yields are still at a very high level, close to the 8.25% peak recorded in 2007 and to a lesser extent the 9% peak in 2000. Bucharest's yields still have some room for further compression. At 8% in Q2, their highest value was 12.5% in 2003 and their lowest was 5.6% in 2007.

No changes in prime office yields are expected in the near term as uncertainty about the European crisis prevent any rush of investors into the CEE markets in the short term.

In the other sectors – retail and industrial - prime yields are also expected to remain stable until the end of 2012 with the most attractive pricing in Prague and Warsaw.

Figure 12

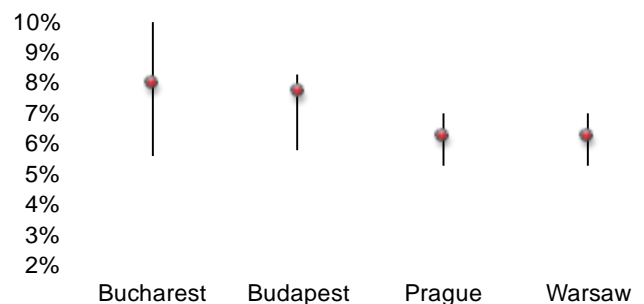
#### Prime office yields in CEE



Source: DTZ Research

Figure 13

#### Prime office yields in Q2 2012 – changes 2007-2012



Source: DTZ Research

# Investment Market Update

## CEE Q2 2012

### Czech Republic

Despite a quarter-on-quarter increases in investment activity and a significant pipeline of transactions, uncertainty remains on the market

Total investment volume in H1 2012 reached €179m representing a 76% decline on the first half of 2011. Q2 2012 investment volume amounted to €159m, posting a 2% increase to Q2 2011.

The investment market is negatively impacted by a high level of uncertainty regarding the future of the economy and the bank's lending capacity. To this is added the expected impact of Basel III and the even tougher European regulations.

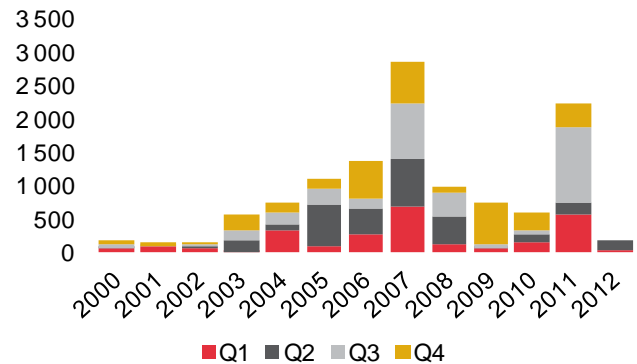
In this context, international investors continue targeting prime Grade A properties as was proved by the purchase of Hagibor Office Centre (Radio Free Europe) by L88, an American investment company. Czech private investors and private property companies are looking at regional properties or Grade B assets. There are currently several opportunities for purchasing key office and retail development sites and projects in Prague.

Prime yields remained stable q-o-q. For prime office space they reach 6.25%. For prime industrial properties with a minimum of 10 years secured rental income yields stand at 8%. Prime yields for high street retail and prime shopping centres stand at 6.25%. Prime yields are expected to remain stable in 2012 for all sectors.

Due to the lower activity in H1 2012, we have revised downwards our forecasts and expect the total investment volume to reach €1bn at the end of the year compared to €1.5bn forecasted previously in Q1.

Figure 14

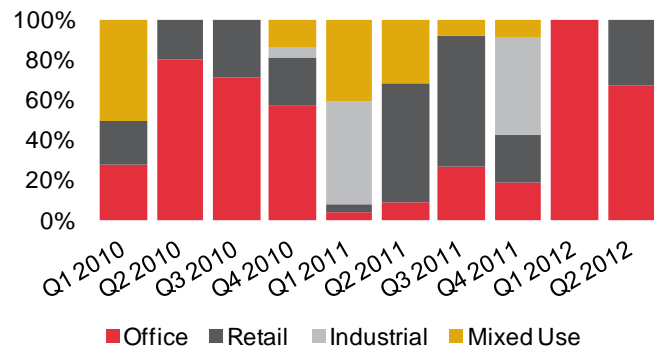
Investment volume in Czech Republic, EUR m



Source: DTZ Research

Figure 15

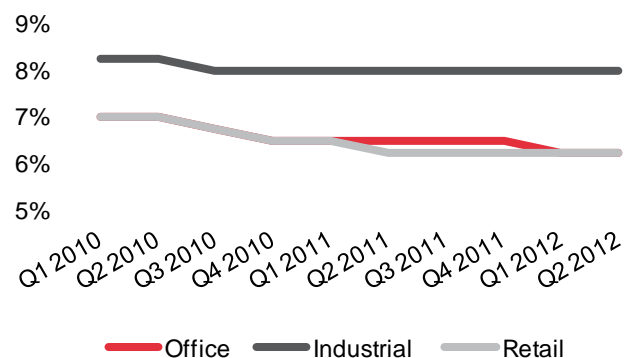
Investment volume by sector in Czech Republic



Source: DTZ Research

Figure 16

Prime yields in Prague



Source: DTZ Research

# Investment Market Update

## CEE Q2 2012

### Hungary

Slight market activity in H1 2012. Pricing is still unclear for buyers as vendors are not yet ready to give some discount.

The uncertainty concerning Hungary's economic outlook and the unpredictable political environment wiped off the country from the radar of most large institutional investors. After Heitman's major acquisition (€232m in 2 transactions) in 2011, there was no significant market activity on the Hungarian market in H1 2012.

Some vendors are warily scanning the market for potential buyers without putting officially their assets onto the market. However, there have been a few transactions underway and some others where early interest has been registered from potential buyers. Banks are also getting more active in marketing some of their better assets.

Two types of potential buyers are currently active on the market. Some of them are seeking prime or good quality properties with long term leases at a somewhat discounted price level. However few vendors are ready to sell at such low price levels. Gap in pricing expectations between vendors and purchasers are still huge.

The majority of investors are opportunistic and prefer waiting for acquisitions from liquidations and bank portfolios in order to secure an easy value-added strategy.

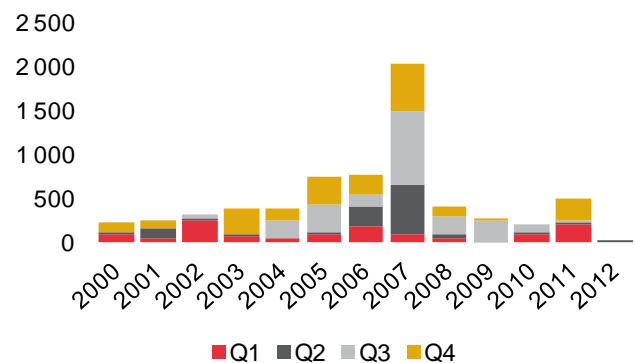
The most sought after sectors are either retail or office but activity is also visible from investors specialized in the logistics / industrial sector.

Prime gross initial yields for Budapest have remained unchanged standing at 7.25%-7.75% for retail, 7.5%-8.0% for office, and above 9% for industrial/logistics.

In general, the speed of closing transactions slowed down in all asset sectors as a result of longer due diligence periods and time-consuming bank financing negotiations.

Figure 17

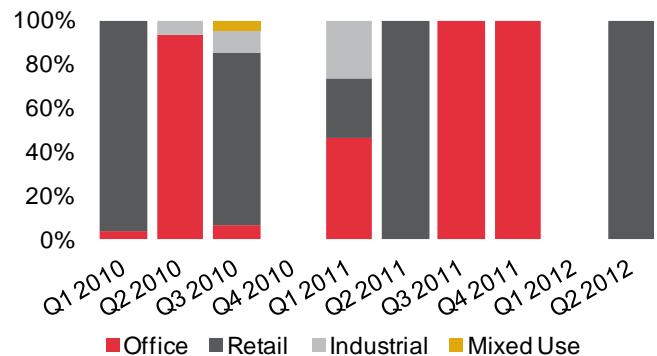
Investment volume in Hungary, EUR m



Source: DTZ Research

Figure 18

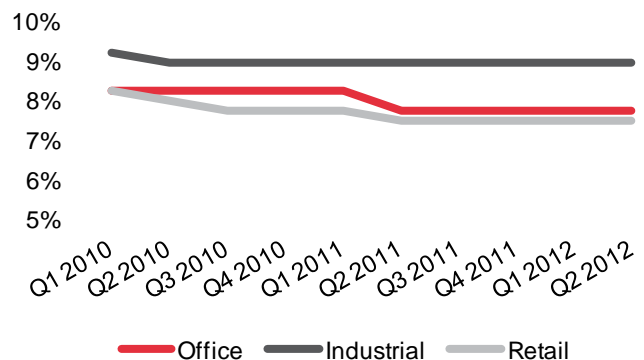
Investment volume by sector in Hungary



Source: DTZ Research

Figure 19

Prime yields in Budapest



Source: DTZ Research



# Investment Market Update

## CEE Q2 2012

### Poland

Investment volume and yields to remain stable in 2012

After years of a downward trend linked to the global financial turbulence, the investment activity in Poland started bouncing back at the start of 2010 and still proves to be reviving. The volume of investment transactions reached €2.6bn in 2011, a 37% increase on 2010 and 25% more than the annual average recorded from 2001 to 2010.

During the first six months of 2012, €839m was invested, representing an 18% decline compared to H1 2011. The most significant transaction recorded in H1 2012 was the sale of shares in Złote Tarasy complex in Warsaw. This deal explains the high market share for mixed use assets recorded in Q1 2012.

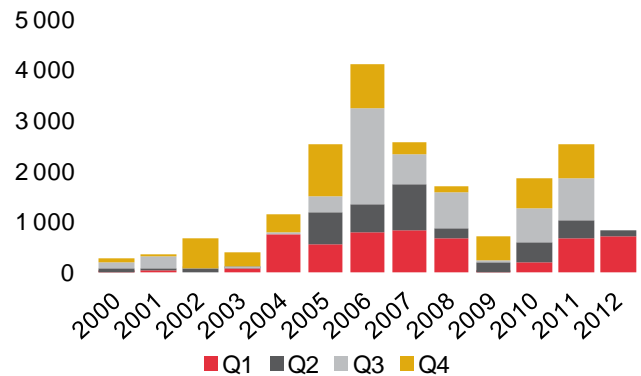
Developers continued to be widely represented amongst the most active sellers while investment management companies and special purpose funds were the most active players on the buy side

After two years of upward pressure on yields in all sectors, these started to compress in 2011. Prime yields during the first six months of 2012 were relatively stable oscillating around 6.00% for retail properties, 6.25% for office and 7.75% for industrial. Given the increase in uncertainty and wider reassessment of short- and medium-term growth prospects, no further yield compression is expected for the remainder of 2012.

Despite the current uncertainty on the Eurozone economy, the resilience of the Polish economy among the CEE region should attract capital flows coming from cross – border investors. As the second half of the year has been usually stronger than the first when it comes to the volume and number of transactions, and given the quality of investment products currently available on the market, we may still expect the volume of transactions for the whole year to be similar to those recorded in 2011.

Figure 20

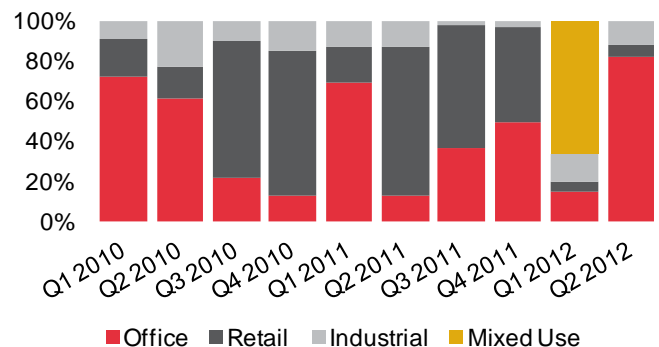
Investment volume in Poland, EUR m



Source: DTZ Research

Figure 21

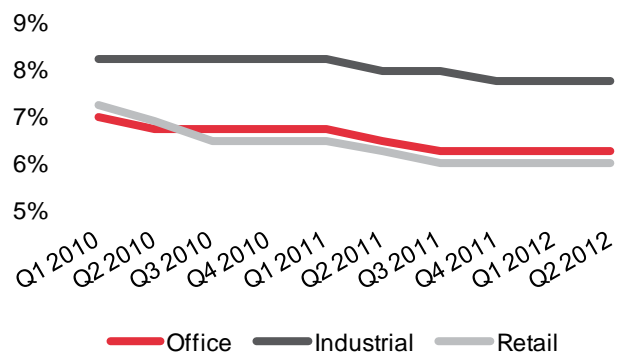
Investment volume by sector in Poland



Source: DTZ Research

Figure 22

Prime yields in Warsaw



Source: DTZ Research

# Investment Market Update

## CEE Q2 2012

### Romania

Low level of activity in H1 2012 but in line with the last 2 years performance

After an encouraging Q1 2012 with €99m of acquisitions, the Romanian investment market registered a slowdown in Q2 with €25m. The only transaction of the quarter was the sale of 100 ha of land from the former Tractorul platform in Brasov City. This deal brought the investment volume to €124m in H1 2012, in line with the performances recorded over the same period in 2010 and 2012. H1 2012 equals the level of investment of the entire year of 2009.

Lending capacities from banks remained tight in 2012, with a direct impact on the investment activity. In this context, market conditions continued to be challenging for investors willing to deploy capital into the country and putting pressure on the exit returns for developers.

Market activity has been exclusively driven by cross-border investors with NEPI, a South-African fund, signing the biggest transaction of the year (City Business Center in Timisoara for €95m).

The retail sector continued to be attractive for potential investors sustained by the increase of retail consumption registered in H1 2012. Romania holds the third place in retail consumption growth across UE with a 5.9% increase.

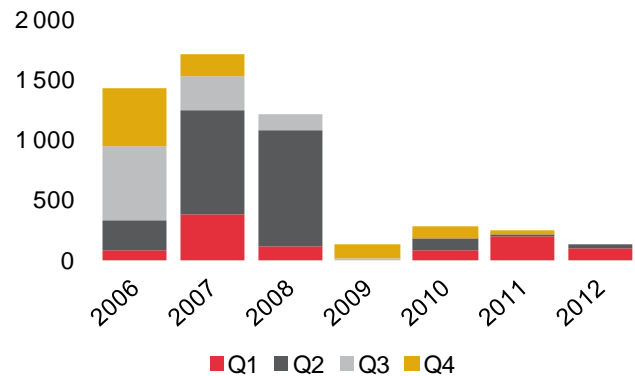
Q2 2012 saw prime office, retail and industrial yields, remain stable compared to the previous quarter. Prime office yields are currently around 8%, prime retail at 8.5% and 10.5% for prime logistics.

Prime assets in Bucharest are expected to attract foreign investors in the near future. In this respect, we expect a moderate increase in the transaction volume for the rest of 2012. Investment volume for the whole year is expected to reach €250 / €300m, a decrease from our original €400 / €450m estimation for 2012. This estimation is based on the assumption that banks will bring to the market the assets of non-performing loans as part of their process to deleverage.

The current investment climate offers opportunities to equity holders, with a low competition among the few active buyers and banks offering lower LTVs, thus investors with a strong liquidity position are seldom rewarded with the lion's share.

Figure 23

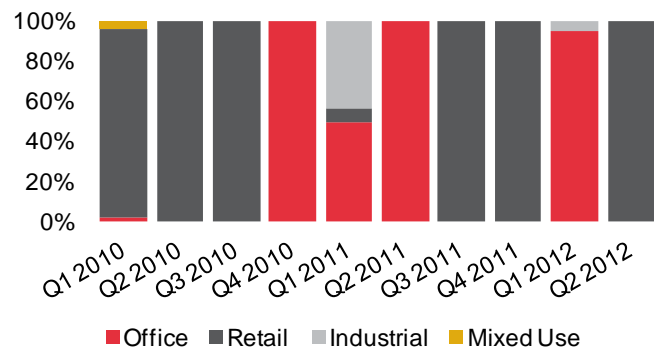
Investment volume in Romania, EUR m



Source: DTZ Research

Figure 24

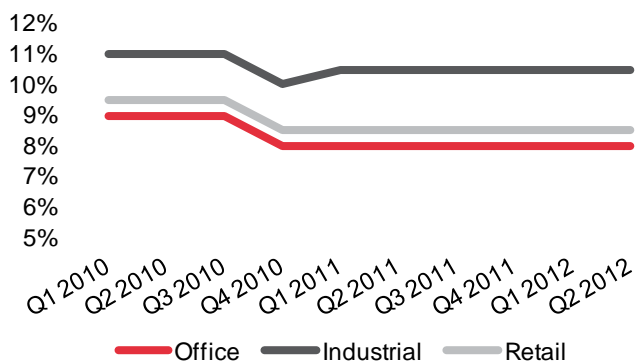
Investment volume by sector in Romania



Source: DTZ Research

Figure 25

Prime yields in Bucharest



Source: DTZ Research

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Global Occupancy Costs Logistics 2011  
Obligations of Occupation Americas 2012  
Obligations of Occupation Asia Pacific 2012  
Obligations of Occupation EMEA 2012

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