

CEEQA 2018

REPORT

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Markets booming, in flux

Between strong sector performance attracting new investors, as well as the protracted business cycle we are experiencing, spanning for at least a decade, the CEE and SEE real estate markets are seeing some truly historic highs. Prague and Warsaw remain dominant, while also the Baltic and Balkan markets are increasingly on investors' radar.

Continually low interest rates in the aftermath of the 2008 crisis, as well as the QE policies of the US and Europe have lured a number of new investors from Asia, Africa and the Middle East with promises of impressive yields and safe long-term capital placement. Even though at some point the core asset supply seemed to become scarce, capital has kept coming in, looking for opportunities also in alternative asset classes. All signs seem to be pointing to another string of record-breaking results this year.

There are indications that the cycle is coming to an end and the fundamental question is how steep the slowdown will be this time. Here, all talking heads seem to be unanimous that the current business cycle will end on a soft note and nothing the likes of the 2008 crash should occur.

Meanwhile, all the commercial property market sectors across the CEE/SEE region have been getting

transformed by the various aspects of the latest wave of the digital revolution that we have all been witnessing in recent years. Mobile technology now means people work, shop and spend their free time in a much different way than a decade ago. Indeed, flexible office space has become one of the hottest topics in the office sector of late. For their part, shopping centers have increasingly been turning into meeting places as their non-shopping functions – such as eating out and entertainment – gain in significance. Warehouses are being equipped with high-tech solutions to respond to the needs of new occupiers including e-commerce companies. Real estate services firms, too, are embracing the changes and trying to take advantage of the opportunities that new technology offers in their daily work with some of them even investing in prop-tech start-ups.

While LEED Platinum and BREEAM Excellent certification has evolved over the past decade from a distinguishing feature into a box to be ticked, developers have started looking at other aspects of sustainability. The WELL certification is now all the hype, with the human factor of the workplace taking center stage.

All of this is just the beginning and it is impossible to say now how revolutionary the changes will prove to be in the long- or even mid-term perspective. Will serviced and co-working space continue to attract growing numbers of tenants or will this new “alternative” office space leasing market become saturated in the near future? Will the growth of the non-shopping functions of malls help them survive the competition from online retail? Will logistics continue to become more centered in and around urban agglomerations?

“All signs seem to be pointing to another string of record-breaking results this year.”

Apart from the usual economic and investment cycle-related issues, these will be some of the most important questions for the real estate industry in the coming years.

Richard Hallward
Managing Director

PHOTOGRAPH BY RAFAŁ NOWAK

CEEQA 2018
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25th April 2018, Minska 65, Warsaw

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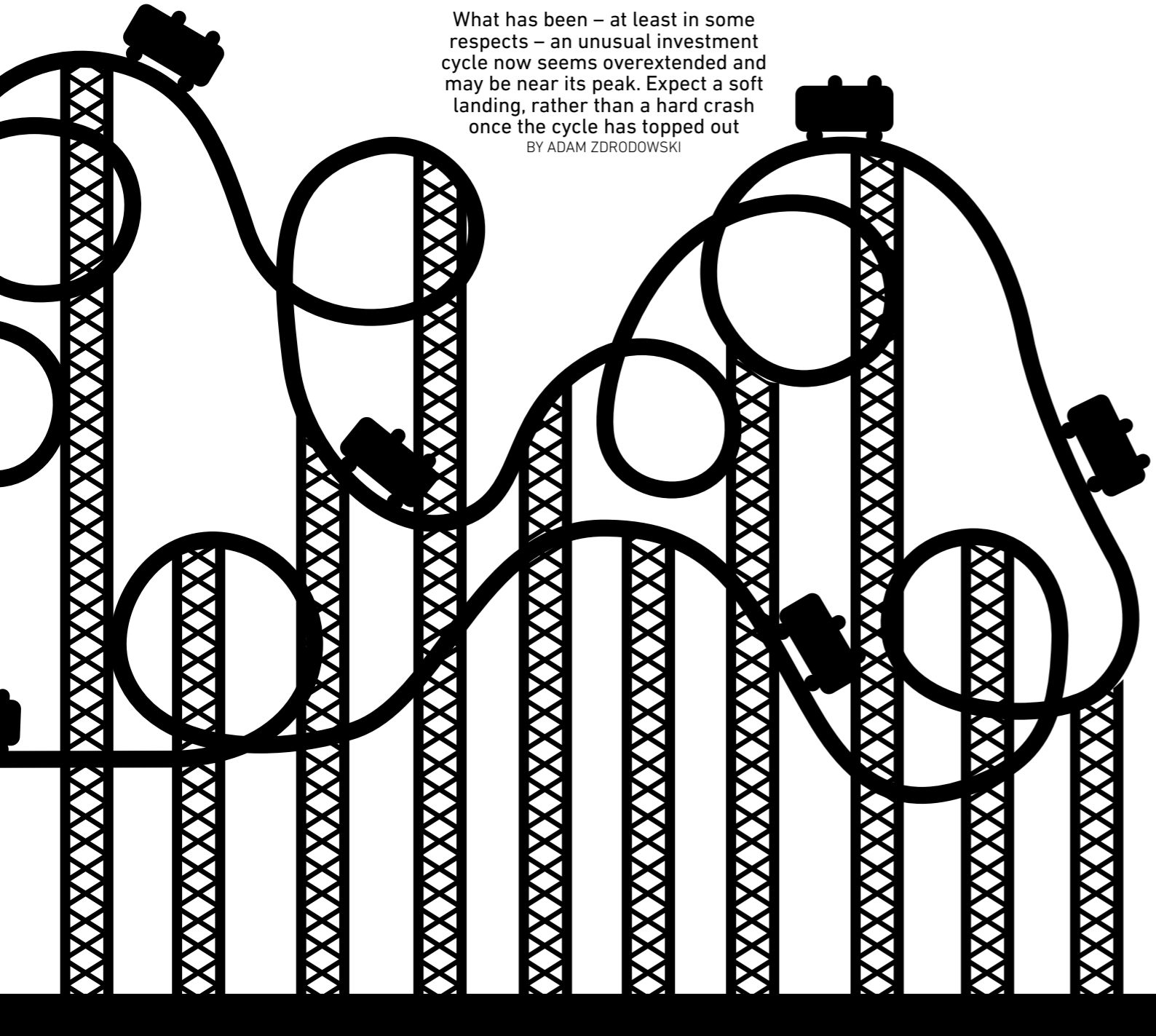
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END OF THE RIDE?

What has been – at least in some respects – an unusual investment cycle now seems overextended and may be near its peak. Expect a soft landing, rather than a hard crash once the cycle has topped out

BY ADAM ZDRODOWSKI



The property markets of Central and Eastern Europe have seen total annual transaction volumes increase steadily in recent years with an all-time high likely to be recorded in 2019. What should the markets be braced for afterwards? Real

estate and economic experts claim that while the climax of the current cycle is clearly in sight, no big tremors of the kind that were felt a decade ago when the previous boom ended in a spectacular bust are to be expected this time round.

TOPPING OUT

According to agency data, the total value of transactions closed in the CEE-6 investment markets – Poland, the Czech Republic, Hungary, Bulgaria, Romania and Slovakia – last year reached a record €13.1 billion. Analysts are saying that sentiment indicators in the region are pointing towards a further expansion in investment volumes in 2018.

They also argue that the cycle is likely to top out next year. Signs that the peak may be near include rental rate growth in the office sector, which indicates vibrant economic activity, and indications that there could be a development boom in CEE-6 over the next two years. The previous development boom, seen in the years 2007-2008, ended as the global financial crisis broke out. Developers tend to become hyper active toward the top of a cycle as they hurry to deliver product for investors, experts explain.

There are symptoms suggesting that this mechanism is now underway – witness the rising construction costs in Warsaw and Budapest. Last but not least, the increased investor interest in hotel properties could signal a peak in the current cycle. Hotel investment volumes in the CEE-6 region more than doubled

in 2017 and reached the level of some €988 million.

Feedback to the quarterly RICS Global Commercial Property Monitor suggests that an increasing number of respondents see the CEE market as being near or in the peak phase. “Interestingly, however, we are not getting a sense of significant

concern over valuations at this point, which we would normally expect to see as the cycle begins to look over-extended,” revealed Simon Rubinsohn, the chief economist at RICS.

Indeed, most forward-looking indicators from the organization’s publication point toward both the investor and occupier markets

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remaining in good shape at least throughout the course of the current year. And how could the real estate environment shape up in 2019? According to Rubensohn, while it is questionable whether the macro-economic backdrop can remain equally favorable, "the factors that have typically brought both economic and property cycles to an end seem less present in the current environment."

This, at the very least, "raises the possibility of a softer landing for markets than might typically be expected," Rubensohn argued. Of a similar opinion was Walter Hampel, head of real estate finance CEE at pbb. "The end of the current real estate cycle will be driven by the end of the low interest rate environment. According to most experts, this is still at least a year or two away," he said. However, he added that political and liquidity risks in CEE also need to be taken into account.

EASY RIDERS

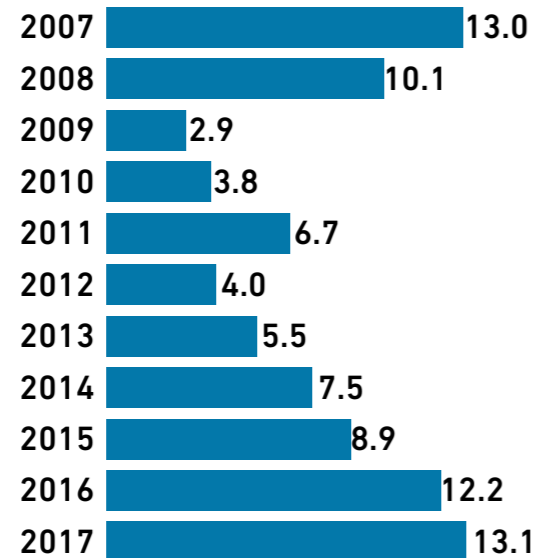
Born out of the turmoil caused by one of the most serious economic crises in decades, the current cycle has been an unusual one. On the one hand, new lending regulation in the major Western economies has meant less cash available for real estate development and investment. Globally, transaction volumes have been lower than they would arguably have been without the post-crisis lending restrictions. On the other hand, however, a wave of monetary stimulus has been providing important support.

The combination of an extended period of ultra-low interest rates and quantitative easing has been instrumental in driving the current cycle, Rubensohn argued. Low rates, Hampel pointed out, make bond markets unattractive and stock

markets seem fully priced to many investors. "Real estate investments are therefore comparatively attractive, which leads to a lot of capital seeking exposure to real estate as an asset class for investment. CEE is only part of this bigger trend," he maintained.

Inflation has not manifested itself

Historic CEE-6 investment volumes (bln €)



in the way it did previously. "This has provided a comfort blanket for investors who have felt more emboldened in squeezing yields on real estate, while spreads remain wider than in the past," Rubensohn said. Foreign institutions have played a role in driving investment activity in CEE as they have sought to increase their involvement in the market. The region has been awash with funds coming from new directions, including Asia, the Middle East and South Africa.

Admittedly, Asian and South African investment volumes in CEE last

year decreased compared to 2016, but they still reached the healthy levels of €1.4 billion and €1.8 billion respectively, according to Colliers International data. Significantly, CEE (including both domestic and cross-border) capital put up an impressive performance in 2017. It accounted for investment transactions valued at a total of €3.3 billion, which marks a 32-percent increase y/y.

Savills data show that whereas in 2007 investors from the Asia Pacific and Middle East and Africa regions accounted for transactions in Poland valued at €232 million and €210 million respectively, last year the volumes were already at €1.082 billion and €502 million. The percentage share of European capital in the transaction volume in Poland has been decreasing steadily, with investors from other continents increasingly interested in property in the country.

A rise in demand for non-core assets including hotels has also been a feature of the investment market in the region of late. "We would not jump to the conclusion that this is a sign of speculative

excess, but it justifies close monitoring," Rubensohn claimed. Factors such as the decreasing premium for risk related to investment in commercial real estate have led investors to look for alternative assets that will be more immune to cyclical fluctuations, explained Michał Stępień, an associate in the investment department of Savills.

Apart from hotels, alternatives to the traditional real estate asset classes of office, retail and logistics now include student housing, nursing homes, medical centers, rental

apartments, data centers and infrastructural projects. In Poland, for one, this trend was last year evidenced by Catella Real Estate's acquisition of a package of luxury apartments in Warsaw's Złota 44 skyscraper. In total, some €29 million was invested in institutionalized rental property in the country in 2017.

Central and Eastern Europe – and Poland, as the region's biggest investment market, in particular – continues to attract foreign investors aiming at geographical diversification of their portfolios. Relatively high yields are a major incentive. They provide a sort of compensation for the low yields on investment found in the leading markets of Western Europe. For their part, historically low rents allow one to hope for a rise in property values in the long-term.

LESSONS LEARNT

Indeed, in the opinion of Stępień, low rents are the main feature distinguishing the current market situation from that seen in the pre-crisis years when yields reached record-low levels and rental rates were the highest in history. Besides, even though ten years have already passed since the outbreak of the global crisis of 2007-2008, commercial real estate investment volumes in Poland have only recently reached levels that are comparable with the level recorded in 2006.

Meanwhile, over the last decade the stocks of existing space in each commercial property sector in the country have grown by approximately 100 percent. This means that the last few years have not been defined by what could be described as frenetic investment activity. "It seems that the latest financial crisis has taught real estate market players to be very cautious and one should only expect minor corrections, rather than the burst of a speculative bubble in the coming years," Stępień concluded. 📍



We are not getting a sense of significant concern over valuations at this point, which we would normally expect to see as the cycle begins to look overextended

IDEAS INTO ACTION

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DIGITAL IMPACTS

Digital computing and communication technology has brought about revolutionary changes in how people work and spend their free time, and it is now also having a significant effect on the commercial property market. How is the trend playing out in CEE?

HIGH-TECH has been asserting an increasingly strong influence on real estate around the world, leading to profound changes in each of the commercial property sectors – from flexible offices, through teched-up shopping centers to highly automated warehouses. CEEQA has held several insight summits on digital impacts on real estate in CEE during the MIPIM and MAPIC property fairs in Cannes, France, in recent years. Four years on from the first such meeting, how much has changed in the region in this regard?

FLEXIBLE OFFICES

Enabled by technology, employee mobility and flexible working have become some of the most important workplace trends of late. The way in which people work and companies operate is changing, which generates more and more demand for new workplace solutions. A major result of the phenomenon has been the growth of the flexible office space sector. Concrete data for all of CEE is hard to come by, but most panelists at the 2016 CEEQA@ MIPIM meeting agreed

that tenants will drive the trend across the region in the near future.

In Poland, there is currently a combined 129,000 sqm of co-working and serviced office space, of which 94,000 sqm is located in Warsaw, according to Savills data. Last year, a total of 31,300 sqm of such space was leased in the Polish capital. This represents nearly four percent of the aggregate 2017 leasing volume in the city, an almost four-fold increase over a period of two years. Operators of flexible space now account for a bigger share of the demand in Warsaw than they do

in Amsterdam, Madrid or Vienna.

Admittedly, compared with such locations as Berlin or London, there is still room for growth. In the latter city – the European leader – 204,500 sqm of flexible space was last year leased in the two biggest office zones alone, which translates into an 18-percent share of the demand. However, it is not yet clear what the dynamic development of the sector will mean for the market for traditional office space, noted Jarostaw Pilch, head of tenant representation, office agency, at Savills.

On the one hand, many landlords fear that we are witnessing a generational change on the tenant side that will result, in the near future, in a new way of using offices and mean a move away from long-term lease agreements. On

the other hand, there are those who claim that demand for flexible office space is limited and that the market will soon become saturated. The moment of truth will probably come in 2020 – by then most of the new locations of this kind are scheduled to open, Pilch pointed out.

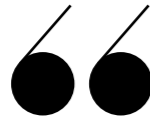
Periods of limited supply of new office space in a given market are an opportunity for co-working and serviced office space operators. They are then able to secure tenants who would otherwise not even consider such an option. New regulations may also prove to be of help. The new international financial reporting standard (IFRS 16), which will come into effect next year, will oblige companies to recognize lease agreements signed for 12 or

more months as liabilities on their balance sheets, so short-term deals are likely to become more popular.

Large corporations – and not start-ups as is often thought – are the main tenants of co-working and serviced office space that is increasingly popular with quickly developing companies from such sectors as IT, fintech and software development. Of course, there are tenants who value privacy and stability and will never want to use flexible office space. “Without any doubt, though, we are witnessing the emergence of a strong alternative office space leasing market,” Pilch argued.

INTELLIGENT MALLS

The growth of e-commerce has led to major changes in shopping centers – in



Besides the staff of approximately 1,000, the center is being operated by around 3,000 mobile robots. This is not science fiction any more, this is reality

order to be able to compete with online retail, landlords have been looking for ways to provide visitors with a "unique shopping experience," which has meant repositioning malls as leisure destinations. The amount of space occupied by tenants from the food and beverage sector has been growing, and entertainment and recreation facilities such as cinemas and fitness clubs have become a must at prime retail projects.

There is now talk of a new category of "social" malls at which the retail function is no longer dominant. As for traditional tenants, fashion retailers have been helping to ensure good footfall, as predicted by the CEEQA@Mapic insight summit in 2014. Indeed, in 2017 fashion brands accounted for approximately 30 percent of the tenant mix of a typical shopping center in CEE. They also accounted for the largest number of debuts of foreign retailers in the region.

Shopping centers have also been getting teched-up in response to clients' changing lifestyles and preferences. The future of retail will be about personalized offerings and experiences, retail experts claim. Retailers are already using a whole range of mobile applications that help them to better understand the shopping habits of malls' visitors. Beacons integrated with

such apps have been tested in a number of shopping centers across CEE.

Wojciech Krawa, a management board member at EPP, which manages a portfolio of 18 retail assets across Poland, said that the company is using modern technologies to measure footfall at its malls and to know where their visitors come from (by monitoring cars' number plates). New and modernized malls also use LED technologies in their digital signage systems. It is expected that in the future technologies such as artificial intelligence, and virtual and augmented reality will become the standard in shopping centers.

AUTOMATED WAREHOUSES

During the 2014 CEEQA@MIPIM insight summit, Amazon's EMEA real estate head Raimund Paetzmann claimed that online retail is only at the early stages of its evolution and it is therefore impossible to say what it will look like in 20 or 30 years. What is certain, however, Paetzmann maintained, is that it will need increasingly more distribution and storage space. The distribution and storage centers of the future will look different from the centers which we know today.

He predicted that in the future, distribution centers will be located closer to city centers to better address the

demand from online retail which is concentrated in urban conurbations, and that they will likely have a vertical format so that space rental efficiency can be maximized. Is this indeed happening? Well, to some extent. A report published by Cushman & Wakefield last year said that urban logistics space requirements in Warsaw will expand by 90 percent by 2021, from 43,000 sqm to 82,000 sqm.

Yet the report also admitted that there are problems across Europe with logistics entering cities, with competing higher-value land uses remaining a major issue. In CEE, e-commerce tenants do choose taller buildings that offer good transport links with large agglomerations. However, because of price considerations, the properties are usually not located within city limits, but rather in cheaper suburban locations. Meanwhile, technology has been affecting the sector in another way – warehouses are now becoming increasingly sophisticated buildings.

"The logistics sector around the world has always been at the forefront as far as the employment of modern technological solutions is concerned," said Maciej Szczepański, business development manager, industrial and logistics agency, at Cushman & Wakefield. Admittedly, until recently such solutions were not very common in CEE as the low cost of labor and of obtaining warehouse space made investments in high-tech unprofitable, but this is now changing.

According to Robert Dobrzycki, CEO Europe at Panattoni Europe, the growth of the warehouse market has been defined by optimization, with the industry now increasingly turning towards automation, robotics and green solutions. To get a glimpse of what the future may hold for the logistics sector in CEE, one only needs to take a look at the 161,500-sqm Amazon fulfillment center that Panattoni Europe completed near Szczecin in north-western Poland last year.

Besides the staff of approximately

1,000, the center is being operated by around 3,000 mobile robots which move around the huge warehouse by following some 70,000 barcodes stuck onto the building's floor. The robots, which move at a velocity of six kilometers per hour, carry pallets around the Amazon center and are capable of lifting loads weighing as much as 340 kilograms. "This is not science fiction any more, this is reality," Dobrzycki said.

DIGITALIZED AGENCIES

And how has high-tech been impacting the work of those employed at real estate services firms who – as brokers, advisors and analysts – are dealing with each of the above-mentioned commercial property sectors? Tomasz Trzosto, the managing director of JLL in Poland, said that for agencies prop-tech (property technol-

ogy) means major opportunities as it enables them to make processes more efficient and to offer new, technology-based services. However, it also means threats.

Technology is developing so fast and its impact on the way in which real estate services are offered will potentially be so big that one needs to adapt quickly to be able to stay competitive in the market. Trzosto stressed that the global management of JLL is fully aware of this. The company has been investing in prop-tech development – last year, for instance, it launched JLL Spark, a global business meant to identify and deliver new technology-driven real estate service offerings.

It also co-launched Concrete, an initiative whose aim is to identify and support promising prop-tech start-ups. JLL has to date acquired several prop-tech companies, including facilities

management platform Corrigo. In CEE, JLL is now developing VR technology, using artificial intelligence while analyzing documents such as lease agreements and experimenting with new ways of measuring the use of office space with the help of beacon-based technologies, Trzosto revealed.

Joanna Mroczek, senior director and member of operational board at CBRE Poland, argued that during the process of advising a client, technologies play a secondary role and that personal relations and finding the right solutions that address clients' needs remain crucial. However, she admitted that technologies have changed the way in which those solutions are presented to clients – the offered business analyses and data are of a new, better quality. New technological solutions are strengthening the role of the advisor, Mroczek claimed. ☑

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Ten years and counting

As CEEQA reaches its 15th anniversary in 2018, there will also be another milestone to celebrate at this year's Gala. Monika Zamachowska, who will lead the award presentations, has been doing this for exactly a decade now, greatly contributing to institutionalizing the importance of the event for the real estate sector.

Monika's first year as CEEQA host was 2009. The event took place at the Warsaw Hilton hotel, where Werner Otto received his Lifetime Achievement Award, and Marynarska Business Park won the

Office Development of the Year Award. That was also the year when Bananarama was the Gala's headliner for the first time (later, in 2013, they were invited to perform again, by popular demand).

Monika has hosted CEEQA insight summits in Cannes and the Gala in Warsaw every year for 10 years now, playing a major backroom role as well as a front of house role in professionalizing CEEQA with her unique personal charm combined with immense professional experience. During the time, Monika became a fixture for the CEE property market. With high-caliber events, it's important both to keep some of the most valuable assets as well as to mix things up to keep it fresh.

"Monika's presence and professionalism has been one of our greatest assets over the decade she's been presenting CEEQA, helping to transform the Gala from a decent regional level event to an event of genuine European and global market stature," said Richard Hallward, founding director of CEEQA.

Monika Zamachowska is a journalist and a TV show-host working for Polish Public TV (TVP). She hosts a three-hour live morning show on Channel 2. In the past she hosted one of the most popular talk-shows in the history of Public TV entitled "Free Europe" which ran for almost six years with a weekly viewership of six million people.

She is fluent in English and Spanish and conducts media-training courses in both these languages. She has moderated several international conferences focusing on the Baltic Sea region for European authorities and several other organizations in Stockholm, Helsinki, Copenhagen and Gdańsk. She also moderates conferences on financial matters such as the European Financial Congress in Sopot (for the last five years), issues of European transport (TRA Conference 2016 at the National Stadium in Warsaw) and medical matters (EVIDAS Conference in Warsaw). She hosts corporate events, gala ceremonies and press conferences. Her longest involvement hitherto has been with CEEQA Awards. 📷

<p>Shopping Center Ogrody Elblag, Poland</p> <p>CPI</p> <p>81.336.000 €</p> <p>Long Term Financing Arranger and Sole Lender</p>	<p>Warsaw Spire Warsaw, Poland</p> <p>GHELANCO</p> <p>370.000.000 €</p> <p>Long Term Financing Agent, Arranger and Co-Lender</p>	<p>Retail Portfolio Poland</p> <p>80.000.000 €</p> <p>Long Term Financing Co-Arranger and Co-Agent</p>
<p>The Park Warsaw, Poland</p> <p>WHITE STAR REAL ESTATE</p> <p>105.000.000 €</p> <p>Development and Long Term Financing Co-Arranger and Co-Lender</p>	<p>Retail & Office Portfolio Czech Republic</p> <p>CPI</p> <p>221.698.000 €</p> <p>Long Term Financing Agent, Arranger, Co-Lender</p>	<p>CTPark Bor Czech Republic</p> <p>CTP</p> <p>176.756.000 €</p> <p>Long Term Financing Agent, Co-Arranger/Lender</p>

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BUILDING the future

The real estate and construction market has experienced a period of rapid change over the past few years. The trends that we have discussed in the past are now materializing and altering the reality and the future of real estate players. Deloitte Real Estate stays close to its clients, and due to our involvement in various areas of the real estate market, we have the unique opportunity to see the real estate business in its full complexity from different angles. With all these changes going on, Deloitte Real Estate is releasing its Real Estate Predictions 2018.

We are confident that our predictions underline the current trends and enhance the understanding of the opportunities within the real estate industry.

Real Estate Predictions 2018 covers nine major areas that will impact the real estate sector in the nearest future. From the high-level perspective, we would like to draw your attention to two main triggers that are a common basis for all of the predictions below – the human factor and technological development.

People’s rapidly changing aspirations and lifestyle patterns directly affect the real estate industry more profoundly than many people expected in the past. Their impact is not restricted solely to the widely discussed millennials’ effect but applies to all employee groups and their expectations regarding quality of life, work environment and also inclusion in the company decision-making process. All of these factors are of crucial importance to employers operating in this very competitive market, where the well-educated and highly motivated labor force has begun to run dry. On the other hand, the development of technology-based solutions has had a revolutionary impact on different aspects of the industry. It makes employees’ lives easier and more productive but in some cases it makes them redundant. The productivity and efficiency paradigm makes technological solutions inevitable, triggering changes which completely alter the real estate market as we know it.

We hope that you find Real Estate Predictions 2018 as inspiring and as exciting as we do.

WELLNESS, WORK AND REAL ESTATE

The rise in the recognition and understanding of the relationship between the wellbeing of the workforce and productivity is leading businesses and developers to explore ways in which a physical building can promote wellness. Factors that can improve wellness range from natural light, air quality, noise and office design. The introduction of new standards should encourage more businesses to participate.

THE RISE OF CO-WORKING SPACE AND THE NEED FOR SMART BUILDINGS

Co-working is on the rise and it changes the way we use office space. Co-working spaces need to be flexible and optimized at the same time. For best fit, the use of IoT – the brain of the building – is crucial for detecting the needs and issues that arise.

REAL ESTATE DECISION-MAKERS OF THE FUTURE

Corporations’ organizational designs have evolved with the faster pace of technology, a greater level of workforce agility and the changing nature of job roles, all of which have impacted the way in which we interact with the physical workplace.

FINTECHS: COMPLEMENTING THE REAL ESTATE ECOSYSTEM

Fintechs have made rapid inroads into the real estate industry. The general notion is often that start-ups are a threat to incumbent real estate companies as they offer innovative solutions and enhanced user experiences at a relatively low cost and faster pace.

REDUCE THE PRODUCTIVITY GAP WITH ROBOTIC AND COGNITIVE AUTOMATION (R&CA)

The continuous technology advancement is creating and enabling more structured and unstructured data and analyses respectively. The real estate sector has the opportunity to leverage one such technology – R&CA – to potentially drive operational efficiency, augment productivity and gain insights from its large swathes of data.

ROBOTICS FOR REAL ESTATE SERVICES

Digitalization is changing the real estate sector. What if buildings eventually become smarter than our processes? RE companies are increasingly starting to apply Robotic Process Automation (RPA) in their daily businesses and boosting the efficiency of their workforce. Nonetheless, looking at the sector-specific processes and the administrative effort which is related to the management of properties, we find ourselves at the beginning of this trend.

PUBLIC SECTOR TRANSFORMATION

Public sector real property organizations have an opportunity to fully embrace digital disruption, transform their property operations and portfolios and benefit from lessons learned in the private sector.

THE FUTURE OF COMMERCIAL REAL ESTATE

Social, economic, ecological, political and technological disruptions will change the way we work, live and shop. These developments will have a significant impact on today’s established market players in the commercial real estate sector and their share of the value chain. Who will be successful and who will become obsolete in our future real estate world?

BLOCKCHAIN

Blockchain technology has been adopted in the real estate industry over the past few years; however, the pace at which the adoption is taking place is rapidly increasing and traditional roles are being fragmented. What are the lessons that have been learnt so far?

The real estate community is increasingly aware of the significant potential that blockchain holds for its industry. Numerous successful trials and several Initial Coin Offerings (ICOs) have been announced, and the surge in new applications, working examples of the technology and new business models has only just begun.

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Diverse opportunities

WBJ talked to Agata Sekula, head of retail investment CEE at JLL and winner of the Industry Professional of the Year award at last year's CEEQA Gala, about the current popularity of retail assets with investors active in Central and Eastern Europe

WBJ: It has been 20 years since you joined JLL – do you know the aggregate value of the transactions that you have helped close over all those years?

Agata Sekula: The JLL retail investment team has participated in transactions valued at over €12 billion in that period.

The retail sector last year accounted for the biggest chunk of the total investment volume in CEE. What makes retail property so popular with investors?

Indeed, in 2017 in Poland €2.1 billion was transacted in retail, which represents 41 percent of the entire transaction volume (the office sector ranked second with 31 percent of the overall volume). Across CEE statistics look quite similar – retail accounted for 42 percent of the total 2017 investment volume in the region.

There are a number of reasons for retail investments taking the lead position amongst investment sectors, including the availability of product across various types of retail: shopping centers, retail parks and factory outlets in numerous cities as retail has been developing in both large agglomerations and very small cities. In the retail sector opportunities of

different risk profiles can be found – from top core institutional low yielding shopping centers in regional cities, to very opportunistic, demanding or even, in some cases, struggling product that requires active asset management available at much higher yields. This diversity attracts various investor groups.

Furthermore, large regional shopping centers carry substantial volume. In 2018 in Poland over €1.7 billion has already been transacted in only four transactions, including three portfolio deals breaking down to €434 million per transaction. Clearly, 2018 has been pretty extreme so far, given the recent €1 billion Project Chariot transaction. But in any case, deal volume in retail is on average typically the highest amongst all investment sectors. Importantly, we have also recently witnessed an increasing number of portfolios transacted in the retail sector, and this trend continues.

Considering retail itself, the positive economic outlook – with strong a GDP, low unemployment, increasing purchasing power and continuous retail sales growth – is having a positive influence on the sector and creating strong investor demand.

Will retail real estate also remain in demand across the region in 2018?

We strongly believe that we will witness a record year in 2018 in Poland for retail investment. Deals that have closed so far (even before the end of Q1 2018) already represent almost 70 percent of the entire 2017 retail volume. There are a number of transactions at advanced stages that are due to close in Q2 2018, and a substantial volume of new product has just come onto the market, which will, in our opinion, meet with strong investor demand. That should translate into numerous transactions this year.

What kind of retail assets are investors now looking for?

As I mentioned, investors are looking at various types of retail assets. The beauty of retail lies in the wide diversification of product that can meet the requirements of a wide spectrum of investors.

Do you see any major threats or challenges to retail investment in CEE in the near future?

I do not see any major challenges in the near future. The availability of product is always

key, and although in Poland we have not had reasons to complain recently, in other CEE countries the supply of retail product is much lower.

Where has the capital invested in CEE retail been coming from in recent months?

In the last 18 months retail investors have come from many countries including Germany, South Africa, the UK, the US and the Czech Republic. There are also a number of fund managers active on the market that

invest on behalf of a range of global investors.

Are CEE-based investors now active buyers in this sector?

Czech capital has been one of the most important sources of money investing in real estate in the Czech Republic for a number of years now. Interestingly, we have recently seen examples of investors domiciled in the Czech Republic and Hungary investing outside of their home markets and buying retail in Poland for example. .

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CEEQA 2018 Winner | Lifetime Achievement

Gordon Black

Senior Managing Director – European Private Equity **Heitman International**




developer Golub & Co. The firm made an early entry into the Budapest market with the Harbor Park logistics development in 1998 – the conversion of an old pig farm. They then entered the Prague market with the Charles Square development in 2000 with GE Capital Golub, at which point Gordon moved to Heitman's London office to continue to lead and grow the firm's European Private Equity group following the formation of Heitman's first European commingled fund.

"It has been a true pleasure to have participated in the institutionalization of the overall CEE real estate marketplace and to have contributed to the quality improvements of the real estate landscape in the region," said Gordon.

Gordon and his team have frequently led the charge of institutional capital investment across the region as the various country markets opened up, including the Baltics and Romania in 2006, Bulgaria in 2008 and Croatia in 2010 with the signature Arena Centar project in Zagreb by TriGranit, creating opportunities for others in driving the direction of the market place and helping to shape the future of the region. To date the firm has invested in approximately €4 billion of real estate assets in nine Central and Eastern European countries.

"I am humbled by receiving this award and it would be remiss of me if I didn't accept it on behalf of the entire Heitman team. I have had the good fortune of working with a multitude of the highest quality professionals in real estate and of having the full support of Heitman, without which we would never have achieved the various accomplishments that we have," Gordon commented.

Founded in 1966, Heitman is a global real estate investment management firm with approximately €32.5 billion in assets under management. Heitman's real estate investment strategies include direct investments in the equity or debt capitalization of property or in the securities of listed and publicly traded real estate companies. Heitman is wholly owned and controlled by senior officers of the firm.

Gordon is an equity owner of Heitman and a member of the firm's Executive Committee, Board of Managers, Global Management Committee, and European Investment Committee. He is also a member of the Urban Land Institute and the Commercial Investment Real Estate Institute. 

terests lay. During his time at Michigan State University, working toward a BA in Finance, he knew he was destined for a career in real estate and following graduation, he joined Heitman in 1988 where he worked in a variety of groups including finance and accounting, property management and leasing, and a Special Projects group focused on complex development projects.

Assuming responsibility for Heitman's European activities in 1995, the firm recognized an opportunity to participate in the Central European region prior to and post NATO and EU accession, anticipating that there would be yield convergence with Western Europe and significant catch up growth in connection with becoming part of the EU.

The first European investment came in 1996, providing the majority of the equity capital to develop the Warsaw Financial Center in partnership with Chicago-based

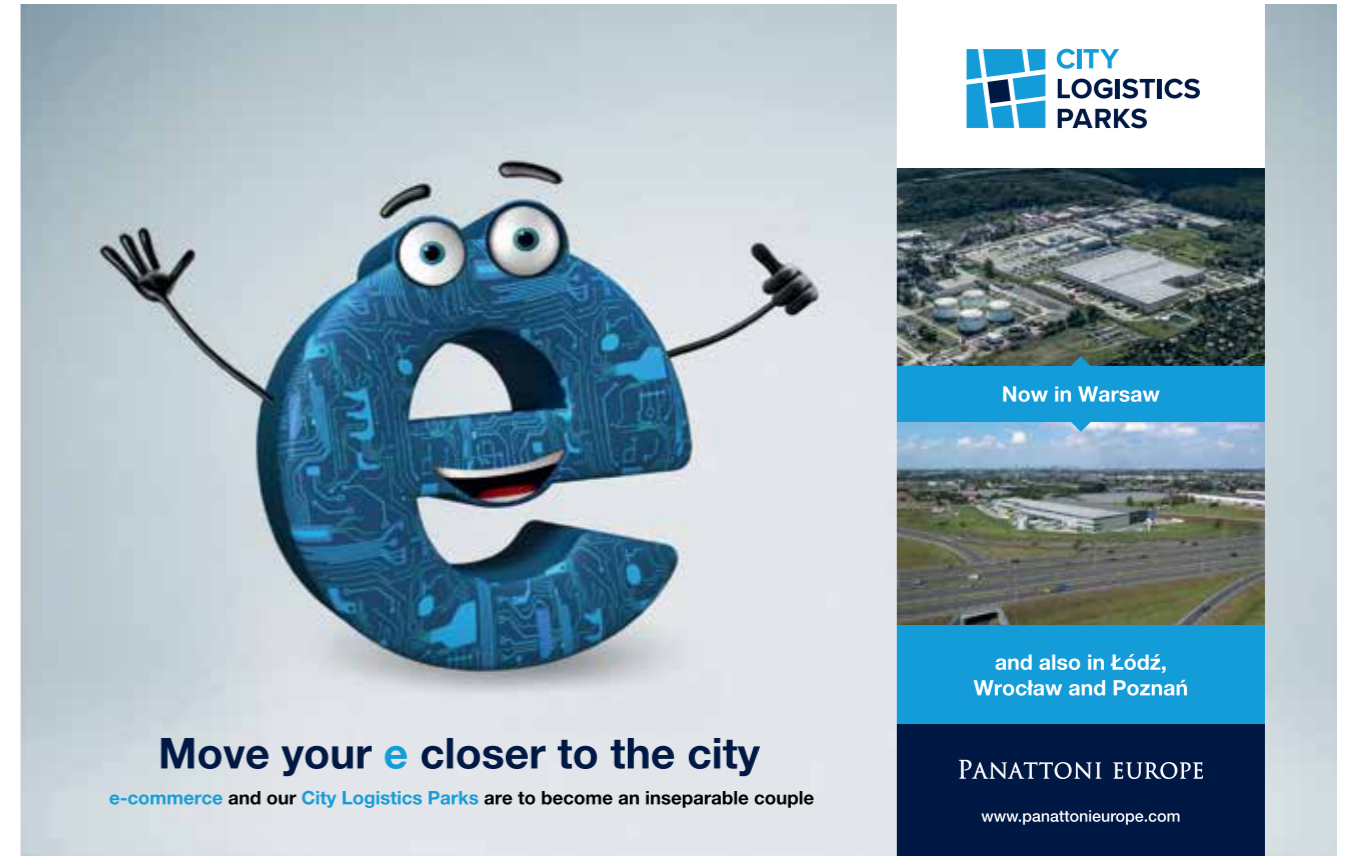
Leading the charge

This year's CEEQA Lifetime Achievement Award, one of the highest distinctions a person can receive in the real estate business, goes to Gordon Black, senior Managing Director, European Private Equity at Heitman International.

As leader of Heitman International's European Private Equity operations since 1995, Gordon has been one of the central figures in the emergence and growth of the CEE real estate markets for over two decades.

"When one looks across the timeline of the development of the CEE & SEE real estate marketplace post 1989 there are a handful of figures who stand out as leaders that have helped to drive it forward with courage and wisdom. Gordon is unarguably one of them," Richard Hallward, founding director of CEEQA, commented.

Gordon was clear early on where his in-

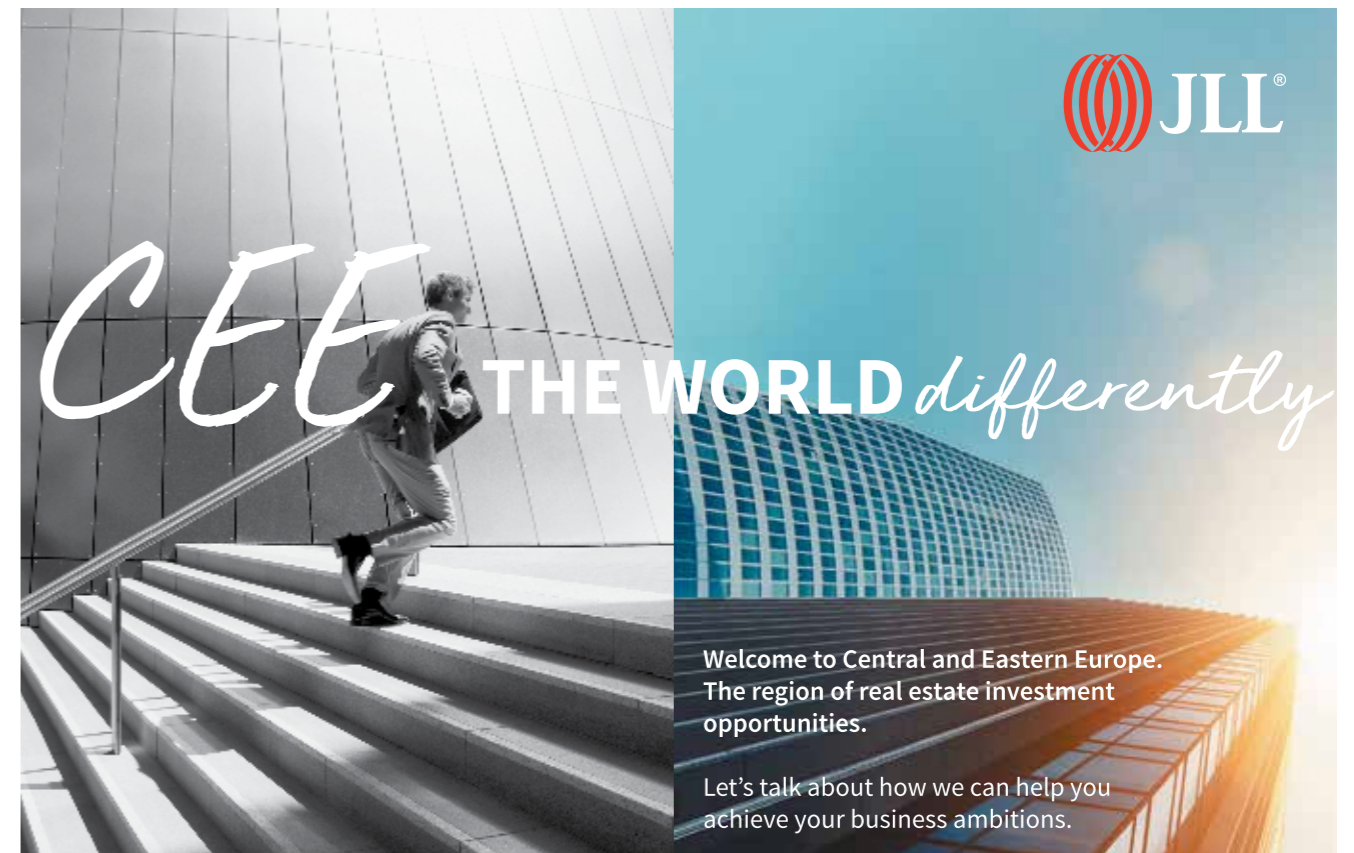


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Market shifts

The nominations for this year's CEEQA Awards are in. As in previous years, they reveal a lot about the latest trends in the commercial property markets across New Europe

The shortlist for the 2018 edition of the CEEQA Awards – arguably the most transparent and the most important annual industry recognition for business excellence in the commercial real estate markets of the CEE and SEE regions – was announced on March 27. A record 555 entries were made this year; following the first round of judging, the jury shortlisted 12 nominees in most of the categories (in the case of agent awards, the number ranges from six to eight).

A total of 23 awards will be presented at the 2018 CEEQA Gala – now in its 15th year – including five awards for completed buildings, 16 awards for companies and two awards for people, with the shortlist featuring both the usual suspects and a few new heavyweights. A wealth of high-spending investors and an abundance of high-quality office proj-

ects are among the nominees – it will be fascinating to see who the awards go to in these categories. The competition among aspirational green buildings is also particularly fierce this year.

The markets of Central and Eastern Europe saw record investment volumes in 2017 and the shortlist for the Investor of the Year category is indeed packed with the names of big buyers responsible for some of the largest acquisitions closed in the region last year. Notably, big SEE names such as Globalworth Real Estate Investment and NEPI Rockcastle have emerged as significant players in CEE as well. Globalworth acquired a controlling stake in Griffin Premium RE in December 2017 and is now a major office investor in Poland.

The presence on the list of Czech investors CPI Property Group and REICO is testament to the growing significance of local players as key participants in the CEE investment arena. Purchases by domestic and cross-border investors in the region grew substantially in 2017. Markedly absent in this context are Polish real estate investors. Legal mechanisms which would allow domestic capital – including that accumulated by pension funds – to be invested in the property market are yet to be implemented in the country.

As for the shortlisted buildings, CEEQA has registered a massive uplift in quality in the Office Development of the Year category this year. Interestingly, four (the maximum a city can get) out of the 12 nominations went to Prague properties, with the Czech capital now in the lead position to bring home the award. A total of five office buildings from four Polish agglomerations (the Tri-City, Kraków, Warsaw and Wrocław) made it to the shortlist, while Sofia, Bucharest and Budapest each saw one of their new office buildings nominated.

Prague is also strongly represented in the Hotel, Leisure & Residential Development of the Year category in which its properties have got four nominations. The Retail Development of the Year category, by contrast, is dominated by Poland, with four Polish malls having

been shortlisted. In general, there seems to have been a slight shift southward this year with three Romanian and three Serbian buildings having been selected during the first round of judging. The Baltics are represented by just one property on this year's shortlist.

GREEN IS THE COLOR

Following a slight drop-off in 2017, green buildings have made a resurgence this year, in terms of both their caliber and quality. BREEAM Very Good and LEED Platinum certificates seem to be becoming standard in CEE-4 countries and are gaining in popularity in SEE, too. The Green Leadership Building of the Year and Green Leadership Company of the Year shortlists feature regional giants such as Skanska Commercial Development Europe, but also include local leaders such as Torus and Olivia Business Centre from Poland's Tri-City area.

The "newcomers vs. incumbents" rivalry has been one of the main themes during the CEEQA Awards editions in previous years and it can also be clearly seen across virtually all the company categories this year. Some of those contests will be really interesting to watch. Could real estate services firm Cresa (which entered the Polish market in 2017), for instance, win against the established agencies that have been doing business in the country for many years?

While the recipient of the Lifetime Achievement in Real Estate award is already known, the Industry Professional of the Year award is still up for grabs. Developer Skanska Commercial Development Europe alone has secured as many as three nominations in this category. Investors are represented by such prominent figures as Hadley Dean, the CEO at EPP – a company that has been one of the most active buyers in Poland in recent months and has the ambition to become the leading retail landlord in the country.

Shortlists with nominations in three of the categories – Overall Building of the Year CEE, Overall Building of the

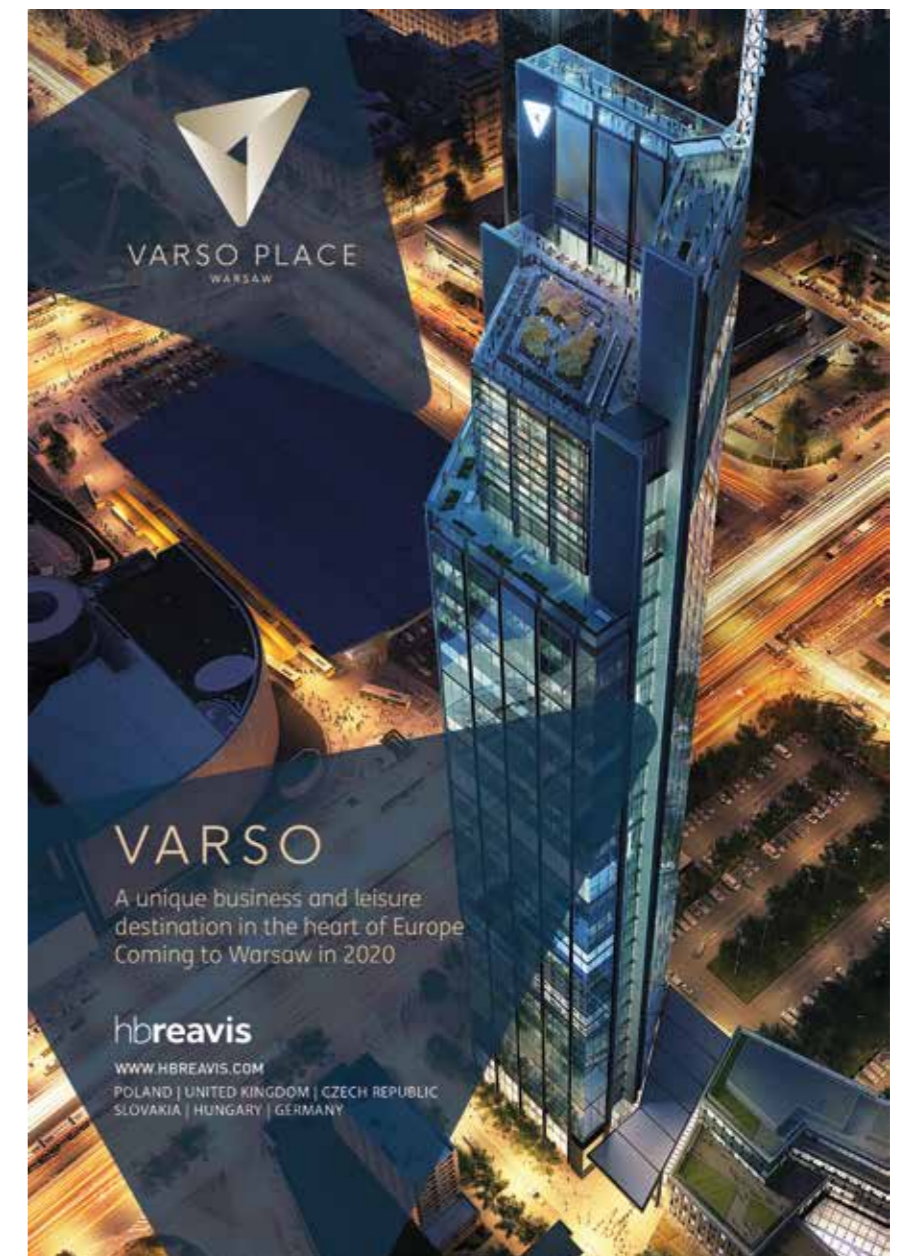
Year SEE and Overall Company of the Year – are to be revealed at the CEEQA Gala. The final round of judging will take place on April 24, and the winners in each category will be announced and presented with their awards at CEEQA's flagship annual event in Warsaw the following day. Congratulations to all the shortlisted nominees and good luck at the Gala!

AWARD HIGHLIGHTS:

555 entries in

23 categories from

18 countries





A case for sustainability

Office developers in Central and Eastern Europe embraced green building solutions quite a few years ago. Investing in sustainability is nothing new in the region, but with virtually all new office projects now certified in the BREEAM or LEED rating systems, are energy efficiency and environmental performance still hot topics in the sector or are they simply being taken for granted? How green are office buildings in CEE compared to those in Western Europe? Will the new WELL certification system become popular in the region?

We put these questions to Katarzyna Zawodna-Bijoch, president and CEO at Skanska's commercial development unit in CEE. The company has, without doubt, been one of the pioneers and leaders in the implementation of green building solutions in the commercial property market. Here is what she told us:

"Green certifications such as LEED have become commonplace in CEE since 2009. Now it's time to write a new chapter, and the WELL Building Standard is definitely the next important step for the office real estate market. The system focuses more on how people feel in buildings and how it affects their health. Very often we don't realize that distracting background noises may cause a 66-percent drop in employees' performance, or how the quality of air can impact our effectiveness at work. I'm sure that WELL will be very welcome and quickly adopted in the market as our tenants are really demanding and set their standards high when it comes to workplace comfort. They also perceive their offices as an important employer branding tool, so

office spaces need to be competitive like never before.

Air pollution itself – indoors and outdoors – is a hot topic as we face serious air quality problems in our part of Europe. Many companies are starting to focus more on their corporate carbon footprint. Businesses need to take this very seriously and protect employees and the environment. That's why companies appreciate the role of certifications which help them to measure, evaluate and meet healthy air quality norms. In Skanska's office developments we use two types of filters which are carefully chosen, taking into account the airborne dust present in the neighborhood.

Last year we made an important decision to develop energy self-sufficient buildings. Skanska is the first developer worldwide to cover office buildings with semi-transparent perovskite solar cells on a commercial scale. Perovskite technology means benefits for the developer, tenants and communities; favorable implementation costs, lower energy costs and consumption, and lower carbon footprints. Last year we set up cooperation with Saule Technologies. This new partner will provide us with cutting-edge solar energy solutions that we are going to start testing in one of our CEE office developments this year.

All of these sustainable innovations are becoming reality in CEE. It's the new Silicon Valley for commercial real estate. Office assets located in Central and Eastern Europe are at the highest level and they give nothing away to Western European properties when it comes to quality and sustainability."

By Katarzyna Zawodna-Bijoch, president and CEO at Skanska's commercial development unit in CEE

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Morcheeba

MIXING BUSINESS WITH PLEASURE

As well as being the climax of the sector's most prized industry awards, the CEEQA Gala is also the only place to get a real snapshot of the achievements and opportunities, and to meet its serious players. No other event can rival CEEQA's status as the industry's top get-together. Guests are entertained, new relationships forged and future deals struck

PHOTOGRAPHS SHUTTERSTOCK



Percy Montgomery

Over its 15-year run, the CEEQA Gala has acquired a reputation for being one of the best prepared and most skillfully executed industry events in the region. Its entertainment is always top-notch, with major world-class stars headlining the event each year. This year, Gala guests will be even more amazed than before, with Morcheeba as the guest star of the night. One of the great UK bands at the forefront of the trip-hop genre, they rose to prominence in the mid-nineties, touring the world and selling over 10 million albums across two decades, including the hit album "Big Calm" and gaining mainstream chart success with singles "The Sea," "World Looking In" and "Rome Wasn't Built in a Day." Skye has one of the most recognizable voices on the planet and hearing her smooth, effortless tone teamed with Ross' psychedelic guitar is an unforgettable, spellbinding experience. The band has just produced its ninth album and is currently touring China, from where they will be flying directly to perform live at this year's CEEQA Gala.

Morcheeba joins a long list of top performers who have added extra glamour to the event. In the past few years, guests have enjoyed performances by Macy Gray, Kim Wilde, Bonnie Tyler, Hot Chocolate, Bananarama and Sister Sledge, to name just a few.

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THE FULL "MONTY"

Amid the South African investment invasion over the past couple of years, this year's Gala guests will be treated to a pep talk by a sporting great on the ingredients of success. Percy Montgomery was the first player in South African rugby history to play 100 test matches for the national "Springbok" team, and a decade after his retirement he still holds the record for the most points scored by a Springbok player.

A true legend of the game, he was a Rugby World Cup winner for the national team in 2007, scoring 12 of South Africa's 15 points in the final against England with four kicks out of four. He was also the leading scorer in the tournament – one of a host of international and provincial rugby honors and more than 60 playing records set over a 12-year first class rugby career. He has something to

say to all of us about setting and achieving goals.

A FURTHER TASTE OF SOUTH AFRICA

Expanding on the African connection, a gospel choir from the streets of Cape Town – and one of the country's most popular event performers – will take to the stage to give the guests a taste of Africa's musical heritage.

Since forming in 2003 as a group of young people from the Khayelitsh area of Cape Town, Inkubeko Arts & Culture (aka Save Us All) has grown into a movement, singing a native form of black gospel music and performing regularly around the streets of Cape Town. In 2015 they were invited to perform at the coronation of the Xhosa King Zwelonke and they also won the inaugural Victory Gospel Music "Breakthrough Clap & Tap Choir" award. Jacques Lagesse is an entertainment

legend from Johannesburg, whose rich and velvet vocals and captivating renditions of crooner classics to contemporary rock and pop hits have built his legend in the South African entertainment industry. They will all be joined by some of CEEQA's regular colorful performers, including Mimello – plus a few unusual surprises.

THE BUSINESS END

Once through the door, Gala guests are treated to the finest of everything, from the champagne and vodka martini reception and elegant Belvedere-prepared gala dinner, Mielżyński-selected wines and Moët Hennessy champagnes to the famous CEEQA no-limits after party – its sponsored bars, lounges, entertainment and other special features providing an unrivalled adventure playground in which to mix and celebrate into the early hours of the morning.

SOMETHING NEW, SOMETHING OLD

An important change in 2018 is the move to an even more spacious and arguably more attractive location just a few doors down the road from Soho Factory (the venue for the past five years) in the Praga district on Warsaw's east bank.

Built in the 1950s, the Praska Drukarnia complex at Mińska 65 offers up to 25 percent more space while retaining the popular post-industrial atmosphere of Soho. A disused, state-owned printing works which in its heyday under Communism was reputedly responsible for the production of more than 100 million books, leaflets and posters. The premises have been given over to style sector events and photo shoots for the past few years and have built the technical and management capacity to host an event of the scale of CEEQA.

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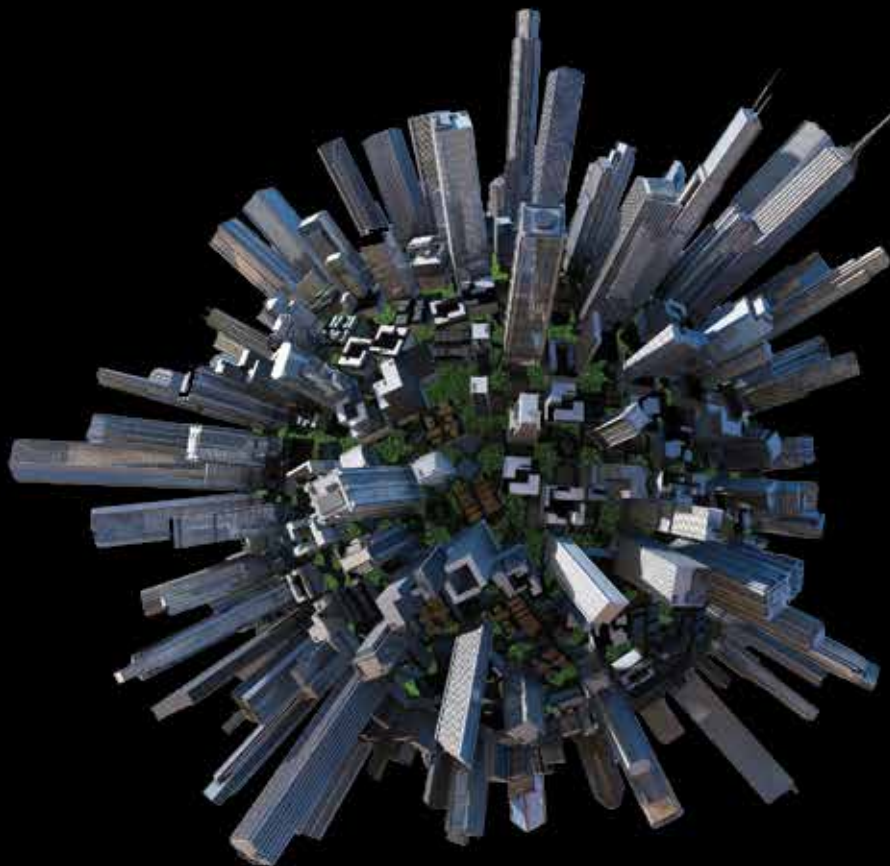
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