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WHAT'S UP **CEE?**

ALL YOU NEED TO KNOW
ABOUT REAL ESTATE IN CEE

RESEARCH

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Real Estate for a changing world

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 **BNP PARIBAS**

INTRODUCTION



ERIK DRUKKER

Chief Executive Officer CEE

BNP Paribas Real Estate Poland

We are pleased to present our latest
BNP Paribas Real Estate "What's up CEE?" report
showing the untapped potential of the region
as an investment location.

In our study we provide a wide range of crucial information and figures on the real estate sectors in key regional markets: Poland, Czech Republic, Hungary and Romania.

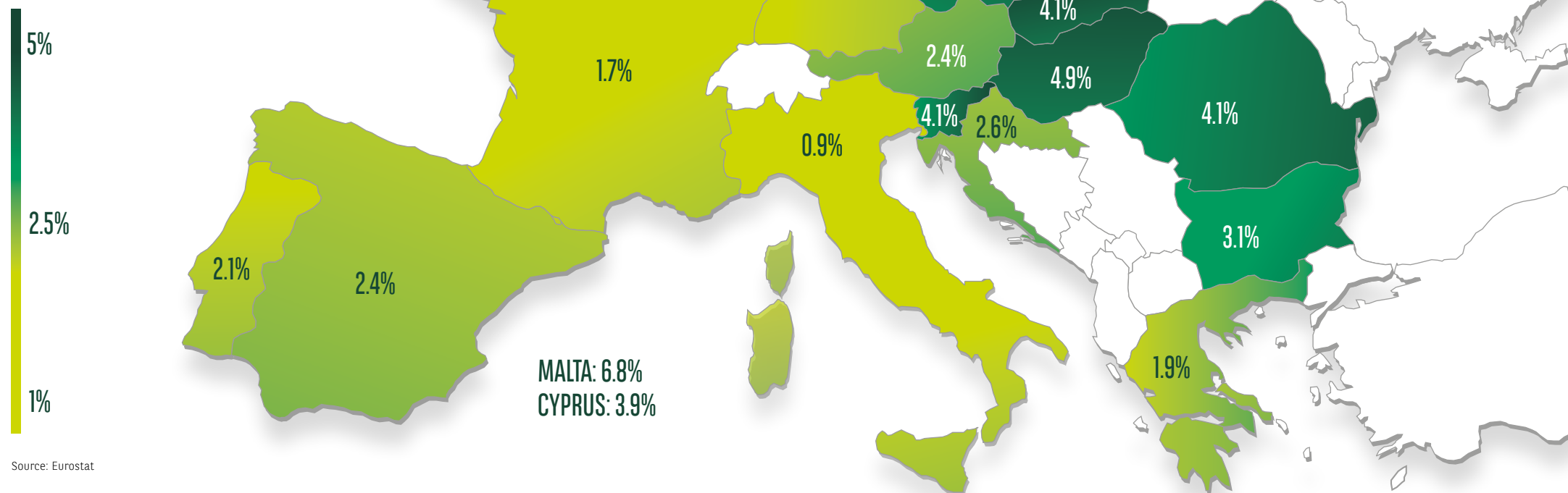
Over the last five years the real estate market in the region has grown exponentially and consolidated its positive perception among investors. Local economies growing at a fast pace, profound infrastructure improvements, unemployment reaching historical lows, a high inflow of FDIs, a steady growth of wages and purchasing power; all these factors form a solid pocket which supports bright prospects.

CEE offers a sizeable market of over 16 million m² of modern office space in the capitals only, 24 million m² of modern

retail provision and nearly 32 million m² of modern warehouse stock. Moreover, yields higher than in Western Europe combined with the availability of institutional quality product create ample opportunities for a wide range of investors. In 2018 an all-time record volume of nearly €13 billion was deployed across CEE, with a particular surge in the logistics sector. Strong results of H1 2019 confirm that investors still consider favourable opportunities in the CEE region and their appetite for product remains high.

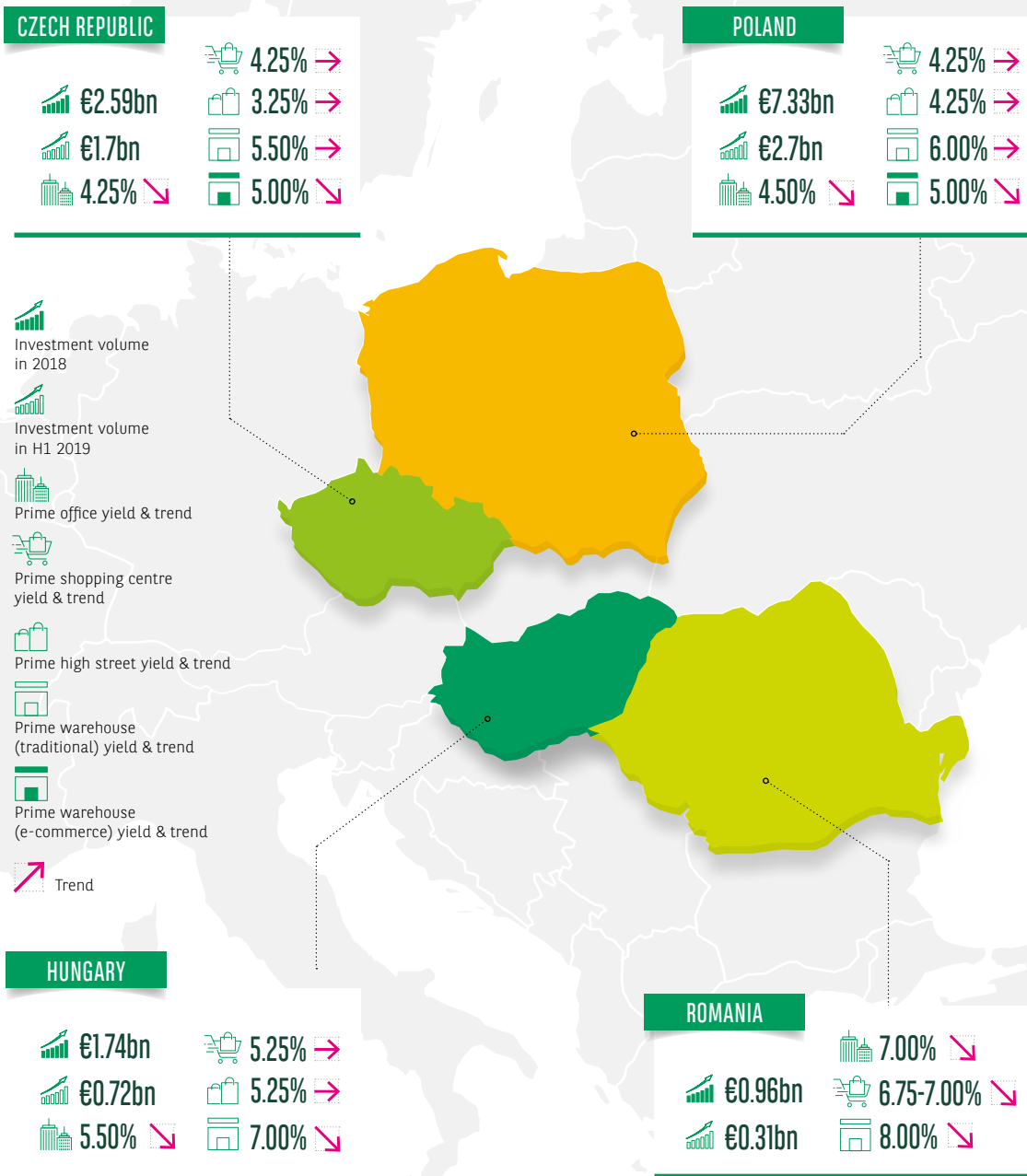
MACROECONOMIC SNAPSHOT

REAL GDP GROWTH IN THE EU IN 2018



Source: Eurostat

INVESTMENT MARKET INDICATORS & TRENDS IN SELECTED CEE COUNTRIES



FOCUS ON REAL ESTATE

INVESTMENT MARKETS IN CEE

The CEE real estate investment will probably maintain a healthy pace in 2019

The sustainable economic performance of the entire region and the good availability of product coupled with high investor demand resulted in the unprecedented level of €12.57 billion traded in the CEE-4¹ in 2018. The volume recorded a 12% increase over 2017, and set a new record for

a further consecutive year. In the course of the first half of 2019, the capital deployed in the region reached €5.45 billion, thus beating the half-year outcome of the previous year, and bodes well for the full-year investment spend.

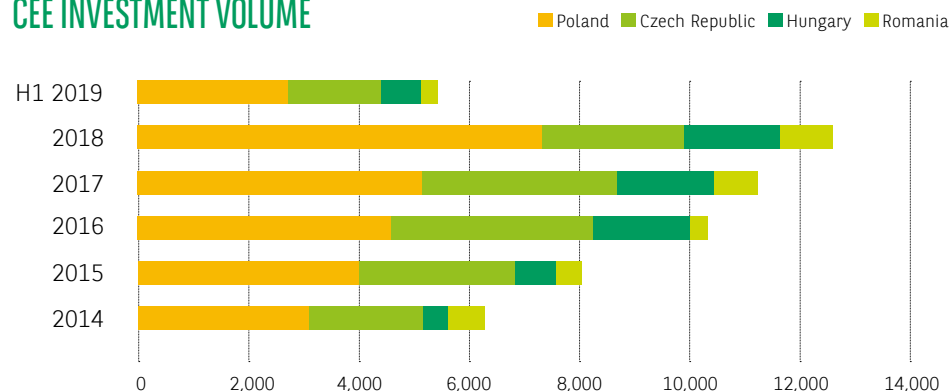
Both in 2018 and even to a larger extent in the first half of the current year, offices were the top performing sector in the region. Investor appetite for product in the retail sector has curbed significantly, due to uncertainties prevailing in the retail industry. Interest in industrial and logistics assets has remained very strong and is expected to continue, boosted by the buoyant CEE economies and e-commerce growth. The hotel sector has its steady slice of the investment volume, while new, alternative investment sectors, such as residential-for-rent and student housing, have been attracting ever-increasing investor demand, although the availability of product is meagre.

In the Czech Republic and Hungary, domestic capital sources have been remarkably active, and this is expected to continue in 2019, although on a smaller scale. The surge of new capital from Asia, in particular to Poland and the Czech Republic, is widening the pool of investors.

Warsaw, Prague, Budapest and Bucharest, the latter just joining the race, have been benefitting as investors search for the higher yields they struggle to achieve on more mature European markets. Consequently, sharp competition for investment products in the CEE region is expected to push the yields for prime as well as secondary assets further down, in particular in the office and industrial & logistics sectors.

¹ Poland, Czech Republic, Hungary and Romania

CEE INVESTMENT VOLUME



POLAND

The investment sector in Poland has been strongly fuelled by a number of single asset and portfolio mega deals, and with €2.72 billion is the clear leader holding more than a half of the volume transacted in the region in H1 2019.

Offices, both in the capital and on key regional markets, have attracted the bulk of capital (nearly €1.7 billion), and will continue driving the volume. The retail investment segment is on the slide; however, selected retail assets with solid fundamentals are still on the investors' radar. Strong investor appetite for product in the industrial & logistics sector has continued, most notably for prime assets occupied by exceptional e-commerce operators. The hotel sector has been having its slice of the cake for a couple of years, while residential-for-rent and student housing investment sectors have just been initiated. In Q2, the first student housing transaction was concluded (Kajima & Griffin RE purchased Student Depot for approx. €60 million). Prime yields across the sectors have compressed significantly in the course of the last 12 months. We expect to see further soft yield compression for truly prime assets in the office and industrial & logistics segments.



CZECH REPUBLIC

The Czech Republic continues to be considered as the most stable country in the region with the lowest investment risk rating. The investment volume reached €1.7 billion in H1 2019, 59% up y-o-y. Investor appetite remains strong; however, the availability of products on the market has been dwindling and may affect the full year result.

Offices were the most traded asset class (41%), targeted in particular by purchasers from South Korea, and will continue driving the investment activity in the second half of the year too. The hotel and industrial & logistics sectors have their chunks of the transactional volume, while alternative products such as mixed-use schemes and residential-for-rent assets have started to emerge.

Both German speaking and domestic buyers continue to search for product, while the Asian capital has significantly increased its footprint.

In Q2 2019, prime yields in offices compressed slightly and a further downturn is forecast as a result of strong investor demand. In the remaining segments, prime yields are expected to remain flat



HUNGARY

H1 2019 with €720 million traded was more silent when compared to the intense boom experienced in the last few years. Weaker figures can result from the heated yield compression, which has pushed investors to a more selective approach. Office assets still take a substantial chunk of the share, while hotel assets are gaining an increasingly larger slice of the cake each quarter.

The majority of the big-ticket transactions are still being carried out by the big local REIF's, but we may see a slight slow-down due to newly issued government bonds with higher yields and other recently introduced measures which extend REIF's bond redemption notice to 180 days.

In H1 2019, the inflow of capital from German speaking regions was the largest. In addition, Asian investors have been searching for products more actively.

Prime yields across the sectors have notably compressed in the last six months and a further downward trend is expected, in particular in the office sector.

€12.62bn

The best ever total transacted in CEE-4

€5.45bn in H1 2019

8% higher on H1 2018



ROMANIA

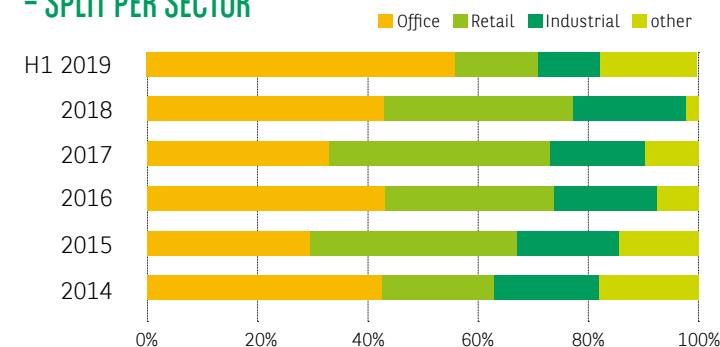
The country offers investment products of good quality and still at affordable prices. The office sector, both in Bucharest and in key regional cities, has been the most active, although retail and industrial & logistics sectors have attracted attention as well. The largest office transaction took place in Cluj Napoca, the second biggest real estate market in Romania.

Another market characteristics is an increased preference of both occupiers and investors to conclude sale & leaseback agreements. These arrangements have become popular for good quality industrial parks in top locations along the A1 motorway.

A number of top class assets are currently in an advanced stage of transaction, involving office buildings and hotels, which upon completion will pinpoint a new prime yield in Bucharest as well as the entrance to Romania of a new breed of institutional investors. Further yield compression for prime assets in top regional cities is also expected.

In addition, we see increasing interest from non-core investors in acquiring income producing assets, in central locations of Bucharest, for investment volumes below €5 million.

CEE INVESTMENT VOLUME - SPLIT PER SECTOR



KEY DEALS: LAST 12 MONTHS

€320M

Poland
Encore Portfolio > Multi-city

€256M

Hungary
MOM Shopping Centre > Budapest

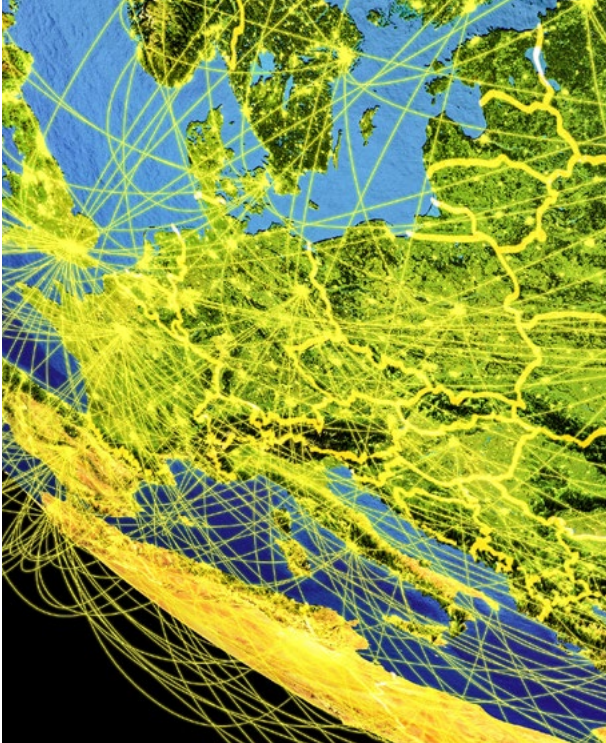
€460M

Czech Republic
CTP portfolio > Prague, Plzeň, Teplice

€200M

Romania
The Bridge > Bucharest

Country, city	Sector	Property Name	Estimated sale price (€ million)	Vendor	Purchaser
PL, Multi-city	Industrial	Encore Portfolio	320	Hillwood	Mapletree
PL, Warsaw	Retail/Office	Wars Sawa Junior	301	CBRE GI	Atrium European Real Estate
PL, Multi-city	Industrial	Prologis Portfolio	260	Prologis	Mapletree
PL - Bytom, Częstochowa, Radom, Poznań	Retail	M1 Shopping Centres (4 locations)	222	Chariot Top Group	EPP
PL, Warsaw	Office	Gdański Business Center (C&D)	200	HB Reavis	Savills IM
HUN, Budapest	Office	MILL Park	100	Skanska	Erste Property Fund
HUN, Budapest	Retail	MOM Shopping Centre	256	Multinational consortium	OTP
HUN, Budapest	Office	Corvin Office (6 buildings + 2 future projects)	n/a	Futureal	OTP
CZ, Multi-city	Industrial	CTP portfolio (Prague North, Plzeň, Teplice)	460	CTP	DEKA
CZ, Prague	Office	Waltrovka	253.5	Penta Investments	GLL (Hanwha Investment & Securities)
CZ, Prague	Hotel	Hotel Intercontinental	225	Best Hotel Properties	R2G
CZ, Ostrava	Retail	Forum Ostrava Nova Karolina	209	Meyer Bergman	REICO
CZ, Prague	Office	Rustonka I-III	163.8	J&T Real Estate	Hana Financial Group JV Whitestar
RO, Bucharest	Office	The Bridge	200	Forte Partners	DEDEMAN
RO, Bucharest	Office	Oregon Park C	170	Portland Trust & ARES	Old Mutual Life Assurance Company (SA) JV AG Capital
RO, Cluj Napoca	Office	The Office	125	NEPI & Mulberry	DEDEMAN
RO, Bucharest	Retail	Militari Shopping Park	95	Atrium European RE	MAS Real Estate
RO, Bucharest	Retail	ParkLake (50% shares)	n/a	Caelum	Sonae Sierra



CENTRAL EUROPE: MANAGING GROWTH IN TIMES OF GLOBAL TURBULENCE

Central Europe passed its cyclical peak in late 2018 and growth has been continuing to slow down. Yet, despite the more moderate pace of GDP expansion, regional economies continue to outperform Western European countries and that by huge margin.



MICHAŁ DYBUŁA

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Solid consumption demand, supported by strong labour markets and robust investment spending, propelled by the absorption of EU structural funds remains the key driver for Central Europe's robust economic performance.

The regional outlook for the coming quarters, however, is clouded by uncertainty regarding the shape and direction of the global economy. The escalation of tensions in trade policies between the US and China has not only reduced the pace of global exports and imports, but also worsened investment sentiment, reducing the scale of corporate capital spending worldwide. The impact of tighter monetary policies of the main global central banks in 2017 and 2018 also had a negative impact on investments more recently. As a result of weaker exports and investments, global GDP growth has already been slowing down in some quarters.

The worsening external backdrop is increasingly reflected by softer export figures from Central Europe, which are a major reason for the somewhat weaker overall GDP growth compared to last year. This is not a surprise, as the share of exports in Central Europe's GDP has been steadily increasing over the past few years. But, while foreign demand may continue to curb the pace of exports

across our region in the coming quarters, we do not expect this slowdown to be very severe. Low labour costs coupled with strong productivity in manufacturing industries allow Central European economies to retain their competitive edge, even, we believe, in times of global turbulence.

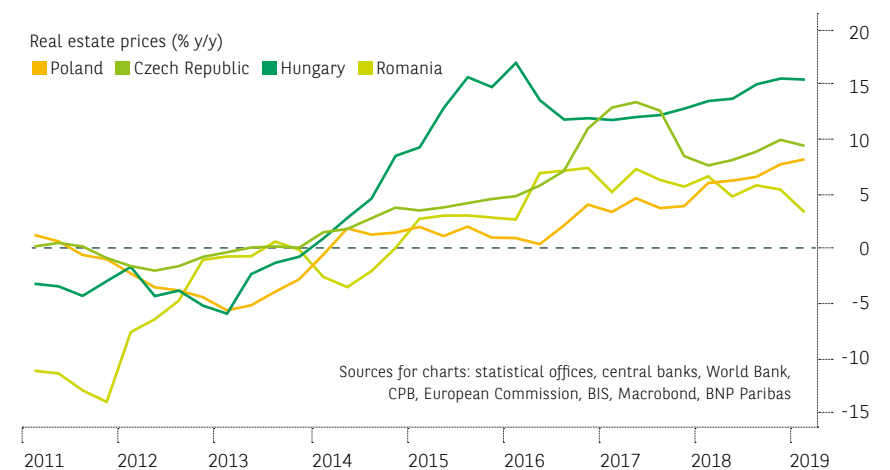
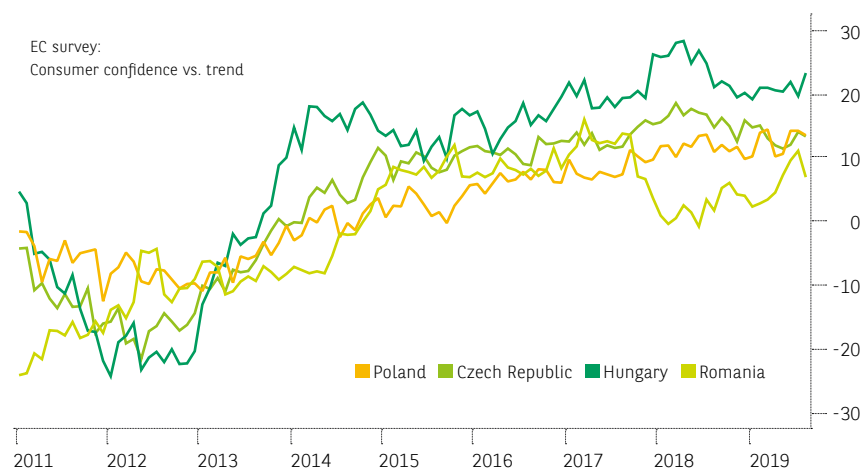
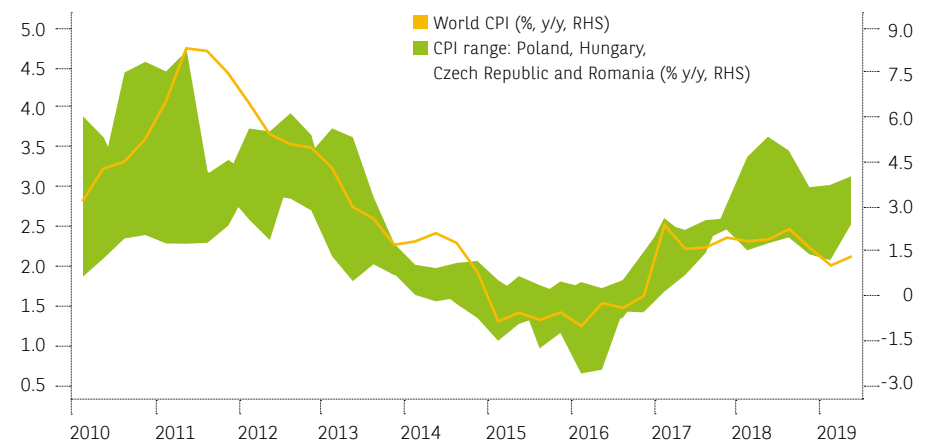
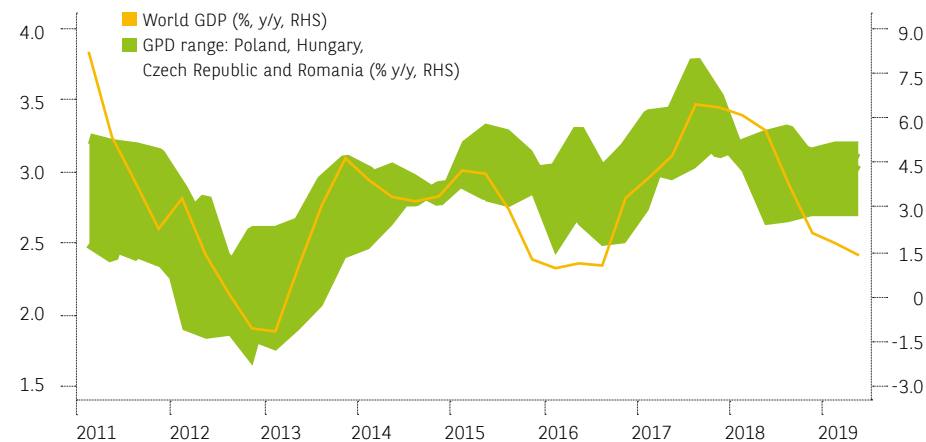
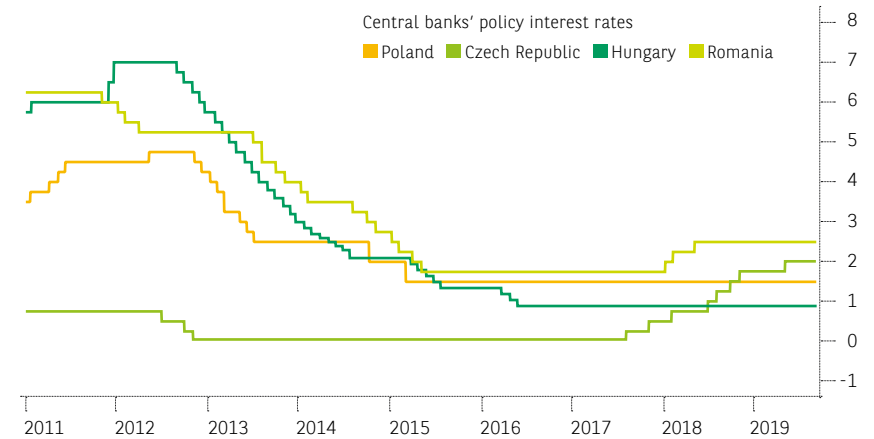
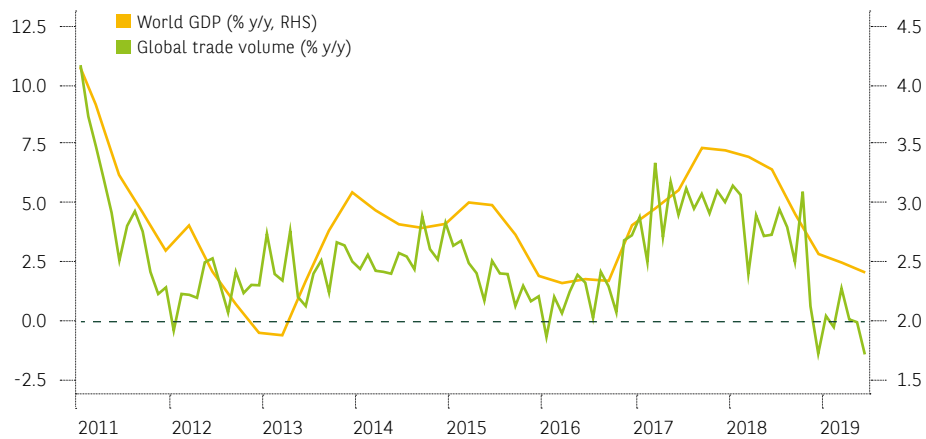
The relative resilience of exports across the region also points to a still benign outlook for investment spending. And while capacity expansion is not very likely, given the fall in demand, Central European corporates could well continue to replace older, or ageing, machinery with new equipment, which allows for less labour-intensive production techniques. That would further strengthen their competitiveness when moving into the next economic cycle. A low interest rate environment should support such developments.

Given the weaker growth outlook, major global central banks have reversed their monetary stance. Interest rates in the US have already been cut and more reductions are expected over the next one to one-and-a-half years. Meanwhile, the expected renewed expansion of ECB's balance sheet should ease overall monetary conditions on our continent. This will allow Central European policymakers to keep an accommodative stance as well, keeping both official and market-based interest rates low.

Against the background of resilient exports and investments, labour markets across our region will probably remain tight, pointing to robust wage increases and keeping the consumption momentum alive. Lower inflation, supporting household purchasing power, should be an additional factor for solid spending dynamics moving forward. In that respect, the weaker pace of global and domestic growth is actually welcome from Central Europe's perspective. Elevated price growth was the unwelcome side-effect of rapid GDP expansion in 2014-18. With global demand slowing and commodity prices edging down, we expect disinflation across Central Europe in 2020-21, at least.

The combination of robust income growth and low interest rates is usually supportive for the real estate market. In light of rapid property price increases in Central Europe over the past few years, the swift dynamics will probably not continue over the next year or two. But, while prices growth on the regional real estate markets may weaken, sharp price declines do not seem very likely at this stage.

Our base-line scenario for the region is that it will manage to keep growth afloat despite external headwinds. Moreover, we believe that Central Europe is relatively immune to additional outside risks materialising. The list of such potential risks is long, comprising a further escalation of trade tensions globally; a no-deal Brexit and its economic consequences for the UK and EU; and major stress on financial markets. No meaningful external and/or domestic imbalances in most Central European economies suggest that the region could cope better than most emerging markets and developed countries, were the global environment worsen by more than it is currently seen.



Sources for charts: statistical offices, central banks, World Bank, CPB, European Commission, BIS, Macrobond, BNP Paribas

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In 2020, economic growth is likely to slow to 3-3.5%, as the impact of higher social spending on consumption will gradually fade. Nevertheless, Poland will continue to outperform the eurozone economy by a huge margin. As a result, Poland's trade and current account deficits should rise moderately. Meanwhile, fiscal balances, while deteriorating slightly, will remain well within the comfort zone.

We expect Poland's headline inflation to continue its gradual climb, after topping the NBP's 2.5% target this summer, with core inflation points reaching that level around year-end. Higher inflation is driven by a long

POLAND: GROWTH SLOWING TOWARDS THE TREND

We forecast more than 4% GDP expansion this year, reflecting a strong first half of the year and robust fiscal measures, which will offset softer external demand.

period of above-trend economic growth, exerting upward pressure on consumer prices through rising demand and wages. Strong consumer demand should also be supported by the government's decision to increase fiscal spending both this year and next, as well as the recently announced hike of almost 9% in the minimum wage as of 2020. Apart from demand, Poland's inflation is likely to be fuelled by supply-side factors. The most important are higher electricity prices in the not so distant future and the retail tax being considered by the government, which might lead to higher food prices.

In our view, CPI inflation will continue to increase early next year, potentially hitting the 3.5% upper bound of the tolerance range around the target in Q1 2020. In the latter part of next year, headline inflation is likely to slow down because of lower global prices and weaker growth.

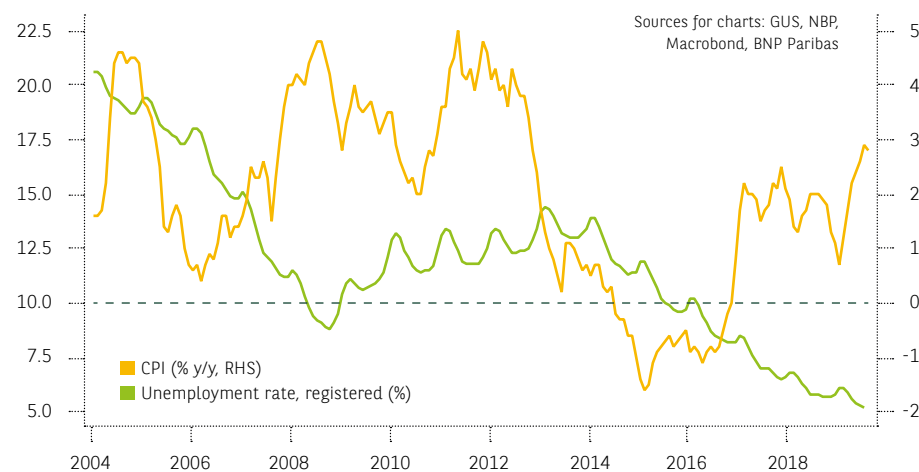
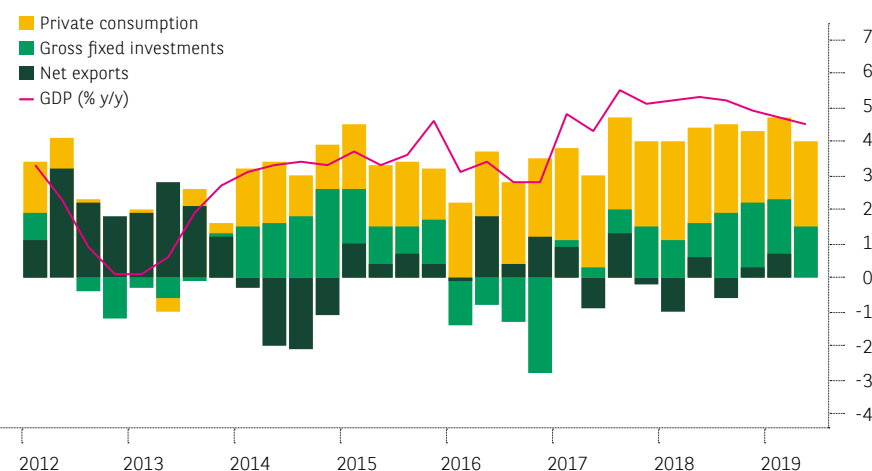
Despite inflation being on a steady upward path, we expect unchanged interest rates in Poland – at least for the next 18 months, largely due to external factors and the softer monetary policy of the main global central banks. ECB decisions are likely to affect the stance of the Polish central bank in particular. The increasing likelihood of further ECB monetary easing, in our view, reduces the prospects for policy tightening in Poland through 2020.



	2016	2017	2018	2019 ⁽¹⁾	2020 ⁽¹⁾
GDP	3.0	4.6	5.2	4.3	3.3
CPI	-0.6	2.0	1.7	2.3	3.2
Unemployment rate (%)	8.9	7.3	6.1	5.7	5.7
Current account (% of GDP)	-0.5	0.2	-0.7	-0.9	-2.3
General govt. budget (% of GDP)	-2.2	-1.5	-0.4	-1.5	-1.3
Policy rate (%)	1.50	1.50	1.50	1.50	1.50

Footnotes: (1) forecast; (2) end of period / Figures are year-on-year percentage changes unless otherwise indicated
Source: GUS, NBP, Macrobond, BNP Paribas (forecasts)

CONTRIBUTION TO ANNUAL GDP GROWTH (PP):



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Investment, the second engine responsible for robust economic performance since early 2017, sputtered somewhat more recently. Despite weaker external demand, net exports have contributed to economic growth in April-June.

Headline inflation in the Czech Republic has been hovering close to 3% y/y so far this year, driven by elevated underlying pressure and an increase in regulated prices. The recent data on compensation growth still suggests inflationary risks stemming from the tight labour market. Average nominal wages increased by 7.3% y/y in the first half of the year, accelerating from 6.5% y/y in late 2018. Faster wage growth was



CZECH REPUBLIC:

ECONOMY TO SLOW, BUT ONLY MODERATELY

The Czech Republic's economy remained robust in H1 2019 with GDP growth at 2.7% y/y in both Q1 and Q2 2019. Growth has been driven by consumption.

mainly driven by higher pay in the public sector, with private-sector compensation growth remaining relatively steady in the last few quarters. Looking ahead, we expect some moderation in Czech wage growth, however. Recent business surveys suggest that the willingness of Czech companies to maintain compensation growth at the current levels is declining, due to the risk of eroding competitiveness. Moderated wage growth combined with the waning effect of the 2019 hike of regulated prices should translate into inflation slowing gradually towards 2.0% y/y by next year.

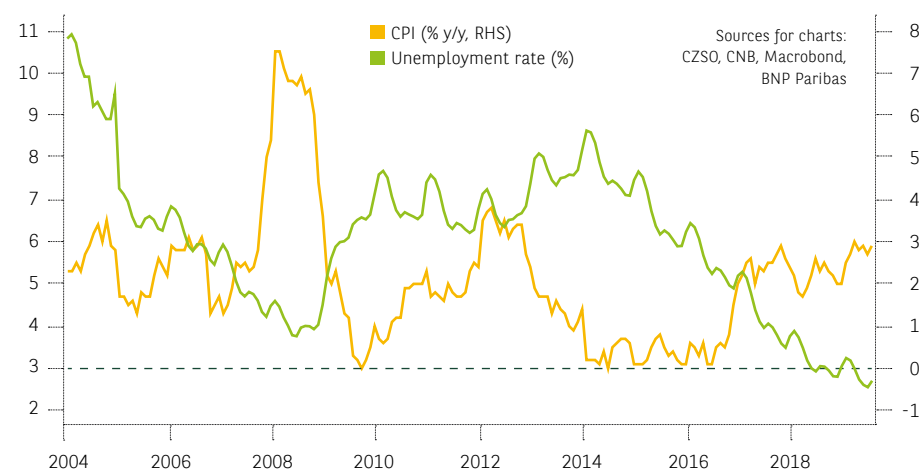
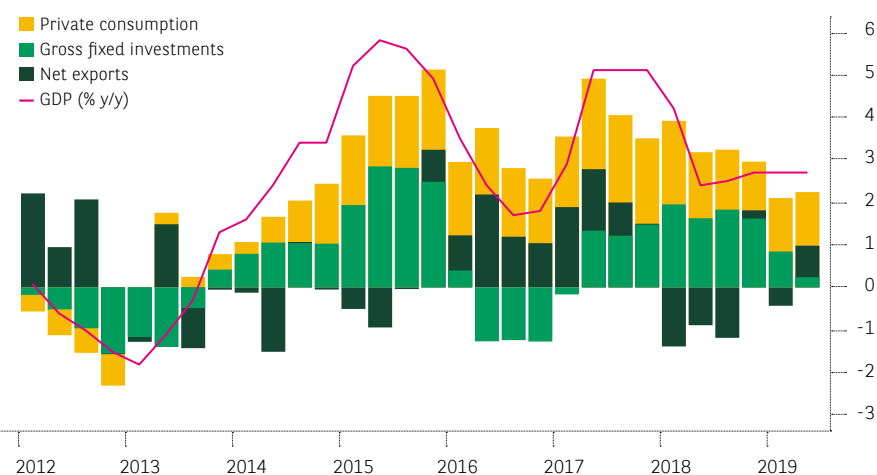
Faced with supply constraints and slowing growth in Germany, the Czech Republic's main trading partner, the GDP, will probably also moderate to around 2.5% next year. Nevertheless, the Czech economy will continue to outperform its Western European peers.

Taking into consideration the outlook for inflation steadily slowing towards the central bank's 2% target, we expect the CNB to keep interest rates on hold at the current 2.00% level in 2019-20. Following a steep fall in market rates in the US and eurozone over the summer, markets began to price in the possibility of a rate cut in the Czech Republic. We think, however, that in the absence of deepening deflationary risks – which would require a major global recession, in our view – monetary easing in the Czech Republic is rather unlikely over the next coming year or so.

	2016	2017	2018	2019 ⁽¹⁾	2020 ⁽¹⁾
GDP	2.4	4.6	2.9	2.7	2.4
CPI	0.7	2.5	2.1	2.7	2.1
Unemployment rate (%)	5.5	4.2	3.2	2.8	2.7
Current account (% of GDP)	1.8	1.9	0.4	-0.3	-0.7
General govt. budget (% of GDP)	0.1	1.2	1.3	-0.2	-0.1
Policy rate (%)	0.05	0.50	1.75	2.00	2.00

Footnotes: (1) forecast; (2) end of period / Figures are year-on-year percentage changes unless otherwise indicated
Source: CZSO, CNB, Macrobond, BNP Paribas (forecasts)

CONTRIBUTION TO ANNUAL GDP GROWTH (PP):



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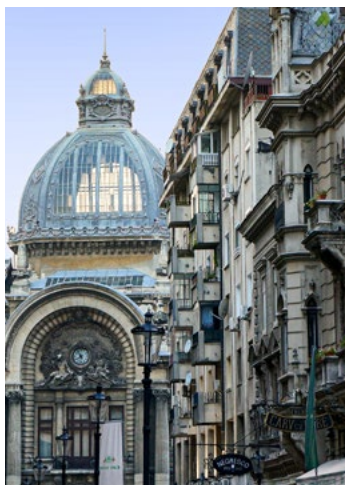
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This strong performance has been entirely down to domestic demand, with private consumption surging by close to 7% y/y, propelled by an acceleration of wage growth to more than 15% y/y. Unsurprisingly, price pressures have been advancing quickly so far in 2019, with headline inflation rising to 4.0% y/y and core inflation to 3.3% y/y by mid-year.

However, stronger-than-expected consumer prices growth does not seem not to have worried Romanian policymakers much for the time being. They see a limited risk of inflation spiralling out of control, as long as disinflation continues to be imported from abroad, and the eurozone in particular. The central bank assumes that after elevated inflation for most of this year, the CPI will decline more visibly in 2020. While we are slightly more sceptical about the pace of Romania's disinflation over the next 12–18 months, as robust wage pressure will prevent



ROMANIA: WEAKER GROWTH WILL HELP TO EASE EXTERNAL IMBALANCES

GDP was a considerable surprise on the upside in the first half of the year, rising by more than 4.5% y/y on average.

a major deceleration in underlying price pressures, we nonetheless see headline inflation moving down into the 3% handle next year.

Romania's central bank seems more concerned about rising external imbalances such as the trade and current account deficits than inflation, which also reflect excess demand. A widening current account deficit has been putting the currency under pressure, although the central bank has been able to stabilise the leu using liquidity controls. More recently, the leu has also been supported by the external environment and policy easing in the US.

We think that The National Bank of Romania will probably continue to rely mainly on liquidity measures to ensure exchange rate stability. According to Governor Isarescu, the key NBR rate is high enough when the recent performance of the leu is taken into consideration. Moreover, the central bank's ambition isn't bringing inflation into the target band, so below 3.5%, at any cost.

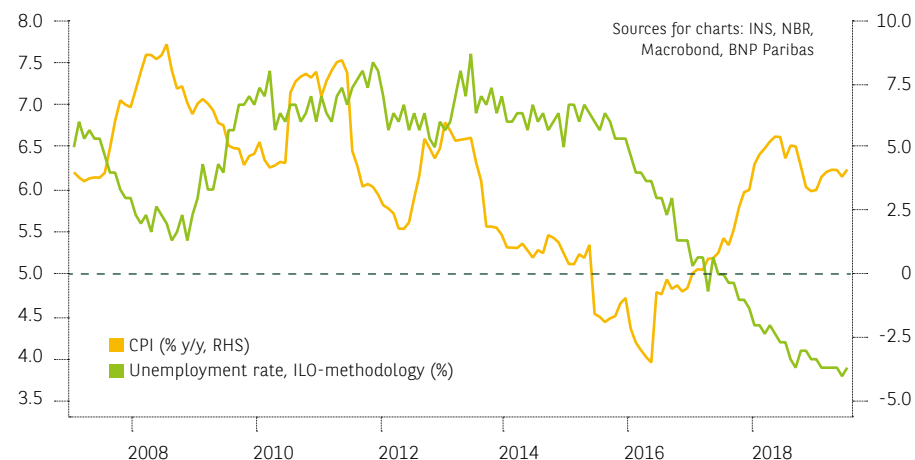
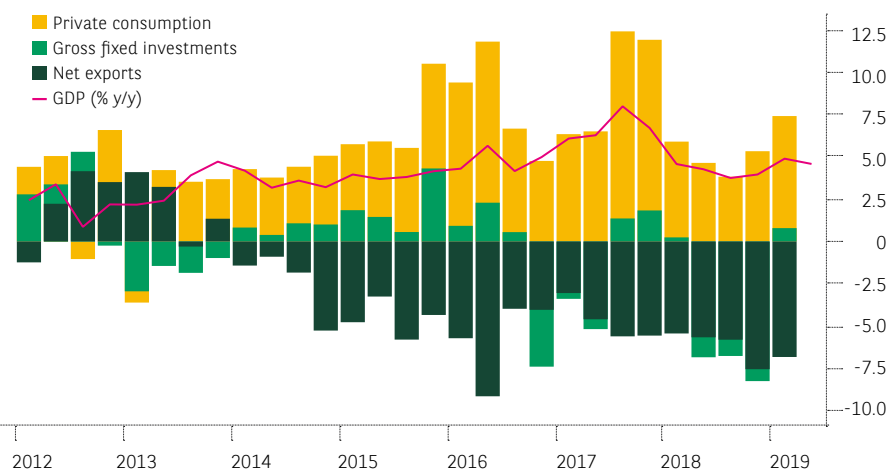
We expect the NBR to keep its policy rate unchanged in the quarters ahead, but Romania's external position will remain an important risk factor for markets and policy at the same time. A further deterioration of external imbalances may still increase the probability of a rate hike by the NBR, despite the low global interest rate environment.

In terms of the economy, we expect that after a period of well above-trend growth, the pace of GDP will decline in 2020. This should help to gradually reduce Romania's external imbalances and support more disinflation in 2021 and beyond.

	2016	2017	2018	2019 ⁽¹⁾	2020 ⁽¹⁾
GDP	4.8	6.8	4.2	4.2	2.4
CPI	-1.5	1.3	4.6	3.9	3.4
Unemployment rate (%)	4.8	4.3	3.6	4.0	4.6
Current account (% of GDP)	-2.1	-3.3	-4.4	-4.7	-5.4
General govt. budget (% of GDP)	-2.6	-2.7	-3.1	-3.3	-3.3
Policy rate (%)	1.75	1.75	2.50	2.50	2.50

Footnotes: (1) forecast; (2) end of period / Figures are year-on-year percentage changes unless otherwise indicated
Source: INS, NBR, Macrobond, BNP Paribas (forecasts)

CONTRIBUTION TO ANNUAL GDP GROWTH (PP):



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This good economic performance has been driven by both robust consumption, fuelled by a strong labour market, and accelerating investment spending. As a result of domestic-demand driven expansion, economic growth has been accompanied by rising inflation. CPI inflation has been above the central bank target of 3.0% for most of 2018 and 2019. This has been largely driven by underlying pressure. Core inflation increased from 2.3% y/y in August 2018 to 4.0% in May 2019, marking its highest reading in six years, before falling slightly in June and July.

Beyond demand pressures, the rise in core inflation reflects underlying supply constraints in the Hungarian economy. With the unemployment rate falling sharply since 2013, firms have

HUNGARY: DOMESTIC-DEMAND- DRIVEN GROWTH CONTINUES

Hungary's economy has maintained swift growth so far this year with GDP rising by 5.3% y/y in Q1 and 4.9% y/y in Q2 respectively

to compete to retain staff and fill vacancies, particularly in labour-intensive sectors of the economy. This has been fuelling strong wage rises, which almost immediately translates into higher prices, especially of services.

On the monetary policy front, by hiking the overnight rate by 10bp to -0.05% from -0.15% in March, the National Bank of Hungary effectively ended an eight-year period of monetary policy loosening. Following the March decision, Governor Gyorgy Matolcsy indicated, however, that the move should not be interpreted as the start of a tightening cycle, but rather a policy adjustment justified by the inflation outlook.

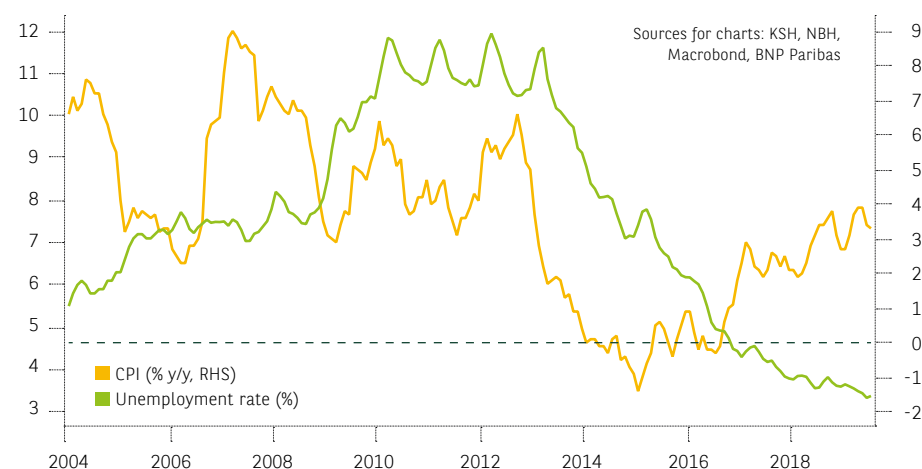
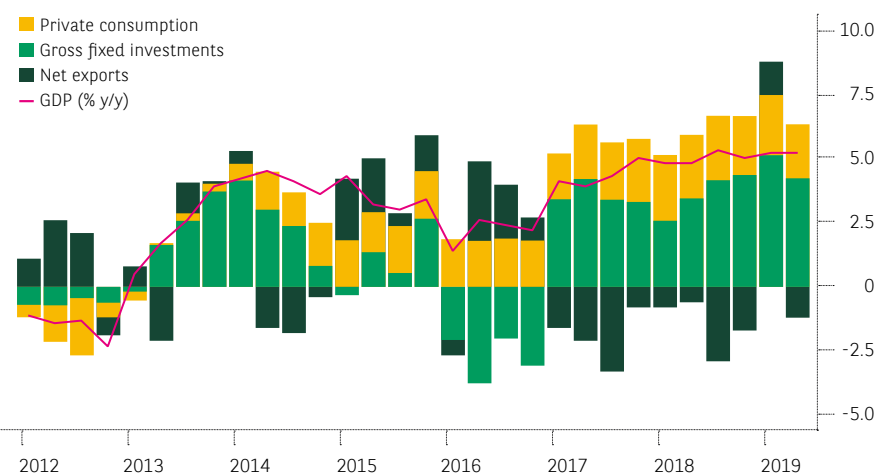
Consequently, the Hungarian central bank have not delivered further hikes since, despite inflationary pressure remaining high. Hungary's policy-tightening outlook has been clouded by recent external developments. Taking into consideration an approaching wave of monetary policy easing globally, the NBH is likely to be hesitant to tighten its own stance right now, especially as the growth backdrop is deteriorating.

Given Hungary's strong reliance on exports (exports-to-GDP ratio is hovering around 90%), the ongoing slowdown in the global economy is likely to feed into a weaker pace of GDP expansion next year. But while we expect growth to slow to about 2.5% in 2020, it will merely be a correction to the trend. On a positive note, such correction should help to ease inflationary pressures from the second half of next year onwards.

	2016	2017	2018	2019 ⁽¹⁾	2020 ⁽¹⁾
GDP	2.3	4.1	4.9	4.4	2.5
CPI	0.4	2.3	2.9	3.5	3.3
Unemployment rate (%)	5.1	4.2	3.7	3.2	3.1
Current account (% of GDP)	6.3	2.8	0.5	-1.8	-3.4
General govt. budget (% of GDP)	-1.4	-1.9	-2.1	-1.7	-2.5
Policy rate (%)	0.90	0.90	0.90	0.90	0.90

Footnotes: (1) forecast; (2) end of period / Figures are year-on-year percentage changes unless otherwise indicated
Source: KSH, NBH, Macrobond, BNP Paribas (forecasts)

CONTRIBUTION TO ANNUAL GDP GROWTH (PP):



OFFICE SECTOR IN CEE

High demand drives new supply, vacancy rates at historical lows

The entire region's robust economic growth has been fuelling the exponential growth of the office sector in the last few years. Cranes have been a dominant feature of the landscape in CEE capitals. In the coming 36 months, approx. 2 million m² of new office space is set to be completed in Warsaw, Prague, Bucharest and Budapest, raising the modern office stock in these CEE capitals to over 18 million m². Importantly, a vast portion of this new space has already been leased. Vacancy rates are, therefore, not expected to escalate to a high degree, as the interest from tenants has been solid for a couple of quarters. Tenant demand in the region has been on the up for the last three years, with

net-take up peaking at approx. 1.9 million m² in 2018. Although Q1 2019 showed some signs of slowing down, the office sector rebounded in Q2 2019 and is expected to keep on growing in the near future.

Following the improving infrastructure in the CEE capitals, new office clusters have been emerging such as City Centre – West in Warsaw, Polytechnica zone in Bucharest and Holešovice in Prague, thus re-shaping the picture in the sector.

Soaring development costs driven principally by serious increases in prices of construction materials and continuing labour cost rises remain a major industry concern and are reflected in the upward trend in rental levels for new buildings. Hence, an uptick in prime headline rents in the key markets was noticed in the course of the last 12 months, and further moderate growth still looks likely in the coming quarters.



POLAND

+37%

Warsaw

Growth of the office sector
in the last 5 years

UNLIKE OTHER COUNTRIES IN THE REGION, POLAND, BESIDES WARSAW, ALSO HAS STRONG REGIONAL OFFICE MARKETS. WITH EXISTING OFFICE SPACE OF 5.5 MILLION M² IN WARSAW AND ANOTHER 5.3 MILLION M² ON EIGHT REGIONAL MARKETS, THE COUNTRY OFFERS A WIDE AND DIVERSE SELECTION OF OPPORTUNITIES.

In Warsaw, the subdued new supply of the past three years coupled with buoyant occupational activity have led to a steep drop in the average vacancy rate, which oscillate around 8.5% for the city and around 5.5% in the Central zone, and is expected to remain stable. Noticeably, office units bigger than 2,000 – 3,000 m² are hardly available. Companies from the banking, finance and insurance sector, offshoring business centres and co-working operators have been responsible for spectacular lease transactions.

Warsaw's CBD has continued to move westwards, along the second metro line.

Over the course of the last few months, an uptick in prime rents for best-in-class assets in the Warsaw City Centre cluster has been registered.



CZECH REPUBLIC

+16%

Prague

Growth of the office sector
in the last 5 years

OVER THE COURSE OF THE LAST FEW YEARS, THE LIMITED NEW SUPPLY COUPLED WITH SOLID DEMAND HAS RESULTED IN A STEADY REDUCTION IN VACANCY RATES, WHICH TODAY STANDS AT A HISTORICAL LOW OF LESS THAN 5%. IN THE NEXT FEW MONTHS, THE VACANCY RATE COULD INCREASE, BUT ONLY marginally, AS A RESULT OF THE EXPECTED SIGNIFICANT NEW SUPPLY.

With the limited volume of available space and the lack of available workforce, a minor slowdown in occupational activity is expected. With the vacancy rate decreasing, pressure on rental increases in the most sought after locations is expected to continue, underpinned by growing construction costs.

Approx. 335,000 m² of new developments will be delivered in the next three years, with a vast portion located in Prague 8.

HUNGARY

+14%

Budapest

Growth of the office sector
in the last 5 years

FEEDBACK FROM THE BUDAPEST OFFICE MARKET IS UNREMITTINGLY POSITIVE. BUDAPEST HAS SET NEW RECORDS FOR OCCUPATIONAL ACTIVITY, VACANCY RATE AND SUPPLY IN 2018.

Rental levels have not only outperformed the pre-crisis level, but they are showing an increasing trend.

In 2019, demand is still high for office properties and occupational activity is dominated by pre-lease agreements. Approx. 300,000 m² of new office area is scheduled for 2019 and 2020, from which 62% of the new office projects for 2019 are already pre-let, with half of the new developments for 2020 also having pre-lease agreements.

ROMANIA

+23%

Bucharest

Growth of the office sector
in the last 5 years

TAKE-UP IN BUCHAREST IS STRONGLY DRIVEN BY EXPANSIONS OF EXISTING OPERATIONS AND RELOCATIONS FROM UNRATED STOCK INTO NEW, CLASS A BUILDINGS. THE MOST ACTIVE OCCUPATIONAL INDUSTRIES REMAIN IT&C, THE BANKING AND FINANCIAL SECTOR, AND BUSINESS SERVICES.

Occupier demand follows construction activity into emerging new office clusters such as the Polytechnica area on the western edge of the city centre and the Expozitiei area in the north of Bucharest.

In the last few months, prime office rents have remained stable, ranging between €18,5 and €19/m²/month; however, no further increase is expected in new developments.

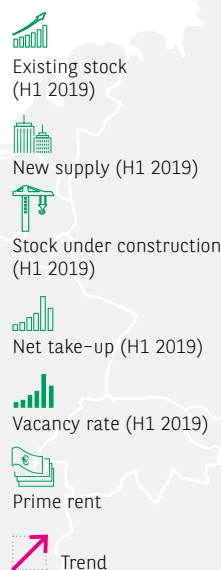
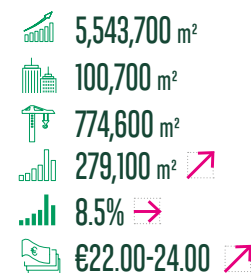
The vacancy rate in Bucharest has surged as a result of the substantial new supply in the last couple of months. Interestingly, the gap between occupancy level in new developments and old, class B stock is expected to widen.

OFFICE MARKET INDICATORS AND TRENDS IN SELECTED CEE COUNTRIES*

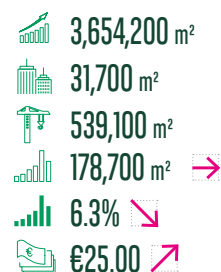
PRAGUE



WARSAW



BUDAPEST



BUCHAREST



* Poland, Czech Republic, Hungary and Romania

RETAIL SECTOR IN CEE

The retail industry in the CEE region benefits from positive economic trends

Rise in employment, robust growth of wages and, as a consequence, solid increase of purchasing power, are key catalysts of consumer confidence and consumer spending. Over the last five years, retail sales across the examined countries have soared by nearly 30%, with Romania being the frontrunner with a stellar increase of over 50%. Although retail sales growth has shown early signs of slowing down, it is expected to remain healthier than in the eurozone.

Another important socio-economic factor which clearly contributes to the immense potential of the retail sector in the CEE region is the rapid growth of the pool of middle-class shoppers. Aspirations of consumers have been steadily growing and they are now more demanding of products, services and brands than ever before. As a result, although competition from e-commerce has been intensifying, turnover in brick and mortar retail has been growing significantly in the last five years, from approx. +15% in the Czech Republic to as much as over 40% in Romania.

New supply across the region is limited, most noticeably in Hungary and the Czech Republic, while the trend towards refurbishment, redevelopment and repositioning will accelerate in years to come. Forced by growing competition from online retailing and the unavoidable process of buildings ageing, many older properties have to be adapted to imminent changes in the retail landscape. Extensions and the inclusion

of new offers, such as leisure components, a wider selection of F&B facilities, innovative retail concepts and new social functionalities, may help in retaining or improving the market position. This trend, however, has been causing sharp polarisation in rental values of prime and innovative assets and those of declining position.

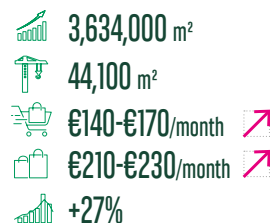
Substantial opportunities in the CEE region remain, although only those retail sector players who are able to adapt quickly to rapid changes and bring new features are likely to succeed in this increasingly competitive market.

789,000
m²

Retail stock under
construction
in CEE-4 (H1 2019)

RETAIL MARKET INDICATORS AND TRENDS IN SELECTED CEE COUNTRIES*

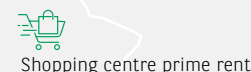
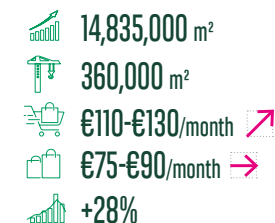
CZECH REPUBLIC



24 milion
m²

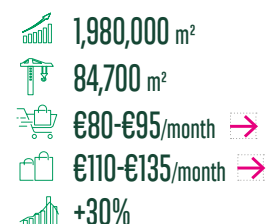
Existing retail stock
in CEE-4 (H1 2019)

POLAND



+19%

HUNGARY

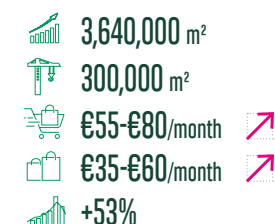


Modern retail supply increase
in the last five years

+30%

CEE retail sales
growth in the last
five years

ROMANIA



* Poland, Czech Republic, Hungary and Romania

WAREHOUSE AND LOGISTICS SECTOR IN CEE

The warehouse and logistics market in CEE countries is the fastest developing real estate sector in Europe. The total existing stock almost doubled over the last five years alone, developers are building more and more and investors are increasingly willing to invest in industrial assets located in Central Europe. What is behind this boom in the warehouse and logistics sector there?

Some figures

Just five years ago, the total modern industrial stock on four main CEE markets (the Czech Republic, Hungary, Poland and Romania) stood at about 16 million m². At the end of 2018, the total supply exceeded 30 million m² and the development pace was still very dynamic over the first half of 2019, especially on the Polish market. Despite the rapid growth of the sector, the vacancy rate remains very low, oscillating around 5% for the whole region. It encourages developers to start further projects. At the end of June 2019, an impressive volume of 3,274,000 m² was under construction, 69% of which will be delivered in Poland.

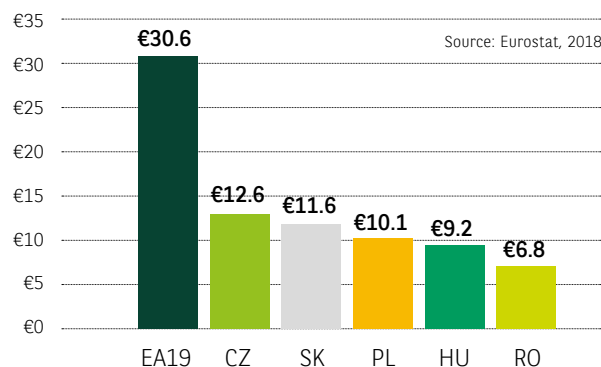
Why CEE?

Beyond doubt, the biggest engine driving the CEE market is manufacturing cost differentials between the so-called 'old' EU Member States and those that joined in 2004 and later. The average labour cost per employee in Central Europe is almost three times lower than in the Eurozone. Meanwhile, the free movement of people, goods and capital, ensured by EU policy, creates convenient conditions for companies located in the CEE. This is especially true for entities that are not only interested

in operating in the region but also in covering neighbouring countries (Denmark, Germany, Austria). Consequently, CEE countries took over a large part of production from Western Europe and have become an important industrial and logistics hub in the EU. Moreover, the e-commerce giants such as Amazon and Zalando also recognised the advantages of CEE countries and started to expand in the region. Over the last few years, the e-retailers have opened several modern logistics and fulfilment centres in the Czech Republic and

"The total existing stock almost doubled over the last five years alone."

TOTAL LABOUR COST PER HOUR (€)



Poland which are among the largest and the finest in Europe (e.g. Amazon Szczecin).

Is the cost everything?

Nowadays, CEE countries also have an extremely low level of unemployment. According to Eurostat, among all the EU members, the lowest unemployment rates in July 2019 were recorded in the Czech Republic (2.1 %),

Germany (3.0%) and Poland (3.3%). Hungary and Romania have hit an historical minimum as well. On the one hand, this puts pressure on wages and leads to rapid growth of labour

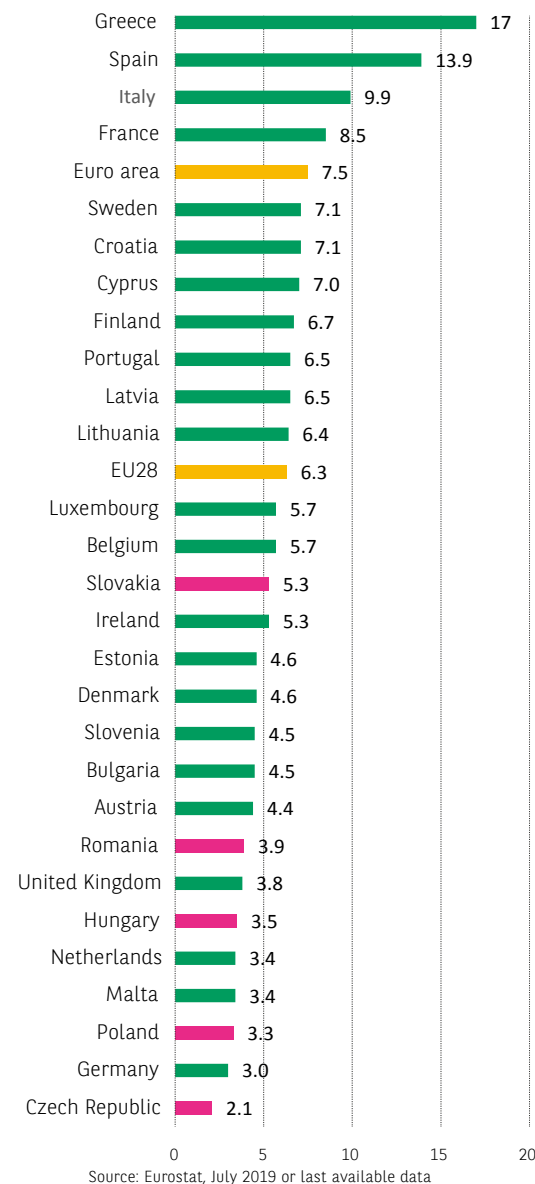
costs. On the other hand, rising salaries lead directly to growing purchasing power. An increasingly affluent society stimulates domestic consumption, which is one of the main economic drivers in the region. The rising prosperity of CEE citizens can be seen in the structure of warehouse demand. Retail and 3PL sectors have represented the largest share of the total logistics take-up in the CEE region. Moreover,

the abovementioned sectors have generated more and more interest in modern warehouse. Consequently, the total volume of demand on CEE markets recorded an extremely high volume over the last three years and Poland generated the 4th highest net take-up (3.1m m²) in the entire EU in 2018, surpassed only by Germany, France and the UK.

Gate from the East to the West

The CEE region is also a crucial element of one of the largest global investment projects – Belt

UNEMPLOYMENT RATE IN THE EU COUNTRIES (%)



and Road Initiative (BRI). The strategy aims to involve infrastructure development in Asia and Europe, creating land transport corridors between China and the EU. Although the BRI investments are still in the planning phase and the final concept has not been confirmed yet, the CEE region, because of its strategic location, will play a key role in the initiative. The scale of the Belt & Road Initiative seems huge and one single border crossing could not possibly handle all the freight anyway.

“ There is no need to be concerned about competition between CEE countries. There should be enough business to go around for everyone and different hubs in different CEE countries could specialise in different services, thereby developing a more collaborative approach

– as stated specialists from the Poland & CEE: Co-Building the Belt & Road conference.

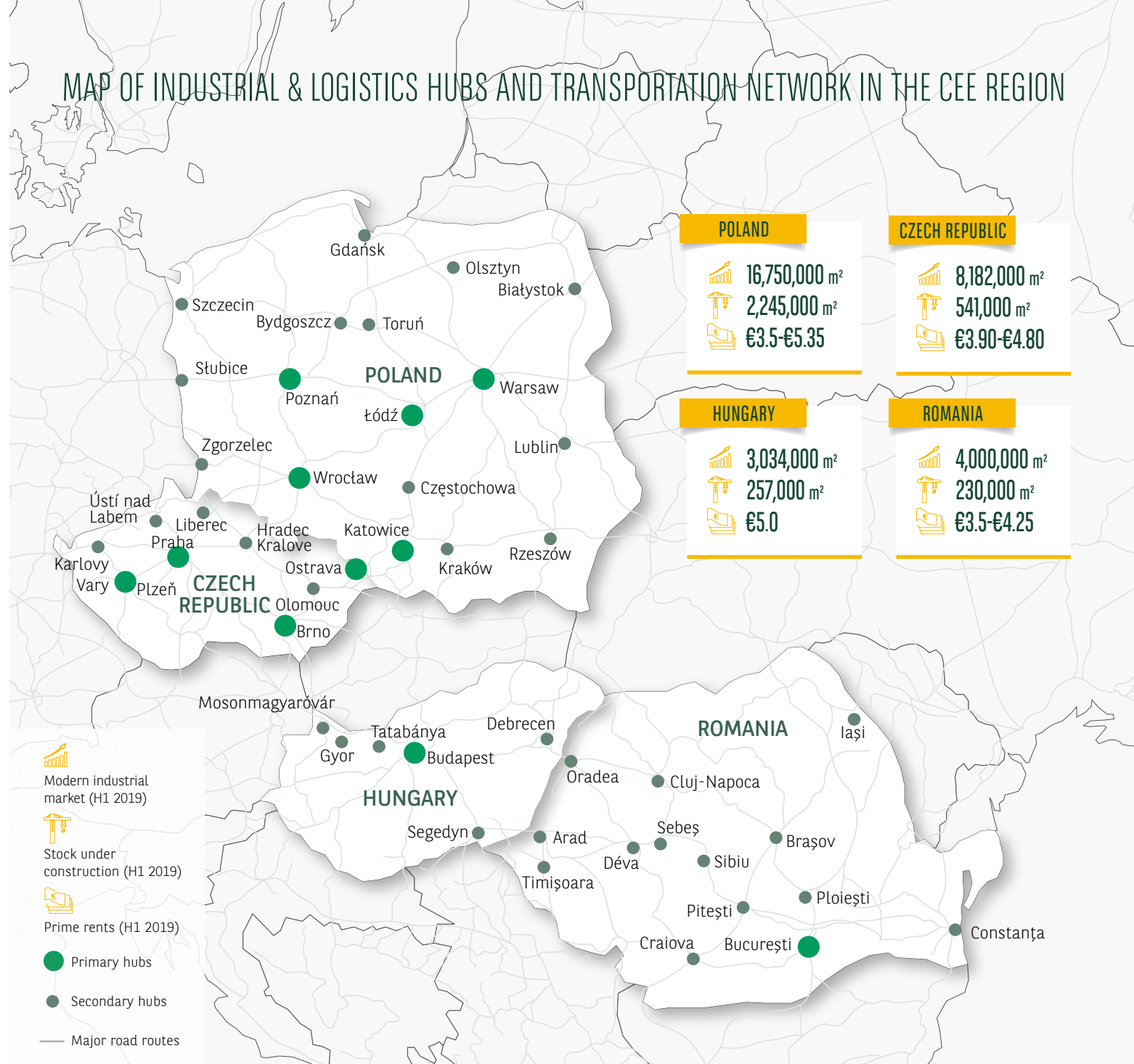
MAIN INDUSTRIAL DEVELOPERS IN CEE COUNTRIES

Developer	PL	CZ	SK	HU	RO
7R	X				
Amesbury		X			
Concens		X			
Contera		X			
CTP	X	X	X	X	X
Goodman	X	X	X	X	
Hillwood	X				
Hines	X				
ILD	X	X	X		X
inpark				X	
Linkcity	X	X	X		
Logicor	X	X		X	X
MLP	X				X
Mountpark	X	X	X		
P3	X	X	X		X
Panattoni	X	X	X		
Prologis	X	X	X	X	
Segro	X	X			
VGP		X	X	X	X
White Star	X	X	X	X	X*

Source: BNP Paribas Real Estate

* In Romania White Star focuses on providing PM services for industrial parks

MAP OF INDUSTRIAL & LOGISTICS HUBS AND TRANSPORTATION NETWORK IN THE CEE REGION





**BNP PARIBAS
REAL ESTATE**

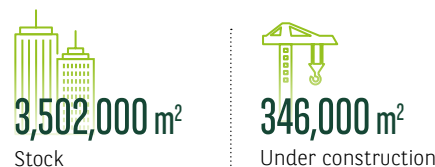
CITIES: 5 YEARS CHALLENGE

Source:

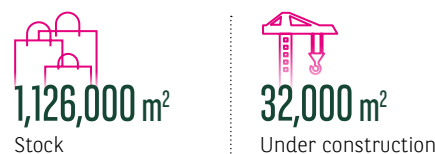
Real Estate Market	Q2 2019, BNP Paribas Real Estate
Education	2018, local statistical offices
Demography	2018, local statistical offices
Labour market	H1 2019, Local statistical offices
5 Years Challenge	aviation authorities, local statistical offices, BNP Paribas Real Estate

REAL ESTATE MARKET

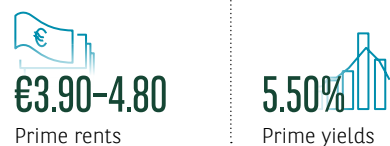
OFFICE



RETAIL



INDUSTRIAL



PRAGUE / CZECH REPUBLIC

Prague, as the capital city of the Czech Republic, is the natural economic, cultural and political centre of the country.

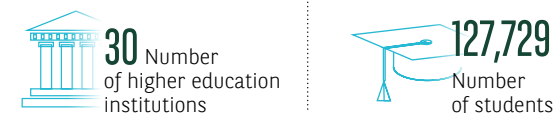
Prague ranks among as one of the most important and developed regions, even within the context of the entire EU.

The city benefits from its strategic position in the heart of Europe, its business infrastructure, skilled labour and high quality of life. Numerous international corporates, financial institutions and foreign enterprises are based here, thus ensuring Prague is responsible for more than 25% of the country's GDP. Since the country's accession to the EU in 2004, GDP per capita in the city has soared by 75%, and today, expressed in Purchasing Power Standards, it exceeds the EU average by nearly 90%.

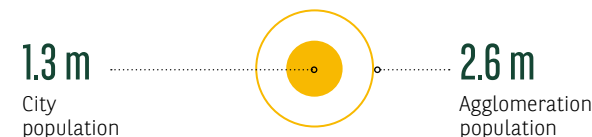
Prague offers excellent infrastructure, including one of the best public transport systems in Europe. The city has a good rail-road and air transport system which connects it to other parts of Europe. The property market in Prague is mature and stable with good provision of high quality stock of modern office, retail and warehouse space. It offers prospects of rental growth to investors fuelled by strong occupier demand.

Prague is also home to numerous historical sights which makes it one of the most popular tourist destinations in the CEE region.

EDUCATION



DEMOGRAPHY



LABOUR MARKET



SELECTED MAJOR INTERNATIONAL COMPANIES

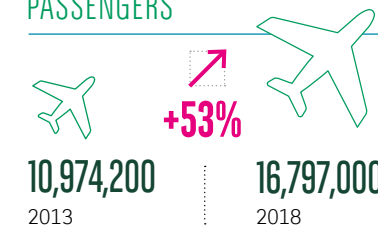
Avast / IBM, Dell / Johnson & Johnson / Ernst & Young / Deloitte / PwC / Oracle / Amazon / Microsoft / Accenture / Bosch Group / CEZ / ČEPRO / Foxconn / Innogy / Moravia Steel / MOL ČR / Škoda Auto



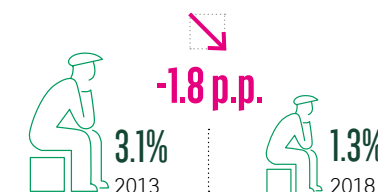
5 years CHALLENGE

2013 v s. 2018

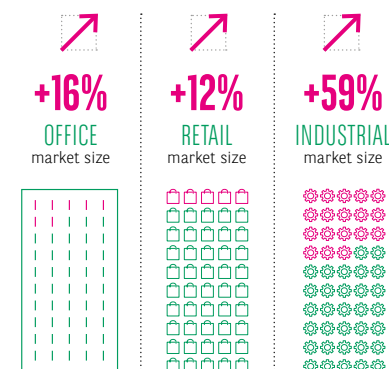
NUMBER OF AIRPORT PASSENGERS



UNEMPLOYMENT RATE

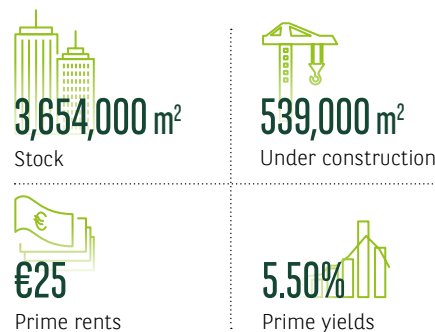


REAL ESTATE MARKET

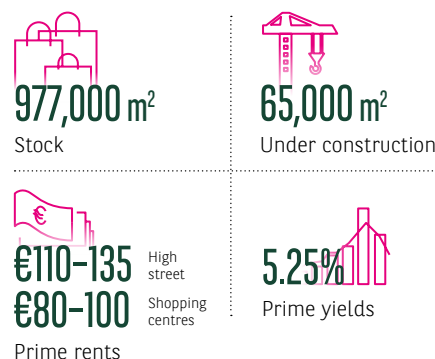


REAL ESTATE MARKET

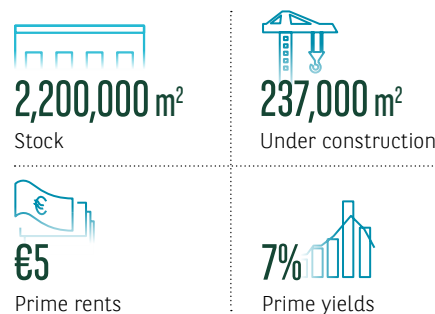
OFFICE



RETAIL



INDUSTRIAL



BUDAPEST/HUNGARY

Budapest is the heart of the Hungarian economy, one fifth of Hungary's population lives in the capital and its catchment area.

All economic indicators for the capital city are above the country average. Excellent infrastructure, a well-qualified labour force, well-established property market and stable financial background make the city more and more attractive for investors and for corporates. Many international companies are present in Budapest and several new enterprises have recently entered the market.

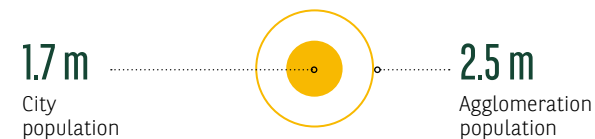
The capital of Hungary is one of the most popular tourist destinations in Europe, famous for its cultural and historical attractions.



EDUCATION



DEMOGRAPHY



LABOUR MARKET



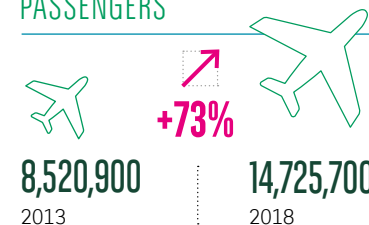
SELECTED MAJOR INTERNATIONAL COMPANIES

British Telecom / British Petrol / BlackRock / AVIS Group / Givaudan / HP / IBM / Microsoft / Morgan Stanley / Nokia / Roche / Emirates / MSCI / SAP / Vodafone / Thyssenkrupp

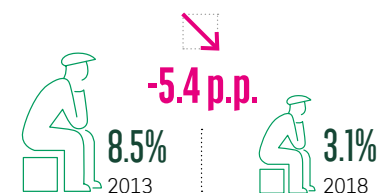
5 years CHALLENGE

2013 v.s. 2018

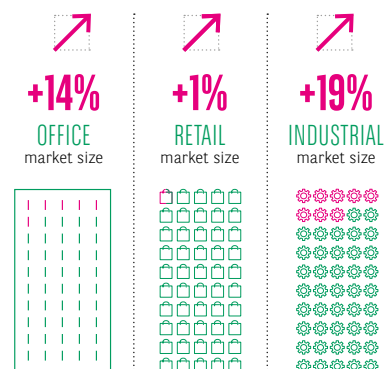
NUMBER OF AIRPORT PASSENGERS



UNEMPLOYMENT RATE

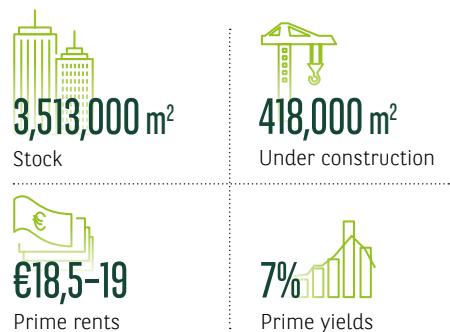


REAL ESTATE MARKET

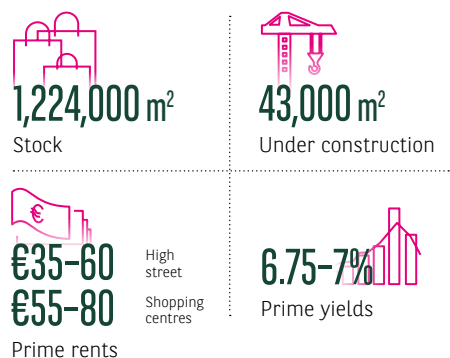


REAL ESTATE MARKET

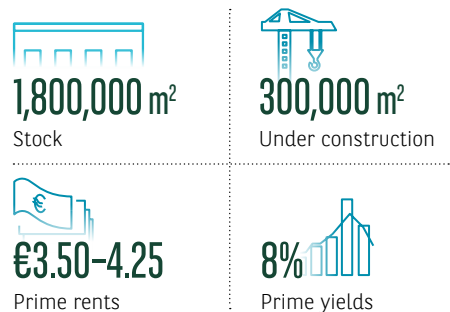
OFFICE



RETAIL



INDUSTRIAL



BUCHAREST/ROMANIA

Bucharest remained the preferred location in Romania for developers, investors and occupiers alike.

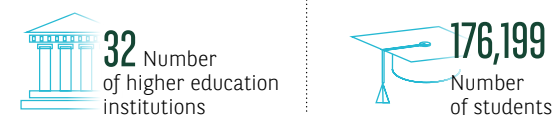
The city has become an established destination for IT companies. Subsequently, an office cluster next to Polytechnic University in western Bucharest has started to emerge. The area has been developing at a fast pace, which is fuelled by the availability of plots in the vicinity of Politehnica metro station. Following the office developments, residential projects are underway, while existing retail schemes have been benefitting from the enlarging catchment area. In northern Bucharest, Expozitiei Office Hub is shaping its future with the first business park recently completed. The development of this area will depend crucially on the construction of the M6 metro line which is planned to connect the city centre and the airport.

Bucharest is becoming a touristic hot spot; therefore, numerous 3 and 4-star hotels of international brands have been mushrooming. The Lithuanian Group Apex Alliance remains the largest hotel developer in Bucharest targeting several hotel openings in the coming 18 months.

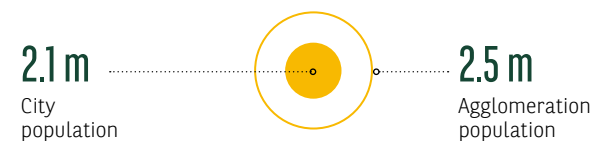
Over the last decade, GDP per capita in the city and its metropolitan area increased by half, and today, expressed in Purchasing Power Standards, exceeds the EU average by over 50%.



EDUCATION



DEMOGRAPHY



LABOUR MARKET



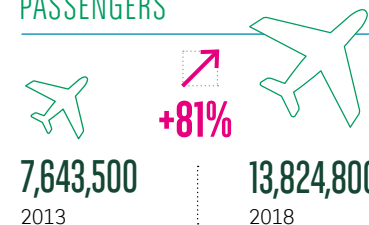
SELECTED MAJOR INTERNATIONAL COMPANIES

Amazon / Coca Cola / Danone / Kaufland / Microsoft / OMVPetrom / Oracle / HP / BCR Erste / Unicredit Bank / PwC / Renault Romania / Ford Romania / Pepsico

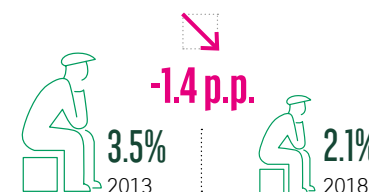
5 years CHALLENGE

2013 v.s. 2018

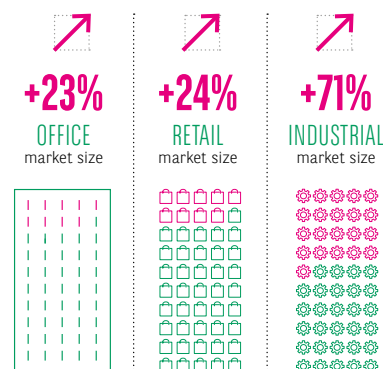
NUMBER OF AIRPORT PASSENGERS



UNEMPLOYMENT RATE

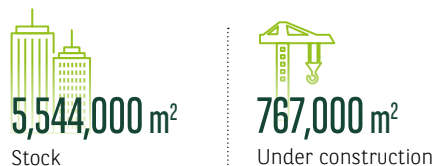


REAL ESTATE MARKET

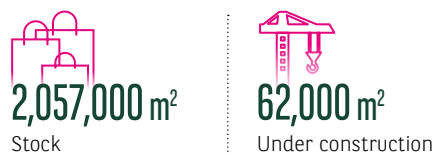


REAL ESTATE MARKET

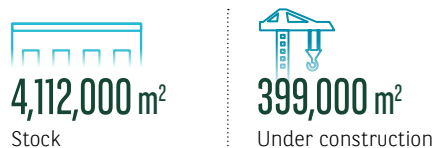
OFFICE



RETAIL



INDUSTRIAL



WARSAW / POLAND

Over the past two decades, Warsaw has evolved rapidly into a bustling economic centre of Central Europe region.

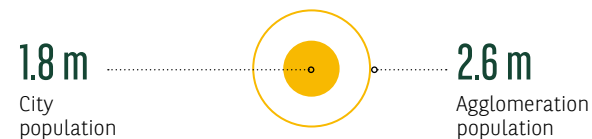
Numerous banks and financial services, international business and management consultancies, insurance companies, media and advertising agencies, research institutes, law firms, and retail companies, among others, have been attracted by its growing economic strength, friendly business environment and thriving property market, strongly fuelling the further economic development of the city. Since Poland joined the EU in 2004, GDP per capita in Warsaw has climbed by over 60% and today, expressed in Purchasing Power Standards, exceeds the EU average twofold.

The property market in Warsaw is the most established among the CEE Capitals in all sectors. It offers the largest stock of modern office, retail and warehouse / logistics space and provides a solid occupier base for all property types.

EDUCATION



DEMOGRAPHY



LABOUR MARKET



SELECTED MAJOR INTERNATIONAL COMPANIES

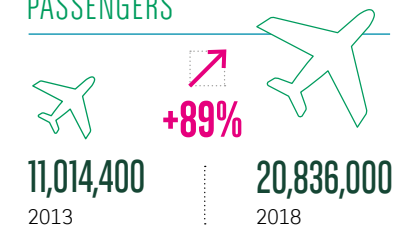
Accenture / BNP Paribas / Citibank / Coca-Cola / Colgate-Palmolive / Electrolux / Goldman Sachs / Google / HSBC / JP Morgan / Procter & Gamble / Siemens / UniCredit / Whirlpool



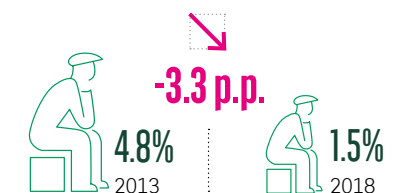
5 years CHALLENGE

2013 v.s. 2018

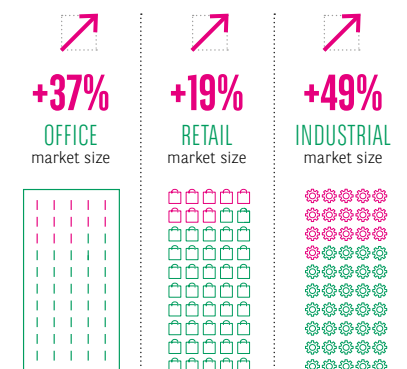
NUMBER OF AIRPORT PASSENGERS



UNEMPLOYMENT RATE

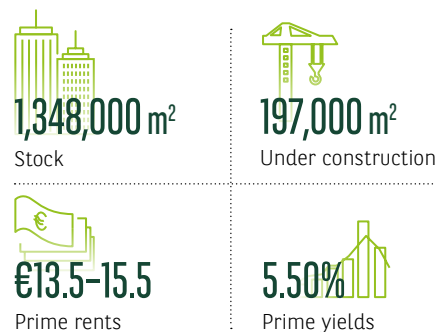


REAL ESTATE MARKET

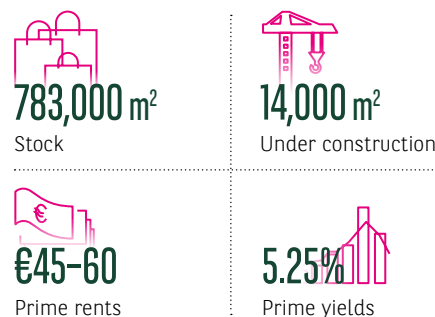


REAL ESTATE MARKET

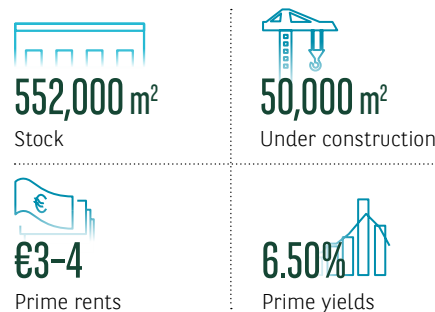
OFFICE



RETAIL



INDUSTRIAL



KRAKÓW / POLAND

Kraków benefits from a perfect blend of historical heritage and attractiveness for international investors.

A strong academic base, convenient road and air connections to Western Europe and a booming office market all contributed to the city becoming one of the leading destinations for business services in the whole of Europe (ranked 2nd) and the 8th best location all over the world*, most pronounced for modern technology companies.

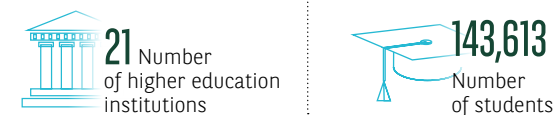
Another advantage of the city and its region, contributing to its investment attractiveness, is the presence of the Kraków Special Economic Zone which includes Brembo, Valeo, Motorola, Assa Abloy, Shell and Man, among others.

In 2018, Kraków Balice International Airport, the second most important airport in Poland, achieved another record serving nearly 6.8 million passengers, one million more than a year ago. The tourism sector strongly fuels the local economy and creates around 10% of the city's GDP. Since Poland joined the EU in 2004, GDP per capita in Kraków has increased by approx. 60%.

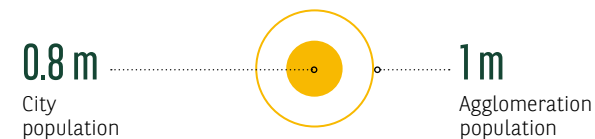
* 2017 Tholons' Top 100 Outsourcing Destinations



EDUCATION



DEMOGRAPHY



LABOUR MARKET



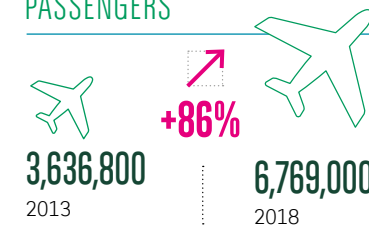
SELECTED MAJOR INTERNATIONAL COMPANIES

ABB / Accenture / BP / Cisco / Comarch / Heineken / HSBC / IBM / Lufthansa / Motorola / Shell / Philip Morris International / Pliva / Samsung

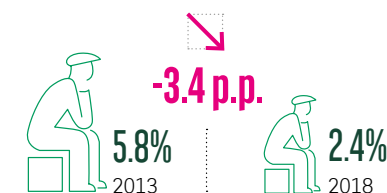
5 years CHALLENGE

2013 v.s. 2018

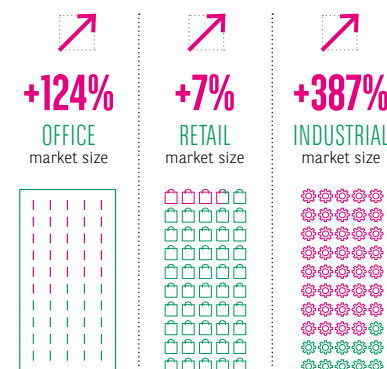
NUMBER OF AIRPORT PASSENGERS



UNEMPLOYMENT RATE

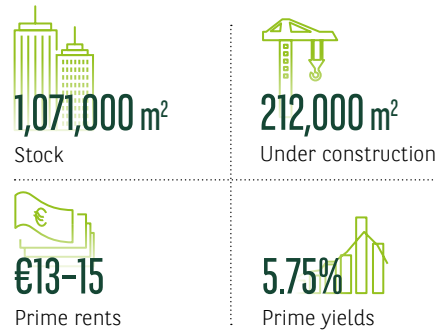


REAL ESTATE MARKET

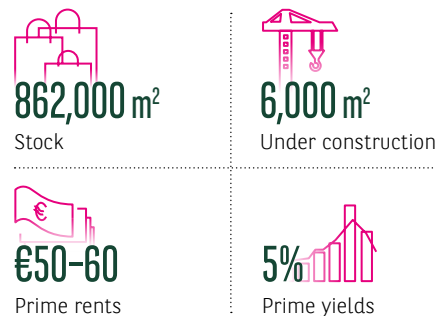


REAL ESTATE MARKET

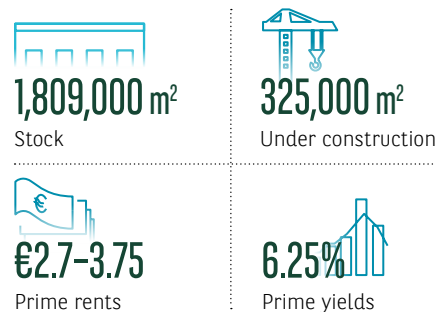
OFFICE



RETAIL



INDUSTRIAL



WROCLAW / POLAND

Wrocław, with its picturesque historical buildings, new architectural structures, modern office and retail properties, and natural surroundings is one of the key regional business and tourist destinations in Central Europe.

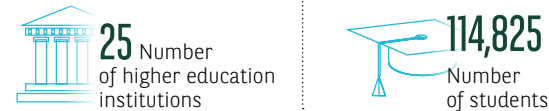
The city's economic development has been fuelled by the convenient transport links to Western Europe, proximity to the Czech Republic and Germany, and a well-educated population. For longer than a decade, stable local government has been investing in and developing the city's infrastructure, enhancing the quality of public space and strongly cooperating with businesses, thus attracting numerous investors.

Wrocław and its regions are an important manufacturing centre, academic hub and key business services destination, most notably for finance and information technology companies.

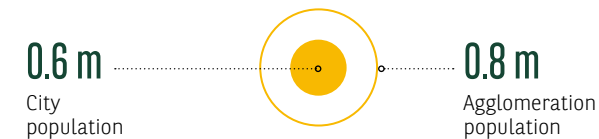
Since Poland joined the EU in 2004, GDP per capita in Wrocław has soared by approx. 80% and today, expressed in Purchasing Power Standards, exceeds the EU average by 12%.



EDUCATION



DEMOGRAPHY



LABOUR MARKET



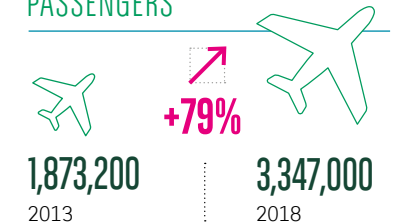
SELECTED MAJOR INTERNATIONAL COMPANIES

BSH / Capgemini / Credit Suisse / EY / Fagor / Google / Hewlett Packard Enterprise / IBM / LG Electronics / McKinsey / Nokia / Qatar Airways / UPS

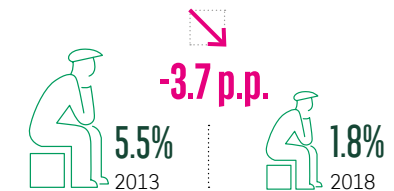
5 years CHALLENGE

2013 v.s. 2018

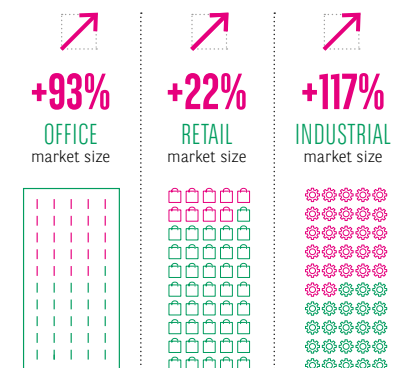
NUMBER OF AIRPORT PASSENGERS



UNEMPLOYMENT RATE



REAL ESTATE MARKET



REAL ESTATE MARKET

OFFICE



RETAIL



INDUSTRIAL



TRI-CITY / POLAND

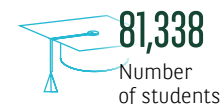
The cities of Gdańsk, Gdynia and Sopot form a conurbation known as the Tri-City.

With a population of nearly 750,000, it is the largest market in northern Poland.

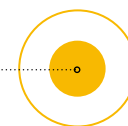
The local economy, still strongly based on industries such as shipbuilding, petrochemical industries and food processing, has been gradually transforming into a larger percentage of know-how based sectors such as electronics, telecommunications, IT engineering and financial services. The region, often called the Polish Silicon Valley, enjoys the considerable presence of BPO/SSC and foreign IT companies including: Thomson Reuters, GE, Nordea, Sii, Sony, PwC, Intel, Bayer, ThyssenKrupp, QLOC and Luthansa Systems.

The Tri-City is one of the most popular holiday destinations in Poland and hosts large numbers of domestic and international tourists every year. The tourism sector, therefore, strongly contributes to the local economy. Over the last decade, the Tri-City's GDP climbed by over 50%.

EDUCATION



DEMOGRAPHY



LABOUR MARKET



SELECTED MAJOR INTERNATIONAL COMPANIES

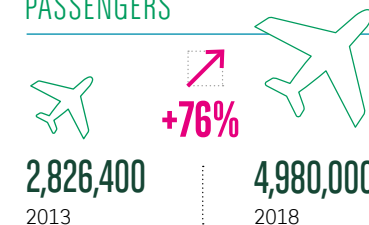
Amazon / Bayer / Lufthansa / Nordea Bank / PwC / Sii / Sony Pictures Entertainment / State Street Bank / SWAROVSKI / Thomson Reuters / WNS



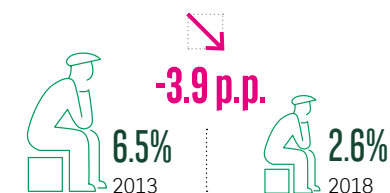
5 years CHALLENGE

2013 v.s. 2018

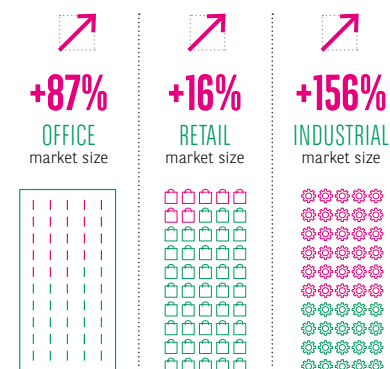
NUMBER OF AIRPORT PASSENGERS



UNEMPLOYMENT RATE

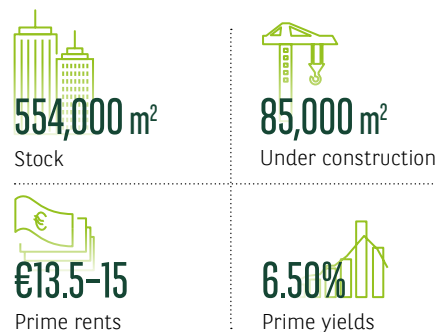


REAL ESTATE MARKET

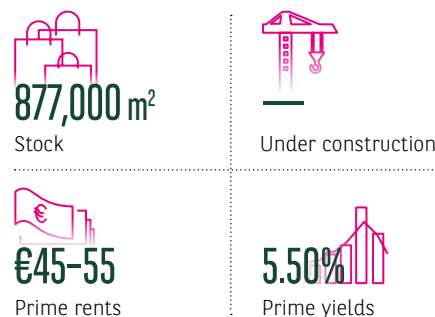


REAL ESTATE MARKET

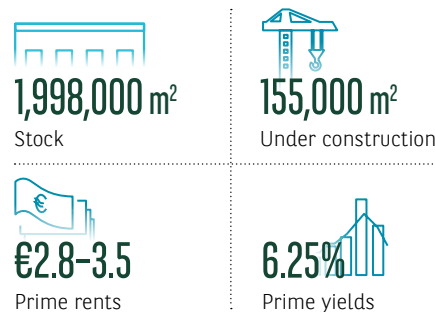
OFFICE



RETAIL



INDUSTRIAL



POZNAŃ / POLAND

Poznań benefits from its location close to the German border and transport links to Western Europe.

The city and its wider region are known as an automotive cluster with companies such as Volkswagen, MAN, Solaris, Delphi Automotive Systems, Honda and Bridgestone / Firestone. Poznań International Fair hosts numerous world renowned exhibitions, which subsequently spurs the hotel and tourism industry.

Numerous companies, such as MAN, GlaxoSmithKline, Roche, Bridgestone and Mars, value the positive business aspects of Poznań and, consequently, chose the city to locate their BPO/SSC and R&D modern service centres.

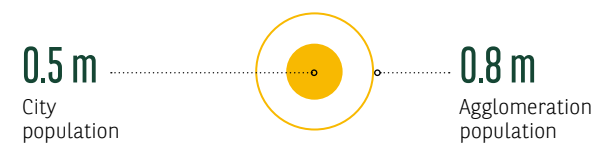
Apart from well-developed retail and office property sectors, the warehouse and logistics segment in the region of Poznań has been steadily fortifying its market position, boosted by strong demand from e-commerce operators.

Since Poland joined the EU in 2004, GDP per capita in Poznań has soared by nearly 60% and today, expressed in Purchasing Power Standards, exceeds the EU average by 35%.

EDUCATION



DEMOGRAPHY



LABOUR MARKET



SELECTED MAJOR INTERNATIONAL COMPANIES

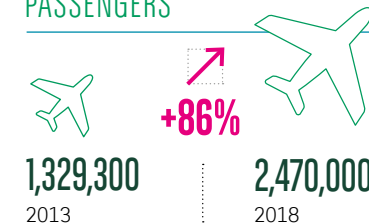
Bridgestone / Capgemini / Carlsberg / Carl Zeiss / IKEA / Jeronimo Martins / John Deere / Lorenz / MAN / Mars / McKinsey / Volkswagen



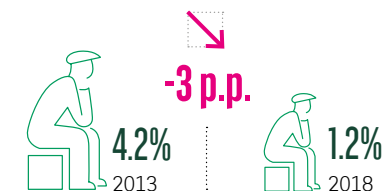
5 years CHALLENGE

2013 v.s. 2018

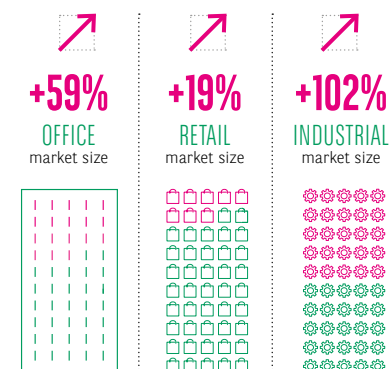
NUMBER OF AIRPORT PASSENGERS



UNEMPLOYMENT RATE

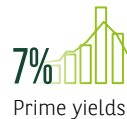


REAL ESTATE MARKET



REAL ESTATE MARKET

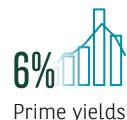
OFFICE



RETAIL



INDUSTRIAL



ŁÓDŹ / POLAND

Łódź is an important academic centre and intensively developing city supported by strong industrial traditions.

Its strategic geographic location close to the major motorway junction (A2 with A1), only 130 km from Warsaw, coupled with the considerable efforts of Local Authorities aimed at attracting investors and the large supply of well-qualified staff, have strengthened Łódź's profile as a propitious business location.

Due to the influx of foreign investment, the region has become a major destination for household-appliance companies and is home to the headquarters of Whirlpool, BSH and Indesit. The city also attracts investors from banking and finance and new technology sectors, which bolsters the picture of Łódź as a modern and vibrant municipality.

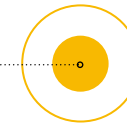
Strongly supported by the local government, the central area of the city is undergoing an urban renewal process aimed at reinventing the heart of Łódź into a new, modern urban cluster called "Nowe Centrum Łodzi" with modern office, residential, commercial and leisure facilities. Fuelled by Poland's accession to the EU, GDP per capita in Łódź soared by nearly 70% over the last decade.



EDUCATION



DEMOGRAPHY



LABOUR MARKET



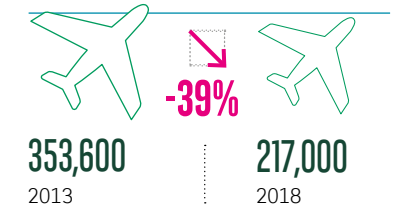
SELECTED MAJOR INTERNATIONAL COMPANIES

ABB / Accenture / Arvato / BSH / Cybercom / Deloitte / Fujitsu / Infosys / Miele / Sii / UniCredit / UPS / Veolia

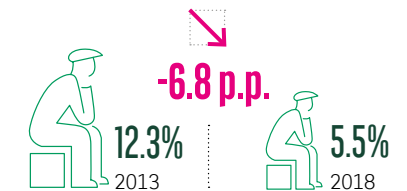
5 years CHALLENGE

2013 v.s. 2018

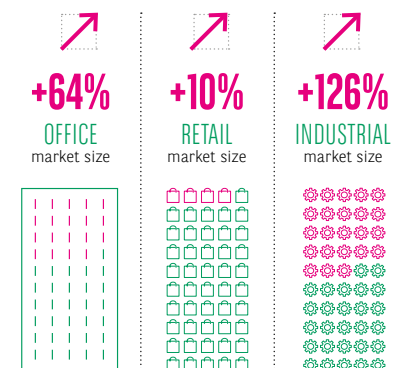
NUMBER OF AIRPORT PASSENGERS



UNEMPLOYMENT RATE

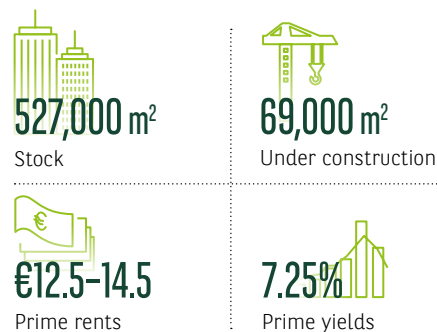


REAL ESTATE MARKET

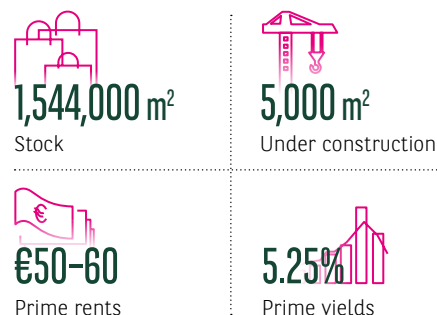


REAL ESTATE MARKET

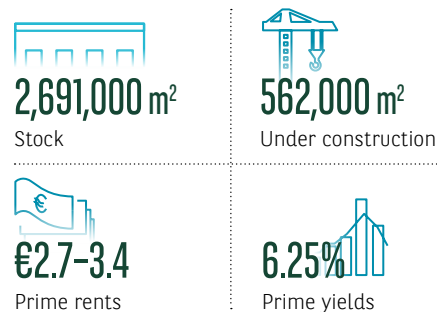
OFFICE



RETAIL



INDUSTRIAL



KATOWICE / POLAND

Katowice is the administrative, economic and cultural heart of the Upper Silesia region which is the second largest urban zone in Poland, inhabited by nearly 2.2 million people, thus forming a large consumer market and a wide pool of qualified professionals.

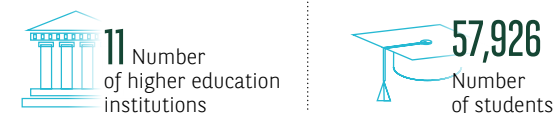
The area is composed of a number of cities and towns, tightly connected by extensive transport infrastructure and business relations. Due to its location at the junction of main transportation corridors, i.e. the A4 and A1 motorways, the region is conveniently accessible from most parts of Poland and Western and Southern Europe. The economy of the region, strongly led by coal mining and heavy industry in the past, has been transforming into a busy destination for companies from high technology (e.g. IBM, Rockwell Automation Yamazaki Mazak) and BPO / SSC service centres (e.g. Capgemini, Ericsson, Accenture, Arvato Bertelsmann and Knauf).

Given the region's strategic location and efficient road network, it is one of the major Central European industrial & logistics hubs.

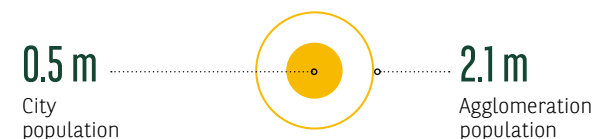
Fuelled by Poland's accession to the EU, GDP per capita in Katowice climbed by approx. 55% over the last decade.



EDUCATION



DEMOGRAPHY



LABOUR MARKET



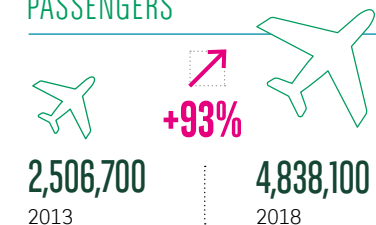
SELECTED MAJOR INTERNATIONAL COMPANIES

Accenture / ArcelorMittal / Arvato Bertelsmann / Capgemini / Ericsson / Knauf / FCA Poland / IBM / Opel / PwC / Rockwell / SGS / Unilever

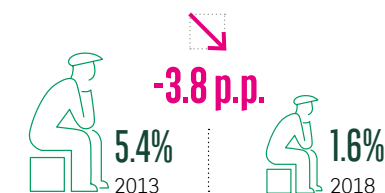
5 years CHALLENGE

2013 v.s. 2018

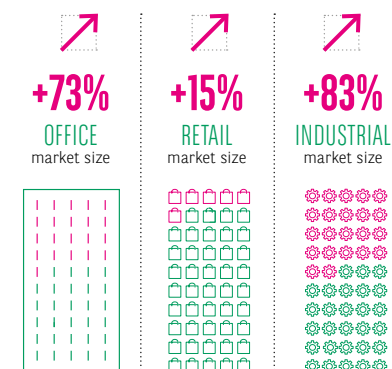
NUMBER OF AIRPORT PASSENGERS



UNEMPLOYMENT RATE

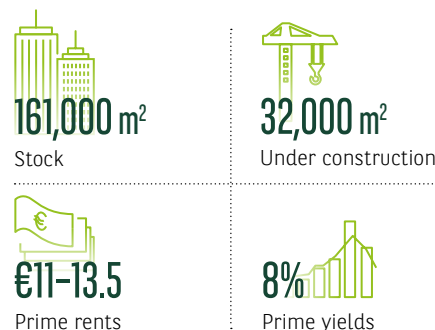


REAL ESTATE MARKET

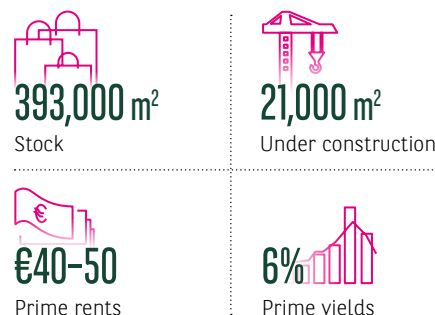


REAL ESTATE MARKET

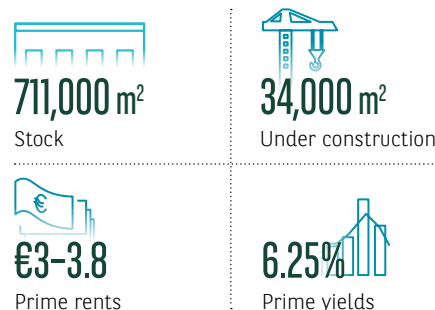
OFFICE



RETAIL



INDUSTRIAL



SZCZECIN / POLAND

Owing to its perfect location close to the German border and good transport links with Western Europe and Scandinavia, Szczecin gained recognition as a business destination of huge potential and has subsequently attracted substantial foreign investment.

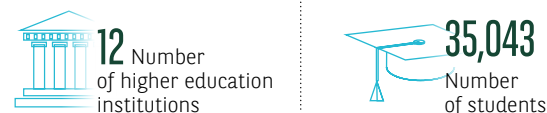
It was valued by warehouse and logistics operators, most significantly from the buoyant e-commerce sector, and attracted e-commerce giants such as Amazon and Zalando.

Its convenient location and outstanding natural water side features are strong points which lure visitors from Germany and Scandinavia every year, thus boosting the local economy.

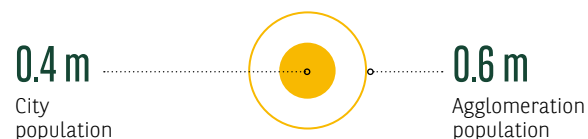
The city offers a favourable blend of skilled professionals, affordable labour costs and well – developed infrastructure, thus attracting numerous service centres, ICT and R&D, and biotechnology companies.

Fuelled by Poland's accession to the EU, GDP per capita in Szczecin increased by approx. 45% over the last decade.

EDUCATION



DEMOGRAPHY



LABOUR MARKET



SELECTED MAJOR INTERNATIONAL COMPANIES

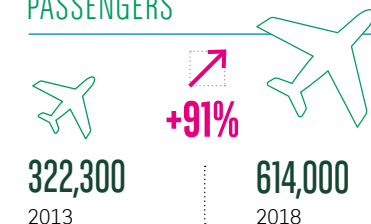
Amazon / Arvato / Avid / Brightone / Diebold Nixdorf / Dansk Supermarked Group / DGS / Metro Services / Tieto Poland / UniCredit / Zalando



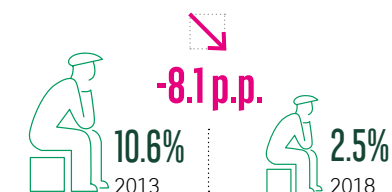
5 years CHALLENGE

2013 v.s. 2018

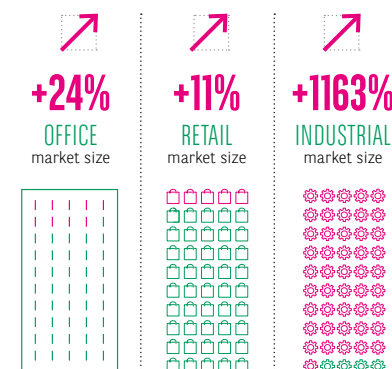
NUMBER OF AIRPORT PASSENGERS



UNEMPLOYMENT RATE



REAL ESTATE MARKET





HAYS
Recruiting experts
worldwide

HAYS: LABOUR MARKET

POPULATION DATA

	Poland	Czech Republic	Hungary	Romania
People aged 20-24 as % of total population	6%	5.2%	6.1%	5.3%
Total number of graduates	517,305	87,131	63,109	121,250
Number of graduates per 1000 inhabitants	13.6	8.2	6.4	6.2

Source: Eurostat

POLAND

In 2018, the Polish economy expanded by its fastest rate in over ten years, boosted in part by large new social benefits programmes raising consumption and a substantial increase in EU funds, which have fuelled public sector investment spending.

This rapid growth has helped to bring unemployment down to record lows, while the job vacancy rate has reached its highest level since 2007. Since 2014, the Polish economy has been supported by an influx of foreign workers. They have been attracted by simplified procedures for short-term employment, among other factors, and have played an important role in supporting Poland's rapidly expanding economy. Foreign workers have been integral to solving Poland's

issues of labour shortages and will continue to be so in the future. Poland's working-age population is already declining and is forecast to decline at an annual rate of over 1% through the middle of the century – one of the fastest in the world.

The country's ability to attract foreign workers may be threatened in the future if neighbouring countries liberalise their immigration laws for non-EU workers.

	2018	2019(f)
Unemployment rate	3.9%	3.6%
Long-term unemployment rate	0.5%	0.6%
Net migration (% of population)	0.4	0.4

(f) - Average forecast figure for 2019

KEY DRIVERS

LABOUR MARKET PARTICIPATION

A greater supply of potential applicants will ease the pressure for Polish firms seeking new workers.

LABOUR MARKET FLEXIBILITY

This year the legal and regulatory framework surrounding the labour market is rated as more restrictive.

WAGE PRESSURE IN HIGH-SKILL INDUSTRIES

The wage gap between high-skilled and low-skilled industries has narrowed again. This was driven in part by strong wage-growth in the low-skilled hotel and restaurant and retail industries.

KEY SKILLS IN DEMAND

- Software Developers
- R&D, Quality and Automation Experts
- eCommerce and Digital Professionals
- Cyber Security Consultants
- Multilingual Experts (Business Services Sector)



Source: Hays Global Skills Index 2019/20
Note: The analysis on which the Hays Global Skills Index was based utilised data as of Q2 2019. Developments subsequent to this date are not reflected in the 2019 findings.

[Millennials] Reasons for planning to leave current organisation in the next two years

Dissatisfied with pay/ financial rewards	43%
Not enough opportunities to advance	35%
Lack of learning and development opportunities	28%
I don't feel appreciated	23%
Poor work/ life balance (Lack of flexibility)	22%
Boredom/ not challenged	21%
I don't like the workplace culture	15%

Source: Deloitte Global Millennial Survey 2019

How do you assess the perspective of your professional career in 2019?

Positively	64%
I have no opinion	23%
Negatively	13%

Source: Hays Poland SALARY GUIDE 2019

In what perspective do you consider changing jobs?

Within 6 months	26%
Within 6-12 months	17%
Within 1-2 years	20%
Within 2-3 years	12%
Later than in 3 years	4%
I am not considering changing jobs	21%

Source: Hays Poland SALARY GUIDE 2019

Reasons to consider changing jobs*

Pay and benefits	73%
No development opportunities	55%
Location	31%
Sense of work/ the nature of the work performed	29%
An imbalance between work and private life	21%
The immediate supervisor/ manager	19%
No possibility of flexible work	17%
Employment uncertainty	15%
Collaborators	12%
Expiry of the contract	10%
Bad employer's image	7%
Other**	6%

* Only employees considering changing jobs

The percentages do not add up to 100 because you could have more than one answer

** Among others, the respondents mentioned a lack of trust in the company and management, low quality of services and products offered by the employer, too much pressure felt in the position held and reasons related to personal life

Source: Hays Poland SALARY GUIDE 2019

At this moment, are you satisfied with your salary level?

Yes	47%
No	53%

Source:
Hays Poland SALARY GUIDE 2019

The challenges facing companies in the near future are mainly connected to the shortage of highly skilled professionals, as well as clearly defined expectations from jobseekers when looking for a new role. Due to the insufficient availability of skilled workers, companies are increasingly competing for in-demand experts. As a result, organisations are developing employment strategies that offer decent salaries and interesting career paths – while also providing their current workforce with opportunities to reskill or even change profession. It is becoming crucial for businesses to implement innovative solutions and focus on the competences of candidates, rather than on their professional background or experience. Narrowing the skills gap is one of the key challenges for employers and policymakers alike. Another priority that has already started to effect positive results is the undertaking of initiatives by companies to encourage wider participation in the labour market, from groups such as women and mature workers.

Marc Burrage

Managing Director, Hays Poland

Source: Hays Global Skills Index 2019/20

CZECH REPUBLIC

The Czech Republic had the lowest unemployment rate in the EU in 2018, following continued strong growth in GDP at 3.2% which boosted the demand for labour.

Employment levels continue to reach new highs, increasing by 1.4% in 2018. This in part reflected a small growth in the size of the working population (which has been in decline since 2010) and small growth in the participation rate (which has been increasing since 2011). But skill shortages persist: firms are reporting hiring

issues as there are now more recorded vacancies than unemployed people. Some 16.7% of firms in the service sector and 11.4% of firms in manufacturing reported the availability of labour would limit production, according to the European Commission's Business Survey in 2018.

Unemployment	2018	2019(f)
Unemployment rate	2.2%	2.1%
Long-term unemployment rate	1.0%	0.7%
Net migration (% of population)	2.3	2.3

(f) - Average forecast figure for 2019

KEY DRIVERS

WAGE PRESSURE IN HIGH-SKILL INDUSTRIES

Wage growth in the low-skill industries has once again outpaced that in the high-skill industries. Wage growth in the financial sector was particularly low.

WAGE PRESSURE IN HIGH-SKILL OCCUPATIONS

Wage growth in low-skilled occupations has also outpaced high-skilled occupations, with the lowest wage growth in managerial occupations.

EDUCATION FLEXIBILITY

The Czech Republic's educational attainment has worsened relative to the other labour markets featured in the report.

KEY SKILLS IN DEMAND

➤ Sales Representatives

➤ IT Developers

➤ English-speaking Accountants

➤ PLC Programmers

➤ Service Representative with German



Source: Hays Global Skills Index 2019/20
Note: The analysis on which the Hays Global Skills Index was based utilised data as of Q2 2019. Developments subsequent to this date are not reflected in the 2019 findings.

“Despite the slight economic slowdown in the region, the Czech Republic still enjoyed considerable strong growth from 2018 through to 2019. Apart from traditionally strong exports, household spending was the main driver of the recent positive economic performance. There is an ongoing trend in which companies are replacing low-added-value roles with more complex and specialised positions. As the unemployment level remains very low, companies are encouraged to become more innovative and flexible in what they offer their employees in their people and culture strategy. Automation, information technology and service sectors are increasing their market presence, each growing in double digits in their demand for new staff. There is a tradition of strong industry and technological know-how in the Czech Republic, which provides a good environment for start-up communities and projects to be developed, mainly in Prague and Brno.

Ladislav Kučera
Managing Director,
Hays Czech Republic

Source: Hays Global Skills Index 2019/20

Did you change your job last year?

Yes	48%
No	39%
I plan to change it this year	13%

Hays Czech Republic SALARY GUIDE 2019

What was the main reason for change?

Pay	43%
Management of the company or team	38%
The job description	21%
Location	8%
The benefits package	4%
Extreme workload	10%
Demand for flexibility	5%
I did not change my job and I do not plan to do so	16%
Other	12%

Source: Hays Czech Republic SALARY GUIDE 2019

At this moment, are you satisfied with your salary level?

Yes, it meets my expectations	23%
I am rather satisfied	40%
I am rather dissatisfied	17%
No, compared to similar jobs it is still lower	20%

Source: Hays Czech Republic SALARY GUIDE 2019

Are you seriously considering a job change?

Yes, I already started searching	28%
I am not active seeker, but I am happy to consider an interesting offer	49%
No, I feel satisfied	23%

Source: Hays Czech Republic SALARY GUIDE 2019

HUNGARY

In 2018, Hungary's GDP grew by 5% – its fastest rate since this version of the GDP series began in 1995. The growth was stimulated by very rapid investment (in part stimulated by EU funding of public investment projects) and household consumer spending.

With the economy expanding rapidly, the labour market has tightened significantly. The unemployment rate fell to a record low of 3.7% in 2018. Recorded job vacancies rose by 22.6% in the year. There is evidence of skill shortages. The European Commission's Business Survey

in 2018 suggests 33.8% of service firms and 19.4% of manufacturing firms in Hungary think their output will be constrained by labour shortages. This has helped push expected overall wage growth to 9% this year, alongside an 8% increase in the minimum wage.

Unemployment	2018	2019(f)
Unemployment rate	3.7%	3.4%
Long-term unemployment rate	1.8%	1.4%
Net migration (% of population)	1.3	1.3

(f) - Average forecast figure for 2019

KEY DRIVERS

TALENT MISMATCH

The long-term unemployment rate fell sharply last year to well below its historical average. The decline occurred across all duration categories of unemployment over a year.

LABOUR MARKET PARTICIPATION

The growth in Hungary's participation rate is forecast to slow slightly this year, which would reduce the rate at which the supply of skilled labour expands.

EDUCATION FLEXIBILITY

A slight decline in the number of graduates as a share of the total population has lowered the share of skilled workers.

KEY SKILLS IN DEMAND

- Automotive Quality Engineers
- Automation Engineers
- Java Developers
- Data Scientists
- Front-end Developers



Source: Hays Global Skills Index 2019/20
Note: The analysis on which the Hays Global Skills Index was based utilised data as of Q2 2019. Developments subsequent to this date are not reflected in the 2019 findings.

“Due to accelerating competition amongst employers for the best candidates, many companies have had to increase salaries throughout the year to retain and attract workers. Therefore, the importance of recruitment is being increasingly emphasised by companies, and in terms of strategic planning it is clear it takes priority. International companies have continued to invest in Hungary throughout the year, and over the next three years the newly built plants in Debrecen will absorb a significant amount of the workforce from the market. Many areas continue to be driven by jobseekers, the biggest shortage of potential workers being in the manufacturing industry. We continue to experience an IT labour shortage in the ever-changing IT market and the perception towards the IT profession has significantly changed: more and more people are moving into this area with different backgrounds and different ages – attempting to minimise the demand and supply gap.

Tammy Nagy-Stellini
Managing Director, Hays Hungary

Source: Hays Global Skills Index 2019/20

Did your salary change last year (2018)?

Yes, it increased	66%
Yes, it decreased	8%
No	26%

Source: Hays Hungary SALARY GUIDE 2019

Are you satisfied with your current salary?

Yes	46%
No	54%

Source: Hays Hungary SALARY GUIDE 2019

Are you planning to change your job in the near future?

Yes	65%
No	35%

Source: Hays Hungary SALARY GUIDE 2019

What are your main priorities when looking for a new job?

Payment	77%
Benefits package	35%
Location	56%
Brand reputation	25%
Life-work balance	72%
Work environment	60%
Other	13%

Source: Hays Hungary SALARY GUIDE 2019

Would you move to another city in Hungary for a better career opportunity?

Yes	41%
No	59%

Source: Hays Hungary SALARY GUIDE 2019

Would you move to another country for a better career opportunity?

Yes	65%
No	35%

Source: Hays Hungary SALARY GUIDE 2019

Do you believe in job loyalty?

Yes, I'll stay 3-5 years with an employer	53%
Yes, I'll stay 5+ years with an employer	35%
No, I like to change employers every 1-2 years	12%

Source: Hays Hungary SALARY GUIDE 2019

ROMANIA

Strong consumption growth underpinned another good year for the Romanian economy in 2018, with GDP increasing by around 3.6%.

There is little spare capacity in the labour market, with the robust recent economic performance prompting the unemployment rate to fall to 4.2% in 2018, its lowest level since 1988. Some labour shortages have emerged, notably in the construction sector, which are likely to threaten the rate at which business can expand and will put upward pressure on wages. In January 2019, the Government introduced three separate minimum wages: the overall

national minimum wage, another specifically for employees with higher education, and a third specifically for the construction sector.

The latter two were introduced to combat shortages in the supply of skilled labour and construction workers, respectively. The national minimum gross monthly wage was increased from RON 1,900 to RON 2,080. It was just RON 1,450 as recently as 2017.

Unemployment	2018	2019(f)
Unemployment rate	4.2%	4.1%
Long-term unemployment rate	n/a	n/a
Net migration (% of population)	0.2	0.2

(f) - Average forecast figure for 2019

KEY DRIVERS

TALENT MISMATCH

The vacancy rate has steadily risen in Romania. This suggests there is a growing imbalance between the skills job applicants possess and those sought by employers.

EDUCATION FLEXIBILITY

A fall in the number of graduates as a share of the total population in Romania means that the average skill level of workers has declined.

LABOUR MARKET PARTICIPATION

Romania is forecast to experience another year of growth in the participation rate this year, increasing the size of the available labour pool.

KEY SKILLS IN DEMAND

- › Software Developers
- › Cyber Security Engineers
- › Construction Engineers
- › Customer Service Staff with Foreign Language Skills
- › AP/AR/GL Accountants



Source: Hays Global Skills Index 2019/20

Note: The analysis on which the Hays Global Skills Index was based utilised data as of Q2 2019. Developments subsequent to this date are not reflected in the 2019 findings.

“Romania, especially in the major cities, has an extremely dynamic labour market. One of the most powerful and growing sectors is the shared service centre and business process outsourcing sector. There is currently a trend in this sector of operational roles becoming more and more complex and therefore the required skillset is growing. Such centres have started migrating more sophisticated jobs to the country and new roles are still being created. Apart from the standard English language proficiency, other languages are also in high demand. The information technology (IT) sector is trying to keep up with the increasing demand for skilled professionals, while tax exemptions for IT workers are still in place in order to attract and retain professionals to Romania. The market has become extremely competitive, bringing salaries to sometimes stressful levels. The Government has also introduced a tax exemption for the construction sector to address the skills shortage in this fast-growing sector.

Sándor Bodnár
Managing Director,
Hays Romania

Source: Hays Global Skills Index 2019/20

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act

act legal: **LATEST TRENDS**

RECENT TRENDS AND LEGAL CHANGES IN THE CEE COMMERCIAL REAL ESTATE MARKET

International developers and investors demonstrate continued interest in the CEE real estate market. What has an impact on this market from a lawyer's point of view? Experts from act legal, European law firm, have summed up the current trends in the commercial real estate market, as well as legal and tax changes that should be of interest to investors.

POLAND

RECENT TRENDS AFFECTING THE COMMERCIAL REAL ESTATE SECTOR IN POLAND- A LAWYER'S PERSPECTIVE BASED ON ACTIONS AND INVESTMENT PLANS OF CLIENTS AND OTHER COMPANIES OPERATING IN THE POLAND'S REAL ESTATE SECTOR

➤ Growing interest in investment projects that involve urban space planning and combination of various features (commercial, office and residential)

➤ It is getting increasingly popular to implement investment projects that have a positive impact on urban space and perform a variety of functions, serving as meeting, work and dwelling locations. Such projects often entail the revival of existing developments or historic sites. Examples include Fuzja in Łódź, Waterfront in Gdynia, Port Popowice in Wrocław, as well as Fabryka Norblina, Browary Warszawskie, Elektrownia Powiśle, Praga Koneser Center and Bohema in Warsaw.

➤ Increasing popularity of apartments for rent, nursing homes and dorms

“A lot of investors have been seeking locations for projects categorized as “residential for rent,” “residential for young professionals” and “student housing” in 2019. Since the first remarkable transaction in the student housing market (acquisition of a company managing a chain of dormitories by Griffin Real Estate and Kajima Student Housing Limited from Oaktree Capital

Management), this has been an actual trend, rather than just a short-lived fad”, says **Michał Wielhorski**, Managing Partner and co-head of the real estate practice at act legal Poland (Warsaw).

Demand gives rise to new opportunities. Office buildings constructed in the 1970s and 1980s (with individual rooms, rather than open-plan offices) are quite popular among investors as they can be relatively easily converted into dorms. Most projects of this sort are based in Warsaw, Tri-City, Kraków and Wrocław.

➤ Growing interest in hotel and hostel projects

In 2019, locations earmarked for hotels (esp. 3- and 4-star ones) close to transport hubs, city centers, landmarks and business centers have gained a lot of interest.
“New hotel brands and concepts (e.g. Motel One, MGallery, Nobu) entered the Polish market. There are investors willing to establish chains of hostels that are well-thought in terms of location and turn the somewhat negative hostel stereotype on its head”, says **Marek Wojnar**, Managing Partner and co-head of the real estate practice at act legal Poland (Warsaw).

➤ Logistics sector's further growth

The increasingly cut-throat competition among commercial platforms, client-friendly return and refund policies, legal regulations that protect consumer rights for distance contracts and competition related to delivery time of products purchased online all contribute to the growth of the logistics industry.

RECENT LEGAL CHANGES AFFECTING THE COMMERCIAL REAL ESTATE SECTOR IN POLAND

➤ Regulations on fees for changes to perpetual usufruct purpose

The amended Property Management Act came into effect in August 2019, regulating (among others) the fees for changes to the perpetual usufruct purpose. Before that, since there had been no applicable statutory regulations, the owner (the State Treasury or a local government authority) would often expect the perpetual usufructuary to pay a one-off fee for such change (in some cities/towns, the rate corresponded to as much as 25% of the property value). At the same time, the existing inconsistency between the perpetual usufruct purpose (frequently resulting from unclear documents dating back to the 1990s) and the intended investment project led to attempts made by owners to prevent the investment at an early stage, i.e. upon the investor's submission of a construction permit application. **Now, in view of the new regulations, the perpetual usufructuary can apply for changes to the perpetual usufruct purpose in a number of cases**, incl. when the suggested change complies with the applicable local zoning plan or the obtained planning permit. If the percentage rate of the annual perpetual usufruct fee is reduced due to a given change, the owner and the perpetual usufructuary can agree upon a one-off fee payable to the property owner, which can be no higher than double the previously applicable annual fee.

Additionally, the amended Act confirms that the inconsistency between the intended investment project and the current perpetual usufruct purposes cannot serve as the basis for refusal to issue a construction permit for such project to the investor (perpetual usufructuary). The new regulations address the attempts taken in some cities (incl. Warsaw and Kraków) to prevent investments planned by holders of perpetual usufruct, e.g. through decisions refusing to grant a construction permit until a change in the perpetual usufruct purpose is introduced and an additional fee gets paid.

› VAT refund in the real estate sector

Tax regulations fail to determine unambiguously whether the sale of a leased commercial property should be categorized as the sale of an enterprise (or its business unit), which is not subject to VAT, or as the sale of a separate asset, which could be VAT-taxable. **Lack of a unified approach among tax authorities means that it is unclear if VAT will be reimbursed.**

The situation was supposed to be improved by clarifications issued in December 2018 by the Ministry of Finance. According to them, as a general rule, the sale of real property is subject to VAT. Only under special circumstances can such transaction be regarded as the sale of an enterprise. When determining if an asset should be considered as an enterprise, the following factors need to be taken into account: the purchaser's intention to continue the seller's business operations and the actual possibility to continue such operations on the basis of the assets acquired (esp. whether the sale of real property is accompanied by the transfer of rights and obligations arising from the property management agreement, asset management agreement and debt financing agreement).

Although these clarifications do not eliminate all doubts as regards taxation of the sale of commercial real estate, an analysis of tax rulings issued by the National Revenue Information Office in 2019 indicates that they are taken into consideration when resolving the doubts of taxpayers.

› MDR in the real estate sector

Regulations introducing the tax schemes reporting obligation have been in effect since January 01, 2019. However, that **obligation gives rise to a range of doubts for the real estate sector.**

In commercial real estate transactions, the parties often consider different options for sale of a given property (in light of various business aspects), such as the sale of an enterprise, the sale of real property together with the transfer of rights and obligations resulting from lease agreements, and the sale of shares. Tax obligations vary depending on the selected option. There are often doubts as to whether the "main benefit criterion" has been met (which forms one of the basis for MDR). Consequently, each case requires a separate analysis, especially in terms of business reasons for which a given solution has been chosen. Additionally, one needs to bear in mind that the reporting obligation for a given scheme might also emerge when the "main benefit criterion" has not been fulfilled but there are (other) special distinctive features. Each case needs to be analyzed independently. Sanctions for failure to report a tax scheme may be very severe.

CZECH REPUBLIC

RECENT TRENDS AFFECTING THE COMMERCIAL REAL ESTATE SECTOR IN CZECH REPUBLIC – A LAWYER'S PERSPECTIVE BASED ON ACTIONS AND INVESTMENT PLANS OF CLIENTS AND OTHER COMPANIES OPERATING IN THE CZECH REAL ESTATE SECTOR

› Business sector

The Czech real estate market is experiencing a construction boom, fueled by the office and residential sectors. Major investments are being made in administrative and business projects.

“However, demand still exceeds supply, which results from (among others) lengthy and complicated building procedures. Consequently, we can see a continuous increase of rent rates”, says **Tomáš Slabý**, Partner and Head of the Real Estate Department at act legal Czech Republic (Prague).

› Residential sectors

As mentioned above, the same applies to the residential sector (especially in Prague). Strict regulations for mortgages lead to higher demand for rental housing, followed by a sharp increase in rent rates which have reached an all-time high.

› Retail and hotel sector

The retail sector is growing consistently, reaching one of the best figures in the past decade, and is expected to grow even further, with new shopping centers being constructed across the country. When it comes to the hotel sector, it is worth mentioning Prague. In 2017, it was the 10th largest hotel market in Europe, with 41,617 rooms in 787 accommodation facilities. Even more interestingly, the occupancy rate of 80.1% was the 5th highest in Europe. Investments in short-term rental projects are becoming very popular, as well, and it is expected that many companies will concentrate on this field in the near future.

RECENT LEGAL CHANGES AFFECTING THE COMMERCIAL REAL ESTATE SECTOR IN CZECH REPUBLIC

› Recodification of Czech private law

The most important legal change within the past 5 years has been the new Civil Code, which came into effect on January 1, 2014, bringing significant changes in several areas. As regards the real estate law, it is worth pointing that the new Civil Code relies on the superficies solo cedit principle. It has a practical impact in situations where the owner of the land lot is different from the owner of the building. In these cases, one of the owners holds a pre-emptive right against the other with

respect to the building or the land. There is also another instance of a pre-emptive right, which has been reintroduced to the Czech law by the first amendment to the Civil Code. This type of pre-emptive right applies to co-owners of real property and covers transfers of proprietary rights both with and without consideration. The only situation in which a co-owner is not bound by the pre-emptive right is a transfer to a family member or another close person.

Other important real estate related changes apply to the **lease of business premises**. The public law status of the premises is no longer crucial. The purpose of a given agreement determines whether or not it is considered as a lease of business premises, with no reference being made to the public law status. This results in a more accurate legal evaluation of agreements and greater contractual freedom.

Finally, another important change for purchasers/investors is the introduction of the **principle of public credibility** of entries made in the Land Registry. That principle protects the acquirer of the real estate against claims of third parties, objecting to the validity of the acquisition in cases where the acquirer was relying on an entry in the Land Registry. Thus, more security for new transactions is given to the investors as their purchase is less likely to be disputed in the future.

› Changes to construction regulations

There have been (and still are) efforts to overcome the critical situation related to building processes by amending the Building Act. An extensive amendment from 2018 brought new methods to simplify and speed up the building process, such as collective proceedings or limitation of the possibility of environmental protection organizations to join the proceedings. However, in practice, the amendment does not fulfil its purpose very well and as a result, a lot of further amendments are being discussed. The changes which are under preparation could, among other things, introduce new solutions to speed up the process or change the scope of duties/authorizations of specific building authorities.

› Real estate taxes

Currently, there is double taxation for real estate in the Czech Republic. The first tax is the transfer tax, corresponding to 4% of the price of the immovable property (or its value set by a competent administrative authority). The second is the real estate tax – its amount differs depending on the type of property and the local rate set by the municipal authority, based on the property's location.

Both these taxes are likely to be amended in the near future.

“The transfer tax for some properties should be reduced to 2%; however, this change will most probably apply exclusively to transfers of residential properties. On the other hand, an increase in the local rate of the real estate tax is being considered by some municipal authorities, especially in Prague and other big cities, with the aim of increasing their income”, says **Tomáš Slabý**.

HUNGARY

RECENT TRENDS AFFECTING THE COMMERCIAL REAL ESTATE SECTOR IN HUNGARY - A LAWYER'S PERSPECTIVE BASED ON ACTIONS AND INVESTMENT PLANS OF CLIENTS AND OTHER COMPANIES OPERATING IN THE HUNGARIAN REAL ESTATE SECTOR

› Interest in the office space sector remains high with vacancy rates at record lows

In 2018, with an outstanding volume of new completions, the vacancy rate of office space remained at around past years' record lows. Because of an insufficient number of available Class A units due to huge demand, the market started to absorb Class B office space at a growing pace. Nevertheless, market expectations for 2019 remain optimistic as investors are going to deliver new office space.

› Although new market players are expected to show up, some restrictions will continue to apply in the retail sector

“Partly due to domestic sector regulations, new supply in the retail real estate segment was relatively restricted in previous years and no large increase is expected in the foreseeable future. The lack of new supply and growing demand resulted in higher rental rates. Some analysts expect new international retailers to enter the Hungarian market in 2019”, says **Gergely Bán**, Partner and co-head of the real estate practice at act legal Hungary (Budapest). Despite an almost 5% economic growth rate in 2018, which boosts demand in the retail market, the ban on building new shopping malls in Budapest remains in effect, and the projected lifting date is yet unknown.

› Growing interest in hotel projects

“Hotel projects are plentiful as tourism figures keep triggering rising demand for hotels. Until the end of 2021, thousands of new hotel rooms are scheduled for delivery, with prospective Budapest-based hotels representing over 80% out of those. Projects include constructing new 4- or 5-star hotels, as well as reconstructing the existing luxury hotels”, says **Márton Karika**, Partner and co-head of the real estate practice at act legal Hungary (Budapest).

RECENT LEGAL CHANGES AFFECTING THE COMMERCIAL REAL ESTATE SECTOR IN HUNGARY

› Broader pre-emption right for the state

One of the most significant recent changes in property-related laws has broadened the pre-emption right the state already had in relation to specific properties. The amendments have widened the scope of properties affected to include more than 80,000 (non-residential) properties in world heritage sites in Budapest and other major cities countrywide, besides agricultural land and properties listed as protected parts of cultural heritage.

Increasing security of real estate transactions

In Hungary, real estate transactions have to be incorporated into private contracts (usually purchase agreements) that need to be prepared and countersigned by a lawyer or drawn up in a notarial deed (public document).

“Recent changes in property law aim to increase the security of real estate transactions by implementing stricter rules for countersigning and the accompanying identification of the parties to the contract, the latter being in line with the global efforts to fight money laundering and terrorism financing”, says **Márton Karika**, Partner at **act legal** Hungary (Budapest). The changes brought further formal requirements for transactional documents, as well, aiming at greater security (among others).

Changes to registration of real estate properties

Until recently, certain types of real property-related administrative procedures (e.g. request for the removal of usufruct right) could be initiated at the so-called Government Windows (physical single points of contact to handle affairs with the government). As of now, again, only the specialized land registry offices may accept requests in matters related to real properties. The procedures are still paper-based as the implementation of electronic administration cannot be expected in the next few years. The procedures have become more flexible and the competence of the land offices to issue a call for correction of paperwork irregularities has broadened. Also, the procedure of conversion of agricultural land (i.e. to use it for non-agricultural purposes) has become simpler, provided that the conversion applies to a given land as a whole.

Changes to regulations on agricultural land

The recent legal changes also included significant amendments to the regulations on agricultural land, aiming to strengthen the position of resident farmers, increase competitiveness by establishing a healthy and stable structure of agricultural holdings, confine abuse and ensure that agricultural land continues to be owned by Hungarians. The amendments affected, among others, the tasks and procedures of the local land commissions, the complex structure of pre-emption rights (the definition of the beneficiaries of such rights and their order of priority in exercising their rights) and regulations concerning the purchase price of agricultural land. The amendments covered not only the acquisition of agricultural land but the exchange and rural lease thereof, as well. The ban on foreigners (natural persons or legal entities) other than residents of the EU, Iceland, Norway, Liechtenstein and Switzerland, which prevents them from acquiring agricultural land in Hungary, has not been lifted yet; such persons/entities are still allowed to acquire land in exceptional cases only, e.g. through inheritance.

On a side note, a similar limitation is in place with respect to residential properties. Non-Hungarian citizens must obtain the approval of a relevant administrative authority to purchase property as a private person. According to current regulations, most foreigners should receive such permit within 2-3 months. However, foreign nationals are often advised to set up a company registered in Hungary in order to purchase property. In this case, no permit is needed. Establishing a company is a fairly swift and easy procedure (taking 1-2 days only) and, usually, all expenses can be written off.

ROMANIA

RECENT TRENDS AFFECTING THE COMMERCIAL REAL ESTATE SECTOR IN ROMANIA - A LAWYER'S PERSPECTIVE BASED ON ACTIONS AND INVESTMENT PLANS OF CLIENTS AND OTHER COMPANIES OPERATING IN THE ROMANIAN REAL ESTATE SECTOR

Romania's commercial property market has had a busy first half of 2019, with large office and retail transactions closed, combined with the big-ticket sale processes expected to close soon.

Emphasis on new modern office space

Office sector continued to hold the leading position, taking the ascending trend of 2018 into the first half of 2019 not only in Bucharest, but also in other major cities, such as Cluj-Napoca, Iași, Timisoara and Brasov. IT&C remains the main driver for office space leasing activity, while from the design perspective, an increased emphasis on modern spaces that foster collaboration was the trademark of new market deliveries and refurbishments of older projects.

“Tenants, especially multinational companies, put a lot of emphasis during contract negotiations on quality and details of the turnkey condition, as well as on the landlord's compliance with contractual deadlines and permitting requirements”, says **Mihaela Posirca**, Counsel at **act legal** Romania (Bucharest).

Retail market remained strong but mostly involved extensions or refurbishments of existing commercial centers.

This is linked to the market trend to implement e-commerce concepts, as well as the need to adapt to more demanding consumers and their expectations, e.g. by updating the entertainment and food units, particularly in major cities.

“Extensions and refurbishments entail a close analysis of the (new) legally required permits and authorizations needed in this regard, while also affecting the existing permits for commercial centers, which usually need to be re-obtained or updated”, says **Cristiana Mic-Soare**, Counsel at **act legal** Romania (Bucharest).

Industrial and logistics market

Industrial and logistics market was highly dynamic, with both built-to-suit and pre-leased units, as well as other generic types of buildings, proving the investors' increased appetite for this sector.

“In terms of legal structuring, zoning / land use plans allowing the development of logistic parks form a typical condition precedent for land acquisitions, which is commonly accepted by sellers. However, ensuring proper access for heavy traffic remains a challenge in some cases, acting as the main factor that determines the success of the project”, says **Mihaela Posirca**, Counsel at **act legal** Romania (Bucharest).

RECENT LEGAL CHANGES AFFECTING THE COMMERCIAL REAL ESTATE SECTOR IN ROMANIA

» Highest increase in construction production in the EU

Romania reported a 30.7% increase in construction production during Q1 2019, compared to the same quarter of 2018 – the highest rise in this category among EU member states, according to data released by Eurostat.

“The increase in construction production was triggered by tax incentives granted to the construction sector at the end of 2018, which were meant to boost this sector facing heavy difficulties due to lack of workforce, with many qualified Romanian workers choosing to work in western EU countries”, says **Mihaela Posirca**, Counsel at act legal Romania (Bucharest).

Measures included setting the guaranteed national minimum gross monthly salary for the construction sector, applicable between January 1, 2019 and December 31, 2028, at RON 3,000 (approx. EUR 635), excl. allowances, bonuses and other incentives.

Moreover, for the same period, workers in the construction industry with monthly earnings of less than RON 30,000 (approx. EUR 6,350) are exempted from payment of personal income tax, so long as their employer generates at least 80% of its total turnover from specific construction activities. Further incentives for individuals with such income and their employers include: (i) exemption from payment of health fund contributions, reduction of the social security contribution rate payable by the employee, and partial exemption from payment of private pension fund contributions due from employee; and (ii) reduction of the work insurance contribution payable by employers, as well as exemption from payment of social security contributions due from employers for special work conditions.

» Increased regulatory compliance for real estate properties

Romanian lawmakers maintained a strong focus on compliance of real estate properties with regulatory requirements.

“While the emphasis of the recent years has been on fire safety, the last year brought about additional legislative changes increasing the need for real estate properties to comply with requirements for building permitting and environmental protection”, says **Cristiana Mic-Soare**, Counsel at act legal Romania (Bucharest).

As regards permitting, the Parliament passed a law introducing fines for developers that allow the occupation of buildings prior to their official delivery/acceptance upon completion of works, while the High Court of Cassation and Justice clarified in a lead case that the absence of the building permit and/or the acceptance report upon completion of works means that the court cannot recognize the ownership right over a development.

As for environmental protection, environmental permits must now be subject to yearly review by the competent authority, which is supposed to ensure that the environmental permit continues to reflect the actual situation on the site.

In addition, the demolition authorization procedure now requires a prior clearance or approval of the environmental authority – this is particularly important for historical industrial units which are being demolished to give way for the development of new retail or logistics projects. Thus, “one major aspect in the sale of existing projects is buyer’s in-depth legal and technical due diligence of permitting, which sometimes gives rise to a range of conditions precedent that need to be included in the sale agreement”, says **Mihaela Posirca**.

Also, due to the pressure from public authorities and major tenants, increasingly many building and fire compliance processes are being implemented by property owners, holders and managers.

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6 BUSINESS LINES in Europe

A 360° vision

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