Research &
Forecast Report

Slovakia | Real Estate Market
H1 2015

H1 2015 Market Overview

Slovakia

Contents

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"The first half of 2015 confirmed last year's forecast with an increased number of investors looking at the country, despite the fact that the volume of transactions closed so far was limited to 40 mil EUR. The industrial market has grown substantially whilst the improvement in the office market slowed slightly compared to the previous record year. We expect that several more investment transactions will be closed by the second half of the year by buyers which include further new players to Slovakia."

Summary H1 2015

> Economics: Slovakia remains one of the few high growth economies in Europe. GDP actually expanded at the fastest pace for over three years and is expected to continue to be a growth leader for the foreseeable future, well ahead of the EU average.

> Investment: Investor appetite has followed the positive sentiment of 2014. The investment market is showing significant growth across all segments and there has been a notable increase in the number of international and local-regional investors open to investing in Slovakia.

> Office: We have not recorded any significant additions to stock in first half 2015, but currently there are up to 280,000 m^2 in the pipeline with completion expected in the next 3 years. This amount is similar to 2007-2008. The vacancy rate was around 11.78% and is expected to increase due to upcoming projects.

> Industrial: During the first half 2015 more than 55,000 m^2 were added to the industrial market in Slovakia. The demand was driven mainly by 3PL sector. The industrial vacancy rate decreased from 6.5% at the end of 2014 to 3.26%. The supply will increase in upcoming months following the delivery of properties in Western and Eastern Slovakia.

> Retail: The Slovak retail market during H1 was quite stable. We have recorded a new single tenant operators who have successfully entered the market in Bratislava, such as Decathlon and Bauhaus. New developments under construction are located mainly in regions.

Economic overview

> The strong performance of the Slovak economy has prompted the international credit rating agencies to rank Slovakia as one of the strongest credit risks in the region. The relevant ratings for Slovakia are defined generally as having a strong capacity to meet its financial commitments. Standard & Poor's Ratings Services raised its long-term foreign and local currency credit ratings of Slovakia to A+ from A on July 2015. It also confirmed A-1 short-term credit ratings; with a stable outlook.

HDP

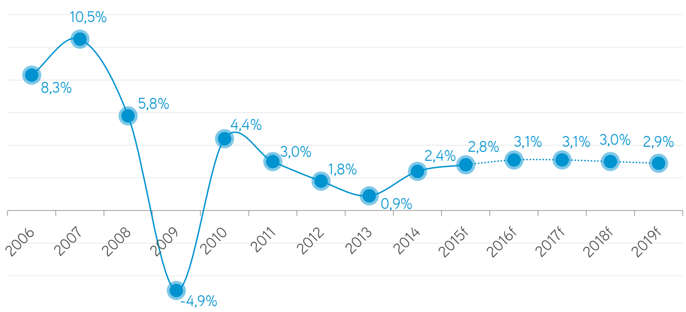
> Slovakia remains one of the few high growth economies in Europe with GDP growth of 3.1% y-o-y in Q1 2015.

> GDP actually expanded at the fastest pace for over three years. Growth in the economy is partly being driven by the strong performance of exporters. Robust confidence ensures steadily rising demand and both business and consumer confidence is now at much higher levels than two years ago.

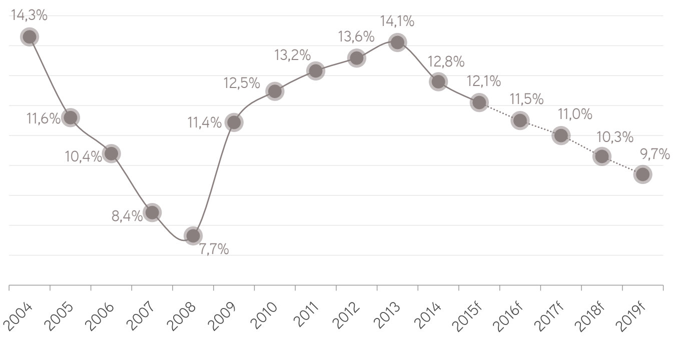
> Focus Economics Consensus Forecast panellists expect GDP growth to reach 2.8% in 2015. For 2016, the panel projects that economic growth will increase to 3.1%. Slovakia is expected to continue to be a growth leader for the foreseeable future, well ahead of the EU average.

> The EU absorbs around 60% of Slovak exports, a figure that is indicative of Slovakia's strong business environment and diversification away from low value-added, price-sensitive goods to higher value-added sectors and services. Consumer spending is likely to be the main factor driving economic growth this year, supported by continued improvements in the labour market and increased real household income due to low energy prices.

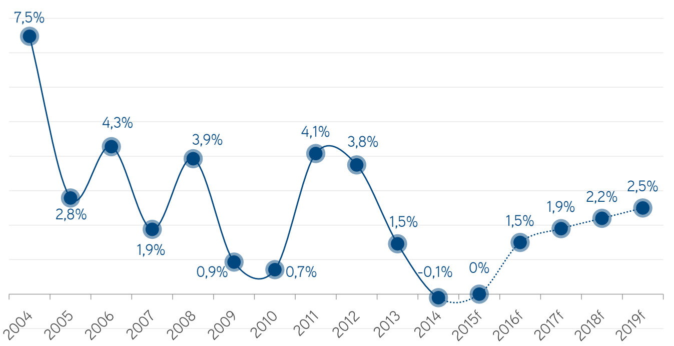
GDP (annual var. in %)



Unemployment (% of active population)



Inflation (HICP, annual variation in %)



Source: Statistical office of Slovak Republic/Focus Economics

> Real estate investors follow growth and business. Slovakia is an advanced and stable economy and is exhibiting significant growth and further growth potential.

Foreign Direct Investment (FDI)

> Slovakia's membership to the EU, coupled with its skilled but relatively low labour costs and competitive infrastructure have proven attractive to a number of foreign investors.

> Significant FDI projects continue to choose Slovakia as a preferred location for their footloose commercial and industrial projects. The automotive producers Kia, VW and PSA have all established significant automotive plants in Slovakia together with a network of over 274 automotive production suppliers (Sario, 2014). From the electronics sector, Samsung, Foxconn and other electronics companies have also established significant facilities in Slovakia. These companies have been attracted by a skilled and low cost labour force and flexible labour laws. Similarly, BPOs such as Johnson Controls, T-Com, ING, AT&T, Lenovo, OMV, First Data, PWC, Mondelez, Dell, Accenture and IBM, attracted by the talent pool and language skills have also invested in significant business centres in Slovakia to serve CEE, European and global operations. Many of these centres have exhibited recent headcount growth.

Inflation

> Harmonized consumer prices declined 0.1% annually in first half of 2015, marking the sixth consecutive price decrease (April: -0.1% year-on-year). Low energy costs continue to reduce consumer prices. The FocusEconomics experts expect HICP inflation to be flat in 2015, which is down 0.1 percentage points from last month's forecast. For 2016, the panel expects HICP inflation to increase to 1.5%.

Gross Income & Unemployment

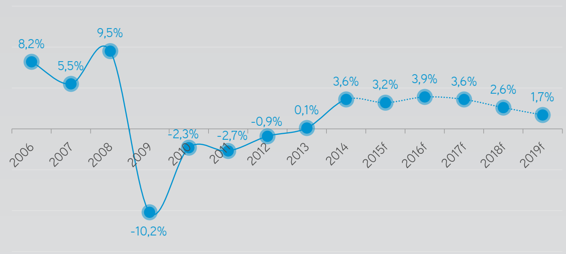
> The unemployment rate fell to the lowest level in over six years in Q1 2015 and reached 12.4%. The high availability of skilled labour has been one of the factors that has contributed significantly to the continued economic success of Slovakia.

> The average nominal monthly wage of an employee in economy of the Slovak Republic amounted to €839 in first half of 2015.

Retail Sales

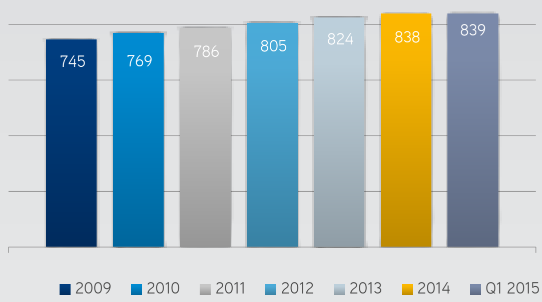
> Retail sales grew in 2014 by 3.6%, this indicates an increase of consumption of households.

Retail Sales (annual variation in %)



Source: Statistical office of Slovak Republic/Focus Economics

Average nominal monthly wage (€/month)



Source: Statistical office of Slovak Republic

Investment

> Investor appetite has followed the positive sentiment of 2014. The main transaction that was concluded in the first half of the year was CTPs acquisition of the 58,000m^2 warehouse scheme at Devinska Nova Ves, Bratislava. We are aware of several further transactions that are anticipated to conclude early in the 2nd half of 2015 including the sale of 5 shopping centres and a number of other deals in the retail, office and industrial sectors. In the first half of 2015, total investment volume was approx. 40 mill Euros.

> Attracted by higher yields, compared to neighbouring countries, institutional and foreign investors are increasingly looking at opportunities in the Slovak market. There will be several further new investors buying into the Slovak market in 2015.

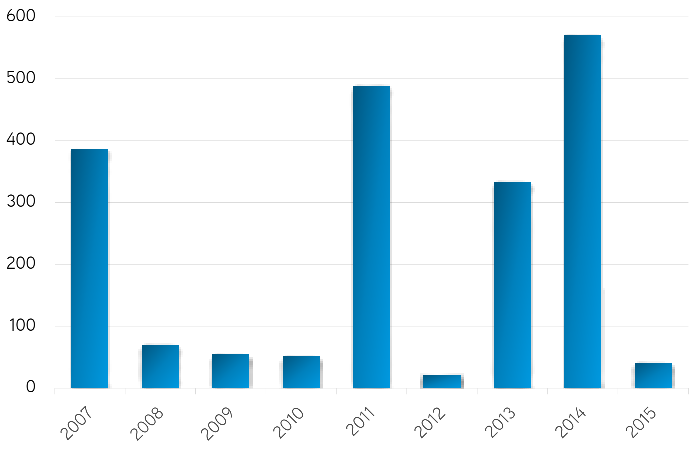
> Office development is still dominated by strong local groups and is principally focused on Bratislava. Regional cities such as Košice and Banská Bystrica are increasingly well-considered by companies seeking to move their non-core activities and we expect investors to follow this demand story in early course.

> Bratislava is showing some signs of saturation and investors are increasingly interested in regional shopping centres where there is potential for growth and upside through efficient management. Besides dominant regional cities such as Nitra, Prešov, Košice and Trenčín, interest in other, smaller cities with a high catchment area is rising.

> In the logistics sector, whilst Bratislava and its surroundings leads the market both in terms of occupier demand and investor interest, there are other regional cities that have evolved into important logistic hubs, including Žilina and Košice. Ružomberok and Banská Bystrica have also begun to develop underpinned by demand from smaller local distribution companies. Future investment in infrastructure/highways may steer investment volumes in logistics to new locations across Slovakia.

> Overall the investment market is showing significant growth across all segments and there has been a notable increase in the number of international and local-regional investors open to investing in Slovakia.

Total Investment Volume (mil €)



Source: Colliers International/RCA

Transactions

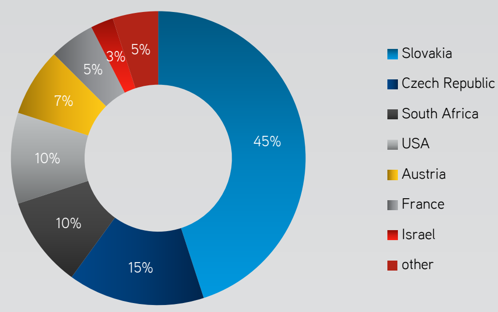
> In terms of investment volume, the most significant transactions include the sale of the Industrial Park Devinska Nova Ves by Aviva/J&T. We are aware of several sales across all sectors in various phases of completion and expected to conclude this year, some of which include larger portfolio sales.

> Although the composition of current interest has been largely dominated by institutional investment, market activity has also been driven by both local investors and distressed sales activity.

> The residential segment continues to grow its activity levels, which began rising last year. Currently, the market is dominated by construction companies that are well-known locally. Strong demand exists for residential projects with issued building permits in feasible and reasonable volumes and layouts.

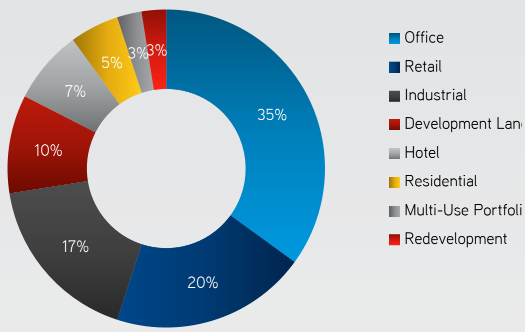
> There are many projects for redevelopment, mostly former office buildings, which are gradually being vacated as more occupiers move to modern business centres. Many of these vacated office buildings were formerly residential buildings converted into offices at a time when the market faced a lack of modern office space. Now this trend has changed and we expect more such buildings to be offered in the market for redevelopment.

Investment by origin of investor 2011-2015 (by no. of transactions)



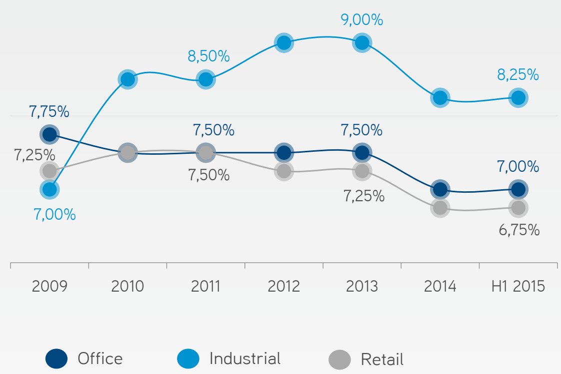
Source: Colliers International/RCA

Investment by asset class 2011-2015 (by no. of transactions)



Source: Colliers International/RCA

Prime (Net Initial) Yield (%)



Source: Colliers International

Office

Supply

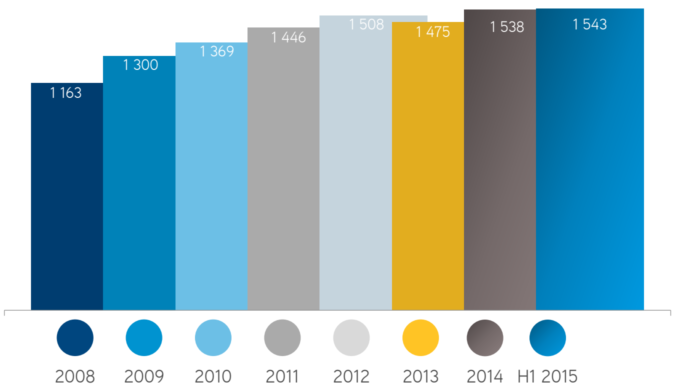
> By the end of the first half 2015, total office stock of A and B Grade quality in Bratislava amounted to more than 1.54 million square meters. Almost 60% of the space is represented by A Grade office space and more than 40% by B Grade office space.

> Currently there are up to 280,000 m² in the pipeline with completion expected in the next 3 years. This amount is similar to 2007-2008 (app.300 thousand m²). HB Reavis is constructing almost 70,000 m² of office space in Twin City, of which 16,000 m² will be completed at the end of 2015. Zuckermandel and Panorama, both projects developed by J&T Real Estate are also under construction and Penta is preparing the office project Rosum at the crossroads of Bajkalská and Tomášikova Street.

> As a consequence of the threat of new competitive projects, the owners of older office premises have have reviewed their strategies and attempt to attract tenants by providing more aggressive incentives and redesigning/repositioning the existing concept.

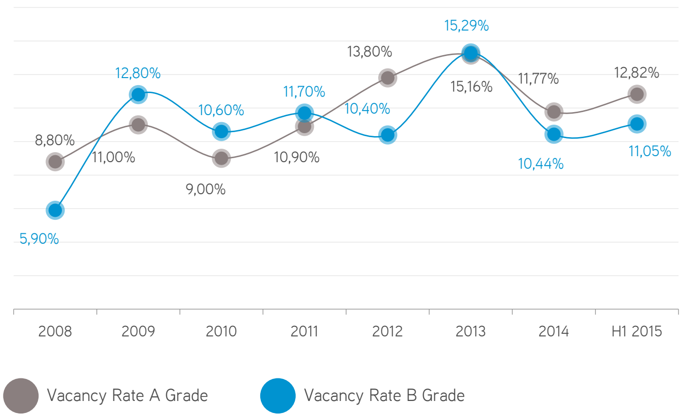
> The success of new projects will no longer be dictated by the project's location but also by the entire building concept, including the flexibility of the space, the amenities within the project and its surrounding area, the conditions of the developed area as well as the supporting infrastructure including; traffic connections, parking possibilities and the building's relationship with the environment (i.e. green buildings). Future projects now require much more detailed planning and developers typically require pre-leases before starting construction although some speculative development continues to occur.

Change in Stock over Time (thousand m²)



Source: Colliers International/BRF

Vacancy Rate in Bratislava (%)



Source: Colliers International/BRF

> We also expect similar trends as have occurred in for example Germany and wider Western Europe, where Landlords of C class properties transform the use of the buildings to, for example, residential functions. In some properties in Bratislava, this trend has already taken place (e.g. the Modra Gula project in City Center). In the case of B class properties, we would typically expect the buildings to undergo a complete reconstruction in order to attract and retain potential tenants.

Demand and Vacancy Rates

> Demand in H1 2015 amounted to 79,150 m² including renegotiations (30%) and we anticipate that re-negotiations as a % of total take-up will increase.

> The structure of demand is expected to remain stable and most of the transactions will continue to be below 500 m².

> The vacancy rate at the end of the first half 2015 was around 11.78%. This represents a decrease compared to the previous quarter due to leasing activity and the fact that there was no new product delivered to the office market. The lowest vacancy rates recorded were in Bratislava I (8.7%), followed by Bratislava II (10.5%). The vacancy rate in Bratislava V was 12.6%, while Bratislava III together with Bratislava IV recorded a vacancy rate around 20%.

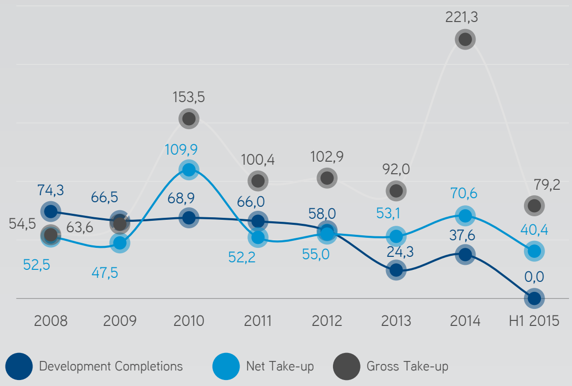
> Vacancy rates are expected to increase due to upcoming projects. On the assumption that there will be no change of use of existing or planned properties, our expectation for the vacancy rate for 2018 is that it could approach 15 - 18%.

Rents

> Headline rents will remain stable at levels of app. € 9 – 13 /m²/month depending on the size of the office premises. Effective rents however, remain significantly lower than this.

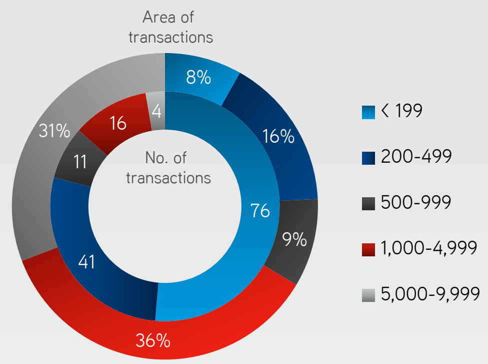
> In upcoming years, we expect the office market to be more active than today, partly due to break options in current leases and also as a result of an increasing commercial base.

Take-Up/Development Completitions (thousand m²)



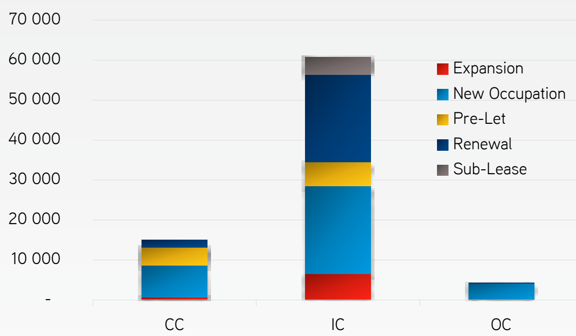
Source: Colliers International/BRF

Take-Up Composition H1 2015 (no. of transactions/m²)



Source: Colliers International/BRF

Bratislava Take-Up Composition H1 2015 by submarket (m²)



Source: Colliers International/BRF

Industrial

> At the end of first half 2015, total modern industrial supply in Slovakia equalled to 1.322 thousand m².

> New additions were added to the market, including the development by Goodman in Senec (10,000 m² - Hall C), J&T in Bratislava (17,000 m²) tailor-made development for Schnellecke within existing park in DNV occupied mostly by suppliers of VW. Senec remains a strategic logistic hub in Slovakia and is still under heavy demand of clients due to the achievable lower rents and speculative premises. Prologis recently delivered the second phase of DC7 (25,000 m²).

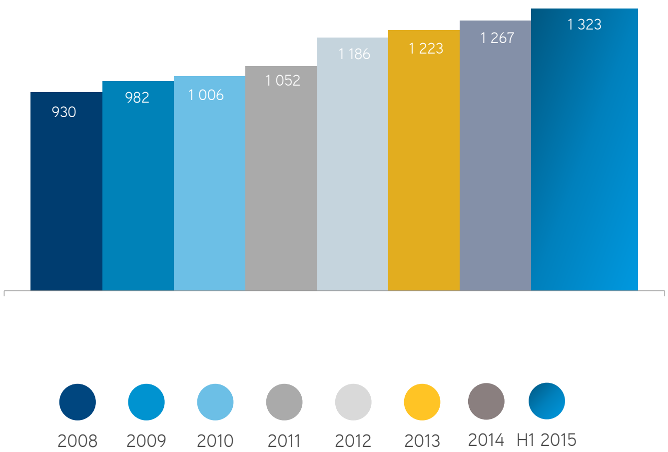
> The largest developer share of total industrial stock is ProLogis (36%) with 480,000 m², followed by Pointpark (13%) comprising 180,000 m² and HB Reavis (9%), who built 120,000 m² of leasable Grade A premises.

> In H1 2015, demand was driven mainly by 3PL (70%), followed by the manufacturing (17%). Total occupational market activity figures in H1 2015 accounted for 104,000 m2, due to stronger new occupation activity (68% of all transactions).

> The industrial vacancy rate decreased from 6.5% at the end of 2014 to 3.26% in the first half of 2015. Vacant industrial space totalled 43,100 m² in H1 2015. The highest share of vacant space was located in the Kosice region with a vacancy rate of 8.0% (3,400 m²), followed by the Trencin region with a vacancy rate of 6.8% (4,000 m²) and by the Zilina region with a vacancy rate of 4.4% (1,000 m²). In total figures, the largest amount of vacant space is in the Bratislava region (34,700 m²) with a vacancy rate 3.7%.

> Headline rents for logistic premises ranged between €3.65 m²/month and €4.30 m²/month.

Industrial Stock in Slovakia (thousand m²)



Source: Colliers International

> Industrial supply will increase in upcoming months following the delivery of properties in Western and Eastern Slovakia. Currently this includes more than 93,000 m², which is under construction due to the expansion process of established companies:

> There is currently more than 93,000 m² under construction due to the expansion process of established companies. Industrial pipeline projects include:

> VGP in Malacky (19,460 m²) - Leasing activity from Q3/Q4 2014 resulted in new tailor-made development and decreasing of the vacancy in existing Hall C. VGP also builds Hall B on a speculative basis.

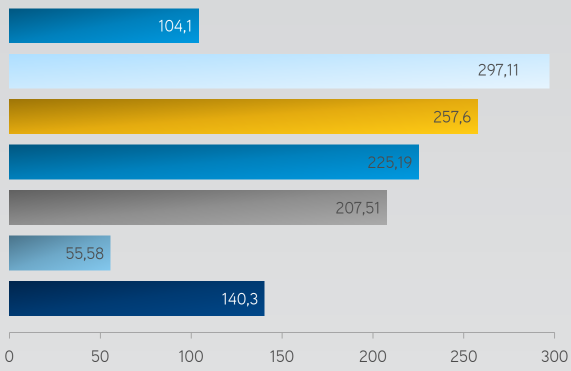
> Senec: under construction Goodman 15,000 m² for e-commerce client. Prologis 22,000 m² for several clients.

> Žilina: a new location Gbelany situated in the vicinity of the KIA production plant will offer premises for suppliers of KIA. CTP plans to develop the first hall with an area of 9,000 m². Premises are developed partly as a tailor-made developments and partly as a speculative space.

> Immorent in Košice: Tailor-made development for Howe (16,000 m²). Producer of leathers for the Automotive industry.

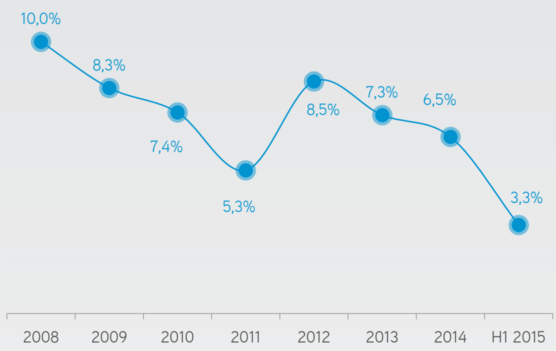
> Our expectation is that there will be a redistribution of developer's market shares as a result of on-going investment sales and current development plans. Based on the size of requests we expect medium transactions to be made up of new leases, renegotiations, expansions. Mostly, we expect transactions to be driven by the automotive industry and by 3PL companies.

Industrial Take-Up in Slovakia (thousand m²)



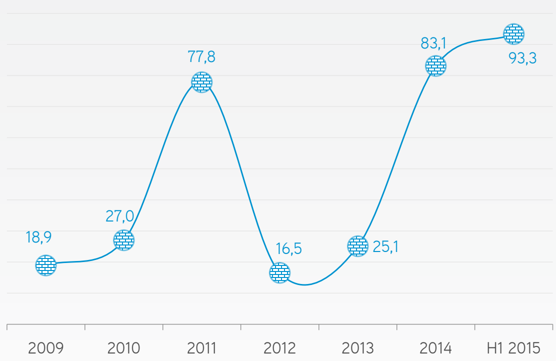
Source: Colliers International

Industrial Vacancy Rate in Slovakia (%)



Source: Colliers International

Industrial under Active Construction (thousand m²)



Source: Colliers International

Retail

Bratislava

> The Slovak retail market during H1 was quite stable. The only new development was a small 5,400 m^2 centre in the north of Bratislava.

> On the demand side, we have recorded a number of new single tenant operators who have successfully entered the market in Bratislava. Decathlon and Bauhaus opened their stores in Pharos Park at the end of May and sport operator Decathlon already launched the operation in April in Bory Retail zone. These two newcomers have brought additional an 15,000 m^2 on the market.

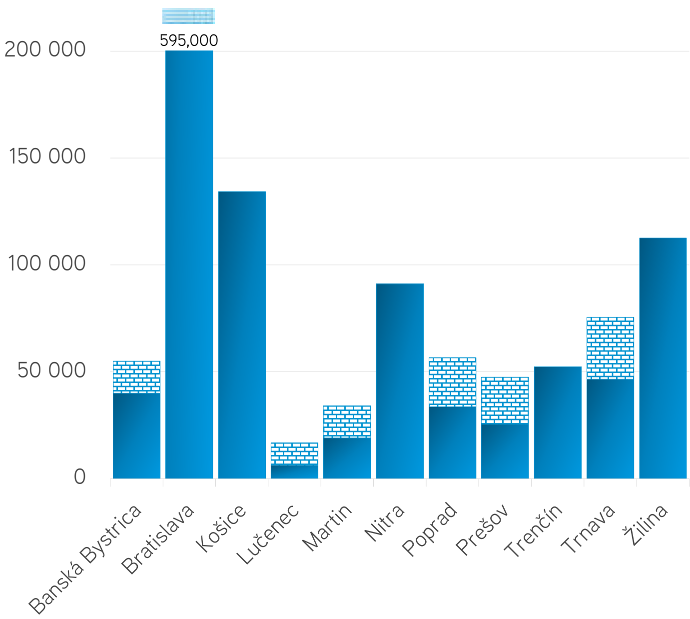
> Another single tenant operator which is taking space at the Pharos Park is Sconto in order to cover needs of its Bratislava customers. New potential development is expected to focus more on convenience based shopping schemes in under saturated local areas.

Regions

> Construction works related with refurbishment project and developments continued space. Unibail Rodamco is investing heavily into the redesign of common areas in its Aupark Bratislava scheme.

> New developments under construction are located mainly in regions. City Arena Trnava is going to open its gates to customers in August 2015 and Forum Poprad will be opened in October also this year. Other project under construction is Galeria Lučenec located in city of Lučenec in southern part of Slovakia.

Retail Stock and active pipeline in Slovakia (thousand m^2)



Source: Colliers International

General

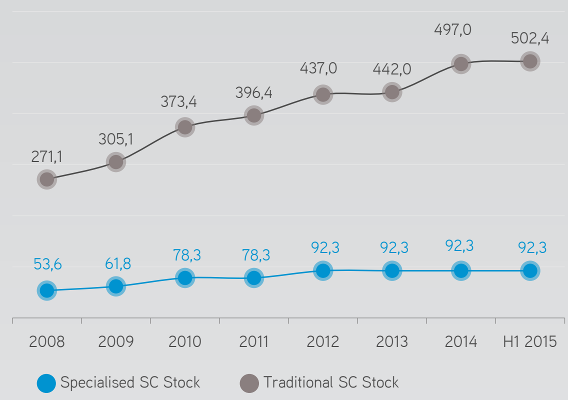
> The wider positive sentiment still prevails with retail sales growth providing encouragement to banks to support further, well thought out developments. It seems that recovery in some slightly over supplied markets (such as Bratislava) may take some time. Potential locations for further development in the regions are limited.

> Locations where there are development opportunities include Martin in central Slovakia and Prešov the third biggest city in Slovakia where J&T Real Estate have launched the leasing process of its new Eperia Shopping Centre – a 22,000 m² GLA retail scheme.

Expectations

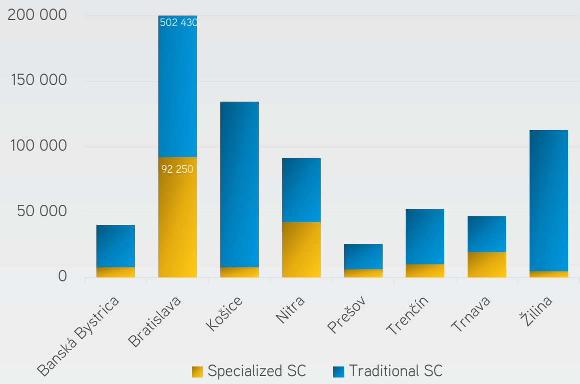
> Future challenges were already outlined in the biggest and most successful schemes in Slovakia during last twelve months. We expect that owners will need to continually redesign, refurbish, remodel and re-negotiate with occupiers, as the retail evolution delivers new challenges including new trends, new competition and especially new customers's behaviour.

Retail Stock in Bratislava (thousand m²)



Source: Colliers International

Retail Stock in regional cities H1 2015 (thousand m²)



Source: Colliers International

New arrivals & most important highlights

485 offices in 63 countries on 6 continents

United States: **146**
Canada: **44**
Latin America: **25**
Asia Pacific: **186**
EMEA: **84**

€ 1.63
billion in annual revenue

139
million square meter under management

15,800
professionals and staff

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