

The Polish Real Estate Market 2008

Contents

2	Introduction
6	Real estate investment
11	Office market
17	Retail market
22	Warehouse market
26	Residential market
31	Tax issues
37	Legal issues
43	PricewaterhouseCoopers Real Estate Team
47	REAS
48	Clifford Chance

Information in this publication is intended to provide only a general outline of the subjects covered and is believed to be correct at the date of printing. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice.

Neither PricewaterhouseCoopers, REAS nor Clifford Chance accept any responsibility for losses arising from any action taken or not taken by anyone using this publication.

Introduction

Poland will receive EUR 90 bn from the EU over the next few years which will help accelerate the pace of development and create additional opportunities for investors.

Poland has become one of the most successful countries in Central and Eastern Europe (CEE) and its rapid economic expansion is fuelling changes within the commercial real estate market.

The major economic factors influencing investment decisions in Poland include the following:

- it is one of the largest economies in the region and has undergone rapid economic growth in recent years;
- relatively low inflation;
- an increase in foreign direct investment (FDI) inflows;
- relatively low labour costs as well as new industrial, financial and HR management methods;
- a large pool of highly-skilled personnel and university graduates with a good knowledge of English and often other European languages;
- a high degree of flexibility among staff: this is visible when introducing new management methods and new products, as well as in their enthusiasm during implementation processes; creativity and consistency – professionals are familiar with Western European standards;
- more coherent legal and tax regulations, and
- more efficient administrative procedures and less bureaucracy.

Following Poland's accession to the EU it has become the leader in attracting Business Process Offshoring (BPO). Poland provides a gateway to markets located further to the east and to the south, and it is also in close proximity and has access to more established western markets. Moreover, since 2005, investors have been permitted to locate BPOs in the Special Economic Zones (SEZ) which offer a number of incentives to encourage investment, e.g. grants, subsidies, local tax exemptions.

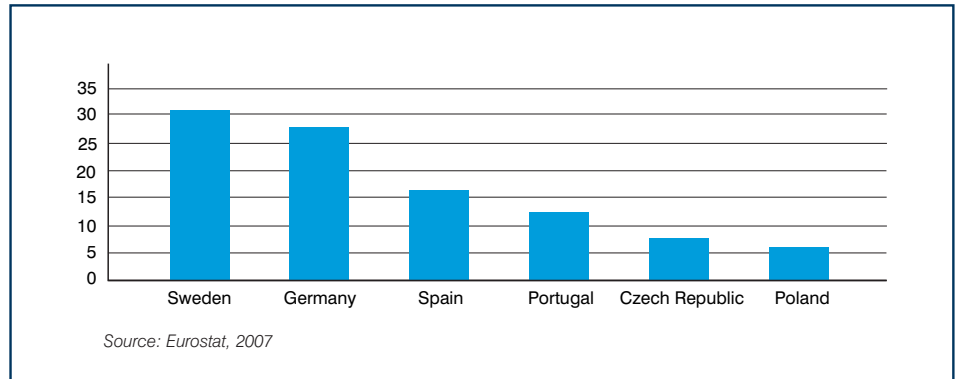
Poland is considered to be a low risk country and one which offers good opportunities. It is also anticipated that its labour force will see the biggest increase in the European Union over the next 5 years. It will receive EUR 90 bn from the EU over the next few years which will help accelerate the pace of development and create additional opportunities for investors. When comparing Poland's current economic development to the EU average, GDP growth in Poland is noticeably twice as high, as is the unemployment rate. Inflation, however, is much lower than the average.

Poland has been experiencing an economic boom and embarked on a path of self-sustaining growth with increased output and falling unemployment. GDP growth of over 6%, fuelled mainly by an increase in exports and investments, has been accompanied by acceptable levels of macroeconomic disequilibria, such as exceeding, permanent budget deficit, national debt at the level slightly below the emergency threshold, etc.

> Introduction

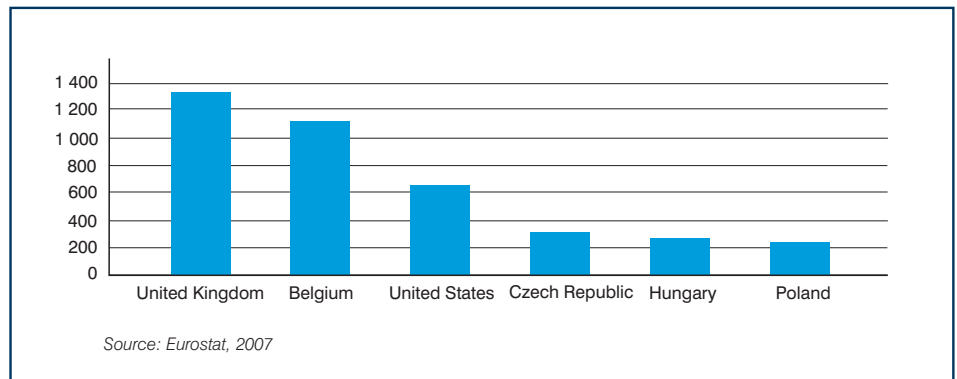
Labour costs in Poland are very competitive – among the most inexpensive in the EU as can be seen in the graph below:

Hourly labour cost in 2006 (EUR)



The minimum wage level in Poland compared to other countries can be seen in the graph below:

Minimum wages in 2007 (EUR)



> Introduction

Poland, like other new entrants into the European Union, still lacks an adequate infrastructure and this is a hindrance to the development of real estate. Until recently, transport and environmental infrastructure in Poland have been woefully inadequate and underdeveloped.

Accession to the EU has enhanced investment confidence in Poland. According to various rankings, Poland is one of the most attractive foreign direct investment locations in the world. Stability, greater market access, less trade and investment barriers, liberalization and deregulation are the key factors in such an assessment.

According to the Federation of European Employers, Poland ranks as the first European investment location from a human resources perspective.

Poland, like other new entrants into the European Union, still lacks an adequate infrastructure and this is a hindrance to the development of real estate. Until recently, the transport and environmental infrastructure in Poland have been woefully inadequate and underdeveloped. The situation has begun to improve with the inflow of EU pre-accession and accession funds. Water and sewage plants and sewerage networks in towns and villages have been upgraded and extended, also with a view to new developments, thus making it easier for investors to meet the environmental requirements which were introduced upon accession to the EU. The transport infrastructure is also gradually improving, although it is still far from being perfect. Currently large stretches of roads are being constructed or upgraded with the use of EU funds (approximately EUR 23 bn of EU funds have been earmarked for improving the road infrastructure up until 2013). However, the development and supply of motorways and dual carriageways is still limited. Currently 258 km of motorways and 183 km of dual carriageways are being constructed. By 2013 it is planned that ca. 900 km of motorways and 2,000 km of dual carriageways will be completed.

Apart from EU support, the EURO 2012 football tournament which is being co-organized by Poland and Ukraine should be another powerful accelerator for speeding up the investment process. In order to meet UEFA expectations and to prepare a friendly environment for the football supporters, it is planned that a large number of hotels, parking spaces and restaurants are to be built. International investors are desperately trying to buy up plots of land and complete the construction process to meet the EURO 2012 deadline. It should be emphasized that local governments have started to coordinate the investment processes and are planning steps to be taken in the period following EURO 2012 in order to take advantage of the developed infrastructure after the tournament.

During 2007, Poland has proven that it is an important recipient of capital from the global real estate investment market. Regional markets are rapidly reducing the distance which separates them from the capital city because investor focus has shifted.

In order to remain in the relatively well-developed markets (i.e. big cities) investors will place more focus on urban regeneration and redevelopment opportunities. This means that projects which include full technical and functional modernization will no longer be a rarity in the local markets. These projects will require a tailored approach and involve closer cooperation with experienced financial analysts, property managers, urban planners and architects in order to evaluate the feasibility of each project.

> Introduction

Investors who wish to avoid investments which involve modernization or adaptation have also started paying attention to the local markets.

JESSICA (Joint European Support for Sustainable Investment in City Areas) will provide opportunities for funding regeneration programmes. This is an EC initiative, managed jointly by the EBRD/EBI and which is aimed at providing independent debt funding for urban development and public, private and PPP schemes. JESSICA is not yet operational but, in the future, it may become an important impetus towards funding the development of the construction market in cities. The homogenous nature of real estate investment in Poland will disappear, as investors begin to identify trophy properties in city locations for renovation and restoration.

Another anticipated trend will be a return to the basic measure of a real estate's attractiveness, i.e. its location. Some investors have already purchased land with obsolete buildings in top locations in city centres, solely for the purpose of replacing these buildings with new and more profitable ones. Such investments frequently involve replacing a block of houses or an industrial complex with a commercial building. However, the problem still remains – finding new accommodation for the former residents, and agreeing the new building structure with the conservation officer (e.g. in case of old buildings).

Investors who wish to avoid investments which involve modernization or adaptation have also started paying attention to the local markets, i.e. small cities and towns, where the scale of investment is smaller, but the potential rates of return are higher than in major cities. A number of hybrid funds have emerged in the last year, where the objective is to build a portfolio of similar high-yield properties, with the intention of holding and eventually selling the entire portfolio for prices equivalent to larger-sized properties.

New cooperation opportunities for local authorities and private investors appeared after the regulations regarding public-private partnerships (PPP) came into force in mid 2006. Unfortunately, no project structured as a PPP has been effected thus far. A number of projects have been initiated as quasi PPP schemes, but none have been brought to a successful conclusion. Since the possibility of carrying out projects with PPP funding opens up tremendous opportunities for significant improvement of the Polish infrastructure, especially in the area of transportation (motorways, high-speed railway, airports), healthcare, penitentiary facilities as well as sport and leisure schemes, it is believed that some of the investments, in particular those which are necessary to meet the obligations of the EURO 2012 application, stand a chance of being implemented under a PPP structure.

It seems that investments in water and sewage works, municipal waste management and non-toll roads, will be financed mostly from EU funding, and there is little chance of implementing PPPs. However, in the case of “less politically sensitive” investments such as sport and leisure, parking lots or district heating, a new environment for cooperation between local authorities and private investors will be created in the form of PPPs. Other sectors which will benefit from this new framework will include the health sector, where no EU funds for the construction of new structures are available, ancillary infrastructure for airports and municipal housing. The clarification of this scheme is likely to present significant opportunities for Private Capital and Infrastructure Funds, which have sought to diversify their traditional investment portfolios in this way in other parts of the world.

A photograph of a modern, multi-level interior space, likely a commercial building or office complex. The space is characterized by extensive glass walls and railings, creating a transparent and open atmosphere. The ceiling is a vibrant, solid red color, which contrasts sharply with the neutral tones of the glass and metal. The architecture features clean lines and a mix of materials, including dark metal frames and light-colored metal railings. The lighting is bright, highlighting the reflective surfaces and the intricate details of the building's structure. The overall impression is one of a sophisticated and contemporary environment.

Real estate investment

Introduction

In terms of real estate investment, 2007 was undoubtedly focused on regional cities. There are a number of factors determining why investors have diverted their attention to the cities, these include Warsaw's market saturation, constant improvement of the local infrastructure and a countrywide increase in wages. It seems that this trend will remain stable in 2008.

According to "Emerging Trends in Real Estate Europe 2007", research conducted by the Urban Land Institute and PricewaterhouseCoopers, the gap between Western and Eastern Europe is getting smaller. Poland is considered to have one of the strongest economies among CEE countries, which has a significant impact on the real estate market, making Poland one of the leaders in the region. The yield rates of A-class office buildings in Warsaw is below those in Germany – although this does not mean that the investment risk in Poland is lower. It does mean, however, that Polish properties are desirable in order to diversify investors' portfolios. The new market trend is to restructure and optimize the vast real estate portfolios of current and former state-owned companies. These properties, which are often situated in very favourable locations, are frequently inefficient and the owners are only just becoming aware of their value.

Offices

The 5.25% capitalization limit established in 2006 has remained unchanged in 2007 and market analyses suggest it will remain unchanged in 2008 too. The office sector was the first one in Poland where "sell" recommendations dominated, however, this related mostly to Warsaw. The markets of other major agglomerations are not as saturated as the capital city, but there are few opportunities for making easy investments. It will be worth tracking the sub-market of multi-functional schemes in 2008. The medium-size cities lack modern office space, but investors also need to be aware of the lower demand there. Therefore, speculative developments without pre-lease arrangements should be considered to be higher risk.

Retail

The retail investment market offers diverse opportunities. There is still room for consolidation among the major retail chains, although the most noticeable transactions are those leading to the diversification of portfolios. The operators of large-format stores are willing to buy smaller shops in regional and provincial cities, e.g. Carrefour took over the Albert discount chain. In terms of new investments, cities with less than 100,000 inhabitants have recently attracted the attention of the market players. In order to break through in major cities, the investors have to take into consideration the new retail formats, such as neighbourhood shopping centres and the multifunctional malls in restored facilities in city centres.

> Real estate investment

The yield rates for this market were at a level of 6-7% in 2007. When looking for the best opportunities investors do not avoid forward purchase contracts.

Warehouses

2007 showed a rise both in supply and demand in the warehouse real estate market. A year before, respondents to the "Emerging Trends in Real Estate Europe 2007" survey advised "buying" with regards to this market and these recommendations are still relevant today. The rates of return are estimated at around 7-8%, which is one percentage point lower than at the end of 2006. It should be emphasized that the perspectives of improving infrastructure create new opportunities. There is a growing number of forward purchase contracts noted in the warehouse business, as in the case of the Good Point Puławska scheme which has recently been bought while in the development stage by PBW II, a subsidiary of AEW Europe.

Hotels

The hospitality investment market in Poland is still under development, but some positive movements are noticeable. Developers, in cooperation with worldwide hotel management chains, are launching new four- and five-star facilities in major regional cities, for instance the Radisson SAS in Gdańsk, as well as three-star hotels such as the Hilton Garden Inn in locations such as Rzeszów and Szczecin. Facilities of a lower standard i.e. two- and three-star seem to be an economic perspective (due to, among others, the Euro 2012 tournament). Also the restoration trend is becoming an important factor for this market. One example would be the case of the Likus family who recently signed a preliminary agreement to buy the Grand Hotel in Łódź. The investors intend to restore the hotel to its former splendour as a luxurious hotel of the 19th century. Yield rates for this sector are at the level of 8-10% depending on the standard and location of the property. The hospitality sector in Poland offers at least one more investment opportunity. The Hotel System company sells single hotel rooms in their new investments to individual investors and the apartments are then leased back. The company focuses on two- and three-star developments.

> Real estate investment

Major market transactions in 2007

Property	Location	Area (sq.m)	Value (mln EUR)	Purchaser
OFFICE				
Focus	Warsaw	31,600	122	DEGI
Prosta Office Center	Warsaw	20,500	87	ING Real Estate
Lipowy Business Park	Warsaw	40,000	82	Europolis
Trinity Park II	Warsaw	24,000	78	ING Real Estate
Millenium Plaza	Warsaw	56,000	76	Atlas Estates
RETAIL				
210 "Plus" discounts		150,000	320	Jerónimo Martins
18 "Komfort" stores		30,000	35	Redevco
Forum Gliwice	Gliwice	46,000	128	Deka Immobilien
Malls: Turzyn (Szczecin) Borek (Wrocław), Arena (Gliwice), Dąbrówka (Katowice), Zakopianka (Krakow)		156,000	232	Macquarie CountryWide Trust
Galeria Gniezno, Galeria nad Jeziorem	Gniezno Konin	32,000	70	Pradera
Wola Park	Warsaw	43,300	140	PBW II
WAREHOUSE				
City Point	Warsaw	122,000	72	Teesland iOG
Good Point Puławska	Łubna	43,500	28	PBW II
HOSPITALITY				
Grand Hotel	Łódź		20	Likus Family
Marriott	Warsaw		120	Lilium

Source: PricewaterhouseCoopers

> Real estate investment

Major players

The inflow of new real estate investors in 2007 was less dynamic than in previous years mostly due to the market turbulences in finance and banking. Banks are less willing to grant new loans, therefore the most active investors will be those using their own capital and low leverage. Market analyses indicate greater activity of European, mostly German, funds, mainly Deka Immobilien.

The retail market is performing very well for Polish investment funds operating in the real estate sector, although we can expect to see a slight decrease in private investors' interest due to information in the media about the market cool-down. Currently, there are ca. ten closed funds and three open ones operating in Poland. The major players are BZ WBK AIB TFI, BPH TFI, KBC TFI and Skarbiec TFI.



Office market

> Office market

Warsaw is still by far the city with the largest office market in Poland, with more than 2.7 mln sq.m of modern office space.

Warsaw is still by far the city with the largest office market in Poland, with more than 2.7 mln sq.m of modern office space. Only ca. 30% of modern office space can be found outside the capital city, mainly in Krakow (345,000 sq.m), Wroclaw (250,000 sq.m), the Tri-City (223,000 sq.m) and also in Poznań (171,000 sq.m), Katowice (170,000 sq.m) and Łódź (105,000 sq.m).

Last year was an unbalanced year for the office space market. The supply of modern offices increased by around 13% compared to 2006. This was coupled by a nearly 20% rise in demand. The considerable reduction in the amount of office space available has caused a drop in office space vacancy and an increase in rents, particularly in the Warsaw CBD (Central Business District). The year 2007 was also characterized by the high volume of leasing activities. According to market analyses a significant volume of the demand for offices comes from the financial sector, but the production sector and advisory services are also very interested in expanding their space. In these circumstances new tenants are willing to sign lease agreements for larger office space bearing in mind the future expansion of their business and that they are ready to accept rising rents and smaller incentives.

Poland stands a chance of becoming a European leader in attracting investment in BPO services which stimulates both economic growth and the property market (demand for office space). Recently investors have been more willing to move their activities outside the highly competitive Warsaw to regional cities which offer new opportunities. The Polish regional market, due to its cheaper labour force and lower rents, but with highly-qualified staff, is often chosen as the location for BPO centres for international companies. The continuing inflow of BPO to Poland is evidenced by the demand for office space.

Rents

In 2007 a significant increase in rents was observed in the market due to the surge in demand and a significant reduction in the amount of available office space. In the center of Warsaw top rents achieved even EUR 30-31/sq.m/month for small space requirements (ca. 50% higher than at the end of 2006). Rates in prime buildings (e.g. Rondo 1 or Złote Tarasy) are at around EUR 26-28/sq.m/month. While in non-central locations rents rose by 9% to the level of EUR 18/sq.m/month comparing to 2006. The average market prices noted in the second quarter of 2007 in the CBD were around EUR 22/sq.m/month. A year ago this figure was approximately EUR 5/sq.m/month lower. Landlords are offering noticeably lower financial incentives than in previous years, such as shorter rent-free periods, thus pushing up the effective rents. It is expected that the rental rates will increase during the coming months due to the limited new office space supply in the CBD – currently there are only two office projects in the pipeline, i.e. Atrium City and the Senator.

> Office market

A large amount of new supply is expected within the next 3 years outside the CBD, which will affect the rents and vacancy in this location.

The situation in the regional markets of Poland is similar to the situation in non-central locations of Warsaw. In regional cities the rents are stable and range between EUR 14 and 18/sq.m/month. Prime office rents vary between EUR 15-18/sq.m/month in Krakow, EUR 16-18/sq.m/month in Wroclaw, EUR 15-18/sq.m/month in Poznań, EUR 16-18/sq.m/month in the Tri-City and EUR 14-16/sq.m/month in Katowice.

Vacancy

The high level of demand for office space together with the shortage of new supply is the reason for the decrease in available space in Warsaw. Since 2006 the vacancy rate has shown a decreasing trend from 7.9% at the beginning of 2006 to 3.0% at the end of 2007, which has been the lowest level for 10 years. The decrease in vacancy rates in the central districts will most probably continue until early 2009.

With the exception of Łódź, occupancy rates of over 98% are noted in the remaining largest regional cities. In the case of Wroclaw, its location and the investor-friendly policy of the city authorities attract multinational companies to establish their BPO operations here. Well-educated professionals in Krakow seem to be a strong incentive for investors looking for locations for technology-focused service centres. In both cities the developers are conscious of the insufficient supply and office development projects are in progress. Those markets are being targeted by nationwide players, such as GTC and Ghelamco, as well as by local investors. The office markets in Poznań, the Tri-City, Łódź and Katowice (Upper Silesia Agglomeration) are in the early stages of development.

> Office market

Selected new office space supply

Property	Area (sq.m)	Planned completion	Developer/Investor
WARSAW			
Blue Office Two	14,000	2008	Blue City
Equator Office	13,000	2008	Immoeast/Karimpol Polska
Grzybowska Park	9,800	2008	AIG Lincoln
Headquarters of Poczta Polska	30,700	2008	PPUP Poczta Polska
Horizon Plaza	35,000	2008	Curtis Group
Jutrzenki Business Park II	2,700	2008	W&L Real Estate
Lipowy Office Park	38,400	2008	Hochtief Project Development Polska
Marynarska Business Park	43,000	2008	Ghelamco Poland
Marynarska Pont	25,000	2008	Skanska Property Poland
Headquarters of Canal+	7,600	2008	Canal+
Nefryt	15,200	2008	Globe Trade Centre
North Gate (formerly Belveder Centrum)	28 000	2008	GVA Immoconsult Polska
Okęcie Business Park (Nothus)	61,000	2008	Globe Trade Centre
Platinum Business Park	45,000	2008	GTC Satellite
Tulipan House	18,000	2008	SEGRO
Adgar Plaza	25,100	2009	Adgar
Al. Jerozolimskie 61/63	3,100	2009	Reinhold Polska
Atrium City	18,500	2009	Skanska Property Poland
BTD Office Center	6,800	2009	BTC-Invest
Mokotów Plaza	17,000	2009	Celtic Asset Management
Park Postępu	34,000	2009	Echo Investment
Poleczki Business Park	24,000	2009	CA Immo International/UBM
Radwar Business Park	11,500	2009	Radwar
Rondo	20,000	2009	S+B CEE/Immoeast
Trinity Park Phase III	32,000	2009	Ghelamco Poland
Wolf Marszałkowska	11,100	2009	Wolf Immobilien Polen

> Office market

Selected new office space supply

Property	Area (s.qm)	Planned completion	Developer/Investor
WROCLAW			
DTC Renoma	10,000	2008	DTC Renoma
Globis	14,500	2008	Globe Trade Centre
Karkonoska	36,000	2008-09	Globe Trade Centre
Grunwaldzki Center	23,600	2008	Skanska
Bema Plaza	22,000	2008	Ghelamco
Jutrzenki Business Park II	2,700	2008	W&L Real Estate
KRAKOW			
Edison	10,300	2008	Globe Trade Centre
Centrum Biurowe Kazimierz	14,700	2008	Globe Trade Centre
M65 Meduza	4,000	2008	GD&K Group
POZNAŃ			
Nowe Garbary	7,000	2008	Regional Polska
Malta Office	28,100	2008-10	Echo Investment

Source: PricewaterhouseCoopers

Market trends

In 2008 there will be further development of the office market, especially within the trends presented below:

- Yield rates will continue to remain stable – for prime properties now expected at 5.25-5.5%;
- Excellent recovery in the occupational market – strong take-up;
- The CBD of Warsaw shows a shortage of supply and the situation will not begin to stabilise until 2010. Sites for office development are hard to purchase – now rents range from EUR 22 to EUR 31/sq.m/month in the CBD and asking rents are close to the effective rents as lower incentives are being offered to tenants;
- Non-CBD Warsaw – plenty of new supply, strong demand, definite split from the CBD – rents at about EUR 16-18/sq.m/month with potential decrease and increase in vacancy within the next 2-3 years;
- There is growing interest in Poland as a location for BPO – focus on regional cities – Wrocław, Krakow, Poznań, Gdańsk, Katowice – create good opportunities – 100 basis points higher yields;
- The construction of modern multi-functional facilities, comprising shopping and recreational areas as well as hotels and offices, often together with the conversion and regeneration of existing industrial sites. Such offices, fully modern in terms of the finishing technology, and “embellished” with interesting architecture offer an additional incentive to tenants;
- Increasing number of forward purchase transactions for properties to be completed in 2-3 years due to the strong competition on the market and limited supply and
- The increased popularity of new forms of office space use, accompanied by the effective utilization of own resources, based on sale and lease back agreements.



Retail market

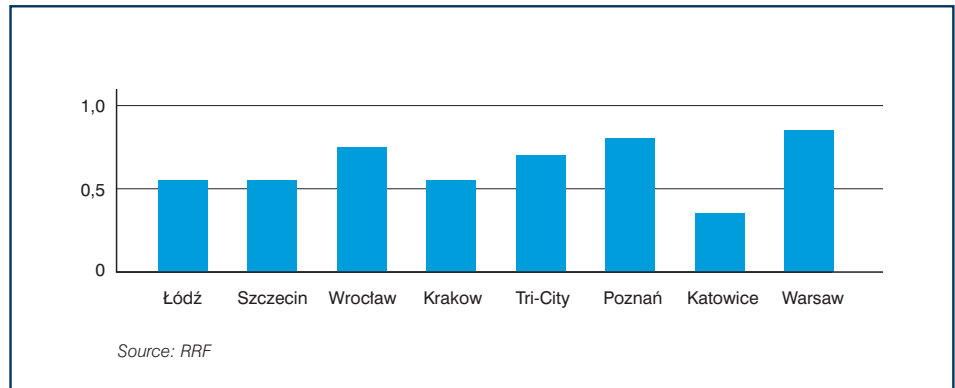
> Retail market

As Poland is the largest consumer market in CEE, the largest cities provide their inhabitants with access to a wide range of modern multi-functional shopping centres. Those schemes coexist successfully with older first- and second-generation centres, as well as with more prestigious high street locations.

There was ca. 7.5 mln sq.m of modern retail space at the end of 2007, a further 600,000 sq.m is under construction and an additional 1 million sq.m is in an advanced phase of preparation.

The capital city is usually a forerunner on the Polish real estate market, thus in case of the retail sector, the level of development in recent years was the highest in Warsaw. Today the retail market seems to be close to saturation and after the opening of the CBD-located "Złote Tarasy" shopping centre last year, there are no major projects in progress. Other large cities, such as Krakow, Wrocław, Poznań, Katowice, Szczecin and Łódź, are still offering investment opportunities but more challenging than in previous years.

Modern retail space in Polish cities (in sq.m per 1 citizen)



Investors are moving their activities to cities with between 100,000 and 400,000 inhabitants, such as Bydgoszcz, Białystok, Gorzów Wielkopolski, Zielona Góra. The main developers providing local shopping centres are Plaza Centers, Parkridge, Caelum Development, Polimeri International and Mayland. Also most of supermarkets' operators are looking for opportunities in smaller cities, developing self-contained, usually stand-alone schemes.

> Retail market

Selected new retail space supply in cities with less than 400,000 inhabitants

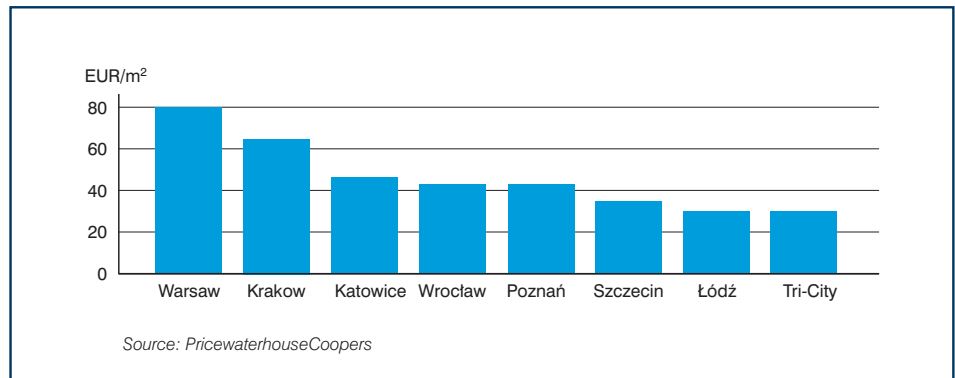
City	Population	Property	Area (sq.m)	Completion	Developer/Investor
Bydgoszcz	363,000	Focus Park	90,000	2008	Parkridge
Lublin	353,000	Lublin Plaza	26,000	2007	Plaza Centers
Białystok	300,000	Focus Park	33,000	N/A	Parkridge
Sosnowiec	223,000	Sosnowiec Plaza	13,000	2007	Plaza Centers
Kielce	207,000	Pasaż Świętokrzyski	13,200	2007	Echo Investment
Gliwice	199,000	Forum Gliwice	43,000	2007	Quinlan Private Golub/Braaten +Padersen
Bytom	188,000	Galeria Agora	24,000	2010	Braaten+Padersen
Bielsko-Biała	176,000	Gemini Park	27,000	2009	Gemini Holdings
Rybnik	139,000	Focus Park	18,000	2007	Parkridge
Rybnik	139,000	Rybnik Plaza	18,000	2007	Plaza Centers
Dąbrowa Górnicza	130,000	Pogoria	30,000	2008	Mayland
Opole	127,000	Karolinka	41,000	2008	Mayland
Opole	127,000	Solaris Center	19,500	2008	Coucal
Płock	127,000	Galeria Wisła	23,000	2008	Caelum Development
Płock	127,000	Galeria Płock	27,000	2008	Polimeni International
Płock	127,000	Galeria Mosty	19,000	2008	Mahattan Development
Gorzów Wlkp.	126,000	Galeria Askana	18,000	2007	Caelum Development
Zielona Góra	120,000	Focus Park	48,000	2008	Parkridge
Koszalin	106,000	Forum Koszalin	55,000	2008	Multi Development Polska
Koszalin	106,000	Galeria Kosmos	5,200	2009	Caelum Development
Słupsk	98,000	Galeria Słupsk	20,000	2008	Polimeni International
Słupsk	98,000	Jantar	22,000	2008	Mayland
Jelenia Góra	87,000	Focus Park	35,000	2009	Parkridge
Piotrków Trybunalski	80,000	Focus Park	70,000	N/A	Parkridge
Piła	75,000	Galeria Piła	20,000	N/A	Mayland
Suwałki	70,000	Suwałki Plaza	19,000	2009	Plaza Centers
Świdnica	65,000	Multi Park	10,200	N/A	Parkridge
Racibórz	60,000	Galeria Młyńska	2,800	2008	Caelum Development
Tarnobrzeg	50,000	Galeria Tarnobrzeg	30,000	N/A	Mayland
Wodzisław Śląski	49,000	Galeria Naviga	10,500	2009	Caelum Development
Zgorzelec	33,000	Zgorzelec Plaza	15,500	2009	Plaza Centers

Source: PricewaterhouseCoopers

> Retail market

Rental levels for retail space depends on the location and quality of the shopping centre. The highest rents in the best projects within EUR 80-90/sq.m/month with an average rent of EUR 30-35/sq.m/month. In the major Polish cities, i.e. Katowice, Wrocław, Poznań, Szczecin, Łódź and the Tri-City rents for modern retail space fall within EUR 30-45/sq.m/month. Much higher rental rates are noted in Warsaw and Krakow. In the capital city's Złote Tarasy they may exceed EUR 85/sq.m/month, while in Krakow prime rents are ca. EUR 65/sq.m/month. In those cities, the rates for leading shopping centres are comparable with high street rents, whereas in the other locations mentioned, operating in malls is less expensive than along the city centre promenades. In these circumstances investors are focusing their interest on the main shopping streets of the biggest cities (e.g. Chmielna and Nowy Świat in Warsaw or Stary Rynek in Krakow) which attract luxury brands. This speeds up the revitalization process by modernizing existing tenement houses and adapting them for trade, catering services and entertainment purposes in prime city locations.

Prime retail rents (EUR/sq.m/month)



Market trends

The retail market is expected to continue performing well this year. The following trends will be observed:

- Rental levels across all retail sub-sectors will continue to be stable;
- Developers will look for innovative strategies in respect of the quality of the newly opened retail centres to be able to offer more multi-functional and convenient shopping centres;
- Increased activity in the non-traditional shopping venues near airports, railway and bus stations;
- Growing interest in activity in shopping malls in medium-size cities with less than 100,000 inhabitants;
- Extending stand-alone large-space stores into theme retail parks. Inter Ikea is still the undisputed market leader in the field of such operations;
- Locating new large-space shopping centres in suburban areas of large cities. The factory outlet format for such facilities is still worth considering;
- Further diversification of the major retail players' portfolios;
- Consolidation of small retail market players to improve competitiveness against large supermarkets;
- Enlargement of retail space in city centres in order to make them more attractive places to visit; and
- Renovation and adaptation of historic sites into multi-use shopping centres combining commercial space with cultural facilities.



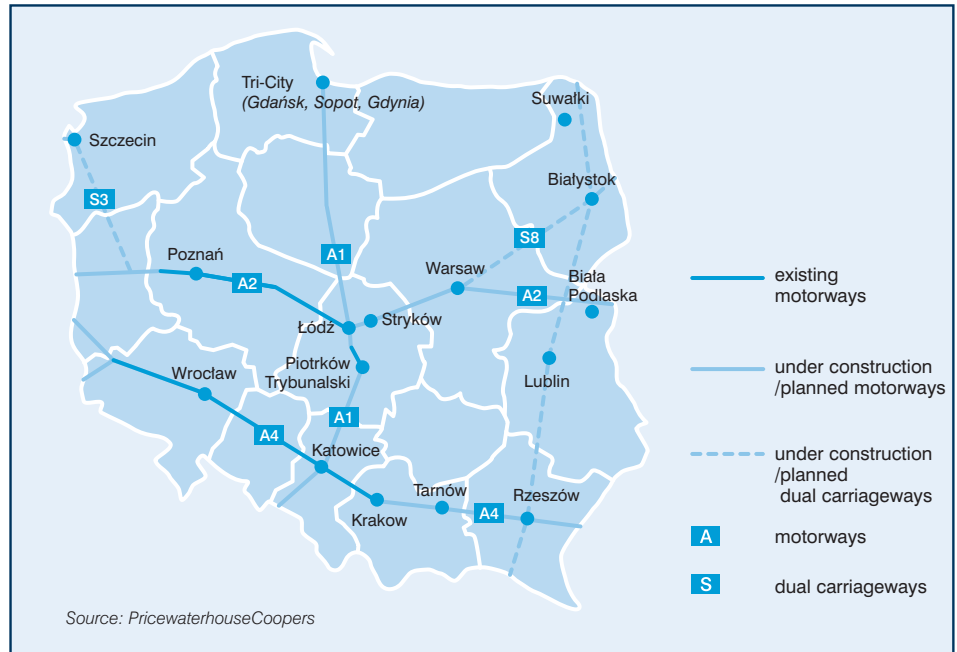
Warehouse market

> Warehouse market

According to market research, by the end of the third quarter of 2007 the Polish warehouse market grew by 30%, adding more than 800,000 sq.m to last years figure of 2.7 mln sq.m.

Last year turned out to be another record year for the warehouse market in Poland. According to market research, by the end of the third quarter of 2007 the Polish warehouse market grew by 30%, adding more than 800,000 sq.m to last years figure of 2.7 mln sq.m.

The development of regional cities and improvements to the infrastructure are leading the relocation of the logistics business from Warsaw to other locations with greater investment potential such as Poznań, Wrocław, Upper Silesia Agglomeration, Łódź, the Tri-City and Krakow. The last two cities entered the Polish warehouse map only last year. In case of the Tri-City the process has been mostly motivated by further development of port facilities as well as the A1 motorway investment. Szczecin which is favourably located, next to the border with Germany, has a similar chance. Another developing region is the Bydgoszcz and Toruń area, which will also benefit from the construction of the A1 motorway. According to market news, the Goodman Group is going to launch a 23,000 sq.m warehouse for NYK Logistics there.

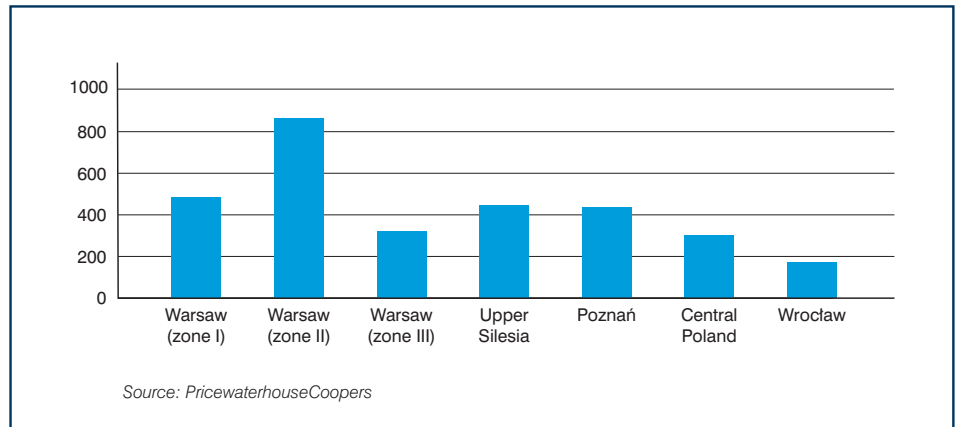


construction years	A – length (km)	S – length (km)	A+S – length (km)
existing 2007	670	320	990
2007-2009	360	10	670
2009-2011	610	200	820
2011-2013	80	1,820	1,890
2013-2015	170	540	810
post 2015 (target)	90	2,400	2,490
Total	1,980	5,690	7,670

> Warehouse market

Warsaw is still losing ground and currently accounts for 60% of the total modern warehouse space in Poland. This is a rapid decline that has continued over the last three years, when over three-quarters of the warehouse area was situated in Warsaw.

Warehouse stock in 000'sq.m



Price levels

Due to the consolidation of the market (including the acquisition of Parkridge by ProLogis) competition among investors, which led to the 2005-2006 rental rate crunches, was weaker than during the previous year. Moreover, rental rates are on the rise because of the high land prices and rising construction costs. Nevertheless, the pricing in Poland's warehouse market definitely still has a competitive edge in CEE, making Poland an attractive country for logistic centres. Highest rates are still to be found in Warsaw, especially in Zone I (within a 12 km radius of the city centre), with the average rental rate being EUR 5/sq.m/month. With the lowest vacancy rate at the level of ca. 7%, Zone I represents more than one quarter of the whole warehouse area of all three Warsaw subzones. Zone II, which involves schemes located 12-30 km from the centre (being used mostly by FMCG companies) and Zone III – logistic parks 30-50 km from the centre – both have a similar asking rent rate ranging between EUR 2.5-3.5/sq.m/month. Vacancy rates, however, vary significantly between these two sectors. Zone II, being a sought-after location for companies, with a vacancy rate of about 9%, outdistances Zone III – here the vacancy rate is nearly 17% and will most probably rise in the next years as logistic parks close to regional cities become more efficient due to the development of the local infrastructure.

> Warehouse market

Rental rates for regional cities are at the level of ca. EUR 3-4/sq.m/month for modern warehouse stock and even half of that rate at EUR 1.5-2.5/sq.m/month for older, unadapted storage buildings.

Multinational companies such as ProLogis, Panattoni, Segro, Goodman, AIG/Lincoln, Menard Doswell and Apollo-Rida are dominating the Polish warehouse market. Consolidation among the main players is in progress.

Market trends

- A strong investment demand is expected in the following years. Many warehouses will be built speculatively, especially in Upper Silesia;
- Competition will toughen among developers for the best available plots offered at sensible prices in regional markets;
- Rental growth is envisaged by landlords;
- Planned infrastructure investments especially in light of the EURO 2012 tournament should stimulate further warehouse developments along new roads;
- The development of the Warsaw warehouse market is still strongly bound to the planned infrastructure development, with motorways at the top of the list. Even now developers are focusing on cities like Gliwice where, in two years' time, a new junction between the existing A-4 and the planned A-1 motorway will be built, improving communication with Poland's southern neighbours, or Gdańsk with its new container terminal;
- New warehouse markets are expected to emerge. There are still opportunities in Eastern Poland. As this region is a border of the broadened EU, it could be an effective backstage for operations in Russia, Belarus and Ukraine; and
- Demand for modern warehouse areas will rise along with higher foreign investment in production sectors, growing cross border trade and the rising internal demand of a society that is becoming wealthier from year to year.



Residential market

This section has been prepared by REAS

> Residential market

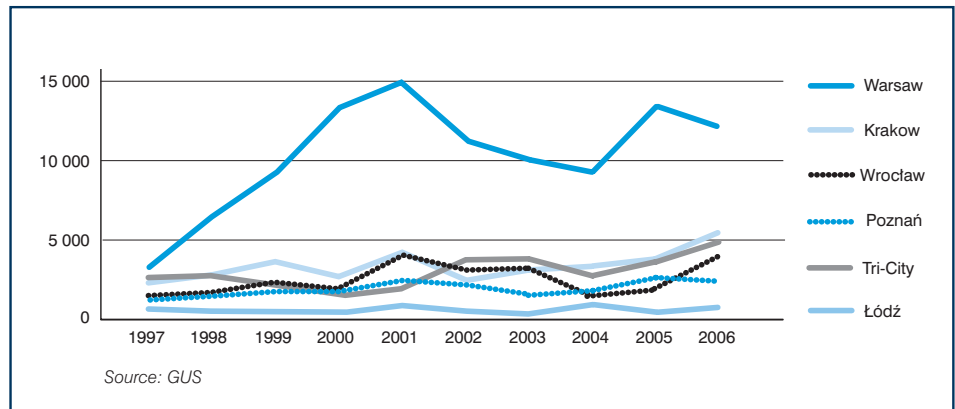
The year 2007 saw the best building output performance in several years, and the number of completed apartments and houses exceeded 130,000.

The residential market in Poland seems relatively mature compared to other countries in CEE and to the new EU member states in particular. The year 2007 saw the best building output performance in several years, and the number of completed apartments and houses exceeded 130,000. The number of building permits issued for apartments and single-family houses amounted to ca. 250,000, over 100,000 of which were issued to development companies. In most of the largest Polish cities, prices reached a level which was restrictive for buyers with average and less than average incomes. The absorption rates have clearly decreased since mid 2007, and asking prices have generally stabilized.

This change in the market climate seems to be lasting. There seems to have been a check on the price rises in Warsaw and Krakow since the middle of 2007. The 2007 price rise in Poznań was due to launching a group of projects in the high-end segment, virtually unknown on the local market, including a large, overpriced project. However, the highest new apartment prices are still asked for in Warsaw. Last year also saw a revival of the markets in smaller cities such as Olsztyn, Rzeszów, and Szczecin.

The market is certainly becoming more competitive, and new projects should be planned in a way that enables flexible reaction to changing conditions.

Units built by developers or housing cooperatives in Poland's five most active agglomerations and in Łódź between 1997 and 2006 (in '000)



Warsaw

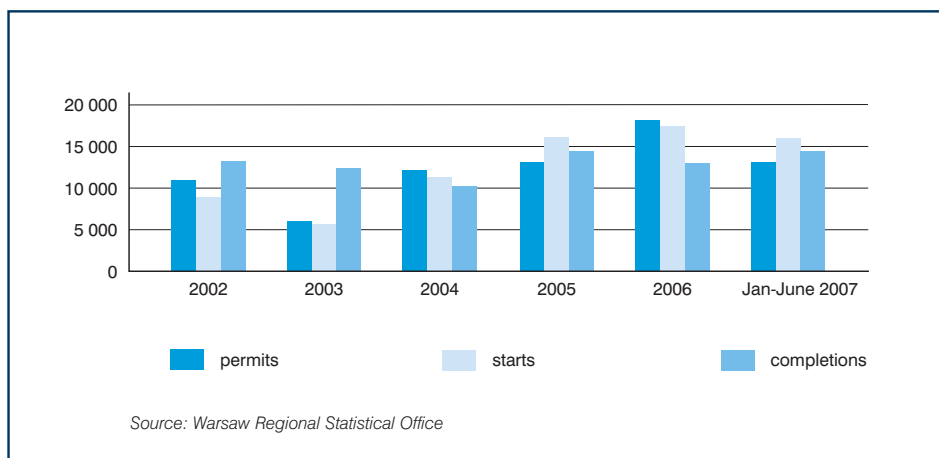
Warsaw's demographic condition definitely favours demand for housing. Year after year subsequent age groups of the second population boom are starting their professional lives. There are nearly 450,000 Varsovians aged between 20 and 35. Moreover, young people coming to Warsaw in pursuit of higher education or a good job are adding to the pool of prospective apartment buyers.

The condition of the local labour market is still very good. This is evidenced mainly by the increased number of people employed, and also by the decrease in the unemployment rate (to 3% as of the end of 2007).

Some of the events of the Euro 2012 being organized in Warsaw may encourage the development of its municipal infrastructure. The local authorities have promised prompt construction of the underground's second line, as well as major investments with regards to rail and air transport.

In 2006 developers and housing cooperatives started building 17,000 apartments and single-family houses, which was a record performance in the past few years. It is estimated that in 2007 the number reached 20,000 units, whereas building permits were issued for even more apartments and houses. Based on the development companies' disclosed plans, a further increase may be expected in the number of apartments developed within the city's administrative boundaries in 2008.

Number of units started, completed and building permits in Warsaw in 2002-June 2007

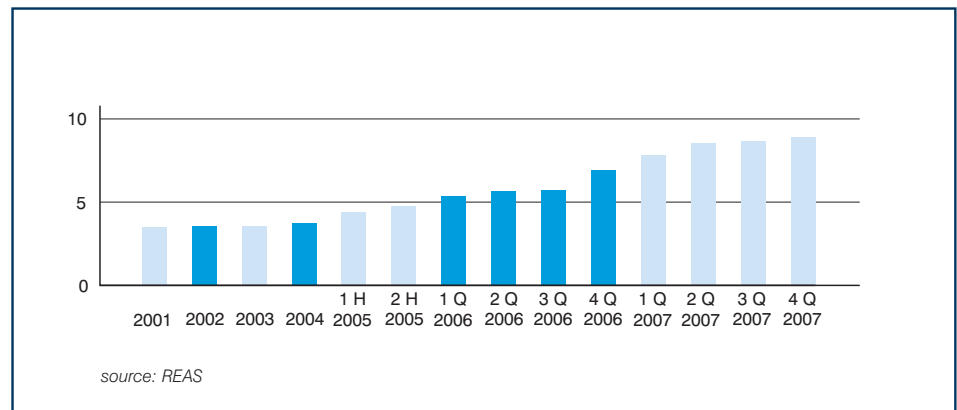


> Residential market

The present housing offering still includes mainly non-central location developments. Most of the available apartments are located on the left bank of the Vistula, and are relatively expensive. No large numbers of cheaper apartments have yet been launched on the market within Warsaw or even outside, although supply in the Białoleka region has evidently increased. Consequently it would seem that prices have stabilized since the second half of 2007. Apartments in new projects launched on the market are priced at approximately the same level as those that have already been offered for some time.

The total market value of new apartments scheduled for delivery in the entire agglomeration in 2008 is estimated at nearly PLN 13 bn which is yet another yearly increase of the market's value.

Average prices of flats introduced on the primary market in Warsaw (in PLN/sq.m)



Other Major Cities

The upward trend in the number of apartments for which building permits have been issued is favourable for further development of the residential market in Krakow. According to preliminary estimates, over 8,000 apartments will be launched on the market in 2008. New apartments offered by developers and housing cooperatives in Krakow are clearly concentrated in the city centre – in the districts of Śródmieście and adjacent parts of Podgórze, Krowodrza, and Nowa Huta.

> Residential market

While most of the markets in big Polish cities are experiencing consistent growth, the housing production output in Łódź has so far remained stable at a relatively low level of 1,200 apartments completed yearly. Now Łódź sees a significant increase in the developer activity. According to REAS estimates in 2007 developers and housing cooperatives completed a record number of circa 1,330 units, and in the years to come the supply will stabilize at circa 1,900 units yearly. There are few players on the Łódź market. The top five companies that completed the most apartments in 2006-2007 contributed over 70% of the total developer output in those years.

For a long time, the rate at which prices rose in Poznań was lower than in the other largest residential construction markets in Poland; however, this has changed in line with our predictions. A new premium apartment project consisting of over 200 units has recently been launched on the market at unprecedented prices for Poznań of PLN 15,000-16,000/sq.m. The development has significantly affected the average level of asking prices.

Apartment prices in the Tri-City depend on their distance from the shoreline. Typically the further away they are from the sea, the lower the price. Most of the least expensive apartments are offered in the south-west of Gdańsk. In Sopot only premium apartments have been offered since 2003. The value of the Tri-City's market is growing consistently. In 2007 it reached PLN 2 bn for the first time, nearly twice as much as a year ago. According to preliminary estimates the growth will continue in 2008.

The new apartments offered in Wrocław are located mainly along a strip running from the Old Town to the city's southern borders (Krzyki). Apart from a small cluster of a few projects in the city's north-eastern part, new housing in its northern parts was offered in a small number of projects spread over a large area. Wrocław's market value more than tripled in 2007 and exceeded PLN 2 bn. It is estimated that it will keep on growing in 2008, although at a lower rate, eventually reaching a level of PLN 2.4-2.5 bn.

A low-angle photograph of a modern building's interior. The ceiling is a vibrant red with several rectangular skylights. A glass-enclosed staircase with a dark metal frame is visible on the right side. The walls are white with classical architectural details. The text "Tax issues" is overlaid in the center.

Tax issues

> Tax issues

Taxation is an area of significant risk to business, in particular to foreign companies investing in Poland.

Taxation is an area of significant risk to business, in particular to foreign companies investing in Poland. Every opportunity should be taken to properly plan for and apply bookkeeping procedures that are acceptable under the Polish tax regulations and always consider in advance all business transactions from the point of view of the tax laws, regulations, acceptable practices, official interpretations and local tax office treatment.

Rental income

Net income received by corporate taxpayers is taxable in Poland at a general corporate income tax (CIT) rate of 19%. The current rate has been in force since 2004. Generally, all expenses incurred by companies while earning or securing their income, including interest paid, are deductible for corporate income tax purposes as long as they have been properly documented. Consolidation for income tax purposes is possible in Poland under specific conditions. The law sets a maximum debt-to-equity ratio of 3:1 for loans drawn from qualifying lenders. When this ratio is exceeded, interest paid on restricted loans, in relation to the part of loans exceeding three times the value of the share capital, will not be tax deductible.

The tax law in Poland is subject to constant changes and amendments due to the harmonization of the Polish legislation with the legislation of the European Union.

Depreciation

Accounting depreciation procedures are similar to international standards. Although depreciation for tax purposes is normally based on accounting depreciation, it is possible that differences may arise between accounting and tax-deductible depreciation. Taxpayers can use two basic methods of depreciation – straight line (for all assets) and the reducing balance (selected assets, mostly machinery and equipment). Tax-deductible depreciation is subject to maximum straight-line rates. For buildings, depending on the type, these rates generally range from 1.5% to 10% annually (in the case of certain second-hand buildings). Usually non-residential buildings are depreciated over 40 years (using a 2.5% tax depreciation rate).

Favourable provisions allowing for individual depreciation rates of up to 10% in the case of purchase of second-hand buildings (which were used for a minimum of 5 years before their acquisition, or upgraded before being entered into the fixed assets register by at least 30% of their initial value) were significantly altered as far as non-residential buildings are concerned. The current, less beneficial, regulations allow depreciation of non-residential second-hand buildings over a period of 40 years, decreased by the number of full years which elapsed from the day of the building being put into use for the first time until entry thereof into the taxpayer's fixed assets register.

> Tax issues

Polish law provides for accelerated depreciation of assets used in conditions of intensive use. The definition of intensive use, is use more intensive than in average conditions or subject to exceptional technical demands. On the other hand, taxpayers may individually decrease the depreciation rates for fixed assets, upon their entry into the fixed assets register or as of the beginning of a given tax year. Preferential 30% depreciation write-off on certain factory-new fixed assets (mainly machinery) in the first year of their use was abolished as of 1 January 2007.

Land is not depreciated for tax purposes. The acquisition costs of land may be recognized as tax deductible upon its disposal.

Loss carryforward

According to the Polish CIT law, tax losses may be carried forward for five consecutive years, with no more than 50% of the amount of the loss from each year to be utilized in any one year.

Withholding taxes

Dividends

Generally, dividend payments are subject to 19% tax, regardless of whether the recipient is a resident or a non-resident. If the recipient is a non-Polish tax resident, the relevant double tax treaty may reduce this rate. Dividends are deemed to have been paid on liquidation of a company, as well as when new shares are issued out of retained earnings.

Outbound dividends

An exemption from withholding tax applies to dividend payments made by Polish taxpayers abroad, subject to the following conditions being met jointly:

- the paying company has a seat or management in the territory of Poland;
- the recipient has worldwide income (irrespective of the place where it is derived) which is subject to taxation in a European Union country, as well as in other countries of the European Economic Area or Switzerland (or is regarded as a Polish based permanent establishment thereof); and
- the recipient holds directly at least 15% of shares in a Polish company paying dividends for an uninterrupted period of at least two years (in the case of dividend payments made to Swiss beneficiaries, the required direct shareholding amounts to at least 25%); the thresholds of the qualifying stake will be reduced to 10% on 1 January 2009.

Pursuant to the Polish CIT law, the above mentioned exemption is also applicable, even if the uninterrupted holding period of two years expires after the date dividends are paid.

> Tax issues

Domestic dividends (dividends paid between Polish companies)

Similar exemption rules apply to Polish CIT taxpayers who receive dividends from domestic companies. A dividend is not included in the recipient's income, if the recipient has continuously held a 15% minimum share in the capital (to be reduced to 10% as of 1 January 2009) of the payer of the dividend for at least two years.

Inbound dividend

Polish CIT taxpayers who receive dividends from European companies (i.e. including entities of the European Economic Area and Switzerland) and permanent establishments thereof, do not include dividends in their worldwide income provided that a minimum 15% shareholding (to be reduced to 10% as of 1 January 2009) is maintained for at least 2 years. In all other cases, the dividend receipts are added to the worldwide income and taxed at the standard CIT rate of 19%. The double taxation is avoided by applying the ordinary tax credit method.

Interest and Royalties

The withholding tax rate on interest amounts to 20%, unless an appropriate double taxation treaty provides for its reduction. There is no withholding tax on interest and royalties paid within Poland and such interest is generally treated as taxable income upon receipt. Nevertheless, due to the accession to the European Union, Poland introduced Council Directive No. 2003/49/EC, under which EU Member States are to apply a tax exemption (under certain conditions) for interest and royalties paid to qualified lenders from other EU Member States. However, Poland was granted an 8-year transitional period, which began on 1 July 2005. The interest and royalty payments made from Poland to other EU Member States may be subject to withholding tax at the 10% rate during the first four years of the transitional period (i.e. until the end of June 2009) and 5% during the final four years (i.e. until the end of June 2013), unless the respective double taxation treaty provides otherwise.

Intangible services

Payments for services of an intangible nature (i.e. management, consulting services, guarantees) to non-residents are subject to a 20% withholding tax in Poland, unless an appropriate double taxation treaty provides otherwise. The application of all the above-mentioned treaty benefits is conditional upon possession by the Polish payer of a certificate of residence of the foreign recipient.

Taxes on capital

There are no separate capital taxes. However, commercial companies should remember that capital increases are subject to notary fees and civil law activities tax.

Capital gains on sale of property

There is no distinct capital gains tax regime in Poland. Capital gains are taxed at the general CIT rate of 19%, unless otherwise determined by the provisions of an applicable double taxation treaty. Most of the treaties concluded by Poland provide for the exemption from Polish taxation of capital gains on the sale of shares of Polish real estate holding companies. However, foreign companies are subject to Polish corporate income tax at the standard tax rate on capital gains realized on the direct sale of Polish real estate.

Recently, Poland has renegotiated various double taxation treaties, introducing, amongst others, changes in the taxation of real estate disposals through sales of shares. New double taxation treaties feature a clause for the application of Polish tax on the sale of shares in a Polish company in which most of the assets are real estate (while the general rule is non-taxation of such profits in Poland); compare double taxation treaties with Ireland (binding as of 1 January 1996) Denmark, Germany (binding as of 1 January 2005), Sweden, Austria (binding as of 1 January 2006) and the United Kingdom (binding as of 1 January 2007). Such a clause is not included in the new treaty with the Netherlands. Also the treaties with Luxembourg and Cyprus do not contain such a clause.

Real estate transfer payments/VAT

Sale of buildings and land is, generally, subject to 22% VAT, unless a reduced VAT rate or VAT exemption may be applied.

The VAT exemption applies to the sale of buildings (and plot of land on which they are located), which may be classified as “used” buildings, provided a vendor was not entitled to deduct VAT historically incurred on their acquisition or construction of the building. According to the Polish VAT Law, buildings are regarded as “used”, if they were used by the previous owners for a minimum of 5 years from the end of the year in which the construction closed. If the acquisition of real estate is VAT exempt, the Civil Law Activities Tax of 2% is levied. However, in the event that any investment exceeding 30% of the “used” building’s initial value has been made during the 5 year period preceding the disposal and input VAT incurred with respect to such investments has been deducted, the above VAT exemption could not be applied. The above standard VAT is reduced to 7% with respect to the original (first after finishing the construction) disposal of residential buildings qualifying as social housing (this term is relatively broad and applies to the majority of residential developments), until 31 December 2007. Any subsequent transfers of residential buildings are VAT exempt.

> Tax issues

VAT at a rate of 22% is also generally applicable to income from the lease of buildings, except for the lease of residential buildings which is VAT exempt under certain conditions. This is generally recoverable by the tenant as input VAT. However, companies providing exempt services (e.g., financial services) are generally unable to recover input VAT. Charges for the lease or rental of property situated in Poland are subject to Polish VAT, even if the charge is made to a non-resident foreign company.

Statute of limitation for taxes

The statute of limitations for taxes is generally five years from the end of the year in which the tax obligation arose (there are some events that may prolong this period), and for social security payments (from 2003) ten years from the date when the payment was due.

Penalties

Overdue tax liabilities are subject to penalty interest. The rate of penalty interest for overdue tax liabilities depends upon the official Lombard interest rate published by the National Bank of Poland and currently amounts to 11% per annum. Additionally, for outstanding VAT liabilities an additional penalty amounting to 30% of the understated amount of VAT due for payment (or overstated amount of VAT due for refund) is imposed. Other sanctions may also apply.



Legal issues

This section has been prepared
by Clifford Chance

> Legal issues

While the legal framework for the real estate market is catching up with the Western European level of bureaucracy, especially in zoning, construction, and environmental protection, it is open to question whether it is becoming more liberal, secure and transparent.

Investment

There are relatively few formalities required to purchase real estate. First, there is generally no need for a permit from the Ministry of Interior if the buyer (of either the assets or the shares in the holding vehicle) is resident in the European Economic Zone (EU plus Switzerland, Liechtenstein and Norway). Given the fact that assets are usually acquired through Polish-based (i.e. EU-based) companies, acquisition is unrestricted even for buyers from outside the Zone (they need only register a Polish company).

Ministry of Interior permits are necessary for the acquisition of farmland, forests or a “second home”.

Investors are free to acquire real estate through entities with a legal personality, tax-transparent partnerships or even through registered branches. Specialized providers offer clean investment vehicles, so there need not be any delay. In certain instances, public bodies have a pre-emptive right to buy certain categories of real estate. In particular:

- the Farmland Agency (farmland);
- local authorities (undeveloped land held in perpetual usufruct or undeveloped land previously acquired from the local authority or the State, historical monuments and land zoned for public purposes); and
- the manager of a special economic zone (land in the zone).

A tender is required to buy real estate belonging to public bodies (the State, local authorities, public agencies). This also applies to shares in companies with public participation (even if a private investor already holds a stake in the company). This is one reason why public-private joint ventures are not popular in Poland.

With the progressing computerization of land and mortgage registers, registration of title has become relatively easier and faster and the registration system more transparent and accessible. This process will take another few years to complete. Unfortunately, the current register files are far less legible than the traditional ones and a degree of expertise is required to check the status of a title.

In the case of freehold, the title is transferred upon the signing of a transfer deed. However, registration is necessary to transfer perpetual usufruct or establish a mortgage. Although this use to create problems, with the increasing speed of registration and availability of gap insurance products, it is now less of an issue.

> Legal issues

In 2003, when the new Zoning Law came into force, all master plans adopted before 1 January 1999 expired.

This had a very serious impact on the development process, as only about 12% of the land in Poland was at that time covered by valid master plans.

One of the steps that precedes the purchase of real estate (both share and asset transactions) is the requirement to obtain approval from the Competition Authority if:

- the aggregate turnover in Poland of the seller (for asset deals) or the target, including its subsidiaries (for share deals), in either of the two preceding years exceeded EUR 10 million;
- the combined worldwide turnover of the capital group of the seller and purchaser exceeded EUR 1 billion in the year preceding the acquisition;
- the combined turnover in Poland of the capital group of the seller and purchaser exceeded EUR 50 million in the year preceding the acquisition.

The thresholds triggering the need to file an application were raised, so fewer transactions now require approval than was previously the case.

Although all transactions between Polish entities should be settled in PLN, it is possible to denominate them and even to pay in a foreign currency (typically EUR or USD).

The National Bank of Poland has become quite liberal in granting forex permits, if there is a link between the transaction and the currency (i.e. foreign currency debt, repatriation of capital etc.). If, for any reason, a permit is denied, banks offer back-to-back forex transactions (for a fee rather than a spread), which have the same economic effect.

Development

In 2003, when the new Zoning Law came into force, all master plans adopted before 1 January 1999 expired. This had a very serious impact on the development process, as only about 12% of the land in Poland was at that time covered by valid master plans.

Since then, the situation has been improving gradually. At present, it is estimated that over 35% of the land in Poland is covered by master plans. Many procedures for the adoption of master plans are pending. But it is very rare for a master plan to be adopted within less than a year. Before the master plan procedure can be initiated, a local zoning study must be made, setting out the general zoning guidelines for the relevant local authority. The master plan must comply with this study.

If land is covered by a master plan, the developer may apply for a building permit. If there is no master plan, the developer must first apply for a planning permit. Certain projects (e.g. retail space in excess of 2,000 sq.m.) cannot be developed without a master plan. In certain cases, ancillary permits, opinions or clearances must also be obtained (sanitary, environmental, protection of monuments or nature etc.).

> Legal issues

There are two categories of planning permits: one for a public purpose investment (easier to obtain) and one for a private/commercial investment (with more restrictions). The current planning regime may be criticized for treating public and private developers unequally and for allowing too much discretion (although it is ostensibly quite restricted). An important stage in the development process is the environmental clearance of the project. This applies not only to industrial schemes, but also to large retail units, certain residential projects, projects with a certain number of parking spaces etc. Environmental procedures are open to the public and environmental NGOs may participate and appeal against decisions.

Originally, environmental procedures formed part of the planning and building permit process and inevitably resulted in significant delays. Some of the NGOs abused their position and were either paid “consultancy fees” or brought projects to a halt. In 2005, the legislation changed and a large part of this investment risk was eliminated. First, the environmental procedure is now independent and once the project is cleared, there is no risk that a building permit will be refused if environmental clearance has been obtained. Second, the likelihood of abuse by NGOs is now less and their participation must relate more to the merits of the project.

In 2004, Poland introduced a two-tier system of administrative courts. This had a potentially negative impact on the length of proceedings, with the developer having to apply for a number of independent, administrative decisions (planning permit, environmental decision, building permit, ancillary permits etc.). On top of this, there is the appeals procedure (to the Regional Administrative Court and sometimes even the Supreme Administrative Court). But, paradoxically, the average length of administrative court proceedings has decreased.

The future of the PPP is still uncertain. However, it is believed that with sufficient governmental support, the first projects could start within the next 18 months.

PPP

On October 2005, the PPP Law came into force. It was eagerly awaited, but so far has not yielded one single project. There are several reasons for this.

First, the former government systematically manifested a lack of trust in PPP and was painfully slow in establishing the complete legal framework for PPP projects in Poland (e.g. the Minister of Economy and Minister of Finance needed 9 months after the day on which the PPP Law came into force to prepare the three ordinances necessary for the PPP Law to become fully operational). Second, there is virtually no tradition in Poland for these kinds of joint ventures and municipalities are suspicious of this type of funding. Third, municipalities have proved to be efficient at obtaining EU funding dedicated for the years 2004-2006. Consequently, there has been a strong tendency among municipalities to finance their projects through (central or local) budgets, with leverage from EU funds or bank loans.

> Legal issues

Despite these problems, there are now ways of breathing life into a PPP scheme. First, the new government really seems to be interested in this type of financing and sends out signals of its support for PPP, both on the private and public side (the creation of a central PPP-dedicated unit is being contemplated). Second, the cabinet is currently working on new PPP legislation. This will be enacted either by way of an amendment to the PPP Law or by replacing the existing law with a new PPP law. The government has also started to work on a new concession law to overhaul the method of procurement for road projects and to introduce a new scheme for private financing initiatives in other sectors. Third, the municipalities are desperately looking for private money in order to qualify for EU funding in the financial framework for the period 2007-2013 (hybrid financing will be a prerequisite in many cases as many municipalities are very close to reaching the permissible level of public debt).

The future of the PPP is still uncertain. However, it is believed that with sufficient governmental support, the first projects could start within the next 18 months.

Expectations for the future

Although the 2003 Zoning Law significantly reduced the time necessary to adopt a master plan (mainly because it eliminated interim appeals by individuals to the Supreme Administrative Court), it is commonly believed that it contains serious flaws. Consequently, the government has been working on an amendment to the law aimed at, among other things, making the planning process more efficient and eliminating discretion in the issuance of planning permits. The amendment will probably also try to better coordinate all development and planning-related procedures and make the system more coherent.

Additionally, a new piece of legislation came into force on 18 September 2007, placing severe restrictions on the development of retail space. This widely-criticized law makes it extremely difficult to develop new retail space of more than 400 sq.m. and virtually impossible to develop schemes over 2,000 sq.m. Decisions are made by collegial bodies (municipal councils and regional councils) on a fully discretionary basis and with no possibility of appeal. The law also sets an unreasonable timeframe within which to complete the investment. However, there are reasons to be optimistic. Draft legislation cancelling the law has already been submitted to Parliament and two independent claims have been lodged with the Constitutional Tribunal. The European Commission has also started an appeal procedure, which will exert additional pressure on members of Parliament. It would be safe to assume that the law will be cancelled or invalidated in the course of 2008.

There are plans to introduce a cadastral system in Poland, with the consequential obligation to value all properties, and to introduce a value-based property tax. The prospects for this are unclear, though this project, first put forward many years ago, might be abandoned due to the lack of the necessary tools and infrastructure to administer it.

> Legal issues

As far as the residential market is concerned, the legal system still does not offer satisfactory protection to buyers. Despite the fact that Polish law adopted European consumer protection legislation, this seems to be of symbolic rather than practical help. The most important element missing from the system is the protection of funds paid by buyers to the developer before or during construction. So far, buyers have not benefited from any priority in the event of the developer's bankruptcy or other default. Changes in the legislation to remedy this are necessary. Following the adoption of the Directive 2002/91/EC on energy performance of buildings, which will apply to all buildings constructed after July 2007, and all existing buildings as of 1 January 2009, Poland has prepared a draft law which is to implement the directive. The draft provides for several energy efficiency categories for buildings. It also introduces energy certificates, issued for 10 years, which may be extended for another 10 years, and which would need to be obtained prior to the issuance of an occupancy permit or within 6 months from completion of works improving the energy efficiency of the building.

These certificates will need to be presented to tenants prior to leasing and to purchasers of buildings/premises prior to the sale closing. In practice, this will render it impossible to sell a building that does not have a certificate. Naturally, there will be some categories of buildings that will be exempt from the requirement for a certificate, such as, buildings entered as monuments in the relevant public registers. Consequently, energy audits will soon become part of the standard due diligence for buyers of buildings.



PricewaterhouseCoopers
Real Estate Team

PricewaterhouseCoopers Real Estate Team

PricewaterhouseCoopers Real Estate can assist you in achieving your goals through every phase of the real estate market and property cycles, and across a complete spectrum of activities including: developing real estate strategies and exploring financing options.

Our expertise extends to all major land uses – retail, office, industrial, residential, hotel and leisure. Our experienced professionals represent our fundamental strength, enabling us to focus on addressing complex real estate challenges by first understanding our client's distinct needs, and then applying our multidisciplinary approach, to produce a tailored solution for each of our client's requirements.

Should you have any questions related to the report or real estate issues, please do not hesitate to contact one of our Real Estate Team members:



Brian O'Brien

Partner
Head of the Real Estate Practice
Tel.: +48 22 523 4485
Mobile: +48 502 18 4485
E-mail: brian.obrien@pl.pwc.com



Iwona Smith

Partner
Taxation
Tel.: +48 22 523 4853
Mobile: +48 502 18 4853
E-mail: iwona.smith@pl.pwc.com



David Green

Partner
Accounting
Tel.: +48 22 523 4306
Mobile: +48 502 18 4306
E-mail: david.green@pl.pwc.com

> PricewaterhouseCoopers
Real Estate Team



Tomasz Oździński
Senior Manager
Taxation
Tel.: +48 22 523 4821
Mobile: +48 502 18 4821
E-mail: tomasz.ozdzinski@pl.pwc.com



Małgorzata Szymanek-Wilk
Senior Manager
Accounting
Tel.: +48 22 523 4131
Mobile: +48 502 18 4131
E-mail: malgorzata.szymanek-wilk@pl.pwc.com



Kinga Barchoń
Senior Manager
Transaction Services & Capital Projects
Tel.: +48 22 523 4178
Mobile: +48 502 18 4178
E-mail: kinga.barchon@pl.pwc.com



Grażyna Wiejak-Roy
Manager
Optimization & Restructuring
Tel.: +48 22 523 4196
Mobile: +48 502 18 4286
E-mail: grazyna.wiejak-roy@pl.pwc.com

> PricewaterhouseCoopers
Real Estate Team



Katarzyna Kowalczyk
Manager
Valuation
Tel.: +48 22 523 4446
Mobile: +48 502 18 4446
E-mail: katarzyna.kowalczyk@pl.pwc.com



Katarzyna Kopczewska
Manager
Taxation
Tel.: +48 22 523 4965
Mobile: +48 502 18 4965
E-mail: katarzyna.kopczewska@pl.pwc.com



Piotr Bojar
Manager
Urban Regeneration & Development
Tel.: +48 22 523 4133
Mobile: +48 502 18 4133
E-mail: piotr.bojar@pl.pwc.com

PricewaterhouseCoopers
Al. Armii Ludowej 14
00-638 Warsaw
Tel.: +48 22 523 4000
Fax: +48 22 523 4040
www.pwc.com/pl/realestate

REAS

REAS is an expert advisor in the planning and development of housing projects in Central Europe.

REAS consultants are the leading Polish specialists in market research, urban and housing development, design, development management, project financing, marketing and sale of residential projects. REAS partners, as advisors to the World Bank and the Government of Poland, have played an active role in the Polish housing sector reforms. Since 1997, REAS has been advising developers, investment funds, banks, local governments and other institutions in their operations in the residential market in Poland. Since 2007 REAS offers full range of its services in other CEE countries with special focus on Romania.

From the beginning, REAS has set the standard for residential consultancy and is an invaluable source of comprehensive information concerning the Polish housing market. Independence and objectivity, combined with extensive knowledge and long-term experience, allow REAS to support its clients at every stage of a housing project.

Contact:



Paweł Sztejter

Partner

E-mail: pawel.sztejter@reas.pl

REAS

ul. Bukowińska 22B

02-703 Warsaw

Tel.: +48 22 3802100

Fax: +48 22 3802101

www.reas.pl

Clifford Chance

Clifford Chance is ranked the number one law firm in Poland in the area of real estate and construction, in the 2007 edition of Chambers Global legal directory. Acting for the real estate industry's leading players operating in Poland, Clifford Chance lawyers advise on the full range of real estate-related transactions. With the largest real estate team in Poland, Clifford Chance has the commitment, resources and know-how to get its clients' deals done, whatever and wherever they are.

According to Chambers Global: "Due to its large number of lawyers, the firm has been able to develop a fantastic range of specialisms within both the real estate and the real estate financing teams. These include development finance, planning, fire protection, investment structures and construction. This "remarkably sharp and business-oriented" team is involved in most high-profile deals. Clients commend its "consistently high-quality work" and find its lawyers "extremely responsive to any request, even under immense time pressure". The group also boasts specialist German and French expertise".

We provide advice in areas including:

- Acquisition, sale and structuring;
- Construction and development;
- Operating and finance leases;
- Operation and transfer;
- Real estate finance;
- Real estate funds;
- PPP/PFI;
- Environmental law;
- Taxation.

Contact:



Paweł Dębowski

Partner

Head of the Real Estate Practice

(Poland, Central and Eastern Europe)

E-mail: pawel.debowski@cliffordchance.com

Clifford Chance

ul. Lwowska 19

02-660 Warsaw

Tel.: +48 22 6271177

Fax: +48 22 6271466

www.cliffordchance.com

