

Quick Stats

	Change from H1 2008
Investment Volume	↓
Yields	↑
Capital Value	↓
Rents	↓

Hot Topics

- Investment activity slowed down in all sectors, amounting to nearly EUR 2 billion in 2008 from EUR 3 billion in 2007. In H1 2009 it reached only EUR 118 million.
- The office and retail sectors continue to dominate the investment market, although retail transactions are less frequent.
- There is still a decompression of yields observed.

Prime Yields in Poland (%)



Source: CBRE, Bank BPH

GENERAL OVERVIEW

The investment stagnation, started in 2008 has continued in the first half of 2009. Weak global economic situation as well as the slowdown of demand and lack of financing has caused a significant decrease in the number of property investment transactions across all sectors in Poland.

In the first half of 2009 the total volume reached only EUR 118m from eight deals. This represents a 90% and 85% decrease when comparing respectively with H1 and H2 2008. The Polish investment market amounted to 21% of the CEE market (EUR 571m including Russia).

The size of the average transaction amounted to EUR 15 million. As the willingness of investors to transact large deals has fallen, along with the lack of availability of debt finance for bigger volumes, the number of retail purchases has decreased. Consequently, retail comprised only 34% of the market share (EUR 40m); office sales amounted to EUR 78m (66%).

Open and closed-ended funds were the major buyers this year with Arka BZ WBK and Deka being the most active. The majority of the invested funds came from Germany, however Polish and UK investors closed more than one deal each.

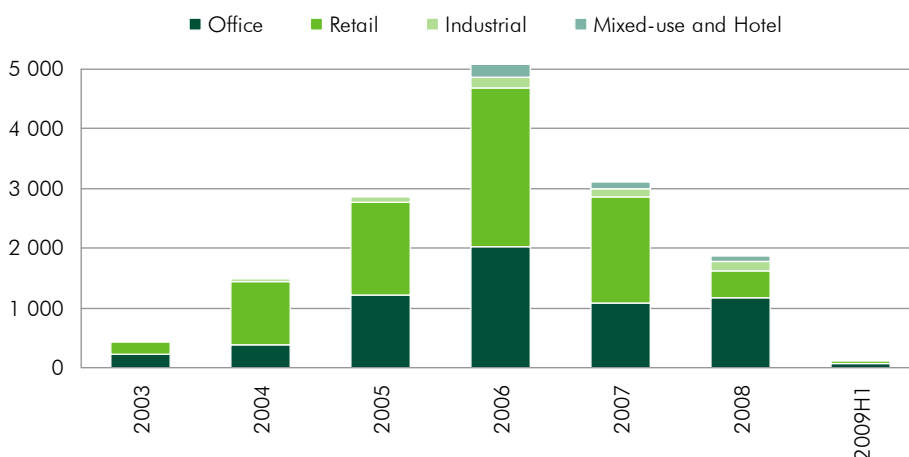
The current unfavourable situation is expected to improve towards the end of the year. The Polish economy is perceived as one of the most stable and dynamic economies in the CEE region and the whole Europe. The GDP growth for the first quarter of the year is estimated at 0.8% with 0-1% forecasted for the whole year. Interest rates were cut to a record low level of 3.5%, the unemployment falls, inflation should soon start to decrease.

Although the economy downturn has a strong negative influence on the condition of the real estate market, good economic indicators observed in the middle of the year (being ahead of market expectations) stimulate the property market to improved activity.

Foreign investors still consider Poland to be an opportunistic market and are encouraged to expand their business in the country.

In Warsaw the prime office yield increased to 6.75% while the retail yields have registered even stronger decompression to 7%. In the next months the yields should be kept levelled off. The average prime office yield quoted at the end of the quarter in EU-15 amounted to 6.15% while in CEE countries was at 7.1% (excl. Russia), bearing still a risk adjustment in comparison to EU-15.

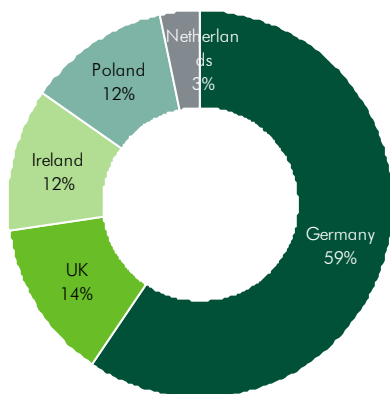
INVESTMENT VOLUME BY SECTOR (EUR million)



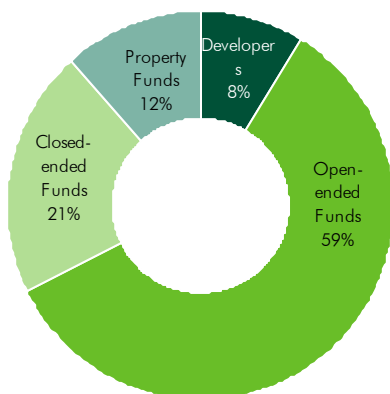
Source: CB Richard Ellis, WRF

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PURCHASERS' NATIONALITY IN 2009



TYPES OF INVESTORS IN 2009



RETAIL MARKET

The retail market in 2008 and 2009, as opposed to previous years, has been much less spectacular in terms of investment. The sector attracted around EUR 461 million, representing 25% of total investment volume in 2008. This year there were only five retail transactions for a total of EUR 40 million.

The largest transaction this year was the sale of the second phase of Fashion House Sosnowiec in the Silesia Region to AIB Polonia Property Fund II for EUR 14 million. A few smaller shopping galleries were also sold in Sieradz, Lomza and Katowice as well as two Biedronka supermarkets in Jelenia Gora and Gdynia.

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 in next few quarters. Currently there is a number of well located and very good shopping centres offered for sale in the whole country. There is also more interest in other retail formats such as factory outlets and retail parks. Prime retail yields have increased and currently are estimated at around 7.00%.

OFFICE MARKET

Despite the overall slowdown, the office investment volume traded in 2008 reached a high level, amounting to nearly EUR 1.2 billion in 25 deals. Since the beginning of the year there have been only three transactions registered, only in Warsaw, totalling EUR 78 M.

The most notable deal was the sale of the Grzybowska Park – a top class office building developed by AIG/Lincoln in the Central Business District. The 10,000 sq m office scheme was purchased by DEKA for EUR 70 million at the initial yield of 7.10%. Other deals were only small sales of owner occupied buildings.

Prime office yields in Warsaw would be estimated from 6.75 to 7.00%. In regional cities there is lack of transaction evidence and yields are difficult to estimate, however prime assets could be quoted at around 8%. 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 for portfolio diversification. Hotels have 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 the sale of Andersja Tower in Poznan and Andel's Hotel in Krakow. The largest warehouse deal was the sale of Point Park Mszczonow to Pinnacle Real Estate for EUR 41m. So far in 2009 there were no transactions registered in this sector. More sale & leases are expected, as in such transactions tenants usually agree for longer leases of over 10,000 sq m.

Industrial yields are estimated at 8.75 – 9.00%.

SELECTED PROPERTY TRANSACTIONS IN 2008 AND 2009

Property	Location	Quarter	Sector	Price (m)	Yield	Purchaser
Fashion House II	Sosnowiec	Q2 2009	Retail	EUR 14	n/a	AIB Polonia
Grzybowska Park	Warsaw	Q2 2009	Office	EUR 70	7.10%	DEKA
Shopping Centre	Sieradz	Q1 2009	Retail	EUR 10	n/a	Keen Property Retail
Arkonska Business Park I	Gdansk	Q4 2008	Office	EUR 38	n/a	SEB Immo Invest
Trzy Stawy Shopping Centre	Katowice	Q3 2008	Retail	EUR 95	c. 6.70%	Union Investment
Atrium City	Warsaw	Q3 2008	Office	EUR 115	c. 6.00%	DEKA
Marynarska Business Park	Warsaw	Q3 2008	Office	EUR 167	5.75%	DEGI
TP SA Portfolio	Warsaw	Q3 2008	Office	EUR 168	c. 7.00%	Baltic Property Trust

FUTURE OUTLOOK

- In terms of investment volume 2009 is likely to be lower than in the previous year. Uncertainty of global economic conditions and difficulty of obtaining financing has had a combined impact on limiting potential transactions.
- However, as vendors' price expectations will start to reduce in order to adjust to purchasers' capability and demand, the market may speed up towards the end of the year. A few expected, large transactions should boost the overall figure for the year.
- Availability of debt is crucial to the liquidity levels within 2009, as well as the more intensive commitment of German Open-ended funds, following the pause in acquisition activity in 2008.

POLAND COMMERCIAL REAL ESTATE MAP



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