

TIME FOR VALUE ADDED
***OPPORTUNITIES ON CEE
LOGISTIC MARKETS***





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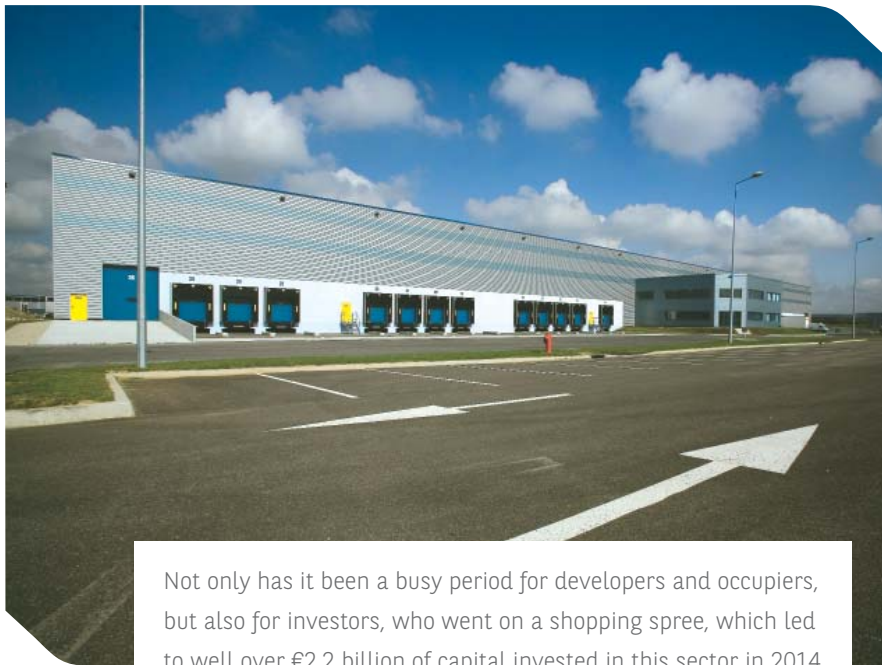
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With falling vacancy rates, record levels of take-up and high development activity, the warehouse and logistic market has been thriving over the last couple of quarters across the CEE region¹.



Not only has it been a busy period for developers and occupiers, but also for investors, who went on a shopping spree, which led to well over €2.2 billion of capital invested in this sector in 2014, the highest result ever recorded.

The report, Time for Value Added Opportunities on CEE Warehouse and Logistic Market, analyses current trends within selected markets and examines market opportunities, when considering macroeconomic fundamentals, structural infrastructure improvements, together with availability of land, investible stock as well as pricing expectations.

¹. CEE defined as Poland, the Czech Republic, Slovakia, Hungary and Romania

RIDING THE WAVE

A SNAPSHOT INTO THE ECONOMY WITHIN THE CEE REGION

When looking into the macroeconomic situation of the region, the markets differ significantly when it comes to key indicators.

One should also remember the diversity of urban structures of the analysed countries with Hungary and Slovakia representing a monocentric model with dominant roles of capital cities and Poland, Romania and the Czech Republic being rather polycentric, having apart from the capitals, strong regional economic hubs.

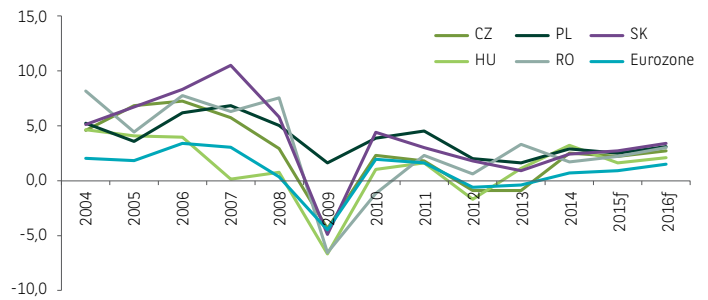
Hungary and Poland lead the way when it comes to the recent GDP growth recording 3.3% and 3.3% last year respectively. The average for the CEE region for the upcoming years is forecast at 2.2% and 2.9% in 2015 and 2016, which is much above the Eurozone.

When analysing manufacturing output as well as external trade volume, again Poland records the highest numbers, which is due to the country's population, strong domestic consumption level as well as diversified structure of industry and production sectors. Unlike Slovakia, and partially the Czech Republic, which are dependent on sectors such as automotive and electronics, Poland managed to mitigate such risk by attracting a variety of investors from white goods, electronics, automotive, high-tech, plastics processing, steel and mining and many other sectors.

In terms of employment, the Czech Republic has been always on the top of the league. This has been reflected in the lowest unemployment rate, which has been in the range of 6-7% over the last couple of years. Despite a continuous downward trend recorded, Slovakia and Poland continue to note the highest unemployment rates.

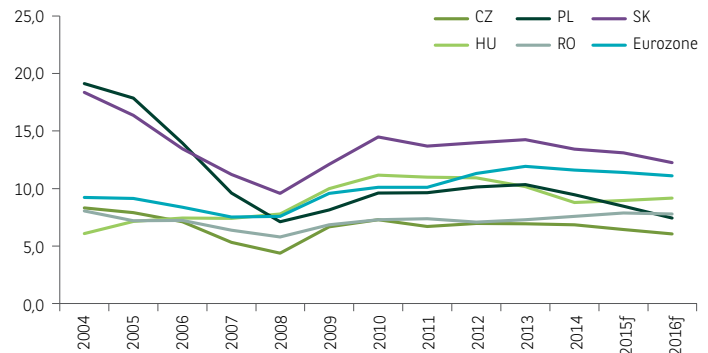
Yet, it should be remembered that these official statistics do not reflect the situation in major agglomerations, which tend to score much better ratings than country averages.

ANNUAL GDP GROWTH BY COUNTRY



Source: BNP Paribas, Oxford Economics

UNEMPLOYMENT RATE BY COUNTRY



Source: BNP Paribas, Oxford Economics

SO CLOSE BUT SO FAR AWAY

A SNAPSHOT INTO THE SECTOR WITHIN THE CEE REGION

The CEE region is also not homogenous in terms of level of maturity and further development potential when it comes to the warehouse and logistic sector itself.

The total modern and logistic stock in the analysed countries is estimated at around 20.65 million sqm, of which 43% is located in Poland, which has also the most dispersed and diversified stock in terms of quality and hubs (6 primary and 4 secondary markets). It is also the strongest market when considering the gross take-up, which last year reached the record of 2.5 million sqm.

The second largest market is the Czech Republic, constituting 25% of the CEE stock. It has also been in the first league for attracting major occupiers and recording high levels of letting activity.

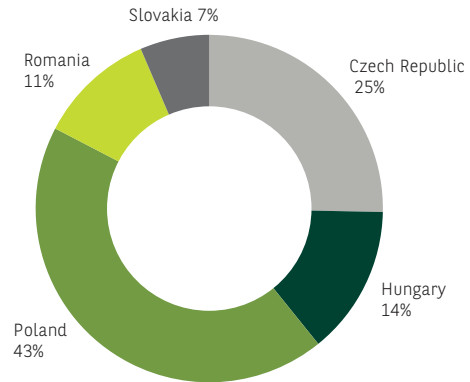
The remaining countries hold a relatively similar positions with 16% of the stock located in Hungary and 11% in Romania. Slovakia, primarily due to its size has the smallest part of the pie at 6%.

There are significant differences across the region when looking at prime rents. The highest rates are recorded within in-town warehouses in Warsaw, Kraków and Prague – €4.5-5.5 sqm/month. Primary regional hubs in Poland and the Czech Republic range from €2.5 to 4.0 sqm/month and space in secondary markets is let at €1.8-2.5 sqm/month.

Smaller markets of Slovakia, Hungary and Romania offer prime warehouses for €3.25-4.0 sqm/month. Secondary assets or located outside of the capital city agglomerations can be leased between €1.5-3.0 per sqm/month.

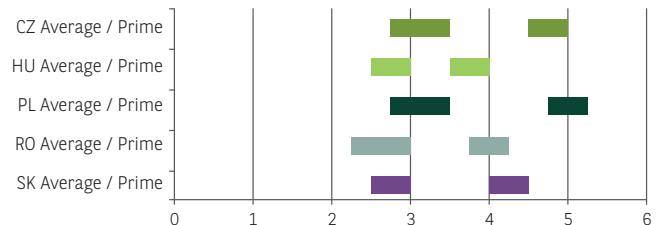
Hungary, due to the deep economic crisis recorded over 2010-2013, is only now showing a decrease in vacancy rate, however with 17.5% at the end of 2014 is much above the peer group. The remaining countries within the region have been enjoying a very healthy level of vacancy in the range of around 6-8.5%, decreasing over the last few quarters.

TOTAL MODERN WAREHOUSE STOCK BY COUNTRY



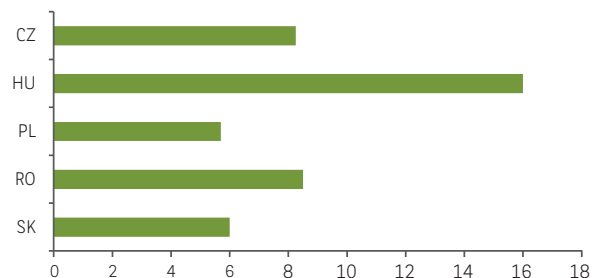
Source: BNP Paribas Real Estate

PRIME AND AVERAGE RENTAL LEVELS BY COUNTRY (€/sqm/month)



Source: BNP Paribas Real Estate

VACANCY LEVELS BY COUNTRY AND TRENDS



Source: BNP Paribas Real Estate



COUNTRY BRIEFS

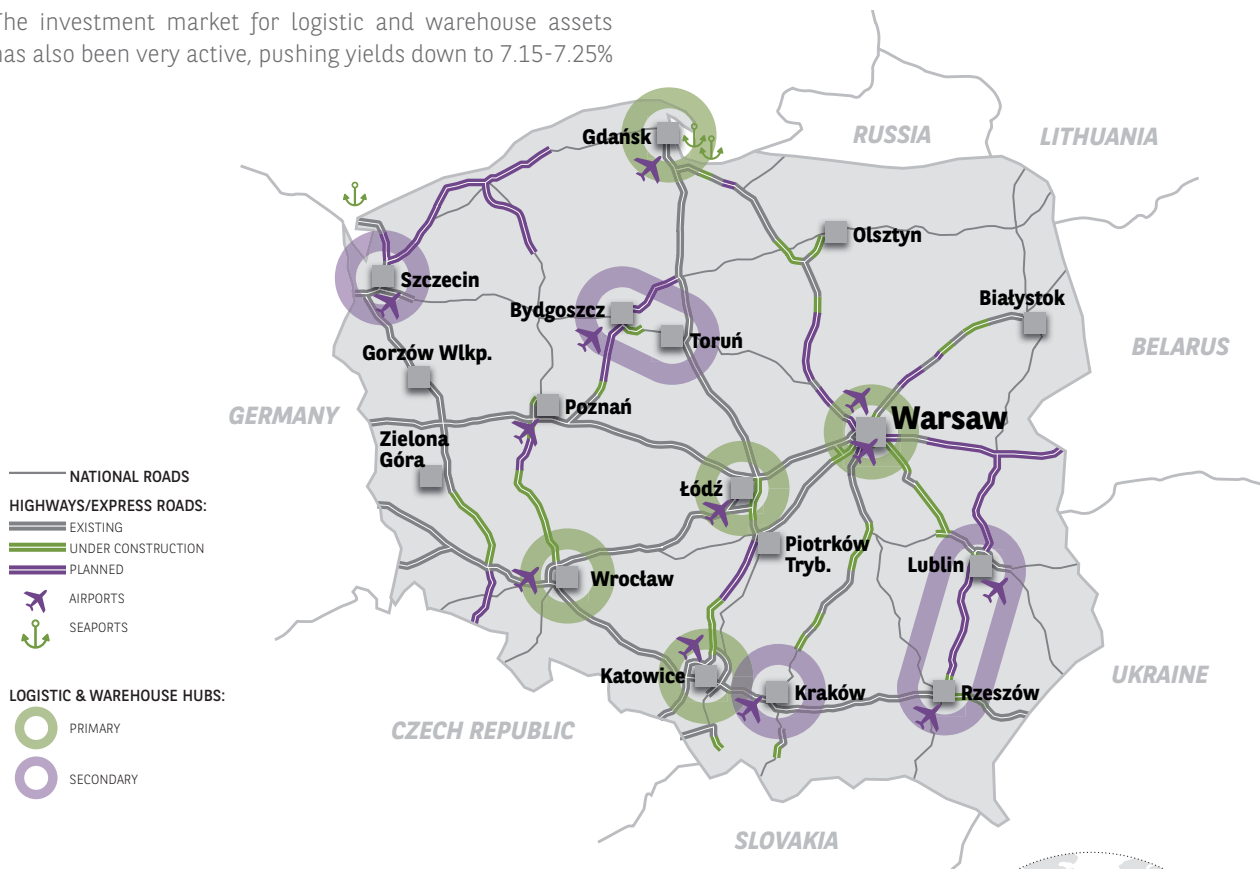
POLAND

At the end of 2014 the total stock of modern warehouses in Poland reached 8.75 million sqm, located across six primary and four secondary warehouse and logistic hubs. Having achieved over 2.5 million sqm of gross letting activity, 2014 was a record year in terms of letting transactions.

This in turn gave a confidence boost to developers who began to start speculative projects more frequently. The vacancy rate dropped to 5.7% for that period, which is the lowest rate of over a decade. Some location hotspots of Poznań, Kraków and Tri-City saw a slight upward trend of rental levels.

for prime properties. Investment in warehouse assets traded in 2014 amounted to €707 million, which accounts for 26% of total capital spent on properties last year. For the first time the industrial & logistic sector overtook retail in terms of volume invested.

The investment market for logistic and warehouse assets has also been very active, pushing yields down to 7.15-7.25%



8.75 million sqm
OF MODERN STOCK



COUNTRY BRIEFS

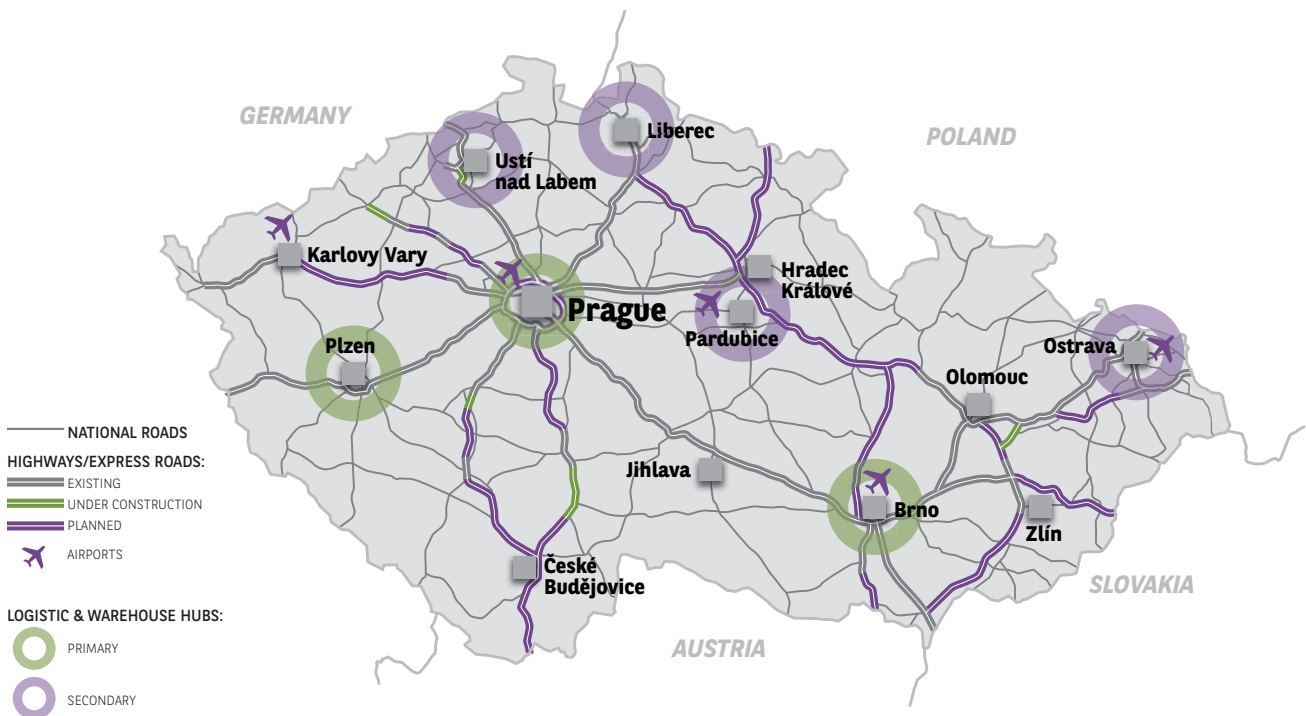
CZECH REPUBLIC

According to the Prague Research Forum (PRF) the total warehouse and logistic stock in the Czech Republic amounted 4.9 million sqm at the end of 2014. The strongest regions remain Inner and Outer Prague, Ostrava, Brno and Plzen.

Gross take-up last year accelerated substantially, recording the record level of 1.3 million sqm, yet vacancy rate has remained fairly flat at around 8% as indicated by PRF.

Czech warehouse and logistic assets were subject of a couple of large transactions with an estimated total value of over €710 million. It included the largest transaction in the CEE,

which was the purchase of 58 assets by P3 from VPG for a reported €523 million. Positive economic indicators, healthy situation on the occupier market, stable rents as well as competitive positions among active investors, were the key drivers behind yield compression recorded in the sector over the last quarters.



5.1 million sqm
OF MODERN STOCK



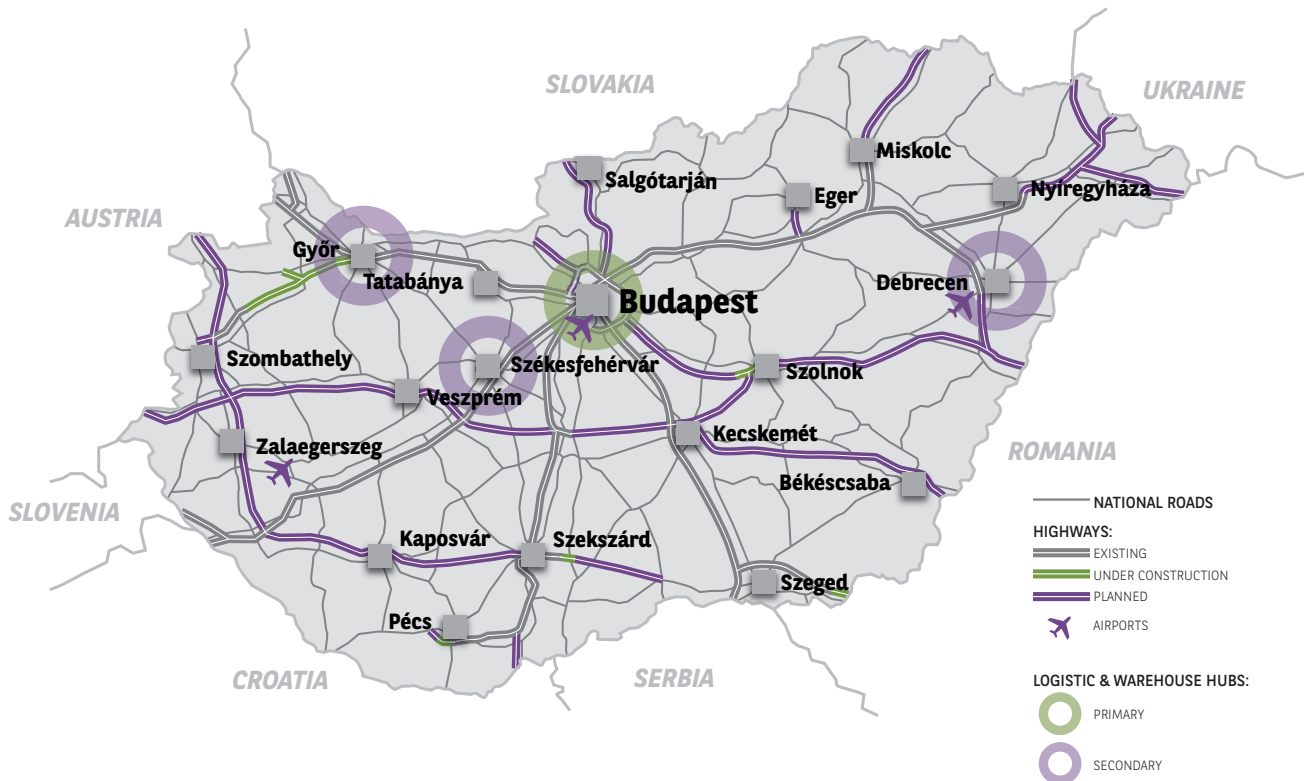
COUNTRY BRIEFS

HUNGARY

The logistic and warehouse market in Hungary is primarily focused around Budapest agglomeration, constituting some 80%, out of the total 2.3 million sqm. Still, there are some spots around Győr, Debrecen and Shekesvehervar where modern stock can be found.

Similarly to other peer countries, demand for warehouse and logistic space showed a strong 55% growth over the course of 2014, bringing the vacancy down to around 15.7%. However, take-up numbers at the annual rate of 386,000 sqm reported for Hungary by the Budapest Industrial Forum, are much lower when compared with Poland and the Czech Republic.

Investors' confidence in the Hungarian market is returning slowly and a couple of transactions confirm that trend, including the sale of Tulipan Park Budapest to Logicor for an estimated €20 million. Currently prime assets may achieve 9.00-9.25%.



2.8 million sqm
OF MODERN STOCK



COUNTRY BRIEFS

ROMANIA

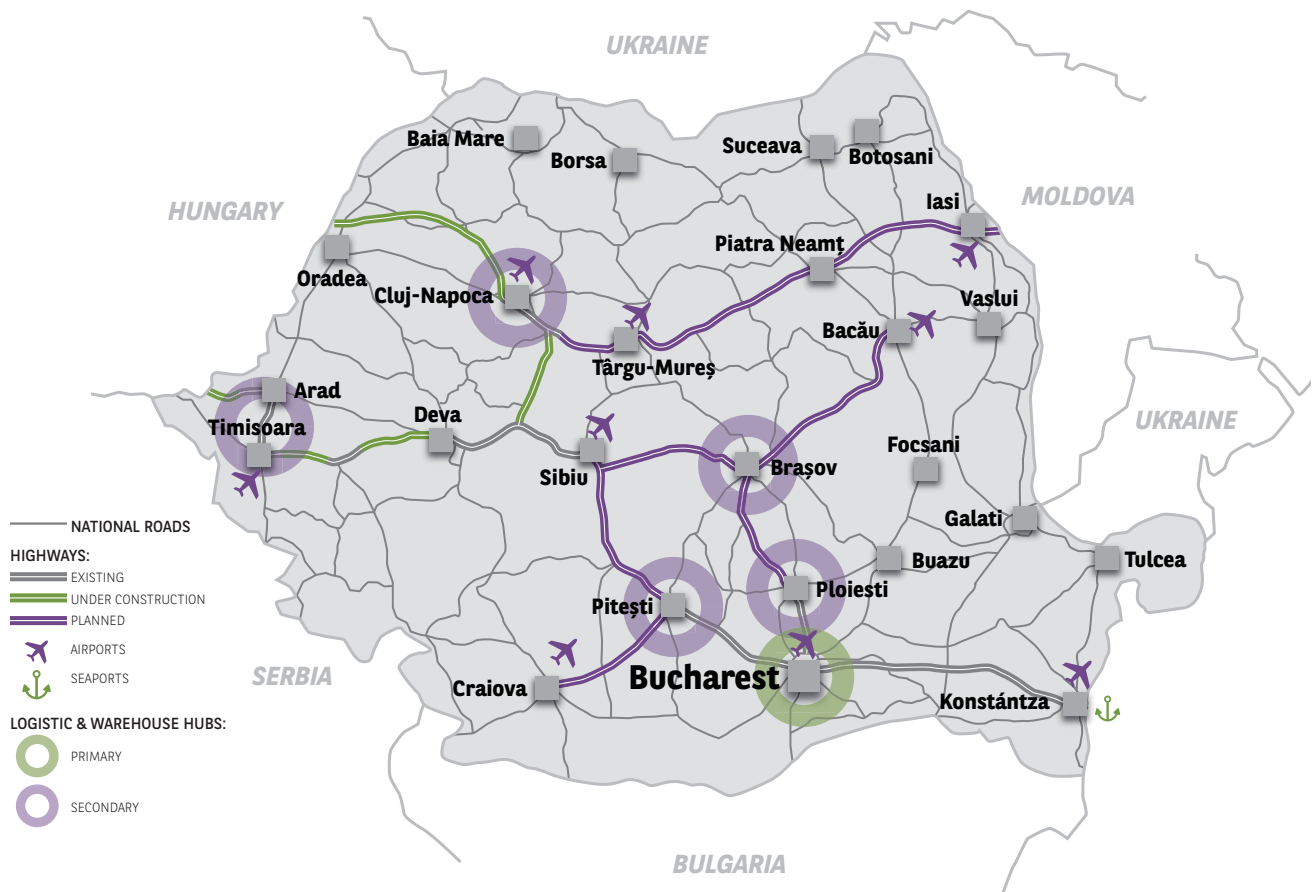
Romania, given its size and location, has been catching up with the rest of the pack relatively quickly, achieving over 2.2 million sqm of total stock within ten years.

The key market remains Inner and Outer Bucharest, however it is getting more diversified with modern warehouse and logistic developments in the regions around Timisoara, Ploiesti, Pitesti, Brasov and Cluj-Napoca.

the warehouse and logistic sector has started to regain balance after poor performance over 2011-2013. This has led to a drop in vacancy rate, which has oscillated around 8-9% over the last quarters.

Similarly to peer countries, over the recent quarters the market has seen steady increase in occupiers activity and

Romania also saw an influx of capital last year totaling some €170 million. Prime yields are in the range of 9.75-10.00%.



2.2 million sqm
OF MODERN STOCK



COUNTRY BRIEFS

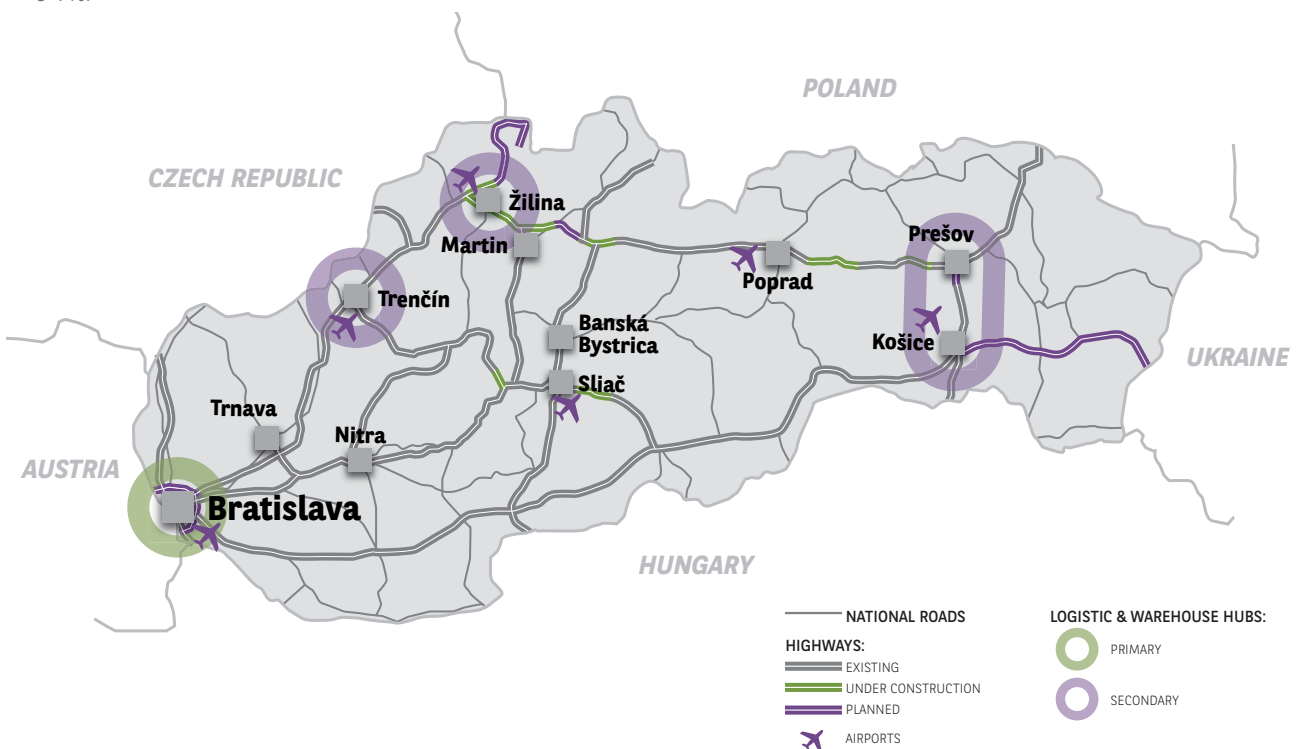
SLOVAKIA

The logistic and warehouse market in Slovakia has been mainly driven by automotive and electronic production sectors.

The total stock is estimated at 1.3 million sqm and is composed primarily out of parks around Bratislava and built-to-suit schemes, which also include manufacturing space.

Only a few investment deals were recorded last year with total volume estimated at €30 million. Prime yields have compressed by 0.25% to the level of 8.50-8.75%.

Compared with other countries demand is smaller in terms of volume but relatively strong proportionally to the size and population of the country. The vacancy rate in Slovakia has been stable for the last few quarters oscillating at around 6-7%.



1.3 million sqm
OF MODERN STOCK



MASTERS OF WAREHOUSE AND INDUSTRIAL SPACE OF THE REGION

Developers remain choosy when it comes to presence on the CEE markets.

Not all of the leading developer of modern warehouse, logistic and industrial space run operations in all of the countries in the region. Many of them have secured substantial land banks for future investments, but have not proceeded with the ventures.

ProLogis is a market leader in terms of both presence as well as volume of square meters delivered to the market. P3 has also been very active in the region both on the development side as well as investment. Panattoni and Goodman tend to focus on built-to-suit projects and also venture into light industrial schemes, not all of which are located in the established warehouse and logistic hubs.



PRESENCE OF THE LARGEST DEVELOPERS IN THE CEE REGION

	CZECH REPUBLIC	HUNGARY	POLAND	ROMANIA	SLOVAKIA
ProLogis	+	+	+	+	+
Panattoni	+		+		+
CTPark	+			+	+
Segro	+	+	+		+
P3	+		+	+	+
Goodman	+	+	+	+	

Source: BNP Paribas Real Estate

INVESTMENT SHOPPING SPREE

2014 has been a record breaking year when considering the amount of capital invested into warehouse and logistic properties across the analysed countries, which reached over €2.2 billion.

Acquisitions of the VGP warehouse portfolio in the Czech Republic by P3 for €523 million was the largest deal ever recorded in CEE market. It involved 58 modern logistics buildings totalling 627,000 square meters and development land with the potential to develop 125,000 sqm of additional space.

In terms of total capital allocated to warehouse and logistic sector, Poland and the Czech Republic were the most popular locations, attracting over 700 million of capital each. These countries remain the most sought after with high quality assets and stable rents. Furthermore, financing is readily available within these countries.

VOLUME OF WAREHOUSE AND LOGISTIC TRANSACTIONS AND OTHER SECTORS IN THE CEE REGION



Source: BNP Paribas Real Estate

TOP 10 INVESTMENT TRANSACTIONS IN THE CEE REGION

Country	Project / Portfolio	Location	Size (sqm)	Purchaser	Vendor	Price (million)
CZ	Warehouse portfolio	Across the country	627,000	P3	Tristan Capital	523,0 EUR
PL	Warehouse portfolio	Wrocław, Łódź, Gdańsk	299,300	PZU FIZ	Tristan Capital	140,0 EUR
RO	Europolis Park	Bucharest	214,000	P3	CA Immo	121,0 EUR
PL	Warehouse portfolio	Kraków, Błonie, Gliwice, Łazy	138,000	LogiCor	Pramerica	118,7 EUR
CZ	Westpoint Distribution Park	Prague	63,800	Central Group	Immofinanz	118,2 EUR
PL	Warehouse portfolio	Mysłowice, Stryków, Robakowo	200,000	LogiCor	Standard Life	118,2 EUR
CZ	Business Park Rudna	Prague	163,000	ProLogis	Heitman	107,0 EUR
PL	Warehouse portfolio	Pruszków, Łódź, Poznań	173,000	SEGRO	Tristan Capital	100,0 EUR
PL	Warehouse portfolio	Wrocław, Błonie	112,000	Hillwood	Standard Life	70,0 EUR
PL	Tesco warehouse	Gliwice	56,700	ProLogis	Invesco	48,0 EUR

Source: BNP Paribas Real Estate

INVESTMENT SHOPPING SPREE

Recent investment activity resulted in a major shift of ownership structure. The key players on the investment market have had a continued shopping spree with P3 being well ahead over the last two years having acquired assets worth €645 million in the Czech Republic and Romania.

LogiCor, part of Blackstone Group, was also very active purchasing both portfolios as well as single assets in the Czech Republic, Poland and Romania for an estimated €365 million.

In addition to investors, who have been present on the CEE market for many years, new players arrived over the recent quarters, including Hillwood or Globalworth.

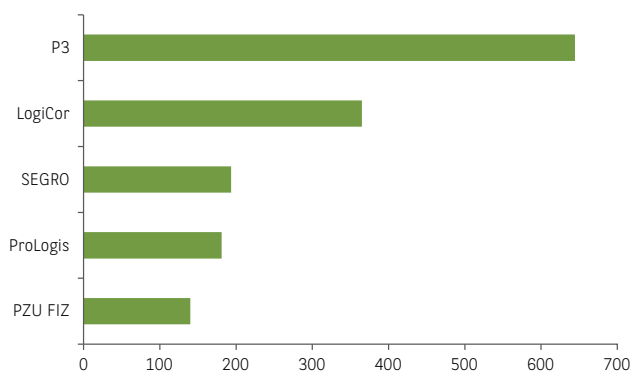
Such a spectacular increase has caused substantial yield compression amounting 0.25 - 0.75 p.p., depending on the country. The Czech Republic and Poland record the lowest prime yields at the moment, in the range of 7.00-7.25%, whilst the remaining countries are often 100 - 200 p.p. above this.

Since most of the prime portfolios in Poland and the Czech Republic have been sold recently, it is fairly likely that recent activity will not be immediately reproduced. BNP Paribas Real Estate considers the prime yields have possibly reached the bottom, with not much room for further compression.

In case of other markets, some of which are less transparent, there are much fewer investment grade products and it is difficult to source them and even more difficult to obtain financing.

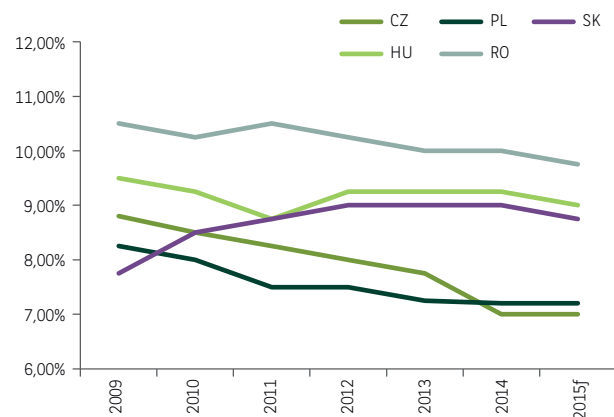
The first couple of months of 2015 has showed that the investors' appetite remains unsatisfied. This in turn implies that there is room for further investments into prime warehouse and logistic products and increasingly into value-add assets. BNP Paribas estimates that there is at least 10 million sqm of other warehouse and logistic investible stock remaining, some of which may prove to be attractive for more value-add investors. These represent different asset classes, ie. in-town assets requiring refurbishment, out of town schemes in the need to rebrand and repositioning or good projects but in secondary locations or less sought after countries.

TOP 5 LARGEST INVESTORS IN THE CEE REGION OVER 2013-2014 BY CAPITAL INVESTED (EST.), million €



Source: BNP Paribas Real Estate

PRIME YIELDS FLUCTUATIONS BY COUNTRY



Source: BNP Paribas Real Estate, f - forecast

ADVICE CORNER

TIME FOR VALUE ADD



John Palmer FRICS SIOR

*Director Industrial
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With record yield compression and prime yields oscillating around 7% many investors are now looking for a more interesting return on their money.

The industrial investment market has experienced a remarkable yield compression over the last 18 months fired by both developers and investors expanding their portfolios. The question arises as to whether yields have peaked for the best investments and the market in CEE is comparatively expensive on a European basis.

On the back of record yields having been achieved we are now experiencing an increased interest in industrial investments offering an upside or “added value” angle.

Of course such investments have their issues and problems but if selected carefully and worked up professionally by the purchaser they can pay a handsome reward. Investors are now revisiting opportunities that were rejected a few years ago in search of an attractive return. These assets may include portfolios that have fallen back into the hands of the lending bank with short unexpired lease terms in non-core locations but offering an upside with careful asset management.

We have noticed within Poland, city sites, often brown field, are being targeted.

As an example these may be older units with vacancy and short term non institutional leases but occupying plots with high reversionary value. Old facilities providing some interim income before being refurbished or demolished are particularly sought after.

Also investors are looking more at countries such as Slovakia and Romania where yields can be up to 2% out from those achieved in the Czech Republic and Poland, however stock is very limited for attractive sustainable investments in these countries and investors still require prime hub locations.

Regional investments, whether existing or development opportunities, are becoming more and more attractive as road infrastructure improves and more foreign direct investment moves in. A good example of this is Gdańsk that is now fully linked to the A1 Motorway and benefiting from a leading deep water container terminal. Other examples is land around Poznań off the A2 Motorway and Września close to the under construction VW factory.

As the market has tightened development opportunities are increasingly attractive for the investor, often providing financing and buying into an investment as soon as a long lease is signed and before construction has commenced. This profile of investment fits well into the current ‘build to suit’ era.

DEFINITIONS

Industrial and logistics stock (sqm) – a term covering the following sub-types of existing space: Light Manufacturing and Warehousing (including Logistics), delivered to the market by professional developers.

Take-up (sqm) – transactions regarding industrial and logistics space including: pre-lets, built-to-suit, new transactions, renegotiations and sub-lease.

Vacancy rate (%) – ratio representing the percentage of physically vacant space in existing properties.

Rent range (in Euro per sqm) – Rental rates for a 2,000 sqm unit ranging from the top to average modern industrial and logistic schemes in a given hub.

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