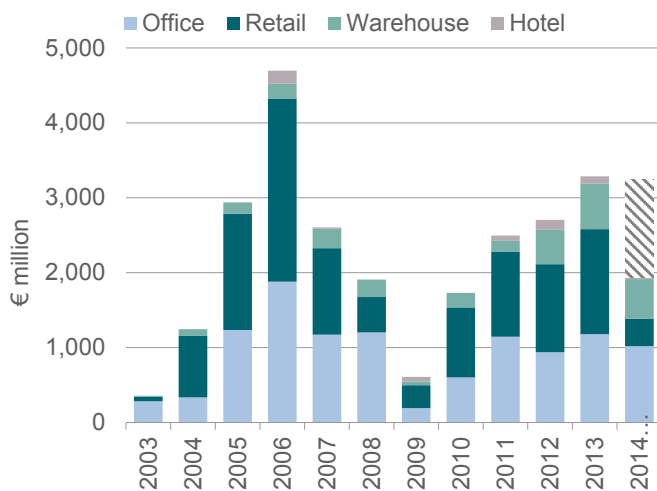


# Market in Minutes Poland investment

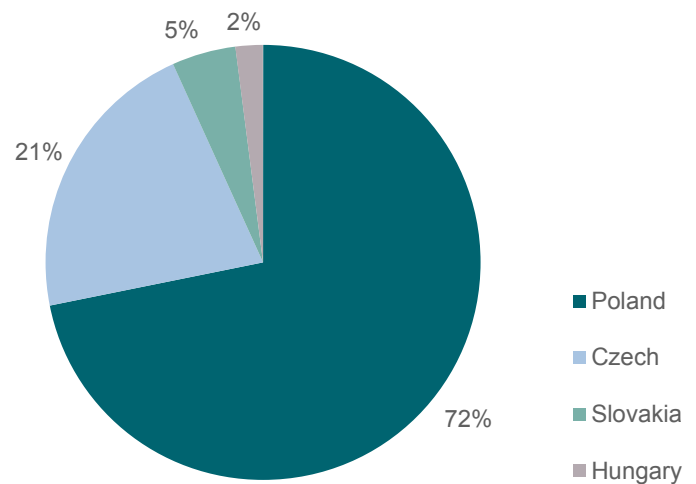
October 2014

GRAPH 1  
Investment volumes in Poland by sector



Graph source: Savills

GRAPH 2  
Investment volume in Central Europe H1 2014



Graph source: Savills

## SUMMARY

### Overview

■ Total volume of investment transactions in Poland during Q1-Q3 2014 amounted to ca. €1.94 billion reflecting ca. 7% drop year-on-year.

■ Taking into account pending transactions, we expect that the annual volume of transactions will reach ca. €3.25 - 3.65 billion, provided that a few larger transactions in the retail and office sector will be closed in Q4 2014. This would reflect a growth of ca. 11% year-on-year.

■ German, UK and US investors dominated the Polish investment market having a share in the volume of transactions of ca. 84%. Domestic

buyers accounted for ca. 7.4% of the volume which is slightly below the long term trend.

■ This year the Korean National Pension Service fund is likely to make its debut in Poland this year. We expect this trend of Asian investments in Poland to continue.

■ Prime yields are stable across most markets and sectors and we do not expect any significant movements by the end of the year.

“2014 is the third consecutive year of increased investor interest in prime logistics and light industrial assets in Poland and this trend is expected to be maintained next year.”

Michal Cwiklinski, Savills Poland

➔ **Economy**

In Q2 2014 GDP growth reached 0.6% when compared quarter-on-quarter and 3.2% year-on-year. This was once again one of the highest growth rates recorded in the European Union and was higher than the EU-27 and Euro-area averages, both at 0.2%.

In accordance with Oxford Economics' forecasts, the GDP in Poland will reach 3.3% this year and 3.4% in 2015, whereas in the EU-27 it is forecasted at 1.5% in 2014 and 1.8% in 2015 and in the Eurozone 1.1% in 2014 and 1.5% in 2015.

Annual inflation in Poland was only 0.9% in 2013 which was the lowest rate recorded since 2003. According to Oxford Economics' forecast inflation in Poland will reach 0.8% in 2014 and from 2015 a stabilisation at 2.0% - 2.5% is projected.

The main reference rate was kept at the low level of 2.50% in July 2014 and is expected to be maintained at this level until mid-next year as economic growth is forecasted to be strong and inflation to be low.

In July 2014 the unemployment rate based on the International Labour Office (ILO) definition in Poland was 9.0% and was lower than the European Union's average of 10.2%. The rate is expected to remain stable over the next 24 months according to Oxford Economics.

Average monthly salary in the enterprise sector was PLN 3,893 in

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 "Investment transactions in the warehouse sector in Q1-Q3 2014 accounted for over 27% of the total investment volume, exceeding significantly volume of transactions in the retail sector, which was dominant last year."  
 .....  
 Michal Cwiklinski, Savills Investment  
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 August 2014 reflecting a growth of 3.5% compared year-on-year. The National Bank of Poland projects a growth in salaries by an average of 5.1% per annum over the next three years.  
 .....

**General Overview**

Following a very active first half of the year, the volume of transactions finalised in the third quarter was slightly lower, albeit the number of pending transactions reflect that the investor activity is actually on the rise. In total the volume of transactions closed in Q1-Q3 2014 exceeded ca. €1.94 bn., reflecting a 7% drop year-on-year.

Office properties accounted for ca. 52% of the Q1-Q3 volume, followed by warehouse properties with ca. 27% share and retail assets which so far accounted for only 19%.

US investors had a highest share in Q1-Q3 investment volume of over 41%, followed by German and UK investors, accounting for ca. 21% and 20% of the volume respectively.

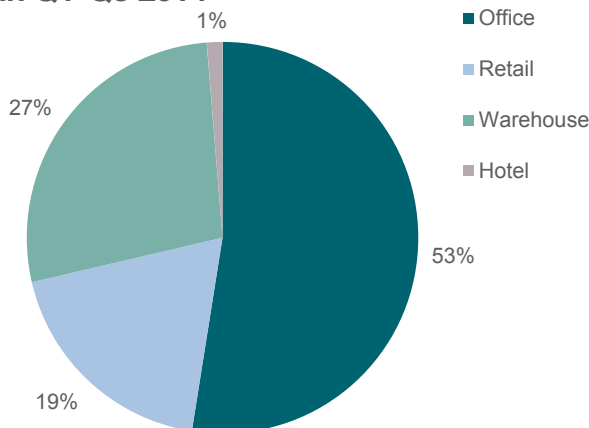
Domestic investments accounted in Q1-Q3 2014 for slightly above 7% of the volume, which is slightly below a long-term trend.

**Office Sector**

Investment volume in the office sector in Q1-Q3 2014 exceeded €1 billion accounting for more than half of the total volume of transactions.

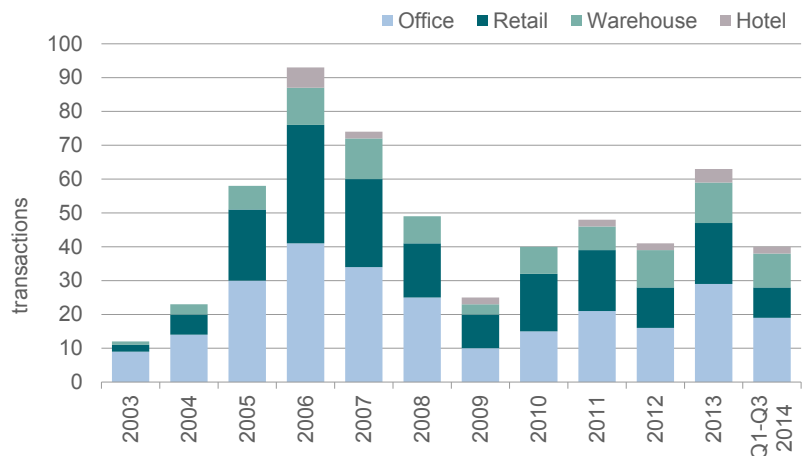
The three largest transactions in Warsaw were the acquisitions of Rondo 1 by Deutsche Asset & Wealth Management, T-Mobile Office Park by Starwood Capital Group and Lipowy Business Park by WP Carey. Rondo 1, the landmark office building comprising nearly 60,000 sq m of offices and 5,000 sq m of retail space, located in Warsaw City Centre was sold for ca. €280 million. T-Mobile Office Park was sold by Ghelamco within a portfolio of three office properties (together with Lopuszanska Business Park in Warsaw and Katowice Business Point). Lipowy Business Park, a single-let office property of ca. 39,400 sq m, located outside the City Centre, was sold for

GRAPH 3 **Investment volume by sector in Q1-Q3 2014**



Graph source: Savills

GRAPH 4 **Number of investment transactions by sector**



Graph source: Savills

ca. €108 million.

In the last quarter of the year, we expect that high investment activity in the Warsaw office market will be maintained, through the completion of a few pending transactions regarding some landmark office buildings.

Prime office yields in Warsaw City Centre are still at ca. 6.00% whereas in Warsaw non-central locations prime yields range within 7.00%-7.50% depending on the asset type and location.

Investment activity in the regional office markets is growing and spreading outside the leading markets of Wroclaw and Krakow, although recently activity in those non-dominant markets was dominated by opportunistic acquisitions. Altogether assets located in regional cities accounted for almost one quarter of the office investment volume in Q1-Q3 2014.

In the most established regional office markets of Wroclaw and Krakow prime yields are now at ca. 7.25-7.50%. In Poznan and Gdansk prime yields are slightly higher at ca. 7.50-8.00%, whereas in Katowice at ca. 8.50%. Activity in the other regional markets (Lodz, Szczecin, Lublin) is still limited with no direct benchmark for prime assets.

We believe, that there will be a further growth of investor interest in regional office markets.

### Retail Sector

The volume of retail transactions in Q1-Q3 2014 amounted to EUR 365 million, which accounted for only 19% of the total volume. Nevertheless, there is still a lot of investor interest in the retail sector, and we expect a few large acquisitions to be finalised by the end of the year, starting with the first acquisitions in Poland of the National Pension Service of Korea (NPS), who showed interest in dominant shopping centres located in major regional Polish cities (Wroclaw and Szczecin). Upon completion of these acquisitions and a few other pending transactions, retail deals should exceed EUR 1 billion by the end of the year.

The largest transactions in Q1-Q3 2014 were the acquisitions of Poznan City Centre by Resolution Real Estate Fund IV and ECE Prime European Shopping Centre Fund, Galeria Mazovia by CBRE Global Investors as well as the acquisition of the remaining 50% stake in Nova Park in Gorzow Wielkolski by Futureal.

Prime shopping centre yields remain stable at ca. 5.75% for the best shopping centres in Warsaw, ca. 6.00% for dominant shopping centres in major regional cities and ca. 7.50-8.00% for leading shopping centres in secondary cities.

### Warehouse Sector

Investment activity in warehouse sector in the Q1-Q3 2014 was dominated by portfolio acquisitions. In total investors spent over EUR

## Invest in industrial

### Rising investor interest in warehouse and light industrial sectors

■ Improving infrastructure, central location of Poland and relatively low labour costs are still considered as major drivers of development of the warehouse and light industrial sectors in Poland.

■ Major logistics hubs develop along main thoroughfares, near major regional cities, whereas light industrial facilities are usually being located in special economic zones in the vicinity of cities that can provide sufficient labour force.

■ Rapid growth of major retail chains contributes to growing demand for logistics space across Poland. Depending on retailers distribution strategy, retail chains decide either to develop the distribution network in order to shorten delivery time and optimise stock (FMCG sector in particular) or consolidate operations in less but much larger distribution centres (durables).

■ Supportive economic and market indicators attract increased investor interest in logistics and light industrial assets.

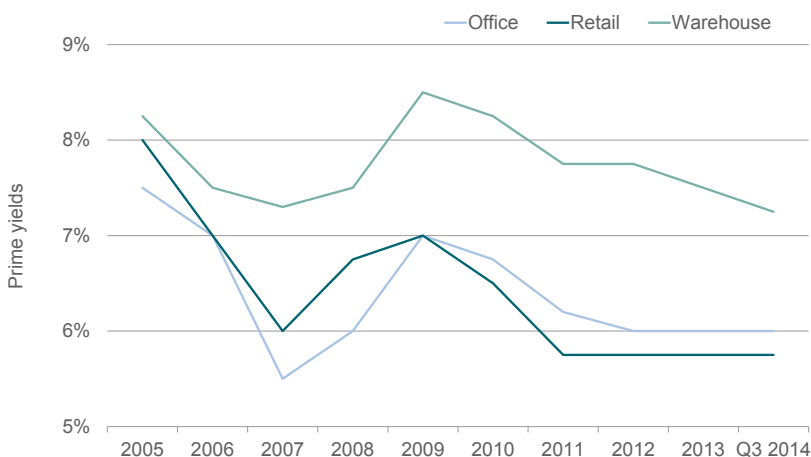
■ Warehousing parks located in major logistics hubs across Poland offer a decent yield premium compared to prime office retail assets recorded in respective markets, while the other lease parameters remain comparable. Additionally, these assets quiet often offer expansion potential, enabling investors to achieve higher returns in future.

■ Recent transactions confirm the increased interest in portfolio acquisitions, that allow buyers to negotiate additional yield premium as well as to diversify risk and significantly increase market share.

■ Investors looking for a stable long-term income, such as German and Austrian open-ended funds, have a preference for built-to-suit facilities often comprising light industrial, warehousing and office use and let for not less than 10 years. These kind of assets achieve the sharpest yield levels in the sector, providing that they fulfill location requirements.

■ Recent growth in development of large distribution centres of major retailers and e-commerce companies is expected to contribute to further yield compression for this kind of assets, which may set a new benchmark of prime yield if for single-let warehouse properties.

GRAPH 5 Prime yields



Graph source: Savills

→ 530 million in the warehouse sector reflecting 90% growth compared to Q1-Q3 2013.

The largest transaction in the first half of the year was the acquisition of Standard Life's portfolio of three logistics parks developed by Panattoni located in Strykow, Myslowice and Robakowo (near Poznan) by LogiCor for ca. €118 million.

assets with long term leases located in major industrial hubs across Poland, as well as in prime multi-let logistics parks, starting with those located in Warsaw.

Prime warehouse yields are now at ca. 7.50% for a single-let modern warehouses let to financially strong tenants for at least 10 years, in good locations in major logistics hubs. In case of multi-let warehouse properties

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“The average vacancy rate on the warehouse market in Poland is decreasing, development activity is high, but not speculative, rents are on a safe side and yields still provide a decent premium over office and retail assets.”

Michal Cwiklinski, Savills Investment

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Another large portfolio that was recently sold was Pramerica CEE Logistics Portfolio 2014 comprising assets located in Warsaw, Upper Silesia, Krakow, Blonie (near Warsaw) as well as in Prague. This portfolio was sold to LogiCor (Blackstone's European logistics platform). Altogether, portfolio sales accounted for 75% of the activity in the warehouse sector in Q1-Q3 2014. We expect that in the nearest future investors will focus on prime single-let

prime achievable yields are at ca. 8.00-8.25%, providing that they are leased at market rental levels and well located. We expect, that in the second half of 2014 there will be a few larger acquisitions in warehouse sector, which may set a new benchmark for prime yields, especially for single-let assets.

## OUTLOOK

2014 is going to be the fifth consecutive year of growing activity on the Polish investment market

■ Total annual investment volume in 2014 may reach EUR 3.25 - 3.65 bn, with the prospects of the second highest result in the history of the Polish investment market. 2012-2014 investment volume may hit EUR 9.6 bn. which would be only 7% below the volume recorded in 2005-2007 - the period of the highest investment boom in the Polish investment market so far.

■ It is expected that transactions in the office sector will dominate 2014 volume and will account up to ca. 50% of the annual volume. We anticipate that investor interest in regional office markets will be growing further.

■ Activity in the warehouse sector is expected to remain high with a chance to break last year's record volume of ca. EUR 607 million.

■ Prime yields will remain stable throughout the last quarter of the year. The range of secondary yields is still widening, due to increased volume of opportunistic acquisitions.

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