

The Market for Investment Land in Poland

A summary of 2015



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Introduction



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The commercial real estate market, including the investment land segment, grew significantly in 2015. This growth was fostered by the good standing of Poland's economy, its well-balanced capital and financial sector, and falling unemployment rate.

High levels of growth were typical for the office market; developers delivered almost 700 thousand m² of office space, while tenants signed office lease agreements totalling 1.5 million m². This record tenant activity had an impact on interest in purchasing new investment land for office developments, in particular in the Tri-City and Kraków. At the same time we noted increasing demand for investment land in cities such as Bydgoszcz, Lublin, Opole and Rzeszów.

Last year also saw a boom on the primary residential market. The number of new investment projects for sale was impressive, as was the demand for residential premises, reflected by the record-setting sales results. This prosperity was based in a large part on investment and cash purchases and was affected by low interest rates, which caused a shifting of funds from low-interest bank deposits to the real estate market.

This run of luck for developers was not even interrupted by the extension of the government MdM ['Flats for the Young'] program to cover the secondary market. It transpired that 'second-hand' flats could not compete directly with developers' investment projects, as the real availability of flats in good technical condition which met the criteria of the scheme was marginal. The extension of the scheme to the secondary market benefited mainly residents of smaller cities, where developer activity is at a lower level.

Developers are not slowing down. Their interest in new investment areas is driven by the fact that many of them have already exhausted their land banks and are close to selling all of their current range of residential premises. In 2015, the demand for residential land led to price increases, which will rather continue in 2016, especially in major cities, where the demand for residential land in good locations exceeds the supply.

Currently, demand for residential and office land focuses mainly on plots of sizes which enable the construction of usable or usable and residential floor space between 4,000 and 10,000 m². Another significant criterion is the possibility of commencing the development in the shortest time possible. Projects with investment potential ranging from 10,000 to 60,000 m² or more are analysed more willingly by companies with higher financial capacities, provided that the land offered for sale has a clear legal status and a building permit, a local zoning plan or a zoning decision.

More and more often the real estate bought in the years 2006–2009 appears in sale offers with prices matching the expectations of potential buyers. This relates to both undeveloped land and real estate built up with objects requiring renovation or reconstruction.

The record-low interest rates encourage many Poles to place savings in real estate, which offer higher rates of return. However, as a result of the new *Act on agricultural system development*, which is soon to be implemented, investments in agricultural land or purchasing plots with the aim of changing their status to other than farm land, which some years ago were still a popular form of capital investment, have been replaced by more secure investments, such as residential units, including apartments for rent and 'aparthotels', often located abroad. These are advertised as investments with a guaranteed profit of 5–8% per year, which increases their attractiveness as compared to bank deposits. In response to the increased demand for products of this type, an increasing number of developers are considering the introduction of such products to their offer.

The dynamic growth of the hotel market in 2015 translated into a growing interest in land suitable for this type of investment. In our opinion this trend will continue in 2016.

In the segment of land for retail development, due to increasing density, shopping centres are undergoing intensive expansions and refurbishments to meet the changing expectations of buyers and to face strong competition more effectively. Investors are looking mainly for land in medium-sized cities that is suitable for small retail parks or convenience centres. At the same time, they try to find locations which allow the supplementing of the retail offer of a given city or fill a gap in Poland's retail map.

It is worth noting that the record number of residential projects delivered for use within the last two years has resulted in an increase in the service and retail space within housing estates. Food retail chains are responding to this trend with the development of small-format stores which fit in units of this type.

As shown by general calculations based on documents released by listed companies, transactions announced by key real estate development and investment companies, and data from registers of real estate prices and values maintained by starosta offices and city offices, as well as transactions concluded with the participation of the JLL Land Advisory Services team, this was a very good year on the commercial land market, with concluded transactions exceeding 2.5 billion PLN.¹ This result confirms the growth in the investment land market in Poland as compared to 2014. It is mainly due to the dynamics of the residential market in Warsaw and in other major cities, as well as the office markets in cities such as Kraków, Wrocław and Poznań.

¹ this amount is exclusive of the transactions involving the sale of land which is state-owned or owned by territorial self-government units



Office Market

Summary of 2015

Dynamics

Summing up 2015, records were set both in relation to the volume of offices under construction, and the scale of demand. In the whole year, companies leased approximately 1.5 million m², which is the highest result in the history of the Polish office market. In Warsaw demand reached 834,000 m². The high supply of office space was met with an increasing demand, in particular in Warsaw and in Kraków. High demand was generated by the dynamic growth of the business services sector (especially in the major markets outside Warsaw) and by the interest of public institutions in moving to modern office buildings. Taking advantage of the rich range of offices on the market, the strong negotiating position of tenants and expiring lease contracts for older buildings, companies willingly took the opportunity to consolidate their offices in one prestigious building.

The vacancy rate in Warsaw at the end of 2015 was at the level of 12.3%. Rents remained at a stable level, with a noticeable downward pressure regarding effective rents, due to growing competition.

The boom on the office market translated directly into interest in land for new investment projects, which increased in the second half of 2015.

Tenant Market

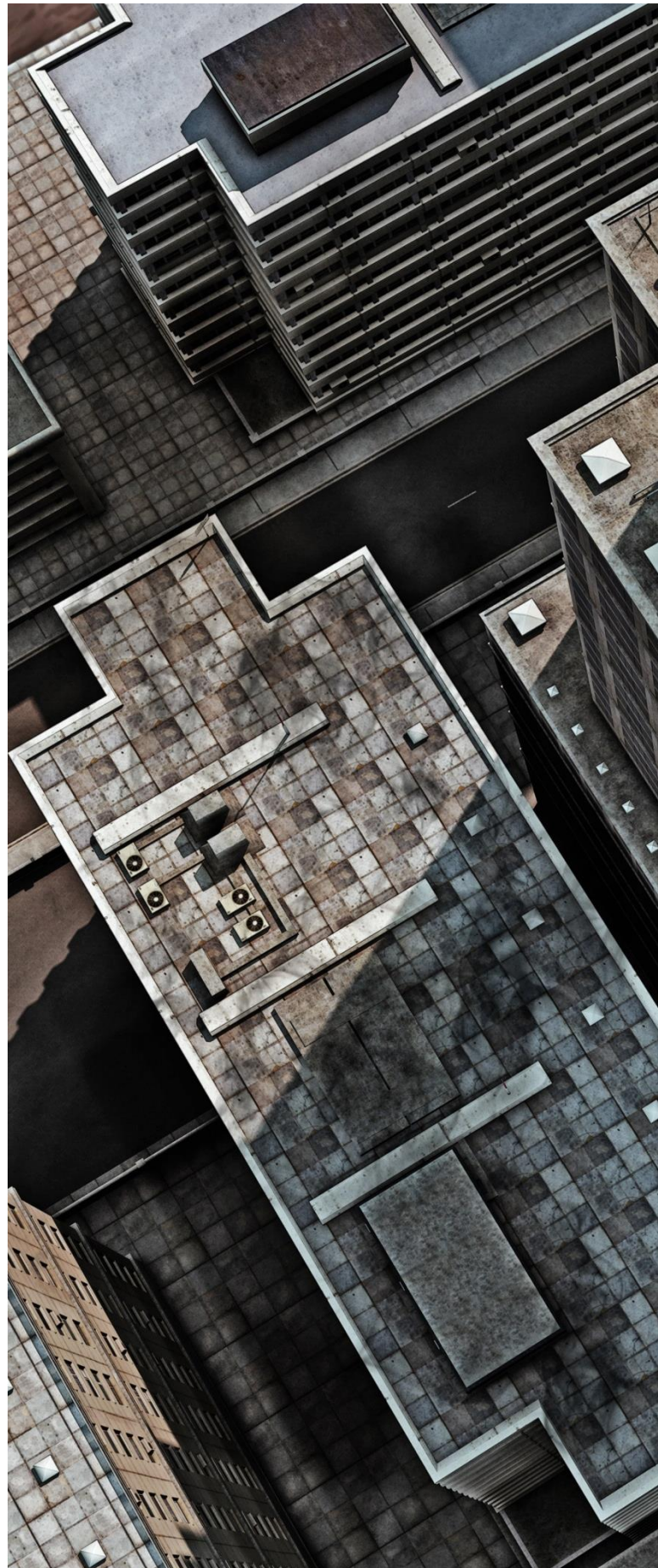
Undoubtedly in 2015 we were dealing with a tenant market. The companies negotiating pre-let agreements could expect from the owners of buildings some attractive offers and numerous incentives, not only in the form of partial rent-exempt periods but also attractive interior layouts and extra amenities, e.g. fitness rooms, conference rooms and kindergartens. As a result of high tenant activity, the Warsaw market saw a record-breaking net absorption, some 280,000 m². The regional market also did very well in this respect.

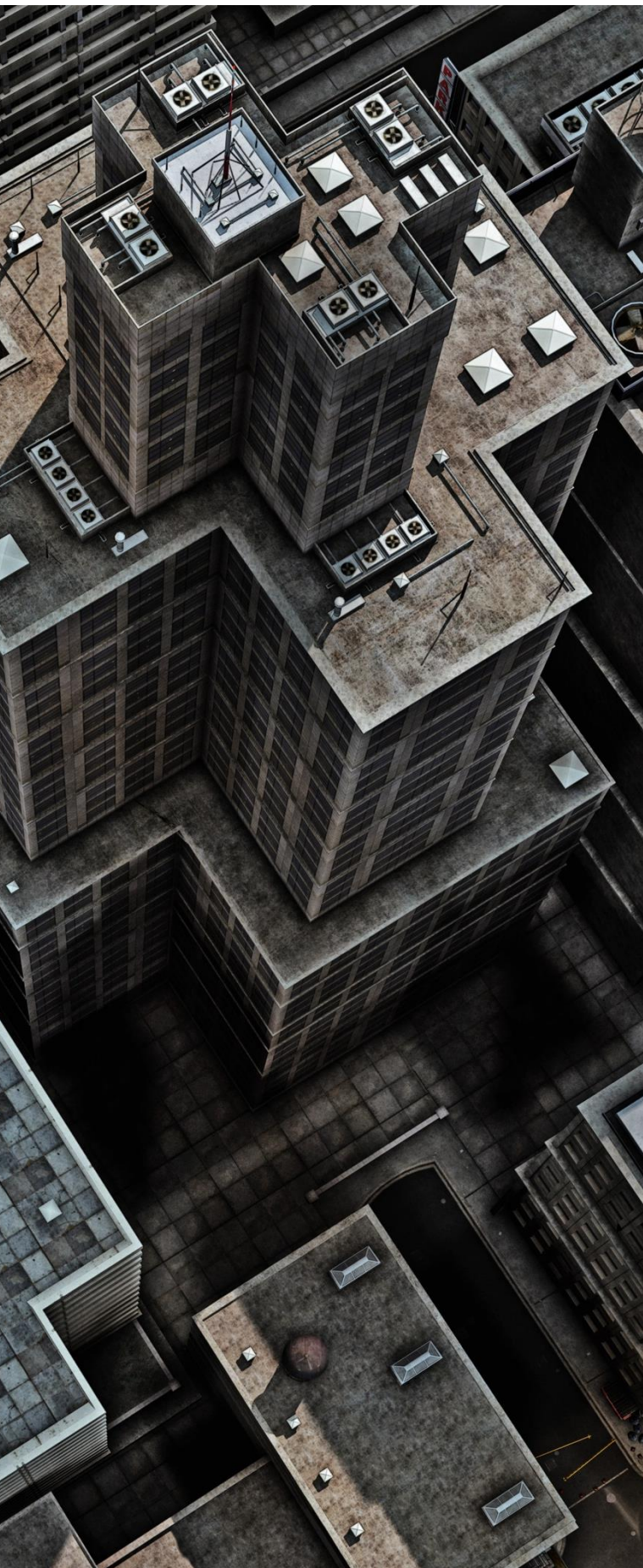
In 2015, one of the main challenges owners of older, ineffective buildings faced was tenant retention. This is particularly true in the present situation, where public sector entities have become active customers on the leasing market and show significant interest in the incentives offered by landlords and moving from the low-standard buildings they have occupied for years.

Pre-let first

Pre-let agreements are most desired by developers and in many cases they are capable of initiating the construction of an office project. Nevertheless, experienced developers active on the market are able to start the construction of office buildings without securing 30–40% of the building with pre-let agreements. Such level is normally a standard required by banks and it allows the developer to obtain financing.

The significant competition on the market for pre-letting is not without an impact on the selling time of land intended for office buildings. The exception is the land in the best locations, with a building permit and offered at prices below the market level.





Regional Markets on the Rise

In the regional cities offices are most often leased by companies from the business services sector, which sign agreements for large space volumes, often consolidating several offices. High demand from this industry drives the growth of the office markets outside Warsaw. In 2015, the business services sector accounted for a 56% share of office space in regional cities.

Kraków is the second (after Warsaw) largest office market in Poland. The good condition of this market is confirmed by its low vacancy rate and robust net absorption. Moreover, the continuing investor interest in office land suggests that Kraków will grow further at the current rate.

In 2015, Wrocław, which is characterised by exceptional tenant activity, saw several large office land transactions. Moreover, JLL's experts have information about ongoing negotiations for the sale of large investment sites in this city that are to be closed in 2016. This leads to the conclusion that Wrocław will develop at a similar pace to Kraków.

The Tri-City office market shows significant activity by local developers; they supply the majority of the new office space, carrying out investment projects using their land banks, and, to a lesser extent, on the basis of new acquisitions. At the same time, there is a renewed interest in this market from foreign investors already present in other Polish cities, who now are actively searching for investment land in the Tri-City.

Poznań, similarly to the Tri-City, has generated interest from investors headquartered outside of this city. In 2016, new office investment projects and land acquisition transactions are very likely to happen in this city.

Cities such as Rzeszów, Bydgoszcz, Szczecin and Lublin are also becoming more attractive. These locations are viewed favourably because of the lower costs of business operations, access to highly qualified labour and favourable investment conditions created by local governments.

Land for Office Developments

Trends in 2016

Regional Cities in the Spotlight

Despite forecasts of increasing vacancy rates, land for office developments will continue to attract investors in 2016. In our opinion, the developers will focus on Kraków and the Tri-City. We can also expect increased interest in Rzeszów, Lublin and Poznań. Wrocław too, as in previous years, will remain a city where land transactions will continue at the current level, with potential to grow.

Public Sector

The amount of office lease agreements concluded by public sector entities is likely to grow in the nearest future. As a result of such entities moving to modern office buildings, we can expect a broader offer of built-up office real estate intended for refurbishment or demolition.

New Directions of Development in Warsaw

For several years, developers have been looking for land for office buildings in Warsaw, located mainly along the underground, especially its second line. We anticipate that this trend will continue in

2016. Investors are also targeting plots of land in the vicinity of planned tram lines, such as the line to Wilanów, and close to the railway stations which are important communication nodes for the agglomeration.

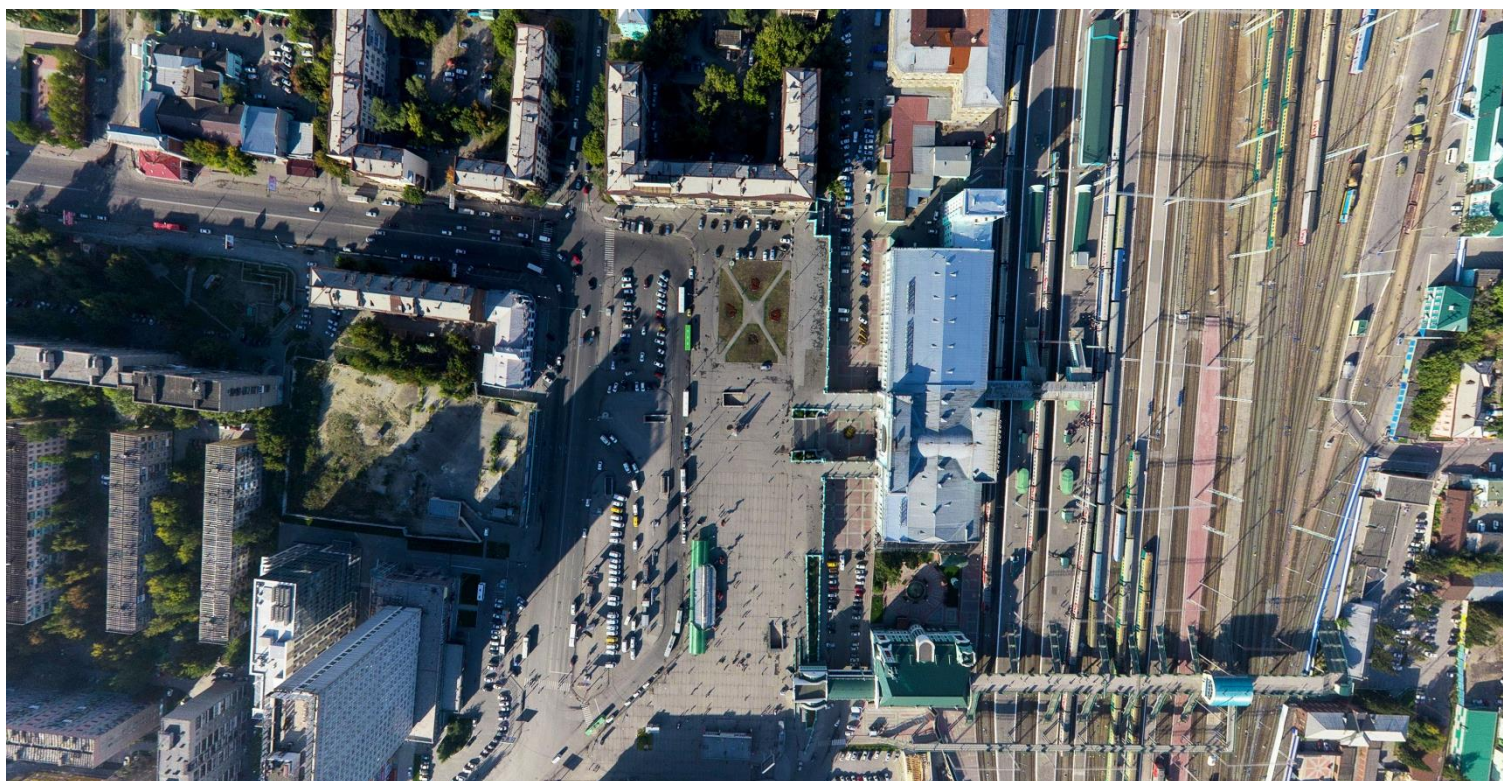
Investment land in Dolny Mokotów, Aleje Jerozolimskie (up to the Salomea node) and Żoliborz, with good exposure and convenient transport links, has a good chance of finding buyers in 2016. The areas located in the city centre continue to attract potential buyers; provided, however, that the price suits their value resulting from an investment analysis.

Average prices of land in 2015

Area	Price (PLN / m ² PUB**)
Warsaw CBD*	2,200 – 3,500 PLN
Warsaw CBD fringe*	1,650 – 2,100 PLN
Warsaw other	600 – 1,300 PLN
Cities of more than 400,000 inhabitants	400 – 1,100 PLN

*CBD – Central Business District

**PUB – Office Usable Area





Residential Market

Summary of 2015

High Demand Continues

The good condition of the residential market in 2015 was an effect of high demand for new residential units, which has continued since the end of 2013. The conducive factors included, inter alia, low interest rates, which encouraged Poles to take out a loan. In 2015, those who had available funds chose, instead of low-interest deposit accounts, alternative options, such as the purchase of apartments for rent, which offered a higher rate of return.

Developers this year sold most flats at the early stages of development or immediately after obtaining a building permit. The decisions of potential buyers were prompted both by the increased feeling of security resulting from the *Act on the protection of the rights of buyers of residential units and single-family houses* as well as the broader choice of apartments, the optional introduction of changes to a construction project and attractive payment schedules.

Broad interest in purchasing apartments on the primary market in 2015 was also the result of the effective functioning of the MdM program. It is also worth mentioning that the 2015 amendment to this governmental program allowed the purchasing of residential units and single-family houses on the secondary market.

At the same time, the concerns of developers that opening the secondary market to the program would cause a fall in interest in purchasing residential units on the primary market proved to be unfounded, at least in the largest agglomerations, including Warsaw, Poznań, Kraków and Gdańsk, where differences between price limits set by the program are high enough to prevent those who wish to purchase a 'second-hand' flat from benefitting from the program.

Among the largest Polish cities, as regards the possibility of using the MdM fund subsidies for purchasing a second-hand flat, Łódź appears to be in relatively good situation. Nonetheless, the latest amendment benefited mostly the residents of smaller cities, such as Gorzów Wielkopolski, Olsztyn, Katowice, Bydgoszcz and Zielona Góra. The residents of those cities have a much larger choice of flats which qualify for subsidised purchase than the residents of the largest cities.

In turn, the forecasts of those analysts who claimed that the sellers of used flats were prone to adjusting the asking price to the limits applicable under MdM scheme only when the selling price they had

assumed was at the border, came true. In the opinion of JLL's experts, in spite of subsidies on the secondary market, developer projects will continue to be real winners in the major cities in 2016.

Stable Apartment Prices

Among the factors shaping the high demand for new residential units we must mention developers' pricing policy. The fact that, in most cases, developers reacted to the growing client activity by increasing supply rather than apartment prices enabled them to maintain the high demand for residential units on the primary market.

Another Record-setting Year in the Real Estate Development Industry

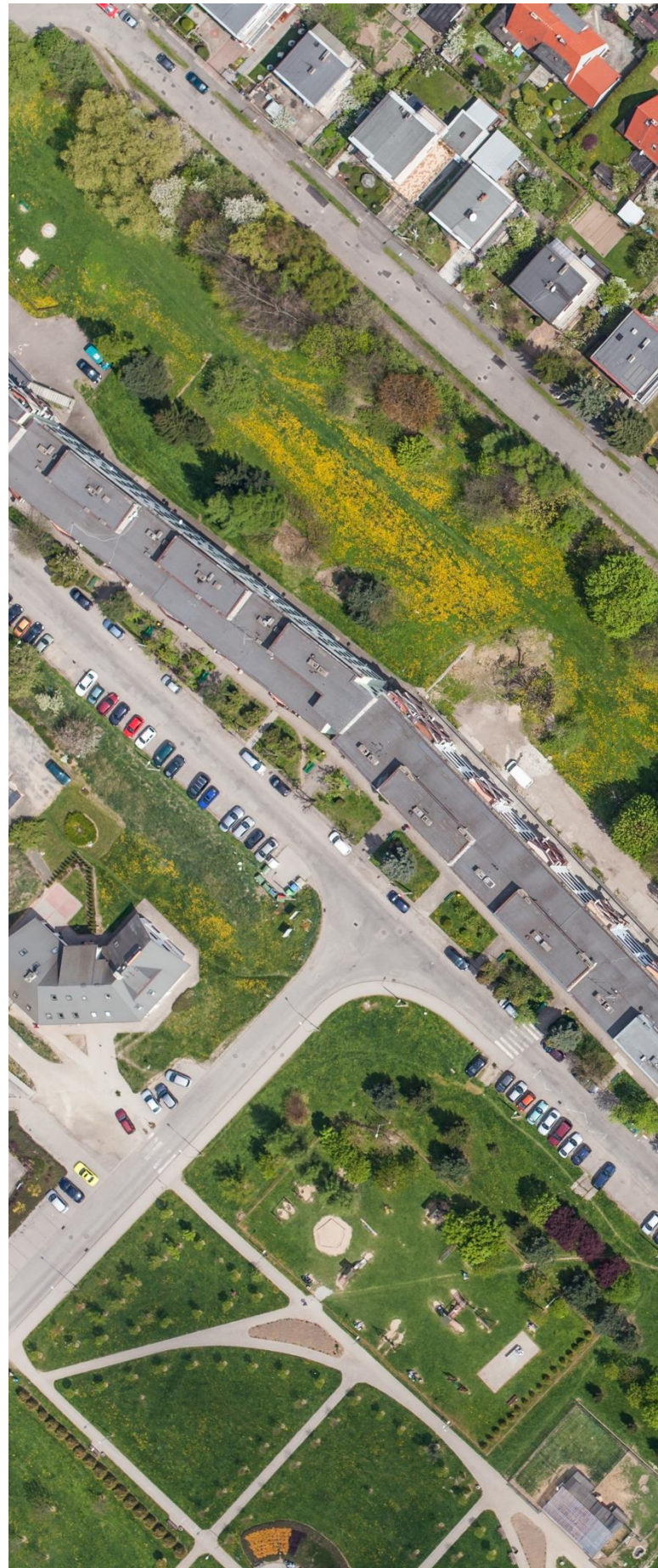
2015 saw the prices of residential land in the largest Polish agglomerations rising constantly and demand for residential land in good locations didn't drop for a moment during the year. It should be noted, however, that developers kept both feet on the ground and estimated the profitability of each investment project with great circumspection. They also took into account market reality, including apartment prices in the neighbourhood, competition, scale and standard of the planned buildings and residential units, and the factors shaping demand from their potential buyers.

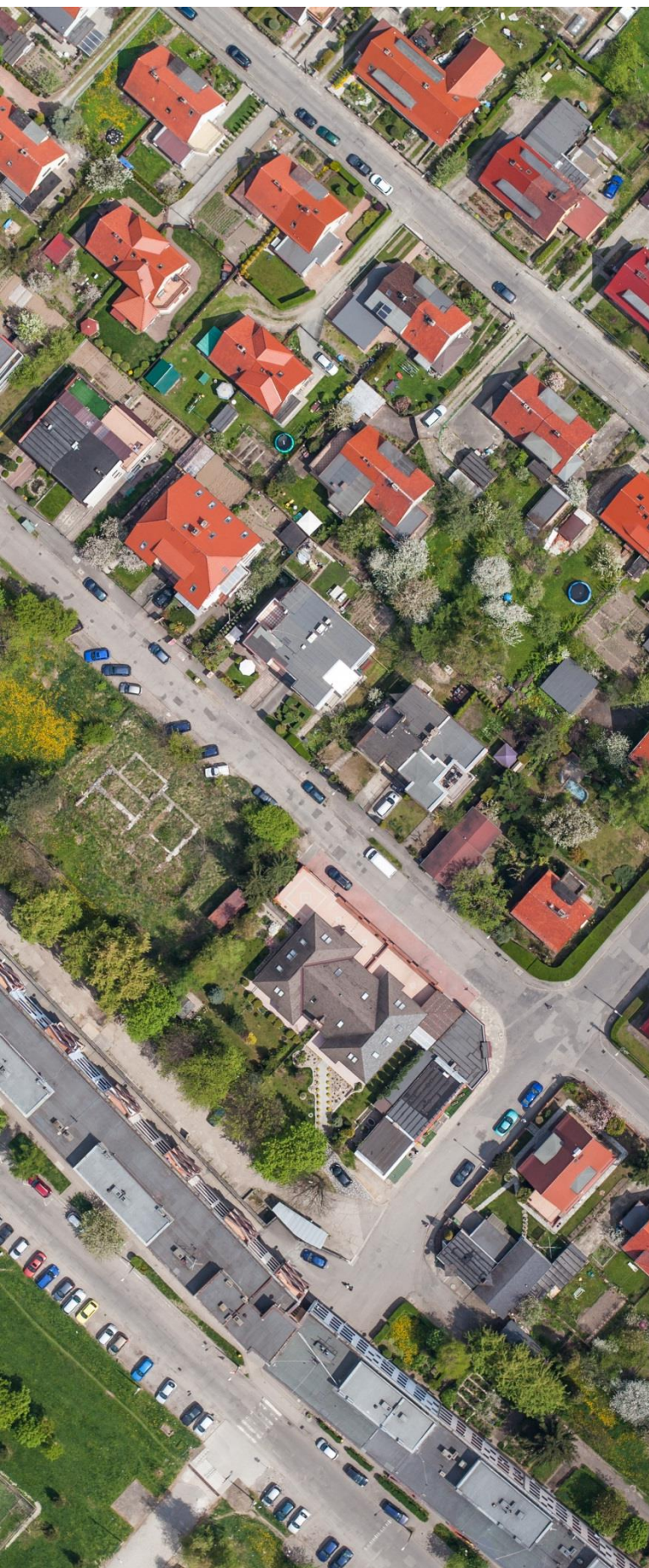
Developers still remember the 2008 crisis; furthermore, the prudence and increased cautiousness in their activities resulted from the *Act on the protection of the rights of buyers of residential units and single-family houses*. As a result, they consistently negotiated the purchase prices of land down and avoided overestimating both the value of land and their own financial capacities. At the same time, they recognised the needs of the market very well, trying to balance the high demand by placing new investment projects on the market.

The high spirits in the real estate development industry are perfectly reflected by the record-setting number of building permits issued. From January to November 2015, the number of residential units for which permits were granted or which were registered with a construction project amounted to 171,407, i.e. 18.7% more than in the corresponding period of 2014, also assessed as exceptionally good for developers, individual investors, co-operatives and other entities.

The number of commenced constructions of residential units also increased, to 156,025, i.e. 11.8% more than in the previous year. In addition, more residential units were delivered for use in 2015 than the year before.

The largest number of flats were delivered for use in Mazovia Voivodeship. This voivodeship also saw the most residential units





for which building permits were granted or which were registered with a construction project, as well as the largest number of those where commenced construction was noted.²

Condo-apartments and Micro-apartments Take the Lead

In response to the growing interest in flats for investment purposes, developers have introduced products known as condo-apartments and aparthotels. The offering of these investment projects is increasing at a relatively high rate, in particular in Warsaw and in health and relaxation resorts.

Developers noticed the potential of small residential units purchased mainly by young people taking their first mortgage and by investors interested in subletting. The construction of micro-apartments was started by Dolcan in 2014 (Miasteczko Rubikon at the junction of Techniczna St. and Cegielniana St. in Warsaw), followed by Dantex in 2015 (Wolska2 on Wolska St. in Warsaw).

Despite developers' interest in purchasing land for residential investment projects offering micro-apartments, it is not easy to select an appropriate offer. The difficulties result not only from real estate prices, but also from the provisions of local zoning plans which regulate the minimum number of parking spaces per flat.

New Players on the Residential Property Market

The prosperity on the residential market resulted in new entrants to the Polish market, among others from Scandinavia and Qatar.

² GUS [The Central Statistical Office of Poland], Housing construction in the period January November 2015, Signal information, Warsaw 17.12.2015.

Land for Residential Developments

Trends in 2016

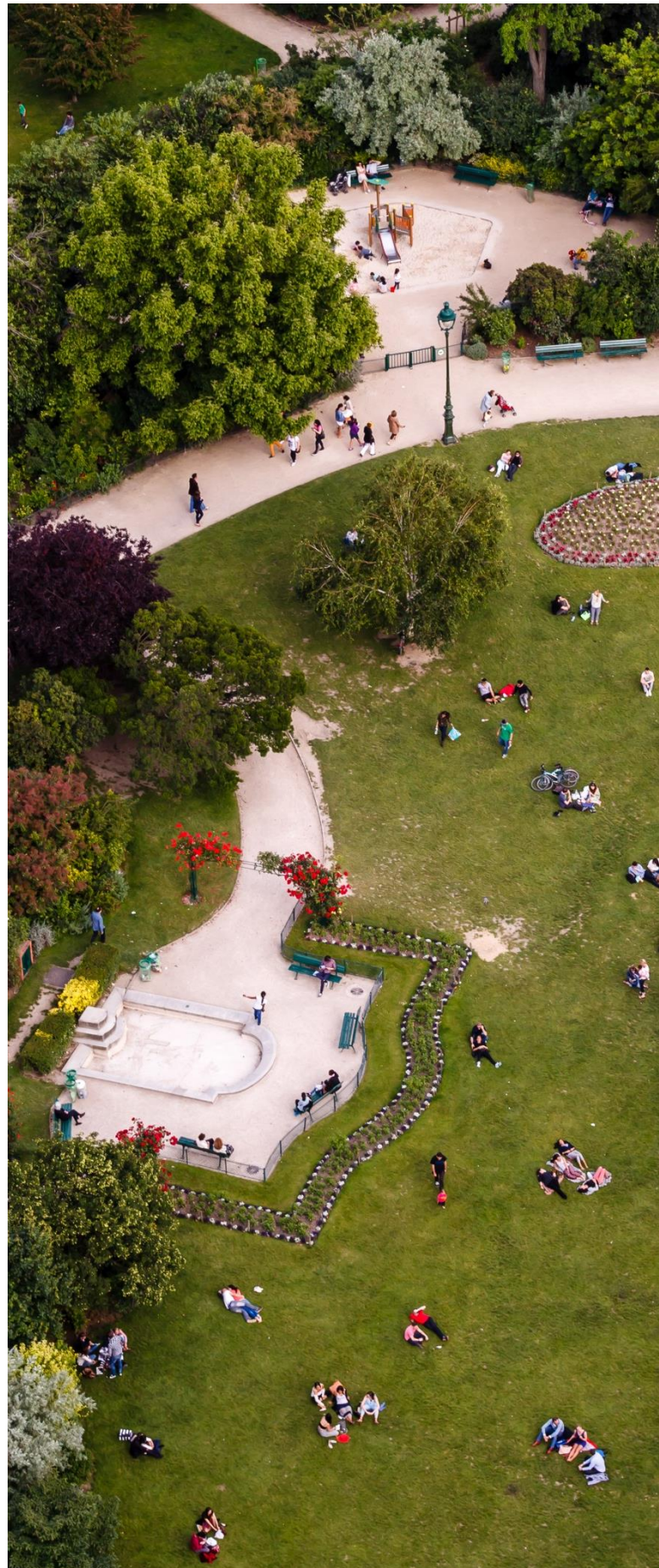
Stable Situation on the Residential Market

According to JLL, the boom in purchasing residential unit and record-setting sales are already over. Over the next few years we can expect a reduction of the factors contributing to the current high demand, due to the planned ending of the MdM program, higher requirements relating to own contributions, and potentially higher mortgage loan margins resulting from the introduction of a bank tax. All these factors will affect customers' purchasing capacity. Nevertheless, thanks to the stable situation on the residential real estate market, developers can still count on good sales and demand for new investment projects. Also, the prices of residential units are likely to remain at the current level in 2016.

Due to sound financial results in 2015, the sold-out current range of flats and out-of-stock inventory of previously purchased investment plots, the majority of developers have an optimistic outlook for the future, expecting that prosperity will continue into 2016. According to JLL, this optimism will translate into further interest in residential investment land. It is expected that 2016 will see the closing of several transactions which were negotiated last year and relate to the sale of land in very attractive locations in the largest cities in Poland. In the opinion of JLL's specialists, due to land availability, prices, and the MdM program, in 2016 we should expect higher popularity of investment plots in districts outside of the strict centres of agglomerations such as Warsaw, Wrocław, Kraków and Gdańsk.

As a result of the shrinking availability of well-prepared land in Warsaw, Wrocław and Kraków, some investors and developers will more willingly analyse opportunities in cities such as Katowice or Łódź. In 2016, the decreasing supply of attractive areas in the largest cities may also translate into increases in the prices of residential land, in particular in the case of smaller plots which allow the construction of smaller, one- or two-stage projects.

In 2015, many developers returned to the analysis of less attractive and less exposed locations, where flats meeting the criteria of the MdM program can be built. As the government intends to run the MdM program until the end of 2018, many developers plan to purchase of land in 2016 and quickly start residential projects with residential units of the price and size qualifying for help under the MdM program.



By doing this they hope to sell their products quickly, specifically before the end of 2018.

The amendment adopted in 2015, prior to the extending of the MDM program to the secondary market, introduced a number of changes intended to make the program available to a broader circle of potential beneficiaries. The changes included, among others, increasing the amount of co-financing and the maximum space for which assistance is available, as well as eliminating of the requirement of the purchase being a first flat and of the age limit for families with three or more children. The possibility of getting more help and purchasing a larger flat at the analogous credit-worthiness may prompt many persons who meet the criteria of the governmental program to buy their first flat from a developer in 2016.

Rent Better than Purchase?

Due to the fact that the required own contribution to a mortgage loan was increased with effect from 2016, and it is expected that in February a bank tax will be introduced, which is likely to cause an increase in the margins of mortgage loans, for many people growing loan costs may eliminate their chance of buying their own flat, especially if they are not able to benefit from the MDM program.

In the opinion of JLL's analysts, an increasing number of households will choose to rent a flat rather than pay loan instalments. Renting not only doesn't require an own contribution, but it also involves lower risk than a loan agreement, and allows greater mobility.

We can expect that in response to potentially increasing demand for flats for rent, new entities will enter the market as competitors for the Rental Housing Fund controlled by Bank Gospodarstwa Krajowego. The development of this market segment is another potential cause of increasing demand for residential land in the next few years. In addition, funds looking for buildings with flats for rent may reduce, due to large purchase volumes, the effects of the potential oversupply of new residential units in 2016.

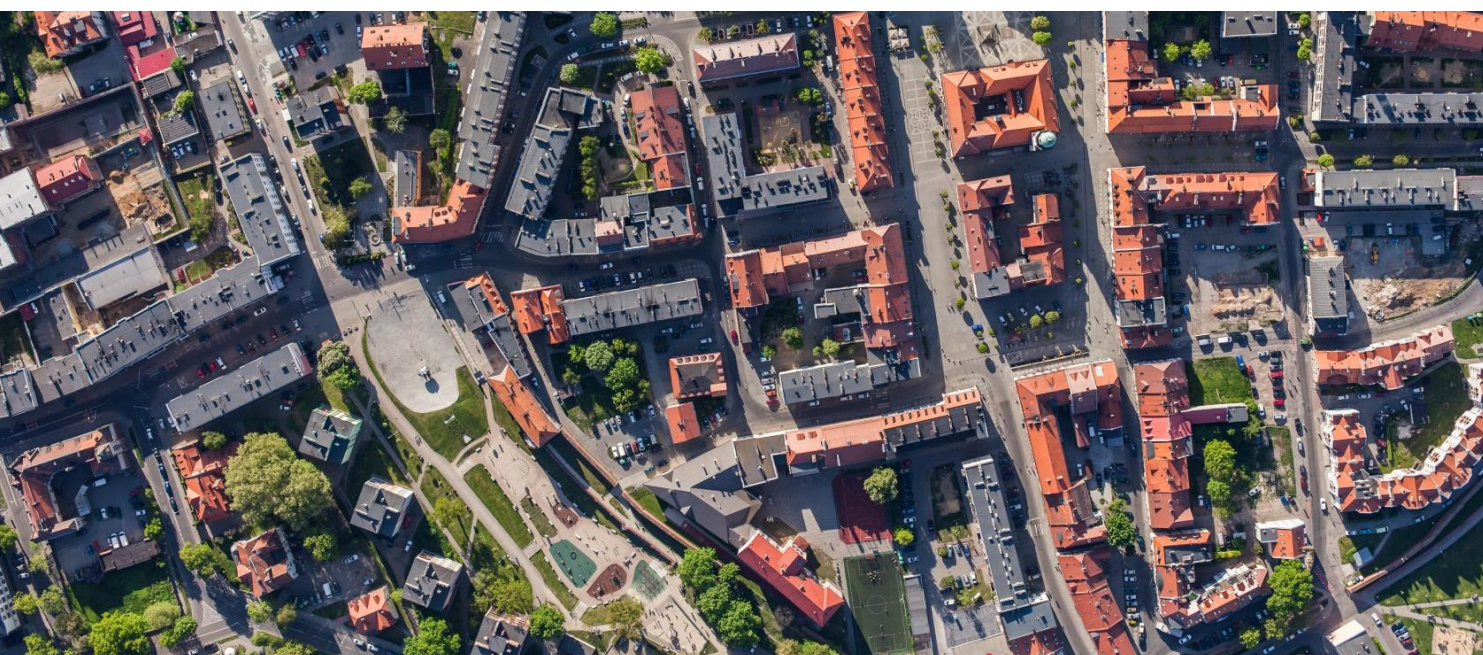
Luxury is in Fashion

JLL's analysts believe that the next few years will see the range of apartments and flats offered on the premium market broadening, especially in Warsaw. Land for investment projects of this type attracts investors representing not only Polish capital but also Indian and Arabian capital.

Average prices of residential land in 2015

Area	Price (PLN / m ² PUM*)
Warsaw – city centre	2,200 – 4,000 PLN
Warsaw – other districts	650 – 2,500 PLN
Cities of more than 400,000 inhabitants	550 – 1,600 PLN

* PUM – Residential Usable Area



Retail Real Estate Market

Summary of 2015

Revitalisation, Refurbishment, Expansion...

A significant (27%) share in the volume of shopping centre space delivered for use in 2015 (502,000 m²) was accounted for by expansions of existing schemes. Expansion and refurbishment were the key elements of the strategy pursued by the owners of older facilities and their response to growing market competition and to the popularity of online shopping. Their aim was to increase the attractiveness and better adjust the offer of the shopping centres to clients who – according to the JLL report *Enthusiasts and Frequenters. Generations X and Y in shopping centres* – like spending time in shopping centres, not only shopping, and who see shopping centres as places for socialising and entertainment.

Refurbishments and expansions carried out last year aimed at, among other goals, enhancing food courts, as well as attracting new retail chains to centres.

Popularity of Smaller Retail Formats

In 2015, the JLL Land Advisory Services Department observed stable (compared to the previous year) interest in retail land. Prices were similar to those in 2014. The most popular land was that intended for street malls and convenience centres.

Shopping Locally

As a consequence of the completion of a record number of residential investment projects, much more service space has entered the

market within housing estates, where the largest food store chains prefer to locate their shops.

Large-format Retail Schemes

The amendment to the *Act on spatial planning and development* adopted by the Polish Parliament on 8 September 2015 puts in order provisions setting the rules for locating large-format retail facilities within municipalities. According to new legislation, when retail facilities exceeding 2,000 m² are to be located within a municipality's territory, the local authorities are required to specify, in their study of the conditions and directions of spatial development, the areas where such schemes can be located. This location of large-format retail facilities can take place solely on the basis of the local zoning plan.

In our opinion, apart from putting the regulations in order, this change will not cause a revolution on the retail land market. Most municipalities located supermarkets exceeding 2,000 m² in accordance with their local zoning plans. Nevertheless, the absence of uniform judicial practice sometimes resulted in construction taking place on the basis of a zoning decision. The amendment regulates these issues and eliminates a legal loophole that has existed since 2008, thus undoubtedly contributing to the improved predictability of Polish law and reducing the number of discretionary decisions. In the opinion of JLL's experts, this will have a positive impact on the assessment of legislation by newcomers, and will improve the transparency of the Polish real estate market.





Land for Retail Developments

Trends in 2016

Looking for Gaps on the Retail Map of Poland

In 2016, the areas where the currently popular concept of the 'street mall' or 'convenience' type centres can be constructed will continue to attract the interest of developers. In our opinion, in 2016 the most desirable plots of land will be those of an area between 0.5 and 1.5 hectares, in particular in cities with populations between 30,000 and 250,000. The prices of retail land in 2016 will remain at a stable level.

Although the demand for retail land is stable, which is associated, among other things, with the dynamic development of retail chains such as Vis a Vis, HopStop and STOP.SHOP., there are only a few areas which meet the criteria of attractive location, good road access and planning preparation.

The market is not lacking areas for large-scale investment projects, including those located in the cities with high shopping centre density, where owners, for various reasons, were not able to commence construction when the competition was lower.

Average prices of retail land in 2015

Area	Price (PLN / m ² PUU*)
Warsaw – land designated for large-scale shopping malls	2,000 – 5,000 PLN
Warsaw – land designated for retail parks and stand-alone stores	1,500 – 2,000 PLN
Cities of more than 400,000 inhabitants	400 – 1,200 PLN

* PUU – Retail Usable Area

Hotel Market

Summary of 2015

Growing Competition on the Hotel Market

This year was marked by a growth in the hotel sector. Favourable macroeconomic factors had a direct bearing on interest in Poland from hotel investors, who assess the potential of this sector positively. Moreover, the number of visitors is growing every year, generating demand for hotel beds, which can further bring good financial results for operators. In addition, the business meeting sector in Poland is catching up with Western European countries at high speed.

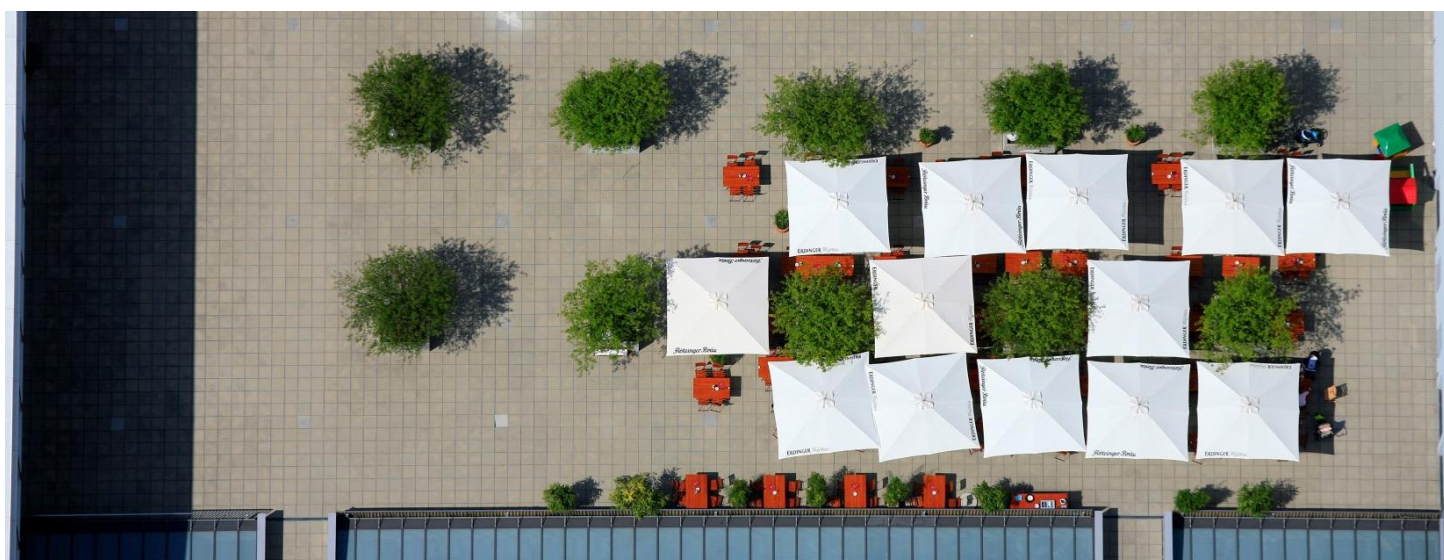
The number of new hotels is growing constantly, but this growth in hotel infrastructure is uneven as regards its geographical distribution, which is a consequence of varying attraction of individual regions to tourists and business travellers. In terms of number of hotel rooms in Poland, Mazovia Voivodeship is the absolute leader.

The largest share in Poland's hotel infrastructure (based on number of beds) belongs to three-star hotels, and the lowest number of hotel rooms is offered by the five-star segment. At the same time, one should note that a still relatively small number of international hotel chains operating in Poland have an offer targeted at the segment of one- and two-star hotels. Chains interested in this market segment include, among others, Accor (with its Ibis Budget and Ibis brands), Louvre Hotels Group (with the Premiere Classe and Campanile brands), IHG (with its Holiday Inn Express brand), Marriott (with the Moxy brand), B&B and Qubus (with the Alto brand, under which the first hotel opened in February 2015 in Żory).

2015 saw intensive growth of hotel networks. Polish chains, such as De Silva or Diament, are expanding, but they face powerful competition from foreign giants introducing modern, professionally constructed and equipped hotel facilities managed according to international standards. The range of this type of hotels was supplemented in 2015 by the openings of Best Western Q Plus, Best Western Efekt Express, DoubleTree by Hilton Kraków Hotel & Convention Center, Hampton by Hilton in Kraków, Courtyard by Marriott Gdynia Waterfront in Gdynia and Best Western Browar Mariacki in Katowice.

Alternative Form of Investment

The growing interest of investors in building aparthotels is an effect of the increasing demand for products of this type. More and more people are looking for capital investments offering higher profits than bank deposits or bonds but without high risks. In this context, investing in hotel apartments is perceived as an attractive, profitable and convenient. The possibility to entrust the apartment to the operator for administration and profit generation, and at the same time the benefits of 'timesharing', are the advantages highlighted by those who decide to purchase apartments in condominium schemes and not ordinary flats for rent.





Land for Hotel Developments

Trends in 2016

Hotel Expansion on the Polish Market

International hotel chains will continue their expansion on the Polish market. They look not only for land in prestigious locations in the largest agglomerations, with excellent visibility and communication, but also for plots on the outskirts, especially in regional cities, intended for low-budget projects. The experts of the JLL Land Advisory Service Department received in 2015 a large number of inquiries relating to plots for hotel investment projects in Silesia and in Kraków.

Based on their market analysis, JLL's specialists estimate that within the next two to three years Poland will see the construction of around 30 new hotels by large hotel chains, with low-budget hotels making up half of that number.

Agricultural Real Estate Market

Summary of 2015

Legislative changes

2015 was marked by changes in laws and regulations relating to trading in agricultural land. As the work on the new draft of an *Act on agricultural system development* progressed, we saw how determined both buyers and sellers were to close planned transactions before the effective date of the amendment, still 'under the old rules'. This resulted from the fact that, according to forecasts, the new provisions were to impose additional restrictions on trade in agricultural land, aiming at limiting the possibility of the acquisition of such land by entities which don't engage in agricultural activity.

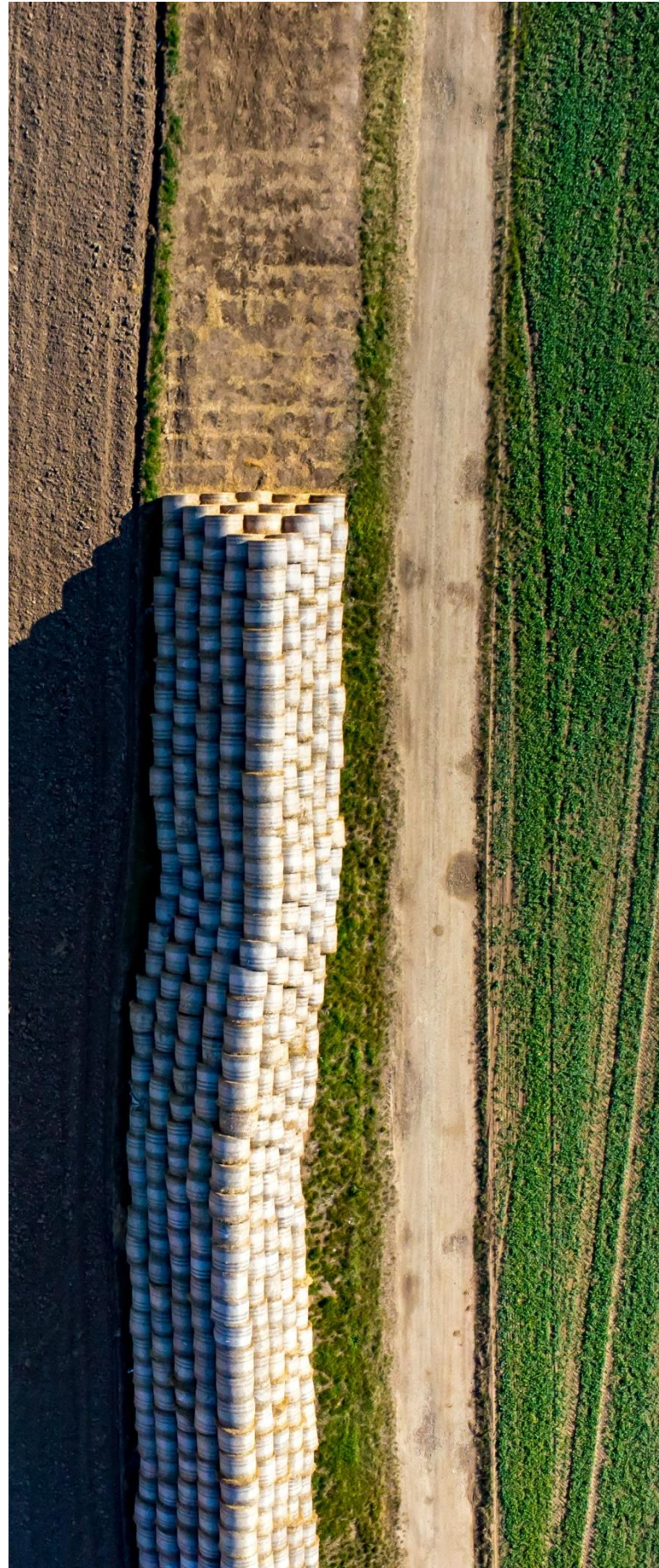
The signing of the new *Act on agricultural system development* by the President of Poland in August 2015 had a negative impact on the interest of potential buyers in purchases of agricultural land in the fourth quarter of the year. The activities of potential buyers decreased consistently with the nearing of the effective date of this act, initially set at 1 January 2016 and finally moved, by an amendment adopted by the Polish Parliament on 16 December 2015, to 1 May 2016.

The Investment Attractiveness of Polish Agricultural Land

Despite the fact that agricultural land prices had increased significantly in previous years, in 2015 they were still at least two to three times lower than the average prices in many EU countries, where there are often no *available* resources of this type of land. This price attractiveness had a direct effect on the interest of foreign investors in Polish land. However, the announced legislative changes significantly dampened the enthusiasm of many of them. In particular, the changes affected negatively the interest of those entities who intended to purchase land for speculative purposes. The lack of stability in the provisions of Polish law relating the land market and the announced plans for the introduction of further restrictions had a negative impact on the decisions of those entities which had considered investing in Poland.

The End of Dizzying Prices?

The vision of the end of profitable purchases of agricultural land caused sellers' expectations of further rapid price growth to be deflated. As a result, sellers were more inclined to be flexible during negotiations with potential buyers.



Agricultural Land

Trends in 2016

The Future of Trading in Agricultural Land in Poland Under Question

The entry into force of the new *Act on agricultural system development*, scheduled for 1 May 2016, will take place together with the opening of the land market to foreigners – citizens of the states that have signed the Agreement on the European Economic Area or of the Swiss Confederation. This 'land market deregulation' means that from 1 May foreigners will be able to buy agricultural land under the same rules as citizens of the Republic of Poland, without any obligation to obtain the prior approval of the Ministry of the Interior and Administration.

In recent years it seemed that thanks to the 'land market deregulation' the interest in purchasing agricultural land in Poland will not drop. To the contrary, high demand will be generated to a large extent by foreign investors already encouraged not only by the prices of agricultural land but also by the lack of any need to obtain the approval of the Minister of the Interior for such purchases.

Now we know that the new *Act on agricultural system development* adopted in August 2015 introduces a number of limitations on trading in agricultural land, including the limited permissibility of the free division of farms for the purpose of selling the agricultural property being parts thereof, and a three-tiered pre-emption right which can be exercised not only by the tenant of the property intended for sale (if he is an individual farmer) and by the Agricultural Property Agency, but also by the owner of the property adjoining the property intended for sale (if he is an individual farmer). Failure to notify any of the aforementioned entities will result in the entire transaction being invalid.

The main objectives of the new *Act on agricultural system development* include the improvement of the area structure of farms and counteracting the excessive concentration of agricultural land. However, it is worth noting that, given the definition of agricultural land referred to by the act, its provisions and restrictions will also cover those areas over 1 hectare which due to their soil class, location or size are not considered by potential buyers to be land which could be used in farming and on which the purchasers had planned to conduct other investment activity.

The new *Act on agricultural system development* also provides for the waiving the pre-emption right of the former landowners or their

successors to purchase land from the Agricultural Property Stock of the State Treasury. Furthermore, it introduces changes relating to the sale of land by the Agricultural Property Agency which will affect the contents of the Act on the management of the agricultural property of the State Treasury, and grants new, broad competencies for directors of the regional branches of the Agricultural Property Agency.

However, the adoption of the new *Act on agricultural system development* in August 2015 is only the beginning of the revolution in provisions which regulate trading in agricultural land. As a result of work conducted by the Ministry of Agriculture and Rural Development on the draft of the *Act suspending the sale of the property of the Agricultural Property Stock of the State Treasury and amending certain acts of law*, we can expect further changes which limit trading in agricultural land. The draft act assumes that, among other things, as a rule only an individual farmer may buy agricultural land. Furthermore, it introduces a ban on the sale of plots of land exceeding 1 hectare belonging to the Agricultural Property Stock of the State Treasury, for a period of five years, with the exception of land designated in local zoning plans, studies, zoning decisions or decisions on the location of public purpose investment project, for purposes other than agricultural purposes, property located within the borders of special economic zones, residential units and usable premises.

Investors' dilemmas

JLL's analysts estimate that at least until May 2016 we will still see interest from international investors in Polish land. At the same time, they anticipate that this interest will be significantly lower than in previous years. In addition, the activity will be characteristic rather for those investors who are interested in purchasing land for farming and livestock breeding than for the entities making purchases in order to change the status of farm land and for non-farming development, simply because of the dynamically changing legislative provisions in this area and the uncertain future of the draft of the *Act suspending the sale of the property of the Agricultural Property Stock of the State Treasury and amending certain acts of law*.

Examples of Transactions

concluded with the involvement of the JLL Land Advisory Services Department in 2015

Land for office developments		
Location	Size	Development potential
Warsaw	3,800 m ²	8,000 m ² PUB*
Warsaw	9,500 m ²	35,000 m ² PUB*
Wrocław	5,500 m ²	20,000 m ² PUB*

Land for residential developments		
Location	Size	Development potential
Gdańsk	10,000 m ²	10,000 m ² PUM*

Agricultural land	
Location	Size
Wielkopolska	3,200 ha

*PUM residential usable area
 **PUB office usable area
 ***PUU retail usable area

200
million PLN

The value of the transactions concluded with the involvement of the JLL Land Advisory Services Department in 2015

Examples of Ongoing Transactions conducted by the JLL Land Advisory Services Department in 2016

Land for office development		
Location	Size	Development potential
Wrocław	30,000 m ²	55,000 m ² PUU
Wrocław	15,000 m ²	30,000 m ² PUU
Wrocław	5,000 m ²	10,000 m ² PUU
Gdańsk	23,000 m ²	17,500 m ² PUU

Land for residential development		
Location	Size	Development potential
Warsaw	35,000 m ²	60,000 m ² PUM
Warsaw	5,000 m ²	8,000 m ² PUM
Wrocław	50,000 m ²	80,000 m ² PUM
Kraków	35,000 m ²	30,000 m ² PUM

Land for retail development		
Location	Size	Development potential
Kraków	30,000 m ²	30,000 m ² PUU

Agricultural land	
Location	Size
Wielkopolska	535 ha

*PUM residential usable area **PUB office usable area ***PUU retail usable area

400
million PLN

The value of ongoing
transactions
conducted by the JLL
Land Advisory Services
Department in 2016

* Stan na dzień 26 stycznia 2015 r.

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