13 Business Review

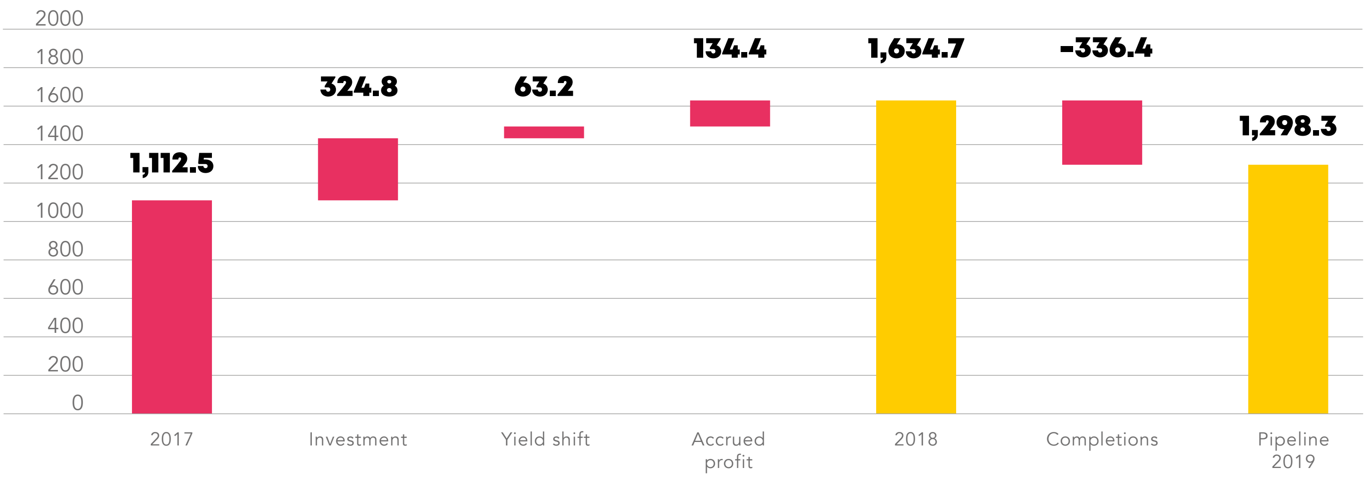
Real estate development is a very complex business. If you're an international workspace provider as we are, this brings even higher complexity. We make life even tougher for ourselves because our mission is to bring remarkable experiences to people through our real estate solutions.

We aim to set trends in office space solutions. We aspire to always bring something more than clients and communities expect from us, something that will differentiate our projects from others. We believe this is the right way to create greater value for our partners, clients and local communities, as well as for our shareholders to achieve their projected growth and desired return.

In light of this approach, 2018 was another great year in terms of achievements and confirming we're on the right path.

HB Reavis in the United Kingdom

Changes in Group Development Property Value (€m)



* Figures based on external expert valuations and internal management reports

The development landscape

The development landscape, in general, was stable. Nevertheless, our respective markets differ slightly. Central London showed slightly lower supply and slightly increased vacancies, with rent stagnating or slightly decreasing based on the location. It seems that uncertainty will continue.

Budapest continued growing as we had hoped, based on economic fundamentals that should drive further growth in the coming years. The 7.5% vacancy rate is an all-time low.

Bratislava continued to grow as well. With supply at about 90,500 sq m (85,000 sq m in 2017), we saw growth of the total stock at around 6.5%, with vacancies slightly down to 6%.

In Prague, despite a four times higher supply and healthy 4% growth in the total stock, we see vacancies falling to historic levels – in two years they have fallen by half to 5.1%.

Stable development continued in Warsaw as well. With an almost 'typical' supply of around 233,000 sq m, we saw healthy 3.4% growth in the total stock accompanied by significant vacancy decreases to 8.7%.

Looking at our portfolio, the share of development in our total investment property is 50%, as targeted. This fact is mainly due to the temporary income generating allocation of One Waterloo for the purpose of IFRS Reporting. Due to the positive investment market, we also saw unique divestment opportunities – and we took them, with an eye on building a strong cash position for the near-term.

In the reporting year, we focused mainly on both speeding up and growing the share of developments in the permit stage and on making progress with our projects in the construction phase. During 2018, the portfolio value of core development property increased by €186m (2017: €211 million) and at year end achieved a value of €1.3bn, representing a 17% year-on-year increase.

The most important factors that contributed to this result were product design, leasing capabilities, progress in permits and construction cost management.

Product design matters and distinguishes us in the market

During our history and through the delivery of almost 800,000 sq m of leasable office space, we have accumulated significant knowledge and experience. We understand why it is so important to talk to clients, identify their needs and wishes and, moreover, incorporate these into our product design process.

Currently, we have around 150 professionals in our dedicated product design team infusing client experience and technical innovations into our products. Recently we've focused on the following areas:

1. We are bringing international expertise into our projects. This is why we retained the services of highly acclaimed architectural studios such as Benoy, Foster+Partners, Make Architects, John Robertson Architects and Allford Hall Monaghan Morris for some of our recent flagship and landmark projects.

2. We are transforming ourselves from a fully integrated but 'standard' real estate developer into a Workspace as a Service (WaaS) provider. This move is a perfect umbrella for our user-centric related activities such as UX methodology, Origameo, HubHub, Symbiosy, Qubes and More. (for more information please read chapter 10)

3. Each project design is tested, focusing on potential user experience in terms of daylight quality, interactions between dedicated office space and shared spaces (primarily on the ground floor and roof) and the effects of greenery, fresh air and thermal control.

4. We are elevating our sustainability standards and design goals to at least BREEAM 'Excellent' and we aspire to comply with WELL standards as soon as feasible.

Growing leasing and marketing capabilities

As our pipeline portfolio continues to grow, we've invested significant effort and resources during recent years into building our leasing teams across the Group. Over the last two years, we've grown our marketing capability so that we can more effectively offer these projects to our clients.

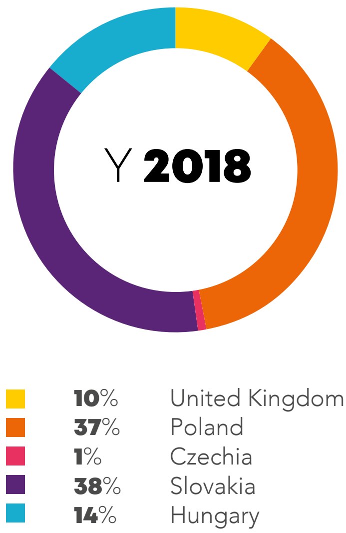
These teams consistently and efficiently use the Group's know-how that has been accumulated over 25 years.

In terms of the numbers, it was a good year as well. Our leasing teams signed contracts for about 140,000 sq m of GLA, up by roughly 30% compared to 2017.

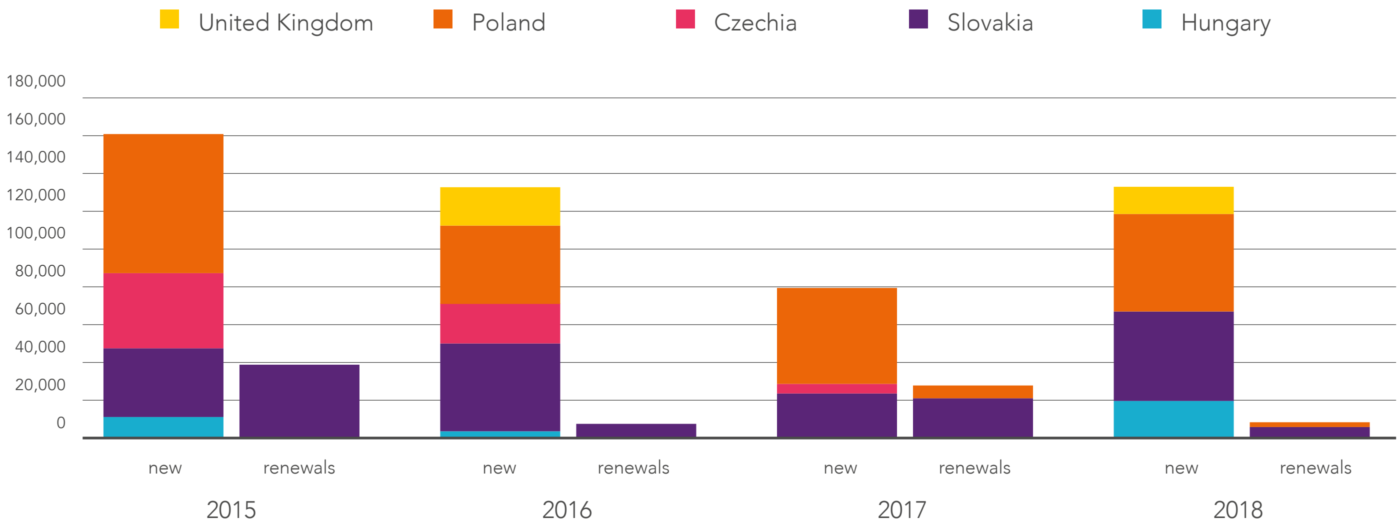
Despite the challenging situation in some of our markets, we've kept our leasing performance at very high levels in recent years (we are number one in both Warsaw and Bratislava). This fact makes us quietly confident that we'll see similar results for the projects that are currently in our pipeline.

In subsequent years, we expect to deliver between 80,000 and 130,000 sq m GLA office space annually, which is why our leasing capability and performance continue to be a crucial factor in our potential future success.

Leasing Activity by Country



Leasing Activity according to GLA



Forest project in Warsaw

Progress in permits

Permits are one of the most important contributory factors to value creation in our development activities. Last year, we saw some delays in this area, but it continued to improve slightly.

In particular, we achieved remarkable progress on our Forest project in Warsaw and our Prenzlauer Hoefe project (DSTRCT.Berlin).

Construction cost management

Efficient construction is a way of life at HB Reavis, not least because it has the potential to differentiate us in the market. We are consistently and systematically focused on reducing costs by collaborating with our specialised procurement team and local construction management, all without compromising the quality of projects.

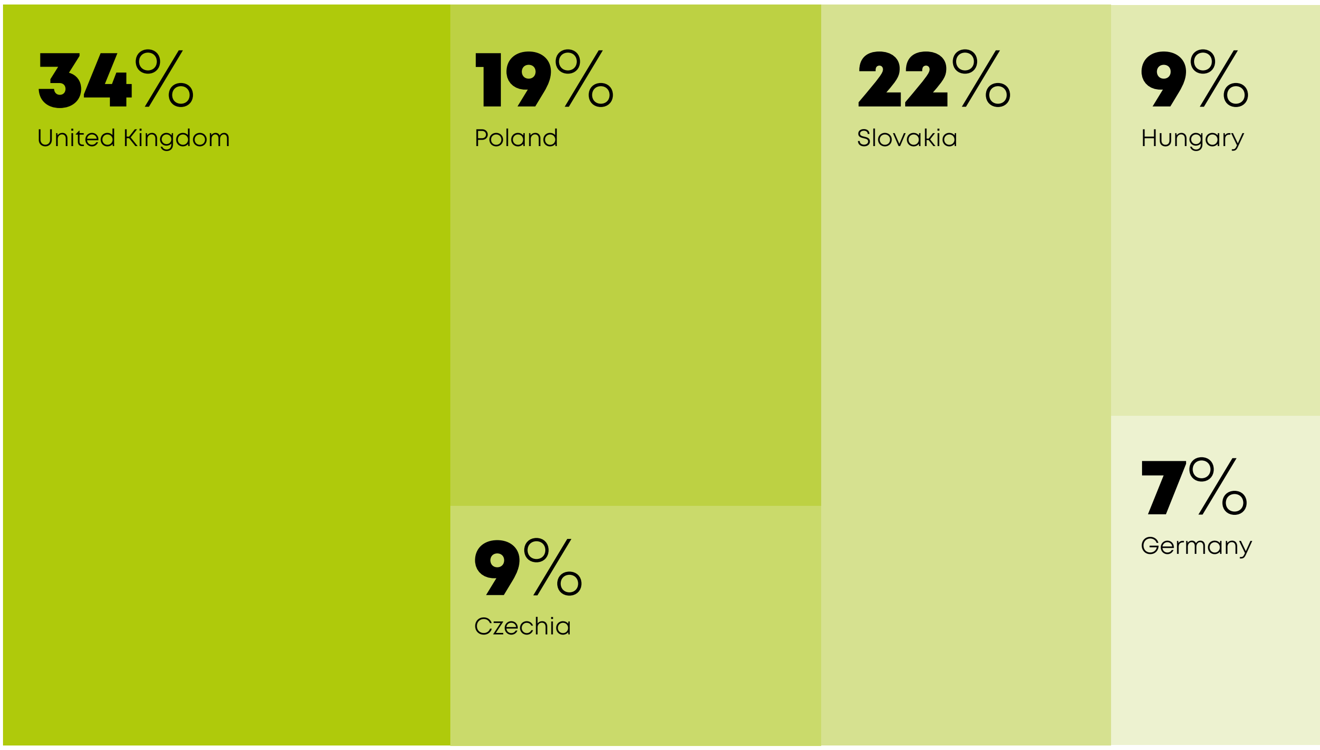
In the reporting year, we continued our strategic project to integrate selected supply chain partners into our development process, from product design (including 3D project documentation) through to delivery on the construction site. Another strategic initiative is the global sourcing of our construction deliverables. Both are crucial to enhancing our competitiveness and value creation for all stakeholders.

Development portfolio structure

Geographically, the structure of our whole development portfolio is shifting towards western countries, where the UK and Germany represent almost 40% of the future value in our pipeline. At year end 2018, the share of UK assets represented 34% of the whole portfolio, Poland 19%, Czechia 9%, Slovakia 22%, Hungary 9% and Germany 7%, all based on the expected gross development value.

As far as segments are concerned, during 2018 our strategic focus on office development reflects its 94% share of our development portfolio value, while retail accounts for 6% based on gross development value.

Developments in the office segment continued to achieve robust growth, adding around €477m of value and reaching a total of €1.51bn (including completed properties before their transfer to use). In terms of the creation of net value of the required investment to achieve the value growth, office properties contributed €121m (net of the yield shift).



Performance of development activities

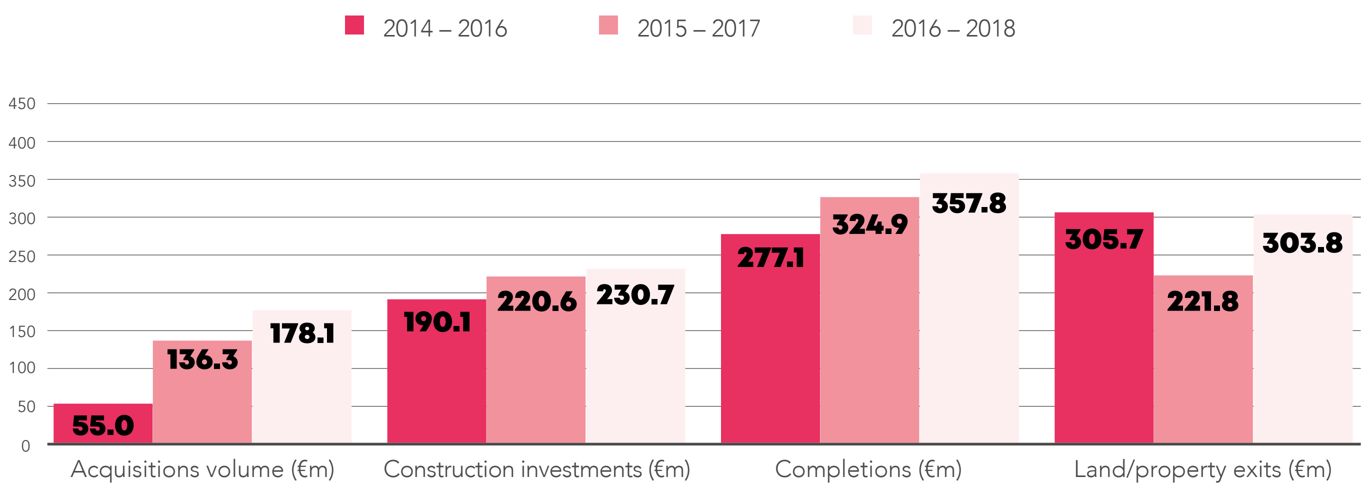
Our strategic plan is to keep our balance sheet on an even keel with the long-term share of the development portfolio of our total investment property at around 50%. Given the situation on the markets, we set this aim aside, utilising the huge appetite of investors for real estate.

The revaluation of our development pipeline portfolio continued to have a material impact on the structure of the balance sheet. The share of our development portfolio (excluding One Waterloo and non-core assets) increased to 50% (2016: 46%).

HB Reavis Development Total	**GLA m²**	**ERV**	**GDV**	**Value Change**	**Investment 2018**
Retail	105,068	23.0	414.7	45.5	32.5
Office	1,247,781	347.0	6,513.0	476.8	292.3
Total Development 2018	**1,352,849**	**370.0**	**6,927.7**	**522.3**	**324.8**
Additions to porfolio 2018	**117,165**	**34.0**	**760.0**	**154.0**	**153.0**
Completions 2018	**49,751**	**19.0**	**374.8**	**126.7**	**31.9**
Retail	105,068	23.1	414.7	45.5	32.5
Office	1,198,030	327.8	6,138.2	350.1	260.4
Total Pipeline for 2019	**1,303,098**	**350.9**	**6,552.9**	**395.6**	**292.9**

*Figures based on external expert valuations and internal management reports. All figures in €m, except GLA.

Group Development Activity, 2014 – 2018



* Figures based on external expert valuations and internal management reports.