# APPENDIX TO MARKETBEAT POLAND – AUTUMN 2008

Due to financial crisis we have been forced to revise our forecast for the Polish economy and real estate market.

## ECONOMY & FINANCE

- GDP growth for 2008 can be reduced to 5.2%, with the following year ending up with the 3-3.5%.
- 12-month inflation in October fell to 4.2% and it is predicted that the annual inflation in 2008 may fall slightly below 4%.
- In September the unemployment rate went down below 9%, however, due to a growing concern about the national economy, it may increase marginally in the following two-three quarters.
- With the ongoing uncertainty on the global markets we have experienced violent changes in the exchange rates. The euro may now hover around PLN 3.7-3.9 and dollar PLN 2.9-3.1.
- Due to a global slowdown, multinational enterprises are downsizing their production and employment, which will result in the significant reduction of their global investments. It may mean that the FDI inflow in Poland will also decline reaching low level of 10 billion euro in 2008 (13.5 billion USD). Recent problems of the Hungarian economy have led to a substantial capital outflow from CEE region.
- The main indices of the Warsaw Stock Exchange have plunged below the level recorded in 2004. Current decline in share prices is mainly related to the global situation rather than to the macroeconomic fundamentals of the Polish economy. Therefore, this trend might be sustained, although we may also see some upward corrections.

## OFFICE MARKET

- Due to unsettled global financial market situation and reduced credit availability, a number of office schemes planned by developers will not be completed or their construction will be delayed in time, in particular, with regard to high-rise facilities.
- A significant decrease in the level of speculative office development may be seen.
- Planned supply over the next few years, both in Warsaw and regional cities will be lower than previously anticipated based on investors' plans at the beginning of 2008.
- In 2009 a substantial fall in rents and the rise of vacancy level are not to be expected with realignment of rental market and headline rents approaching the effective figure.

# APPENDIX TO MARKETBEAT POLAND – AUTUMN 2008

## RETAIL MARKET

- No signs of developers' decisions to withdraw from the retail projects at an advanced planning stage have been noted. Banks' credit tightening policy may result in delays in investment processes and in postponing opening dates of newly planned shopping centres.
- There are some signs of a possible fall in retail projects' construction costs due to shrinking residential investment portfolio.
- No information of a significant limitation of expansion plans of major national and international trading companies has been recorded. There are rumours of a slight change in the strategy of some WSE listed trading companies.
- The decline in the Polish Zloty against the Euro translates into the rise in rental costs in shopping centres, with the agreements made usually in EUR but calculated in PLN according to the exchange rate as of the date of issue of VAT invoice.
- Situation on the retail market in 2009 is inextricably interlinked with the difficulty in the credit availability, which may hamper both developers' projects realisation and trading companies' expansion plans.

## WAREHOUSE MARKET

- Due to rising costs of investment financing over the third quarter, rents have increased by around 20-30% depending on the region.
- Supply is falling, with investors becoming much more selective on projects realized.
- Higher investment risk makes developers focus on the regions in which they are already present i.e. Warsaw, Lodz, Poznan, Upper Silesia, Wroclaw.
- Demand over the third quarter has seen a slight drop, but considering current situation on the financial market, weakening economy and rising rents, further slowdown is expected.
- Demand for development sites has fallen quickly leading to lower land prices..

## INVESTMENT MARKET

The real estate investment market has demonstrated a strong sensitivity on a September wave of credit crunch. A lack of trust and liquidity in the inter-bank market has resulted in a significant reduction of loan activities and in a limited access to bank financing. Many investors have suspended their activity until the market stabilizes. In consequence a number of transactions have been cancelled or postponed. Therefore, we anticipate an acceleration in the pace of yield correction as risk is re-priced more aggressively. Low activity in the market has caused the yields moving out faster than anticipated. Prime assets in Poland are estimated to be at the following levels:

- 6.75% in the retail sector,
- 6.75% in the office sector,

- 7.50% in the logistics/warehouse sector.

Market recovery is expected in 2009 to be reflected in the increase of transaction volume followed by stabilisation in pricing. Sound economic and property market fundamentals in Poland, when compared to other Central and Western European markets, should also help the country effectively weather the current market storm.

## RESIDENTIAL

The current worldwide economic uncertainty, which has also affected the Polish economy to a certain extent, has provided corrections to the tendencies on the Polish residential property market in the following ways:

- Unfavourable mortgage market conditions have restricted the access to loans substantially decreasing the total volume of granted mortgages, which, in effect, will further restrain the actual demand (H2 2008 – H1 2009).
- The market expects further delays in realization of residential investments, due to difficulties with financing and lower demand level.
- Higher segments of the residential property market have appeared extremely vulnerable on the Polish market, while low-priced are still selling.
- The residential market recovery is anticipated in the mid-term perspective, but with much lower capacity than it was observed in 2004-2007. The mid-run residential market recovery will be highly correlated with the tendencies on the mortgage market, overall economic policies and economic expectations in Poland.

## HOTELS

- Slight decline in the number of visitors coming for tourist and business purposes.
- Drop in tourist expenditure (limited purchasing power).
- Tightening credit requirements regarding financing of hotel investment (transparent, economically justified business plan, operational agreement, raised minimum equity requirement).
- Verification of planned hotel investments by investors and developers (feasibility studies, seeking the most optimal solutions).