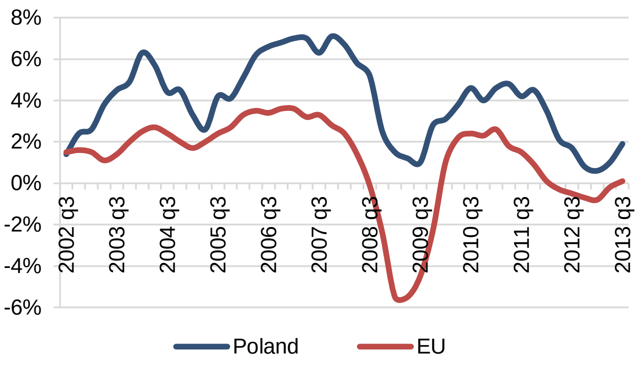
Market Tracker: Poland/Warsaw Office Property Market

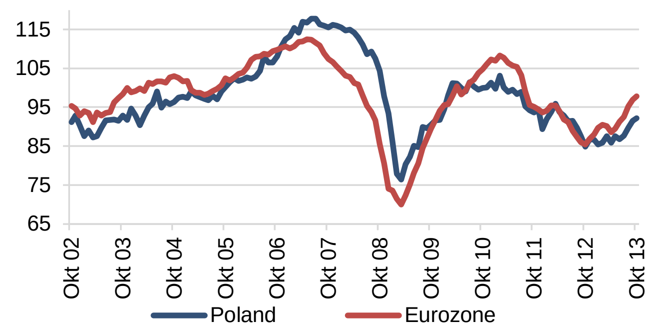
IVG Passion for Real Assets

Macroeconomic Conditions

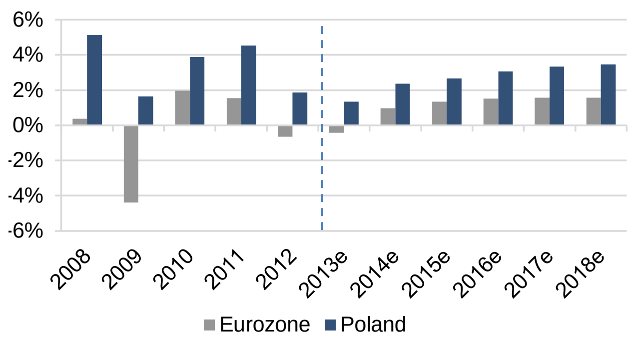
GDP growth (real)	Economic sentiment index	GDP forecast (real)



Source: Eurostat



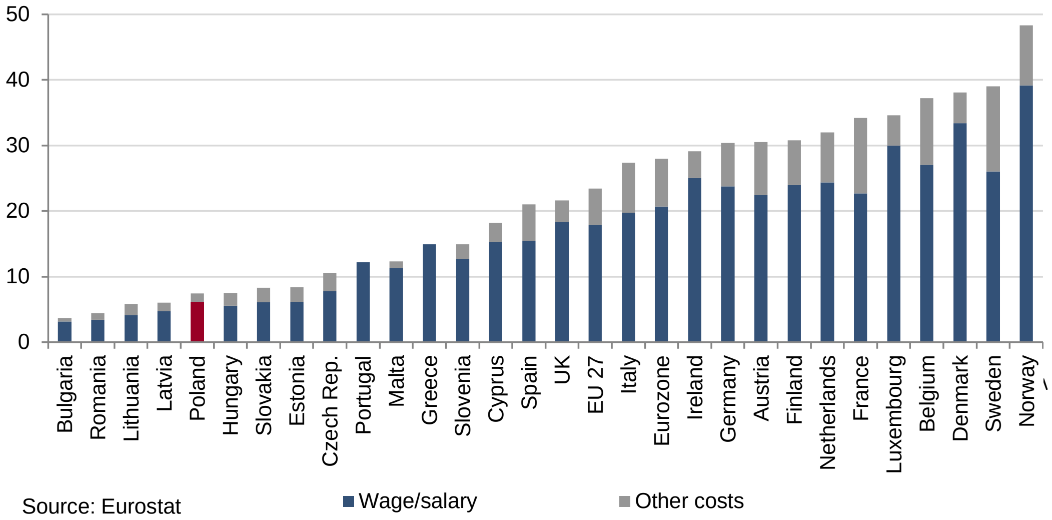
Source: European Commission



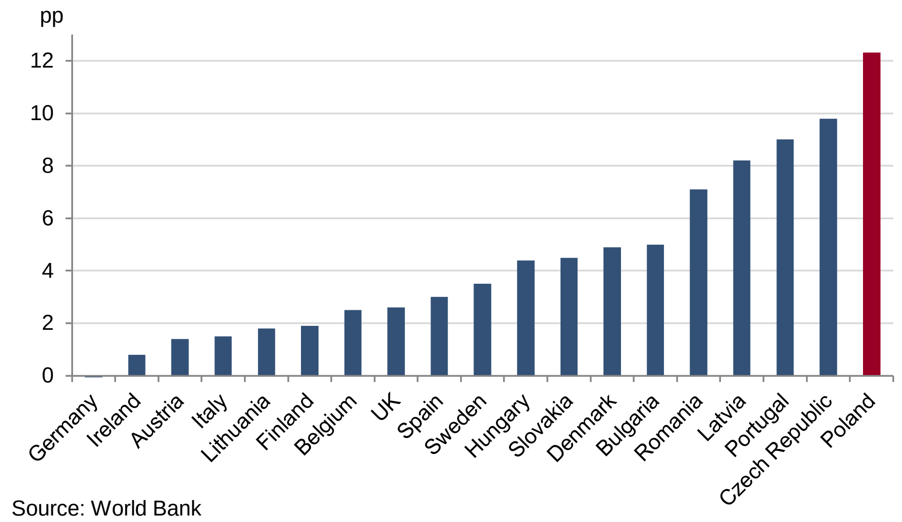
Source: IMF

* Following a phase of weakness between the middle of 2012 and the middle of 2013, the economy has picked up again significantly, leading to GDP growth of 1.9% (y-o-y) in the third quarter. This is primarily due to domestic economy factors, above all the recovery of private consumer spending and investments.
* The economic development in Poland is generally remarkable. Not just its positive growth in the crisis years of 2008 to 2010 is conspicuous. In the past few years, the Polish economy has consistently grown more strongly than Europe as a whole. While Polish gross domestic product has been rising by an average of 3.7% per year since the start of the millennium, the figure for the EU is 1.2%.

Labour costs per hour (in euro)	Improvement in ease of doing business index 2005-2013



Source: Eurostat

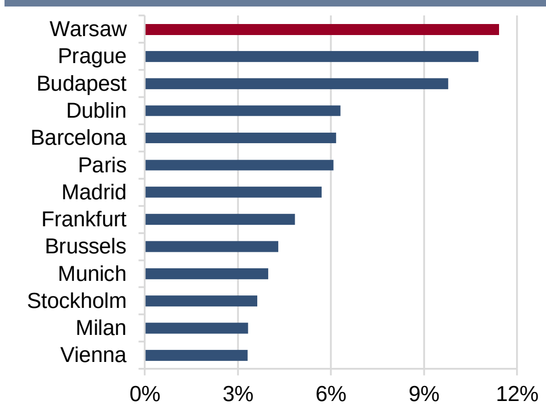


Source: World Bank

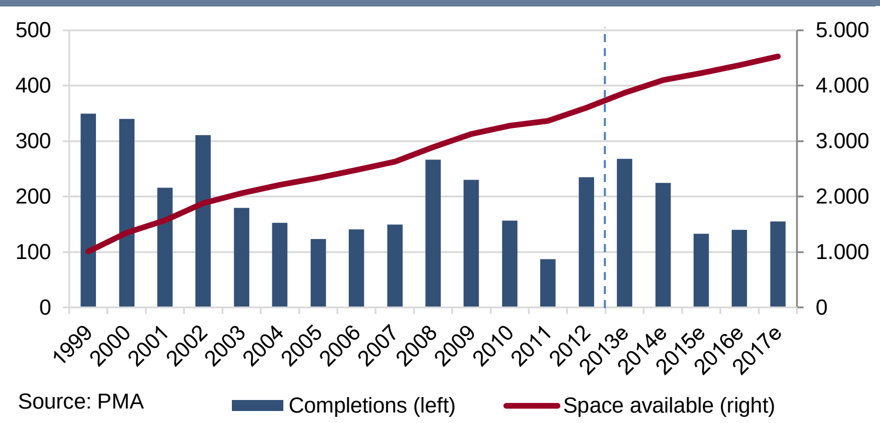
* The unusually strong performance of the Polish economy is due to various structural and economic causes: The Polish labour market is highly competitive. Companies can draw from a large pool of well trained workers. Average labour costs are around EUR 7.40 per hour and therefore significantly below the European average of EUR 23.40. At 16.7%, the share of non-wage labour costs is also conspicuously low (EU average: 23.7%).
* Continuous reform and deregulation processes since the end of communism, such as the dismantlement of government-set prices and wages or trade barriers, are enabling increasingly better business conditions. This is also shown by the improvement in the World Bank's ease of doing business index. In global terms, Poland has seen the strongest improvement and climbed from position 74 to 55 since 2005.
* A great deal of importance is attached to a stable fiscal and monetary policy. This allowed Poland to avoid overheating the economy before the crisis. Stability in government budgets is also being aided by tax increases and current measures, some of which unconventional and unpopular, to reform the pension system. Agencies such as Standard & Poor's and Fitch give Polish government bonds a stable rating of A-.
* The current EU budget also gives reason to expect growth to continue. From 2014 to 2020, Poland will receive around EUR 106 billion from Brussels, and will therefore again be the biggest beneficiary of the cohesion and structural funds. In contrast to the 2007-2013 support programme, however, this is to focus on promoting innovation rather than developing infrastructure.

Rental market

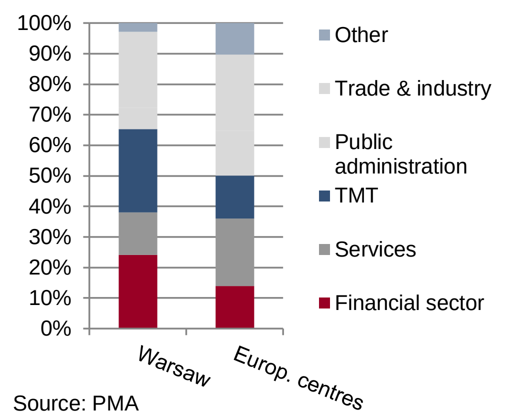
Space turnover	Completions and space available (in 1,000 m^2)	Space turnover by sector ('11-'13)



Source: IVG Research



Source: PMA



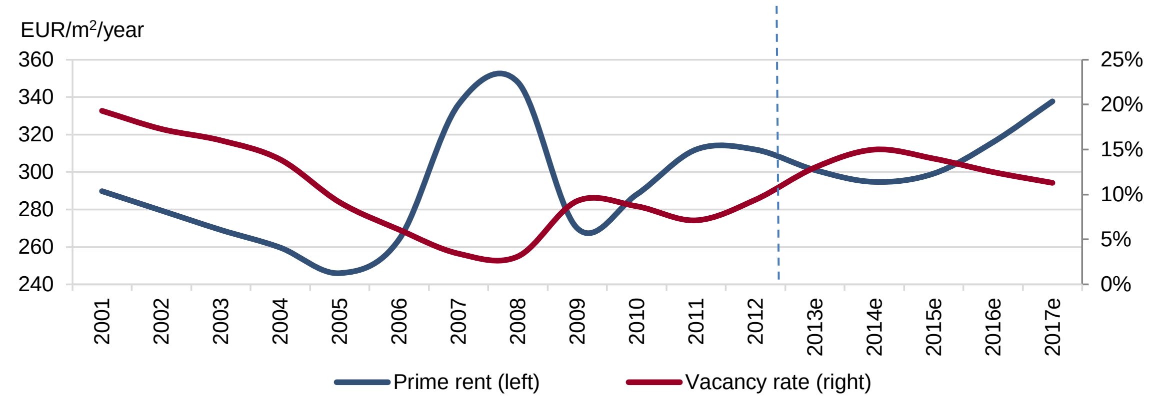
Source: PMA

* Demand for office space in Warsaw is generally highly dynamic. At 11% per year, average space turnover – measured as the ratio of space take-up to space available for 2000 to 2012 – was significantly higher than in the established office markets of Western Europe.
* A central reason for the outstanding significance of Poland is the expansion strategies of international companies. This also explains the relatively high share accounted for by the TMT (telecommunications/media/technology) sector in total space turnover. For example, T-Mobile has leased 27,000 m^2 in the T-Mobile Business Park in Mokotow in the past year.
* While the financial sector has shrunk in most Western European centres since the financial crisis, Warsaw has posted growth in this segment. The share of 25% of office space take-up reflects Warsaw's continuing rise as the most important financial centre in the Central and Eastern Europe region. For example, there have been 78 IPOs on the Warsaw stock exchange in the past twelve months, while only 70 companies went public in London over the same period.

Market Tracker: Poland/Warsaw Office Property Market

Rental Market Outlook

Prime yield and vacancy rate

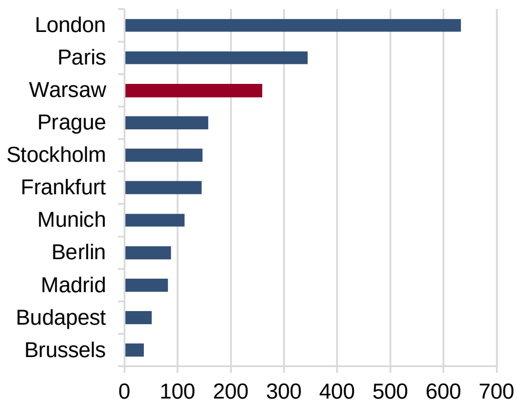


Source: IVG Research

* According to IMF forecasts, the Polish economy will grow by 3% p.a. in the years 2014 to 2018. Given the significant correlation between economic and specifically property market develop-ments, strong demand for space is expected to continue.
* The supply side is developing dynamically, however. On account of the high completion volume, the vacancy rate will increase from 8.1% to 10.9% over the course of the year. This process will continue next year.
* Rising vacancies and falling prime yields are expected by the end of 2014. After that, the anticipated strong overall economic development in conjunction with reduced growth in space will result in a cyclical upswing.

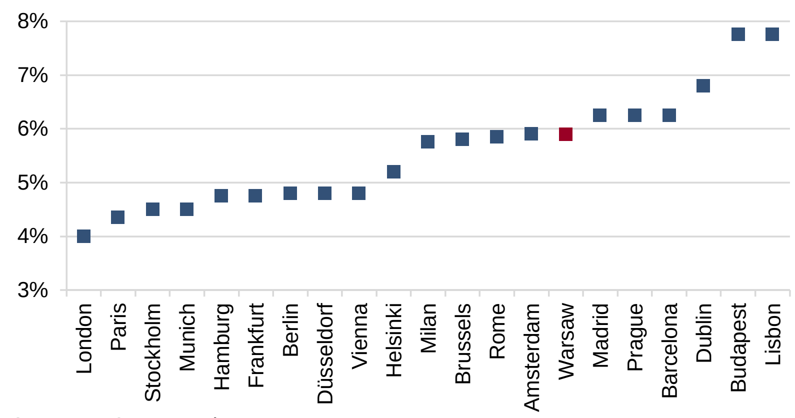
Investment market

Investment intensity 2002-2012 (in EUR/m²)



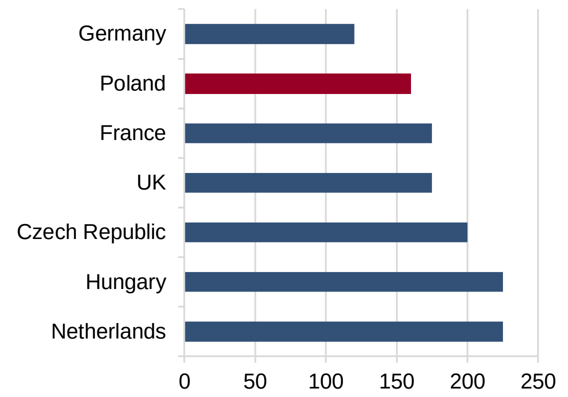
Source: IVG Research

Prime initial yields Q3 2013



Source: IVG Research

Credit margins Q3 2013 (in bps over Euribor/Libor)



Source: IVG Research, CBRE, PMA

* The fact that the Warsaw investment market is generally highly liquid can be illustrated by comparing the ratio of transaction volumes to space available ("investment intensity"). For the last ten years, this figure has been EUR 259/m² in Warsaw. Higher liquidity can be found only in Europe's two mega locations of Paris and London.
* In the first three quarters of the current year, commercial properties with a total value of around EUR 2.1 billion were bought and sold in Poland – 15% more than in the previous year. By comparison, properties worth only EUR 920 million were sold over the same period in the Czech Republic.
* At EUR 830 million, the majority of the transaction volume in Poland relates to office properties, followed by the retail sector at EUR 780 million and logistics properties in third place at EUR 325 million.
* The investment market is still focused on the capital: Around 85% of total Polish office investments have taken place in Warsaw in 2013 to date. Even if Warsaw's current share is lower than its long-term average of 94%, it is clear that Poland's regional centres are still a long way from the established investment centres in terms of size and liquidity.

* Demand is strongest for properties with a volume of EUR 30 to EUR 80 million. But there are also significantly larger transactions: For example, EUR 210 million was paid to buy the new office property "Warsaw Financial Center"; in the retail sector a syndicate acquired the "Silesia City Center" in Katowice for EUR 412 million.
* The market is generally dominated by investors from Germany (around 50%) and other European countries (around 30%). Investors from the US, Asia and the Gulf states are so far underrepresented by European standards. Domestic investors have also played a subordinate role to date, but are becoming increasingly active. In the current year, they have
* The Polish commercial property market is well placed in terms of financing: In addition to its domestic banks, German and Austrian banks in particular are operating here. Poland is an increasingly important business area for them alongside Germany, France and the UK on account of the positive prospects for its economy and property market.
* The high confidence and strong competition among financing providers is reflected in the credit margins called for. At around 160 basis points, these are currently highly moderate by European standards. Loan-to-value ratios are in the range of 50% to 60%.
* The strong macroeconomic situation, low interest rates and relatively good availability of loans for core properties have led to rising prices and falling prime yields. In Warsaw, prime yields for office properties are 5.9% to 6.25% in the CBD, 6.75% in non-central areas.
* Measured against the stable general conditions on the Polish property market and the good overall economic outlook, prime yields are very attractive compared to the rest of Europe. The difference to Western and Northern European centres is adequate in terms of risks in light of the more pronounced risk volatility of the Warsaw office property market.

Major office transactions

Property	Investment volume (EUR million)	Space (in m²)	Buyer	Initial yield	Date
Warsaw Financial Center	210	44,993	Allianz	6.5%	Q3 2012
Senator	120	21,250	Union Investment	6.4%	Q2 2013
IBC	150	37,100	Deka	6.5%	Q4 2012
Atrium One	94	18,000	Deka	5.9%	Q3 2013
Zloty Tarasy (with retail)	96	66,200	Unibail Rodamco	6.0%	Q2 2013
Holland Park	54	11,800	KSP	6.0%	Q1 2013

For further information: **Thomas Beyerle +49-228-844 454** **Georg Pfleiderer +49-69-606050 1534** **Holger Weber +49-228-844 498**