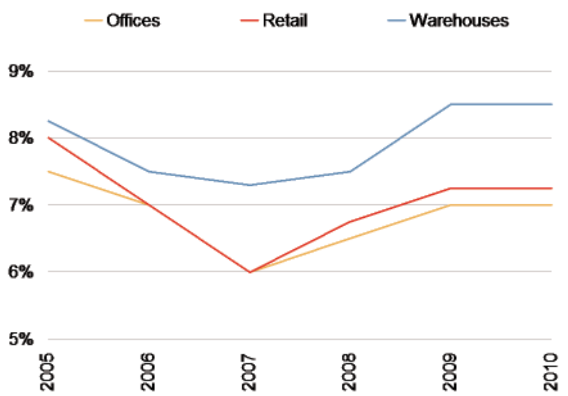
Poland Investment Bulletin

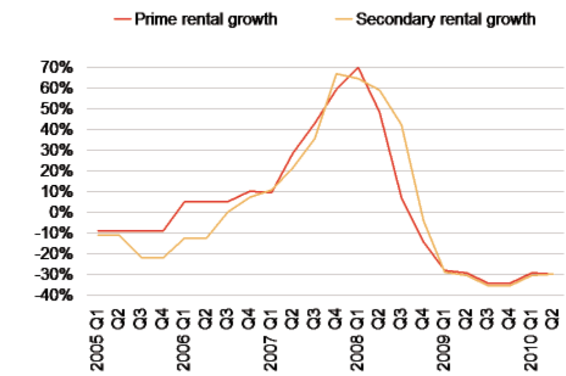
Summer 2010

Average prime national yields per sector



Source: Savills Research

Warsaw CBD office rental growth



Source: Savills Research

"Our earlier optimism for the return of the retail investment market has faded as fresh financial crises in the World reduce the prospects of increased investment volumes and yield compression. The fundamentals of the retail sector are more solid than 12 – 18 months ago and there is now a significant pricing difference between retail and offices that will not remain beyond the short-term."

Brian Burgess - Managing Director

- Q2 2010 volume was EUR 713 million, bringing the total for H1 2010 to EUR 945 million.
- Cumulative 2010 volume is already 50% higher than total 2009 volume.
- Office sector continues to dominate with two-thirds of the volume, including Horizon Plaza sold in Q2 2010 at EUR 102 million to Union Investment and Harmony Office Centre sold to CommerzReal for EUR 54 million.
- Surprisingly the retail sector is significantly lower than for all previous years at 11% of total volume for H1 2010. It's share in previous years was about 45 – 50%.
- Also of significance was the increase in deals on warehouse investment property, totalling EUR 225 million in H1 2010. By comparison 2009 volume was EUR 50 million. 2010 deals include the sale of the Panattoni portfolio of 5 properties to AEW IXIS for EUR 91 million.
- Savills had anticipated that the retail sector would increase it's share of investment activity in 2010 and this certainly seemed correct with an strong increase in demand for retail assets. Due to Worldwide events including the Greek crisis, investors are holding back awaiting information on market values and returns. We do not expect a significant return until the start of 2011.
- The most active investors are Austrian, German, UK and French accounting for about 90% of total H1 2010 volume. There is an ongoing resurgence of interest by UK private / equity investors.
- Based on the limited deal evidence, overall prime yields remained stable, however, we consider that prime yields for Warsaw office assets consolidated in H1 2010 to 6.75% in the CBD and 7.00 - 7.25% in non-central locations. Retail asset yields are more widespread depending on location and type.

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Overview of H1 2010

Overview H1 2010 activity

By half way through the year, total investment volumes have already exceeded the total annual volume for 2009 by 50%. This trend will continue and total volume for the year is expected to exceed EUR 2 billion, so more than in 2008 but still short of the 'good years' of 2006 and 2007.

Investors continue to seek office investments as a priority, especially in Warsaw, and often limited to CBD. As a result a number of transactions were completed including Horizon Plaza and Harmony Office Center, plus Lipowy Business Park and the minority share in 6 office buildings sold by Europolis to CA Immo.

Overall, investors are seeking prime assets in the main cities, preferably Warsaw, with offices at the top of the list. This has resulted in a consolidation of the cap rates as shown by the series of deals in the Mokotów suburb of Warsaw, where the initial yields are closing in on 7%.

Equally investors are seeking shopping centres in the larger cities and there are offers on several modern centres in Warsaw and Poznań. The earlier conditional transaction on the Simon Ivanhoe assets of Arkadia and Wileńska received final authority approval and will account for about EUR 650 million of volume in Q3 2010 once it closes.

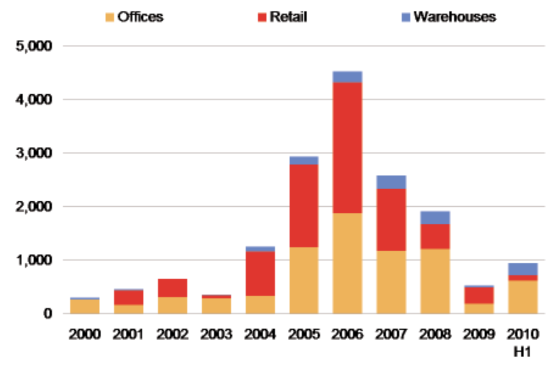
Together these transactions will boost the retail share of the volumes, which is currently at a low of 11% against a long-term average of 45 – 50%. Also they will provide a benchmark on which to evaluate shopping centres, albeit in the major cities only.

The only major shopping centre deal closed in Q2 2010 was the sale of Pomorska SC in Bydgoszcz to Resolution. The final details are not known, however, initial information indicates that the initial yield was about 9.5%. Most news reports indicate that this is one of the few distressed sales, however, full information is still awaited prior to reaching final conclusions.

Q2 2010 witnessed two warehouse portfolio sales totalling EUR 180 million, comprising the Panattoni 5-property portfolio sold to AEW IXIS and the minority share in the Europolis warehouses sold to CA Immo. The initial yield indicated on the Panattoni deal was 8.5 – 8.75%, however, we understand that these are based on rents agreed over the last 12 months, thus at relatively low medium-term levels. There is already another warehouse deal completed in Q3, indicating ongoing interest in the sector.

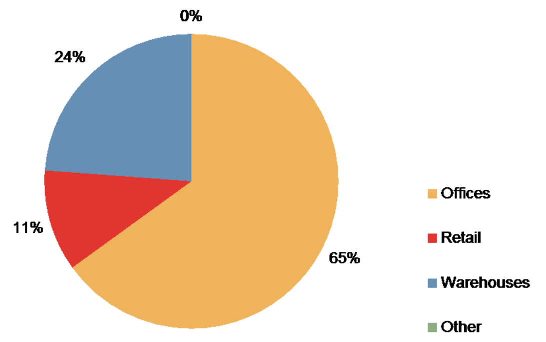
Retail trade recorded a solid year in 2009 with stable footfall in most shopping centres and increasing sales, averaging about 3%. The Polish Council for Shopping Centres reports that Q1 2010 also saw a slight increase in sales of 3 – 4%. As a result of this, we remain convinced that this sector is due for more transactions and a tightening of yields as more investors seek to buy.

Poland total investment activity



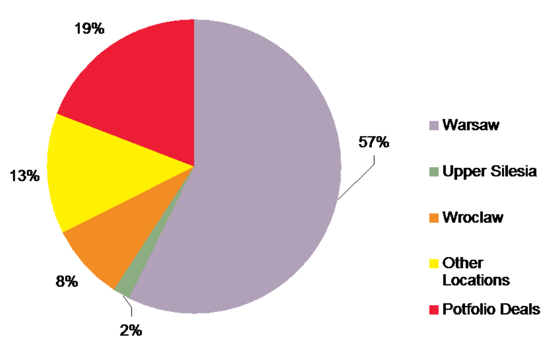
Source: Savills Research

2010 H1 investment activity by sector



Source: Savills Research

2010 H1 investment activity by location



Source: Savills Research

Prime yields and outlook for 2010

Whilst German funds were active in Q1 2010 but reigned-in their requirements from Q2 and will be less of a force in the investment market for the remainder of the year. We expect more buying activity from other institutions as well as private equity vehicles.

Prime yields

With greater deal flow we are able to fix more readily the prime yield in the Warsaw suburban office market with the most recent deals pushing the initial yield closer to 7%. There have been no significant deals completed in the CBD but our opinion is that for a market-rented modern office building the initial yield should be 6.50 – 6.75%.

Prime shopping centres in Warsaw are in demand from investors and analysing as far as we can the current deals in process, conclude the prime retail yield is 6.25 – 6.50%. For shopping centres in major cities the initial yield is over 7% and for shopping centres in cities with 100,000 – 250,000 population the initial yield is over 8%.

Retail parks in the best cities, with long leases can achieve less than 8% but for centres in smaller towns the cap rate rises above 9% depending on the rent level and the availability of high debt levels. There is a wide gap in yields between the retail types and locations. We expect to see a reduction in the gap for retail in smaller centres over the next 12 – 18 months.

There is ongoing demand for sale & leaseback opportunities, especially in the retail sector but this is expected to decline as the prospect of rental growth returns as the level of availability falls with limited new supply.

Overall, we expect that the next trend for yields is to compress, however, the timing and speed for this is dependent on the stability of the capital markets and in particular the lack of further large-scale financial crises.

Outlook for H2 2010 / 2011

There will be continued demand for office investments, however, there will be a lower availability of these over the next 12 months. Investors will then turn their attention to the warehouse and retail sectors.

We expect a significant uplift in the volume of retail transactions back to 50% of the predicted annual total of EUR 2 billion. Much of this is accounted for in the to-be-completed deal for Arkadia / Wilenska and there are several more to follow, both in Warsaw and in the major regional cities.

We also predict that there will more activity in pre-purchase / pre-funding transactions, especially for new offices, as investors recognise that new supply is limited, thus resulting in lower vacancy rates. New developments are delayed mainly due to lack of equity and / or banking conditions requiring pre-leasing of part of the floorspace. The latter will start to be addressed once new supply reduces and occupiers recognise that the will have to pre-lease to get the building / floorspace they want. This may be more than 12 months away.

Selected investment transactions 2010

OFFICE BUILDINGS			
PROPERTY	CITY	PRICE	BUYER
Trinity III	Warsaw	€ 93 mln	SEB
Pasaż Lipiński	Warsaw	€ 35 mln	Union Investment
Horizon Plaza	Warsaw	€ 102 mln	Union Investment
Harmony Office Center	Warsaw	€ 54 mln	CommerzReal
Grunwaldzki Center	Wroclaw	€ 76.5 mln	RREEF
Europolis Portfolio	Warsaw	€ 236 mln	CA Immo AG

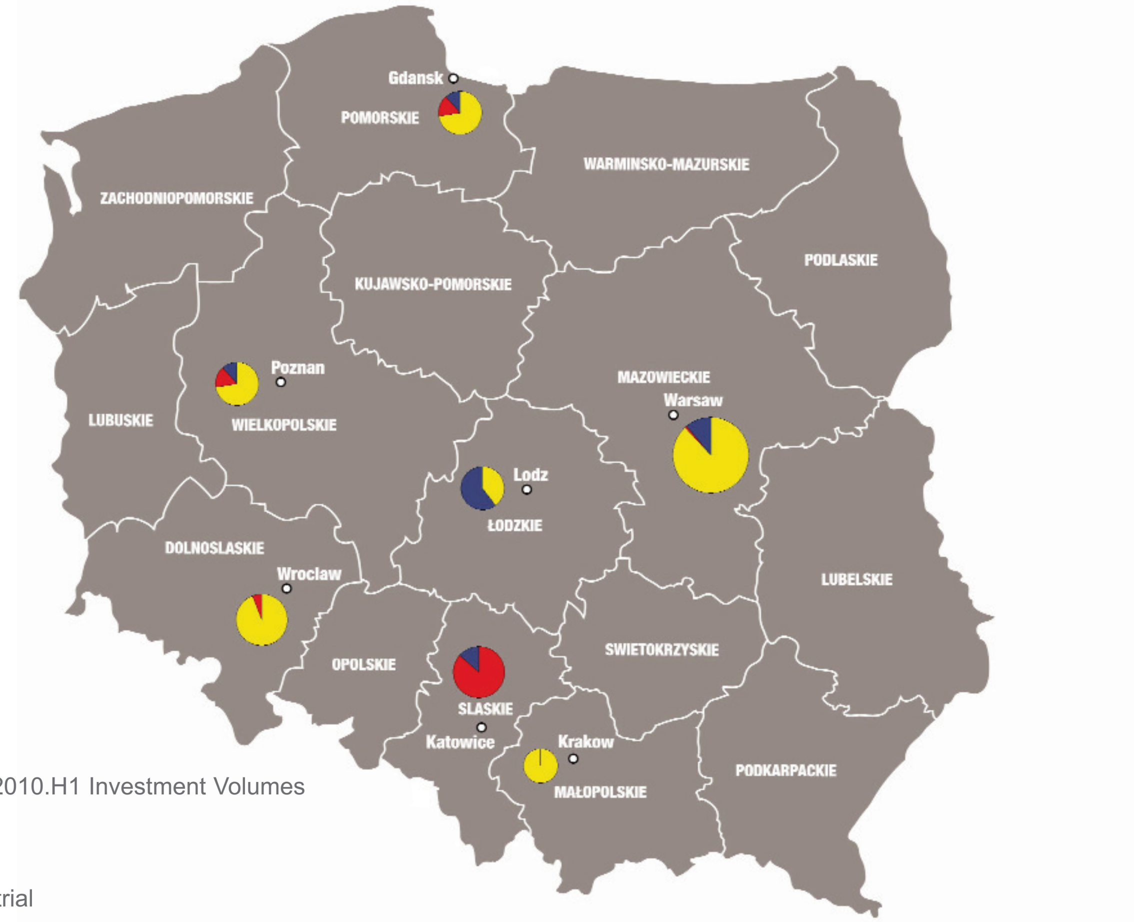
RETAIL PROPERTIES			
PROPERTY	CITY	PRICE	BUYER
Park Handlowy Pomorska	Bydgoszcz	€ 10.5 mln	Batory Development
Galeria Pomorska	Bydgoszcz	€ 51 mln	Resolution Properties
Galeria Jeziorak	Iława	€ 17 mln	PZU

WAREHOUSE / INDUSTRIAL PROPERTIES			
PROPERTY	CITY	PRICE	BUYER
Panattoni Park Mysłowice	Mysłowice	€ 18 mln	Credit Suisse AM
Panattoni / Standard Life	portfolio	€ 91 mln	AEW IXIS
Europolis Park Błonie / Piotrków	Błonie / Piotrków	€ 91 mln	CA Immo AG

Source: Savills Research

Map and contacts

Investment volumes in major Polish cities



2008 - 2010.H1 Investment Volumes

- Office
- Retail
- Industrial




Brian Burgess
Managing Director
+48 22 330 06 34
bburgess@savills.pl

Marcin Purgal
Investment Consultant
+48 22 330 06 56
mpurgal@savills.pl

Michal Stepien
R&D Consultant
+48 22 330 06 41
mstepien@savills.pl

Eri Mitsostergiou
Research Europe
+30 210 699 6311
emitso@savills.com

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