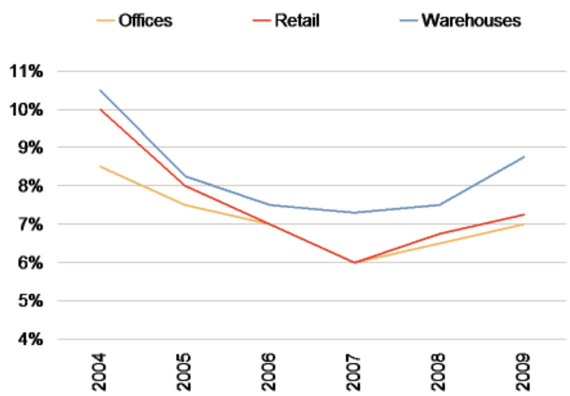
Poland Investment Bulletin

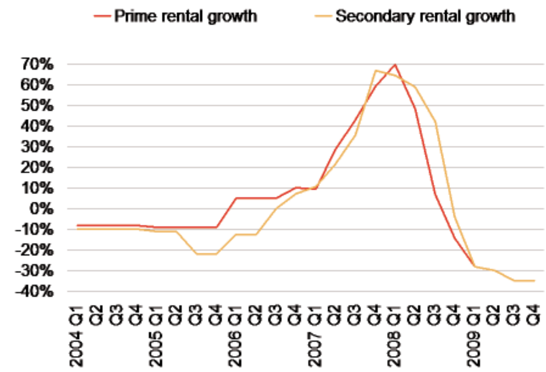
Winter 2009/2010

Prime national yields per sector



Source: Savills Research

Warsaw CBD rental growth



Source: Savills Research

"The after-shock of the capital market fragility earlier in the year is subsiding and there is now more focus on the performance of the occupational markets. Having this in mind, I predict that prime office yields will sharpen as occupational demand / supply comes back into balance mid-year, with the retail sector following shortly thereafter."

Brian Burgess - Managing Director

- Total investment volume in 2009 is projected at €600 million, almost 70% lower than in 2008 and 90% down compared to the record year 2006.
- Until the last month of 2009, the office sector dominated investment transactions. As a result of late retail deals the share of the total volume for offices fell from 65% in 2008 to 50%.
- This indicates a brightening picture for the retail sector and is encouraging since there are more retail investments available for sale totalling over €2 billion. These should form the base for a significant resurgence in retail deals.
- Among the most active investors are mainly German, French, Spanish, Australian and Polish funds. The best quality properties are targeted by investors, with lot sizes of €30 – 70 million.
- Based on the limited deal evidence prime yields moved out to 6.75% - 7.25% for Warsaw CBD offices, 7.00% - 7.50% for retail in the largest cities and 8.75% - 9.50% for modern warehouses. These yields now apply to a narrower group of properties as investors are seeking only the best quality in terms of specification, visibility and location.
- Much of the attention of the larger investors has recently been focused on the maturer markets in Western countries where sharper re-pricing occurred and substantial discounts were offered in order to achieve sales. There are signs that this is starting to change as prices have recovered, which will lead to a re-evaluation by investors of the newer markets, such as Poland.
- Notwithstanding this, we anticipate that the current low-volume market can be expected to remain for at least the first half of 2010.

Overview of 2009

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Since the middle of 2008, capital markets have significantly fallen as a result of World-wide influences, albeit market conditions changed in Poland almost a year after the downturn started in most Western markets. This has resulted in significantly lower volumes of transactions and higher yield expectations from buyers. At the same time bank credit became more difficult and expensive to arrange.

Thus for a period of over 18 months there have been fewer investment transactions, with a total volume in 2008 of €1.84 billion and a projected total of € 600 million in 2009, which will be the lowest level since 2003. Whilst the expectations of those few buyers in the market have adjusted to market conditions, few owners have amended their views on pricing nor, so far, does it appear that their lending bank is forcing them to take a more 'willing seller' approach and reduce prices. Thus as a result few transactions have been completed and there is little evidence of accuracy on yield levels.

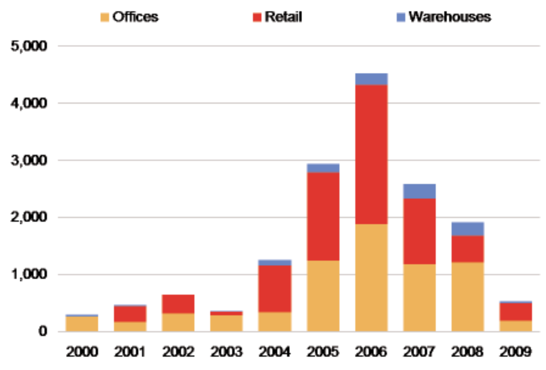
For most of the last two years there has been more investment deal activity in the office sector. This was the result of higher investor expectations that there will be a return to a balanced occupational market in this sector earlier than in other sectors. It is now clear that the retail sector should also see a resurgence in 2010, however, the strength of this activity will depend on solid information of increases in sales volumes. This should encourage more interest in the available retail investment properties, now totalling in combined volume at over €2 billion.

Much of the attention of the larger investors has recently been focused on the maturer markets in Western countries where re-pricing has occurred and substantial discounts have been offered in order to achieve sales. The main target cities are London, Paris, Amsterdam and some German cities. Prices here are now recovering and the larger investors are now expected to look east for future deal flow.

There is still the aspect of the financial problems of banks and in some cases these issues are placing pressure on the country, for example Ireland, Spain and Greece. These events do affect the Polish market as many of the banks in Poland are foreign-owned. There are more signs that new lending will be considered but this is mainly in re-financing, new construction and to support sale & leaseback transactions.

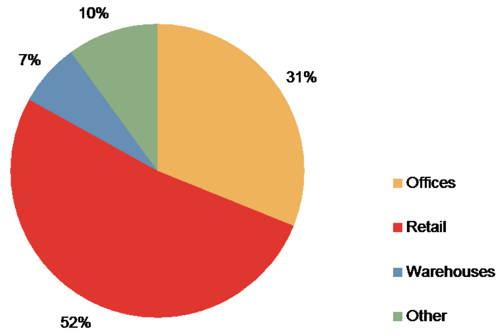
The weakness of the occupational commercial markets over the last 9-12 months has aggravated the fall in investment demand and resulting volume and the rise in returns required by investors, who are concerned about risk and future performance.

Poland total investment activity



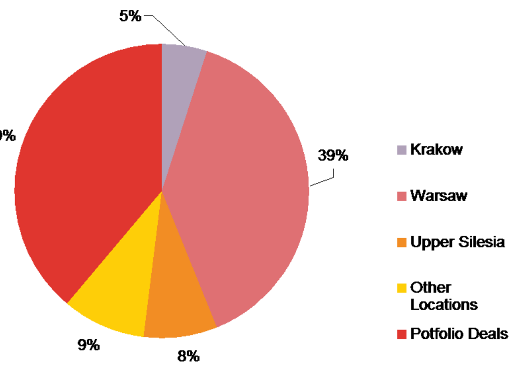
Source: Savills Research

2009 investment activity by sector



Source: Savills Research

2009 investment activity by location



Source: Savills Research

Prime yields and outlook for 2010

Prime yields

As a result of the significant fall in volumes, i.e. a limited number of deals, yield profiles are now harder to ascertain. The chart on this page shows the estimated position of prime yields and their historical perspective. Only once more deal volume occurs will it be possible to accurately state current yield levels.

Based on this limited information and the background of the earlier deals, we consider that prime office yield in Warsaw is now in the range 6.75 – 7.25% for CBD locations and 7.25 – 8.00% in non-central locations. These initial yields assume class A specification buildings in visible locations, with market-rented leases for minimum terms of 5 years. Prime retail yields in large cities are now at 7.00 - 7.50% and prime warehousing yields are in the range of 8.75 - 9.50%. Few deals in the warehouse sector have been completed and these relate mainly to sale & leaseback transactions based on long term leases.

Fewer properties are now considered prime as investors target only the best quality buildings in the key locations of the major cities. There is currently much less investor interest in smaller cities and properties with lower specifications. Also there is a trend to seek longer average lease lengths, even if this ties-in initial over-rent issues and thus affects medium-term rental growth prospects for the investors.

There is also a class of investors that are seeking to buy at significantly higher yields and are targeting 'distressed sales'. To date, however, there have been fewer of this type of asset than expected, especially in the commercial sectors.

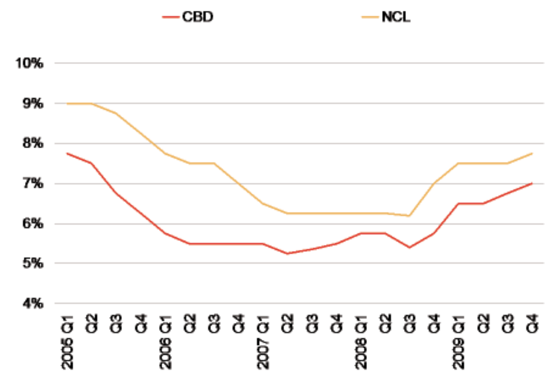
Outlook for 2010

The outlook for the Polish real estate investment market depends on the volume of funds that will be targeted at it over the next 12 – 18 months and the potential support of the banks for those investors that require loan-finance to 'gear-up' returns. Having regard to the current indications and the relatively small volume of capital required to re-start the market, we consider that the current low-volume market can be expected to remain for H1 2010 with more activity in the second half of the year.

Apart from growing interest from key investor groups, we expect improving signals from the occupational markets in 2010, with the earliest recovery due in the office sector for main cities. This is generally as a result of very low predicted new supply. Following this should be a revival in the retail sector where higher consumer spending will generate greater tenant certainty and activity. The warehouse / logistics sector will be later to recover albeit that demand can be quite sensitive to increases in retail / wholesale activity, however, there is significant vacancy to be absorbed first.

The outlook for core yields for the first half of 2010 is that they will remain stable at their current levels, but a general improvement will start in the second half of the year. Next Christmas should see a more positive attitude to real estate investment in Poland and be supported by more lending from banks.

Warsaw prime office yields



Source: Savills Research

Selected investment transactions (H2 2008 and 2009)

OFFICE BUILDINGS			
PROPERTY	CITY	PRICE	BUYER
Arkonska	Gdansk	€ 38 mln	SEB
Marynarska Business Park	Warsaw	€ 167 mln	DEGI
Atrium City	Warsaw	€ 115 mln	DEKA
Grzybowska Park	Warsaw	€ 70 mln	DEKA
Cristal Park	Warsaw	€ 30 mln	Azora

RETAIL PROPERTIES			
PROPERTY	CITY	PRICE	BUYER
Alfa Centrum (phase II)	Olsztyn	€ 22.4 mln	Arka BZ WBK
Karolinka Jantar Pogoria	Opole Slupsk Dabrowa	€ 236 mln	MGPA

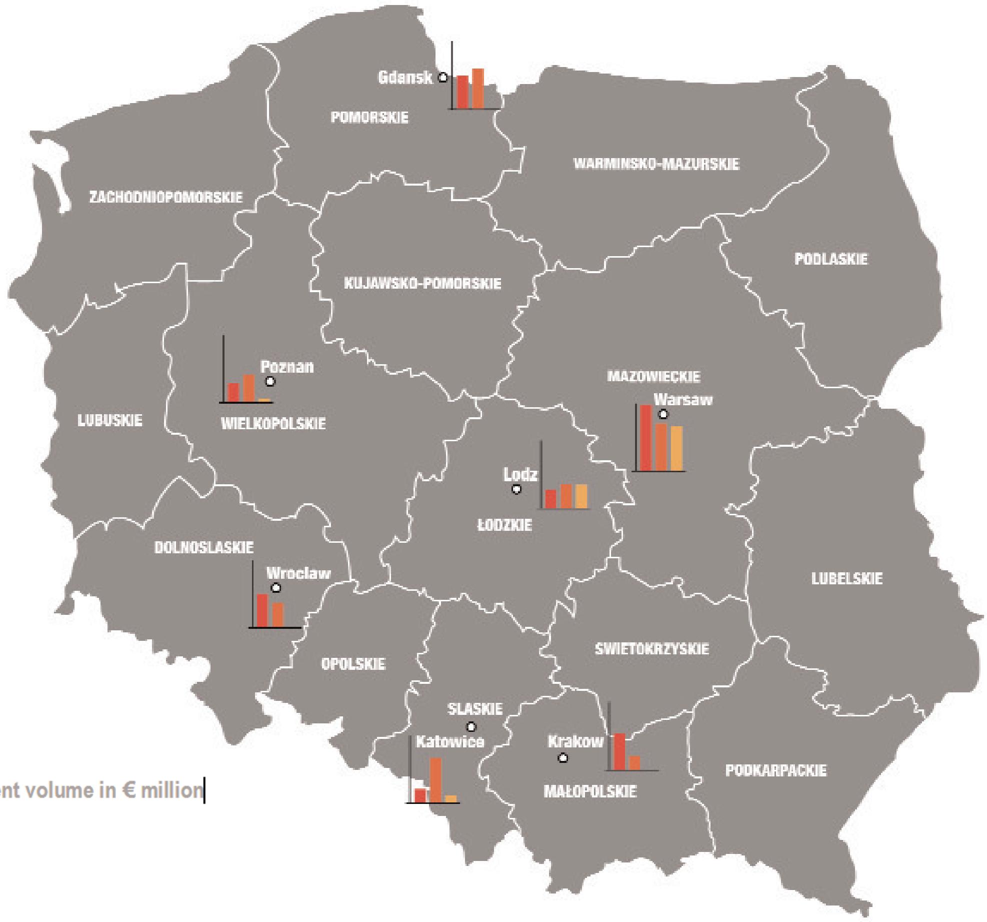
WAREHOUSE / INDUSTRIAL PROPERTIES			
PROPERTY	CITY	PRICE	BUYER
Tesco	Teresin	€ 32 mln	DEKA

HOTELS			
PROPERTY	CITY	PRICE	BUYER
Andel's Hotel	Krakow	€ 30 mln	DEKA
Radisson Hotel	Krakow	€ 32 mln	Union Investment

Source: Savills Research

Map and contacts

Poland investment survey area map



2006 – 2009 Investment volume in € million

- Office
- Retail
- Industrial

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