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# Acquisition of a Freehold Logistics Asset in the Czech Republic

7 June 2021



# Freehold Logistics Asset in the Czech Republic

8,382 sqm modern asset on a 31,557 sqm site in an established industrial park in Hradec Králové

Property type	Logistics
Purchase price	€10.1 million
Land lease tenure	Freehold
Site area (sqm)	31,557
Floor area (sqm)	8,382
NOI yield <sup>1</sup> (NOI / purchase price)	6.4%
Occupancy (as at 1 June 2021)	97.3% <sup>2</sup>
WALE <sup>3</sup> (as at 1 June 2021)	6.5 years
No. of tenant-customers	3
Key tenant-customers	Dachser Gebrueder Weiss Buehler Motor
BREEAM <sup>7</sup> rating	“Very Good”
Completion date	4 June 2021



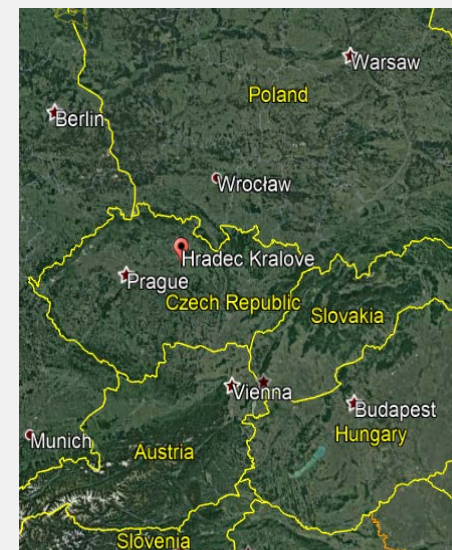
**97.3%**  
Occupancy rate



**6.5 years**  
WALE<sup>3</sup>



**€10.1 million**



## Highlights

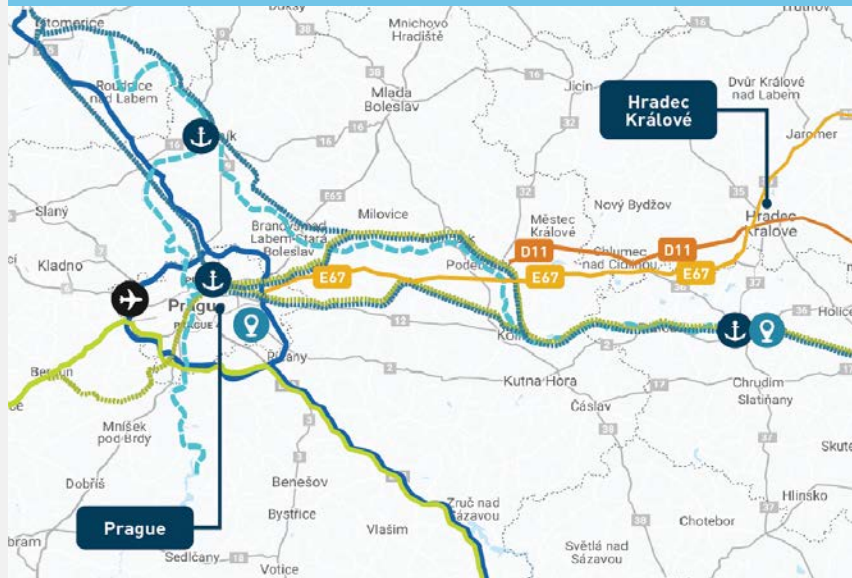
- **Well-located:** Asset located within an established industrial park in Hradec Králové, a small but fast-growing logistics location in the north-east of the Czech Republic with good transport connectivity. There is no vacancy in the submarket
- **Good quality asset:** Modern freehold asset with low future CAPEX<sup>4</sup> (constructed in 2018 by LinkCity, a subsidiary of Bouygues Group SA)
- **Secure, long-dated income backed by good tenant-customers:** Stable and recurring cashflows, 97.3% occupancy rate<sup>1</sup> and long WALE<sup>3</sup> at 6.5 years backed by three financially strong tenant-customers with good credit rating (minimum risk, rated “2A1” or better by D&B<sup>5</sup>)
- **Attractively priced:** The purchase price of €10.1 million is at a 1 – 3% discount to two independent valuations<sup>6</sup>
- **Green building:** Certified BREEAM<sup>7</sup> rating of “Very Good” and Energy Performance of “Level A – Extremely Efficient”

1. The NOI yield is calculated using the annualised headline NOI (excluding property management fees and letting costs) from the relevant date divided by the purchase price (excluding acquisition costs) and excluding non-capitalised income
2. By % of floor area
3. Weighted average lease expiry
4. Capital expenditure
5. Dun & Bradstreet
6. Based on valuation from CBRE (€10.4 million) and Savills (€10.2 million)
7. Building Research Establishment Environment Assessment Method

# Strategic Location with Access to Trans-European Transport Network

Well-connected to the rest of Europe

## Hradec Králové



- Good connectivity to D11 motorway, part of the Trans-European Transport Network (TEN-T), a European-wide network of railway lines, roads, waterways and airports
- Easy access to the E67 ('Via Baltica') major motorway, a ~1,000 km road stretch to the north of Europe with a 5G network to enable self-driving vehicles. The motorway links the Czech Republic with the Baltic countries, Poland and Finland
- One-hour drive to Prague via D11 or E67 motorways
- 20 minute drive to Pardubice, which has access to railways, rail-road terminals, ports and inland waterways

## TEN-T corridor 4 and 9



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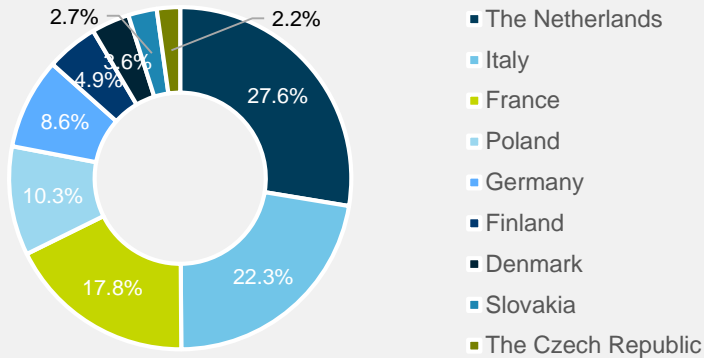
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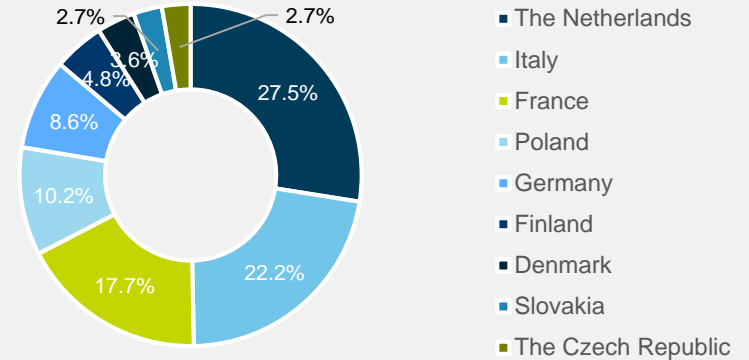
# Portfolio Composition – Before and After

Consistent with CEREIT's strategic objective of increasing its portfolio weighting of light industrial / logistics segment

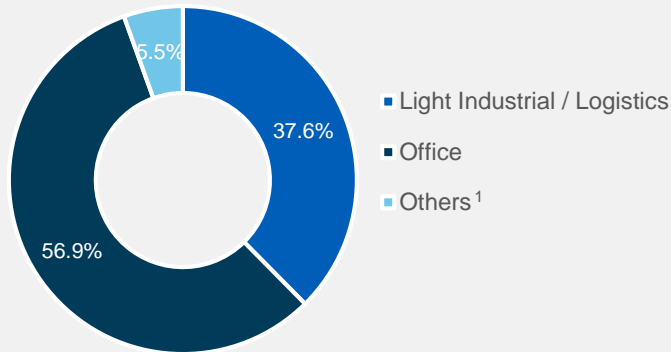
## Portfolio composition by geography (existing)



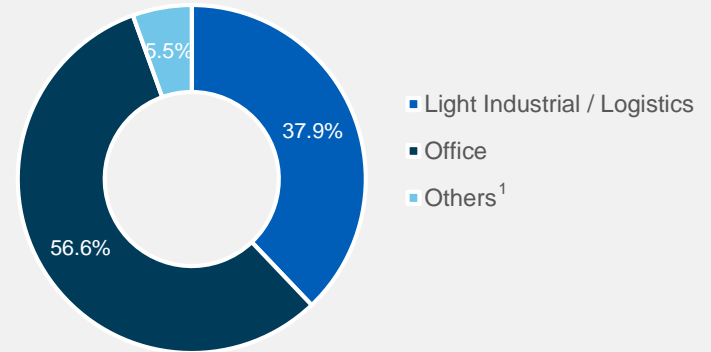
## Portfolio composition by geography (incl. acquisition)



## Portfolio composition by sector (existing)



## Portfolio composition by sector (incl. acquisition)



# Rationale for and Key Benefits of the Acquisition

1

Consistent with the Manager's investment strategy

- At least 75% of assets within Western Europe and at least 75% of assets in office and light industrial / logistics with current focus to move towards 50% weighting to logistics/light industrial
- Managed growth via accretive acquisitions of high-quality logistics assets

2

Increase CEREIT's exposure to logistics and to attractive growth markets

- Increases the weighting of the light industrial / logistics segment in CEREIT's portfolio to 37.9%, up from 37.6% (based on portfolio value)
- Further establishes CEREIT's presence in the attractive growth market of Czech Republic, which still provides ~90 basis points discount on prime logistics yields<sup>1</sup>, despite a low country risk (S&P credit rating AA-) and with a low national industrial vacancy rate of 3.6%.
- Total exposure to higher growth Central Europe is 15.6% of CEREIT's portfolio

3

Committed tenant-customers with strong credit rating

- Stable and recurring cashflows backed by financially strong tenant-customers (Dachser, Gebrueder Weiss and Buehler Motor) with good credit rating (minimum risk, rated "2A1" or better by D&B)

4

Stable and recurring cashflows

- The logistics asset is forecast to provide stable income, supported by a >97% occupancy rate, triple net leases and long WALE at 6.5 years

5

Attractive price and risk-return profile and a good fit to the portfolio

- Opportunity to acquire a property on a NOI yield of 6.4%, well located to new European transport routes
- Purchase price of €10.1 million is 1% – 3% discount to valuation
- 3 year old premium freehold asset with low future CAPEX (constructed in 2018)

6

Improve the portfolio's sustainability

- The asset will improve the portfolio from a sustainability perspective as it has a BREEAM rating of "Very Good" and an Energy Performance Certificate of "Level A – Extremely Efficient"

# The Czech Republic

## Light industrial / logistics market outlook

### Occupational Market

- The Czech industrial sector has so far largely benefitted from COVID-19 due to the growth of ecommerce and mail order services
- Take-up in 1Q 2021 totalled almost 300,000 sqm, showing a small decrease of 10% on 4Q 2020, but an increase of 185% on the volume of space leased during the first quarter of 2020
- Occupier demand in the first quarter was largely driven by manufacturing companies, which accounted for 37% of the total leasing activity. This was closely followed by the distribution sector (32%) and logistics companies (27%)
- The largest lease in 1Q 2021 was an expansion of 29,000 sqm at Panattoni Park, Cheb, signed by Tchibo, which also renewed their lease for a 74,000 sqm premises. By the end of 2021, Tchibo will occupy over 100,000 sqm at this location
- The high demand for new space has led to a further reduction in the average vacancy rate to 3.6% in 1Q 2021 from 3.8% in 4Q 2020. Availability is particularly tight in Prague where the vacancy rate is now below 2%
- The lack of quality space in core locations has led many occupiers to sign pre-leases. In 1Q 2021, 68,000 sqm of new space was delivered across five buildings, and 94% of this space was pre-let
- The Czech Republic's industrial market has proven to be extremely resilient to market shocks. Prime rents in Prague specifically increased this quarter by 4% to €61.20 per sqm, with potentially further rental growth expected this year

### Economy

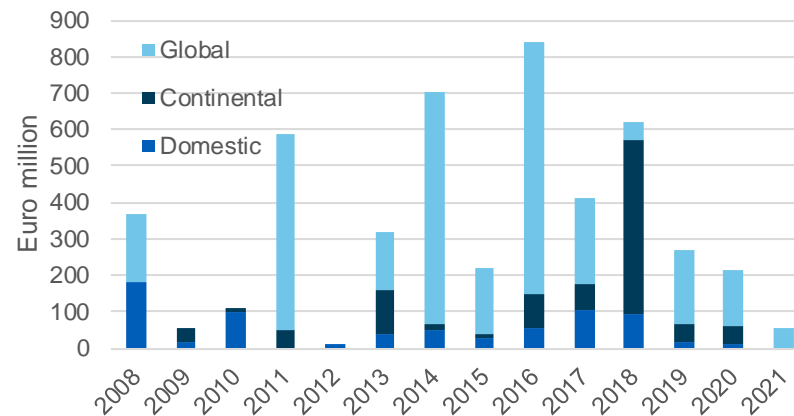
Indicator	2020	2021	2022 Outlook (vs 2021)
GDP Growth	-5.6	2.9	↗
Industrial Production	-7.0	9.1	↘
Consumer Prices, average	3.2	1.9	↗
Population (millions)	10.7	10.7	↗
Population Growth Rate	0.2	0.2	↘
Unemployment Rate	3.6	4.2	↘

- Oxford Economics have lowered their 2021 GDP growth forecast from 3.3% to 2.9%, on the back of a likely slower recovery in the second half of the year. Industry and exports are expected to remain resilient, but private consumption will likely recover more slowly as the economy emerges from lockdown
- However, the recovery in 2022 is now expected to be much greater with GDP expanding by 4.6%
- The labour market remains resilient thanks to continued fiscal support including the furlough scheme, with the unemployment rate at a low 4.2% in March, only 1.4 p.p. above the pre-pandemic level

Annual % change unless specified

Sources:  
 Oxford Economics - Czech Republic Economic Forecast 27 April 2021  
 Real Capital Analytics – data as at 28 April 2021  
 A vision Young – Market discussion with local research team – 29 April 2021  
 CBRE – Czech Logistics 1Q 2021  
 CBRE – Czech Outlook 2021

### Industrial Volumes by Capital Source



### Investment Market

- The transaction volume in 1Q 2021 totalled €54 million. This accounts for 27% of total investment during the first quarter, making logistics the most sought-after commercial sector in the Czech Republic
- The market is situated in a prime geographical location at the centre of Europe, and at a natural crossroads for major transit corridors. This makes it a strategic option for investors as it provides an extensive network of transport routes, serving both domestic markets and surrounding European countries
- Despite travel restrictions brought on by the pandemic, global capital accounted for all transactions in 1Q 2021, with no activity from either continental or domestic investors
- Although the transaction volume looks low compared to historical figures, investor demand for logistics assets remains strong, but there is a shortage of product and sellers which is restricting sales
- Developers are also struggling to bring enough product to the investment market, since land banking is becoming narrow, and most of the market is represented by developers and investors with a develop to hold strategy
- Prime industrial yields compressed in 1Q 2021 and converged with prime shopping centre yields for the first time. Yields are at their lowest in Prague at 4.75%, compared to 5.5% in the rest of the country. Further yield compression is anticipated in over the next 12 to 18 months



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