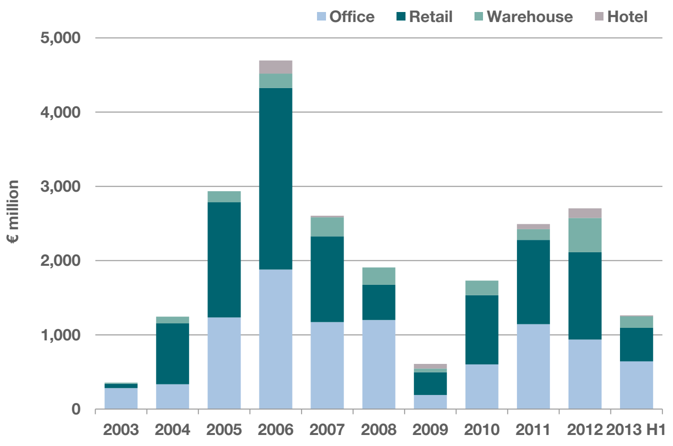
Market in Minutes
Poland investment

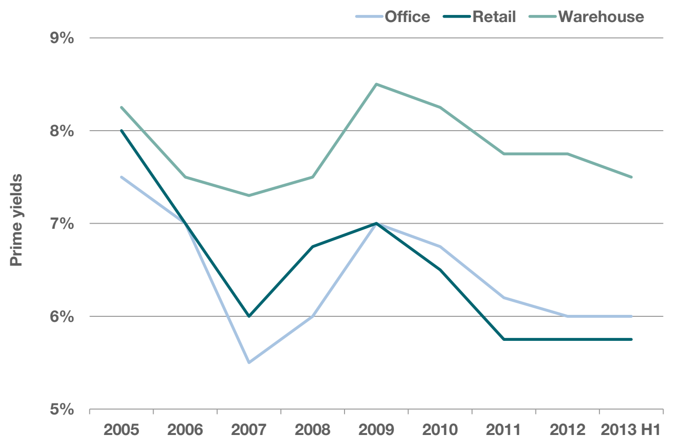
August 2013

GRAPH 1
Investment volumes in Poland by sector



Graph source: Savills

GRAPH 2
Prime yields by sector



Graph source: Savills

SUMMARY

Overview

■ Investment volume in H1 2013 was over €1.26bn which is ca. 47% of the total 2012 volume and ca. 48% more than in H1 2012.

■ In terms of number of transactions, 28 transactions took place in H1 2013 compared to 12 in H1 2012.

■ Office sector accounted for more than half of the H1 2013 volume. In terms of location, Warsaw is leading with ca. 56% of the volume.

■ Prime office yields remain at ca. 6.0% for the best office assets located in Warsaw CBD and 7.50% for prime office properties located in Warsaw non-central locations and leading regional markets. Prime yields for the best shopping centres in Warsaw remain at ca. 5.75%. Prime single-let warehouse properties with 10+ years leases can achieve ca. 7.50%.

■ Five preliminary sale and purchase agreements signed during H1 2013 and the first weeks of July exceeding €850m are expected to be closed by the end of the year.

■ We believe that an annual volume of €3.0bn is achievable by year end with the majority attributable to retail.

"The annual volume of investment transactions is likely to hit €3.0bn which would be a record level since 2006."
Michal Cwiklinski, Savills Poland

Economy

According to revised data, in 2012 GDP growth in Poland was 1.9%, whereas in Q1 2013 GDP growth remained extremely sluggish at only 0.1%. Thus, it is expected that GDP growth in 2013 will reach only 0.9% and then will again accelerate to ca. 2.5% in 2014 and 3.3% in 2015, Oxford Economics reports.

Despite the visible economic slowdown Poland's GDP is still growing faster than in most EU countries. In 2012 Poland ranked fifth among 27 EU member states falling behind Baltic States and Slovakia. The average GDP growth in the EU in 2012 was -0.4% and -0.6% among the 17 Euro zone countries.

Inflation in 2012 was 3.7% and is expected to decrease to 1.5% in 2013 and 2.5% in 2014. The slowing economy and falling inflation encouraged the Monetary Policy Council to make several cuts in interest rates. The main reference rate is now 2.50%, 175bps less than at the beginning of 2013.

Poland continues to be one of the major beneficiaries of EU funding. According to the Regional Development Ministry's data as of 28 April 2013, since the launching of EU subsidies programs for 2007-2013 authorities and beneficiaries signed contracts for a total of PLN 352.3bn of qualified expenses, including co-funding on the part of the EU amounting to PLN 243.4bn, which constitutes 86.1% of the allocation for the 2007-2013 period. The inflow of EU funds to Poland will most likely still increase in the years 2014-2020, as the EU budget for the period, approved by the summit in Brussels in early February, sets the funds allocation for Poland at €105.8bn.

> "Poland ranked fifth in the EU in terms of GDP growth in 2012. Despite the continued slowdown this year, Poland is still forecasted to be ca. 150bps ahead of the EU average."
>
> Michal Cwiklinski, Savills Investment

General Overview

In 2012 Poland accounted for ca. 80% by volume of investment sales in the core CEE markets (Poland, Czech Republic, Slovakia and Hungary).

Investment volume in the first half of 2013 was ca. €1.26 bn, 47% of the total 2012 volume and ca. 48% more than in H1 2012. Additionally five preliminary sale and purchase agreements were signed during H1 2013 and the first half of July for more than €850m (including Silesia City Center, Galeria Dominikanska, Wola Park, Mokotów Nova and Le Palais).

The office sector accounted for ca. 51% of the H1 2013 volume followed by retail with ca. 35.6%, the warehouse sector with ca. 12.2% and the hotel sector with ca. 1.1%. In terms of location, Warsaw remains the favourite destination with ca. 56% of the H1 volume.

Office Sector

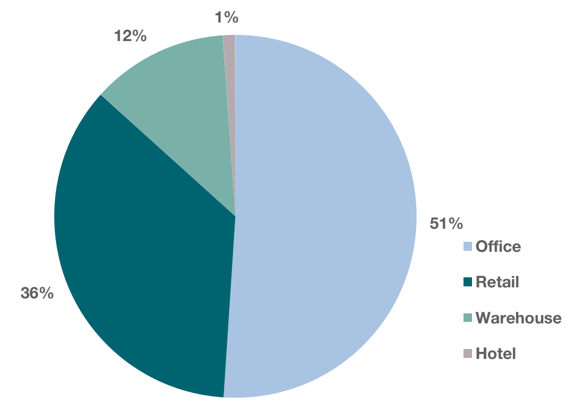
Office sector accounted for 51% of activity by volume in H1 2013 with ca. €644m from 14 transactions. Warsaw is still the leading location in the office sector, however, investor activity outside Warsaw is rising. Out of these 11 were acquisitions of offices located in Warsaw, two in Wroclaw and one in Tricity.

In terms of Warsaw locations, the city centre is still the most sought after among investors for whom limited risk is a priority. This is reflected with yield expectations of 6.00% for prime buildings. In the first half of this year four office properties located in Warsaw city centre were sold.

Mokotów district, the largest non-central office zone in Warsaw, has lately received slightly less investor interest, since most investors targeting the office sector already have assets in this location. Lighter investor appetite for office buildings located in this part of the city resulted in the easing of

GRAPH 3

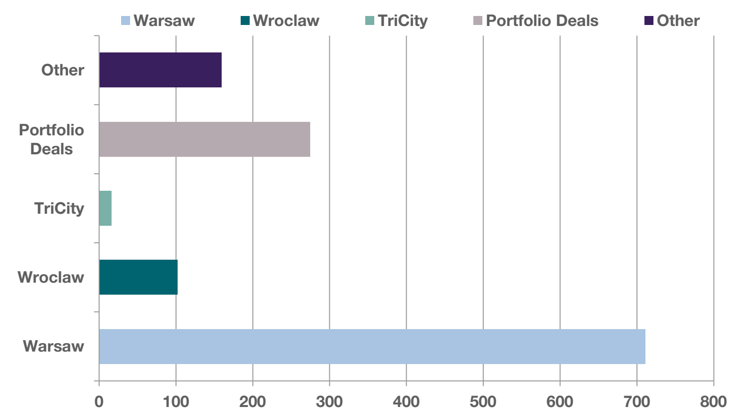
Investment volume by sector H1 2013



Graph source: Savills

GRAPH 4

Investment volume by location H1 2013



Graph source: Savills

prime yields by ca. 75 bps over the last 18 months from 6.75% to 7.50%. The yield gap between prime CBD and non-central locations has widened recently to ca. 150 bps. This is likely to compress over the coming months as the long-term sustainable gap should be around 50-75bps.

A bit more investor interest was also noticed in other Warsaw non-central locations, in particular in the western part of the city, however, in H1 2013 these were mainly distressed sales and opportunistic acquisitions.

Rising interest in prime office properties located in the leading regional cities is now visible with three transactions in H1 2013 compared to only one in 2012 and two in 2011. The most preferred locations are Wroclaw, Krakow as well as Tricity and Poznan. In these locations prime achievable office yields in are now estimated at ca. 7.50 - 7.75%, although prime assets with very long leases may attract much better pricing levels. Investor interest in other regional office markets (Lodz, Katowice, Szczecin) is extremely limited nowadays. There are some transactions pending at the moment, but these locations will still have to prove their sustainability and growth prospects to attract more investor activity.

The dynamic growth of the business process outsourcing (BPO), shared services (SSC), IT and research & development sectors in regional cities, resulting from the relatively low employment costs and availability of skilled workforce, may in the near future bring even more activity to this sector, especially among investors looking for alternative assets to Warsaw offices and for diversification of risk. Long-term leases, which are characteristic for tenants from the above sectors in the regional cities, constitute additional advantage for potential investors.

Retail Sector

Recent transactions, including those pending, confirm, that major cross-border investor interest in the retail sector in Poland is focused on two types of retail assets: dominant, regional shopping centres located in major regional cities and older, but well established shopping centres with good trading records located in both secondary and tertiary cities.

Investment volume in the retail sector in the first half of 2013 was ca. €475m, however, it is expected to significantly increase in the second half of the year once preliminarily agreements (including Silesia City Center by Allianz, Galeria Dominikanska by Atrium European Real Estate and Wola Park by Inter Ikea Centre Group) finalise.

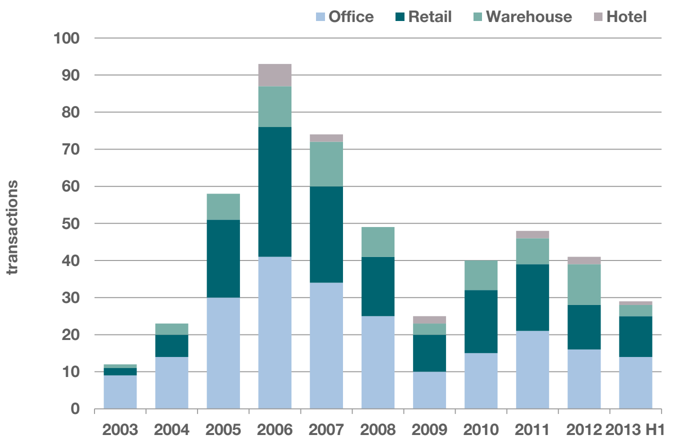
Prime achievable shopping centre yields are now at ca. 5.75% for the best shopping centres in Warsaw, ca. 6.00% for dominant shopping centres in major regional cities and ca. 7.50-8.00% for leading shopping centres in secondary cities.

Warehouse Sector

Investor interest in the warehouse

GRAPH 5

Number of investment transactions by sector



Graph source: Savills

Selected transactions

Over €1.26bn was transacted in January - June 2013.

- Ghelamco sold **Senator** office building to Union Investment Real Estate GmbH for €120m. Senator was completed in 2012 and provides 25,000 sq m of rentable office area. Senator's tenants include financially sound companies from the oil, financial and media sectors: PKN Orlen as anchor tenant, Rabobank Group, Discovery, EURONET, BRE Bank and Legg Mason.

- The sales agreement for the last building (A5) of the Gdansk office complex **Arkonska Business Park** was signed in May 2013. The new owner is a fund managed by PZU Asset Management, which in May 2012 had also bought another two buildings (A3 and A4) belonging to the complex. The seller was Gdansk developer, Torus. The 7,450 sq m was sold for €16m.

- Echo Investment closed the sale of **Aquarius Business House** office building, located at the crossroads of Swobodna Street and Borowska Street in the centre of Wroclaw. The new owner is Spanish investor Azora Europe. The transaction price was €41.9m. Echo Investment Property Management will be the facility manager of the building for the next 5 years. The building is 98% let.

- Savills recently advised London & Cambridge Properties in the acquisition of a **portfolio of three Echo Shopping Centres** located in Radom, Piotrkow Trybunalski and Tarnow for combined price of €67m. The total GLA of the three shopping centres is ca. 57,100 sq m.

- The European Property Investors Special Opportunities 3 fund (EPISO3), managed by Tristan Capital Partners, has acquired a **portfolio of five shopping centres** in Poland from Charter Hall Retail REIT for ca. €174.5m. The portfolio comprised the following shopping centres: Zakopianka in Krakow, Borek in Wroclaw, Arena and Dabrowka in Gliwice and Turzyn in Szczecin.

- In April 2013 Segro has finalised the acquisition of **Zeran Park II** located in Warsaw, a warehouse park of ca. 49,900 sq m, for the €43.2m reflecting an initial yield of ca. 7.50%. The property is 85% leased to such tenants as Peek & Cloppenburg, Leroy Merlin, Farutex, Schenck Process and UCB Pharma and generates ca. €3.3m of annual rental income .

sector peaked in 2012 with a share in the total annual investment volume of ca. 17%, while in 2002-2011 the average share was ca. 6.2%. Despite slightly lower activity in the sector in the first half of this year, we expect more deals in the warehouse sector to come in H2 2013, the first of which is the acquisition of H&M Distribution Centre for €64m by WP Carey in July 2013. The end year volume in the warehouse sector is expected to account for ca. 10-12% of total volume.

“The end year share of the warehouse sector in the total volume of investment transactions is expected to be in the range of 10-12%, almost twice higher than the long-term average.”
Michal Cwiklinski, Savills Investment

Prime achievable warehouse yields are now at ca. 7.50% for a single-let modern warehouse let to strong covenants for at least 10 years. In case of multi-let warehouse properties prime achievable yields are at ca. 8.25%.

Outlook

We expect that prime assets will continue to attract most investor attention in the second half of the year. With more than €850m in signed preliminary agreements as well as a significant pipeline of pending deals the annual volume is likely to hit €3.0bn, the highest result since 2006.

We also expect retail assets to account for up to 70% of the annual volume, with over €1.1bn from dominant shopping centres in Warsaw, regional and secondary cities. This reflects also the shrinking volume of decent investment product in the office sector, which at the end of the year is likely to decrease its share in the total volume to ca. 20-30% (from 51% in H1 2013).

No significant yield shifts are expected by the end of the year in the prime end of the market.

PENDING DEALS

2013 investment volume likely to hit €3bn

■ Five preliminary sale and purchase agreements signed in H1 2013 and early July for the total exceeding **€850m** are expected to be closed by the end of the year. These include: the acquisition of **Silesia City Center**, the leading shopping centre in Upper Silesia, by Allianz for €412m, the acquisition of **Galeria Dominikanska**, a shopping centre located in Wroclaw, by Atrium European Real Estate for €151.7m, the acquisition of **Wola Park**, the shopping centre located in Warsaw, by Inter Ikea Centre Group Poland, the acquisition of **Mokotów Nova**, office property located in Warsaw, Mokotów district, by CCPIII Fund managed by Tristan Capital Partners for €121m and the acquisition of **Le Palais**, the office property located in the centre of Warsaw by IVG.

■ Apart from the transactions listed above, there is a significant volume of pending transactions that are likely to be closed this year with **retail assets accounting for up to 70% of the total annual volume**.

■ Altogether, the total investment volume in 2013 is likely to hit **€3.0bn**, which would be **a record result since 2006**.

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