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VÝVOJOVÉ TRENDY REALITNÉHO TRHU VEŠEHRADSKEJ ŠTVORKY A POHĽAD DO ROKU 2013

EMERGING REAL ESTATE MARKET TRENDS IN VISEGRAD A GLIMPSE AT 2013

Abstract

This paper examines the commercial office, retail and industrial sectors throughout the Visegrad countries i.e. Slovakia, Czech Republic, Poland and Hungary in the context of a market stymied by regional weakness. With a focus on the principal cities of Bratislava, Prague, Warsaw and Budapest, the paper covers the rental market performance in terms of rates and yields over the past year 2012 with focus on 2013 and also examines how best to maximize returns in the commercial real estate market, while minimizing investment risk and exploring the impact of regional dynamics on a market that looks set to comparatively outperform its regional peers. Key factors that will dictate the performance of the sector in 2013, and full-year 2012 data, are the economic situation both regionally and domestically, political stability and the fate of the construction sector in all the four countries.

1 INTRODUCTION

Confidence within the real estate industry in the Visegrad region is at its highest since 2009. This has come about despite little change in the economic climate or any sign that debt markets are returning to health. Expectations over business confidence and profitability have improved but this does not mean the industry expects the economic climate to be better in by the end of 2013. Investors though have accepted “the new normal”.

Businesses in big cities like Bratislava, Warsaw, Budapest and Prague are now focusing on managing risks and designing strategies around positive trends such as demographics, technology and urbanization. Real estate investors in the Visegrad region have taken comfort from the fact that they have survived the crisis which took place in the past few years and are now turning their attention to the best way of how to excel in their future investments. There are more reasons to be cheerful for those with access to capital and debt in these four countries.

1.1 *Key real estate market Opportunities For Visegrad in 2013*

As the “new normal” dawns in the Visegrad region, what are the key opportunities in 2013, and how are real estate businesses making the most of them?
Asset management says micro stock selection is key to returns but in almost all the Visegrad four capital cities prime assets are increasingly hard to access for most, so investors are being forced to consider taking on more risk. A simple outlook at all the four countries is revealing that for deals, businesses are considering secondary cities like Kosice in Slovakia, Krakow in

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Poland, Debrecen in Hungary, Brno in Czech republic and sometimes value added locations in the prime cities or buying good assets with one of two impairments.
This trend will be playing in the hands of those with specialist management skills in this year and beyond. But to ensure that they back the right assets, most investors are using ever-more detailed assessments of particular locations.
Emerging Trends finds businesses seeking assets in secondary locations with a local firm onside within a nation. Or they are hunting out cities – or parts of cities - where the demographics look promising within the Visegrad. For instance you will find out that a property in a regional city that looks unattractive may be an opportunity because the specific asset and its location are very good.
Lenders are also looking for a more rigorous, detailed analysis of micro-economic factors. Recently most Banks within the Visegrad region like credit documents that have analysis of demographics, employment, social issues and the micro-competition included.

1.1.1 *Distress: bank de-leveraging[2] becomes more accessible*

Distressed deal flow is becoming more accessible for a greater number of investors. Forced sales by lenders are a major issue this year for 70 percent of investors. This trend will play into the hands of those with specialist management skills in 2013 and beyond. Many investors are preparing for opportunities in Czech republic and Poland at the same time are considering increased deal flow for Slovakia as well. So this is creating opportunities for a larger number of investors than before.

Emerging Trends also finds that banks are increasingly seeking sophisticated players keen to take one or two assets, rather than selling large portfolios to maximize their return. Confident asset managers are offering banks better deals because they are not seeking to apply as big a discount as those who are seeking to just flip it on. Meanwhile, property assets with sufficient value to repay debt are being vulnerable to enforcement action. However, underwater loans with sufficient rental income to service interest have a realistic chance of securing extensions if there is a credible management team in place.

1.1.2 *Bank debt: Visegrad expects even less debt for refinancing and new investment*

Over half of the investors in the Visegrad region had a feeling that there will be less debt for refinancing and new investment in 2013. Banks' reduction to real estate appears structural rather than cyclical - unlike in previous downturns. It is being seen that where new debt is being offered, banks are seeking companies in need of a range of financial services, rather than one or two loans. Borrowers meaning investors must offer banks "a profitable franchise" and be in a position to undertake bond issues or private placements. This is being seen in most of the region cities. Meanwhile, there is little hope that new lenders – insurance companies, mezzanine funds and debt funds – will be significant enough or ambitious enough – to help plug the debt shortfall.

1.1.3 *Sustainability: Visegrad 'building today for tomorrow'*

[2] The best way for a company to deliver is to immediately pay off any existing debt on its balance sheet. If it is unable to do this, the company will be in significant risk of defaulting. (Investopedia)

The real estate industry in the region is taking technology, media and telecommunications companies seriously since this sector overtakes banking and finance as Europe's most active occupier. Most of the real estate investors in the Visegrad region are assessing their business and trying to find means and ways of how to best cater for the new cyber elite. These occupiers are seeking; holistic environments not glass boxes, creative spaces that allow for spontaneous interaction, and buildings surrounded by an interesting public realm. As such in cities like Bratislava, Prague, Budapest including Warsaw investors and lenders are using sustainability as a tool to assess an assets' potential. Both report sustainability as an increasing feature of due diligence. Governments in the Visegrad region are expected to force developers to be making buildings greener over the long-term through regulation and taxes. At the same time occupiers are demanding more too, and they don't just want to reduce carbon footprint through building design. Investors believe businesses - particularly in Prague – are seeking offices that enable them reduce carbon footprints and offer greener environments. This could include incorporating bike parks that allow workers to cycle to the office, or landscaped green spaces.

1.1.4 *Real estate Retail market: Innovation to success*

Retail in the Visegrad region is now clearly divided between winners and losers. Prime shopping centres and luxury retail destinations continue to thrive within the prime cities. At the same time local shopping parades and convenience stores are also well placed. Surviving retail occupiers are seeking to change the way they do business, as seen in all the four countries that online shopping is having an increasingly great impact on them. Property owners are being internet savvy, ensuring their assets offer retailers the best opportunities to maximize a multi-channel strategy. Working with brands that have long-term internet strategies in place is also fundamental to success. Visegrad's attraction to tourists from the BRIC countries is also reinforcing the pre-eminence of major shopping destinations such as Budapest and Prague. Investors with these new consumers in mind are seeking to create destinations for long haul visitors, which combine retail and leisure.

2. OVERALL OUTLOOK OF REAL ESTATE IN VISEGRAD

2.1 SLOVAKIA, Bratislava

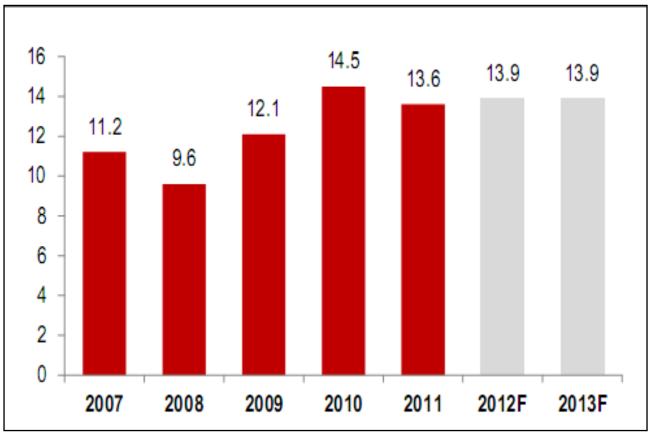
Slovak Economy

Slovakia recorded one of the fastest year-on-year (y/y) growth rates in the Eurozone during the first three quarters of 2012, driven by booming sales from the car industry. Volkswagen launched Up! city car in Slovakia during the year, and the Kia plant is also thriving. If demand in key export markets, such as Germany, remains positive, Slovakia will avoid the downturn seen in many others European countries.

Growth in industrial production and new industrial orders in Slovakia was uneven in late 2011, but data has been considerably better than expected in the first 10 months of 2012. Volkswagen is urrently investing heavily in its Slovak plant, and production was boosted in 2012 by the much-anticipated Up! city car, as well as increased output of sport utility vehicles (SUVs). Slovakia's Kia plant also expanded production in 2012, helping to bring combined automotive output - also including the PSA Peugeot-Citroën plant - to approximately 750,000 units. There are some risks related to the country's overreliance on the automotive sector, but a concentration on smaller vehicle production should help ensure continued growth in output and exports. Even so, the automotive sector alone will not be enough to sustain growth in 2013; other sectors such as electronics and metals will be key to ensuring continued improvements in production and the labour market. In the longer term, Slovakia will require reforms of education and more funds for research and innovation to enable Slovakia to shift its focus gradually toward high-tech fields, as wages begin to approach Western European levels.

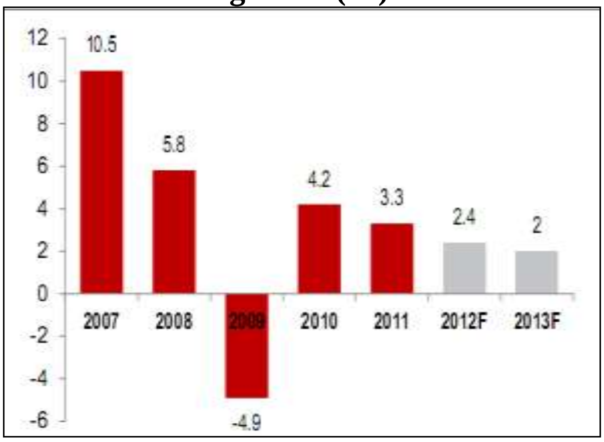
Fig 1.

Unemployment rate (%)



Source: HIS Global Insight January 2012

GDP growth (%)



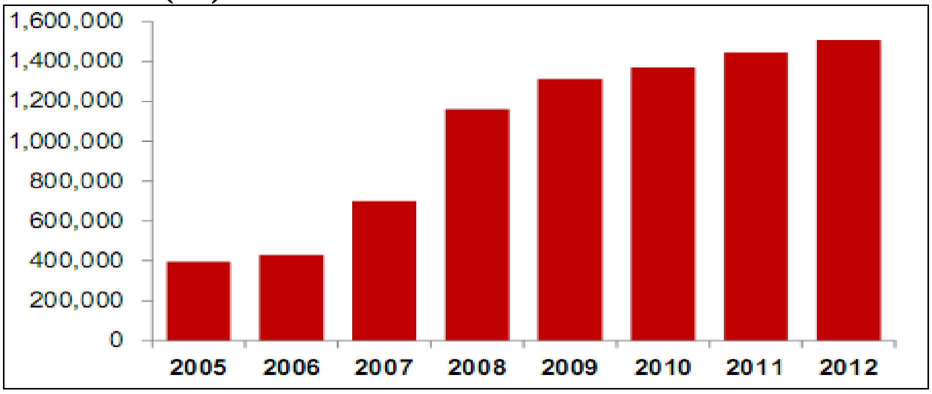
Source: HIS Global Insight January 2013

Bratislava, Office Market

Supply

As at the end of 2012, the total office stock in Bratislava stood at 1,508 million m^2. Of the existing stock, 60 % are A class properties, the remaining 40% are B class.

There were no new projects added to the market during this quarter, which is a significant decrease in the amount of new supply in comparison with the two previous quarters, when 4 schemes were delivered to the market, totalling 57,400 m^2.
The largest volume of A class premises is located in the second Bratislava district with 323,736 m^2, followed by the first Bratislava district with 319,239 m^2. The smallest volume of new premises remains available in the fourth Bratislava's district with 23,100 m^2.
Fig.2
Total stock (m^2)



Source: Jones lang La Salle 2012

The overall vacancy rate for Bratislava has increased from 12% in the previous quarter to 12.5% at the end of 2012. The lowest vacancy rates recorded in the fourth quarter of 2012 were in Bratislava 1 (10.6%), followed by Bratislava 3 (12.7%) and Bratislava 2 and 5 (13.4%).

Demand

The total volume of leasing transactions concluded during Q4 reached 25,108 m^2, which is a decrease of about 22% in comparison to Q4 2011. Compared to the previous quarter, this is a decrease of about 18.7%.
During the first two quarters of 2012, renegotiations decreased but, there was a major increase during the third quarter (45%) and another decrease in Q4 when renegotiations fell to 17%. New contracts accounted for more than 82% of the total take-up.

Rents

Rental conditions in the inner and outer city zone will be stable over the long term. The highest asking rents in prime office buildings in Bratislava's best locations decreased slightly.
Prime rents are currently at around €13.50 – €15 m^2/month. Rents in the Inner City zone range between €10.5 and €12.5 m^2/month. Rental levels in the Outer City district have stabilized between approximately €8 and €10 m^2/month.
Rent free periods, which are the most common form of incentives, are applicable for contracts which are longer than 3 years. For new 5 year lease contracts, rent free periods can range between 3 to 5 months. An additional 1 month of rent free is typical for each additional year of lease contract.

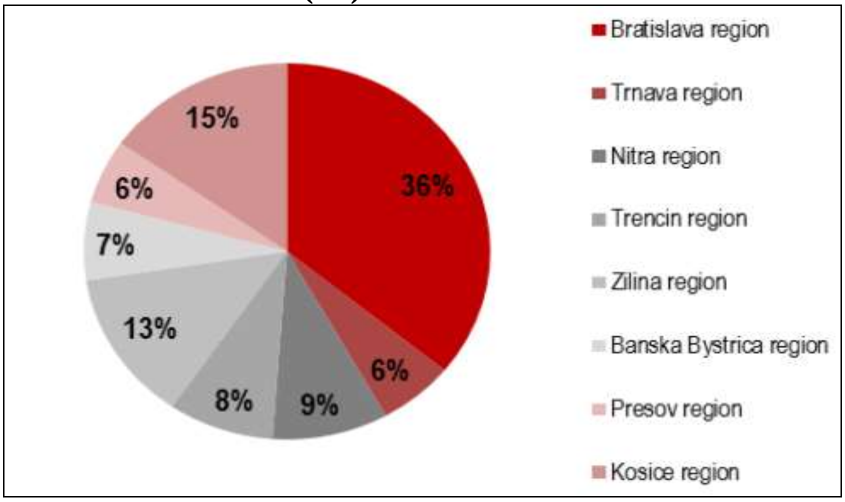
Industrial Market

Supply

The total industrial stock in Slovakia amounts to 1,160,832 m^2. There were no new developments delivered to the market during the end of 2012 though there are still some projects under construction in the Bratislava region. The vacancy rate in end 2012 decreased slightly to 7.21% in comparison with 7.82% in mid 2012 as no new premises were added. Almost all new supply in 2012 was built speculatively.

Fig 3.

Retail Stock Slovakia (m^2)



Source: Jones lang La Salle 2012

Demand

In the end of 2012, it was recorded that a total take-up volume of 104,000 m^2 (net take-up volume totaled 17,000 m^2) compared to 16,300 m^2 in the mid of 2012. The largest share of new contracts was transacted in Slovakia's regions. The largest transactions in Q4 included: Tesco's renewal in Prologis´s park in Galanta (86,000 m^2) and a new lease in the automotive sector of 4,200 m^2 in Log Center Nove Mesto. The largest deal in the Bratislava region included the new lease of 4,800 m^2 in Prologis Park Bratislava in Senec. Several short-term contracts were signed during this period that we did not monitor in detail as they had no major influence on the selected data.

2.2 POLAND, Warsaw

Poland Economy

Poland remains one of the few countries to report a positive (2%) GDP growth in 2012. According to Consensus Forecast, it will be followed by a slowdown to 1.5% in 2013. Retail sales increased in 2012 by 5.6%, compared to the 11.6% growth recorded over 2011. The unemployment rate as of December stood at 13.4%, which is visibly higher than the 12.5% recorded at the end of 2011.

Warsaw, Office Market

Demand

The churn on Warsaw's market was shown by the high level of occupier gross take-up in 2012: some 608,000 m2. This result is 6% higher than the previous, record-breaking, demand volume from 2011. Take-up volume in 2013 is expected to be comparable to 2012.

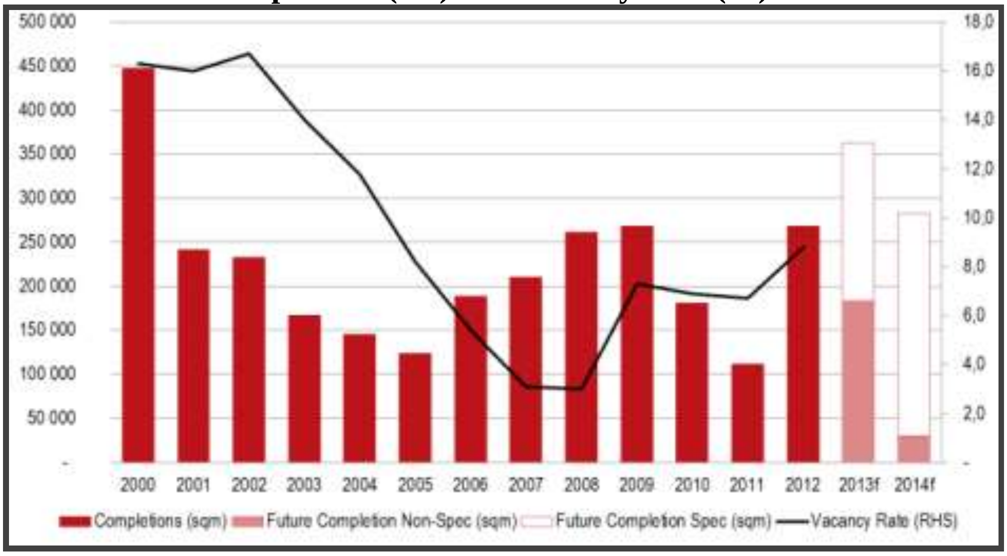
Supply

The volume of new completions doubled in comparison to the previous year: 2012 saw 268,000 m2 of new completions, compared to 120,000 m2 in 2011. The fastest growing districts in 2012 included the City Centre Fringe, the South-East (especially Wilanów) and the

Upper South district (Mokotów). The way how 2013 has started, there is an expectation figure of 320,000 m2, which will be the highest volume since 2000. However, approximately 50% of the pipeline supply for 2013 was already pre-leased. Due to the large pipeline volume, Warsaw will cross the threshold of 4 million m2 of modern office supply by end of 2013. Developers' activity remains high, with nearly 550,000 m2 in construction stages.

Fig. 4

Office Market Completions (m2) and Vacancy Rate (%)



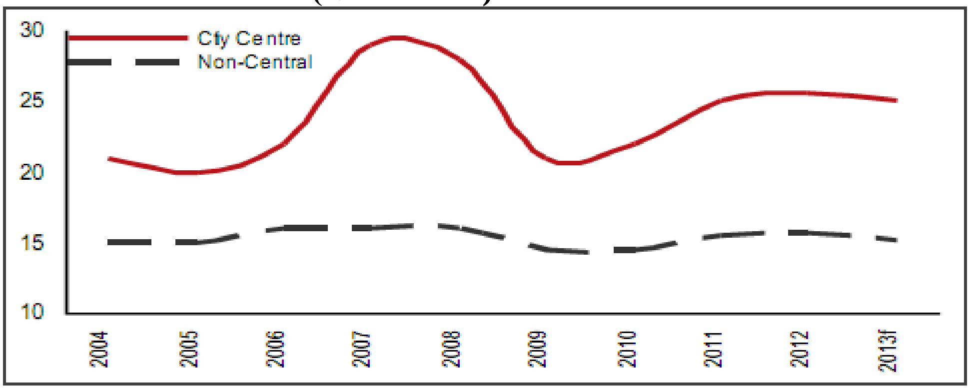
Source: Jones Lang Lasalle 2012

Rents

Prime office space in Warsaw City Centre fetched between €22 and €25/m2/month throughout 2012. The best Non-Central locations, such as prime buildings in Mokotów, are being leased at €15/m2/month. We are of the view that the office market in 2013 will be highly competitive due to the large volume of pipeline supply, which may deteriorate leasing condition.

Fig. 5

Prime Headline Rents (€/m^2/month)



Source: Jones Lang LaSalle 2012

Warsaw, Retail market

Supply

In 2012, two new shopping centres enhanced the retail offer of the Warsaw Agglomeration: Auchan Łomianki (22,200 m2) and Galeria Brwinów (6,100 m2). At the end of the year, the

shopping centre stock totalled 1,064,000 m2 in 34 operating projects. Having included the additional 486,000 m2 located in retail parks, stand-alone units and outlet centres across the agglomeration, we estimate that the entire modern retail floor plate of the capital and its metro area stands at ca. 1,550,000 m2 – approximately 14% of the national stock.
Currently, construction activity is observed in five projects, all of which are scheduled for completion in 2013: Factory Annopol outlet centre (19,700 m2), Galeria Miejska Plac Unii (15,500 m2), Galeria Podkowa in Podkowa Leśna (8,000 m2) and the extensions of Auchan in Łomianki (8,500 m2) and Galeria Mokotów (5,000 m2). The latter, apart from its extention, is also remodelling its upper floor in order to accommodate additional food court operators. Klif, Atrium Promenada and Warszawa Wileńska are all due to leverage their strengths by refurbishing their centres. A few additional projects, some of which have remained dormant for few years, have recently been re-announced: Ferio Wawer, Centrum Praskie Koneser and Hala Koszyki. Among the major Polish agglomerations, Warsaw still features one of the lowest saturation levels, which, when juxtaposed with high purchasing power values displayed by its residents, suggests room for new retail projects. The gaps include rapidly growing residential clusters, such as Wilanów and Białołęka, as well as other undersupplied districts and satellite towns.

Picture. 1

Galeria Miejska Plac Unii (under construction)

Source: retailnet.pl, Fot. Liebrech & wooD

Demand

The shopping centres of Warsaw continue to attract both international and domestic retail chains, who often consider the capital as a bridgehead for further expansion in the Polish market. The newcomers who established operations during 2012, include: American Eagle Outfitters, COS, Victoria's Secret, Bath & Body Works, Michael Kors, Camper, Simone Perele, Melissa and Tretorn. In 2013, we expect new foreign chains (i.e. Holister, Gerard Darel) as well as new domestic brands expanding on the market (i.e. Sinsay, Mon Amie). High demand for retail units in Warsaw is reflected by the low vacancy rate observed in shopping centres, which stood at approximately 2% at the outset of 2013. However, vacated units in prime assets are being immediately replaced and retailers interested in these locations must often prepare for subscription to waiting lists.

Rents

After the first quarter of 2012, the prime rent, which refers to a 100 m2 unit located in a leading shopping centre, plateaued at the level ranging between €80-95/m2/month. The same rental level is observed in prime high street locations.

Warsaw, Industrial Market

Demand

447,000 m2 of distribution facilities were leased in Warsaw and its suburbs in 2012 (33% of total take-up in Poland), down 28% on 2011. Net take-up (excluding renewals) amounted to 264,000 m2. The major share of demand was focused in the suburbs of Warsaw with almost

229,000 m2 of space leased, whereas in Warsaw's inner city, occupiers signed deals for 34,000 m2 (net take-up).
The major part of net take-up in 2012 was created by logistics providers. Companies from that sector let 131,000 m2 and were among the biggest contracts signed in the region: Rohlig Suus (25,000 m2 at Prologis Park Janki), Tradis (18,000 m2 at Prologis Park Błonie II), Id Logistics (15,000 m2 at PointPark Mszczonów) and No Limit (14,000 m2 at Pruszkowskie Centrum Dystrybucyjne).
Other than logistics companies, warehouses in Warsaw area were primarily leased by the FMCG sector.

Supply
The total existing warehouse stock in the Warsaw area amounts to over 2.5 million m2. Consequently, this is the leading region in terms of stock (35% of warehouse space in Poland), of which the majority of warehouse parks are located in the Warsaw suburbs (1.98 million m2). Parks built within the Polish capital city amount to 542,000 m2.

Rents
Warsaw and its suburbs create a diverse market in terms of rents. Warsaw's city market is dominated by small business units (facilities combining warehouse and office space) where effective rents range from €3.60 to 5.30/m2/month. Significantly lower rents are recorded for parks in suburban areas with typical big-box warehouses at between €2.20 and 2.80/m2/month.

Warsaw, Residential Market

Supply
In end 2012, the number of units launched to the market by developers increased significantly to a level of nearly 3,600 units. At the end of December the number of units on offer did not change significantly and remained at 20,600. With the current number of transactions, this means that an equivalent of less than seven-quarters of sales is still available on the market. In December 2012, the market offered 5,100 ready units (in completed projects), i.e. some 350 units more than a quarter ago. These constituted 25% of units present in the current offer.

Demand
In end 2012, some 3,500 units were sold in Warsaw. By comparison, the figure in Q3 2012 reached 2,400 units. As a result, the final quarter of 2012 was a very good period in terms of transactions and the whole year 2012 was a decent year for most companies. In fact, end 2012 recorded the highest sales since the 2007 boom period. Undoubtedly, the results were stimulated by the ending of the "Family Own Home" program, but also positively affected by the size and diversity of the offer as well as the price flexibility of sellers. Among units delivered in 2012, 79% has already been sold (10% more than in the previous quarter), and 20% has remained in the market. Among completions planned for 2013, sold units constitute 47%, while 52% remain in the market offering.

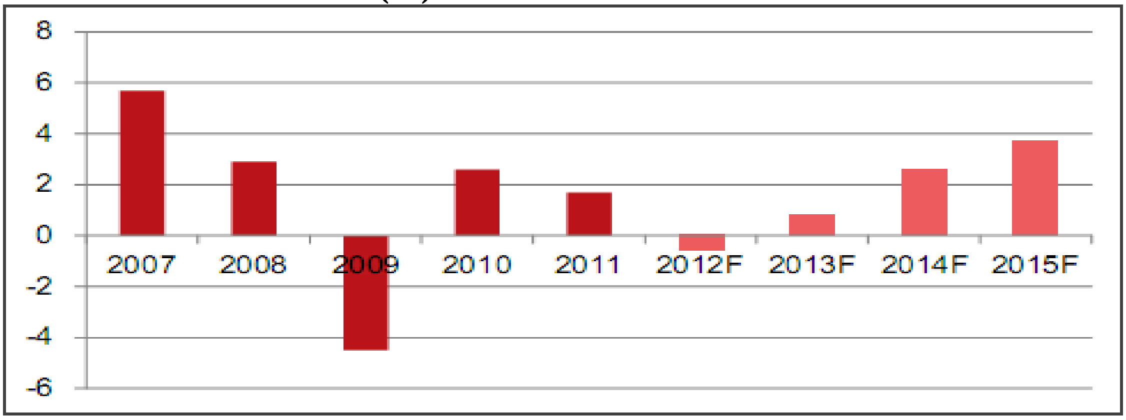
2.3 CZECH REPUBLIC, Prague

Economy
The Czech Republic is beginning to see more robust and broader-based growth since the start of 2013, but the ongoing Eurozone crisis means that a stronger recovery is unlikely before 2014.

According to Eurostat figures published in June 2012, Czech GDP per- capita reached 80% of the EU average in 2011 by purchasing-power standards. Despite that relatively poor result, the country fares well in comparison with the 9 other states that joined the EU in 2004 (ranking behind only Cyprus, Slovenia, and Malta). Moreover, the Czech Republic ranks ahead of one of the older member countries (Portugal).

Fig. 6

GDP Growth and Forecast (%)



Source: HIS Global Insight, 2012

The Czech Republic is further behind in terms of labor productivity, reaching just 74% of the EU average in 2011.

At its session on 27 September 2012, the Czech National Bank's (CNB) monetary policy council opted to cut the basic interest rate to a new historical low of 0.25%. A deteriorating domestic and external environment, according to HIS global insight, spurred that move, which follows a cut of 25 basic points at the June session.

Prague, Office Market

Supply

In mid 2012, only one new office building was completed. Diamant, with an area of 3,510 m2, is located in the historical centre of Prague 1, on Wenceslas Square. At the end of the of 2012 a total of ca. 190,000 m2 was under construction. Out of this number, approximately 20,000 m2 was scheduled for completion by the start of 2013. Altogether, almost 100,000 m2 of modern office space is expected to completed in Prague by mid 2013. There is expectation of a further ca. 100,000 m2 to be delivered to the market in 2013. The majority of new office space by mid 2013 will be delivered to Prague 1 (49% of the estimated supply; strongly influenced by the Florentinum project), Prague 8 (30% of total supply in 4 projects) and Prague 4 (9% of total supply in 2 projects).

Demand

In Q3 2012, gross take-up reached to 44,422 m2 which is a decline in comparison to previous quarters. In Q3, approximately 35.8% of all transactions were renegotiations of contracts. In comparison with last year's annual rate of 30.3%, this is an increase, although, compared with the previous quarter, with 39.3%, this is a significant decrease. Net take-up in Q3 2012 amounted to 28,523 m2. This is a lower figure when compared to the previous quarter when 44,240 m2 were leased.

***Supply* -** In mid 2012, the vacancy rate increased by 26bps to 11.78% which represents the exact same level that was recorded at the end of early 2012. The largest office districts –

Prague 4 and Prague 5, together with Prague 10, recorded the lowest levels of vacancy. Prague 4 ended at 7.1%, Prague 5 at 6.3% and Prague 10, even lower at 6.2%.

Rents

The highest rents achieved in prime office buildings in the city centre range between €20 - 21 m2/month. Inner city rents were also stable: Pankrác (Prague 4) at €15 - 16 m2/month and Smíchov (Prague 5) and Karlín (Prague 8) at €16 - 17.5 m2/month. Rents in the Outer City are at €13 - 14.5 m2/month.

Prague, Retail Market

Supply

The total shopping centre stock in Prague remains unchanged at 778,900 m2. A new department store, Diamant, located on Wenceslav Square was the only project completed in Q3. For Q4 2012 the majority of new supply will be in the regions with the exception of a small retail park in Prague 9 – Dolní Počernice which was due for completion at the end of October. In Q3 2012, the construction of several new schemes commenced in the Czech Republic including; Centrum Krakov in Prague 8, which will bring almost 14,000 m2 to the market next year, and Copa Centrum at Národní Prague 1. Currently, there is almost 220,000 m2 of modern retail schemes under construction with planned completion within next two years. Approximately half of this space is being built in Prague. One of the largest schemes to be delivered is the extension of Centrum Černý Most, due to open in Q2 2013.
Activity in Prague’s city centre remains strong with the former Sphinx unit in the Czech National Bank property on Na Prikope having been leased to Volksbank. Some movements have been observed in Myslbek with Marionaud having been replaced with a unique and select French concept “Yellow Corner”, a store specialised in selling unique pictures from famous photographers. Shopping centres in Prague are not only upgrading their tenant mix but some of them are refurbishing their space such as Atrium Flora who are in the process of improving the vertical circulation in the centre. (Jones lang lasalle)

Demand

Since late 2012 and the beginning of 2013, a regained interest from retailers for the Czech market with a particular focus on Prague and the best performing shopping centers in the capital. A majority of the new comers have entered the Czech market via franchise such as Aldo, Parfois, Carpisa, Butlers, Karen Millen, TM Lewin just to mention a few. In addition, to the Prague high street, the top shopping centres continue to upgrade and refresh their respective tenant mixes to keep up with the demand of their customers. Celio, Aldo, Bobbi Brown, Rogz have recently opened in Novy Smichov. Gaz, Butlers, Parfois are due to open soon in Atrium Flora, whilst TM Lewin, Via Uno and The North Face have just opened in Centrum Chodov.

Rents

Prime shopping centre rents in Prague remain at a level of €95 m2/per month (for a 100 m2 unit). Other well performing shopping centres have rents ranging between €70 and 80. Weaker performing schemes may achieve rents 30 to 50% lower to maintain and attract tenants. Prime High street rents in Prague are stable at a level of €180 m2/month. However, demand levels combined with an undersupply of suitable space are in favour of a rental increase.

Prague, Industrial market

Supply

In mid 2012, a total of 38,737 m2 was delivered in five industrial parks in the Czech Republic. Approximately 84% of all new space was completed on a pre-let basis. For the first three quarters of 2012, ca. 154,000 m2 were completed, which is some 5% below the completions level for the same period last year. For the entire 2012, completions approximately reached 200,000 m2.

In terms of regional distribution, the largest amount of supply delivered in mid 2012 was to the Central Bohemian region with Goodman completing the first phase of Mladá Boleslav Plazy.

There is currently almost 174,000 m2 of industrial space under construction, out of which, about 66% (116,000 m2) are being built for a specific tenant. The high level of construction activity continues in the Brno region where, in addition to CTP Invest, VGP has started construction on a new logistics park, VGP Park Brno. Construction activity has also significantly increased in Mladá Boleslav in the Central Bohemian region where approximately 43,000 m2 is under construction till now.

Demand

For the year 2012, gross take-up reached over 232,200 m2, which represents an increase of 23% q-o-q and 55% y-o-y. Net take-up (excluding renegotiations) amounted to ca. 166,500 m2 (71% of total take-up). It is an approximately 30% better result than in it was in the beginning of 2012 and 149% higher than end 2011.

The highest leasing activity in 2012 was registered in the Central Bohemian region where new deals concluded in Mladá Boleslav accounted for 37% of new take-up. Greater Prague, Pilsen and Brno regions were to follow with 24%, 18% and 16% respectively.

Rents

Prime headline rents, traditionally achieved in Prague, remained at €3.80 - 4.50 m2 / month and at €4.00 - 4.50 m2 / month in Brno. Rents of up to €5.00 m2 / month might be achieved in specific regions under specific market conditions due to the predominance of built to suit projects.

Prague, Residential market

Supply

In the first half of 2012, a total of 1,130 apartments were commenced and at the end of 2012, the total was already above 2,250 units. In the wake of 2013 a further 1,250 flats started to be constructed, however, there is an expectation that a slightly more conservative development figure of ca. 1,000 units arised.

From a location perspective, the strongest supply the beginning of 2013 was recorded in Prague 9, followed by Prague 10. In these two districts alone, more than 50% of all new apartments have commenced construction.

Currently, there are more than 6,000 apartments under construction in Prague, with an expectation to be completed between end 2013 and 2014. The majority of this space is being built in Prague 9, Prague 5 and Prague 10.

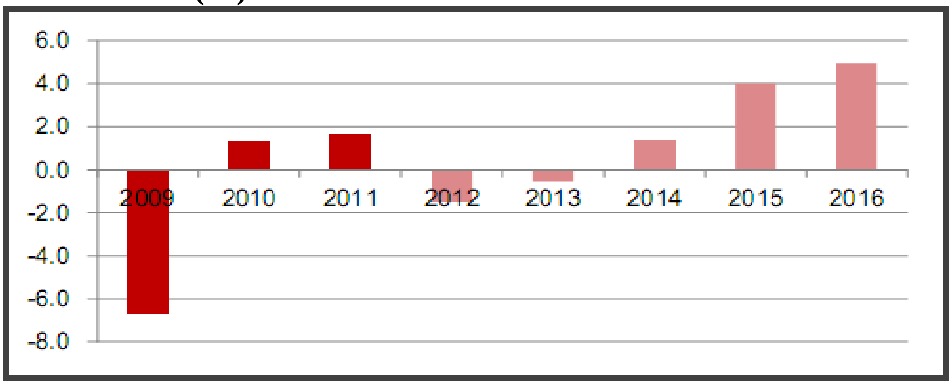
Demand

In 2012, after a relatively good first half of the year, there was an expectation of ca. 3,500 – 4,000 units to be sold. At the end of 2012, a total of 2,013 apartments were sold. Most apartments, in the last two years, were sold in Prague 9, Prague 5 and Prague 10. This is due in part by the presence of the largest developers and the fact that in these areas they have their largest projects.
Over the last two years, there is record of slight changes in the unit mix structure of the sales of apartments.

2.4 HUNGARY, Budapest

Economy
The Hungarian government initiated a loan agreement with the IMF in November 2011, when the cost of financing the state budget and renewing debt began to rise. The negotiations progressed very slowly and although an IMF delegation visited the country at the end of January 2013, the topic of the credit agreement was not part of the discussions. While the government maintains that such an agreement would serve as a mere "insurance" against external market shocks, delays in its negotiation could send the wrong signals, destabilize markets and threaten the growth prospects of the country which is very sensitive to external deteriorations due to its open economy.

Fig. 7
GDP Growth (%)



Source: HIS Global insight, January 2013

Budapest, Office Market

Supply
In end 2012, the modern office stock in Budapest stood at 3,196,400 m^2. Out of this space, 2,642,820 m^2 are speculatively built offices, with the remaining 553,580 m^2 are owner occupied offices.
Between October and December 2012, two properties were delivered totaling 20,600 m^2. Green House, Skanska latest development, located in district 13 at Kassák Lajos Street, comprises 17,800 m^2 office space. The project was delivered with nearly 60% occupancy as several pre-lease agreements had been signed for it during the year, including AVIS and ABB. Besides Green House, Hungarian developer-Proform, also completed the third phase of Madarász Park, which is located at Madarász Street in district 13. Although the latest phase of the development is a 4star Park Inn by Radisson hotels, it also includes an office component on nearly 2,800 m^2. The developer managed to sign a pre-lease agreement for nearly 55% of the office area before delivery to the market.

Demand

The strongest occupier activity was recorded at the end of 2012, however, similarly to previous quarters, renewals and renegotiations were the main drivers of demand. In total, 100,310 m^2 of office space was leased between October and December, which was 5% higher than in the previous period of 2012 but, was 16% weaker than the volume recorded in end 2011. Again, renewals had a high share of 52% (52,180 m^2) while new transactions represented 44% (44,390 m^2). Expansions accounted for only 4% (3,740 m^2).

The largest transaction of the quarter was the renewal of Raiffeisen Bank in Akadémia Bank Center for 11,880 m^2, followed by the renewal of Morgan Stanley in Millennium Tower III for 11,050 m^2. The largest new lease was signed by Strabag in Infopark D for nearly 7,520 m^2 office space. The drop back of occupier activity was clearly reflected in the annual demand figures. In line with our forecast, the annual volume of total leasing activity reached only 344,980 m^{2,} which was 13% less than the recorded volume of 2011 (394,650 m^2). The amount of new leases, expansions and pre-leases comprised 174,080 m^2, which was 27% less than in 2011 (240,000 m^2).

Rents

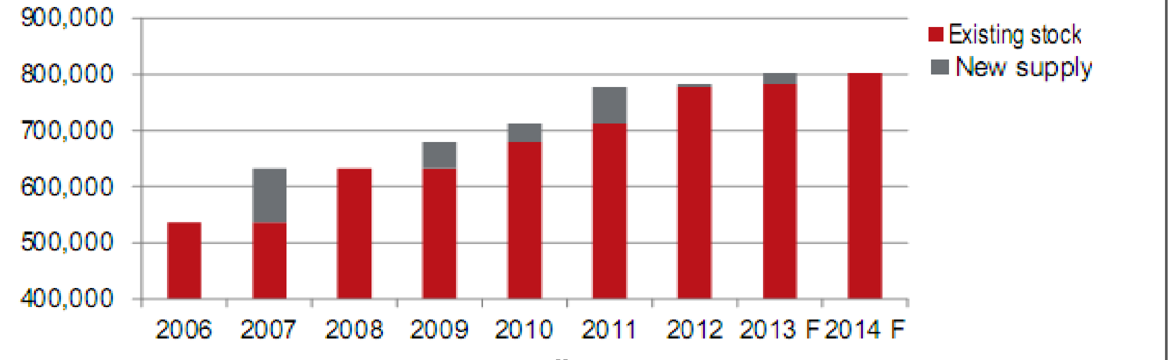
Prime office rents have remained unchanged at 20 €/m^2/month. Asking rents also remained stable during the quarter. While there are lower priced submarkets such as the Periphery, asking rents vary from building to building. As new developments become occupied, those landlords are under less pressure to reduce headline rents. Average (non CBD) asking rents are in the range of 10.50 -12.50 €/m^2/month.

Budapest, Retail Market

Supply

During the last quarter of 2012, one new shopping center was opened in Budapest. Hegyvidék Központ is the latest retail development of Hungarian developer WING, located in district 12 in the area bordered by Apor Vilmos Square, Szendi árok and Németvölgyi Street. Instead of offering a wide variety of fashion brands, the 5,300 m^2 complex rather focuses on offering services and special grocery stores to fulfil the needs of local residents. So far, it seems that the performance of the scheme is satisfactory as it manages to fill a niche in the market, however, it has still some vacant units. Its main tenants include CBA Príma, Drogerie Markt and OTP Bank.

Fig. 8 **Shopping Center stock in Budapest (m^2)**



Source: Jones Lang Lasalle, 2013

The total shopping centre stock of the capital increased to 777,800 m2 in 29 assets. Shopping centre density is equal to 457 m2 / per 1,000 inhabitants in Budapest. The current regional shopping centre stock equals 556,700 m2 in 37 centres. No new shopping centres were completed in the regions during Q4 2012. Only two new shopping centres were completed in Hungary during 2012, totalling only 13,800 m2.

Rents

Typical shopping centre rents range between 20 and 60 €/m2/month in Budapest while downtown high street rents at Váci utca are around 60 to 90 €/m2/month. Rents in Andrássy út still vary between 40 and 50 €/m2/month, although, availability is high. Retail park rents range from 4 to 6 €/m2/month while factory outlets have rents of 22 to 25 €/m2/month in Biatorbágy and 16 €/m2/month in the regions.

3. SUMMARY

Demographics, technology and globalization are changing the way people occupy buildings in the Visegrad region. But what do these opportunities mean for real estate markets?

Investors are among the most buoyant in this business as was the beginning of 2013. Almost fifty percent predicted an increase in profit and confidence.

As shown from the data in chapter two, mostly the reasons which investors had predicted an increase in profit and confidence raised as follows;

- They are encouraged by continued capital flows into real estate.
- They foresee a bigger flow of distressed stock from banks, and feel well placed to access them. They see opportunity to source deals directly from banks or from investors seeking to flip assets on quickly.
- They are confident they have asset management skills vital for survival in the current situation.
- They foresee getting access to a large number of good quality assets with easily fixable impairments that banks or borrowers do not have capital to fix.
- They see the beginning of a growing confidence in business owners and companies outside of Visegrad that the region is a good place to invest in as the crisis continues in other countries like Greece, Spain just to mention a few.
- Although regulation weigh heavily on real estate investment in Visegrad region, many investors find consolidation as small funds find cannot meet costs of compliance.

Some of the negatives see in the Visegrad region are as follows;

- Access to capital for development remains tough in the towns.
- Where development funding is accessible, it is from banks supporting projects at home.
- But there are new opportunities to cater for new occupiers such as technology, media and telecommunications companies - which want more creative, greener spaces.

- Opportunities exist for example in Poland residential market to invest in much needed build to rent properties, especially in Warsaw but sites are hard to find.
- Conversions of redundant office space into residential is a market being explored by developers in cities such as Budapest and Prague.

In conclusion investors are considering how the growth of tourism in Visegrad region from emerging markets will increase demand for retail, leisure and residential.

Prague is rated best for development prospects in 2013, boosted by new legislation that eases restrictions on foreign ownership of real estate.

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