

Investment Market Update Poland Q2 2013

A promising 2013



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- In H1 2013, the overall investment volumes in Poland amounted to EUR 1.2bn, the half-year largest transaction volume recorded since 2007. This trend is expected to slow down in the second half of 2013, reaching approximately EUR 2.5bn for the full year.
- As in the previous years, German investors remained the key players on the Polish market, with a market share of 21% of the total investment volume in H1 2013. A further 19% of the investment volumes is related to international entities, 15% to Polish investors and 12%, both to American and French investors.
- Private property vehicles (i.e. non-listed investment vehicles) remained the dominant players on the Polish investment market, however their share decreased significantly from 53% in previous years, to 38% in H1 2013. This decline resulted from a high base effect, i.e. very high investment activity in Q4 2012, due to some big lot size transactions like Manufaktura or purchases made by Allianz RE/Tristan and Deka Immobilien. Private property vehicles were followed by "other" type of investors (25% in H1 2013) – thanks to the transaction made by the JV of Segro and PSP Investments and by listed investors (19% in H1 2013), mainly due to the purchase made by Unibail Rodamco.
- The majority of Polish investments were located in Warsaw (57% in H1 2013) and more than half of these investments related to properties located in Warsaw city centre.
- In H1, the majority of investments (EUR 586m or 48% of the market share) related to office investments, followed by the industrial sector (EUR 348m or 28% of market share, mainly due to two joint ventures involving Prologis and Segro logistics portfolios). Purchases of mixed-use properties accounted for 12% of the total investments.
- It was a quieter period on the shopping centre market (only two bigger transactions exceeding EUR 50m in H1 2013), the overall retail sector dropped to 11% in H1 2013, from 32% in previous years.
- Prime yields remained unchanged in all sectors and no major shift in yields is forecasted for the remaining part of 2013.

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Macroeconomic background

Despite a considerable slowdown in GDP dynamics in 2012, Poland recorded a slight, but at the same time one of the highest economic growths in the European Union. In the whole of 2012, the Polish economy expanded by 1.9% y-o-y (Fig. 1). This growth was driven mainly by net exports and domestic demand. The economic outlook for the upcoming years shows a significant improvement of the GDP dynamics. After 0.9% in 2013 the GDP growth in Poland is forecasted to reach 2.5% and 3.3% in 2014 and 2015, respectively.

In May 2013, the consumer price index declined to a low level of 0.5% y-o-y. This result was mainly determined by falling retail sales and by the continued policy of lowering the interest rate. The Monetary Policy Council decreased the interest rate four times from January 2012 to July 2013. Currently the rate amounts to 2.5% and it is 2.25 pp lower than in July 2012. In 2013 inflation is projected at a level of 1.5%.

Polish export grew by 4.5% from EUR 140.2bn in 2011 to EUR 146.6bn in 2012. During the same period, import volumes increased by 2% amounting to EUR 37.2bn. Although net exports fell from EUR 5bn in 2012 to EUR 139 thousands in Q1 2013, it is still the main factor slowing the Polish economy.

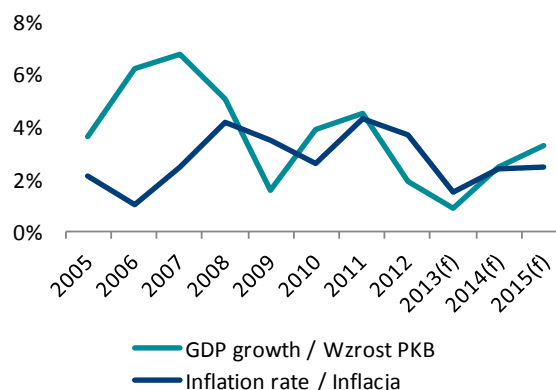
Market overview

Although investment volumes decreased in Q1 2013, compared to previous years, a very strong market activity in second quarter resulted in EUR 1.2bn of investment volumes in H1 2013, which was the best half-year result recorded since 2007.

It is anticipated that the investment volumes in the remaining quarters of 2013 will amount to EUR 1.3bn and ultimately reach EUR 2.5bn for the full year, similarly to overall volumes for 2012 and 2011.

Figure 1

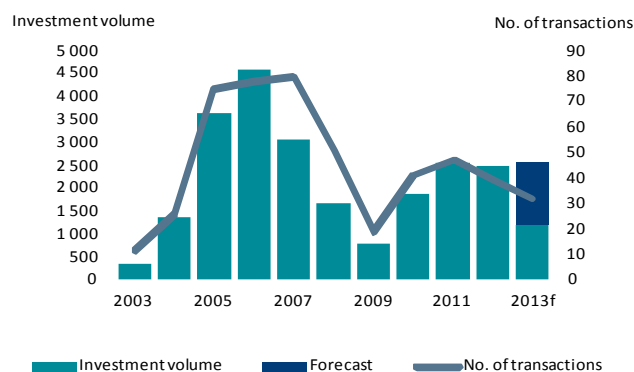
GDP growth vs. Inflation rate



Source: DTZ Research

Figure 2

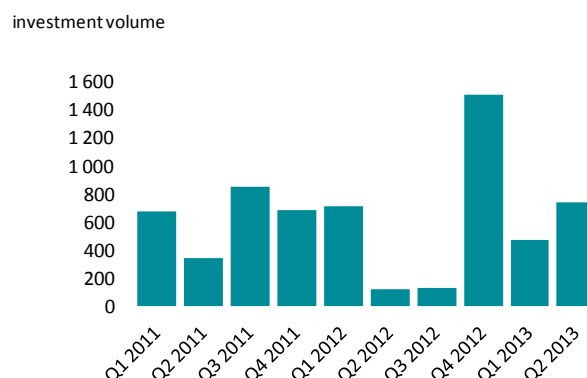
Investment volumes (EUR m) and number of transactions



Source: DTZ Research

Figure 3

Investment activity by quarter



Source: DTZ Research

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Average transaction size

Since 2011 the majority of total investment volumes was driven mainly by transactions in the segment above EUR 100m (59% of total volume). Deals between EUR 50-100m represented 21% of the total investments and transactions between EUR 20-50m accounted for 16% of the total volume.

Minor deals below EUR 20m, which used to be the most popular in previous years, represented only 4% of the total volume.

Since 2011 the number of investment transactions declined to 39 deals in 2012 but the average deal lot size increased to EUR 71m in 2012, mainly due to 8 major deals in Q4 2012 for more than EUR 1.3bn.

In H1 2013 the average lot size decreased to EUR 43m, with only 4 deals exceeding EUR 100m.

Origin of investors

Within the whole period of 2011 - H1 2013, domestic investors represented only 7% of all acquisitions, with the most active players being PZU Asset Management and Kulczyk Silverstein Properties. However in H1 2013, the share of Polish investors has almost doubled, up to 15% of the total investment activity.

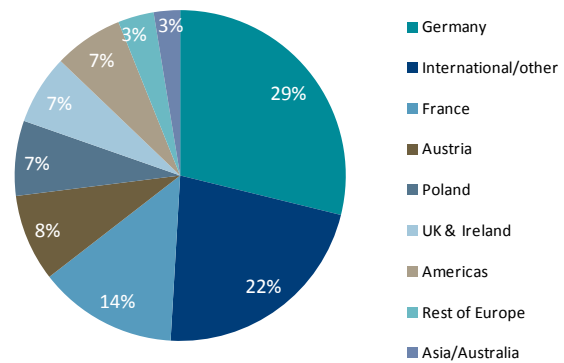
Within the 30 month period from the beginning of 2011 until the end of H1 2013 German investors dominated the Polish investment market. They are responsible for more than 29% of the total investment volume. Since 2011 funds such as IVG, Allianz, RREEF, Deka Immobilien, Union Investment have been investing approximately EUR 180m every quarter.

In 2013 German companies remained the most active with 21% share in the total investment volume, but we observe lesser activity of German open-ended-funds. The strong position of French investors (14% since 2011 and 12% in H1 2013) is the result of Unibail Rodamco's purchase of 23.15% of shares in the Zlote Tarasy complex. Buyers from Austria (especially CA Immo and Atrium) who dominated Polish market up until Q1 2012 (8% of total volume from 2011) currently reduced activity

The UK-based companies, due to LCP and SEGRO deals, improved their shares up to 9%. In H1 2013 non-european companies were involved in 15% of the total investments (Americas – 12% and Middle East – 3%). 19% of total volume of transactions was driven by international entities.

Figure 4

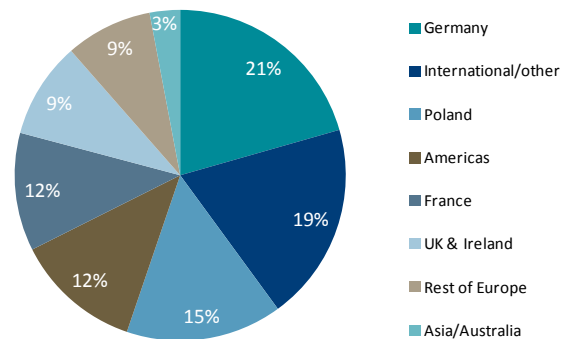
Investment volumes and origin of investors (2011-2013f)



Source: DTZ Research

Figure 5

Investment volumes and origin of investors (H1 2013)



Source: DTZ Research

Poland Q2 2013

Major investor types

Private property vehicles remained the most important players on the Polish investment market. Since 2011 their acquisitions amounted to EUR 3.3bn, representing 53% of the total investment activity. Companies from the listed sector accounted for a further 29% of total investment volume (Unibail Rodamco being the most active listed entity). Other groups of investors e.g. institutions (i.e. banks, pension funds, insurance companies and other financial institutions), public sector and private property companies, constituted 17% of the total investment volume in this period.

The private property vehicles' investments which account amounted to EUR 1.7bn in 2012 has declined in H1 2013 to EUR 0.5bn. This deterioration is a consequence of a very high investment activity of the private property vehicles – especially German entities - in Q4 2012.

In H1 2013, the “other” type of investors accounted for nearly 25% of the total investments, thanks to the share purchase made by JV of Segro and Unibail Rodamco. The quoted sector accounted for 19% of the investment activity, mainly due to the share purchase made by Unibail Rodamco. Institutional investors' purchases (mainly PZU Asset Management) amounted to 10% of the total volume of transactions, while the public sector's transactions (Qatar Holding and Norges Bank Investment Management) equalled to 8% of the total investments.

Major markets / cities of interest

The majority of Polish investments were located in the Warsaw agglomeration with 57% of the total volume concentrated within the capital of Poland. The majority of deals took place in the City of Warsaw, where transactions above EUR 100m are the most common (66% of the total transaction volume). In 2013 only 7% of investment volume took place in major agglomerations other than Warsaw (single deals in Silesia, TriCity and Wroclaw).

Share of transactions referring to secondary cities and in the rest of the country stabilised at 13%, due to Blackstone investments and the purchase of Echo Investment's portfolio by LCP. Almost 25% of the transaction volumes related to share acquisitions made by Segro and Prologis More than half of the investment volume in Warsaw between Q1 2011 and Q2 2013 related to properties located in the Warsaw's city centre. EUR 1.2bn or 63% of these transactions related to investments in the office properties, while EUR 0.6bn or 33% resulted from two shareholding transactions of Zlote Tarasy mixed use complex by Unibail Rodamco.

Figure 6

Investment activity by type of investors (H1 2013)

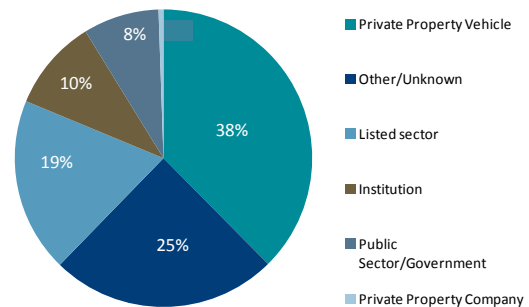
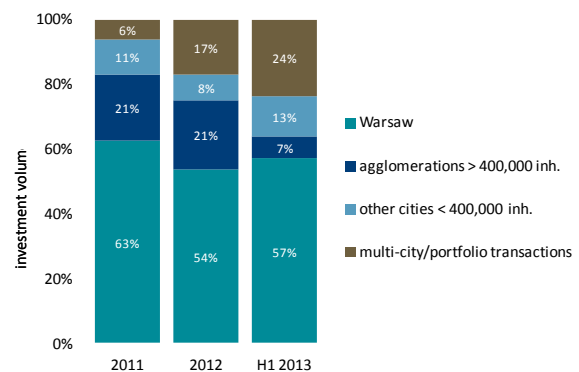


Figure 7

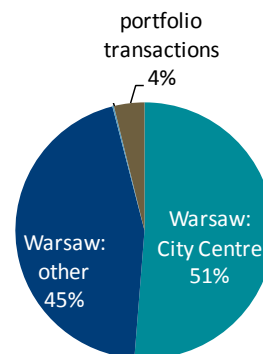
Investment volume by city size/type of market



Source: DTZ Research

Figure 8

Investment activity in Warsaw agglomeration (2011-H1 2013)



Source: DTZ Research

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Investment by sector

Similar to previous years, offices in H1 2013 were the dominant asset type with EUR 287m of acquisitions recorded in Q2 2013, slightly down from EUR 299m in Q1. Investments in offices accounted for 48% of market share in H1 2013. The industrial sector was the second strongest in 2013 (28% participation or EUR 1.8bn), mainly because of NBIM and Prologis entering into a joint venture in Q1 2013 and Canadian PSP pension fund entering into a joint venture with Segro during Q2 2013.

Investment transactions in the retail sector fell from 37% in the period of 2011-2012 to 11% in H1 2013, due to lower investments in the shopping centres (with Blackstone's and LCP's investments being the only larger transactions). Investments in mixed-use properties increased slightly from 10% in the period of 2011-2012 to 12% of the total transactions volume in 1H 2013.

This situation is expected to change significantly in the second half of the year as the retail sector will probably rebound. The few shopping centres deals currently on the market exceed EUR 700m.

Since 2011 shopping centres (with 83% of the total investment retail activity) remained the most sought after retail assets, ahead of high street shops (6% of the total investment retail activity) and retail parks/warehouses (5% of the total retail investment activity).

In H1 2013, shopping centres accounted for 88% (EUR 117m), mainly due to a lack of transactions in other retail categories.

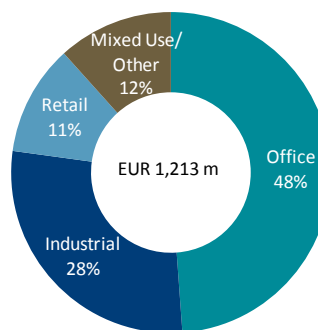
Yield trends

Prime yields remained static in Q2 2013 in all sectors, with 6.00% for shopping centres, 6.25% for offices and 8.00% in the warehousing sector. No significant changes in the upcoming periods are expected.

Investors' appetite remains strong and demand concentrates on prime targets. Even though the prime assets available on the stock are limited, no increasing interest in the secondary properties can be observed.

Figure 9

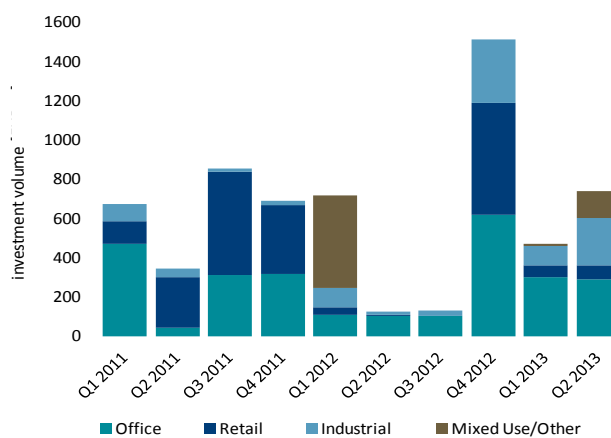
Investment volume by sector (H1 2013)



Source: DTZ Research

Figure 10

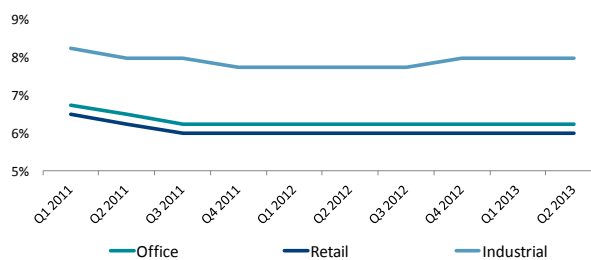
Investment volume by sector



Source: DTZ Research

Figure 11

Prime yields (2011 - 2013)



Source: DTZ Research

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Investment financing

Since 2011 a serious shift towards extending credit facilities in the property sector can be observed. Due to more stringent credit requirements, most of the Polish banks managed to maintain their impairment provisions at an acceptable level, despite unfavourable economic conditions. As a result, while granting new credits, banks require higher collateral and often expect high rates of pre-let and pre-sale agreements. Moreover a higher equity financial contribution is also required; developers have to cover approximately 20%-40% of the total costs, depending on the type of project and sector.

As a consequence, investors increased their bond issuing activity, which has become an alternative funding source for many of the investors and developers.

Currently the value of bonds issued by developers, which are being traded on the Catalyst market, amounts to approximately EUR 526 million as at 06.06.2013. The average rate of return for these bonds vary between 9% - 13% p.a. and are considerably higher than the average rate of returns of bonds quoted of the Warsaw Stock Exchange.

This way of investment financing appears as very convenient, compared to standard bank loans, due to numerous advantages as e.g. the fact that funds obtained through the bond issuance can be used to finance arbitrarily chosen projects, the bond maturity, the type and amount of the bond collateral are set by the issuer etc. As a consequence, some of the major players on the Polish market finance completely or partially their projects through the bond issuance.

Moreover, the increase of bonds issued by developers with longer maturities can be observed recently.

Total return on investments

The return on investment ratio, calculated as the sum of the capital values from the current period and yield from the previous period, has been presented for the period of 2012-2016, for three different types of properties: offices, retail and logistics.

After a negative return on retail investments in 2012, this ratio is expected to increase to 8.3 in 2013 and approximately 12.5 in 2014 and 2015. This increase will result from a steady growth of the rental level and increasing demand for this type of properties. The demand is expected to slow down in 2016, when the return on retail investments will decrease to 7.7.

Due to decreasing demand for office properties, the return is expected to decrease from 2.6 in 2013 to 0.6 in 2014.

As the demand is going to rebound in 2015, the return on office investments will grow to 6.5 in 2015 and 14.6 in 2016.

Return on the logistic properties is going to remain steady at the level of approximately 8 within the analysed period.

Table 1

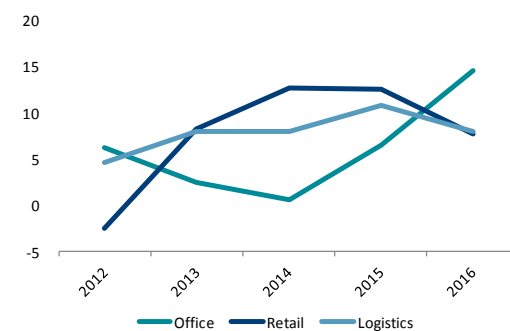
Developers bonds on Catalyst market as at 06.06.2013

Issuer	Total issue value [EUR]	Maturity
Ghelamco Invest	77 810 863	2014, 2015
Echo Investment	72 709 646	2015, 2017
GTC	67 908 501	2018
Dom Development	39 240 126	2017, 2018
LC Corp	38 086 005	2014, 2015
Marvipol	33 308 704	2013, 2014, 2015
Robyg	28 333 841	2013, 2015, 2016
Warimpex	26 559 795	2014, 2016
Capital Park	23 082 427	2015
BBI Development	20 427 948	2014, 2015, 2016
Gant Development	19 095 400	2013, 2014
Rank Progress	12 695 335	2013
Trust	11 924 382	2013, 2014
Murapol	9 232 971	2014, 2015
Włodarzewska	7 294 047	2014, 2016
Polnord	6 116 843	2016
Wikana	6 059 137	2013
Mak Dom	5 372 435	2013
Ronson Europe	4 768 829	2014
Archicom	4 734 206	2013
Nickel Development	4 616 485	2013
GC Investment	4 039 425	2014
Czerwona Torebka SA	3 372 343	2016
Poznanska 37	3 231 540	2013
Platinum Properties Group	1 384 946	2013
Nordic Development	231 748	2014
TOTAL	531 637 928	

Source: DTZ Research

Figure 11

Total returns for the period 2012-2016 in Warsaw



Source: DTZ Research

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Table 2

Major investment transactions in office sector, H1 2013

Quarter	Location	Property	Purchaser	Vendor	Price [EUR m]
Q2 2013	Warsaw	Senator	Union Investment Real Estate	Ghelamco	120
Q2 2013	Warsaw	New City	Hines Global REIT	ECI	110
Q1 2013	Warsaw	Green Corner	DB RREEF	Skanska Property	90
Q1 2013	Wroclaw	Green Towers	PZU	Skanska Property	60

Source: DTZ

Table 3

Major investment transactions in retail sector, H1 2013

Quarter	Location	Property	Purchaser	Vendor	Price [EUR m]
Q2 2013	Warsaw	Zlote Tarasy (23.15% shares)	Unibail Rodamco	City of Warsaw	140
Q2 2013	Radom, Tarnow, Piotrkow Trybunalski	Echo portfolio	LCP	Echo Investment	67 (in total)
Q1 2013	Leszno	Galeria Leszno	Blackstone	Energ-Utech 1	50

Source: DTZ

Table 4

Major investment transactions in logistics sector, H1 2013

Quarter	Location	Property	Purchaser	Vendor	Price [EUR m]
Q2 2013	Multi-city	SEGRO portfolio (50% share)	JV: Public Sector Pension	SEGRO	185
Q1 2013	Multi-city	Prologis portfolio (50% shares)	JV: Norges Bank Investment Management	Prologis	100

Source: DTZ

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Definitions

Office market

Investment transaction / Subject of the report

Refers to the purchase of commercial real estate for the purpose of receiving an income or rent. Covers purchases of properties with commercial use including sites on which a property for commercial use will be built. Comprises deals in excess of EUR 1 million.

Inclusion in the statistics

Determined by the date of signature of contract.

Property type

DTZ tracks commercial property transactions made primarily in the office, retail, industrial and mixed use sectors. Land sales are not recorded unless the land is purchased in the development phase or is acquired specifically to construct a building or complex of buildings.

Volume of transactions

Aggregate of total purchase prices agreed for the registered purchases.

Yield

The attainable prime yield for top of the range properties is given. This is based on the annual rental income and the purchase price.

Purchaser (vendor) type

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:

- Institution: financial institutions/banks, pension funds and insurance companies.
- 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.
- Private Property Vehicle: non-listed investment vehicles whose principal activities involve the development, buying and selling of commercial real estate.
- Private investor: private individuals.
- 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.
- 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
- Corporate: companies whose main activities do not involve development or investment in real estate.

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Regular updates on occupational markets from a landlord perspective, with commentary, charts, data and forecasts.

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Great Wall of Money - March 2013
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