

Real Estate House View

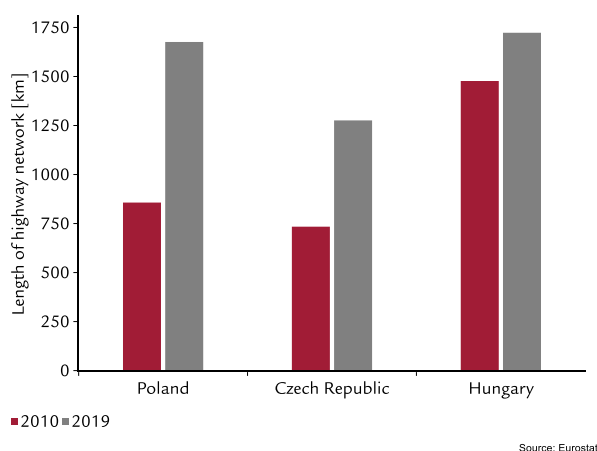
Poland, Czech Republic, Hungary

First half of 2022

Key takeaways

- **Stabilisation on the office markets:** Moderate upturn in lettings dampening rise in vacancies and stabilising prime rents. Investors continuing to seize top properties.
- **Retail investors focusing on retail parks:** Major high street locations and shopping centres are suffering but showing initial signs of improvement under pandemic conditions. Food-based retail parks are proving a haven of stability in the retail sector.
- **Logistics markets with ongoing growth:** Demand for space from e-commerce and industry is driving rents upwards. Investors caused significant yield compression in 2021 that is set to continue.
- **Housing markets still “hidden champions”:** Expansion of the rental apartment market amid ongoing shortage creating a growing market that still remains manageable for investors.
- **Investors know how to differentiate:** As in the rest of Europe, investors in Central and Eastern Europe are focusing on fundamentally strong sectors e.g. logistics, but a liquid housing market is still lacking in the region.

Chart in focus



Large parts of goods traffic depend on truck transport for which the scope and quality of road infrastructure is of decisive importance. In the countries of Central and Eastern Europe, there has been a significant expansion of trunk roads such as motorways in the last two decades, particularly in Poland and the Czech Republic. The logistics industry has benefited from these enhancements in terms of both national goods traffic and improved integration into international transport networks thanks to the expansion of routes to Western Europe.

The underlying financial conditions have become much tighter in all Eastern European countries. The yield on ten-year Hungarian government bonds has climbed from below 2% at the start of 2021 to above 4%. This development is curbing momentum and increasing the cost of investments. The rise in interest rates is the response to a tighter monetary policy. Hungary's central bank has hiked its key interest rates in several stages since June 2021 from 0.6% to 2.4% at present. The Czech National Bank has also started to tighten its monetary policy. These measures and the loss of consumer purchasing power are curbing the region's domestic demand. The expected further recovery of industrial production in Germany is exerting a positive effect, with Czech, Hungarian and Polish export-oriented manufacturers of semi-finished products benefiting from this.

Slight improvement for offices

Demand for space and letting performance recovered during 2021, especially in the third quarter and on the office market in Prague. The significant rise in vacancies since the start of 2020 came to a halt, with the trend only continuing to point upwards in Warsaw. Despite the postponement of new projects, a significant volume of new builds is to be expected in the next few years so that the availability of space is set to remain high. The future growth expectations for prime rents therefore remain subdued, while older assets should see their rents come under pressure. We do not consider office properties to be the top pick in the region, although the volume of investments remains high: according to RCA, around EUR 3.2 bn was invested in offices in Poland, the Czech Republic and Hungary in 2021, and while this is significantly down on the level of 2019 at EUR 5.5 bn, the office sector nevertheless remained the strongest type of use in the region. Stable prime yields serve to reflect the existing demand for modern properties. Continued investor competition and therefore declining yields are to be expected in the next few years.

Retail park segment an anchor

The volume of transactions in the retail sector reflects significant shifts in investor preferences: at around EUR 1 bn, the figure for 2021 lies well below the levels in the period from 2015 to 2019 with around EUR 3.5

bn per year. At the same time, the differentiation familiar throughout Europe is emerging here, with food-based retail park now the favourite among investors. Properties among the traditionally dominant shopping centres are primarily being traded with the aim of strengthening or completely repositioning their tenant structure. The weakness of the non-food segment and therefore of the main high street locations and shopping centres is illustrated by the prime rents at top locations of the capital cities that appear to have stabilised in 2021 but latently remain under downward pressure. No recovery is to be expected in the short term.

Logistics markets very strong

The logistics sector is also the favourite among investors in the countries of Central and Eastern Europe and above all in Poland. E-commerce in the region is growing strongly and is also interwoven with the supply chains to Western Europe. Furthermore, demand from industry, especially from car manufacturers, is not to be underrated and is being driven by the ongoing trend towards the (re)transfer of production to and within Europe. Strong letting activities and rising rents, above all in the metropolitan regions, characterised the markets in 2021. Investors acquired properties with a total value of around EUR 3.1 bn, which equates to a downturn on 2020 (approx. EUR 3.5 bn) but one attributable to a lack of products. Investor interest is spreading beyond the capital regions to other economic centres and locations along the transit routes. Prime yields fell by around 50 basis points in 2021, and a further moderate decline is to be expected.

Housing complexes taking hold

According to RCA, almost EUR 1 bn was invested in the residential sector in the countries of Central and Eastern Europe in 2021, continuing the uptrend of previous years. Supply continues to limit the market so that new construction projects are gaining increasing weight. The shortage is at the same time driving the rental markets: in Poland an estimated shortage of around two million apartments means demand cannot be met. The initial yields remain attractive when compared internationally despite ongoing compression in the range between 3.5% and 5%.

Figure 1: Vacancies in the office sector

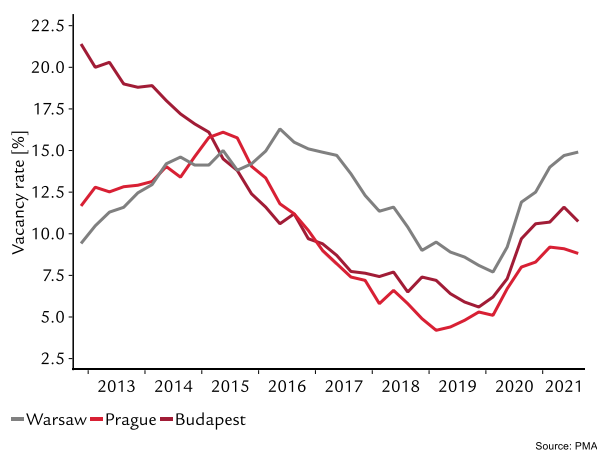
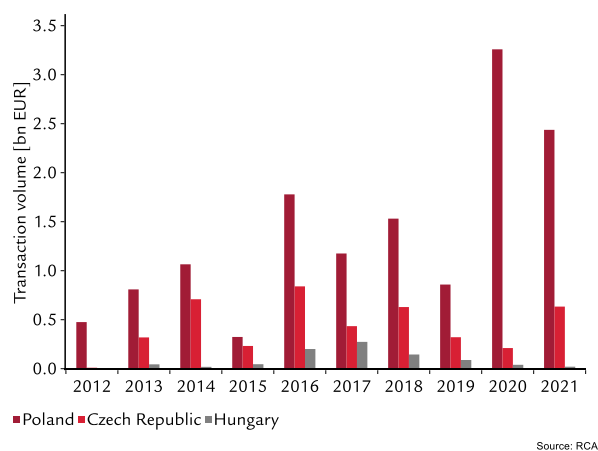


Figure 2: Volume of investments in logistics



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