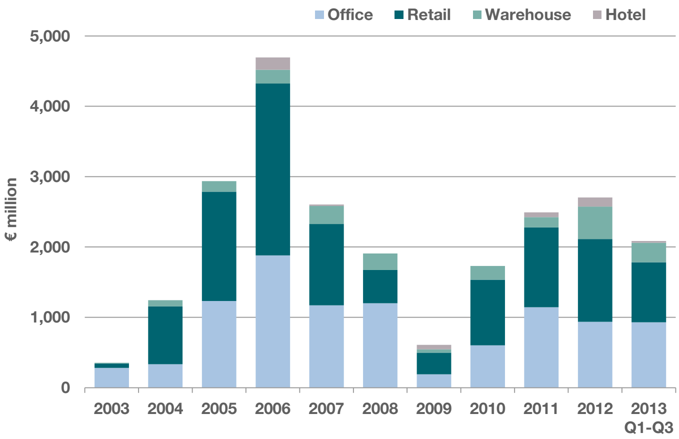
Market in Minutes
Poland investment

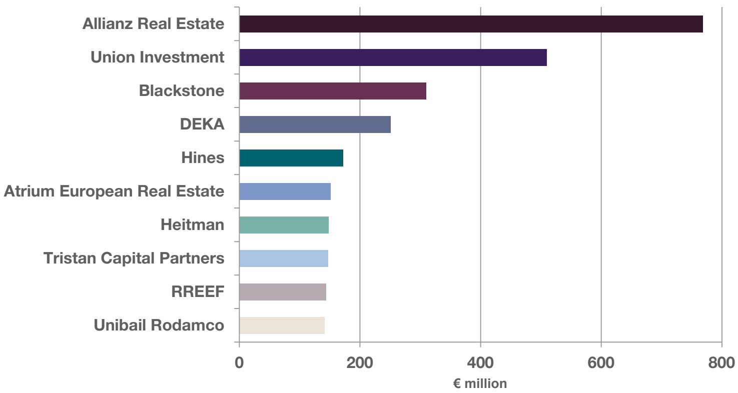
October 2013

GRAPH 1
Investment volumes in Poland by sector



Graph source: Savills

GRAPH 2
Top 10 buyers in Q4 2012 - Q3 2012 by total volume



Graph source: Savills

SUMMARY

Overview

■ The high volume of investment transactions finalised in the last quarter of 2012 and strong investment activity in Q1-Q3 2013 resulted in an impressive €3.7bn rolling 12 month investment volume.

■ Total investment volume in Q1-Q3 2013 was €2.08bn with the expectation to hit €3.0bn by the end of the year.

■ Top ten buyers did ca. 74% of the last 12-months volume of transactions. German and US investors are on top of the list.

■ Investors are targetting prime and opportunistic assets across all property sectors.

■ Prime yields remain stable, but with limited demand for secondary assets the gap between prime and secondary yields keeps widening.

■ With shrinking availability of prime assets, especially in office and retail sectors, more focus on regional office markets and secondary retail locations is expected next year.

"Last 12 months showed positive investment sentiment towards prime assets which made up the majority of the impressive €3.7bn volume invested in to commercial property."

Michal Cwiklinski, Savills Poland

Economy

According to the Central Statistical Office GDP growth during the first half of the year was 0.7% and is expected to reach 0.9% by year end as shown in Oxford Economics' analysis. Economic growth is expected to accelerate to 2.5% and 3.3% in 2014 and 2015 respectively.

To encourage economic growth the Monetary Policy Council decided in July 2013 to decrease the reference rate to a record low level of 2.50%. That level is expected to be maintained at least to the end of the year and according to some experts even to mid-2014.

The average salary at PLN 3,612 at the end of Q2 2013 was 3.4% lower when compared with previous quarter and by 2% when 2012-year end data are considered. The National Bank of Poland's forecasts show average salary growth of 2.8% in 2013 and 2.9% and 3.6% in the next two years.

General Overview

2012 was one of the best years in terms of total commercial investment volume (€2.7bn). This result and a moderate number of transactions (42), reflected high investor interest, but limited mainly to prime and opportunistic assets, and a relatively high average value of transaction. This trend seems to be maintained this year, with an even stronger appetite for prime assets, leading shopping centres in major regional cities in particular.

"The 150 bps margin between City Centre and non-central Warsaw offices is now well above its long term average of ca 50–75 bps."

Mark Freeman, Savills Valuation and Consultancy

Particularly high volume of transactions finalised in the last quarter of 2012, and a good performance in Q1-Q3 2013, resulted in an impressive 12-month rolling volume of over €3.7bn with the top ten buyers accounting for 74% of activity.

In the first three quarters of 2013 43 investment transactions were completed totalling ca. €2.086bn. A few additional preliminary sale and purchase agreements were signed and are expected to be finalised in Q4 2013. The annual volume of investment transactions this year is expected to reach €3.0bn (potentially up to 60 transactions alogether supporting the increased interest in the Polish property investment market).

Office Sector

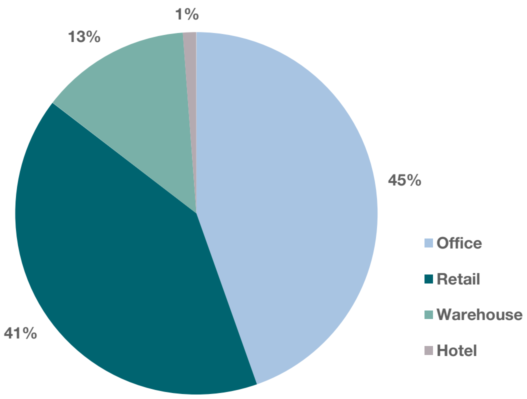
The office sector accounted for 45% of activity by volume in Q1-Q3 2013 with ca. €930m from 22 transactions. Warsaw is still the leading location, however, rising investment activity in regional office markets is now much more visible, with seven transactions finalised during the first nine months of the year (and one more in the early October).

Warsaw city centre continues to be a preferred location among investors, however, there is a limited volume of properties for sale in this location. Prime yields are expected at ca. 6.00% which reflects a significant gap between city centre and non-central Warsaw locations, where prime yields eased significantly over the last 12 months.

The recent sale of Mokotów Nova, developed by Ghelamco as well as the sale of New City by ECI earlier this year, are good benchmarks for current level of prime yields in Mokotów district, the largest non-central office zone in Warsaw. Both these properties were sold at ca.7.50-7.75%, which reflects an increase of approximately 75-100 bps over the last 12-18 months. The reason for that is that most investors targeting the office sector already have assets in this location, whereas development activity in this district remains high and effective rents are now lower than some time ago. The margin between

GRAPH 3

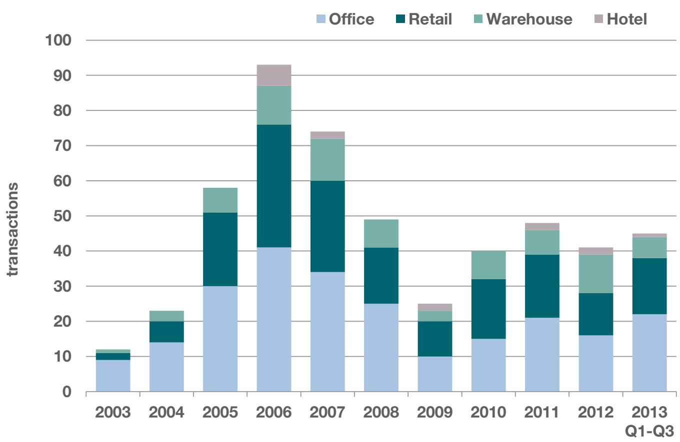
Investment volume by sector Q1-Q3 2013



Graph source: Savills

GRAPH 4

Number of investment transactions by sector



Graph source: Savills

City Centre and non-central offices is now well above its long term average of ca 50 – 75 bps.

Investment activity in other Warsaw non-central locations is now limited to opportunistic acquisitions or distressed sales. We believe, that in line with the development of the second underground line, development, letting and investment activity will partly move to new locations along the new underground line, in particular to the West of the City Centre.

Investment activity in regional office markets is rising and from this year we may see some activity not only in the leading markets of Wroclaw, Krakow or Tricity but also in Poznan and Katowice. In some locations this activity is limited to opportunistic acquisitions, but this means that investment sentiment is improving and investors will probably look for alternatives to Warsaw market and higher returns in regional markets.

In the most established regional office markets like Wroclaw, Krakow, Tricity and Poznan prime yields are now ca. 7.50-7.75%. Activity in the other regional markets (Katowice, Lodz, Szczecin) is still limited with no direct benchmark for prime assets, but will be significantly higher. Non-prime assets will trade off double digit yields.

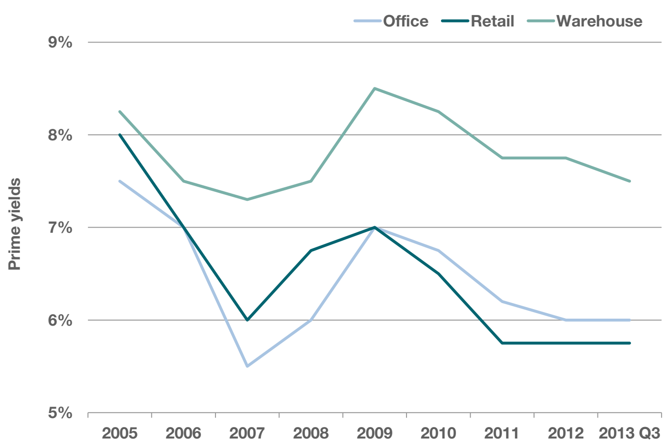
Retail Sector

Retail transactions in Q1-Q3 2013 accounted for 41% of the total investment volume. Investment activity was dominated by five transactions accounting for more than 96% of the retail volume, topped up with a series of tiny transactions in smaller cities. The largest transaction this year was the acquisition of Silesia City Centre in Katowice by Allianz Real Estate for €412m. Other important transactions included the recent acquisition of Galeria Dominikanska in Wroclaw by Atrium European Real Estate for €151.7m, the remaining 23% stake in Zlote Tarasy by Unibail Rodamco, takeover of a portfolio of three Echo shopping centres (Piotrkow Trybunalski, Radom and Tarnow) by London & Cambridge Properties and acqusition of Galeria Leszno by Blackstone.

The last quarter of the year will be dominated by at least three important transactions in the retail sector. At the begining of October GTC and its partner Avestus signed a preliminary agreement to sell Galeria Kazimierz in Krakow to Invesco for €180m. More recently, Tristan Capital Partners has finalised the takover of the Charter Hall portfolio of five established shopping centres for a total of ca. €175m. The acquisition of Wola Park in Warsaw by Inter Ikea Group has been finalised in late October 2013.

Prime shopping centre yields are 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.

GRAPH 5
Prime yields



Graph source: Savills

Top 10 buyers

Almost €2.75bn spent on Polish properties by top 10 buyers over the last 12 months

1. Allianz - acquisitions of prime office and retail assets: Warsaw Financial Centre (87.5%), Platinum Business Park (both in Warsaw) and Silesia City Center in Katowice.

2. Union Investment - acquisitions of Manufaktura in Lodz and Senator Office Building in Warsaw.

3. Blackstone - focused on established warehouse properties Blackstone acquired two Panattoni portfolios and Diamond Business Park in Piaseczno. Additionally, Blackstone took over one shoppng centre Galeria Leszno.

4. DEKA - acquisitions of two office buildings: IBC I and IBC II and Intercontinental Hotel, all in Warsaw.

5. Hines - focused on warehouse and office sectors, acquisitions of New City in Warsaw, Distribution Park Sosnowiec, Raben Distribution Centres in Poznan and Grodzisk Mazowiecki.

6. Atrium European RE - recent acquisition of Galeria Dominikanska in Wroclaw

7. Heitman - acquisiotions of Marynarska Business Park and Galeria Tarnovia (70%).

8. Tristan Capital Partners
- acquisition of Mokotow Nova and 13% stake in Warsaw Financial Centre. Tristan Capital Partners has also signed a preliminary agreement regarding the acquisition of CharterHall portfolio of five older, but established shopping centres across Poland (finalised in Q4 2013).

9. RREEF - acquisitions of Green Corner in Warsaw and two Panattoni Parks in Pruszkow and Ozarow Mazowiecki

10. Unibail Rodamco - In Q1 2013 acquired the remaining 23% stake in Złote Tarasy, a shopping centre and office complex located in the centre of Warsaw.

Warehouse Sector

In Q1-Q3 2013 there were six transactions (including two portfolio deals) in the warehouse sector for the total of ca. €280m. Additionally, there was one preliminary agreement in September 2013 (Ideal Idea III acquired by BPH TFI) to be finalised in November this year.

The last quarter of the year began with two more transactions in the warehouse sector. Blackstone acquired Diamond Business Park Lodz, a 62,300 sq m warehouse park consisting of three buildings for ca. €28m from Peakside Capital. Beside that, an entity level transaction took place recently. TPG Capital and real estate group Ivanhoé Cambridge announced the acquisition of warehouse developer PointPark Properties (P3) from investment firm Arcapita. The portfolio of 41 properties includes two warehouse assets located in Poland: Pointpark Mszczonow, ca 96,000 sq m warehouse park located near Warsaw and Pointpark Poznan, 63,300 sq m warehouse park. The above transactions confirm the increased investor interest in warehouse sector observed last year is still maintained, and we can expect more deals in this sector in 2014.

Prime 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%.

> “Bearing in mind a shrinking availability of prime assets, performance of the investment market in 2014 will be dependant on buyers activity in regional office markets and secondary retail locations.”
>
> Michal Cwiklinski, Savills Investment

WHAT'S NEXT?

Stable prime, secondary yields easing further.

- Providing that preliminary agreements and a few pending deals will finalise in the last quarter of 2013, the annual investment volume may hit €3bn, reflecting ca. 11% growth compared to 2012.

- Investment activity in the last twelve months indicates that the gap between prime and secondary assets is widening which is reflected in stable prime and rising secondary yields.

- Increased interest in regional office markets is already visible and will be rising in line with the growth of these markets driven mainly by BPO/SSC and IT sectors. We anticipate that in 2014 investors will still focus on prime assets in the leading markets and opportunistic acquisitions.

- Shrinking availability of prime retail assets in major regional cities will force investors to have a closer look on the leading and established shopping centres in secondary cities. In this case, however, investors will require higher returns, to compensate the risk and sensitivity of smaller markets to new supply, as development activity in the retail sector is still high - ca. 870,000 sq m of shopping centres under construction, half of which in cities below 200,000 inhabitants.

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