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CENTRAL EASTERN EUROPE

A REGION WITH GREAT PROSPECTS

By Renata Osiecka, SIOR, SIOR European Chapter President





The commercial real estate market in the Central Eastern Europe (CEE) region (Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria) is experiencing one of the best periods in its history. Despite the turmoil on the European political scene and the uncertainty surrounding the further steps in the U.K.'s Brexit, international capital is flowing into the region. A strong domestic consumer market, as well as export and production growth in the major sectors of the economy, is positively reflected in the rental market in the office, industrial, and retail sectors.

In the CEE region in the first months of this year, more than EUR 2.3 billion (USD 27.5 billion) was invested, constituting a 40 percent increase compared to the corresponding period in 2016. By the end of 2017, we can expect even more records to be broken and even the EUR 18 billion level to be exceeded.

The [CEE] region is a hot investment destination for funds from the U.S. and Western Europe, and increasing activity from Asia and South Africa can be observed, especially in the Polish market.

Investors are typically looking for core products, but there are also more and more entities that are interested in discounted products, and are ready to take a higher risk in return for the prospect

of greater profits. The market is in peak form, however, the main problem that may hamper the investment wave is the low supply of quality products and unfavourable tax laws.

Brexit and the many unknowns of investing in the wake of the U.K.'s exit from the E.U., along with the accompanying compression of rates, means that the CEE region is even more attractive to foreign and local investors.

Poland remains the leader in the region with a share of 36 percent. In the coming months, we can expect increased activity from Asian capital, which is mainly interested in portfolio purchases, the best example being the sale of the entire Logisor warehouse platform (vast part where projects in CEE) to the Chinese CIC fund for EUR 12.25 billion. Investors' activity in Poland will remain at a high, stable level and office products, not only from the Warsaw market but also from regional cities, will become more and more popular.

In Czech Republic and Hungary increased activity can be seen from local investors buying a full range of investment products from all commercial real estate segments. The Hungarian and Romanian markets have returned to favour after a stagnation period and are now thriving, constituting one of



Europe's best prospects for profitability in all commercial real estate segments.

The prospect of higher returns with high demand and rising rents in the region is likely to be a good incentive for Western European and American capital to continue investing in the CEE region.

Offices market - the land of BPO/SSC

The office market in the region is growing due to high demand for office space from the business services sector. CEE countries, in particular Poland, offer relatively high availability of qualified staff and high labour efficiency at a lower cost than in Western Europe, which attracts companies that are opening more business centres in the Baltic area.

It is also worth pointing out that domestic and foreign companies already present in the CEE region are developing rapidly, which is generating demand for new office space. In the case of Poland and Czech Republic, high demand-side activity is translating into a long pipeline of development projects. New office projects are appearing at a fast pace not only in Warsaw and Prague, but also in the cities where BPO/SSC centres are located. The U.K.'s exit from the E.U. may, paradoxically, have a positive effect on the CEE office market due to the need to move pan-European business processes to the continent. It is already being said that financial sector companies are analyzing potential locations in Poland, Czech Republic, and Hungary.

One risk factor that is causing vacancy levels in certain cities in the region to grow are older buildings that are losing tenants to new investments. High developer activity, especially in Warsaw and regional cities in Poland, is causing price pressure and fierce competition for tenants. Older investments will have a chance in the race for tenants, provided they undergo revitalization and change their tenancy concept.

Warehouse market - extraordinary growth of e-commerce channel

The main force in the industrial sector in the CEE region is the rapid growth of the e-commerce channel and increased production especially in the automotive, food, and electronics sectors. The combined stock of modern warehouse space in the region is 22 million square meters, rising by 2.2 million square meters annually. This is comparable to the largest warehouse market, Germany, where the stock is 25.5 million square metres.

Last year, the volume of lease transactions in Central and Eastern Europe amounted to 5.7 million square metres, of which more than three quarters were in Poland and Czech Republic. In Czech Republic, 1.4 million square metres were leased, the same amount as in the previous year. In turn, Poland, Romania, and Hungary scored record demand for modern warehouse space. The volume of transactions in 2016 reached the highest level in Poland's history – a total of 3.1 million square meters, 25 percent more than in 2015. Romania and Hungary also registered record-breaking activity among tenants, who leased nearly half a million square meters respectively.

More companies, like Amazon, Zalando, Bosch, Samsung, and GM, are investing in the CEE region, opening factories and logistics centers. The region is winning because it offers access to quality products and employees at low rental costs. It is mainly Western European

companies that are investing in Poland, Czech Republic, Hungary, and Romania, but the growing share of Korean, Chinese, and Japanese companies is also noticeable.

Central and Eastern Europe is a market with immense potential; international investors want to be here because their customers are already here, investing in more office projects and logistics centers. The market remains stable, with relatively safe assets despite the political and economic factors that provoke flexibility among investors. At the same time, the CEE region remains an area where investors can expect higher returns compared to Western Europe. Average yields in the office sector for prime products are 5.75-6 percent, retail 5-5.5 percent, and industrial 6.5-8.0 percent. ▽



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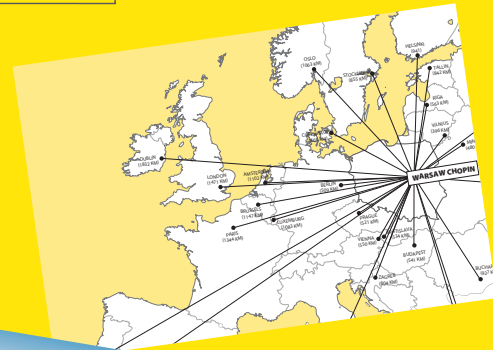
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events@sioreurope.com

Renata Osiecka, SIOR, MRICS
SIOR President of European Regional Chapter
renata.osiecka@axiimmo.com

Paul McDowell, SIOR FRICS FSCS
SIOR Vice-President of European Regional Chapter
paul@pmcdltd.ie



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