

Real Estate Market Trends in Poland

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Key words: real estate market, office market, retail sector, development sites

SUMMARY

Despite political turbulence, the Polish economy experiences continuous growth. The situation on the labour market improved significantly with the unemployment rate at 12.4% in the middle of 2007. Lower unemployment rates were recorded in big cities such as Warsaw (3,7%) and Poznań (3,9%).

The Polish real estate market is much broader today, in terms of the number of foreign investors operating here. Austrian and German funds as well as Irish and Spanish investors remain very active. United States capital in spite of the smaller number of transactions was involved in the largest deal of last year.

During the previous year investment activity in commercial market was split between the office and retail sectors. But since 2006 the residential market took first place. Developers of all nationalities are trying to take advantage of the double-digit price growth. Thanks to rapid price increases and limited supply, the probability of developer activity may remain the same level despite the sharp rise in land prices and increase in construction costs above the rate of inflation.

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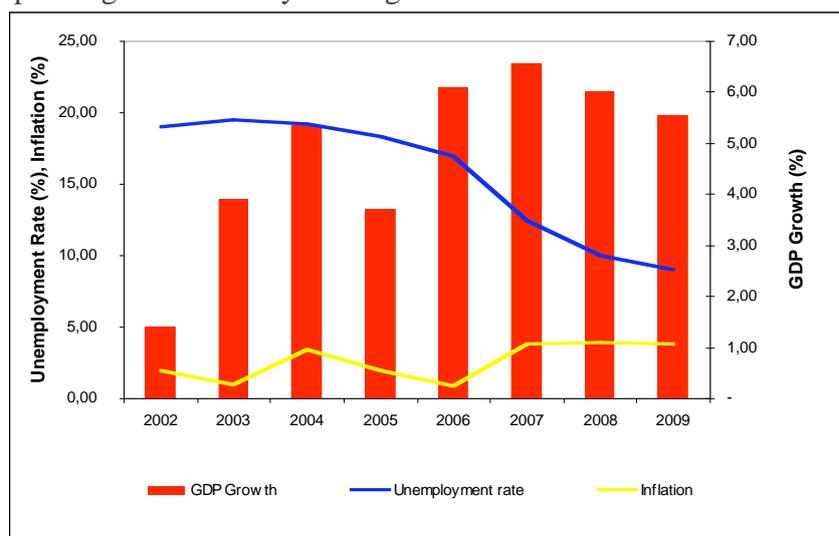
1. INTRODUCTION

2007 was another good year for the Polish economy and Polish GDP grew by 6,5%. However, after a few years of spectacular development, it is facing a slower phase of growth. According to Eurostat forecasts Polish GDP will grow up to 5,6% yearly in 2008 and 2009.

There are two main factors for economic growth in Poland: consumer spending and decreasing unemployment. Unemployment fell from 13,8% in 2006 to 9,6% at the end of 2007. At the same time, real wages increased by 6.3% during this year.

2. WARSAW REAL ESTATE MARKET

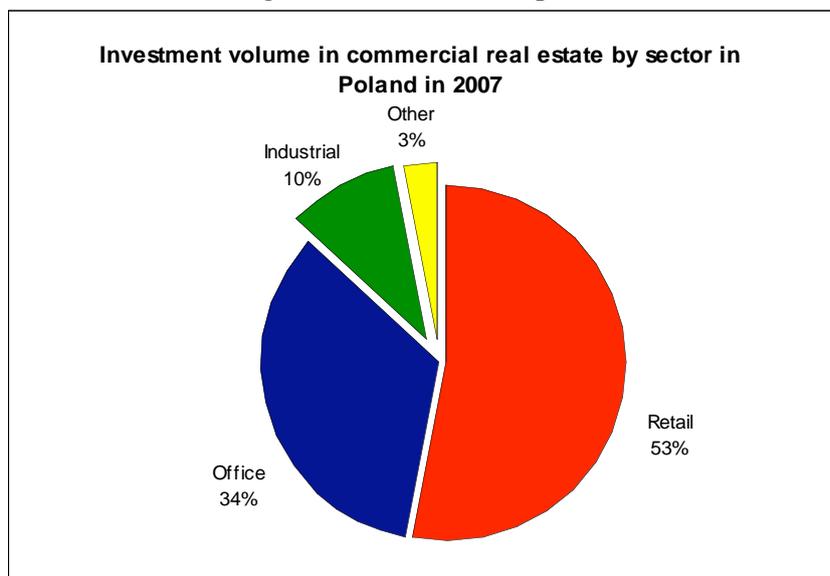
In recent months inflation has become a problematic issue, reaching the level of 4% in December 2007 (compared to the level of 1,4% in December 2006), and exceeding this number in the following months. It is likely to stay at this level over the next two years, as a further fall in unemployment and a further increase in wages are expected. Consumer spending seems to stay at a high level.



Source: Cushman & Wakefield Healey & Baker, Central Statistical Office

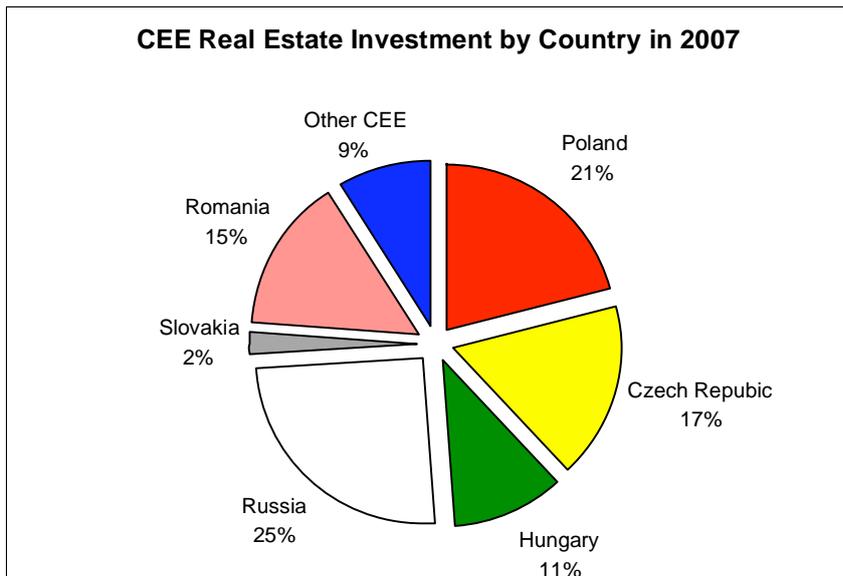
The Polish real estate investment market is strongly related to the country's growing economy. On one hand, all market sectors benefit from GDP growth, decreasing unemployment, increasing salaries and massive consumer spending. At the other hand, increasing inflation and high interest rates impact investors' opportunities, especially in conjunction with the impact of the credit crunch on global financial markets. Up until now, a number of investors have decided to wait with further acquisitions until the situation is clear. We can also notice a deterioration in the availability of finance.

In 2007 approximately 3,07 billion euros were transacted in commercial real estate in Poland (approximately 40% down in comparison with 2006). Investment activity was substantial in the retail sector with the total number of 1.63 billion euros. Approximately 1,04 billion euros have been located in the office sector. In the same time, the warehouse investment market remains very limited. The deals in this sector in 2005 totaled less than 310 000 million euros. Although market activity in Poland was lower in 2007 than in previous years, the investment volume is still the highest in Central Europe.



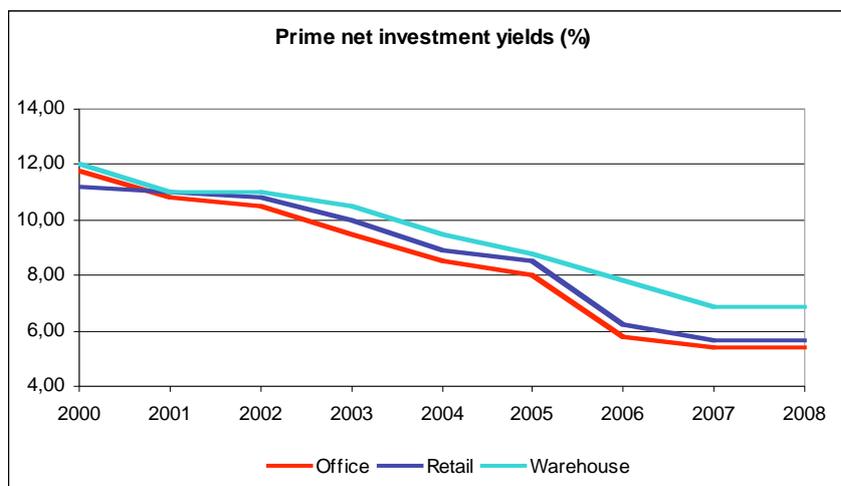
Source: King Sturge

Real Estate investment in Poland in 2007 was dominated by single retail assets, compared to big portfolio transactions noted in 2006. According to the agencies' data, the average transaction size decreased by 30% to €65 million, compared to €91 million in 2006.



Source: Jones Lang Lasalle

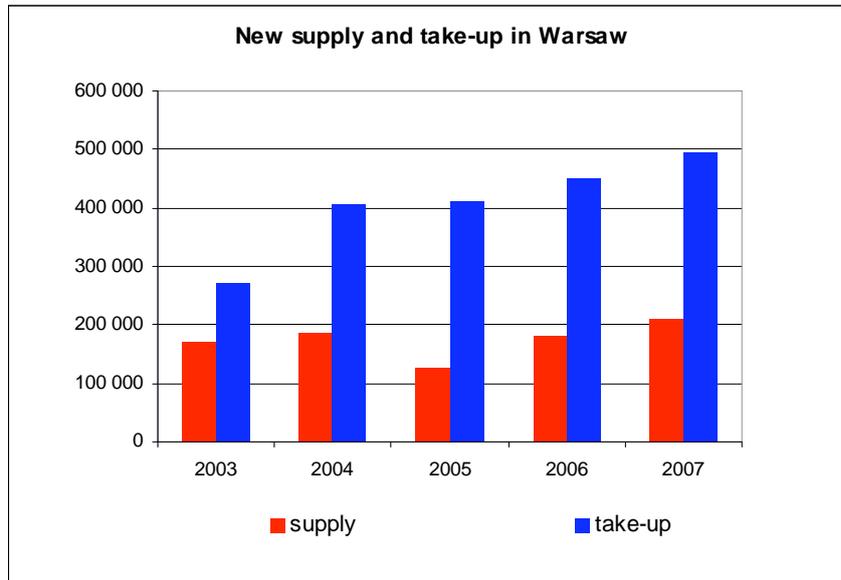
Investment yields have stabilized during 2007. Most of the transactions in the office and retail sectors closed well below 6%, while in the warehouse sector they closed below 7%. The best quality products are transacted at the levels close to that of Western Europeans'. During 2008 the yields for good quality products should be sustained at the same level. The yields for secondary properties may decrease lightly.



The main bidders driving pricing in Poland in 2007 were Western European funds (German, French, British, Dutch and Irish).

2007 was another good year for the office space market. Warsaw still plays the leading role with a stock of over 3 million sqm of modern office space, however, regional cities such as Cracow and Wrocław seem to develop very fast.

Warsaw saw a sharp decrease in vacancy to 3,1% last year. It is the lowest level of available space recorded on this market. Take-up in 2007 reached a record-level of 491 570 sqm. During the following years take-up should reach a similar or even higher level. At the same time, there will be limited supply. Office space developers are facing adversities related to the lack of available development sites in Warsaw, especially in its central locations. The situation may change in the long term after clarifying the status of the land around the Palace of Culture (core center of the city) of ca. 29 ha, destined for future development.



Source: Kinge Sturge

The low availability of office space forces tenants to look for space in uncompleted projects. For several years pre-lease agreements have become more and more popular (44% of the total take-up volume in 2007).

Low availability of office space also caused rents to rise by more than 30% in the central locations. Prime headline rents reached the level of 30-33 euro/sqm/month. Average rents in this location vary between 21 and 25 euro/sqm/month. Rents in non-central locations range between 13 and 18 euro/sqm/month. Due to the disproportion between supply and take up, the rents are likely to increase up to 40 euro per sqm over 2008 and 2009.

As another result of lower availability of office space, tenants are more inclined towards making use of leasing agencies.

Retail space stock in Poland reached the level of 7,5 million sqm in 2007. Almost 70% of which is located in the larger Polish cities.

Since the beginning of the 1990's, we have seen a spectacular development of supermarkets. As consumers' needs were evolving, retail space developers extended their offer by constructing supermarkets joined with shopping galleries, shopping centers and finally, during the last years, multifunctional shopping centers.

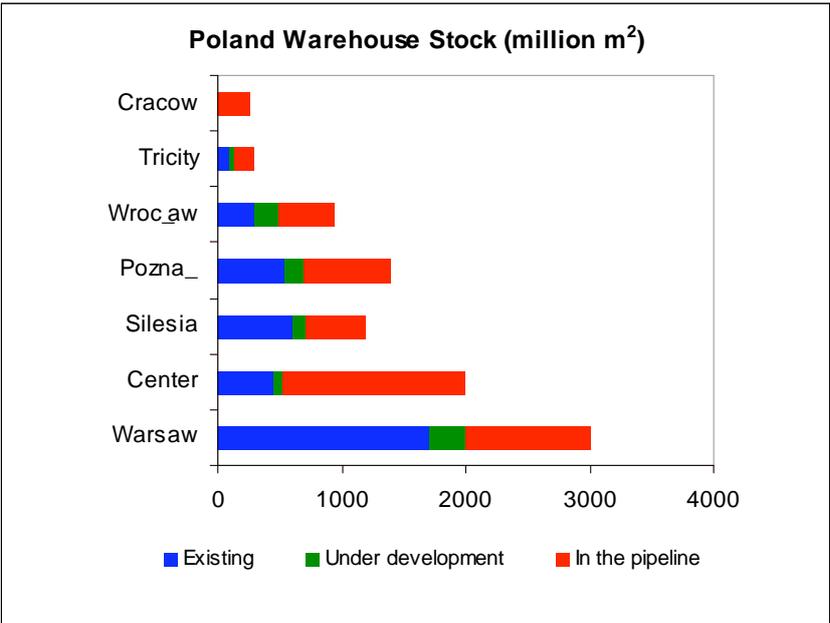
For a few years retailers have been refocusing on medium and small-sized towns. This trend should remain in the forthcoming years. However, there is still the need to construct bigger developments in the Polish main cities. The forthcoming years will bring a further increase in retail space.

In 2007 a new shopping center category appeared in Poland – this is the convenience shopping center. Originally, it is supposed to be a small facility, located close to its clients, functional, with tenants reflecting every day shopping needs of the inhabitants of the neighboring housing developments

Small projects under 2 000 sqm face less adversities with regard to development permission due to Polish law regulations

During recent years we have seen a booming development of warehouse space in Poland. Between 2005 and 2007 Polish logistic stock tripled. With 3,6 m sqm of modern warehouse space, Poland took the leading role in Central Europe. Approximately 50% of the industrial stock is located in Warsaw and its surroundings. We can see increasing developers’ activity in regional distribution hubs.

During 2008 and 2009 we will see the continued growth of the main markets presented in the chart below, but also we can expect the development of smaller regional locations.



Source: Jones Lang Lasalle

The demand in this sector is rising systematically. Average rents range from 2,5 to 6,0 euro/month/sqm and present a gentle upward trend.

3. MARKET TRENDS - CONCLUSION

The Polish real estate market becomes more transparent and developed, and, consequently, investment risk on this market decreases. At the same time, it becomes more and more competitive and demanding for investors. With investment yields stabilized at low levels, Poland may be less attractive than other countries located in the region in terms of expected return. It is clear that some of the investors are looking forward to investing in these markets. We can clearly see that some of the investors operating in Poland are refocusing on underdeveloped properties. They consider investing in properties with high vacancy, legal or technical problems. They take the leasing or development risk but, in return, they are paying a lower price, at a higher yield.

Financing conditions in Poland change. Banks become more hesitant to provide financing for projects. It is related to some extent to the credit crunch in the US. Banks are requiring reduced loan to values and banks' margins are higher. High inflation and higher interest rates (currently at the level of 5,25%) will also impact the investing of Poles themselves in real estate.

Analysis of the commercial real estate market shows growth potential in all sectors. Many investors are focusing on the hotel sector which is being perceived as under-invested, especially in medium/low standard developments. During the forthcoming years, we should see the further development of this market, but it may not be as spectacular as in previous years.

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Specialist Press: Estate News, Eurobuild, Rzeczoznawca Majątkowy

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University professor since 1998

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