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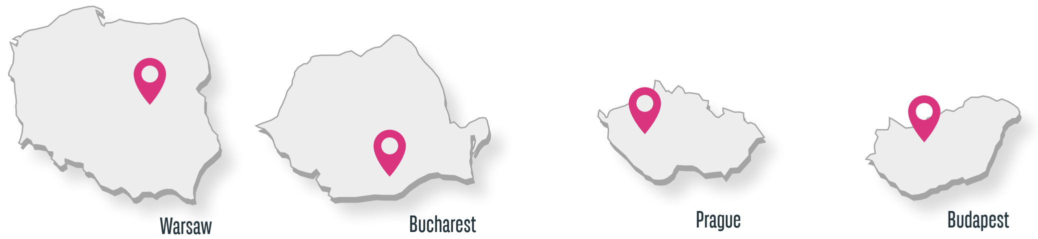
HOW R U CEE?

CEE-4 COUNTRIES IN A NUTSHELL



		POLAND	ROMANIA	CZECH REPUBLIC	HUNGARY
GENERAL	Political scene	right	right	centre	right
	Corruption index - rank (1)	41	70	44	70
	Currency stability (2)	1.93	2.52	2.75	2.71
	Natural threats	floods	earthquakes	floods	floods
SOCIAL AND ECONOMIC INDICATORS	Country population (3)	38.4 million	22.17 million	10.7 million	9,8 million
	Capital city population (3)	1.8 million	2.13 million**	1.3 million	1.7 million
	Cities above 400,000 inhab. (3)	8*	1	1	1
	Unemployment rate (4)	3.5%	5.3%	2.9%	4.4%
	Unemployment rate - change on December 2019	+0.6 p.p.	+1.3 p.p.	+0.9 p.p.	+1 p.p.
	Average wages (5)	€ 1,201	€ 1,094	€ 1,362	€ 1,115
	GDP per capita (6)	$15,595	$12,920	$23,102	$16,476
	GDP cumulated growth in the last 5Y (7)	+24%	+26%	+20%	+22%
	Number of universities (3)	392	92	69	64
	Number of students (3)	1,228,667	543,299	288,915	283,350
COMMERCIAL REAL ESTATE MARKET KEY FIGURES	Modern retail market (sqm)	15,000,000	3,850,000	3,647,000	1,986,000
	Modern office market (sqm)	11,547,000	4,650,000	3,802,500***	3,900,000***
	Modern industrial market (sqm)	20,292,000	4,700,000	9,096,500	3,200,000
	Transaction volume (€ million) 2019	7,672	714	3,128	1,700
	Transaction volume (€ million) Q1-Q3 2020	4,081	825	2,163	640

Notes: (1) Transparency International, Corruption Perception Index 2019; (2) Defined as coefficient of variation calculated on daily currency rates of the national banks for the period: 01.03.2015 - 28.02.2020; (3) National statistical offices; (4) Eurostat, ILO, as of October 2020, Hungary - as of September 2020; (5) National Statistical Offices, Average wages in the enterprise sector; (6) World Bank, 2019; (7) Eurostat; *incl Katowice with the Upper Silesia conurbation; **by domicile; ***the capital only

HOW R U CEE?

MACROECONOMIC SNAPSHOT

REAL GDP GROWTH IN THE EU in 2019 and projections

DATA:

Country

2019 2020f / 2021f

Eurostat BNP Pribas

EUROZONE

1.3 -6.8 / 3.8

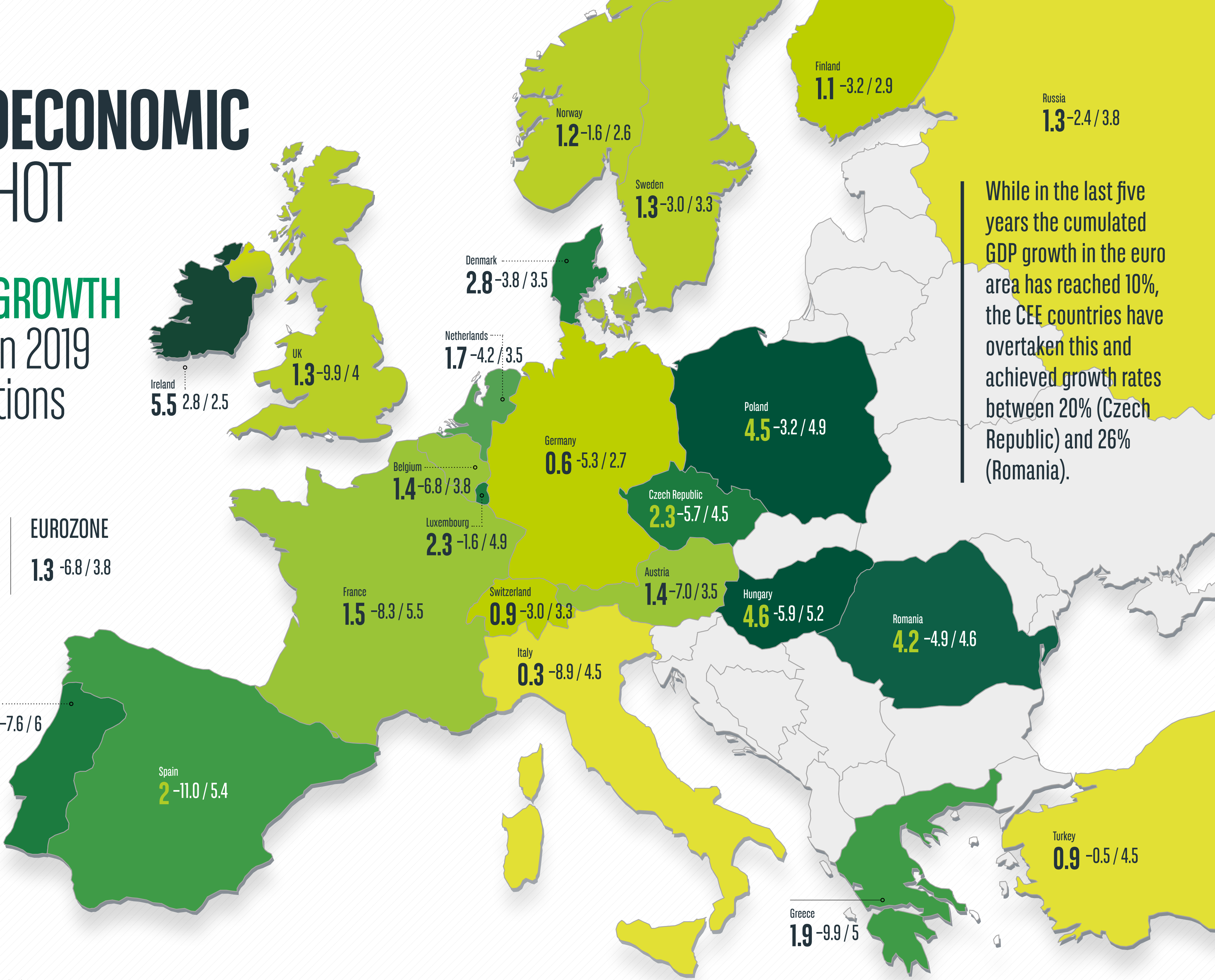
3<

2.1-3

1-2

>1

Source: Eurostat, BNP



While in the last five years the cumulated GDP growth in the euro area has reached 10%, the CEE countries have overtaken this and achieved growth rates between 20% (Czech Republic) and 26% (Romania).

POLAND

Recovery to follow relatively shallow recession

GROWTH

The Polish economy went into a deep slump in Q2 2020 after the government imposed a lockdown to fight the first wave of the Covid-19 pandemic. The economy's reopening in June saw a robust rebound in Q3. Due to a renewed lockdown caused by the second wave of the coronavirus, however, we expect the economy to shrink again in Q4.

For the full year, we expect a contraction of 3.3%, markedly better than the other three major CEE economies of the eurozone. This relatively strong performance is partly due to the Polish government's large fiscal response, reflected in a large fiscal deficit, which we expect to reach 10% of GDP this year and remain sizeable at 5% next year.

In 2021, we expect the recovery to regain steam, driven by both rising external demand and domestic demand supported by favourable labour conditions. With a relative mild recession this year and a robust recovery expected next year, Poland is the only CEE economy where the expected level of GDP at the end of 2021 is to be above the pre-pandemic level.

CURRENT ACCOUNT

Its rising trade balance supports Poland's current account. After a sharp rise this year to about 3% of GDP, we expect the current account surplus to deteriorate slightly next year due to a rebound in domestic demand.

INFLATION

Although CPI inflation decelerated in November to 3.0% y/y from over 4% y/y in early 2020, core inflation remained elevated at a two-decade high of 4.3%.

High core inflation suggests likely persistent elevated inflation pressure despite a sharp dip in activity so far this year.

We expect some deceleration in Poland's headline rate early next year, possibly as low as 2.0%, driven by moderation in core inflation, though the scope of disinflation will likely be limited by increases in electricity prices.

Already in Q2, however, the CPI is set to re-accelerate, and we expect it to reach or even exceed the central bank's target of 2.5%. All in all, we expect Poland's CPI to remain elevated next year, possibly threatening the 3.5% upper boundary of the NBP tolerance level towards the end of 2021.

MONETARY POLICY

The National Bank of Poland cut its policy rate three times in early 2020, but the benchmark rate has remained at a record low 0.1% since then. We do not expect a hike before 2022.
This year, the NBP also initiated secondary-market purchases of treasury securities and debt securities guaranteed by the state. We expect it to keep this QE programme running next year, albeit with a significant fall in the amount of NBP asset purchases.

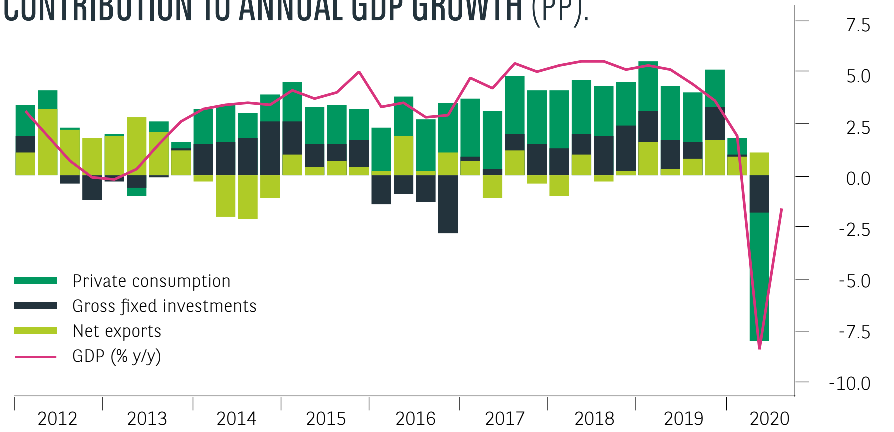
FX

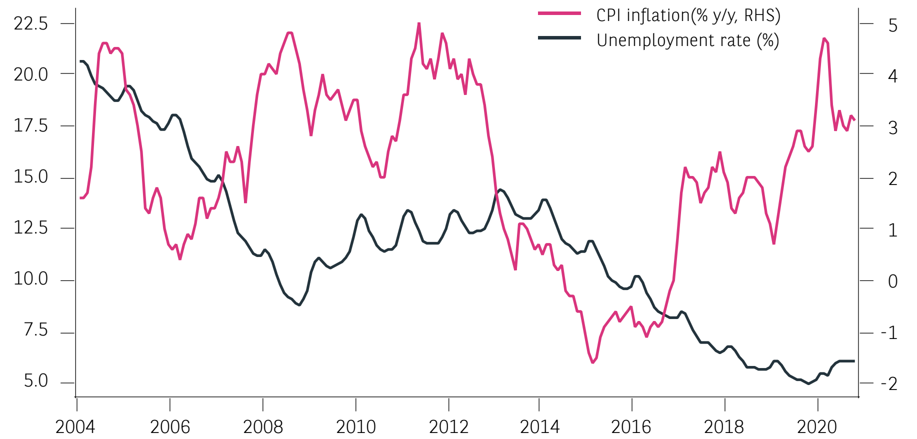
With the economic recovery underway and very supportive external balances, we expect a gradual appreciation of the zloty in 2021.

	2018	2019	2020[1]	2021[1]	2022[1]
GDP (%)	5.2	4.1	-3.3	4.9	4.3
CPI (%)	1.7	2.4	3.3	2.7	2.7
Unemployment rate (%)	6.1	5.4	6.3	6.0	5.7
Current account (% of GDP)	-0.7	0.5	3.0	2.1	1.5
General govt. budget (% of GDP)	-0.4	-0.7	-10.0	-5.0	-2.8
Policy rate (%)[2]	1.50	1.50	0.10	0.10	0.75
EURPLN[2]	4.29	4.25	4.50	4.30	4.30

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

CONTRIBUTION TO ANNUAL GDP GROWTH (PP):





Sources for charts: GUS, NBP, Macrobond, BNP Paribas

CZECH REPUBLIC

Strong recovery to trigger rate hike

GROWTH

The Czech economy slowed down sharply in H2 2020 following the lockdown imposed by the government to fight the pandemic. Although the economy began to recover during the summer months after most of the restrictions were lifted, economic output is likely to have declined again in the autumn due to the second wave of the pandemic and consequent reintroduction of control measures, including across-the-board restrictions with major economic impacts.

We expect Czech GDP to decline by about 6.5% this year but to recover some ground next year with growth of about 4.5%, thanks to external demand driving a rebound in the industrial sector (the Czech manufacturing PMI reached a two-year high of 53.9 in November), supported by the loose fiscal policy announced for 2021.

The government plans a tax reform that includes income tax cuts worth some CZK100bn (some 1.7% of GDP). This should boost consumption levels, adding some 0.7pp to Czech GDP growth next year. The fiscal deficit will reach about 7.5% of GDP this year, we expect, and not decline significantly before 2022.

CURRENT ACCOUNT

Czech current account remained fairly stable throughout H1, as a decline in the trade surplus was offset by a narrowing primary income deficit. However, the external demand rebound in Q3 fuelled a rising trade surplus and thereby a marked improvement in the current account.

We expect the improvement in domestic demand to shrink the current account surplus in 2021–22.

INFLATION

Czech consumer prices remain elevated in 2020 and CPI inflation slipped below 3.0% only in November, to 2.7%, and our full-year forecast is 3.3%.

Next year, our forecast is for a further decline to a 2.5% average. We expect the headline rate to dip to about 2% in early 2021, driven by the anti-inflationary demand effects of the second wave of the coronavirus pandemic amid subdued domestic activity, but to reaccelerate in H2 as the economic recovery gathers pace.

MONETARY POLICY

With inflation set to remain above the central bank's 2% target for the foreseeable future and the growth recovery in 2021 likely to be accompanied by tight labour market conditions, we think the Czech National Bank will gradually begin raising its policy rate. We think a tightening cycle will begin next year and take the policy rate to 0.5% by the end of 2021 and 1.5% by the end of 2022

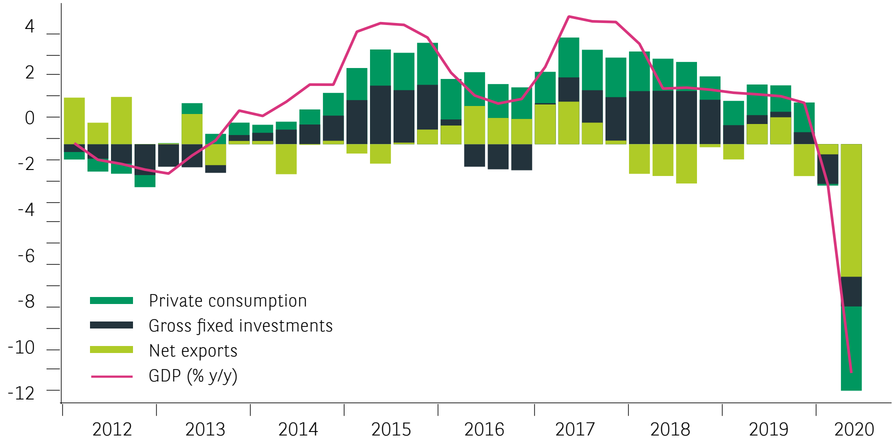
FX

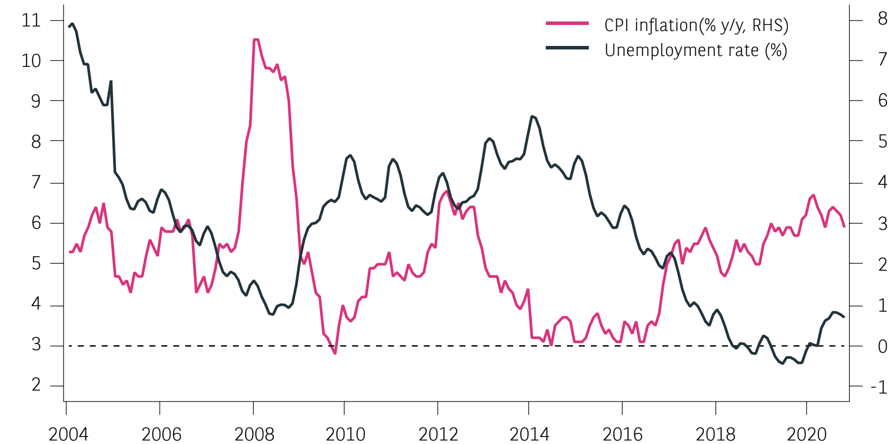
The koruna has been volatile throughout 2020, with the EUR/CZK rate trading in a wide 25–28 range. However, we think the currency will stabilise next year and begin appreciating gradually as the recovery progresses.

	2018	2019	2020(1)	2021(1)	2022(1)
GDP (%)	2.9	2.4	-6.5	4.5	4.4
CPI (%)	2.1	2.8	3.3	2.5	2.4
Unemployment rate (%)	3.2	2.0	4.0	3.8	3.5
Current account (% of GDP)	0.6	0.0	1.4	0.5	0.6
General govt. budget (% of GDP)	1.3	0.3	-7.5	-6.5	-3.1
Policy rate (%)(2)	1.75	2.00	0.25	0.50	1.50
EURCZK(2)	25.73	25.40	26.50	26.25	26.25

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

CONTRIBUTION TO ANNUAL GDP GROWTH (PP):





Sources for charts: CZSO, CNB, Macrobond, BNP Paribas

ROMANIA

Concerning fiscal and external imbalances

GROWTH

Similarly to its CEE peers, the Romanian economy has been negatively affected by Covid-19 and ensuing lockdowns. After a contraction of 10.3% y/y in Q2, Q3 brought a significant improvement, but the second Covid-19 wave is likely to have caused another slowdown. All in all, we expect GDP to decline this year by 5.7%.

Next year's GDP growth of 4.6% is expected to be driven by a rebound in domestic demand as well as a recovery in agriculture output. This year, a severe drought depressed agricultural output and aggravated the Covid-19 crisis.

This year's sharp slowdown is likely to sink the fiscal deficit to about 9% of GDP, with direct measures adopted by the government to fight the pandemic estimated at close to 1.5% of GDP.

This year, companies have been allowed to defer tax payments, with next year likely to see improved revenue for the government. While the absence of one-off pandemic-related measures should help the public finances next year, we think the scope for a swift improvement is limited by the high share of rigid expenses such as pensions and public wages, which have increased sharply over recent years.

CURRENT ACCOUNT

Despite the brightening economic outlook, we think the external balance of Romania's economy remains a major concern. Even a fall in domestic consumption in the wake of Covid-19 has not improved the current account much, as the widening trade deficit reflects underlying competitiveness problems. We do not expect the sizable current account deficit to improve before 2022.

INFLATION

The headline CPI rate decelerated to 2.2% in October from 2.8% in July on the back of decreasing food prices and easing core inflation (2.2% in October). The inflation outlook is rather benign, in our view, with headline inflation unlikely to exceed 3.0% in 2021.

MONETARY POLICY

The National Bank of Romania responded to the Covid-19 crisis with a cumulative 100bp in cuts to take its benchmark rate to 1.5%. We expect the NBR to keep its rate steady throughout 2021. If inflation proves rather stable in the quarters ahead, additional help to the economy could come in the shape of, for example, a cut of the minimum reserve ratio for RON liabilities.

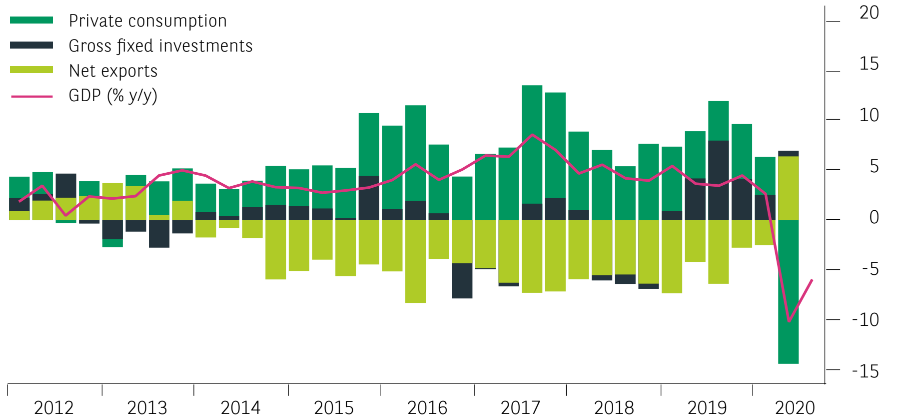
FX

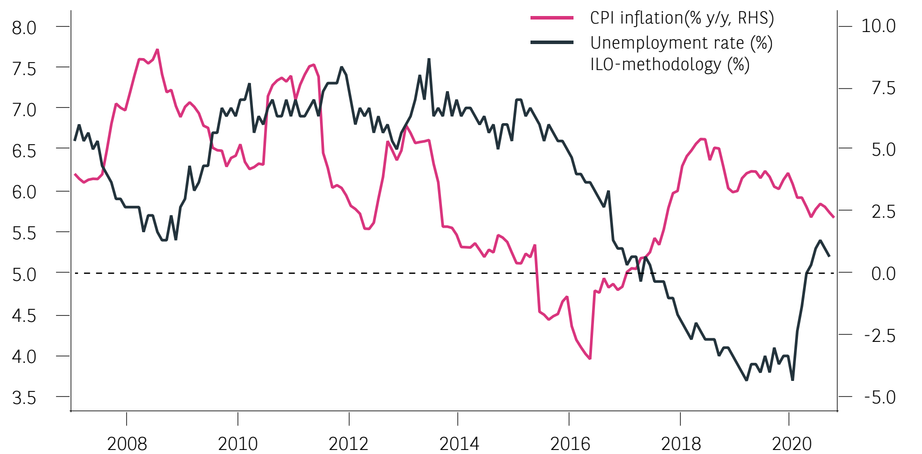
The Romanian leu remained fairly stable throughout the crisis, unlike its CEE peers. We think it will remain relatively stable throughout 2021, but with a mild depreciation.

	2018	2019	2020(1)	2021(1)	2022(1)
GDP (%)	4.2	4.2	−5.7	4.6	4.9
CPI (%)	4.6	3.9	2.8	2.8	3.2
Unemployment rate (%)	3.6	4.0	4.6	4.4	4.3
Current account (% of GDP)	−4.4	−4.7	−4.1	−4.2	−3.8
General govt. budget (% of GDP)	−3.1	−4.3	−9.0	−4.8	−3.3
Policy rate (%)(2)	2.50	2.50	1.50	1.50	2.00
EURRON(2)	4.66	4.79	4.86	4.90	4.95

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

CONTRIBUTION TO ANNUAL GDP GROWTH (PP):





Sources for charts: INS, NBR, Macrobond, BNP Paribas

HUNGARY

Inflation to reaccelerate next year

GROWTH

Hungary entered the 2020 crisis with the economy on the brink of overheating and proved relatively resilient in Q1.

The slowdown in Q2 was very sharp, however, with slumps in exports, investment and consumption. With signs of quick improvement in both manufacturing and exports over the summer, the Q3 rebound proved strong, but we think a slowdown in Q4 looks probable owing to the second wave of Covid-19.

Overall, we expect the Hungarian economy to contract by about 6% in 2020, clawing back some of its losses in next year with about 5.2% growth, driven by both domestic as well as the foreign demand.

CURRENT ACCOUNT

The current account weakened in H1 to a deficit of 1% of GDP, which we expect to improve to a milder 0.4% year-end deficit. An outlook of stronger improvement in imports next year suggests some further deterioration in Hungary's current account, to a deficit of about 0.8%.

INFLATION

CPI inflation was above the central bank's target of 3.0% for the most of 2018–19, and in early 2020 it had reached the 4.0% upper boundary of the tolerance range. The headline rate has decelerated since then, to 2.7% in November, but this was largely driven by fuel prices, with core inflation remaining elevated (3.9% in November). Beyond strong demand pressures, high core inflation continues to reflect underlying supply constraints in the Hungarian economy, evident in strong wage rises (8.9% y/y in September) despite the Covid-19 crisis. We think inflation will reaccelerate as early as Q2 2021, possibly threatening the NBH's upper bound once again.

MONETARY POLICY

The National Bank of Hungary began the year with very loose policy, only to tighten it in Q1 and early Q2 in response to forint weakness, despite the Covid-19 crisis and ensuing sharp fall in Hungary's economic activity. With risk appetite returning to global markets and Hungarian headline inflation decelerating in Q2, the NBH was able to unwind some of the tightening in the summer.

Considering the inflation outlook, we think renewed policy tightening looks more likely than more policy easing, and we expect the policy rate to end 2021 at 0.9%.

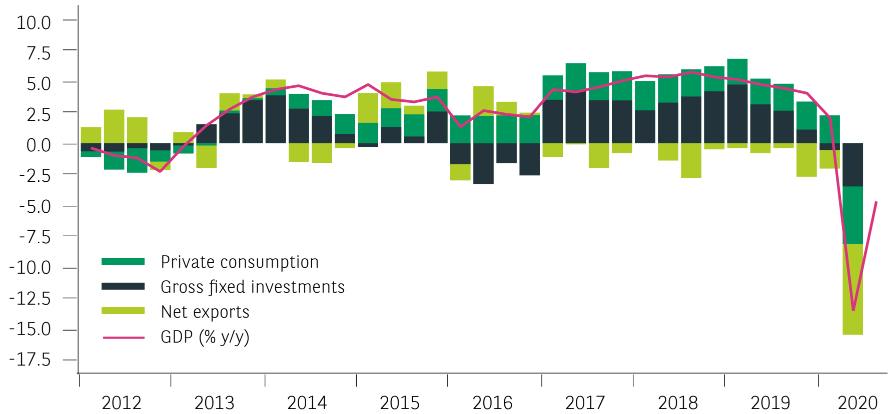
FX

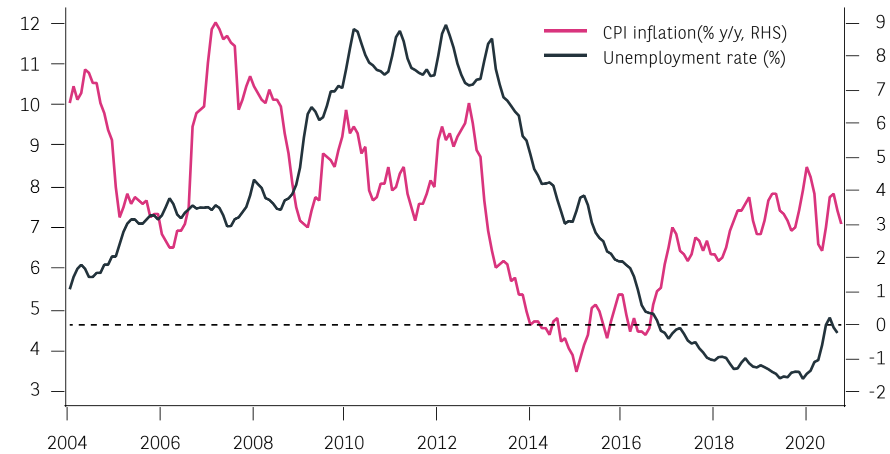
The forint has underperformed its CEE peers in 2020. With inflation differentials between the eurozone and Hungary, we think the forint will remain under depreciation pressure and expect gradual depreciation, with periods of increased volatility possible.

	2018	2019	2020[1]	2021[1]	2022[1]
GDP (%)	5.1	4.9	−6.0	5.2	4.4
CPI (%)	2.9	3.0	3.3	3.5	3.3
Unemployment rate (%)	3.7	3.5	4.6	4.4	4.1
Current account (% of GDP)	−0.5	−0.6	−0.4	−0.8	−1.0
General govt. budget (% of GDP)	−2.1	−2.1	−8.0	−5.4	−2.9
Policy rate (%)[2]	0.90	0.90	0.60	0.90	0.90
EURHUF[2]	321	331	355	365	365

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

CONTRIBUTION TO ANNUAL GDP GROWTH (PP):





Sources for charts: KSH, MNB, Macrobond, BNP Paribas

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CEE: BULLISH ON 2021 GROWTH RECOVERY

KEY MESSAGES

We are more positive than consensus on next year's growth outlook for the four largest economies in Central and Eastern Europe. We expect both domestic and foreign demand to fuel a vigorous recovery in 2021 that regains much of the growth lost in 2020.

Persistently elevated inflation pressures across the region will, in our view, limit scope for further easing by the region's central banks.

We think a likely strong growth recovery will spark off tightening in both the Czech Republic and Hungary. In contrast, we expect little change in monetary policy next year in Poland and Romania.

INFLATION elevated despite crisis

Growth recovery powered by fiscal and exports: Growth across the CEE has been hit hard by the Covid-19 crisis and national lockdowns imposed across the region in response to the pandemics in the second quarter of 2020. Q3 brought a strong rebound in the economic activity, but with the region struggling with the second wave, Q4 is likely to bring another growth contraction.

However, we foresee a rather vigorous recovery in 2021. With labour markets still robust and barely affected by the 2020 crisis, thanks in part to governments' sizeable fiscal response to the pandemic, recovery in domestic consumption in 2021 should be swift.

External demand is improving as well, and a manufacturing recovery is already underway, as reflected by improving manufacturing PMIs across the region. This should allow for an investment rebound in the course of 2021 after a rather depressed start to the new year.

This should allow for a stronger rebound in Hungary, with growth of about 5.2% driven by a recovery in exports and investments.

We also forecast solid growth in Poland (4.9%), where resilient domestic consumption and competitive exporters have helped to shield the economy. We expect them to continue to drive the recovery next year.

In Romania, we forecast a recovery to about 4.6% growth, following a contraction of 5.7%, driven by a rebound in the agricultural sector. Falling exports have dampened Czech growth this year. A recovery in this component, combined with the positive effect planned tax cuts, should allow for about 4.5% growth in 2021 following a contraction of 6.5% in 2020.

TIGHT LABOUR MARKETS:
Despite a sharp deceleration in growth in 2020, labour markets across the CEE have remained tight, and the crisis has had only a limited impact on employment. Robust fiscal responses have largely succeeded in keeping unemployment rates close to the multi-year lows (see Figure 2 overleaf).

Similarly, wage growth recovered quite quickly from the initial impact of the economic slowdown and is already on course to return to pre-pandemic dynamics (Figure 3 overleaf).

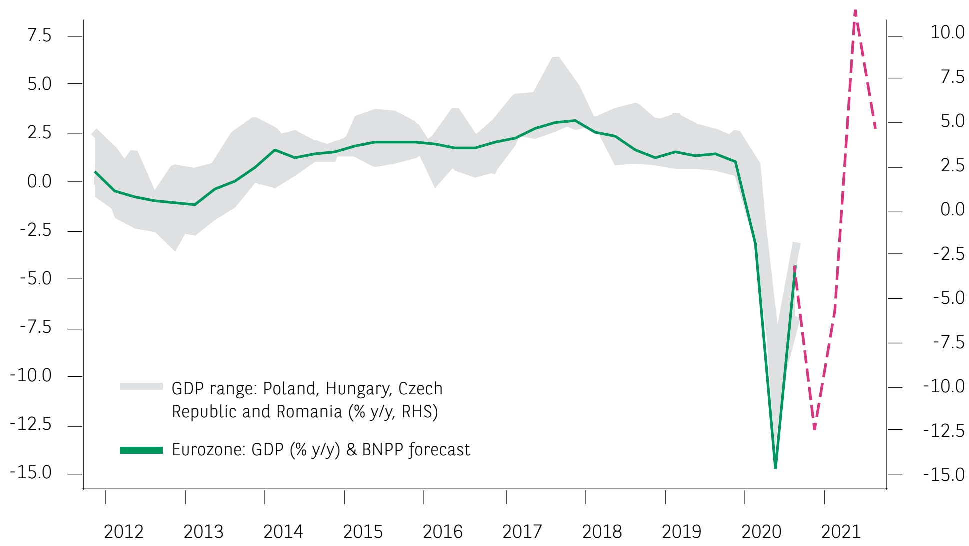
INFLATIONARY STIRRINGS:
Resilient labour markets have kept core inflation rates in check. With exception of Romania, the region has not seen much disinflation in core prices (Figure 5 overleaf).

Headline inflation, though still elevated, has decelerated somewhat in the second part of 2021, but we attribute this mostly to lower food and fuel prices. Next year, we expect the headline inflation to ease somewhat in Poland the Czech Republic and to remain stable in Romania.

In Poland and Czech Republic, we expect a particular deceleration in core inflation. Domestic demand, weakened by the lockdowns, should finally translate into lower core prices, particularly in early part of 2021, but scope for disinflation in core measures looks limited with labour markets still tight. Accordingly, we expect core pressures to re-emerge towards the end of 2021. Combine this with a likely reacceleration in food prices in H2 2021 and we expect the headline inflation rate to climb again.

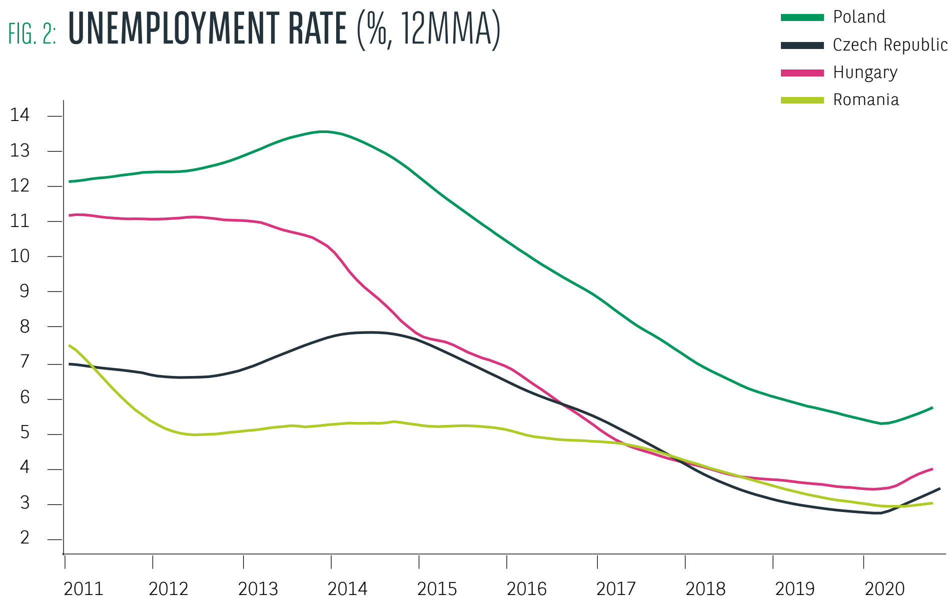
Hungary's CPI could prove the most volatile throughout 2021. We expect it to fall in Q1 2021 and then accelerate in Q2, with the headline rate possibly threating the 4% upper boundary of the central bank's tolerance level. Overall, Hungary's CPI will most likely be the highest across the region and the only one where CPI inflation in 2021 will be higher than in 2020 (we forecast 3.5% and 3.3%, respectively).

FIG. 1: CEE AND EUROZONE GDP GROWTH



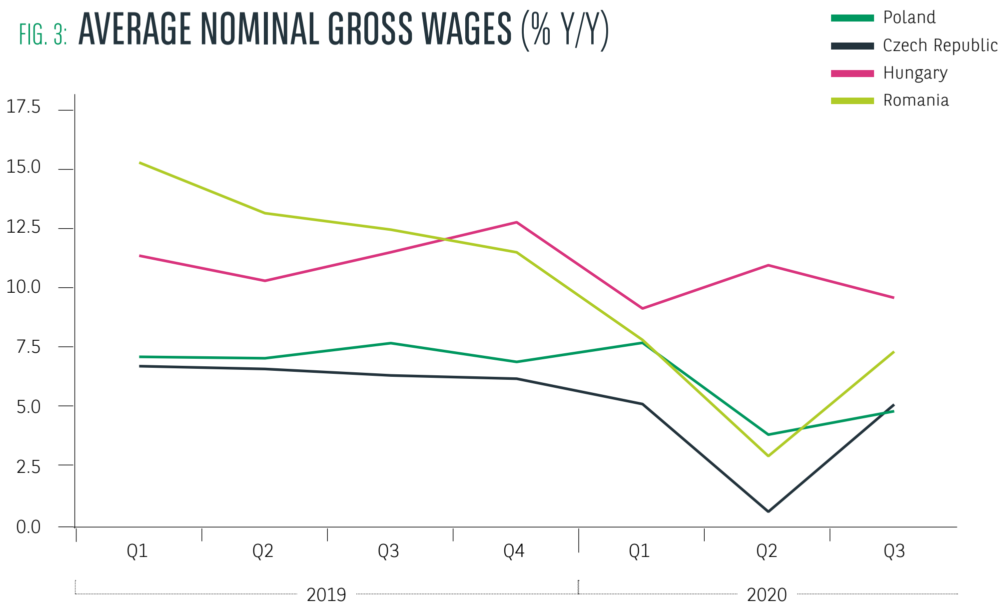
Sources: Eurostat, statistical offices, Macrobond, BNP Paribas

FIG. 2: UNEMPLOYMENT RATE (%, 12MMA)



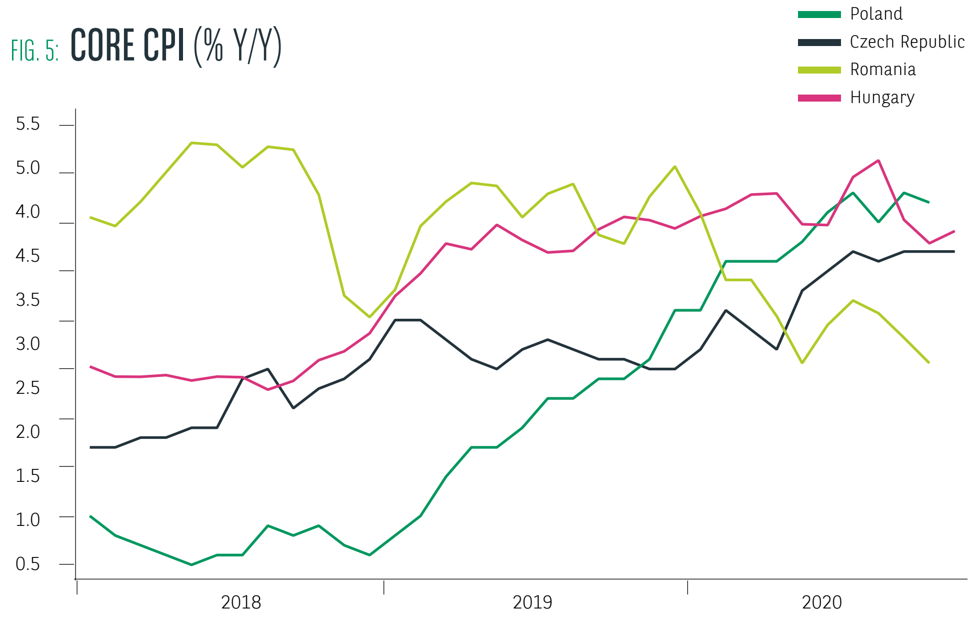
Sources: National statistical offices, Macrobond, BNP Paribas

FIG. 3: AVERAGE NOMINAL GROSS WAGES (% Y/Y)



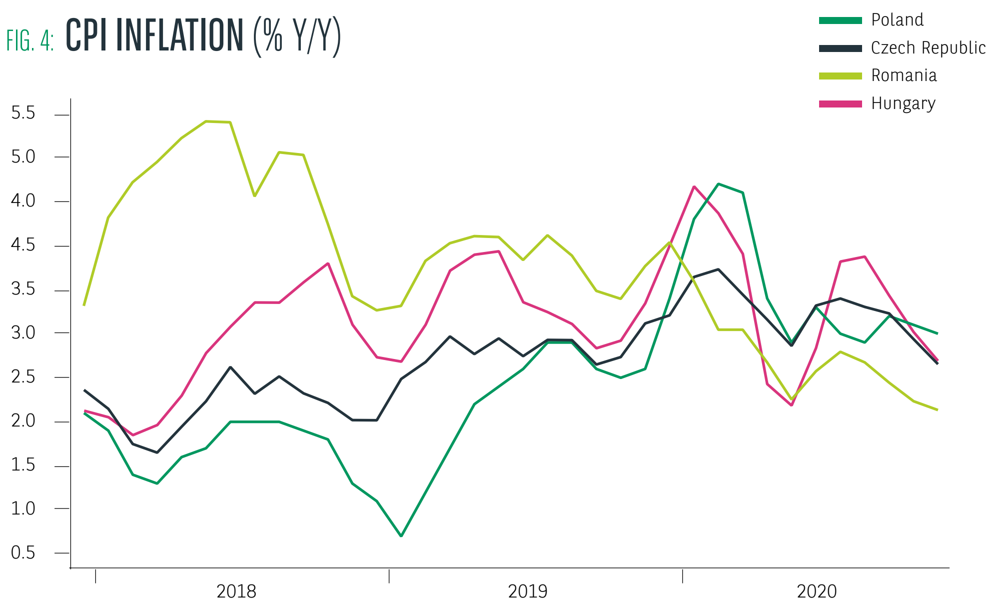
Sources: National statistical offices, Macrobond, BNP Paribas

FIG. 5: CORE CPI (% Y/Y)



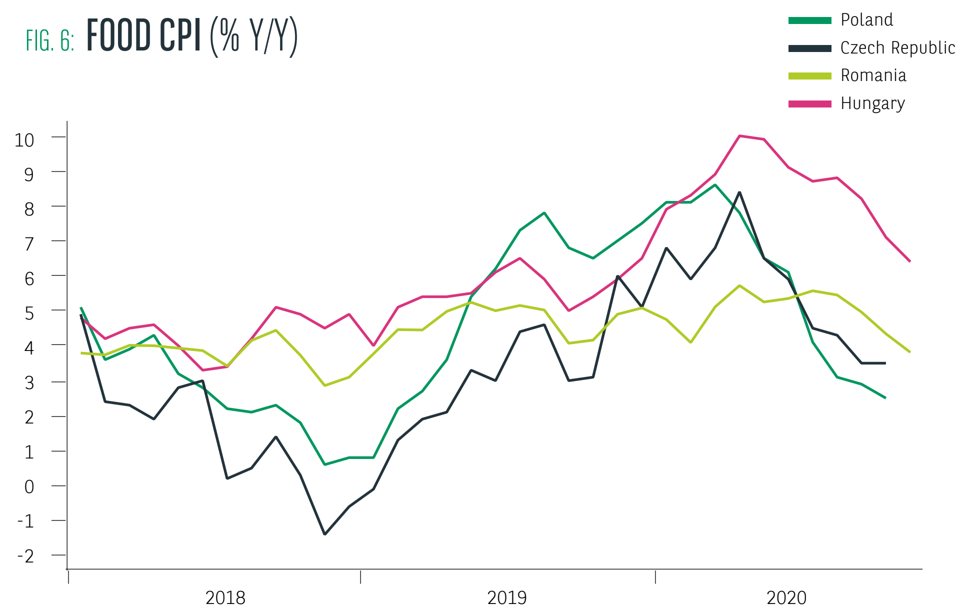
Sources: National statistical offices, Macrobond, BNP Paribas

FIG. 4: CPI INFLATION (% Y/Y)



Sources: National statistical offices, Macrobond, BNP Paribas

FIG. 6: FOOD CPI (% Y/Y)



Sources: National statistical offices, Macrobond, BNP Paribas

No further MONETARY EASING in 2021–22

Response to the Covid-19 crisis by the Polish, Czech and Romanian central banks have been robust, with all three slashing their policy rates sharply in the wake of the crisis.

In contrast, with its hands tied by forint depreciation, the Hungarian central bank could not afford lower interest rates. In fact, the NBH hiked its policy in the wake of the crisis to arrest the forint weakness.

With the economic outlook improving and inflation still elevated across the region, we think CEE central banks are pretty much done with easing. We now expect a normalisation of monetary policy across the region, although the process will be gradual, in our view, and its pace will vary across the region. Whereas we think the Czech central bank will begin its tightening cycle already next year, we do not foresee much change in rates in Poland and Romania.

CZECH NATIONAL BANK:
As we expect significantly stronger GDP growth in 2021 than the central bank currently does (4.5% compared with 1.7%), and inflation looks set to keep running above target for most of 2021, we think the central bank will hike its policy rate by 25bp in H2 2021.

NATIONAL BANK OF POLAND:
With Polish inflation set to accelerate in H2 2021 and to remain above the NBP's target for the year as a whole, we see limited scope for further monetary easing. At the same time, the government's large borrowing needs are likely to continue to motivate the central bank to keep borrowing costs as low a possible. As a result, we do not expect changes to the NBP policy rate until 2022.

NATIONAL BANK OF ROMANIA:
In Romania, too, the policy rate is likely to be kept stable in 2021. With the CEE's most visible easing in inflation pressures, Romania's central bank has a little more breathing space.
We think the NBR will focus on its alternative instruments (liquidity control over money market) and adjust them depending on inflation and FX developments.

NATIONAL BANK OF HUNGARY:
The Hungarian central bank's reaction function will continue to depend on the forint, we expect. Following some lower readings in year-on-year terms in Q1 2021, we expect CPI inflation to reaccelerate in Q2 and not to ease significantly for the rest of the 2021, most likely putting pressure on the exchange rate.

In our view, the weakening currency will eventually force the NBH to increase its main sterilisation instrument of the one-week deposit rate, as well as the current benchmark for short-term money market rates, to 0.90% from the current 0.75%.
We also expect to hike its policy rate.

FIG. 7: **BNP PARIBAS FORECASTS OF YEAR-END POLICY RATES (%)**

Country	2019	2020	2021	2022
		FORECASTS		
Poland	1.50	0.10	0.10	0.75
Hungary	0.90	0.60	0.90	0.90
Czech Republic	2.00	0.25	0.50	1.50
Romania	2.50	1.50	1.50	2.00

Sources: NBP, NBH, ,CNB, NBR, BNP Paribas

STABLE YIELDS despite large deficits

CEE economies saw their fiscal deficits ballooning as a result of the Covid-19 crisis and the government's large fiscal response.

We expect this year's fiscal deficits to hit about 10% of GDP in Poland, 9% in Romania and about 8% in both Hungary and the Czech Republic.

Although they should narrow somewhat next year as growth rebounds, we expect proactive fiscal policy to keep the deficits significant. We do not expect fiscal deficits across the CEE to return to pre-crisis levels before 2023 at the earliest.

DIVERGENT CURRENT ACCOUNT DYNAMICS:
A gradually improving trade balance has improved the Polish current account surplus further. In contrast, the current accounts for Romania and Hungary have been on a steady path of deterioration, driven by weakening trade balances in goods and, in the case of Hungary, also services, as the Hungarian travel industry was hit by lockdowns.

The Czech current account balance has remained relatively stable and has even improved recently on the back of an improved trade balance.

STABLE YIELDS:
Bond yields have remained relatively stable throughout the crisis, with the short end of the curve anchored by the aggressive easing by some CEE central banks and the long end supported by external factors,

including very low Bund yields, reflecting deflationary trends in the eurozone and the ECB's very loose monetary policy.

Yields of sovereign bonds have also been stabilised by the policy of the respective central banks, including QE programmes in Poland, Hungary and Romania (even if scope of the Romanian QE has been very limited so far).

FX VOLATILITY TO SUBSIDE:
The fortunes of Central European currencies have been mixed recently.

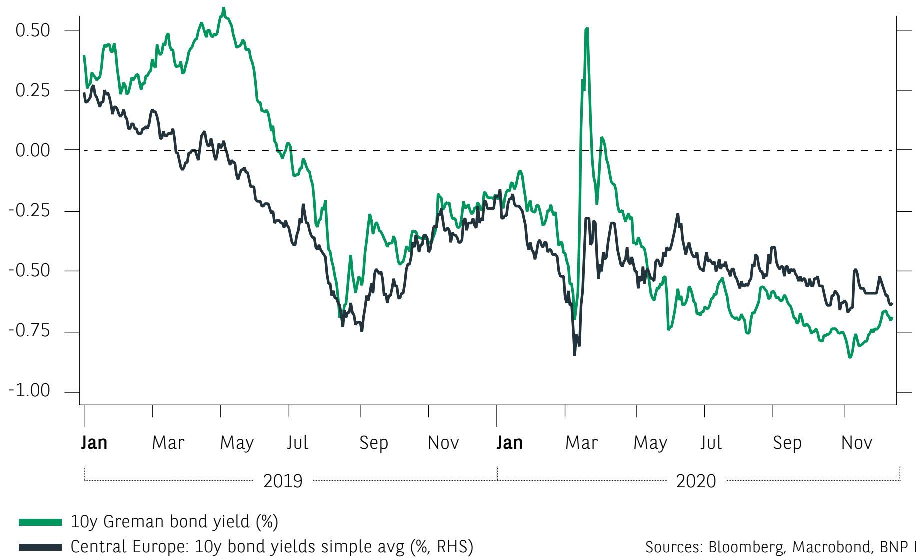
THE KORUNA has been the regional outperformer, supported by the Czech economic outlook improving and increasingly widespread expectations of tightening by the central bank.

THE ZLOTY has remained range-bound. On the one hand, Poland's growth prospects and the current account balance have both improved; on the other hand, the dovish stance of the central bank limits the currency's scope for appreciation.

THE FORINT continued to lag owing to prolonged inflation differentials between Hungary and the eurozone.

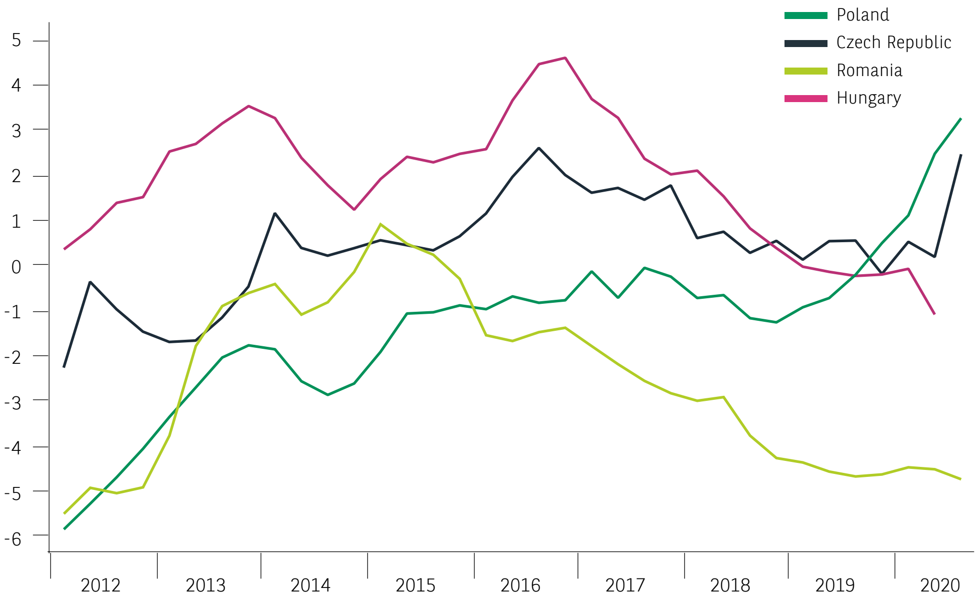
THE LEU was the most stable of the four, reflecting the Romanian central bank's liquidity controls.

FIG. 9: CENTRAL EUROPEAN 10Y BOND YIELDS AND THE BUND (%)



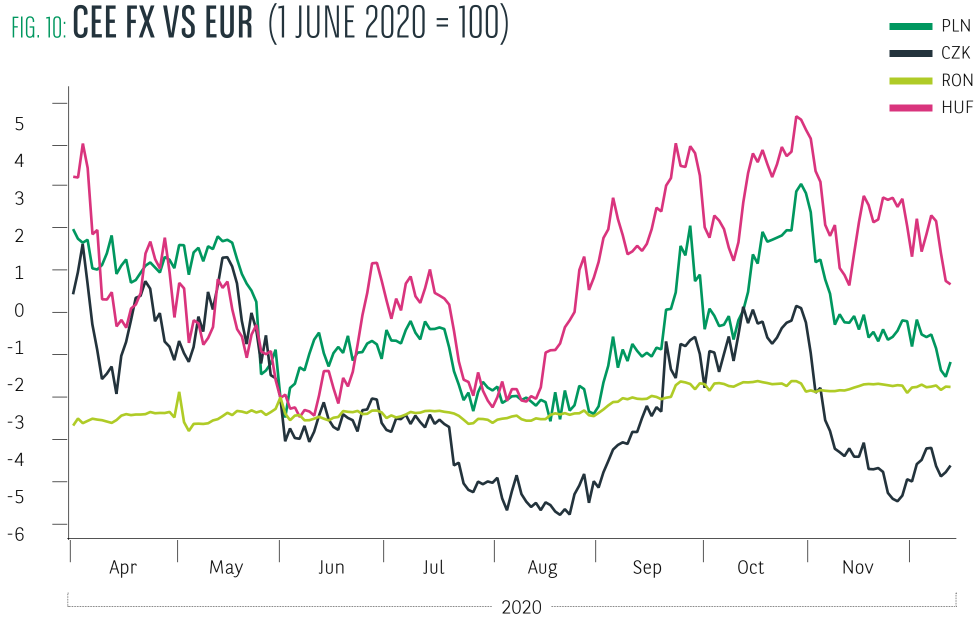
Sources: Bloomberg, Macrobond, BNP Paribas

FIG. 8: CEE CURRENT ACCOUNTS (% OF GDP)



Sources: National statistical offices, Macrobond, BNP Paribas

FIG. 10: CEE FX VS EUR (1 JUNE 2020 = 100)



Sources: Bloomberg, Macrobond, BNP Paribas

HOW R U CEE?

INVESTMENT MARKET IN CEE-4*

INVESTMENT MARKET INDICATORS & TRENDS in selected CEE countries

Investment volume in 2019

Investment volume in Q1-Q3 2020

Prime office yield

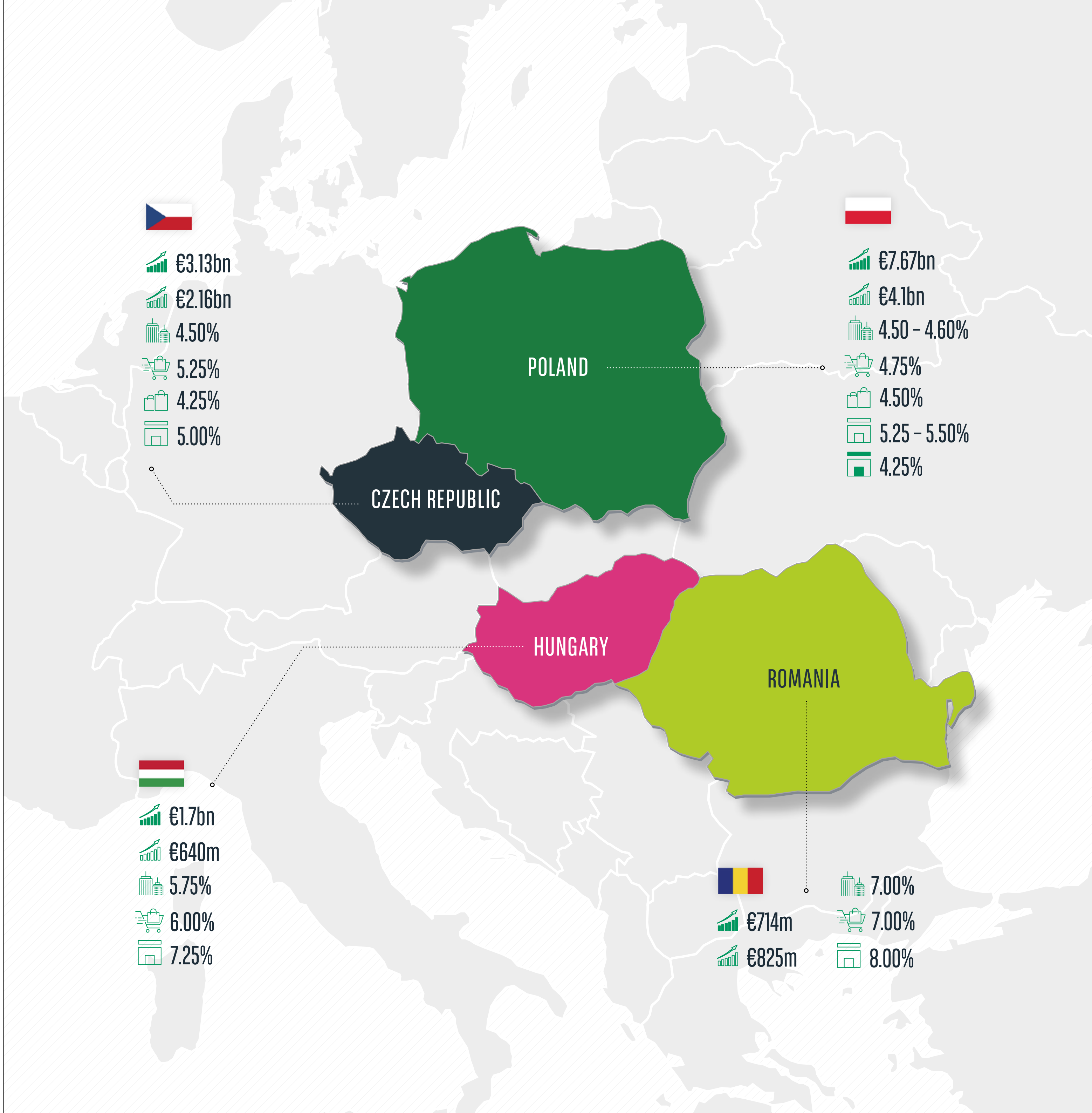
Prime shopping centre yield & trend

Prime high street yield & trend

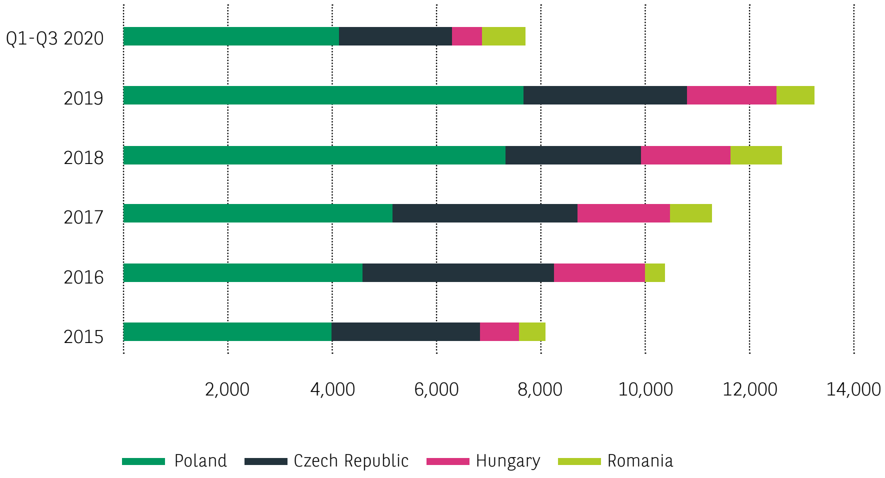
Prime warehouse (traditional) yield & trend

Prime warehouse (e-commerce) yield & trend

* Poland, Czech Republic, Hungary and Romania

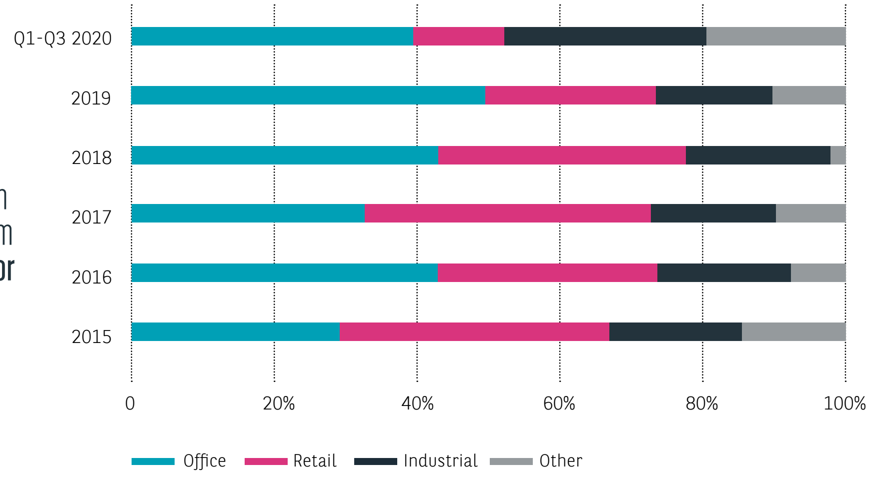


CEE INVESTMENT VOLUME

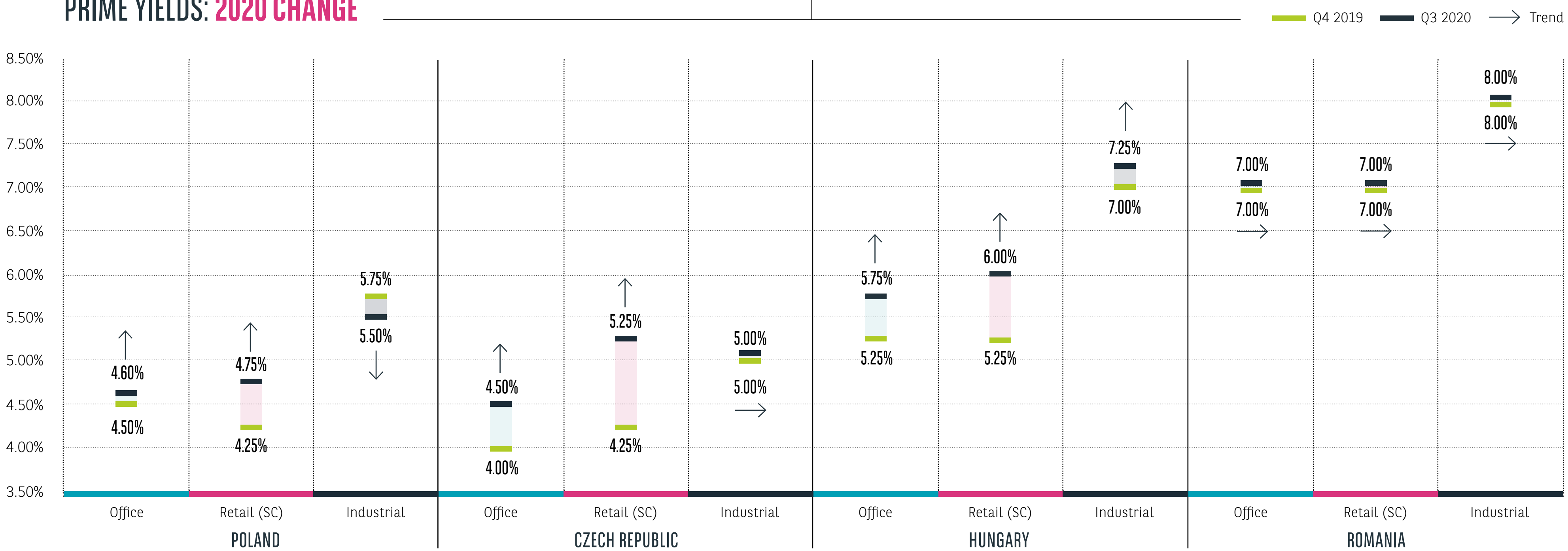


Clear shift in the capital allocation has resulted from **a strong investor appetite for industrial and alternative assets.**

CEE INVESTMENT VOLUME: SPLIT PER SECTOR



PRIME YIELDS: 2020 CHANGE



POLAND

As on all markets across the globe, the Covid-19 crisis has re-shaped the investment sector in Poland. After a very promising opening to the year, which contributed more than 40% of the investment volume in Q1-Q3 2020, the results of the consecutive quarters have reflected the aftermath of the pandemic on the investment market.

The capital deployed on Poland's real estate market in the 9-month period of 2020 has slightly exceeded €4 billion and has been strongly boosted by portfolio and platform transactions. The figure is significantly lower than in the corresponding periods of the previous two record-breaking years, but still outperforms the average of the last five years.

THE INDUSTRIAL & LOGISTICS SECTOR HAS GAINED MOMENTUM AND DOMINATED THE INVESTMENT VOLUME IN 2020 SO FAR. The €1.93 billion traded in the January-September period has significantly outpaced (by over 30%) the volume achieved in the whole of last year and equals the full year result of 2018, which was impressive for this sector. Investor appetite for industrial & logistics products, both single assets as well as portfolios, is expected to continue in the months to come. In particular, top class assets from buoyant e-commerce and logistics sub-segments are eyed by investors. It is already clear that 2020 will be the best year ever for the industrial&logistics sector.

INVESTOR APPETITE FOR THE OFFICE PRODUCT HAS ENDURED, ALTHOUGH THE EXPANDING MODEL OF REMOTE WORKING HAS RAISED QUESTIONS ABOUT THE FUTURE CONDITION OF THE INDUSTRY. Moreover, due to the pandemic-related global restrictions in travel, new transactions have been postponed to some extent. Since the beginning of the year, the total outcome reached EUR 1.54 million, notably below the volumes traded in the same periods of the two preceding years. It is noteworthy that top class office products, in particular those located in Warsaw, remain on the investors' radar, while the number of transactions concluded on the regional office markets declined.

STRINGENT RESTRICTIONS IMPOSED ON THE OPERATION OF SHOPPING MALLS HAVE STRONGLY AFFECTED PERFORMANCE OF THIS SECTOR, AND THEREFORE DILUTED INVESTOR DEMAND. As a consequence, 2020 has reaffirmed a clear shift towards investing in convenience retail properties. Purchasers have been focusing on small-scale retail assets, mostly convenience and proximity centres, retail parks and stand-alone specialised locations, which have proved to be the most resilient to the current Covid-19 crisis. With approx. €542 million transacted in Q1-Q3 2020, the retail sector is significantly below the figures achieved in the previous years.

THE GLOBAL CRISIS HAS BROUGHT DOWNWARD PRESSURE ON PRICING AND RESULTED IN YIELD CORRECTION ACROSS SELECTED SEGMENTS. The office sector experienced a slight decompression of yields in H1 2020 and currently remains stable. The retail sector has been harder hit, with the biggest yields correction in the sub-segment of shopping centres. Industrial & logistics assets seem to be the most resilient to the current market turmoil and yields have remained stable since the beginning of the year. Strong investor appetite for this class of assets, in particular for top-class logistics properties and e-commerce distribution centres, is likely to cause yields compression towards the end of 2020.

ALTHOUGH UNCERTAINTY HAS AFFECTED THE GLOBAL INVESTMENT CLIMATE, THE WIDE AVAILABILITY OF PRODUCT AND ATTRACTIVE PRICING IS LIKELY TO SUSTAIN INVESTOR CONFIDENCE IN POLAND. The fourth quarter of the year, which is usually a period of peaking investment activity, is expected to contribute significantly to a decent full-year volume. The first months of the upcoming year, however, will give further indications on the dynamics of the investment market in the mid-term.

CZECH REPUBLIC

The Czech investment market has been experiencing a high degree of uncertainty since the outbreak of the Covid-19 pandemic at the beginning of March.

Due to the execution of a large residential deal – the Residomo portfolio - in Q1 2020, the decline in the investment volume transacted in the course of Q1-Q3 of the current year does not seem to be so significant. It must be pointed out, however, that this was a unique sale of a large residential portfolio, which is unlikely to be repeated in the near future.

SINCE THE BEGINNING OF THE YEAR, ALMOST €2.1 BILLION HAVE BEEN INVESTED IN COMMERCIAL REAL ESTATE IN THE CZECH REPUBLIC. In the third quarter of 2020, the market recorded a 63% decrease in the volume of investments compared to the same period last year.

IN THE COURSE OF Q1-Q3 2020, THE HIGHEST VOLUME OF INVESTMENTS WERE MADE INTO RESIDENTIAL ASSETS (63%), followed by retail sector (16% - owing to the pre-Covid concluded sale of the Kotva department store) and office properties (14%). The already mentioned sale of the Residomo portfolio was the main reason for the surge in residential investment.

IN 2020 SO FAR, CZECH AND EUROPEAN INVESTORS HAVE BEEN THE MOST ACTIVE PLAYERS IN THE COMMERCIAL REAL ESTATE SECTOR IN THE CZECH REPUBLIC. Due to the pandemic and the related restrictions on travel and the difficulties related to visiting properties, investors from Asia have seriously muted their investment activity on the market.

YIELDS HAVE RISEN SLIGHTLY FOR RETAIL, WHILE FOR OFFICES AND INDUSTRY THEY REMAINED UNCHANGED. In the coming periods, we expect a slight increase in yields for shopping centres and we also expect pressure to reduce yields for industrial properties.

ROMANIA

Despite the pandemic, the current year will see one of the highest investment volumes recorded in Romania in the last 5 years. It is estimated that in the first 9 months of 2020, Romania's investment volume reached €825 million, thus already outpacing the entire volume traded in 2019.

The investment turnover has been boosted by the execution of a big-ticket transaction launched in late 2019 - the sale of NEPI Rockcastle's office portfolio in Romania to AFI Europe NV for € 307 million. The deal embraces four office buildings with a combined GLA of 118,500 sqm. In addition, GLL sold Floreasca Park office campus for around € 100 million to a Chinese investment fund FOSUN, a deal concluded through joint-venture partners Resolution Property and Zeus Capital Management.

IN THE PRECEDING YEARS, AN INCREASING APPETITE FOR THE OFFICE INVESTMENT PRODUCT IN REGIONAL MARKETS WAS OBSERVED, WHILE THE PANDEMIC-RELATED TURMOIL HAS REVERSED THIS TREND. In the previous year, more than half of the office investment turnover was traded in transactions concluded in regional cities, whereas in the course of Q1-Q2 2020, investor demand was focused predominantly on the assets located in Bucharest.

A NUMBER OF MAJOR TRANSACTIONS CONCLUDED IN 2020 WERE LAUNCHED LONG BEFORE THE PANDEMIC hence we assume the impact on the negotiated yields was limited so far. Moving forward, a decompression of yields is expected; however, for the time being, it is difficult to project the extent of it for the upcoming investment transaction to be completed in the next quarters.

HUNGARY

After the exceptionally strong previous years, the investment sector has suffered from a significant downturn caused by the pandemic.

Major transactions started earlier kept the investment volumes high in the first half of 2020; however, investment activity declined significantly due to the pandemic. The closing of several transactions has been postponed or suspended.

IN ADDITION TO CLOSING TWO LARGE PORTFOLIO DEALS AND A LARGE OFFICE TRANSACTION, SMALLER TRANSACTIONS HAVE PREVAILED ON THE MARKET.

BUYERS ARE PRIMARILY HUNGARIAN PRIVATE INVESTORS OR PROPERTY COMPANIES, followed by investors from German-speaking countries.

INVESTOR APPETITE HAS GRADUALLY SHIFTED AWAY FROM OFFICE PROPERTIES, which has always been the main target of investors on the Budapest investment market.

CRISIS-PROOF LOGISTICS PROPERTIES CAME TO THE ATTENTION OF BUYERS, but because of the lack of premium products, we do not expect increased investor activity in this sector in the near future.

PRICING EXPECTATIONS ARE BEING AFFECTED BY THE CONTINUING PANDEMIC and yields have risen by 0.25-0.50 p.p. from initial levels registered at the beginning of the year.

CEE-4 REGION

€7.7bn in Q1-Q3 2020

14% drop on the corresponding period of 2019

And yet, the third highest volume between January and September in the region.

SELECTED **KEY DEALS** IN CEE-4 IN Q1-Q3 2020

Country	Sector	Property Name	Size (sqm/fiats/rooms)	Estimated sale price (€ million)	Vendor	Puchaser
Czech Republic, Multi-city	Residential	**Residomo Portfolio**	4,515 flats	**1,300**	Blackstone/Round Hill Capital	Heimstaden Bostad AG
Czech Republic, Prague	Retail	**Kotva Department Store**	49,999	**138**	Prazska Sprava Nemovitosti	Generali
Czech Republic, Prague	Office	**City West C1, C2**	21,242	**75**	CFH	Českomoravská nemovitostní
Czech Republic, Prague	Office	**City Empiria**	22,500	**75**	Generali	PSN
Czech Republic, Plazy	Industrial & Logistics	**Goodman Mladá Boleslav**	59,819	**74**	Goodman Group	GLP
Hungary, Budapest	Hotel	**New York Palace & New York Residence**	373 flats	**conf.**	Varde Group	Covivio
Hungary, Budapest	Office	**Eiffel Square**	23,500	**conf.**	SkyGreen Buildings Kft	Allianz
Hungary, Budapest	Industrial & logistics	**Goodman Portfolio**	158,000	**conf.**	Goodman	GLP
Hungary, Budapest	Mixed	**GTC Portfolio**	60,000	**conf.**	Lone Star / GTC	Optima Investment
Romania, Bucharest & Timisoara	Office	**NEPI & Rockcastle Office Portfolio (4 buildings)**	118,500	**307**	NEPI&Rockcastle	AFI Europe
Romania, Bucharest	Office	**GTC/Lone Star Office Portfolio**	67,000	**126**	Lone Star/GTC	Optima Investment
Romania, Bucharest	Office	**Floreasca Park**	37,500	**105**	GLL	Resolution Property Investment (Fosun)/Zeus Capital
Romania, Bucharest	Office	**Global City Business Park**	55,000	**55**	Global Finance	Onassis Foundation/Arion Green
Romania, Bucharest	Office	**The Bridge 3**	21,800	**53**	Forte Partners	Dedeman
Poland, Multi-city	Industrial	**Goodman Portfolio**	900,000	**approx. 550**	Goodman	GLP
Poland, Multi-city	Office / Retail	**GTC Portfolio (61.49% stake)**	190,000	**conf.**	Lone Star / GTC	Optima Investment
Poland, Multi-city	Industrial	**PNB Portfolio of 5 assets**	280,000	**188**	Panattoni	Savills IM
Poland, Multi-city	Industrial	**Portfolio of 6 assets**	171,000	**140**	Hines Poland Sustainable Income Fund (HPSIF)	CGL Investment Holdings Corporation Limited
Poland, Kraków	Office	**High5ive II**	37,900	**conf.**	Skanska	Credit Suisse
Poland, Warsaw II region	Industrial	**P3 Mszczonów Park**	214,000	**125**	P3 Parks	Elite Partners Capital

POLAND POLAND'S OFFICE MARKET

In addition to Warsaw, there are also eight strong regional office markets* in Poland, hence the selection of opportunities across the country is wide and diverse. At the end of Q3 2020, the graded office stock slightly exceeded 11.5 million sqm, of which half is located in Warsaw. The second largest market in the country is Kraków (1.5 million sqm), followed closely by Wrocław with 1.2 million sqm. In 2021, the threshold of 1 million sqm of existing space is also expected to be reached in Tri-City.

AFTER THE SUBDUED NEW SUPPLY OF THE PAST TWO YEARS, Warsaw will reach a peak in the volume of new space in 2020-2021, nearing 350,000 sqm every year. From 2022 onwards, however, a projected supply gap is likely to intensify competition for space. The regional markets have developed at a fast pace in the last three years, in particular the leading ones (Kraków and Wrocław) and some of the smaller regions have also followed this path. In the next 2-3 years, approx. 650,000 sqm of the new stock is scheduled for delivery, with Kraków, Katowice and Tri-City in the lead.

IN 2018 AND 2019, BOTH WARSAW AND THE REGIONAL MARKETS SAW A VIRTUALLY UNMATCHED TENANT APPETITE FOR OFFICE SPACE. After solid occupational activity in January-February 2020, the take-up figures of the subsequent months have reflected uncertainty about the future course of the pandemic and the business environment. Q1-Q3 net take-up Warsaw slumped by approx. 35% when compared to the corresponding period of 2019, while the demand in the regional markets seems to have remained more stable with a 15% drop. On the other hand, the scale of renewals has expanded, while relocations and expansions have been postponed for now as questions on how to achieve the right balance between the required office space and flexible working remains unresolved.

THE DEMAND FOR SPACE ON THE REGIONAL MARKETS HAS BEEN SUSTAINED BY IT COMPANIES, the retail sector and offshoring business centres to a large extent, while companies from the banking, finance and insurance and service sectors have driven take-up in Warsaw. The office sector in Poland, which has been perceived as a sought-after location for offshoring business centres for several years, may benefit even more from relocation of BPO / SSC activities from Asia, where the lockdown has exposed shortcomings in the infrastructure and difficulties in maintaining business continuity.

IN THE LAST FEW YEARS, WE HAVE SEEN A STEADY DECLINE IN VACANCIES IN WARSAW, as well as in the regional markets, while a reverse trend has been evident since March. Although it was expected prior to the pandemic, the current economic downturn and business uncertainty has strengthened this movement. In the course of 2021, the situation is expected to stabilise around the current levels, while from 2022 onwards, a contraction of vacancies is highly likely.

AFTER AN UPTICK IN PRIME RENTS IN THE COURSE OF THE LAST TWO YEARS, they have remained stable in 2020. In the coming quarters, slight movements are expected, in particular in areas with a high level of pipeline and low ratio of pre-let in the constructed projects.

*Kraków, Wrocław, Tri-City, Poznań, Łódź, Szczecin, Katowice and Lublin

CZECH REPUBLIC OFFICE MARKET IN PRAGUE

The Prague office market started 2020 in good shape. Over 200,000 sqm of office space was under construction, the vacancy rate was around 5%, and tenant demand for new space reached a record high. Unfortunately, with the onset of the pandemic in early March 2020, the dynamics of the market situation changed.

AT THE END OF Q3 2020, THE TOTAL OFFICE STOCK REACHED 3.8 MILLION SQM. Since the beginning of 2020, almost 140,000 sqm m of office space has been completed. By the end of the year, we expect the completion of another 21,100 sqm. In the next five years, another million sqm of new office space is expected to be completed.

SINCE THE BEGINNING OF THE PANDEMIC IN MARCH 2020, THE VACANCY RATE HAS BEEN RISING SLIGHTLY, and at the end of Q3 2020, it had reached 7.2%, which translates into approximately 267,000 sqm of vacant space. A number of tenants have postponed their plans to move or expand office space due to the pandemic, and some of them have had to closed down and have vacated their office premises. In the upcoming months, the vacancy rate is expected to show an upward trend.

THE CURRENT PHENOMENON ON THE PRAGUE OFFICE MARKET IS SUBLEASES, WITH AROUND 70,000 TO 80,000 SQM OF OFFICE SPACE AVAILABLE FOR SUBLEASING AT PRESENT. Lower rents for subleased space attract potential subtenants who would not, under normal circumstances, be able to afford the prime modern offices. In the future, the volume of supply for subleases is likely to grow, as current tenants will look for savings and subleasing is one of the options for achieving them.

DESPITE THE ONGOING CRISIS, THE PRIME RENTS REMAINED AT THE SAME LEVEL AS AT THE END OF 2019 AND RANGED FROM 22.50 TO 23.0 EUR / SQM. In the following periods, there is an expected downturn in the cost of rents, and an increase of rental incentives in the form of rent free periods, fit-out contributions, and modernisation of office premises, among other things.

ROMANIA
OFFICE MARKET IN BUCHAREST

A significant drop of almost 50% has been recorded in the office leasing activity, which led to only 94,000 sqm of net take-up in Bucharest reported in the course of Q1-Q3 2020. In addition, the volume of renewal contracts reached approx. 100,000 sqm. The threat for the upcoming months is an increased tenant appetite for renewals, with occupiers looking to extend their current leasing contracts for space of reduced size, which is more adapted to the currently prevailing "working from home" model.

THE PRIME HEADLINE RENTS HAVE REMAINED STABLE AT €19/M²/MONTH, but the incentive packages have increased thus putting strong pressure on net effective rents.

DOWNWARD PRESSURE ON RENTS IS EXPECTED TOWARDS THE END OF 2020, resulting from a combination of climbing vacancy rate and wider availability of office space for sublease which is marketed at attractive commercial terms. The inventory of sub lease spaces in Bucharest is currently estimated at 80,000 - 90,000 sqm, and is changing dynamically on a weekly basis.

2020 NEW SUPPLY IS ESTIMATED AT 180,000 - 200,000 SQM, with around 120,000 sqm already delivered in the first nine months of the year. In order to avoid potential demand shortages, developers have been postponing completions of new office projects by 12 to 18 months from the initial date of delivery.

THE OFFICE MARKET IS RECOVERING SLOWLY, WITH A SLIGHT QUARTER-ON-QUARTER INCREASE IN TAKE-UP. More signs of a rebound are expected to be seen from Q4 2020 onwards.

HUNGARY
OFFICE MARKET IN BUDAPEST

After the outstandingly good results of the previous years, the Budapest office market has suffered from a significant downturn due to the pandemic

SINCE MARCH 2020, OCCUPATIONAL ACTIVITY HAS FALLEN NOTABLY, while new projects have been stopped or suspended.

NET TAKE-UP PLUNGED BY 46% IN THE FIRST THREE QUARTERS OF 2020 COMPARED TO THE SAME PERIOD IN 2019, thus the vacancy rate has slightly increased.

THE DELIVERY OF NEW OFFICE SCHEMES HAS NOT BEEN INTERRUPTED and office building developments that were underway were not stopped by the pandemic.

IN 2020 TO DATE, A HIGH VOLUME OF NEW DEVELOPMENTS HAS ARRIVED ON THE BUDAPEST OFFICE MARKET. Moreover, a significant number of new developments is expected in both 2021 and 2022. Approx. 70% of the new office volume has already been pre-let; therefore, no significant vacancy growth has been registered on the Budapest office market.

HOW R U CEE?

OFFICE SECTOR IN CEE-4

OFFICE MARKET INDICATORS AND TRENDS in selected CEE countries

- Existing stock (Q3 2020)
- New supply (Q1-Q3 2020)
- Stock under construction (Q3 2020)
- Net take-up (Q1-Q3 2020)
- Vacancy rate (Q3 2020)
- Prime rent (€ /sqm / month)

Prague

- 3.8m sqm
- 140,000 sqm
- 208,000 sqm
- 131,000 sqm
- 7.2%
- €21-€24

Poland
8 regional markets*

- 5.7m sqm
- 305,000 sqm
- 800,000 sqm
- 285,000 sqm
- 11.9%
- €12.50-€15.50

Warsaw

- 5.8m sqm
- 238,000 sqm
- 640,000 sqm
- 293,000 sqm
- 9.6%
- €22.00-€24.00

* Kraków, Wrocław, Tricity, Poznań, Katowice, Łódź, Szczecin, Lublin

Budapest

- 3.86m sqm
- 193,000 sqm
- 466,000 sqm
- 134,000 sqm
- 8.1%
- €25

Bucharest

- 3.64m sqm
- 116,000 sqm
- 294,000 sqm
- 94,000 sqm
- 10.9%
- €19

POLAND

The modern retail sector in Poland has reached a stage of maturity and the pace of its development has definitely slowed down in the last few years. The outbreak of COVID-19 has strengthened this trend even more.

AT THE END OF Q3 2020, MODERN RETAIL STOCK IN POLAND EXCEEDED 15 MILLION SQM, with the vast majority of modern retail space cumulated in shopping centres - approx. 70%. Remaining space is distributed across retail warehousing (18%), retail parks (10%) and outlet centres (2%).

THE ONSET OF THE PANDEMIC AND THE SUBSEQUENT CLOSURE OF SHOPPING CENTRES IN THE SPRING HAVE BEEN CLEAR GAME CHANGERS IN THE SECTOR OF STATIONARY RETAILING. Large shopping and leisure malls, with extensive F&B and leisure components, are currently less frequently visited by customers, while small, convenience retail destinations have bounced back after the reopening in May. As a result of restrictions and stringent sanitary measures imposed on the operation of leisure facilities, this industry has been suffering most.

POLES ARE INCREASINGLY WILLING TO SHOP IN SMALL RETAIL PARKS, strip malls and local convenience centres, closer to home, where shopping time can be kept to a minimum. Reshaped shopping behaviour has been reflected in the new supply in the last few quarters and in the pipeline for the coming two years.

ACCORDING TO PRCH* DATA, AFTER THE REOPENING IN MAY, THE FOOTFALL IN SHOPPING CENTRES WAS SYSTEMATICALLY GROWING, reaching a record 90% of last year's values in the last week of August.

RETAIL TRADE GROWTH

In the last five years, the retail trade index in the CEE countries has surged at a fast pace, with growth rates ranging from approx. **+30% in Poland, Hungary** and **the Czech Republic** to **+54% in Romania**. At the same time, the euro area has noted **+13% growth of retail** sales.

Source: Eurostat

While the September results were also very optimistic, from the beginning of October, with the increase in the number of new Covid-19 cases in Poland, the number of visitors to shopping centres began to decline. The second closure of retail facilities in November has hardly hit the industry once again, while the performance in the first days after the reopening bodes well for the Christmas sales season. Research shows that customers are slightly more likely to visit medium and small facilities, while in large and very large shopping centres we see a tendency to make quick and planned purchases with a shorter dwelling time.

GIVEN THE CONSIDERABLE CHALLENGES FACED BY RETAILERS AND LEISURE OPERATORS, the leasing market is expected to remain challenging in the short-term with continued downward pressure on rents.

THE AVERAGE VACANCY RATE IN EIGHT MAJOR URBAN CONURBATIONS WAS AROUND 5% IN AUGUST 2020, HIGHER BY APPROX. 1 PP THAN AT THE END OF 2019. The increase should not be attributed to the pandemic alone, but also to the structural changes initiated in the retail market in Poland for several quarters, with large food hypermarkets having decreased footprints as a key factor.

AFTER THE SPRING SLUMP OF RETAIL SALES, A STEADY REBOUND HAS BEEN OBSERVED SINCE JUNE AND RETAIL SALES PERFORMED POSITIVELY IN Q3 2020. The second wave of the pandemic has affected retail sales again, hence in October 2020, the figure was lower by 2.3% than in the previous year. Given this year's unprecedented market turbulences, retail sales have potential to become the key driver of recovery with only a 3% drop in three quarters of this year.

IN THE PAST FEW YEARS, THE SHARE OF E-COMMERCE IN TOTAL RETAIL SALES IN POLAND OSCILLATED AROUND 5%-6%, while the pandemic elevated this figure to a record high of 11.9% during April's lockdown. After the reopening of shopping centres, we have seen a continued contraction of the share of online sales, to 7.3% in October. Following the second closure of shopping centres, a great upsurge in online sales in the November-December period is highly likely, additionally fuelled by the Christmas sales peak.

*Polish Council of Shopping Centres

CZECH REPUBLIC

The total area of shopping centres and retail parks in the Czech Republic reached 3.6 million sqm of GLA. Most retail space is located in Prague (31%), followed by the Moravian-Silesian Region (13%) and the South Moravian Region (10%).

IN 2020, TWO SHOPPING CENTRES AND ONE RETAIL PARK WERE COMPLETED WITH A TOTAL AREA OF 23,000 SQM - OC Opatovská and the Flow Building in Prague and Retail Park Okružní in České Budějovice. Another 28,700 sqm of retail space is expected to be completed by the end of 2020. The largest new project is the Retail Park Ovčáry in Kolín (12,000 sqm). In 2021, another 46,400 sqm of retail space will be completed.

THE RETAIL SECTOR IS ONE OF THE MOST AFFECTED BY THE CRISIS. The effects of the COVID-19 crisis on rents will become clearer after the second wave of the lockdown, when there will be more evidence of the market. Prime rents have been declining for high streets since the beginning of the pandemic. Shopping streets in Prague (Pařížská, Na Příkopě), in particular, are experiencing a decline in sales and footfall due to a lack of tourists. Prime rents on the high street in Prague have fallen by almost 10% since March 2020.

WE CAN SAY THAT THE CRISIS HAS STRENGTHENED THE POPULARITY OF REGIONAL RETAIL PARKS, which usually consist of 3-5 tenants offering essential products such as groceries, drugstores and discount stores. The coronavirus pandemic has shown that owing to the principles on which they are based, retail parks can withstand situations where it is necessary to restrict the movement or social contact of the population.

E-COMMERCE HAS SHOWN A SHARP INCREASE IN THE PAST FEW YEARS IN THE CZECH REPUBLIC. The pandemic further supported its growth and changed consumer behaviour in the first half of the year. During the first wave of the pandemic, 37% of customers shopped online more frequently than usual. APEK (the Association for Electronic Commerce) expects year-on-year growth in e-shop turnover to exceed 20% by the end of 2020.

ROMANIA

Despite the pandemic, more than 146,000 sqm of new retail supply in both retail parks and shopping centres were completed in the first 9 months of 2020. The largest project completed in the current year is AFI Palace in Brasov, followed by Shopping City Targu Mures, both anchored by Carrefour.

THE PANDEMIC HAS HEAVILY AFFECTED THE PERFORMANCE OF SHOPPING CENTRES, EITHER DUE TO REDUCTION OF OPENING HOURS or limitation of operations to only a few retailers offering essential goods and services.

THE RETAIL PIPELINE IN ROMANIA IS CURRENTLY ESTIMATED AT 240,000 SQM OF NEW SPACE. The vast majority of new supply will be completed countrywide, while in Bucharest, extensions of two existing projects will be completed, bringing a combined GLA of approx. 30,000 sqm.

FOR THE LAST COUPLE OF YEARS NOW, THE MODERN RETAIL SECTOR HAS BEEN GOING THROUGH A PROCESS OF REPOSITIONING FOLLOWING THE FAST DEVELOPMENT OF RETAIL PARKS THROUGHOUT THE COUNTRY. This format has gained in popularity, in particular in regional cities, as usually the offer is anchored by a food discounter, while the remaining space is occupied by popular mass-market retailers.

SINCE THE ONSET OF THE PANDEMIC, PRIME RENTS IN THE RETAIL SECTOR HAVE REMAINED STABLE and no changes are expected to happen in the short to medium-term.

HUNGARY

Retail sales have declined significantly during the year due to the pandemic, but notable growth has been measured in selected commodity groups.

THE PANDEMIC-RELATED EMERGENCY RESTRICTIONS, STRINGENT SANITARY MEASURES and reduced opening hours have pushed back retail traffic and retail turnover of tenants as a consequence. Downtown shopping centres have suffered from the sharpest decline in footfall and retail turnover, while the footfall in retail parks in the outer districts remained relatively stable.

THE ALMOST 100% OCCUPANCY RATE OF SHOPPING CENTRES IN BUDAPEST HAS DECREASED SLIGHTLY as a result of the turbulence in the sector caused by the lockdown.

IN THE LAST COUPLE OF MONTHS, LANDLORDS AND TENANTS HAVE BEEN FOCUSED ON RENEGOTIATIONS OF LEASE CONTRACTS. Given the current circumstances, we expect some of the fashion brands will reduce the number of their stores, while selected restaurants and smaller retailers are going to stop operating permanently.

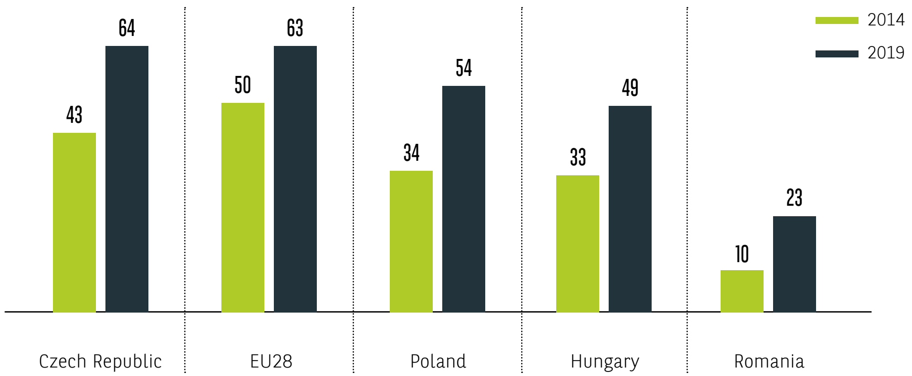
THE SIZE OF THE BUDAPEST RETAIL STOCK REMAINED UNCHANGED IN 2020. The opening date of Etele Plaza, the only shopping centre project currently under construction, has been postponed to mid-2021. Developers have also cancelled the implementation of the other two previously announced projects.

IN THE LAST COUPLE OF YEARS, ONLINE SALES HAVE INCREASED AT A STEADY PACE AND OSCILLATED AROUND 7%-8% OF THE TOTAL RETAIL TRADE in 2018-2019. The pandemic-related restrictions imposed on stationery retailing have boosted the growth of e-commerce even further.

E-COMMERCE

Despite the pool of e-shoppers enlarging at a fast pace in the last five years, Poland, Hungary, and in particular Romania, have been lagging behind the EU, while the Czech Republic is on a par with the EU average. A dynamic increase in online sales is therefore expected, assisted by the shift in consumer behaviour towards e-commerce resulting from the pandemic and the related sanitary restrictions.

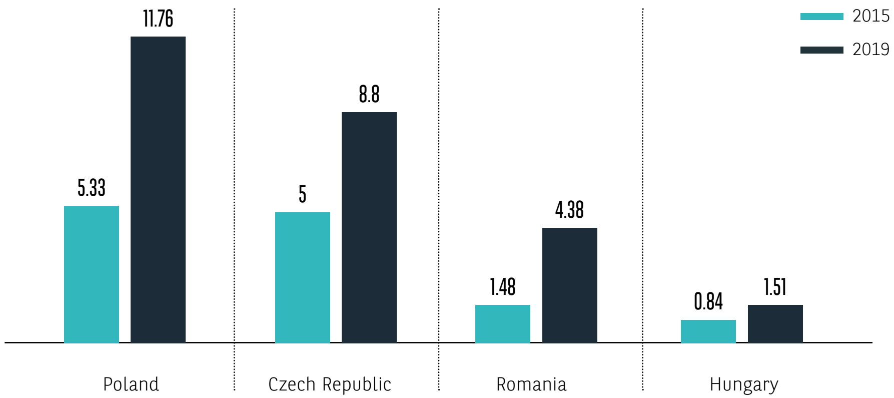
PERCENTAGE OF POPULATION BUYING ONLINE (LAST 5Y DYNAMICS)



Source: Eurostat, Online purchases in the last 12 months

IN RECENT YEARS, BOTH THE POOL OF ONLINE SHOPPERS AND THE VALUE OF THE E-BASKET IN THE ANALYSED COUNTRIES HAVE BEEN GROWING AT A REMARKABLE DOUBLE-DIGIT RATE YEAR-ON-YEAR. The volume of online sales has therefore surged, with e-turnover tripling in Romania, while Poland's e-commerce sales climbed to nearly €12 billion in 2019. In 2020, e-commerce is expected to reach new thresholds as more and more consumers decide to become e-shoppers, even in the older generation. 2020 is likely to see e-commerce volumes rising by up to 25%-30%.

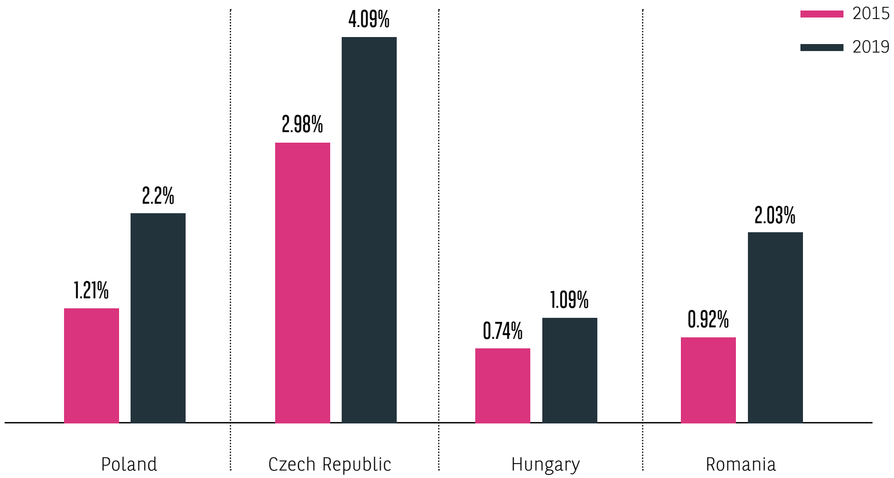
B2C E-COMMERCE TURNOVER (€BN) AND GROWTH



Source: Ecommerce Europe

FOR THE PAST SEVERAL YEARS, E-COMMERCE HAS BEEN BECOMING AN INCREASINGLY IMPORTANT COMPONENT OF GDP, STIMULATING EMPLOYMENT AND GROWTH OF LOCAL ECONOMIES. The last difficult months in particular have demonstrated how crucial is the role of e-commerce for the continuation of economic activities. The sector has proven its resilience to unprecedented market turmoil, while the current COVID-19 crisis has made the digital transformation of many businesses even faster.

E-COMMERCE COMPONENT IN GDP



Source: Ecommerce Europe

HOW R U CEE?

RETAIL SECTOR IN CEE-4

RETAIL MARKET INDICATORS & TRENDS in selected CEE countries

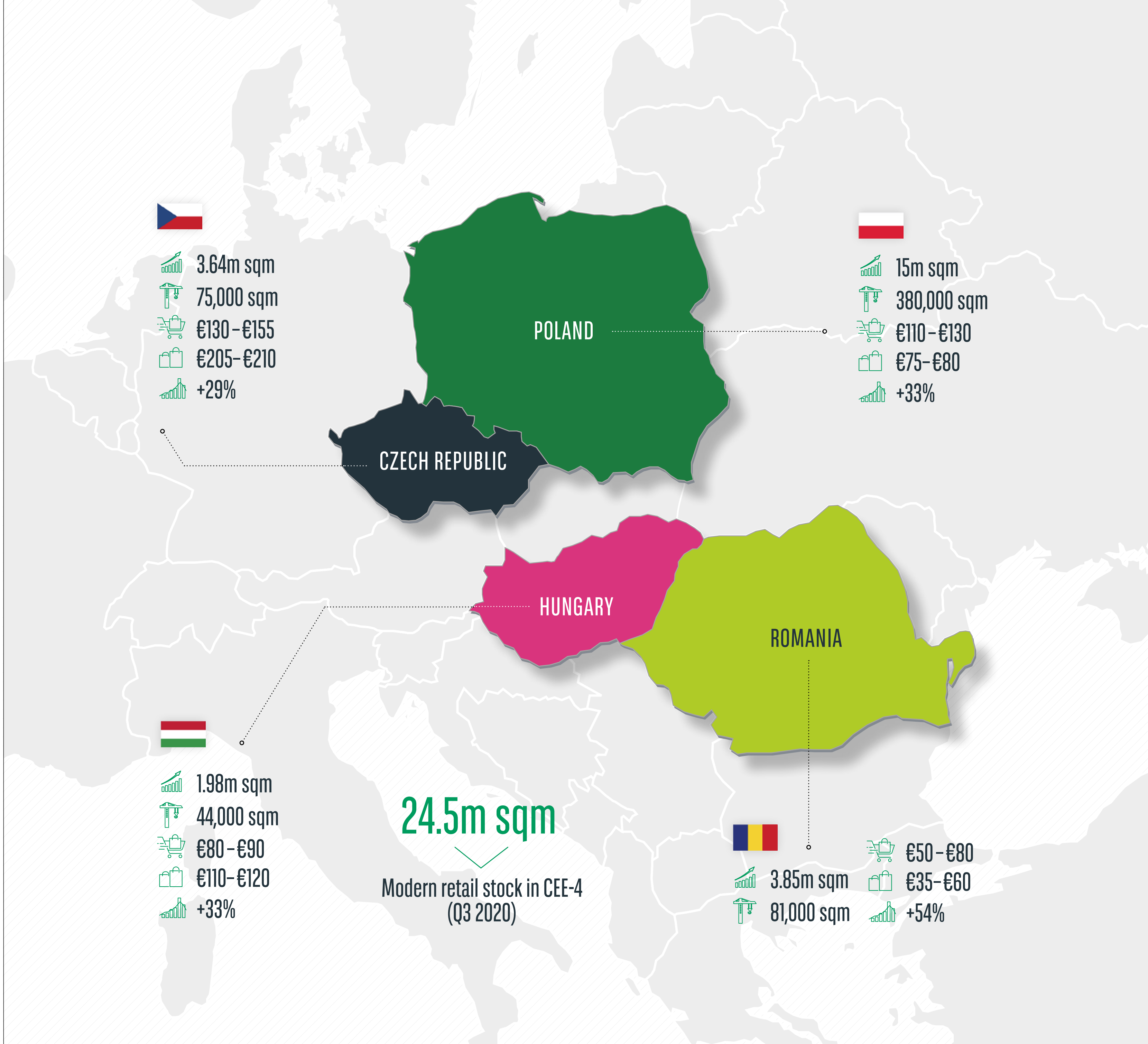
Modern retail stock existing (Q3 2020)

Under construction

Shopping centre prime rent (€/sqm/month)

High street prime rent (€/sqm/month)

5Y retail sales growth



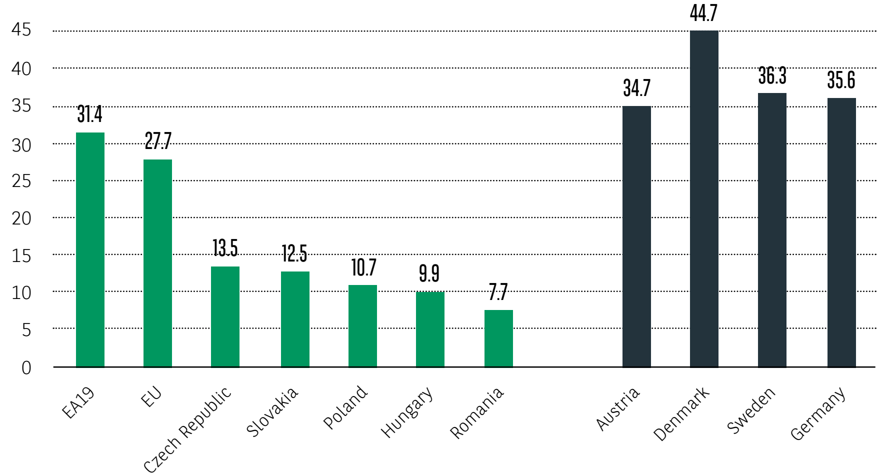
HOW R U CEE?

INDUSTRIAL & LOGISTICS SECTOR IN CEE-4

CEE

One of the crucial factors fuelling the development of the CEE industrial & logistics market is manufacturing cost differentials between the so-called "old" EU members and those from the CEE region. The average hourly labour cost per employee in Central Europe is nearly three times lower than in the euro area, ranging from approx. 25% of the EU average in Romania to 43% in the Czech Republic.

TOTAL LABOUR COST PER HOUR (€)



THE RATIONALE BEHIND THE STRONG GROWTH OF THE INDUSTRIAL & LOGISTICS SECTOR IN THE CEE REGION

> Land availability greater than in the markets of "old" EU members and cost-efficiency are among the crucial competitive advantages of the region.

> Close relations with the companies and businesses which operate globally across Europe, in particular those originating from the German-speaking countries.

> Quality transport infrastructure and its seamless integration with European transport corridors, which allows Europe-wide logistics services to be provided.

> In addition to the automotive and manufacturing occupiers which have been the strongest drivers of the industrial & logistics market in the CEE in the last decade, the powerful expansion of the e-commerce sector will propel the region in the next few years.

POLAND

Poland's industrial and logistics market represents one of Europe's most dynamically developing commercial real estate sectors. More than half of the existing stock has been delivered over the past five years, which translates into an ample selection of space for high quality and technical standards. At the end of Q3 2020, the volume of existing space reached 20.3 million sqm.

IN THE LAST THREE YEARS, THE INDUSTRIAL AND LOGISTICS SECTOR HAS GROWN AT A FAST PACE, enlarging by more than 2 million sqm each year. A similar volume of new supply is expected to be seen this year once again.

THE DYNAMIC GROWTH OF STOCK HAS MET WITH BUOYANT TENANT DEMAND, hence new space has been absorbed quite easily. In the last three years, gross take-up has exceeded 4 million sqm per annum, with net demand accounting for approx. 70%-75% of this figure. Given the large volume of space (3.7 million sqm) leased in 2020 so far, we are looking at a record-breaking year. This year's demand has been bolstered, in particular, by e-commerce, 3PL and retail occupiers, and among the latter, especially operators implementing a multi-channel sales strategy.

THE VACANCY RATE STILL OSCILLATES AROUND A HEALTHY LEVEL, although it has extended somewhat markedly over the year resulting from the cumulated volume of new supply with a substantial portion of speculative stock. Following the high leasing ratio of projects which are currently under construction – the average figure is exceeding 70% - this trend is to be reversed in the upcoming months. Construction activity has also been reduced to approx. 1.5 million sqm recently, which is expected to be reflected positively in the vacancy rate in the near future. In particular, the pool of speculative new projects has decreased, while the number of BTO and BTS developments has even enlarged.

FOR SEVERAL QUARTERS, HEADLINE RENTS ACROSS THE COUNTRY HAVE REMAINED RELATIVELY STABLE, subject to only slight movements, while effective rents have been changing more dynamically.

THE INDUSTRIAL AND LOGISTICS SECTOR HAS DEMONSTRATED RESILIENCE TO THE PANDEMIC-RELATED CRISIS AND, IN FACT, IT HAS BEEN SPURRED TO GROW EVEN MORE DYNAMICALLY. The exponential growth of the e-commerce sector, new fulfilment centres and, finally, the expected trend of nearshoring in the European manufacturing are the key factors that will fuel the growth of Poland's industrial and logistics sector over the coming years.

MOREOVER, A STEADY IMPROVEMENT OF THE ROAD INFRASTRUCTURE IN THE COUNTRY CONTRIBUTES TO THE EVER EXPANDING SELECTION OF LOCATIONS ATTRACTIVE TO DEVELOPERS AND TENANTS. Apart from the leading regions, smaller hubs have also been gaining in importance as they offer a wide range of locations with convenient transport infrastructure. This is confirmed by new projects which have been launched in the emerging hubs such as Eastern Poland, Bydgoszcz and Western Poland.

CZECH REPUBLIC

Since the beginning of 2020, more than 0.5 million sqm of new modern industrial space has been delivered to the market. In total, the volume of modern industrial space reached over 9.1 million sqm at the end of September.

THE LARGEST INDUSTRIAL AREA IS LOCATED IN THE GREATER PRAGUE REGION, and includes 35% of the total modern industrial stock in the Czech Republic.

THE MORAVIAN-SILESIAN REGION IS VERY POPULAR FOR NEW DEVELOPMENTS. Currently, five projects are under construction and two more will be launched in the next few months. By the end of 2021, over 260,000 sqm of new industrial space will be completed in the Moravian-Silesian region.

ANOTHER VERY POPULAR REGION FOR BOTH DEVELOPERS AND TENANTS IS THE PILSEN REGION. It benefits from its ideal location next to the German border. A total of 154,200 sqm of lease agreements were concluded in the region since beginning of 2020, which is 36% of the total volume of take-up in the country. Currently, five projects with total space of over 120,600 sqm are under construction, with the largest project located in CT Park Bor (90,300 sqm).

AT THE END OF Q3 2020, A TOTAL OF 428,200 SQM OF LOGISTICS SPACE WAS UNDER CONSTRUCTION.

THE VACANCY RATE FELL BY 30 BASIS POINTS Q-O-Q TO 5% IN SEPTEMBER 2020. The highest vacancy rate was registered in the Karlovy Vary Region (12.2%).

RENTS REMAINED STABLE IN ALL REGIONS. THE HIGHEST ACHIEVED RENTS RANGED BETWEEN 3.50 AND 4.90 EUR PER SQM PER MONTH. We are seeing a slight upward trend in prices at logistics parks located in the Greater Prague area. Conversely, in regions with high vacancy, prices may fall slightly in 2021.

DEMAND FOR LOGISTICS SPACE IN THE CZECH REPUBLIC IS LOWER THAN LAST YEAR (20% DROP COMPARED TO LAST YEAR). The demand is driven mainly by companies in the logistics services sector and e-commerce. Since the beginning of 2020, the highest volume of leases were concluded in the Pilsen Region (36%) and in Greater Prague (20%).

ROMANIA

2020 on the industrial & logistics sector in Romania seems to be resilient to change and is set to outperform both in term of new completions and take-up.

THE SECTOR IS SET TO REACH 5 MILLION SQM OF THE EXISTING STOCK BY YEAR END DUE TO LARGE DELIVERIES ANNOUNCED BY CTP AND WDP THROUGHOUT THE COUNTRY.

BUCHAREST REMAINS THE MOST ACTIVE MARKET, reporting modern industrial stock in the region of 2.2 million sqm.

IN ADDITION TO ESTABLISHED INDUSTRIAL LOCATIONS, NEW INDUSTRIAL HUBS HAVE STARTED TO EMERGE ALONG THE RING ROAD, such as Chitila in the North West or Stefanesti in the North East.

IN THE LAST DECADE, 8-10 REGIONAL ROMANIAN CITIES HAVE EMERGED AS IMPORTANT LOGISTICS AND MANUFACTURING HUBS, predominantly related with the automotive industry. These new industrial and logistics clusters are located mainly in the western part of the country and benefit from good transport infrastructure.

ANOTHER HUB, CONSTANTA, WHICH ENJOYS A STRATEGIC LOCATION WITH DIRECT ACCESS TO THE BLACK SEA HARBOUR, has been gaining momentum. GlobalVision, one of the latest entrants to the Constanta region, has announced a mixed-use project on 100 ha of land, with the first phase estimated at 250,000 sqm of logistics and light industrial space.

SINCE THE BEGINNING OF THE YEAR, RENTAL LEVELS HAVE REMAINED STABLE, with the prime industrial rent being quoted at €3.9/sqm/month.

AT THE END OF Q3 2020, THE VACANCY RATIO IN THE COUNTRY HAS OSCILLATED AROUND A HEALTHY LEVEL OF 4%-6%.

ALTHOUGH THE VOLUME OF NEW SUPPLY IN 2020 IS PROJECTED TO BE SUBSTANTIAL, no pressure on the vacancy rate is expected, as developments under construction record a high level of pre-let.

HUNGARY

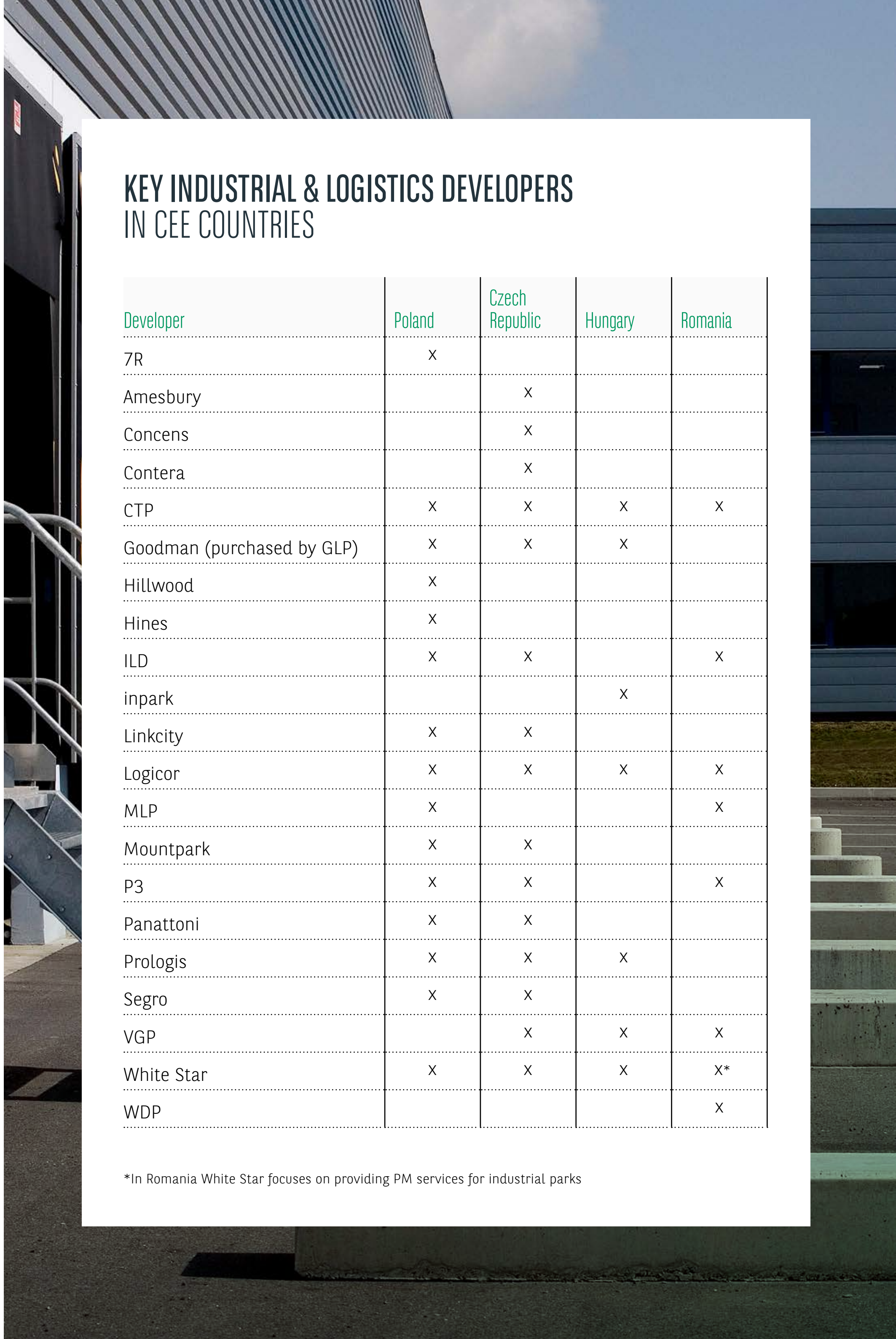
Despite the uncertainty caused by the coronavirus pandemic, the logistics sector in Hungary is performing outstandingly.

THE VACANCY RATE HAS STABILISED AT A LOW LEVEL, WHILE DEMAND FOR NEW LOGISTICS AREAS IS EXTREMELY STRONG. In the first three months of 2020, the occupational activity in Budapest and its urban conurbation increased by 62% compared to the same period in 2019.

DUE TO THE LIMITED NEW SUPPLY, A SIGNIFICANT PERCENTAGE OF LEASE TRANSACTIONS HAVE BEEN SIGNED AS PRE-LET AGREEMENTS or BTS developments. In Q3 2020, as much as 40% of take-up came from pre-lease agreements.

STRONG AND STEADY DEMAND HAS ENCOURAGED DEVELOPERS, THOSE ALREADY ACTIVE ON THE MARKET AS WELL AS NEW MARKET ENTRANTS, to launch new projects. Currently, nearly 200,000 sqm of industrial & logistics space is under construction. Based on the number of announced projects, the Hungarian logistics market could expand by another 200,000 sqm by 2022.

HUNGARY'S INDUSTRIAL & LOGISTICS SECTOR IS CURRENTLY BOOMING and is expected to face significant changes in the near future.



KEY INDUSTRIAL & LOGISTICS DEVELOPERS IN CEE COUNTRIES

Developer	Poland	Czech Republic	Hungary	Romania
7R	X			
Amesbury		X		
Concens		X		
Contera		X		
CTP	X	X	X	X
Goodman (purchased by GLP)	X	X	X	
Hillwood	X			
Hines	X			
ILD	X	X		X
inpark			X	
Linkcity	X	X		
Logicor	X	X	X	X
MLP	X			X
Mountpark	X	X		
P3	X	X		X
Panattoni	X	X		
Prologis	X	X	X	
Segro	X	X		
VGP		X	X	X
White Star	X	X	X	X*
WDP				X

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

HOW R U CEE?

INDUSTRIAL & LOGISTICS SECTOR IN CEE-4

HUBS AND TRANSPORTATION NETWORK in the CEE region

Industrial & logistics stock (Q3 2020)

Vacancy rate

Stock under construction (Q3 2020)

Prime rent (€ /sqm / month)

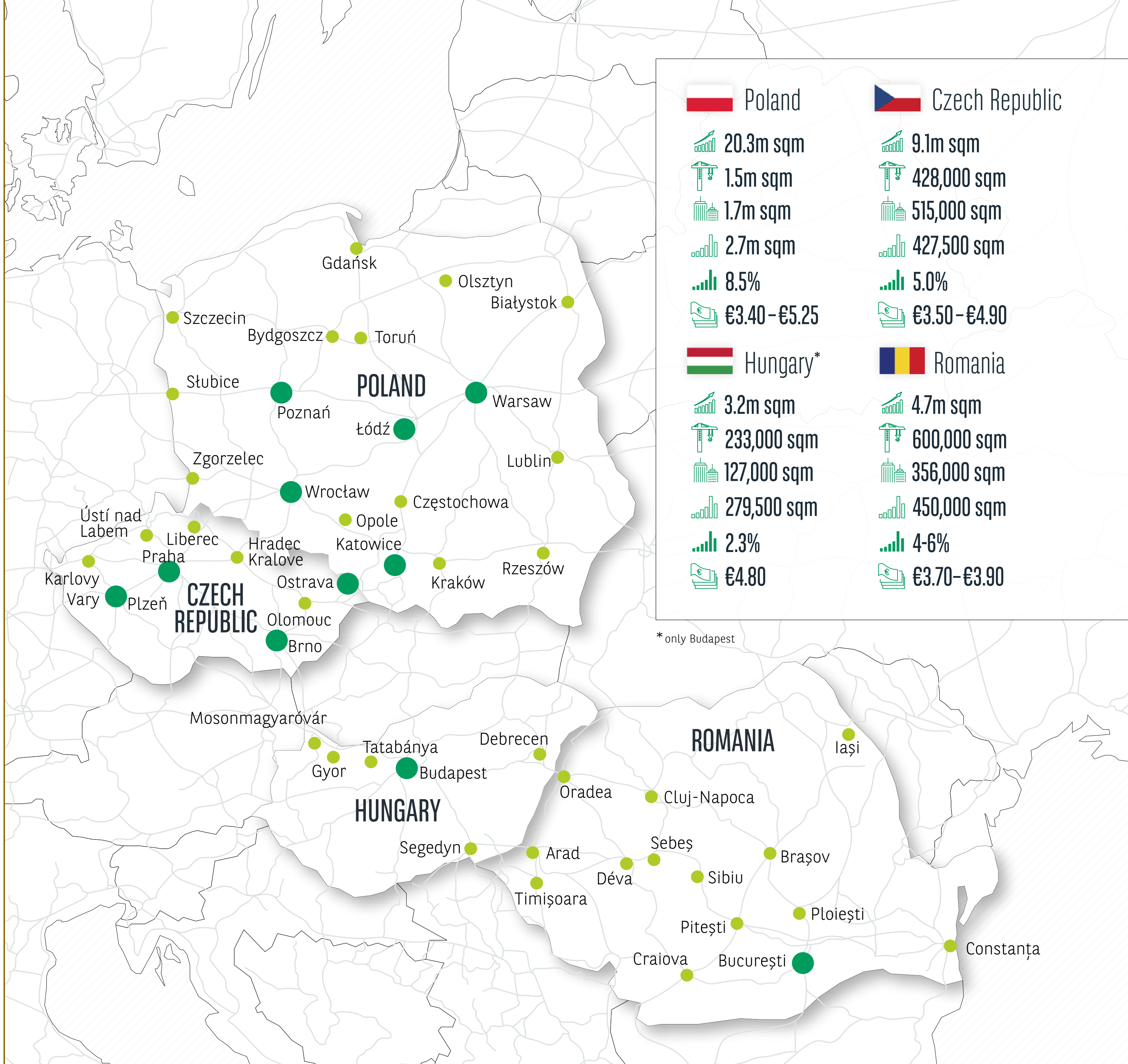
New supply (Q1-Q3 2020)

Primary hubs

Secondary hubs

Net take-up (Q1-Q3 2020)

Major road routes



	Poland	Czech Republic	Hungary*	Romania
Industrial & logistics stock (Q3 2020)	20.3m sqm	9.1m sqm	3.2m sqm	4.7m sqm
Stock under construction (Q3 2020)	1.5m sqm	428,000 sqm	233,000 sqm	600,000 sqm
New supply (Q1-Q3 2020)	1.7m sqm	515,000 sqm	127,000 sqm	356,000 sqm
Net take-up (Q1-Q3 2020)	2.7m sqm	427,500 sqm	279,500 sqm	450,000 sqm
Vacancy rate	8.5%	5.0%	2.3%	4-6%
Prime rent (€ /sqm / month)	€3.40-€5.25	€3.50-€4.90	€4.80	€3.70-€3.90

*only Budapest

HOW R U CEE?

BNP PARIBAS REAL ESTATE STUDY

FACING THE COVID-19 NEW DYNAMICS

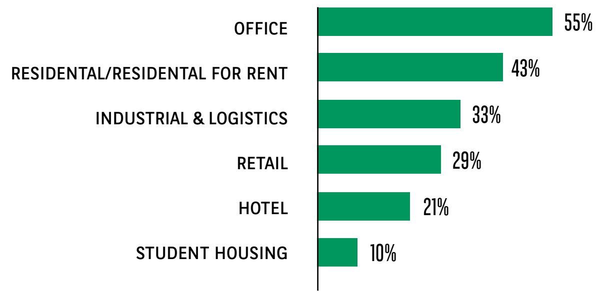
BNP PARIBAS REAL ESTATE

KEY FINDINGS from a survey of developers and investors

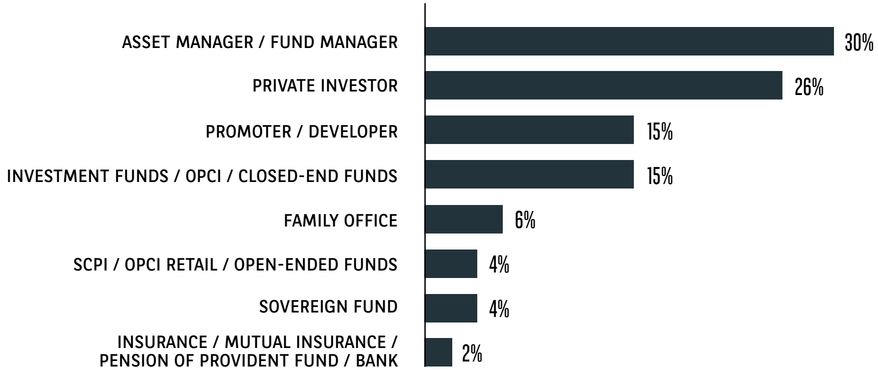
METHODOLOGY AND RESPONDENTS' PROFILE

BNP PARIBAS REAL ESTATE, IN COOPERATION WITH CCI FRANCE – POLOGNE, THE BELGIAN BUSINESS CHAMBER AND THE NETHERLANDS – POLISH CHAMBER OF COMMERCE, CONDUCTED AN ONLINE SURVEY OF INVESTORS AND DEVELOPERS THAT ARE ACTIVE IN THE CEE REGION (POLAND, THE CZECH REPUBLIC, ROMANIA AND HUNGARY). The aim of the study was to examine how the current crisis had affected their operations and how they assessed the pandemic-related implications on business continuity. We also asked the respondents about their strategies for the future and about the medium-term outlook for the industries they represented. In a brief summary, we present the key messages from the survey which, in our view, broadly reflect the current situation.

GRAPH 1 **DEVELOPERS** REPRESENTED SECTORS

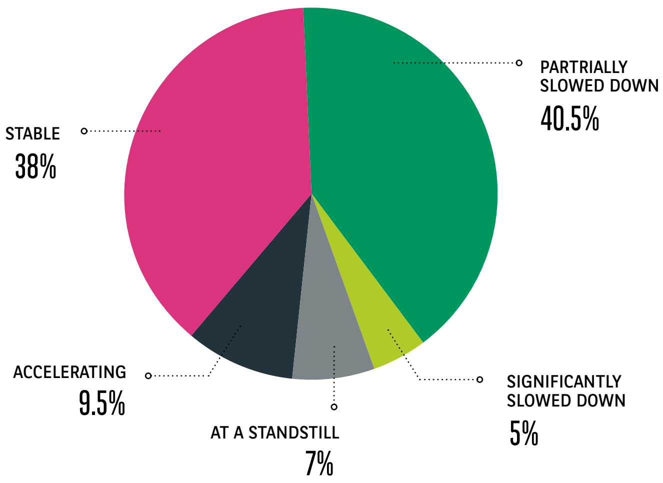


GRAPH 2 TYPE OF **INVESTORS**



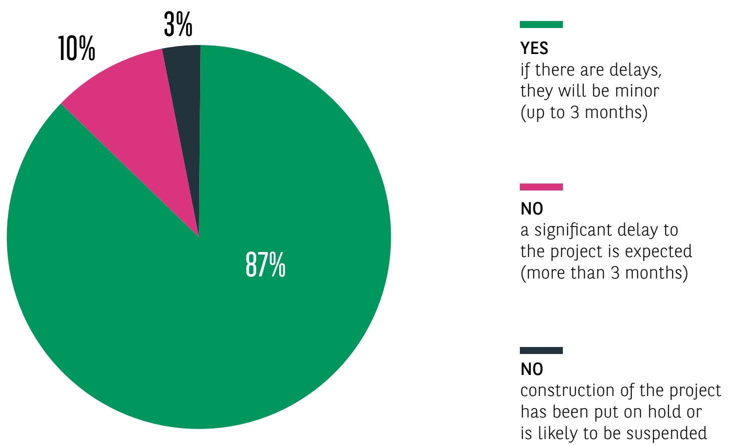
GRAPH 1

WITH REGARD TO YOUR INVESTMENT ACTIVITY, WOULD YOU SAY THAT IT IS:



GRAPH 2

DO YOU EXPECT TO DELIVER THE PROJECT ACCORDING TO THE PREDEFINED SCHEDULE?



DEVELOPERS' PERSPECTIVE (1)

KEY FINDINGS:

NEARLY HALF OF OUR RESPONDENTS report that their development activity has remained at a stable pace or even accelerated, while around 40% point to a slowdown, but only a slight one.

THE LION'S SHARE OF THE DEVELOPERS SURVEYED EXPECT their projects to be completed on schedule or, if delayed, only briefly (no longer than 3 months).

IN GENERAL, THE COVID-19 CRISIS HAS NOT DEVASTATED DEVELOPERS' FUTURE PLANS, with the vast majority of respondents declaring only minor revisions of their development strategies. This opinion applies especially to new developments being drafted for Poland and Romania.

SOME OF OUR RESPONDENTS, NOTABLY IN ROMANIA, ASSUME THAT CONSTRUCTION WILL START SOME TIME LATER due to a number of obstacles. Reduced tenant demand, the struggle to secure financing for development, increased construction costs and prolonged administrative procedures are the main things mentioned that are delaying the start of projects.

BASED ON THE RESULTS OF OUR SURVEY, the bulk of new developments are expected to begin according to predefined (pre-pandemic) parameters.

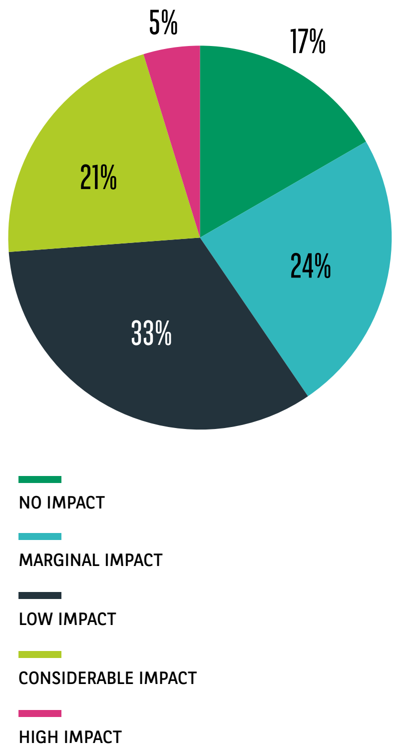
CONSTRUCTION IN PHASES, a change of technical specifications and downsizing of projects are among the most frequently mentioned potential changes to new projects by our respondents.

ON THE OTHER HAND, INTERVIEWEES SEE A CHANGE IN OCCUPIERS' REQUIREMENTS, with a broadly defined cost factor (reduction of space, renegotiation of rent or delayed commencement of lease) as the key variable.

WHILE OVER 80% OF OUR RESPONDENTS HAVE SEEN A CONTRACTION IN DEMAND FOR SPACE, most of them do not foresee a serious reduction in rental levels. Opinions prevail that rents will remain stable or decline by no more than 10%.

GRAPH 3

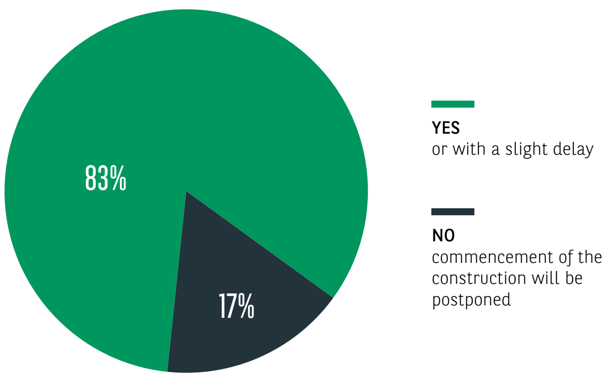
WILL THE CRISIS HAVE AN IMPACT ON YOUR DEVELOPMENT STRATEGY IN THE COMING MONTHS?



DEVELOPERS' PERSPECTIVE (2)

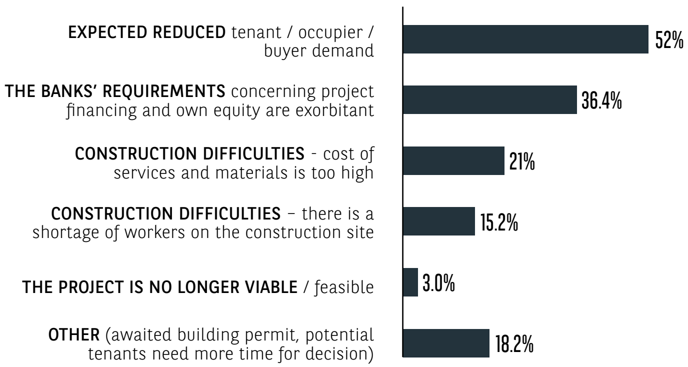
GRAPH 4

WILL YOU START THE CONSTRUCTION OF NEW PROJECTS ACCORDING TO THE PREVIOUSLY AGREED SCHEDULE?



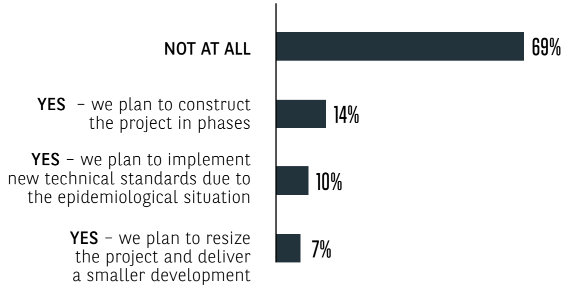
GRAPH 5

WHAT IS THE REASON BEHIND THE DELAY TO THE CONSTRUCTION OF THE PROJECT?



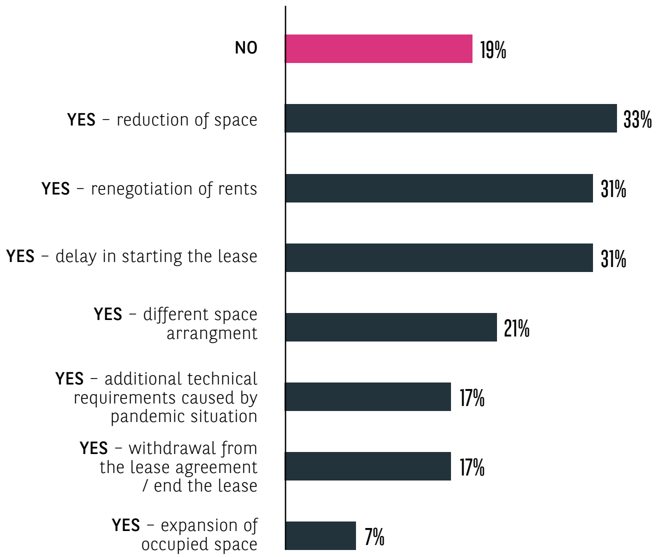
GRAPH 6

GIVEN THE CURRENT CIRCUMSTANCES, ARE YOU PLANNING TO CHANGE / READAPT PARAMETERS / THE SIZE OF THE PROJECTS?



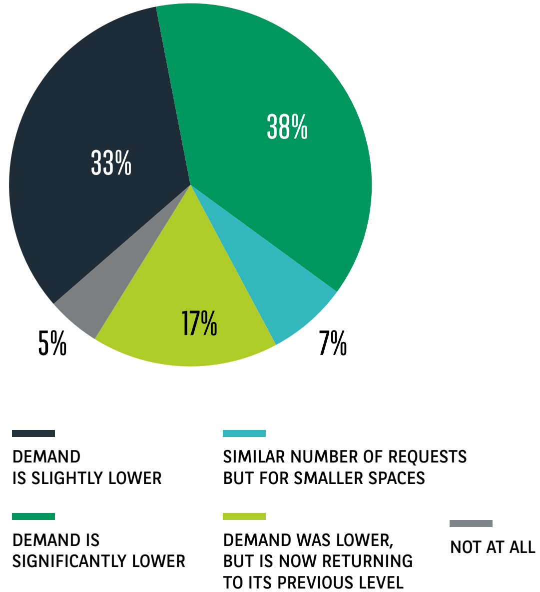
GRAPH 7

HAVE THE REQUIREMENTS OF YOUR TENANTS (SECURED OR POTENTIAL ONES) CHANGED?



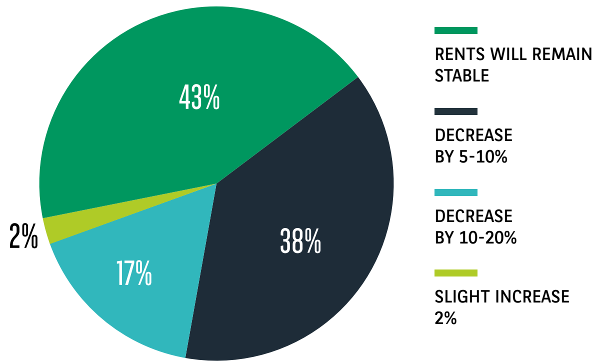
GRAPH 8

HAVE YOU OBSERVED ANY CHANGES IN TENANT DEMAND?



GRAPH 9

DO YOU EXPECT ANY ADJUSTMENT OF THE RENTAL LEVELS?



INVESTORS' PERSPECTIVE (1)

KEY FINDINGS:

ALTHOUGH THE CURRENT CRISIS HAS CAUSED A SLOWDOWN IN THE INVESTMENT SECTOR, our interviewees have not ceased their activities and only 13% of them have put their projects on hold, which bodes well for the recovery of the sector.

MORE THAN A HALF OF THE INVESTORS SURVEYED REPORT THAT THEIR STRATEGIES FOR THE COMING MONTHS are subject to changes due to the repercussions of the COVID-19 crisis. On the other hand, a big proportion declare that the impact is low or even marginal.

BASED ON THE PREVIOUS CRISIS, we can anticipate a very gradual recovery in investment once the crisis abates. 38% of respondents think that the market will take over a year to recover, while a further 18% assume that the market will not reach its pre-crisis dynamics.

THE CURRENT CRISIS HAS ACCELERATED THE TRENDS ALREADY SEEN. Our respondents plan to target office and industrial&logistics assets, while shopping centres are on a downward trend. Alternative sectors, in particular resi-for-rent properties, have gained in importance. Interest in retail parks will continue.

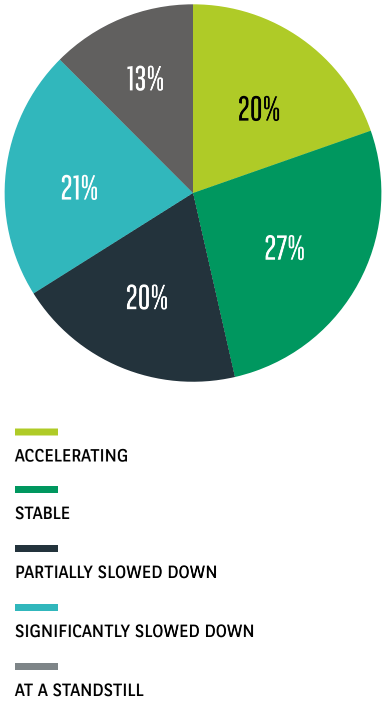
DECOMPRESSION OF YIELDS IS WIDELY REPORTED BY THE RESPONDENTS, but to various degrees depending on the type and class of the investment product. Industrial&logistics and residential assets have not been repriced.

WHILE INVESTOR APPETITE FOR CORE AND CORE+ products is expected to continue, there is also a clear shift towards opportunistic strategies. Meanwhile, value-add properties are declining in importance.

MORE THAN HALF OF THE SURVEYED LANDLORDS believe that the rental market will need at least six months to recover once the COVID-19 crisis ends. The vast majority of respondents, however, expect the leasing conditions to change significantly, with strong pressure on more flexible terms.

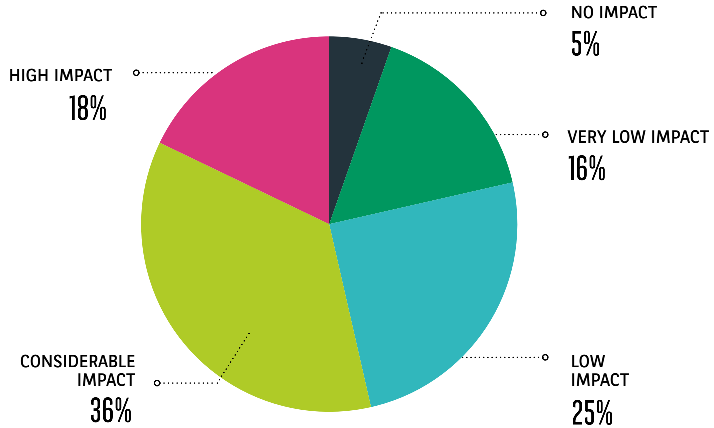
GRAPH 1

WITH REGARD TO YOUR INVESTMENT ACTIVITY, WOULD YOU SAY THAT IT IS:



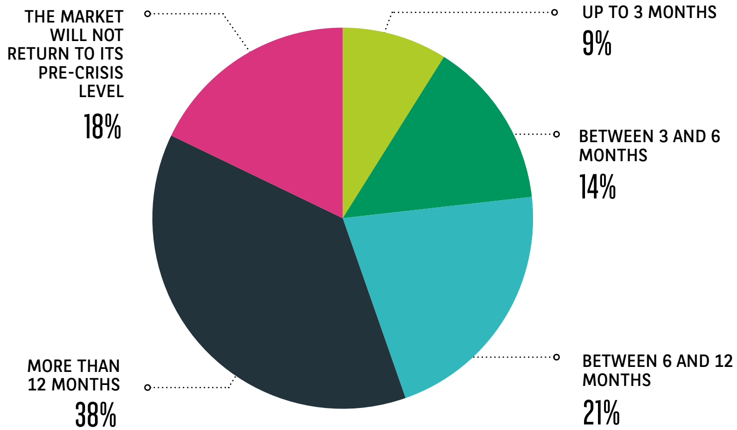
GRAPH 2

HAS THE CRISIS IMPACTED YOUR INVESTMENT STRATEGY FOR THE COMING MONTHS?



GRAPH 3

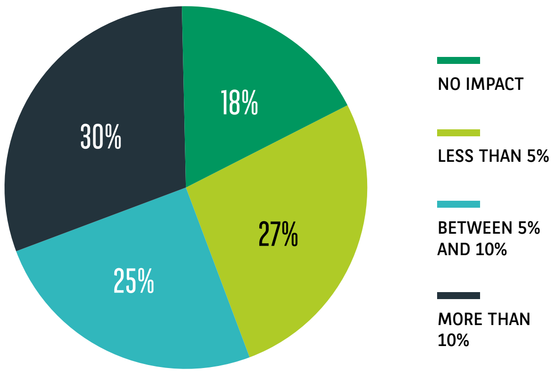
HOW LONG WILL THE REAL ESTATE INVESTMENT MARKET TAKE TO RETURN TO NORMAL?



INVESTORS' PERSPECTIVE (2)

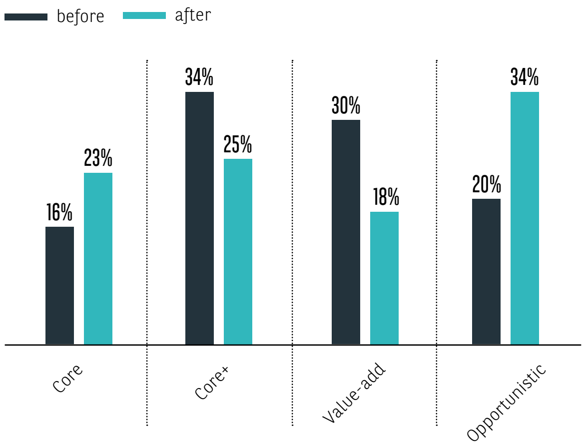
GRAPH 4

TO WHAT EXTENT HAS THE CRISIS AFFECTED PRICING AND YIELDS?



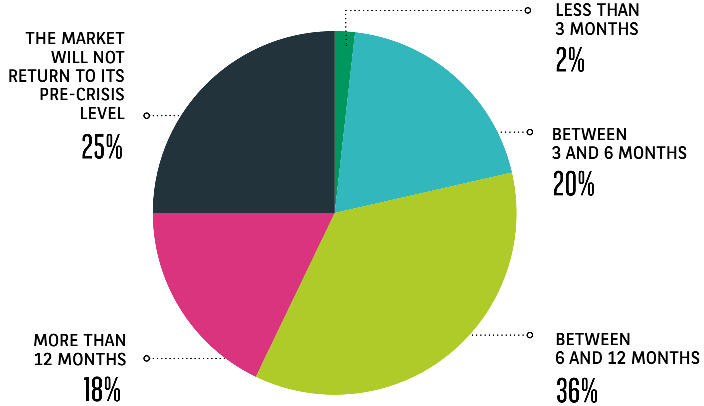
GRAPH 5

HOW WOULD YOU OUTLINE YOUR INVESTMENT STRATEGY BEFORE AND AFTER THE RECOVERY?



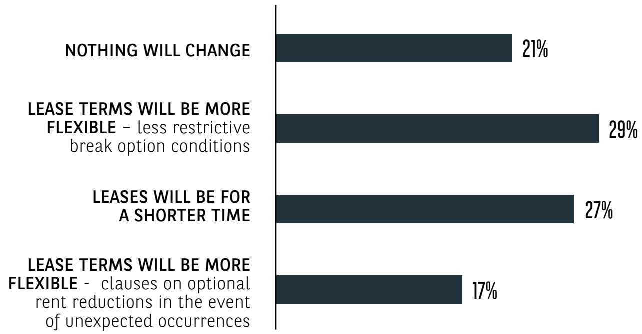
GRAPH 6

ONCE THE CRISIS IS OVER, HOW LONG WILL THE RENTAL REAL ESTATE MARKET TAKE TO RETURN TO NORMAL?



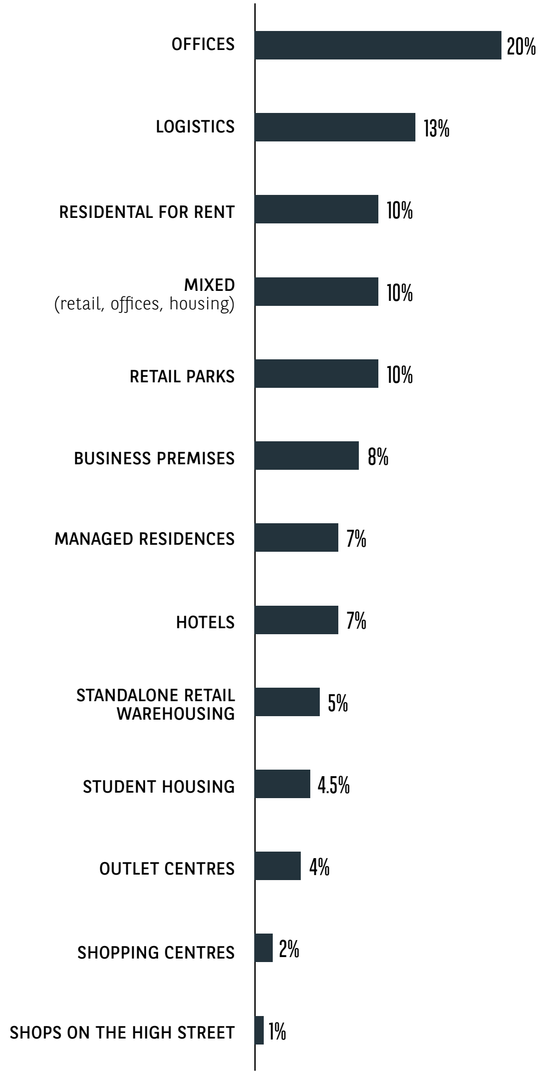
GRAPH 7

DO YOU EXPECT THE LEASE TERMS TO CHANGE AS A RESULT OF THE CURRENT CRISIS?



GRAPH 8

WHAT TYPE OF ASSETS WILL YOU TARGET IN THE SHORT / MID-TERM?



HOW R U CEE?

CEE CAPITALS

MARKET DATA AND FUNDAMENTALS

BNP PARIBAS REAL ESTATE

WARSAW

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

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 and its wider metropolitan area has doubled. With GDP of €47,900 per inhabitant, Warsaw is the 18th most affluent region in the EU, exceeding the average by 55%.

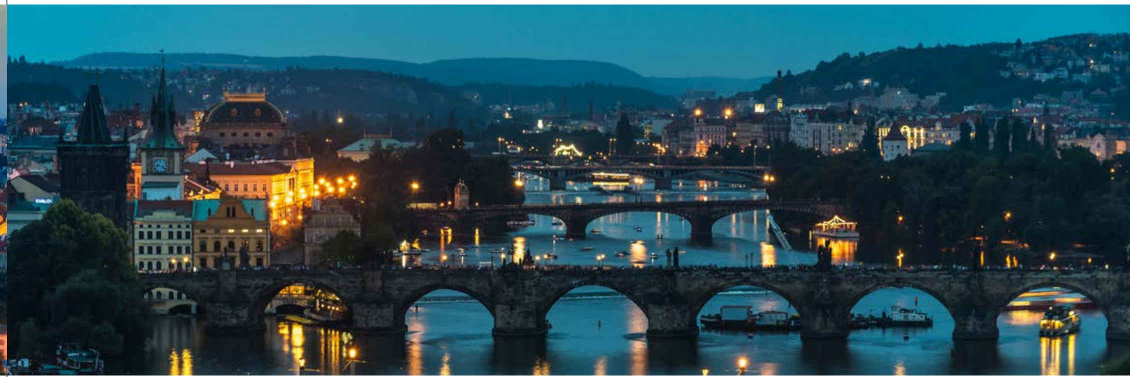
The property market in Warsaw is the most established in CEE Capitals in all sectors. It offers the largest stock of modern office, retail and warehouse / logistics space and provides a solid occupier base for all property types.

Strongly propelled by the construction of the 2nd metro line (going East-West), the city centre has been enlarging westwards for several years, capturing more areas of the Wola district. Neglected post-industrial facilities have been replaced with modern residential, office and mixed-use developments, while comfortable public transport provides convenient accessibility to/from other areas of the city. The impressive growth of the city is accompanied by numerous initiatives aimed at improving the quality of life in the capital.

*Eurostat, as of 2018, GDP per capita at current market prices expressed in Purchasing Power Standards (PPS)

PRAGUE

The City benefits from its strategic position in the heart of Europe, business infrastructure, skilled labour and high quality of life.



Prague is the economic, cultural and political centre of the Czech Republic. It is home to numerous historical sights which makes it one of the most popular tourist destinations in the CEE region. Prague ranks as one of the most important and developed regions, even within the entire EU. Apart from the main state authorities, most of the financial institutions and foreign enterprises are based here, ensuring Prague comprises 26% of the country's GDP.

Relatively lower costs than other EU cities have encouraged many international companies to base their European headquarters in Prague. The city offers excellent infrastructure, including one of the best public transport systems in Europe that is underpinned by a comprehensive metro system (more than 65 km long) and a good tram network. The completion of the Prague ring road has also been approved and the city has a good railroad and air transport system which connects it to other parts of Europe. Prague is a national centre of education and has the highest number of higher education schools schools and secondary technical schools of all the regions.

Since the country's accession to the EU in 2004, GDP per capita in the city has soared by 70%, and today, expressed in Purchasing Power Standards, it exceeds the EU average by over 90%*. The property market in Prague is mature and stable with a good provision of high quality stock of modern office, retail and warehouse space. The Czech Republic's capital has seen significant interest both in prime office assets and prime high street locations supported by strong rental growth. Because of its attractiveness to tourists before the pandemic, the hotel market has been booming lately and attracting investor demand as well.

*Eurostat, as of 2018

BUCHAREST

In the last decade, the economy of Bucharest has developed at a steady pace, hence GDP per capita has increased by around 70%*.

Today, together with Ilfov County, the city contributes approx. 25% to the country's annual GDP. Industry sectors such as IT&C, construction and services are among the strongest drivers of the economic growth of the city.

Despite the slow pace of infrastructure development at the country level, Bucharest is witnessing infrastructure upgrades in established business areas, such as enlargement of Fabrica de Glucoza in the north and the partial completion of Ciurel Bridge in the west, to name a few. The recent completion of the new metro line M5 that connects western neighbourhoods with the city centre is expected to bring another boost to the western part of Bucharest. A local company, One Properties, has already started to develop a large mixed-use scheme, with the recently completed nearby metro station incorporated in the master plan of One Cotroceni Park.

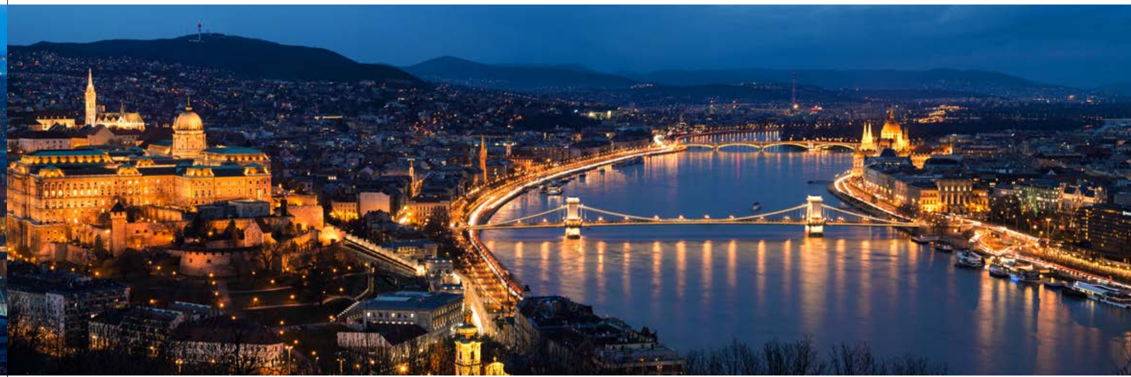
After 30 years of development of the modern real estate market in Bucharest, the city is finally emerging in the Center South or East Corridor through the redevelopment of Tineretului neighbourhood by Forte Partners, and Estoria City in the east along the A2 towards the Black Sea Coast.

Bucharest has proven again that it has remained in the forefront of investors' radar. Significant investment transactions were completed in 2020 in the capital city with investors definitely preferring office assets.

*Eurostat, as of 2018

BUDAPEST

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



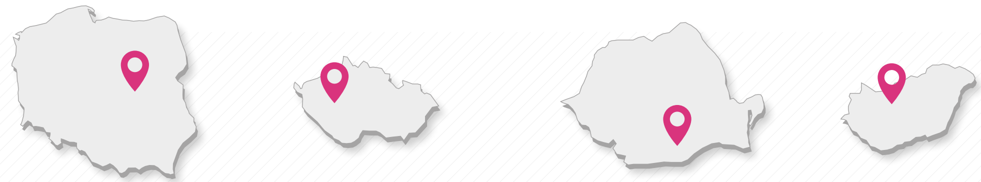
All economic indicators of the capital city are above the country average. Excellent infrastructure, a well-qualified labour force, well-established property market and stable financial background make the city more and more attractive for investors and for corporates. Many international companies are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

The capital of Hungary is also one of the most popular tourist destinations in Europe, famous for its baths, and cultural and historical attractions. The Hungarian capital ranked 1st among European Best Destinations in 2019 and 6th on The Economist's list of the most liveable cities in Europe.

Budapest's infrastructure and transportation system are both excellent by regional standards. Four metro lines, a public bike-sharing system, and a large number of tram and bus routes serve residents and visitors alike.

The Budapest motorways are also highly developed, and the M0 ring road, whose final section was recently approved, allows through-traffic to bypass the city. The capitals of neighbouring countries are easily accessed from Budapest via the motorway, while Budapest Liszt Ferenc International Airport offers a convenient link to international air traffic. The airport witnessed a record number of air passengers in 2018 and 2019, prompting the expansion project that is currently underway.

The Budapest property market is well-established and boasts long-standing traditions, with modern schemes developing as early as the beginning of the 1990s. Property options in Budapest are extensive and include versatile opportunities in every price range.



	WARSAW	PRAGUE	BUCHAREST	BUDAPEST	SOURCE
DEMOGRAPHY					
Population	1.8m	1.3m	2.1m	1.7m	2020, local statistical offices
Population agglomeration	2.6m	2.6m	2.5m	2.5m	2020, local statistical offices
LABOUR MARKET					
Average gross salary in enterprise sector (€)	1,465	1,785	1,461	1,360	Local statistical offices
Unemployment rate (December 2019)	1.30%	1.90%	1.30%	2.90%	Local statistical offices
Unemployment rate (September 2020)	1.80%	3.40%	1.30%	3.90%	Local statistical offices
HIGHER EDUCATION					
Number of higher education institutions	71	25	32	36	local statistical offices
Number of students	219,559	123,358	175,231	106,500	local statistical offices
LOCAL ECONOMY					
GDP per capita in the city (€)	28,500*	41,200	24,200*	27,900	2018, Eurostat; *urban agglomerations (Warszawski Stołeczny, Bucuresti-Ilfov)
GDP per capita in the city (€) - in Purchasing Power Standards	47.900*	59,100	46,800*	44,600	2018, Eurostat; *urban agglomerations (Warszawski Stołeczny, Bucuresti-Ilfov)
GDP per capita - 5Y growth	+25%	+32%	+42%	+28%	2018, Eurostat
TOURISM					
Number of Airport passangers (2019)	22m	17.8m	14.7m	16.1m	2019, Eurostat
Number of hotels	98	542	132	135	2020, local statistical offices
Share of 4- ,5-stars hotels	34%	51%	48%	43%	2020, local statistical offices

	WARSAW	PRAGUE	BUCHAREST	BUDAPEST	SOURCE
SELECTED MAJOR INTERNATIONAL COMPANIES					
	Accenture, Aviva, AXA, BNP Paribas, Citibank, Coca-Cola, Colgate-Palmolive, Deloitte, Electrolux, EY, Goldman Sachs, Google, HSBC, JP Morgan, KPMG, Microsoft, Orange, Procter & Gamble, PwC, Samsung, Siemens, UniCredit, Whirlpool	Avast, IBM, Dell, Johnson & Johnson, Ernst & Young, Deloitte, PwC, Oracle, O2, Amazon, Microsoft, Accenture; Bosch Group, CEZ, ČEPRO, Foxconn, Innogy, MOL ČR, Škoda Auto, Siemens, SAP	Amazon, Coca Cola, Kaufland, Microsoft, OMVPetrom, Oracle, HP, BCR Erste, Unicredit Bank, PwC, Renault Romania, Ford Romania, Pepsico, Samsung, Huawei, Orange, Vodafone, IBM, Lidl	British Telecom, British Petrol, BOSCH, BlackRock, AVIS Group, Givaudan, HP, IBM, Microsoft, Morgan Stanley, Nokia, Roche, Emirates, MSCI, SAP, Vodafone, Thyssenkrupp	

REAL ESTATE SECTOR (Q3 2020)

	WARSAW	PRAGUE	BUCHAREST	BUDAPEST	SOURCE
OFFICE					
Stock existing	5,822,500	3,802,500	3,640,000	3,857,000	BNP Paribas RE
Stock under construction	637,500	208,000	370,000	466,000	BNP Paribas RE
Prime rents (€/sqm/month)	24	22.50-23.00	19	25	BNP Paribas RE
Prime yields	4.50%-4.60%	4.50%	7.00%	5.75%	BNP Paribas RE
RETAIL					
Stock existing	2,100,000	1,117,000	1,215,000	977,000	BNP Paribas RE
Stock under construction	30,000	17,000	39,500	55,000	BNP Paribas RE
Prime rents (€/sqm/month)	SC: 110 - 130; HS: 75-80	SC: 130-155; HS: 205-210	SC: 50-80 HS: 35-60	SC: 80-90; HS: 110-120	BNP Paribas RE
Prime yields	SC: 4.75%; HS: 4.50%	SC: 5.25%; HS:4.25%	SC: 7.00%	SC: 6.00%	BNP Paribas RE
INDUSTRIAL					
Stock existing	4,814,500	3,223,000	2,200,000	2,351,000	BNP Paribas RE
Stock under construction	322,000	41,000	160,000	228,000	BNP Paribas RE
Prime rents - headline (€/sqm/month)	3.60-5.25	4.10 - 4.90	3.80-3.90	4.80	BNP Paribas RE
Prime yields - traditional warehouse	5.50%-5.75%	5.00%	8.00%	7.25%	BNP Paribas RE

CEE-4 COUNTRIES - KEY FACTORS & MARKET PRACTICE

			POLAND	ROMANIA	CZECH REPUBLIC	HUNGARY
LETTING	Standard lease terms	Office	5 yrs (3 yrs early renewal)	5 yrs	5-7 yrs	5 yrs
		Retail SC	3-10 yrs	5-7 yrs	5-7 yrs	5-10 yrs
		Retail HS	3-10 yrs	3-5 yrs	3-5 yrs	5 yrs
		Warehouse	3-10 yrs	5 yrs	5-10 yrs	5-7 yrs
	Agent fees	Office	21% (early renewals) – 29% (new leases)	16.66-25.00%	15.00%-21.00%	15.00%
		Retail SC	8.33-14.00%[1]	16.66-25.00%	15.00%	12.50-15%
		Retail HS	12.00-25.00%[1]	12.50-16.66%	15.00%	15-18%
		Warehouse	16.66-25.00%	16.66-25.00%	15.00%	12-18%
INVESTMENT	Prime asset values (per sqm)	Office	€5,200-6,700	€2,350-2,800	€4,000-6,500	€3,000-3,500
		Retail	€5,500-6,700	€3,500-4,000	€6,000-8,000	€2,750-4,000
		Warehouse	€750-1,100	€400-500	€800-1,000	€750-850
	Stamp duty (Asset / shares)		2%/1%/0%[2]	0%	4%	4% and 2%[4]
	Bank margins		1.25%-2.75%	3.50-4.00%	2.00-2.20%	2.50-4.00%
	LTV ratio		50-70%	55-60%	60-70%	50%
	Standard sale fees		0.3-1.5%	1.0-2.0%	0.15-1.00%	0.5-2.0%
CONSTRUCTION	Construction costs (per sqm) (3)	Office	€1,500-2,000	€800-950	€1,300-1,800	€1,500 - 1,800
		Retail	€1,600-2,000	€900-1,150	€1,100-1,800	€1,500 - 2,000
		Warehouse	€350-400	€350-450	€385-605	€ 450 - 550
	Bank margins		3.00%	3.25-4.25%	2.20-2.50%	2.50% - 4.00%
	LTC ratio		50-70%	55-60%	60-80%	50%

Notes: (1) 5-y leases; (2) Asset deal subject to VAT; (3) For modern schemes; (4) 4% up to 1 billion HUF per properties, 2% over 1 bn ut maximum 200 million HUF/properties;

HOW R U CEE?

LABOUR MARKET IN CEE-4

HAYS
Recruiting experts worldwide

ROMANIA

> Covid-19 disruption obviously affected all the sectors and functions, but the most prosperous for sure is IT with upsurge in demand for infrastructure, software development, cybersecurity, data roles – due to rapid lockdown and continuing trend on digitalization everywhere.

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Shared Services Centers and Business Process Outsourcing sectors, for which Romania is also well known, have slowed down their development (especially BPOs who in turn depend on their external clients) – but niche skillsets especially combined with rare languages are still in demand.

Recent developments have largely increased candidates' interest in job and employer sustainability, salary expectations on increase (if any) overall have become more moderate with significant pay raises still requested in candidate-driven technical areas, such as IT or engineering. The information technology sector is trying 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 in Romania.

ROMANIAN LABOUR MARKET	
Unemployment rate*	**3.9%**
Long-term unemployment rate*	**1.7%**
At least upper secondary educational attainment (age group 25-64)*	**79.0%**
Average weekly hours of work*	**39.8**
Temporary employees as % of total number of employees*	**1.4%**
Job vacancy rate (Q3 2020)	**0.8**

Source Eurostat | *Figures for 2019

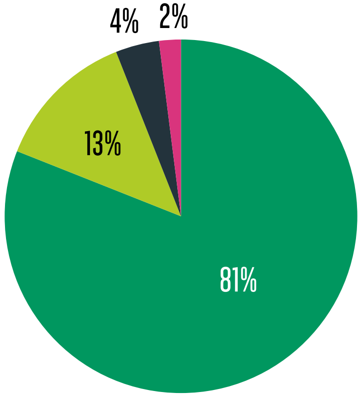
KEY SKILLS IN DEMAND

- Technical
- IT/ digital
- Managerial
- Operational
- Sales

ARE YOU CURRENTLY OPEN FOR NEW WORK OPPORTUNITIES?

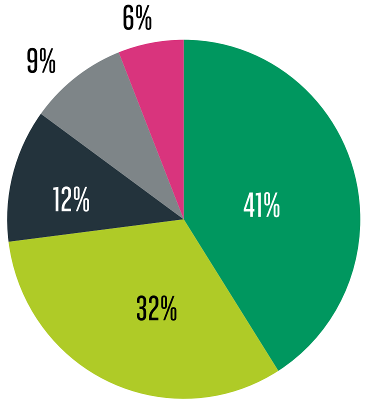
CANDIDATES' PERSPECTIVE

DEFINITELY YES
RATHER YES
RATHER NOT
DEFINITELY NOT



IN THE FACE OF AN ATTRACTIVE JOB OFFER WOULD YOU BE WILLING TO RELOCATE TO ANOTHER CITY OR REGION WITHIN THE COUNTRY?

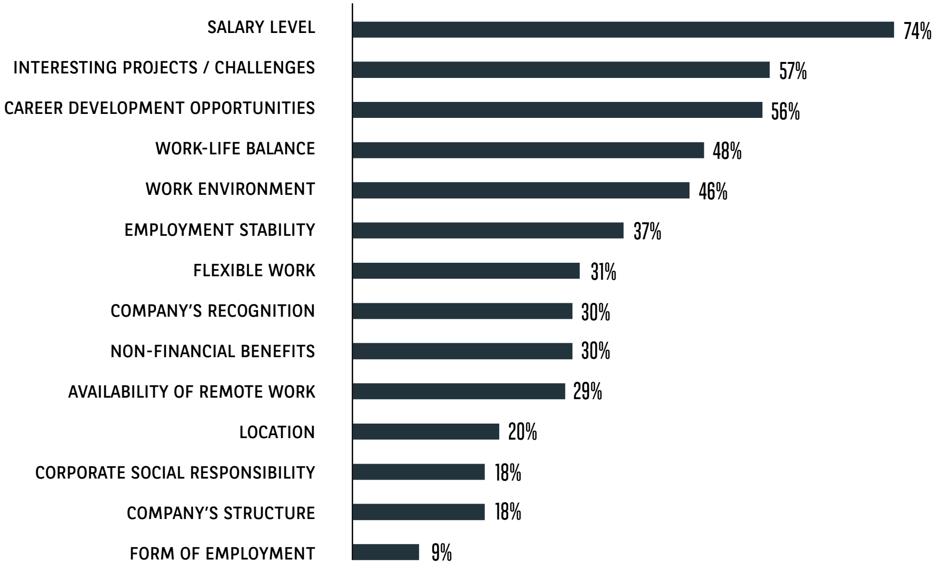
CANDIDATES' PERSPECTIVE



DEFINITELY YES
RATHER YES
RATHER NOT
HARD TO SAY
DEFINITELY NOT

WHAT FACTORS ARE MOST IMPORTANT TO YOU WHILE CHANGING A JOB?*

CANDIDATES' PERSPECTIVE



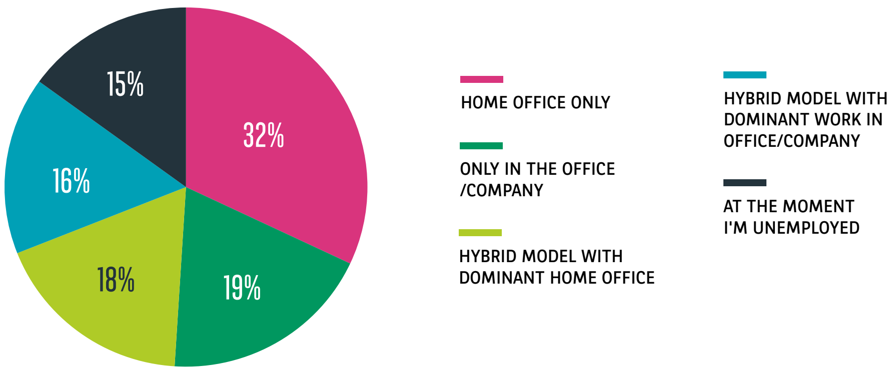
*It was possible to give more than one answer

WHAT ARE YOUR FEELINGS ABOUT WORKING IN HOME OFFICE/HYBRID MODEL?* CANDIDATES' PERSPECTIVE

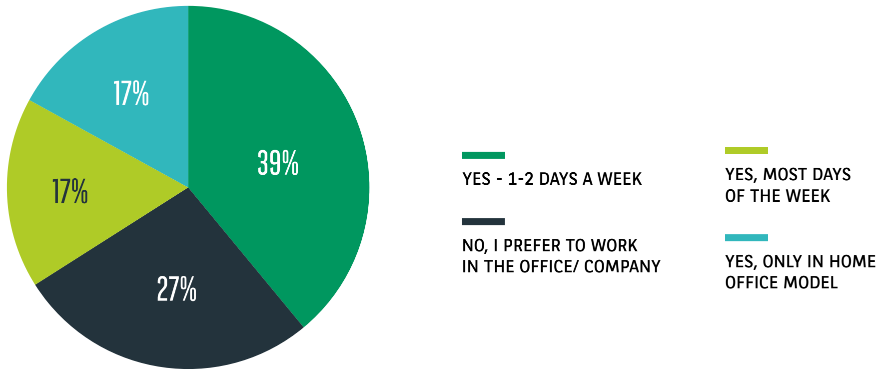
I feel safer while working from home	**53%**
Office is not providing the security needed under current conditions	**13%**
I work more effectively in home office/ hybrid model	**43%**
I work less effectively in home office/ hybrid model	**27%**
I save a lot of time on commuting to/ from work	**57%**
I spend more time working	**47%**
I spend less time working, while performing the same duties	**3%**
It's easier for me to maintain work-life balance	**27%**
It's harder for me to maintain work-life balance	**13%**
Working from home is not a problem for me - I have access to all the necessary equipment	**40%**
Working from home is associated with difficulties - lack of equipment available in the office	**10%**
Communication is effective within our team	**23%**
Exchange of information between team members is less effective	**23%**
I miss daily interactions with team members	**33%**

*Only respondents who work remotely. It was possible to give more than one answer

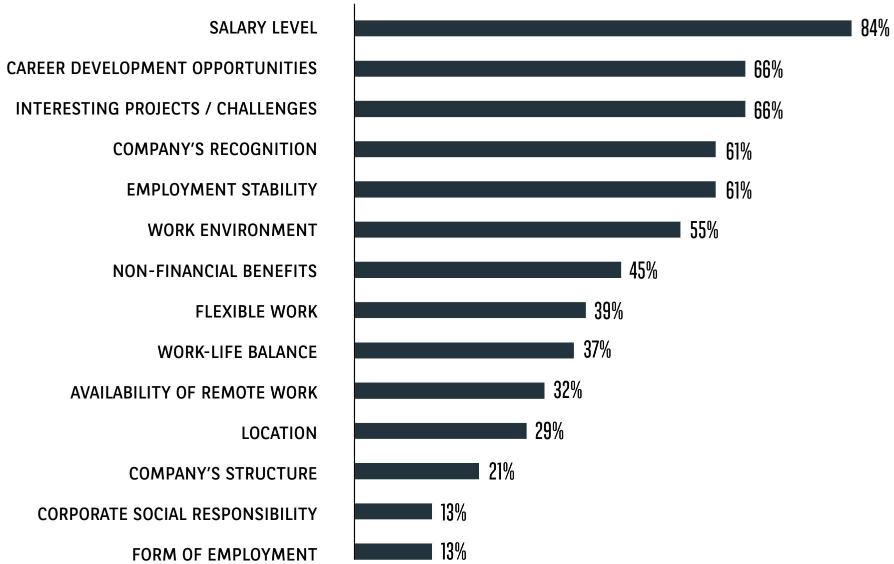
HOW ARE YOU CURRENTLY WORKING?
CANDIDATES' PERSPECTIVE



WOULD YOU LIKE TO CONTINUE WORKING IN THE HOME OFFICE MODEL WHEN THE PANDEMIC ENDS?
CANDIDATES' PERSPECTIVE

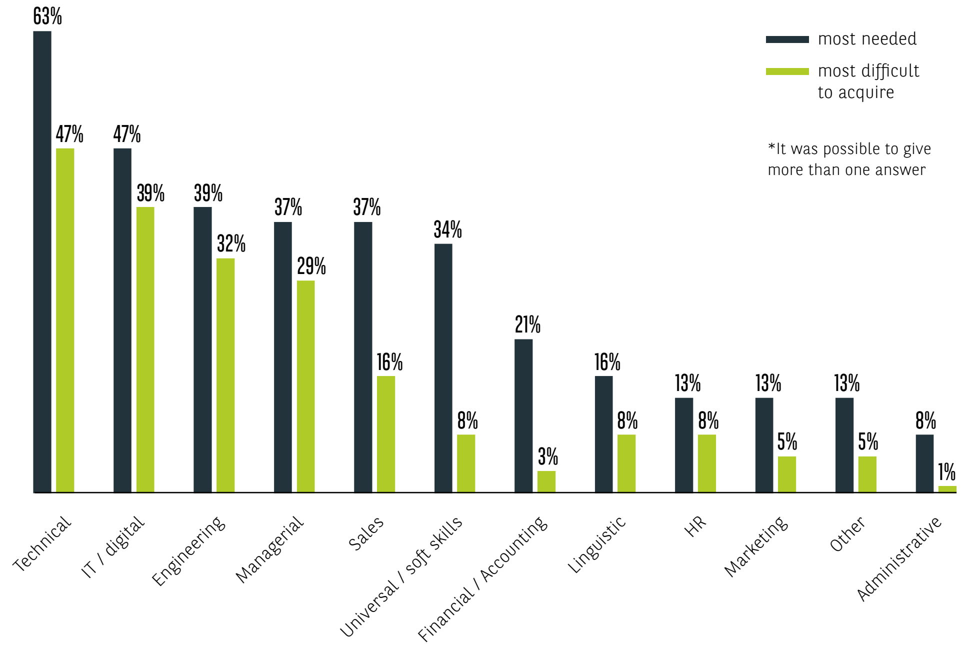


WHICH FACTORS HELP THE COMPANY TO ATTRACT EMPLOYEES THE MOST?*
EMPLOYERS' PERSPECTIVE



*It was possible to give more than one answer

WHICH SKILLS ARE MOST NEEDED IN THE COMPANY?*
EMPLOYERS' PERSPECTIVE



WHICH ASPECTS ARE THE MOST PROBLEMATIC FROM THE POINT OF VIEW OF AN EMPLOYER IN THE ROMANIAN LABOUR MARKET?*

EMPLOYERS' PERSPECTIVE

Match between education system and employers' needs	63%
Labour market structure	26%
Dynamics of changes occurring within labour market	37%
Regulatory flexibility	18%
Availability of skills needed by employers	53%
General wage pressure	55%
Labour costs	29%
Demographic trends	8%
Net migration rate	11%

*It was possible to give more than one answer

IN WHICH MODEL IS YOUR COMPANY CURRENTLY WORKING?

EMPLOYERS' PERSPECTIVE

Home office for all employees	21%
Home office for people who can work in this model, in case of all other employees, work in the office/ company is limited to minimum	34%
Hybrid model according to the rules established by the company	34%
Hybrid model without established rules, each employee decides about the model of work they are going to use	8%
All employees work in the office/ company	3%

WHAT ARE YOUR HOME OFFICE EXPERIENCES?*

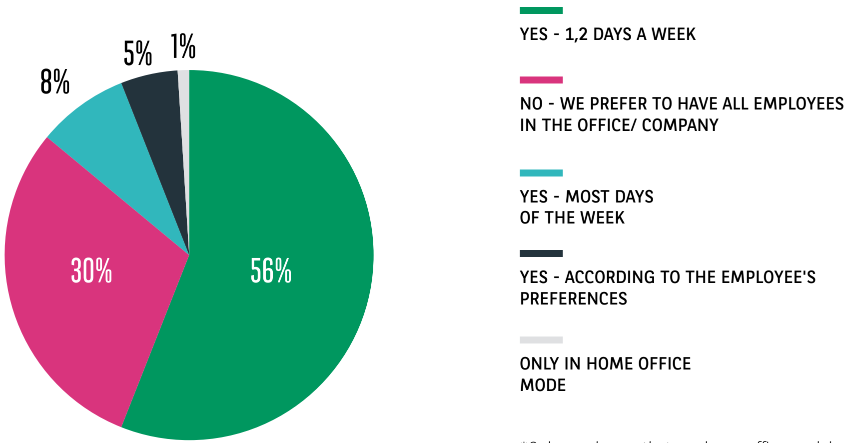
EMPLOYERS' PERSPECTIVE

	Increased	No change	Decreased
Efficiency	41%	43%	16%
Communication	24%	35%	41%
Work evaluation opportunities	8%	62%	30%
Creativity	41%	49%	10%

*Only employers that use home office model

DOES YOUR COMPANY INTEND TO CONTINUE WORKING IN THE HOME OFFICE MODEL AFTER THE PANDEMIC?*

EMPLOYERS' PERSPECTIVE



*Only employers that use home office model

HUNGARY

At the beginning of 2020, a strong economic growth was predicted by various forecasts, that could have resulted in a rise of the employment rate but Covid-19 and the lockdown has changed everything.

TAMMY NAGY-STELLINI

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In the first wave many people lost their job especially in the leisure and tourism sector. During this pandemic working from home has become widely accepted. Around 22% of the labour market in Hungary changed to home office and this percentage was even higher in the capital city, Budapest. To put this into context, in early-2018, when Hungarian Central Statistical Office made its first (and so far last) report about home office, only 3.7% of the total workforce were working from home.

The biggest difference compared to the 2008 crisis is that our clients have not stopped all their projects completely, although many of them have been suspended temporarily, due to uncertainty. What we can see during the second wave is that despite uncertainty things continue to move at a fast pace and many of our clients continue to hire. New companies still continue looking at the possibility of investing in Hungary. Most of our new projects come from the IT sector. There is also an increase of interest in Hungary as a potential destination to relocate jobs from Western Europe. Since the pandemic has an effect on all countries, companies are trying to identify the opportunities to save costs while keeping the same quality of work.

Although the candidates were hesitating to change workplace during the first wave, the majority of the people already adapted to the changed circumstances and are less reluctant to accept new career opportunities.

HUNGARIAN LABOUR MARKET

Unemployment rate*	3.4%
Long-term unemployment rate*	1.1%
At least upper secondary educational attainment (age group 25-64)*	92.6%
Average weekly hours of work*	39.3
Temporary employees as % of total number of employees*	6.6%
Job vacancy rate (Q3 2020)	2.1

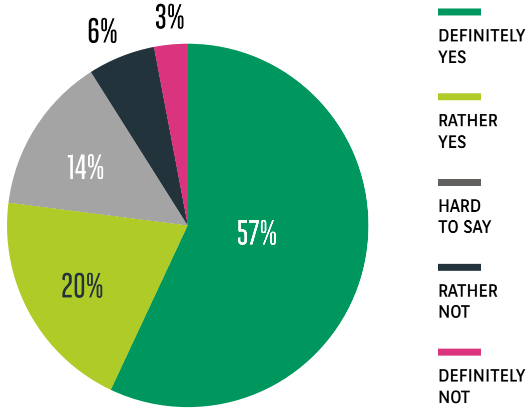
Source Eurostat | *Figures for 2019

KEY SKILLS IN DEMAND

- Language skills (other than English)
- Analytical
- Adaptability
- People management
- Data science

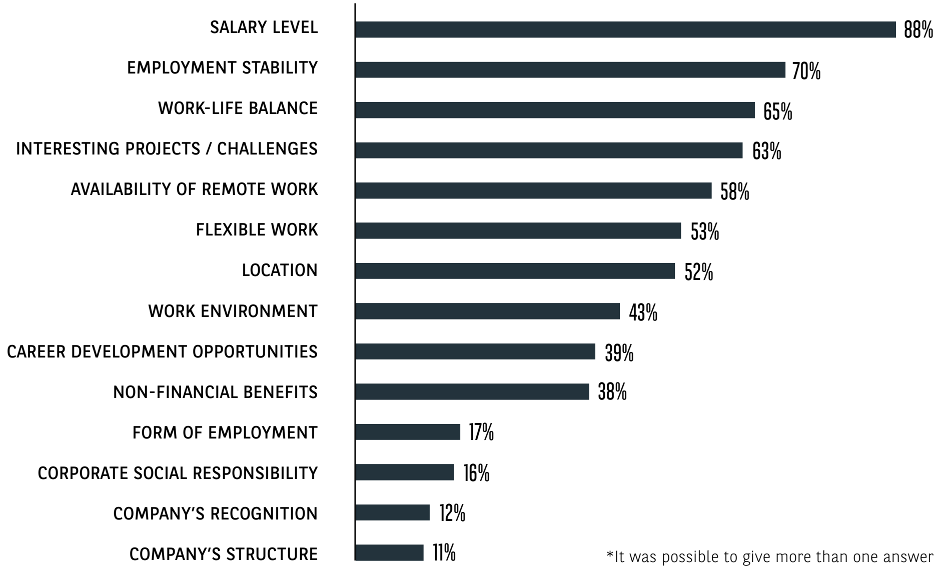
ARE YOU CURRENTLY OPEN FOR NEW WORK OPPORTUNITIES??

CANDIDATES' PERSPECTIVE



WHAT FACTORS ARE MOST IMPORTANT TO YOU WHILE CHANGING A JOB?*

CANDIDATES' PERSPECTIVE



*It was possible to give more than one answer

HOW ARE YOU CURRENTLY WORKING?
CANDIDATES' PERSPECTIVE

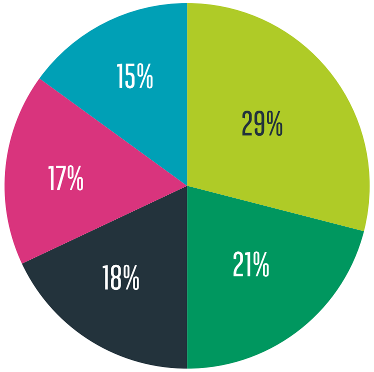
HOME OFFICE ONLY

ONLY IN THE OFFICE /COMPANY

HYBRID MODEL WITH DOMINANT HOME OFFICE

HYBRID MODEL WITH DOMINANT WORK IN OFFICE/COMPANY

AT THE MOMENT I'M UNEMPLOYED



WHAT ARE YOUR FEELINGS ABOUT WORKING IN HOME OFFICE/HYBRID MODEL?* CANDIDATES' PERSPECTIVE

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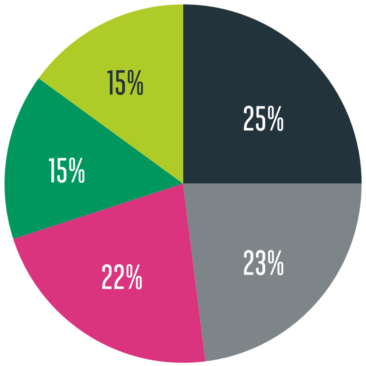
Office is not providing the security needed under current conditions	15%
I work more effectively in home office/ hybrid model	59%
I work less effectively in home office/ hybrid model	20%
I save a lot of time on commuting to/ from work	38%
I spend more time working	35%
I spend less time working, while performing the same duties	18%
It's easier for me to maintain work-life balance	49%
It's harder for me to maintain work-life balance	20%
Working from home is not a problem for me - I have access to all the necessary equipment	67%
Working from home is associated with difficulties - lack of equipment available in the office	11%
Communication is effective within our team	47%
Exchange of information between team members is less effective	23%
I miss daily interactions with team members	41%

*Only respondents who work remotely. It was possible to give more than one answer

IN THE FACE OF AN ATTRACTIVE JOB OFFER WOULD YOU BE WILLING TO RELOCATE TO ANOTHER CITY OR REGION WITHIN THE COUNTRY?
CANDIDATES' PERSPECTIVE



DEFINITELY YES

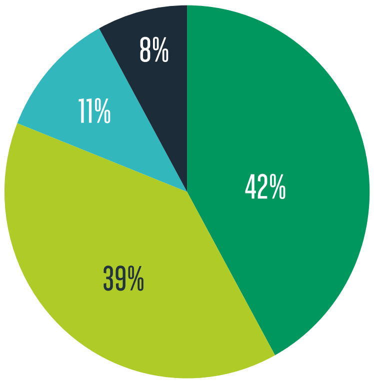
RATHER YES

RATHER NOT

HARD TO SAY

DEFINITELY NOT

WOULD YOU LIKE TO CONTINUE WORKING IN THE HOME OFFICE MODEL WHEN THE PANDEMIC ENDS? CANDIDATES' PERSPECTIVE



YES - 1-2 DAYS A WEEK

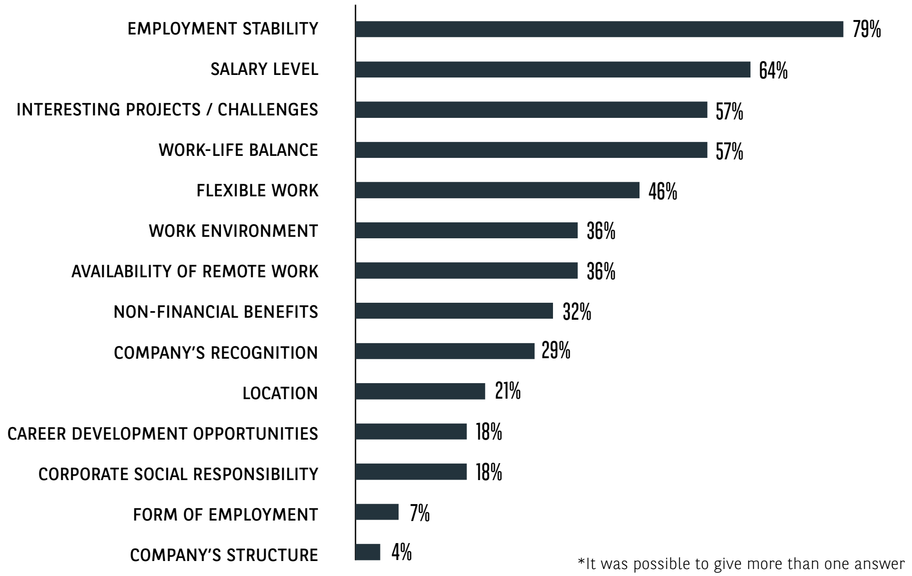
NO, I PREFER TO WORK IN THE OFFICE/ COMPANY

YES, MOST DAYS OF THE WEEK

YES, ONLY IN HOME OFFICE MODEL

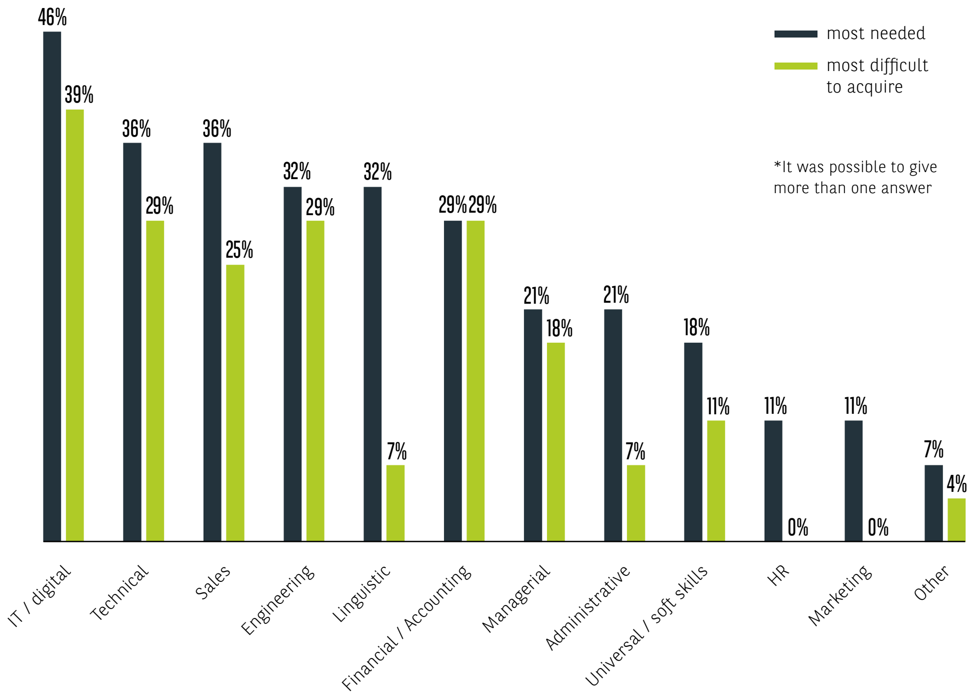
WHICH FACTORS HELP THE COMPANY TO ATTRACT EMPLOYEES THE MOST?*

EMPLOYERS' PERSPECTIVE



WHICH SKILLS ARE MOST NEEDED IN THE COMPANY?*

EMPLOYERS' PERSPECTIVE



WHICH ASPECTS ARE THE MOST PROBLEMATIC FROM THE POINT OF VIEW OF AN EMPLOYER IN THE HUNGARIAN LABOUR MARKET?*

EMPLOYERS' PERSPECTIVE

Match between education system and employers' needs	14%
Labour market structure	29%
Dynamics of changes occurring within labour market	50%
Regulatory flexibility	18%
Availability of skills needed by employers	50%
General wage pressure	54%
Labour costs	50%
Demographic trends	4%
Net migration rate	32%

*It was possible to give more than one answer

IN WHICH MODEL IS YOUR COMPANY CURRENTLY WORKING?

EMPLOYERS' PERSPECTIVE

Home office for all employees	11%
Home office for people who can work in this model, in case of all other employees, work in the office/ company is limited to minimum	21%
Hybrid model according to the rules established by the company	36%
Hybrid model without established rules, each employee decides about the model of work they are going to use	14%
All employees work in the office/ company	18%

WHAT ARE YOUR HOME OFFICE EXPERIENCES?*

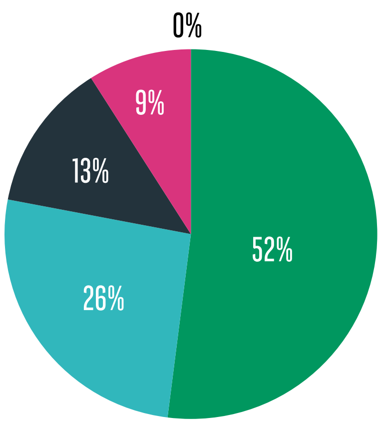
EMPLOYERS' PERSPECTIVE

	Increased	No change	Decreased
Efficiency	35%	52%	13%
Communication	13%	57%	30%
Work evaluation opportunities	4%	74%	22%
Creativity	17%	70%	13%

*Only employers that use home office model

DOES YOUR COMPANY INTEND TO CONTINUE WORKING IN THE HOME OFFICE MODEL AFTER THE PANDEMIC?*

EMPLOYERS' PERSPECTIVE



YES - 1,2 DAYS A WEEK

NO - WE PREFER TO HAVE ALL EMPLOYEES IN THE OFFICE/ COMPANY

YES - MOST DAYS OF THE WEEK

YES - ACCORDING TO THE EMPLOYEE'S PREFERENCES

ONLY IN HOME OFFICE MODE

*Only employers that use home office model

CZECH REPUBLIC

The impact of Covid-19 pandemic on the Czech republic's labour market and economy has been enormous, especially in particular business areas, such as retail, hospitality or manufacturing industry.

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Managing Director, Hays Czech Republic

Praque

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Restrictions on travel and the impossibility of predicting further developments caused a significant decrease in incoming investments in these sectors. Digital marketing and e-commerce experts are now leading the charts in terms of demand for qualified workforce.

Also, more business opportunities were coming on the IT market, along with high demand for technologies supporting remote working and increased emphasis on cyber security. Sectors such as FMCG, e-commerce, internal logistics, construction or Life Sciences – both medical devices and pharma companies – have experienced less negative impact on their business results, but still remained cautious, not increasing their existing teams significantly. The wages in 2020 mostly stagnated across all specialisms however there has been remarkable increases for professions where niche skills are required.

CZECH LABOUR MARKET

Unemployment rate*	2.0%
Long-term unemployment rate*	0.6%
At least upper secondary educational attainment (age group 25-64)*	93.8%
Average weekly hours of work*	39.9
Temporary employees as % of total number of employees*	7.8%
Job vacancy rate (Q3 2020)	5.3

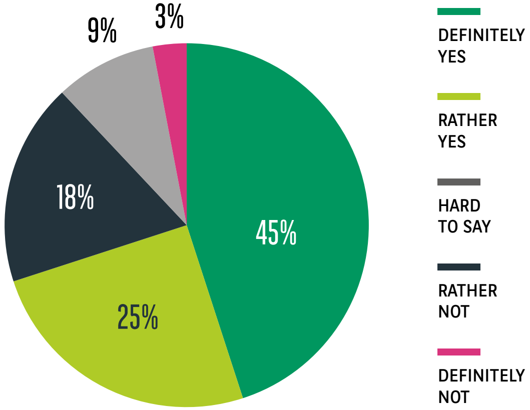
Source Eurostat | *Figures for 2019

KEY SKILLS IN DEMAND

- English language skills
- IT development
- Technical sales
- Analytical
- Online marketing

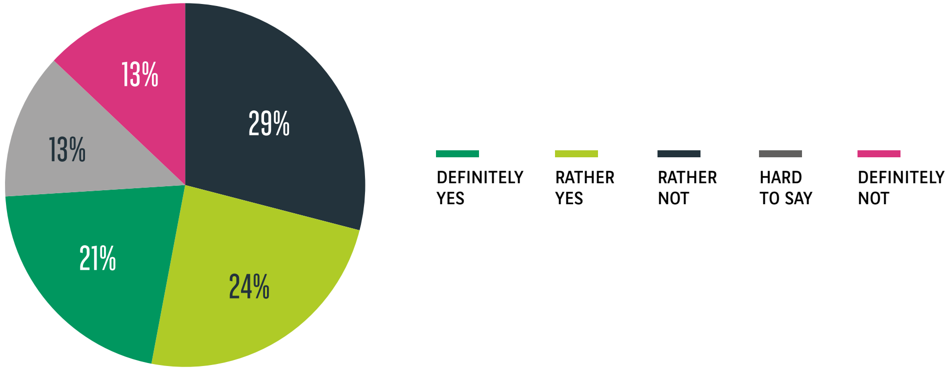
ARE YOU CURRENTLY OPEN FOR NEW WORK OPPORTUNITIES??

CANDIDATES' PERSPECTIVE



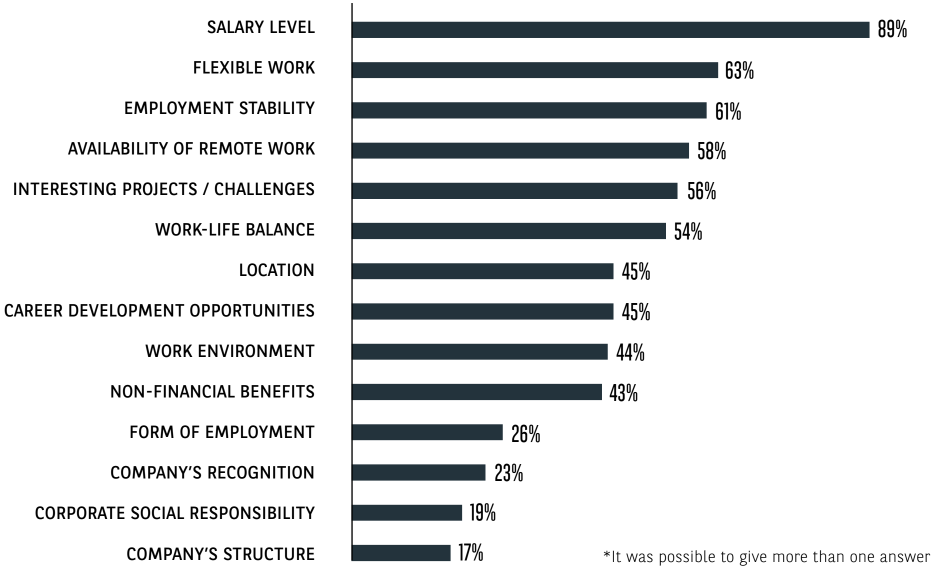
IN THE FACE OF AN ATTRACTIVE JOB OFFER WOULD YOU BE WILLING TO RELOCATE TO ANOTHER CITY OR REGION WITHIN THE COUNTRY?

CANDIDATES' PERSPECTIVE



WHAT FACTORS ARE MOST IMPORTANT TO YOU WHILE CHANGING A JOB?*

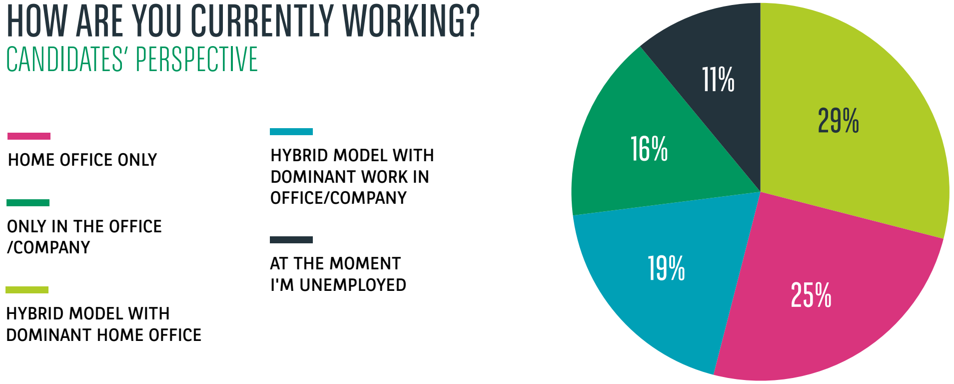
CANDIDATES' PERSPECTIVE



*It was possible to give more than one answer

HOW ARE YOU CURRENTLY WORKING?

CANDIDATES' PERSPECTIVE

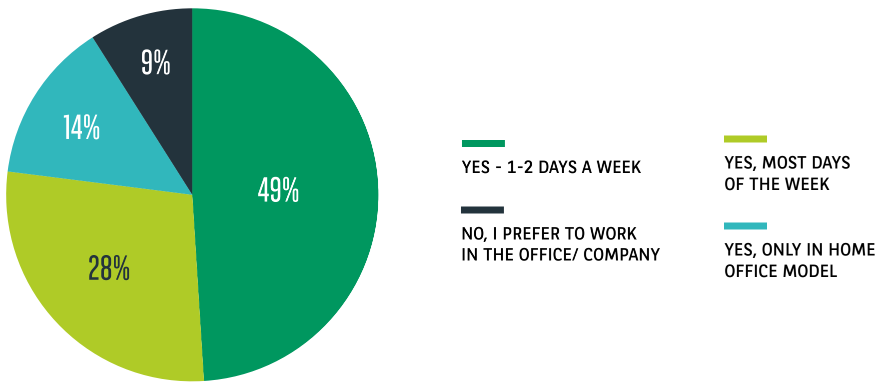


WHAT ARE YOUR FEELINGS ABOUT WORKING IN HOME OFFICE/HYBRID MODEL?* CANDIDATES' PERSPECTIVE

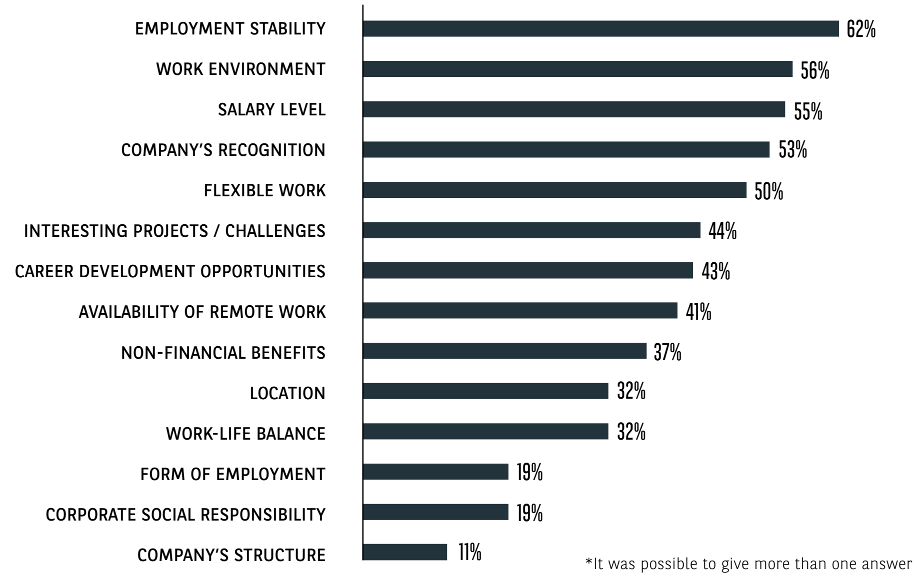
I feel safer while working from home	23%
Office is not providing the security needed under current conditions	8%
I work more effectively in home office/ hybrid model	45%
I work less effectively in home office/ hybrid model	9%
I save a lot of time on commuting to/ from work	77%
I spend more time working	37%
I spend less time working, while performing the same duties	15%
It's easier for me to maintain work-life balance	55%
It's harder for me to maintain work-life balance	11%
Working from home is not a problem for me - I have access to all the necessary equipment	58%
Working from home is associated with difficulties - lack of equipment available in the office	18%
Communication is effective within our team	38%
Exchange of information between team members is less effective	23%
I miss daily interactions with team members	38%

*Only respondents who work remotely. It was possible to give more than one answer

WOULD YOU LIKE TO CONTINUE WORKING IN THE HOME OFFICE MODEL WHEN THE PANDEMIC ENDS? CANDIDATES' PERSPECTIVE



WHICH FACTORS HELP THE COMPANY TO ATTRACT EMPLOYEES THE MOST?* EMPLOYERS' PERSPECTIVE



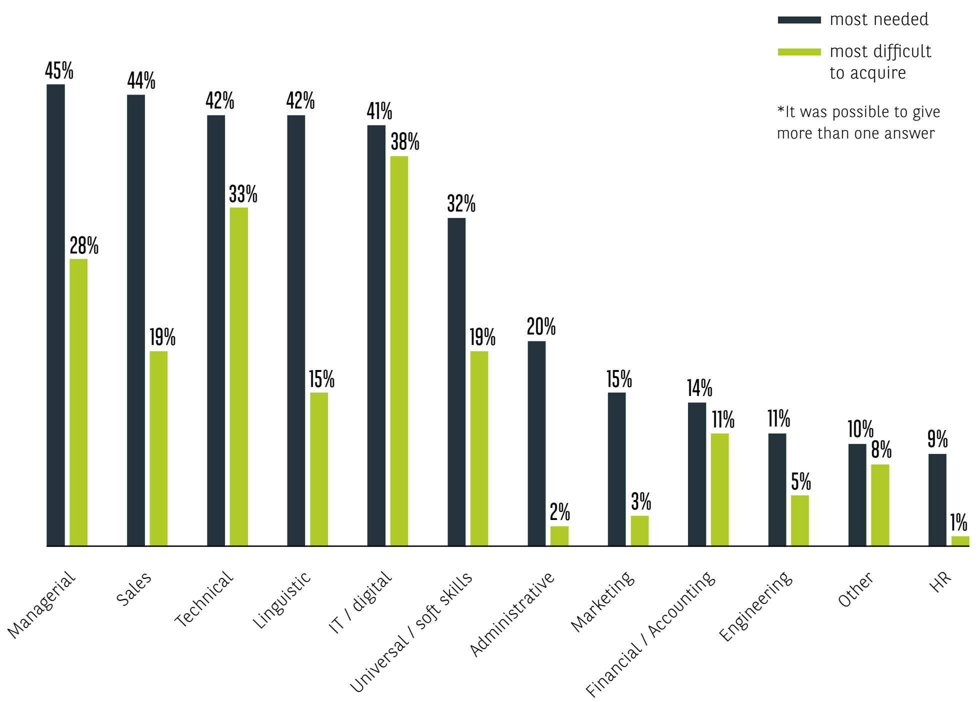
*It was possible to give more than one answer

WHICH ASPECTS ARE THE MOST PROBLEMATIC FROM THE POINT OF VIEW OF AN EMPLOYER IN THE CZECH LABOUR MARKET?* EMPLOYERS' PERSPECTIVE

Match between education system and employers' needs	38%
Labour market structure	40%
Dynamics of changes occurring within labour market	20%
Regulatory flexibility	25%
Availability of skills needed by employers	68%
General wage pressure	62%
Labour costs	33%
Demographic trends	10%
Net migration rate	4%

*It was possible to give more than one answer

WHICH SKILLS ARE MOST NEEDED IN THE COMPANY?*
EMPLOYERS' PERSPECTIVE



IN WHICH MODEL IS YOUR COMPANY CURRENTLY WORKING?
EMPLOYERS' PERSPECTIVE

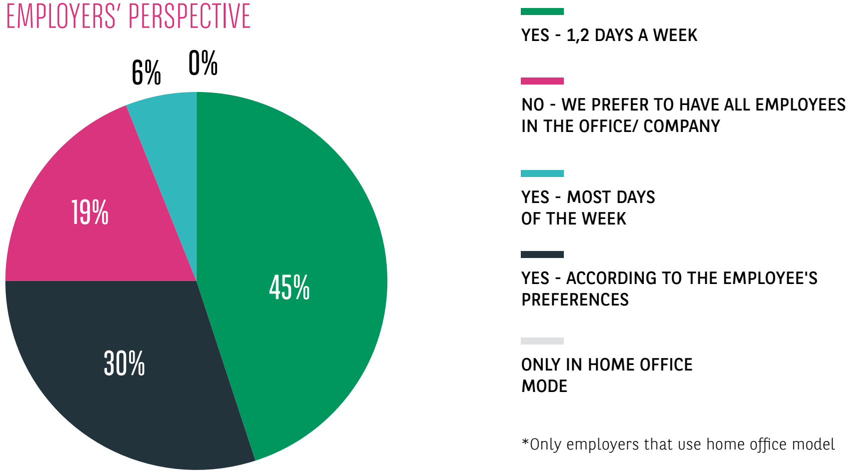
Home office for all employees	14%
Home office for people who can work in this model, in case of all other employees, work in the office/ company is limited to minimum	57%
Hybrid model according to the rules established by the company	17%
Hybrid model without established rules, each employee decides about the model of work they are going to use	9%
All employees work in the office/ company	3%

WHAT ARE YOUR HOME OFFICE EXPERIENCES?*
EMPLOYERS' PERSPECTIVE

	Increased	No change	Decreased
Efficiency	26%	52%	22%
Communication	11%	48%	41%
Work evaluation opportunities	4%	60%	36%
Creativity	28%	57%	15%

*Only employers that use home office model

DOES YOUR COMPANY INTEND TO CONTINUE WORKING IN THE HOME OFFICE MODEL AFTER THE PANDEMIC?*
EMPLOYERS' PERSPECTIVE



*Only employers that use home office model

POLAND

> In the face of so much uncertainty right now, companies and employees are figuring out how to be at their most effective in this new world. Many businesses will need to acquire new skills, develop new methodologies and ways of evaluating and measuring success.

MARC BURRAGE
Managing Director, Hays Poland
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+48 225845650
burrage@hays.pl

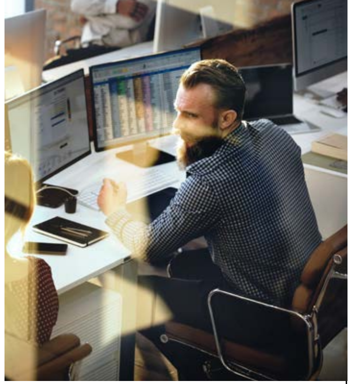
Things may be disrupted for some time and some areas will be permanently changed. As an example, it be that the flexible way of working, fast becomes the new normal, even post-Coronavirus.

Without a doubt, there will be some workers that will need to find new jobs, and often in order to do so, they will need to acquire new skills. Companies present on the Polish labour market are still competing for in-demand experts and developing employment strategies that offer good salaries and interesting career paths. Employers are also providing their current workforce with more opportunities to reskill or even change profession. It is becoming crucial for businesses to implement innovative solutions and focus on the competencies 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, along with remaining agile to adapt to whatever changes come next. Focusing on core competencies, flexibility and an appetite for learning will be key in this new era of work.

POLISH LABOUR MARKET

Unemployment rate*	3.3%
Long-term unemployment rate*	0.7%
At least upper secondary educational attainment (age group 25-64)*	92.6%
Average weekly hours of work*	40.2
Temporary employees as % of total number of employees*	21.7%
Job vacancy rate (Q3 2020)	0.7

Source Eurostat | *Figures for 2019

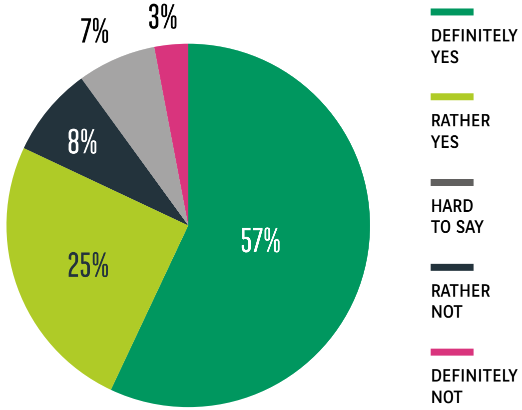


KEY SKILLS IN DEMAND

- Technical
- Managerial
- IT/ digital
- Sales
- Engineering

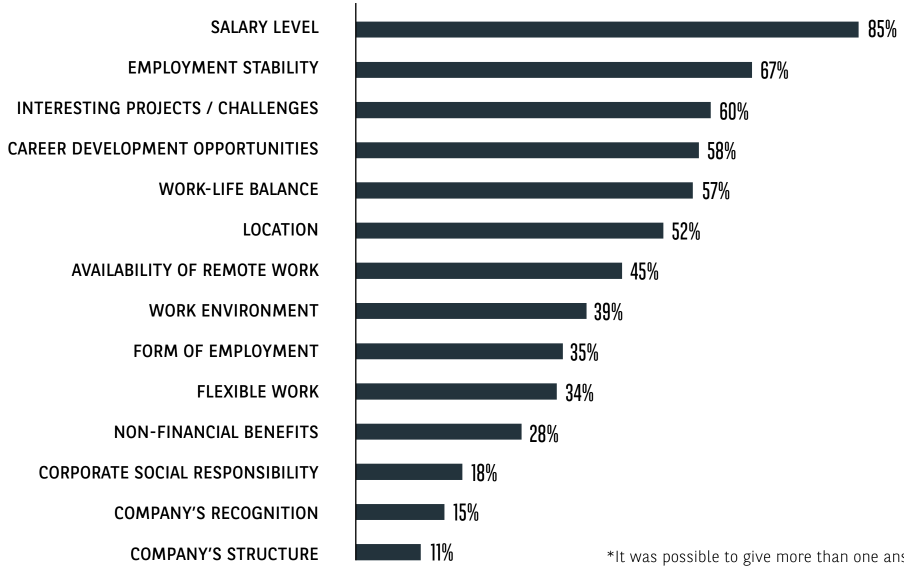
ARE YOU CURRENTLY OPEN FOR NEW WORK OPPORTUNITIES??

CANDIDATES' PERSPECTIVE



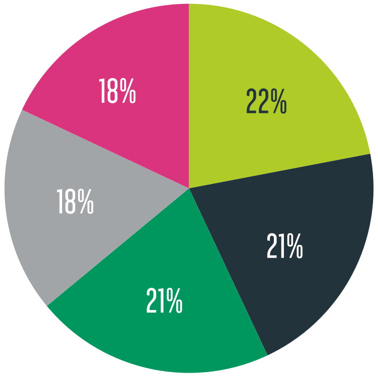
WHAT FACTORS ARE MOST IMPORTANT TO YOU WHILE CHANGING A JOB?*

CANDIDATES' PERSPECTIVE



*It was possible to give more than one answer

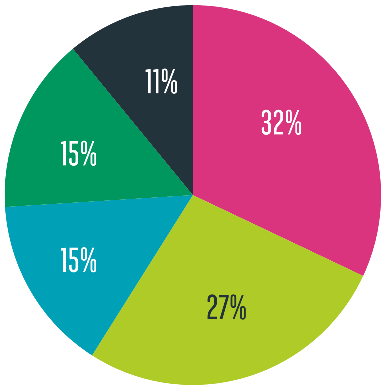
IN THE FACE OF AN ATTRACTIVE JOB OFFER WOULD YOU BE WILLING TO RELOCATE TO ANOTHER CITY OR REGION WITHIN THE COUNTRY?
CANDIDATES' PERSPECTIVE



DEFINITELY YES
RATHER YES
RATHER NOT
HARD TO SAY
DEFINITELY NOT

HOW ARE YOU CURRENTLY WORKING?
CANDIDATES' PERSPECTIVE

HOME OFFICE ONLY
ONLY IN THE OFFICE /COMPANY
HYBRID MODEL WITH DOMINANT HOME OFFICE
HYBRID MODEL WITH DOMINANT WORK IN OFFICE/COMPANY
AT THE MOMENT I'M UNEMPLOYED

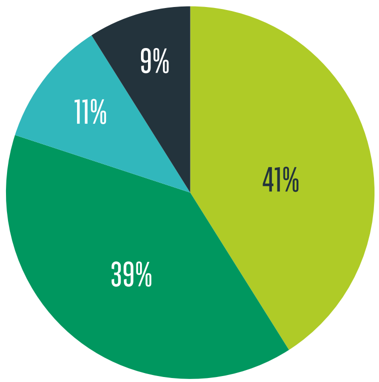


WHAT ARE YOUR FEELINGS ABOUT WORKING IN HOME OFFICE/HYBRID MODEL?* CANDIDATES' PERSPECTIVE

I feel safer while working from home	**49%**
Office is not providing the security needed under current conditions	**13%**
I work more effectively in home office/ hybrid model	**49%**
I work less effectively in home office/ hybrid model	**13%**
I save a lot of time on commuting to/ from work	**76%**
I spend more time working	**38%**
I spend less time working, while performing the same duties	**14%**
It's easier for me to maintain work-life balance	**37%**
It's harder for me to maintain work-life balance	**23%**
Working from home is not a problem for me - I have access to all the necessary equipment	**64%**
Working from home is associated with difficulties - lack of equipment available in the office	**17%**
Communication is effective within our team	**44%**
Exchange of information between team members is less effective	**21%**
I miss daily interactions with team members	**46%**

*Only respondents who work remotely. It was possible to give more than one answer

WOULD YOU LIKE TO CONTINUE WORKING IN THE HOME OFFICE MODEL WHEN THE PANDEMIC ENDS? CANDIDATES' PERSPECTIVE



YES - 1-2 DAYS A WEEK
YES, MOST DAYS OF THE WEEK
NO, I PREFER TO WORK IN THE OFFICE/ COMPANY
YES, ONLY IN HOME OFFICE MODEL

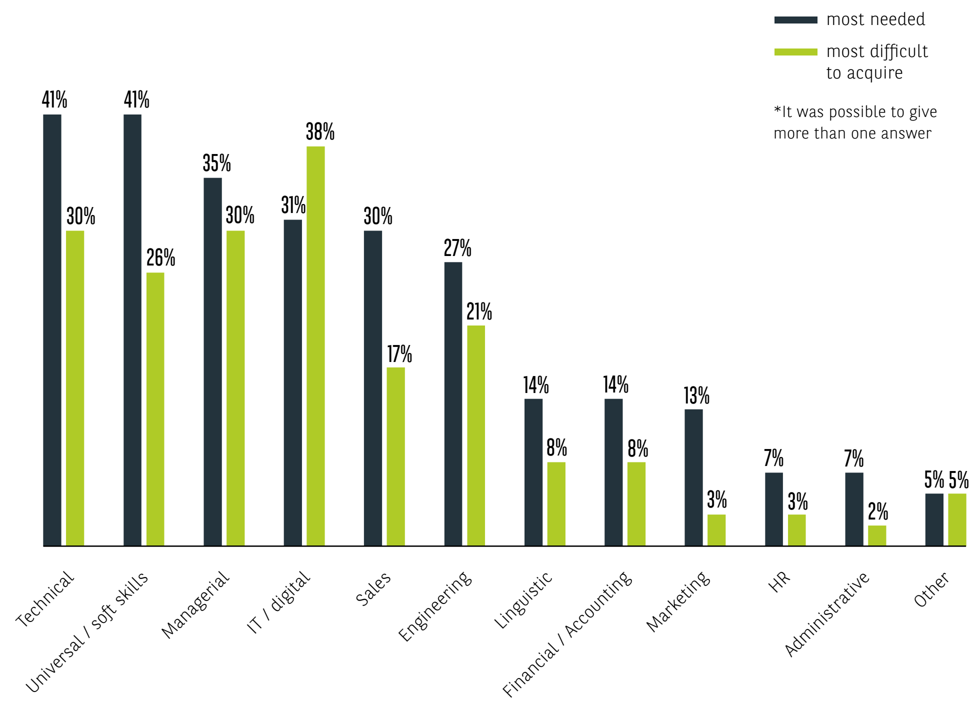
WHICH FACTORS HELP THE COMPANY TO ATTRACT EMPLOYEES THE MOST?*

EMPLOYERS' PERSPECTIVE

*It was possible to give more than one answer

WHICH SKILLS ARE MOST NEEDED IN THE COMPANY?*

EMPLOYERS' PERSPECTIVE



WHICH ASPECTS ARE THE MOST PROBLEMATIC FROM THE POINT OF VIEW OF AN EMPLOYER IN THE POLISH MARKET?*

EMPLOYERS' PERSPECTIVE

Match between education system and employers' needs	33%
Labour market structure	14%
Dynamics of changes occurring within labour market	37%
Regulatory flexibility	31%
Availability of skills needed by employers	69%
General wage pressure	56%
Labour costs	51%
Demographic trends	7%
Net migration rate	3%

*It was possible to give more than one answer

IN WHICH MODEL IS YOUR COMPANY CURRENTLY WORKING?

EMPLOYERS' PERSPECTIVE

Home office for all employees	11%
Home office for people who can work in this model, in case of all other employees, work in the office/ company is limited to minimum	33%
Hybrid model according to the rules established by the company	40%
Hybrid model without established rules, each employee decides about the model of work they are going to use	10%
All employees work in the office/ company	6%

WHAT ARE YOUR HOME OFFICE EXPERIENCES?*

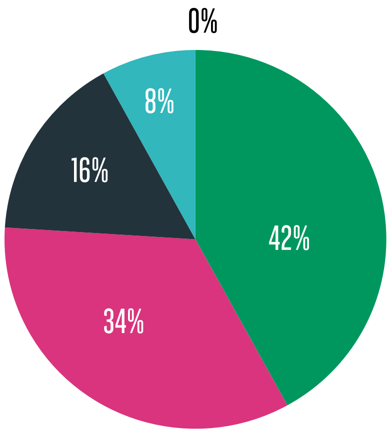
EMPLOYERS' PERSPECTIVE

	Increased	No change	Decreased
Efficiency	23%	64%	13%
Communication	12%	35%	53%
Work evaluation opportunities	7%	47%	46%
Creativity	24%	56%	20%

*Only employers that use home office model

DOES YOUR COMPANY INTEND TO CONTINUE WORKING IN THE HOME OFFICE MODEL AFTER THE PANDEMIC?*

EMPLOYERS' PERSPECTIVE



YES - 1,2 DAYS A WEEK

NO - WE PREFER TO HAVE ALL EMPLOYEES IN THE OFFICE/ COMPANY

YES - MOST DAYS OF THE WEEK

YES - ACCORDING TO THE EMPLOYEE'S PREFERENCES

ONLY IN HOME OFFICE MODE

*Only employers that use home office model

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HOW R U CEE?

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

act legal

POLAND

CURRENT TRENDS AFFECTING THE COMMERCIAL REAL ESTATE MARKET IN POLAND FROM THE LEGAL PERSPECTIVE

> Based on actions and investment plans of companies operating in the Polish real estate sector, we can see the growth of the logistics sector and developers' continuous interest in residential locations.

Logistics continues to grow

FOLLOWING THE TREND OF 2019, THE LOGISTICS INDUSTRY HAS SEEN SUBSTANTIAL GROWTH IN 2020, especially with respect to SBU (Small Business Units), BTS (Build-to-Suit) concepts and, in particular, e-commerce distribution and fulfillment centres. This does not only apply to the acquisition of sites for warehousing projects, but also to transactions involving the lease and sale of logistics assets (e.g. acquisition of the Logistic City platform by REINO Capital, Grosvenor and IO Asset Management).

The growth of this sector is, to some extent, constrained by the availability of land with adequate potential for logistics facilities (developers are interested in freehold, rather than perpetual usufruct) and complex procedures (land use plan, environmental permit, construction permit), incl. the risk of administrative decisions being challenged by neighbors and environmental organizations.

Developers' unflagging interest in residential locations in major cities

2020 is marked by unceasing interest in well-located land lots for residential projects, mostly in Warsaw, Wrocław, Kraków and the Tri-City.

It is still a challenge to find land with an unequivocal legal status, free from any reprivatization claims or inaccuracies related to the establishment of perpetual usufruct, as well as a clearly-defined spatial planning perspective (i.e. at least with a final planning permit or zoning plan).

Recent legal changes affecting the commercial real estate sector in Poland

CONSTRUCTION LAW – AMENDMENTS

2020 has brought the long-awaited amendment of the key legal act concerning the construction process, i.e. the Construction Law Act.

One of the changes that are favorable for investors is that the definition of a "party" in construction permit procedures has been narrowed to include a smaller number of entities/individuals authorized to challenge the construction permit.

Amendments are also directed at further stabilization of the construction permit decision by making it impossible to invalidate such decision (invalidation is an extraordinary mode in which a decision is challenged due to a gross violation of applicable laws) after 5 years of its delivery (announcement) date. Until now, in case of the so-called disqualifying defects (incl. a gross violation of applicable laws), invalidation was possible even after several dozen years, with the only limitation being the possibility to invoke the so-called irreversible legal effects.

COVID-19 and its impact on the commercial real estate market from the legal perspective

RETAIL SECTOR

The pandemic has highlighted the problems of the so-called traditional shopping centers (multi-storey retail developments with underground parking lots and entertainment facilities).

"Trends we have seen over the recent years, i.e. the lessors' flagging position in relations with key/anchor tenants (which renders it necessary to meet the tenants' expectations concerning landlords' capital contributions, turnover rents, all-in mechanisms and capped fees), the shift towards e-commerce, Sunday retail restrictions, and limitations in the operation of shopping malls (both legal and actual ones resulting from the pandemic) have dealt a heavy blow to this industry", says **Michał Wielhorski,** Managing Partner and Co-Head of Real Estate at act legal Poland.

This has led to the investors' lack of interest in such assets, difficulties in securing financing and refinancing, as well as liquidity issues among operators.
The above does not apply to retail parks (i.e. smaller single-storey commercial developments, usually without any common areas, with surface parking lots). They managed to go through the first wave of the pandemic in Poland relatively unscathed. Their resilience to the pandemic-related shocks resulted from the fact that a lot of legal restrictions concerned retail developments with a sales area of over 2,000 sqm. Additionally, retail parks are perceived by consumers as safer destinations for the necessary (rather than luxurious) shopping.

OFFICE SECTOR

The pandemic has led to substantial limitations in the actual use of office premises. This primarily affects entities that offer services in office buildings (especially canteen and restaurant operators). The ubiquitous discussions about how much remote work or rotating work schedules are changing the office sector continue to be unresolved due to the fact that the risk factor (the pandemic) has not ceased. Nevertheless, extreme opinions proclaiming the end of the office era seem to be over the top. The shift towards telecommuting at an unprecedented scale has brought new challenges (e.g. the blurred boundary between work and leisure, or between a business day and a day off). Many employees would be relieved to return to the office.

LOGISTICS SECTOR

"The logistics sector is regarded as the most appealing and promising for developers and investors alike", says **Marek Wojnar,** Co-Head of Real Estate Practice at act legal Poland.

Needless to say, the pandemic drives a surge in e-shopping that needs an efficient supply chain based on modern and functional storage space. *"Additionally, the pandemic-induced legal limitations have not affected this sector (except for obvious employment-related issues) as much as they impacted other participants of the commercial real estate market. All of that means that warehousing projects are generally regarded as safe",* adds **Marek Wojnar.**

Recent tax changes affecting the commercial real estate sector in Poland

OBLIGATORY SPLIT PAYMENT IN THE REAL ESTATE INDUSTRY

November 01, 2019 was the effective date for regulations introducing the obligatory VAT split payment with respect to construction services (incl. some types of fit-out works). VAT on the acquired services has to be paid to a special VAT account. As a general rule, the funds available in such account can only be used by the seller (service provider) to make tax payments. Failure to comply with the aforesaid requirements carries a range of sanctions, incl. lack of the possibility to categorize the expense as tax-deductible, a potential 30% VAT penalty, and joint-and-several liability for the seller's unpaid VAT.

COVID-19 and its impact on the real estate market

Unfortunately, there are virtually no solutions that would effectively mitigate the impact of COVID-19 by offering tax reliefs dedicated to the real estate industry.

— Nevertheless, it is worth mentioning **THE UNCONDITIONAL EXEMPTION FROM MINIMUM TAX** on revenue from buildings.
— Moreover, **A TAX LOSS CARRYBACK SOLUTION HAS BEEN INTRODUCED** – businesses whose 2020 revenues are at least 50% lower than in 2019 can apply the loss recorded in 2020 to their CIT-8 return for 2019, yet no more than PLN 5 million.
— Apart from the above, **ENTITIES OPERATING IN THE REAL ESTATE INDUSTRY NEED TO APPLY FOR ANY RELIEF** (involving a deferred payment of taxes, payment in instalments or cancellation) on an individual basis (some municipal authorities have implemented property tax exemptions but their availability is limited due to the need to fulfill a range of requirements, and they often apply to selected types of real estate only).
— Also, **MDR OBLIGATIONS HAVE BEEN SUSPENDED TEMPORARILY.** On the minus side, the deadline to issue advance tax rulings has been extended to 6 months.

"2020 in the real estate industry is marked by COVID-19. Nevertheless, next year we are about to witness a veritable revolution in taxes.

A draft bill that is currently pending is about to introduce the definition of a real estate company, and such company will (in specific cases) be obliged to pay income tax on the sale of its shares (or stocks / rights and obligations). Real estate companies (among others)

are supposed to be bound by the obligation to provide information – on an annual basis – about individuals/entities that have (whether directly or indirectly) shares or rights and obligations in them, as well as to prepare and publish (at their websites) annual reports on the implementation of their tax strategy.

Such report should include (among others):
1) a description of the taxpayer's approach to processes and procedures related to:
(i) the performance of tax obligations; (ii) the performance of MDR obligations;
2) information about transactions with specific types of entities;
3) information about the submitted applications for advance tax rulings; and
4) binding information about applicable tax rates. Moreover, limited partnership [spółka komandytowa] (which is frequently used for real estate projects) will become a CIT payer, leading to double taxation – at the partnership's and the partners' level",
says **Małgorzata Wąsowska,**
Partner and Head of Tax at act legal Poland.

CZECH REPUBLIC

CURRENT TRENDS AFFECTING THE COMMERCIAL REAL ESTATE MARKET IN THE CZECH REPUBLIC FROM THE LEGAL PERSPECTIVE

In 2020, the Czech commercial real estate market has been experiencing some new challenges but remained strong nonetheless, with Q1 2020 seeing the same boom as 2019. Czech market is still very stable, and thus represents good investment opportunities. Furthermore, some ongoing trends continue to be very popular in 2020, particularly investments in commercial real estate. They are accompanied by some new trends.

IT IS QUITE SAFE TO SAY THAT THE CZECH MARKET IS STILL VERY STABLE, AND THUS REPRESENTS GOOD INVESTMENT OPPORTUNITIES. Furthermore, some ongoing trends continue to be very popular in 2020, particularly investments in commercial real estate. They are accompanied by some new trends, e.g. leasing-related ones.

Investment in commercial real estate

Investing in commercial real estate has been very popular, so much in fact that Prague, by far the number one destination for real estate investment projects, has become rather overwhelmed by all the interest, resulting in investors looking for opportunities elsewhere. Consequently, new projects emerged in regions and industrial zones outside the capital. This can be seen across the commercial real estate market, especially in warehouse projects. Currently, the main criteria for evaluation of investment opportunities are the area of a given site and its transport links.

Reduced office space demand

The pandemic-related restrictions have forced many office occupiers to introduce a work-from-home model which has dominated the office landscape this year.

Consequently, a number of companies have postponed their decisions to lease space, while others are still considering the efficiency of leased space, reduction of the surface area and subleasing a part of it. At the same time, many retail businesses are moving a portion of their undertakings to the virtual world, thus adapting to the growth of e-commerce. Although such projects do not require a large number of physical locations to attract customers anymore, they still require a substantial storage area. This is yet another trend that we have noticed recently, making it good news for the warehouse sector of the commercial real estate market in the Czech Republic.

"What may be somewhat unpleasant news for the office and retail sector is, at the same time, an opportunity for the warehousing sector to seize",
says **Tomas Slaby,**
Partner at act legal Czech Republic.

Recent legal changes affecting the commercial real estate market in Czech Republic

BOLISHMENT OF THE REAL ESTATE ACQUISITION TAX

A fundamental change of the Czech legal system concerned the oft-disputed real estate acquisition tax. This tax, which essentially applied to the buyer of the real estate, was ultimately abolished in September 2020. Surprisingly, the reaction of the real estate market was not as expected; although real estate purchase prices do not include this tax anymore, they are on the rise.

THE BUILDING ACT 2.0

The Czech construction law is notoriously complicated, with one of the longest building permit processes in the EU. However, a complex recodification is on the way, aiming to rapidly speed up the construction process. Most notably, all necessary administrative proceedings, which are currently stand-alone (zoning decision, building permit, EIA, etc.) will be merged into one. While the new regulation seems promising on paper, only time will tell whether it is successful in practice, as well; its effective date is currently set for mid-2021.

COVID-19 and its impact on the commercial real estate market in Czech Republic

INCREASING POPULARITY OF "RENT-FREE PERIODS"

The Czech Republic is no exception to the ongoing pandemic whose effects are, unfortunately, quite considerable. Although Q1 2020 was more or less the same as 2019, the recent pandemic developments have put the whole market in a tight spot and the situation has not come back to normal ever since. Interest in "rent-free periods" is growing as many retail and office tenants are unable to meet their financial obligations due to the nationwide ban on in-store sales, gradual transition towards remote work and overall reduction in business profitability.

"The lessors that have agreed to offer any form of incentives (e.g. deferral of rent payments) have consequently kept their tenants, securing their position despite the overall reduction of rents in the Czech market",
says **Bohumir Zidek,**
Senior Associate at act legal Czech Republic.

Support scheme for COVID-19

The impact of COVID-19 on the real estate market in the Czech Republic has encouraged new incentives to address the consequences of the pandemic. The main incentive, "COVID-RENT program", concerns, as the name implies, rental payments. Under this scheme, the state assists businesses that have been repeatedly affected by the ongoing pandemic and the resulting legal regulations, by covering fifty percent of their rent payments.

Loan suspension – deferral of repayments

The Czech Ministry of Finance has implemented a loan suspension scheme which allows for a deferral of payments by 3 or 6 months. Repayment could be postponed until 31 July but no later than 31 October this year. We are expecting some complications when debtors return to their original repayment plans. However, this does not represent a big concern for the market itself.

ROMANIA

CURRENT TRENDS AFFECTING THE COMMERCIAL REAL ESTATE MARKET IN ROMANIA FROM THE LEGAL PERSPECTIVE

Romania's commercial property market has remained strong during 2020, partially thanks to projects that commenced in 2019, but nonetheless suffered similarly to other markets from the impact of COVID-19 restrictions.

Current real estate trends from the legal perspective

RETAIL WAS THE MOST AFFECTED SECTOR with the temporary suspension of most commercial activities within shopping centers at the end of March 2020, lifted partially in mid-May and further on in mid-June 2020. Retailers have meanwhile boosted their online presence although the increased online sales did not make up for the losses suffered by brick-and-mortar stores.

"Restrictions are also leaving their mark on new contemplated developments with a preference towards retail parks and strip malls, a concept which was less affected by the COVID-19 restrictions",
says **Mihaela Posirca,**
Partner at act legal Romania.

WHILE THE BIGGEST TRANSACTIONS IN 2020 REMAINED IN THE OFFICE SECTOR, the impact of COVID-19 was visible in terms of decreased leasing activity, as well in the fact that certain developers opted for the conversion of existing or pipeline office projects into residential or mixed-use buildings with a residential component. Even though working from home has generally proved to be a good crisis solution, physical offices are expected to remain essential for teamwork, collaboration and company culture and identity;

THE WAREHOUSE SECTOR WAS THE LEAST AFFECTED BY THE COVID-19 RESTRICTIONS, also benefiting from the boost of online sales and maintaining a healthy growth during Q1 2020.

Most recent legal changes

NEW RULES FOR SALE OF AGRICULTURAL LAND LOCATED OUTSIDE BUILT-UP AREAS

Rules on the sale of agricultural land located outside built-up areas were amended, effective as of October 13, 2020, extending the categories benefitting from the pre-emption right, but also adding stricter conditions for agricultural tenants that hold the pre-emption right.
The new law introduced a new category of "specialized buyers", consisting of individuals and companies that have resided or been registered in Romania over the past 5 years, and meet additional criteria within the same period, e.g. conducting agricultural operations in Romania and having Romanian shareholders. To prevent fast reselling, a special tax was also introduced for the sale of agricultural lands (through asset or share deals) within less than 8 years of their acquisition.

DIGITALIZATION OF PUBLIC ADMINISTRATION PROCEDURES, INCL. PERMITTING

While Romania's IT industry has been a primary growth driver for years, the same cannot be said about the IT infrastructure and response times of Romanian authorities. However, COVID-19 restrictions and social distancing requirements have fostered legislation favoring the digitalization of public authorities, and projects implemented at the level of city/town halls.
The Romanian government passed emergency ordinances for the general use of electronic signatures before public administration authorities, as well as for specific use of electronic documents in the construction permitting processes, aimed at simplifying the procedures and shortening the deadlines. Additionally, municipal authorities, e.g. in the city of Cluj-Napoca, initiated a "paper-free" program that allows numerous applications and documents to be filed online, or certain documents such as urbanism certificates or other endorsements needed for obtaining building permits to be issued online.

COVID-19 and its impact on the commercial real estate market from the legal perspective

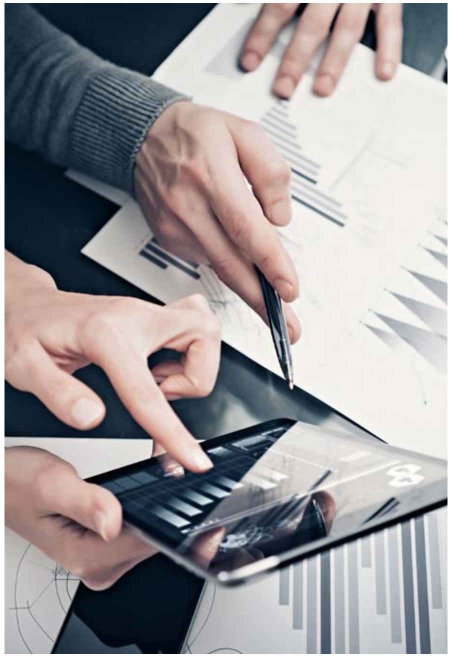
LEASE RENEGOTIATIONS FOR RETAIL PREMISES.

COVID-19 restrictions affecting commercial centers and other businesses prompted an avalanche of force majeure notices or lease renegotiation requests.
While some landlords initially opted for an inflexible position, with some of them even enforcing tenants' securities, others have taken a more practical approach, opting to partner up with their affected tenants to find a balance for meeting the landlord's needs and financial obligations, as well as the tenant's requirements (incl. the very basic one, i.e. business survival). Rent reductions were usually accompanied by temporary exemptions from marketing fees for the months of COVID-19 restrictions and were often connected with corresponding lease term extensions.

"Brick-and-mortar is slowly recovering after the lift of the initial restrictions but retailers are expected to continue investments in their omnichannel capabilities",
says **Iustina Sima,**
Managing Associate at act legal Romania.

SUPPORT SCHEMES FOR COVID-19-AFFECTED TENANTS AND LANDLORDS.

Reductions of local taxes on commercial buildings were approved for certain landlords that had offered rent discounts to tenants facing interruptions in their business operations during the state of emergency, triggered by the COVID-19 pandemic. The Romanian government is also considering an additional support scheme for tenants, covering around 50% of the rent due for the period of March 22 – June 14, 2020, when retail activity within commercial centers was restricted.



HUNGARY

CURRENT TRENDS AFFECTING THE COMMERCIAL REAL ESTATE MARKET IN HUNGARY FROM THE LEGAL PERSPECTIVE

Although the coronavirus pandemic has had an unquestionable impact on the residential and commercial real estate market, broadly speaking, the Hungarian real estate market remains quite stable in spite of the COVID-19 pandemic. Similarly to other markets, the Hungarian real estate market had to face challenges caused by financial uncertainty, decreased investment levels and downturn in construction orders.

Downturn in the office real estate market

A FUNDAMENTAL CHANGE IN THE COMMERCIAL REAL ESTATE MARKET IS RELATED TO THE GROWING POPULARITY OF TELECOMMUTING. As many office workers have made an abrupt shift to working from home, the need for office space has declined compared to the same period last year. Data shows that the number of lease agreements concluded between July and September 2020 is significantly lower than in the corresponding period last year. The increase of the under-utilization rate and the decrease in rents and the value of real estate is expected to remain a key question in the upcoming months. Despite lower demand, construction works have not stopped, with 60,000 sqm of new office space delivered in Q3 2020 in Budapest only. The substantial volume of pipeline planned for 2021-2022 and the long-lasting effects of the pandemic are highly likely to increase the risk of oversupply.

Stability in the industrial/logistics real estate market

THE INDUSTRIAL/LOGISTICS REAL ESTATE MARKET HAS PROVED TO BE PANDEMIC-PROOF, HENCE THE RENTAL LEVELS AND THE VACANCY RATE HAVE REMAINED STABLE IN 2020. The vacancy rate in this sector was 2.6% in mid-2020, dropping by just 0.2% against spring 2020. The rate is 2.4% for logistics parks and 4.8% for urban logistics properties, with only 51,000 sqm being vacant in and around Budapest. The overall demand in this sector has increased by 50%. Most experts presume that this trend will continue next year although some believe that the growth rate will not be as high as in 2020.

Investments in commercial real estate

OVER THE LAST FEW YEARS, INVESTING IN COMMERCIAL REAL ESTATE HAS BEEN A REALLY WIDESPREAD TREND IN HUNGARY. However, the overall economic uncertainty and concerns about the lessees' solvency have made the commercial real estate market less attractive for investors. In the first quarter of 2020, two huge investment projects were implemented, accounting for almost half of the total investment volume traded in 2020 so far.. Nevertheless, the investment sector has been experiencing much lower transactional activity this year. It is worth noting, though, that many investors have decided to postpone the planned transactions for late 2020 or Q1 2021, meaning that demand is still there. This is especially true for the foreign investors.

Recent legal changes affecting the commercial real estate market in Hungary

REDUCED VAT ON NEWLY-BUILT REAL ESTATE

A fundamental change is about to be implemented with respect to value added tax on newly-built real estate.

"According to the current legal regulations, VAT on newly-built real estate, for which a construction permit was issued after November 01, 2018, is 27%. In order to reduce the negative economic effects of the COVID-19 pandemic and attract investors, the Hungarian government announced that it would re-introduce the reduced 5% VAT rate which would be in effect until December 31, 2022. This means that only 5% VAT would have to be paid when buying a newly-developed property until the end of December 2022. Experts suppose that the re-introduction of the 5% VAT rate will drive investments in the real estate market",
says **Gergely Bán,**
Managing Partner at act legal Hungary.

Restrictions on unilateral termination of lease agreements

At the beginning of the first wave of the pandemic, the Hungarian government restricted the conditions for unilateral termination of lease agreements. In the most sensitive sectors, incl. tourism, food and entertainment industry, neither party to a lease agreement was allowed to terminate it unilaterally. This regulation was in effect until June 30, 2020. Although it does not apply any longer, it might be re-introduced if the epidemiological situation gets considerably worse.

COVID-19 and its impact on the commercial real estate market in Hungary

SUSPENSION OF LOAN REPAYMENTS

"The epidemic situation has immediate economic effects globally, which poses a challenge not only to individuals, but also to companies, including many property owners. The Hungarian government announced a suspension of loan repayments for all companies and individual borrowers until the end of the year. Repayment could be postponed until June 30, 2021. This also means that loan agreements cannot be terminated unilaterally until June 30, 2021", says **Márton Karika,** Managing Partner at act legal Hungary.

Exception to border crossing restrictions

Hungary closed its borders to most foreigners on September 01, 2020. Business travel is allowed, though. On entry, travellers need to show proof of an essential business requirement for entering Hungary and a negative COVID-19 test result. Real estate transactions are considered as a business purpose, meaning that they form an exception to the aforesaid restriction.

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