

Real estate transactions market in 2015 and outlook for 2016


Czech Republic

24 February 2016

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1. Czech Republic - Main economic indicators

Czech Republic – Main economic indicators

Positive economic outlook supported by GDP growth

GDP grew by

4.3% in 2015



Improving economy conditions in the Czech Republic - forecast 2.7% GDP growth for 2016 and 2.6% GDP growth for 2017

Average Wages

Increased by **3.8%** in 2015 (nominal growth)

to **EUR 966** per month



The unemployment rate in 2015 was at the level of

5.0%

Retail sales growth:

5.9% in 2015

Reference interest rate at historically lowest level from 2012 of

0.05%

Expected to remain stable in 2016 and increase in 2017

Inflation

Rate in 2015:

0.3%



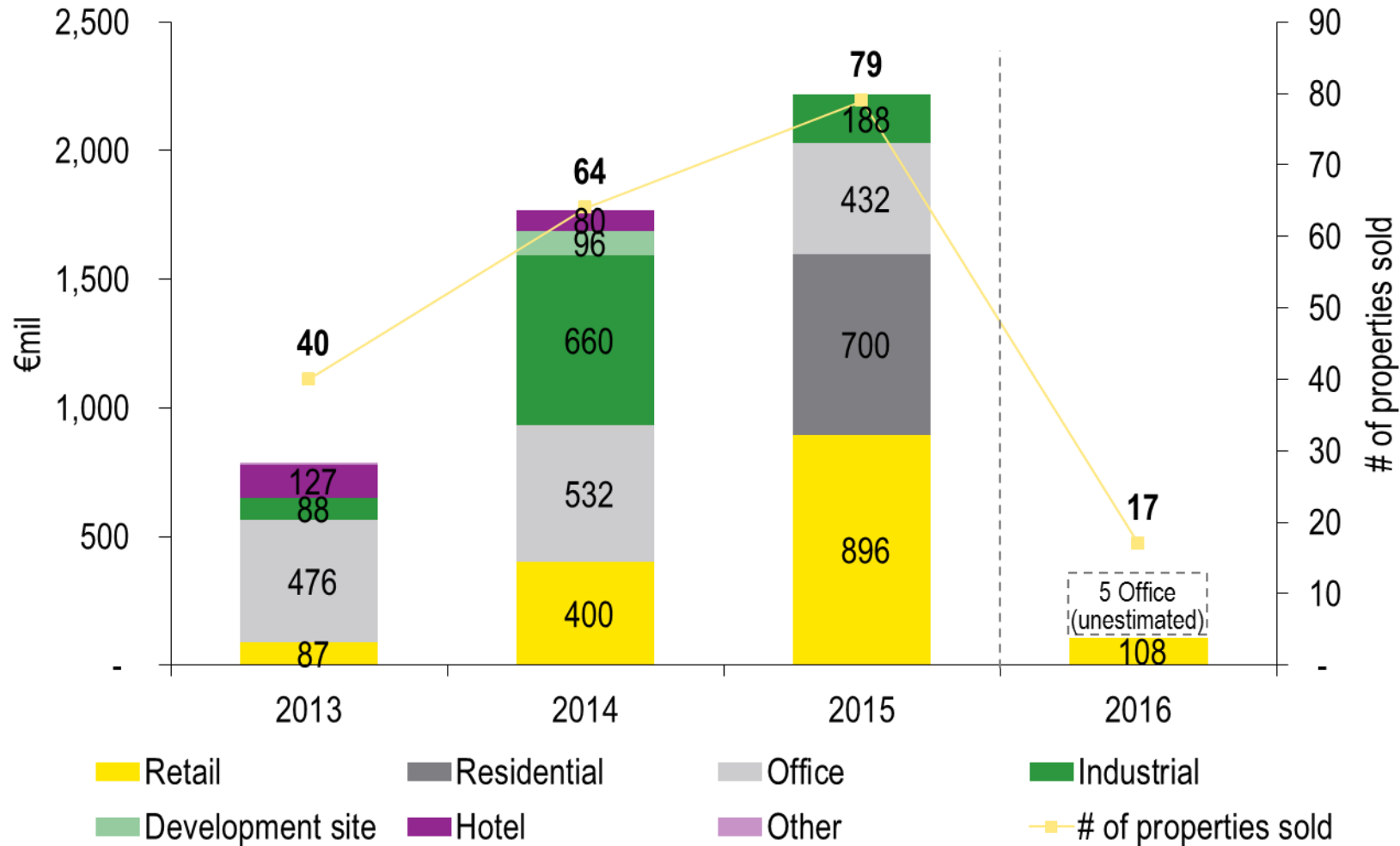


2. Real estate transactions market in 2015



Total market (Volume and # of properties sold)

Growth in transaction volumes in 2015; 2016 looks promising



€2.2bn
Total volume in 2015

79
Total # of properties sold in 2015

Source: Real Capital Analytics

Office market – key figures

Increasing demand expected to impact rental rates

Key figures	Prague	Brno
Market Size		
Total Stock (m²)	3,220,000	483,000
Supply		
Vacancy Rate (%)	14.6	16.5
Rents		
Prime headline rates A-class office in EUR/sq.m.	City center: 18.50 - 19.50 Inner city: 14.50 - 16.00 Outer city: 13.00 - 14.50	8.50 – 12.50
Favorable market conditions in 2015	A-class office supply in 2015 reached around 190ths sq.m.	Demand from professional service companies and IT companies has grown significantly in 2015; vacancy rates are expected to fall
Market conditions expected in 2016	A-class office completion expected to reduce to around 30-35ths sq.m.	A-class office supply in construction and to be completed in 2016/17 is around 37k sq.m. with many high quality projects already pre-let

3.7m sq.m.
of office stock



Rents
13.0-19.5
EUR/sq.m./
month

Strengthening demand

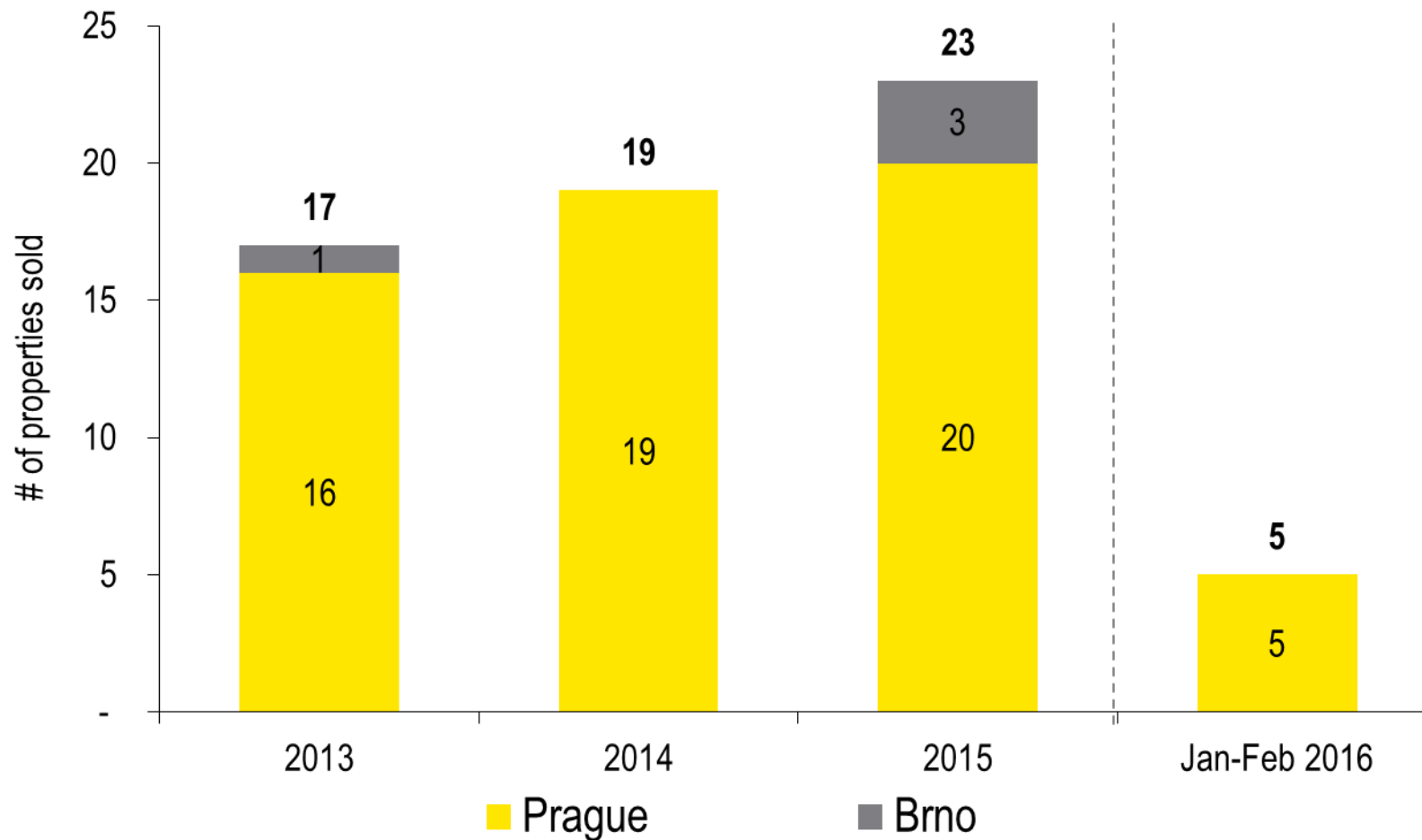


Expected decrease in vacancy rates



Office market (# of properties sold)

Increase in volume of office deals in 2015



€432m
Total office transaction volume in 2015

Modest yield compression in 2015

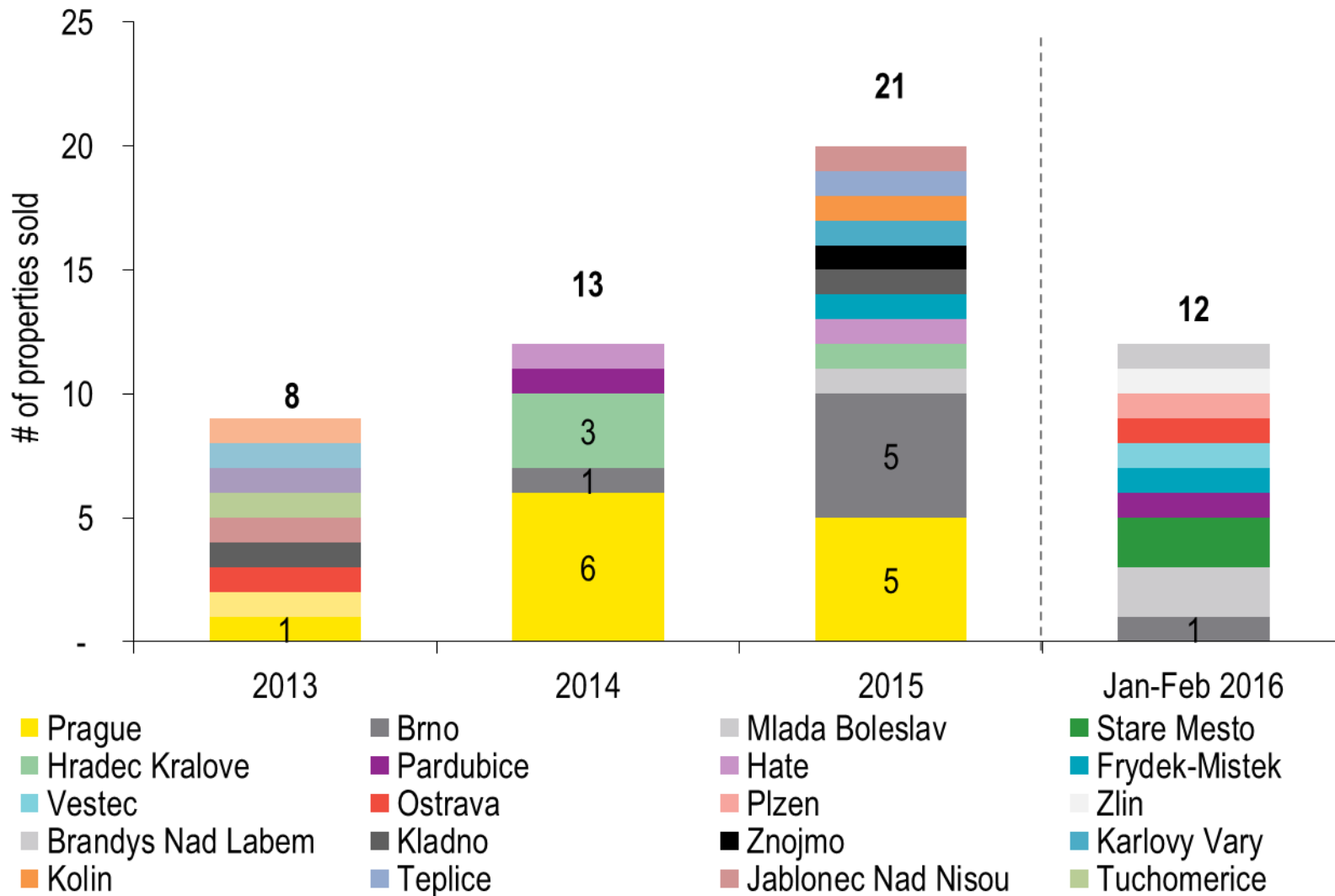
5.75%
Prague office yield in Q4 2015

14.6%
Prague office vacancy in Q4 2015

Source: Real Capital Analytics

Retail market (# of properties sold)

Increase in volume of retail deals in 2015, active 2016



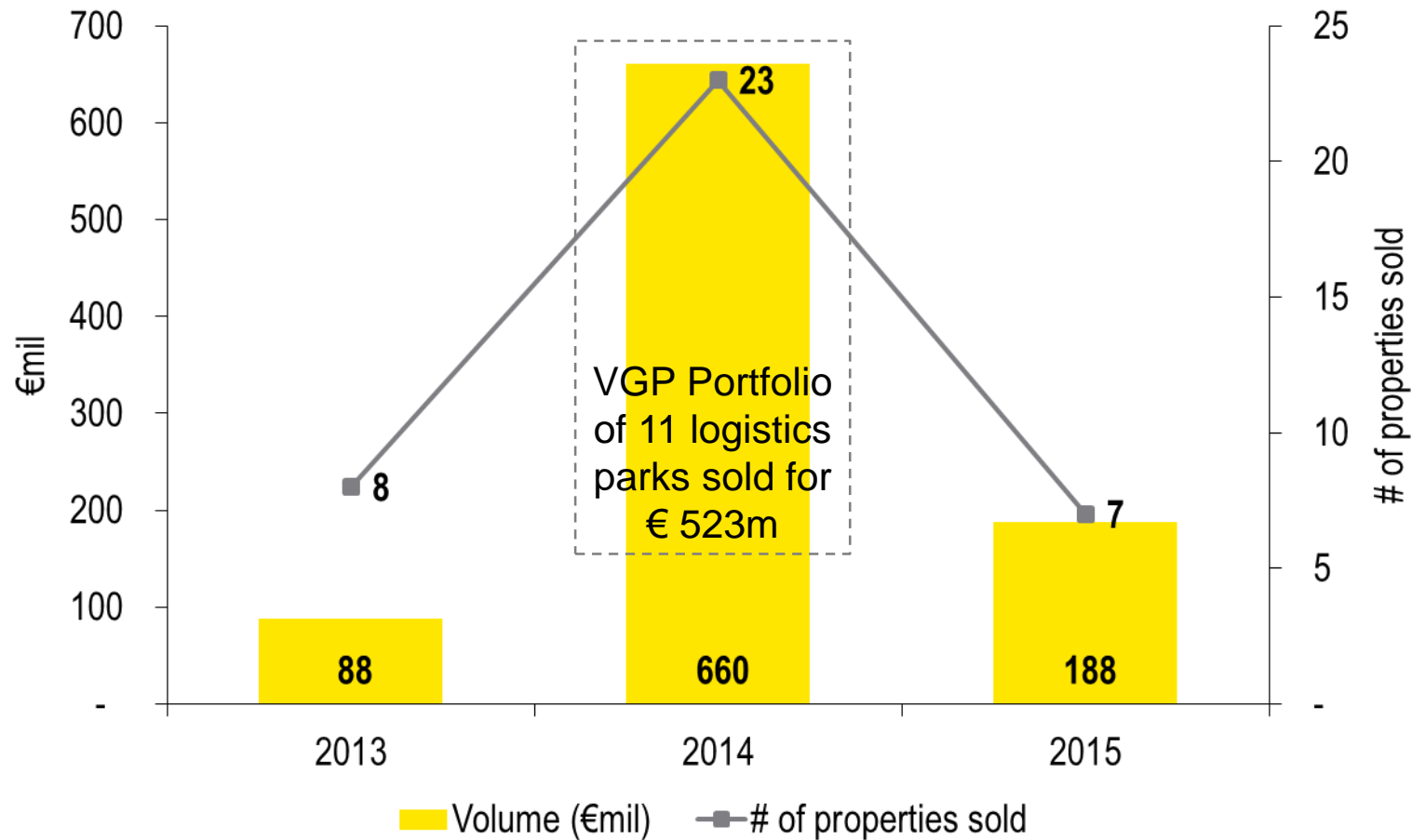
Source: Real Capital Analytics

- Modest yield compression in 2015
- 5.0% Retail yield in Q4 2015
- €896m Total retail transaction volume in 2015

Industrial market (# of properties sold)

2015 led by Panattoni Park Prague Airport sale (€150m)

€188m
Total industrial transaction volume in 2015



Modest yield compression in 2015

6.75%
Industrial yield in Q4 2015

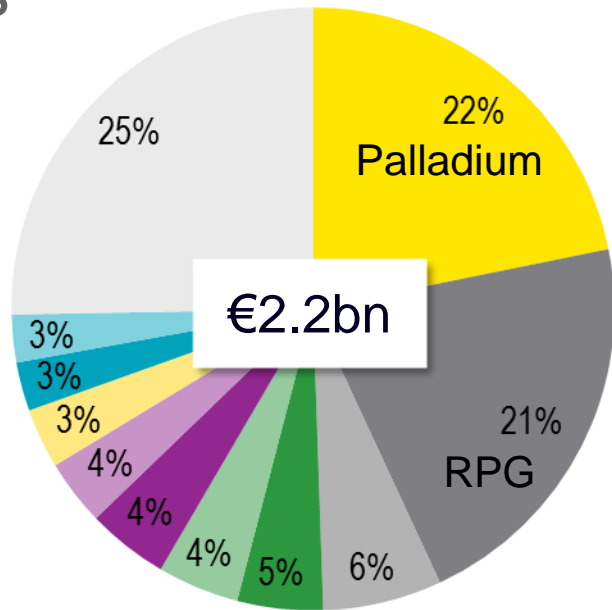
5.1%
Industrial vacancy in Q4 2015

Source: Real Capital Analytics

Major players (€m, past 12 months)

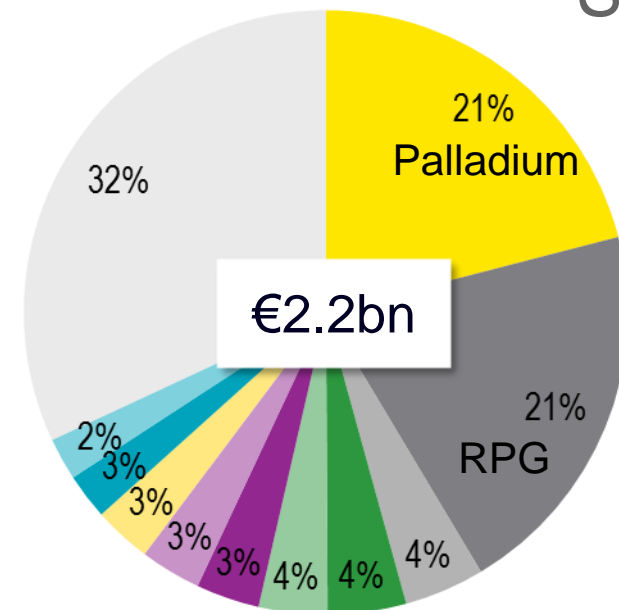
Real estate funds dominated the Czech RE market in 2015

Buyers



- Union Investment
- Redside Funds
- CPI Property Group
- Crestyl
- ZFP Investments
- Others
- Round Hill Capital
- Mint Investments
- Palmer Capital Partners
- Passerinvest
- CEFC

Sellers



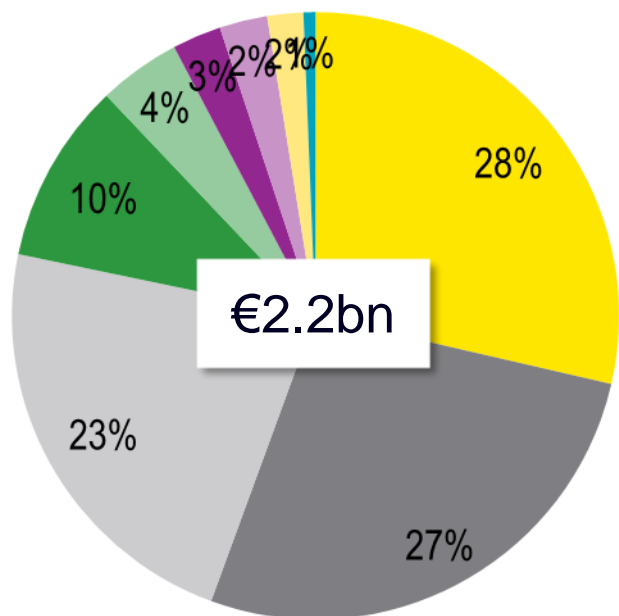
- Hannover Leasing
- Erste Bank
- pbb Deutsche Pfandbriefbank
- Raiffeisen Bank
- Bluehouse Capital
- Others
- BXR Group
- Atrium European RE
- Ballymore Properties Ltd
- CBRE Global Investors
- Skanska AB

Source: Real Capital Analytics

Major players (Countries, past 12 months)

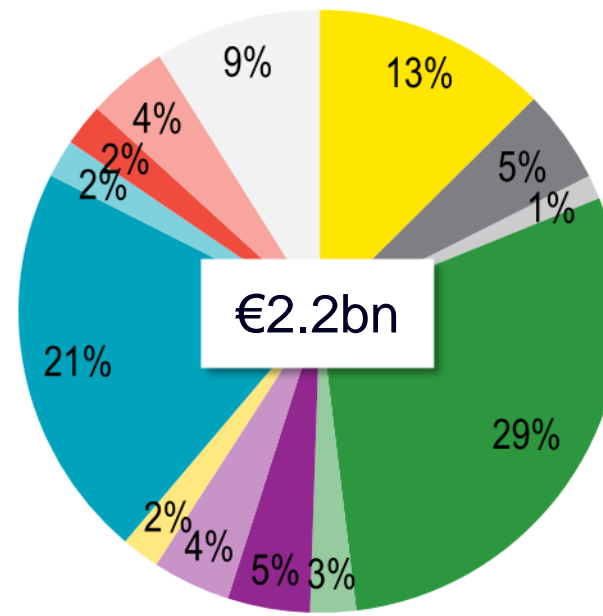
High demand for Czech RE from US, UK and German investors

Buyers



- United Kingdom
- Germany
- Luxembourg
- China
- Finland
- Czech Republic
- United States
- Austria
- Switzerland

Sellers



- Austria
- Denmark
- Greece
- Jersey
- Netherlands
- Sweden
- Czech Republic
- Germany
- Ireland
- Luxembourg
- Poland
- United Kingdom

Source: Real Capital Analytics

Major deals in 2015

Residential, Retail and Office provided the largest transactions

1

RPG Portfolio

€700m
Residential
Round Hill / BXR

2

Palladium

€570m
Retail and offices
Union / Hannover

3

Arkady Pankrac

€217m
Retail
Atrium / Unibail-
Rodamco

4

Panattoni Park Prague Airport

€150m
Industrial
AEW / Panattoni



3. Real estate market in CEE



Overview of the RE market in CEE

Czech RE market outperformed many of its peers



Historic record level of investments in CEE region; 19% increase compared to 2014



Poland

€4.1 bn



Czech Republic

€2.2 bn



Baltic states
€0.9 bn



Hungary
€0.7 bn



Croatia
€0.1 bn



Romania
€0.6 bn



Serbia
€0.1 bn

Main market players:

Lonestar, BlackRock, ECE, Blackstone, Hines, HB Reavis, DekaBank, WP Carey, RREEF, Union Investment, Griffin Real Estate, TPG Capital, Deka, CBRE Global Investors, Immofinanz, Reino Partners, Echo, GLL, PZU, ORLEN, Atterbury, Emaar, Wing, Futureal, Erste, Diofa, TPG, Morgan Stanley

Highest historic level of investments in CEE RE market

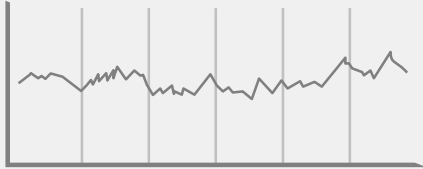
Best performers were Poland and Czech Republic



4. Acquisition financing and real estate returns

Acquisition financing

High appetite from local and international banks



Interest rates:

EURIBOR + less than 2% p.a. for top-quality assets

EURIBOR + 2+% p.a. for average-quality assets

Leverage (LTV):

up to **70%**

Duration:

Typically **5** years with a significant balloon, standard amortization profile **15-20** years, longer exceptions only for prime assets in best locations

Other key terms:

Full security package, including first rank mortgage, pledge of rental income, pledge of shares of the company that owns the asset, plus the owner must be an SPV.



Banks lending to RE:

KB, CSOB, CS, UniCredit Bank, Raiffeisenbank

& Real estate focused German banks (i.e. Helaba, Deutsche PfandbriefBank)



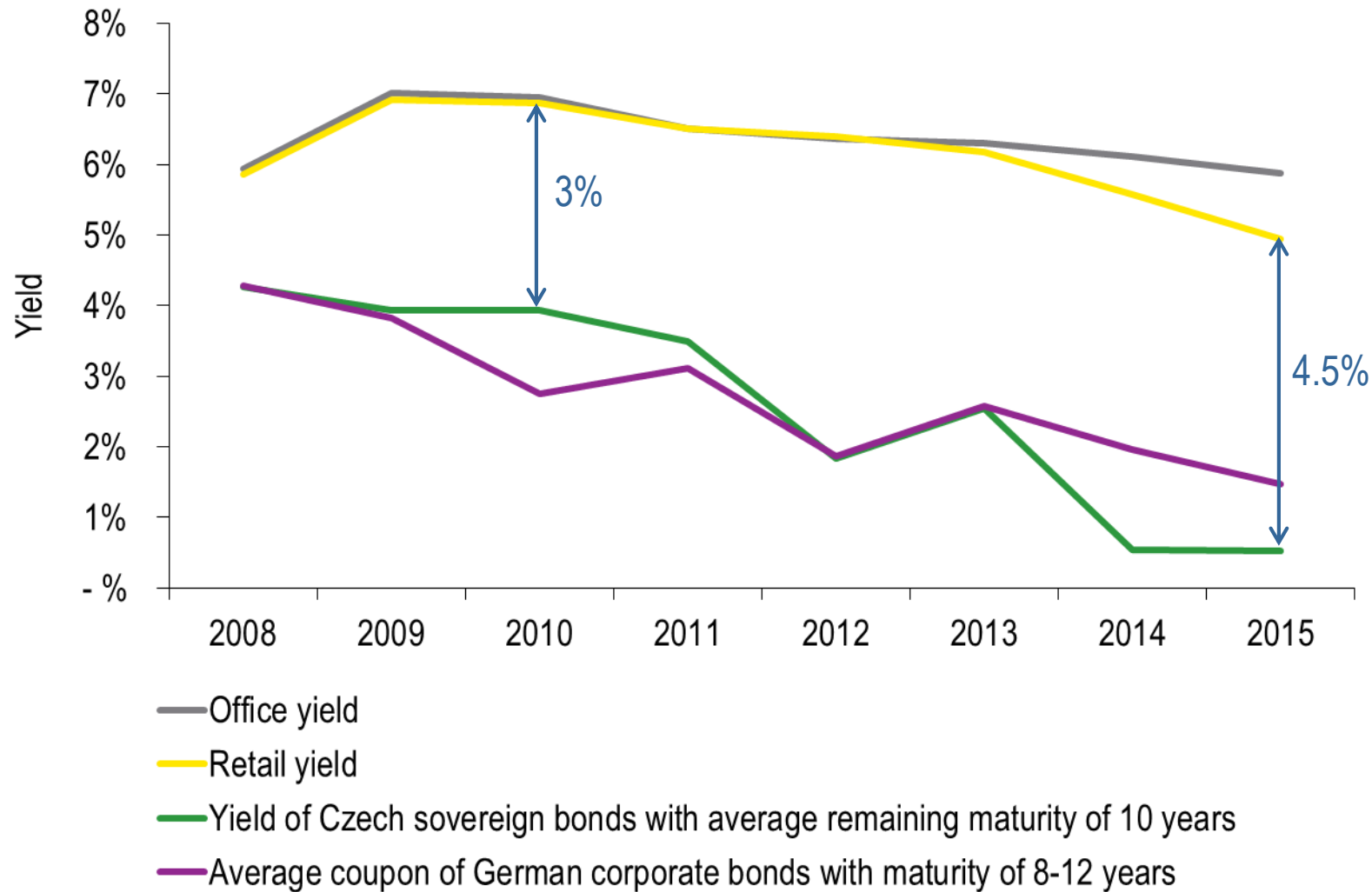
Valuation issue:

Declining yield threatening a pricing bubble (not expected in 2016, but a concern in the mid term)



Comparison of yields

RE as an asset class continuing to deliver stable returns



In 2010, real estate investments yielded approx. 3p.p. more than Czech sovereign bonds.

In 2015, real estate investments yielded 4.5p.p. more than Czech sovereign bonds.

Thus, in periods of declining yields of bonds, real estate investment deliver relatively stable returns.

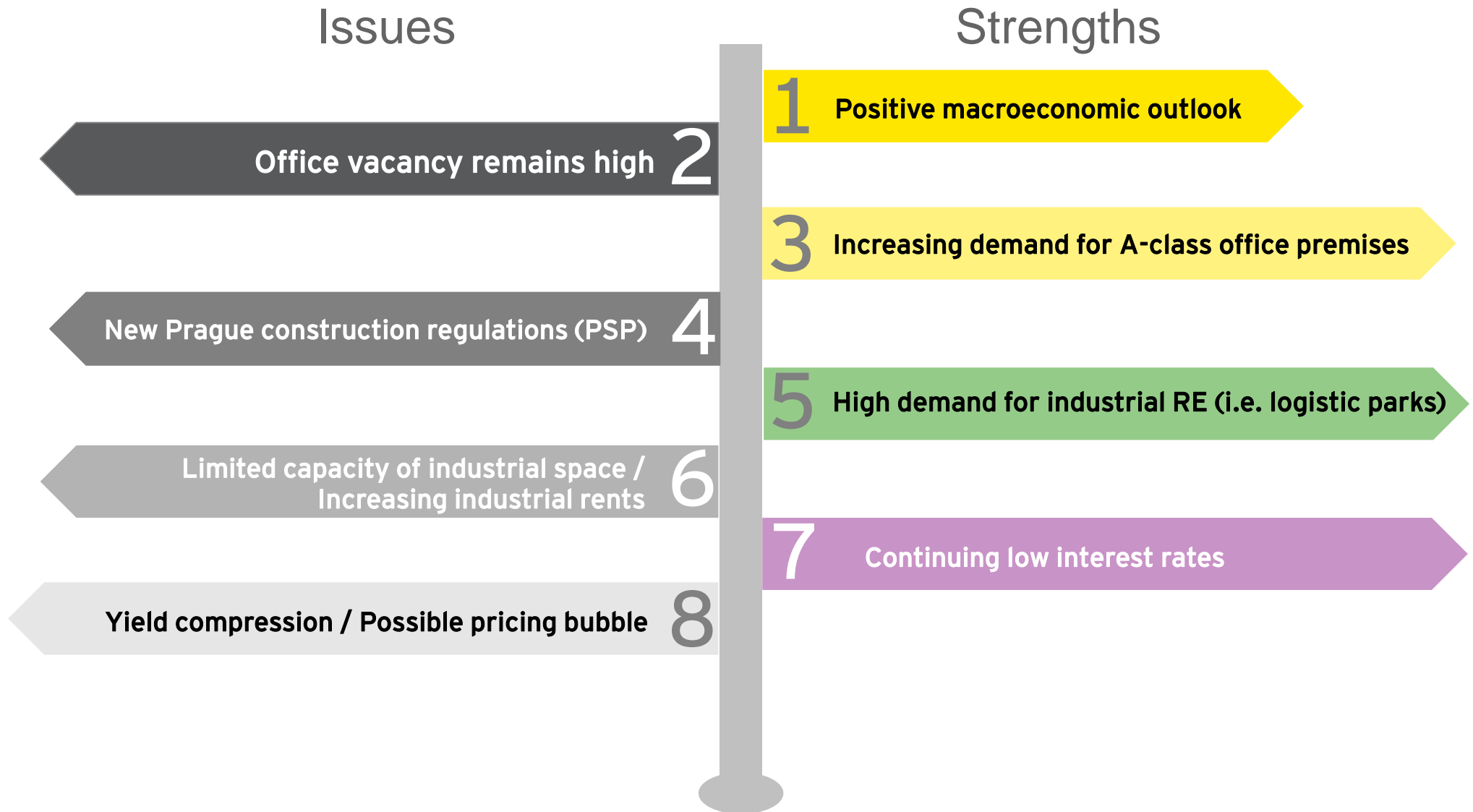


5. 2016 Outlook / trends



2016 outlook / trends

Overall positive expectations for the RE market in 2016 and beyond



Expected new stock

High demand supporting the development of new RE supply

Office

- ▶ Office projects under construction (in Prague): Butterfly (18.9ths sq.m.), Rustonka (22.6ths sq.m.), South Point (7.5ths sq.m.), Dock O2 (8.5ths sq.m.)
- ▶ Office completion in 2016 expected to reduce to around 30-35ths sq.m. in Prague (from cca. 190ths sq.m. in 2015); expected recovery in construction in 2017
- ▶ Expected office completion in 2016 in Brno: Building O (15.2ths sq.m.), Campus Science Park C (12.8ths sq.m.), T Dorn (7.1ths sqm)

Retail

- ▶ Shopping centers expected to be completed in 2016/2017: Centrum Chodov II (40.7ths sq.m., Prague), Aupark (20.9ths sq.m., Hradec Kralove), Galerie Prerov (13.5ths sq.m., Prerov), Central Jablonec (13.0ths sq.m., Jablonec nad Nisou)

Industrial

- ▶ Completed Industrial constructions hit a record high value of 153ths sq.m. in 2015
- ▶ Industrial undergoing constructions currently at cca. 300ths sq.m.



6. Deal experience



EY's recent RE deal experience

We have been involved in many large real estate transactions

This announcement appears as a matter of record only.



Lone Star Funds

Acquired Aviva real estate portfolio for EUR 185m

EY provided transaction advisory services in connection with this transaction.



This announcement appears as a matter of record only.



PEC Holdings (CBRE)

Acquired a shopping mall Campus Square for EUR 50m

EY provided transaction support services in connection with this acquisition.



This announcement appears as a matter of record only.



Meyer Bergman European Retail Partners II GP Limited

Acquired Futurum shopping mall for EUR 88m

EY provided transaction support services in connection with this transaction.



This announcement appears as a matter of record only.



Peaksid Capital

Acquired Atrium real estate portfolio for EUR 70m

EY provided transaction advisory services in connection with this transaction.



This announcement appears as a matter of record only.



CTP Invest

Acquired two major hotels in Prague and Pilsen for an undisclosed sum

EY provided transaction advisory services in connection with this transaction.



This announcement appears as a matter of record only.



EPG Global Property Invest

Acquired Varyada Shopping Center for an undisclosed sum

EY provided transaction advisory services in connection with this transaction.



This announcement appears as a matter of record only.



Tristan Capital Partners

Acquired Prague City Centre (office building) for EUR 51m

EY provided transaction advisory services in connection with this transaction.



This announcement appears as a matter of record only.



Invesco Real Estate

Sold Slovansky Dum (shopping mall)

EY provided transaction advisory services in connection with this transaction.



This announcement appears as a matter of record only.

Private shareholder

Divested Hadovka Business Centre for EUR 43m

EY provided transaction advisory services in connection with this transaction.




This announcement appears as a matter of record only.

IN GROUP, s.r.o.

Acquired Saint Gobain building distribution networks in CZ and HU (including RE portfolio) for an undisclosed sum

EY provided transaction advisory services in connection with this transaction.



Thank you for your attention – any questions ?

