



III GUEST COLUMN

Investors giving Polish commercial property a miss will be losing out

By Ben Habib, Chief Executive, First Property Group, London

I first visited Poland in 1990, shortly after the Iron Curtain came down. I was in my mid-20s and had never had any interaction with Soviet Bloc countries before. After my first visit, I felt I had not missed anything. Warsaw was dreary, the food of poor quality and the coffee undrinkable; it was not a destination of choice. I made a few trips in the early 1990s and then did not visit again until 2005. The period between my initial visits and 2005 was spent investing entirely in the UK. But a major change occurred in the UK market in 2004, which forced me out of the comfort zone in my home market: the spread between investment yields and borrowing costs disappeared. It was no longer possible to finance British property investments profitably without relying on capital gain to make up returns. Capital gains are difficult to predict at the best of times and so First Property began selling in the UK and looking for new markets.

Following a review of European markets it did not take long to alight on Poland. It had just joined the EU, was the beneficiary of large inflows of capital, was growing at a good rate from a low base, was a deep market, had a balanced economy with a vibrant export and domestic sector, a healthy banking system and a good level of education. And crucially, property yields were high and borrowing costs low. Warsaw had also become a first-class city: it was vibrant, the food was excellent and the coffee perfectly

good. It had transformed itself within 15 years. The result: we now have some £300m of AUM in Poland, across 30 properties and some 300 tenants. Our experience has been a good one. We are not without our battle stories but, crucially, the income across our portfolio has held up. Indeed, on a like for like basis, the income on our portfolio is higher now than it was in 2007.

Poland has done everything we hoped of it: it did not go into recession during the credit crunch; it is one of the fastest growing EU economies and has broadly healthy government and consumer finances. It is also forecast to continue growing, albeit more slowly due to the growth deceleration across Europe. The last six months of 2011 were not good for property investment anywhere but Poland has come through this well, with lending appetite still strong from well-capitalised banks. The only significant adverse change resulting has been a material tightening in terms on euro-denominated bank debt. Rents and therefore properties are usually euro denominated and so a tightening hits property values - even if we do not expect large reductions in value. With this one exception, we are bullish on Polish property. The tightening lending terms are in fact opening up new opportunities as the balance of negotiating power shifts from sellers to buyers. We are now able to structure purchases in a way which materially reduces our investment risk and underpins returns.

Within Poland we favour retail warehousing and strip malls. We are not particularly concerned about where these are located as long as they dominate their local catchment area and the catchments are big enough to support them. We also favour CBD offices in major cities, especially cost effective office space in prime locations. Poles are cost conscious people and there is always demand for cost effective product in good locations. A potential risk is Poland's reliance on foreign capital. Selling assets therefore depends on international demand, which does wax and wane. We address this risk by targeting properties that are high yielding enough for the income return to provide sufficient liquidity and by being prepared to hold assets for the long term. It is usual to be able to acquire good properties on high single-digit yields, and these can be as high as 30%, or more, higher than the equivalent in the UK. Investors wishing to attempt to predict the trajectory of the Polish investment market need do only one thing: look at where the country was in the aftermath of Communism, the enormous progress made in the last 20 years and the hunger of the hard-working Polish people to do well. In my view, investors giving Poland a miss will be losing out. ■ bh

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