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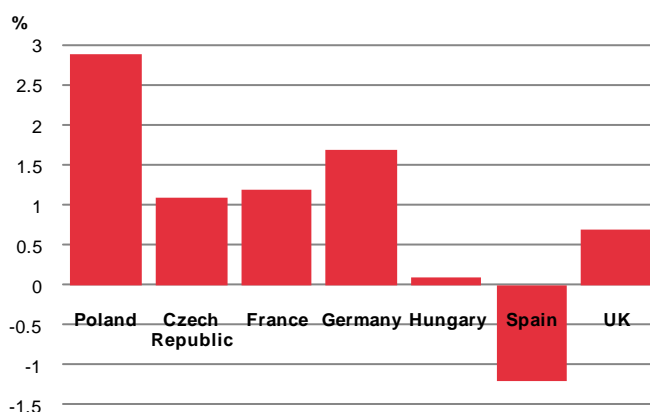
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- After achieving the best result in Europe with GDP at the level of 1.8% in 2009, Poland has maintained its position as a leader recording further growth in H1 2010. Polish economy is developing in sustainable way, which influences its favourable position in comparison to euro zone countries (Figure 1).
- In H1 2010 the modern office stock in Warsaw increased by 134,000 sq m. Take-up exceeded 140,000 sq m, representing over 62% increase y-o-y. Vacancy grew to 8%. Prime headline rents dropped remained stable at the level of €24-25 per sq m per month and in non central districts – €14-16.
- New stock delivered in H1 2010 amounted to 247,000 sq m including 11 new investments and 8 extensions of existing schemes. This represents a 42% decrease compared with H1 2009. DTZ forecasts that this year the annual supply will total 540,000 sq m and the total cumulative modern retail stock in Poland will reach 10 million by the end of 2010. H1 2010 was characterised by sustaining “wait and see” approach, however DTZ has recorded more optimism in tenants’ activities.
- The development activity on the modern logistics market was very limited in the first half of 2010. The stock increased only by some 100,000 sq m and therefore it is on the level of 6.3 million sq m. The opening three months of 2010 were rather optimistic doubling the last years quarterly average and reaching some 400,000 sq m. In Q2 2010 another 180,000 sq m was transacted closing the half year result at 580,000 sq m, which is similar to the last year’s level.
- After 2009, which was one of the most challenging years on the Polish investment market, in 2010 we are slowly experiencing signs of recovery. DTZ estimates that some €930 million was transacted during H1 2010, which already exceeded the annual investment volume of the previous year.

Figure 1

GDP growth in Poland and selected countries, Q1 2010



Source: Central Statistical Office (GUS)

Economic Overview

Summary

After achieving the best result in Europe with GDP at the level of 1.8% in 2009, Poland has maintained its position as a leader recording further growth in H1 2010. Polish economy is developing in sustainable way, which influences its favourable position in comparison to euro zone countries. In H1 2010 the positive trends in the Polish economy was strengthened; the further increase of industrial production as well as retail sales was recorded and conditions on the labour market started to improve.

Economic Growth

Although 2009 was a period of an economic slowdown, Poland was the only country in the European Union which maintained positive GDP growth throughout all four quarters. In Q1 2010 the Polish economy expanded by 3% y-o-y (Fig. 2). This growth was driven mainly by accelerating domestic demand and net exports. The economic outlook for the upcoming years looks optimistic. According to the government forecast GDP growth will reach 3.1% in 2010 and 3.5% in 2011; however the results will be related to the world's economy condition.

Inflation

In June 2010 the consumer price index stood at 2.3% y-o-y, whereas in the whole H1 it accounted for 2.6% on average. This result was mainly determined by the food price growth. In Q3 2010 inflation is forecast to reach the lowest level in 2010, however in next quarter the acceleration of consumer price index will be visible. In 2011 the inflation is projected at the level of 2.3%.

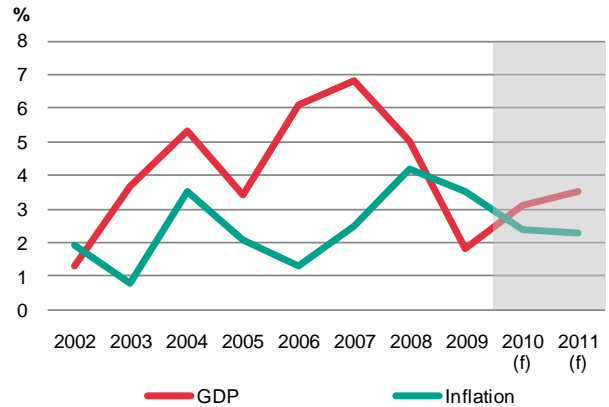
Trade Balance

The first signs of recovery on the global market resulted in strengthening of positive trends in Polish foreign trade. From January till May 2010 export increased by 17.8% totalling € 45.7 billion (Fig. 3). This was determined mainly by the recovery of the export sector in Poland's key trade partners in Western Europe, associated with a rising demand of emerging Asian economies for European products.

The recovery in exports, characterised by a relatively high import intensity, together with rising commodity prices in the world markets and zloty appreciation translated into an increase in the value of Polish imports, which grew by 16.2 % (€49.6 billion). The negative balance of foreign trade between January and May 2010 was on the same level as in the corresponding period in last year reaching €3.9 billion. According to the government forecast the increase of domestic demand will influence acceleration of import growth dynamics in 2011.

Figure 2

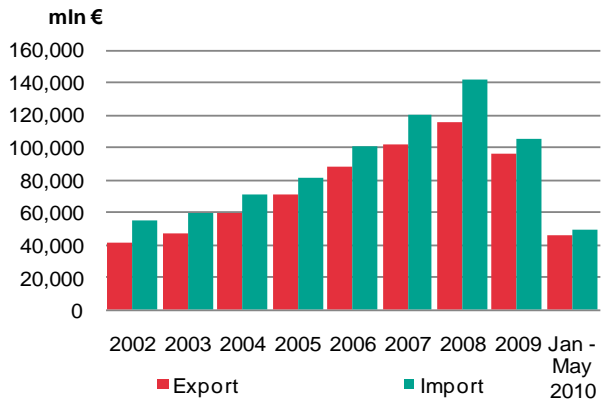
GDP growth and inflation in Poland, y-o-y



Source: Central Statistical Office (GUS), (f)-Ministry of Finance

Figure 3

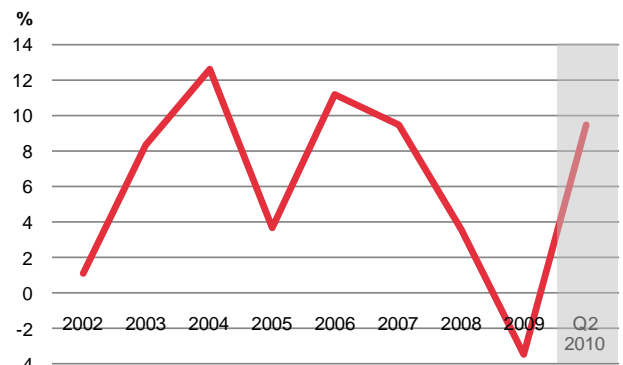
Trade balance in Poland



Source: Central Statistical Office (GUS)

Figure 4

Industrial production, y-o-y



Source: Central Statistical Office (GUS), (f)-Ministry of Finance

Industrial Production

Over the past seven consecutive months, starting from November 2009, a rapid growth of industrial production was observed (Fig. 4). In May 2010 the growth of industrial production was the highest over the course of last two years and amounted to 14% y-o-y. In the period of time between January and May the industrial production amounted to 10.1%. Positive dynamics of industrial output results not only from the very low reference base but also reflects improving economic conditions. In the following months further increase of industrial output growth is expected.

Unemployment

In Q1 2010 the conditions on the labour market continued to deteriorate. The unemployment rate in March 2010 amounted 12.9%. This unfavourable climate was explained mostly by seasonal factors as well as still modest level of economic activity. In following months the trend has reversed. In May 2010 the unemployment rate decreased considerably to 11.9%, however this level was still higher in comparison to previous year (10.7% in May 2009). At the end of 2010 the unemployment rate is projected to reach 12.3% (Fig. 5) and in 2011 it will start to fall and should amount 9.9% at the end of the year.

Average Monthly Salary

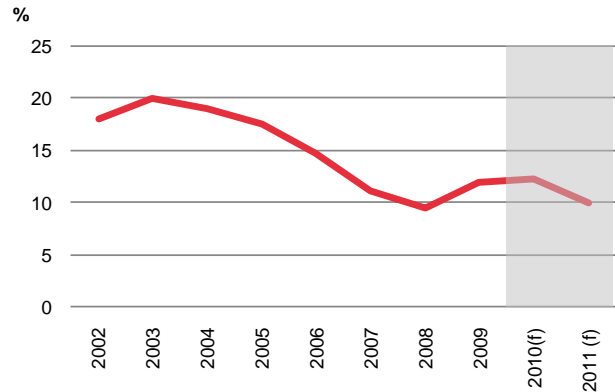
The growth rate of average salary in the enterprise sector in Q1 2010 declined to 2.8% y-o-y in comparison to 4% y-o-y in Q4 2009. The average salaries in enterprise sector amounted nearly PLN3,341 (Fig. 6) in Q1 2010 and PLN 3,347 in May 2010. According to the economist's forecasts relatively high unemployment will implicate lower than in 2009 (4.4%) growth of salaries in the whole 2010, whereas in 2011 salaries should increase by 4%.

Retail Sales

After a positive y-o-y growth rates in 2009 and Q1 2010, the dynamics of retail sales in April was negative (-1.6%), which should be partly credited to the national mourning. In the following month retail sales returned on the upward path and grew by 4% (Fig. 7), which results from improving conditions on the labour market. Taking into account recovering labour market as well as improving consumer optimism, retail sales growth in H2 is expected to increase by further 1 – 2 p.p.

Figure 5

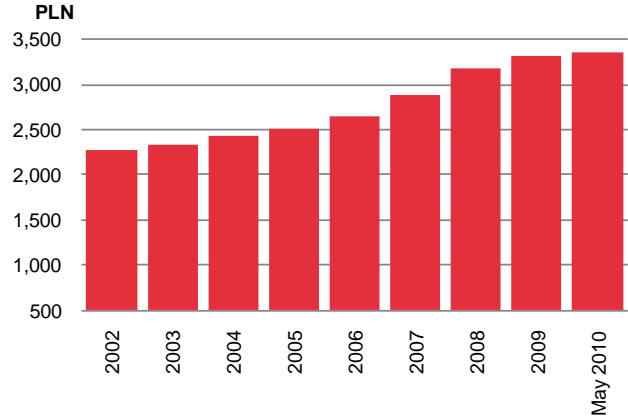
Unemployment rate in Poland



Source: Central Statistical Office (GUS), (f)-Ministry of Finance

Figure 6

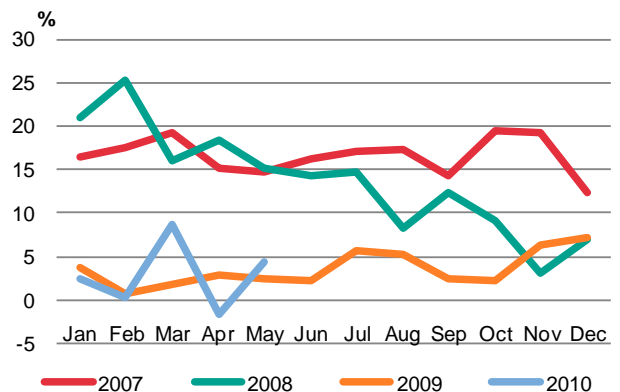
Average monthly salary in Poland



Source: Central Statistical Office (GUS)

Figure 7

Retail sales in Poland, y-o-y



Source: Central Statistical Office (GUS)

Office Market - Warsaw

Supply

In H1 2010 nine office buildings with an area of over 134,000 sq m came to the market, bringing the total stock in Warsaw to 3.38 million sq m.

Majority of new stock is located in the Lower South subzone due to first phase of Poleczki Business Park with an office area of 45,000 sq m delivered. The Upper South district was the second most popular in terms of new supply (Fig 8). In four office subzones (Core, North, South East and South West) no office project received an occupancy permit in H1 2010.

By the end of 2010 additional 60,000 sq m is scheduled for completion, which will bring the annual supply in 2010 to 190,000 sq m. According to the latest estimations, in 2011 only approximately 90,000-95,000 sq m is likely to be completed, which is a result of economic slowdown and difficulties of developers in obtaining financing for new projects.

Whereas, over the 2008-2009, vast majority of new schemes occurred in the Upper South subzone (61% of the total supply), till the end of 2012 more office space is likely to be completed in the South West and the City Centre districts.

Take-up

After a significant drop in volume of lease transactions over 2009, demand for office space has started to grow again. In H1 2010 take-up level (excl. renegotiations) reached 141,000 sq m, which represents an increase by over 62% in comparison to the corresponding period last year.

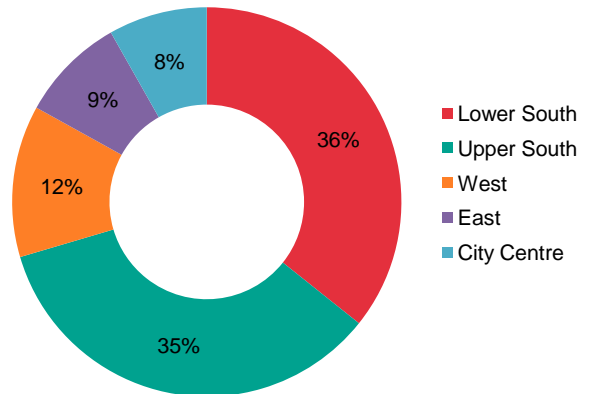
Majority of transactions occurred Upper South and central subzones – Core and City Centre (Fig.10).

In spite of improving economic climate, companies were still willing to renegotiate their leases due to uncertainty regarding future situation and cost savings. Including renegotiations take-up volume in H1 2010 exceeded 220,000 sq m. Moreover, transactions signed before building completion (pre-lets) were less popular as occupiers had a wider choice of space available in existing office buildings, including sub-let space.

Assuming the positive macroeconomic outlook, DTZ is of the opinion that the interest of occupiers in relocating and leasing new office space shall grow. It will result in higher take-up volumes in the following years (Fig. 9).

Figure 8

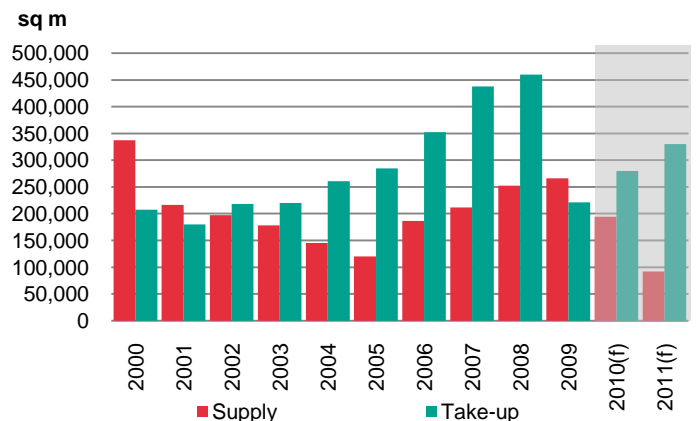
New office supply by subzones, H1 2010



Source: DTZ Research, WRF

Figure 9

Annual office supply and take-up

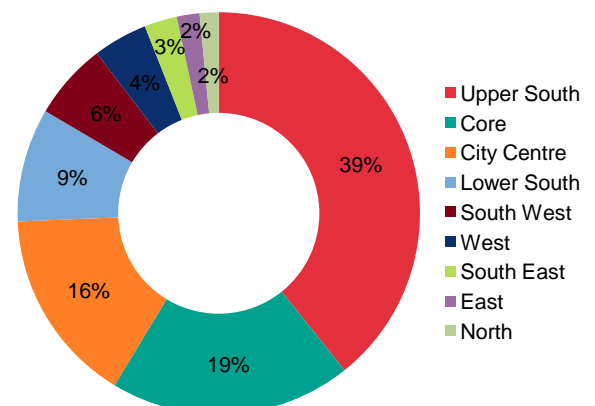


Source: DTZ Research, WRF

(f) Forecast

Figure 10

Office take-up by subzones, H1 2010



Source: DTZ Research, WRF

Office Market - Warsaw

Vacancy

Resulting from high levels of new supply and weak demand over 2009, the vacancy rate increased from 2.9% at the end of 2008 to 8% in H1 2010. The availability ratio stood at 7.2% in the Central subzones and 8.4% in Non Central locations.

The highest vacancy rate was recorded in Lower South district (17.1%) due to recent delivery of Poleczki Business Park, which is still partially unoccupied. The lowest availability ratio occurred in the North and South West subzones (Fig. 11).

Assuming lower level of new deliveries as well as growing demand, the vacancy rate is likely to gradually decrease over the next 12-18 months. DTZ forecasts it may drop to 6.5-7% at the end of 2010 and 4% at the end of 2011 (Fig. 12).

Rents

After a substantial decrease in rental levels observed in H1 2009, asking rates in Warsaw have remained relatively stable.

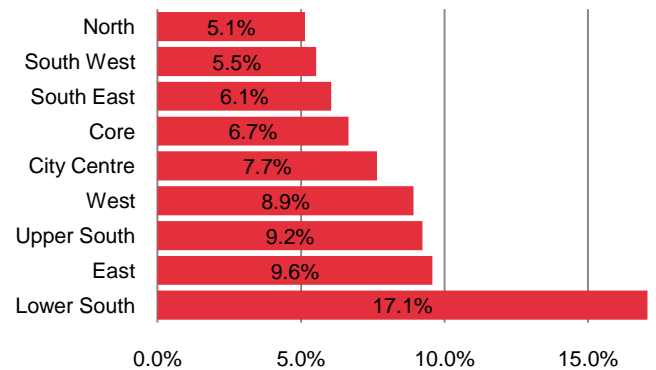
Prime asking rents in the city centre are in the range of €24-25 per sq m per month and in non central subzones –€14-16 (Fig. 13). Average rental levels vary from €18-22 per sq m per month in the city centre and €12-14 per sq m per month in other locations.

Due to strong competition among landlords and relatively weak demand, owners of office buildings offer high incentive packages (including rent-free periods and fit-out contributions), which results in effective rents being by approximately 15-20% lower than the headline rents.

According to DTZ forecasts, asking rents are likely to remain stable till the end of 2010. Due to low level of new supply in 2011 and growing demand, incentive packages may start to drop in 2011, which will result in an increase of effective rents. Asking rates are likely to grow slightly in 2011.

Figure 11

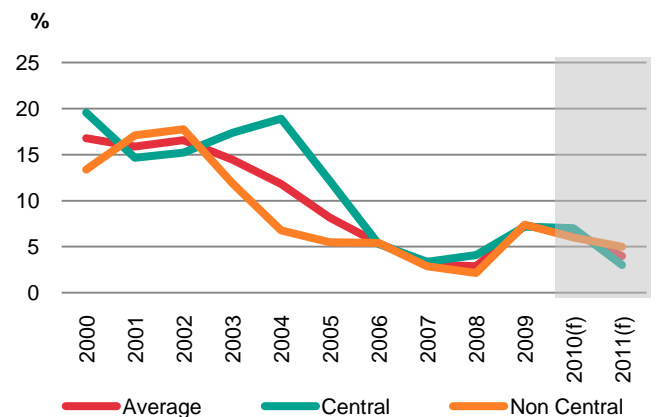
Office availability ratio by subzones, H1 2010



Source: DTZ Research, WRF

Figure 12

Office availability ratio

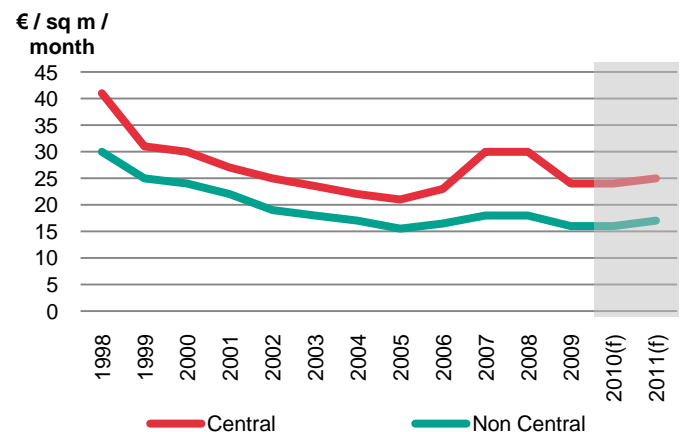


Source: DTZ Research, WRF

(f) Forecast

Figure 13

Prime office rental levels



Source: DTZ Research

(f) Forecast

Office Market - Warsaw

Table 1

Office buildings completed in H1 2010				
Building	Office area (sq m)	District	Developer	Vacancy at completion date
Poleczki Business Park A1, A2	45,000	Lower South	UBM / CA Immo International	36%
New City Mokotów	35,000	Upper South	ECI	29%
Crown Square	17,000	West	Ghelamco	79%
Radwar Business Park	11,800	East	Radwar	58%
Wolf Marszałkowska	11,100	City Centre	Wolf Immobilien	56%

Source: DTZ Research, WRF

Table 2

Major pipeline office projects scheduled for delivery in H2 2010			
Building	Office area (sq m)	District	Developer
Zebra Tower	17,000	City Centre	S+B Gruppe
JM Tower	10,400	City Centre	JM Invest
BTD Office Center	8,500	Upper South	BT Invest
Wilanów Office Park I (Polaqua)	7,000	South East	Polnord
Uniqa Forum	6,100	South West	Uniqa Real Estate

Source: DTZ Research, WRF

Table 3

Major leasing transactions signed in H1 2010				
Tenant	Office area leased (sq m)	Building	District	Type of transaction
Orange	17,400	Renaissance Tower	West	Renewal
PZU	12,500	Empark Sirius	Upper South	New transaction
HP	10,500	UBC II	Upper South	Renewal
Deutsche Bank	10,000	Focus	City Centre	Renewal
G-Tech	4,700	Brama Zachodnia	South West	Renewal
Bank Millennium	4,400	Millenium Park C	Upper South	Renewal
MSZ	4,300	Pałac Młodziejowskiego	City Centre	Pre-let
Wardynski i Wspólnicy	3,900	Al. Ujazdowskie 10	City Centre	Renewal
Mostostal Warszawa	3,300	Adgar Plaza B	Upper South	New transaction
HSBC	3,100	Wolf Marszałkowska	City Centre	Pre-let

Source: DTZ Research, WRF

Supply

The volume of modern retail stock (defined as retail schemes exceeding 5,000 sq m GLA delivered after 1990) in Poland totalled 9.88 million sq m at the end of June 2010. 73% of the total modern stock is located in shopping centres, which translates into approximately 7.2 million sq m.

New stock delivered in H1 2010 amounted to 247,000 sq m including 11 new investments and 8 extensions of existing schemes. This represents a 42% decrease compared with H1 2009, when over 430,000 sq m was completed.

Major completions between January and June 2010 include Plaza Centres in Suwałki and Zgorzelec, Galeria Mazovia in Płock, Galeria Jastrzębie in Jastrzębie-Zdrój, Metropol Dom i Wnętrze in Warsaw as well as the second phase of Port Łódź in Łódź.

Currently there is over 790,000 sq m under construction with delivery date scheduled for H2 2010 – 2012. There are further 130,000 sq m in projects which were put on hold due to financial problems and these can be relaunched in a relatively short period of time.

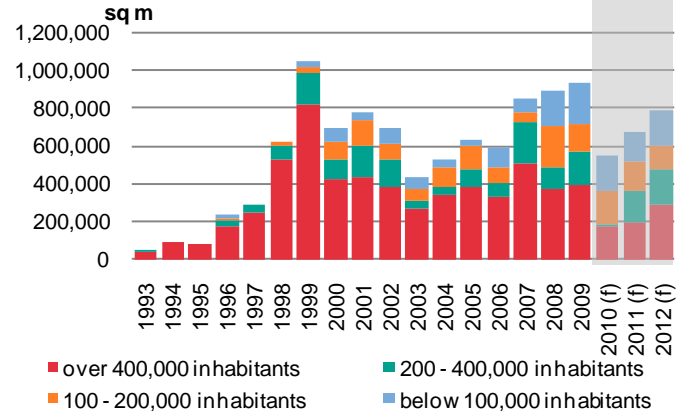
DTZ forecasts that this year the annual supply will total 540,000 sq m and the total cumulative modern retail stock in Poland will reach 10 million by the end of 2010.

More than 53% of supply delivered in H1 2010 was situated in the major Polish agglomerations with a population exceeding 400,000 (Fig.14). The expected volume of retail schemes delivered in smaller cities (of less than 100,000 inhabitants) may be significantly lower, due to the fact that only 45% of pipeline projects located there and scheduled for H2 2010-2012 is currently under construction..

Larger cities, which have proven to be more resistant to economic slowdown markets, are more attractive for developers. The attractiveness of eight major agglomerations derives mainly from the high purchasing power of their inhabitants translating in stable turnovers achieved by retailers. The markets in large agglomerations are also at different stage of development depending on the level of competitiveness, retail density (sq m per thousand inhabitants), purchasing power per 1 sq m of modern retail stock (Fig. 15) and quality of the retail space. Almost 50% out of over 6 million sq m located in eight major agglomerations is occupied by large scale big boxes (food operators, DIY, electronic appliances etc.) either stand alone or located in traditional shopping centres (Fig. 16).

Figure 14

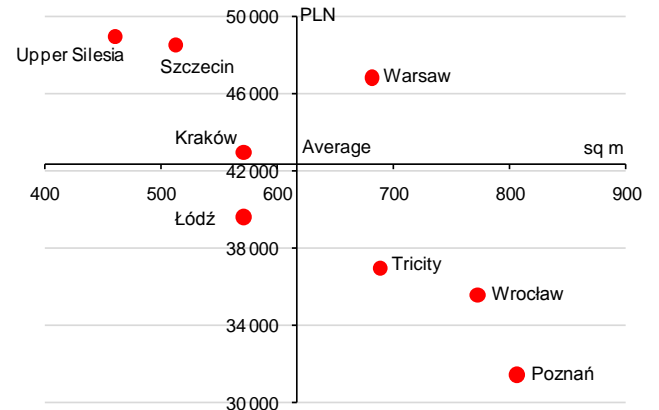
Annual retail supply by size of the city



Source: DTZ Research

Figure 15

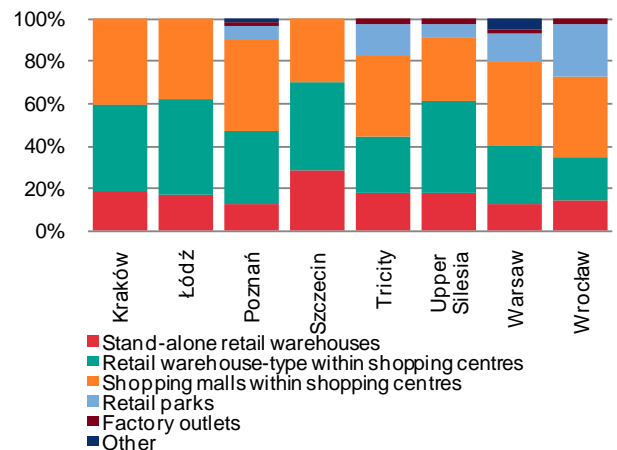
Density versus purchasing power per sq m



Source: GfK Polonia, DTZ Research

Figure 16

Modern retail space type in major agglomerations



Source: DTZ Research

Demand and Rents

2009 can be definitely marked as tenants' year, as their position in negotiations increased significantly. Slower consumer demand resulting in stable or slightly lower turnovers, as well as growing costs affected negatively expansion of retail chains.

The H1 2010 was characterised by sustaining "wait and see" approach, however DTZ has recorded more optimism in tenants' activities. Tenants are keener on talking about new locations, not only in prime properties in eight major agglomerations, than a half year ago.

It should be underlined, that majority of anchor tenants operating in FMCG, DIY, electronic appliances and fashion sectors have not slowed down their pace or have done it only for a short period of time. Cinema operators, due to very good results in 2009 and bright forecasts for next years, are expanding dynamically entering also smaller cities. Anchor tenants are still selective in terms of retail schemes and demand high fit-out contributions. Smaller tenants are more focused on achieving more attractive rents.

DTZ has also recorded change in size requirement for new units. In general chains have reduced their requirement and this refers to different retail categories such as fashion, home& deco or health & beauty. 80-sq m stores are currently the most sought after units by many tenants.

DTZ has noticed slightly lower number of new entrances on the Polish market. Chains which entered Poland in H1 2010 or plan to do it in next six months include Dune, Decat, Muji, Oviessa, Phenome, Peacocks, Qui and Red Valentino. Some chains, like Ann Christine or Code have tested their concepts in previous year and now are ready to expand to other locations. Other retailers will introduce new format of their stores i.e. Smyk will enter big box type of units.

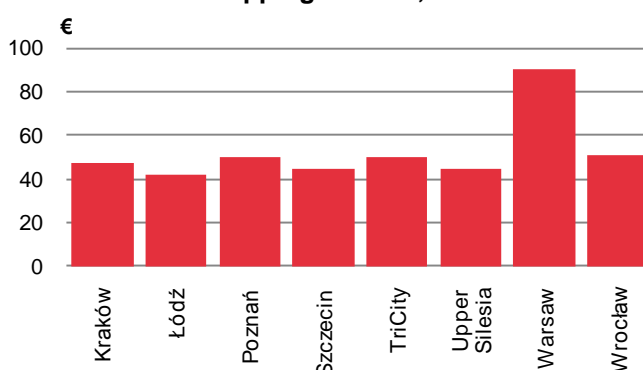
Retail chains are eager to expand via franchise as this type of expansion enables them to minimise the costs and enter smaller cities.

Impact of the slower demand is limited in case of prime rents (paid for 100-sq m fashion unit), as demand for shop units in best performing shopping centres is very high. Therefore prime rents in shopping centres remain stable in H1 2010 (Fig. 17). In secondary properties rental discounts for tenants who already have leasing agreements had mainly temporary character, but new leasing agreements were concluded on lower by 10 -20% levels, which resulted in growing discrepancy between prime and average rents.

DTZ forecasts this trend to reverse in 2011 as a result of slower new supply delivery and improving tenants' expansion and consumer demand driven by improving economic situation.

Figure 17

Prime rents in shopping centres, 2009



Source: DTZ Research

Table 4

Major retail schemes completions in H1 2010

Scheme	City	GLA (sq m)	Units
Port Łódź	Łódź	70,000	250
Galeria Mazovia	Płock	28,000	110
Plaza Suwałki	Suwałki	21,000	100
Tesco Gośćów	Warsaw	18,000	43
Zgorzelec Plaza	Zgorzelec	15,100	65
Metropol Dom i Wnętrze	Warsaw	13,500	60
Blue Park	Przemyśl	9,000	7
Galeria Jastrzębie	Jastrzębie-Zdrój	8,700	50

Source: DTZ Research

Table 5

Major pipeline schemes, H2 2010

Scheme	City	GLA (sq m)	Units
Galeria Viktoria	Wałbrzych	43,000	160
Gemini Park	Tarnów	40,000	95
Agora	Bytom	26,000	150
Galeria Sanowa	Przemyśl	21,000	70
Galeria Pod Wiatrakami	Słupsk	18,000	25
Galeria Rondo	Bochnia	12,500	100

Source: DTZ Research

Warehouse & Logistics Market

Stock

The development activity on the modern logistics market was very limited in the first half of 2010. The stock increased only by some 100,000 sq m and therefore it is on the level of 6.3 million sq m. (Fig. 18). The limited construction commencements started already in the latter half of 2009, which results from increased availability and funding issues. After years of the speculative deliveries boosted by the strong demand, developers decided to mitigate the risk by delivering mainly on built-to-suit basis.

The modern logistics space in Poland is located in five hot spots namely Greater Warsaw¹, Central Poland, Upper Silesia, Lower Silesia and Poznań Region although some logistics activity can be noticed around some other cities like Kraków, Tricity or Szczecin.

Take-up

Take up in 2009 slowed down significantly. The opening three months of 2010 were rather optimistic doubling the last years quarterly average and reaching some 400,000 sq m. In Q2 2010 another 180,000 sq m was transacted closing the half year result at 580,000 sq m, which is similar to the last year's level. Greater Warsaw and Upper Silesia regions proved to be most popular among tenants in H1 2010. (Fig. 19)

The average deal size remained at the level of 5,800 sq m however we have noticed the limited number of larger transactions exceeding the 10,000 sq m. The best grade and favourably located logistics facilities with possibility to divide space into smaller units were most popular among tenants.

Vacancy Rates and Rents

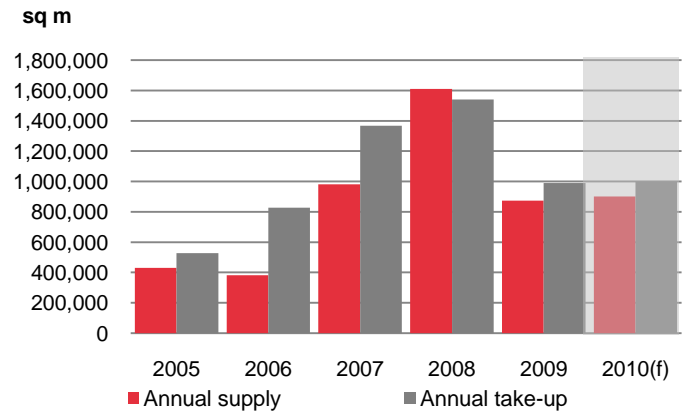
Vacancy rates slowly decreased and at the end of June 2010 approximately 1 million sq m of modern logistics stock was available market-wide. That translates into 16.9% of the total. Among the best developed locations the lowest vacancy rates were again recorded in Warsaw Zone 1 and the highest in Warsaw Zone 3.

Headline rents had been increasing steadily by the end of 2008 and then started to lower at the beginning of 2009. Recently these stabilised around €5.50 per sq m per month in Warsaw and between in regional locations between €3.00–3.30 per sq m per month.

¹ Due to its maturity the Greater Warsaw area is divided into three zones: **Zone 1 – In-Town** – schemes located within the Warsaw boundaries, **Zone 2 – City Fringe** – warehouses located within 15 – 30 km of the city centre, **Zone 3 – Outlying** – Logistic/warehouses situated within 30 – 50 km radius of the city centre.

Figure 18

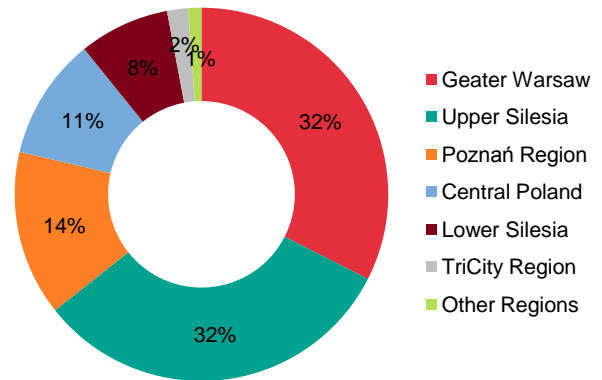
Modern warehousing supply and take-up



Source: DTZ Research

Figure 19

Take-up by region – H1 2010



Source: DTZ Research

Warehouse & Logistics Market

Table 6

Major logistics transactions – H1 2010

Q	Region	Building	Tenant	Size (sq m)
1	Upper Silesia	Panattoni Park Gliwice	Tesco (BTS)	56,700
1	Upper Silesia	ProLogis Park Chorzów	Raben + CJ Int.	28,800
1	Warsaw Zone 3	ProLogis Park Teresin	Viva Group	23,500
1	Warsaw Zone 2	Panattoni Park Pruszków	Torfarm	20,000
1	Warsaw Zone 3	ProLogis Park Chorzów	FM Logistic	19,400
2	Central Poland	ProLogis Park Piotrków I	Stock Polska	17,500
2	Poznań Region	Point Park Poznań	ND	14,400
1	Poznań Region	Point Park Poznań	ND	13,100
1	Lower Silesia	ProLogis Park Wrocław	Kuehne&Nagel	11,900
2	Warsaw Zone 2	ProLogis Park Błonie I	Arvato Services	10,000
2	Lower Silesia	Tiner Logistics Center	Pantos Logistics	10,000
2	Warsaw Zone 2	ProLogis Park Teresin	Viva Group	9,500
1	Warsaw Zone 2	Panattoni Park Ożarów	ERA	9,200
1	Warsaw Zone 3	ProLogis Park Teresin	TCL	8,500
2	Poznań Region	Panattoni Park Poznań	Logista Polska	8,400

Source: DTZ Research

Investment Market

After 2009, which was one of the most challenging years on the Polish investment market, in 2010 we are slowly experiencing signs of recovery.

DTZ estimates that some €930 million was transacted during H1 2010, which already exceeded the annual investment volume of the previous year (Fig. 20). This year's activity so far represents 42% growth compared with H2 2009 and it was also the second consecutive period when the investment volumes increased.

Warsaw market dominated activity in H1 2010 accounting for nearly 60% of the total property investment volumes.

The investors' interest in previous year was evenly distributed between retail and office properties. This year however brought some modification with as much as 68% allocated in the office sector. The second most performing sector was logistics with 22% share. That is attributed to the large portfolio of office and logistics properties being acquired recently. Small retail schemes were transacted in the regional cities adding some €100 million to the total volume.

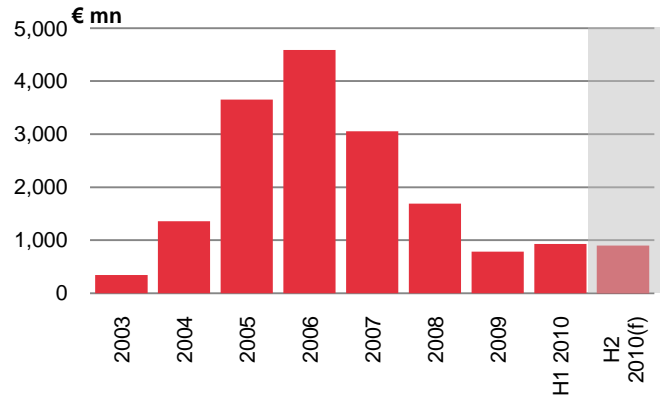
Closed-ended funds and institutional investors continued to be most active players during the opening six months of 2010.

Based on DTZ estimations the volume of another €900 million might be transacted by the close of the year. We believe this returning weight of capital will continue to drive yields down in the short- and mid-term. After the upward yields shift in the last years, these slightly compressed in the first half of 2010 showing the diminishing perception of risk (Fig. 21). Currently, prime office and retail yields are oscillating between 6.75% and 7.00%. Prime yields in the logistics property sector has been stable at the level of 8.25%.

We believe that the returning confidence in the occupier market is expected to positively influence the investment activity in the coming quarters.

Figure 20

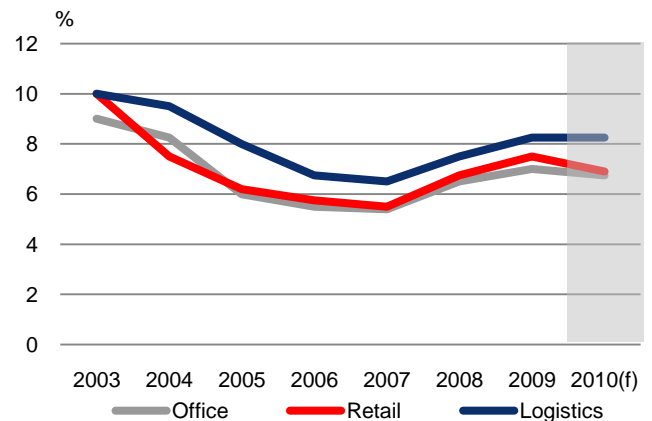
Investment volumes in Poland



Source: DTZ Research,

Figure 21

Prime investment yields



Source: DTZ Research

Disclaimer

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