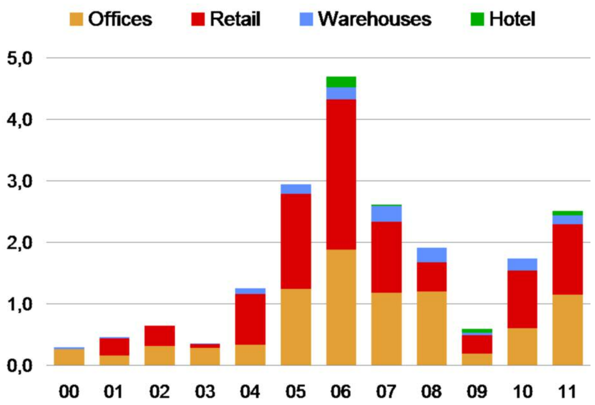
Poland Investment Bulletin

January 2012

Investment volumes in Poland (EUR billion)



Source: Savills Research

Average prime yields per sector

Source: Savills Research

"Investment activity accelerated in the second half of 2011 bringing the total volume of property investment transactions to over EUR 2.5 billion. This confirmed significant interest in the Polish property market, with prime offices in Warsaw and well established shopping centres all over the country being still the most sought after products on the market."

Michał Ćwikliński - Director, Head of Investment Department

- 2011 investment volume exceeded EUR 2.5 billion, reflecting ca. 45% growth y-o-y.
- Almost 60% of the investment volume was transacted in H2 2011.
- Office and retail properties accounted for over 91% of the total investment volume.
- Almost the entire (98%) volume of transactions in the office sector was related to properties located in Warsaw.
- Austrian and German buyers continued to be the most active investors in 2011. Nevertheless, increased interest from American and Dutch investors was also observed.
- Prime yields remained relatively stable in H2 2011.
- Prime office yields were at ca. 6.20% in Warsaw CBD and ca. 6.75% in Warsaw non-central locations.
- There is limited deal evidence for prime office yields in regional cities, but we expect that prime office yields are at ca. 7.25 - 7.50% in case of Wrocław and Kraków and ca. 7.75 - 8.25% in other regional cities.
- Prime shopping centre yields were at 6.00% in Warsaw and major regional cities. In smaller cities, shopping centre yields were at ca. 7.75 - 8.25%.
- Prime warehouse yields were at ca. 7.75%.
- We anticipate that the investment sentiment for prime assets will remain positive in 2012 bringing the investment volume to similar level to 2011.

Economy and overview

Economy

Poland is the only EU country that has managed to resist the global economic crisis avoiding recession in 2009 and maintaining one of the highest growth rate in 2010 and 2011.

The GDP growth for Q3 2011 has been estimated at the level of 4.2%. According to the National Bank of Poland the annual GDP should grow by about 4.0% in 2011 but is expected to fall down to 3.0% in 2012. GDP growth is driven mainly by stronger domestic demand, which makes Poland less dependent on trade balance than other CEE countries.

Since the second half of 2010 the inflation has started to slowly increase reaching 2.9% at the end of the year. In 2011 the rising trend has been maintained with the overall annual result at 4.3%.

As at the end of 2011 the monthly growth of salaries levelled at 4.4%. This result is still one of the highest in the European Union.

Unemployment rate has significantly increased in the first months of 2011 but melted down during the year to finally increase in December to 12.5%. Due to the current uncertainty in the markets and their negative influence on the economy, the unemployment rate is expected to increase up to 13.2% by February 2012 and then stabilise at 12.9%.

As expected by financial markets and many economists with the beginning of 2011 the Monetary Policy Council has started to increase basic rates. Altogether there were four increases, each by +0.25% with last one in June 2011. Due to uncertainty of the current world economic outlook and its significant influence on the Poland's situation the Council is under pressure both from the financial market and rising inflation. Currently it is unknown what changes can be expected in 2012. The recent announcement of the Council indicates that we may expect increases in mid-term.

2011 Investment activity

The total volume of property investment transactions amounted to over EUR 2.5 billion in 2011 reflecting ca. 45% growth y-o-y. Investment activity accellerated slightly in H2 2011, accounting for almost 60% of the entire annual volume.

Austrian and German investors were the most active buyers in the Polish property market, however, we have also noticed an increased interest of American and Dutch investors.

German investors were mostly active in the office sector limited to prime offices in Warsaw, whereas all investment transactions of American and Dutch investors were recorded in the retail sector.

Investment transactions in the office sector accounted for ca. 45% of the total investment volume in 2011 and were almost entirely limited to properties located in Warsaw (ca. 98% of office investment volume).

The largest property investment transaction in the office sector in 2011 was the acquisition of 51% interest in the portfolio of office buildings in Warsaw by CA Immo from Europolis for ca. EUR 139 million.

Apart from that there were four investment transactions exceeding EUR 100 million. These were: the acquisition of the new Orange HQ (under construction) by Quatar Investment Authority for ca. EUR 125 million, the acquisition of Focus Office building by RREEF from DEGI for ca. EUR 117 million, the acquisition of North Gate office building by DEKA from Premiumred Real Estate Development for ca. EUR 103 million, and the acquisition of Park Postępu office park by Immofinanz from Echo Investment for ca. EUR 102 million.

Outside Warsaw there were only a few investment transactions in the office sector, the largest of which was the acquistion of Green Office Park in Kraków by Azora from Buma for ca. EUR 25 million.

Most sellers of the office buildings in the regional cities offer limited discounts in pricing in comparison to Warsaw offices, thus significantly limiting the marketability.

Investment transactions in the retail sector accounted for ca. 46% of the entire investment volume in 2011.

Warsaw was a dominant location, however, almost 57% of the entire volume of retail investment transactions took place outside the capital city.

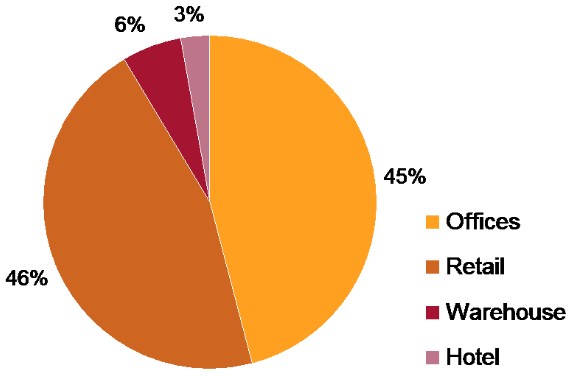
The largest retail investment transactions in 2011 were the acquisition of the remaining 50% interest in Galeria Mokotów in Warsaw by Rodamco from GTC for ca. EUR 237.50 million (the first 50% were acquired by Rodamco in 2002), the acquisition of Galeria Magnolia Park, shopping centre in Wrocław, by Blackstone from Oktava for ca. EUR 222.50 million as well as the acquisition of Promenada shopping centre in Warsaw by Atrium European Real Estate from Carpathian for ca. EUR 171 million.

Stable interest is still recorded in warehousing / industrial sector. 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.

Some activity was also noted in the hotel sector - in 2011 there were two investment transactions. 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.

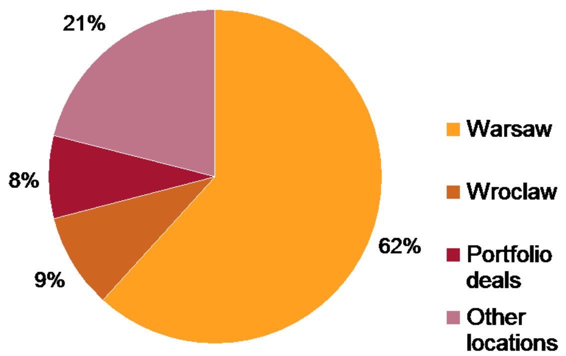
Prime yields

2011 investment activity by sector



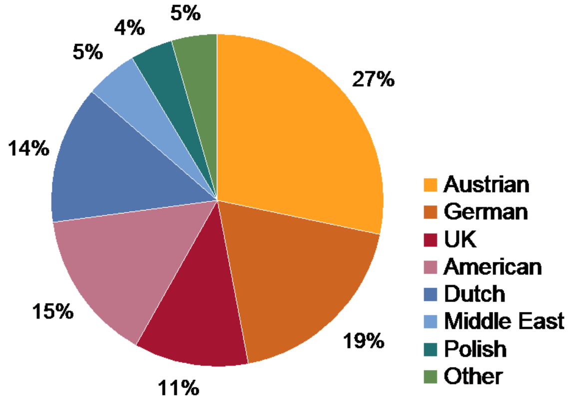
Source: Savills Research

2011 investment activity by location



Source: Savills Research

2011 investment activity by origin country of investor



Source: Savills Research

Prime yields

Prime yields for modern office buildings located within Warsaw CBD (Central Business District) are now at ca. 6.20%, which was confirmed in the recent acquisition of Mokotowska Square (sold to DEKA by Yareal for ca. EUR 50.00 million).

In Warsaw non-central locations prime yields are closer to 6.75%. This 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.

There is a limited deal evidence for office buildings located outside Warsaw, however, we anticipate, that the achievable prime office yields in major regional cities are now at ca. 7.25% in case of Kraków and Wrocław and closer to 7.75% - 8.25% in other regional cities.

Prime shopping centre yields are now at ca. 6.00% in both Warsaw and major regional cities in case of leading regional shopping centres.

The above level was confirmed in the transactions that took place over the last 12 months, in particular in the sale of the remaining stake in Galeria Mokotów by GTC to Rodamco at ca. 5.60%, sale of the remaining 50% stake in Wars Sawa Junior by CDI to ING Real Estate at ca. 6.50% or in the acquisition of Magnolia Park, shopping centre in Wrocław by Blackstone from at ca. 6.75%.

Modern shopping centre yields in secondary and smaller cities as well as established, but older shopping centres in major regional cities were recently transacted at yields level closer to ca. 7.75 - 8.25%.This yield level was recently reflected in a few transactions, e.g.: Blackstone's acquisitions of Galeria Twierdza in Zamość for EUR 44 million, Galeria Twierdza in Kłodzko for ca. EUR 38 million (both from Rank Progress).

Prime warehousing yields are now in the region of 7.75%. This yield level was reflected in two recent NBGI acquisitions of Intermarche warehouse in Mysłowice (Upper Silesia) from Credit Suisse for ca. EUR 20 million and Panattoni BTS Nestle in Toruń from Panattoni for ca. EUR 16 million.

Outlook

Outlook for 2012

Despite the overall economic uncertainty in the European Union, economic growth in Poland remains relatively high as a result of a healthy mix of domestic consumption and exports.

Among major advantages of Poland there is a relatively young population compared to Western Europe, with a large pool of highly skilled workers. The relation of labour productivity (GDP in relation to employment) to average labour costs is ca. 75% higher in Poland than in Western Europe.

Poland's financial sector is one of the most stable in Europe, which has been proved during the financial crisis in recent years. The level of public debt is kept below 60% of the GDP. There is still a high amount of money available from 2007 - 2013 EU funds for improvements in infrastructure and some further are expected in 2014 - 2020.

All of these advantages in conjunction with the unique, central location constitute a strong basis for investment confidence in Poland.

We anticipate that the investment activity on the Polish property market will remain high in 2012 with the total volume of property investment transactions to be in the range of EUR 2.0 - 2.5 billion.

We expect that prime office properties in Warsaw will still be the most searched for investment properties, considered as the most secure asset on the market.

We also expect that the consumption - driven retail sector will play an important role on the investment market.

Warsaw will still remain the main focus of investors, nevertheless, it is now positive that investment activity in the retail and warehousing sectors has already spread across the country and is no more limited to the largest regional cities. We expect this trend to continue in 2012.

We anticipate 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.

We expect that prime yields will remain stable in 2012, however, some growth in capital values may be possible in the warehousing sector as a result of a slight growth in effective rents, in particular in those markets where the volume of available space has shrunk over the last 12 months.

Summing up, the investment market in 2011 performed better than expected, and the prospects for the next year remain positive, unless the rising uncertainty on the European markets will totally freeze activity in 2012.



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