

# PIE's CEE Property Breakfast sees positive signs for eastern Europe



**P**roperty Investor Europe on 26 February brought together five experts in London's West End to discuss the question: Does central and eastern Europe offer attractive opportunities in 2010 or are economic risks still too great? Held in the offices of Jones Lang LaSalle, the PIE CEE Property

Breakfast attracted a record 100-plus, standing-room-only audience. Panellists were: (far left) Bruno Ettenauer, CEO, CA Immobilien, Vienna; (2nd left) Michael Kröger, Head of Real Estate Finance Northern/Central Europe at Helaba, Frankfurt; (3rd left) PIE's Allan Saunderson; (3rd right) Michael Lagler, Real Es-

tate Partner, Schoenherr Lawyers, Vienna; (2nd right) Holger Schmidtmayr, Board Member, Sparkassen Immobilien, Vienna; and (far right) Tomasz Trzoslo, Head of Capital Markets-Central Europe, Jones Lang LaSalle, Warsaw. The following is a resumé of the main topics discussed and the experts' views on them.



## Recovery starts from core CEE; yields slipping

Recovery in CEE property markets will take time and will start in core central Europe and only later move south and east, with yields compressing more slowly than the rapid decompression when the crisis hit the region, panellists at PIE's CEE Breakfast predicted.

"If rental levels stay stable in 2010, we'll see pressure on yields," said Bruno Ettenauer. "Core CE will go faster, while in SEE and Russia it will take time." Michael Langler said developed legal systems in CE will aid renewed investment but in the southeast, the foreign investor lobby for reform is missing. SEE may already be open again for local players and experienced Austrian developers but, he said, "I'm not so positive for big institutional investors." But even non-core CEE has low sovereign debt, with Bulgaria at 15% of GDP and Romania at 21%. Unlike in Greece and some very highly indebted western nations, this should not constrain growth in CEE.

Holger Schmidtmayr predicted deals in Bucharest will rebound from 2009's dismal level, with growth also in more established locations like Prague - where even compression from 7% to 6% would be a lot. In

Bucharest, Sofia or Croatia, where prime yields are near 10%, outside investors will take longer to return. "I favour Bucharest and Sofia, and Prague the least because we're counter-cyclical investors," he said. Tomasz Trzoslo said owners are holding property until prices rise, making yields academic. Warsaw prime is theoretically at 7.75% but nobody is selling.

Russia is a special case, the panellists agreed. Ettenauer commented: "You cannot automatically use experience in the CE region for Russia. I was disappointed, it proved the most unstable for us. Higher GDP growth is expected but the risks are higher." Medium-term, panellists believe Russia and Ukraine will become attractive again. SEE is also interesting mid-term due. ■ pie

## Timing right to re-enter CEE; Chinese investors also seen

Central and eastern Europe property is back on investors' radar screens. Sentiment has turned positive again on selected markets, according to panellists at PIE's CEE Property Breakfast.

"We are definitely seeing more interest," said Tomasz Trzoslo. "There was a trend 12-15 months ago when CEE generally had a bad press. The big change now is that investors look at particular countries; most are interested in buying in Poland and Czech Republic. A few core investors look for risk-free opportunities and can pay top prices, while others will take a bit more risk for higher returns, and opportunistic investors are looking for significantly higher returns."

Michael Langler signalled a new type of local investor: "Former very successful managing directors who set up private businesses and raised funds are very active in Romania and in Sofia, and some in Ukraine... We have the first requests coming from Asia for Serbia and Ukraine. I've seen Chinese interest in Serbia, maybe because a Chinese delegation visited Serbia recently."

New funds are being launched with a CEE allocation, showing that end-investors have broadened their view beyond the West, said Holger Schmidtmayr. Bruno Ettenauer noted the region has not overcome all problems and risks must be balanced against opportunities. But in general, "for the first time now I believe is the right time to invest." Added Schmidtmayr: "it's the perfect time to buy." ■ pie

## Polish, Czech markets seen pulling away from CEE

Most property investors favour Polish and Czech markets in CEE where fundamentals are now behaving like western markets, PIE's CEE Property Breakfast heard. Poland, with its large population and strong, more self-sustaining economy staying out of recession, plus Czech Republic, are the most mature. They have become attractive to long-term investors focused on quality.

While each Polish deal now attracts 8-10 investors, tiny Slovakia's economy, like the Czech, needs to cut dependence on the automotive industry but has the advantage of the euro. Hungary has been out of favour due to its economic woes and needs to rebuild trust. Schmidtmayr said Sparkassen Immo made big writedowns on Hungarian assets but the nation is much more stable than people think. "If yields stay that way, I'll be glad to expand in it; I think it's grossly underpriced," he said. He also favours the contrarian view - investing now in countries such as Romania, Bulgaria, Serbia, Croatia. Sparkassen just opened Romania's biggest mall and is about to open another in Sofia. "Generally you don't make a lot of money by following trends," he said.

Bruno Ettenauer noted Serbia has been neglected as the crisis arrived before investors had discovered the nation, and it has legal issues. But Belgrade office developments are renting fast. "For a quality building, renting is better than in other cities in the region," he said. Tomasz Trzoslo argued that even a core investor could, for example, buy Bucharest's best building at a higher yield as these markets will revive later. But smaller countries like Bulgaria pose a problem for exits.

In terms of asset classes, the panel saw shopping centres as strongest as rapid economic growth boosts consumption among aspirant populations and attracts international retailers. But many carry currency risk where retailer costs are in euros and income is in local units. And some retailer bankruptcies are expected this year. Trzoslo sees opportunities and activity in almost all sectors, especially retail and office but not hotels. Generally, warehouses are neglected due to high vacancies but long-term leased, quality assets still offer a good investment in this class. ■ pie



Michael Kröger (top) said Helaba aims to increase CEE lending and has requests from firms and investors seeing opportunities, though CA Immo's Bruno Ettenauer (above) cautioned that further de-leveraging could brake lending.

PIE's CEE Property Breakfast (above centre) attracted record attendance at Jones Lang LaSalle's London-West End premises in late February. JLL's Tomasz Trzoslo (top) said CEE is back on investor radar screens, with Polish, Czech markets favoured. Sparkassen Immo's Holger Schmidtmayr (above left) sees CEE as a contrarian play. Audience members (above) also canvassed panellists' views.