

RESEARCH



POLAND & CEE

INVESTMENT MARKET

H1 2017



EUROPE

EUR 11.7bn
invested in Europe in H1 2017 (-10% y-o-y)

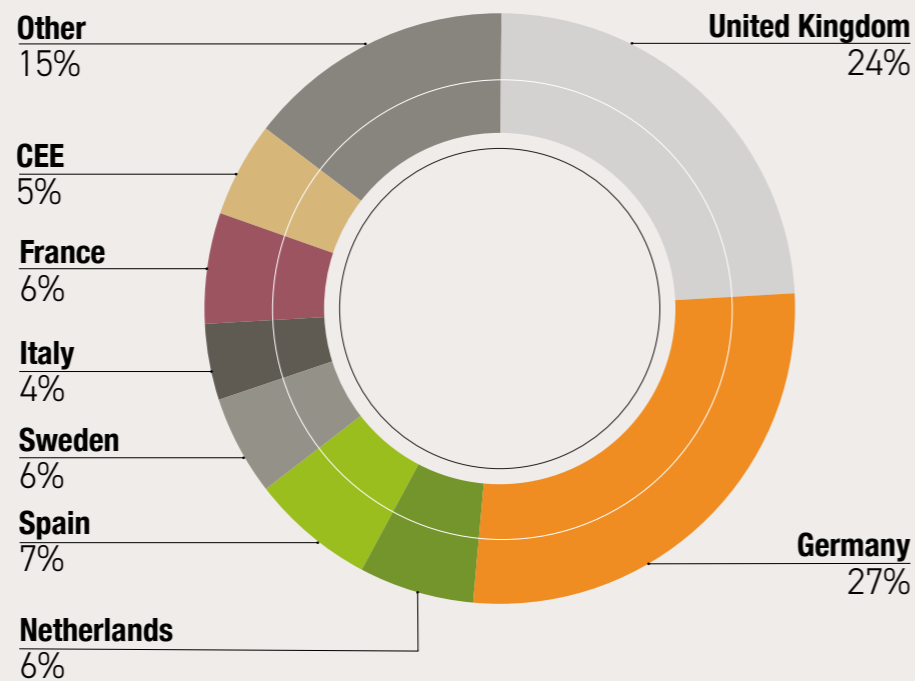
Global trends on the investment market point out a slight slowdown in the real estate market over last months. According to Real Capital Analytics, the decrease was equal to 8% y-o-y globally at the end of H1 2017, while in Europe the total volume of allocated capital in real estate declined by nearly 10% and amounted to EUR 11.7bn.

In Europe nearly 53% volume of acquisitions came from cross-border investors in H1 2017. The largest overseas investor was the US which invested mainly in Germany over the last months. Other significant capital flows come from domestic European and Asian investors, especially Chinese, Singapore, South Korean and Japanese, who have benefited much despite the uncertainties in Europe.

Some changes are expected with regard to the capital flows directions. Currently, the core European countries are maintaining the first place as the investment opportunities for growth but the forecasts indicate growing importance of alternative markets, enabling for risk diversification.

One year after Brexit, the UK returned to the first place in Europe with a 24% share in the transaction volume. Other leading markets as Germany, Netherlands, Spain, Sweden or France remained unchanged with their investment activity, while the CEE region systematically gains on importance, attracting new players.

CHART 1
H1 2017 TRANSACTION STRUCTURE IN EUROPE



Source: Knight Frank, RCA

CEE REGION

EUR 6.3bn
invested in CEE H1 2017 (-5% y-o-y)

TABLE 1
H1 2017 VS. H1 2016 (% change)
TRANSACTION VOLUME IN SELECTED CEE COUNTRIES IN H1 2017

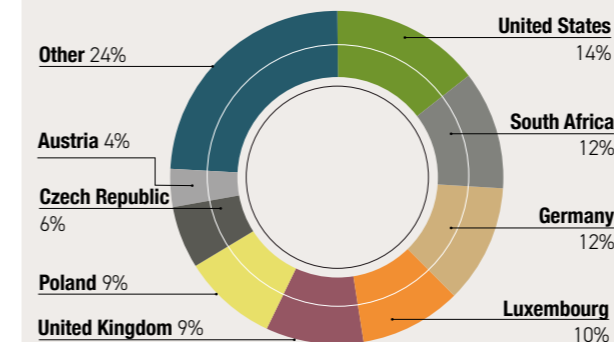
| | | |
|----------------|-----------|-----------|
| Poland | EUR 1.5bn | -25% y/y |
| Czech Republic | EUR 2.2bn | +97% y/y |
| Hungary | EUR 750m | +107% y/y |
| Romania | EUR 655m | +70% y/y |
| Bulgaria | EUR 375m | +59% y/y |
| Slovakia | EUR 154m | -50% y/y |

International investors and investment funds more often consider the income-producing assets in countries in Central and Eastern Europe as an attractive capital allocation. The constantly improving economic background in the CEE region and market liquidity are the key factors which may attract investment scene players. In H1 2017, the total transaction volume noted a 5% decrease and represented EUR 6.3bn.

In H1 2017, the leading markets in the CEE region were the Czech Republic and Poland which saw nearly 60% of investment volume traded in the first half of the year. Prime yields in the office, retail and warehouse sectors remained stable. Within the last 18 months, the CEE capital market attracted European, US, but also South African investors.

Investors increasingly recognize the growth potential of markets such as Hungary, Romania or Bulgaria, which was confirmed by numerous acquisitions noted in last months. New players entering the CEE market, purchase both single or portfolio assets, mainly from the retail, office and warehouse sectors.

CHART 3
CAPITAL FLOWS IN THE CEE REGION BY ORIGIN 2016-H1 2017

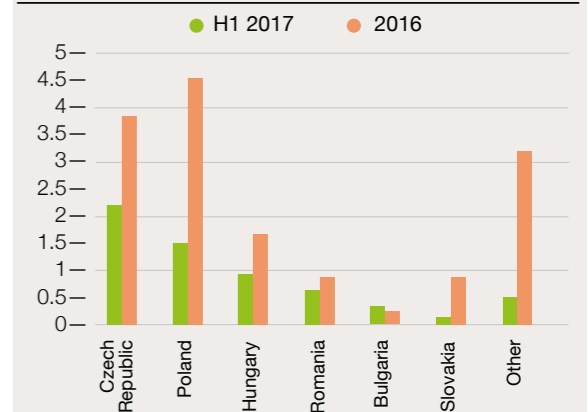


Source: Knight Frank, RCA

TABLE 2
2016-H1 2017 (EUR m)
THE MOST ACTIVE INVESTORS IN THE CEE REGION BY VOLUME OF INVESTED CAPITAL

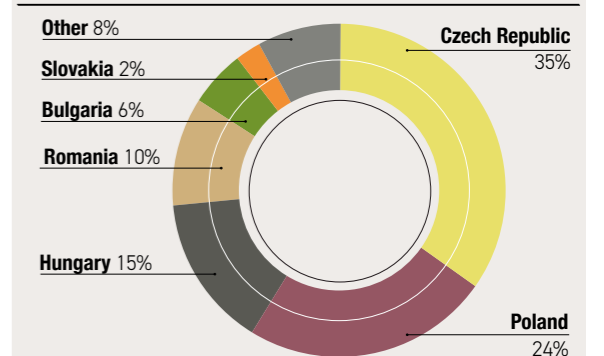
| Investor | Volume (EUR m) |
|-----------------------|----------------|
| NEPI Rockcastle | €1,532 |
| GIC | €1,506 |
| Redefine (REIT) | €885 |
| CPI Property Group | €729 |
| CBRE Global Investors | €582 |
| EPP | €552 |
| Deutsche EuroShop AG | €383 |
| Erste Bank | €369 |
| DekaBank | €360 |

CHART 2
TRANSACTION VOLUME IN CEE H1 2017 VS. 2016 (EUR bn)



Source: Knight Frank, RCA

CHART 4
TRANSACTION STRUCTURE IN CEE H1 2017



Source: Knight Frank, RCA

CEE REGION

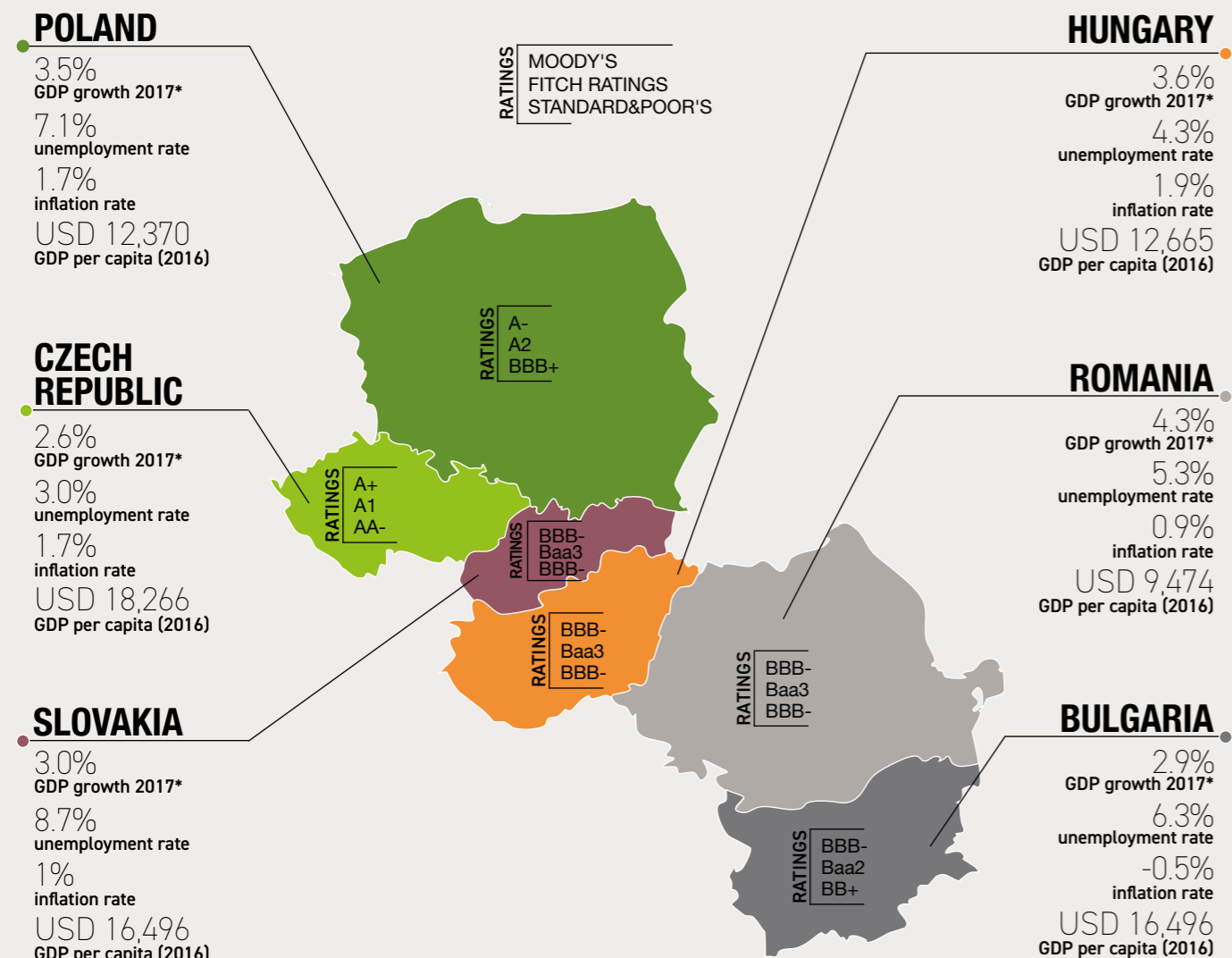
– MACROECONOMIC OVERVIEW

THE CEE REGION BENEFITS FROM POSITIVE MACROECONOMIC FACTORS AND OPTIMISTIC FORECASTS

The recent macroeconomic indicators enable to perceive CEE countries as the fastest growing region in Europe. According to the European Commission Forecast for 2017, the GDP growth in the region is much better than noted in the previous years and is even more optimistic for 2018. All of the supportive components of this

economic prosperity, such as high internal demand and private consumption, strong labour market, well-educated workforce and dropping unemployment rate are key factors to create an attractive investment environment. CEE countries also benefited from the EU funds which boosted their economies. Currently, the emerging markets such as

Poland, Czech Republic, Hungary, Slovakia, Romania, Bulgaria remain competitive and attract a number of FDI's. Those markets mostly are found attractive by companies from sectors such as automotive, electronics, IT, telecommunication and others.



* European Commission forecast

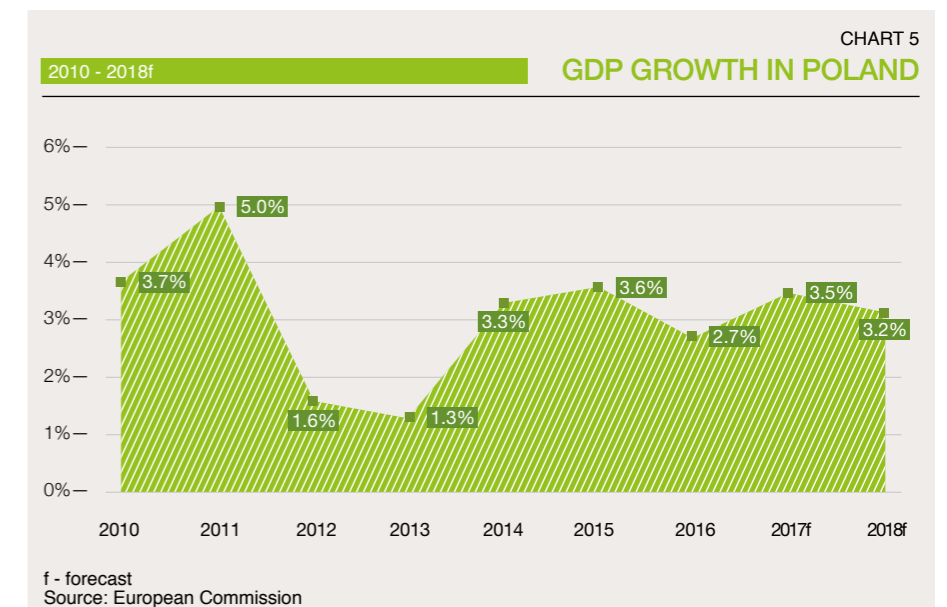
POLAND

– MACROECONOMIC OVERVIEW

POSITIVE SENTIMENT IN THE ECONOMY

OUTLOOK

A forecasted growth in GDP, increasing domestic demand, strong industrial production and retail sale go hand in hand with the further growth of the commercial market in the short and medium term. Additionally, record-breaking demand for offices and warehouse space accompanied by growing activity from developers bring positive forecasts for dynamic performance of the commercial market. Poland is ranked as the 9th most attractive location in the world for professional services. The growing number of jobs created thanks to FDI and numerous new entities entering the market lead to the anticipation that this trend will continue in next years.



IMPROVING POSITION IN NUMEROUS RANKINGS

- 24th** place at Doing Business 2017 (1 place up y/y), The World Bank Group
- 45th** place at 2017 Index of Economic Freedom, The Heritage Foundation and the Wall Street Journal
- 22nd** place at The Bloomberg Innovation Index 2017 (1 place up y/y), The Bloomberg
- 29th** place at The Corruption Perception Index 2016 (1 place up y/y), The Transparency International

- 13th** place at The Global Real Estate Transparency Index 2016, JLL and LaSalle Investment Management
- 36th** place at The Global Competitiveness Report 2016-2017 (5 places up y/y), World Economic Forum
- 31st** place at The Best Countries Report, US News & World Report
- 33rd** place at The Global Peace Index, The Institute for Economics and Peace

STABLE ECONOMIC FUNDAMENTALS

- 3.9%** GDP growth y-o-y (Q2 2017)
- 1.5%** Reference interest rate
- 1.73%** 3M WIBOR (Aug '17)
- 3.34%** 10Y Treasury bond yield
- 54.4%** Public debt (% of GDP)
- EUR 1,052** Average monthly gross salary (Jul '17)
- 6.8%** Retail sales growth (Jul '17)

POLAND

EUR 1.5bn
invested in Poland in H1 2017

OVERVIEW

Poland has consolidated its position as an attractive location for investment. The dynamic growth of the commercial market and positive sentiment in the economy are reflected by the investment market. After the impressive result noted in 2016, with Poland as a leader in the CEE investment market, the total investment volume in H1 2017 reached EUR 1.5 bn and was 25% lower than recorded in the first six months of 2016. H1 2017 was dominated by large portfolio transactions, mainly in the retail segment. At the same time, taking into account investors' plans and ongoing transactions, the second half of 2017 may be as effective as it was last year and the investment volume may exceed the historic performance achieved in 2016.

OFFICE

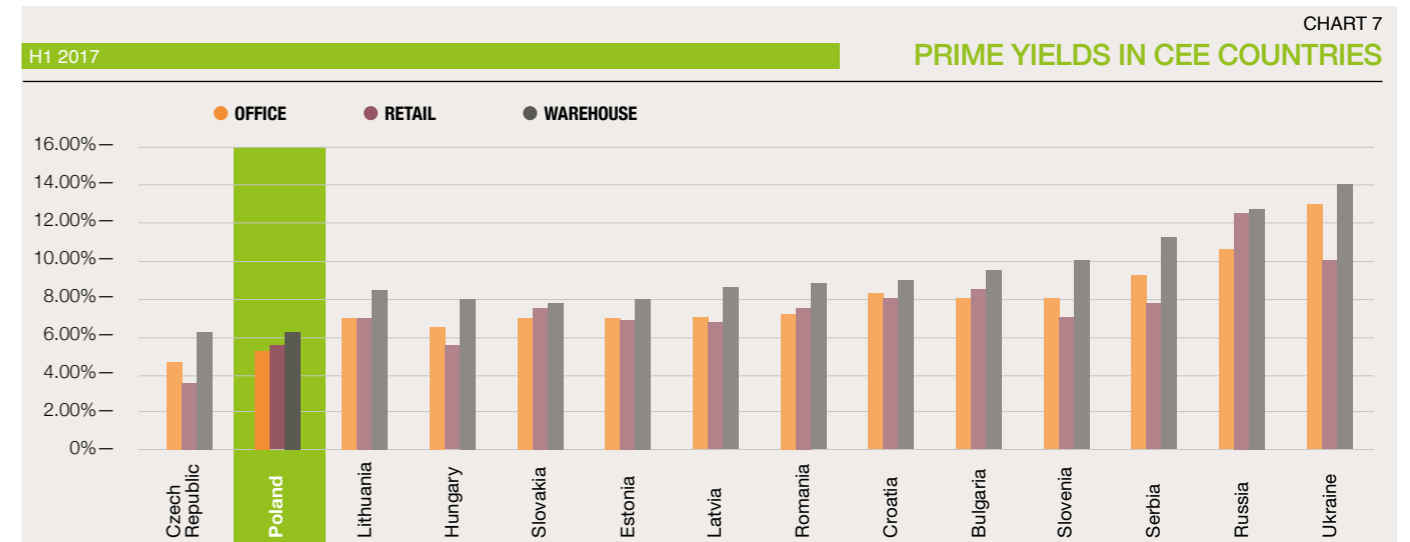
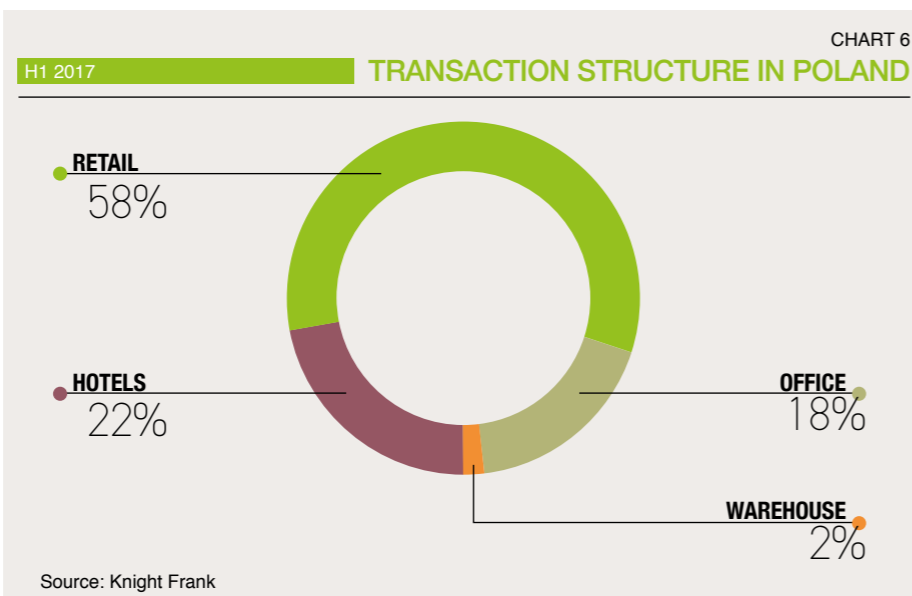
H1 2017 saw a relatively small number of transactions signed in the office sector. The total investment volume in that segment amounted to nearly EUR 274m in H1 2017, constituting 18% of all commercial investments in Poland. The largest transactions noted in Q2 2017 were the acquisition of Maraton office building in Poznań by Union Investment for EUR 62m, the purchase of A4 Business Park III in Katowice by Echo Polska Properties for EUR 27.5m and the acquisition of Pilot Tower in Kraków by First Property Group for EUR 23m. There was also the portfolio transaction on BPH TFI schemes which were acquired by Octava FIZAN. The purchase included 3 retail and 8 office facilities in Warsaw and Kraków.

HOTELS

The hotel sector benefits from the constantly growing interest of the capital market. Investors do not slow down and the hotel sector registered the highest values ever noted on the investment market. In H1 2017, the total volume of hotel transactions accounted for EUR 342m, constituting 22% of all investments. The largest acquisition in H1 2017 was the portfolio transaction of Warimpex 5 hotel schemes, bought by Thai fund U City, which total value was estimated at EUR 120m, the purchase of Sheraton Grand Kraków for EUR 70m by Invesco RE, the acquisition of Radisson Blue Hotel in Warsaw by Europa Capital for EUR 60m and fivestar The Westin Hotel Warsaw by Qatar holding Al Sraiya Group for EUR 56m.

RETAIL

Nearly 60% of the total investment volume in Poland in H1 2017 was allocated in the retail sector which amounted to over EUR 900m. Investors' activity in that segment was still high which resulted in large portfolio transactions closed in Q2 2017. The largest deal was the acquisition of 25 Ikea facilities in 8 European countries by the Pradera fund. In Poland, the new owner has bought 4 projects. Additionally, the market noted the acquisition of Fashion House outlet centres in Piaseczno, Gdańsk and Sosnowiec by Deutsche Asset & Wealth Management. In Q2 2017, a few deals of purchase of smaller retail facilities were completed, including 4 schemes from the Blackstone portfolio acquired by EPP.

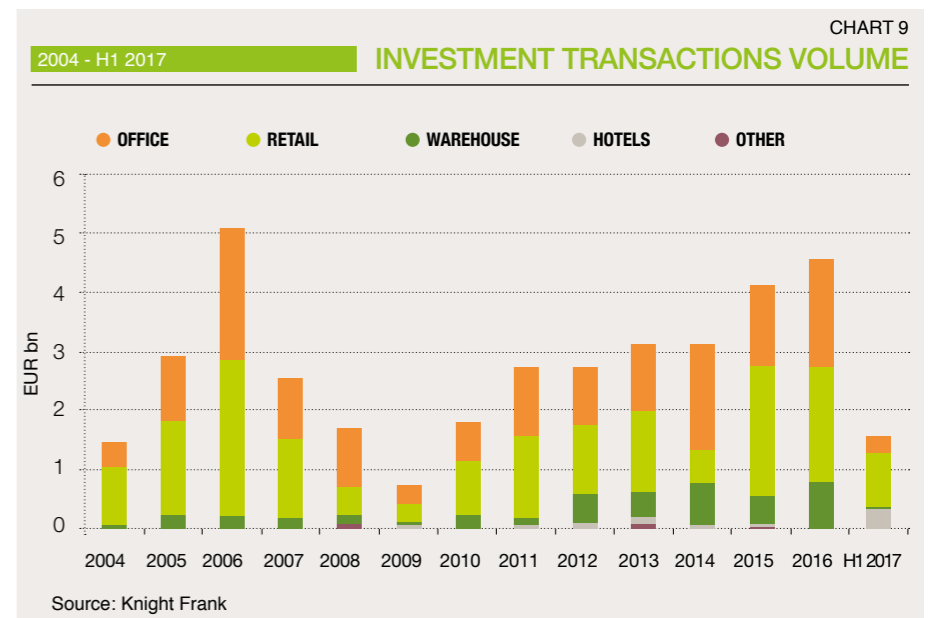
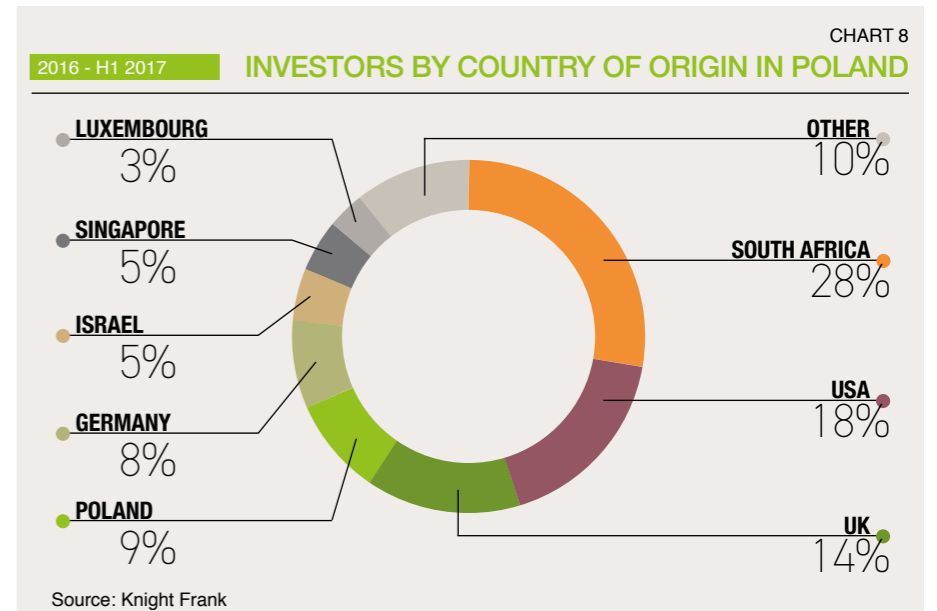


YIELDS

Currently, the best performing assets are valued with the yields at the stable level. The prime office projects located in the Warsaw core city centre are estimated with the yields at 5.25%, while outside the city centre yields are slightly higher and range between 7.00% and 7.50%. On the other hand, the most attractive office schemes in the regional markets were priced at 6.25%-7.00%. However, in the retail and industrial sectors compression yields was observed in the last few years and currently, the expected level of prime yields for retail assets range between 5.25%-5.50%, while prime warehouse assets are priced at 6.75%.

NEW INVESTMENT OPPORTUNITIES

A new upward trend within the private and institutional investors is capital allocation in alternative real estate segments which provide them with safety and high investment returns. Increasing interest has been seen in not only hotel schemes but also in residential sector, private dormitories or nursing homes. All demographic changes, aging society, significant growth of foreign students numbers suggest an increasing importance of those segments in Europe, including Poland and attract experienced investors on the capital market with its solid, long-term profits.





COMMERCIAL
MARKET

As one of the largest and most experienced research teams operating across Polish commercial real estate markets, Knight Frank Poland provides strategic advice, forecasting and consultancy services to a wide range of commercial clients including developers, investment funds, financial and corporate institutions as well as private individuals.

We offer:

- ◆ strategic consulting, independent forecasts and analysis adapted to clients' specific requirements,
- ◆ market reports and analysis available to the public,
- ◆ tailored presentations and market reports for clients.

Reports are produced on a quarterly basis and cover all sectors of commercial market (office, retail, industrial, hotel) in major Polish cities and regions (Warsaw, Kraków, Łódź, Poznań, Silesia, Tricity, Wrocław). Long-term presence in local markets has allowed our research team to build in-depth expertise of socio-economic factors affecting commercial and residential real estate in Poland.

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