



CEE REAL ESTATE

UNCHARTED TERRITORY: WHAT'S NEXT?

Kevin Turpin

Regional Director of Research | CEE

Colliers International

23rd October 2020

WHAT'S NEXT? CEE Headlines ...

...Political Noise...

...Economies & Cycles...

...Brexit / Trade & Tech Wars...

...Sovereign Risk / Security...

...ESG / Wellness/Energy...

...Data & Tech Enablers & Disrupters...

...Construction costs...

...COVID-19 / Support Measures...

...Labour Markets...

...Growth of online sales...

...Supply Chain & Fulfilment...

...Automotive Futures...

...Pressure on rents & incentives...

...Alternatives...

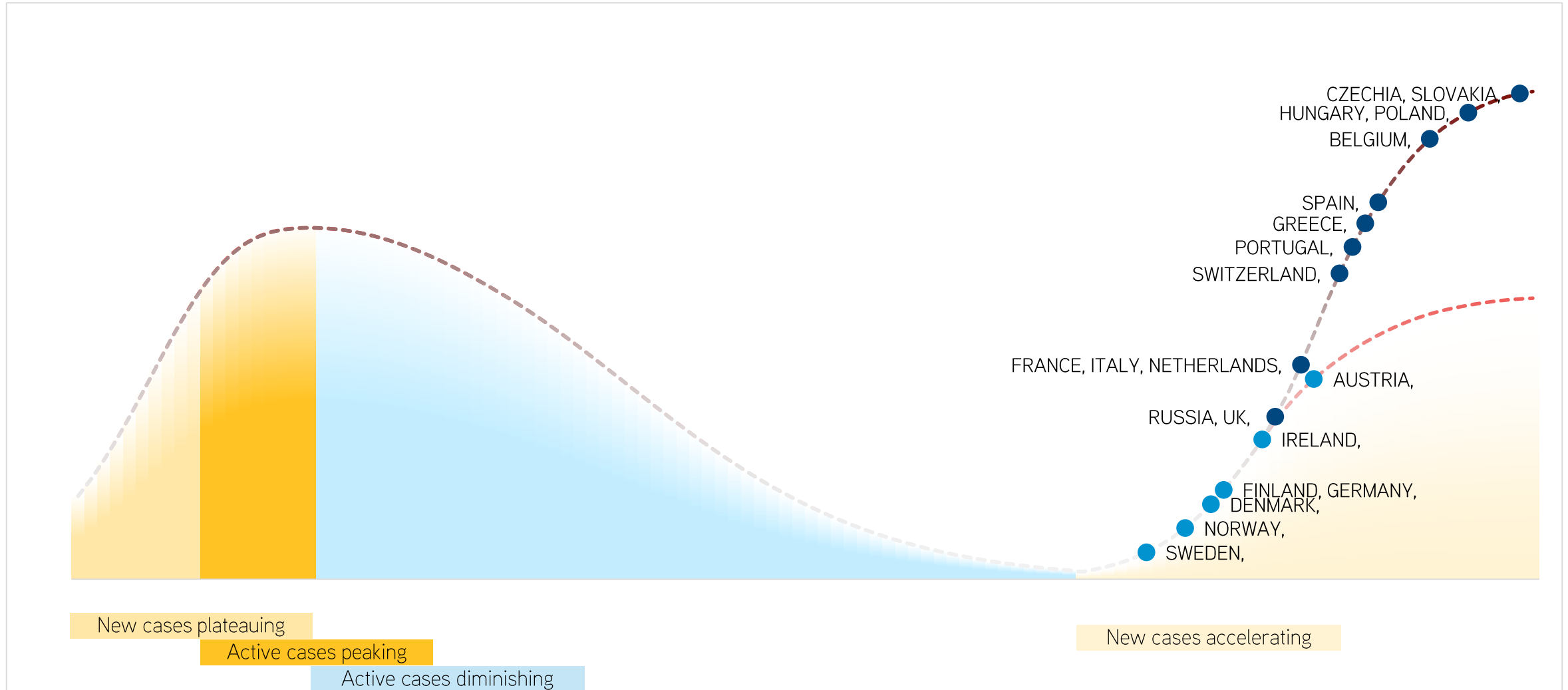
...Flex Space & Co-working...

...Shortage / Affordability of Housing...

...Land Availability & Permitting...

COVID-19 Active Cases Cycle

22nd October [current vs previous peak, harmonized to mass testing]



2020 Economic Growth Forecast

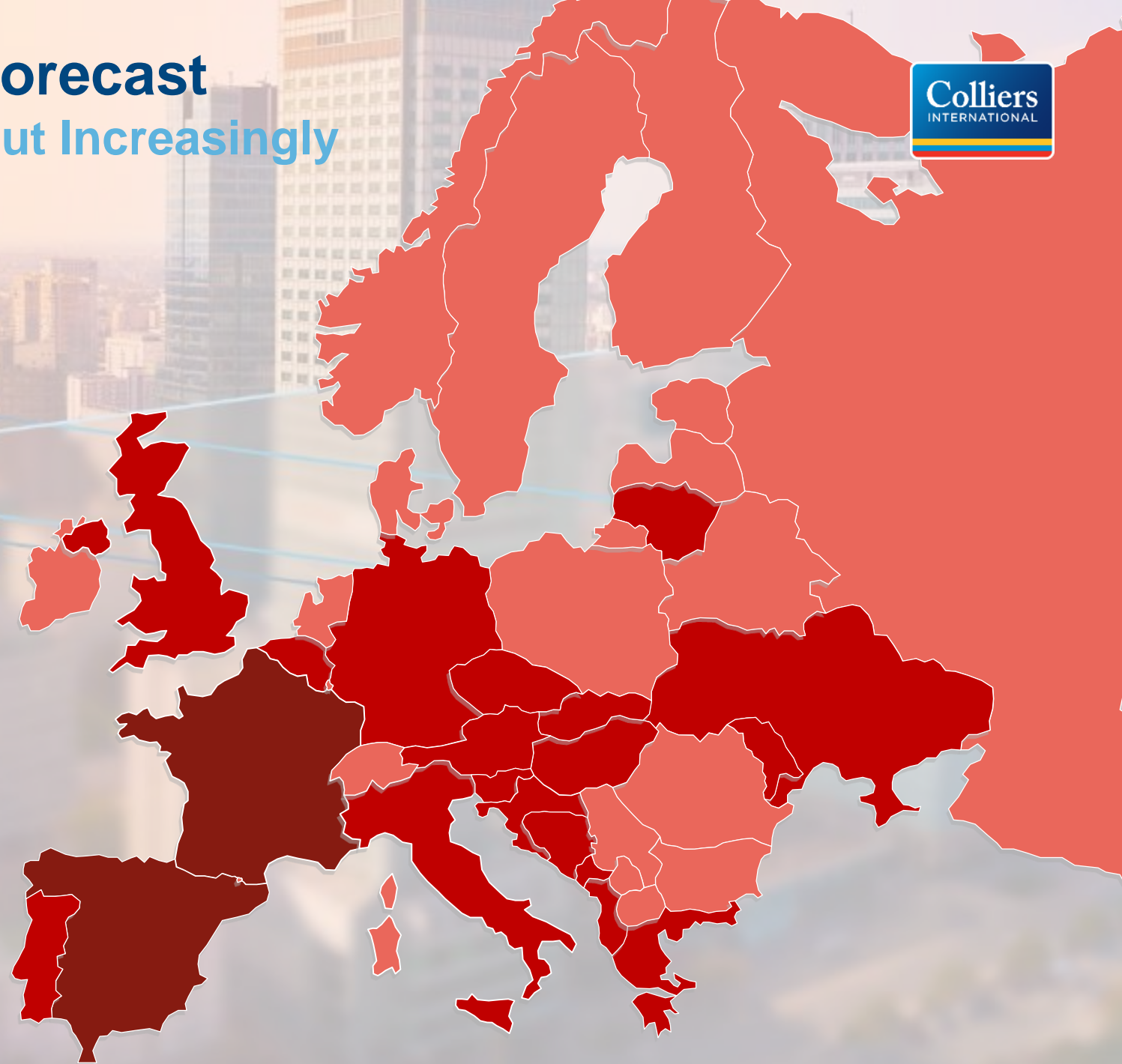
CEE Economies Not Immune but Increasingly More Diverse

Colliers
INTERNATIONAL

GDP (Real)
Growth Forecast
2020 (%pa)

- -10% & below
- -5.0 to -9.9%
- -1.0 to -4.9%

Source: Oxford Economics October 2020



Current Economic Growth Forecast

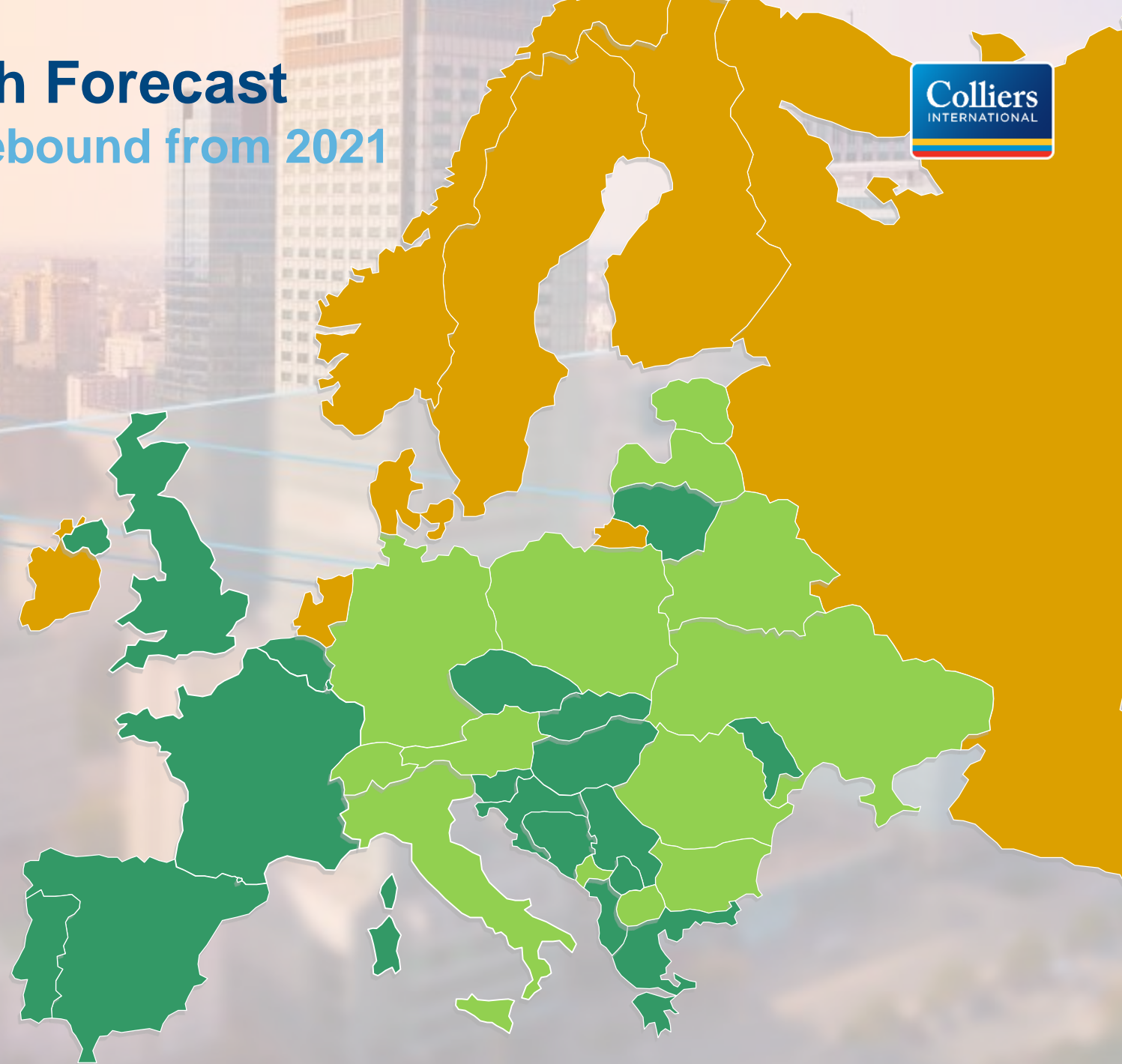
CEE Economies expected to rebound from 2021

Colliers
INTERNATIONAL

GDP (Real)
Growth Forecast
2021-2023 (%pa)

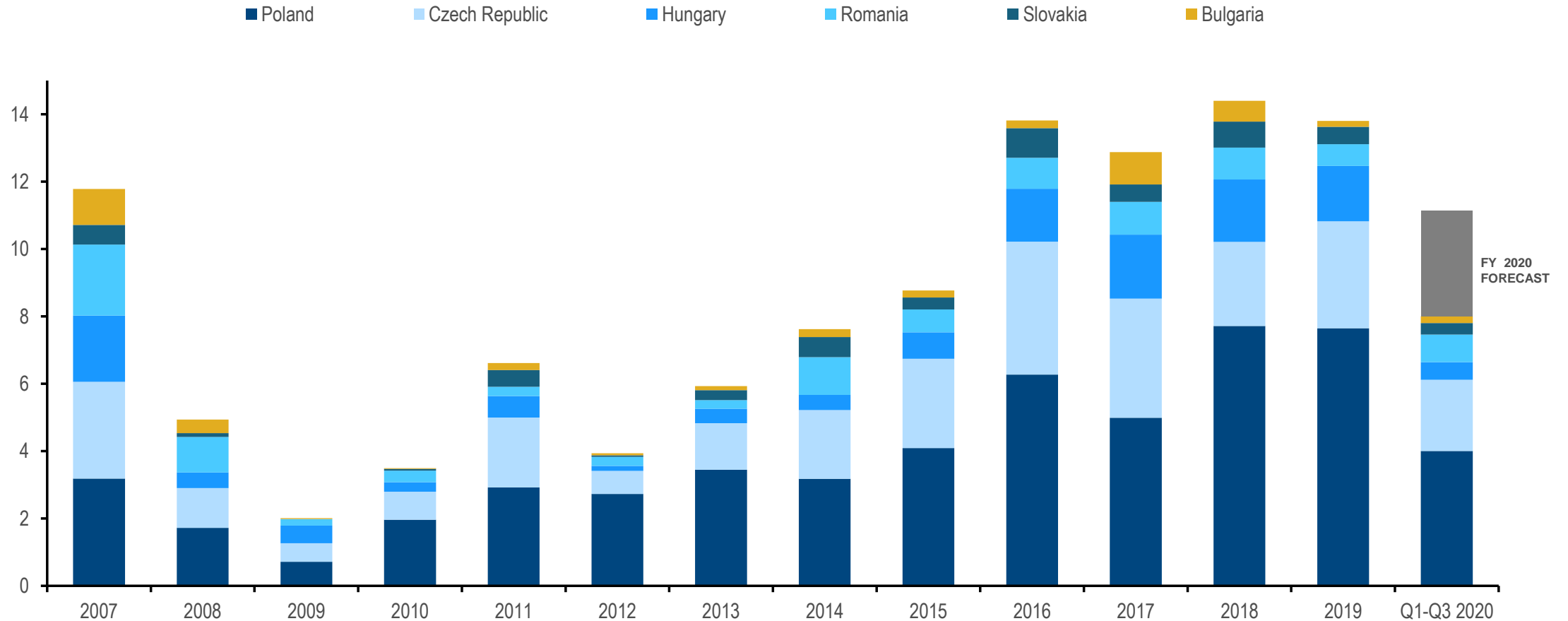
- 0.0 – 1.4%
- 1.5 – 2.9%
- 3.0 – 4.4%
- 4.5 – 5.9%

Source: Oxford Economics October 2020



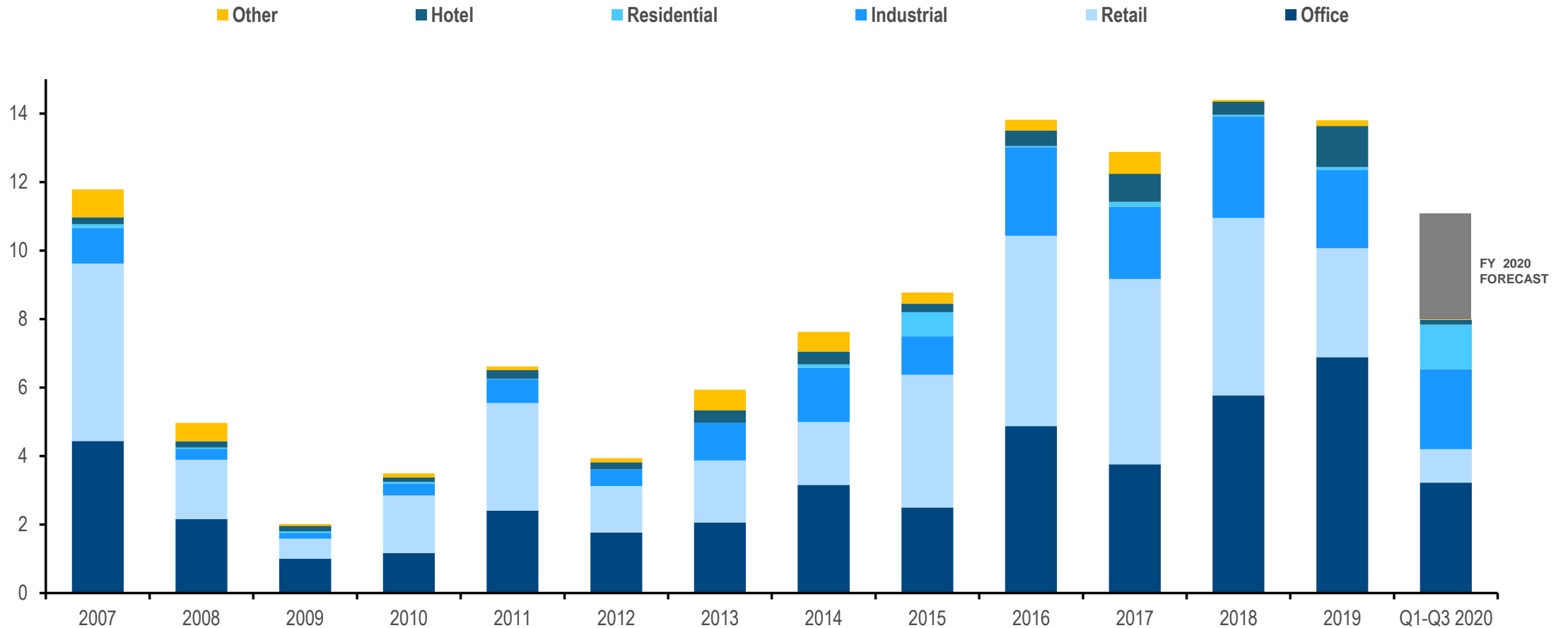
CEE Investment flows by Country: 2007 – Q3 2020

Q1-Q3 2020 volumes down 12% YoY at ca. €8.0 with PL & CZ at 76% of total
 2020 volumes could be down by ca. 20 - 30% on 2019



CEE Investment flows by Sector: 2007 – Q3 2020

2 Portfolios make the headlines with ca. €2.3 bn and 28% of total volumes
Office and I&L asset classes take 40% & 29% shares respectively

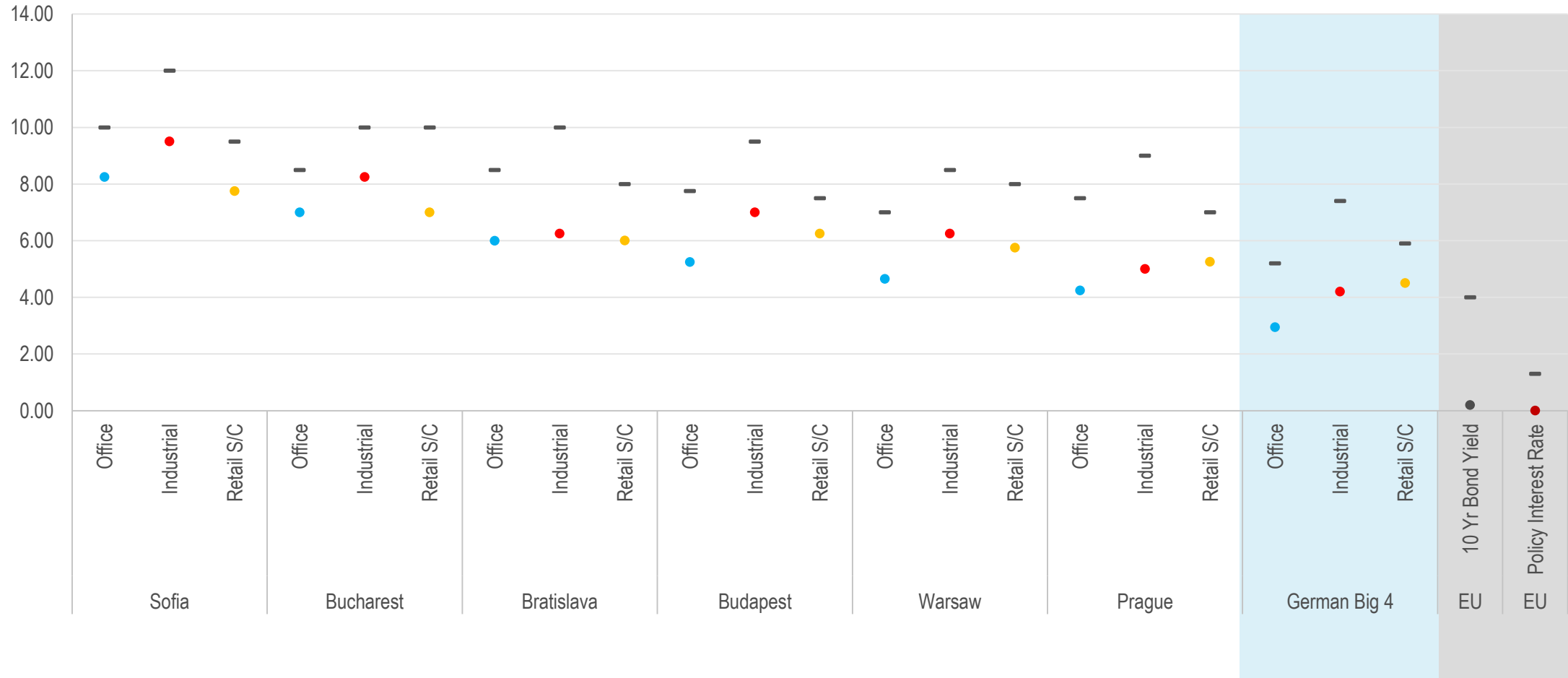


Real Estate Impact

Q3 2020 CEE Prime Yields (%) versus GFC trough



● Prime Yields Q3 2020 — Trough following GFC



2020

CEE ++ I&L MARKET

KEY I&L Market Stats: H1 2020

CEE



Stock: 50 million m²

Vacancy: < 5%

Rents: €2.9 - 5.5 m² / mth

LEGEND

Country / Capital City	
Total stock (m ²)	S
Vacancy rate (%)	V
Take-up (m ²)	T
Prime rents (EUR/m ² /month)	R
Yields (%)	Y

Trend (Y-o-Y)	
Increase	▲
Stable	▶
Decrease	▼



KEY I&L Market Trends: 2020/2021

CEE



- **Leasing** for the first half of the year has shown slightly slower or similar results y-o-y, with increased activity from short term requirements from certain sectors, such as logistics and e-commerce, to cope with additional demand and stockpiling from other sectors as a result of COVID. **Pre-leasing/BTS** activity is ongoing but decision making has been slower in some cases and can be partially attributed to uncertainty in certain sectors. Vacancy and opportunities remain low in some markets so occupiers under pressure to make strategic, longer term decisions need to move forward.
- **Rents** are expected to remain largely stable. Tenant covenants will again be a key factor in negotiations. **Incentives** are often region and tenant specific depending on the availability and specific requirements.
- **E-Commerce** is tipped to see high growth levels at the cost of brick and mortar retail. This may initially prove advantageous for 3PL's, particularly as this is not straight forward and many retailers lack the experience. Pure players may also see advantages and requirements to piggy-back off their platforms. **Aerospace / Automotive** cannot really claim that it has had a good past few years and COVID has certainly disrupted travel, production and supply chains, but also sales as consumers are unable to travel and delay decisions on large purchases
- **Near shoring/Supply chains** have been discussed a lot and whilst CEE has good cost arbitrage in Europe, particularly with labour, it is still cheaper in many Asian markets for example. None the less, many are looking at their options as the disruptions caused by COVID has highlighted significant certain flaws and lack of flexibility in the current models. Instead of 'just in time' it may be more 'just in case' in future.
- Some **Corporates/Owner Occupiers** have decided to undertake sale & leasebacks opportunities to raise operational capital.
- **Automation & Innovation** is on the agenda of both developers and occupiers to help drive cost and time efficiencies for example, but also to help be less reliant on location and people where land and labour are more scarce for certain parts of the sector.