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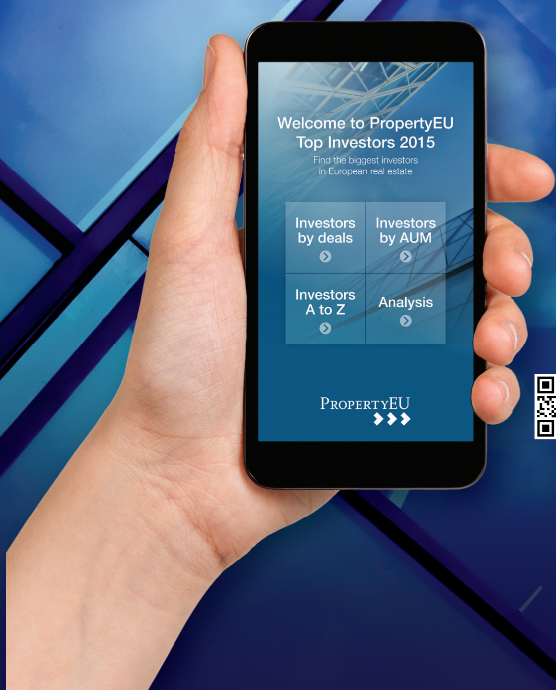

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OCTOBER 2015

Soaring market sparks cross-border bonanza

Evan Z. Lazar and Pawel Debowski of global law firm Dentons explain why mega deals and diverse portfolios are on the rise

1 What are the key trends that you have seen this year in European markets?

EVAN LAZAR, Co-Chairman, Global Real Estate, Dentons: First of all, the market is booming. According to brokers, this year European commercial real estate investment volumes may top €230 billion – a record set in 2007. 2015 also brought with it a small crop of new market trends. We're seeing investors shifting their attention to mega pan-European platform deals. We are also observing the consolidation of Western Europe and CEE, and increased growth in investment into peripheral markets like Italy and Ireland as well as the Nordics.

PAWEL DEBOWSKI, Chairman, Real Estate (Europe), Dentons: I agree. Real estate transactions are getting bigger and more sophisticated. Deals valued over €500 million are taking a larger slice of the market. Several of our large institutional investor clients are actively pursuing the acquisition of entire platforms, often multi-jurisdictional. And while last year they were looking mainly at the logistics sector—Blackstone and P3 being good examples—this year we're seeing their investment strategies diversifying. Recently, TPG purchased TriGranit's platform in CEE, with around 30 retail and office assets in Poland, the Czech Republic, Hungary and Croatia. In a similar move, another leading global private equity firm took over 10 office, retail and logistics projects across Poland, the Czech Republic, Slovakia, Hungary and Romania. More mega deals are currently under way.

2 Why do you think 'mega deals' have grown in popularity? Will this trend continue?

DEBOWSKI: The investment funds have raised huge amounts of capital, but we hear that at the same time they have not increased the size of their teams. Put simply, they are using the same human resources and expect to invest substantially more. This is one of the drivers of why buyers like or actually need to explore mega deals.

LAZAR: And you have to bear in mind that mega deals are by definition more complex, because they have more moving parts, take longer to complete and there are more risks associated. We are superbly positioned to handle multi-jurisdictional transactions owing to our extensive Western, Central and Eastern European network and our group size, and because we have a large number of senior practitioners who can guide clients through the whole process.

3 Do you think the perspective on Western Europe vs CEE is shifting in the minds of international investors? Are we moving towards Central Europe and Eastern Europe as different regions?

LAZAR: There certainly is a shift in investment thinking. Looking at the projects we are involved in at this time, what strikes us is that there is no longer a clean split between transactions involving assets in Western Europe and those involving assets in CEE. Central and Eastern Europe assets are now commonly added to the basket of properties being acquired or sold as one European portfolio. It's interesting to observe these divisions fading away.

DEBOWSKI: Central and Eastern Europe is perceived as an attractive and safe region by a growing number of overseas property investors, especially from the US. Investors are moving up the risk curve in search of yields. Core Western European markets offer a limited stock of trophy assets and so investors are increasingly tempted by CEE products which present profitable yields and long-term profits. The weakening Euro is another pull factor for US investors looking to expand in the Old Continent.

LAZAR: Market activity in CEE country-by-country is buoyant. The Czech Republic led the region in terms of investment volume in Q1 2015, according to JLL. This is followed by Poland, where investor appetite is turning to regional cities like Kraków, where in the last 12 months Starwood Capital Group bought Quattro Business Park, Tristan Capital Partners bought Enterprise Park and GLL - Kazimierz office centre. In Wroclaw, Union Investment recently acquired Radisson Blu hotel and Skanska Property Poland sold Dominikanski. Poland and the Czech Republic are increasingly perceived as developed rather than emerging markets.

DEBOWSKI: Data from Q3 2014 through Q2 2015 shows Poland and the Czech Republic achieving the highest percentages of foreign investment in the region— over 80%—followed by Romania. Hungary, however, has just seen the completion of its largest investment since 2010, with a consortium of Morgan Stanley, Wing and CC Real purchasing a portfolio of properties in Budapest. This may provide the impetus for other investors to turn their attention to Budapest. Activity in other Eastern European countries meanwhile remained at a pretty low level.

4 Do you expect to see even more new sources of capital coming into the European market?

DEBOWSKI: Most likely yes, since non-European investment across the continent continues to grow year on year. In the first half of 2015, nearly 50% of investments in Europe were transacted by cross-border investors, with 32% of the capital coming from outside of Europe. This was a significant increase on the figures from 2013 and 2014.

Z. LAZAR (LEFT) AND PAWEL DEBOWSKI

LAZAR: In the last 12 months, regional European and domestic investors were active mainly on the sale side, while overseas investors have been the only net investors in the region. Funds remained the most active investors on both the buy and sell sides. Interestingly, we're seeing a substantial growth in the investment activity of institutional and listed companies, including REITs, which have recently been extremely active in their purchases across Europe.

DEBOWSKI: In terms of geographic origin, North American investors and the US in particular continue to dominate the non-European investors list. Asian insurers are also ramping up their investment into the European property market, due to the deregulation of outbound investment in China and Taiwan, coupled with ultra-low yields in key Asian gateway cities. London continues to be their preferred destination. They have not made a splash in the CEE markets yet, but we believe this may happen in a few years' time. Middle Eastern capital influx targets mainly the UK and Italian markets.

5 Are there any specific legal or regulatory obstacles for capital targeting the different regions of Europe?

LAZAR: Due to the substantial increase in deal sizes, we are seeing increasing numbers of individual real estate investments being referred for antitrust/competition clearance. While in a few cases there are competition issues involved, in most there are not, but the upshot is the same: delayed closings and additional costs.

6 It has been a busy year for deals so far – do you expect this to continue into 2016? How do you see the outlook for European markets?

LAZAR: Certainly, yes. As we speak, we are involved in a few pan-European large lot size transactions which we hope to complete this year. New ones are already in the pipeline for 2016. We might see even more and even larger deals being transacted in Europe, as investor demand remains strong.

DEBOWSKI: There is an abundance of capital on the market and it needs to be spent. Investors are very optimistic and, to date, the Russia-Ukraine conflict and the threats of Grexit and Brexit do not seem to be disrupting real estate investment in any tangible way.