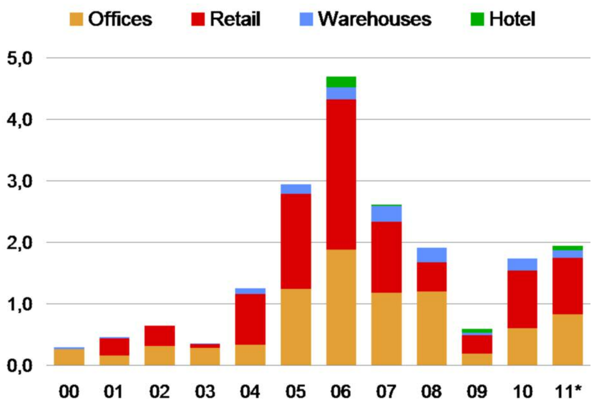
Poland Investment Bulletin

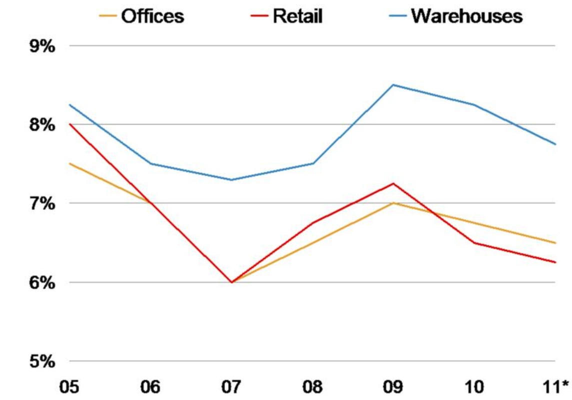
December 2011

Investment volumes in Poland (EUR billion)



Source: Savills Research
*Q1-Q3 2011

Average prime yields per sector



Source: Savills Research
*Q3 2011

"Almost Euro 1 billion of property investment transactions in Q3 2011 underlines significant interest in the Polish market. Many prime properties that have come on to the market for sale have contributed to the investment turnover. This will also have a significant impact on the activity in the last quarter of this year bringing the investment volume to the highest level since 2007."

Michał Ćwikliński - Director, Head of Investment Department

- Q3 2011 investment volume exceeded EUR 913 million, reflecting ca. 170% growth q-o-q and accounting for ca. 48% of the Q1 - Q3 volume.
- Q1-Q3 2011 volume was ca. EUR 1.93 billion. Taking into account transactions to be closed at the begining of Q4 and some further on-going acquisitions, the total 2011 volume is expected at the level of ca. EUR 2.3 - 2.5 billion, reflecting a market activity similar to 2007.
- In line with our earlier projections, increased activity is now observed in the retail sector, which accounted for almost half of the Q1-Q3 transaction volume.
- Within the office sector, Q1-Q3 investment transactions were limited to Warsaw, although some interest was visible also in regional cities.
- Within the retail sector, investment activity is visible in both regional and secondary cities.
- Austrian and German buyers continued to be the most active investors in Q1-Q3 2011. Nevertheless, increased interest from American and Dutch investors was also observed.
- Prime yields remained stable in the third quarter of 2011.
- Prime office yields were at ca. 6.50% in Warsaw CBD and ca. 6.75% - 7.00% in Warsaw non-central locations. There is no recent deal evidence for prime office yields in regional cities, but we expect that they have remained stable at ca. 7.25% - 7.50%.
- Prime shopping centre yields in Warsaw were at 6.25 - 6.75% in Warsaw and major regional cities. In secondary cities, shopping centre yields were at ca. 8.50%, albeit with few sales achieved.
- Prime warehouse yields were at ca. 7.75%.

Economy and overview

Economy

The overall annual GDP growth in Q3 2011 was at the level of 4.2%. Notwithstanding the more challenging economic outlook for Eurozone, as well as current depreciation of PLN, the economic outlook for Poland remains positive. The National Bank of Poland expects annual GDP to grow by about 4.0% in 2011, which places Poland among the fastest growing economies in Europe (the projected average growth in Eurozone is forecasted by the ECB at 1.5%.

Annual inflation in 2010 was 3.1%. but increased in 2011 to an annualized rate of 4.1% for Q3. The rate is expected to rise further and it is forecasted that the annual inflation in 2011 will reach 4.2%.

Average employment in the enterprise sector has grown by ca. 1% in the last year and has already exceeded the pre-crisis level of 2008. The average unemployment rate decreased slightly to 11.8% in Q3 2011.

Average salary in the enterprise sector at the end of Q3 2011 was ca. PLN 3,582 (EUR 795) and has grown by 5.2% y-o-y.

The Monetary Council increased interest rates four times in 2011 (each time by 25 bps) and currently the major reference rate is 4.50%. Further increases are possible in H1 2012.

The uncertain debt situation in some of the major european countries as well as in the US has lead to strong fluctuations of USD and EUR. The exchange rate of EUR/PLN at the end of Q3 2011 was 4.33 and USD/PLN 3.14. The situation on the CHF market is now more dependent on the EUR fluctuations since the Swiss National Bank has pinned its exchange rate with the EUR currency after an significant Swiss currency appreciation in September.

Q1-Q3 2011 Investment activity

In line with our projections, investment activity has not slowed down in Q3 2011 and the total volume of investment transactions in Q3 was ca. EUR 913 million, reflecting ca. 170% growth q-o-q. Altogether investment volume for Q1 - Q3 2011 was EUR 1.93 billion.

Austrian and German investors are still the most active buyers on the Polish property market (ca. 57% of the total volume) with increasing activity also noted from American and Dutch investors.

Almost half of the Q1-Q3 volume was expended in the retail sector. Relatively high GDP growth as well significant increase in retail sales resulting from both the growth in salaries and strong consumer confidence create the supportive environment for the Polish retail sector.

The largest investment transactions in the retail sector in Q3 2011 were the acquisition of Magnolia Shopping Centre in Wrocław by Blackstone for ca. EUR 222 million and acquisition of the remaining 50% share in Galeria Mokotów in Warsaw by Rodamco for ca. EUR 237.50 million.

Investment transactions in the office sector still constitute a significant share of over 40% and so far in 2011 all the office investment transactions took place in Warsaw, which once again confirmed that prime Warsaw offices are still among the most sought after investment properties on the CEE market.

The largest transactions in the office sector in Q3 2011 included the acquisition of Focus office building by RREEF for ca. EUR 117 million and the acquisition of Park Postępu by Immofinanz for ca. EUR 102 million.

Interest is currently being observed in regional office markets, however, there are no distressed sales on the market and most sellers offer limited discounts in pricing in comparison to Warsaw offices, thus significantly limiting the marketability.

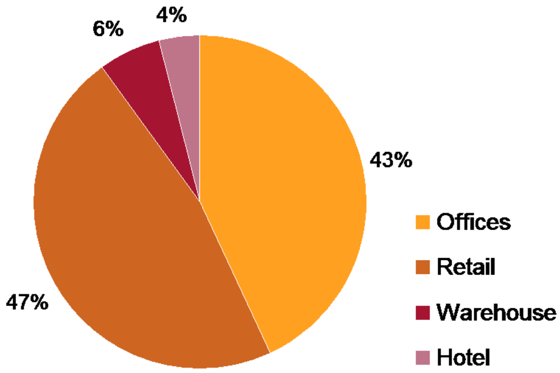
Stable interest is still recorded in warehousing / industrial sector, however, this was limited in Q1-Q3 to the Warsaw area, Central Poland and Upper Silesia. Limited new supply in this sector and significant on-going development in road infrastructure is expected to attract more attention in 2012 creating some potential for rental growth in the medium term.

Major investment transactions in the warehousing sector included the acquisition of 65% share in Europolis Park Błonie and 75% share in Europolis Park Central Poland by CA Immo for EUR 50 million in Q1 and the acquisition of Panattoni BTS Tesco Gliwice by Invesco for ca. EUR 37 million.

In Q3 2011 there were also two investment transactions in the hotel sector. Wenaasgruppen has acquired Sobieski Hotel for ca. EUR 50 million and Royal Starman Bristol has taken over Hotel Bristol for ca. EUR 19.50 million.

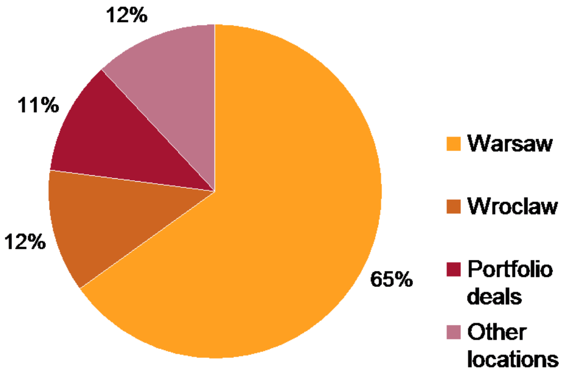
Prime yields

2011 Q1 - Q3 investment activity by sector



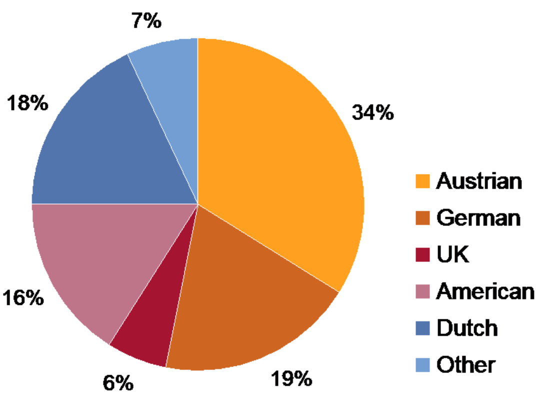
Source: Savills Research

2011 Q1 - Q3 investment activity by location



Source: Savills Research

2011 Q1 - Q3 investment activity by origin country of investor



Source: Savills Research

Prime yields

Recent investment transactions confirmed that prime yields remained stable in Q3 2011, having compressed by ca. 75 bps over the last 18 months.

Prime office yields in Warsaw CBD (Central Business District) are now at 6.50%, which was confirmed in the recent sales of two office buildings: Focus (sold by DEGI to RREEF for ca. EUR 117 million) and Stratos (sold by Pramerica to Kulczyk Silverstein for ca. EUR 41 million).

Prime office yields in Warsaw non-central locations are at 6.75%, which was reflected in the recent acquisition of Park Postępu by Immofinanz from Echo Investment for ca. EUR 102 million as well as the acquisition of Marynarska Point by SEB from GLL for ca. EUR 38 million.

In Q1-Q3 2011 there were no investment transactions of office buildings located outside Warsaw. Nevertheless, based on some offer pricing, we anticipate that the current yield level for prime office properties located in major regional cities would now be at 7.25%-7.50%.

Recent investment transactions in the retail sector reflect that the prime shopping centre yield is now as low as 5.60 - 6.00% in case of the leading Warsaw and regional shopping centres. This was recently proved in the acquisition of the remianing 50% share in Galeria Mokotów in Warsaw by Redamco from GTC for ca. EUR 237.50 million.

Prime yields for other, well established shopping centres located in major regional cities (incl. Warsaw) are in the range of 6.50 - 7.00%, e.g. the acquisition of Magnolia shopping centre in Wrocław by Blackstone from Oktava for ca. EUR 222.50 million at ca. 6.80% in Q3 2011 or the acuisition of Promenada shopping centre in Warsaw by Atrium from Carpathian for ca. EUR 171 million reflecting an initial yield of 6.75% in Q2 2011.

Modern shopping centre yields in secondary cities and well established, but older shopping centres in major regional cities were recently transacted at yields level closer to 8.50 - 8.75%.

Prime warehousing / industrial yields are now in the range of 8.50 - 8.75%. Some lower yield levels are possible in case of projects leased for a long term to a particularly good covenant tenants (e.g. Panattoni BTS Tesco in Gliwice has been recentely sold to Invesco at 7.75%).

Outlook

Outlook

Investment activity in the Polish property market was more than positive in Q1-Q3 2011, and exceeded most expectations. Stable economy, and still one of the highest growth prospects within the European Union attracted investors' attention, particularly to the well established Warsaw office market and to the retail sector.

Based on the knowledge of recently closed and on-going investment transactions we anticipate that at the end of 2011 the total volume of commercial property investment transactions will be in the range of EUR 2.3 - 2.5 billion, which will be the highest level since 2007.

In line with our earlier projections, the retail sector plays a dominant role on investment market, supported by the growth in consumer spending and an overall strong consumer confidence. The occupancy market in the retail sector is also supportive, as some well known retail chains have already announced their expansion plans until 2015.

We anticipate, that in view of the shrinking availability of prime office investment properties in Warsaw, the retail sector will continue to attract investor attention.

Nevertheless, prime Warsaw office buildings will still be the most sought after investment property in Poland. Limited new supply in 2012 may further put some pressure on yields, unless the changes in global economy will adversely affect the risk premium.

The volume of investment transactions in the regional office markets will still be limited unless the landlords offer some more discount compared to Warsaw.

Limited development activity in the warehousing sector in conjunction with the strong demand driven by rising retail sales and the overall improvements in road infrastructure in Poland should bring more investment deals in the warehousing / industrial sector in 2012.

Summing up, the investment market in 2011 performed better than expected, and the prospects for the next year remain positive, unless the rising uncertaintiy on the European markets will totally freeze activity in 2012. Poland, however, remains one of the stable economies in the region, with a positive growth of the GDP and rising retail sales.

We anticiapte that German and Austrian investors will continue to be the most active players on the Polish market and we expect some more activity from UK buyers. Warsaw will still remain the main focus of investors, nevertheless, it is now positive that investment activity in the retail sector has already spread across the country and is no more limited to the largest cities.



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