

## Stronger demand for assets in regional cities

31 July 2014

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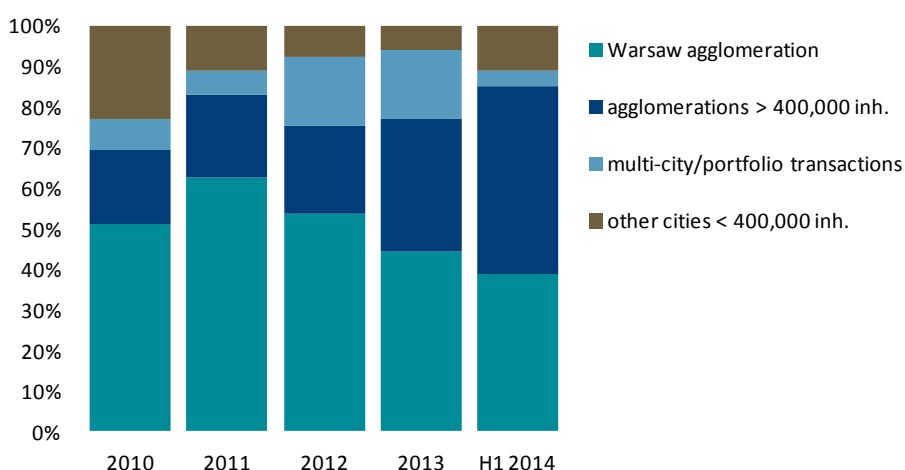
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- In H1 2014 the investment volume on the commercial property market in Poland reached EUR 1.39 billion, which represents a growth of almost 10% in comparison with the corresponding period of 2013.
- The office sector dominated the investment market in Poland in the first half of 2014 accounting for more than 50% of the total value of all transactions. Next was the retail sector, with a 26% market share, and the industrial sector, with 22%.
- Prime office buildings located in Warsaw city centre and the best positioned retail schemes in the major Polish agglomerations, are still the most sought after asset class. However the interest of investors is shifting towards smaller projects in regional cities which shows that overall sentiment is improving and investors are seeking opportunities for higher returns.
- Property buyers are also more interested in acquiring prime industrial properties due to positive perspectives for this sector (strong occupiers demand and falling vacancy rates).
- As a result prime yields for industrial assets dropped from 7.75% in 2013 to 7.5% at the end of H1 2014.
- Prime yields for office and retail schemes remained stable and stood at 6% and 5.75% respectively.

Figure 1

### Total investment volume by location



Source: DTZ

# Poland H1 2014

## Macroeconomic background

In the first quarter of 2014, Polish GDP increased by 3.4% y-o-y, mainly due to a higher level of domestic investment and an increase in individual demand. Among the most important factors behind the economic recovery in Poland are improving business confidence, a decrease of the unemployment rate and low interest rates, which have triggered demand for loans and an overall improvement of the financial situations of Polish households. These factors have managed to sustain the gradual growth of the Polish economy, and offset negative influence of the recent developments in Ukraine.

According to Oxford Economics, Polish GDP growth is expected to reach 2.9% in 2014 and 3% in 2015.

The consumer price index in June 2014 stood at 0.3% according to the latest forecast from the National Bank of Poland it will remain below the level of 2% until the end of 2014. The low level of inflationary pressure results from significant spare capacity in the Polish economy, as well as the strengthening zloty, which is expected to further appreciate in coming months. The reference rate of the National Bank of Poland stands at 2.5% and is not expected to increase in the short-term.

In the first half of 2014, the economic revival was accompanied by a gradual decline in the level of unemployment, which stood at 12.5%. The growing demand for labour in Poland also led to an increase in the average gross monthly salary in the enterprise sector, up 3.5% y-o-y at PLN 3,943.

In Q1 2014, the zloty appreciated against the euro, due to the overall improvement of the economic situation in Poland, decreasing imbalances in the current account and an easing of the ECB's monetary policy.

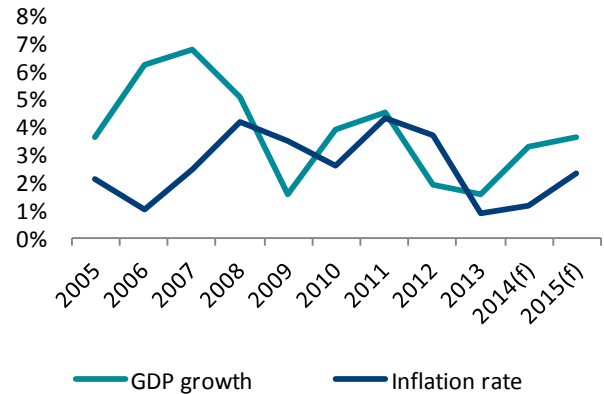
Within the first five months of 2014 the retail sales indicator (in constant prices) increased in Q1 2014 by 5.9%, which was a significantly better result, compared with 0.4% growth in the same period of last year.

From January to March 2014, industrial production grew by 5.4% y-o-y and remains on an upwards trend. The PMI ratio (Purchasing Managers Index) for Poland stood at 54% in Q1 2014, which indicates an expansion of the manufacturing sector.

FDI in the first three months of 2014 increased significantly, amounting to EUR 1.8 billion, compared with the same period of 2013, when FDI stood at EUR 182 million. The growth was driven by the economic revival in the Eurozone and the improving economic situation in Poland.

Figure 2

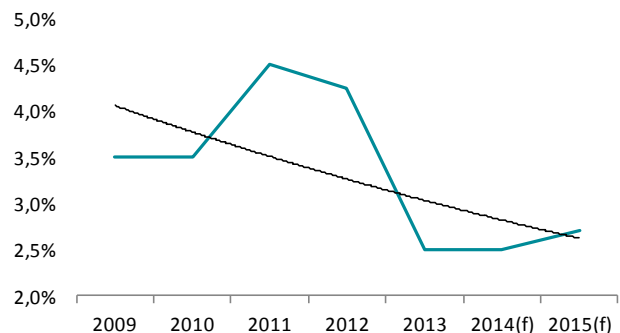
### GDP growth and inflation in Poland



Source: Central Statistical Office, Oxford Economics, f-forecast

Figure 3

### Reference rate in Poland



Source: National Bank of Poland, f-forecast

# Poland H1 2014

## Investment activity

### Strong activity on the market

After a strong 2013, when the investment volume on the commercial real estate market in Poland exceeded EUR3.15 billion, the activity in the first half of 2014 remained relatively stable. As much as EUR 1.39 billion was invested, which represents a growth of almost 10% in comparison with the corresponding period in 2013. Taking into consideration the strong first half of the year, as well as transactions in the pipeline scheduled for H2 2014, the investment volume throughout the whole year is expected to be higher than the value recorded in 2013.

The continuing high level of investment activity is in line with the general market trend observed in the majority of European countries and reflects the improving opinion of investors about the economic situation. Entities investing in real estate are more willing to deploy their capital and turn towards markets where they stand to achieve higher yields (including Poland).

### The office sector dominated the market in H1 2014

Unlike 2013, the office sector dominated the investment market in Poland in the first half of 2014, accounting for more than 50% of the total value of all transactions. Next was the retail sector, with a 26% market share, and the industrial sector, with 22%.

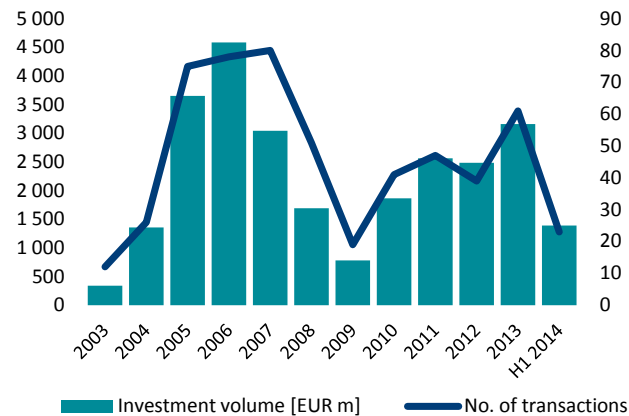
Such high volume of transactions involving office properties resulted from sale of three major assets located in Warsaw: Rondo 1, Lipowy Office Park and Atrium 1. The value of these acquisitions accounted for as much as 70% of the total transaction volume in this sector.

Office buildings located in Warsaw continued to be the most sought after asset class, which results from the maturity of this market and, consequently, the highest availability of investment products. However, following the trend already seen in 2012 and 2013, the interest of property buyers has been shifting more towards the highest class schemes situated in major regional cities in Poland, especially Kraków and Wrocław. This trend reflects the reducing risk aversion of investors connected with the overall positive market outlook, as well as the growing maturity of the office markets outside Warsaw.

As well as prime properties, there were also some opportunistic acquisitions, which shows that overall sentiment is improving and investors are seeing opportunities for higher returns.

Figure 4

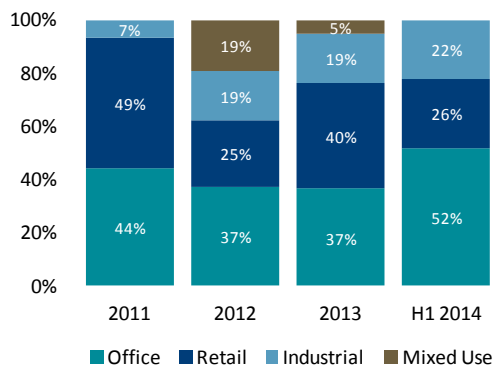
### Investment volumes (EUR million) and number of transactions (RHS)



Source: DTZ

Figure 5

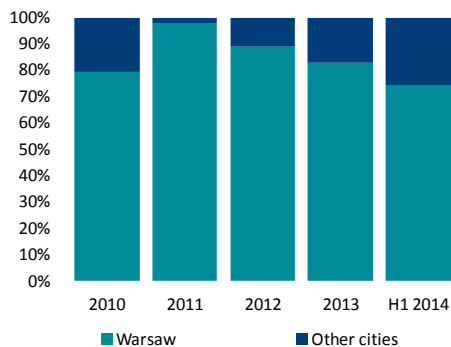
### Investment volume by sector



Source: DTZ

Figure 6

### Investment volume in the office sector by location



Source: DTZ

# Poland H1 2014

## Retail schemes in smaller cities gain on importance

In the first half of 2014, the value of transactions in the retail sector was EUR 361 million, which accounted for 26% of the total investment volume. In spite of the relatively low market share of this sector, the value of capital invested in retail schemes during the first six months of 2014 was almost three times higher than in H1 2013.

The majority of transactions concluded in 2014 involved retail schemes located in medium-sized cities (those of below 400,000 inhabitants). After a busy H2 2013, when four prime assets with a total value of almost EUR 1 billion were traded, in the first six months of 2014 only one comparable transaction was closed (Poznań City Centre).

While prime retail schemes in the largest Polish agglomerations with established positions on the market are still the most sought after asset class, investors are also interested in smaller projects located in regional cities. Similarly to the office sector, this trend shows the improving sentiment on the investment market and that investors are looking for opportunities with higher returns.

## Industrial properties are a more sought after asset class

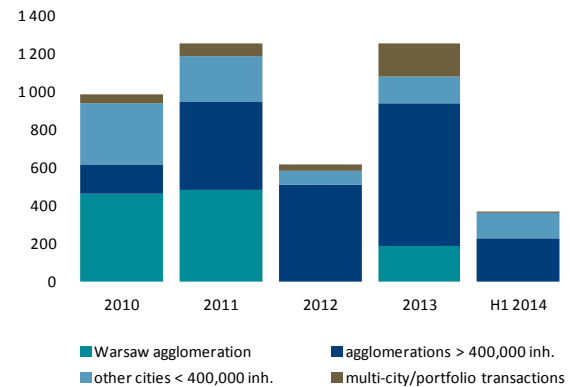
As in the last two years (2012 and 2013), investment activity in the industrial sector in the first half of 2014 was very strong, with volume reaching EUR 308 million, which is half the value of transactions in this sector concluded in 2013. It should be noted that portfolio acquisitions in the first half of 2014 accounted for as much as 70% of the total investment value.

The strong interest from investors in acquiring prime industrial assets results from the positive development of this sector: strong tenant demand, falling vacancy rates and stable rents, with a perspective for growth in the most attractive locations.

Given the number of new and completed developments in this sector, and the increasing demand, the potential volume of transactions throughout the whole 2014 will most likely exceed the volume recorded in 2013.

Figure 7

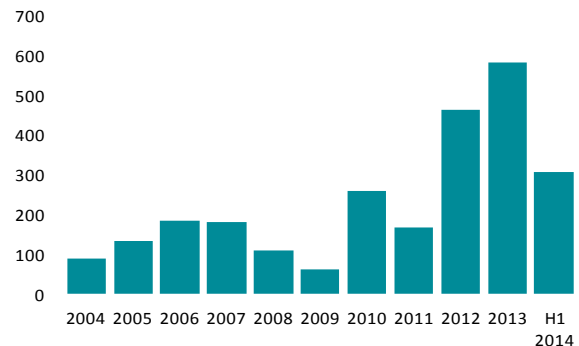
### Investment volume in the retail sector by location (EUR million)



Source: DTZ

Figure 8

### Annual volume of transactions in the industrial sector (EUR million)



Source: DTZ

Table 1

### Major investment transactions in Poland in H1 2014

Sector	Property / Location
<b>Retail</b>	<ul style="list-style-type: none"> <li>• Poznań City Centre / Poznań</li> <li>• Galeria Mazovia/ Płock</li> <li>• Nova Park / Gorzów Wielkopolski</li> </ul>
<b>Office</b>	<ul style="list-style-type: none"> <li>• Rondo 1 / Warsaw</li> <li>• Lipowy Office Park / Warsaw</li> <li>• Atrium 1 / Warsaw</li> </ul>
<b>Industrial</b>	<ul style="list-style-type: none"> <li>• Panattoni Parks/ different locations</li> <li>• Tristan portfolio / different locations</li> </ul>

Source: DTZ

# Poland H1 2014

## Source of capital

### International investors still the most active

In the first half 2014, international investors were responsible for approximately 95% of all acquisitions in Poland. The market share of Polish investors decreased in comparison to 2013 and accounted for 5%; they purchased properties with a total value of approximately EUR 61 million.

Similarly to the last few years, German investors dominated the Polish market in H1 2014, accounting for 28% of the total transaction volume. The most active players last year were RREEF and Deka Immobilien. At the same time, we could also see reduced activity by German open-ended funds, a large number of which are currently in liquidation and in the process of selling their assets.

American investors increased their presence on the Polish market and were responsible for as much as 20% of all transactions. The most active American players include WP Carey, Griffin Real Estate and Hillwood.

Companies from the UK and Ireland maintained their relatively strong activity on the Polish investment market in H1 2014, which is mainly due to the acquisition of the Tristan Logistics portfolio by SEGRO.

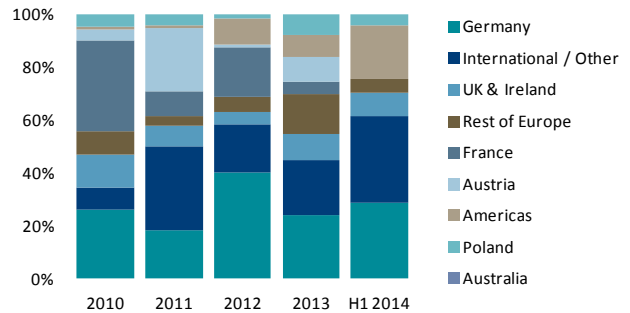
### Private property vehicles maintained their dominant market position

Over the last ten years (i.e. 2004 to 2013) private property vehicles have been the most important players on the Polish investment market and the volume of their acquisitions has accounted for more than 55% of the total transaction value in this period. The listed sector (quoted property companies and vehicles) was in the second place, with a market share of 21%.

In H1 2014, private property vehicles increased their position, with a total volume of transactions of almost EUR1.23 billion, i.e. an 88% market share. Other types of investors were responsible for a relatively small number of investment acquisitions.

Figure 9

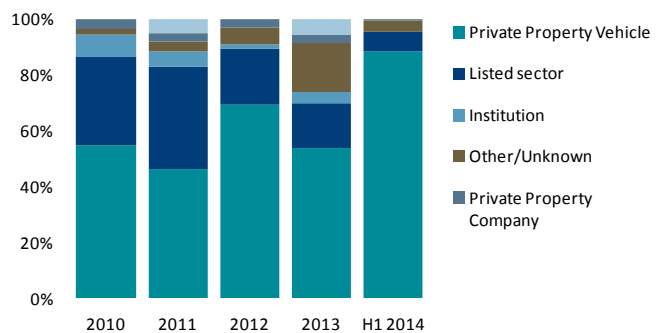
### Investment volume by nationality of investors



Source: DTZ

Figure 10

### Investment activity by type of investor



Source: DTZ

# Poland H1 2014

## Preferred locations

### Increasing interest in regional markets

In the first half of 2014, Warsaw lost its position as the most preferred location for investors acquiring properties in Poland. The share of transactions volume involving properties situated in Warsaw decreased constantly beginning from 2011 (when it was 62%) and in H1 2014 it was at a level of 38%.

The largest value of investment transactions concluded in H1 2014 in Poland related to properties located in major agglomerations (with a number of inhabitants exceeding 400,000). It reached EUR 650 million, which accounted for 46% of the total volume (compared to 32% in 2013).

With regard to deals concluded over the last four and a half years (i.e. 2010 to H1 2014) in the six most mature regional markets in Poland, Wrocław accounts for the largest share (31%), followed by Katowice, Poznań and Łódź.

## Yields

### Prime yields compression in industrial sector

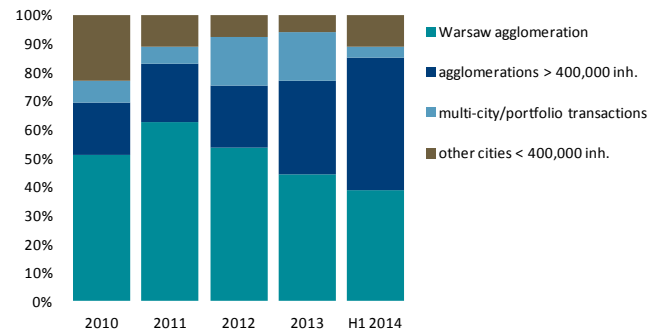
After a drop to 5.75% recorded in 2013, prime yields for retail properties have remained stable throughout the first half of this year.

Prime office yields (for top quality projects in Warsaw city centre) decreased slightly throughout 2013 (to 6%) and in H1 2014 were at the same level. The downward trend recorded in 2013 is mainly the result of the limited availability of such investment products. Yields for secondary assets (buildings located outside of the Warsaw city centre, as well as projects in regional cities) remained stable or increased in part of locations. This is due to a strong pipeline supply and downward pressure on rents expected for some non-central business districts.

Prime yields for industrial properties dropped from 7.75% in 2013 to 7.5% at the end of H1 2014. This is due to the increasing attractiveness of the industrial sector for investors resulting from strong tenant demand and falling vacancy rates.

Figure 11

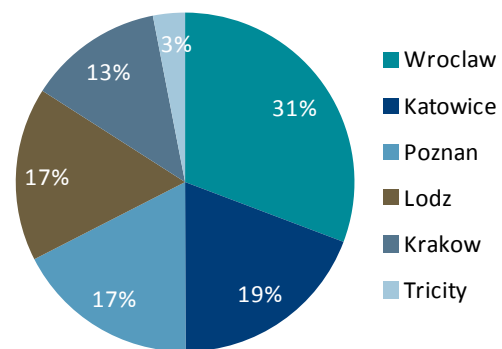
### Total investment volume by location



Source: DTZ

Figure 12

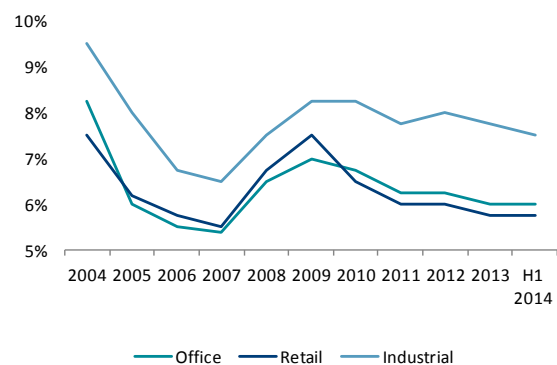
### Total investment volume in the major Polish regional cities, 2010-H1 2014



Source: DTZ

Figure 13

### Prime yields in Poland



Source: DTZ

# Poland H1 2014

## Definitions

<b>Investment transaction / Subject of the report</b>	Refers to the purchase of commercial real estate for the purpose of receiving an income or rent. Covers purchases of properties with commercial use which value exceeds EUR 1 million.
<b>Inclusion in the statistics</b>	Determined by the date of signature of contract.
<b>Property type</b>	DTZ tracks commercial property transactions made primarily in the office, retail, industrial and mixed use sectors. Land sales are not recorded.
<b>Volume of transactions</b>	Aggregate of total purchase prices agreed for the registered purchases.
<b>Yield</b>	The attainable prime yield for top of the range properties is given. This is based on the annual rental income and the purchase price.
<b>Purchaser (vendor) type</b>	<p>Classification of purchasers and vendors by type enables us to track trends in transactions and also to assess the type of capital committed to property investments. Purchaser/Vendor Type and subtype definitions are as follows:</p> <ul style="list-style-type: none"><li>- Institution: financial institutions/banks, pension funds and insurance companies.</li><li>- Private Property Company: companies and developers, whose principal activities involve the development, buying and selling of commercial real estate but which do not have a stock exchange listing.</li><li>- Private Property Vehicle: non-listed investment vehicles whose principal activities involve the development, buying and selling of commercial real estate.</li><li>- Private investor: private individuals.</li><li>- Quoted property company: companies and developers, whose main activities involve the development, buying and selling of commercial real estate that is listed under Real Estate on a stock exchange.</li><li>- Quoted property vehicle: listed real estate vehicles i.e. funds and tax efficient structured vehicles, whose main activities involve the development, buying and selling of commercial real estate</li><li>- Corporate: companies whose main activities do not involve development or investment in real estate.</li></ul>

# Poland H1 2014

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