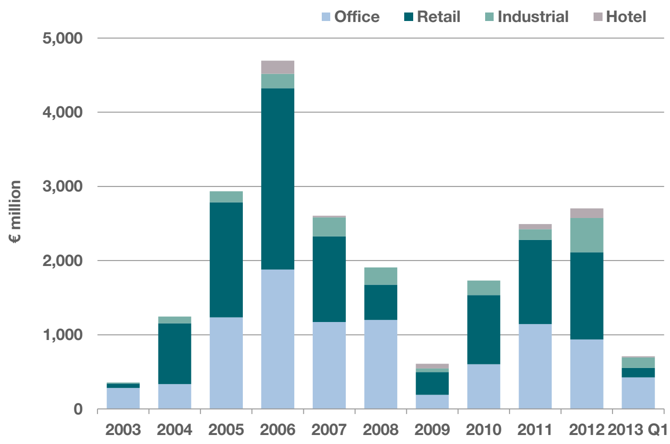
Market in Minutes
Poland investment

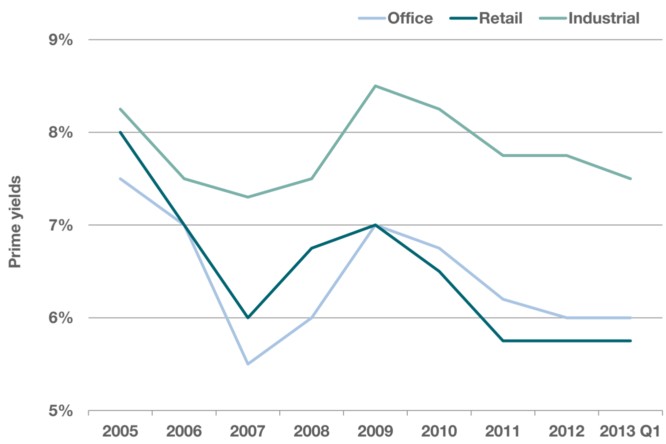
May 2013

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 January - April 2013 amounted to over €700m with ca. €600m transacted in Q1 2013, ca. 18% less compared to Q1 2012.

■ In terms of number of transactions, significant increase in investors' activity could be observed in Q4 2012 (22 transactions) and Q1 2013 (15 transactions).

■ Annual volume in excess of €2.5bn. is now achievable representing a similar level to 2012 (€2.7bn).

■ Most cross-border and domestic investors continue to target mainly prime and opportunistic assets.

■ More distressed sales are expected in 2013 similar to some transactions completed in Q1 2013.

■ More investment activity is expected in regional office markets, especially among investors who need to diversify their office portfolios and look for alternatives to Warsaw properties.

■ In the retail sector investors definitely focus on dominant shopping centres as well as on assets with potential for redevelopment or possible growth of rental income.

"Total investment volume in Q1 2013 has decreased compared to Q1 2012, but investors are now much more active in terms of number of transactions."
Brian Burgess, Savills Poland

General Overview

Poland is still perceived as the core CEE investment market, benefitting from a stable economy, relatively high GDP growth (compared to EU average) and a sustainable growth of the commercial property market.

The first quarter of 2013 ended up with ca. €600m transacted in the Polish commercial property market, ca. 18% less than in Q1 2012, however, in terms of the number of transactions, 2013 started with much higher investor activity (15 transactions in Q1 2013 compared to 6 transactions in Q1 2012 incl. the sale of Złote Tarasy which significantly boosted the volume).

Office deals dominated Q1 2012 with nine transactions for the total of ca. €425m (over 70% of the total volume). Transactions in the retail sector had a share of only 10% in Q1 2013, however, more activity is expected in this sector in Q2-Q4 2013. Transactions in the warehouse sector constituted in Q1 2013 nearly 17%, almost in line with the 2012 share.

Most Q1 2013 activity (over 60% of the volume) was recorded in Warsaw, 10% of the volume accounted for Wrocław and the remaining 30% to other smaller cities and portfolio deals.

Cross-border investments accounted for ca. 72% of the volume in Q1 2013 with US (30%) and German (25%) investors on the lead. Share of domestic investors was particularly high in Q1 2013 and amounted to ca. 28% (compared to 10% in the entire 2012).

Prime and opportunistic assets are still the most targeted types of properties across all sectors. More distressed sales are expected this year, in line with the European trend.

> "Bearing in mind the maturity and a long term sustainable growth of the Warsaw office market, current level of prime yields in non-central locations may now be a good incentive for acquisitions."
>
> Michal Cwiklinski, Savills Investment

Office Sector

Prime office buildings in Warsaw, in particular these located in the CBD, are still considered to be a safe haven for investors and thus are continuously the most sought after properties among those investors who look for stable income and limited risk. This is reflected in the yield level of ca. 6.00%, which we believe, could be achieved in case of prime office buildings located in Warsaw CBD.

Slightly lighter investor appetite for office buildings located outside the Warsaw's CBD (Mokotów District in particular) resulted in ease of prime yields by ca. 75 bps over the last 12 months from 6.75% to 7.50%. Bearing in mind the maturity and a long term sustainable growth of the Warsaw office market, current level of prime yields in non-central locations may now be a good incentive for acquisitions.

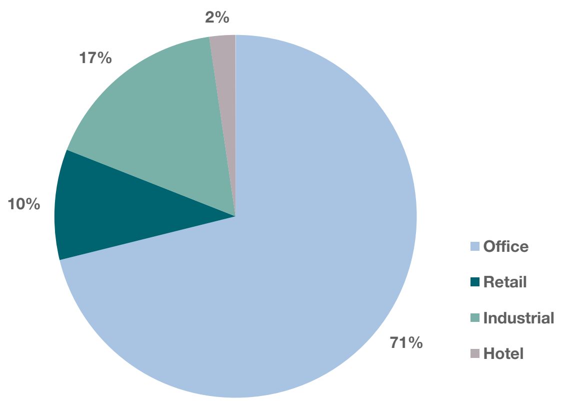
Office properties located in regional cities have not been strongly targetted by investors recently with only two investment transactions recorded since the beginning of 2013 (one in TriCity and one in Wroclaw).

Nevertheless, the dynamic growth of the business process outsourcing (BPO), shared services (SSC), IT, research & development sectors in regional cities, resulting from the relatively low employment costs and availability of skilled workforce, may in the near future bring 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.

Prime achievable office yields in regional markets are now estimated

GRAPH 3

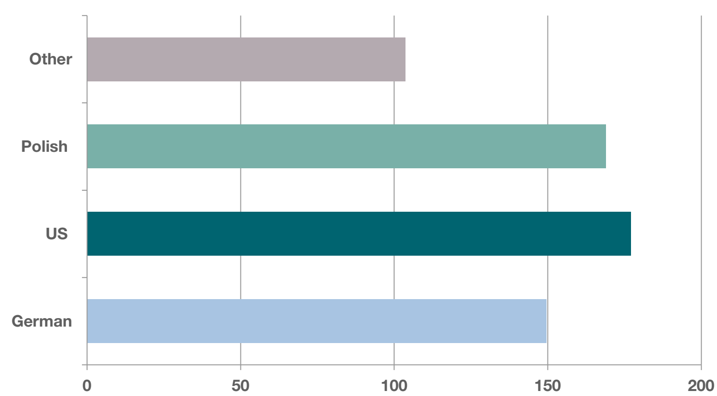
Investment volume by sector 2013 Q1



Graph source: Savills

GRAPH 4

Investment volume by investor country of origin 2013 Q1



Graph source: Savills

at ca. 7.50% in case of Wrocław and Kraków, which are the largest and most dynamically developing regional markets and ca. 7.75% in Tricity and Poznan. Investor interest in other regional office markets (Lodz, Katowice, Szczecin) is extremely limited nowadays. These locations will still have to prove their sustainability and growth prospects to attract some investor activity.

Retail Sector

Nearly 50% of the last ten years investment volume in Poland has been transacted in the retail sector, reflecting a strong investor interest in the Polish retail market and their appreciation of its dynamic growth. Nowadays, lowest yield levels, starting with ca. 5.75% in case of the best shopping centres in Warsaw, ca. 6.00% for leading shopping centres in major regional cities and ca. 7.50% for dominant shopping centres in smaller regional and secondary cities.

Cross-border investors are also interested in acquisitions of portfolios of older, but well established shopping centres, benefitting from a premium on a blended yield. Extension potential or rental upswing on reversion are additional incentives. In case of this type of assets, achievable yields are in the range of 8.50-9.00%.

Smaller investors look for retail properties of ca. 1,000-8,000 m² either

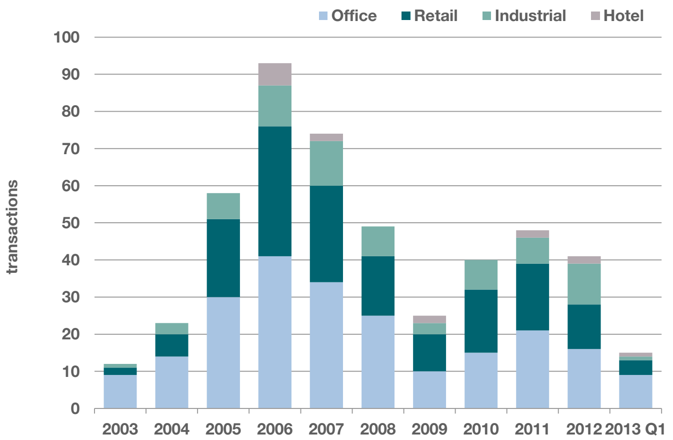
"Nowadays most cross-border investors focus on dominant shopping centres with good trading record, located in both major regional and secondary cities."

Brian Burgess, Savills Poland

most cross-border investors focus on dominant shopping centres with good trading record, located in both major regional cities and secondary cities. These are usually in-town shopping centres, let to a mix of domestic and international retailers, well adjusted to the local communities' shopping preferences. These assets sell at the single-let or anchored by the leading chains of supermarkets or discount stores. In this case investors benefit from long term leases and yield levels ranging between 9.50-10.00%.

GRAPH 5

Number of investment transactions by sector



Graph source: Savills

Selected transactions

Over €700m was transacted in January - April 2013.

- In Q1 2013 Hines Global REIT finalised the acquisition of **New City**, a prime office property of ca. 44,000 m² located in Warsaw, Mokotów District. The total price was €127m reflecting an initial yield in the range of 7.50-7.75%.

- Skanska Property Poland sold in Q1 2013 **Green Corner and Nordea House** office complex in Warsaw, Wola district to REEFF for ca. €94.6m reflecting an initial yield of ca. 6.60%. The property is 95% leased. The largest tenants are the General Directorate of National Roads and Motorways, Nordea and Grant Thornton. The property was granted LEED Platinum pre-certification.

- Skanska has also sold **Green Towers** office complex in Wrocław. The property of ca. 23,300 m² is 100% leased and was sold to one of the largest Polish financial institutions for ca. €64m reflecting an initial yield of ca. 7.50%. The main tenants are Nokia Siemens Networks, Ernst & Young, Dolby Laboratories, Allegro, Medicover.

- In January 2013 Blackstone finalised the acquisition of 33,400 m² **Galeria Leszno** in Leszno. The price for this centre, which opened in May 2011, was ca. €50m and the initial yield ca. 8.25%. The combined area of shopping centres in King's Street Retail, Blackstone's Polish shopping centre portfolio, now exceeds 240,000 m².

- Savills has recently advised London & Cambridge Properties in the acquisition of the **portfolio of three Echo Shopping Centres** located in Radom, Piotrkow Trybunalski and Tarnow for the combined total price of €67m. The total GLA of the three shopping centres amounts to ca. 57,100 m².

- In April 2013 Segro has recently finalised the acquisition of **Zeran Park II** located in Warsaw, a warehouse park of ca. 49,900 m², for the price of €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 is generating ca. €3.3m of annual rental income .

- The Norwegian Government Pension Fund Global through a joint venture with Prologis bought 50% stake in a **portfolio of logistic properties** comprising 4.5m m² located in 11 target European global markets including Poland. About 75% of the properties come from the former ProLogis European Properties (PEPR) fund, and the remaining 25% come from other Prologis wholly-owned assets.

Warehouse Sector

Historically the share of warehouse sector in investors' activity was relatively low, with the average level of 6.2% in 2002-2011. The extraordinary share of ca. 17% in the 2012 total volume proved that investors appreciate low development activity and falling vacancy in the sector and want to benefit from the widened yield gap compared to other asset classes, particularly in case of portfolio acquisitions as well as rental growth possible in longer term in selected locations.

office assets located in Warsaw non-central locations or leading regional office markets.

In case of multi-let warehouse properties located within major warehouse / logistics hubs prime achievable yields are now at ca. 8.25% assuming ca. 5-years of weighted average unexpired lease terms with additional premium possible in case of portfolio acquisitions.

> "Investors appreciate low development activity and falling vacancy rate in the warehouse sector and are now willing to benefit from the widened yield gap compared to other asset classes."
>
> Michal Cwiklinski, Savills Investment

Investors searching for a stable income at slightly higher yield than in case of prime office and retail assets look for single-let warehouses occupied by strong covenant tenants, with leases signed for 10-years or more. The achievable yields for such assets are now at ca. 7.50% reflecting 150bps premium over prime office investments in Warsaw's CBD and the added value of the longer lease terms over prime

Hotel Sector

Investment activity in the hotel sector is still limited and embraces cross-border acquisitions of the best assets located in largest cities with the purpose of portfolio diversification or transactions done by local investors operating in the hotel sector.

OUTLOOK

Investment volume in excess of €2.5bn feasible in 2013.

- Total investment volume in excess of €2.5bn is achievable in 2013 representing a similar level to 2012 (€2.7bn).
- We expect property investment volume in Poland in H1 2013 to be ca. €1.5bn.
- Prime assets will continue to be the most sought after products on the market with a particular focus on prime office properties located in Warsaw CBD, dominant shopping centres in regional cities and single-let warehouses with 10+ years leases.
- We expect more interest in regional office markets from both domestic and cross-border investors looking for alternatives to Warsaw office properties.
- Investors will also look for opportunistic acquisitions of properties offering extension / redevelopment potential or significant rental growth potential.
- More distressed sales can be expected in 2013, as a few such properties are being now put on the market.
- We do not expect any significant movements in prime yields in 2013.

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