With sustainable economic performance and a number of investors looking for opportunities, the Polish investment market boomed over 2015. This was particularly visible over the last quarter of the year, when 61% of the overall €4.0bn was traded. The final result indicates around 30% y/y growth and the second-best ever total recorded in Poland.

**Headlines**

**ONE**

€4bn invested, indicating the second-best result in the history of property investment market.

With nearly 70 transactions concluded throughout 2015, and with €4.0bn worth of deals, the Polish investment market achieved the second-best ever result in terms of volume. The last months of the year were particularly busy with over 80% of the transactions closed over the last quarter.

With an estimated total value of around €800m, 2015 will be noted for the acquisition of shares of large development companies (Echo Investment and Trigranit).

**TWO**

Shift in sector allocation with 55% of capital invested in retail.

Retail, attracting 55% of the overall investment value in 2015, was the most popular asset class for investors last year. The Office sector accounted for 33% of market share, of which regional markets (Kraków, Wrocław, TriCity and Łódź) achieved similar volumes to Warsaw. Industrial properties remained highly sought after by investors but availability of stock for sale was limited.

**THREE**

Prime yield compression recorded across the sectors by 0.25-0.50 p.p.

Prime yields across sectors were under pressure over 2015, recording a 0.25-0.50 p.p. decline and are now at the level of 5.50-5.75% for the best assets in primary locations irrespective of property type. More attractive yields can be achieved in regional markets, which is one of the reasons for investors to look for opportunities in cities outside of Warsaw.

Yields for secondary or opportunistic properties are on average 2-3 p.p. higher than for prime assets.

**FOUR**

Proposed country reforms cast a shadow of doubt over mid- and long-term investment attractiveness of Poland.

Poland is set for a softening of fiscal spending policies in coming years, which poses a risk to budget stability. According to economists the deficit may breach the EU’s ceiling of 3% of GDP in 2017. Added to this, rising uncertainty due to macro economic policy changes, along with anxiety over what other plans remain undisclosed, may be reflected in a higher risk premium on government bonds and a weaker zloty. In the property world all of the above factors could negatively impact transaction volumes.
**Microeconomic Snapshot**

- **Annual GDP, in %**
  - Source: BNP Bank, Oxford Economics, f - forecast

- **Annual CPI, in %**
  - Source: GUS, NBR, f - forecast

- **Annual Unemployment Rate, in %**
  - Source: BNP Bank, Oxford Economics, f - forecast

- **Annual Retail Sales, in %**
  - Source: BNP Bank, Oxford Economics, f - forecast

**Investment Snapshot**

- **Annual Volume of Investment Transactions, in €m**
  - Source: BNP Paribas Real Estate

- **Annual Sector Split of Investment Volumes, in %**
  - Source: BNP Paribas Real Estate

- **Nationality of Investors in 2015**
  - Source: BNP Paribas Real Estate

- **Annual Prime Yields per Sector, in %**
  - Source: BNP Paribas Real Estate, f - forecast
The year end investment market results, with an exceptionally high volume of transactions, has not been impacted by the recent change in the political scene and investors’ positive perception towards Poland as a target destination. However, clouds are on the horizon, as lending institutions have already started to raise questions regarding the possible mid and long term impact of Government actions over the economy. Economists have raised their concerns regarding sustainability of the budget over 2017-2018. On top of that, Standard & Poor’s agency downgraded Poland’s foreign credit rating by a notch to BBB+, resulting from the new Government’s moves that “weaken the independence and effectiveness of key institutions.” S&P have also put the country on negative watch. Should Government bonds rates rise, profitability of real estate investments drops. Additionally, current businesses, who are used to a stable fiscal regime in Poland, may now be put off by uncertainty regarding unknown future costs of running operations. Moreover, the weakening of the Polish złoty in the mid-term will result in higher costs for occupiers and may halt previously planned expansions.

Investors of all types are actively seeking investment opportunities, with a substantial amount of transactions pending and due to complete over the next quarters. However, BNP Paribas Real Estate does not expect a similar volume of deals to close in 2016 as in 2015.

In terms of sectors, retail is likely to lead the market volume as over last year but office is also forecast to record significant market share provided large tickets in Warsaw are successfully traded.

Due to “supply-demand” imbalance in the Warsaw office market no further office yield compression is expected in Warsaw in the short to medium term. Still, as a result of investor interest and steady growth of occupier demand, compression of yields could occur on regional office markets. No yield compression is expected in retail and industrial sectors.

Availability of low cost financing remains high, however consideration should be given to the possibility of a rise in base rates in the short term.

Top 5 Trends for 2016

- Investors of all types are actively seeking investment opportunities, with a substantial amount of transactions pending and due to complete over the next quarters. However, BNP Paribas Real Estate does not expect a similar volume of deals to close in 2016 as in 2015.
- In terms of sectors, retail is likely to lead the market volume as over last year but office is also forecast to record significant market share provided large tickets in Warsaw are successfully traded.
- Due to “supply-demand” imbalance in the Warsaw office market no further office yield compression is expected in Warsaw in the short to medium term. Still, as a result of investor interest and steady growth of occupier demand, compression of yields could occur on regional office markets. No yield compression is expected in retail and industrial sectors.
- Availability of low cost financing remains high, however consideration should be given to the possibility of a rise in base rates in the short term.

Top 15 Transactions in Poland in 2015

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Scheme</th>
<th>Sector</th>
<th>Location</th>
<th>Vendor</th>
<th>Investor</th>
<th>Est. lot size (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Echo portfolio</td>
<td>Retail &amp; Office</td>
<td>across Poland</td>
<td>Echo Investment</td>
<td>Griffin Real Estate</td>
<td>415.0</td>
</tr>
<tr>
<td>4</td>
<td>Trigranit portfolio</td>
<td>Retail &amp; Office</td>
<td>Kraków</td>
<td>Trigranit</td>
<td>TPG</td>
<td>380.0</td>
</tr>
<tr>
<td>4</td>
<td>Stary Browar</td>
<td>Retail</td>
<td>Poznań</td>
<td>Grażyna Kulczyk</td>
<td>DeWAM</td>
<td>285.0</td>
</tr>
<tr>
<td>3</td>
<td>Riviera</td>
<td>Retail</td>
<td>Gdynia</td>
<td>Mayland</td>
<td>Union Investment</td>
<td>291.0</td>
</tr>
<tr>
<td>4</td>
<td>Sjera</td>
<td>Retail</td>
<td>Bielsko-Biała</td>
<td>Bielsko BC</td>
<td>CBRE Global Investors</td>
<td>203.0</td>
</tr>
<tr>
<td>4</td>
<td>Karolinka</td>
<td>Retail</td>
<td>Opole</td>
<td>BlackRock RE</td>
<td>Rock Castle Global RE</td>
<td>145.4</td>
</tr>
<tr>
<td>4</td>
<td>Dominikański Square</td>
<td>Office</td>
<td>Wrocław</td>
<td>Skanska</td>
<td>Union Investment</td>
<td>117.0</td>
</tr>
<tr>
<td>4</td>
<td>King Cross Marcelin</td>
<td>Retail</td>
<td>Poznań</td>
<td>ING / GE</td>
<td>King Cross Group</td>
<td>100.0</td>
</tr>
<tr>
<td>3</td>
<td>EMPARK*</td>
<td>Office</td>
<td>Warsaw</td>
<td>Heatman</td>
<td>Immofinanz</td>
<td>90.0</td>
</tr>
<tr>
<td>1</td>
<td>Sarni Stok</td>
<td>Retail</td>
<td>Bielsko Biała</td>
<td>CBRE Global Investors</td>
<td>Union Investment</td>
<td>85.0</td>
</tr>
<tr>
<td>1</td>
<td>CA Immo portfolio</td>
<td>Warehouse</td>
<td>Blonie, Piotrków Tryb.</td>
<td>CA Immo / EBRD</td>
<td>P3/TPG</td>
<td>80.0</td>
</tr>
<tr>
<td>4</td>
<td>Pogoria</td>
<td>Retail</td>
<td>Dąbrowa Górnicza</td>
<td>BlackRock RE</td>
<td>Rock Castle Global RE</td>
<td>75.4</td>
</tr>
<tr>
<td>4</td>
<td>Caelum portfolio</td>
<td>Retail</td>
<td>across Poland</td>
<td>Caelum Development</td>
<td>Invel</td>
<td>75.0</td>
</tr>
<tr>
<td>4</td>
<td>confidential</td>
<td>Warehouse</td>
<td>Wroclaw</td>
<td>confidential</td>
<td>confidential</td>
<td>70.0</td>
</tr>
<tr>
<td>4</td>
<td>Multimedialny Dom Plusa</td>
<td>Office</td>
<td>Warsaw</td>
<td>Polkomtel</td>
<td>W.P. Carey</td>
<td>65.0</td>
</tr>
</tbody>
</table>

*50% shares
Source: BNP Paribas Real Estate
About BNP Paribas Real Estate

BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management. BNP Paribas Real Estate has local expertise on a global scale through its presence in 37 countries with approximately 180 offices and 3,800 employees. BNP Paribas Real Estate is a subsidiary of BNP Paribas.


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