Jones Lang LaSalle Hotels

Real value in a changing world

Hotel Intelligence

Market Insight

Poland

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Jones Lang LaSalle Hotels *know how*

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Market Snapshot

Poland has one of the most stable and resilient economies of Central and Eastern Europe. It has been the economic darling of Europe, being able to avoid recession in 2009 and seeing GDP growth of 4.0% and 4.3% in 2010 and 2011 respectively. Growth is driven by a robust domestic market and a dynamic export industry with Germany being its major trading partner. Economic growth is expected to continue in 2012, with a forecast GDP growth of 3.0%.

Visitation to Poland increased by a compound annual average growth (CAAG) rate of 6.8% between 2004 and 2010. The market is dominated by domestic visitors, who account for roughly 75% of total visitation. Poland's major international source markets are Germany, the UK and Italy. In the first 11 months of 2011, arrivals to Poland increased by 7.9% compared to 2010. This was driven by a considerable increase in both domestic and foreign visitation. In 2012, Poland is expected to see a large influx of foreign arrivals on the back of the UEFA European Championship 2012 , which is co-hosted with the Ukraine between 8 June and 1 July.

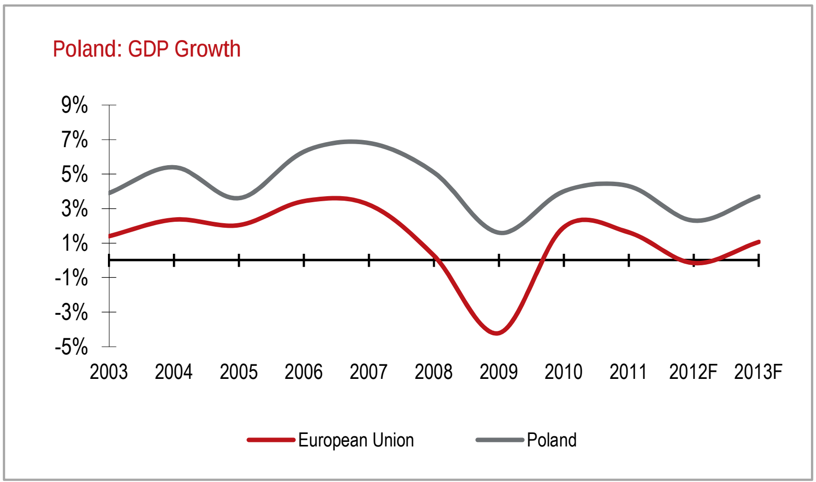
Poland has developed into one of Europe's most attractive hotel investment markets. The country saw a considerable pick-up in investment activity in 2011, driven by strong economic growth and impressive results in hotel trading fundamentals. In 2011, hotel investment volume totalled €125 million. This included the sale of the Warsaw hotels Jan III Sobieski and the Le Méridien Bristol which were sold for €53 million and €20 million respectively. In 2012, hotel investment activity is expected to increase as investors are attracted by the sound Polish economy, growth opportunities, and media coverage arising from the UEFA European Championship.

Poland's economy booms

Poland: Economic Indicators

	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F
Real GDP growth (%)	3.6	6.3	6.8	5.1	1.6	4.0	4.3	3.0	3.9	5.5
Consumer price index (%)	2.1	1.1	2.4	4.4	3.8	2.7	4.2	3.5	2.6	2.8
Unemployment rate (%)	18.2	16.2	12.7	9.8	11.0	12.1	12.4	12.7	12.4	11.6
Exchange rate LCU/€ (av.)	4.0	3.9	3.8	3.5	4.3	4.0	4.1	4.3	4.4	4.2
Fiscal balance (% of GDP)	–4.1	–3.6	–1.9	–3.7	–7.4	–7.8	–5.2	–3.6	–2.5	–1.6
Current account balance (% of GDP)	–2.4	–3.8	–6.2	–6.6	–3.9	–4.7	–5.0	–4.9	–4.7	–4.1

F = forecast
Source: Global Insight



F = forecast
Source: HIS Global Insight

Poland is widely regarded as the most stable country in Central and Eastern Europe and is one of the fastest-growing economies in Europe. It was the only country in the European Union which did not experience a contraction in GDP in 2009. Poland's major industries are the machine building, food processing, iron/steel/coal mining and chemical sectors. Roughly 80% of the country's foreign trade occurs in the EU, with Germany being its major trading partner.

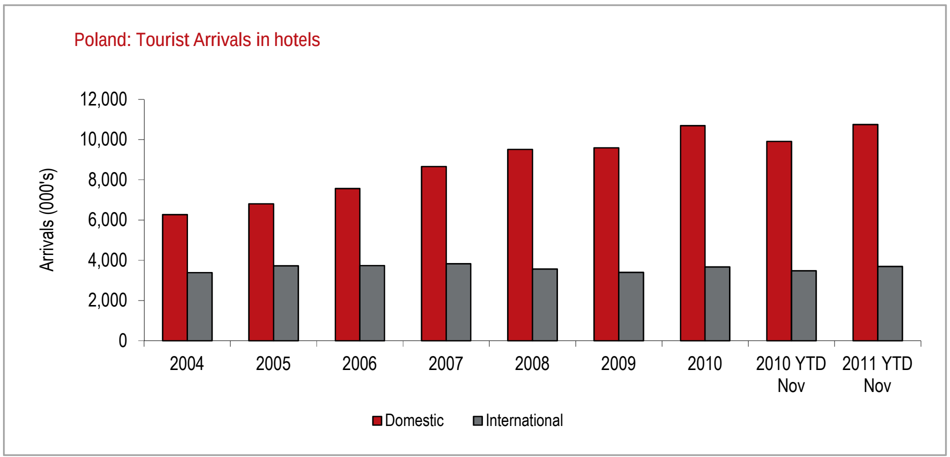
The Polish economy regained its momentum after slowing in 2009 and reported impressive growth rates of 4.0% and 4.3% respectively in 2010 and 2011. Growth was driven by strong private consumption, growing exports and buoyant foreign direct investments. In 2011, investment activity was supported by major European infrastructure projects in preparation for the UEFA Euro 2012 football championships.

In the last two quarters of 2011, economic growth was also driven by a significant deprecation of the zloty against the euro. This helped the Polish export industry by making its products cheaper abroad. The zloty rebounded at the beginning of 2012, however, supported by the country's relatively high interest rate, and will help keep inflation at a reasonable level of 3.5% in 2012.

Despite increasing uncertainty within the Eurozone domestic demand and exports are expected to remain robust. IHS Global Insight forecasts the Polish economy to grow by 3.0% in 2012.

The current economic slowdown in the Eurozone, weakening business sentiment and fiscal austerity will, however, dampen economic growth in Poland in the short term.

Strong growth in tourism arrivals



Source: www.stat.gov.pl

Since Poland's accession to the EU in 1990, the country has benefited from a healthy flow of domestic and international tourists. The country is situated centrally in Europe and is easily accessible by plane, train and car. Tourists are attracted by the cultural and historical offerings of cities such as Warsaw, Krakow, Wroclaw, Poznan and Lublin. Poland also possesses areas of scenic beauty which are popular as recreational destinations; these regions include the Masurian Lake District, the Tatra Mountains and Białowieza Forest, a UNESCO World Heritage Site.

Szczecin, Poznan and the Tricity area are popular with indigenous holidaymakers, who are looking for a mix of cultural sites and sandy beaches.

Tourism in Poland is dominated by domestic visitors, who account for approximately 75% of total visitation. Overall, the number of guests in Polish hotels increased by 10.5% to 14.4 million in 2010. Growth was driven by a 11.4% increase in domestic visitation and a 8.0% rise in foreign arrivals. Overall, visitation to Polish hotels showed a CAAG rate of 6.8% between 2004 and 2010.

Arrivals to Poland continued increasing by 7.9% in first 11 months of 2011 when compared to 2010 (latest statistics available). This was driven by a 8.5% growth in domestic arrivals and a 6.1% rise in international visitation. A similar trend could be observed in overnight stays, which had increased by 7.5% at year-to-date November 2011. This was backed by a 8.8% rise in domestic bed nights and a 4.3% growth in foreign overnight stays.

Poland's major foreign source markets are Germany, the United Kingdom, Italy and France, which accounted for 38.5%, 7.1%, 4.3% and 3.8% of total overnight stays, respectively, at year-to-date October 2011.

Nearly all major source markets increased their visitation and overnight stays in the first three quarters of 2011. In Europe, the most dynamic growth was reported from non-Schengen neighbours, with countries such as Ukraine, Belarus and Russia posting 12.7%, 20.7% and 21.0% growth in overnight stays, respectively, compared to the same period in 2010. During the same period new emerging source markets also reported impressive results, with bed nights from China, Brazil and Turkey expanding by 26.7%, 24.5% and 29.1% respectively, compared to 2010.

The primary reason for foreign visits to Poland is business, accounting for 25% of travellers, followed by leisure tourism and visiting friends and family, which when combined make up 41% of travellers.

The UEFA European Championship 2012

One of the main drivers of tourism in Poland in 2012 will be the Euro 2012 football championships, which the country will be co-hosting with the Ukraine between 8 June and 1 July. The hosting cities in Poland will be Warsaw, Wroclaw, Gdansk and Poznan.

In preparation for the event, the Polish government has made significant investments in improving and upgrading its infrastructure and football venues. In January 2012, Poland saw the opening of its largest tournament venue, the new Warsaw National Stadium. The stadium, with a capacity of up to 58,000 spectators, will host the opening match on 8 June between Poland and Greece. The stadium is only one of three newly constructed football arenas along with the Arena Gdansk and the Municipal Stadium Wroclaw.

Furthermore, Poland's Warsaw Frederic Chopin Airport has received a new terminal, two new piers and nine additional passenger bridges. The capital's central train station was renovated and the city's train network improved with an additional 120 low-floor trams. In May 2012, the city will also see a direct train line from Warsaw airport to the city centre. In June 2012 Warsaw will see the opening of Modlin airport. It will be located about 35 km north of Warsaw and will mainly host low costs and charter carriers and serve international short-haul and medium range routes, as well as domestic routes between regional airports

According to the *Warsaw Business Journal*, approximately 200,000 foreign fans are expected to attend the tournament games in the summer of 2012. During matches involving the Czech Republic, Russia, Croatia and Ireland, Poland is expected to see 10,000 to 12,000 fans from each respective country. Unfortunately, some teams with the traditionally highest travelling support, such as Germany, the Netherlands and England, are playing their group matches in the Ukraine.

Overall, Poland is expected to see a large influx of foreign visitors in June 2012. The tourism industry will benefit most from the event and hotels are expected to achieve record levels of occupancy and average room rates during this period. Despite the high costs involved in preparing for the event, the UEFA European Championship will help Poland to market itself as a popular tourism destination and, in light of a modernised infrastructure, the country is likely to experience long-term economic benefits.

Office, retail and industrial markets

Poland: Key Real-Estate Market Indicators, as at Q4 2011

	Office Sector			Retail – Shop Units		Warehousing	
	Prime Rents (€/m²/p.a.)	Prime Yield (%)	Vacancy Rate (%)	Prime Rents (€/m²/p.a.)	Prime Yield (%)	Prime Rents (€/m²/p.a.)	Prime Yield (%)
Warsaw	300	6.25	6.7	1,140	6.0	70	8.0

Source: Jones Lang LaSalle

In Q4 2011, investor sentiment towards Poland continued to be positive. This was confirmed by notable transactional evidence, with total investment volumes in all sectors in 2011 exceeding €2.5 billion, including: €1.15 billion in offices, €1.2 billion in retail, approximately €100 million in the industrial sector and the remainder being accounted for by hotels. The 2011 figure was 128% of the total 2010 investment volume and exceeded 2009 volumes by 254%.

With the Eurozone crisis escalating in Q4 and the resultant increased instability of capital markets, we began to see the banking sector becoming increasingly cautious when granting finance, and this may affect the level of transactions going forward, with a negative impact on availability and cost of debt financing.

Office market

Warsaw currently has nearly 3.6 million sq. m. of office space and is the largest office market in Central and Eastern Europe. In 2011, 120,000 sq. m. of new supply entered the market, which was the lowest completion figure since the mid-1990s. Limited financing has constrained the pipeline, but many new large developments have been started on a speculative basis, improving the situation on the supply side in 2012 and 2013.

Take-up in the office sector in 2011 was record breaking. Gross take-up reached the level of 573,000 sq. m. As market conditions have stabilised, the level of pre-lets was estimated at 21% of all deals signed in 2011. The upper south zone remained the most popular area, with a total take-up of 170, 000 sq. m. in 2011.

Following a surge in vacancy levels in 2009, rates were stable in 2010 and followed a downward trend in 2011. The city centre had a vacancy rate of 6.7% at the end of Q4 2011 and vacancy levels are expected to continue to stabilise in 2012 as demand strengthens and the pipeline remains moderate.

Retail market

Q4 saw the opening of only one shopping development on the Warsaw market: the vitkAc department store. It is situated in Bracka Street, near the prestigious Plac Trzech Krzyży (Three Crosses Square), which is home to a number of up-market brands. This fits with the retail offer in vitkAc centre, where a number of luxury chains decided to place their first stores in Poland.

By the end of 2011, modern large-scale retail space in the Warsaw agglomeration had reached 1.52 million sq. m., 1.04 million sq. m. of which is in 32 shopping centres. The density ratio of 415 sq. m. per 1,000 inhabitants puts the Warsaw region seventh of the eight major Polish metropolitan areas, ahead only of the Katowice agglomeration.

Office, retail and industrial markets - *Continued*

Industrial market

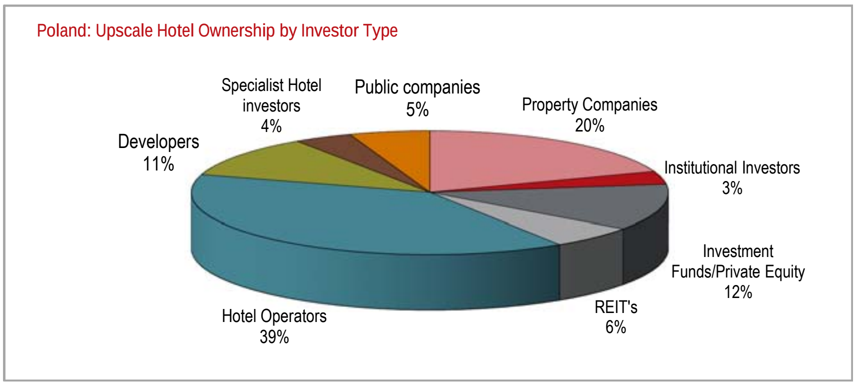
Warsaw is the largest warehouse market in Poland and currently comprises approximately 2.43 million sq. m. of space. In 2011, 74,900 sq. m. was added to supply, compared to 42,856 sq. m. in 2010.

Take-up in the industrial sector reached 1,659,900 sq. m. in 2011. Some 38% of this demand was concentrated in Warsaw's suburbs, with a take-up exceeding 625,900 sq. m.

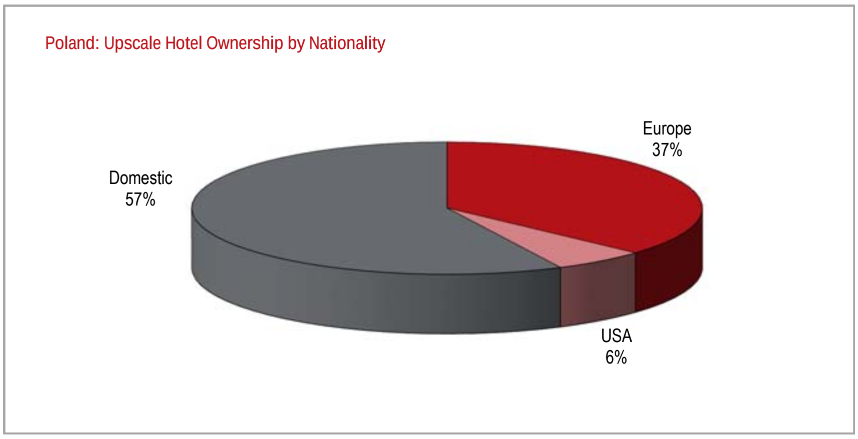
Vacancy rates in Warsaw currently stand at 15.7%, well above the national average of 11.5%. Zone 1 in Warsaw has a lower rate of 12%, with the suburbs having a rate of 17%. Vacancy rates are expected to improve in 2012 due to a low level of speculative construction and stable demand.

Source:www.warsawtour.pl

Hotel ownership remains dominated by domestic operators



Source: Jones Lang LaSalle Hotels



Source: Jones Lang LaSalle Hotels

Ownership of Warsaw's upscale hotels is dominated by hotel operators, which own 39% of the market, or 2,318 rooms. Within this group the market is controlled by Orbis (Accor), the Polish-based company, which accounts for 71% of this share, translating into 1,650 rooms.

The remainder of upscale hotel ownership is spread between various investor types. The second largest presence in Warsaw's upscale market is property companies, which own 20% of the upscale bed stock. These include property companies such as Wenaasgruppen, who recently acquired the Jan III Sobieski and rebranded it as the Radisson Blu Sobieski. Investment funds and private equity companies are also a significant group of owners on the market, owning 12% of the 4- and 5-star hotels in Warsaw. They include the UK private equity company Starman Hotels, which acquired the 205-bedroom Le Méridien Bristol Hotel in September 2011. Atlas Estates is also a key player and owns the Hilton Hotel and Conference Centre Warsaw, comprising 314 rooms.

Due to higher yields achieved in the Warsaw hotel market compared to other major cities in Western Europe, we anticipate an increasing interest from private equity firms in the short to medium term. This interest, however, will be concentrated on quality assets in major cities such as Warsaw and Krakow.

The origin of upscale hotel ownership in Warsaw remains dominated by domestic players (57%), despite strong foreign interest in the market in recent years, following Poland's accession to the European Union and its strong economic performance. Outside of Polish ownership, European investors are the most active and account for 37% of the market. Several large hotels are under European control, such as the InterContinental Warszawa and the Radisson Blu Sobieski. The USA is the only other region to have an interest in the market, with US owners holding 6% of upscale bed stock. The Sheraton Warsaw Hotel is owned by US REIT Host Hotels & Resort.

Strong investor interest in hotels seen in 2011

Poland: Single Asset Hotel Transactions (over €10 million)

Hotel	Location	Sale Price (€m)	Grade	Rooms	Price/Rm (€)	Buyer Origin
2011						
Jan III Sobieski	Warsaw	53	4	435	121,000	Norway
Mercure Fryderyk Chopin	Warsaw	31	3	250	124,000	Poland
Méridien Bristol	Warsaw	20	5	206	95,000	UK
2009						
Radisson Blu	Krakow	32	4	196	163,000	Germany
Andel's Hotel	Krakow	Confidential	4	159	Confidential	Germany
2008						
IBB Andersia	Poznan	45	4	171	263,000	Germany
Andel's Hotel (50% stake)	Kraków	15	4	159	189,000	Austria

Source: Jones Lang LaSalle Hotels

The hotel investment market in Poland has historically been rather illiquid, with little investment activity and transparency. A total of five transactions were recorded in Poland up until 2006, all of which were related to the privatisation of Polish hotel operating company Orbis, which Accor purchased in sections. This illiquidity was partly due to a complex and unpredictable legal framework regulating corporate management and the ownership of real estate. In addition, investment activity was restricted by a lack of product on the market, poor operating margins being achieved by hoteliers and the lack of established tourism centres.

In 2006, however, hotel transaction volumes in Poland saw the first wave of movement, with increased interest being registered from international investors. Investment activity was primarily concentrated on Warsaw and Krakow, with foreign investors having the most appetite. Activity was predominantly fuelled by the availability of cheap debt, hotel investments in western Europe becoming increasingly expensive and the Polish hotel market displaying its first signs of recovery.

2008 saw two assets traded, involving the purchase of the IBB Andersia in Poznan by Deka Immobilien for €45 million and a 50% share in Krakow's Andel's Hotel by Warimpex for €15 million, which took Warimpex's stake up to 100%.

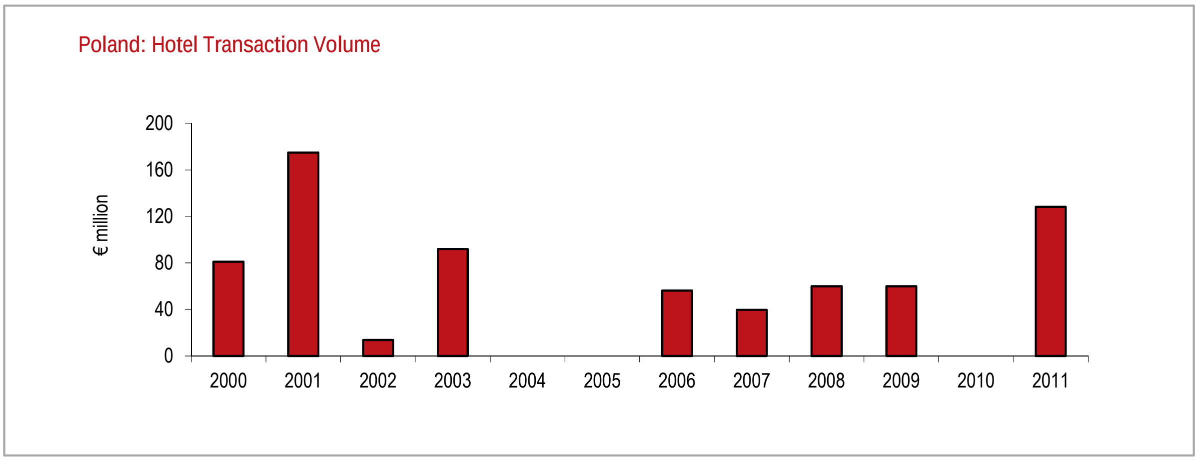
In 2009, the Polish hotel market saw the sale of two properties in Krakow: the Andel's Hotel and the Radisson Blu. The Andel's Hotel was sold by Warimpex to DEKA Immobilien for an undisclosed sum and the Radisson Blu was acquired by the German institutional investor Union Investment Real Estate GmbH from UBM Realitätenentwicklung AG for around €32 million.

After a quiet 2010, the hotel investment market saw an impressive comeback in 2011 with a total transaction volume of €125 million. One of the largest transactions was the sale of the Jan III Sobieski, which was bought by the Norwegian property company Wenaasgruppen for about €53 million. The hotel was recently rebranded to Radisson Blu Sobieski.

Polish real-estate company Echo Investment was one of the most active hotel buyers, acquiring the Mercure Warszawa Fryderyk Chopin in Warsaw for €31 million and two Orbis hotels (sold as a portfolio) in Krakow and Szczecin for a total of €15 million respectively. All three hotels will cease operation and be redeveloped for office or residential use. The Mercure Warsaw will be demolished and the company plans to erect a large office tower on its site. The Orbis hotels in Krakow and Szczecin will be redeveloped into a residential and a mix-use building respectively. These properties comprised low quality products, often suffering from weak operational performance.

Strong investor interest in hotels seen in 2011 - *Continued*

At the end of 2011, Polish company EKO-VIT (Polish soft drink producer) also bought an 85% stake in five hotels and one motel in Łódź (third largest city of Poland) for a total of €10.4 million. Furthermore, the Le Méridien Bristol was sold to UK private equity company Starman Hotels for around €20 million.



Source: Jones Lang LaSalle Hotels

Positive investment sentiment in 2012

The Polish hotel investment market has gained pace due to the country's impressive economic performance. Its dynamic hotel market shows great potential for future growth compared to major western European cities in terms of risk versus return parameters.

This positive investment sentiment is expected to further strengthen in 2012, on the back of the UEFA European Championship and another year of robust economic growth. Hotel transaction volume is anticipated to increase as major international investors seek to enter into one of Europe's most attractive hotel markets.

Polish hoteliers saw a 12% improvement in room yield in 2011 and the hotel market was one of the best performing in Europe. Growth in hotel trading performance is expected to continue in 2012.

The Polish hotel market is relatively immature compared to other major European capitals, with branded hotels representing only a small market share of total bedrooms. However, branded hotel supply is growing with Polish hotel operator Orbis planning to open 4 hotels with roughly 600 rooms prior to the football tournament. International hotel operators are increasing their presence with Marriott planning to open a Renaissance at Warsaw Airport and a Courtyard by Marriott in Gdynia over the next two years. Hilton is also expanding its portfolio and has signed contracts to operate two new Hampton by Hilton hotels at the airports in Warsaw and Gdańsk and two DoubleTree by Hilton in Lodz and Warsaw which are all expected to be operational by the end of 2013.

Jones Lang LaSalle Hotels expects foreign investors to be active and focus on quality assets in key cities such as Warsaw and Krakow.

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