CB RICHARD ELLIS

Accumulator
Investment Market in Poland

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Spring 2009

Quick Stats

Change from 2007

- Investment Volume
- Yields
- Capital Value
- Rents

Hot Topics

- Investment activity slowed down, amounting to nearly EUR 2 billion in 2008 from EUR 3 billion in 2007.
- The office and retail sectors continue to dominate the investment market, although there is an increasing interest in the industrial and hotel sectors.
- Prime yields have increased:
  - Office: 6.25%
  - Retail: 6.75%
  - Industrial: 7.75%

2009 Outlook

- Investment Volume
- Yields
- Capital Values

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OVERVIEW

In 2008 the weaker global conjuncture as well as the slowdown of demand caused a significant decrease in the investment volume across all sectors in Poland.

Nevertheless business conditions in Poland remain favourable, better than in other European countries, although a slowdown of the economy is expected. The average GDP growth in 2008 is estimated at 5.4%, the unemployment rate below 10% and inflation at 4.2%. The GDP forecasts for the next two years oscillate around 2 – 3%. The National Bank decreased the interest rate to 5% and a further drop is expected. Foreign investors still consider Poland to be an opportunistic market and are encouraged to expand their business in the country.

However, the changes in the financial environment in Europe had a significant impact on the number of transactions. In 2008 the total traded volume amounted to EUR 1,87 million in 51 deals. This represented a 40% decrease when comparing with 2007.

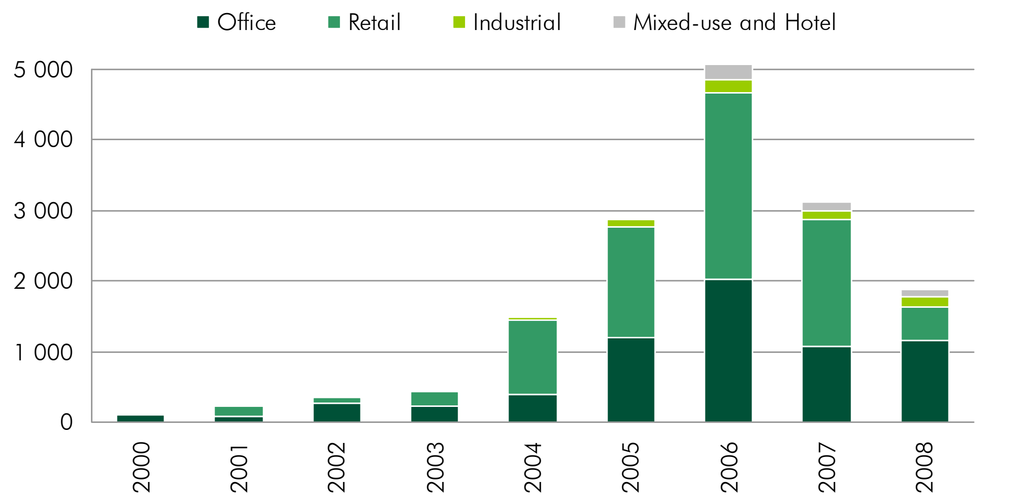
There is still an interest registered among foreign investment property funds in the Polish market. However due to a discrepancy between purchasers' capability and vendors' expectations regarding the prices, the negotiations very often fail or take an increasing amount of time to conclude. This is one of the reasons of the downturn in the level of transactions.

The size of an average transaction amounted to EUR 37 million. The ability of investors to transact large deals has fallen, along with the lack of availability of debt finance for bigger volumes .

The market suffered also from the narrowing gap between interest rates and yields and the comparison of yields in Western Europe, which have increased significantly. The average prime office yield quoted at the end of the year in EU-15 amounted to 5.99% while in CEE countries was at 7.53%, excluding Russia and Ukraine (6.56% in Central Europe).

In Warsaw the prime office yield increased to 6.25% for the best products, while in regional cities it is estimated at much over 7%. The retail yields have registered even stronger decompression to 7.25 – 7.50%.

INVESTMENT VOLUME BY SECTOR (EUR million)



Source: CB Richard Ellis, WRF

MAJOR INVESTORS

The Polish investment market has progressively attracted international investors not only from Europe but also from America, Asia and Australia. Around 96% of total volume was invested by foreign capital in 2008.

Polish investors contributed to only 4% of investment volume in 2008, bringing local investments in the real estate sector to a level of EUR 66 million. The largest transaction was closed by BPH TFI who acquired Renaissance Tower from CA Immo.

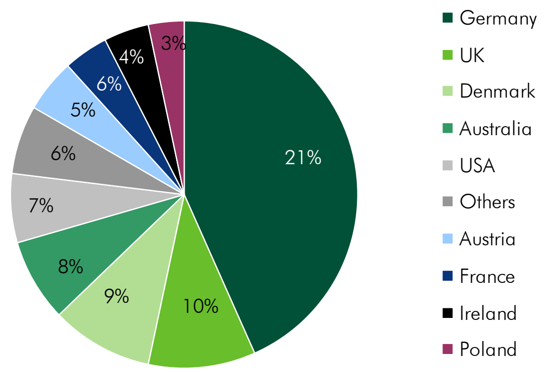
In 2008 new investors entered the Polish market from such countries as Denmark, Australia or Iran. The Australian investors (Macquarie Global Property Advisors), were responsible for one of the largest transactions, with the purchase of Rondo 1 office building.

However, German and British investors still continue to be the key players on the investment market. German funds such as DEKA, DEGI, Commerz Real, SEB, Union Investments have sustained their level of investment activity by investing EUR 821 million in 2008, representing 43% of the total (13 deals). They were involved in a purchase of a number of office buildings such as Tulipan House, Jerozolimskie Business Park, Marynarska Business Park, Atrium Centrum in Warsaw, Arkonska Business Park in Gdansk or Bema Plaza in Wroclaw. English investors were responsible for 14 transactions worth EUR 190 million. The largest deals were closed by Standard Life and Pinnacle Real Estate.

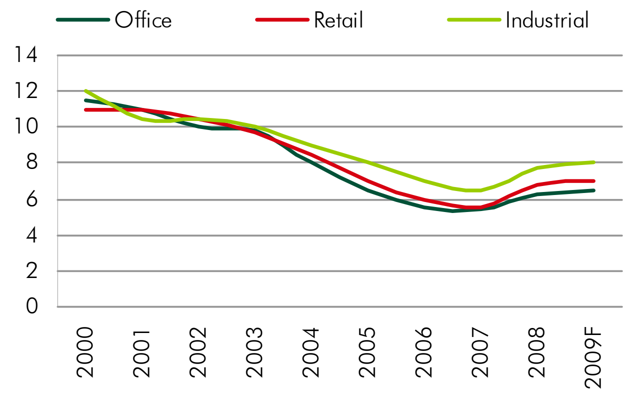
Irish (AIB Polonia), Danish (Baltic Property Trust) and Arabic (Verity Development) investors are still active on our market, however are much more careful in their decisions. American investors, were represented only by GE Real Estate, who purchased Silver Forum in Wroclaw and a 24% share in Green Holdings from Heitman. Almost 10% share in total investment volume took purchasers from France and Austria with Orco Property Fund, IXIS, Uniqa and Wiener Städtische Versicherung the most active ones.

Open-ended, close-ended and property funds invested over 33% of the total investment volume. The other players included special funds, private investors, pension funds, listed property companies and others.

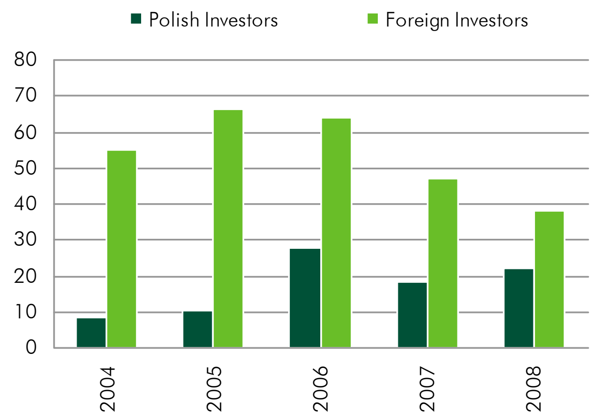
FOREIGN INVESTMENT IN POLAND IN 2008



PRIME YIELDS (%) IN POLAND



AVERAGE DEAL SIZE (EUR million)



RETAIL MARKET

The retail market in 2008, as opposed to previous years, was much less spectacular in terms of investments. The sector attracted around EUR 461 million, representing 25% of total investment volume. There were only 14 retail transactions registered in 2008.

The largest significant transaction was the sale of Trzy Stawy Shopping Centre in Katowice by Union Investment for EUR 95 million in the 3rd quarter. At the beginning of the year around 24% share in Green Holdings was purchased by GE Real Estate for over EUR 90 m; a portfolio of seven shopping centres located in different cities in Poland such as Rondo in Bydgoszcz, Janki in Warsaw, Krokus in Krakow and four others. Other notable deals included the sale of Turawa Retail Park in Opole, Eagle Retail Portfolio and Fashion Houses in Sosnowiec and Warsaw.

Prime retail yields have increased and currently are quoted at around 6.75%. Due to a rapid development of the shopping centre market in Polish cities, we can expect to see an improvement of the retail investment churn next years and also more interest in other retail formats such as factory outlets and retail parks.

OFFICE MARKET

Despite the overall slowdown, the office investment volume traded in 2008 reached a high level, amounting to nearly EUR 1,16 billion in 25 deals, which is an 8% increase in comparison to 2008. Warsaw was still the main focus for investors, where 80% of total investment volume was concluded in 16 transactions.

The most notable deal was the purchase of the TP SA portfolio of three office buildings by Baltic Property Trust, a sale & lease back transaction for EUR 168 million and Marynarska Business Park by DEGI fund for EUR 167 million.

Prime office yields in Warsaw vary from 6.25 to 6.75% while in regional cities it is quoted over 7%. The yields should stabilise at this level in the next few quarters. There is a growing yield discrepancy for buildings of secondary standards.

INDUSTRIAL & HOTEL MARKETS

Other property sectors are considered by investment funds as an attractive option to diversify their portfolio. Hotels and warehouses become more popular, particularly in the light of UEFA CUP in 2012 with new highways and hotels to be developed in major cities thorough Poland. In 2008 there were 7 industrial transactions (for EUR 144m) and three hotel ones (for EUR 100m) including sale of Andersja Tower in Poznan and Andel's Hotel in Krakow. The largest warehouse deal was the sale of Europa Park in Mszczonow to Pinnacle Real Estate for EUR 41m.

Industrial yields are estimated at 7.50 – 7.75%.

SELECTED PROPERTY TRANSACTIONS IN 2008

Property	Location	Quarter	Sector	Price (M)	Estimated Yield	Purchaser
TP SA Portfolio	Warsaw	III	Office	EUR 168	c. 7%	Baltic Property Trust
Marynarska Business Park	Warsaw	III	Office	EUR 167	5.75%	DEGI
Rondo 1 (50%)	Warsaw	I	Office	n/a	c. 5.25%	Macquarie Global PA
Atrium City	Warsaw	III	Office	EUR 115	c. 6%	DEKA
Bema Plaza	Wroclaw	II	Office	EUR 106	c. 5.75%	DEKA
Trzy Stawy Shopping Centre	Katowice	III	Retail	EUR 95	c. 6.70%	Union Investment

FUTURE OUTLOOK

- In terms of investment volume 2009 is expected to remain at the similar level as in the previous year. Uncertainty of global economic conditions and difficulty of obtaining financing has had a combined impact on limiting potential transactions.
- Vendor's price expectations will start to reduce in order to adjust to purchasers' capability and demand.
- Availability of debt is crucial to the liquidity levels within 2009, as well as the re-introduction of German Open-ended funds, following the pause in acquisition activity in 2008.

POLAND COMMERCIAL REAL ESTATE MAP

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