At a glance Q2 2017

Investment Market in Poland

The continuous positive economic performance of Poland combined with availability of sound investment products achieving attractive yields compared with Western markets are the main signals from the investment market over the last quarter.

1 **SOLID Q2 FIGURES WITH RETAIL RIDING THE WAVE**

After a sluggish start to the year, investment activity has been re-vigorated over the last three months, achieving over €1 billion in Q2. The aggregated volume of investment in the first six months of 2017 reached €1.5 billion, representing a 24% decrease y/y. However, if pending deals conclude, the year-end result should be close to €4.2–4.4 billion, which would be similar to the record of 2016 when €4.5 billion was transacted.

The retail sector accounted for 80% market share of capital invested in Q2, mainly resulting from large portfolio acquisitions.

2 **YIELD DICHOTOMY CONTINUES**

On the one hand, investors have been piling into top end property pushing up prices, however, there has been little evidence of prime assets achieving landlords’ price expectations.

On the other hand a wave of value-add and opportunistic investors, including newcomers, are keen to acquire. Therefore the yield gap between trophy assets and more ordinary secondary buildings is widening and currently stands on average at 1.5–2.5 p.p. and in some cases even more.

3 **CLOUDS ON THE HORIZON FOR REITS**

In May 2017, the Government released a second draft bill related to REITs in Poland intended to come into force from 1st January 2018. Public consultations are ongoing. However a recent National Bank of Poland (NBP) statement relating to over exposure and pricing momentum may cool off and slow down these proceedings.

Introduction of REITs in Poland should have a positive influence on the Polish commercial real estate market, increasing the share of domestic capital on the market that is currently dominated by foreign investors (approx. 90%). It would also be beneficial for Polish capital markets mainly due to connecting tax preferences with a requirement to admit REIT share trading on the stock market.

4 **UNCERTAINTY ON TAX RULING PUSHES DEVELOPERS TO BUILD HOLDINGS**

Since last year a change in the approach of the tax authorities to VAT classification of real estate transactions has caused uncertainty in the Polish investment market. Some interpretations state that the sale of leased commercial properties, previously seen as sale of assets on a piecemeal basis, should be classified as the sale of an enterprise. Thus, tax authorities have recently challenged VAT refunds on completed transactions.

In view of such trends and complications upon exit, some developers consider establishing property holding structures and funds, in which income producing schemes are placed and held.
Macroeconomic Snapshot

Annual GDP growth, in %

Source: BNP Paribas, Oxford Economics, f - forecast

Annual CPI, in %

Source: GUS, NBP, f - forecast

Unemployment Rate, in %

Source: BNP Paribas, Oxford Economics, f - forecast

Investment Snapshot

Annual Prime Yields per Sector, in %

Source: BNP Paribas Real Estate, f - forecast

Annual Sector Split of Investment Volumes, in %

Source: BNP Paribas Real Estate

Annual Volume of Investment Transactions, in € m

Source: BNP Paribas Real Estate, f - forecast
Top 10 transactions in Poland, Q1–Q4 2016

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Sector</th>
<th>Location</th>
<th>Vendor</th>
<th>Investor</th>
<th>Size</th>
<th>Est. lot size (€m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ikea Centers portfolio</td>
<td>Retail</td>
<td>Janki, Poznań, Warsaw, Katowice</td>
<td>Ikea Centers</td>
<td>Pradera</td>
<td>138,000 sqm</td>
<td>220</td>
</tr>
<tr>
<td>Fashion House portfolio</td>
<td>Retail</td>
<td>Sosnowiec, Gdańsk, Piaseczno</td>
<td>Peakside Capital</td>
<td>RREEF Spezial Investment GmbH</td>
<td>50,600 sqm</td>
<td>200</td>
</tr>
<tr>
<td>BPH FIZ portfolio</td>
<td>Retail / Office</td>
<td>Warsaw (8 buildings), Bolesławiec, Chorzów, Kraków</td>
<td>BPH FIZ Nieruchomości</td>
<td>Octava FIZAN (Elliott)</td>
<td>140,000 sqm</td>
<td>150</td>
</tr>
<tr>
<td>Galeria Twierdza I Kłodzko Galeria Twierdza Zamość Wzorcownia Galeria Tęcza</td>
<td>Retail</td>
<td>Kłodzko, Zamość, Włocławek, Kalisz</td>
<td>Blackstone</td>
<td>Echo Polska Properties</td>
<td>73,000 sqm</td>
<td>141.6</td>
</tr>
<tr>
<td>Ogrody Shopping Centre</td>
<td>Retail</td>
<td>Elbląg</td>
<td>CBRE Global Investors</td>
<td>CPI Property Group</td>
<td>41,500 sqm</td>
<td>91</td>
</tr>
<tr>
<td>Sheraton Kraków</td>
<td>Hotel</td>
<td>Kraków</td>
<td>Algonquin</td>
<td>Invesco</td>
<td>232 rooms</td>
<td>70</td>
</tr>
<tr>
<td>Maraton</td>
<td>Office</td>
<td>Poznań</td>
<td>Skanska AB</td>
<td>Union Investment</td>
<td>23,600 sqm</td>
<td>62</td>
</tr>
<tr>
<td>Radisson Blu Hotel Warsaw</td>
<td>Hotel</td>
<td>Warsaw</td>
<td>LHI</td>
<td>Europa Capital, Rezidor Hotel Group</td>
<td>311 rooms</td>
<td>60</td>
</tr>
<tr>
<td>Westin</td>
<td>Hotel</td>
<td>Warsaw</td>
<td>Skanska</td>
<td>Al. Sraiya Hotels &amp; Hospitality Group</td>
<td>361 rooms</td>
<td>56</td>
</tr>
<tr>
<td>Zakopianka</td>
<td>Retail</td>
<td>Kraków</td>
<td>Tristan Capital Partners</td>
<td>Echo Polska Properties</td>
<td>26,300 sqm</td>
<td>53.3</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

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