MARKET REPORT
POLAND

2012

IVG

Passion for Real Assets

Contents

Horizon Plaza - project development by IVG in Warsaw/Poland

Dear Readers,

There is hardly a country that has had such a long ongoing and positive, i.e. sustainable, economic development. However, times have rarely been so uncertain on the global financial and capital markets. Perhaps it is exactly this combination that makes Poland so attractive as an investment location: On the one hand, this reflects how dynamic its economy and its real estate markets are, on the other how stable the momentum is. Two motives that could not be more ideal. People invest in Poland because it is classified as a sustainable investment – capital preservation is also a primary motive in this context. But, as always when a development is very good, there are two questions that arise:

How long will the super boom hold?

Is it still worth entering the market?

This is not only the motivation behind this study but also the sober view of a country that has obviously done everything right in the past few years. It may well be that the perspective within the country is somewhat different. However, for Poles, these statements are a reflection of what things currently look like in the rest of Europe. In 2012, "Euro crisis" and "looking for a safe haven" are still the main headlines outside of Poland.

If one looks more closely at the Polish real estate markets, it becomes apparent that they are in a very comfortable situation. A relatively high degree of transparency corresponds to global standards – or put more simply: Poland is in the focus of global capital precisely because the key data is excellent. The Warsaw office rental market has been experiencing a steep upswing since mid 2010, leading to a clear reduction in the vacancy rate and a strong recovery in rent levels. In all likelihood the rental market will return to a more balanced situation next year: The expected high demand for office space in 2012 and especially 2013 will be met by a number of potential completions. This need not necessarily lead to a higher market temperature. But the tactical decision of focusing less on project developments in Warsaw than on the high number of socalled regional markets allows investors to avoid pressures. It is precisely the look at the differences in yield between Warsaw and the other locations that leads us to predict that the positive development will continue there. No déjà vu like in 2004 to 2007 but a development that will accelerate. While the investment window in the capital will therefore slowly close, it will remain open in regional centres like Krakow and Wroclaw.

Not least of all, retail and logistics investments are on the list of potential market alternatives. What all three real estate sectors have in common is more a philosophy rather than just a colour: „green". Sustainability or "green pays" should make quite clear what investors expect as a minimum with respect to new buildings at all locations and in all market segments. More than its neighbours, Poland can position itself in this respect and develop a considerable competitive edge.

Conclusion: We estimate that the possibilities of a further positive development on the Polish commercial real estate markets are very good. This will however require a clever pricing policy.

Enjoy the reading

Maciej Zajdel   Przemysław Łachmaniuk   Oliver Voß   Thomas Beyerle

Executive Summary

- Poland has not only a large domestic market with more than 38 million inhabitants and seven large cities each with over 400,000 people but also has developed strong growth momentum as a result of its successful transition to a market economy. The prospects that the success story will continue are good, considering the moderate national public debt, essential improvements to the transportation infrastructure and the large pool of low-cost, dedicated and skilled workforce.

- The classification of Poland as CEE country appears out-of-date, as the individual countries of Central and Eastern Europe have developed very differently in the last two decades. But also a comparison of Poland with Western Europe is not adequate, because Poland is much worse off with regard to income pecapita, but better positioned in terms of economic growth and public indebtedness.

- Warsaw, because of its role as the country's capital city as well as a financial and service centre (both for Poland and CEE) is by far Poland's largest office market. The stock of modern office space is 3.6 million sqm (doubled over last nine years), a moderate volume compared to other European capitals, but both demand-side as well as supply-side are characterised by dynamic growth rates. Compared with other European countries and measured in terms of rent development, the Warsaw market is characterised by a pronounced cyclical pattern.

- The Warsaw office rental market has been experiencing a steep upswing since mid 2010, leading to a considerable reduction in the vacancy rate and a strong recovery in rent levels. In all likelihood, the rental market will return to a more balanced state next year: The expected high demand for office space in 2012 and especially 2013 will be met by a number of potential completions.

- A broad range of infrastructure projects e.g. the second metro line, the train connection between the airport and the city centre, the ring road as well as the second airport to the North of Warsaw are providing new impulses for Warsaw's economy and office market. This results in opportunities and risks with respect to office property investments. The office locations in the city centre, in Wola and along the two metro lines appear to be the most promising today.

- The increasing outsourcing of business processes (BPO) by international companies to Polish subsidiaries or specialised service providers has contributed to the increasing maturity of the office markets in large cities other than Warsaw. The limited, albeit dynamically increasing stock of these office locations results in these markets' volatility. However, entry is made more attractive to property investors through high yields for prime properties starting at 7.25% - 7.5%.

- The shopping centre sector is characterised by a stable evolution of rents and very low vacancy rates. Investment opportunities must be assessed differently depending on actual location and retail format: While hypermarkets have passed their peak, new asset classes have appeared on the Polish market such as luxury department stores, mixed retail formats, 3rd and 4th generation shopping centres, retail parks and outlet centres.

- Possible opportunities lie in the retail park segment, which is becoming increasingly popular with retailers. Leasing risks result from the fact that the group of potential tenants in this segment remains limited especially compared to shopping centres.

- High-street retail markets in Poland's large cities, Warsaw and Krakow, are still in their fledgling stages. This segment has not been popular among institutional investors thus far as suitable products are very difficult to unlock.

- The rental market for logistics space has seen a considerable reduction in vacancy rates in the past two years and will receive a further strong boost from the expansion of the motorway infrastructure. The resulting geographical shifts offer both opportunities and risks for investments in certain regions. Two project developers, ProLogis and Panattoni are major property owners and dominate the market, making market entry on the Polish logistics market less attractive for developers. However, for tenants and investors the market seems to be attractive due to low rents (compared to Western Europe), large infrastructure improvements and possibility to relocate or open logistics hubs in Poland.

- Poland has a liquid, relatively transparent investment market characterised by international players and, due to its relatively short history and growth dynamics, a large supply of modern and core properties. There will continue to be a number of suitable investment opportunities on the market in 2012. However, restrictive lending conditions imposed by real estate financiers across Europe could prove to be an investment obstacle although international banks offer relatively attractive finance conditions for investments in Poland.

- In spite of the compression of the last eighteen months, yields for prime properties are still relatively high compared to other European markets and the 2007 levels in Poland. Further, prime yields are expected to stabilise this year.

- As the rents for commercial properties usually are nominated in € in Poland, investors assign a part of the currency risk to their tenants. During the lease contract, rents are adjusted annually according to consumer price inflation in the Eurozone.

In a number of international surveys, Poland is currently ranked as one of the most attractive countries in Europe for commercial real estate investments. Reasons for this are, in addition to the broad range of investment opportunities and relatively high achievable yields, the Polish economy's good position as compared to other European economies and its growth prospects, which are relatively good in spite of the sovereign debt crisis in the Eurozone. This is why it is worth first taking a look at the country's economic and demographic profile before describing the Polish commercial property market in detail.

1. Enormous progress in economy and transportation infrastructure

Numerous cities – large domestic market

Poland has 38.2 million inhabitants, the European Union's sixth largest population. 61% of its inhabitants live in the cities. In addition to the capital of Warsaw, there are six more large cities with more than 400,000 inhabitants, ten cities with a population between 200,000 and 400,000 and 22 cities with 100,000 to 200,000 inhabitants. However, the country's most highly populated metropolitan area is not Greater Warsaw (2.6 milion inhabitants) but the Upper Silesian industrial area in Katowice and surroundings with approximately 2.7 million inhabitants.

Since the birth rate has dropped to low Western European levels since the beginning of the 90s and the country has been hit by emigration in the past two decades, population figures have been declining since the mid 1990s. This process is expected to accelerate in the next few years. But according to UN forecasts the population in the cities, which, as a result of the changes in the country's economic structure attract employees from the overdimensioned agricultural sector, will grow at a stable rate in the next few decades. This especially applies to the capital of Warsaw, which is the only large agglomeration that has seen a significant increase in inhabitants in the past few years.

Successful transition to a market economy

Since the end of the 80s and as a result of economic liberalisation measures, Poland has undergone an enormous transformation from its previously socialist plan economy to a western style market economy, a process which received a renewed boost through the country's entry into the European Union in 2004. This resulted in an enormous economic structural change: While agriculture, mining, (heavy) industry and the public sector have lost importance, the service sector in particular has recorded enormous growth. 63% of Poland's gross value added in 2011 was generated in the service sector, 33.6% in the secondary sector consisting of industry and construction and a mere 3.4% in the primary sector. The inefficiently organised agricultural sector is still an important employer, with agricultural employees accounting for 13.5% of the total workforce – this represents a considerable reservoir of additional manpower for growth in other sectors.

Very high growth momentum

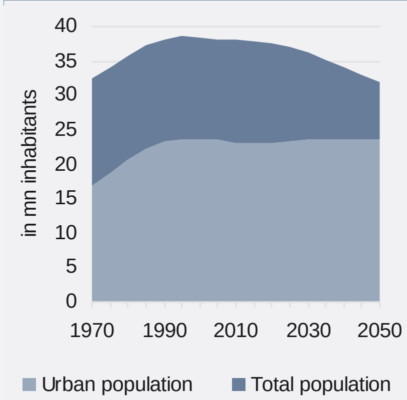
Against the background of the economic transformation process, the country has developed a significant growth momentum. Today, economic performance is about 63% higher than in 1990. Poland has become, after Germany, the United Kingdom, France, Italy and Spain, the sixth largest economy in the European Union. Particularly in the last ten years, Poland experienced unusually high growth rates averaging more than 4% (European Union 1.3%) not least because of considerable foreign direct investments. The country even weathered the inter-

Ten largest cities of the country

City	Inhabitants in 1,000
Warsaw	1,707
Krakow	757
Lodz	753
Wroclaw	633
Poznan	561
Gdansk	456
Szczecin	408
Bydgoszcz	361
Lublin	351
Katowice	313

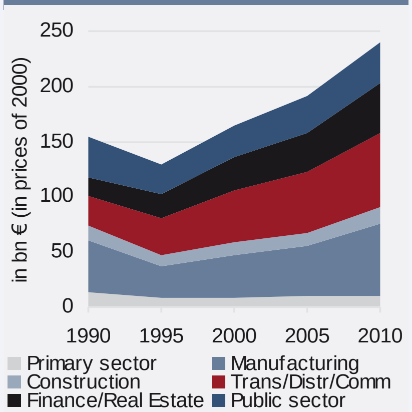
Source: Statistical Central Office Poland

Evolution of population in Poland



Source: United Nations Population Division, medium scenario

Gross value added per sector



Source: United Nations Population Division, medium scenario national financial crisis after the Lehman Brothers crash in 2008 well: In 2009, Poland was the only country in the European Union that was able to avoid a recession and also achieve a notably high growth rate with respect to economic performance and employment.

Strong expansion of transportation infrastructure

In the last two years, the Polish economy once again returned to annual growth rates of 4%. In addition to net exports and private consumption, investment expenditure was a decisive growth factor: Cofinanced by European Structural Funds, Poland's transportation infrastructure is undergoing substantial expansion. This serves to reduce one of the country's structural growth barriers. Ten airports have since been linked to the international air transportation network. The number of airline passengers at international airports has increased from 5.8 million in 2000 to 29 million in 2010. In Lublin-Swidnik, in the Eastern part of the country, a new airport is to be completed this year for the European Football Championship, another civilian airport for low-cost airlines is scheduled to go into operation in Modlin, located North of Warsaw. The existing rail network will be renewed. In addition, a national motorway system is being built; this will contribute considerably to improving transportation connections between North and South as well as East and West (see map on p. 14/15).

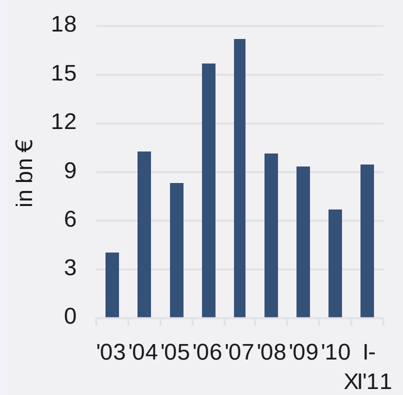
Regions differ with respect to economic development

This will hopefully contribute to transferring the tremendous growth momentum, which has unfolded primarily in Greater Warsaw and the easily accessible regions in the West and Southwest near the border, to the Voivodships in East and Central Poland. Both financial centre (largest stock exchange in Central Eastern Europe) and capital city, Warsaw has benefited most from the strong expansion of the service sector. Because international companies have also outsourced business processes to foreign subsidiaries, Krakow, Wroclaw and the trade fair city of Poznan have also established themselves as important service locations. Due to the enormous wage gap within the country, other lower income regions are also coming into focus as locations for possible BPO activities. While per capita income in both Masovia (Warsaw centre) and Lower Silesia (Wroclaw region) correspond to 133% and 114% of the national average, the regions of Lublin and Carpathian outlands in the Southeast fall far behind the Polish average with 68% and 71% respectively.

Sovereign debt is comparatively moderate in Poland

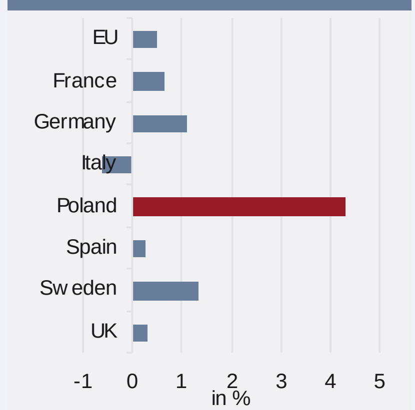
While the gross domestic product of the European Union shrinked by 0.3% in the fourth quarter of 2011 compared to the previous quarter due to the economic slowdown, growth in Poland during the same quarter remained – as in previous quarters at a high 1.1%. But sentiment of consumer and producers has recently bleakened in Poland too. The prospects that Poland's economy will only be moderately affected by the current sovereign debt crisis in the Eurozone are nevertheless good. The Polish banking system is regarded as healthy even if the large banks belong to foreign parent companies. From among Europe's sixth largest economies, Poland has the lowest sovereign debt by far

Foreign Direct Investments



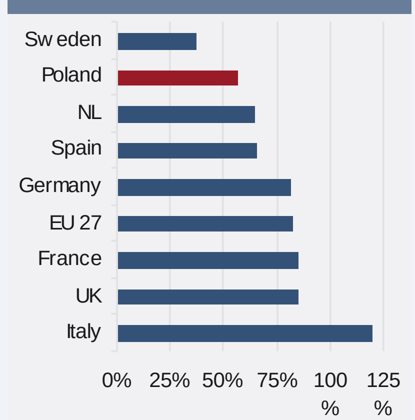
Source: National Bank of Poland

Ø Economic growth 2007-2011



Source: IVG Research/European Commission

Public debt in % of GDP



Source: Eurostat, Q3/2011

– as measured in terms of gross domestic product. As compared to the previous year, the public budget deficit was reduced in 2011 from 7.8% to 5.6%, a level similar to France's budget deficit last year. Measures such as reforming the pension system and increasing a number of indirect taxes are intended to further reduce the public finance deficit. This is why rating agencies like Standard & Poor's and Fitch's assessment of Polish government bonds has remained stable at A. Moreover, in March 2012 Moody's improved the shortterm sovereign debt rating for Poland to Prime1 level.

Poland on expansion course in spite of Eurozone debt crisis

It is hoped that additional infrastructure investments and consumer spending in connection with the European Football Championship as well as the recent currency depreciation will lead to positive growth effects. The recent economic forecasts such as that of the European Commission indicate that, in spite of the debt problem in the neighbouring Eurozone, Poland's gross domestic product this year will increase by 2.5% (European Union: 0.0%) and that growth will speed up slightly in the following year. According to estimates by the European Commission, the inflation rate, which climbed quickly to 3.9% last year because of an increase in value added tax, currency depreciation and increased energy and food prices will average 3.5%. Eurostat data show that the seasonally adjusted unemployment rate in January 2012 was 10.1% and, in view of the sound, but comparatively modest growth for Poland in the current year, will remain at this level. In the large cities, especially the capital city of Warsaw, economic development will probably continue to be above average thanks to the ongoing structural change towards the tertiary sector.

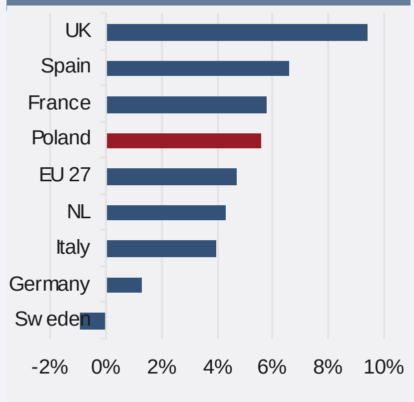
Introduction of the euro as a long term vision

The zloty, the Polish currency, depreciated against the euro towards the end of 2011 because of the deepening debt problems in Hungary and the Eurozone, but then finally recovered somewhat. In the long term, the Polish government plans to adopt the euro as a currency. At the moment however this is not a concrete issue because of the turbulences within the Eurozone. In addition, according to surveys, the majority of the population is currently against joining the Eurozone due to the currently unfavourable exchange rate. Furthermore, a flexible exchange rate regime and access to the IMF's Flexible Credit Line (FCL) serve as important shock absorbers. It is worth mentioning in this context that leasing contracts in Poland's commercial real estate sector are usually denominated in euro. This means an essential part of real estate investment currency risks is carried by the lessees.

Economic classification in Eastern and Western Europe out-of-date

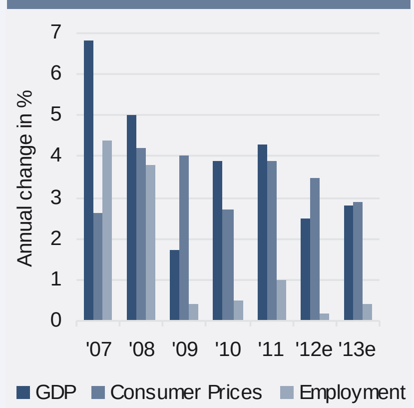
The strong currency fluctuations in recent years were among other things due to the fact that international investors regularly lump together Poland and the other economies of Central and Eastern Europe (CEE). The traditonal CEE classification was surely adequate at the beginning of the 90s, when all the countries of the former Eastern Bloc were characterized by similar starting conditions and when they were

Public deficit in % of GDP



Source: European Commission

Macroeconomic data Poland



Source: European Commission

Currency evolution

Source: Pacific Exchange Rate Service

subject to a structural transformation of their political and economic systems. But today this classification ignores that the individual countries of Central and Eastern Europe have developed very differently in the last two decades.

Among the large “new” members of the European Union, only the Czech Republic and Slovakia seem to be in a better shape than Poland with regard to their public finances, if the judgement is based on the assessments by the international rating agencies (e.g. according to Fitch, the Czech Republic and Slovakia have a A+ rating compared to A- in Poland). But both economies are much smaller and characterized – at least the Czech Republic – by a less dynamic economic evolution. Hungary, Romania and Bulgaria are not only subject to much slower growth rates, but also to some extent to problems with regard to public finances, political stability and the legal system. Some analysts see Poland in the same category as the Western European economies. But also this classification does not seem adequate: First of all, Western Europe does not form a homogeneous bloc either. Secondly, compared to the countries of Western Europe, Poland is in a worse position considering some aspects as e.g. income per capita, but much better off with regard to the dynamism of the economy and the public indebtedness, as described above. So, from that perspective, Poland is a class on its own.

2. Dynamic development on Warsaw office market

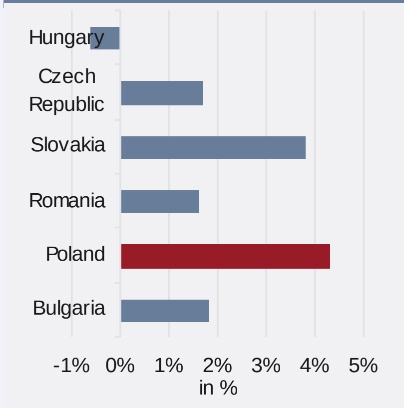
2.1 Special structural characteristics: small but dynamic

Capital is Poland’s growth engine

Warsaw has 3.6 million sqm of modern in other words, built or renovated after 1989 – office space, by far the largest office market in Poland. This is not only because of the size of the city (1.7 million inhabitants) but especially because the capital has established itself as a service and administrative centre. Not only are the headquarters of all Polish constitutional bodies and central public administration institutions located in Warsaw, Warsaw is also Central Eastern Europe’s most important financial centre and therefore the location of the important Polish banks and PZU insurance company. In addition important media companies (e.g. TV broadcasters, Agora publishing) and Telekomunikacja Polska, Poland’s largest telecommunications company have set up offices in Warsaw.

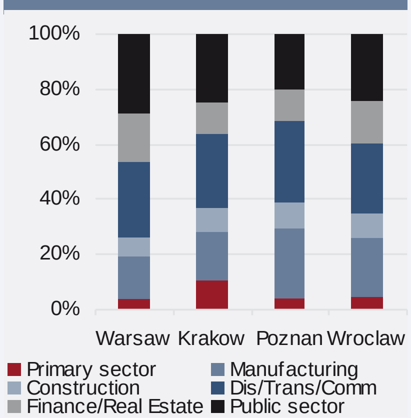
Compared to other Polish agglomerations, the industrial sector in Greater Warsaw, which employs 16% of the total regional workforce, is underrepresented. However, the headquarters of many industrial companies which require office space often are based in the capital city. This is why Warsaw’s economy and office market have benefited substantially from the structural change towards a service economy. The tertiary sector’s share in employment is now about 74%. Growth in Greater Warsaw has trended considerably above Polish average levels in the last ten years with more than 5% for gross value added and about 2.5% for employment.

Ø Economic growth 2007-2011



Source: IVG Research/European Commission

Employment structure: Comparison



Source: Cambridge Econometrics

Small but rather modern total office stock

Measured in terms of total office stock, Warsaw seems small in comparison to other European capitals. This is true even if Warsaw's old office space is included – in other words, the spaces built before 1989 and that amount to roughly 2 million sqm (These spaces are however not very relevant with regard to market development because only the government, small companies and entrepreneurs are interested in these properties. They are not recorded by real estate agents). In terms of total office stock, Warsaw falls more into the category of large European regional centres than European metropolises.

Incredible supply and demand side momentum

However, market development is extremely dynamic both with regard to supply as well as demand. The 3.6 million sqm of office space recorded by real estate agents has sprung up from nothing in a mere 16 years. This means Warsaw has a relatively modern office stock. This is of interest with regard to possible investments in the office sector because it means that a relatively large part of the existing (modern) office spaces can be used as investments. With respect to office completions, Warsaw was clearly ahead of considerably larger markets such as Berlin, Amsterdam, Vienna, Milan or Stockholm.

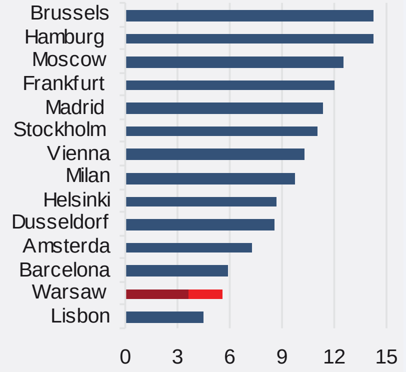
The trend in Warsaw is toward constructing large properties with a space volume in excess of 20,000 sqm. Since lettings of small spaces (< 1,000 sqm) are more characteristic for the Warsaw market than large transactions, large space volumes imply that office buildings are usually multi-tenanted properties (tenant diversification within the building).

The Warsaw market has an extremely dynamic rental demand. Average space turnover for example, measured in terms of the relation between take-up and stock in Warsaw from 2002-2011 was much higher than in the established Western European office markets (note: in the case of Budapest, Prague and Warsaw, renegotiations were not included in the analysis). Certainly: this figure is upward-biased because 1) Warsaw's office market is still at an early stage of its development, i.e. starting from a low level and 2) lessees are moving from the old spaces not recorded by real estate agents into modern offices. However take-up of office space last year also corresponded to more than 11% of the stock and the difference to other European locations seems gigantic. Important reasons for this high takeup are the dynamic economic growth as well as the structural change toward a service society.

Four economic sectors as main drivers of office space demand

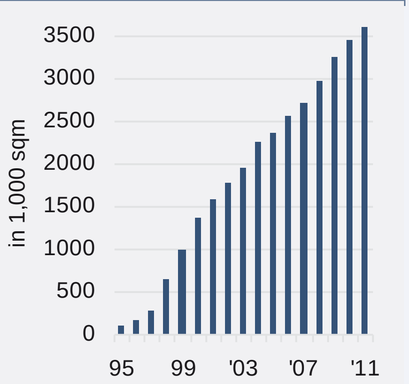
Based on the take-up of the last five years including the renegotiation of existing contracts, four economic sectors dominate as tenants on the office market. Companies from industrial and energy sectors, providers of business and financial services, as well as information and communication technology companies are responsible for two thirds of the lettings during this period. In contrast, public administration institutions played a minor role in spite of their importance for the regional economy. This probably reflects the fact that large parts of the admi-

Office stock in mn sqm



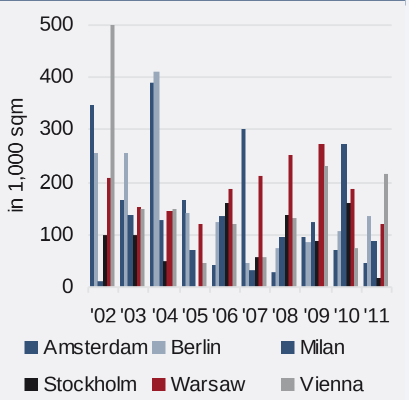
Source: IVG Research/Cushman & Wakefield

Evolution of Warsaw office stock



Comment: Modern office space
Source: DTZ Research

Completions of office space



Source: Cushman & Wakefield

nistration are located in owner-occupied offices or old buildings not included in the real estate agents' data. Nevertheless, it is predicted that public sector will gain its importance and government tenants are potential large source of demand for modern office space.

With respect to market transparency in Warsaw, it is worth mentioning that the leading real estate agents compare data with each other in connection with the Warsaw Research Forum and are able to publish consistent data regarding the rental market development based on it. Unfortunately this transparency does not apply to information with respect to nominal rents or the significance of tenant incentives and not at all to individual transactions so that external players are left in the dark in this respect. The situation is better with respect to concrete transaction data concerning the investment market, because the players often foreign companies – themselves frequently publish essential information.

Evolution of prime rents appears relatively cyclical

A comparison of the Warsaw office market with other European locations with respect to volatility of rents, initial yields and vacancy rates only makes sense for the period after 2005: Before this period, the market was still in the process of structural transformation; in addition, yield trends in Warsaw were characterised by a sharp compression as a result of entry to the EU. This is why a "normal" cyclical movement such as in the established Western European office market can only be observed from 2005 onwards.

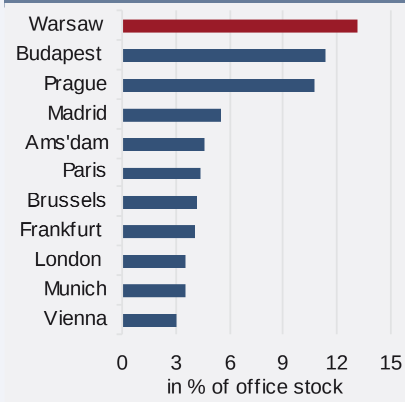
In the short period from 2005 to 2011 the fact stands out that the prime yields, vacancy rates and particularly the prime rents were subject to relatively strong fluctuations. This indicates that Warsaw belongs to the more volatile markets as compared to Western Europe. This seems especially plausible with respect to the rents: Due to its enormous economic growth momentum, the market may have a tendency to overheat, especially since new construction activity in the Central Business District is discontinuous because of the great importance of skyscrapers. In addition office rent in Poland is subject to the influence of currency changes since the rents are nominated in euro but a considerable number of tenants companies make their calculations in zloty. The rental fluctuations bear risks, but also certain chances, the more so as the pronounced cyclicality is a good base for the estimation of the future rental evolution.

2.2 Spatial structure of Warsaw office market

Within Warsaw, different office locations have emerged in the last two decades. The most important submarkets are the city centre, Wola – a submarket bordering on the city centre, the corridor along the Aleje Jerozolimskie toward the Southwest and the Mokotów submarket in the "Upper South" near the airport. There are almost no modern office buildings in the quarters to the east of the Vistula.

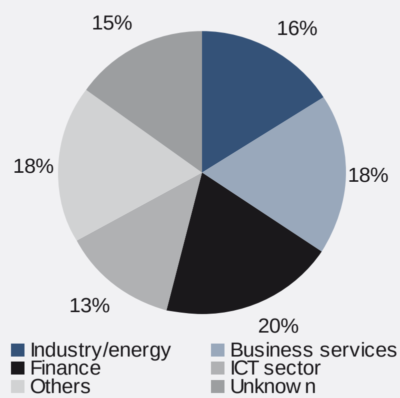
1.2 million sqm, about one third of Warsaw's office stock, is located in

Ø Take-up 2002-2011



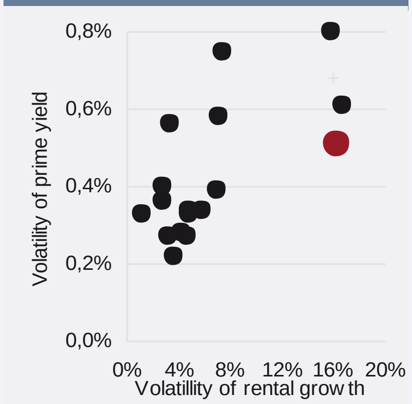
Source: IVG Research/Cushman & Wakefield

Gross take-up: Structure by sector



Source: CB Richard Ellis Average structure of the years 2007-2011

Rents and yields: Volatility 2005-2011



Source: IVG Research for 16 Western European markets. Warsaw marked in red colour.

the **city centre**. There are many places with inefficiently used spaces and construction gaps in the centre of Warsaw so there is space for more office development. The city centre borders to the Northeast with the historical centre of the city, which although considered a prestigious address, lacks prestigious offices in extensively renovated historical buildings and new spaces. Many of the historical buildings in the old city that were rebuilt after the second World War are occupied by the public sector or house small offices, apartments and shop spaces. Warsaw's actual **Central Business District**, which comprises one half million sqm of office space, is located a good 1.5 km to the Southwest of the old city: In the past two decades, in the area surrounding the 231 m high Palace of Culture built in Stalinist gingerbread-style, a large number of skyscrapers have been erected emphasising the district as the city's economic centre. Important lessees in this area are banks, insurances and providers of business services. The office space supply is complemented by a number of hotels and retail spaces, not least by the Zlote Tarasy shopping centre located directly next to the main train station.

The area surrounding Three Crosses Square (Trzech Krzyży) in the centre of the city occupies a special position. It is in the direct vicinity of the parliament and embassy district, which is interspersed with green areas. The prestigious area surrounding Trzech Krzyży is characterised by several historical buildings, some lavishly redeveloped. The subsidiaries of some luxury fashion retailers and a corresponding hotel chain underscore the reputation of the address. It is mostly law firms, banks, embassies and the representative offices of technology companies that have settled in the area surrounding Trzech , companies that attach importance to a presentable address and usually require smaller spaces.

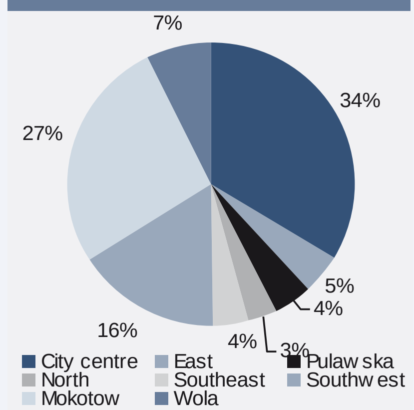
In the city district of **Wola**, which borders to the **West** with the city centre, construction gaps are being closed one after the other, not least because the district will become noticeably more accessible after the second metro line is completed. A whole row of new office constructions, occupied among others by telecommunications companies and banks have been erected especially along the Prosta traffic artery. Office space stock comprises 261,000 sqm.

The **Southwest**, especially the multilane **Aleja Jerozolimskie**, a major traffic artery to the Ochota and Wlochy districts, is considered an important office location with a stock of almost 600,000 sqm. A significant part of the office buildings, which have continuously been built since 1990, is on a one kilometre wide strip along the main street; the regional centres of multinational concerns like Daimler, Chrysler, Philips and Bayer as well as telecommunications and IT companies are located here. Unexploited areas offer opportunities for more office building developments. Jerozolimskie, the motorway-like expressway, provides relatively good access by car. However, the only way to reach the area by public transportation is by bus. Several shopping centres and retail warehouses ensure the necessary local supply of goods.

Office submarkets of Warsaw

Source: IVG ResearchResearch

Office stock: Geographical structure



Source: CB Richard Ellis

The largest concentration of office space (almost one million sqm) outside the city centre is located 5 km to the South of the inner city in the **"Upper South"** submarket, especially in the **Mokotów** district on the former premises of light manufacturing plants. Although there is no metro connection, the office area is popular among tenants because the preferred residential areas of the capital are in Mokotów and the bordering as well as outlying districts. The local retail supply is ensured by the Galeria Mokotów, one of the most important shopping centres in the city. The decisive factor for the dynamic development of the submarket was however the availability of cheap construction land for large office complexes or business parks. The proximity of the international airport also proves to be an advantage. Tenants come from a broad range of sectors: In addition to back-offices for various financial institutions, different companies from the industrial sector and the IT branch have settled here. Construction potential is by no means exhausted; the location offers more development properties if required.

The other 16% of the total office stock is dispersed over the rest of the city, among other places in the districts of Ursynów und Wilanów in the South and Źolibórz, to the North of the city centre. The districts to the East of the Vistula are primarily residential and industrial.

With regards to investment attractiveness, City Centre and Wola and office locations along the two metrolines seem to take the lead with Mokotów, Aleje Jerozolimskie and Żoliborz as further recommended choices.

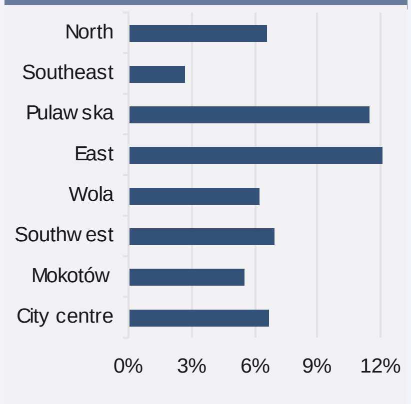
2.3 Cyclical upswing: infrastructure projects provide stimuli

Strong increase in the demand for space after the crisis

Since autumn 2009 and including last year, the Warsaw office market has been characterised by a strong recuperation. If one disregards the renegotiation of existing contracts – as is common in Western Europe –, take-up in 2011 amounted to over 400,000 sqm. Compared to the previous year it was possible to achieve a growth of 16% because of the favourable economy. If one adds the contracts closed as a result of the renegotiation of existing leasing contracts to this, a record turnover of 575,000 sqm was achieved in Warsaw last year. This is not really surprising on a market expanding in the long term in which lease contracts are adjusted regularly.

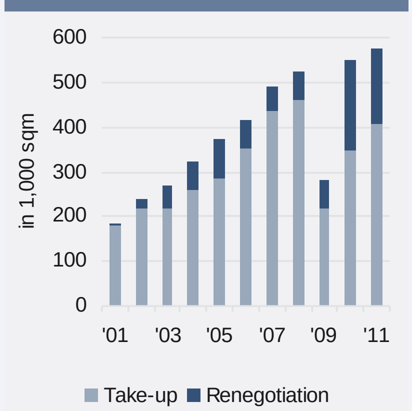
Last year, the market was once again characterised especially by small leases. The few large transactions were mostly prelettings, for example the lease of 43,700 sqm by Telekomunikacja Polska in Miasteczko TP (Aleje Jerozolimskie, completion 2013) and the lease of 9,100 sqm by PKN Orlen, the Polish energy company in the Senator office property (city centre, completion 2012). Because of these large transactions, prelettings reached a high volume of 120,000 sqm. Most lettings, namely 79%, occurred in the three submarkets city centre, "Upper South" (including Mokotow) and Southwest (including Aleje Jerozo-

Vacancy rates



Source: Jones Lang LaSalle

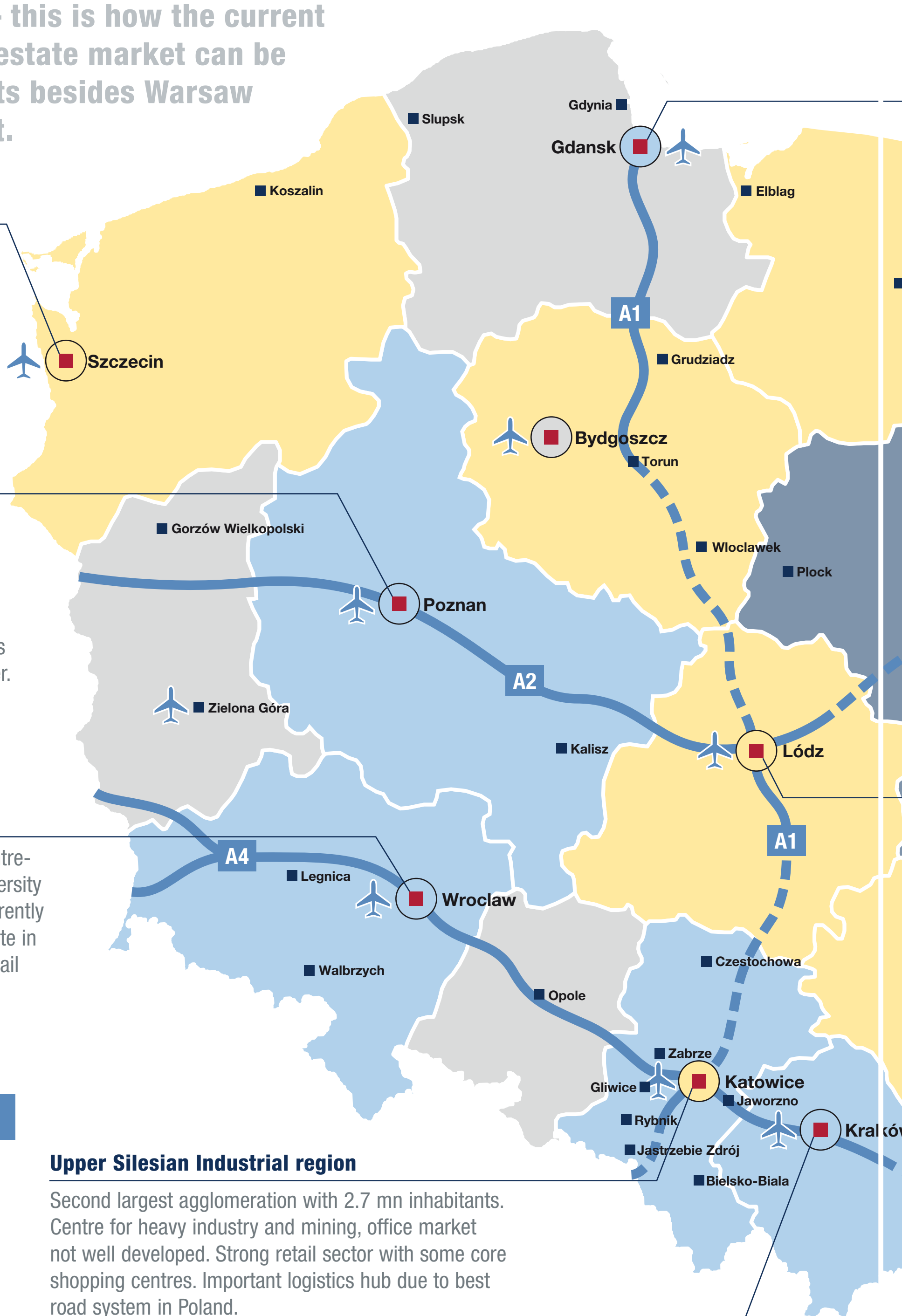
Take-up with/without renegotiatons



Source: IVG Research based on agents' data

10 places in Poland to see before you ...inve

‚Dynamic and promising‘ – this is how the current situation on Poland‘s real estate market can be characterised. Also markets besides Warsaw are worth to have a look at.



Szczecin

Second Polish harbour. Logistics sector benefits from transport facilities of river Oder and Baltic sea and from proximity to German border. Well developed retail market.

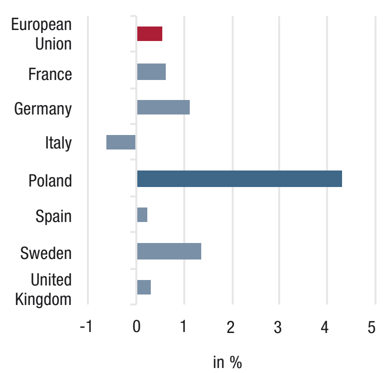
Poznan

Biggest Polish international trade fair, important centre for manufacturing. Good quality offices available and international players present. Good retail products available on relatively saturated market. New opportunities to logistics thanks to opening of motorway A2 to Western border.

Wroclaw

High attractiveness to BPO thanks to very entrepreneurial local government and strong university base. Cultural capital of Europe in 2016. Currently the office market with the lowest vacancy rate in Poland. International developers present. Retail market relatively saturated.

Ø annual growth of GDP 2007-2011



Source: IVG Research, European Commission

Upper Silesian Industrial region

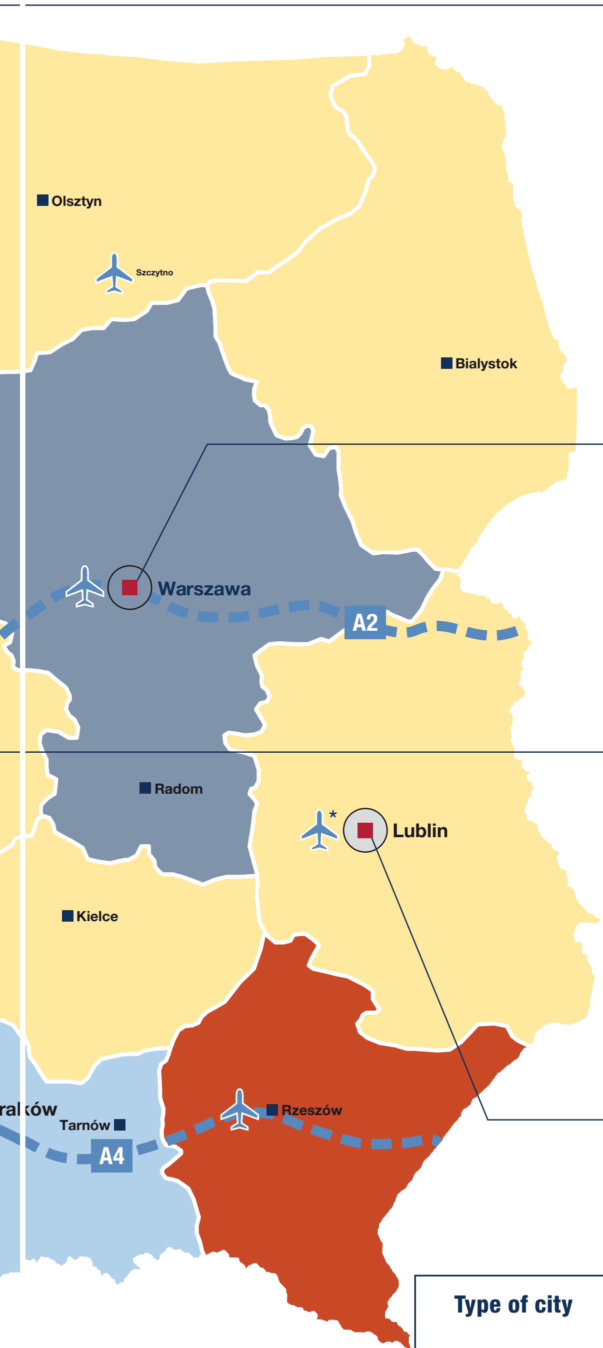
Second largest agglomeration with 2.7 mn inhabitants. Centre for heavy industry and mining, office market not well developed. Strong retail sector with some core shopping centres. Important logistics hub due to best road system in Poland.

Kraków

Second largest city and office market of Poland. „Oxford“ and „Silicon Valley“ of Poland as location for technology, life sciences and BPO. Unique city from a tourist point of view, well developed retail market. Presence of international players.

Contact: research@ivg.de

vest in 2012



Tri-City

(Gdansk/Gdynia/Sopot) at the seaside: Attractive touristic destination and largest Polish harbour, manufacturing centre. Office market dominated by local developers able to deliver institutional quality: Attractive location for BPO from Scandinavia. Well developed retail market.

Warszawa

Capital, services and financial centre, headquarters‘ location. Largest office market and most dynamic region of the country. Strong activity of international players. Retail well developed, but still room for further shopping centres.

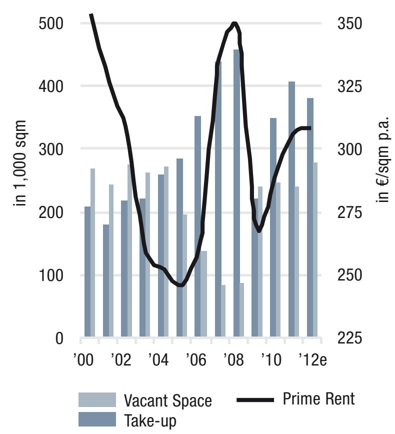
Lódz

Third largest city of Poland. Current office oversupply, but growth potential as back-office to Warsaw, BPO and logistics location due to future improvement of traffic infrastructure (high-speed rail to Warsaw, central crossroads of motorways A1 and A2).

Lublin

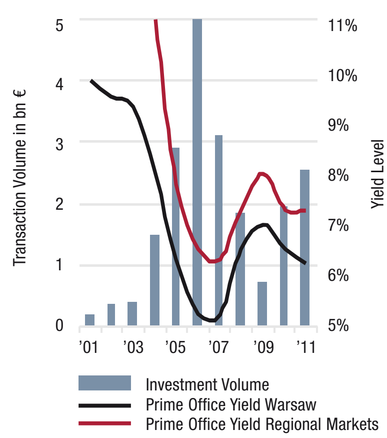
Growth potential thanks to strong academic base, low wages and opening of new international airport in 2012.

Office Market Warsaw



Source: IVG Research

Commercial Real Estate Investments



Source: IVG Research, various agents

Type of city	Infrastructure	Expected economic growth
Top Ten	Airport	Far below average
City with population of 100,000 to 400,000	Motorway	Below average
	Motorway under construction	Polish average
		Above average
		Far above average

* Under construction

limskie). Active prospective tenants in 2011 were mainly providers of business services and IT companies.

Vacancy rate reduction and rent increase across the board

The high demand for space, characterised by a significant need for additional space, in other words, net absorption met with a comparatively low completion volume of 120,000 sqm. This reflects the fact that hardly any new construction projects were started in 2009 due not only to the downturn in the economy and office market but also to restrictive financing conditions. Since relatively few new office properties were placed on the market last year, the number of vacancies continued to decrease. At the end of 2011, 6.7% of the total stock in Warsaw was vacant as compared to 8.1% in mid 2010, the highest level of the previous market cycle. Vacant space corresponds to 240,000 sqm in absolute figures. The most important submarkets currently have similarly low vacancy rates, ranging from 5.5% in the “Upper South” to 6.2% in the West, 7.0% in the Soutwest and 7.1% in the city centre.

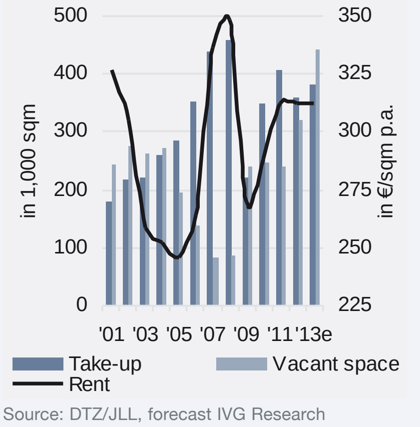
In view of the space shortage, rents have been trending upwards since mid 2010: The nominal prime rent has increased by about 13% and averages € 312/sqm p.a. Peripheral locations, where up to €198 p.a. are achieved, likewise recorded an increase in rents for high-quality space. In addition lessors have reduced tenant incentives such as rent-free periods and fit-out-contributions. Effective rents are about 15% below nominal rent levels at the moment.

Momentum will hold: high demand but surge of new construction

The development of the Warsaw office market in this year and next mainly depends on the Polish economy and, because of the interdependencies to the other economies, therefore also on how the Eurozone sovereign debt crisis evolves. As described in Chapter 1, Poland is expected to do comparatively well in 2012 and 2013 with growth rates of 2.5% and more. Because economic growth rates in Warsaw are usually higher than in the rest of the country, the prospects that the office market will remain stable in the Polish capital are good: Since a lot of leasing contracts that were signed in the record years of 2007 and 2008 will expire or are due for extension, a high demand and dynamic take-up can be expected both for 2012 and 2013 even though the effects of the economic slowdown will be noticeable.

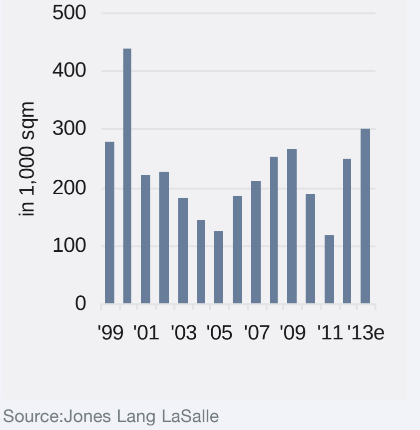
However, there is a question whether demand will be sufficient to completely absorb the completed constructions. This year, as a response to the market upswing that began in mid 2010, about 250,000 sqm (including 60,000 sqm for owner-occupiers) and in 2013 even more than 300,000 sqm of office space may be completed. This corresponds to an expansion of the current stock by 7% in 2012 and at least by 8.3% in 2013. Because of this, the vacancy rate is likely to increase until the end of 2013. In 2012, the market which is currently characterised by space shortage will return to a more balanced situation. The rent trends will therefore be principally stable, especially since rent costs for Polish companies have gone up because of the depreciation of the zloty with respect to the euro.

Office market Warsaw



Source: DTZ/JLL, forecast IVG Research

Warsaw: Office completions



Source:Jones Lang LaSalle

Increasing value of certain locations through infrastructure projects

In the long term, certain structural shifts can be expected within the Warsaw market, not least due to the completion of a range of infrastructure projects:

- The section of the new **metro line** from Wola in the West of the city via the city centre to Wilenska train station at the Eastern Vistula bank is scheduled for completion by 2013 (2016: completion of the entire line). The metro connection will make the Wola submarket and the parts of city centre lying to the West more attractive for office tenants. This could lead to an expansion or shift of the central business district to the West, especially since spectacular office projects such as the Warsaw Spire skyscraper (49 floors, 100,000 sqm usable floor space) and the UBS Tower (42 floors, 60,000 sqm usable floor space) are planned in the area between the Wola and the city centre.
- The completion of a **train connection** between the international **Frederic Chopin Airport** to the South and the city centre by the beginning of the European Championship will possibly also increase the value both of the city centre and of the airport zone in the "Upper South" as an office location.
- The construction of the **ring road** surrounding Warsaw will increase the potential for decentralised office locations and will particlarly improve access to the office submarket of Mokotow and the airport zone to the South.
- It is doubtful if the conversion of Modlin, a former military airport to the North of Warsaw, in **a second civilian airport** for international low-cost airlines will upgrade the North as an office location but this remains to be seen.
- Although the construction of the **Polnocny Bridge to the North** will improve the connection between the areas to the Northwest and Northeast of the Vistula it should have no effect on the office market.

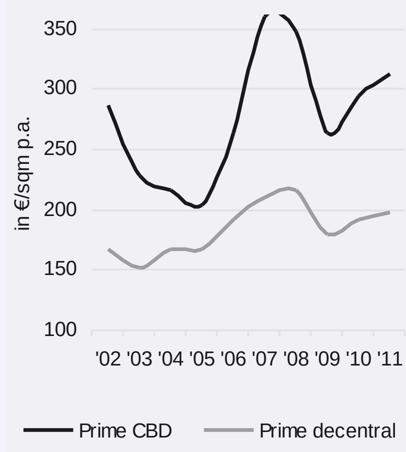
The growth momentum of the Warsaw office market will be reinforced by a number of infrastructure and office construction plans for new buidings. In this context, certain office locations will be upgraded and others downgraded. In addition to the location of properties, accessibilty by private and public means of transportation as well the local supply of goods and services for employees, for example through a shopping centre will be very important for the longterm rentability of office spaces.

3. Maturation of office markets outside Warsaw

Business Process Outsourcing favours regional markets

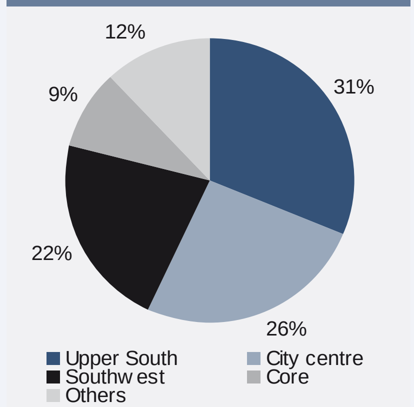
In the agglomerations outside of Warsaw, rental markets for office space have only emerged in the course of the last ten years. Their emergence was buoyed by the fact that in the last few years foreign companies have outsourced their functions or departments to Polish subsidiaries or specialised service providers to reduce their operating costs. Poland is particularly attractive for company offshoring or business process outsourcing (BPO) policies because it ensures high legal security as a member of the European Union and its large cities offer a large pool of cheap, well-trained young labour with a broad range of language skills.

Rental evolution



Source: Cushman & Wakefield

Take-up 2011 by submarkets



Source: DTZ

Vacancy rates

Source: Cushman & Wakefield

Krakow and Wroclaw are the most important locations

Since wage costs in Warsaw are high compared to the rest of the country, Krakow, Poland's second largest city and Wroclaw, not least thanks to the municipal government's business-friendly settlement policy, both reap the benefit of this development. While these two locations increasingly attract international tenants, lessees in both TriCity (area surrounding Gdansk, Gdynia and Sopot) and Poznan are usually domestic companies.

Traditionally, Katowice and Lodz are primarily industrial regions. However, as a result of the transportation infrastructure improvements (central location at the A1/A2 motorway intersection, high-speed railway), Lodz will become more attractive as a business process outsourcing location. The two large cities of Szczecin (near the German border) and Lublin (new airport, low wages) are still at the beginning of their development as business process outsourcing locations as are Rzeszów, Bydgoszcz, Torún, Olsztyn, Kielce and Bialystok.

Total modern office stock of the eight largest regional markets amounts to a mere 2.2 million sqm with 40% of that concentrated in the Krakow and Wroclaw markets. To illustrate how limited the space capacity in the regional centres is: Warsaw's modern office stock alone amounts to 3.6 million sqm.

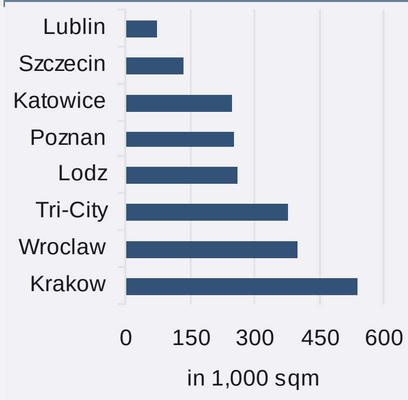
Noticeable market recovery in the last year

Regional markets in Poland were hit hard by the global financial crisis in autumn 2008: The expansion plans of a lot of international companies were temporarily shelved. Office space was sublet while, relatively speaking, a lot of new office space was completed at some locations. As a result, vacancy rates, particularly in Lodz, Katowice and TriCity skyrocketed and prime rent levels at all locations fell back considerably.

During 2010, regional markets stabilized not least because of renewed BPO activities resulting from the economic recovery in Poland and the rest of the world. According to estimates, Poland has attracted 300 companies from the BPO sector that employ about 80,000 people and will hire another 20,000 individuals by 2013. These trends indicate an expansion course and new construction activity in the regional centres is increasing once more.

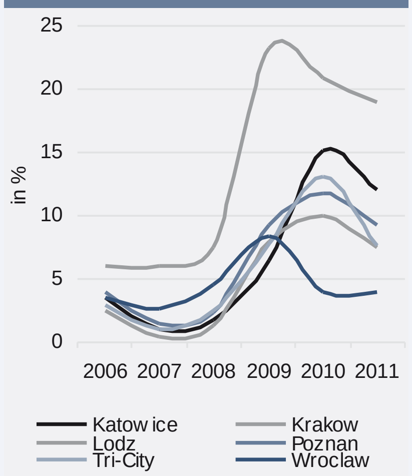
However the situation in each of the different regional markets is not the same. While Wroclaw currently lacks modern office space and has a vacancy rate of 4%, one-fifth of the office stock in Lodz is vacant – at first sight a massive oversupply of space. These figures imply that vacant space in both limited markets amounts to only 16,000 sqm and 45,000 sqm respectively. This means that the situation in still quite small regional markets can change very quickly as a result of the leasing of large spaces or new constructions. This is true also for Wroclaw where 93,000 sqm are scheduled for completion this year, the equivalent of 23% of current office stock. This is why, in spite of the region's excellent prospects, an increase in the vacancy rate is probable.

Regional office stock



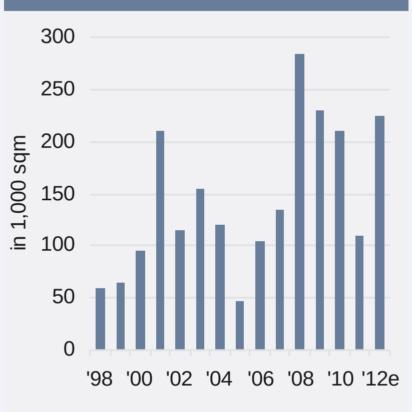
Source: CB Richard Ellis

Regional vacancy rates



Source: DTZ Research et al.

Completion of new office space



Source: DTZ Research

Regional markets characterised by volatile development

The volatility of the dynamic but still limited markets thus far is reflected in the rents, which fell considerably at all locations as a result of the financial crisis. Against this background, the regional markets pose risks in view of the strong demand in connection with business process outsourcing, the establishment of new local office market structures and the relatively high yields (7% or more) but also offer great opportunities.

Nominal prime rents range between €132 and €180/sqm p.a. (effective rents €108 to €162/sqm p.a) and are therefore considerably lower than those of Warsaw, the capital city (nominal rents €312/sqm p.a.). The highest rents are achieved in Krakow and Wroclaw, the most sought-after locations (up to € 180/sqm p.a.), while Lublin and Lodz are comparatively cheap, with rents ranging from €132 to €156/sqm p.a. In 2012, stable rent levels can be expected for the most part in the regional centres although there could be positive surprises in individual cases.

4. Poland's retail property market in expansion mode

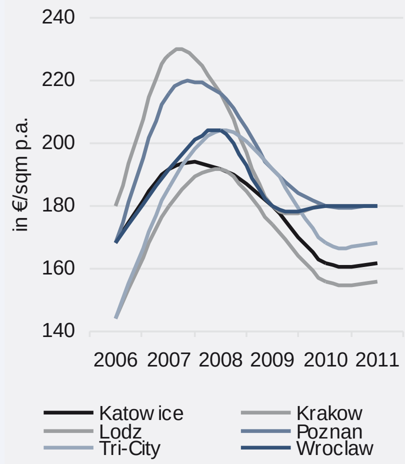
Structural characteristics: shopping centres dominate the market

Since the market was opened at the beginning of the nineties, Poland has undergone a transition from simple supply trade to Western style retail trade. Following the creation of a working distribution network for supermarkets, the first hypermarkets with adjacent shop galleries were built. At the end of the 90s, the transition to the consumer society then took place when Western European style shopping centres were constructed. The development of modern retail spaces went hand in hand with the market entry and expansion of international retail chains for whom the country with 38 million inhabitants represents a large sales market. In addition and in contrast to a lot of economies in Central and Eastern Europe, a number of domestic brands such as Parbia, Furla, Empik, Smyk and Bomi have been able to firmly establish themselves on the Polish market.

According to the real estate broker DTZ, Poland's stock in modern in other words, completed after 1990 retail properties exceeding 5,000 sqm amounts to 11 million sqm. Most of this, namely 74% or 8.1 million sqm is in shopping centres, which, as the main retail format ensure the basic supply of goods for the population's daily and occasional needs and, as a public space, fulfil an important social function. In contrast and due to war damage and the subsequent socialist experiment, high-street retail in central locations is much less important than in Western Europe. Because of its importance for tourism, Krakow is the only other city besides Warsaw that shows signs of a "high street" – a segment that will become more important in the long term as a result of increasingly sophisticated consumer habits and supply.

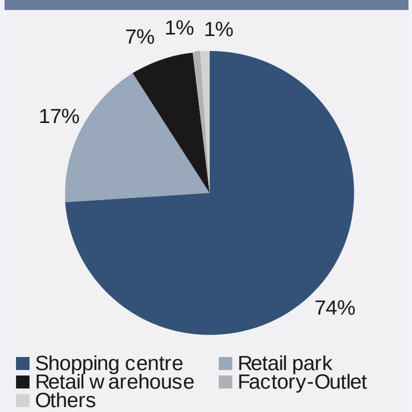
In addition to the shopping centres, which are able to establish themselves more and more in the small and mid-sized cities, retail parks are becoming more important in Poland. These make up 17% of modern

Regional prime office rents



Source: Cushman & Wakefield

Modern retail stock: Structure



Source: DTZ Research

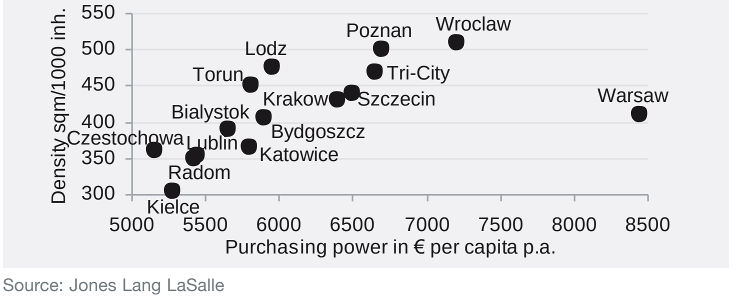
retail space, stand-alone retail warehouses 7%. Last but not least, the six outlet centres, two of which are in Greater Warsaw alone, are worth mentioning.

Considerable regional differences in retail infrastructure

Compared to the rest of Europe, Poland is slightly below the European average and slightly behind the Czech Republic and Hungary with a shopping centre density of 200 sqm per 1,000 inhabitants. This suggests more growth potential also because this retail format is very important for domestic consumption. However, it must be considered that Poland's per capita income – as compared to other countries in the European Union – remains relatively low.

Within Poland, there are however huge differences between individual cities with respect to retail stock. As the following graph shows, locations such as Lodz and Czestochowa, measured in terms of their buying power, have a relatively high modern retail space density, while regions such as Warsaw and Katowice seem to still have potential for more large-scale retail properties. This comparison makes clear that locations in Poland cannot be judged equally with respect to retail investment prospects but that each retail location has to be examined individually.

Maturity: Purchasing power vs. Shopping centre density



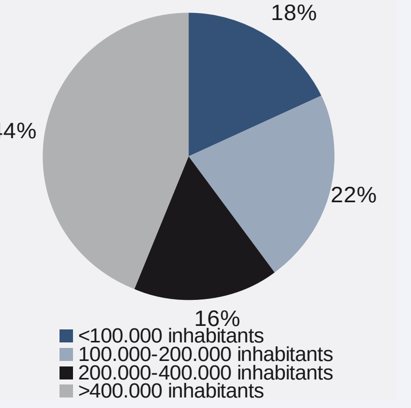
Source: Jones Lang LaSalle

Booming retail demand

If one sets the important regional differences aside, retail sales and rental market developments have been favourable: According to the Polish Office of Statistics, retail turnover from January to November 2011 as compared to the previous year increased by 11.1%, not least due to the booming labour market, which recorded the highest employment figure since 1990. This is why not only retail companies that are already active in Poland such as TK Maxx, H&M and Starbucks are expanding rapidly but also a lot of new international brands have entered the market, such as Toys“R“us (toys) and GAP (fashion) from the USA, Desigual (fashion) from Spain and Jula (DIY market) from Scandinavia. Foreign chains often expand to Poland through franchisees with the capital city of Warsaw serving as a bridgehead.

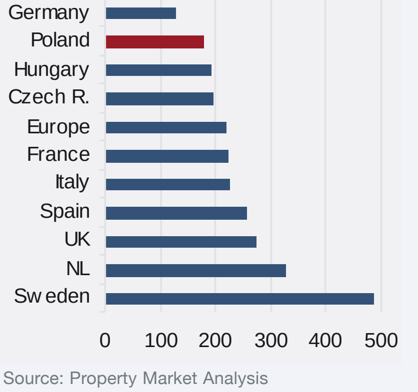
Against the favourable economic background, the rental market for retail space was characterised by high letting activities with tenants focused primarily on shopping centres in good locations as well as mid-sized and small cities.

Shopping Centre acc. to city size



Source: DTZ Research

Shopping centre density



Source: Property Market Analysis

Space shortage in 2011 in spite of high construction activity level

High demand was supported by the completion of 740,000 sqm of space (this corresponds to 6.7% of the current stock), half of that in small and medium-sized cities with population of up to 200,000 inhabitants. It is worth mentioning in this context that about one sixth of the completions were expansions of existing shopping centres and that new shopping centres were built especially in inner city locations (e.g. Plac Unii in Warsaw, Millennium Hall in Rzeszów).

In spite of the high construction activity level, there are at least no vacancy problems in the eight large agglomerations: vacancy rates in the shopping centres here range between 0.5% (Szczecin) and just under 3% (Krakow). Especially shopping centres with a large number of international chain outlets and neighbourhood centres with a firmly established customer base have a good market position. In contrast, the situation is problematic for retail properties with a bad layout or which are old ("first generation") or which opened during the economic downturn in 2009 when renting to attractive retail companies was difficult.

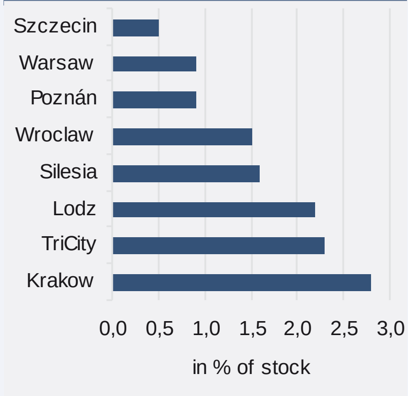
On average, rents in shopping centres throughout the country remained stable last year, although regional differences were observed: While rents e.g. in Warsaw, Krakow and Silesia trended upwards, they were subject to downward pressure in Poznan and Szczecin as well as in some smaller locations. In Warsaw, small 100 sqm spaces in the most important shopping centres and selected high street locations such as Nowy Swiat and Trzech Krzyzy achieve rents of up to €90/sqm per month. In retail parks, rents of up to €12/sqm are paid for units with volumes of 800 to 1,000 sqm per month.

New trends

In addition there are signs of some newer trends.

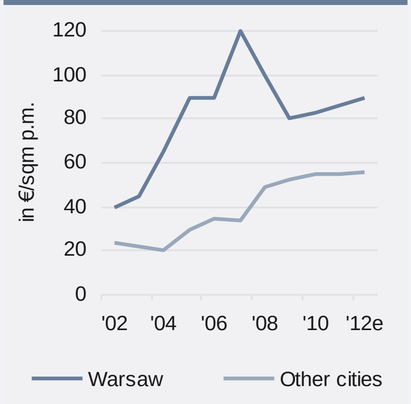
- Retail parks, not very popular with consumers thus far and characterised by a limited number of potential tenants, are now in higher demand by retailers. Because of cheaper rents, companies such as e.g. Empik, Smyk, C&A and Superpharm have decided to expand from the shopping centres to the retail parks. This is why constructionactivity in this segment has increased considerably. This asset class might get further importance among institutional investors.
- The trend toward environmental sustainability certification for shopping centres is also becoming popular in Poland: Several properties were awarded the BREEAM Certificate.
- The differentiation of the retail stock continues. In Warsaw, the luxury department store Dom Mody vitkAc was opened at the end of 2011. With regard to the new shopping centres, small convenience centres with a local focus are gaining in importance. In addition different retail formats are being combined with each other, such as shopping centres and retail parks (e.g. Turawa Retail Park in Opole, Europa Centralna in Gliwice) or retail parks and factory outlets (e.g. in Futura Park in Krakow).
- As part of the proactive asset management of properties, measures to expand, reposition and modify shopping centres are becoming more important.

Shopping centre: Vacancy rates



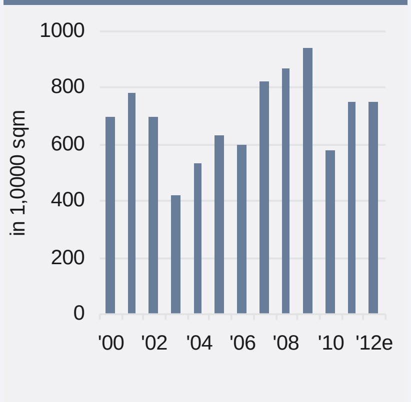
Source: Retail Research Forum, January 2012

Prime rent in shopping centres



Source: CB Richard Ellis

Completions of new space



Source: DTZ Research

Expectations have recently bleakened slightly

In the past few months, sentiment among Polish consumers and that of the retail companies operating in Poland has worsened to a notable degree, not least due to the uncertainty caused by the sovereign debt crisis in the Eurozone. In addition the value added tax hike as well as the depreciation of the Polish currency led to an increase in consumer prices and retailers' operating costs. This has resulted in considerable decreases in retail turnover per month; the turnover in the food segment has even decreased because of noticeably higher prices.

Even though a lot of international retailers want to continue to adhere to their expansion plans – also because the currency situation favours them – the weaker economy will have a dampening effect on demand for retail space. According to DTZ estimates, this year's completions amount to 760,000 sqm a similarly high level as last year's with most of these spaces going on the market in smaller and mid-sized cities. Rents are even expected to come through the current year unscathed because retail supply in Poland is very scarce and many of the new construction spaces are already prelet. In Warsaw, where there will be no significant increase in stock in 2012, even rent increases are conceivable.

5. Logistics markets: motorway expansion offers opportunities

Market in the hands of a few project developers

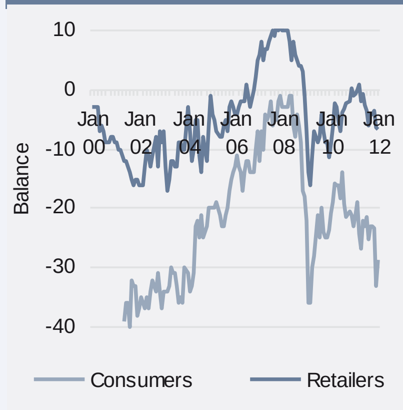
Poland, with a stock of about 7 million sqm of modern spaces represents the largest market for logistics real estate in Central and Eastern Europe. This prominence is reinforced economically by the large domestic market with 38 million inhabitants and the geographical proximity to the sales markets in Germany and Eastern Europe. The ongoing expansion of the motorway infrastructure will make Poland even more attractive as a logistics location (see map on p. 14/15).

It is important to mention that more than half of the existing modern logistics stock in Poland is in the hands of the two project developers ProLogis and Panattoni, which gives them considerable market power on the rental market as well as the investment market. This limits the attractiveness of real estate investment in this segment for developers in spite of the excellent prospects of the Polish market. However, for tenants and investors the market seems to be attractive due to low rents (compared to Western Europe), large infrastructure improvements and the possibility to relocate or open logistics hubs in Poland.

Regional concentration of logistics stock

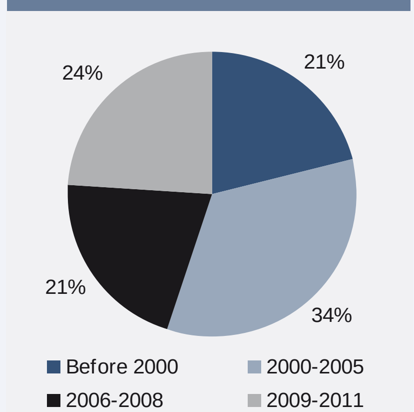
Most modern Polish logistics properties are in the areas surroundi the large agglomerations.

Confidence of consumers & retailers



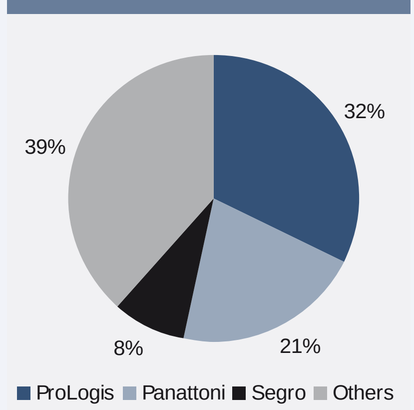
Source: European Commission

Shopping centres: Year of completion



Source: DTZ Research

Logistics space: Owner structure



Source: IVG Research

- In this context, Greater Warsaw with about 40% or 2.7 million sqm of stock – is the most important location by far although the capital is not predestined for a role as a national distribution centre because of its geographical location in the East of the country, still modest motorway connection and the high price of land.
- The Upper Silesia region around Katowice represents the second largest market with 1.3 million sqm. It benefits from its location on the A4 motorway (East-West-connection) and in future also on the A1 (North-South-connection), the region's strong industrial focus as a well as the large population.
- The Central Poland region around Lodz with a stock of 1 million sqm has very good prospects because of its location at the future intersection of the A1 (North-South) and A2 (East-West), especially since land prices are still relatively cheap here. Other logistics locations are the Poznán and Wroclaw regions because of the motorway connection to Germany and their industrial base.
- The areas around the two most important port cities of Gdansk and Szczecin have hardly any modern logistics space stock. Goodman however plans to develop an area of 0.5 million sqm near Gdansk's deep sea container terminal.

Reduction of vacant space in 2011 with regional differences

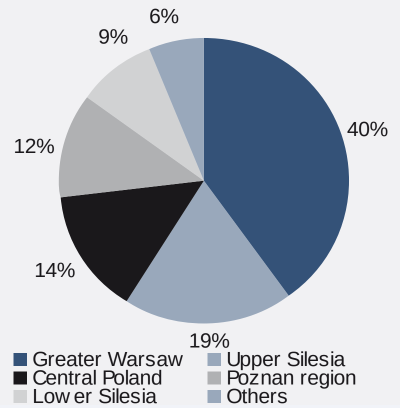
The market for logistics spaces benefited from the positive development of the Polish economy in the last two years. (Gross) space take-up including leasing contract extensions reached a record high of 1.8 million sqm in 2011 according to real estate broker DTZ. The geographical distribution of the take-up corresponded for the most part with that of the logistics space stock.

There were considerable regional differences with respect to the share of rent renegotiations in take-up. While this share averaged 40% in Poland, in Upper Silesia e.g. three quarters of the take-up consisted of new contracts. Last year, active prospective tenants were mostly companies from the logistics, electronics, food and retail sectors.

Since a high oversupply of space followed the economic crash in 2009 and project developers tend to therefore be careful, last year's high demand was met by a relatively modest completion volume of 350,000 sqm. The new constructions that were put on the market were mostly prelet properties or properties that were tailored to users' needs ("built-to-suit"), in other words, hardly any speculative new constructions. The vacancy rate, which was still 17.8% at the end of 2009, sank last year to 11.7%.

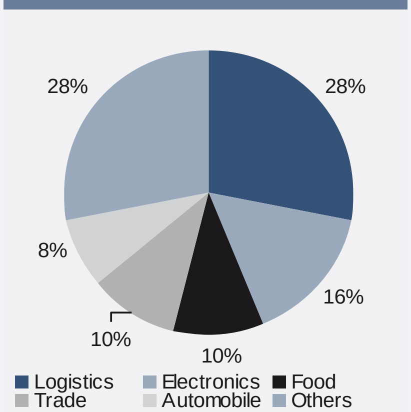
With regard to space availability, there are large differences between individual logistics markets. While logistics spaces in the Poznan area and in Upper Silesia with vacancy rates of 4.5% to 6.4% are relatively scarce, there is an enormous oversupply in the Greater Warsaw area with the vacancy rate amounting to 17.1%. While the vacancy rate in

Logistics space: Spatial structure



Source: DTZ Research

Gross stake-up by sector



Source: Jones Lang LaSalle

the municipal area of Warsaw is 10%, it is considerably higher in the periphery – namely over 22%.

For the most part, effective rents remained stable last year. Rents even trended slightly upward in regions with a scarcity and strong demand for space.

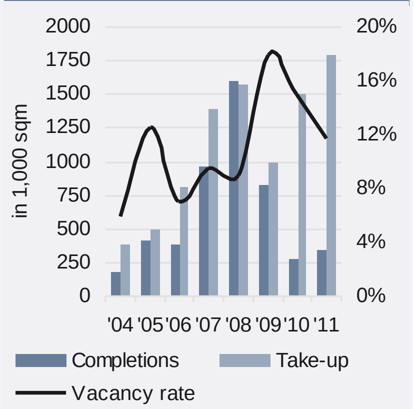
Stable market in 2012. Motorway expansion offers opportunities

Completions in Poland during this year will most probably be higher than in 2011, not least of all because speculative new construction activities have resumed as a reaction to the market upturn of the past two years. More than two-thirds of the ongoing new constructions are however already prelet.

In addition, in spite of the economic slowdown in Poland and the neighbouring countries, there are no signs yet that the demand for logistics spaces is decreasing significantly. For this reason estimates by local experts indicate that the vacancy rates will continue to decrease in 2012 albeit to a lesser degree than in the previous year. Rents should therefore increase slightly in selected markets with favourable supply-demand ratios.

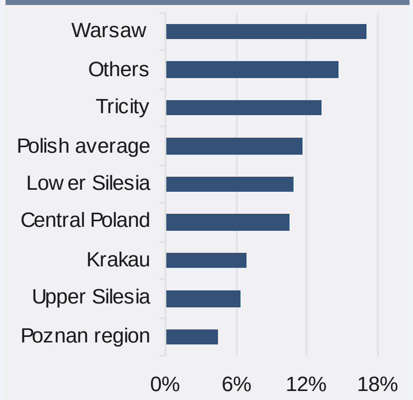
The logistics market will receive a longterm positive boost from the expansion of the transportation infrastructure, especially from the completion of the A1 motorway, which runs from Gdynia on the Baltic Sea via Lodz past Katowice to the Czech border (completion of the entire route scheduled for 2015). Lodz and surroundings should benefit from the central location within Poland at the A1 and A2 intersection. But the logistics market in the area of Gdansk and Upper Silesia will also receive a boost from the completion of this route.

Logistics market Poland



Source: DTZ Research

Vacancy rates, end 2011



Source: IVG Research / DTZ Research

Effective rents, end 2011

Source: Jones Lang LaSalle

6. Investment market: Polish commercial property in high demand

Emergence of a liquid international market

Since Poland joined the European Union, a dynamic investment market has emerged in which different types of investors – from conservative real estate funds to opportunistic Anglo-American investors – are active. Whereas project developers dominated the seller side in the first half of the decade, the market has matured in the meantime and as a consequence a lot of real estate is now being sold for the second or third time between professional investors. Investment Property Databank has estimated the value of commercial real estate in Poland that is in the hands of professional real estate investors such as funds, insurance and real estate companies amounted to € 15.2 billion last year. This means Poland is one of the smaller but also one of the fastest growing real estate markets in Europe.

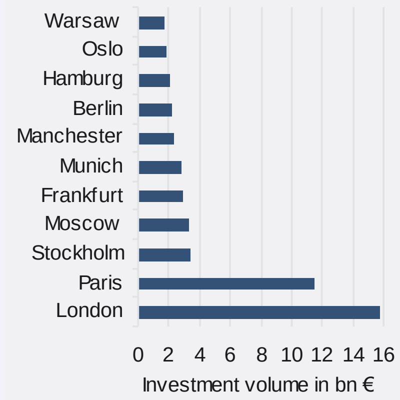
This momentum is reflected in the annual investment volumes. Alongside Russia, Poland is the country from the former Eastern Bloc that has the highest investment turnover by far. The capital city of Warsaw which, as the country's most important real estate location, was able to attract 60% of the Polish transactions in 2011, was even in the same category with respect to investment volume as the long established core markets of Hamburg and Berlin – cities that should be far ahead of Warsaw in terms of investments because of their larger stock of commercial real estate and relatively high real estate prices. Possible explanations for the high transaction volume in Warsaw are the good economic prospects as well as the relatively high availability of relatively new properties.

Investors focusing on shopping centres and Warsaw offices

The Polish investment market is currently recovering from the strong slump after the Lehman Brothers bankruptcy in autumn 2008, which resulted in a considerable slack in sales and a sharp downward correction of property prices and, consequently, total returns. Last year, the transaction volume increased by 43% to € 2.5 billion. Of particular note was the fact that in the case of office projects in central locations and new shopping centres, investors became involved at an early stage of the construction and were also interested in real estate with value creation potential such as refurbishment properties. However, investors' focus in Poland was also – as in all other parts of Europe – on high-quality long-term leased properties in core locations.

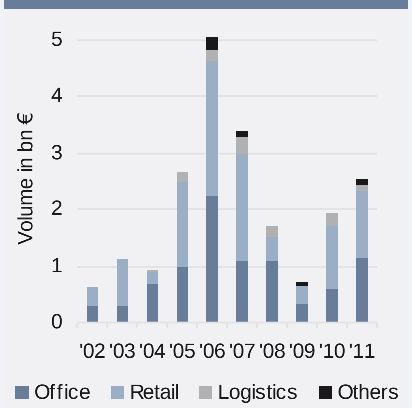
On the buyer side, almost only foreign investors were present last year. Polish players, in particular project developers (e.g. Echo Investment, GTC, Rank Progress), were often active as sellers. Investors from Germany (e.g. IVG, Deka, Union Investment, RREEF) and Austria (Immofinanz) dominated the office sector, which achieved an investment volume of about € 1.2 billion. For the first time, however, a Middle East sovereign wealth fund, Qatar Investment Authority, invested in Poland in connection with a forward funding transaction. The office transactions took

Most liquid European markets in 2011



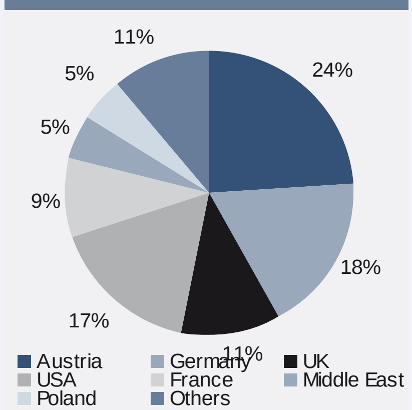
Source: CB Richard Ellis

Investment market Poland



Source: Jones Lang LaSalle

Investments 2011: Origin of investors



Source: Colliers

place – with the exception of a purchase by the Spanish private equity fund Azora in Krakow – exclusively in Warsaw. More than half of the transaction volume derives from five large purchases > € 100 million.

In the retail sector, investments amounted to € 1.2 billion last year. The greater part of the transaction volume was stemmed by the very active Blackstone group (five purchases alone) and Unibail-Rodamco. Investors once again focused on shopping centres, with transactions distributed throughout the entire country, including small towns: 57% of the transaction volume was realised outside of Warsaw. In addition, investments in the logistics and hotel sectors amounted to roughly € 100 million respectively.

Signs of yield compression in all segments

Due to the shortage of products and intense competition, prime yields in all sectors have fallen in comparison to last year: In the Warsaw office sector, yields for prime properties in the central business district trended towards 6.25% (previous year 6.5%), on the fringe of the centre city between 6.4% and 6.75% and in Mokotów, where a lot of important transactions were realised last year, between 6.75% and 7.5%. In the case of office transactions in regional centres such as Wroclaw and Krakow, real estate brokers active in Poland consider yields of 7.25%-7.50% upwards achievable. Shopping centres in Warsaw and the other agglomerations are valued at yields of about 6%. In the case of older properties as well as shopping centres in smaller cities, yields between 7.75% and 8.25% can be expected. Yields for high-quality retail parks and logistics real estate are about 8%.

Results from different investor surveys, for example “Emerging Trends in Real Estate 2012” by Urban Land Institute and PwC indicate that Poland will also be in the focus of international investors this year. The favourable development of the Polish investment market is also reinforced by the available supply. Since the investment period of some Poland funds issued in 2005 and 2006 will finish and as one or the other German open-ended public fund is under pressure to sell (investments in Poland of open-ended funds with liquidity problems amount to about € 800 million) more core and core+ properties will probably be put up for sale. Restrictive lending conditions could however present an obstacle for investment activities so that realising purchases could be more protracted and large transactions only possible if several banks are involved in financing.

Favourable financing conditions in the case of Poland

In principle, the Polish market has a relatively good position with respect to real estate financing: In addition to domestic banks, a lot of foreign banks are active in Poland; Poland, alongside Germany, France and Great Britain is an important playing field for these banks because of the good prospects that the economy and the real estate market offer. The high level of confidence that financiers have in the Polish market is reflected among other things in the required credit margins of 200 to 250 basepoints, a moderate figure by European comparison.

Prime yields

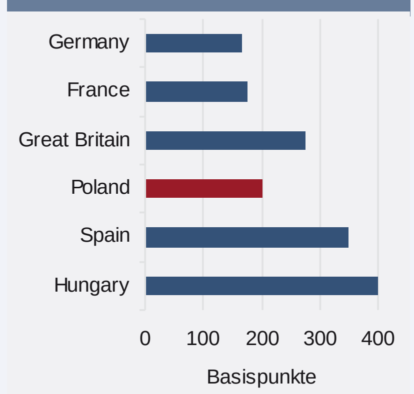
Source: IVG Research

Investment perspectives 2012: Top 10

	Existing invest-ment	New in-vestment	Project develop-ment
Istambul	3,83	3,82	4,03
Munich	3,77	3,60	3,36
Warsaw	**3,67**	**3,50**	**3,40**
Berlin	3,62	3,50	3,09
Stockholm	3,53	3,54	3,22
Paris	3,53	3,34	3,13
Hamburg	3,50	3,52	3,10
Zurich	3,47	3,41	3.50
Moscow	3,46	3,69	3,55
London	3,40	3,31	3,12

Source: ULI/PwC, Emerging Trends in Real Estate 2012 Survey. Assessment on a scale from 1 to 5 and indication by traffic light system

Credit margins



Source: IVG Research based on CBRE / Colliers

Hungary, for example, has a credit margin of 400 basepoints. Real estate financial conditions in Poland are also relatively favourable with respect to loan-to-value ratios which range from 60% to a maximum 70%. However longterm leased core properties in the form of office real estate, shopping centres and in the case of adequate preletting, also new construction projects are the properties primarily financed. In contrast and due to currently high vacancy risks and modest resale prospects, secondary properties or prime logistics assets have difficulty obtaining financing. So far, distressed sales have been the exception in Poland.

Stable and liquid market expected in 2012. Possible problems beyond Core

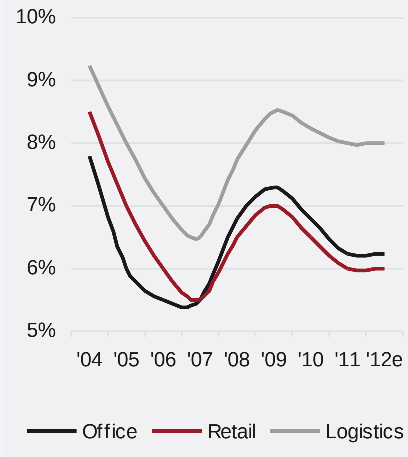
In view of the difficult financing conditions the time for entering the market is particularly favourable for investors who, thanks to good equity can be flexible and do not have to immediately borrow funds to make a purchase. The focus of these types of investors on core properties leads to the expectation that high-quality prime properties in Warsaw and shopping centres throughout Poland will also make up the lion's share of the transactions in 2012. Well-known prime properties in Warsaw's city centre could even experience another light yield compression, while properties beyond core will be exposed to challenges both with respect to financing as well as investment. However, the level of prime yields in Poland still appears favourable if one compares them to yields in the other European markets or the low yields achieved in 2007, which however were caused by exaggeration due to the loan glut. This indicates that the yield compression in the last two years in Poland was not exaggerated. It can nevertheless be expected that yields for prime properties will mostly trend sideways during the current year.

Investment transactions in 2011 (Selection)

City	Property	Type	Purchaser	Price (mn €)
Warsaw	50% Galeria Mokotow	SC	Unibail Rodamco	237
Warsaw	Miasteczko TP	O	Qatar Investment	140
Warsaw	Focus Filtrowa	O	RREEF	117
Wroclaw	Magnolia	SC	Blackstone Group	225
Warsaw	North Gate	O	Deka WestInvest	103
Warsaw	Park Postepu	O	Immofinanz	102
Warsaw	Lipowy Office Park	O	CA Immo	96
Warsaw	Zebra-Tower	O	Union Investment	76
Warsaw	Crown Square	O	Invesco	64
Szczecin	Molo	SC	Atrium	55
Warsaw	Mokotowska Square	O	Deka WestInvest	50
Zamosc	Twierdza	SC	Blackstone Group	44
Warsaw	Stratos Office Center	O	Kulczyk Silverstein	41

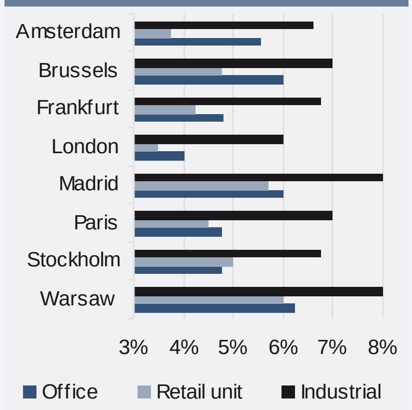
Note. O Office, SC Shopping Centre, S Supermarket
Source: IVG Research

Prime yields



Source: IVG Research

Comparison of prime yield



Source: Jones Lang LaSalle

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