BNP Paribas Real Estate has local expertise on a global scale through its presence in 36 countries with more than 180 offices and 3,900 employees. BNP Paribas Real Estate is a subsidiary of BNP Paribas.

As regards Poland, BNP Paribas Real Estate provides services in respect of Capital Markets, Property Management, Transaction, Consulting and Valuation. Furthermore, all departments are supported by the Research Team, which provides knowledge regarding real estate markets, thus enabling BNP Paribas Real Estate clients to make the most suitable long-term business decisions.

*As of 31/12/2016
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The image provides an overview of Poland's demographics and economic indicators. Here are the key points:

**Population**
- 38.5 million people
- The largest population across the CEE markets

**Investment Market**
- No. 1 in the CEE region
- In terms of volumes invested in real estate in Central Europe

**EU Funds**
- €67.3 billion
- The largest beneficiary of EU founding

**Inflow of FDI**
- $13.9 billion
- Poland has joined the group of the top 20 FDI receivers in the world

**GDP Growth in 2015**
- 3.6% vs. EU Zone 1.6%
- One of the fastest GDP growth rates in the EU

**Property Market**
- 8.8 million m² office
- 13.5 million m² retail
- 10.6 million m² warehouse

**Top BPO/SSC/R&D Location**
- 592 centres employing 212,000 people

**Number of Cities Above 400,000 Inhabitants**
- 8: Warsaw, Cracow, Tri-City, Łódź, Wrocław, Poznań, Szczecin, Katowice*

*conurbation
1. Source: GUS 2015
2. Source: BNP Paribas Real Estate H1 2016
3. Source: BNP Paribas Real Estate
4. Source: “Business Services Sector in Poland 2016” ABSL
6. Source: Eurostat
Foreword

Poland

A Perfect Place for Investors

Poland is one of the most dynamic and fast-growing markets in Europe with positive macroeconomic factors and forecasts. Since 2004, Poland has been a member of the European Union taking advantage of the free flow of people, goods, services and capital. The country has an excellent geographical location in Central Europe at the intersection of North South and East West trade routes.

For the last decade Poland has been like a magnet for investors as a result of the activities undertaken by local authorities, business, organizations and inhabitants. With 70 transactions completed in 2015, the investment market in Poland exceeded €4bn, indicating the second best result ever recorded. It represents a 30% y/y increase.

Poland provides foreign investors with competitive labor costs, industrial diversity and real possibilities for the development of new economic entities. The country has a stable market, a balanced tax system, available capital and well-developed infrastructure. Poland’s population is approximately 38.5 million. One of Poland’s strongest points is the availability of an educated and highly qualified work force.

This brochure sets out a detailed description of the regional hot spots in Poland, investment opportunities and market potential. The brochure provides a summary of significant facts investors and developers need to know about the Polish real estate market before they invest.

Thank you for taking the time to read this guide and I wish you much success in Poland!

Patrick Delcol
Chief Executive Officer
Central and Eastern Europe
BNP Paribas Real Estate
POLAND OVERVIEW

POLAND OVERVIEW

TOP 10 REASONS TO INVEST IN POLAND

1. THE LARGEST ECONOMY IN CEE

Poland holds the leading position in the CEE region in terms of GDP (€428 billion in 2015). The Polish economy is larger than the combined economies of the Czech Republic, Hungary, Slovakia, Lithuania and Latvia.

2. GDP GROWTH ALMOST TWICE AS HIGH AS THE EU AVERAGE

According to Eurostat, in 2015 the GDP growth in Poland reached 3.6% compared to 1.6% in the whole European Union in the corresponding period. Over the past 10 years the Polish economy increased by 45.8%, while the EU’s only by 9.7%. Moreover, after 1989 Poland has never been in a recession stage, even during the financial crisis of 2008.

3. STRONG DOMESTIC DEMAND

With a population of 38.4 million, Poland is the largest country in Central and Eastern Europe and the 6th among all of the EU members. The size of the market along with the still rising purchasing power of Polish households (€6,437 per person) creates a very strong domestic demand. It is one of the growth engines of Poland.
While Warsaw still remains the key business centre of the country, Poland has many strong regional clusters. Cities such as Cracow, Wroclaw, Tri-City and the Katowice conurbation have developed business-friendly environment and have attracted many foreign investors. The transport links between the urban centres become more and more effective as a result of infrastructure developments. Only over the past 4 years the total length of motorways and express roads has doubled, while further thousands of kilometres are under construction. Additionally, passenger traffic at Polish airports increased in 2015 by 12.5% y-o-y.

According to the ABSL, at the beginning of 2016 there were 936 service centres, of which 676 were of foreign origin. The companies from the BPO, SSC, IT and R&D sectors employ 212,000 people, recording a steady 20-25% annual growth over the course of the past five years. The ABSL forecasts that total employment in the outsourcing sector in 2020 will exceed 300,000 jobs.

Over the last few years the Polish property market has recorded the fastest growth in history in terms of new supply delivered. Depending on the sector over 2005-2015, the volume has increased by 180% in offices, 90% in retail and 460% in warehouses. Additionally, there is no sign of slowdown. The healthy level of the pipeline provide interesting investment opportunities in the future.
 Polish government take numerous initiatives when it comes to the support of new investment projects. The recently introduced “plan for responsible development of Poland” provides support in the form of e.g. a non-repayable employment and investment grants. Another example of business-friendly policies are Special Economic Zones (SEZ). The companies operating within SEZs enjoy incentives such as various tax exemptions.

Poland is the largest recipient of EU funds in the years 2014-2020. The total amount of EU funds dedicated for Poland in this timeframe equals 82.5 billion euros. It opens plenty of investment opportunities for co-financing and ensures the further development of public infrastructure. During the last budgeting period (2007-2013) Poland recorded one of the highest utilisation rates of EU support reaching nearly 100%.

Small and medium-sized enterprises are responsible for approximately 50% of GDP. The growing part of these enterprises operates in innovation fields and provide services for international clients. According to forecasts the total employment in this sector can reach of 50,000 people by 2023.
## COST AND TERMS

**OVERVIEW OF CONSTRUCTION, LETTING AND INVESTMENT COSTS AND TERMS**

### COSTS

<table>
<thead>
<tr>
<th>**LAND ACQUISITION COSTS (PER SQM)**¹</th>
<th><strong>Office</strong></th>
<th>€3,000-€4,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Retail</strong></td>
<td>€500-1,000</td>
</tr>
<tr>
<td></td>
<td><strong>Warehouse</strong></td>
<td>€50-80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>**CONSTRUCTION COSTS (PER SQM)**²</th>
<th><strong>Office</strong></th>
<th>€1,200-1,500*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Retail</strong></td>
<td>€1,500-1,800</td>
</tr>
<tr>
<td></td>
<td><strong>Warehouse</strong></td>
<td>€280-300</td>
</tr>
</tbody>
</table>

| **BANK MARGINS** | **3-4%** |
| **LTC RATIO** | **40-60%** |

### RENTS

<table>
<thead>
<tr>
<th><strong>PRIME RENTS</strong>³</th>
<th><strong>Office</strong></th>
<th>€21-€22</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Retail SC</strong></td>
<td>€100-€120</td>
</tr>
<tr>
<td></td>
<td><strong>Retail HS</strong></td>
<td>€90-€110</td>
</tr>
<tr>
<td></td>
<td><strong>Warehouse</strong></td>
<td>€3.8-€4.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>STANDARD LEASE TERMS</strong></th>
<th><strong>Office</strong></th>
<th>3-7 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Retail SC</strong></td>
<td>5-10 yrs</td>
</tr>
<tr>
<td></td>
<td><strong>Retail HS</strong></td>
<td>3-5 yrs</td>
</tr>
<tr>
<td></td>
<td><strong>Warehouse</strong></td>
<td>3-5 yrs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>AGENT FEES</strong></th>
<th><strong>Office</strong></th>
<th>7.66-12.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Retail SC</strong></td>
<td>10-15%</td>
</tr>
<tr>
<td></td>
<td><strong>Warehouse</strong></td>
<td>16.5-25%</td>
</tr>
</tbody>
</table>

### YIELDS

<table>
<thead>
<tr>
<th><strong>PRIME YIELDS</strong>⁴</th>
<th><strong>Office</strong></th>
<th>5.25-5.50%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Retail</strong></td>
<td>5.25-5.50%</td>
</tr>
<tr>
<td></td>
<td><strong>Warehouse</strong></td>
<td>5.50-6.50%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>PRIME ASSET VALUES (PER SQM)</strong></th>
<th><strong>Office</strong></th>
<th>€5,000-€6,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Retail</strong></td>
<td>€4,000-5,000</td>
</tr>
<tr>
<td></td>
<td><strong>Warehouse</strong></td>
<td>€400-600</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>STAMP DUTY</strong></th>
<th><strong>Asset/Shares</strong></th>
<th>2% / 1%*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BANK MARGINS</strong></td>
<td><strong>1.5-2%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>LTV RATIO</strong></td>
<td><strong>60-70%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>STANDARD SALE FEES</strong></td>
<td><strong>0.5-1.5%</strong></td>
<td></td>
</tr>
</tbody>
</table>

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*including fit-out
1. Prime location in capital cities.
2. For modern schemes.
4. Best-in-class schemes in prime location within capital city.
Warsaw has profoundly transformed itself over the past two decades and may be called the very heart of the Central Europe region due to its economic strength, business environment and political power.

The city has attracted numerous international companies which have established their headquarters here. Every third company registered in Poland is based in Warsaw.

Warsaw is the largest labour market in Poland with an unemployment rate at the level of 3.4% and disposable income of over €12,400 per annum, which is three times higher than the national average.

Infrastructure improvements carried out over the past few years, including an integrated public transport system, construction of fur-
ther sections of the ring road, completion of the Northern Bridge and the opening of the second metro line, have contributed substantially to the city’s development.

The property market in Warsaw is the most mature one across the CE capitals in all of the property sectors. It offers the largest stock of modern office, retail and logistic space and provides a solid occupier base for all property types. The Warsaw office stock amounts to 5.05 million sqm, with over 650,000 sqm due for delivery over the next 12-24 months.

Given the number of residents and the highest purchasing power in Poland, the Warsaw agglomeration has the highest volume of modern retail space which will be soon reaching over 1.6 million sqm. It offers a variety of retail formats with a varied representation of international and national retail brands. It is also the largest single market for logistics and warehouse space located up to 50 km from Warsaw and totalling 3.1 million sqm, which accounts for approximately 30% of the market share.

Warsaw is also a key market on the radar screens of investment funds and private equity companies interested in the Polish property sector. Given the city’s strong position, prime yields may compress further in short- to medium term.

**KEY FACTS**

<table>
<thead>
<tr>
<th></th>
<th>OFFICE</th>
<th>RETAIL</th>
<th>WAREHOUSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total modern stock (sqm)</td>
<td>5,050,000</td>
<td>1,540,000</td>
<td>646,239</td>
</tr>
<tr>
<td>Prime headline rents city centre (€/sqm/mth)</td>
<td>19-22</td>
<td>100-120</td>
<td>3.5-5.0</td>
</tr>
<tr>
<td>Prime yield (%)</td>
<td>5.25-5.75</td>
<td>5.00-5.50</td>
<td>5.50-6.50</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

1. As of end 2015, 2. As of July 2016, source: GUS
Kraków combines historical tradition with a vivid business environment. The A4 motorway provides a fast link to the Upper Silesian region and Germany to the west, with Ukraine to the east. Kraków, due to its strong academic base, successfully competes as a service centre in many industry areas, especially in modern technologies. In the 2016 Tholons’ Top 100 Outsourcing Destinations report Kraków was ranked as the best location for modern services in the whole of Europe and the 9th best location all over the world. Kraków was overtaken only by Asian cities from India and the Philippines.

The city has been acknowledged by companies such as: Amway, Capgemini, Cisco, Electrolux, FedEx, Heineken, HSBC, Nokia Networks, Philip Morris International and Shell, which all based their operations here.

Another advantage of the city, contributing to its investment attractiveness, is the presence of the Kraków Special Economic Zone. Investors include: Delphi, MAN, Motorola Solutions and Teva.

In terms of property sectors, Kraków is high up when it comes to provision of modern office space, which totals nearly 900,000 sqm with a vacancy rate of less than 4%. Kraków has also a well-developed retail market (nearly 550,000 sqm) offering a wide range of formats and full spectrum of retailers. The logistics and warehousing market is the least developed one with a total supply of around 236,000 sqm. However, there is a high growth potential as all warehouse and logistic schemes are fully leased.

Tourism has always played an important role for Kraków being one of the top tourist destinations in Central Europe. In 2015, Kraków Balice International Airport, which is the second most important airport in Poland, recorded a 10.7% growth in passenger volume. This is why hospitality and complementary services are so well developed.

**KEY FACTS**

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<th>RETAIL</th>
<th>WAREHOUSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total modern stock (sqm)</td>
<td>894,300</td>
<td>549,400</td>
<td>235,927</td>
</tr>
<tr>
<td>Prime headline rents city centre (£/sqm/mth)</td>
<td>13-15</td>
<td>40-50</td>
<td>3.25-4.00</td>
</tr>
<tr>
<td>Prime yield (%)</td>
<td>6.50-7.00</td>
<td>6.00-6.50</td>
<td>7.50-8.00</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

1. As of end 2015, 2. As of July 2016, source: GUS
The cities of Gdynia, Gdańsk and Sopot form a conurbation known as the Tri-City. With a population of almost 750,000 in the three cities, it is the largest market in the northern part of Poland. The conurbation’s economy, which used to be dominated by industries such as shipbuilding, petrochemical industries as well as food processing, has been gradually transforming into a larger share of know-how based sectors such as electronics, telecommunication, IT engineering and financial services. It is often called the Polish Silicon Valley. The region enjoys strong presence of BPO/SSC and IT foreign companies including: Thomson Reuters, Nordea, GE, Sii, Sony, PwC, Intel, Bayer and Lufthansa Systems.

The real estate market in the TriCity is well developed with nearly 612,000 sqm of office, 750,000 sqm of retail and 334,000 sqm of warehouse and logistics space, all enjoying the presence of international and national developers and investors. The Tri-City has a unique location properly suited for intermodal transport solutions. It enjoys the presence of two major ports in Gdańsk and Gdynia. The conurbation has a well-developed transport network along with rail and air transport options.

<table>
<thead>
<tr>
<th>KEY FACTS</th>
<th>OFFICE</th>
<th>RETAIL</th>
<th>WAREHOUSE</th>
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</thead>
<tbody>
<tr>
<td>Total modern stock (sqm)</td>
<td>405,200</td>
<td>722,000</td>
<td>1,578,232</td>
</tr>
<tr>
<td>Prime headline rents city centre (€/sqm/mth)</td>
<td>13.5-15</td>
<td>40-50</td>
<td>2.4-3.4</td>
</tr>
<tr>
<td>Prime yield (%)</td>
<td>6.75-7.25</td>
<td>5.50-6.00</td>
<td>7.50-8.00</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

1. As of end 2015, 2. As of July 2016, source: GUS
Łódź is an important academic centre and intensively developing city supported by strong industrial traditions. Its central location close to the major motorway junction (A2 with A1) is one of the city’s key advantages. In July of 2016 section of A1 motorway opened, which forms the western ring of the city. Strength of the city also lies in its competitive costs of labour as well as rates for leasing office space. Various types of incentives are available for investors, especially for those, willing to set up business in Łódź Special Economic Zone. Due to the influx of foreign investments, the region has become Europe’s largest household-appliance cluster, with headquarters of BSH and Indesit.

Considering modern real estate market, the city offers quality space across all property sectors. Supply of office space reached 364,000 sqm by H1 2016. Office market is going to boost in the following years because of “Nowe Centrum Łodzi” project, which aims to create a multi-functional area acting as a major office centre within the city. The first building of this project is Nowa Fabryczna construction begun in March 2016. Retail market in Łódź is well developed with 630,000 sqm of existing stock, of which 17% is located in Manufaktura, a multifunctional centre, a masterpiece of urban regeneration. Due to its location, at the junction of A2 and A1 motorways, Łódź region has been also very popular among logistics and warehouse developers and operators. With over 1,3m sqm of total stock, Central Poland area is one of the largest hub in the country.

**KEY FACTS**

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<th>RETAIL</th>
<th>WAREHOUSE</th>
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<tbody>
<tr>
<td>Total modern stock (sqm)</td>
<td>161,200</td>
<td>556,700</td>
<td>175,930</td>
</tr>
<tr>
<td>Prime headline rents city centre (€/sqm/mth)</td>
<td>11-14</td>
<td>35-45</td>
<td>2.8-3.6</td>
</tr>
<tr>
<td>Prime yield (%)</td>
<td>7.50-8.00</td>
<td>5.50-6.00</td>
<td>7.50-8.00</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

1. As of end 2015, 2. As of July 2016, source: GUS
Wrocław is one of the key regional cities and is quickly becoming one of the most attractive tourist destinations in Central Europe. In addition to its historical monuments, the city is the host of 2016 European Capital of Culture. The basis for economic development have been the convenient transport links to Western Europe, proximity to the Czech Republic and Germany, as well as a well-educated population. The city benefits from the continuity of local authorities which consistently invest in and develop the city’s infrastructure, enhance the quality of public space and show an investor friendly approach. The city is Poland’s third largest academic centre, which is the reason why it is so popular among the BPO/SSC, IT and R&D sectors. According to the 2016 Tholons’ Top 100 Outsourcing Destinations report, Wrocław recorded one of the fastest growths among all of the analysed cities, climbing from 62th to 58th place. Companies from within the abovementioned industry sectors that took the decision to base their operations in Wrocław include: Capgemini, Hewlett Packard, Google, McKinsey, IBM, Volvo and Nokia Networks. In addition to service companies, the Wrocław agglomeration hosts numerous manufacturing facilities for international companies such as: LG Electronics, Siemens, Teta, LG Electronics, Whirlpool, Fagor Mastercook, Electrolux, Toyota, Volvo, Bosch, Faurecia and Bombardier. In order to assist investors and facilitate business activities, there are several Special Economic Zones within the voivodship located in Legnica, Wałbrzych, Kamienna Góra and Tarnobrzeg.

The Wrocław property market is well developed providing quality modern office space (736,000 sqm), a variety of retail offer (690,000 sqm), as well as a conveniently located warehouse and logistics hub (almost 1.4 million sqm).

### KEY FACTS

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<th>OFFICE</th>
<th>RETAIL</th>
<th>WAREHOUSE</th>
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<tbody>
<tr>
<td>Total modern stock (sqm)</td>
<td>736,600</td>
<td>686,400</td>
<td>1,389,405</td>
</tr>
<tr>
<td>Prime headline rents city centre (€/sqm/mth)</td>
<td>12-15,5</td>
<td>35-45</td>
<td>2.8-3.5</td>
</tr>
<tr>
<td>Prime yield (%)</td>
<td>5.50-6.50</td>
<td>6.00-6.50</td>
<td>7.00-7.50</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

1. As of end 2015, 2. As of July 2016, source: GUS
Poznań benefits from its proximity to the German border as well as well-developed transport infrastructure including the A2 motorway, railway connections and the Poznań Ławica international airport. The city is well known for its high level of entrepreneurship and work efficiency, which is reflected in high regional GDP. The city and the wider agglomeration are known as an automotive cluster with companies such as: Volkswagen, MAN, Bridgestone/Firestone, Solaris, Delphi Automotive Systems and Honda. Poznań International Fair hosts the largest exhibitions and events in Central Europe, which subsequently spurs the hotel and service industry.

The city is a seat of 38 universities. A high number of qualified employees available at a cost lower as compared to Warsaw allows for a solid background for modern services BPO/SSC as well as R&D. The following companies from within the abovementioned industry sectors are based there: GlaxoSmithKline, MAN, Mars, Roche and Bridgestone.

The property market in the city is relatively well developed with 405,000 sqm of existing office space. When analysing modern retail accommodation totalling 623,500 sqm, the city has one of the highest density of retail space per capita among the cities with a population above 400,000. Poznań is also an important warehouse and logistics market accommodating 1.6 million sqm of space.

### KEY FACTS

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<th>OFFICE</th>
<th>RETAIL</th>
<th>WAREHOUSE</th>
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</thead>
<tbody>
<tr>
<td>Total modern stock (sqm)</td>
<td>611,600</td>
<td>634,600</td>
<td>333,517</td>
</tr>
<tr>
<td>Prime headline rents city centre (€/sqm/mth)</td>
<td>12-14</td>
<td>35-45</td>
<td>2.8-3.7</td>
</tr>
<tr>
<td>Prime yield (%)</td>
<td>5.50-6.50</td>
<td>5.50-6.00</td>
<td>6.00-6.50</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

1. As of end 2015, 2. As of July 2016, source: GUS
Katowice forms a part of the Upper Silesia conurbation, which with a population of around 2.1 million is the second largest urban zone in Poland. As there are no distinct boundaries between many of the towns and cities and due to a good communication network, the area is often considered as a single market. As a result, the Special Metropolitan Law has been drawn up and it entered into force in 2016. It helps the local governments operate as one single entity.

The attractiveness of the Upper Silesia region additionally stems from its location at the junction of main transportation corridors, i.e. the A4 and A1 motorways, well-developed internal road infrastructure, qualified workforce and a large consumer market.

The image of Katowice has been gradually changing from a heavy coalmining-led region into a vibrant, modern city with an ambitious city centre urban regeneration plan and a healthy industry sector split. The Katowice office market is offering approximately 415,000 sqm of modern space. When analysing the retail space, following completion of Supersam, the total retail space within the Silesian agglomeration reaches nearly 1.2 million sqm. With over 1.8 million sqm of modern warehouse and logistics space, Upper Silesia is the second largest warehouse market in Poland after Warsaw. Given the region’s strategic location and efficient road network, it is one of the major industrial hubs in Central Europe.

**KEY FACTS**

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<tr>
<th></th>
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<th>WAREHOUSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total modern stock (sqm)</td>
<td>415,100</td>
<td>1,140,000</td>
<td>1,800,771</td>
</tr>
<tr>
<td>Prime headline rents city centre (€/sqm/mth)</td>
<td>11-14.5</td>
<td>40-50</td>
<td>2.3-3.3</td>
</tr>
<tr>
<td>Prime yield (%)</td>
<td>7.00-7.50</td>
<td>5.75-6.25</td>
<td>6.00-7.00</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

1. As of end 2015, data for conurbation, 2. As of July 2016, source: GUS
How to find the best office for your new business operations in Poland?

1. **Choose the right advisor** who offers support for your real estate projects, understands your needs and provides you with tailor-made solutions and high-quality services.

2. **Define your needs** and analyse your constraints considering your business strategy, prospective headcount evolution, financial objectives as well as space and timing flexibility.

3. **Structure the process** by applying process stages and critical dates to the timeline. This will help discipline all the parties involved.

4. **Establish your key decision factors** and metrics related to location, accessibility, space flexibility and financial expectations.

5. **Challenge your approach** and the market responses. This will result in a shortlist of the most promising offers.

6. **Compare the final submissions** taking into account the P&L and non-financial scoring, identify and mitigate risks and confirm the project schedule.

7. **Remember**: headline rent is not everything. Be aware that landlord’s motivation to lease the space is a key factor in providing you with incentives such as rent free period, fit-out and cash contributions.

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The Tides, Warsaw
Having reached a certain level of maturity and volume, after over 25 years the Polish real estate market is going through a period of specialization and sophistication. All of the actors – consumers, occupiers, developers and investors have become more cautious of their requirements and have raised their expectations, which is why we expect the following trends to occur over the 3-5 year horizon:

**PRIME ASSETS CONTINUE TO BE IN, WITH SECONDARY AND TERTIARY MARKETS NOT FAR BEHIND**

With €4 billion transacted over 2015 and a similar result expected in 2016, Poland will maintain its leading position across the CEE in terms of volume of investment allocated in real estate.

Core and core plus funds will continue to compete fiercely for prime assets, bearing in mind low cost of capital, strong fundamentals of the Polish economy and good performance indicators. Yields may compress further for grade A properties in top locations.

Poland will also continue to be an attractive spot for value-add and opportunistic investors, since there is substantial provision of suitable assets across the country with appropriate price adjustments.

**SOME CITY CENTRE MATURE OFFICE BUILDINGS IN WARSAW FACING CHALLENGES WITH PRIME RETAINING STRONG POSITION**

A few prime assets shall enjoy stable rents. However, the majority of existing stock and pipeline supply is likely to record decline in effective rents, keeping the headline rates unchanged.

When analysing vacancy rate based on building age and location, major discrepancies become evident. The vacancy rate in buildings which are no more than five years old is less than 10%, while those completed over ten years ago record availability rate at nearly 20%. The worst situation was recorded in mature buildings in the city centre as well as the Mokotów area, where some clusters recorded a vacancy rate of over 30-40%.
Considering the volume of pipeline space to be delivered over the next 24 months, as well as occupiers’ preference towards increase of efficiency and the novelty factor, the situation is likely to continue in the mid-term horizon. It will impact the rental rates, which may decline by 5% over the next years.

**REGIONAL OFFICE MARKETS REMAIN ACTIVE IN TERMS OF DEVELOPMENT, LETTING AND INVESTMENT**

Looking at the level of vacancy (5-10%) and pre-let ratio (40-60%) in buildings under construction in cities such as Kraków, Poznań, Tri-City and Wrocław, the prospects for regional office markets are bright.

According to ABSL, the BPO/SSC/ICT/R&D sector is forecast to grow 20-25% per annum, which is further strengthening the future position of the regional office markets.

As developers, encouraged by positive market trends, will continue to deliver new supply to the market, rents are likely to remain stable. Yet, the rising labour costs may become an issue in the mid- to long term.

Positive outlook for regional office markets is driving investors to analyse opportunities for capital allocation in major regional cities.

**FLEXIBLE OFFICE SOLUTIONS ADJUSTED TO NEW GENERATIONS**

Say goodbye to the old-style cubicles and sterile offices of yesteryear. A new era of innovation, colour and collaboration has moved into the office and it looks like it’s here to stay.

Occupiers have become more demanding and sophisticated, also in the view of changing socio-demographic patterns and generation Y and Z. HR and real estate objectives are increasingly converging not only to improve space efficiency and employee’s productivity, but also to attract the talent pool.

**RETAIL SECTOR WILL FOCUS ON ASSET MANAGEMENT**

The era of uncontrolled retail development spree is long over. The time has come to focus on the most important aspect of retail – on the consumer, which in turn means intensive asset management.

Anticipating customers’ expectations, investing in new technologies and improving OCR (occupancy cost ratio) will be key themes for landlords of the future wishing to stand out from the crowd.

**POSITIVE TRENDS IN THE LOGISTIC SECTOR WILL CONTINUE WITH NEW HUBS EMERGING**

There are no signs of slowdown in the logistics sector. Vacancy rate has been fluctuating at a mere 5-6% over the past few quarters despite continuously strong provision of new supply delivered. It is strongly correlated with the record-level of take-up reaching 2.5 million sqm in 2015, which may be exceeded again in 2016.

While the key hubs will continue to attract the majority of occupier requirements, new locations are emerging on the warehouse hub map. Grodzisk Mazowiecki is one of the locations around the Warsaw agglomeration to have benefited in the recent quarters from the boom in the vicinity of the motorway interchange. The emergence of new hubs can also be seen around the Poznań hub, near Września in the east and Świebodzin in the west. In the south east of the country, near the border with Ukraine, the area around Korczowa is now also growing.
INVESTORS’ QUESTIONS ANSWERED

5 MOST FREQUENTLY ASKED QUESTIONS BY THE INVESTORS

1. What is the difference between headline and effective rent?

Market rent is typically quoted as the “headline” rental figure or the one written into a lease contract. This means that the impact of any tenant incentives (such as free rent or other giveaways) might be overlooked in analysis. The “net effective” rent is the economic rent once accounting for tenant incentives. There is consistent confusion in the market as to what is the lease rent and the actual effective rental amount paid by the tenant after incentives. Taking into account all incentives and discounts given to a tenant by a landlord (cash and fit-out contribution, rent free period, etc.), effective rent might be substantially lower for the tenant than headline rent. The danger for the investor is buying an over-rented income flow while being unaware of how the rent was achieved and incentivized. Additionally, looking from the tenants’ perspective, tenants don’t often realize that they actually pay more than market rent as in the short term effective rent looks extremely attractive. In such a case, a landlord might face distress and dissatisfaction from the tenant side as higher than market rent kicks in at a certain stage of the lease term. Tenants might then look for alternative accommodation at a true market level. A new landlord may not notice all discounts that have been applied at the beginning of a lease to secure the tenant in the first place and may believe the headline rent is a fair price whilst it is actually above standard market rates. In Poland, particularly with intense competition between developers in the logistics and warehousing sector, buyers need to be aware of the potential risks.

2. Where is the added value in acquisition of logistics and warehousing real estate?

An added value investor looks not just at buying an income stream but how to enhance it. Therefore, if a building or a park has, for instance, a lot of vacant space, then – rather than put off some investors, it may be attractive to an added value investor by providing an opportunity to put more tenants into the building and thus increasing the value of the investment. Another way to add value may be extension or development opportunities for the park or building such as a Phase 2 and 3 that have never been implemented. Therefore, an added value investor may decide to buy an investment with room for further phases. Short-term leases coming to an end might also be an element of risk for the current owner, whilst a potential purchaser might see this as an attractive option with renegotiations and extensions of leases proving to be profitable.
3 Will a large supply of modern office space in Warsaw affect rent levels?

The total stock of modern office space in Warsaw in 2016 exceeded 5 million sqm. A clear development spree continues as the volume of projects currently under construction can be estimated at around 650,000 sqm. Additionally, approximately 1 million sqm is now at the initial stages of planning. This large supply will affect rent levels within the short term. Rents will continue to decrease and bottom out over Q4 2016/Q1 2017. Eventually, the market will absorb the new supply and a period of stability is expected in the second half of 2017. Warsaw is a business-oriented capital city and still has much more capacity for office stock than the current and planned volume and in a long-term perspective I would not expect any major turbulence regarding rent levels.

4 Are Polish regional cities a good investment alternative and what is their growth potential?

Investors constantly look for prime assets located in large Polish agglomerations. Due to a limited availability of such products in the market, they are forced to search for opportunities to invest in buildings, segments and locations which had previously been perceived as a niche. Investors are now eagerly looking at regional cities, where good retail, office and warehouse projects are situated. Retail parks and outlet centers are becoming an attractive investment opportunity. Thanks to the increasing footfall and average visit time, outlet centers are undergoing a transformation. Leisure and entertainment areas as well as food courts are gaining popularity. As an investment product, outlet centers offer many advantages. They are more resilient to market fluctuations in terms of yields and rents than other types of assets.

5 Investing in the retail real estate located in the smaller, regional cities is becoming more popular. What is their growth perspective and what are the risks?

Regional office markets are gaining in importance resulting in an increasing number of transactions, in particular in Kraków and Tri-City. Both of them represent an excellent address for shared-services and BPO companies due to lower labour costs as well as higher availability of manpower. Additionally, Kraków benefits from a strong geographical location.
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