The Polish Real Estate Market 2011

Publication prepared in cooperation with REAS Residential Advisors
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Contents:

2 Introduction
7 Real estate investment
14 Office market
19 Retail market
24 Warehouse market
28 Residential market
33 Infrastructure
37 Tax issues
42 Legal issues
50 PwC Real Estate Team
54 REAS Residential Advisors
Introduction

As a result of the global economic crisis, the Polish economy has also faced the problem of economic slowdown; however, it seems to be emerging from the downturn. Poland was the only country in Europe to achieve a positive annual gross domestic product (GDP) of 1.8% in 2009.

In 2010, the Polish economy performed even better, reaching a GDP annual growth rate of 3.8% according to initial estimates presented by the Central Statistical Office (GUS) in January. We expect 2011 market conditions to improve further. Both the European Bank for Reconstruction and Development (EBRD) and the International Monetary Fund (IMF) predict that Poland’s economy may grow in 2011 at a rate of approximately 4% and is likely to stabilise at about this level in 2012-2013. Economic growth should be fuelled initially by domestic demand supported by a rise in public investments financed by the European Union (EU), followed by a gradual recovery in credit action and an improvement in the profitability of private enterprises, which are expected to increase their investments. However, the recovery remains quite fragile due to several factors. First, the speed of recovery of exports and FDI crucially depends on continuous improvement in western Europe.

Second, growing unemployment and continuously high inflation erode real wage growth, keeping the dynamics of consumption low. Third, the likely acceleration in imports, possible under the scenario of growing domestic demand, and an appreciating zloty (the Polish currency) may greatly slow down economic recovery. Last, fast-growing public debt and a high budget deficit are likely to keep interest rates at relatively high levels.

In December 2010, annual consumer price index (CPI) inflation rose to 3.1%, remaining above the Narodowy Bank Polski (National Bank of Poland or NBP)’s inflation target of 2.5%. Inflation target for 2011 remains the same: 2.5%. Consequently, in the first half of 2011, the Monetary Policy Council (RPP) hiked interest rates to 4.5% in the case of the key market intervention rate (reference rate). In the next few months, CPI inflation may continue at above the inflation target due to previous strong rises in food and fuel prices and increases in the majority of VAT rates in 2011. According to the Council, the acceleration of economic growth in Poland, which supported an improvement in the labour market may lead to a gradual rise in wage and inflationary pressure in the medium term. At the same time, a strong rise in commodity prices on global markets, amid economic recovery, creates the risk that heightened inflation expectations may persist. It is possible that RPP will still raise interest rates during the next session.
A rise in interest rates makes mortgage loans more expensive, which combined with tighter bank restrictions, may limit credit action and adversely affect the real estate market, especially the residential sector.

At the end of 2010, the unemployment rate increased to 12.3% from 11.7% in November. The unemployment rate in Poland typically rises during autumn and winter, when seasonal jobs in agriculture, forestry and construction are fewer. The Ministry of Labour and Social Policy predict that unemployment will further increase in the first half of 2011; however, this trend should turn down around mid 2011 and it is expected to achieve a level of approximately 10% to 11% by the end of 2011. Estimated unemployment rate in May 2011 amounted to 12.2% and it dropped by 0.4 percentage point comparing to April (May is a third month when we observe drops). In the first quarter of 2011 registered unemployment rate reached level of 13.1%. The target (included in the budget) is to reach a level of 10.9% by the end of 2011.

The final date of Poland’s accession to the Euro zone is uncertain; however, the value of Euro is not expected to exceed PLN 4 this year.

Making the final decision on the entry date depends on stabilisation of the financial market (e.g. budget deficit, inflation) and obtaining political and social consensus on this matter. With regard to the property market, the majority of lease and sale transactions are already being carried out in EUR. Additionally, finance of transactions is secured in EUR to reduce the foreign exchange risk of investment. Nevertheless, the development process is exposed to risk as PLN is still the major currency in the construction market.

According to NBP FDI in 2010 amounted to EUR 6,665 mln. FDI in the first quarter of 2011 reached a level of EUR 3,708 mln.

The experts of the Independent Centre for Economic Studies (NOBE) forecast Polish economic performance within the next few years as follows:

<table>
<thead>
<tr>
<th>Projected economical data for Poland 2011-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unit</strong></td>
</tr>
<tr>
<td>GDP %</td>
</tr>
<tr>
<td>Inflation (CPI) %</td>
</tr>
<tr>
<td>Unemployment rate %</td>
</tr>
<tr>
<td>National budget deficit % of GDP</td>
</tr>
<tr>
<td>EUR/PLN exchange rate PLN</td>
</tr>
</tbody>
</table>

Source: NOBE Independent Center for Economic Studies
**Short-term outlook**

Poland’s short-term economic outlook looks favourable; however, it will remain vulnerable, especially as it remains disproportionately tied to the overall economic performance of Europe (including the unfolding Euro zone debt crisis).

Major structural reforms (pensions, health care, education, public finances) are necessary, of which all will require a major financial overhaul.

Therefore, we expect the following economic trends this year:

- In 2011, Poland will be the fastest-growing country in the EU;
- Investment demand will continue to increase, driven by EU structural funds and domestic demand;
- The dynamics of consumption expenditure should grow, fuelled by higher job security and workforce participation. Furthermore, employees will become more mobile, which may result in higher salaries in Poland;
- Growth rates of both exports and imports will turn into positive numbers.

The dynamics of exports may increase, assuming an improvement in existing (e.g. Germany) and developing (e.g. China and India) trade relationships; however, worsening relations with Russia at the beginning of the year may trigger turbulence in the overall foreign trade balance;

In April CPI inflation rose to 4.5% remaining clearly above NBP inflation target (2.5%). In the next months CPI will remain high due to the previous strong rise of prices of row materials on the global markets.

Recently (in June 2011) we observe weakening of zloty due to the worsening situation on international markets (Greece but also USA, Euro zone, China and Japan). Next months will not be peaceful.

The excessive deficit and fast-growing public debt have become the main challenge for economic policy. Reducing Poland’s PLN 52bln (which is USD 17.2bln), budget deficit, estimated at 7.9% of GDP (some estimates put the deficit as high as 8.5% of GDP), may take longer than expected. Some experts say that breaking the constitutional threshold of a 60% ratio between debt and GDP seems inevitable. Unless this can be avoided by a change in methodology of calculating the debt, rather than by undertaking any drastic action, the government will likely implement a multiannual programme of fiscal consolidation. The main elements of the programme have already been announced. However, the real question is the ability of the government to implement the necessary changes.

To sum up, the 2011 real estate market in Poland will benefit from the economic performance. Growing business confidence is likely to result in expansion, M&A activity, trading up or looking for more environment-friendly space or restructuring their holding and occupation to improve tax or finance efficiency. Rising demand accompanied by increasing financing activity will drive supply in the market. Stabilisation of the market will also encourage investors to make new deals. Nevertheless, it should be stressed that the economic prospects for Poland greatly depend on developments in western Europe.
Real estate market overview

Following the stagnation of the real estate market in Poland in 2009, being a result of the international economic crisis, in 2010, the situation stabilised giving significant signs of recovery across most sectors.

Such recovery will be slow throughout this year and will continue into 2012. Gradual growth in the market is forecast till 2015 primarily in the office sector and prime retail.

Turbulence in global financial markets followed by property finance restrictions adversely affected the residential market in 2009, both on the demand and supply sides. Individuals encountered difficulties in obtaining loans for new residential units and developers were unable to finance their projects. Residential sales slowed down significantly and developers cancelled or postponed many projects. During 2010, banks started to ease their credit policy for individuals; however, developers were still severely restricted, especially with regard to new residential projects, which are treated by banks as the most risky ones. Additionally, new regulations affecting mortgages came into force in Poland during the year under the implementation of the so-called “Recommendation T”. The first part of the recommendation relates to restrictions imposed on mortgages denominated in foreign currencies.

The second, which could possibly have a greater impact on the number and value of new mortgages, regulates conditions for mortgage lending related to a borrower’s monthly instalments. At present, it is too early to determine the real impact of these changes on the residential market. According to the market experts, the increase in VAT will certainly weaken growth in the mortgage market; however, the positive economic development will likely keep the volume of loans sold in 2011 at the level of 2010. To summarise, a slow increase in interest in purchasing new apartments has been observed. Bearing in mind the decline in new supply, some developers, mainly those with their own financing, have already restarted some suspended investments.

Despite the major slowdown in the housing market, long-term growth prospects for the sector remain positive. It should be noted that the crisis in the Polish residential market proved decisively less severe than commonly expected and its impact was much less acute when compared to other European countries.

The commercial property market is still performing quite well; however, it has not been immune to the global slowdown, especially in the industrial and office sectors. In 2009, demand for office space decreased significantly influencing rent level corrections. Stabilisation of the Polish economy has boosted investors’ confidence in the market and increased their activity. This situation has resulted in growing occupier demand, which is expected to continue in 2011. In the light of the significant drop in new supply, this year we may see upward pressure on prime rents in Warsaw, especially in central locations. This fact should also reduce vacant space in the capital of Poland.

Regional markets have suffered a drop in demand from either foreign enterprises opening their operations in Poland or domestic companies extending their business to regional cities. Nevertheless, currently rents remain relatively stable at a level of EUR13-16. Due to a large amount of new supply in some locations, there is a high level of vacant space e.g. in Katowice and Łódź. Those two cities also record the lowest rents.
The Polish Real Estate Market 2011

The retail market shows relative stability with a positive trend in demand; however, occupiers remain cautious and selective, but with less development and fewer new opportunities, there will be stronger competition for the best space.

Positive economic results translated into growing leasing activity in the industrial sector where the total take up increased by approximately 86% in 2010 compared to 2009.

New supply significantly decreased. Warehouse developers have increasingly turned their focus towards “build-to-suit” investment while speculative schemes have been very limited. Prime headline rents vary from EUR 5.00 per sq.m per month in Warsaw down to EUR 3.00 in regional markets but effective rates in some cases drop to even to around EUR 2.00.

Poland ranked second, after Russia, in CEE last year in terms of the value of transactions concluded on the commercial real estate market, according to market data. The value of deals was approximately EUR 1.79bln in total. Investors particularly focussed on prime office projects; however, the shopping centre segment also noted a number of large investment deals. The acquisition of Arkadia and Wileńska in Warsaw by Unibail Rodamco, valued at EUR 450mln, was the biggest transaction in Poland in 2010.

Growing interest in commercial properties in Poland shows that the country is increasingly regarded as an interesting and mature investment destination.

The table below shows prime office rents in Warsaw (rounded; EUR/sq.m per month)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Q1</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>30</td>
<td>27</td>
<td>23</td>
<td>19</td>
<td>18</td>
<td>21</td>
<td>27</td>
<td>32</td>
<td>25</td>
<td>24</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>NCL</td>
<td>24</td>
<td>19</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>17</td>
<td>18</td>
<td>15</td>
<td>16</td>
<td>16</td>
<td></td>
</tr>
</tbody>
</table>

Source: PwC

The chart below shows prime office yields (percentage) in major Polish cities as at the end of 2010

Source: PwC
Real estate investment
Office

In 2010, the total value of office investment transactions was approximately EUR 621 mln. This amount is approximately 75% more than that in 2009.

Currently, negotiations are underway concerning many office schemes, in some cases, letters of intent have been already signed and some deals will soon be made. A large number of potential deals, as well as growing optimism concerning the real estate market will have a significant impact on the number of transactions in 2011. This impact may create a pressure on capitalisation rates compression.

At the end of 2010, investors expected prime office yields in Warsaw of approximately 6.25% to 6.50% and these yields may experience further drops during this year due to increased competition in the market as a result of sharp reductions in good quality products. At the end of 2010, the deals closed and in the beginning of 2011 cap rates stabilised. These amounts reflect initial yields of significantly less than 7%, possibly as low as 6.75% e.g. The Crown Square office building purchased by Invesco Real Estate from the developers Ghelamco Group for around EUR 63.7 mln at the end of January 2011.

This office project, with a total area of 16,000 sq.m., is located in the Wola District. The project has a green BREEAM certificate, and is fully let to tenants including Oracle, Nike, MicroStrategy and GATX Rail Poland. The central locations have no advanced deals; however, initial yields can be expected to be significantly lower than outside the city centre at some 6.50% or below.
## Selected recent office transactions in Poland

<table>
<thead>
<tr>
<th>Name</th>
<th>City</th>
<th>Province</th>
<th>Seller</th>
<th>Buyer</th>
<th>Usable space</th>
<th>Price [EUR]</th>
<th>Price [EUR/sq.m]</th>
<th>Initial Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Danone Headquarters</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>Danone</td>
<td>Private equity fund</td>
<td>5,000</td>
<td>N/A</td>
<td>N/A</td>
<td>9.50%</td>
</tr>
<tr>
<td>Kamienica Lipińskiiego</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>Reinhold</td>
<td>Union Investment GmbH</td>
<td>3,500</td>
<td>35,000,000</td>
<td>10,000</td>
<td>7% – 8%</td>
</tr>
<tr>
<td>Trinity Park III</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>Ghelamco</td>
<td>SEB ImmoPortfolio Target Return Fund</td>
<td>32,587</td>
<td>93,000,000</td>
<td>2,854</td>
<td>7.50%</td>
</tr>
<tr>
<td>Horizon Plaza</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>IVG Immobilien GmbH</td>
<td>Union Investment GmbH</td>
<td>35,000</td>
<td>102,000,000</td>
<td>2,914</td>
<td>7.15%</td>
</tr>
<tr>
<td>Grunwaldzki Center</td>
<td>Wrocław</td>
<td>Dolnośląskie</td>
<td>Skanska</td>
<td>RREEF Investment GmbH</td>
<td>26,300</td>
<td>77,000,000</td>
<td>2,928</td>
<td>7.15%</td>
</tr>
<tr>
<td>Harmony Office Center</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>Eko Park</td>
<td>Commerz Real</td>
<td>19,300</td>
<td>55,000,000</td>
<td>2,850</td>
<td>6.99%</td>
</tr>
<tr>
<td>Topaz and Nefryt</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>GTC GmbH</td>
<td>RREEF Investment GmbH</td>
<td>27,000</td>
<td>79,000,000</td>
<td>2,926</td>
<td>7.20%</td>
</tr>
<tr>
<td>Athina Park</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>Echo Investment</td>
<td>PZU</td>
<td>12,700</td>
<td>32,000,000</td>
<td>2,520</td>
<td>7.28%</td>
</tr>
<tr>
<td>Mokotów Plaza I</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>Celtic Asset Management</td>
<td>Azora</td>
<td>15,300</td>
<td>33,000,000</td>
<td>2,157</td>
<td>8.13%</td>
</tr>
<tr>
<td>Victoria Building</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>Deka Immobilien</td>
<td>IVG Immobilien AG</td>
<td>12,500</td>
<td>29,000,000</td>
<td>2,320</td>
<td>N/A</td>
</tr>
<tr>
<td>Dmowskiego Centre</td>
<td>Gdańsk</td>
<td>Pomorskie</td>
<td>BPT Optima</td>
<td>Key Financials on behalf of its private equity funds</td>
<td>3,000</td>
<td>5,000,000</td>
<td>1,667</td>
<td>N/A</td>
</tr>
<tr>
<td>Uniqua Forum</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>SGI Baltis</td>
<td>Uniqua Real Estate</td>
<td>6,500</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Onyx</td>
<td>Kraków</td>
<td>Małopolskie</td>
<td>Buma Group</td>
<td>BPH FIZ SN 2</td>
<td>6,000</td>
<td>12,541,958</td>
<td>2,090</td>
<td>N/A</td>
</tr>
<tr>
<td>Avatar</td>
<td>Kraków</td>
<td>Małopolskie</td>
<td>Echo Investment</td>
<td>Azora</td>
<td>11,500</td>
<td>30,000,000</td>
<td>2,609</td>
<td>N/A</td>
</tr>
<tr>
<td>Crown Square</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>Ghelamco</td>
<td>Invesco</td>
<td>16,000</td>
<td>63,700,000</td>
<td>3,981</td>
<td>N/A</td>
</tr>
<tr>
<td>Zebra Tower</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>S+B Gruppe</td>
<td>Union Investment</td>
<td>18,280</td>
<td>76,000,000</td>
<td>4,158</td>
<td>N/A</td>
</tr>
<tr>
<td>North Gate</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>Austrian Volksbank Gruppe</td>
<td>Deka Immobilien</td>
<td>35,600</td>
<td>103,000,000</td>
<td>2,893</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*Source: PwC*
A large number of major office transactions in 2010 took place in Warsaw. The most significant of these transactions included the sales of Horizon Plaza and Trinity Park III, both in the Mokotów district. Horizon Plaza was sold to Union Investment for EUR 102 mln. The building was previously owned by IVG Immobilien and has a total usable space of 35 000 sq.m. Trinity Park III is one of the three buildings of Trinity Park, located at Domaniewska Street. It was bought by SEB ImmoPortfolio Target Return Fund from its developer, Ghelamco, for EUR 93mln. According to CIJ magazine, Mokotów is the most liquid investment location in CEE. Over the past 12 months, it has seen six major office investment transactions representing approximately 18% of the total gross lettable area. The total amount of these transactions is around EUR 500mln.

In regional markets, prime yields are higher by at least 1.00 – 1.50 percent points compared to the Polish capital and exceed 7.00 %. Investment is focused on class A office buildings. One of the biggest transactions on local markets concerned Grunwaldzki Centre in Wrocław, which was sold by Skanska to RREEF Investment for EUR 77mln. This 13-storey office building was finished by Skanska in May 2009, it has 30 000 sq.m of usable space and 400 parking places and is located in the eastern part of the city.

**Retail**

As Poland has one of the strongest economies and a relatively small amount of good quality retail stock, it is perceived as the most targeted “emerging” market and the leading destination in CEE (with 33% of retailers).

Whereas, overall investment activities in the Polish property market showed a sharp reduction in 2009, during the course of 2010, a growing number of investors were actively seeking shopping centre investments. This situation indicates that this investment sector has continued its positive development, as seen since the beginning of last year.

Last year, the total volume of retail deals exceeded EUR 900mln and constituted nearly 50% of total investment volume in the commercial market. One of the most significant retail transactions of 2010 concerned the sale of two of Warsaw’s shopping centres to Unibail-Rodamco. Arkadia and Warsaw Wileńska were sold for EUR 450mln. Additionally, in the second half of 2010, British fund Carpathian sold its shares in three Polish shopping centres in Łódź, Toruń and Sosnowiec. The buyer was the Pradera investment fund and the value of the transaction was EUR 40mln. The acquisition of Galeria Pomorska in Bydgoszcz by Resolution Property is also worth mentioning.

We have also recorded several smaller transactions, mainly in regional cities, including the purchase of two retail properties by Redevco for EUR 9 mln, located in Lublin and Torun, as well as the sale of Carrefour Łódź for EUR 20 mln to the First Property Fund.

Many projects, which were put on hold in 2009/2010, are likely to be finalised in 2011 and, therefore, an increase in both the number and value of retail transactions is predicted for the current year, as follows:
### Selected recent Retail transactions in Poland

<table>
<thead>
<tr>
<th>Name</th>
<th>City</th>
<th>Province</th>
<th>Seller</th>
<th>Buyer</th>
<th>Usable space</th>
<th>Price [EUR]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pomorska Park Handlowy</td>
<td>Bydgoszcz</td>
<td>Kujawsko-Pomorskie</td>
<td>Jermon</td>
<td>Batory Development</td>
<td>8,500</td>
<td>N/A</td>
</tr>
<tr>
<td>Millenium Hall</td>
<td>Rzeszów</td>
<td>Podkarpackie</td>
<td>Conres</td>
<td>Develop Investment</td>
<td>N/A</td>
<td>50,000,000</td>
</tr>
<tr>
<td>Arkadia &amp; Wileńska</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>Simon Property Group/Ivanhoe Cambridge</td>
<td>Unibail-Rodamco</td>
<td>103,000</td>
<td>400,000,000</td>
</tr>
<tr>
<td>Galeria Indomo</td>
<td>Lubin</td>
<td>Lubuskie</td>
<td>Poland E&amp;L Invest</td>
<td>PZU</td>
<td>9,613</td>
<td>12,000,000</td>
</tr>
<tr>
<td>Galeria Jeziorak</td>
<td>Iława</td>
<td>Warmińsko-Mazurskie</td>
<td>Dion Investments Sp. z o.o.</td>
<td>PZU</td>
<td>6,245</td>
<td>N/A</td>
</tr>
<tr>
<td>Galeria Pomorska</td>
<td>Bydgoszcz</td>
<td>Kujawsko-Pomorskie</td>
<td>Babcock &amp; Brown</td>
<td>Fundusz Resolution Property</td>
<td>20,000</td>
<td>50,750,000</td>
</tr>
<tr>
<td>Fashion House Outlet (II phase)</td>
<td>Gdańsk</td>
<td>Pomorskie</td>
<td>Liebrecht &amp; Wood Fundusz</td>
<td>Polonia Property</td>
<td>7,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Galeria Twierdza</td>
<td>Kłodzko</td>
<td>Dolnośląskie</td>
<td>Rank Progress</td>
<td>Leroy Merlin Inwestycje Sp. z o.o.</td>
<td>N/A</td>
<td>10,000,000</td>
</tr>
<tr>
<td>CH Tulipan</td>
<td>Łódź</td>
<td>Łódzkie</td>
<td>Carpathian</td>
<td>Prada Open-Ended Retail Fund</td>
<td>40,300</td>
<td></td>
</tr>
<tr>
<td>CH Kometa</td>
<td>Toruń</td>
<td>Kujawsko-Pomorskie</td>
<td>Carpathian</td>
<td>Prada Open-Ended Retail Fund</td>
<td>23,000</td>
<td>40,200,000</td>
</tr>
<tr>
<td>Sosnowiec Centre</td>
<td>Sosnowiec</td>
<td>Śląskie</td>
<td>Carpathian</td>
<td>Prada Open-Ended Retail Fund</td>
<td>11,000</td>
<td></td>
</tr>
<tr>
<td>Promenada</td>
<td>Warsaw</td>
<td>Mazowieckie</td>
<td>Carpathian</td>
<td>Atrium European Real Estate</td>
<td>53,840</td>
<td>169,500,000</td>
</tr>
<tr>
<td>CH Jantar</td>
<td>Słupsk</td>
<td>Pomorskie</td>
<td>N/A</td>
<td>Fundusz Europe Property</td>
<td>22,250</td>
<td>92,000,000</td>
</tr>
<tr>
<td>Forum Koszalin (50%)</td>
<td>Koszalin</td>
<td>Zachodniopomorskie</td>
<td>Multi Corporation</td>
<td>Atrium European Real Estate</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: PwC

Retail market transactions concluded last year, show initial yields approximately between 8.00% to over 9.50% in the biggest Polish cities. To the best of our knowledge and our involvement especially in due diligence work on retail assets, we conclude that investors expect initial yields in Warsaw at a level of around 6.25% to 6.50% and over 7.00% to 7.50% in major Polish cities. In smaller cities of 100,000 to 250,000 inhabitants prime yields are expected at a level over 8.00%.
Warehouse space

During 2010, a visible market recovery occurred in the industrial and warehouse sector, resulting from the positive economic conditions in Poland compared to other countries in the CEE region and the rest of Europe.

Industry investors perceived Warsaw and Upper Silesia primarily as two “safe” locations in Poland. The total value of the warehouse market investment was EUR 240 mln. The major part of all transactions took place in the second quarter of the year and the value of these transactions was approximately EUR 182 mln.

The main transaction of 2010 concerned the sale of a portfolio of five warehouses for EUR 91 mln to European Property Investors Special Opportunities LP. The sellers were Panattoni Europe and Standard Life Investments. The portfolio consisted of warehouses located in Łódź, Poznań and Pruszków with a total rentable space of nearly 170,000 sq.m. The transaction took place in the second quarter of 2010. The initial yield was estimated to be approximately 8.90%.

The other two major transactions concerned a portfolio of industrial properties located in Garwolin, Robakowo and Teresin. In June 2010, Standard Life Investments bought the portfolio for EUR 56 mln from Panattoni Europe. At the end of the year, it was officially announced that this portfolio had been sold to NBGI for EUR 80 mln.

Other transactions concerned warehouses in Upper Silesia, in Czeladź (Alliance Silesia Logistics Center) and Mysłowice (Panattoni Park Mysłowice), where initial yields hovered at a level of approximately 8.50%. The first one was sold in July by Menard Doswell to a real estate fund managed by one of the insurance companies. The second transaction took place in the first quarter of 2010 and was worth EUR 18 mln; the warehouse was sold by both Panattoni Europe and Standard Life Investments to Credit Suisse.

Based on the market transactions concluded in 2010, we have seen initial yields in the warehouse sector at a level of around 8.5%-9.0%, similar to the previous years. According to market information, prime yields have fallen during the year and are estimated to be at some 7.75% in 2011.
Investment trends for 2011

• Poland will continue to be the most attractive investment destination in the CEE region. The view was confirmed in the “Emerging Trends in Europe” where Warsaw was ranked tenth in the category, “investment perspective in existing assets”, while Prague was only seventeenth and Budapest was twenty-fifth. In the category, “investment in the new assets” Poland ranked sixth, Prague thirteenth and Budapest twenty-fourth.

• Further restructuring of market players is expected while consolidation continues. The Emerging Trends in Europe 2011’s survey respondents expect new waves of corporate dynamics among REITs. “The REIT industry will consolidate into larger conglomerates,” one interviewee said. “The relevant measure is to be prepared for takeovers; it’s better playing the active than the passive role.” While the real estate industry is keeping a sharp eye on REITs as suppliers of equity, REITs may well be very busy tracking each other for different reasons.

• Experts expect continued growth in investment volume and the number of transactions.

• Office properties, especially in Warsaw will continue to be a priority for investors; however, due to diminishing numbers of suitable products the investors will turn their attention to the wider retail and warehouse sectors;

• The Polish capital is still in the spotlight, but due to improving economic conditions, investors will also turn their attention towards regional cities.

• A strong focus will be given on good quality products with long leases, especially in good and well-known locations. However, secondary products will also be touched in Poland.

• Investors will attach great significance to Building Research Establishment Environmental Assessment Method (BEAM) or Leadership in Energy and Environmental Design (LEEDS) certificates. According to the Emerging Trends in Europe 2011’s survey, many innovative strategies may have been lost as the industry shrinks, but the green agenda is not among them. Sustainability will be connected with high quality and this is the real change for 2011 and beyond. “Green buildings will undoubtedly become the benchmark in the coming years: a healthier, better-quality product—more attractive and more marketable.” Meanwhile, the capital value of non-green buildings will fall in the future, surveys indicate.

• Warsaw Stock Exchange will continue to attract more property companies. It allows the companies to increase their transparency, boost prestige and attract investor interest. Sometimes, it is the only way developers are able to raise capital and undertake new investments.

• Property values will continue to recover, but only at the top end of the market. The views of the industry professionals expressed in the Emerging Trend report is for safety; many respondents are defensively sticking to core strategies and this lack of confidence regarding anything else is anticipated to remain a major theme in 2011. As one fund manager noted, “The minute you leave the core segment, what are the future scenarios you can assume in putting together an investment case? What bank terms will you get in 2012, 2013? Who knows?”

• Favourable conditions in the market with the expectation of greater investor activity may lead to further yield drops. Yields for prime properties are expected to be at around 6.00%-6.25%.
Office market
Warsaw

According to the Warsaw Research Forum, in 2010, the volume of modern office space in Warsaw increased by approximately 190,000 sq.m to touch 3,436 m sq.m. Most of the new supply was delivered in non-central districts and included inter alia: Poleczki Business Park I (buildings A1 and A2), New City Mokotów and Crown Square. Wolf Marszałkowska and Zebra Tower were the only projects completed within the city centre. In 2011, we expect low supply as no major office buildings are due to be delivered in the next 12 months. A great number of new projects are going to start this year, delivering office space in 2012/2013.

The total volume of leasing transactions in 2010 was 550,000 sq.m., which was significantly higher than in the previous year when it was 280,000 sq.m. Renegotiations and extensions to existing leases accounted for about 35% of the total take-up. This trend is expected to continue as most leases signed in 2006 to 2008 were agreed upon at headline rents higher than current market rents. An improvement in demand is expected as the market stabilises and boosts investors' confidence in the Polish economy.

The table below lists examples of new office supply in 2010 and pipeline of office schemes in Warsaw:

<table>
<thead>
<tr>
<th>Property</th>
<th>Rentable space in sq.m</th>
<th>Expected Delivery</th>
<th>Developer /Investor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poleczki Business Park I</td>
<td>45,000</td>
<td>Q2 2010</td>
<td>UBM</td>
</tr>
<tr>
<td>Zebra Tower</td>
<td>17,000</td>
<td>Q4 2010</td>
<td>S+B Gruppe</td>
</tr>
<tr>
<td>Radwar Business Park</td>
<td>12,000</td>
<td>Q2 2010</td>
<td>Radwar</td>
</tr>
<tr>
<td>Wolf Marszałkowska</td>
<td>11,100</td>
<td>Q2 2010</td>
<td>Wolf Immobilien</td>
</tr>
<tr>
<td>BTD Office Center</td>
<td>8,500</td>
<td>Q4 2010</td>
<td>BT Invest</td>
</tr>
<tr>
<td>Juwentus HQ</td>
<td>7,300</td>
<td>Q3 2010</td>
<td>Poloneza Investment</td>
</tr>
<tr>
<td>Uniqa Forum/Baltis Office</td>
<td>6,000</td>
<td>Q3 2010</td>
<td>SGi Baltis</td>
</tr>
<tr>
<td>CTA Plaza II</td>
<td>2,560</td>
<td>Q3 2010</td>
<td>BTR Invest</td>
</tr>
<tr>
<td>Lipiński Passage</td>
<td>3,500</td>
<td>Q4 2010</td>
<td>Reinhold Polska</td>
</tr>
<tr>
<td>Mokotów New City</td>
<td>35,000</td>
<td>Q1 2010</td>
<td>ECI</td>
</tr>
<tr>
<td>Crown Square</td>
<td>17,000</td>
<td>Q1 2010</td>
<td>Ghelamco</td>
</tr>
<tr>
<td>Millenium Park B</td>
<td>7,400</td>
<td>Q1 2010</td>
<td>Eko Park</td>
</tr>
<tr>
<td>Wilanów Office Park I</td>
<td>7,000</td>
<td>2011</td>
<td>Polnord</td>
</tr>
<tr>
<td>JM Tower</td>
<td>10,400</td>
<td>2011</td>
<td>JM Invest</td>
</tr>
<tr>
<td>Platinium Business Park IV</td>
<td>13,000</td>
<td>Q2 2011</td>
<td>GTC</td>
</tr>
<tr>
<td>Mokotów Nova</td>
<td>40,000</td>
<td>Q3 2011</td>
<td>Ghelamco</td>
</tr>
<tr>
<td>Tower Terraces</td>
<td>28,000</td>
<td>2011</td>
<td>Sjaelso</td>
</tr>
<tr>
<td>Domaniewska Business Centre</td>
<td>27,000</td>
<td>2011</td>
<td>Universale International</td>
</tr>
<tr>
<td>Equator II (Zenith)</td>
<td>21,300</td>
<td>2011</td>
<td>Karimpol</td>
</tr>
<tr>
<td>Poleczki Business Park II</td>
<td>21,000</td>
<td>2011/2012</td>
<td>UBM</td>
</tr>
<tr>
<td>Plac Unii</td>
<td>41,000</td>
<td>2011/2012</td>
<td>Liebrecht &amp; woD/BBI Development</td>
</tr>
<tr>
<td>Wilanów Office Park II, III</td>
<td>38,000</td>
<td>2011/2012</td>
<td>Polnord</td>
</tr>
<tr>
<td>Warsaw Spire I</td>
<td>38,000</td>
<td>2012/2013</td>
<td>Ghelamco</td>
</tr>
<tr>
<td>Atrium South I</td>
<td>17,000</td>
<td>2012</td>
<td>Skanska Property Poland</td>
</tr>
</tbody>
</table>

Source: PwC
The overall vacancy rate in Warsaw offices decreased to 7.2% at the end of 2010 from 8% in the third quarter of the year and is expected to continue this downward trend. CBD records vacant offices at 8.1%, while in non-central locations, the rate is approximately 6.7%. Growing demand, along with a reduced amount of new supply, may result in diminishing vacancy rates by the end of the year.

Note: Some tenants being offered high quality space with acceptable connections to the city centre and competitive rental rates are deciding to move from central locations. However, market experts predict that unoccupied space will be absorbed gradually within the next year, decreasing the vacancy rate to as low as 5%, changing the situation to a ‘landlord market’.

Prime headline rents in Warsaw are gradually returning to the growth path (EUR 21-23.5/sq.m per month) for class A offices in central locations (CBD) and EUR 15/sq.m per month outside City Centre (NCL). Vacancy is at the level of 6.6% and is expected to increase during the coming months due to limited supply of new office space. Outside the city centre, the major constructions started in 2010 include Mokotów Nova, Senator, Equator II, the fourth phase of Platinum Business Park, and Libra B.

Recently, pre-construction work has started for the development of the multifunctional building Plac Unii at Unii Lubelskiej square with an office area of approximately 41,000 sq.m.

According to market analyses, the most significant office tenants still come from the financial sector, including banks and financial institutions, but also include consulting, IT and manufacturing companies. Banks and financial institutions, professional services and law companies prefer to be located in the city centre, including modernised buildings, while IT and production companies usually occupy buildings in non-central locations. Warsaw is particularly highly valued by these sectors due to the presence of a strong business base and a well-qualified labour market. The Polish regional market, due to its cheap labour force and low rents, but with highly-qualified staff, is often attractive for business process outsourcing (BPO) centres for international companies.
Regional markets

The total office stock in the eight major regional cities in Poland is approximately 1.5 mln sq.m-1.8 mln sq.m.

Of these cities, the largest stocks continue to be held by Kraków (454,000 sq.m.), Wrocław (370,000 sq.m.) and Tri-city (315,000 sq.m.) as well as Katowice, Poznań and Łódź.

Last year, a significant amount of new space was delivered to the regional markets, which should exceed approximately 200,000 sq.m. The highest supply was to Katowice, Kraków and Łódź.

Francuska Office Centre, the new office center in Katowice of 21,500 sq.m, and Katowice Business Point of 17,500 sq.m account for over 30% of the total supply. Kraków ranked just behind Katowice, with newly completed office space accounting for 26% of the total space put on the market outside Warsaw. Two large projects were completed in the city: Vinci Office Centre of 18,700 sq.m and Avatar of 11,000 sq.m. In Łódź, the most important new office project is the University Business Park complex with a total space of around 37,000 sq.m., being developed by Globe Trade Centre. The first building has already been completed. In Wrocław, two office buildings with around 17,000 sq.m in the Wojdyła Business Park have been completed.

The cities of Lublin and Szczecin are facing a shortage of vacant office space for rent, while in Łódź and Katowice, supply far outstrips demand.

Following a significant drop in demand in 2009, an upward trend was seen last year. With regard to new lease contracts, Kraków and Wrocław were perceived to be the leading locations outside Warsaw. However, the demand was still too low to absorb the new space coming into the market. Renegotiations and extensions to existing leases accounted for a large number of the total take-up; however, more tenants also decided to relocate their offices.

Rents in 2010 remained stable at a level of EUR 13-EUR 16 in regional cities. The highest prime asking rents were recorded in Kraków, Wrocław, Poznań and Tri-city and fluctuated at about EUR 14-EUR 16/sq.m with an average of EUR 12-EUR 13/sq.m per month. In some buildings, rental rates were lower at about EUR 10-11/sq.m. The lowest rents were recorded in Katowice, Łódź and Lublin.

Vacancy levels remained high in major regional cities throughout the year; Łódź and Katowice were the leaders with vacancy rates of 29% and 26%, respectively. This situation was mainly as a result of a large number of new deliveries, including speculative buildings, where a large amount of space remained unleased in the cities mentioned above in 2010. It is worth mentioning that in Katowice only 6.4% space stayed vacant at the end of 2009. Growing demand and a low level of new completions resulted in a drop in the vacancy rate in Wrocław to approximately 5.4%. Due to weak supply and positive forecasts for the Polish economy, the availability ratio in Wrocław is likely to further decrease over 2011. Vacancy of 0.7% in Lublin and 1.1% in Szczecin are the lowest values among the major Polish cities.

Due to the economic slowdown and problems in securing financing for new projects, developers postponed a number of investments. As a result, in 2011, new supply is expected to see a significant drop to approximately 120,000 sq. m. The largest office supply is likely to be in Tri-city (44,000 sq.m.) and Kraków (36,000 sq.m.) in 2011. Unless more projects are completed, a shortage of modern offices is likely, which will have a positive impact on office absorption but may also push up rents.
### Selected new office supply in 2010 and pipeline of office schemes in major Polish cities

<table>
<thead>
<tr>
<th>Property</th>
<th>Rentable space in sq.m</th>
<th>Expected Deliver</th>
<th>Developer/Investor</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wojdyła Business Park 2, 3</td>
<td>17,000</td>
<td>Q2 2010</td>
<td>Wojdyła Inwestycje</td>
<td>Wrocław</td>
</tr>
<tr>
<td>Katowice Business Point</td>
<td>17,500</td>
<td>Q3 2010</td>
<td>Ghelamco</td>
<td>Katowice</td>
</tr>
<tr>
<td>University Business Park</td>
<td>37,000</td>
<td>Q2 2010</td>
<td>GTC</td>
<td>Łódź</td>
</tr>
<tr>
<td>Vinci Office Center I</td>
<td>18,720</td>
<td>Q1 2010</td>
<td>Dyskret</td>
<td>Kraków</td>
</tr>
<tr>
<td>Avatar</td>
<td>11,000</td>
<td>Q1 2010</td>
<td>Echo Investment</td>
<td>Kraków</td>
</tr>
<tr>
<td>Francuska Office Center</td>
<td>21,500</td>
<td>Q3 2010</td>
<td>GTC</td>
<td>Katowice</td>
</tr>
<tr>
<td>Quattro Business Park 1</td>
<td>12,000</td>
<td>Q3 2010</td>
<td>Buma</td>
<td>Kraków</td>
</tr>
<tr>
<td>Grabiszyńska Office Center</td>
<td>5,300</td>
<td>Q1 2010</td>
<td>IK Development</td>
<td>Wrocław</td>
</tr>
<tr>
<td>Łużycka Office Park E</td>
<td>4,650</td>
<td>Q1 2010</td>
<td>Allcon</td>
<td>Tri-city</td>
</tr>
<tr>
<td>Arkońska Business Park A5</td>
<td>6,638</td>
<td>Q1 2010</td>
<td>Torus</td>
<td>Tri-city</td>
</tr>
<tr>
<td>Skalar Office Center</td>
<td>20,862</td>
<td>Q3 2010</td>
<td>Hydrobudowa-9</td>
<td>Poznań</td>
</tr>
<tr>
<td>Sterlinga Business Center</td>
<td>13,400</td>
<td>Q4 2010</td>
<td>Hines</td>
<td>Łódź</td>
</tr>
<tr>
<td>Jaracza Prestige</td>
<td>1,310</td>
<td>Q4 2010</td>
<td>Orange Property Group</td>
<td>Łódź</td>
</tr>
<tr>
<td>Oxygen</td>
<td>17,500</td>
<td>Q3 2010</td>
<td>Echo Investment</td>
<td>Szczecin</td>
</tr>
<tr>
<td>Allcon Park 3</td>
<td>11,600</td>
<td>2011</td>
<td>Allcon</td>
<td>Tri-city</td>
</tr>
<tr>
<td>Office Island</td>
<td>9,900</td>
<td>2011</td>
<td>Centrum Zana</td>
<td>Tri-city</td>
</tr>
<tr>
<td>Malta Office Park phase 3</td>
<td>6,300</td>
<td>2011</td>
<td>Echo Investment</td>
<td>Poznań</td>
</tr>
<tr>
<td>Murawa Office Park</td>
<td>4,100</td>
<td>2011</td>
<td>Aiga Investments</td>
<td>Poznań</td>
</tr>
<tr>
<td>Silesia Office Towers (1st building)</td>
<td>20,000</td>
<td>2011</td>
<td>TriGranit</td>
<td>Katowice</td>
</tr>
<tr>
<td>Olivia Business Centre</td>
<td>14,974</td>
<td>2011</td>
<td>Olivia Business Centre Sp. z o.o. S.K.A.</td>
<td>Tri-city</td>
</tr>
<tr>
<td>Pascal office building</td>
<td>5,200</td>
<td>2011</td>
<td>GTC</td>
<td>Kraków</td>
</tr>
<tr>
<td>Quattro Business Park II</td>
<td>12,000</td>
<td>2011</td>
<td>Buma</td>
<td>Kraków</td>
</tr>
<tr>
<td>Jupiter Plaza</td>
<td>4,500</td>
<td>2011/2012</td>
<td>NFI Jupiter</td>
<td>Katowice</td>
</tr>
<tr>
<td>Silesia Business Park</td>
<td>46,000</td>
<td>2012</td>
<td>Skanska Property Poland</td>
<td>Katowice</td>
</tr>
<tr>
<td>Centrum Biurowe</td>
<td>13,500</td>
<td>2012</td>
<td>GTC</td>
<td>Katowice</td>
</tr>
<tr>
<td>Mikotowska (1st building)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Galeria Poludnie</td>
<td>31,150</td>
<td>2011/2012</td>
<td>Meduza Group</td>
<td>Katowice</td>
</tr>
<tr>
<td>BCB Business Park</td>
<td>45,113</td>
<td>2011-2015</td>
<td>Bałtyckie Centrum Biznesu Sp. z o.o</td>
<td>Tri-city</td>
</tr>
</tbody>
</table>

**Market trends**

- A significant drop in new supply is a fact this year.
- Developers prefer Warsaw’s property market and are still cautious about new projects in regional cities; despite this fact, we may record a number of starts for speculative projects. However, construction activities will depend primarily on whether banks return to their active lending policies.
- Increased take-up, including lease renegotiations;
- Diminishing office availability will result in a decrease in vacancy, both in Warsaw and regional cities, and may have an influence on headline rents. This diminishing availability means that tenants may have their rents increased and
- Effective rents will increase due to a lowering of incentives offered by landlords.
Retail market
Warsaw and regional markets

Poland, with a population of around 38mln, is the biggest market among the new EU countries. The population is also one of the youngest in CEE. According to UN Population Division data, in 2010, over 38% of all citizens belonged to the 20-44 age group crucial for retail sales.

A trend for increased spending on non-essential and non-food items was observed, which confirms the maturity of the Polish retail market. The retail market has begun to track Western European purchasing trends more closely. Teenagers and young adults, in particular, are driving fashion sales.

EU membership in 2004 and a large amount of FDI have allowed retailers to make significant inroads into the market, contributing to forecast average annual retail sales growth of 6.6%, according to the BMI Poland Retail report.

The Polish retail market is performing in a relatively stable manner despite the global financial and economic crisis. At the end of 2010, the retail market in Poland comprised approximately 10 mln sq.m of modern retail space and is scheduled to grow by approximately 1 mln sq.m within the next two years. Global economic turbulence caused a decrease in consumer demand and limited access to outside financing for new developments, which corrected the projected supply in the market.

Many retail projects that were planned for completion in 2009-2010 have been postponed to 2011-2012.

The chart below shows the annual retail supply in Poland (sq.m).

### Annual retail supply in Poland

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sq.m</td>
<td>1,200,000</td>
<td>1,000,000</td>
<td>800,000</td>
<td>600,000</td>
<td>400,000</td>
<td>200,000</td>
<td>120,000</td>
<td>20,000</td>
<td>80,000</td>
<td>100,000</td>
<td>80,000</td>
<td>60,000</td>
<td>100,000</td>
</tr>
</tbody>
</table>

*2011 forecast

Source: PwC
The majority of modern retail space consists of shopping centres (over 70% of the total space of approximately 7 mln sq.m.). The chart below shows the structure of modern retail stock.

**Structure of modern retail space in Poland**

Regardless of increased activity in regional cities, by taking advantage of its demographic and economic potential, Warsaw remains the leader in the market. The subsequent places in ranking of attractiveness are as follows:
- Upper Silesia (including Katowice);
- Wrocław and
- Tri-City.

In 2010, developers focussed on the main Polish agglomerations and medium-sized cities with a population of over 250,000 inhabitants but a few crucial projects were also opened in small towns. Warsaw’s retail market remains the largest in Poland but it is constantly shrinking in terms of supply. Last year, only Tesco at Fieldorfa Street in Warsaw and Wolf Bracka were completed. Construction work has started on two other schemes, including Polska Operations’ Tivoli Park of 7,500 sq.m of GLA and located on Glebocka Street and Plac Unii, a mixed-use development of a total area of 50,000 sq.m, which is to offer 16,000 sq.m of GLA.

The following major projects were delivered to the market in the large cities: ‘Port Łódź’ in Łódz of 67,000 sq.m (GLA) by Inter Ikea and Family Point (9000 sq.m GLA) in Wrocław.

In the medium- and small-sized towns’ markets, the following retail schemes were completed: ‘Mazovia’ in Płock of 28,000 sq.m (GLA), ‘Victoria’ in Wałbrzych of 43,000 sq.m (GLA), ‘Gemini Jasna Park’ in Tarnów of 41,000 sq.m (GLA), ‘Galeria Sanowa’ in Przemysł of 21,000 sq.m (GLA), ‘Agora’ in Bytom of 25,000 sq.m (GLA), Galeria Mosty’ in Płock of 26,000 sq.m (GLA) as well as Zgorzelec Plaza, Suwałki Plaza and Galeria Jastrzębie in Jastrzębie Zdrój.

According to market forecasts, over 620,000 sq.m of GLA is to be delivered in 2011. The largest are Felicity in Lublin of 100,000 sq.m (GLA), Millenium Hall in Rzeszów of 79,000 sq.m (GLA), Siódemka in Elblag of 64,000 sq.m (GLA), Magnolia Park in Wałbrzych of 47,000 sq.m (GLA) and Galeria Kaskada in Szczecin of 43,000 sq.m (GLA).

### Other projects under construction

<table>
<thead>
<tr>
<th>City</th>
<th>Project</th>
<th>Developer</th>
<th>Size (sq. m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toruń</td>
<td>Toruń Plaza</td>
<td>Plaza Centers</td>
<td>42,000</td>
</tr>
<tr>
<td>Kielce</td>
<td>Galeria Echo</td>
<td>Echo Investment</td>
<td>41,500</td>
</tr>
<tr>
<td>Kraków</td>
<td>Futura RP &amp; Factory</td>
<td>Neinvser</td>
<td>40,300</td>
</tr>
<tr>
<td>Gliwice</td>
<td>Focus Mall</td>
<td>Parkridge</td>
<td>65,000</td>
</tr>
</tbody>
</table>

*Source: PwC*
As a result of economic uncertainty, a few of these projects might be delayed and delivered to the market in 2012. Our latest research suggests that the current level of supply for 2012 will be from 900,000 sq.m to 1mln sq.m.

According to market rumours, Echo Investment has postponed the delivery of the Arena retail centre of 38,000 sq.m (GLA) in Slupsk to around 2015; also, there is some uncertainty about the development of the Rapsodia retail centre in Elbląg by Spirit International Poland due to technical problems.

As a result of the overall slowdown in the economy, in 2009 and the beginning of 2010, retailers held back their expansion plans and shrank their sale space in favour of smaller units located mainly in larger cities in well-established centres. A few of the retailers withdrew from the Polish market or went bankrupt like Galeria Centrum, Reporter and Monnari. Improved customer confidence during the last year has translated into continued retail sales growth and was a boost to retailers’ growing optimism. However, the retailers are now choosing new locations much more carefully than in previous years. Currently, a stable level of demand can be seen, mainly driven by existing retail chains’ expansion as well as by new retailers interested in entering the Polish market. Although retailer demand is focussed strongly on the best projects in the largest cities, anchors are still expanding all around Poland.

Note: Consumer needs are not only growing but increasingly diversifying into both low-price centres, including hypermarket and discount stories and exclusive boutiques and department stories. As the market gains confidence, it will drive retailers to further expansion as well as encourage new brands to open their shops in Poland’s promising market.

Last year, rental rates in the best shopping centres remained stable, where rents for secondary properties were affected adversely, including incentives. Developers who opened their schemes during the worst market situation and who continued to struggle with insufficient footfall were flexible for tenants.

Warsaw and Kraków recorded the highest rents in shopping centres with prime rents of EUR 65 and 80/sq.m per month for a small space of approximately EUR 100 sq.m., although they can even touch EUR 90/sq.m in prime shopping centres. Retailers are already queuing up for space in some shopping centres. In Katowice, Poznań and Wrocław, prime rents fluctuate between EUR 50 and EUR 60/sq.m per month. Rents in other cities, including Łódź and Szczecin, are even 50% lower than in the Polish capital. One can find attractively located units for approximately EUR 30/sq.m per month.

The best high street locations are in Warsaw and Kraków, where rental rates can touch EUR 100/sq.m. Amongst the large cities, the lowest rents are in Łódź and Gdynia and fluctuate around EUR 35/sq.m per month. This year, retail rents will continue to be stable across all the sub-sectors, although rents in the best shopping centres may experience some upward pressure.
Market trends:

- Occupier demand is expected to remain stable; however, prime shopping centres will still enjoy the highest interest.

- Prime rents may remain stable but under upward pressure in prime shopping centres, especially in locations facing a shortage of good quality space.

- Limited interest in cities below 100,000 population.

- Growing interest in multi-purpose schemes in cities of between 100,000 and 400,000 inhabitants, where an undersupply of modern retail space and favourably located plots for development have been indentified;

- An increasing number of expansion projects of currently operating single-purpose schemes into multi-purpose schemes;

- Replacement or refurbishment and extension of older shopping centres and

- An increasing interest in real estate located at train stations, due to talks held between the state-owned railway operator PKP and potential bidders, resulting from the requirements of PKP restructuring.
Warehouse market
Poland still remains an attractive location for logistic centres in CEE due to its location and the largest population in the region as well as huge infrastructure investment in the pipeline.

Two major trends were observed in 2010. Firstly, the popularity of built-to-suit projects grew noticeably, over 190,000 sq.m of warehouse space was delivered to the market in this form, constituting almost 70% of total 2010 supply. The main warehouse developers established special departments responsible for warehouses dedicated precisely to specific clients. The most active developer in the built-to-suit sector was Panattoni; due to very low vacancy rates in their logistic centres, the company could concentrate mainly on this segment.

Another noticeable tendency was high activity in existing schemes, built 5 to 10 years ago. The Polish warehouse and industrial market had been developing for several years and reached a point when the first lease agreements ended; therefore, new tenants started to occupy existing facilities. Such activity could be noticed previously in the most mature Polish markets, in and around Warsaw, but this activity is new to regional markets. Older space is a competition to new supply and this also had an impact on the amount of new developments in 2010.

<table>
<thead>
<tr>
<th>Project</th>
<th>Developer</th>
<th>Warehouse space</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ideal Idea Park</td>
<td>Ideal Idea</td>
<td>5,100</td>
<td>Warsaw – zone I</td>
</tr>
<tr>
<td>Ożarów</td>
<td>Panattoni</td>
<td>19,100</td>
<td>Warsaw – zone II</td>
</tr>
<tr>
<td>Kraków Park Czeladź</td>
<td>Panattoni</td>
<td>20,944</td>
<td>Upper Silesia</td>
</tr>
<tr>
<td>BTS Tesco Gliwice</td>
<td>Panattoni</td>
<td>56,700</td>
<td>Upper Silesia</td>
</tr>
<tr>
<td>Park Wrocław II</td>
<td>Panattoni</td>
<td>9,700</td>
<td>Wrocław</td>
</tr>
<tr>
<td>Park Gdańsk</td>
<td>Panattoni</td>
<td>25,500</td>
<td>Poznań</td>
</tr>
<tr>
<td>BTS Farmacol Żerniki</td>
<td>Panattoni</td>
<td>5,400</td>
<td>Poznań</td>
</tr>
<tr>
<td>Elbląska</td>
<td>Panattoni</td>
<td>7,800</td>
<td>Tri-City</td>
</tr>
<tr>
<td>Centrum Logistyczne</td>
<td>7R Logistic</td>
<td>11,115</td>
<td>Tri-City</td>
</tr>
<tr>
<td>Kowale</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Park Toruń</td>
<td>Panattoni</td>
<td>30,300</td>
<td>Toruń</td>
</tr>
<tr>
<td>Park Łódź East</td>
<td>Panattoni</td>
<td>17,000</td>
<td>Central Poland</td>
</tr>
</tbody>
</table>

Source: PwC
At the beginning of 2010, the total stock of warehouse space in Poland was close to 6mln sq.m. New supply increased this number to nearly 6.5mln sq.m by the end of the year.

Warsaw and its surroundings remains the biggest warehouse market with a total stock of over 2.3 mln sq.m as at the end of 2010. Major new developments in this region included the next stage of Panattoni Park Ożarów and Ideal Idea Park, both delivered in the second half of the year. The total new space of these two investments is 22,300 sq.m. An average vacancy rate in Warsaw (average of three zones) fluctuated at around 20% throughout the year and was relatively stable. This rate is high in comparison to regional cities and Poland’s average of 15%.

Upper Silesia is the second-largest market in Poland, with over 18% share of total warehouse stock. The Silesia region benefits from its excellent near-border location and the presence of two major Polish highways, the A1 and the A4. Silesia has a long industrial tradition with a developed infrastructure, which holds importance in the choice of warehouse location. Total Silesian warehouse stock at the end of 2010 was nearly 1.2 mln; also, the yearly supply was the highest here, not only among regional cities, but also including Warsaw. New supply was 92,000 sq.m., including two major schemes: Panattoni Park Czeladź and BTS Tesco Gliwice, also developed by Panattoni. The total area of these two projects exceeds 77,000 sq.m. The average vacancy level in Silesia was high at the beginning of 2010 (close to 20%), but constantly decreased throughout the year and by the end of December, it stood at 13%.

The Kraków and Tri-city areas are the most underdeveloped regional markets with total warehouse stock of around 187,000 sq.m., which is only 3% of the country’s total stock. Consequently, these two regions characterise low vacancy levels, i.e. close to 4.5% in Tri-city and 8% in Kraków. The Kraków region competes with the strong Silesia region; therefore, its vacancy rate is a bit higher. The low level of total stock in these two parts of the country have not been unnoticed by developers and, currently, some major projects are planned or are underway, including Goodman’s logistics centre near Balice Airport and Pomorskie Centrum Logistyczne by the same developer.

Major supply in regional markets in 2010 included Panattoni Park Wrocław II (9.7k sq.m), Panattoni Park Gądki near Poznań (25.5k sq.m.) and Panattoni Park Toruń (near 30k sq.m.). Throughout 2010, prime headline rents remained relatively stable. In Warsaw’s Zone I, rents ranged from EUR 4.5-EUR 5.2/sq.m per month. This value is still the highest in Poland, which is not surprising as Zone I stands for the direct city centre of the Polish capital and the area is within a 12 km radius. The prices are much lower in Zones II and III, which are mainly Warsaw’s surroundings. Prime rents in these two zones oscillated at approximately EUR 2.9-EUR 3.5 /sq.m per month. Effective rents were noted at the level of approximately EUR 2.0-2.7/sq.m per month.

The warehouse rents in Upper Silesian have increased in range and are at a level of EUR 2.45-EUR 2.9/sq.m per month; currently, the lowest value in the market can be EUR 2.2/sq.m while the highest, in newly developed schemes, is close to EUR 3/sq.m.

In Central Poland, Poznań and Tri-city, rent levels for warehouse space were stable in 2010. The average monthly headline rents ranged from EUR 2.4 to EUR 3.0 per sq.m Kraków is the most expensive location among the regional markets, with rents between EUR 3.4 to 4.0/sq.m per month. This rent level is still much lower than at the end of 2009 when rents reached EUR 4.8/sq.m and could be compared with rents in Warsaw’s Zone I. High rents are a result of very low stock, which is currently nearly 63,000 sq.m. This is the lowest stock among all regional markets.
Infrastructure development is crucial for a widespread warehouse and logistic sector. New investments are in the pipeline, including plans for EURO 2012 and cash injections from European subsidies that foretell the coming of new markets, such as Toruń, Bydgoszcz and Zielona Góra and the development of Tri-City, as a result of the construction of the A1 motorway. However, risky investments should not be expected in the near future.

**Market trends:**

- Continued recovery will be seen in the warehouse sector;
- Activity will grow in the leasing area, especially lease renegotiations as well as in deals;
- Rents are forecast to remain stable;
- The vacancy rate finally started to drop during 2010 and is forecast to decrease further this year;
- Owing to prospective economic performance, the main investors will consider new projects focussing mainly on build-to-suit schemes. However, construction of speculative projects also started in 2010;
- Prime yields may further compress;
- Planned infrastructure investments especially in connection with the EURO 2012 tournament should stimulate further warehouse developments along with new roads, but only in the recognised regions with lower risk;
- Increasing demand may lead to a warehouse space shortage in some regions like Tri-City or Kraków;
- Opportunities still exist in Eastern Poland as well as in Szczecin and Kraków;
- Special Economic Zones are worth mentioning due to stimulating warehouse and logistic investments. Lower Silesia is a good example with the main tenants for this type of space running their business in three of these special zones.

<table>
<thead>
<tr>
<th>Prime headline rents (EUR/sq.m/month)</th>
<th>January 2010</th>
<th>June 2010</th>
<th>December 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warsaw – zone I</td>
<td>4.50 - 5.20</td>
<td>4.45 - 5.20</td>
<td>4.00 - 5.00</td>
</tr>
<tr>
<td>Warsaw – zones II &amp; III</td>
<td>2.50 - 3.00</td>
<td>2.40 - 3.00</td>
<td>2.00 - 2.70</td>
</tr>
<tr>
<td>Upper Silesia</td>
<td>2.45 - 2.90</td>
<td>2.40 - 2.95</td>
<td>2.20 - 3.00</td>
</tr>
<tr>
<td>Central Poland</td>
<td>2.45 - 3.00</td>
<td>2.40 - 3.00</td>
<td>2.00 - 4.30</td>
</tr>
<tr>
<td>Wrocław</td>
<td>2.65 - 3.20</td>
<td>2.60 - 3.10</td>
<td>2.20 - 2.80</td>
</tr>
<tr>
<td>Poznań</td>
<td>2.60 - 2.90</td>
<td>2.60 - 2.90</td>
<td>2.40 - 2.90</td>
</tr>
<tr>
<td>Tricity</td>
<td>2.85 - 3.30</td>
<td>2.85 - 3.25</td>
<td>2.60 - 3.30</td>
</tr>
<tr>
<td>Kraków</td>
<td>4.00 - 4.80</td>
<td>3.50 - 4.50</td>
<td>3.40 - 4.00</td>
</tr>
</tbody>
</table>

Source: PwC
Residential market
The return to normality was visible in all key phenomena: mortgage lending mechanisms and the scale of supply and demand, which manifested itself through sales results and client behaviour. As a result, the market scale calculated as the value of sales contracts concluded by developers and housing cooperatives returned to a level resembling the 2008 results, though it is worth emphasising that Q4 2008 was a period of sales slump. According to REAS’ data, in 2010 a total of approximately 31,000 residential units were launched for sale in the six major Polish markets, while some 28,000 residential units were sold. At the end of December 2010, the market offering featured approximately 39,000 residential units, of which about 9,400 were units in completed buildings. In first half of 2011 the number of units introduced to the market was still exceeding current sales, which consequently resulted in offer growth.

Despite a significant drop in developers’ production in 2010, Warsaw remained the most developed market offering the largest selection of new residential units. Together with the residential output of satellite cities in the Warsaw Metropolitan Area, approximately 25% of all residential units are constructed for sale here. In 2010, more than 10,600 residential units were sold in Warsaw, while 11,100 residential units were launched for sale in new projects in the capital city. In 2011 the sales should grow year on year, yet will probably remain lower than number of units newly launched.

In terms of the number of transactions concluded in successive years calculated per 1,000 inhabitants, the highest sales results in 2010 were noted in Wroclaw (6.7) and Krakow (6.3). Warsaw ranked third among the largest agglomerations in Poland with 6.2 sold units per 1,000 inhabitants. This result was higher than that of 2008, although it remained much lower than the record sales levels noted in 2007. Compared to the boom period, Tri-City also recorded good sales results. On the other hand, the sales level in Lodz was low but stable.

In terms of mortgage lending, the return to normality manifested itself in the number of newly-granted loans compared to the number noted in 2008 and in reinstating the conditions for granting mortgage loans that were valid before the real estate boom, namely the requirement for a significant borrower’s contribution, realistic assessment of creditworthiness and a conservative approach to the evaluation of the value of security. Another sign of a return to normality, enforced by banking supervisory organisations, was the decreasing ratio of loans denominated in foreign currencies, especially in the Swiss franc and the respective increase in the number of loans denominated in the Polish zloty. After all, very few Poles earn their income in foreign currencies, while in 2008, some banks treated Poles as native Swiss.

The increase in lending activity resulted from a series of favourable factors i.e., continuous low interest rates, decreasing profit margins and, most of all, information regarding economic growth and stabilisation of the marketplace, which have been improving from quarter to quarter. These factors influenced buyers’ behaviour as well. On the one hand, a significantly growing interest in buying residential units was observed and a belief that “it is not going to get any cheaper”, while on the other, buyers adjusted their preferences and expectations to their lower purchasing power, which resulted from lower creditworthiness.

In 2010 growing inflation triggered increase in interest rates and mortgage rates. This, combined with stricter criteria for granting loans, inhibited the growth of their availability to buyers. Due to large number of residential units completed during several previous years, the supply in the rental market increased significantly. Rent levels decreased slightly and the profitability of investing in such units seems relatively low. Consequently, the scale of investment purchases is currently insignificant. A similar situation can be observed in the “second homes” segment. Both prices and sales volume decreased considerably, while supply remains rather high due to the fact that projects launched in the years 2007-2008 are taking longer to sell.
Another sign of slow return to normality was also the realignment of demand for non-standard products like dwellings in high-rise buildings (since buyers are not willing to pay twice as much for them as for units in low-rise buildings in the same area) or lofts (in the case of extraordinarily large floor spaces, it is difficult to explain extraordinarily high prices per sq.m.). After a period of new projects being suspended or the number of new projects being limited, developers began to launch new units to the market at more reasonable total prices. Consequently, floor spaces of residential units in specific categories (based on the number of rooms) decreased considerably compared to the ones in the boom period.

Management boards of many development companies are still in a difficult position. The majority of these companies own land portfolios of varying size and the original purchase prices of some of these sites were far too high compared to current sales prices. In addition, some of these site purchases were highly leveraged. Part of the currently implemented projects was planned before the crisis and some units are proving difficult to sell. However, even in the case of smaller units, the sales process takes longer since the market offering is considerable and clients do not rush their decisions. In these circumstances, liquidity problems may occur, while the banks are still not enthusiastic about granting investment loans to developers.

The year 2011 will bring a growth in the number of transactions, while the prices remain stable and developer margins decrease.

The future of the market is uncertain; price growth is difficult to assume while considering the offering growth; even a possible increase in total sales in the market will not necessarily translate into better sales in specific investment projects.

Moreover, interest rates are likely to grow more than borrowers’ incomes and banking supervisory organisations are announcing further restrictions in granting loans, while the difficult situation of the Polish budget must result in greater financial strain on citizens. We already know that EU funds will not miraculously multiply; on the contrary, we may expect certain cutbacks in the next decade.

This situation requires management boards and owners of development companies to be flexible, creative and imaginative while remaining realistic. Some of the ready projects should probably be redesigned; however, such decisions ought to be based on realistic predictions of demand development. The function of some sites may need to be changed, for instance, from solely residential to multi-function. Technical documentation will have to be reconsidered in terms of possible savings.

Newly designed buildings should be better adjusted to the new expectations and financial ability of buyers. It is particularly important to focus on families who already own a residential unit and wish to trade up for a bigger place. These families frequently have a significant own contribution, provided that they did not take out a mortgage loan in Swiss francs when the exchange rate was close to PLN 2.0.

One should also be realistic when it comes to the perspective of local markets. The boom accelerated markets in some middle-sized cities, increasing prices to a level unacceptable to local buyers, while at the same time increasing the price expectations of land owners. At the moment it seems that unless prices are drastically reduced, it will take many years to sell all the units ready to be launched to these markets. Financing development operations also requires creativity: issuing bonds with or without mortgage security, bank loans, cooperation with a private equity fund, flexible terms of payment with contractors, entering into partnership with land owners. These are only some of the available options that can improve the liquidity of a company or broaden its scope of operations.

A new possibility is cooperation with local governments, which own many investment sites and have huge residential needs. Yet their difficult financial situation may be an obstacle. Developers have experience in cost-effective implementation of residential projects and need new investment sites for
constructing cheap residential units. However, under Polish conditions, implementation of a residential project in a PPP formula will require patience and flexibility on both sides, as well as counsel of a good advisor.

It should be emphasised that, in comparison to neighbouring countries, the residential market in Poland is large scale and did not experience any dramatic events during the crisis period. Warsaw is definitely the largest residential market among the group of large Central European cities, while Krakow, Wrocław and the Tri-city are also among the top 10 cities in terms of the number of constructed units.

The previous decade was exceptional for the Polish residential market. Two crises, the breakdown of cooperative housing construction, Poland’s accession to the EU, very dynamic development of the mortgage lending market, a global real estate boom, the influx of foreign companies and development of many Polish developers are only some of the major factors which impacted dynamic changes in this market during the previous 10 years.

The foundations of the market i.e. the condition of the existing residential stock and demographic factors still allow to believe it will develop during the coming decade. This development, however, will probably be less vigorous that in the previous decade.

**Market voice:**

*Poland is a large market with a strong, growing economy, relatively young population and a constant deficit of residential units. Moreover, the current situation in the Polish residential market is very favorable for developers like Matexi, who have a solid financial resources and are ready to purchase attractive land plots.*

Mirek Bednarek
Country Manager, Matexi Polska
After 10 years in Poland, we consider Poland as a market with still great potential in real estate development. The situation in residential market in 2010 was challenging, and yet due to the strategy of “compact” apartments we adopted, we had good commercial results on our projects, which confirms that the demand is still strong. The market is becoming more mature, and presents good opportunities for companies who want to develop in the long term perspective. We have to bear in mind however, that there is a substantial number of finished apartments, which are not reflecting the demand, that need to be sold. Since we do not have any unsold finished apartments, our strategy is to continue to expand our activity in 2011 and beyond, and to become a leader on the Warsaw’s market.

Laurent Tirot
General Manager,
Bouygues Immobilier Polska
Infrastructure
During an economic downturn, public investments provide a boost to the economy. The availability of EU funds for transport and environmental infrastructure will allow further development of assets in spite of the decreased revenues of central and public authorities.

Investment projects are expected to speed up as the European Football Championships in 2012 draw closer. The total worth of 81 key new investments relating to the Championships exceeds PLN 88 bln. These investments include the construction of stadiums, city infrastructure, motorways, as well as the extension and modernisation of the main airports and railway stations.

The organisation of UEFA EURO 2012 will undoubtedly have a positive influence on the Polish economy. According to experts from the Warsaw School of Economics, Polish GDP, due to the Euro, will have risen about 2.1% (approximately PLN 28 bln) in 2008-2020. The main growth drivers are infrastructure investments and the development of tourism. The organisation of UEFA EURO 2012 will also contribute to employment growth. Experts estimate that in 2012 alone, 20,000 to 33,000 new jobs will be created.

Unfortunately, not all activities have gone as per schedule. The main failures concern the development of rail lines and motorways. The transport infrastructure is being built and upgraded to mitigate neglect. The density of motorways and dual carriageways in Poland still remains among the lowest in Europe. The problem of shortage of good roads is aggravated by the poor or inadequate state of over 70% of existing roads. In 2010, the total value of contracts for road projects across the country was PLN 22 bln. General Directorate for National Roads and Motorways (GDDKiA) has stated that in 2010, it signed contracts for the construction of 544 km of roads (300 km – motorways, 244 km – expressways). 1434 km of roads is already under construction or modernisation (including 744 km of motorways and 522 km of expressways). The total value of the construction of new sections of the A1, A2, A4 and A8 motorways is PLN 47 bln. Unfortunately, at least part of the ambitious plan described in the “Government plan for construction of roads and motorways” will have to be postponed, mainly due to budget limitations.
According to PKP, 2010 was crucial in terms of railway investments. During that year, tenders for about PLN 18 bln were announced and contracts for almost PLN 8 bln were signed. Currently, about 1 190 km of railway is being modernised. Moreover, the modernisation programme for 44 railway stations across the country is in the implementation phase. By the end of 2012, PLN 980 mln (gross) will have been allocated to this programme. In 2010, the total expenditure for the modernisation of railway stations was PLN 332.26 mln (including PLN 102 mln from the state budget). In 2011, this expenditure will be PLN 224.46 mln, including PLN 200 mln from the state budget.

PKP should accelerate the use of European funds for 2007-2013 earmarked for railway projects. There is a serious threat that due to delays, PKP PLK (PKP Polish Rail Lines) may not manage to complete all the railway projects planned for delivery by the end of 2015. If so, this considerable sum of EU funds may be moved to other areas of infrastructure. PKP PLK has been granted over EUR 4.86 bln (approximately PLN 19 bln) in the operational programme “Infrastructure and environment” (POIIŚ). To make use of these EU funds, the company needs to contribute PLN 5.5 bln of its own.

The company is in negotiation with the European Investment Bank for a PLN 1 bln loan. The contract for the feasibility study into the construction of High Speed Rail has been signed with a Spanish company. The construction of the first phase is planned to be completed by the end of 2020.

The airports in Warsaw, Gdansk, Wroclaw and Poznań are in an advanced phase of modernisation, which is planned to be completed by the end of April 2012. The total value of investment projects in these airports is PLN 1.1 bln. The investments are aimed at increasing capacity. The key driver is the considerable increase in passenger traffic but the deadline for the investments is tied to UEFA EURO 2012.

Apart from the abovementioned airports in the host cities, other Polish airports are also undergoing considerable investment to improve their airside and landside capacity. The key driver is increased traffic in this instance as well, which seems to be recovering after the 2009 crisis. These investments go together with improvements in accessibility (rail connections planned to Warsaw Okęcie, Katowice Pyrzowice and Gdańsk Rębiechowo) and the associated infrastructure like the airport city at Okęcie or hotels, offices, warehouses developed in the immediate areas of other airports.

A positive trend is also expected in the case of environmental infrastructure. It will continue to be constructed, upgraded and extended, as a failure to meet all environmental standards in terms of the treatment of wastewater discharged and municipal solid waste management practices will result in high penalties. In terms of new municipal solid waste management facilities, investment in incinerators is expected to commence for particular processes this year.
Innovative funding sources

PPP
At the beginning of 2011, the public sector in Poland faces a scarcity of funds available for investment. After the global economic downturn during the last years, the state budget needs to calculate and monitor public debt very carefully.

All public entities, both at central and local levels, have started to look for savings in their 2011 budgets. Consequently, some investments have been cancelled or postponed from annual and long-term investment plans. At the same time, public sector authorities are considering taking advantage of off-balance financing instruments, which is a great opportunity for PPP projects to be developed in Poland. A well-prepared PPP can be executed successfully within a few years and will encourage other stakeholders to establish more PPP initiatives in Poland in future.

Joint European Support for Sustainable Investment in City Areas (JESSICA), an instrument available for funding urban regeneration programmes in Poland, is an initiative of the European Commission in cooperation with the European Investment Bank and the Council of EBRD, established to promote sustainable economic and social development in European urban areas in the context of cohesion policy.

JESSICA is aimed at offering a specialised revolving funding structure allowing greater access to loan capital and support for urban development. This support may take the form of equity, loans and/or guarantees. In 2010, JESSICA was already operational in a number of Polish regions (including Wielkopolskie, Zachodniopomorskie, Śląskie and Pomorskie) and will soon become an important impetus towards funding the development of the construction market in cities.

After Poland has spent the EU funding available for the 2007-2013 financial framework, PPP will be considered for further financing. Combined EU funds and PPP projects are expected to materialise, depending on the contracting authorities’ ability to obey the time constraints related to EU funds and Polish public procurement procedures with reference to private partner selection. The waste incinerator projects are the most advanced in analysis and some of them may become combined EU funds and PPP pilot projects in Poland.

The PPP market will develop intensively in Poland within the next few years. According to the Ministry of Economy (November 2010), municipal authorities plan to carry out PPP projects primarily for sports and recreation (49%) and car parks (16%). Interest in PPP for transport infrastructure (9%), urban regeneration (8%), healthcare (7%), public buildings (6%) and social housing (5%) will probably also increase in view of the limited availability of EU funds in the next financial framework and, similarly, many municipalities are very close to reaching the permissible level of public debt. Stakeholders are also watching attentively the case of Zywiec, where in 2009, local authorities initiated a competitive dialogue procedure to select a private partner, which would establish and operate a new hospital in Zywiec using the PPP formula. The result of this transaction (both in terms of commercial and financial close) will strongly impact the future healthcare investment market in Poland.
Taxation is an area of significant risk for business. It is important to apply accounting procedures that comply with the Polish tax regulations. Consideration also needs to be given to prevailing practice, official interpretations and local tax office treatment.

**Rental income**

Net income received by the corporate taxpayers is taxable at the general corporate income tax (CIT) rate of 19%. Expenses incurred by companies while earning or securing their income, including interest paid, are deductible provided that these amounts have been properly documented. Costs of abandoned investments are generally deductible.

**Depreciation**

Accounting depreciation procedures are similar to IFRS. Although depreciation for tax purposes is normally based on accounting depreciation, differences between accounting and tax depreciation may arise. Straight line (for all assets) and reducing balance (selected assets, mostly machinery and equipment; generally a coefficient of 2) are the two basic methods of depreciation.

Tax-deductible depreciation is subject to maximum straight-line rates. For buildings, these rates range from 1.5% to 10% annually. Usually, non-residential buildings are depreciated over 40 years. However, the acquirer of a used non-residential building may take into account the period the building has already been depreciated by its former owner(s). Consequently, the annual tax depreciation rate may range between 2.5% and 10%. Land is not depreciated for tax purposes.

**Loss carry forward**

Tax losses may be carried forward for five consecutive years, with no more than 50% of the loss from each year utilised in any one year.

**Dividends**

Dividend payments are subject to 19% tax, regardless of whether the recipient is resident or 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 the liquidation of a company, as well as when new shares are issued from retained earnings.

For dividends paid by a Polish company, an exemption from withholding tax applies if the shareholder’s (who directly owns at least 10% of shares over an uninterrupted period of two years) worldwide income is subject to tax in the EU or European Economic Area (EEA) or Switzerland (the shareholding threshold is at least 25% in the latter case). Additionally, the dividend recipient must not be fully tax exempt in the country of the recipient’s tax residency. A Polish company that receives dividends from abroad cumulates dividend income with other income. A full tax exemption may apply based on the conditions above.
**Capital gains on the sale of property**

Capital gains tax regime is not distinct. Capital gains are taxed at the standard CIT rate of 19%, unless otherwise determined by an applicable double taxation treaty.

Foreign companies are subject to Polish CIT at the standard tax rate on capital gains realised on the sale of Polish real estate.

Many Polish treaties provide for an exemption from Polish tax of capital gains on the sale of shares in the Polish real estate holding companies. However, some treaties include a clause whereby Polish tax on the sale of shares in a Polish company in which most of the assets are real estate is not exempt, e.g. treaties with Germany and the UK. This provision is not included in the treaties with the Netherlands, Luxembourg and Cyprus (the widely used holding locations).

**Transfer tax/VAT on real estate transactions**

The sale of development land is generally subject to VAT at the standard rate of 23% of the purchase price of the property, which is recoverable under regular VAT rules. Sales of agricultural land are exempt from VAT.

The VAT treatment of developed land is based on the VAT treatment of the construction on this land. The supply of buildings effected before or within the first two years of the so-called ‘first occupation’ is subject to VAT. After two years, a VAT exemption applies. The parties to the transaction may, however, choose to impose VAT (‘option for tax’) provided each party meets the prescribed conditions.

Note: In specific circumstances, the supply of a building constructed before or within the first two years of ‘first occupation’ is VAT exempt (no ‘option for tax’ exists). Also, based on the practice of the tax authorities, the sale of shares in the ownership right to real property should be treated as a supply of service subject to VAT.

If the acquisition of real estate (land and/or buildings) is VAT exempt, Civil Law Activities Tax (CLAT), being a transfer tax, is levied at the rate of 2%.

The standard 23% VAT rate is reduced to 8% for the disposal of apartments and houses which qualify as ‘social housing’ (up to 150 sq.m with respect to apartments and 300 sq.m with respect to houses).

VAT at 23% is applicable to building lease payment, except for residential buildings (generally VAT exempt). The VAT is usually recoverable by the tenant as input VAT. However, companies providing exempt services cannot recover input VAT.

**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 (some events may prolong this period). For social security, the period is 10 years from the date the payment was due.

**Penalties**

Overdue tax liabilities are subject to penalty interest. The rate of penalty interest depends on the official Lombard interest rate published by the NBP, which is currently 12.5% per annum. The penalty interest rate may be reduced by 25%, i.e. to 9.38% per annum (currently) in the case of a voluntarily corrected tax return, provided that other statutory requirements are also met.
**Financing real estate investment**

**Debt funding**
Interest on loans drawn to acquire shares is tax deductible in principle. However, the timing of deductibility (payment/capitalisation/disposal of the shares) is not specifically regulated in Polish CIT Law. Under the current opinion of the Polish Ministry of Finance, interest is deductible on a cash basis.

The deductibility of interest is limited by thin capitalisation rules. The rules set a maximum debt-to-equity ratio of 3:1 for loans drawn from qualifying lenders. Interest on a loan from a qualifying lender that exceeds three times the value of the Polish company’s share capital is not tax deductible.

No withholding tax is levied on the interest paid within Poland. Such interest is generally treated as taxable income upon receipt. However, a 20% withholding tax applies to the interest paid to foreign creditors, unless an appropriate double taxation treaty reduces or eliminates it.

From 1 July 2013, the interest paid to qualifying creditors from other EU countries will be exempt from withholding tax under the Interest and Royalties Directive implemented in Polish CIT Law. Prior to this date, this interest is subject to a 5% withholding tax, unless the relevant double taxation treaty provides for a lower rate.

Loans are generally subject to CLAT of 2% of the amount of the loan. However, loans made by banks and direct shareholders are not subject to CLAT. Other exemptions from CLAT may also be available.

**Equity**
Equity funding is subject to CLAT at the rate of 0.5%. CLAT may be minimised when shares are issued with a share premium. The equity contribution of the investor may be in cash or in kind. The company may also be provided with non-equity capital, such as ‘additional payments’ (subject to certain restrictions) or loans.

**Foreign exchange differences**
Polish accounting and tax books should be maintained in Polish złoty. Hence, foreign exchange differences when financing are provided in a foreign currency.

Foreign exchange differences in the case of real estate investments primarily arise in two situations: (i) on loans resulting from the change in exchange rate of the loan currency between the day of granting the loan and the day of repayment and (ii) on own financial resources resulting from the change in exchange rate between the day of inflow and the day of outflow of funds from the taxpayer’s bank account.

The above differences can be calculated according to one of the following two methods:

1. Specific regulations in Polish CIT Law or
2. The so-called “accounting method”.

The first method is restrictive and requires taxpayers to use specific exchange rates (of the NBP or the bank servicing a taxpayer/transaction rates) for establishing foreign exchange differences. Generally, under this method, foreign exchange differences crystallise for tax purposes when the foreign currency liability is settled or foreign currency funds are received as a result of the settlement of an invoice, etc.

The accounting method refers to specific accounting regulations and, in general, allows for the recognition of exchange differences/valuations calculated in accordance with certain accounting rules. Thus, the currency does not have to change hands to trigger a tax exchange difference; the change in exchange rate of the currency can be sufficient, i.e. ‘paper’ difference. To use this methodology, the taxpayer needs to inform the local tax office at the beginning of the tax year, the books of the taxpayer must be audited by a state registered auditor and the methodology must be used for at least three years.

**Transfer pricing**
Related parties have to maintain specific documentation to justify the arm’s-length nature of the price and terms of transactions between related parties. The tax authorities may demand submission of the documents within seven days of making a request. If the taxpayer fails to do so, the authorities can impose a 50% penalty tax rate on the underestimated income resulting from the transaction.
**Binding rulings**

Generally, rulings on specific matters for specific taxpayers are issued by the Minister of Finance. (In practice, they are issued by designated directors of Tax Chambers on behalf of the Minister of Finance). The ruling should be issued within three months of filing the application. However, the tax authority may extend this period, e.g. if the taxpayer’s standpoint presented in the application is not clear. In such a case, the taxpayer should be informed of the new deadline for issuing the ruling. If the deadline is not met, the Minister of Finance is assumed to agree with the standpoint in the application.

A ruling issued on behalf of the Minister of Finance is not formally binding on other tax authorities (e.g. tax offices and fiscal control offices). Nevertheless, if the taxpayer follows the interpretation, he should not suffer penalty interest or be subject to fiscal-penal responsibility if the (other) tax authorities do not agree with the Minister’s ruling. Only in the case where negative tax implications result from compliance with the ruling that covers future transactions, the taxpayer will also be free of tax as a tax exemption will occur.

**Tax efficient investment structures**

As with most countries, tax law is changed relatively frequently to limit tax planning opportunities. However, possibilities still exist to reduce tax leakage. They include the following:

- **a. Tax transparent vehicles**
- **b. Close-ended investment fund (CIF) structures**
- **c. Step-up of the tax value of real property**
- **d. Debt push down.**

**a. Income tax transparent vehicles**

A popular way to reduce CIT is to structure an investment using a partnership. Partnerships are not legal persons and are income tax transparent, i.e. they are not subject to income tax. Tax on income generated by the partnership is paid only at the level of partners (being corporate entities) in proportion to their share of profit. This type of taxation can be very advantageous in comparison to corporations, where income may be subject to tax both at the level of the corporation and the shareholders.

**b. Close-ended investment fund structures**

A CIF is a specific type of legal person that enjoys exemption from CIT. Thus, a real estate investment structured as a CIF may be exempt from Polish tax on rental income, as well as capital gains on the disposal of real property.

As at 2011, the exemption is extended to investment funds seated in other EU and EEA countries that meet certain criteria. This exemption should allow foreign investors to use their local investment funds as tax efficient vehicles for investments in Polish real estate. The wording of the amended CIT Law is not clear; therefore, the applicability of the exemption from Polish CIT of a particular foreign investment fund should be subject to detailed analysis.

**c. Debt push down**

Many investors use significant leverage to purchase shares in an entity holding real property. The transaction may be structured tax efficiently. For example, the investor could create or purchase a Special Purpose Company (SPV) to borrow money from a bank or other lender and use these funds to purchase shares in the target company. After the acquisition, the SPV is merged with the target company. This ‘debt push down’ structure results in rental income and acquisition debt being in the same entity. Consequently, interest may be set off against rental income from the property, and therefore, reduce taxable income.

**d. Step-up in the tax value of real property**

Minimising CIT liability on the disposal of real property is vital to the success of a project. The tax exposure typically arises on the difference between the sale price and the book tax value of the property. The burden can be mitigated by a so called tax step-up, i.e. the tax neutral increase in the tax value of the property to its market value. Appropriate structuring, e.g. pre-sale liquidation of the target and transfer in kind of the real property to the shareholder, can achieve this step-up.
Investing in real property in Poland from a legal perspective

In Poland, real property is owned (ownership title, as common in most European countries) or held in perpetual usufruct (from 40 to 99 years, which is specific for only some countries). The right of perpetual usufruct is very similar to ownership and despite the different legal framework governing it, it is considered practically equally by investors.

The amount of legal protection to which a holder of the right of perpetual usufruct is entitled is the same as an owner enjoys. However, the right of perpetual usufruct (and the documents on which it was established) may restrict, for example, the land designation and its future use. This may prove to be an important issue for the future investor and definitely requires deeper legal investigation at the stage of acquiring the land for future investment.

The Title and Mortgage Registers kept by the courts evidence the legal status of real properties, disclosing all necessary information, including information on mortgages, easements, third parties’ rights (often claims from previous owners) and encumbrances. Certain progress is visible in the digitalisation of the Title and Mortgage Registers, thus making the registry system more accessible. Due to digitalisation, the registration of title (as well as the registration of encumbrances, especially mortgages) is becoming easier and faster. Nevertheless, this process could have progressed faster.

Further, the form of the digitalised Title and Mortgage Register is not very transparent and unless you are an experienced professional, reading the Title and Mortgage Register is a challenging task.

Land Registers kept by municipalities determine the geodesy and numerical descriptions of the lands. The data in the Land Registers is the basis for its subsequent registrations in the Title and Mortgage Registers. On the other hand, the data disclosed in the Land Register does not profit from the legal protection connected with the Title and Mortgage Registers’ data. This double registration system causes confusion and creates difficulties in certain transactions.

The increasing availability of title gap insurance products safeguards the acquirer’s position in the case of a transfer of the right of perpetual usufruct or establishment of a mortgage, as the registration is necessary to effect such transfer or a mortgage.

Investors in principle are free to acquire real estate through various entities, such as those having a legal personality, tax-transparent partnerships and registered branches. In the last few years, the number of tax-transparent partnerships holding the title to real property has substantially increased. This process driven by tax optimisation reasons was finally accepted in the market by lenders, interested unsurprisingly in the stable level of security similar to that of a limited liability company. A number of professional entities offer off-the-shelf limited liability companies with limited corporate history allowing for the safe and smooth obtainment of a corporate presence in Poland.

Investors tend to prefer the acquisition of real property as an asset transaction rather than a share purchase of the company owning the real property. In this way, the purchaser does not take over any potential liabilities of a selling company. In order to minimise its exposure connected with real property (which may often be considered as an organised part of business), a market standard is to apply for and obtain special certifications from the tax office issued pursuant to the Tax Ordinance Act.
Certain restrictions and formalities still apply with regard to the acquisition of real estate in Poland by foreigners. In particular, until 1 May 2016, Ministry of Internal Affairs’ permits are necessary for direct acquisitions of agricultural land and forests. No distinction is made in this respect between buyers being residents of the European Economic Zone (EEZ) and buyers outside the EEZ. The direct acquisition by buyers who are residents in the EEZ, of land other than that is used for agriculture or is forest does not require any such permit. Also, no permit is required for purchasing and taking up shares in real estate holding vehicles by buyers from the EEZ, whether they are agricultural land, forest or land of any other nature.

Another legal point to be taken into consideration is a pre-emption right to certain categories of real estate which is reserved for public entities. In particular, it regards the pre-emption right of the following entities:

- The Agricultural Property Agency – For the purchase of agricultural land;
- Municipality – Where the undeveloped land is held in perpetual usufruct, or where the undeveloped land was previously acquired from the municipality or the State Treasury, historical monuments and land zoned for public purposes;
- The special economic zone manager – For purchases of land located in the territory of a special economic zone.

According to the information included in the report about the status and conditions of master planning works in municipalities in Poland, issued at the end of 2008 by the Institute of Geography and Spatial Management of the Polish Academy of Science, at the end of 2008, 25.6% of land in Poland was covered by local spatial zoning plans (71% of plans based on the Act from 1994 and 29% of plans based on the new Act from 2003). It is worth mentioning that 17.7% of local spatial zoning plans constituted obligatory plans. That information is the latest statistical information about master planning works in Poland. At the moment, no more actual data is available. The planning situation in Poland is improving on a yearly basis, although far from being ideal. The lack of spatial zoning plans is one of the crucial factors having a negative impact on investments.

Discussions underway are focused on amending the procedural aspects of the construction process in Poland, in particular those related to substituting construction permits and occupancy permits with various notifications. Speeding up the construction process and the limitation of bureaucracy have led to various projects being discussed in the Polish Parliament. As of now, the proposed amendment to the Construction Law has been challenged as to its compliance with the Polish constitution law and it is subject to procedure before the Constitutional Tribunal. Significant pressure is being exercised on local authorities to adopt local spatial zoning plans and limit cases of suspension of proceedings aimed at obtaining building permits.

**Spatial zoning plans and the construction process**

As all local spatial zoning plans adopted before January 1999 expired in 2003, when the new Zoning Law came into force, it seriously impacted the development process, as only about 12% of the land in Poland was, at that time, covered by valid local spatial zoning plans.
Currently, the construction process consists of the following stages:

• Obtaining the excerpts from the local spatial zoning plan (or the zoning decision, if no plan has been adopted) and preparing all documents required for the application of a construction permit (e.g. conceptual projects, arrangements and consents);
• Obtaining the construction permit;
• Carrying out the construction process;
• Obtaining the occupancy permit (or notifying the respective authorities that the investment has been completed).

Currently, investors are required to provide detailed documentation for the issuance of a construction permit. Irrespectively, officials exercise their powers to request additional documents, clarifications, arrangements and opinions to be presented. It is common for public authorities to demand delivery of specific certificates, additional documents and the like which extend the proceedings.

In light of the above discussion, notwithstanding the fact that the public authority (“starosta powiatu”) is required to issue a construction permit within 65 days following the receipt of a complete investor’s application, the practice shows that the authorities suspend the proceedings and demand additional documentation and clarifications once the deadline approaches. Any such suspension does not form part of these 65 days; therefore, this regulation is, in almost all cases, being used as a mechanism for delaying proceedings. As of now, the Construction Law envisages a penalty of PLN 500 per day in the event that a construction permit is not issued on time. Nevertheless, the usual time for the building process in Poland is still much longer than the European average and there is a lot to do in the future to make it quicker and more investor friendly.

Securing construction works
On 16 April 2010, an important amendment to the Polish Civil Code came into force. The amendment repealed the Act on payment guarantees for construction works. In return, it introduced the relevant regulation to the Polish Civil Code on the granting of payment guarantees by an investor to the general contractor, allowing any such contractor the right to demand a payment guarantee at any time. The background of this regulation is to prevent investors and general contractors from failing to settle payments for work performed by contractors and subcontractors. The Polish Civil Code envisages the following forms of such guarantee:
• Bank guarantee,
• Insurance guarantee,
• Bank letter of credit or
• Bank warranty.

The contractor is entitled to withdraw from the contract should the investor fail to produce the payment guarantee within 45 days from the contractually agreed deadline, with the reservation that the contractor’s right to demand such security may not be contractually excluded or limited. An investor’s rescission of the agreement solely on the grounds of the contractor’s demanding such security will be ineffective. The said regulations relate also to contracts between the contractor (the general contractor) and other contractors (subcontractors).

PPP
In October 2005, the Public-Private Partnership (PPP) Law came into force. The Act regulated co-operation between public and private entities to complete a public project without the necessity of public fund investment (the public entity was obliged to co-operate by making a contribution and taking limited risks for projects). The law proved to be ineffective despite fairly precise regulation (three ordinances to the PPP Law were issued to make the Act fully operational, i.e. the Ordinance of the Minister of Commerce dated 21 June 2006 on the risks associated with the implementation of projects under PPP; Ordinance of the Minister of Commerce dated 9 June 2006 on the detailed scope, forms and methods of preparing information related to contracts of PPP and the Ordinance of the Minister of Finance dated 30 June 2006 on the necessary elements of the analysis of a project under PPP). Not even a single project was implemented on the basis of the Act, as a result of the erroneous assumption that the PPP should be applicable only when it was more favourable than other possible ways of implementing the public project.
A new act pertaining to PPP was issued on 19 December 2008, in general words aiming at a simplification of formalities. Many onerous duties of the public entity have been removed. Indicating only essential elements which have to be included in agreements should be regarded as a reasonable progression, leaving the case specifics to be determined by the partners themselves. As a result, the PPP form has become more attractive and transparent for both sides.

Additionally, the act on concession for construction works or services came into force at the beginning of 2009. Although the PPP concept is widely used across Europe, no PPP project, as defined by law, has happened in Poland yet (except for motorways which are covered by a different act of law). The PPP formula seems to be more often considered by public authorities and the first PPP projects are believed to start within the next 12 months. The local and regional authorities are getting ready to invest in infrastructure in co-operation with private partners. There are many examples of local government and private partner co-operation, including the development of the railway station and neighbouring areas in Sopot or the northern tip of the Granary Island development in Gdansk. Based on such experience, local authorities are eager to carry out PPP projects, but they prefer to award the project on a “concession” basis, so as not to pay the availability payments for the services provided.

Energy certification
Following the adoption of the Directive 2002/91/EC on the energy performance of buildings, which applies to all buildings constructed after July 2007 and all existing buildings as at 1 January 2009, Poland implemented the said Directive, introducing two amendments to the Polish Construction Law, i.e. on 19 September 2007 and on 27 August 2009. The amendments introduced energy certificates, being issued for 10 years.

These certificates need to be presented to tenants prior to leasing and to the purchasers of buildings/premises prior to selling. Thus, it is technically impossible to sell a building that does not have a certificate in place. Some categories of building are exempted from the said requirement, e.g. buildings entered as monuments in the relevant public registers.

The New Directive 2010/30/UE, amending Directive 2002/91/EC, was adopted on 19 May 2010. The main reasons that justified a revision of the Directive embraced: the establishment of more effective measures for using the unrealised potential energy savings of buildings, the adoption of certain energy-efficiency improvements to local climatic conditions and their economic viability. Substantial changes in the Directive did not impact its clarity.

Air conditioning systems were said to increase the consumption of energy in Europe during summer. Thus, the EU authorities have emphasised the importance of strategies for improving the thermal characteristics of buildings in summer – factors such as shading, the thermal capacity of building construction and passive cooling techniques. The Directive shall be adopted in EU countries by 9 July 2012 at the latest.

The objective for implementing the Act on the support of thermo-modernisation projects in 1998 was to prove the energy efficiency of buildings used in Poland. It introduced the possibility to co-finance the thermo-renovation of buildings based on the so-called energy audits. However, the implementation of the EPBD was related to the introduction of amendments to the construction law, the publication of regulations on the development of a methodology for building certification and the amendment of regulations defining technical conditions, as well as the form and scope of a construction plan.

Other real estate regulations
Directive 2002/49/EC (implemented in Poland by adopting the Environmental Protection Law and the secondary regulations) applies to noise emission by introducing the obligation to develop the so-called acoustic maps, which can affect the location of buildings with appropriate environmental characteristics.
Directive 2006/12/EC, which was implemented in Poland through the Act on Waste, applies directly to effective waste management. It applies to the prevention and reduction of waste production by recycling and regeneration. The treatment of many non-conventional fuels as “waste” creates some controversy here. It is particularly important to extend the definition of waste to include spoil from excavations and waste from the demolition of buildings, which extends its impact over a building’s full life cycle. Regulation 2037/2000 on substances that deplete the ozone layer is particularly important for taking account of environmental aspects (especially in HVAC systems). It imposes more restrictive timetables for the reduction of substances and requirements regarding the control of leakage, recovery and reporting.

Modern construction technology enables the erection of such buildings. These buildings bring long-term environmental and economic benefits to future users because of the implementation of type-design innovations – the use of condensing boilers, geothermal energy utilisation, the receipt of heat and electricity from solar panels or the generation of electricity from wind turbines, as well as the installation of intelligent energy-management systems in homes or the use of rainwater to save water or biomass for energy production, thereby reducing carbon dioxide emissions on the one hand and reducing utility bills such as electricity, gas and water, on the other.

**Building sustainability certifications**
Various measures have been developed globally to define sustainable buildings in terms of their new build characteristics, but few currently address existing buildings.

Among the best known sustainability assessment tools are:
- BEAM developed in the UK;
- LEED (Leadership in Energy and Environmental Design) developed in the US and Canada and
- Green Star and NABERS (National Australian Built Environment Rating System) developed in Australia.

In Poland, the first two certificates mentioned above seem to start gaining popularity (BEAM and LEEDS).

The table below shows the basic assessment criteria used to certify the sustainability of the ongoing operations of commercial and institutional buildings.

<table>
<thead>
<tr>
<th>Certificate</th>
<th>Basic assessment criteria</th>
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<tbody>
<tr>
<td>LEED</td>
<td>• Sustainable sites</td>
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<tr>
<td></td>
<td>• Water efficiency</td>
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<tr>
<td></td>
<td>• Energy and atmosphere</td>
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<tr>
<td></td>
<td>• Materials and resources</td>
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<tr>
<td></td>
<td>• Indoor environmental quality</td>
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<td></td>
<td>• Innovation in operations</td>
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<tr>
<td></td>
<td>• Regional priority</td>
</tr>
<tr>
<td>BEAM</td>
<td>• Land use and ecology</td>
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<tr>
<td></td>
<td>• Management</td>
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<tr>
<td></td>
<td>• Water</td>
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<td></td>
<td>• Energy</td>
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<td>• Transport</td>
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<td></td>
<td>• Pollution</td>
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<td></td>
<td>• Materials</td>
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<td>• Waste</td>
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<td></td>
<td>• Health and wellbeing</td>
</tr>
<tr>
<td></td>
<td>• Innovation</td>
</tr>
</tbody>
</table>

Source: PwC
For a few years, a growing awareness of the major impact of buildings on the environment has been observed in Poland, either from developers and investors or from occupiers. More and more buildings with green building certifications are appearing in the market. One of the abovementioned certificates is also a marketing tool used by developers or investors to approach either tenants or investors. For example, the Grunwaldzki Centre, Class A office complex which is located in Wrocław and was the subject of a market transaction last year, is only the third office building in Poland to receive the European Commission’s green building certification.

Silesia Business Park will be the first green office property in Katowice which takes into account environmental concerns and fulfils the certification requirements of the international environmental certification system, LEED. It will also receive the alternative certificate – Green Building (a programme initiated by the European Commission). The green building certificate is awarded to commercial developments which incorporate planned energy use that is 25% lower than the national standards.

While we observe growing interest among the majority of market players for more sustainable property development, our latest research suggests that the investors still hesitate to pay reasonable premiums for the above described certificates as tenants often are still not willing to fully bear this additional cost as part of the rent. We believe this should change over the next five years or so, when we will take these certificates for granted and accept paying for them, as we now do for energy-efficient bulbs.

**Financing of real estate investment in Poland**

The availability of debt financing has improved; however, this situation concerns only the reputable borrowers and quality projects. The banks have become very selective and prefer investment loans over the more risky development loans. Retail and office projects are preferred over industrial projects. Residential developments are bankable on a very selective basis. Hotels are almost impossible to finance; however, the city centre international chain business hotels have some chance.

As the investment market has improved, the investment loan terms have also improved – achievable LTV levels are up to 70% (or even 75% on a very selective basis), whereas average margins stay around 200 bps. Although the rising competition has some downward pressure on margin levels (especially for the best projects and established borrowers), there are still concerns over the availability and cost of long-term financing for banks.

Development loans are very limited, as many banks have removed them from their lending policies during the crises. However, the banks which are ready to finance such projects are also slightly increasing the acceptable LTC levels up to 70%. But these banks still maintain high required pre-let or pre-sales levels and tight covenants.

The average margins are around 300 bps. Financing granted by Polish banks (or other financial institutions) is generally based on the standard credit-facility agreement prepared by the Loan Market Association, with changes reflecting the specific provisions of Polish law. The same applies to security-interest documentation under which the collaterals are established to secure the loan granted under credit-facility agreements. The collateral securing the repayment of credit facilities granted for financing real estate investments usually consists of: mortgage, registered pledge over shares, security assignment of receivables, registered pledge over assets and bank accounts’ receivables, power of attorney to bank accounts, subordination of other liabilities to the liabilities under the credit-facility agreement and voluntary submission to enforcement (which enables a bank to issue a bank-enforcement title that is an execution title authorising the bank to initiate enforcement proceedings, without prior, time-consuming court proceedings).

Among the above-mentioned collaterals, two are the most important for creditors: Mortgage and registered pledge (the mortgage allows recovery of the bank’s receivables from the sale of the borrower’s main asset – the real property and the registered pledge on the shares allow the takeover of the borrower’s whole company). These collaterals have recently been subjected to broad changes in the legal acts regulating their establishment, amendment and expiry.
The changes were aimed at making these collaterals more flexible and more accessible for both creditors and debtors.

The changes with respect to registered pledges governed by the Act dated 6 December 1996 on the registered pledge and pledge register came into force on 11 January 2009. Some of the main changes are listed below:

• Each entity may be a pledgee now, whereas before the change, there were limitations in this respect (e.g. it was not possible to secure the receivables of mezzanine providers, acting in the form of the foreign companies);
• One pledge may secure more than one receivable, provided that they result from contractual relationships with one creditor, whereas each receivable had to be secured by a separate registered pledge before the change;
• An agreement for a registered pledge over shares in a limited liability company may be concluded in written form, instead of in written form with signatures certified by a notary;
• A registered pledge may now survive the repayment of secured obligation, and secure other receivables indicated in the pledge agreement by the parties, whereas previously, a registered pledge expired by virtue of law, upon repayment of the secured receivables;
• A one-month deadline to file an application for entry of registered pledge in the pledge register was cancelled;
• The applications for entry of registered pledges in the pledge register may now also be filed electronically;
• The sale of a pledged object as one enforcement method can now be effected due to a long-availed decree of the Minister of Justice stipulating the relevant proceeding and
• There are some more detailed changes with respect to the enforcement of registered pledges, which generally facilitate the enforcement procedures.

Substantial changes with respect to mortgages governed by the Act dated 6 July 1982 on the land and mortgage registers and on mortgages came into force on 20 February 2011. Some of the main changes are listed below:

• A distinction between two types of mortgages: Ordinary mortgage (securing a receivable in a fixed amount) and ceiling mortgage (securing a receivable, the exact amount of which is not known as at the date of the mortgage establishment, up to some maximum amount) was cancelled, and now there is one type of mortgage, securing a receivable up to some maximum amount;
• One mortgage may secure more than one receivable, provided that these receivables are due to one creditor, whereas each receivable had to be secured with a separate mortgage before;
• A new institution of mortgage administrator was introduced, which may be appointed to manage a mortgage securing the syndicated loan granted by numerous creditors;
• The receivable secured by a mortgage may be replaced with another receivable as agreed between the parties, whereas it was impossible earlier;
• The new institution of disposal of released mortgage place was introduced – in the case of the expiry of a mortgage, the real property’s owner is enabled to dispose of the place of released mortgage (to the extent of the expired mortgage), whereas previously it was impossible; upon the expiry of the mortgage, another mortgage registered behind the expired mortgage automatically moved to replace it.

The last two of the above mentioned changes sparked a lot of controversy; the financial market is quite suspicious of how effective these changes will prove to be, due to some ambiguities in the new regulations.
PwC Real Estate Team
PwC Real Estate Team

PwC Real Estate Team 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:

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About REAS

REAS is an advisory company specialising in issues related to the residential market. Since 1997, it has been cooperating with developers, banks, investors and other entities operating in the residential market.

Only during the previous five years, it worked for over 300 different clients, effectively supporting them in project planning and implementation. The high quality of its services is proved, among others, by the fact that REAS has implemented more than five advisory projects for over half of its clients.

Since 2000, REAS has been conducting continuous monitoring of the primary residential market, accumulating data on projects in a database based on the GIS system. The REAS database currently features some 10 thousand projects, including some 3 thousand projects on sale offering some 72 thousand flats and houses, as well as some 900 planned projects which have not been launched for sale yet.

This allows REAS to offer a broad range of market analysis services and to devise long-term market forecasts supporting the process of strategic planning.

REAS provides advisory services at all stages of the investment process, supporting the developers in designing and preparing a product with the best market potential and competitiveness. REAS specialises also in valuations of investment land and existing residential buildings in accordance with RICS, TEGOVA, USPAP and IVSC standards.

Visit www.reas.pl where you can find information on the services provided by REAS as well as analyses, commentaries and reports regarding the residential market.

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