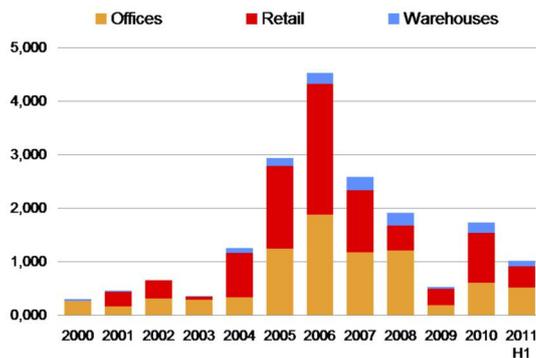


# Poland Investment Bulletin

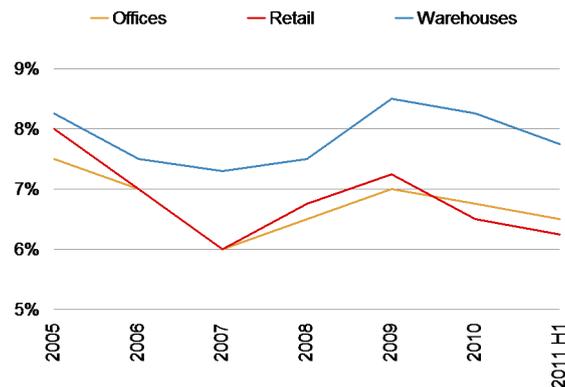
## Summer 2011

Investment volumes in Poland 2000 - 2011 H1



Source: Savills Research

Average prime yields per sector



Source: Savills Research

**“Retail property deals dominated the investment activity in the second quarter of 2011. This confirms, that in view of the shrinking availability of prime office properties, the interest of investors in well established retail assets located in regional markets and smaller cities is rising. We anticipate that this trend will be even more visible in the coming months.”**



Michał Ćwikliński - Director, Head of Investment Department

- 2011 H1 investment volume exceeded EUR 1.00 billion, almost 60% of the volume of the whole 2010 and ca. 65% increase y-o-y.
- 2011 Q2 net volume was lower than 2011 Q1, but the volume of on-going deals indicates that investment activity is not slowing down.
- In terms of the number of transactions in 2011 H1, seven of them were signed in the office sector whereas there were eight transactions in the retail sector and five transactions in the warehouse sector.
- Warsaw offices and well established retail properties located in Polish regional cities were the most targeted investment products in 2011 H1.
- Warsaw is still the most targeted location, however, investment activity is rising in large regional cities and also in the smaller ones.
- The most active investors in H1 continued to be Austrian, German and buyers from the UK.
- Prime yields remained stable in the second quarter of 2011. Prime office yields were ca. 6.50% in Warsaw and ca. 7.25% in major regional markets. Prime retail yields were at 6.50% in Warsaw. There is no recent evidence for prime retail assets in the regional cities, however, we anticipate that it would range between 6.50 - 7.00%. Prime warehousing yields are at the level of 7.75%.
- Volume in 2011 is projected to exceed EUR 2.0 billion, reflecting rising investment activity in Poland and confirming it's strong position in the CEE Region.
- The retail sector is expected to increase further its share in total investment activity in the second half of 2011, due to a number of pending investment transactions.

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# Economy and overview

## Economy

On 1st July 2011 Poland took up the presidency of the Council of the European Union and will head it over the next six months. Poland's priority is now to focus on coordination among EU countries to boost economic recovery and to deal with ongoing concerns about the uneven economic situation, in particular in South European countries. During Poland's presidency, EU countries also begin negotiations on the 2014-2020 EU budget proposals. Poland calls for leaders to focus EU funds on promoting growth, such as investments in key infrastructure and skills training. The proposals to better regulate the financial markets, aiming to avoid another crisis are also on the agenda.

Other priorities include work on common approaches to food and energy supplies, security and defense. The presidency will also seek closer EU relations with eastern European countries: Armenia, Azerbaijan, Georgia, Moldova, Ukraine and Belarus. Poland hopes to advance talks on association agreements, removing trade barriers and visa liberalisation.

Notwithstanding the uneven times of South European economies, as well as current depreciation of PLN, the economic outlook for Poland remains positive. The National Bank of Poland expects GDP to grow by about 4.0% in 2011 following the growth of 3.8% in 2010 (in accordance with the announcement of GUS, the main Statistical Office), which places Poland among the fastest growing economies in Europe (the projected average growth in Eurozone is forecasted by the ECB in the range of 0.7 - 2.1%). GDP growth is driven mainly by stronger domestic demand, which makes Poland less dependant on trade balance than other CEE countries. The inflation rate is rising and it is forecasted that the annual inflation in 2011 will reach 4.2% (in contrast to 3.1% in 2010).

Employment in the enterprise sector has grown in 2010 by over 1.0 percentage point and is close to reaching the pre-crisis level of 2008. After the first half of 2011 the annual growth in salaries was at the level of 5.8%. The average growth in salaries over the last 10 years was usually significantly higher than the inflation rate, which was supported by the decrease in unemployment and confirms growing purchasing power of the population.

## 2011 H1 Investment activity

The volume of property investment deals in the second quarter of 2011 was slightly lower than in the first quarter, however, bearing in mind on-going transactions, investment activity is not slowing down. Total investment volume in the first half of 2011 was slightly above EUR 1.0 billion which reflects 65% growth in contrast to the first half of the previous year.

Investment transactions concluded over the last six months, and in particular the deals concluded in the first quarter of 2011, confirmed that the most sought after properties in the Polish investment market are prime office buildings located in Warsaw. Nevertheless, the availability of prime office assets is limited and in line with our projections, investors extended their activity to the regional markets and smaller cities, targeting mainly well established retail properties.

Altogether, we have recorded eight retail property investment transactions over the last six months, accounting for over EUR 390.0 million. The largest deals were the acquisitions of Promenada shopping centre by Atrium for over EUR 170.0 million and the acquisition of the remaining 50% share in Wars Sawa Junior department stores by ING for about EUR 76.00 million. Other transactions included the acquisitions of shopping centres in large Polish regional cities (Tulipan in Łódź, Osowa in Gdańsk) as well as shopping centres located in secondary cities and smaller towns (Kometa in Toruń, CH Sosnowiec and Twierdza Kłodzko).

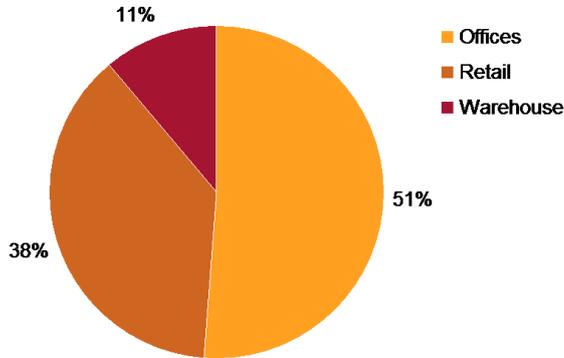
There were seven office property investment deals in the first half of 2011 and all of them were limited to the area of Warsaw. Altogether these transactions accounted for more than 50% of the total volume of investment deals. Most of these were finalized in the first quarter of 2011. A few further transactions concerning office properties in Warsaw and major regional cities are currently being negotiated.

Relatively higher investment activity is still being observed in the warehousing / logistics sector with a share of 11% in the total 2011 H1 investment volume. This included the sale of 75% interest in Europolis Park Central Poland to CA Immo for EUR 20.00 million as well as the sale of 65% interest in Europolis Park Błonie, also to CA Immo for EUR 30.0 million and the recent acquisition of TESCO Gliwice by Invesco for approximately EUR 37.0 million. Increased activity in this sector is the result of a shrinking availability of warehousing / logistics space in Central Poland and Upper Silesia, following the growth in production and good prospects for consumer demand.

In line with our earlier projections, Austrian, German and UK investors were the most active in 2011 H1 accounting for almost 90% share of the total investment volume. Savills anticipates that Austrian and German and UK will continue to play a dominant role in the Polish investment market throughout 2011.

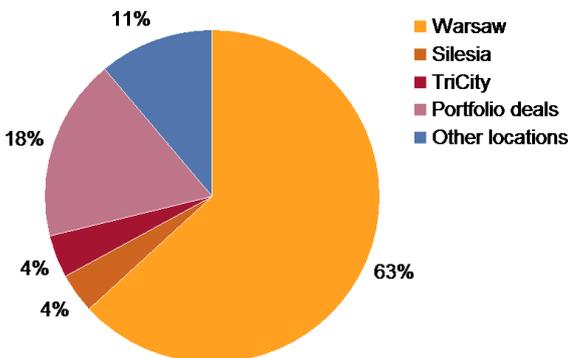
# Prime yields

## 2011 H1 investment activity by sector



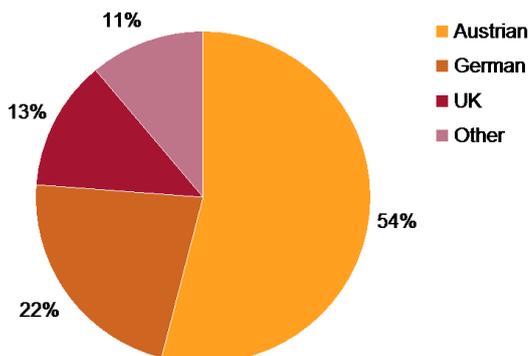
Source: Savills Research

## 2011 H1 investment activity by location



Source: Savills Research

## 2011 H1 investment activity by origin country of investor



Source: Savills Research

## Prime yields

Recent investment transactions confirmed that prime yields remained stable over the last quarter. Prime office yields are now at the level of ca. 6.50% for office properties located in the centre of Warsaw and closer to 7.00% for prime office properties located in Warsaw non-central locations.

Deal evidence for office properties located outside Warsaw is still limited to the transactions that took place by the end of 2010. Based on the transactions currently being negotiated, we anticipate that prime yields for the best office properties in major regional cities would currently be at the level of 7.25% and the average yield for older, but fully leased office properties with a good covenant strength would stand in the range of 7.75 - 8.25%.

The acquisition of the remaining 50% share in Wars Sawa Junior department stores in Warsaw by ING confirmed that prime retail yields in Warsaw are at 6.50%. Savills anticipates that a similar level could be achieved for the best retail assets located in major regional cities, however, there is no recent evidence to support this, but at least one major transaction is in process.

For the well established secondary retail assets located in regional cities yields range between 8.00 - 8.50%. The main evidence for that is the recent acquisition of the Osowa shopping centre, an older, but well established shopping centre located at the ring road of Gdańsk. It has been sold to Pradera at the initial yield of ca. 8.25%. This transaction, however, embraced only the shopping gallery, including about 70 retail units.

In smaller cities retail yields are closer to 8.25 - 9.00%. Galeria Twierdza, a modern shopping centre of ca. 23,000m<sup>2</sup> GLA located in Kłodzko has been recently sold to Blackstone at the initial yield of ca. 8.25%. Kłodzko is a town located 90 km to the South from Wrocław and has a population of ca. 28,000 inhabitants.

Retail parks in the larger cities with long leases should achieve ca. 7.75 - 8.25% assuming favourable transaction volume and relatively long lease lengths.

Prime warehousing yields are now stable and range between 7.75 - 8.25%.

# Outlook

## Outlook

Bearing in mind the relatively stable Polish economy, and good mid- and long-term prospects, the Polish property investment market remains one of the most targetted markets in the CEE Region for foreign investors. It is expected that the total volume of property investment transactions will exceed EUR 2.00 billion in 2011 and thus will reach the highest level since 2007.

Prime office buildings in Warsaw will still be most targetted investment product, in particular among German and Austrian investors. Nevertheless, in view of the shrinking availability of such investment product, investors' interest will have to be further extended to the regional office markets as well as to the retail and industrial/logistics sectors.

We have already observed that investors increased their interest in the most active regional office markets. The properties that are of relatively good quality and offer long leases could be acquired at a rate showing ca. 50-75 bps discount to Warsaw. .

We expect that the focus of investors will widen to include well established retail assets in both major regional cities and smaller towns. This kind of assets may benefit from the rental growth and yield compression over the next few years. The occupancy market in the retail sector is supportive for investment market. Recovering retailers' demand is driven by sustainable growth in consumer spending which is

a unique future of Poland (and possibly also Czech Republic) on the European market.

There should also be more investment deals in the warehousing / logistics sector, as the demand for warehousing space has recovered and the average vacancy rates are decreasing to more 'natural', sustainable levels. Development activity is still limited mainly to the pre-leased warehouses and built-to-suit projects, but is expected to increase in 2012 in some regions, in particular those located along planned highways. The availability of warehousing space in these regions is currently shrinking, encouraging industrial developers to defreeze their expansion plans.

Summing up, the prospects for the property investment market in Poland are positive, in particular it is expected that the investment volume will exceed EUR 2.0 billion this year, with retail investment playing a dominant role. Prime office properties will still be the most sought after investment product, in particular among German and Austrian investment funds, however, the limited availability of this kind of product will be the main constraint.



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