POLISH-HUNGARIAN
CHAMBER OF COMMERCE

Capital markets, office market and development trends in Poland and Hungary

TRIGRANIT

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ABOUT TRIGRANIT

TriGranit operates as a unique real estate development platform in Central Europe, with an unrivalled track-record to acquire and develop **prime and sustainable office, mixed-use** and **alternative real-estate projects** that define the landmarks of the region. In its **26 years of operation**, TriGranit has developed nearly **50 landmark projects** creating **1,7 million square meters** of GLA in **seven CEE countries** and has won more than **52 highly prestigious international awards**. TriGranit is part of the Revetas Group. **Revetas Capital** is a pan-European real estate investment advisor pursuing a thematic approach focused on value-add investments.

OUR CURRENT DEVELOPMENTS – FUNDED BY REVETAS CAPITAL

Millennium Gardens, Budapest
(37,000 sqm) – final element of
Millennium City Center
(ca. 400,000 sqm)

Silesia for Business, Katowice
Office development
Tower I. (20,215 sqm)
Tower II. (20,000 sqm)

Bonarka Meadows, Kraków
Building permit converted from
office to residential (PRS development)
(20,000 sqm)

OUR PAST DEVELOPMENTS

Bonarka for Business, Kraków
(75,000 sqm)

Polus City Center, Bratislava
(42,000 sqm)

Millennium Towers I-III, Budapest
(57,500 sqm)

OUR PAST DEVELOPMENTS

Oak Terraces, Katowice
(64,000 sqm)

Silesia City Center, Katowice
(66,000 sqm)

Polus Center Cluj, Cluj-Napoca
(61,000 sqm)

OUR PPP PROJECTS

Palace of Arts (MüPA), Budapest
(62,000 sqm) – built in partnership with the Hungarian Ministry of Culture

Poznan City Center, Poznan
(164,000 sqm) – realized in partnership with the Polish State Railways

Capital markets in CEE

- **Discrepancies** are observed between buyers and sellers, resulting in a temporary drop in transaction volume
- Most active buyers: bargain hunters
- **Distress sales** are expected later this year
- Investors were frightened by the **war in Ukraine** at the beginning of 2022, but now it's the **interest rates** rather than geopolitics that has a negative impact on volumes
- Investment activity will be confined by **high interest rates** and weakening demand
- **Varying interest by investors** in commercial real estate **between Poland and Hungary**. Investors are adopting a wait & see approach to Hungary, while are more interested to transact in Poland. **Industrial** and **Residential sectors** (especially Rental Housing) are still garnering investors' interest. Here, it seems Poland's clear support of Ukraine and pro-American stance seem to play a role

Capital markets in CEE

- In most CEE countries **capital values** for commercial real estate **are not expected to fall** due to upward rental dynamics and space shortages in many sectors
- As existing loans are refinanced, distress on the scale of the **global financial crisis is not expected**, but many investors will feel the pain. At the same time, there is a huge need for repurposing and **accelerating the ESG agenda**, not the least to maintain buildings and earn rental income, and this puts the industry in a tough position, as it may no longer be possible to postpone upgrades and capex investments
- **This challenge is** especially **prevalent for offices** and there is a strong sense that the sector will experience similar disruption to retail. Most industry leaders are working on the assumption that office occupancy will trend downwards and they share a strong belief in **“bifurcation” between prime and secondary**, ESG compliant and non-compliant assets

Capital markets (concerning office buildings)

- One of the most **enduring structural changes of Covid** do appear to be remote work. **Physical occupancy** of office buildings is at **around 50%**
- **Property owners** count on workers returning to the office, and those who don't, but are looking to buy, **will wait and see**
- There is **no price discovery**, only a few buildings trading hands. There are bargain hunters, but owners of great buildings are not willing to sell
- **Commercial loans** secured by office buildings **are under pressure**
- The question is: how large will the **impairment on commercial real estate loans** be? US has a practice of clearing up problems quickly, whilst we in Europe generally let them linger longer to the detriment of the markets

Poland

Total investment volume in 2022 on the commercial real estate market: **€5.85 billion**

Despite the adverse external factors like the war in Ukraine, unstable economic situation or rapidly growing interest rates, this year has proven to be very good in terms of investments

The largest transaction recorded in 2022 was a transaction in the office sector. The Warsaw Hub office building, purchased for €585 million

The main source of capital on the Polish investment market is **Europe** (44% of total capital)

Yields for the I&L and office sectors increased to **5.25%**. For the retail sector the prime yield were **6.25%** at the end of 2022. The yields for the hotel sector remained constant at **6.5%**, and yields for the residential sector decompressed to **5.0%**

Hungary

Total volume of investment in Hungary in 2022 was **€994 million** (down 19% y-o-y)

The largest transaction was an office transaction of the year, the sale of Green Court Office, brought the asset class's annual investment volume to €347 million

Domestic capital has accounted for more than half of all transaction volume for four of the past five years

2022: slight decline in total asset value due to devaluations and weakening of the forint

Yields for prime real estate in the office sector increased to **5.5%**, while the I&L sector's prime yield amounted to **5.75%**. The prime yields for shopping centers amounted to **6.25%,** and yields for the residential sector stood at ca. **5.4%** in Budapest

Office market trends – Warsaw

- Despite the market turmoil, **leasing activity in 2022** was one of the strongest performances on record, full-year take-up amounted to **860,000 sqm**
- Warsaw's total **office stock** amounted to **6.34 million sqm**
- The **supply side** observed a record weak performance, new completions totaled in approx. **75,000 sqm**
- As expected, **vacancy rate** dropped by 1.1 pp to the current level of **11.59%**
- In 2022 the most active sectors include BS, IT, and Financial sectors
- **Net absorption** in class A buildings was 262,400 sqm, while in class B buildings it was negative at -92,500 sqm, tenants' actions moved towards relocation to class A buildings
- Currently there's **179,000 sqm** office space **under construction**, which is a record low level
- Current base rents in prime locations reach up to **EUR 26/sqm/month** which means an annual growth of 2%

Office market trends – Budapest

- Upward trend: **400,000 sqm of office space leased** in 2022
- With **4.25 million sqm of stock** the Budapest office market is the largest in Central Europe after Warsaw
- 2022 saw the second-highest net absorption ever
- The **vacancy rate** increased to **11.3%** (30 bps up q-o-q)
- The median vacancy rate for buildings older than 15 years has already reached 16%, for buildings younger than 15 years the rate is around 7%
- Occupiers are increasingly focusing on stricter **ESG criteria**
- In total, **267,000 sqm** of **new supply** was brought to the market, one of the highest levels ever (with a high occupancy rate of almost 80%)
- Currently **320,000 sqm** of office space is **under construction**
- Headline rents are not falling nor lease periods are shortening, the current prime headline rent is **EUR 24.5/sqm/month**

Development trends & outlook

- PRS (privately rented sector) is sought after. Developers, unable to sell their apartments on open market, are trying to sell buildings to funds. This is happening in Poland, but price expectations differ widely
- **Logistics market** continues to boom albeit less speculative developments and the e-commerce sector has contracted slightly
- **CEE is a solid destination for onshoring/nearshoring** with our educated and abundant workforce and low costs
- **Mixed-use projects** remain outstandingly popular, where functions feed each other. Now investors appreciate the diversity and variability of assets in one, dominant location
- **Conversion of office buildings to residential** is a subject of discussions, but there are still very few examples on the market. Modern office buildings are difficult to convert given the large footprints, older buildings from the Communist Era are more prone to such conversions
- It is estimated that **2023 investment volume** will be ca. **10-15% lower** than in the previous year for whole Europe, but investors will be still active in traditional sectors such as offices and I&L, with a strong focus also on PRS, life science assets and student housing

Focusing on the ESG compliance

- **Emphasis on ESG requirements** for real estate will be stronger than in the previous years both on the banks' and investors' side
- The **growing energy prices** will direct everyone's focus to energy efficiency and renewable energy sources, which will become a normal practice among developers, tenants and property managers
- Activities aimed to achieve **net zero emissions** by 2050
- **Greenhouse gas emission reduction** is at the top of developers' priority list, followed by care of health and well-being in the second, and circular economy in the third place
- **81% of investors intend to keep implementing ESG criteria** in all investment decisions
- For most investors, the main strategy in implementing ESG principles is to obtain **green certificates** for their assets. Other strategies include participation in **green financing**, and readiness to **pay more for ESG-friendly assets**

THANK YOU FOR YOUR PRECIOUS ATTENTION!

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