



BNP PARIBAS
REAL ESTATE

Real Estate for a changing world



BNP PARIBAS REAL ESTATE GUIDE TO
INVESTING IN POLAND
2014



IN COLLABORATION WITH

DENTONS

PARTNER



Invest
in Poland

POLISH INFORMATION AND
FOREIGN INVESTMENT AGENCY

ABOUT BNP PARIBAS REAL ESTATE...

BNP Paribas Real Estate is the market leader in commercial real estate services across Europe with **€716 million** of gross **turnover**, **€164 million** of gross operating **profit** and **3,700 employees**.*

More than 35.8 million sqm in commercial real estate across Europe managed

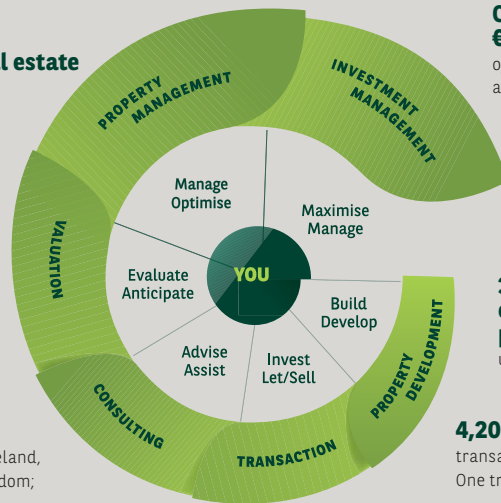
Close to €18 billion of assets under management across Europe

Close to 311 million sqm valued

305,000 sqm of commercial property under construction

A dedicated team present in **7 Countries**
France, Germany, Gulf, Ireland, Jersey, Spain, United Kingdom;

4,200 commercial real estate transactions completed in 2013. One transaction every 15 minutes.



* 2013 key figures

BNP Paribas Real Estate has local expertise on a global scale through its presence in 38 countries with more than 180 offices and 3,700 employees. BNP Paribas Real Estate is a subsidiary of BNP Paribas.

As regards Poland, BNP Paribas Real Estate provides services in respect of Capital Markets, Property Management, Transaction, Consulting and Valuation. Furthermore, all departments are supported by the Research Team, which provides knowledge regarding real estate markets, thus enabling BNP Paribas Real Estate clients to make the most suitable long-term business decisions.

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INTRODUCTION

Poland by numbers

Number of cities above
400,000 inhabitants

7

Warsaw, Kraków, TriCity, Łódź,
Wrocław, Poznań, Szczecin

EU funds
(2014-2020 budget)

€67.3bn

The largest EU funds
beneficiary for the second
consecutive term

Inflow of FDI (2003-2012)

€102bn

The most attractive market for FDI
in the CE region

Population

38.5m

The largest consumer
market in Central Europe

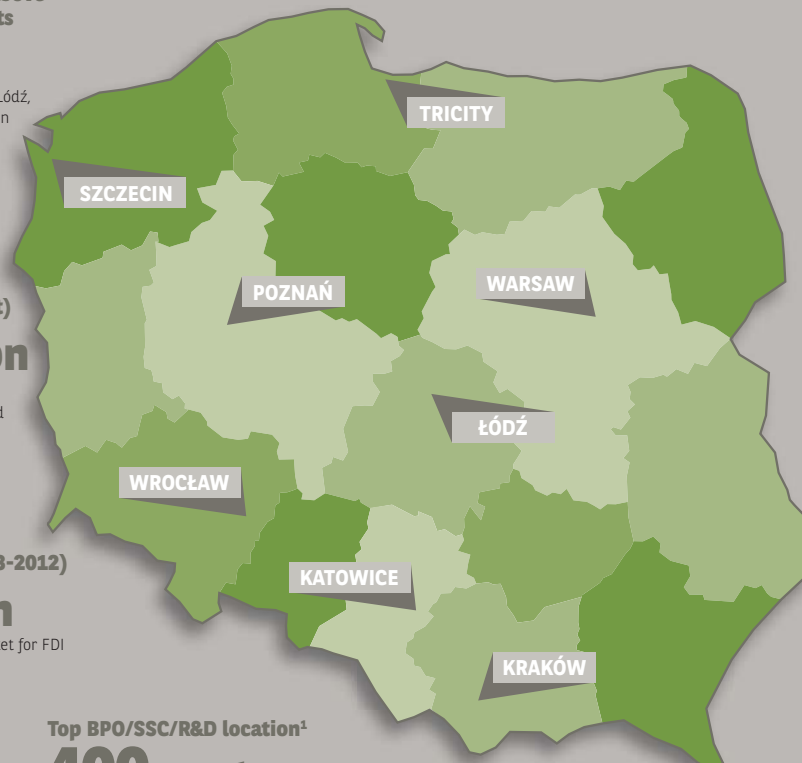
Property market²

6.6m sqm office³

12.2m sqm retail

8.1m sqm warehouse

The highest volume of supply in Central Europe



Top BPO/SSC/R&D location¹

400 centres

The largest BPO/SSC/R&D location in
Central Europe

Investment market

No. 1

In terms of volumes invested in
real estate in Central Europe

Central Europe: Poland, Czech Republic, Hungary, Slovakia, Bulgaria, Romania

1. According to ABSL

2. Estimated as of end 2013

3. Warsaw, Kraków, Wrocław, TriCity, Poznań, Łódź, Katowice, Szczecin

Foreword

THE LAND OF OPPORTUNITIES



International players from the business area highlight Poland's economic and political stability, as well as the availability of highly educated personnel. These factors translate into numbers: the FDI Report 2013 prepared for the Financial Times places Poland in 6th position with respect to the top locations for FDI in Europe.

Poland is still the largest beneficiary of funds from the EU budget, which has determined the country's economic performance. There is also steady progress in the growth of wealth with Polish society. In 2012, Polish GDP per capita amounted to 66% of the EU average, as compared to approximately 50% in 2004 at the time of Poland's accession to the EU.

It should also be pointed out that the Polish market is currently facing a transformation. A large number of existing retail premises have to undergo a refurbishment and expansion process,

and a similar trend may be observed on the office market. This creates unique market opportunities for developers and investors alike.

This guide sets out detailed reasoning and the benefits of investing in Poland, whilst providing information on the Polish economy and specific nature of real estate markets across Poland's largest cities.

Furthermore, in collaboration with Dentons, we have collated a summary of legal points to be taken into consideration during the investment process in Poland.

We hope that you find the information provided in this guide to be of use and interest.

Patrick Delcol

Chief Executive Officer

Central and Eastern Europe

Top 10 reasons to invest in Poland



1 A strong and stable economy of the largest country in Central Europe

Poland is the largest and the most populous country in the CE region with over 38.5m inhabitants. It has strong economic fundamentals, a solid banking system and a stable political situation, all of which play an instrumental role in the successful economic performance of new investments. Poland was the only country in Europe not dramatically affected by the economic downturn, recording positive GDP growth while EU was in recession. Large consumer market with strong domestic demand, together with infrastructure outlays allowed to keep up the economy in a good shape and it is forecast to reach 2.2% GDP in 2014.

2 Educated labour force at competitive costs

Investors willing to operate in Poland should have no problems in finding suitable personnel. A qualified labour force and a good educational base in both primary as well as secondary regional cities give Poland one of the greatest advantages. The number of public and private academic centres reaches around 500. There are around 2m students in Poland, translating into 50% of the population are between 19 and 24 years old. The annual number of graduates, who have an excellent knowledge of foreign languages, is on average 450,000. Compared to Western European countries labour costs are on average 20-30% lower.

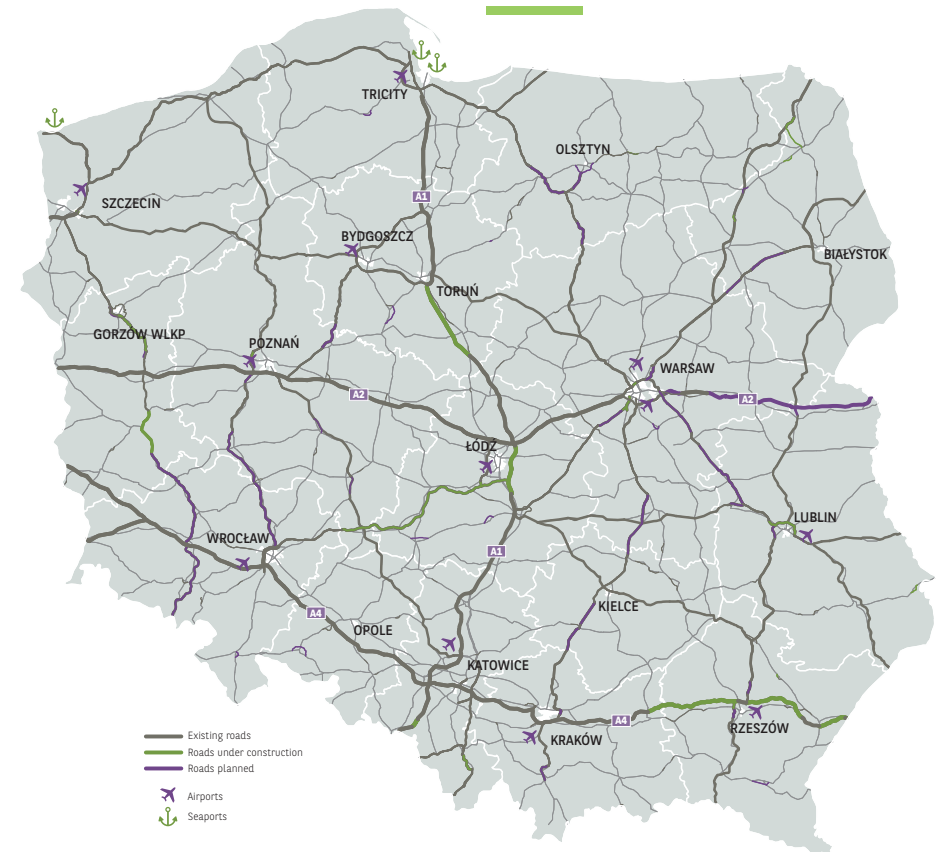
3 Location, location, location

Pinpointing the golden rule of property markets, Poland has a very convenient location in the centre of Europe, making it the perfect investment destination for companies serving both Western and Eastern European clients.

The country is crossed by 4 out of 10 constantly developing trans-european routes (TEN-T).

Poland is well equipped with 12 international airports with 2 more planned within the next few years. Poland has 4 sea ports: Gdańsk, Gdynia, Świnoujście and Szczecin.

Map of road infrastructure in Poland



GUIDE TO POLAND

4 The largest FDI destination across Central Europe

Poland, with over €102bn invested over the last 10 years, is the leader across Central Europe in terms of number and investment volume of foreign companies, who established their operations in the region.

Thanks to transparent legal framework as well as political and economic stability, Poland managed to attract nearly 50% out of the total FDI assigned to Central European countries.



5 The largest BPO/SSC hub in Central Europe

Poland is one of the world's top spots worldwide when it comes to location of Business Process Outsourcing (BPO), Shared Service Centres (SSC), Research & Development (R&D), Information Technology (IT) and other back-up function offices.

According to Association of Business Service Leaders (ABSL) there are around 400 business service centres operating in these fields in several towns and cities, which provide appropriate conditions for development of this sector in Poland. The sector employs approximately 100,000 people, reaching annual growth of 20%.

Accenture, Coca Cola, GE, HP, Xerox, Ernst&Young, Thomson Reuters, Samsung, Unilever are only few examples of companies running their BPO/SSC or R&D operations in Poland..

6 Local incentives supporting business

Poland has established successful mechanisms when it comes to the functioning of Special Economic Zones (SEZs) which are of great importance for investors. SEZs aim at incentivising local economies and creating higher competition towards other CE countries when it comes to attracting foreign investments.

There are 14 SEZs today and they cover the total area of 16,143 ha. The lifespan of these areas has been recently prolonged until 2026. Firms that are willing to invest in SEZs can count on incentives such as tax exemption (CIT or PIT) and exemption from property tax. The incentive packages depend on the investment value and the number of jobs created.

Examples of companies active within SEZs include: General Motors, Volkswagen, Comarch, Indesit, Procter & Gamble, Dell, Lafarge, Bridgestone, BASF, Electrolux, Michelin.

7 The largest EU fund beneficiary

The country has been the greatest beneficiary of the EU funds between 2007-2013, receiving €67.3bn. Between 2014 and 2020, Poland will jointly receive €72.9bn. A substantial part of the EU funds from the cohesion policy will be dedicated to 16 regional programs and used to strengthen the attractiveness for entrepreneurs and investors.

In addition to grants, EU funds can be used by enterprises as credit instruments, such as low-interest rate loans or bank guarantees.

There are also other non-grant sources of financing in the form of EU initiatives such as JEREMIE, JASPERS and JESSICA.

GUIDE TO POLAND

8 The most established property market in Central Europe

Compared with other CE countries, Poland stands out in terms of quality, volume and price of modern space across all the sectors.

At the end of H1 2013 the total modern office stock in 9 major Polish cities reached 7m sqm, of which 65% was located in Warsaw. The second largest market is Kraków, followed by Wrocław and TriCity. There are also emerging office locations such as Lublin, Szczecin or Bydgoszcz.

Due to population size of Poland retail has been developing very extensively over the last two decades, bringing the total volume of stock to 12m sqm. The retail scene has evolved from stand-alone retail warehouses into diversity of retail formats, including urban malls, factory outlets, neighborhood centres and retail parks to name a few. Large agglomerations dominate the retail market, with 55% situated in 8 major Polish agglomerations, however over the last four-five years secondary and tertiary cities have been gaining on importance.

Warehouse and logistics market in Poland totals 7.5m sqm. In terms of locations, it follows the major transportation corridors. The 7 major regions are: Warsaw (Zone 1-3), Central Poland, Upper Silesia, Poznań, Lower Silesia, TriCity and Kraków.

9 Range of opportunities for property investors

Poland is a leader in Central Europe in terms of property investment volume, liquidity and availability of debt financing. Total transaction volume at the end of 2013 reached €3.3bn, which is the highest level since 2006.

Yields in Poland are still more attractive than in Western European countries by 2-3 basis points for prime properties.

In addition to institutionally sound products, there are plenty of non-core assets, both existing and planned, which can be a target for more opportunistic players, looking for risk-adjusted yields. There are plenty of interesting offers representing all property sectors within primary and secondary Polish towns and cities. These include existing schemes requiring active asset management and often redevelopment and repositioning but also planned projects, seeking alternative sources of financing.

10 Strong position in rankings



A number of international reports and rankings highlight the economic and political stability of Poland, an educated and competent human capital and a large domestic market. These include:

- UNCTAD: *World Investment Report 2012* – Poland ranks 4th in Europe and 14th worldwide in terms of the most attractive economy.
- FDI Intelligence: *European Cities and Regions of the Future 2012/2013*.
- In the main ranking, Warsaw scored 3rd place in the CEE countries and 3rd in terms of the greatest investment potential in Europe, Kraków was 9th in the same category. Małopolska ranked 1st and Opolszczyzna 2nd across the CEE markets for strategy for attracting foreign investments
- FDI Intelligence: *FDI Report 2013* – Poland ranked 6th in a listing of top FDI destinations in Europe.
- Ernst & Young: *Top 500 Central Europe 2013* – 167 out of 500 companies were registered in Poland. In the top 10, there were 6 Polish companies.
- Bloomberg: *Bloomberg Rankings 2013* – Poland ranked the best CEE country for business and 20th worldwide, up two places compared with 2012.
- Deloitte: *Global Manufacturing Competitiveness Index 2013* – Poland scored 2nd in Europe.
- Thalons: *Top 100 Outsourcing Destinations 2013* – Poland ranked the 10th place in the world for outsourcing.
- Brand Finance Journal: *Nation Brand 100 Issue, 2012* – Poland named the winner in the ratings of the 20 most valuable national brands the highest percentage increase (75%) in brand value in 2012.

Poland: Big Seven

One of the key strengths of Poland is its policentric structure, exhibiting strong regional hubs with vivid business environment

Warsaw



Warsaw has radically transformed over the past two decades and can be called the capital of Central Europe region due to its economic strength, business environment and political power.

The city has attracted numerous international companies, which have established their headquarters here. Every third company registered in Poland is based in Warsaw.

The Warsaw Stock Exchange is the largest bourse within CE markets, recording the highest number of IPOs in Europe in 2012 (105) and it was the 3rd concerning IPO value.

Warsaw is the largest labour market in Poland with an unemployment rate lower than 5% and salary levels three times higher than the national average but still much lower than in Western European countries.

Infrastructure improvements have contributed substantially to the city development. The major ones include: integrated public transport system, construction of further sections the Southern ring road, new bridge (Most Północny), railway line to the airport and progress made on the second metro line, which should be finished by 2014.



Key facts*

Population
1.7m

Unemployment rate
4.9%

Average monthly salary
in enterprise sector
PLN 4,928
(€1,173)

The Warsaw office stock amounts 4.11m sqm, with over 500,000 sqm due for delivery over the next 12-18 months. Most of international companies operating in Poland have their headquarters in the capital city.

Given the number of inhabitants and the highest purchasing power in Poland, Warsaw agglomeration has the highest volume of modern retail space reaching 1.9m sqm, including all kinds of retail formats.

It is also the largest single market for logistics and warehouse space, located within Warsaw Zone 1-3, totalling 3.0m sqm.

Warsaw is also a key market on the radar screens of investment funds and private equity companies, interested in property sector in Poland.

The city scores high in international rankings, including Moody's Investors granting A2 with stable outlook rating, while Fitch awarded Warsaw with long term AAA with stable outlook rating.

The property market in Warsaw is the most mature one across the CE capitals in all of the property sectors. It offers the largest modern office, retail and logistics stocks and provides a solid occupier base for all property types.

KEY FACTS ABOUT PROPERTY MARKET IN WARSAW¹

	Office	Retail ²	Warehouse ³
Total modern stock (sqm)	4.11m	1.9m	3.0m
Prime headline rents city centre / non central (sqm/mth)	€22-24 €14-16	€90-100 ⁴ €60-70 ⁴	€5.50 €4.00
Average headline rent city centre / non central (sqm/mth)	€18-20 €12-13	€60-70 ⁴ €50-60 ⁴	€4.00 €3.50
Prime yield	6.00-6.25%	5.75-6.00%	7.50-7.75%

Source: BNP Paribas Real Estate; Notes: 1. As at the end of 2013, 2. Warsaw agglomeration, 3. Warsaw Zone 1-3, 4. Rent in shopping centres

*Source: GUS, Statistical Bulletin of the City of Warsaw, Q3 2013

GUIDE TO POLAND

Kraków



Key facts*

- Population **758,940**
- Unemployment rate **6.0%**
- Average monthly salary in enterprise sector **PLN 3,920 (€933)**

Kraków combines historical tradition with a vivid business environment. The A4 motorway provides a fast link to the Upper Silesian region and Germany to the west, whereas in the near future it will also link Kraków with Ukraine to the east. Kraków Balice International Airport is the second most important airport in Poland.

Tourism has always played an important role for Kraków, being one of the top tourist destinations in Central Europe. This is why hospitality and complementary services are so well developed.

Kraków, due to its strong academic base successfully competes as service centre in many fields, especially in modern technologies. In the 2013 Tholons' Top 100 Outsourcing Destinations report Kraków was ranked as the best location for modern services in Central and Eastern Europe. The city has been acknowledged by companies such as: Amway, Capgemini, Cisco, Electrolux, Genpact,

Heineken, HSBC, Motorola, Nokia Siemens Networks, Philip Morris, Shell, which opened their operations here.

Another advantage of the city, contributing to its investment attractiveness is the presence of Kraków Special Economic Zone. Investors include: Arcelor Mittal, Delphi, MAN, Schneider Electric and Teva.

In terms of property sectors, Kraków is high up when it comes to provision of modern office space, which totals nearly 600,000 sqm.

Kraków has also a well-developed retail market (nearly 750,000 sqm) offering a wide range of formats and full spectrum of retailers.

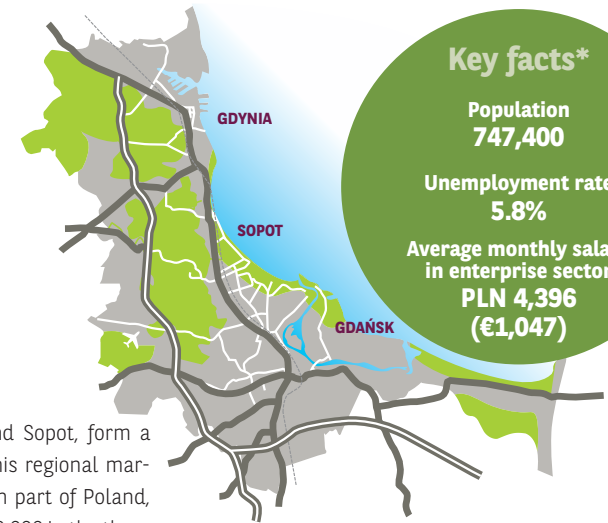
The logistics and warehousing market is the least developed one with total supply around 137,000 sqm.

KEY FACTS ABOUT PROPERTY MARKET¹

	Office ²	Retail	Warehouse
Total modern stock (sqm)	590,000	750,000	137,000
Prime headline rent (sqm/mth)	€14-15	€70-80 ³	€3.50-4.50
Average headline rent (sqm/mth)	€12-14	€40-50 ³	€3.00-3.25
Prime yield	7.75%	6.50%	9.25%

Source: BNP Paribas Real Estate; Notes: 1. As at H1 2013, 2. As at the end of 2013, 3. Rent in shopping centres
*Source: GUS, Statistical Bulletin of the City of Kraków, Q3 2013

TriCity



Key facts*

- Population **747,400**
- Unemployment rate **5.8%**
- Average monthly salary in enterprise sector **PLN 4,396 (€1,047)**

The cities of Gdynia, Gdańsk and Sopot, form a conurbation known as TriCity. This regional market is the biggest in the northern part of Poland, having a population of almost 750,000 in the three cities themselves and nearly 1.3m in the conurbation.

The TriCity is the location of two major ports - Gdańsk and Gdynia. Deep Water Container Terminal in Gdańsk is Baltic's second most important hub after St. Petersburg.

The conurbation's economy, which used to be dominated by industries such as shipbuilding, petrochemical industries as well as food processing, has been gradually transforming into a larger share of know-how based sectors such as electronics, telecommunication, IT engineering and financial services.

The region enjoys strong presence of BPO/SSC and IT foreign companies including: Thomson Reuters, Nordea, Asseco, GE Money Bank, Masterlease, Ergo, IBM, Sony Pictures, Fineos, PZU, Intel, Compuware and Lufthansa Systems.

Real estate market in TriCity is well developed with 350,000 sqm of office, 380,000 sqm of retail and 270,000 sqm of warehouse and logistics space.

The region has recently developed into Polish silicon valley with many ICT companies locating their operations in Gdańsk or Gdynia.

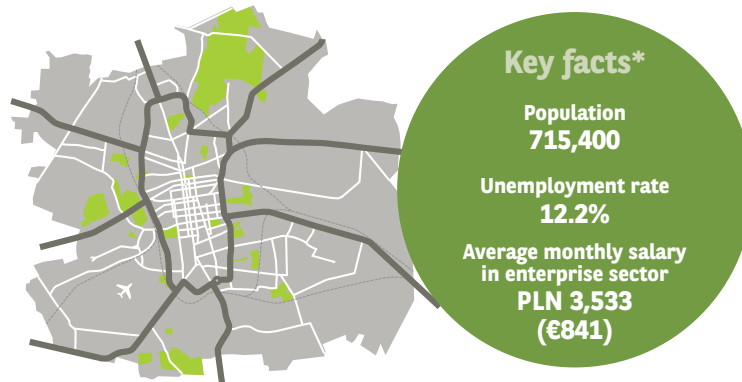
KEY FACTS ABOUT PROPERTY MARKET¹

	Office ²	Retail ³	Warehouse
Total modern stock (sqm)	410,000	380,000	270,000
Prime headline rent (sqm/mth)	€14-16	€70-80 ⁴	€3.00-3.50
Average headline rent (sqm/mth)	€11-13	€40-50 ⁴	€2.50-3.00
Prime yield	8.00%	6.50%	9.25%

Source: BNP Paribas Real Estate; Notes: 1. As at H1 2013, 2. As at the end of 2013, 3. TriCity agglomeration, 4. Rent in shopping centres
*Source: GUS, Województwo pomorskie 2013 - podregiony, powiaty, gminy; data for Gdańsk, Gdynia and Sopot

GUIDE TO POLAND

Łódź



Łódź is an important academic centre and intensively developing city supported by strong industrial traditions. Its central location close to the major motorway junction (A2 with A1) is one of the city's key advantages. Strength of the city also lies in its competitive costs of labour as well as rates for leasing office space.

Various types of incentives are available for investors, especially for those, willing to set up business in Łódź Special Economic Zone. Due to the influx of foreign investments, the region has become Europe's largest household-appliance cluster, with headquarters of BSH and Indesit.

By 2015-2016 the city will have a new railway station Łódź Fabryczna, which is one of the largest infrastructure investments in Europe, turning it into the most modern multimodal

railway station in Poland. EU funds will cover 55% of the total project value, estimated at €1.8bn.

Considering modern real estate market, the city offers quality space across all property sectors. Supply of office space reached 290,000 sqm by H1 2013.

Retail market in Łódź is well developed with 630,000 sqm of existing stock, of which 17% is located in Manufaktura, a multifunctional centre, a masterpiece of urban regeneration.

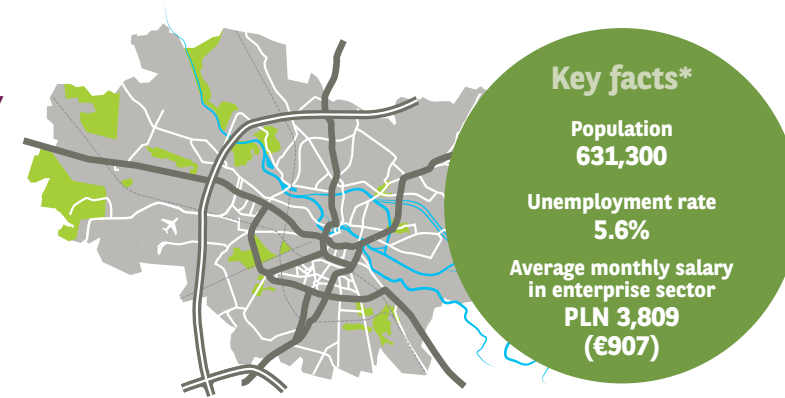
Due to its location, at the junction of A2 and A1 motorways, Łódź region has been also very popular among logistics and warehouse developers and operators. With over 1m sqm of total stock, Central Poland area is the third largest hub in the country.

KEY FACTS ABOUT PROPERTY MARKET¹

	Office ²	Retail	Warehouse
Total modern stock (sqm)	280,000	630,000	1,050,000
Prime headline rent (sqm/mth)	€12-14	€80-90 ³	€3.00-3.50
Average headline rent (sqm/mth)	€9-11	€40-50 ³	€2.50-3.00
Prime yield	8.75%	6.25%	9.50%

Source: BNP Paribas Real Estate; Notes: 1. As at H1 2013, 2. As at the end of 2013, 3. Rent in shopping centres
*Source: GUS, Statistical Bulletin of the City of Łódź, Q3 2013

Wrocław



Wrocław is one of the key regional cities, and quickly becoming one of the most attractive travel destinations in the CE. The city will be the host of European Culture Capital in 2016.

The basis of economic development have been convenient transport links to Western Europe close proximity to the Czech Republic and Germany, together with a well-educated population and the continuity of local authorities, which consequently invest and develop the city infrastructure, enhance the quality of public space and show investors' a friendly approach.

The city is Poland's third largest academic centre, which is the reason why it is so popular among BPO/SSC, IT and R&D. Companies, which decided to operate there in Wrocław in this fields include: Captero, HP, Google, McKinsey, IBM, Siemens, Volvo, Whirlpool, Nokia Siemens Networks.

Apart from service companies, the Wrocław agglomeration has attracted a numerous manufacturing facilities for international companies such as: LG Electronics, Siemens, Teta, LG Electronics, Whirlpool, Fagor Mastercook, Electrolux, Toyota, Volvo, Bosch, Faurecia, Bombardier.

In order to assist investors and facilitate business activities, there are several Special Economic Zones within the voivodship, which are located in Legnica, Wałbrzych, Kamienna Góra and Tarnobrzeg.

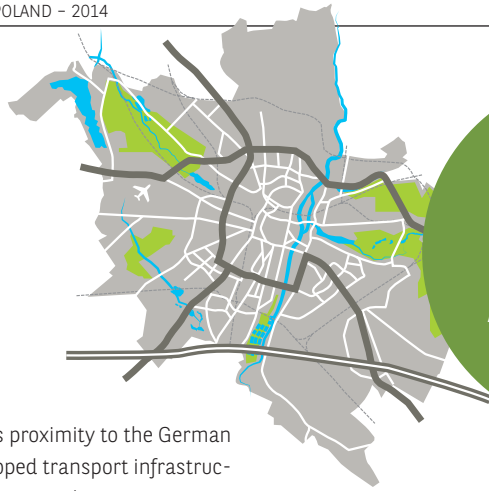
The property market is well developed in Wrocław, providing quality modern office space (450,000 sqm), variety of retail offer (670,000 sqm) as well as conveniently located warehouse and logistics hub (820,000 sqm).

KEY FACTS ABOUT PROPERTY MARKET¹

	Office ²	Retail	Warehouse
Total modern stock (sqm)	515,000	670,000	820,000
Prime headline rent (sqm/mth)	€15-16.5	€70-80 ³	€3.50-4.00
Average headline rent (sqm/mth)	€13-14	€40-50 ³	€2.75-3.25
Prime yield	8.00%	7.00%	9.00%

Source: BNP Paribas Real Estate; 1. As at H1 2013, 2. As at the end of 2013, 3. Rent in shopping centres
*Source: GUS, Statistical Bulletin of the City of Wrocław, Q3 2013

Poznań



Key facts*

Population
549,100

Unemployment rate
4.2%

Average monthly salary
in enterprise sector
PLN 4,240
(€1,010)

Poznań benefits from its proximity to the German border as well as developed transport infrastructure including A2 motorway, railway connections and Poznań Ławica international airport. The city is well known for its high level of entrepreneurship and work efficiency, which is reflected in high regional GDP.

The city and the wider agglomeration is known as an automotive cluster with companies such as: Volkswagen, MAN, Bridgestone/Firestone, Solaris, Delphi Automotive Systems, Honda.

Poznań's International Fairs hosts the largest exhibitions and events in Central Europe, which is spurring the hotel and service industry.

The city is a seat of 38 universities. A high number of qualified employees at lower costs compared with Warsaw allow for a solid background for modern services BPO/SSC as well as R&D.

Among others the following companies are active in these fields there: GlaxoSmithKline, Grace Performance Chemicals, Microsoft Innovation Center, Telcordia, Unilever.

The property market in the city is relatively well developed with 270,000 sqm of existing office space.

When analysing modern retail accommodation totalling 705,000 sqm, the city has one of the highest density of retail space per capita among the cities with population above 400,000.

Poznań is also an important warehouse and logistics market, accommodating 920,000 sqm of space.

KEY FACTS ABOUT PROPERTY MARKET¹

	Office ²	Retail	Warehouse
Total modern stock (sqm)	300,000	705,000	920,000
Prime headline rent (sqm/mth)	€14-15.5	€80-90 ³	€3.00-3.50
Average headline rent (sqm/mth)	€11-13	€40-50 ³	€2.50-3.00
Prime yield	8.25-8.50%	6.75%	8.75-9.00%

Source: BNP Paribas Real Estate; Notes: 1. As at H1 2013, 2. As at the end of 2013, 3. Rent in shopping centres
*Source: GUS, Statistical Bulletin of the City of Poznań, Q3 2013

Katowice



Key facts*

Population
307,200

Unemployment rate
5.2%

Average monthly salary
in enterprise sector
PLN 4,967
(€1,183)

Katowice forms a part of Silesia conurbation, which is the largest conurbation in Poland with a population of around 2.1m. As there are no distinct boundaries between many of the towns and cities and due to good communication network, the area is often considered a single market. The attractiveness of the Silesia region results also from its location at the cross roads of main transportation corridors A4 and A1 motorways, well-developed internal road infrastructure, qualified workforce and large consumer market.

The image of Katowice has been gradually transforming from heavy coalmining-led region into a vibrant, modern city, with ambitious city centre urban regeneration plan, having a healthy economy sector split. In 2013 Fitch Ratings revised Katowice's Outlook to Positive 'A-' from Stable 'A-'.

Compared with other regional cities, the Katowice office market is smaller, offering about 250,000 sqm of modern space.

When analyzing the retail space, after completion of Galeria Katowicka the total retail space within Silesia agglomeration reaches nearly 1.3m sqm.

With over 1.48m sq m of modern warehouse and logistics space, Upper Silesia is the second largest warehouse market in Poland after Warsaw. Given the region's strategic location and efficient road network it one of the major industrial hubs in Central Europe.

KEY FACTS ABOUT PROPERTY MARKET¹

	Office ²	Retail ³	Warehouse
Total modern stock (sqm)	290,000	1,285,000	1,485,000
Prime headline rent (sqm/mth)	€13-15	€80-90 ⁴	€3.00-3.50
Average headline rent (sqm/mth)	€10-11	€40-50 ⁴	€2.50-3.00
Prime yield	8.25-8.50%	6.25%	8.75-9.00%

Source: BNP Paribas Real Estate; Notes: 1. As at H1 2013, 2. As at the end of 2013, 3. Silesia agglomeration, 4. Rent in shopping centres
*Source: GUS, Województwo śląskie 2013 – podregiony, powiaty, gminy; data for Katowice

Real-life tips for success

Poland is an unquestionable leader across CE countries in terms of property market for both developers and investors



JEROEN VAN DER TOOLEN
Managing Director CEE at Ghelamco

What do you consider the main strengths and weaknesses of the Polish property market?

There are many arguments, which constitute the strength of the Polish real estate market and are also the reasons why Ghelamco has been here since 1991, successfully developing 700,000 sqm office, residential, warehouse space and disposing assets worth €1.2bn.

First of all, economic fundamentals are really solid, starting from its size – 38m people, through GDP growth, through healthy financial system, export and imports, infrastructure outlays, etc.

Warsaw is the CE capital not only because of its population size, but primarily because of its business environment. This is why the office market in the city has been developing so dynamically over the last two decades.

Supply should be matched with sufficient level of demand. So far, occupier market has been

relatively strong, which is why the rental rates for high quality properties in good locations have not fluctuated more than 7%. For a developer this is very important investment aspect.

Strong occupier market with sustainable rental levels in turn provides a solid argument for institutional investors, interested in purchasing sound assets in the capital of CE region. As most of developers, we are looking to exit our investments. With a number of potential buyers eyeing good office buildings, we are confident about the interest in our projects.

In terms of drawbacks, there are certain administrative bottlenecks, which delay investment processes. These include: planning and building permission procedure and restitution claims.

Additionally, infrastructure and public transport improvements are introduced too late or not at all, substantially impeding commercial

“ Long-term value will only be guaranteed when you stay on top of the trends. ”

investments and city development as a whole. Despite these disadvantages, yet advantages are far more greater.

What trends do you observe on the office market in Poland?

The market is definitely maturing. I see both quantitative and qualitative changes occurring on the office market, which is a developers' answer to changing occupier requirements.

In terms of locations, I foresee the CBD cluster to move along the second metro line – towards Towarowa and in general Wola district, which due to the recently announced master plan, may transform significantly over the next 10 years into a vibrant, multifunctional office, retail and residential cluster.

The question remains what will happen with aging stock, which is recording ever higher vacancy rates. Some of them are undergoing grand refurbishments, some will be demolished and rebuilt larger from scratch, which would add more space to the overall stock, thus creating a supply-demand imbalance. Tenants are likely to use this situation to their advantage and trying to reduce costs, forcing landlords to offer attractive incentive packages.

Sustainability aspects of new developments are definitely high on the agenda for both developers, tenants as well as institutional investors. People are aware of substantial cost savings achieved by use of renewable energy sources, energy efficient measures (i.e. triple glazing, LED lighting, high level of insulation) and heat recovery. These innovative developments go much faster than 10 years ago. When looking at a pan-European scale, Warsaw shall remain the capital city for the CE and its

importance will grow further on the European office scene with cranes being a regular feature of the skyline.

Taking into consideration regional markets, Wrocław, Kraków, TriCity, Poznań and Katowice will remain the key regional office centres, attracting bulk of BPO/SSC and R&D. Yet, new spots are emerging: Lublin, Bydgoszcz or Rzeszów, offering more competitive both property and labour costs.

What is your strategy in the short and medium term in the Polish market?

We want to stay the leader in the office market, putting a great emphasis on sustainability. Long-term value will only be guaranteed when you stay on top of the trends. We will introduce more innovative solutions in every new development, which will meet changing and more sophisticated occupier requirements. We will focus on Warsaw where we see a healthy future and where we have good ground position. Also we will continue development in other cities in Poland.

Ghelamco is also entering into neighborhood leisure retail centres. The first 3 projects are in or close to Warsaw. Also we are in a smaller niche active in residential.

Ghelamco Poland, a part of Ghelamco Group, is the leading developer and general contractor active on the Polish real estate market for already 22 years. The company specializes in high quality office buildings, with almost 700,000 sqm delivered up to date and the value of sold projects exceeding 1.2bn EUR. In the next 4 years Ghelamco intends to deliver 300,000 sqm of space. Ghelamco is also the unquestionable leader in sustainable development in CEE. It is the only developer which has 7 BREEM certificates for delivered office buildings – including first with “excellent” rate and 4 buildings being partners of EU Green Building Programme.

GUIDE TO POLAND



AGATA BRZEZINSKA
Country Manager, Neinver Polska

What do you consider the main strengths and weaknesses of the Polish property market?

The Polish retail market has grown considerably over a relatively short period of time. Modern shopping centers emerged in attractive locations. The country welcomed brands which had hitherto been known only from west-European fashion magazines. The past decade also marks the shaping of good business and economic relations between developers, management teams and tenants. Polish malls have become an intrinsic element of urban

space in key agglomerations. Now it is hard to imagine life without them.

One could claim that little attention is paid to consumers. A retail gallery is more than just a building constructed in line with comfort and safety standards. It is also a place where people spend their free time, arrange business meetings or seek entertainment. The retail market in Poland is still maturing in that respect.

The economic slowdown in Europe has not struck Poland too much. However, significant



Katowice, Galeria Katowicka

“ There are few options left for large schemes in the biggest cities and so developers are beginning to look for alternative solutions. (...) Additionally a lot of existing malls need renovation and introduction of solutions which were still unknown several years ago. ”

market saturation makes it increasingly hard to gain funds for investments, which might prove to be a serious hurdle for new projects.

What trends do you observe on the market?

Following a period of rapid growth on the Polish retail market, we are now witnessing another important stage – extension and renovation of existing projects. The market is highly satiated. There are few options left for large schemes in the biggest cities and so developers are beginning to look for alternative solutions. Smaller centers are designed and tenants intend to open smaller stores. Additionally, a lot of existing malls need renovation and introduction of solutions which were still unknown several years ago. It is thus more common to extend shopping centers and modify lists of tenants. Sometimes a decision is made to change the customer profile – e.g. from middle-class to luxury sector or the other way round.

What is your strategy in the short and medium term in the Polish market?

Within little more than 10 years, Neinver Poland has created over 250,000 sqm of GLA in three segments: outlet malls, retail parks and shopping centers. The investment portfolio will expand in the future.

We are working on the extension of FACTORY Warsaw Ursus – Poland's first outlet mall. We continuously boost the quality of our FACTORY centers by introducing higher-end brands.



Poznań, Galeria Malta

Recently we have started cooperation with Affic, Desigual and Guess.

Our aim is also to bolster the position of Galeria Malta, one of the most popular malls in Poznań. We analyze the market comprehensively and examine consumer behavior. The key objective is to enhance shopping quality in Poland.

Neinver is one of the key players on the European real estate market, with its operations focused on property investment, development and management. Neinver boasts experience in the real estate market's crucial areas, running its business in Spain, Germany, Italy, Poland, France and Portugal.

Under the FACTORY brand name, Neinver was the first to introduce an outlet center concept into Spain and Poland. The company has been a national leader on both those markets for years now, at the same time being the second largest outlet operator in Europe. In some of its projects, Neinver successfully combines an outlet mall with a traditional commercial park.

In Poland, Neinver has been operating actively since 2000. So far, the company has developed over 250,000 sqm of commercial, office and public space, incl. Galeria Katowicka Galeria Malta in Poznań, Futura Park Kraków or Factory Ursus and Annpol in Warsaw.

Advice corner



ERIK DRUKKER
*Managing Director, Agency & Valuation
 BNP Paribas Real Estate Poland*

There are certain tricks of the trade, which corporate occupiers should consider when taking the decision whether to stay or move:

- Nowadays most developers require at least 30% of the building leased before building construction can commence. Occupiers need to be sure that they are aware what conditions for a construction are needed to commence;
- Identify and secure your preferred building and space two years ahead of your lease expiry so that you get the floors needed and achieve better terms;
- Check if the site is RPU or freehold? This has an impact on the cost of service charges;
- Understand your company's growth potential or reduction potentially needed. Build these clauses into the lease maximising flexibility and reducing the risk of unnecessary premise cost;
- Be aware how the building is measured, whether this is BOMA or TEGOVA or Polish norm. There are some major differences and some can be more costly than others.



Warsaw, Cristal Park office building

Trends



ANNA STANISZEWSKA
*Director, Research & Consultancy CEE
 BNP Paribas Real Estate Poland*

Urban renewal

City centre regeneration will become inevitable for sustainable urban structures, and redevelopment of in-town brownfields, preventing urban sprawl and making the cities more attractive for living, doing business as well as spending leisure time. This long-term process has to be multidisciplinary, including social-economic, infrastructure, environmental as well as urban and property aspects, which all together will maximize the end effect.

Urban renewal is unlikely to succeed without involvement of private sector, since the investment outlays are very often far too much for local or central budget, even with EU support. Recent examples such as Galeria Katowicka in Katowice and Poznań City Centre in Poznań, show that cooperation between public and private entities is possible. Many areas are awaiting transformation: Plac Defilad, Ursus factory site – in Warsaw, Wolne Tory in Poznań, Łódź Fabryczna railway station in Łódź to name a few.



Warsaw, Dom Dochodowy o Trzech Frontach

Investors

Poland will continue to attract institutional investors, who are willing to offer aggressive yields in order to acquire prime office buildings in Warsaw and/or retail schemes in key regional cities. Another active group eyeing interesting projects are opportunistic investors, counting on smart deals for distressed or development assets. There is a clear demand gap for good quality products, which are available on the market at reasonable prices. Investors' appetite for "mid-range" properties offering higher than prime but lower than opportunistic yields should increase, as there are a number of schemes with solid performance and strong covenant, which are sound investment assets.

Taking into account both the aggressive pricing for core products as well as the investors' appetite for opportunistic deals mismatching the vendors' pricing expectations, we observe the increasing importance of proper structuring of deal financing. Especially, in case of non-core assets structured deal financing becomes a key success factor for conclusion of investment transaction.

NEED TO KNOW

Key legal terms

The fast growing Polish real estate market may be regarded as highly regulated and requiring continuous legal assistance, which is due to the fact that administrative regulations penetrate the investment process on many fields. Dentons Warsaw Real Estate Group lawyers Monika Sitowicz and Magdalena Osóbka-Morawska give a grasp of some key legal concepts underlying this market.

VARIOUS TYPES OF REAL ESTATE INTEREST

There are various legal titles to real estate under Polish law. The most recognizable of them are the following:

- **freehold** (własność), which comprises the full right to use, manage and dispose of property;
- **the perpetual usufruct right** (użytkowanie wieczyste), which gives the long-term right to use and manage the land and to build and own a building on publicly-owned land (State or municipal property); the agreement on establishment of the perpetual usufruct right may impose obligations on the perpetual usufructuary regarding use or development of the property, and failure to comply may lead to termination of the agreement. In principle the term of the perpetual usufruct right is 99 years. There is an initial fee to establish the right (15 - 25% of the price of the real estate) and an annual fee (3% for commercial property). Under certain statutory conditions the perpetual usufructuary may demand transformation of the right of perpetual usufruct into ownership;
- **condominium ownership** (odrębna własność lokalu), i.e. exclusive ownership of a part of a building combined with joint ownership or co-perpetual usufruct of common parts together with the community of co-owners;
- other rights in rem over the property, which are limited in scope and/or time, e.g. right of usufruct (the right to use and benefits of a third party property), easements (which encumber a property for the benefit of another property, e.g. right of way, passage, limitation in the building capacity).

LAND REGISTERS

Properties in Poland are registered in the land and mortgage registers (Księgi Wieczyste), which are public registers that reveal the legal status of the property. The properties are also recorded in the land register (Rejestr Gruntów), which is decisive when determining the spatial parameters and designation of land use. Based on the land and mortgage register the purchaser of a property may examine the seller's legal title and discover whether there are any encumbrances, e.g. mortgage, pre-emption rights, easements. Land and mortgage registers enjoy 'public warranty', which means that rights entered in the register are presumed to be valid and rights which are not entered are presumed to be non-existent. According to this rule a purchaser will become the owner of the property even if it transpires that the seller is not the correct owner, as long as the seller was disclosed in the land and mortgage register, and provided that the purchaser was acting in good faith.

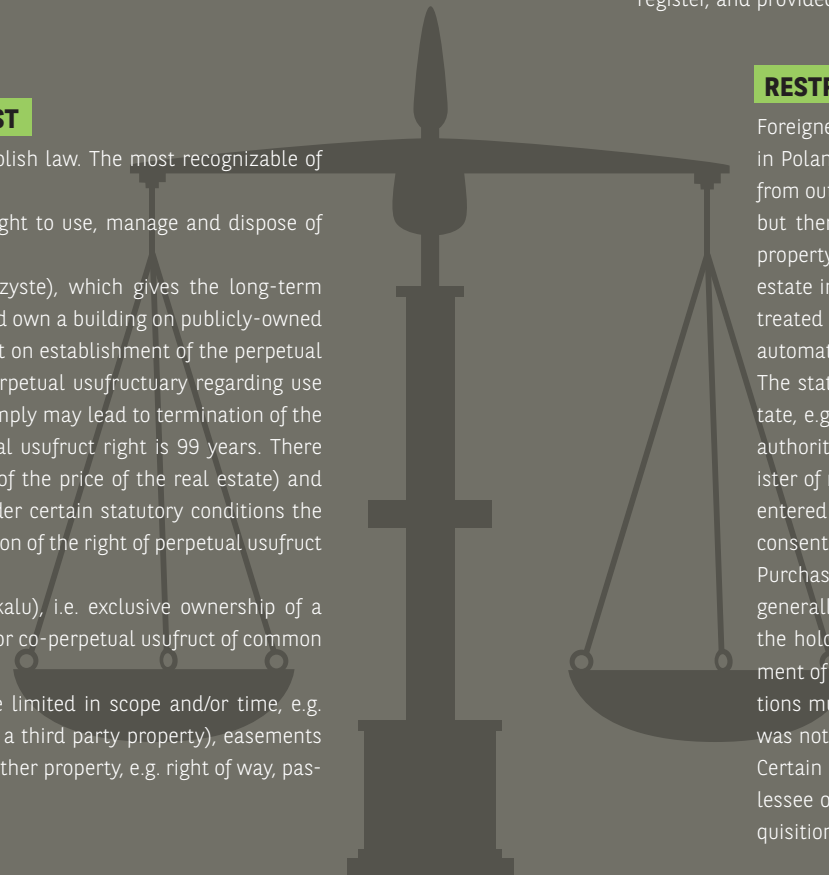
RESTRICTIONS ON BUYING PROPERTY

Foreigners from the European Economic Area do not need consent to purchase real estate in Poland, unless agricultural or forest land is involved. Foreigners and foreign entities from outside the EEA generally require the consent of the authorities to acquire property, but there are exceptions to the consent requirement (e.g. acquisition of undeveloped property by an entity for its statutory objectives, provided that the total area of its real estate in the country does not exceed 0.4 ha in urban areas). These exceptions must be treated carefully, because any sale without consent (if an exception was not applicable) automatically invalidates the sale agreement.

The state or local authorities have first refusal or other rights regarding some real estate, e.g. undeveloped property previously acquired by the seller from the state or local authorities, a perpetual usufruct right to undeveloped land, property entered in the register of monuments, property located in a Special Economic Zone. An unconditional sale entered into (i) in a way preventing the exercise of the pre-emption right or (ii) without consent for acquisition by a foreigner, may affect the validity of the sale agreement.

Purchase of real estate from a public entity (e.g. municipalities, the State Treasury) is generally only possible by tender. Some exceptions to this rule apply, e.g. sale of land to the holder of a perpetual usufruct right, sale of land which may improve the development of neighboring land and which may not be developed unilaterally. However, exceptions must be treated carefully, because any sale without a tender, where the exception was not applicable, may affect the validity of the sale agreement.

Certain restrictions apply to agricultural properties (e.g. the pre-emption right of its lessee or of the Agricultural Properties Agency if the area exceeds 5 ha, consent for acquisition by foreigners).



NEED TO KNOW

FORM OF ACQUISITION OF A PROPERTY

Undertaking to sell real estate and the very transfer of the freehold or perpetual usufruct right requires the sale and purchase agreement to be signed before a notary public in the form of a notarial deed. It is crucial to fulfill formal requirements when selling real estate in Poland since failure to do so may result in nullity. It is common to sign a preliminary or conditional sale agreement containing conditions precedent upon fulfillment of which the parties sign the final agreement.

ENVIRONMENTAL LAWS AFFECTING THE INVESTMENT PROCESS

Polish environmental law provides for specific rules affecting the construction process with respect to investments that may have a high impact on the environment, e.g. power plants, wind farms, natural gas production, waste treatment plants, industrial plants, housing developments, shopping centers, car parks etc. For these investments specific authorizations and/or administrative approvals are required by environmental legislation.

AGRICULTURAL LAND

As a rule, no development of non-agricultural character is allowed on agricultural land, except for that which is classified as agricultural land in cities. Therefore, in order to construct a building on agricultural land in a rural area, before applying for a building permit one must obtain a permit allowing for its exclusion from agricultural production. It may impose certain fees on the landowner (a one-off fee and annual fees payable for 10 years), the amount of which depends on the size, area and category (e.g. agricultural land, meadow, forest) and class of soil. The one-off fee is reduced by the land's value, thus usually it is minor. However, the annual fee may be significant (e.g. ca. €10 per sq m of the best quality agricultural land).

REMNANTS OF THE COMMUNIST LEGAL SYSTEM

After the World War II through the period of communism many private real estates in Poland were nationalized or expropriated under various regulations, decrees and/or administrative decisions, which were frequently issued in breach of the then binding law. This issue is commonly met in Warsaw, where virtually all land was nationalized after the War under the Warsaw Decree (Dekret Warszawski) issued on 26 October 1945. Some of the nationalized or expropriated properties were subsequently transferred to private or public entities under various legal basis. Legal remedies are now available to challenge in court some of the unlawful legal acts committed during the period of communist regime and many previous owners or their heirs use this path. As a consequence, a purchase of the property should be preceded by analysis the legal status of the property, including if any restitution claims were raised.

MAIN PERMITS DURING THE INVESTMENT PROCESS

A building permit is generally required for construction, reconstruction or renovation of a building or facility. A building permit may be issued only if the application complies with the local zoning plan or zoning decision, environmental decision (if required) and after all technical, environmental (if applicable) and other requirements have been met. Most investments must be preceded by environmental impact assessments or environmental decisions, to be obtained prior to the building permit.

More complex investments as specified in law require an occupancy permit at the end of the construction process. Where investments are of a specific nature, atypically located or have other specific features, certain additional decisions may have to be obtained before commencement or upon completion of the investment. Investments completed in violation of applicable provisions, in particular those without the required building permit or which are contrary to the terms and conditions specified in the building permit, may be legalized only if the conditions set out in the Construction Law are met. In most cases, high legalization fees apply.

BUILDING PROCESS

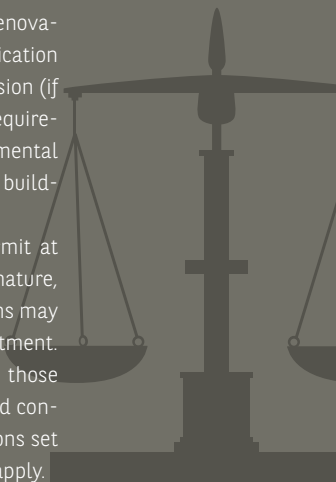
If there is a local zoning plan, the design must be (i) in strict compliance with the terms and conditions set out in the plan and (ii) the building permit should be issued directly on the basis of the plan. If there is no zoning plan, zoning decisions must be obtained for (i) construction of the building or facility; (ii) modification of the use of the investment or any of its parts; (iii) carrying out other major construction works. The zoning decision specifies the investment type, planning conditions and detailed rules for planning. During its term of validity, the decision is binding upon the authorities responsible for issuing building permits.

An investor usually signs a construction works contract, in which the contractor undertakes to render services in accordance with all of the design and the technical requirements specified in the contract. The investor must prepare and deliver the site, deliver the designs and permits and pay the agreed fee. The construction works contract must itemize the scope of work to be performed by the contractor and the work to be subcontracted. FIDIC model contracts can be used in Poland.

PROTECTION OF HISTORIC MONUMENTS

Special regulations apply to real estate listed in the register of historic monuments. Any demolition, reconstruction or renovation of the monument requires separate approval from the historic preservation officer. The procedure of obtaining the approval is often time-consuming and can take a few months.

In some cases, the municipality has a pre-emption right with respect to real estates entered into the register of monuments.



NEED TO KNOW

SPECIAL ECONOMIC ZONES (SEZ)

There are 14 special economic zones situated near major industrial, academic and transportation hubs and in outlying regions offering qualified workforces and optimization of costs. The activity of Special Economic Zones has been extended until 2026. An SEZ permit provides a corporate income tax exemption of up to 30%, 40% or 50% of the eligible investment costs (capital expenditure or 2 years' payroll); medium or small businesses may qualify for 60% or 70% thresholds respectively. Please note, however, that those aid intensities are set to decrease in 2014. Special Economic Zones also offer real estate tax exemptions, provided by local authorities based on capital expenditure or employment targets. These benefits do not require any individual permit from the authorities and often provide significant cash relief for investors wishing to own the title to real property and infrastructure rather than lease such assets.

(I) TERM

Lease agreements may be for a fixed or indefinite term, whereas commercial leases are generally for a fixed term. An indefinite lease can be terminated by either party with statutory notice, but this is more problematic with residential leases due to many compulsory tenant protection provisions. A fixed term lease may be terminated as a rule only in cases provided for in the lease (subject to statutory termination rights). The maximum term of a fixed lease is 30 years for businesses and 10 years for others. Any lease that oversteps these limits transforms into an indefinite term lease.

(II) ACQUISITION OF A LEASED PROPERTY

If leased real estate is acquired during the term of the lease, the acquiring party enters into the lease relation in place of the selling party. The acquiring party may terminate the lease agreement by notice, observing statutory time limits. The acquiring party shall not be entitled to terminate as above if the lease contract is for an indefinite term or the lease agreement had a notarially 'certified date' and the premises were released to the lessee.

LEASES

There are two main lease types, commercial leases and residential leases. Residential leases are in principle largely regulated by tenant protection law with the clear objective of protecting tenants as the weaker party to the contract, whereas commercial leases are more based on market principles and they are often concluded business-to-business. If the parties choose not to specify the terms and conditions of the lease in detail, they will be bound by a statutory set of rules.

(III) FORM OF LEASES

A lease agreement may be made in any form, even oral. However, if a lease is concluded for a term exceeding one year then it should be at least in a simple written form, otherwise it will be deemed an indefinite term lease. The simple written form is a widely-accepted standard. Making a lease agreement in the form with a certified date gives protection against termination in the event a third party acquires the leased real estate during the term of validity. Signing the lease agreement with certified signatures enables information on the lease agreement to be entered in the land and mortgage registers (Księgi Wieczyste).

(IV) SUBLEASE & ASSIGNMENT

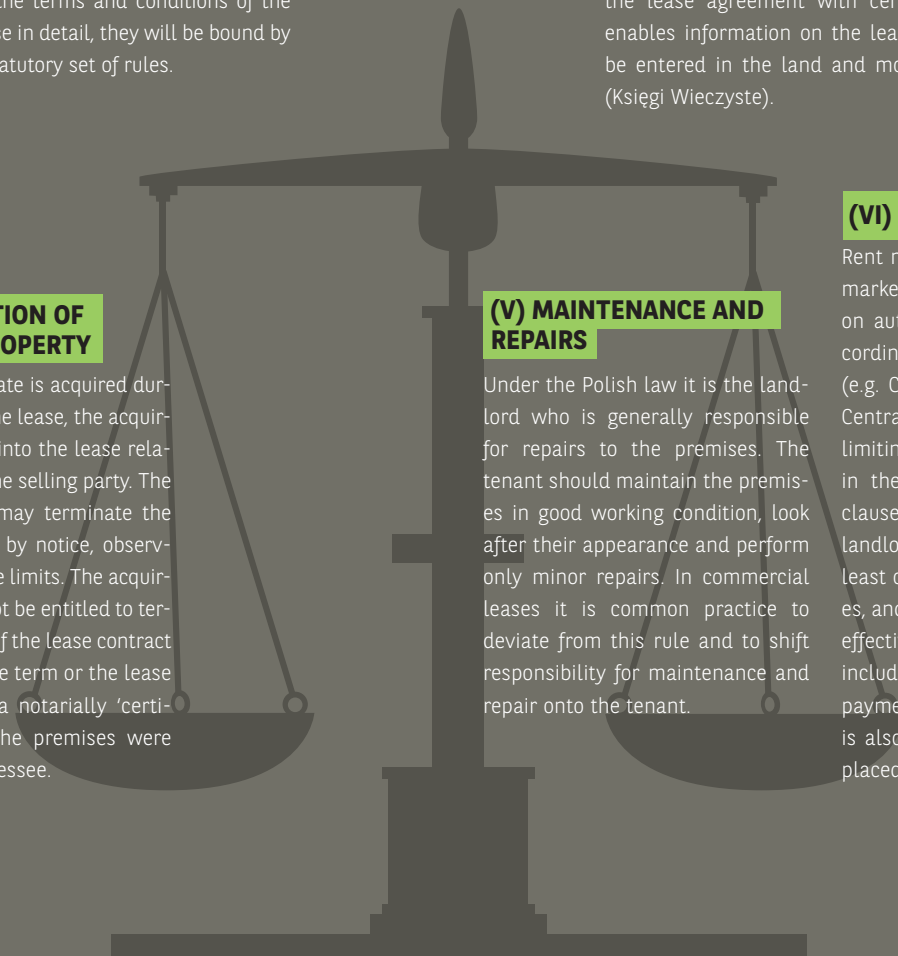
Under Polish law the tenant cannot sublease or allow third party use of the leased premises without the landlord's consent. Under the Civil Code, assignment of the tenant's obligations under a lease agreement requires the landlord's consent.

(VI) RENT REVIEW

Rent may be paid in foreign currencies, e.g. EUR or USD. The market standard is that commercial leases include provisions on automatic adjustment of the rent (usually annually) according to the percentage change of a previously agreed index (e.g. Consumer Price Index or index published by the Polish Central Statistical Office). There are no statutory provisions limiting the parties' right to include provisions on indexation in the lease agreements. Notwithstanding the contractual clauses, the Civil Code provides for a provision entitling the landlord to increase the rent, serving the tenant a notice at least one month in advance with respect to commercial leases, and 3 months in advance with respect to residential leases, effective at the end of the calendar month. Commercial leases include collaterals as security for payment of rent and other payments due under the leases (e.g. service charges). There is also a statutory right of pledge on the tenant's movables placed in the subject of lease.

(V) MAINTENANCE AND REPAIRS

Under the Polish law it is the landlord who is generally responsible for repairs to the premises. The tenant should maintain the premises in good working condition, look after their appearance and perform only minor repairs. In commercial leases it is common practice to deviate from this rule and to shift responsibility for maintenance and repair onto the tenant.



NEED TO KNOW

Acquisition – specifications in Polish law compared to its European neighbours

How can real estate be held?	<ul style="list-style-type: none"> • Freehold ownership; • Condominium ownership; • Perpetual usufruct right, which gives the long-term right to use and manage the land and to build and own a building on a publicly-owned property.
What rights over real property are required to be registered	Rights <i>in rem</i> over real estate require registration in the land and mortgage registry book in order to be binding on third parties, including ownership rights, perpetual usufruct, encumbrances (e.g. easements, pre-emption rights, usufruct rights) and security rights (e.g. mortgages).
What property documentation do you need to register?	In order to register a respective right in the land and mortgage register documents transferring or encumbering real estate (agreements, decisions or statements) must be presented to the land and mortgage registry court.
Are there nationality restrictions on land ownership?	As a matter of general principle under Polish law, acquisition of a real property by foreigner requires a permit from the Minister of Internal Affairs. However, there are numerous exceptions to this rule, in particular concerning foreigners from the European Economic Area, who do not need consent to purchase real estate in Poland, unless agricultural or forest land is involved.
Who usually produces the documentation in real estate transactions?	Usually legal counsel of one of the parties prepares the first draft, which is subsequently negotiated between the parties and notarized by a notary public.
What are the main usual documents in real estate acquisition?	<ul style="list-style-type: none"> • Heads of terms / LOI; • Due diligence report, including verification of legal, environmental, technical, tax and commercial aspects of the real estate done by advisors of the investors; • Preliminary (or conditional) sale agreement; • Final sale agreement.
What different types of real estate leases exist?	<ul style="list-style-type: none"> • Commercial leases, including warehouses; • Tenancy agreements; • Residential leases.
Are commercial lease provisions freely negotiable?	In principle commercial leases are freely negotiable, subject to certain mandatory provisions that cannot be excluded by the parties.
Is there a maximum term for commercial leases?	Commercial leases between businesses have a max. term of 30 years, whereas in non-commercial leases it is 10 years. If a lease provides for a longer term, after lapse of the respective 10 or 30-year term it shall be deemed an indefinite term lease and may be terminated by observing the statutory notice period.
How are commercial rents reviewed?	Commercial rents may include provisions on automatic annual indexation.
What are usually the basic obligations of landlords?	<ul style="list-style-type: none"> • Delivery of the premises to the tenant; • Ensure that the tenant may use the premises in accordance with the agreed use throughout the entire lease term; • Repair the premises, excluding minor repairs; • Insure the premises/property; • Perform tenant fit-outs (market standard in office leases, however, costs are usually divided between landlord and tenant).
What are usually the basic obligations of tenants?	<ul style="list-style-type: none"> • Pay rent and service charges • Provide relevant collaterals; • Keep the premises in good working condition and look after their appearance and perform only minor repairs (unless agreed otherwise); • Insure its belongings, merchandise and goods in the lease of premises.

ENERGY PERFORMANCE REQUIREMENTS FOR BUILDINGS

Following EU legislation Poland adopted regulations on energy performance requirements, under which an energy performance certificate is to be created following the construction or significant redevelopment of a building. When selling or leasing the building, this certificate should be presented to the other party of the agreement. In specific situations Polish law provides for exceptions to the energy performance requirements, e.g. for historic monuments, churches and the like.

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NEED TO KNOW

Tax clinic

Karina Furga-Dąbrowska and Tomasz Krasowski, tax advisors from Dentons Warsaw, present comments on key tax aspects of investing on the Polish real estate market.



Legal persons investing in Polish real estates may generally be subject to the following taxes in Poland:

- Corporate Income Tax (CIT)
- Value Added Tax (VAT)
- Real Estate Tax (RET)
- Tax on Civil Law Transactions (TCLT)

Additionally, entities hiring employees are subject to withholding obligations with respect to personal income tax (PIT), social security and healthcare contributions on employee remunerations.

1. INVESTMENT VEHICLES IN POLAND

Companies

A company is a Polish tax resident if it has its registered office or place of management in Poland. A resident company is subject to 19% Polish Corporate Income Tax (CIT) on its worldwide income.

Partnerships

In recent years partnerships (especially in the form of a limited partnership or a limited joint stock partnership – “LJSP”) have been used more frequently to conduct business activities in Pol-

land. Polish partnerships are transparent for CIT purposes, with the exception of LJSPs which, beginning from January 1, 2014, are generally covered by the CIT regime (like e.g. a limited liability company). Their earnings and costs are split pro rata among the partners, who, depending on their legal status (whether they are legal persons or individuals) are then individually assessed for either 19% CIT or the applicable Personal Income Tax (PIT) rate.

A LJSP is a partnership where at least one partner manages the partnership and bears unlimited liability for the partnership’s liabilities (general partner) and at least one partner has the status of a shareholder and is not liable for the partnership’s liabilities. It should be noted that an LJSP is of a hybrid nature (combining certain characteristics of both partnerships and companies). Taxing shareholders of this type of partnership was a controversial issue before January 1, 2014. Under previous regulations (applicable till January 1, 2014) a company which was an LJSP shareholder was entitled to defer payment of tax on income generated by the LJSPs operations (including its operating income and income on sales

of assets) until the distribution of a dividend. This approach was confirmed in a general tax interpretation issued by the Polish Ministry of Finance on 11 May 2012. Therefore, an LJSP was a very attractive option for tax planning purposes as it allowed for deferral of tax on its shareholders’ income until a dividend payment was made. However, as mentioned above, beginning from January 1, 2014, LJSPs are covered by the CIT regime and are no longer income tax transparent. Still, pursuant to the interim provisions of the Polish CIT Law, the CIT regime applies to existing LJSPs from the first day of the accounting year beginning after December 31, 2013. Therefore, some LJSPs with their accounting years not overlapping with the calendar year whose accounting year started in 2013 may still be income tax transparent in 2014 and in certain situations even in 2015 and shareholders of such LJSPs may defer payment of tax on income generated by such entities until the distribution of a dividend. Thus, such LJSPs may be used in tax efficient structures for operations on the Polish real estate market and tax efficient disposals of assets.

Other forms of operations on Polish real estate market

Foreign investors may also operate in Poland through a branch. Perhaps the most tax efficient way of structuring investments in Poland currently is to use a Polish investment fund and Polish partnerships. A Polish investment fund is a legal entity regulated by the Investment Funds Act of May 27, 2004. This fund can be created and must be managed by a licensed fund management company. A Polish investment fund may be closely controlled by the investor(s). The income

of the fund is exempt from CIT. Consequently, if for example the fund participates 99% in the profits in an income tax transparent Polish partnership, 99% of the income generated by the partnership and allocated to the fund is exempt from CIT. It is generally possible to repatriate funds from the fund in a flexible way. Repatriation of profits by the fund to foreign investors should not trigger Polish tax consequences provided that the investors benefit from Double Tax Treaty protection. Please note that the extension of the CIT regime to cover LJSPs impacts on structures involving Polish investment funds, as LJSPs were commonly used in such structures. Nevertheless, it is still possible to use structures based on Polish investment funds for operations on the Polish real estate market. One of the possible solutions is substituting LJSPs in such structures with a foreign income tax transparent partnership (e.g. a Luxembourg *société en commandite spéciale* (special limited partnership)).

As noted above, the most commonly used investment vehicle for investing on the Polish real estate market is a limited liability company. Thus, below we comment on investing in Poland through a Polish limited liability company (Sp. z o.o.). A Polish joint-stock company, in general, has the same tax status and characteristics, thus what follows below largely applies to joint-stock companies as well.

2. EQUITY FINANCING

General Comments

For Polish tax purposes it is relevant to make a distinction between equity financing through (i)



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a cash contribution followed by the issuance of shares or (ii) other additional payments to a company's capital without issuing shares.

A cash contribution followed by a shares issue is generally subject to 0.5% civil law transactions tax. A cash contribution made directly to a company's share premium is not subject to the civil law transactions tax.

It is important to note that additional payments are always subject to 0.5% civil law transactions tax payable by the subsidiary. It is not possible to mitigate this tax.

Repatriation of Cash

Dividends

Dividends and advance dividends distributed by a Polish company to its foreign owner are generally subject to a 19% withholding tax in Poland, unless a Double Tax Treaty (DTT) provides otherwise. Polish withholding tax is a levy that comes under the CIT Act (it is not a separate withholding tax). Usually the withholding tax rates on dividends under DTTs signed by Poland range between 5% and 15%.

Poland has implemented the EU Parent-Subsidiary Directive 90/435/EEC, so dividends received by parent EU/EEA companies from their Polish subsidiaries are exempt from CIT, provided that at least 10% of the shares in their Polish subsidiaries are held for an uninterrupted period of two years. This two-year holding period requirement does not have to be met upfront. This exemption also applies to Swiss parent companies, provided that they have at least 25% shareholdings in their Polish subsidiaries. The Parent-Subsidiary Directive does not apply to capital gains, which means

that for structuring an exit from a real estate investment through a share deal it is important to select a jurisdiction for the shareholder of the Polish limited liability company that provides for:

- capital gains tax protection under the relevant DTT and
- a flexible domestic participation exemption regime.

Liquidation

Liquidation proceeds paid to EU/EEA countries or to Switzerland are taxed under the same rules as dividends (although only the excess of liquidation proceeds over shares acquisition costs is taxed). It is important to note that the same potential tax exemptions may apply to liquidation proceeds as to dividends.

3. DEBT FINANCING

Civil Law Transactions Tax

Loans granted to Polish companies are subject to 2% civil law transactions tax (payable by the borrower). Many exemptions from this tax apply with respect to loans granted to companies and so in practice this tax can be avoided.

Withholding Tax on Interest

Interest paid from Poland to a foreign lender is subject to 20% withholding tax, unless the relevant DTT provides otherwise. The withholding tax should be remitted to the tax office by the lender when interest is paid in any form (including set-off and compounding of interest).

Usually the withholding tax rates on interest under the relevant DTT range between 5% and 10%.

Some of Poland's DTTs provide for a 0% withholding rate on interest (e.g. with the United States, Spain and Sweden). In order to apply a withholding tax rate resulting from a DTT, a certificate confirming the tax residence of the foreign lender must be obtained.

Poland implemented EU Directive 2003/49/EC on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States. Therefore, interest payments between a parent and a subsidiary and between direct sister companies are free from withholding tax.

Thin Capitalization Restrictions

Interest on loans is generally deductible when actually paid. Polish thin capitalization rules put restrictions on limited liability and joint stock companies deducting interest on loans granted by:

- one or more shareholders holding a total of at least 25% of the voting rights – “parent company” loans or
- another company if the same shareholder holds at least 25% of the voting rights in each of these companies – “sister company” loans, if the debt-to-equity ratio exceeds 3:1 on the day interest is paid.

Interest on loans in excess of the above ratio is not tax deductible. However, because thin capitalization restrictions apply only to interest on loans granted by direct parent and sister companies, it is relatively easy to structure the financing of a transaction in a way that neutralizes thin capitalization restrictions.

4. ON-GOING TAXATION

Taxable income and tax losses

With respect to a limited liability company taxable income subject to 19% CIT on lease or sale of real estate is calculated as the difference between taxable revenues and tax deductible costs. Tax losses may be carried forward for 5 consecutive years and fully set off against tax profits during that time; however, not more than 50% of the tax loss may be set off against tax profits in any one of these 5 years. Tax losses cannot be carried back.

Tax depreciation of real estate assets

Costs incurred for the acquisition or construction of real estate including purchase price, transactions costs, constructions costs are recognized through depreciation write offs or upon sale. Land is not subject to depreciation. Commercial buildings are subject to tax depreciation at a maximum annual rate of 2.5%. Acquired buildings (used by the former owner) can be depreciated for tax purposes during the period equal to the difference between 40 years and the number of years that have passed since the building was put into use for the first time. However, that period cannot be shorter than 10 years.

Rental income

Rental income generated from commercial real estate is generally subject to 23% VAT. Rental of residential units for housing purposes is VAT exempt.

Input VAT recovery

A VAT taxpayer registered in Poland is entitled to obtain a refund of the excess of input over out-



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put VAT reported in its VAT return. The standard deadline for the refund is 60 days. There is a quick refund option of 25 days provided, but in order to benefit from the quick refund, additional requirements should be met – all invoices / other documents (e.g. customs documents) showing input tax reported in a VAT return have to be paid in full.

Refund of input VAT is also available for taxpayers who did not carry on any taxable operations in the reporting period in which they apply for a refund. The standard refund deadline for these entities is 180 days. A quick 60-day refund is possible if security (collateral) is provided by the taxpayer.

Real estate tax

Real estate tax (RET) generally applies to the owners, perpetual usufructuaries and freeholders of properties. RET applies to (i) land, (ii) buildings or parts thereof and (iii) constructions or parts thereof connected with business activity. RET is payable to local authorities, which also set the RET rates.

The maximum RET rates applicable in 2014 are as follows:

- for land – PLN 0.89 per sq.m. (i.e. PLN 8,900 per ha);
- for buildings or parts thereof used for business activity – PLN 23.03 per sq.m. of usable surface area;
- for constructions or parts thereof used for business activity – 2% of tax initial value of a construction, adopted for tax depreciation purposes.

Tax on civil law transactions (TCLT)

Tax on civil law transactions, which is similar to “stamp duty” in other countries, is levied on certain civil law transactions, such as loan agreements, sale agreements, incorporation of a company or a partnership, increase of the share capital, etc. TCLT is levied at rates ranging from 0.5% to 2% and the tax base generally is the fair market value of the object of the transaction. TCLT is not due on transactions which are subject to VAT (either taxed with VAT or exempted from VAT, with some exceptions applicable to e.g. real estate transactions).

5. EXIT THROUGH ASSET DEAL

The sale of assets produces taxable income for the seller, being the difference between the sales price and net tax value of assets (historical cost less depreciation write-offs).

For the purpose of VAT/TCLT treatment of the transaction, the initial question arises as to whether the object of the sale constitutes:

- assets, or
- a going concern (i.e. a business of the seller or its organized part).

If the object of the transaction is classified as real estate assets, the transaction will generally be subject to VAT (depending on the conditions, in such case a sale of commercial property is typically subject to 23% VAT or exempt from VAT with an option to elect VAT taxation at 23%; in some cases the option to elect VAT is not applicable).

In principle, if the transaction is subject to 23% VAT (including upon election of VAT taxation), it is not subject to 2% TCLT, which would be otherwise

due on the sale of Polish real estate. If the real estate transaction is exempt from VAT, it is subject to 2% TCLT, payable by the buyer.

On the other hand, if the object of the transaction is classified as a going concern (also involving real estate), the transaction falls outside the scope of VAT, but is subject to TCLT payable by the buyer (2% for land, buildings and other tangible property and 1% for rights).

The classification of a given transaction for VAT purposes as a supply subject to 23% VAT or exempt from VAT should always be made on a case-by-case basis, based on a detailed analysis of the underlying factual circumstances.

In line with market practice very often the seller and the buyer apply for respective tax rulings, confirming that the object of the transaction constitutes assets (and not a going concern) and that the buyer should be entitled to deduct VAT incurred on the transaction.

A tax ruling should generally be issued within three months of filing an application.

6. EXIT THROUGH SHARE DEAL

Capital gains on the disposal of the shares in the capital of a company may be subject to standard 19% CIT, unless DTT relief could be applied.

Under certain double tax treaties (e.g. treaty with the Netherlands), capital gains from the disposal of shares in Polish companies by foreign tax residents are exempt from taxation in Poland. However, more and more DTTs (e.g. amended treaty with Luxembourg) signed by Poland provide that capital gains from the alienation of shares in a company owning mainly real estate property as-

sets may be taxed in Poland.

Sale of shares in a Polish company is subject to 1% TCLT calculated on the fair market value of shares. This tax is payable by the buyer. Sale of shares in joint stock companies may be exempt from the 1% tax under certain conditions, e.g. if a brokerage house acts as intermediary.

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HOT SPOTS

Selected investment opportunities



LEGIONOWO SHOPPING CENTRE

Legionowo

- Legionowo Shopping Centre will provide tenants with a unique opportunity to tap the biggest and the most affluent consumer market in Poland (Warsaw agglomeration). It will accommodate approximately 90 tenants, including a hypermarket, 4-screen cinema and a fitness centre.
- Key Location: on road No. 61 which connects Warsaw with the Masurian Lake District.
- Affluent Catchment Area: Legionowo is the third most densely populated urban area in Poland, with 3,870 inhabitants per km². Approximately 410,000 people live within a 45 minute drive and, there are no competing schemes within a 20 km radius.
- Due to its excellent location and accessibility, its size and mix of functions Legionowo Shopping Centre will create a strategic shopping destination in the north-eastern part of the Warsaw agglomeration.



Total leasable area	31,100 sqm
Retail units	90
Plot size	5.5 ha
Parking spaces	ca. 880



KRAKÓW BUSINESS PARK

Kraków / Zabierzów

- Part of the most modern and the key business park in Krakow of 220,000 sqm of GLA planned in total.
- Kraków has been perceived as strong destination for BPO offices. Following companies have chosen Kraków for their offices in CEE: Google, IBM, Motorola, Delphi, MAN SE, ABB, General Electric, Hitachi, Philip Morris, Plaza Central Europe, AON Hewitt, Capgemini and Sabre Holdings.
- KBP 100 is an A class office building accommodating 9,584 sqm of GLA distributed on 4 levels and offering typical floor area of 2,100 sqm.
- Excellent accessibility: next to the A4 motorway, next to Kraków Balice Airport and benefiting from direct train access to the city centre of Krakow with 100 trains per day.
- 40 minute drive from Silesia Conurbation.
- Reputable and stable covenant with Sabre Polska, Asseco, HCL and Schneider Electric Buildings.
- Very convenient car park ratio of 1 car space per 33 sqm.
- Healthy office market with 4.2% vacancy rate, limited deliveries over 2013 and prime rents at € 14/month/psqm.



Year of construction	2007
Total leasable area	9,600 sqm
Plot size	10,915 sqm
Parking spaces	287

HOT SPOTS

**CH GOŁABKOWICE**

Nowy Sącz

- Modern shopping center of 13,000 sqm GLA delivered in 2012 strategically located at the key national road no. 75 leading from Kraków towards Slovakia as well as being the town's bypass and connecting two major residential estates in the town.
- Strong retail destination: recognizable brands such as: Tesco Extra 24h hypermarket, NOMI, Media Expert, Rossmann, KFC as well as BP fuel station.
- Convenient communication to the centre: excellent city location on the key national roads: no. 75, 28, and 87 leading to Kraków as well as to the border with Slovakia.
- Extensive catchment zone of 367,000 people living within 30 km radius from Nowy Sącz.
- Long term lease agreements in place – the weighted average unexpired lease term of 8.5 years.
- Opportunity for an extension of the scheme on the adjacent plot.
- Possible joint disposal with the Nomi DIY unit and Media Expert electronic store situated on the neighboring plot.



Total leasable area	13,000 sqm
Retail units	50
Anchor tenants	Tesco Extra 24h, NOMI, Media Expert, Rossmann, KFC
Parking spaces	ca. 690

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POLISH INFORMATION AND FOREIGN INVESTMENT AGENCY (PAIIZ)



The Polish Information and Foreign Investment Agency has been helping investors for more than 20 years. Its mission is to increase Foreign Direct Investment (FDI) by encouraging international companies to invest in Poland. It guides investors through all the necessary administrative and legal procedures along the way to setting up their business in Poland.

Agency offers investors: quick access to comprehensive information about the economic and legal environment, assistance in finding appropriate partners and investment locations and support at every phase of the investment process.

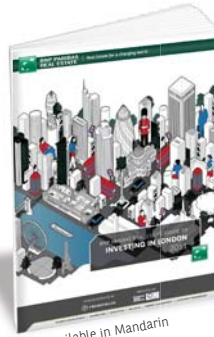
The Agency promotes Polish goods and services abroad by organizing conferences, visits for foreign journalists and investment trade missions to Poland and for Polish entrepreneurs around the world.

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