The CEE Investment Scene
Q1 2020

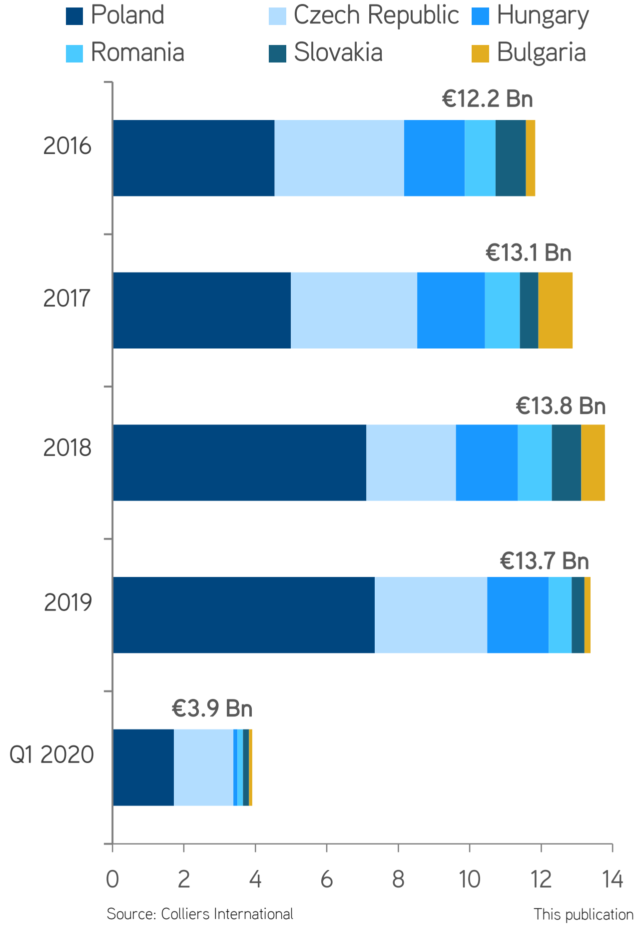
SPECIAL INSIGHT SERIES | COVID-19 OPPORTUNITIES & CHALLENGES IN EXTRAORDINARY TIMES

This edition of the CEE Investment Scene is a little different than usual as the interesting times that we are currently in require a little more narrative than the usual infographic approach. To put it briefly, the Covid-19 pandemic has certainly put a hard break on almost everything we know and is like nothing we have ever seen before. **Huge chunks of the economy are essentially on pause** and are waiting for the unenviable task of Governments to hit the play button, once they/we feel it is safe to do so. This is of course having varying effects on real estate, whose value relies so heavily on occupiers, who are also in varying states of despair or, in some cases, battling to cope with additional demand.

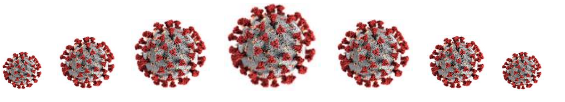
The Q1 results for 2020 look promising at first glance but, outside of Poland with a 44% share and to some extent the Czech Republic (42%), activity has dropped off a fair amount through March and with **the bulk of the impact for transactions becoming more evident from Q2 onwards**. Due to the various measures imposed on both domestic and international travel, all parties involved in transaction processes are largely unable to meet or visit properties. According to initial results from our on-going market surveys, investor appetite remains strong, the volume of capital for deployment also remains and could potentially increase but, **many investors are holding off on decisions** for a number of weeks initially until the situation becomes clearer, particularly in regard to financing, pricing and the ability to physically view opportunities.

So much depends on how long the pandemic will continue to impact on our lives, to what extent of damage is caused economically and how all active players can recover and adapt to the changes that will certainly come, or at least remain in the short to mid-term future. After all, **whether you are a developer, bank, investor, occupier or advisor, there will be an impact for all**.

CEE INVESTMENT VOLUMES BY COUNTRY
2016 – Q1 2020 (€ BILLION)



Source: Colliers International

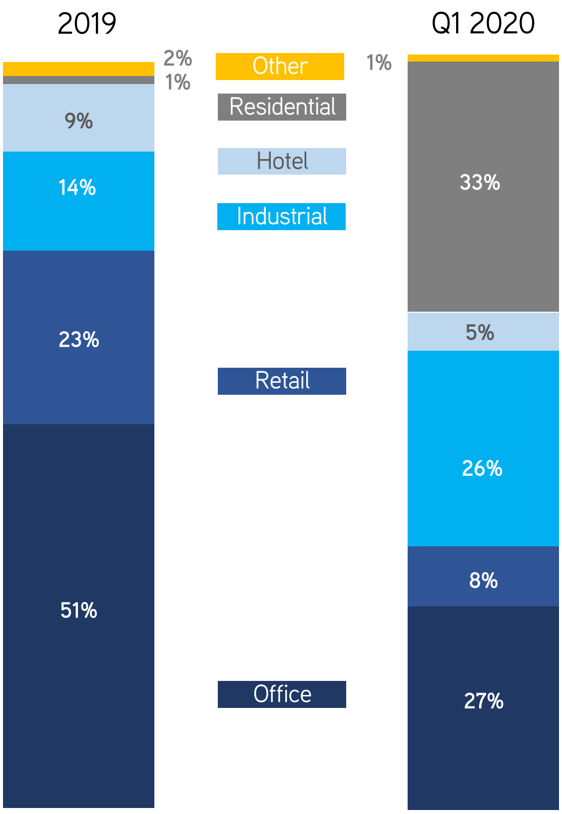


Transaction volumes were very healthy in Q1 at ca. €3.9 billion, although were supported by some deals that spilled over from 2019 and the significant €1.3 billion deal by Heimstaden on the Residomo portfolio in CZ. As a result, Poland and the Czech Republic accounted for ca. 86% of the total volume.

As can be seen in the following chart through the €1.3 billion Residomo portfolio sale, residential tops the sectors in one deal but, **offices (27% share)** have marginally maintained their place in the order of preference, closely followed by Industrial and **Logistics (26% share)**, which most investors will almost certainly say will become their new preferred segment in current times. One of the challenges will be sufficient availability due to the number of major, long term holders in the region. **Hotels and retail are unfortunately the worst hit sectors** from the various lockdown measures but, both had expected strong levels of activity.

In addition to buyers, potential sellers may also decide to hold off on marketing until there is more clarity. However, **owner occupiers are quite likely to consider sale and leaseback options**, if there would be a need to raise operational capital. The alternative funding option would be Government backed or alternative bank credit which may be restricted despite attractive interest rates.

CEE FLOWS BY SECTOR (%)



Source: Colliers International

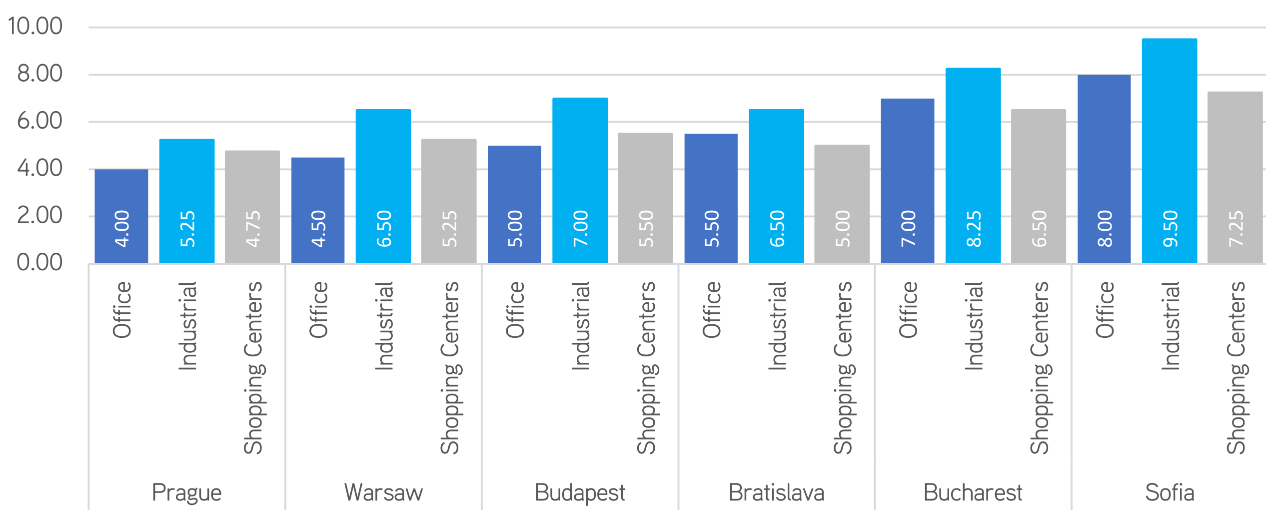
MARKET AND PRICING OUTLOOK

So, what does this all mean in terms for values, yields, and pricing? Well, many of the transactions from Q1 were already in advanced stages at the onset of the pandemic so these will not really provide the answer as this whole situation is quite unique and different to other past crises. Current owners are certainly looking very carefully at their exposure to risk, especially in terms of government measures affecting tenant rental payments and of course covenants.

It remains too early to put specific figures on any repricing due the lack of clarity around so many contributing factors across the various sectors. It is clear that some sectors, such as **retail and hospitality, are more affected than others** and Q4 2019 pricing might not be appropriate today. This is in addition to the pre-existing challenges in these sectors thanks to the growth of e-commerce and changing consumer habits. On the other hand, we do expect **high demand for logistics and subsequently some upside.**

In the interests of all market players, we hope that the recent hints of positivity in terms of flattening curves will continue to push through, and we can all take a fresh look at things.

PRIME YIELDS (%) AS AT Q4 2019



Source: Colliers International

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