Polish Property Breakfast: Gear shift to stability as Poland joins EU core

Pie's Polish Property Breakfast on 20 September in London brought together six experts to discuss the question of how long Poland's real estate boom will continue, and where the best value can be found. Held in the offices of DLA Piper in London, PIE welcomed (left to right) Nick Di Ciacca, Fund Manager, Pradera Europe, London; Martin Erbe, Head of International RE Finance Northern/Central Europe, Helaba Frankfurt; Ben Habib, CEO, First Property Group, London; Allan Saunderson, PIE: Maciej Kielbicki, Advisor to the President, Mayland Real Estate, Warsaw; Craig Maguire, Managing Director, Point Park Properties Poland/Romania, Warsaw, and Tomasz Trzoslo, Head of Capital Markets Central Europe, Jones Lang Lasalle, Warsaw.

Poland boom slows but opportunities remain

Polish real estate investment has come through the boom, when shopping centre cap rates slid from 9% or 10% to about 6% now, yet plenty of scope remains as the nation settles into a slower growth path, PIE's Poland Property Breakfast in London heard.

PIE's expert panel said that development - and therefore investment opportunities - is widening from the capital Warsaw as road and other transport infrastructure is completed amid a boom sparked by the nation's entry into the European Union in 2004. "Since then it has had probably about €90bn from EU structural funds," Pradera Europe's Nick Di Ciacca told the seminar. In addition, it is the sixth largest country in Europe, has population of 38m people, good public finances, and is located next to Germany which is its main trading partner. "What you see today is a culmination of those factors," he added.

First Capital Group CEO Ben Habib, Jones Lang LaSalle's Tomasz Trzoslo and Helaba's Martin Erbe noted that the boom now has given way to a more normal marketplace, where rewards and risks have to be weighed more carefully - but where plenty of opportunities still exist. Craig Maguire, MD of Point Park Properties, based in Warsaw, added that in his sector, warehouse properties, potential will remains strong, primarily due to the increasing importance of the nation's central position in the eastern part of Europe. Mayland Real Estate's Maciej Kielbicki added that the retail mall sector will continue strong for the medium term, even if activity has slowed down.

Poland has effectively become a core EU country, panellists agreed. "Now Spain is down, it's Germany, UK, France and Poland - Poland has become one of the core countries and that's why people like to invest there," said Erbe. Significantly, Poland joined a group of EU founding countries recently brainstorming about the EU's future. EU membership has been transformational for Poland and it has to an extent converged with western Europe, Habib concluded. ■ **pie**

Challenges of asset classes, funding in Poland

The Polish market has attained stability and equilibrium, contrasting with the boom after EU entry when lack of product brought nationwide develop-

ment opportunities and a landlord's market, the PIE Breakfast heard.

Exits are readily available since plenty of investment capital is seeking opportunities, said JLL's Trzoslo. However, more differentiation in pricing between prime and secondary product is needed and this should happen, opening up fresh opportunities for investors.

From the bank funding perspective, Helaba's Erbe preferred "good and core properties" whether retail, especially in smaller cities, or office or logistics. In logistics, Helaba is currently discussing large portfolios with a number of investors. In offices however, Helaba has reservations about going outside Warsaw's 4m sq.m. market. He noted that even Poland's second city of Krakow lacks liquidity compared with the capital, with a market of just 500,000 sq.m. Panellists also noted that most secondary cities lack a clearly defined CBD.

Opportunistic investor First Property favours classic Warsaw CBD office - avoiding anywhere likely to become overdeveloped, said Habib. "We want to find that office block in a central location which has been overlooked by other investors, which is defensive because it's difficult to produce new product which competes with it." He prefers a saturated area, especially one benefiting from improved infrastructure, like the new East-West tube line in Warsaw.

Although some panellists felt bank lending has tightened in the past year, Helaba's Erbe said the investment market is liquid, and banks are open for business. Pradera's Di Ciacca confirmed financing is available from international and local banks, at about 45%-60% LTV, though not higher. But development loans are also available, mostly from local banks, Erbe noted. Trzoslo argued that banks' demand for substantial pre-leases is a healthy trend, especially in view of the over-development that could potentially happen in Warsaw office, for example.

Erbe warned of a large amount of re-financing in 2013-4 as old loans expire - also in the books of banks which are out of business. Borrowers will face some challenges. "The question is, what will the debt funds do here in Poland for example, can they close the gap?" Point Park's Maguire said however that all-in construction finance is available from other funds in Poland, and also in Romania. "American funds are interested, providing you get a long term lease," he told the Breakfast.

Trzoslo also reported significant amount of mezzanine financing available. The key point for investors, he said, is the risk profile of the money. In retail, for instance, a group of core investors prefers the handful of low-risk top prime shopping centres even at yields of sub-6%. But for others, plenty of opportunities are emerging for mall redevelopment in secondary cities. Logistics has moved onto investors' radar in a bigger way, with big industrial portfolios on offer. But Trzoslo sees opportunities in all classes, "as long as you do proper underwriting of rental and get the right pricing." Helaba's Erbe predicted that active asset management will be a key yield driver. **pie**

First Property's Ben Habib (top left) makes an important point while Helaba's Martin Erbe listens in. Mayland Real Estate's Maciej Kielbicki (top right) tells the seminar of Polish experience in retail property, while Jones Lang Lasalle's Tomasz Trzoslo (above right) expands on the theme. Questions from the floor included one from Kulczyk Silverstein's Properties' Otis Spencer (above left), just joined from Heitman along with Dennis Dart to help build KSP's CEE portfolio.

Helaba's Martin Erbe (top left) emphasises a point on bank property financing in a Q&A with delegates, and Point Park Properties' Craig Maguire (top right) outlines the case for logistics development and investment as Europe moves gradually east. Standing room only at DLA Piper (centre) for PIE's Poland Property Breakfast. Pradera's Nick Di Ciacca (above) explains to the panle the opportunities, rewards and risks in the fast-growing Polish shopping centre sector.

Retail focus on smaller cities, rebuild; outsourcing buoys office

The face of Polish retailing is also changing rapidly now. Mayland's Kielbicki, who participated in the rollout of shopping malls, noted that the first pre-2004 wave was developed by hypermarket chains and was not geared for investors. Prime shopping malls started developing fast from 2003-4, spurred by EU entry and surging purchasing power.

Today, with half the retail stock older than 10 years, Mayland has recognised 70 malls to be redeveloped, greenfield opportunities are still available, and Warsaw needs more retail space - including third-generation malls stressing leisure facilities and fashion brands.

Pradera's Di Ciacca said a significant investor group concentrates on prime assets, meaning Warsaw or secondary-city but prime, and accepts pricing even at sub-6%. But Pradera takes a longer-term view, seeing value-added opportunities in Poland's 20 200,000-plus cities, and the 35-40 group of 100,000-plus cities. It adds value through intensive asset management, from refurbishing of first-generation malls to redeveloping excessively large hypermarkets car-parks. Retailer demand remains robust, with new brands continuing to enter, albeit at a slower pace, the experts agreed. First Property's Habib cited the nation's strong internal consumption which generates 60% of GDP - in stark contrast, for example, to the 80% Czech dependence on exports.

In office, panellists cited Poland's continuing attraction for western European corporate off-shoring and business process outsourcing - especially for operations like accounting and R&D which are required to be close at hand. Advantages include the comparatively low Polish average wage and its university-educated populations with good language skills in many secondary cities. Trzoslo predicted the outsourcing trend will continue, "giving a helping hand to the development of the office market in regional cities." Maguire added that, compared with further east, "Poland is seen as a safe bet where you can get good staff, train them, grow them and with communication you can hit your target market fairly quickly." ■ **pie**

Logistics flourishes on growth, infrastructure

Polish logistics property is a barometer of the macro economy as the amount of goods stored or moved reflects both spending in retail centres and the country's manufacturing output, Point Park's Maguire told the PIE seminar.

In the past decade, considerable production has moved to Poland, which is evolving into a central European hub. Infrastructure improvements, spurred by the Euro 2012 football championships in late spring, and still underway, should fuel a macro trend eastward. One example the A4 motorway very soon set to connect the German autobahn system to Kiev. "It's a pretty exciting time for logistics development in Poland because we now have some infrastructure for the key corridors Berlin to Warsaw, and the south, soon from Dresden to Krakow," said Maguire. The Silesian region in the south, convenient for Germany, Czech Republic, Slovakia and the East, is becoming a significant logistics location with 1.2m-1.3m sq.m. of space, and vacancy below 10%. For retailers, the trend is to consolidate their current 10-12 logistics centres into two or three centralised platforms, he told the conference. This is partly because the infrastructure now permits this, but also to boost efficiency as the market gets tighter. Maguire says large portfolios are attractive, while development and construction finance is available for new supply. "For good quality BTSs in Katowice, 50,000 sq.m. pre-let to quality covenant, I could probably go to two or three banks and get pretty good financing for it," he said. ■ **pie**