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Private Rented Sector: a new asset class in CEE

2022

Contents

Introduction

The Private Rented Sector (PRS) was established as an asset class of its own in mature European real estate markets decades ago. However, in CEE people are more traditionally attached to home ownership.

Now, this is changing. Residential prices have increased in recent years at an unprecedented pace and the current economic conditions make residential ownership even less affordable. In fact Prague, Bratislava and Warsaw rank among the top five least affordable European cities for the local populations.

Affordability issues push people to the rental market and developers are recognising the opportunities. We see more and more residential projects designed for rental across CEE cities.

As the investment framework is well established, and the leasing laws are relatively flexible and offer reasonably balanced positions between owners and tenants, the environment for investors in the PRS sector in CEE is becoming more favorable.

In this report, we look at the economic indicators and legal framework to show that there are strong fundamentals for PRS becoming a major new asset class in CEE. In addition, we also comment on the responsibility perspective, ESG.

We hope you enjoy reading our report. We would be delighted if you contacted us with your comments and observations. We have prepared additional information about the PRS-related legal framework, which can be accessed on the CMS webpage here.

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Investment into Residential Real Estate

Investment into residential rental assets (Private Rented Sector, PRS) proved to be highly popular and resilient even through the turbulence related to the global Covid-pandemic.

Looking at pan-European (EMEA) volumes, investment into Offices declined by 2021 to the level of 2016, whereas capital flow increased remarkably into two other segments: Industrial & Logistics (+137%) and the Residential sector (+152%). CBRE reported 2021 as the best year on record with overall residential investment turnover reaching EUR 109 billion, twice the level of the average annual volume over the previous five years. Despite mounting political, economic and financial challenges since early 2022, residential investment activity in European markets has been holding up remarkably well: in H1 ca. EUR 32bn was invested into the sector across EMEA, 7% below the figure for same period last year, but 8% above the five-year average.

While this market has grown massively over the last couple of years, it has remained strongly limited geographically: Germany accounted for a third of the overall investment volume in the last five years, and its share was continuously increasing throughout this period. Nordic countries attracted ca. 20% of the overall volume, while the UK was ranked 3rd with a 14% share in total. Germany continued to attract the largest capital into the sector in H1 2022, with three cities listed in the top10 European list. Nevertheless, the positions of Madrid (rank 1) and Barcelona (rank 4) provide an example of how rapidly this sector can emerge in non-core markets – hence good benchmarks for the CE capitals where this might happen in these markets within a reasonable timeframe.

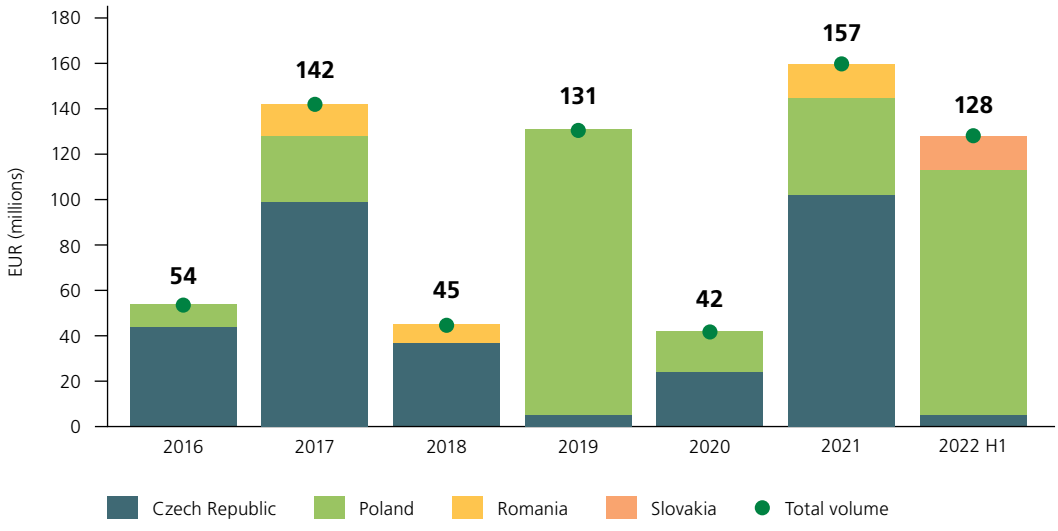
Central-Europe (CE-5) has a 1% share in European Residential investment volume with **ca EUR 1.8bn** residential investment realized in the region in 2017–2021. This figure was boosted by one portfolio deal in the Czech Republic in 2020 (EUR 1.3bn) – excluding this transaction, average deal size remains in the range of EUR 20m and total turnover around EUR 105m a year.

Overall investment volume has been showing a year-on-year (y/y) increase of 36% in CE-5 markets in H1 2022 compared to the same period last year. Residential investment volume has kept pace with 38% y/y growth and reached ca. EUR 130m in the sector across the region. While this figure is still low compared to core markets, it shows an increasing trend when putting these figures into perspective.

Looking at the countries individually, the Czech Republic has the biggest share in overall CE Residential investment volume due to the portfolio deal recorded in 2020. Excluding this transaction, Poland and the Czech Republic have a roughly equal share and have accounted for around 94% of the overall investment market since 2016. Romania accounts for 5%, Slovakia for 1%, while there hasn't been any activity registered in Hungary so far. The large gap between the country volumes nicely corresponds to the relative maturity of the sector in the individual jurisdictions: Poland and the Czech Republic are ahead of other regional peers in terms of PRS development volume as more residential developers consider built-for-rent as a viable alternative to built-for-sale. In this report we analyze the similarities and differences across the fundamentals and structures of these markets to assess the potential development of the Private Rented Sector in Central-European capitals. Examples from emerging Western European markets have confirmed that the growing development market will create the business case for investors and that this sector, as an investment market, has great potential.

In this report we analyze the similarities and differences across the fundamentals and structures of these markets to assess the potential development of the Private Rented Sector in Central-European capitals.

Annual Residential Investment Volume in CE-5



Source: CBRE Research

Client perspective:

NREP

Magdalena Terefenko
Investment Associate

NREP's considered decision to choose Poland as a new country in which to invest was based on strong market fundamentals and prospects for growth, such as a steady increase in disposable income per capita, a housing shortage, and a low share of rental apartments compared to Western Europe. Social and demographic changes are also boosting the rental market, with an increasing number of households in the largest cities and shifting attitudes towards renting, especially among the younger generation.

Although the Polish rental market is still dominated by privately owned apartments, there are more and more PRS buildings belonging to institutional investors that have become more active in the last few years. The demand for these services is confirmed by a very high occupancy rate of 95–100% for existing assets. Professionally operated properties have numerous advantages, attracting tenants with a booking-related user experience, professionally designed fit-out and security, and transparency in the lease contract.

As the largest market in CEE, Poland has demonstrated the maturity and liquidity of the real estate market in other asset classes, including offices, logistics, and retail. The question is no longer if but rather how fast the Private Rented Sector will grow in Poland.

Therefore, we remain committed for the long term and maintain our acquisition plans, actively looking for suitable investments in the key and fastest-developing Polish cities, including Warsaw, the Gdansk area, Wroclaw, Krakow, and Poznan.

One of our main concerns when choosing an investment is to provide high-quality services to our tenants together with sustainability in the buildings. We believe that only by combining these goals can we create opportunities for growth, resilient returns, and a competitive advantage. That is why we are usually involved in the process from the planning stage to deliver a project that meets our requirements.

The first Polish NREP assets will be launched in Warsaw by the end of this year. However, the company has extensive experience in the Nordics both in operating customer-focused living platforms and introducing sustainable solutions reducing the carbon footprint, such as recycled concrete and deep geothermal wells. NREP aims to accelerate the way to a carbon neutral sector and, as a company, we are committed to becoming carbon neutral by 2028.

ESG as important in PRS as in other real estate sectors

How is growing importance of ESG issues affecting the CEE real estate sector?

With the European Union's Green Deal policy, including the Fit for 55 programme and associated large-scale legislative actions, the issue of sustainability (environmental, social and governance – ESG) has become particularly important to the real estate industry. ESG is not a temporary tendency based on unspecified standards, but an irreversible trend towards developing a sustainable economy that respects the principles of environmental, social and corporate governance.

From existing regulations such as the Non-Financial Reporting Directive, Taxonomy and the Sustainable Finance Disclosure Regulations, and by advancing legislation to expand the group of entities required to prepare non-financial sustainability reports, as envisaged by the Corporate Sustainability Reporting Directive, to sustainable construction solutions being developed as part of the *New European Bauhaus* project, all of these legislative measures represent a real challenge for the entire real estate industry in CEE, including the residential sector.

Existing ESG regulations related to taxonomy and non-financial reporting, as well as the associated increasing pressure from financial markets to make investments with ESG principles in mind, have resulted in not only institutional investors but also local developers in CEE markets starting to attach increasing importance to sustainability principles. They are beginning to recognise the challenges of Green Deal policies and the need to adapt their businesses to the changing regulatory environment, as well as the increasing pressure from institutional investors to invest in sustainable products.

This is reflected in the development of sustainability strategies and the publication of the first non-financial reports by major developers in CEE. This applies not only to office and logistics developers, but also to residential developers. ESG strategies include specific carbon footprint reductions in the production of new facilities, measuring performance according to international standards, implementing the principles of the "closed loop" economy, and analysing opportunities to optimise investments in terms of emissions and resource consumption.

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Another sign of the real estate industry's growing interest in ESG issues is the increasingly widespread certification of real estate facilities. The housing sector did not for a long time seem to require the certification of facilities. This was understandable given that individual consumers in the housing sector are generally guided by different criteria when deciding to purchase a dwelling compared to institutional investors. This started to change with the development of the PRS market: institutional investors investing in ESG facilities are paying greater attention to whether and to what extent the facilities meet ESG requirements. One response to market expectations is the creation of certificates for residential buildings, such as the PLGBC Green House certificate, which is used in Poland and has been adapted to local legal requirements. Another response is to provide guidance to developers on how to design residential buildings to be sustainable and economical.

Given that the real estate sector is responsible for 40% of CO2 emissions, of which 68% are attributable to housing, we can expect that this trend will accelerate considerably. In addition to environmental (E) issues, we can also expect that corporate social responsibility (S) and corporate governance (G) issues will have a significant impact on development in the residential sector.

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Regarding corporate social responsibility (S), increasing importance is being attached to the design of housing developments with the specific needs of different age groups in mind. For example, this is reflected in projects that consider the needs of families with young children, seniors who need increased comfort and security, and independent living for people with disabilities. Leading developers further assume in their strategies that certain parts of their developments will be completed by 2030 and will meet the criteria of the 15-minute city. These are often multi-functional projects sited within walking distance of key infrastructure such as public transport, green spaces, education, sports facilities and shops.

Developers' strategies also do not overlook corporate governance (G) issues, which provide for the implementation of a policy to equalise gender ratios in company bodies and to ensure equal opportunities for employee development.

In addition to companies adapting their strategies to the requirements of ESG assumptions, legal changes can also be expected. It is therefore clear that there are enormous changes and challenges ahead for the real estate market, including the residential sector.

Click here to read more about ESG at **cms.law**

Residential market structure

The Private Rental Market is key in most major Western European markets and has matured as a sector interesting to institutional developers and investors – however, this has not always been the case.

The residential rental market has evolved as the economies expanded in core European markets and there is a clear inverse correlation between GDP/capita levels and the housing ownership ratio. The higher the GDP level a country has, the bigger the role that the rental residential market plays. The underlying economics of this correlation is simple: real estate (in particular residential properties) have always served as conservative and safe assets for wealth accumulation – and the development market never managed to keep up with the increasing appetite of investible capital. This was only amplified by the compressing of interest rates and lowering of financial costs, the decisive and almost unbroken trend over the last few decades – with only temporary interruptions throughout shorter economic crisis periods (like the Great Financial Crisis). This wealth accumulation led to high residential prices – in almost all markets in a perspective. High property values create great opportunities for developers and investors, but also result in housing affordability issues in cities with a growing population. Residential rental market has been of key importance in Western Europe and is becoming similarly relevant in Central Europe where economic growth and loose monetary policies have resulted in a housing price boom and made access to housing much less affordable than it was for previous generations.

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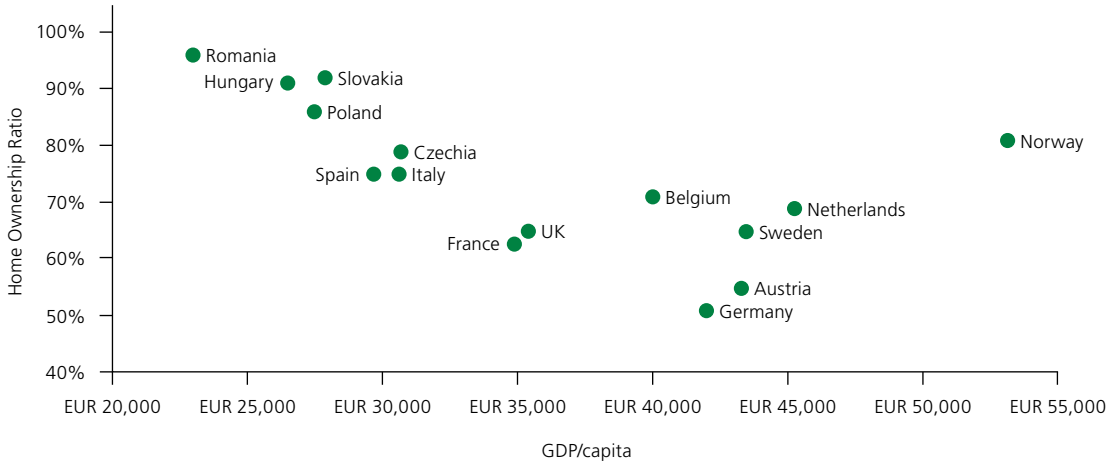
It is a general observation that higher GDP per capita level in a country corresponds to a lower home ownership ratio. The home ownership rate shows mostly a declining tendency in the WE10 markets until 2021 and rates have remained relatively stable in the CE-5 region compared to 2010. Steadily increasing home prices were supposed to push out more people from the buying market – but extremely loose mortgage conditions and (in some cases) fiscal support packages have helped people to access their own housing. When analyzing the CE-5 countries, we take the core Western European markets (Austria, Belgium, France, Germany, Italy, Netherlands, Norway, Spain, Sweden, the United Kingdom) as benchmarks. In 2020 the CE5 home ownership rate was as high as 96% in Romania, 92% in Slovakia, 91% in Hungary, 86% in Poland and 79% in the Czech Republic. In WE10 these rates were between 51% in Germany and 81% in Norway – Norway being an outlier in Western European markets.

GDP/capita and Home Ownership Ratio

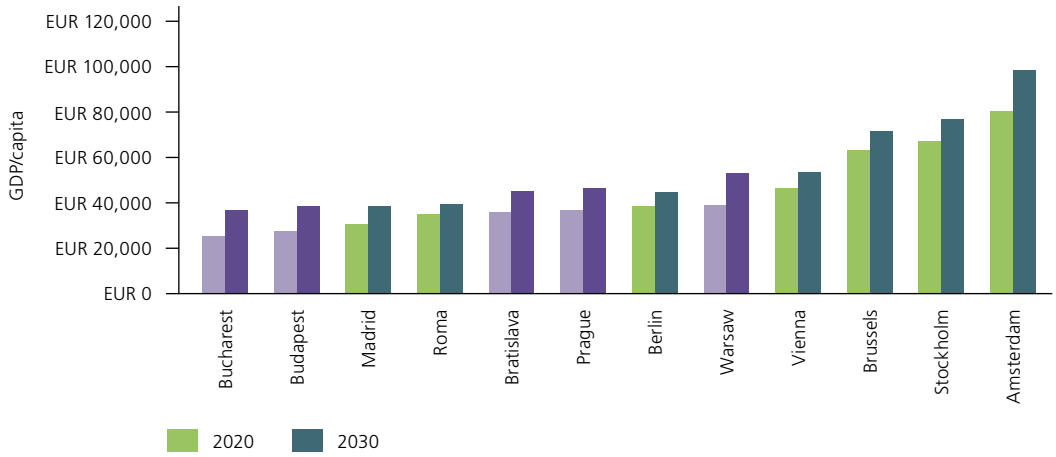


Source: Eurostat

In 2021 CE-5 countries had a total population of 82.9 million – **7.4 million** living in the five capital cities.

Central European countries have a common demographic pattern of declining national population levels. The only exceptions to this generic rule are the capital city regions where the population level holds up or even increases over time. Based on a forecast by Oxford Economics, the CE-5 capitals will have an additional 100,000 inhabitants by 2030. The population is likely to grow by 4–6% in Bratislava, Prague and Warsaw, but remains stable in Budapest and is set to shrink by 6% in Bucharest. This means that CE-5 countries will be more urbanized and capital cities will continue to increase their share in national total figures.

GDP/capita Levels in EU Capitals



Source: Oxford Economics

While population growth is forecast to remain modest in Central Europe compared to some major Western cities, CE-5 capitals are expected to be the best performers in terms of economic progress over the next decade. The economic performance gap between the capital city and the rest of the country is outstandingly significant in CE-5; GDP/capita can be as high as double the level of the national average. Currently the CE-5 capitals have an average GDP level of EUR 32,900/capita. In the analyzed Western European cities this average figure is as high as 68,300 EUR/capita. Economic growth is foreseen to continue with GDP/capita level growing by a cumulative 45% in Bucharest, 35–40% in Budapest and Warsaw and 25% in Bratislava and Prague by the end of this decade. Assuming this significant convergence in economic output over the next few years, CE capitals will reach an economic level of Berlin or Vienna today – which might impact the fundamentals of the housing market in similar ways to how it happened in Western cities.

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Client perspective:

Vantage Development

Dariusz Pawlukowicz

Member of the Management Board

PRS in Poland is an opportunity for the whole industry to create a more diverse offer for clients in the real estate sector. Ownership is still very much desired, but renting is gaining in popularity, especially among young people and in the current economic conditions. Vantage Rent tenants mostly consist of members of generations "Y" and "Z", for whom sustainability is a crucial issue. Thanks to utilising environmentally friendly innovations such as PV panels, rainwater tanks, high quality insulation materials and anti-smog pavements, as well as the way we conduct our business, we are able to meet their expectations.

For us, PRS is a long-term solution that can address many of the social problems we constantly try to resolve. As an industry, we strive to bridge the housing gap. This has become even more prominent after the mass influx of refugees from Ukraine. Some of these people will probably stay in Poland for a long time, and this will have an impact on the available housing stock. The answer to these issues might be the growing PRS market, with its modern and affordable units for rent.

Most of the apartments offered by Vantage Rent and our competitors are located in attractive parts of cities, which makes them available to clients who might not be able to purchase them. More PRS projects also mean more dwellings: according to the investor's declarations, we can expect around 100,00 more units for rent by the end of 2028. Twenty thousand of these units will be in a TAG portfolio in five regional markets in Poland operated by Vantage Rent. Finally, new apartments with professional servicing will raise the quality of rental accommodation in Poland to the benefit of clients.

Although PRS is a valid part of the real estate sector, entering the market comes with some challenges. The main ones involve law regulations, which do not align with the reality of the business. For example, electricity is charged to tenants according to the enterprise (business) tariff instead of the household tariff. This means higher costs for PRS clients, which could easily be reduced with a clearer interpretation of the regulations. A future investor must also consider the issue of realising investments on residential or commercial plots, when each come with different obstacles. Every small decision made at the beginning will have an impact in the future, but that is the beauty of building something completely new.

PRS project legislation gives landlords the edge

Legislation affecting leases and the landlord-tenant relationship is still developing to meet the dynamic requirements of the new asset class but in general it is flexible and favours institutional investors.

Even though PRS is a new phenomenon in CEE, all jurisdictions appear to be friendly towards PRS investors. Residential leases in CEE that can be used in PRS projects tend to offer a higher level of protection to tenants compared with commercial ones, but they are not usually onerous for landlords. In addition, it is worth noting that special investor-friendly regulations concerning PRS projects have been implemented in recent years. For example, Poland introduced the "institutional lease" that can be used only for apartments rented as a business activity, which is much more favourable towards landlords than the standard residential lease.

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Special terms for PRS leases in Poland and Slovakia

Across the CEE countries, PRS projects can use both definite and indefinite term leases. However, definite contracts for up to one-to-two years are the most common. Certain limitations do nevertheless apply to the lease term. Romania stipulates a maximum definite term of 49 years, whereas in the Czech Republic and Slovakia this is 50 years. In Slovakia, in PRS projects supported by the state the maximum lease term is only five years on the condition that in this period, the landlord is not entitled to unilaterally terminate the contract. In Poland, there is a maximum definite term of ten years for standard residential leases, although this does not apply to institutional leases—the most appropriate form of lease for PRS projects. On the other hand, only short-term leases should be implemented in Polish PRS projects structured as hotels (which is a common practice due to the zoning restrictions). Such short term is not legally defined but some courts understand it as up to one year, which in practice can be extended for subsequent one-year terms. Hungary is the only country in CEE that does not set a maximum term, but short-term leasing (typically understood as less than 90 days) requires a licence to be obtained.

Despite some limitations, flexible lease terms are available for PRS projects in all CEE jurisdictions

Residential and PRS leases offer certain additional protection for tenants. These vary between countries but usually include limitations on the landlord's termination rights. These regard the formal aspects of termination, such as in Hungary, where the law regulates notice periods and the termination procedure. Poland, the Czech Republic and Slovakia restrict the possibility to increase the rent to a certain extent, however they do not seem to be particularly burdensome for landlords if properly regulated under the lease. For example, under institutional leases in Poland the rent can be increased or indexed only on terms stipulated in the agreement (no additional restrictions apply), whereas in the Czech Republic and Slovakia, the rent cannot be increased above the amount of comparable customary rent, and any increases in following three years cannot exceed 20% in total (if not provided otherwise in the agreement). In Poland, apart from mandatory notice periods the catalogue of grounds on which the landlord can terminate the lease is restricted to certain cases. This restriction is not present in Slovakian and Czech laws, but as a rule the residential lease agreement must be fair and balanced, and excessive or "materially unreasonable" obligations cannot be enforced against tenants. In addition, the validity of the landlord's termination grounds can be verified by a court at the tenant's request.

The tenant is protected by limitations on termination rights and rent increases
The eviction of tenants under residential leases is generally possible in CEE countries, although subject to certain limitations, such as a prohibition on eviction during the winter months. In this respect, Poland, Hungary and Romania have adopted special measures to facilitate the eviction of tenants, especially regarding PRS projects. In Poland (for institutional leases only) and Hungary, an accelerated eviction procedure can be used if the tenant provides a unilateral statement in the form of a notarial deed that includes the obligation to vacate the premises under the provided conditions. In Romania, no tenant's statement is required but the lease must be registered with the fiscal authority or be executed in the form of a notarial deed. In the Czech Republic and Slovakia, the eviction of tenants in PRS projects is also possible, but subject to standard court proceedings.

A collateral deposit is by far the most common way of securing the tenant's obligations under a lease in all CEE countries.

Some measures against restrictive eviction rules have been adopted in all CEE jurisdictions
A collateral deposit is by far the most common way of securing the tenant's obligations under a lease in all CEE countries. The maximum level of such deposit is often limited: in Poland it is twelve months' rent (six months for institutional leases); in the Czech Republic and Hungary it is three months' rent; and in Slovakia generally there is no maximum deposit level, except the three-month cap applicable to leases in PRS projects, the development of which was supported by state in accordance with recent legislation. In addition to the deposit, Poland and Hungary require the tenant to provide a statement in the form of a notarial deed in order to facilitate the obligation to vacate the premises at the end of the lease term. In the Czech Republic and Slovakia, contractual

properly constructed lease agreements for PRS projects in CEE can be relatively balanced and flexible, as well as effectively secure the rights of institutional landlords, e.g. by collaterals and enabling the eviction procedure.

penalties under leases are considered additional security for the landlord. Furthermore, in Poland a tenant's payment arrears under the lease up to one year are secured by the landlord's statutory right of pledge over the tenant's movables in the apartment. Although the application of other types of collaterals used in commercial leases (such as a bank guarantee) is not prohibited by law (except for Slovakia, where leases in PRS projects supported by the state can only be secured by deposit), they are also not customarily used in residential leases.

Securing the landlord's rights under the lease with a collateral deposit is standard in CEE, but certain other measures are also available
To conclude, regulations in the CEE countries create a legal environment that is welcoming to PRS projects, especially regarding the tenant-landlord relationship. Tenants' rights are usually protected by limiting the landlord's termination grounds and restricting eviction (which can often in PRS projects be subject to an accelerated procedure). On the other hand, properly constructed lease agreements for PRS projects in CEE can be relatively balanced and flexible, as well as effectively secure the rights of institutional landlords, e.g. by collaterals and enabling the eviction procedure. Although current laws sufficiently balance the tenant's necessary protection with the needs of institutional investors, they are still evolving. Recently, some CEE countries adopted special measures to make PRS projects more feasible. It can be expected that the number of investor-oriented special PRS measures will grow in order to encourage investments in the PRS sector.

For more information regarding PRS legal framework please click here.

Residential sales prices

Investing into residential real estate has been a highly profitable business across all CE-5 markets.

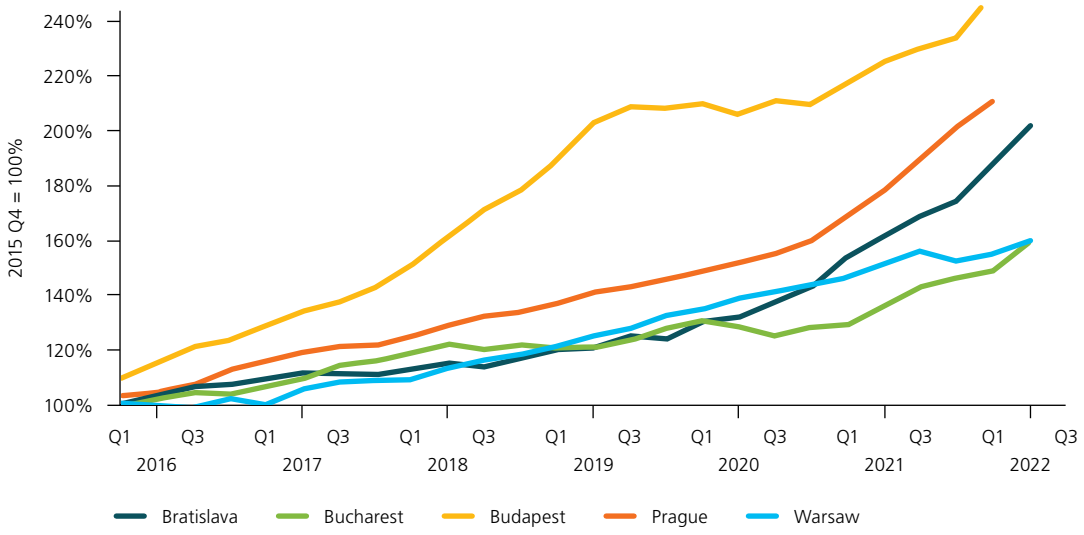
Although the Great Financial Crisis (GFC) caused a severe correction in prices, this has already been offset by far. In the CE-5 region the GFC caused a significant decrease of house prices until 2013. From 2014, however, the recovery was dynamic, and pre-GFC price levels were reached in all, but one market by 2015; it took for Romania until 2019 to reach the 2008 price levels.

Cumulative house price increase since 2010 was the highest in Hungary **(+120%)** and in the Czech Republic (+93%) and the lowest in Romania (+12%), leaving massive room for further value increase.

Economic growth accounted for massive salary growth (especially with a labour shortage arising across the entire region by 2018), but still wages could not keep pace with the housing price increase in many countries.

The Covid-pandemic did not stop value appreciation: demand remained high (or even increased) with mortgages being available for many and new supply started to decline from 2021. Annual completion is falling this year again and will be ca 17% lower than at the peak in 2020 (looking at the CE-5 capitals combined). In the last two years the price increase has accelerated, especially in the Czech Republic and Slovakia (as well in Hungary in local currency terms). Following years of steady growth, housing prices are still at a relatively low absolute level in some CE markets: housing sales prices averaged at

Housing Price Index in CE-5 Capitals

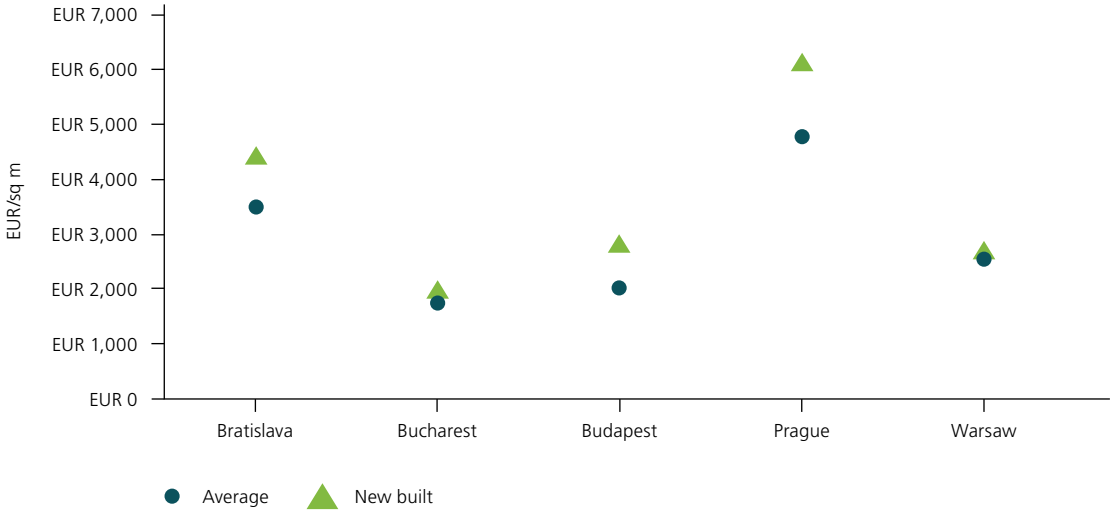


Source: Eurostat, CBRE Research

EUR 1,700m² in Bucharest and EUR 2,000m² in Budapest by H1 2022. The other end of the scale is Prague with EUR 4,800m² and Bratislava with EUR 3,500m² average price.

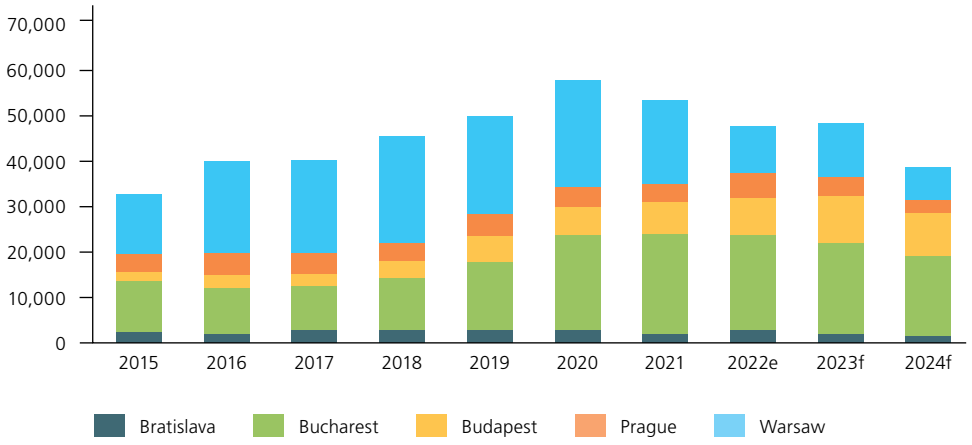
New housing is priced with a relatively modest premium of 5–10% in Warsaw and Bucharest, while the gap is 30–40% in the other three cities. The most expensive new-built market is Prague (EUR 6,100m²) and the most affordable is Bucharest (EUR 1,900m²) – reflecting a larger gap in prices than justified by the different economic fundamentals. The house price increase was not stalled during the Covid-pandemic and actually accelerated across many markets given the recent inflationary pressure and supply shortages. Compared to July 2021, new-built prices (in EUR terms) went up by 25–30% in Bucharest, Budapest, and Prague. Prices in Bratislava and Warsaw increased by 15–20% y/y.

Average and New-built Housing Prices CE-5 Capitals



Source: CBRE Research

Residential Completion and Forecast



Source: Eurostat, CBRE Research

Housing price statistics have a certain time lag – and this is now more critical than ever as markets are about to turn based on underlying economic fundamentals. Real estate hedges against inflation to a certain level – but nominal price increase is likely to come up short of the current extreme inflation level, bringing property values down in real terms. It is fair to assume that the residential price increase will slow across most markets by late summer as mortgages have become significantly more expensive, real wages have started to decline with inflation soaring and general economic sentiment has turned negative due to mounting fears of a looming recession.

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Client perspective:

Karlin Group

Robert Pilous

Member of the Board, Marketing

Economic factors and the high cost of new apartments have encouraged our interest in CEE's rental market (PRS). The key points for us are the low supply of apartments to buy and correspondingly high mortgage rates. We recognise that, traditionally, private ownership has been the favoured choice in the CEE market as elsewhere – but times are changing. It isn't only economic reasons that are driving change; younger people value flexibility in their housing options and rental is part of the mix.

The pressure on available and affordable housing is of course sharpest in the major cities of CEE. For us, this is where the main PRS opportunities are. In addition to the appeal of rental housing to the public generally, market niches within the sector such as student accommodation represent expanding opportunities.

Taken together these are the factors that make rental apartments a viable alternative to private ownership in CEE.

As a firm we are aware of the challenges in expanding our PRS operations in CEE. Administrative processes which accompany real estate development are lengthy and intricate. Collaboration with a reputable local developer, with a solid record in the target market, is essential. Equally important to us is our responsibility to our clients, communities, and places.

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Residential rental prices

Years of extreme price increase might be over with economies cooling down, although there was a significant change in access to home ownership ability across the region over the last decade.

Housing affordability deteriorated significantly in Czechia (-27%) and to some extent in Slovakia (-8%) and Hungary (-9%) while it improved in Poland (+17%) and in Romania (+47%) – as wage dynamics here exceeded the house price increase. It is still a new phenomenon but buying a home requires more effort in all the CE-5 capitals than the EU average: while the EU average was 12.3 years of average income for a 75m² flat in 2021 according to Eurostat, the same indicator was 14.5 for Bucharest, 16.2 for Budapest 19.4 for Warsaw, 23.1 for Bratislava and a staggering 24.5 for Prague. With these ratios Prague is the least affordable city in the entire EU for first homebuyers, Bratislava ranked 3rd and Warsaw 4th. In general, there is a change in attitude to home ownership and more people opt for renting – however, the single biggest driver of the change is financial: more people are being pushed out from the owners' market and will look for rental opportunities instead.

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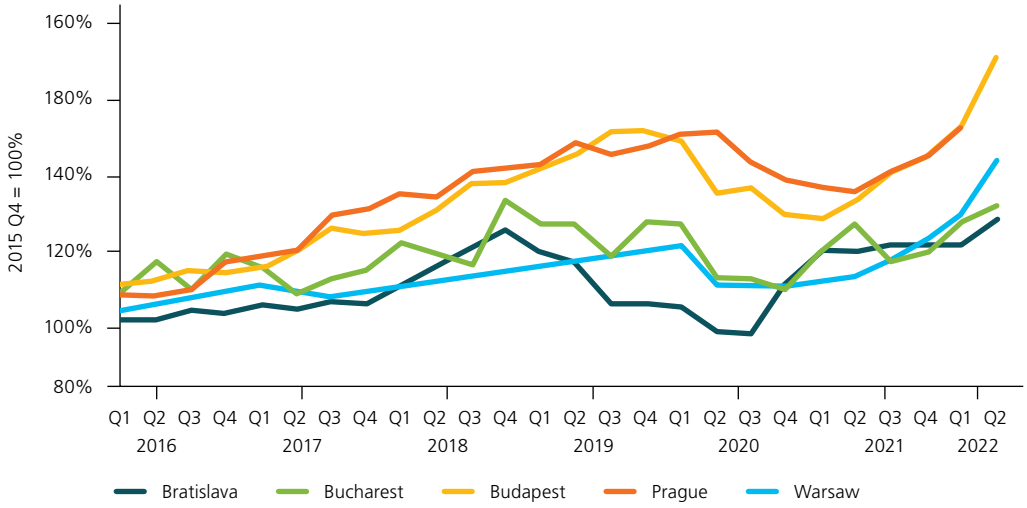
The rental index has remained under the housing price index for all CE capital since 2010, indicating a strong yield compression with slower rental growth than value growth over this period. During the Covid-related economic turbulence, rental rates even declined in some markets. However, as economies expanded strongly in 2021, rental rates started to accelerate across all markets – Budapest (+25% y/y) and Warsaw (+23% y/y) stand out by a great margin. CE capitals still count as relatively cheap markets within the EU and are among the more affordable cities across the continent. While rental markets are fragmented and not very transparent due to the lack of large institutional owners, CBRE surveyed local rental offerings based on the same definitions applied across these markets. Looking at typical one bedroom apartment listings[1], Warsaw is the most expensive rental market in the region (EUR 18–28m² pm), followed by Prague (EUR 13–24m² pm). Bucharest (EUR 9–14m² pm), Budapest (EUR 11–18m² pm) and Bratislava (EUR 13–20m² pm) are among the cheaper locations.

Residential Rental Index in CE Capitals (2015=100%)



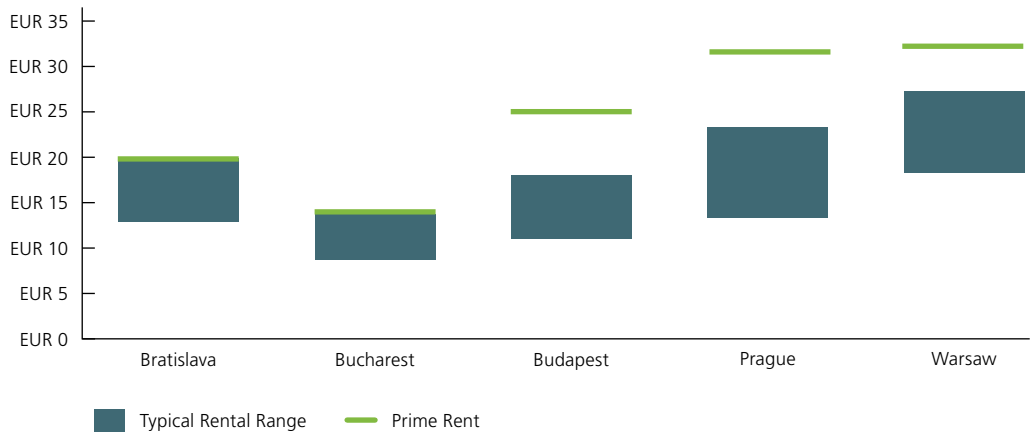
Source: Eurostat, CBRE Research

Monthly rents start at **EUR 300** for a one-bedroom apartment in Bucharest, EUR 375 in Budapest, EUR 460 in Prague and EUR 650 in Warsaw – considering centrally located, good quality housing.

Looking at larger apartments[2] at similar locations, rental comes cheapest in Budapest (from EUR 470), and prices in Bratislava, Bucharest and Prague start in the EUR 550–750/month range, while Warsaw tops the list with over EUR 1,070/month for a two-bedroom apartment. Prime residential[3] is a highly diverse market in all cities with considerably wider price ranges.

Prime rental rates are up to **EUR 30–32m² pm** in Prague and Warsaw – marking the prime end of the CE region.

Residential Rental Rates in CE-5 Capitals (EUR/m² pm)



Source: CBRE Research

[1] One bedroom apartment is defined as a unit with a floorspace of 30–40m², new-built or up to 10 yrs, old with good accessibility and amenities at a central location (close to office hubs), aimed to target young professionals

[2] Two-bedroom apartment is defined as a unit with a floorspace of 60–80m², similar technical and location criteria as above, aimed at targeting young couples and small families.

[3] Prime is defined as an apartment of min 100m², newly built or refurbished, at prime location, with in-house high-end facilities.

City overviews

Bratislava

The capital of the Slovak Republic has approximately 250,000 apartments, according to the last census of residents, houses and apartments, which took place in 2021. Since 2001, almost 50,000 apartments have been added in Bratislava, which represents an increase of 25%.

Looking at the last decade, divided into the period 2011–2015 and 2016–2020, there was an increase in the number of completed apartments by 27%. In 2021, almost 2,000 apartments were added in Bratislava. However, in 2022, more than 2,700 more apartments are expected to be completed. The strong construction prices of apartments may weaken in the next few years, as there are still fewer areas for construction and permitting processes are not keeping up with the appetite of developers.

In the summer of 2022, the government had to react and approved an amendment to construction law, which should speed up the permitting process and thus simplify the construction of housing projects. According to the Statistical Office, 475,000 people live in Bratislava, and these are people with permanent residence in the country. A survey of telephone operators pointed out, based on active SIM cards, the fact that 633,000 residents spend the night in Bratislava every day.

Slovaks have a mentality of owning the property in which they live, which is also confirmed by the Eurostat survey, which says that Slovakia ranks third in the European Union in the ownership of occupied dwellings with a total share of up to 91%. The need to own, affordable mortgages and the economic situation of the Bratislava region, in contrast to the insufficient supply of apartments, resulted in the price per m^2 approximately doubling in the last 6 years. Precisely because of the sharp rise in apartment prices, it was not worth developers keeping apartments for rent, as the rental growth represented only about 20% during the same period. Rising

» Currently, Bratislava still lacks a functional rental housing model. Apartments are rented primarily by private individuals or real estate agencies with a smaller number of apartments. However, the government, which is preparing a concept of rental housing with various advantages, should help. The goal is to create affordable rental housing in Bratislava.

interest rates reduce the availability of mortgages. The National Bank of Slovakia reported an average interest rate of 0.9% in December 2021, while in June 2022 it was already 1.76% with a 1–to 5-year fixation.

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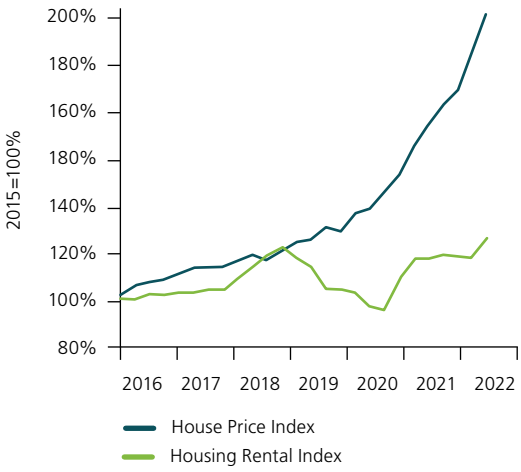
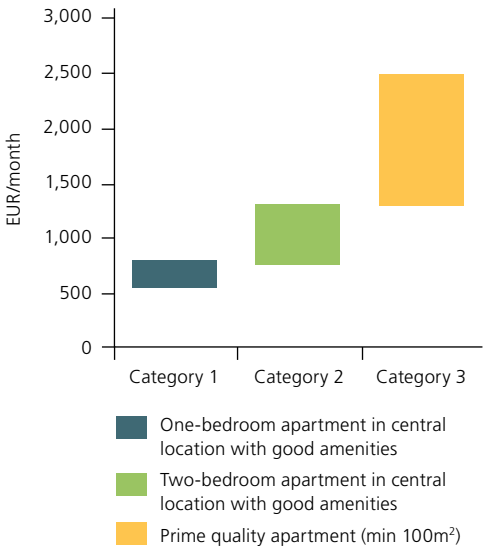
A survey consisting of data from the portal nehnutelnosti.sk (the largest real estate portal in Slovakia) revealed that the average rent in new construction projects within one-room apartments is EUR 13–20m²/month in a central location and EUR 14–19m²/month for two-room apartments within the same location. For apartments furnished above standard in the best locations in the city centre, the price for a newer apartment range from EUR 11–18m²/month. Looking at the selling prices of new residential units, the price per m² in Bratislava reached up to EUR 4,417m² as of June 2022.

Housing Price and Residential Rent Index in Bratislava



Source: Eurostat, CBRE Research

Typical Residential Rental Ranges in Bratislava



Source: nehnutelnosti.sk, CBRE Research

For more information on Slovakian PRS laws, please visit the cms.law website here.

Bucharest

Before 2000, Bucharest residential market consisted mainly of old units located in buildings delivered in the communist period and only a few small – sized buildings developed in exclusivist areas from the Northern part of the capital city. 2005 marked a threshold for Romania and in particular the Bucharest residential market, when residential projects with more than 100 units per compound were announced by developers.

The Romanian appetite for owning their dwellings is very well known, as the official data published by Eurostat for 2021 indicates a share of 95.3% people living in their own households. This overwhelming percentage ranks the country in the first place in the European Union, with individuals that buy a house to live in. Nonetheless, the share of individuals who live in rented housing increased in Romania from 3.9% in 2020 at 4.7% in 2021.

While the banks toughened their financing conditions throughout the years, assistance was given by the state through the introduction of the 5% VAT for new apartments with unit prices lower than RON 450,000 and a usable area of a maximum 120m^2. These provisions are in force in 2022, but are subject to change from 2023 when the future legislative text will stipulate that the 5% VAT will be applied only once, when buying a single home with a price lower than RON 600,000 and a usable area of a maximum 120m^2.

Another governmental project designed to boost the residential market was "Prima Casa", currently rebranded as "Noua Casa", launched in 2009 and even though it has changed its eligibility conditions throughout the years, it continues to be ongoing in 2022.

With circa 21,000 residential units forecasted to be delivered by the end of 2022 and another 20,000 units during the next year, Bucharest and Ilfov region are gathering a consistent residential pipeline. The yearly deliveries

With regard to the rental market in Bucharest and Ilfov region, institutional developers and/or operators are scarce, the rental market being mostly managed by private individuals or small sized real estate companies with several projects in their portfolio.

indicate an upward trend for the residential market from 2017 onwards, although changes in construction prices and the blockages generated by permitting in the capital city, marked a marginal decrease in the forecasts of new developments for the 2022–2024 period.

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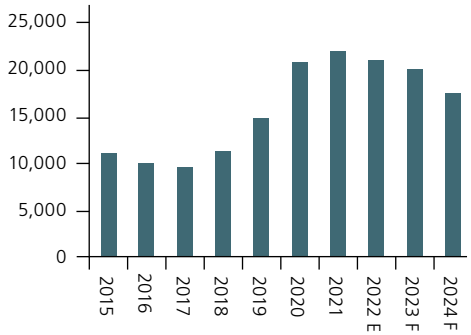
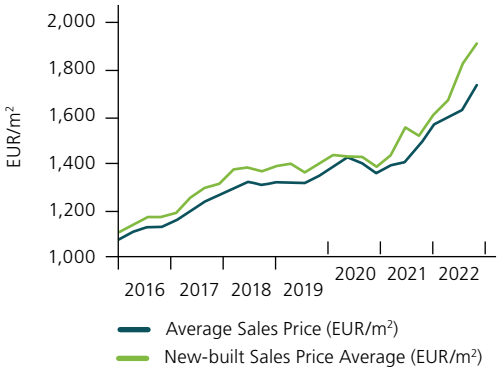
Based on the offers from one of the largest websites with real estate listings, Imobiliare.ro, the average asking rent for new built residential units (built after 2000) in Bucharest and Ilfov region ranges from EUR 9–10m²/month for one room units, EUR 10–12m²/month for two and three room units and EUR 12–14m² / month for four+ room units. Looking at the asking price for new built residential units, the average price per m² is on an ascending trend with marginal quarterly changes, reaching at EUR 1,900m² at the end of H1 2022.

Annual Residential Completion (Bucharest & Ilfov)



Source: National Institute of Statistics, Imobiliare.ro, CBRE Research

Average + Prime Residential Sales Prices in Bucharest



Source: Imobiliare.ro, CBRE Research

For more information on Romanian PRS laws, please visit the cms.law website here.

Budapest

The rental market in Budapest lacks professional owners and operators, consequently the vast majority of the rental offerings are managed by private individuals or small companies with a portfolio of max 50 units (mostly across various properties).

Until very recently cheap mortgages and governmental incentives helped homebuyers to access their own housing – while contributing to the massive price increase. As the typical mortgage rate increased from 3–4% to 8–9% (and is likely to rise further), new loan volume is declining, and more people are finding their way to the rental market.

The development pipeline is strong in Budapest with ca 8,000 new apartments being constructed this year (up from 7,000 last year) and a further 10,000 being under construction and scheduled for 2023. New-built residential is enjoying the reduced VAT (5%) until end of 2024. While many of the currently ongoing large-scale residential projects could potentially contain a built-for-lease element, only a very few local developers are currently exploring the rental market. Even for those the core business remains built-to-sell, but they have a property management arm, which is engaged in the utilization of commercial and residential properties developed by them. There are apartments for lease in new-built projects where the majority of the units are sold to owners but there are also plans for stand-alone rental apartment blocks of 100–200 units in the near future. For most developers the current prices and the solid demand for housing until recently made exit more viable than managing units – especially with 27% VAT applicable for rent while only 5% is applicable for sale. Relying on official listings, the average rental prices in Budapest range from EUR 370–800/month for a one-bedroom apartment and from EUR 470–1,000/month for a two-bedroom apartment in a central but non-prime location. Rental rates start from EUR 9m^2/

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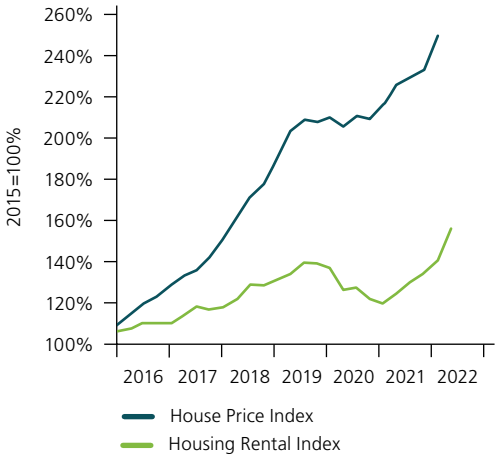
month, and this excludes all service charges and utility costs. In the CBD (Budapest 5), residential rents start from EUR 13m²/month – according to ingatlan.com, a local listing site. While the rents increased by a record 21% y/y in HUF terms, the majority of this increase was offset by the weaker local currency when translating the prices into EUR. However, HUF is seriously undervalued for the economic potential of the country which can lead to an appreciation assuming economic and political stabilization in the mid-run. Strong economy and favourable demographics couple with ongoing housing shortage in the Hungarian capital and drive residential rents further up.

Any residential rental increase lagged behind sales price growth throughout the previous cycle and rental rates were generally hammered during the pandemic as supply increased because many owners opted for long-term rental instead of short-term due to the dramatic decline of touristic demand. While international tourism is far from recovering entirely, demand for housing is clearly outstripping supply and started to drive rental rates at an accelerated pace since early 2022. The residential rental increase is way above the price growth measured in other asset classes, and the only one where growth is positive in real terms given current high inflation.

Housing Price and Residential Rent Index – Budapest



Source: KSH, MNB, CBRE Research

Typical Rental Ranges in Budapest

Source: ingatlan.com, CBRE Research

For more information on Hungarian PRS laws, please visit the cms.law website here.

Prague

The institutional residential rental market in the Czech Republic is an emerging market, mainly due to a lack of standardized products. The insufficient supply of new residential stock is compounded by individual PRS investors.

The Czech market is historically owner-oriented; however, we see a shift in living requirements driven by urbanisation, socio-demographic changes and affordability. There is a rise in the development of the institutional multifamily residential market at affordable price levels. Developers aim to provide sustainable ways of living that meet current and future resident requirements. Major factors currently influencing the market are the overall economic uncertainty, inflation and especially the rise in interest rates and stricter limits for obtaining mortgage loans.

Prague, the capital of the Czech Republic lying at the heart of Europe, is one of the continent's finest cities and the major Czech economic and cultural centre. It is a popular place for foreign visitors and has a good community for them to settle in with 14% of Prague's inhabitants being foreign. The Prague residential market significantly outperforms the rest of the Czech Republic in terms of both levels of new development and prices. The most demanded apartments for rent are apartments around 60–80m^2. Most demand comes from single or dual tenants. Individual landlords supply the largest share of rental stock.

The current rate of new construction in Prague is not sufficient to match demand, despite the fact that for the whole of 2021 the total number of apartments for which construction was started stood at 9,700 the highest since 2000, according to CZSO, the national statistical office. According to the Institute of Planning and Development City of Prague, Prague currently lacks approximately 30,000 apartments.

The lack of supply has pushed up prices. As a result, property ownership has become out of reach for many households choosing to rent instead. At the same time, rental apartments represent a relatively safe investment for investors. The share of rental apartments in development construction will thus increase significantly in the coming years. Urbanization trends will not weaken.

Due to the current situation, the cooling of demand from private buyers is mainly caused by the unavailability of mortgages, and many clients who want to finance new housing with a mortgage are now forced to postpone the purchase of new housing. We are seeing signals from the market that the residential property sales market is slowing down. According to an analysis by Skanska, in Q2 2022 the supply of new apartments in Prague increased. There is currently more than 4,000 newly built units available on the market with an average price of EUR 6,000m^2. Year-on-year, this represents a 25% increase and the average price of offered apartments has increased by 17% y-o-y.

Both expensive and difficult to access mortgages and high apartment prices are leading to the fact that after almost two years

of continuous price increases, Prague apartment prices are currently experiencing stagnation. According to the Czech Banking Association, in H1 2022, the volume of new mortgages decreased by approximately one third. This led to the slower pace of sales as well. The rental housing market, which has already overcome the price drop during the pandemic, demonstrates the opposite trend and now seems to have already reached the pre-pandemic level, or even slightly surpassed it. We believe that the current situation will also initiate higher demand for more energy-efficient and environmentally friendly products.

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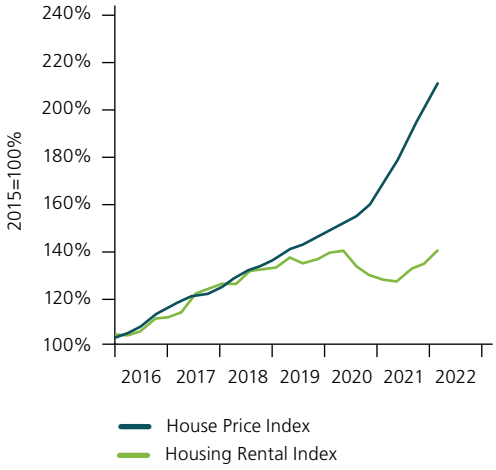
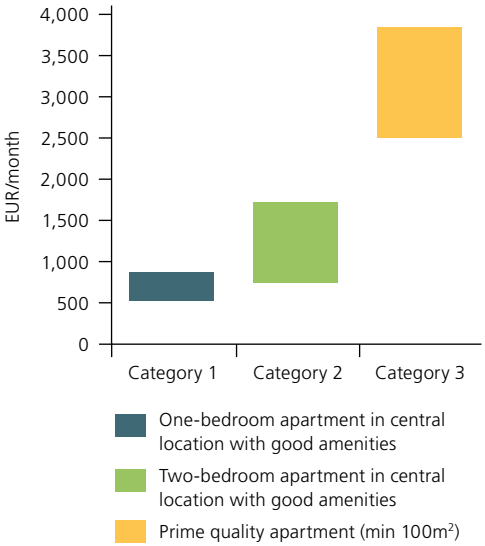
Housing Price and Residential Rent Index in Prague



Source: Eurostat, CBRE Research

Typical Residential Rental Ranges in Prague



Source: Sreality, AFI, CBRE Research

For more information on Czech PRS laws, please visit the cms.law website here.

Warsaw

Warsaw has always suffered from a shortage of quality housing with the majority of the housing stock dating from the 1950s to 70s, constructed during the rebuilding and repopulation of Warsaw during the post War years.

Most of the stock built between the 1960s to 80s was poorly planned, constructed of pre-fabricated blocks known as Panelaks in some parts of CEE or 'Bloki' in Poland, with many buildings already falling into disrepair. These minimalistic tower blocks were built across Poland's major cities to house the growing population which was working primarily in the fabrics and industrial sectors across the country. Between 1945 and 1988, 7 million apartments were built in Poland. Younger, more aspirational potential renters turn away from these buildings in favour of modern stock when and where available. Currently, Warsaw stock amounts to ca. 1.1m, but is increasing steadily by 20k apartments per year since 2015.

The residential rental market in Warsaw is dominated by private individual landlords. Until 2019, the institutional market was composed mainly of the state-owned operator "Fundusz Mieszkań na Wynajem" and a few international funds. In 2019, in parallel with the start of the operation of the Resi 4 Rent platform a number of new institutional investors became interested in entering the residential sector in Poland, with a strong Warsaw preference. As there were no available operating assets, investors have partnered with developers to secure residential projects.

Currently, there are just above 4,000 units in operation and a further ca. 12,500 are at the planning stage. Most of the pipeline projects are scheduled for delivery by the end of 2023, however it is worth mentioning that less than 50% of them are under construction and consequently some delays should be expected.

Given the scale of the private landlord's offer, the institutional share in the rental market will be at a niche level for many years. Nevertheless, operating PRS projects have managed to outperform those of private landlords and benefit from strong demand. The competitive advantage of institutional PRS projects include, among others: better quality and functionality of the units, amenities offered to tenants, process transparency and easiness, lack of agents, possible English contracts and bulk rentals.

In H1 2022, the influx of refugees from Ukraine strongly affected the balance between demand and supply. It has also become one of the reasons for an increase in average offer rent levels, both due to cheaper units being rented out and rent levels being raised. However, it should not be forgotten that the increase in rents was also caused by inflation and the return of the market to normality after a period of more pronounced pandemic restrictions.

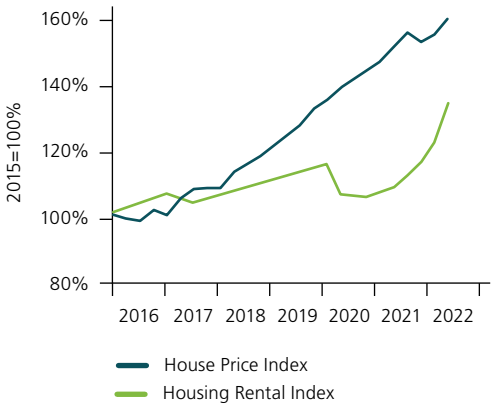
Up until 2019, the growth of transaction prices in the primary section of the largest residential markets was similar to the dynamics of the purchasing power per inhabitant in each city. However, the situation has changed since 2020. Housing prices are now rising faster than

purchasing power. Meanwhile, the share of housing rent in terms of disposable income is relatively low compared to other European countries. Despite the increase in rents, the ratio of rent to average salary slightly decreased last year, thanks to the growth of salaries.

In addition, the new stress-test recommendation introduced by the Financial Supervision Commission significantly limits the acquisition possibilities for young people. This together with the recent interest rate hike creates an environment that pushes potential first-time buyers towards the rental market. The trend is clearly visible on the rental market where since March 2021 the average gross rent in Warsaw grew by 25% while the offer shrank by nearly 75% in the same period. In the last 3 months, online listing shows that average gross rents of new stock (developed after 2010) in a central location range from EUR 20–30m² monthly depending on the unit type, fit-out quality and micro location. While Warsaw experienced an unprecedented rent increase last year, in the longer horizon rents are still lagging the house prices.

The trend is clearly visible on the rental market where since March 2021 the average gross rent in Warsaw grew by 25% while the offer shrank by nearly 75% in the same period.

Housing Price and Residential Rent Index in Warsaw



Source: Eurostat, CBRE Research

Typical Residential Rental Ranges in Warsaw

Source: CBRE Research

For more information on Polish PRS laws, please visit the cms.law website here.

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