



Silverline
Real Estate

Which city in CEE offers best returns for a residential real estate investment?



*On a bi-annual basis, Silverline Real Estate is analyzing selected 20 cities in Central and Eastern Europe to rank their attractiveness for residential real estate investment.**



*Complete overview and characteristics of the 20 selected CEE cities is available on page 5 of this document

“Over next 5 years, on average, CEE region is expected to continue generating higher returns on residential real estate investments when compared to Western Europe. This is driven mainly by expected higher real GDP growth rates and considerably higher rental yields.”

Why CEE remains to be an attractive region for (real estate) investment

Central and Eastern European countries are characterized by long-term convergence of their economy levels, including purchasing power or price levels, towards Western Europe. In our analysis aimed to assess residential real estate investment attractiveness, we include cities from eight EU members in the CEE region: Czech Republic, Poland, Slovakia, Slovenia, Hungary, Romania, Bulgaria and Croatia as well as cities from nine non-EU member countries: Serbia, Bosnia, Monte Negro, Macedonia, Albania, Kosovo, Ukraine, Moldova and Turkey.

CEE region enjoyed over 2015-19 a positive difference in real GDP growth vis-à-vis Western Europe with a growth of 2.4% p.a., vis-a-vis 1.2% p.a. in WE. Growth premium of 0.8-1pp is also expected for 2022-26, translating into additional purchasing power which can among other fuel the local residential real estate markets. Further, due to higher scarcity of investment capital in comparison to Western Europe, real estate in Central and Eastern Europe typically generate significantly higher rental yields: 5.8% p.a. for our sample cities in CEE vs. 3.9% p.a. for our sample cities in WE.

On the other hand, most CEE countries have national currencies, translating into potential currency risk in cross-country investments, especially given often varying monetary policies and thus diverse interest rates from that of ECB.

“Of the 20 selected CEE cities, Sofia, followed by Bratislava and Ljubljana are expected to offer the highest returns on residential real estate investments denominated in EUR, driven by low interest rates and solid economy outlooks & current yields.”

Of the 20 CEE cities in our sample, based on robustness of legal frameworks for real estate, political risk and an attractiveness index composed of:

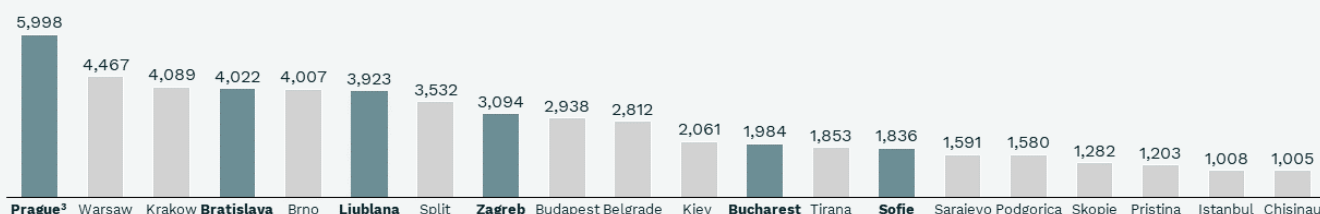
- Current affordability of real estate (net salaries needed for purchase of a 70sqm apartment)
- Expected capital gains (expected real GDP growth rates)
- Rental yields
- Interest rates,

we have short-listed five cities for a deeper-dive analysis of expected investment returns - Bucharest, Sofia, Bratislava, Ljubljana and Zagreb (+ Prague for comparison purposes):

Selected twenty cities in CEE differ widely in prices and affordability of residential real estate.

Residential real estate prices (EUR ths./sqm; 2021 YE¹)

■ Selected cities for further analysis²



Net salaries needed to purchase a 70sqm apartment

Increasing affordability of real estate →



¹ Includes all apartments on sale (i.e. new developments and second-hands), covering whole city (all districts)
² Based on attractiveness ranking, including expected rental yields, capital gains and interest rates for debt financing
³ For comparison purposes
Source: Numbeo, Global Property Guide, Eurostat, Silverline Real Estate

The short-listed five cities (+ Prague) are all EU members, with diverse profiles in terms of sqm prices and affordability of residential real estate.

Cities also have diverse monetary regimes and comprise both Eurozone members (Bratislava, Ljubljana), these days with very low interest rates as well as cities in countries with stand-alone monetary policy (Prague, Zagreb, Bucharest, Sofia) and distinct approaches to resolution of growing inflation.

Of the short-listed sample, highest returns on equity invested, denominated in EUR (relevant for international investors) can be achieved in Sofia, characterized all a great combination of low interest rates (also as BGN is pegged to EUR), strong economy outlook and solid current yields. Bratislava and Ljubljana follow, benefiting mainly from low interest rates (Eurozone) and moderate yields:

Of the five short-listed cities in CEE, best returns denominated in EUR can be achieved in Sofia, followed by Bratislava and Ljubljana.

Comparative economics of an investment into a renovated, rented apartment in (broader) city center

 Key metric for international investors

	Prague	Bratislava	Ljubljana	Bucharest	Sofia	Zagreb
Purchase price (EUR ths.)	300.0	207.0	204.0	94.5	90.5	155.1
Purchase price (EUR ths./sqm)	5.0	3.5	3.4	1.6	1.5	2.6
Monthly rent (EUR ths.)	0.64	0.56	0.58	0.36	0.35	0.42
Gross rental yield (%)	2.6%	3.3%	3.4%	4.6%	4.6%	3.2%
Loan-to-value of debt financing ¹ (%)	65%	65.0%	65%	65%	65%	65%
Interest rate on loan ¹ (% p.a.)	5.75%	2.0%	2.0%	3.8%	2.0%	4.5%
Expected capital gain ² (% p.a.)	7.6%	8.0%	7.6%	9.3%	8.0%	7.0%
Expected nominal return on equity denominated in EUR ^{3,4} (%)	16.3%	28.5%	27.6%	23.7%	32.2%	20.6%
Expected nominal return on equity denominated in local currency ³ (%)	18.4%	28.5%	27.6%	32.6%	32.2%	20.9%
Expected real return on equity denominated in local currency (%)	16.6%	26.5%	25.5%	29.7%	29.7%	19.0%

Rigorous selection of micro-location and asset type with highest expected combination of capital gain & rental yield can **further uplift RoE by 5-15pp**



1. Assumes purchase and financing by a LLC
2. Simplified perspective – assumes expected nominal GDP growth (reflecting growth of purchase power)
3. Simplified, excludes property taxes, home insurance, maintenance fees (yet these generate rather minor effect)
4. Includes expected shifts in foreign exchange rates between EUR and the local currency, based on current forward rates; i.e. investor allocates EUR and receives back EUR
Source: OECD, IMF, Eurostat, Numbeo, Trading Economics, Global Property Guide, Silverline Real Estate

In Sofia, an expected gross return on equity denominated in EUR of ~32% p.a. can be generated on a residential real estate investment, vis-a-vis ~16% p.a. in Prague. Magnitude of such difference can be best demonstrated on an initial EUR 1 mn investment deployed over a 5-year horizon: while in Prague, investment principal reaches a value of EUR 2.13 mn (+113%), in

Sofia, the same investment value shoots up by 304% to EUR 4.04 mn.

Returns can be further uplifted by selection of segment & asset perfectly aligned with demand trends and value-add activities, such as renovation of the real estate or its extension (e.g. add-on floor in an apartment house).

Overview and key data for twenty CEE cities in our analysis:

City	Country	Price per sqm	Real estate price growth: CAGR 2016-2020	Net salaries for purchase of a 70sqm apartment	Rental yields	Real GDP growth (CAGR 2022-26)	Interest rates
Prague	Czech Republic	5998	9.5%	24.5	3.1%	3.8%	3.8%
Bratislava	Slovakia	4022	8.0%	19.8	4.5%	4.0%	0.0%
Ljubljana	Slovenia	3923	7.1%	17.7	4.7%	3.7%	0.0%
Bucharest	Romania	1984	4.9%	15.1	5.9%	4.2%	1.8%
Kiev	Ukraine	2061	n/a	17.7	9.1%	4.1%	9.0%
Chisinau	Moldova	1005	n/a	14.7	10.0%	6.0%	6.5%
Brno	Czech Republic	4007	9.5%	19.9	n/a	3.8%	3.8%
Warsaw	Poland	4467	7.4%	26.2	5.5%	3.7%	1.8%
Krakow	Poland	4089	7.4%	26.9	n/a	3.7%	1.8%
Budapest	Hungary	2938	12.0%	20.4	5.2%	3.7%	2.4%
Sofie	Bulgaria	1836	6.4%	12.8	5.1%	3.9%	0.0%
Belgrade	Serbia	2812	n/a	30.8	4.4%	3.9%	1.0%
Zagreb	Croatia	3094	6.6%	18.4	5.4%	4.2%	2.5%
Split	Croatia	3532	6.6%	28.7	n/a	6.5%	2.5%
Sarajevo	Bosnia	1591	n/a	16.7	n/a	3.2%	3.4%
Podgorica	Monte Negro	1580	n/a	18.4	7.5%	3.9%	n/a
Skopje	Macedonia	1282	n/a	17.5	5.0%	4.1%	1.3%
Istanbul	Turkey	1008	11.6%	n/a	n/a	n/a	14.0%
Tirana	Albania	1853	n/a	25.9	n/a	4.2%	0.5%
Pristina	Kosovo	1203	n/a	15.5	n/a	4.3%	n/a



Source: OECD, IMF, Eurostat, Numbeo, Trading Economics, Global Property Guide, Silverline Real Estate

Silverline Real Estate is a Qualified Investor Fund obsessed with finding sweet-spot segments for its investors in markets with robust legal frameworks in real estate, namely Europe and North America.

Constantly, we are reviewing performance of selected markets, segments and assessing opportunities within to deliver double-digit returns for our investors.

Why to invest in residential real estate development and why with Silverline Real Estate?

Why residential real estate development?



Secure investment with very limited risks:
i) land as collateral for investments
ii) consistently strong demand, often coupled with insufficient supply
iii) liquid nature of assets



Capital gains in well-selected markets & segments >5% p.a. and thus typically outreaching other real estate segments¹, also due to scarcity of land in central locations

Highly profitable niche opportunities in asset acquisition (such as mispriced assets), typically not existing in other real estate segments¹



Development generates superior margin of 10-15+% p.a. in comparison to pure realization of rental yields with 3-6% p.a. across other real estate segments¹



Why Silverline Real Estate²?



Secure investment into RE with robust value retention (land plots, apartments in centers of major cities), coupled with strong track-record of the fund managers in real estate



Extraordinarily strong, internal capability to identify high growth markets & segments and speedily assess opportunities economically and technically, coupled with well developed broker ecosystem

Superior returns offered: Each of the two stock classes² offers best-in-class value proposition to investors within Czech market; Tax-free for private individuals³



Exceptional commitment: co-investment of 15+% secured by founders' capital commitments of founders EUR ~3 mn



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NAV = net asset value
1. Industrial/ office/ retail
2. i) preferred return stock class ii) preferred & performance-based return stock class
3. If investment is deployed for 3 or more years
Source: Silverline Real Estate

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