JONES LANG LASALLE®

Real value in a changing world

Poland

Capital Markets Bulletin – Q4 2011

Record year since 2007 with over €2.5 billion of closed transactions.

Economic Outlook

The Polish economy has weathered the global crisis very well and embarked on a recovery early on but, there are also some clouds on the horizon. The recovery is broadly balanced, a moderate current-account deficit notwithstanding. External debt is considerable and rising, but not excessive. The political environment is fairly stable. Prime Minister Donald Tusk (Civic Platform; PO) currently commands a solid majority in both houses and has his close associate Bronislaw Komorowski in the presidential office.

The weak spot is Poland's public-sector finances, which have an excessive deficit. Moreover, the public-sector debt ratio is at risk of violating the first threshold of 55% of GDP, which would trigger certain fiscal austerity measures. Public debt is partly due to Poland's pension reform from 1999/2000, which will lighten Poland's debt load over the longer term. However, this has been partially limited by the government pulling some of the pension funds from the private sector and putting it back in to the public system. This has resulted in reducing the deficit, but was more of a creative accounting exercise than a real reform. Reducing the deficit is imperative to foster market confidence in Poland's fiscal sanity in the face of the European debt crisis. Indeed, the growth slowdown in 2012 will make a reduction of the deficit more difficult.

Encouragingly, Prime Minister Donald Tusk announced a package of further austerity measures for 2012. Contingent measures are already in the making, as the government is planning the 2012 budget under different economic scenarios. Still, risks remain that the deficit and debt profile may even increase under much more unfortunate economic circumstances. Moreover, regional contagion from more vulnerable emerging markets or the Eurozone debt crisis is a serious risk. The zloty has reflected these risks through recent weaknesses, although the IMF loan facility under the so-called Flexible Credit Line mitigates external liquidity risks.

In addition, the national highways development program witnessed a slowdown in 2011 as very few new tenders were announced. Acceleration is expected after the new EU budget for 2014-2020 is announced and EU financing is secured for these projects.

In Q3 2011 Polish GDP continued to grow and reached the level of 4.2%, which is higher than economists expected. According to Consensus Forecast, the Polish economy should grow at 4.1% and 2.4% in 2011 and 2012 respectively.

Retail sales increased by 11.6% in November 2011 alone and since January till November retail sales growth reached 12.2%, compared to 4.6% in the analogous period of the previous year.

The unemployment rate was 12.1% in November, up by 0.4% compared to a year ago. In December the inflation rate dropped from 4.8% to 4.6% when compared to the preceding month. High inflation is mainly contributable to rising fuel and food prices as well as weak zloty.

Key Macro-Economic Indicators: 2007-2013	2007	2008	2009	2010	2011F	2012F	2013F
Real GDP (% change)	6.8	5.1	1.6	3.9	4.1	2.0	3.5
Real Consumer Spending (% change)	4.9	5.8	2.1	3.2	3.3	2.2	3.8
Real Imports of Goods and Services (% change)	13.7	8.0	-12.4	14.0	5.8	-1.2	4.4
Real Exports of Goods and Services (% change)	9.0	7.2	-6.8	12.2	7.2	1.7	3.9
Industrial Production Index (% change)	10.3	2.7	-3.8	11.1	5.7	0.2	4.4
Consumer Price Index (% change)	2.4	4.3	3.8	2.7	4.2	3.1	2.8
Policy Interest Rate (%)	5.0	5.0	3.5	3.5	4.5	4.00	5.00
Population (mil.)	38.19	38.22	38.25	38.28	38.30	38.32	38.33
Unemployment Rate (%)	11.2	9.5	11.9	12.1	12.3	12.8	12.4
Current Account Balance (% of GDP)	-6.2	-6.6	-3.9	-4.6	-5.0	-4.8	-4.6
Exchange Rate (LCU/US$, end of period)	2.44	2.96	2.85	2.96	3.34	3.06	2.73
Exchange Rate (LCU/Euro, end of period)	3.58	4.12	4.11	3.96	4.48	4.04	3.74

Source: IHS Global Insight, January 2012, F = Forecast

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Investment Market Outlook

2011 closed with over €2.5 billion of transactions across all sectors – the highest since 2007. It represents a 28% y-o-y increase and over three and half times that of 2009. At the same time it confirmed that investor sentiment for Poland continued to be very positive throughout the entire 2011. Total assets transacted included: over €1.15 billion in offices, over €1.2 billion in retail, over €100 million in the industrial sector and approximately €76 million in the hotel sector.

The total office investment volume in 2011 was the highest since 2006 and the top four office transactions included: North Gate, Focus, Park Postępu and Miasteczko TP. They also accounted for over 40% of the office volume. In addition, the acquisition of the Europolis portfolio by CA Immo had a big impact on the 2011 office investment volume. All but one office investment transaction closed in 2011 took place in Warsaw – the exception was Green Office in Kraków, acquired in December from Buma by Azora.

Retail investment volumes also reached a record high since that of 2007. Similarly to the office sector, the top three transactions (Promenada, Magnolia and Galeria Mokotów) accounted for over 52% of the volume and the following top three deals (DTC, Pestka and Wzorcownia) accounted for a further 18%.

The industrial sector also remained busy however, traded at a relatively low volume when compared to previous years. The total volume exceeded the €20 million figure in two transactions and included the sale of the Intermarche warehouse in Mysłowice.

2011 also saw a number of more sophisticated transactions such as JV partnerships (e.g. Resolution in the SuperSam deal in Katowice) or forward funding deals (e.g. Qatar Holding in the Miasteczko TP deal in Warsaw), as well as a number of preliminary contracts signed across all sectors with the volume of these transactions exceeding €250 million. These deals are expected to close in Q1 2012.

Going forward, we believe that the overall investment sentiment and outlook for Poland will continue to be good and, that the total investment volume in 2012 may reach results similar to that of 2011.

Table: 2011 Key Investment Deals

PROPERTY NAME	CITY	SALE PRICE (€ million)	VENDOR	PURCHASER
Galeria Mokotów (50%)	Warsaw	273.5	GTC	Unibail-Rodamco
Magnolia Park	Wroclaw	222.5	NFI Octava & Manchester Securities	Blackstone
Promenada	Warsaw	171	Carpathian	Atrium
Miasteczko TP	Warsaw	Confidential	Bouygues	Qatar Holding
Focus	Warsaw	Ca. 117.0	Aberdeen	RREEF
North Gate	Warsaw	103	Premiumred	DEKA
Park Postępu	Warsaw	102	Echo Investment	Immofinanz

Source: Jones Lang LaSalle, January 2012

Investment Yields

We estimate prime office yields to be at 6.25%, retail yields at 6.00% and warehouse yields at around 8.0% at the end of Q4 2011. We forecast prime yields to remain stable in the short term but, this will highly depend on how the situation in the Eurozone and the banking sector evolves over the coming months. The yield gap between prime and secondary product is 100 to 200 bps and we expect this spread to continue.

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