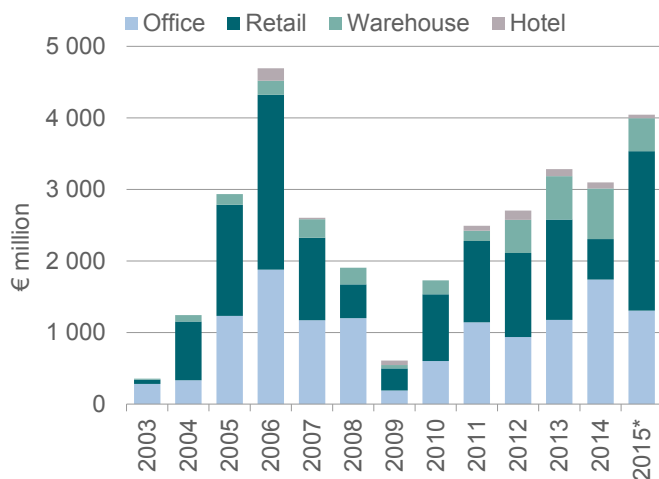


# Market in Minutes Poland investment

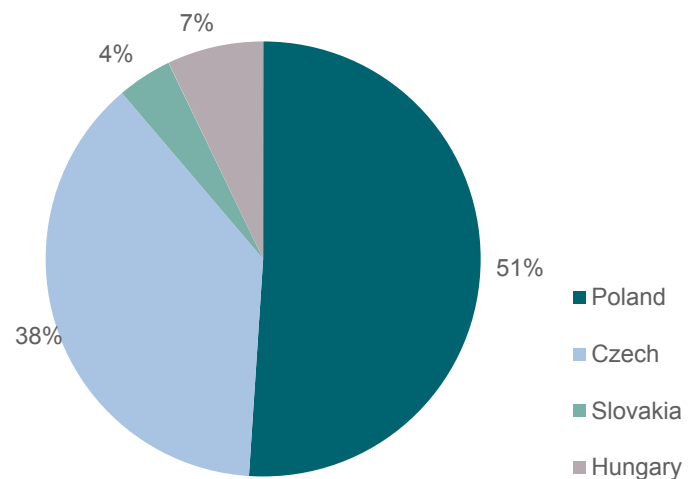
January 2016

GRAPH 1  
Investment volumes in Poland by sector



Graph source: Savills

GRAPH 2  
Investment volume in Central Europe region in Q4'2014 - Q3'2015



Graph source: Real Capital Analytics

## SUMMARY

### Overview

Extremely busy last quarter of 2015 brought up the annual investment volume in Poland to the second highest result in history and the highest one since the record 2006.

The total volume of investment transactions in 2015 amounted to ca. EUR 4.05 bn and the Q4 volume was the highest quarterly result in history of the Polish investment market.

The volumes were boosted by two large share deals - takeover of majority stake in Echo Portfolio by Oaktree and PIMCO (managed by Griffin Real Estate) and the acquisition of some SPVs of Trigranit by TPG Real Estate.

Transactions in the retail sector were dominant last year, accounting for ca. 55% of the total volume followed by the office and warehouse sectors with respective shares of ca. 32% and 11.5%.

Investment activity in maturing regional office markets outpaced Warsaw, where temporary fluctuations in occupational market, resulting from a massive new supply, have temporarily paused inflow of investment capital.

Prime yields have been sharpening across all commercial property sectors while secondary yields still remain stable.

“It has been almost a tradition in Poland that the last quarter of the year has a massive influence on the end-year investment volume. Last quarter of 2015 was no exception, with the highest in history quarterly investment volume.”

Michal Cwiklinski, Savills Poland

➔ **Economy**

Poland's GDP growth is still one of the strongest in the EU and is expected to reach 3.6% in 2015 and to remain in the range of 3.3 - 3.5% for the next four years, Oxford Economics forecasts.

Inflation in Poland was 0.0% in 2014, which was the lowest annual rate recorded since 2003 and Oxford Economics forecasts inflation rate to decrease further to -0.5% in 2015. A growth in inflation rate is expected from 2016.

The main reference rate was reduced in March 2015 by 0.5 pp to 1.50% which is the lowest rate ever recorded and so far has remained unchanged. Further reduction of the reference rate is currently not expected.

In October 2015 the unemployment rate in Poland, based on the International Labour Office (ILO) definition, was 7.0% and was lower than the European Union's and Eurozone's average of 9.3% and 10.7% respectively.

Average monthly salary in the national economy was PLN 3,783 in 2014 and according to The National Bank of Poland was expected to grow by 4.0% in 2015 and by 5.2% in 2016.

**General Overview**

Investor activity has been growing Europe-wide which was reflected in the volume of completed transactions in 2015 in Poland, significantly boosted

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 "Investment activity in Europe has been rising, especially in the retail sector. The last quarter of 2015 confirmed that this trend is also a case in Poland, despite a shortage of decent investment product."  
 .....  
 Michal Cwiklinski, Savills Investment

.....  
 in the last quarter. The end-year volume of investment transactions exceeded EUR 4.0 bn, which is the second highest result in history of Polish investment market (the record level of EUR 4.7 bn was recorded in 2006) and reflects a 30% growth compared to 2014. The last quarter of 2015 recorded the highest quarterly level in history, significantly exceeding EUR 2.0 bn.

Last year results were boosted by two large share transactions - takeover of 41.55% stake in Echo Investment S.A. by Oaktree and PIMCO managed by Griffin Real Estate in June 2015 and acquisition of some SPVs of Trigranit by TPG Real Estate in November 2015.

Retail transactions dominated the last year activity with ca. 55% share of the total volume followed by the office and warehouse sectors with respective shares of ca. 32% and 11.5%.

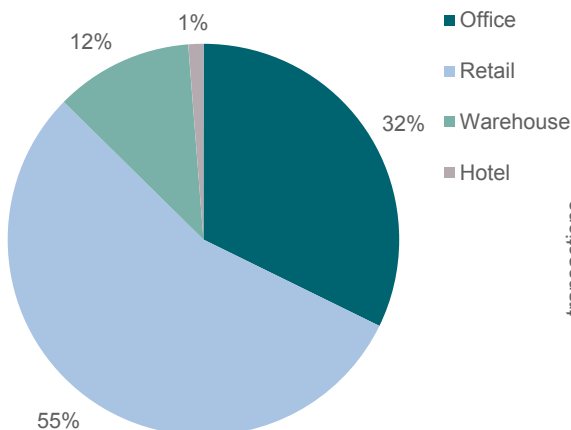
Portfolio sales are record high in Europe (45% of the total volume in H1 2015, full year results to be revealed soon) and this seems to be a trend

.....  
 in Poland too, with ca. 40% share in 2015, including share transactions. A few more portfolio transactions are on the go, confirming they have lot of advantages for both parties. Buyers benefit from a yield premium and are able to gain scale and deploy capital quickly. Sellers have the opportunity to dispose secondary assets within larger portfolios and thus maximise returns.

**Office Sector**

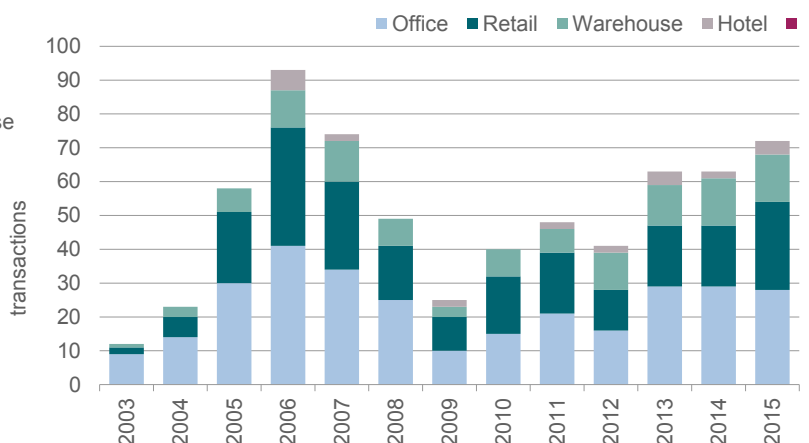
Office transactions in 2015 amounted to ca. EUR 1.3 bn, ca. 27% less than in the year before. Investor interest in the office sector is shifting from Warsaw towards regional cities, which is a result of a massive supply coming to the Warsaw office market, putting rental levels under pressure. More than half of the sector's volume last year accounted for office properties located outside Warsaw. We anticipate, that investor activity will remain strong over the next few years, as regional markets mature and liquidity of assets is growing. On the other hand, within the massive new supply in Warsaw, there are a few larger projects, that

GRAPH 3 **Investment volume by sector in 2015**



Graph source: Savills

GRAPH 4 **Number of investment transactions by sector**



Graph source: Savills (\*forecast)

have excellent locations and strong covenants and are on the target of core buyers for the next 12 months. Should these properties be transacted, they will make up a significant volume, that would likely allow Warsaw to outpace regional markets in 2016. This, however, may not be a case, when comparing a number of transactions. Marketability of Warsaw office properties is strongly dependant on the location, class of the asset, occupancy ratio as well as length of leases, most importantly.

The largest transactions in Warsaw were the sale of Europlex to Loan Star by Akron for ca. EUR 61 million, the acquisition of 50% shares in Empark by Immofinanz for EUR 90 million and a sale and leaseback of the Polkomtel HQ to WP Carey for ca. EUR 60 million.

The largest office investment transactions in 2015 in regional cities were dominated by sales of Skanska's properties: the portfolio of office properties in Krakow and Katowice for EUR 160 million sold to NIAM, Dominikanski Square in Wroclaw sold to Union Investment for ca. EUR 117 million and Green Horizon in Lodz sold to Griffin Real Estate for ca. EUR 65 million. Other important transactions comprised Bonarka 4 Business in Krakow taken over by TPG Real Estate from Trigranit as well as Enterprise Park, also in Krakow sold to Tristan Capital Partners by Avestus Real Estate (EUR 65 million).

We anticipate that prime achievable

office yields in Warsaw City Centre decreased to ca. 5.50%, whereas in Warsaw non-central locations prime yields range within 6.75%-7.25% depending on the asset type and location.

In the most established regional office markets of Wroclaw and Krakow prime yields are now at ca. 6.50-7.00%. In Poznan and Gdansk prime yields are slightly higher at ca. 7.25-7.75%, whereas in Lodz and Katowice at ca. 7.75-8.00%. Activity in smaller regional markets (Szczecin, Lublin) is still limited with no direct benchmark for prime assets.

### Retail Sector

The volume of retail transactions in 2015 exceeded EUR 2.2 billion, reflecting an outstanding growth of 285% year-on-year. This was a result of a few large transactions, e.g. the acquisition of Riviera Shopping Centre in Gdynia by Union Investment (for EUR 291 million), acquisition of Stary Browar by Deutsche Wealth Asset Management for ca. EUR 285 million, acquisition of Karolinka and Pogoria Shopping Centres by Rockcastle for EUR 221 million, acquisition of Bonarka City Center by TPG Real Estate for ca. EUR 285 million, acquisition of Galeria Sfera by CBRE Global Investors for ca. EUR 200 million.

Other important acquisitions comprised Solaris Shopping Centre in Opole (the first acquisition of Rockcastle in Poland) and a sale of Futura Park Krakow, Factory Outlet

## Regional Offices

### Massive new supply in Warsaw shifting investor demand towards regional markets

■ Despite a strong occupier demand on Warsaw office market, massive new supply expected in 2015 - 2017 brought some uncertainty to the investment market, shifting investment capital towards regional cities, where higher yields compensate for risk of investing in local markets and rental levels are more stable.

■ Investor interest in Warsaw office market is limited to prime assets, preferably with long term leases and excellent locations. A few larger sales of this type of projects are expected in 2016. Otherwise, investor look for opportunistic sales or value-add potential.

■ The leading markets of Wroclaw and Krakow are on the target of most core investors looking for prime assets, while the recovering markets of Lodz and Katowice attract more attention from opportunistic buyers.

■ Tricity office market is now the third largest regional office market in Poland and the largest business centre in the North of the country. Most activity takes place in Gdansk (Wrzeszcz and Oliwa districts).

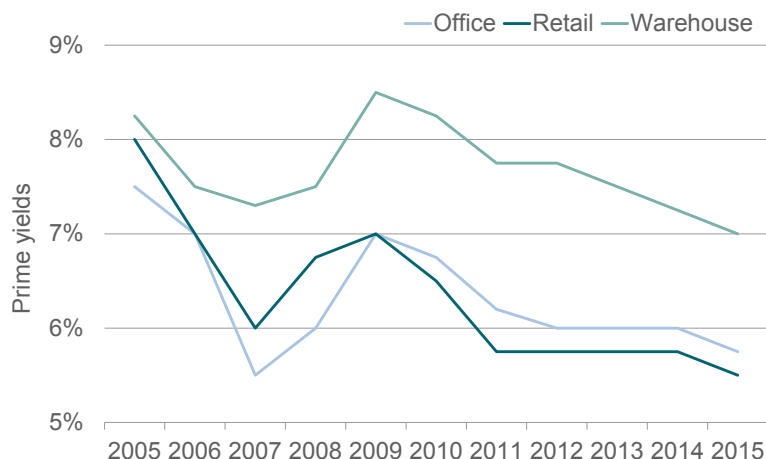
■ Poznan is experiencing a temporary growth in vacancy, however is still perceived as a relatively stable market.

■ The volume of investment transactions in regional office markets is constantly growing since 2013 and 2015 was a record year with the highest volume of above EUR 700 million.

■ Office development in regional cities is still high and over the next two years there will be a few decent schemes delivered. Growing size of regional office markets improves liquidity which will attract investor interest.

■ Following the paths of Krakow and Wroclaw, the other regional office markets mature and in line with the growth of these markets, investor activity will be growing too.

GRAPH 5 Prime yields



Graph source: Savills

→ Krakow and Factory Outlet Annapol in Warsaw by Neinver to TH Real Estate for EUR 71 million.

Prime shopping centre yields in Warsaw and major regional cities decreased to ca. 5.50%. In secondary cities, prime achievable yields for

50% of the sector's volume over the last 36 months.

The largest transaction in 2015 were the acquisitions of the CA Immo portfolio of two logistics parks located in Central Poland and Warsaw Zone III, by P3/TPG for ca. EUR 80 million and

“US headquartered investors dominated the industrial sector of the investment market in Poland with acquisitions worth more than half of the sector's total volume since the beginning of 2013”

Michal Cwiklinski, Savills Investment

dominant, regional shopping centres are as low as 6.25-6.75%.

### Warehouse Sector

Investment activity in warehouse sector in 2015 was slightly lower than in a record 2014 with a total volume of transactions of ca. EUR 470 million. Lower volume was mainly a result of a limited supply of investment product in the industrial sector, following a very active 2013-2014.

Investment activity in the warehouse sector in Poland is dominated by US investors (Hines, Hillwood, WP Carey, LogiCor, P3, CBRE Global Investors, Panattoni, Prologis) who made up over

sale of Amazon facility in Wroclaw to GLL for ca. EUR 70 million.

Prime achievable warehouse yields are now at ca. 6.75-7.00% for a single-let modern warehouses let to financially strong tenants for at least 10 years, in good locations in major logistics hubs. This does not apply to extremely unique cases such as Amazon facilities, which trade at much lower levels. In case of multi-let warehouse properties prime achievable yields are at ca. 7.50-8.00%, providing that they are leased at market rental levels and well located.

## OUTLOOK

Following a very active end of last year, the investment pipeline for 2016 still remains strong.

■ New wave of investment capital coming to Poland from both European and global markets is expected to keep the volume of investment transactions in 2016-2017 at high level.

■ Portfolio sales will still be popular across all commercial sectors allowing sellers to dispose of secondary assets within larger portfolios targetted at opportunistic buyers.

■ Activity in the office sector will remain high in regional markets, while in Warsaw will be focused on prime assets and landmark towers with excellent locations and/or long-term leases. We may see new benchmarks of yields for core assets in dominant markets.

■ There will still be a strong interest in retail investment, with a particular focus on dominant schemes in local markets or smaller convenience centres.

■ Industrial sector will still be dominated by US investors, followed by core German and Austrian buyers in case of single-let built-to-suit projects with long-term leases.

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