Fprop plc

Interim Results

for the half year ended 30 September 2015

First Property Group plc
26 November 2015

IPD Funds Measured Gold Level

FPAM funds have ranked No.1 versus the Investment Property Databank (IPD) Central & Eastern European (CEE) universe for the annualised periods from the commencement of its operations in Poland in 2005 to the end of each of the years between 31 December 2008 and 31 December 2014.

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First Property Group plc
Contents

First Property Group plc is a property fund manager and investor with operations in the United Kingdom and Central Europe.

Its earnings are derived from:

- **Fund management:**
  Via its FCA regulated and AIFMD approved subsidiary, First Property Asset Management Ltd (FPAM), which earns fees from investing for third parties in property:
  - Management fees are levied by reference to the value of properties under management;
  - Performance fees are levied where appropriate, usually payable upon realisation of profits above an agreed hurdle.

- **Group Properties:**
  Principal investments by the Group to earn a return on its own capital, either directly or in partnership with third parties.

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IPD Funds Measured Gold Level

FPAM funds have ranked No.1 versus the Investment Property Databank (IPD) Central & Eastern European (CEE) universe for the annualised periods from the commencement of its operations in Poland in 2005 to the end of each of the years between 31 December 2008 and 31 December 2014.

1000 COMPANIES TO INSPIRE BRITAIN 2015
The Telegraph
LLOYDS BANK
bgf
CENKOS

wealth&money managementawards
twothousand&fourteen
winner

alternative investmentawards
twothousand&fifteen
winner

- **A fundamental approach to investing** (sentiment may chase a theme but does not justify the theme)**. Thinking from first principles.**
- **Sustainable income is a priority:**
  - The yield at purchase of any property investment must ALWAYS exceed borrowing costs;
  - We assess investments with an emphasis on ROE as opposed to IRR (because IRR's require an exit price assumption);
  - Over the long term it is income and not capital value movements which largely determine total returns;
  - Sustainable high income streams can sustain leverage and thereby enable total equity returns to be boosted;
  - Capital is better protected if investments yield a high income, preferably from a low (reversionary) rent level.
- **Property is illiquid** – but this illiquidity can be mitigated by rental income – liquidity through income.
- **An active approach to asset management (where possible).**
  - Largely exited the UK commercial property market in 2005, re-entered in 2009. We act dynamically.
  - Reversed asset management policy of waiting until lease expiry to renew leases following onset of the credit crunch in 2008.
  - Recommenced development activity in the UK in May 2013 in response to the introduction of Permitted Development Rights and the boosting of demand for residential property with the "Help to Buy" scheme.
- **Flexibility in the light of market changes.**

- **We target higher yielding properties with sustainable income streams, enabling us to boost returns by applying leverage.**

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	Unaudited six months to 30-Sep-2015	Unaudited six months to 30-Sep-2014	Percentage change	Notes
Income Statement				
Statutory profit before tax	£5.93m	£5.42m	+9.4%	Increase attributable to Group Properties
Diluted earnings per share	4.13p	4.07p	+1.5%	
Dividend per share	0.385p	0.35p	+10.0%	
Average €/£ rate used	1.386	1.250	-10.9%	

Balance Sheet				
Net assets	£32.06m	£26.62m	+20.4%	Properties held at the lower of cost or value
Net assets per share	27.14p	22.72p	+19.5%	
Adjusted net assets per share	40.29p	26.15p	+54.1%	Calculated according to EPRA triple net valuation methodology, which includes fair values of (i.) properties, (ii.) financial instruments, (iii.) debt and (iv.) deferred taxes
Cash balances	£14.20m	£12.05m	+17.8%	
Period-end €/£ rate used	1.357	1.283	-5.8%	

	Unaudited six months to 30-Sep-2015	Unaudited six months to 30-Sep-2014	Percentage change	Notes
Property Portfolio				
Group Properties at book value	£125.9m	£63.1m	+99.5%	Comprises 11 properties held by Group and FOP. Excludes the Group's non-controlling interests in 4x other FPAM funds.
Group Properties at market value	£145.3m	£72.5m	+100.4%	
Gross Debt secured against Group Properties	£108.3m	£50.7m	+113.6%	Individual loans are ring fenced in SPV's and are non-recourse to the Group
LTV	74.5%	69.9%		
Assets under management:				
Third Party AUM	£137.2m	£260.5m	-47.3%	
Group Properties	£145.3m	£72.5m	+100.4%	
Total assets under management:	£283m	£333m	-15.0%	
Poland	53.8%	66.9%		
United Kingdom	43.6%	30.5%		
Romania	2.6%	2.6%		

- Interim dividend increased by 10% to 0.385 pence per share;

- The contribution to Group profit before tax and unallocated central overhead costs from Group Properties increased to £5.22 million (2014: £2.97 million) largely due to the contribution made by the six properties acquired in Poland and Romania by the Group and FOP between July and December 2014.

- The contribution to Group profit before tax and unallocated central overhead costs from fund management decreased to £1.19 million (2014: £2.90 million) due to both reduced performance fees earned by Fprop PDR and the expiry of our fund management contract with USS. Fund management fee income, excluding performance fees, is currently being earned at the rate of some £1.3 million per annum but should grow from here as we continue to invest the SIPS mandate and as we win new contracts.

- Excluding the fair value adjustment, the impact of a weaker Euro versus Sterling resulted in profit before tax being c£512,000 lower than it otherwise would have been.

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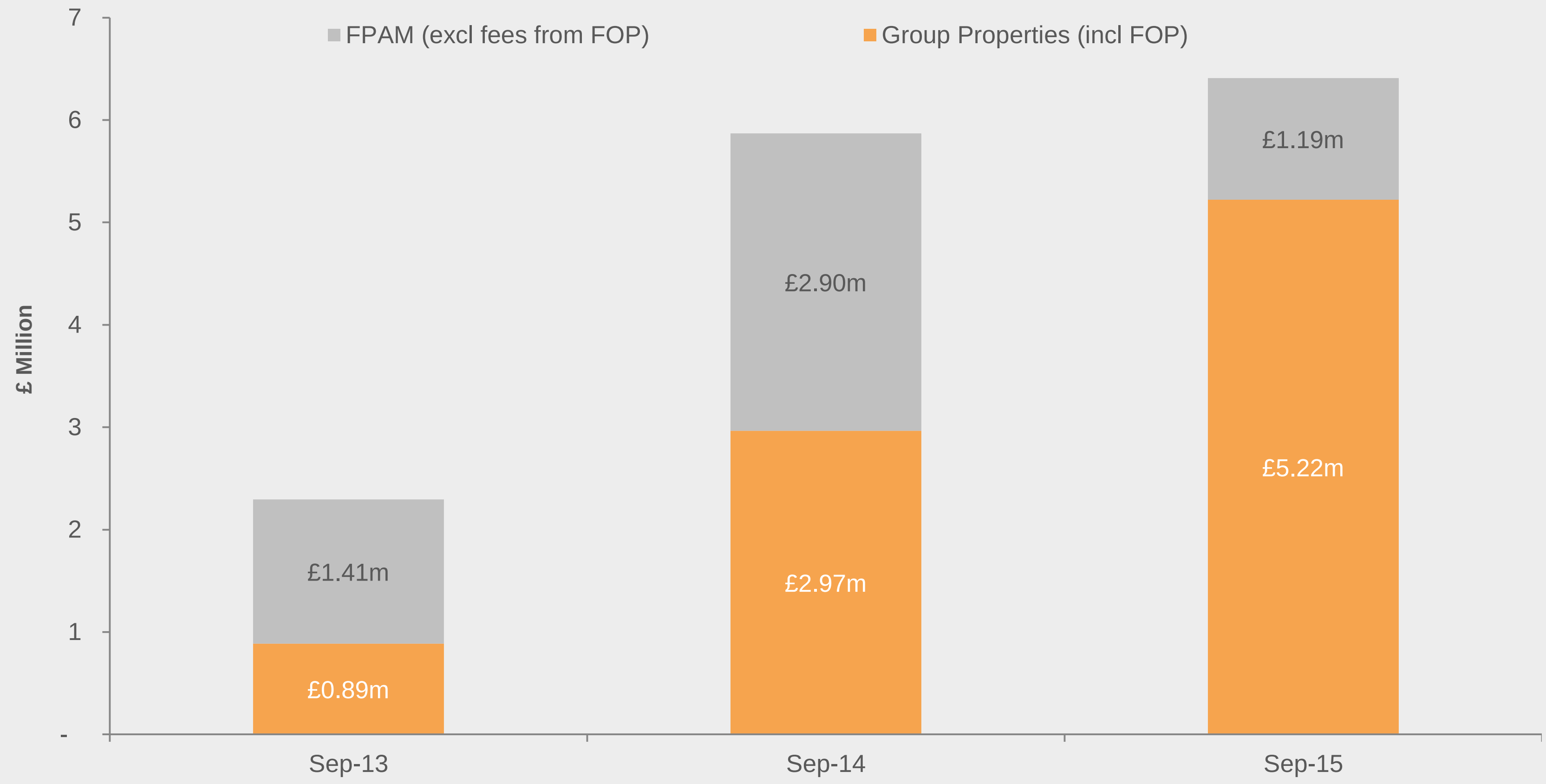
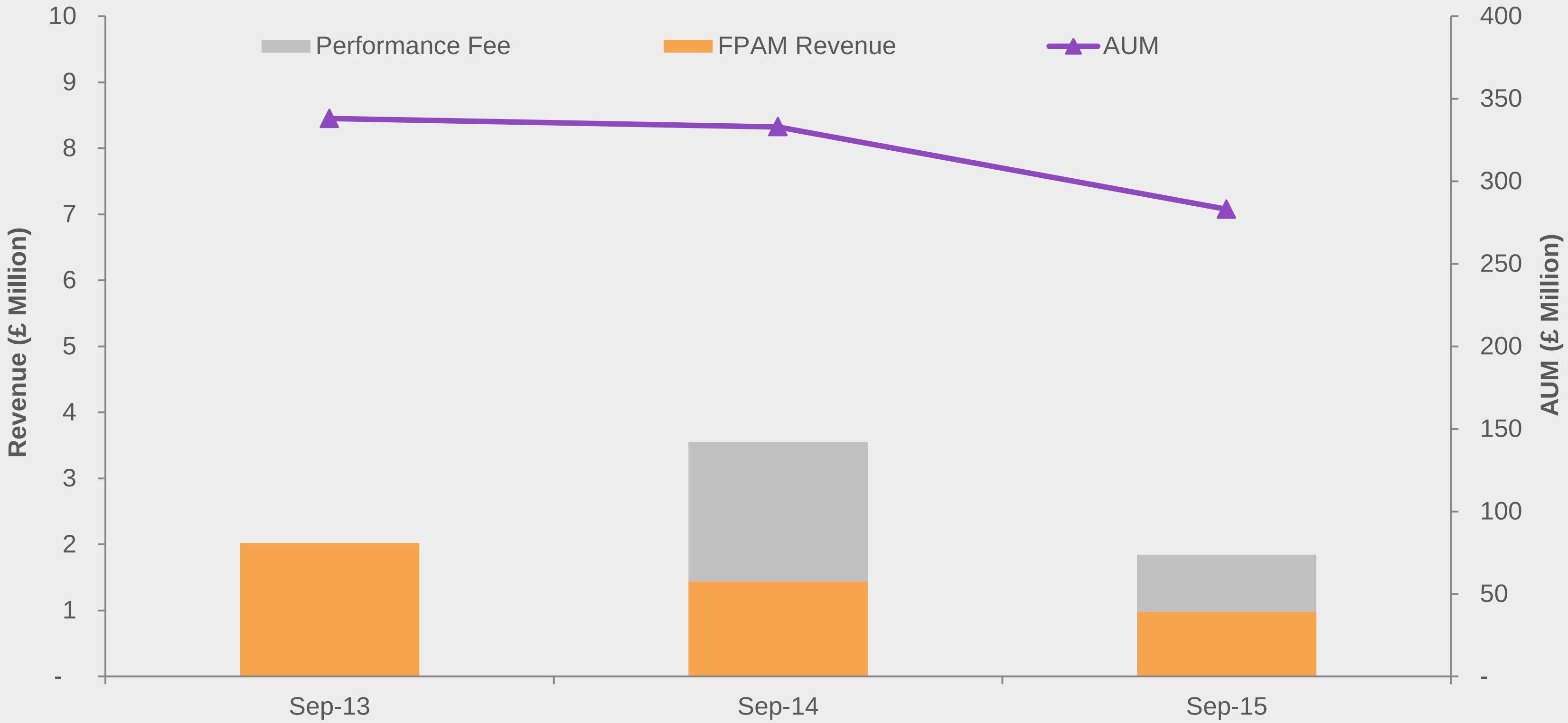
Segmental Analysis

Profit before Tax by segment (before unallocated central overheads)



Segmental Analysis – Fund Management (FPAM)
OVERVIEW

Fund Management (FPAM):
Contributed profit before tax and unallocated central overheads of **£1.19 million** (2014: £2.90 million), representing 18.5**%** (2014: 49.4%) of Group profit before tax and unallocated central overheads.



Segmental Analysis – Fund Management (FPAM)
Fees

Management fees:

- Fees earned from USS fund declined to £301,000 (2014: £908,000) due to property disposals ahead of its expiry in August 2015;
- **Following the expiry of the USS fund, third party fund management fee income excluding performance fees is currently being earned at the rate of <u>c£1.3m per annum</u>;**
- We expect this rate to increase as:
  - SIPS fund becomes more fully invested;
  - Pending and new investments in CEE complete.

Performance fees:

- £0.86m (2014: £1.9m) – earned by Fprop PDR.

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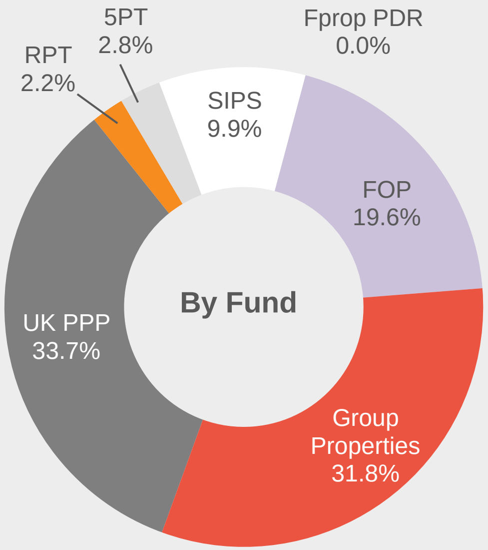
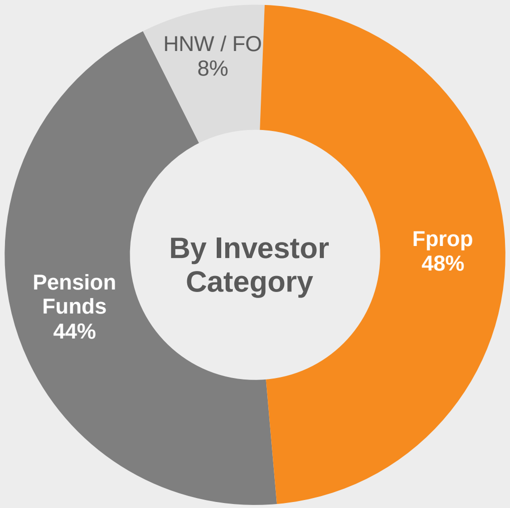
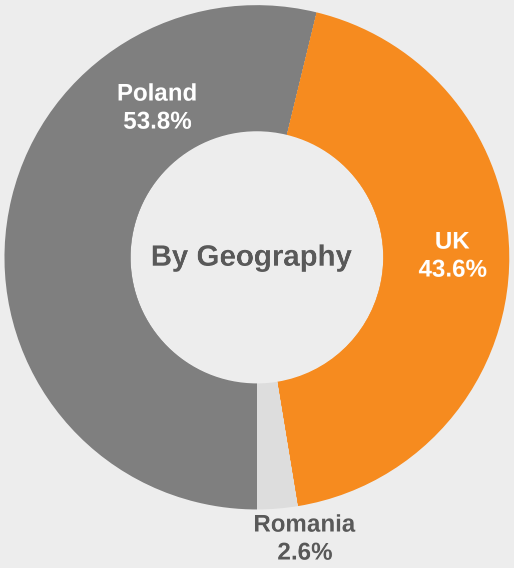
Segmental Analysis – Fund Management (FPAM)
Assets under Management (incl Group Properties)

	Fund	Country of investment	Fund expiry (unless extended)	Commitment	AUM 30 Sep-2015	% of total AUM	AUM 30 Sep-2014
1.	SAM Property Company Ltd **(SAM)**	UK	Rolling	Fully invested	Not subject to revaluation	n/a	n/a
2.	Regional Property Trading **(RPT)**	Poland	Aug-2020	Fully invested	£6.3m	2.2%	£6.7m
3.	5th Property Trading **(5PT)**	Poland	Dec-2017	Fully invested	£7.8m	2.8%	£8.5m
4.	USS Fprop Managed Property Portfolio LP **(USS)**	Poland	Aug-2015	Expired	n/a	n/a	£140.7m
5.	UK Pension Property Portfolio LP **(UK PPP)**	UK	Feb-2017	Fully invested	£95.1m	33.7%	£93.4m
6.	Fprop PDR LP **(PDR)**	UK	May-2018	£42 m	£0m	0%	£11.2m
7.	SIPS separate account **(SIPS)**	UK	Jan-2025	£125 m	£28.0m	9.9%	n/a
				Sub total	**£137.2m**	**48.6%**	**£260.5m**
1	Fprop Opportunities plc **(FOP)**	Poland	Oct-2020	Fully invested	£55.5m	19.6%	£48.8m
2	6x Group Properties	Poland & Romania	n/a	n/a	£89.8m	31.8%	£23.7m
				Sub total	**£145.3m**	**51.4%**	**£72.5m**
				Total	**£282.5m**	**100%**	**£333.0m**

Segmental Analysis – Fund Management (FPAM)
Breakdown of AUM (incl Group Properties)







- Assets under management (AUM) calculated by reference to independent third party valuations.
- Includes £145.3m of investments (at market value) held directly by the Group and FOP.

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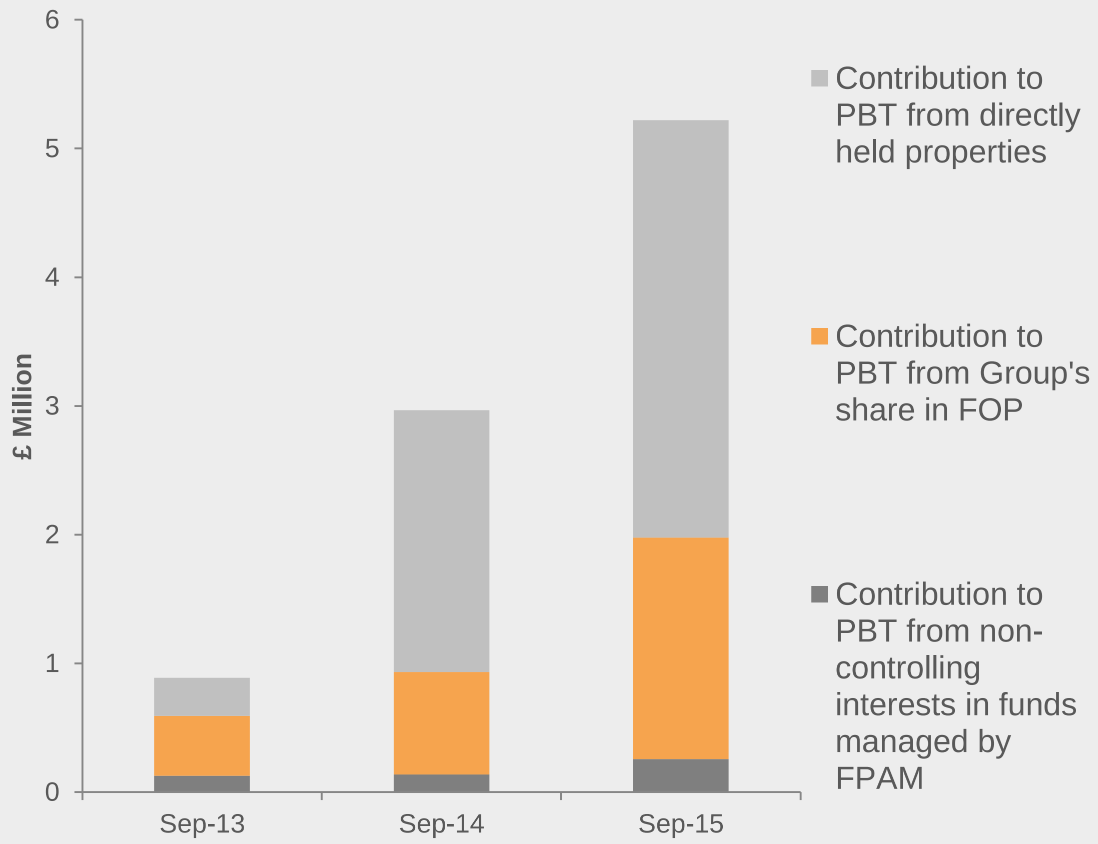
Segmental Analysis – Group Properties
OVERVIEW

Group Properties:

Contributed profit before tax and unallocated central overheads of **£5.22 million** (2014: £2.97 million), representing **81.5%** (2014: 50.6%) of Group profit before tax and unallocated central overheads.



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Segmental Analysis – Group Properties

Eleven properties owned directly by the Group and FOP

Property	No. of properties	Book value	Market value	Contribution to Group profit before tax to 30 Sep-2015	Contribution to Group profit before tax to 30 Sep-2014
Poland	3	£69.9m	£82.4m	£2.79m	£0.72m
Romania	3	£5.2m	£7.4m	£0.45m	£1.31m*
FOP (all in Poland)	5	£50.8m	£55.5m	£1.72m	£0.8m
Total	**11**	**£125.9m**	**£145.3m**	**£4.96m**	**£2.83m**

* Includes £1.123m of negative goodwill arising from the refinancing of the subsidiary.

The increase in profit before tax earned by Group Properties resulted mainly from a full period contribution from the six properties acquired by the Group and FOP between July and December 2014, which amounted to £2.69m (2014: £0.16m).

Segmental Analysis – Group Properties (cont)
Eleven properties owned directly by the Group and FOP

- **Cash flows:**
  Assumes current rent levels, FX rates and interest payments.

Net rent (after property operating costs)	c£15m pa.
Interest payments	c£2.85m
Tax	c£0.75m
Loan amortisation	c£5.40m
Free cash	c£6m pa. (c70% ROE)

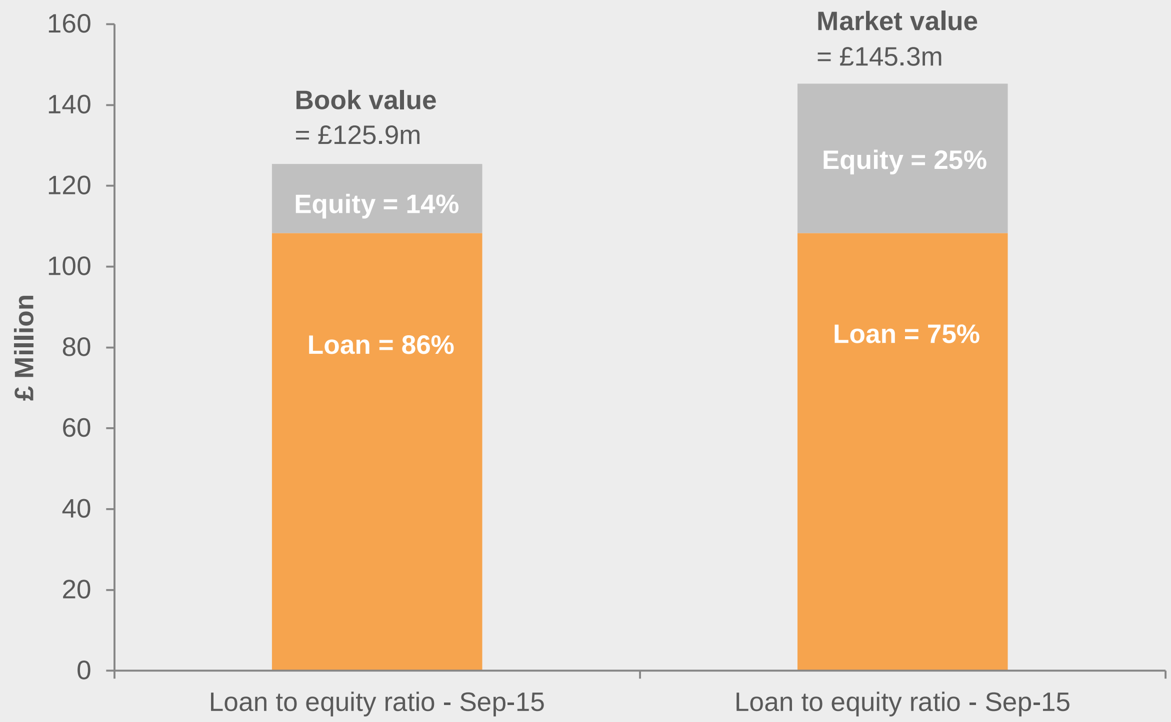
NB. Table represents net contributions from the 11 properties and is prior to the deduction of overheads and other Group costs.

- **FX:**

  Further weakening of EUR vs GBP by 10% (from the period end rate of €1.357/ £1 to €1.493/ £1) would reduce profit before tax by c£570,000 per annum.

Segmental Analysis – Group Properties (cont)

Eleven properties owned directly by the Group and FOP



- Properties are held in separate non-cross collateralised SPV's which are non-recourse to the Group.
- Interest rates:
  - Current weighted average borrowing cost = c2.87% per annum;
  - Group exposure to interest rate rises is mitigated by selective use of interest rate caps and fixes.
- Valuation:
  - Yield vs market value = c10%
  - Yield vs book value = c12%
- Period end €/£ rate = 1.357

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Segmental Analysis – Group Properties (cont)

Eleven properties owned directly by the Group and FOP

- **Top 10 tenants:**

1	Asseco S.A.	Technology	26.90%
2	Citibank International PLC	Finance	11.75%
3	Carrefour	Food Retail	7.91%
4	Aquila	Logistics	6.31%
5	Skanska S.A.	Construction	6.04%
6	Tesco (Polska) sp z o.o.	Food Retail	3.35%
7	Operator Logistyczny Paliw Płynnych	Energy	2.99%
8	Narodowego Funduszu Zdrowia	Healthcare	2.78%
9	Bank Zachodni WBK SA	Finance	2.07%
10	HRK	Business Services	1.96%
		% of rental income attributable to top 10 tenants	**72.06%**

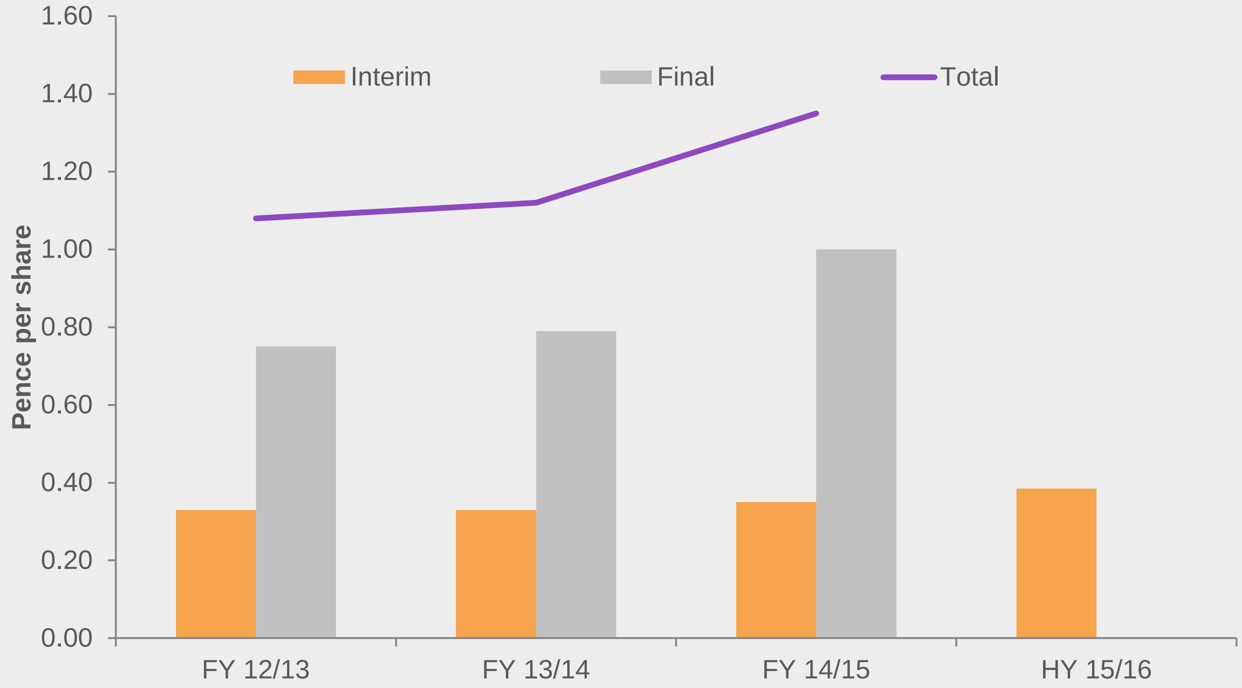
- Weighted Average Unexpired Lease Term (WAULT) = 4 years, 5 months;
- Occupancy ratio = 96%.

Segmental Analysis – Group Properties (cont)
Non-controlling interests in funds managed by FPAM

Non-controlling interests in funds managed by FPAM:
Contributed £257,000 (2014: £137,000), the increase being attributable to Fprop PDR LP.

Fund	Group's shareholding	Book value of Group's Share	Market Value of Group's share	Contribution to Group PBT H1 2015	Contribution to Group PBT H1 2014
Interest in associates:					
5th Property Trading (5PT)	37.8%	£530,000	£1,038,000	£59,000	£81,000
Regional Property Trading (RPT)	28.6%	£145,000	£193,000	£6,000	£26,000
Share of Results in Associates		**£675,000**	**£1,231,000**	**£65,000**	**£107,000**
Investments:					
UK Pension Property Portfolio (UK PPP)	0.9%	£903,000	£903,000	£29,000	£30,000
Fprop PDR LP	5.0%	£13,000	£13,000	£163,000	£nil
Sub total		**£916,000**	**£916,000**	**£192,000**	**£30,000**
TOTAL		**£1,591,000**	**£2,147,000**	**£257,000**	**£137,000**

NB: It is Group accounting policy to hold properties/shares in funds at the lower of cost or valuation.



Interim dividend:

0.385p (2014: 0.35p) = +10.0%

Total dividend for year to Mar-2015:

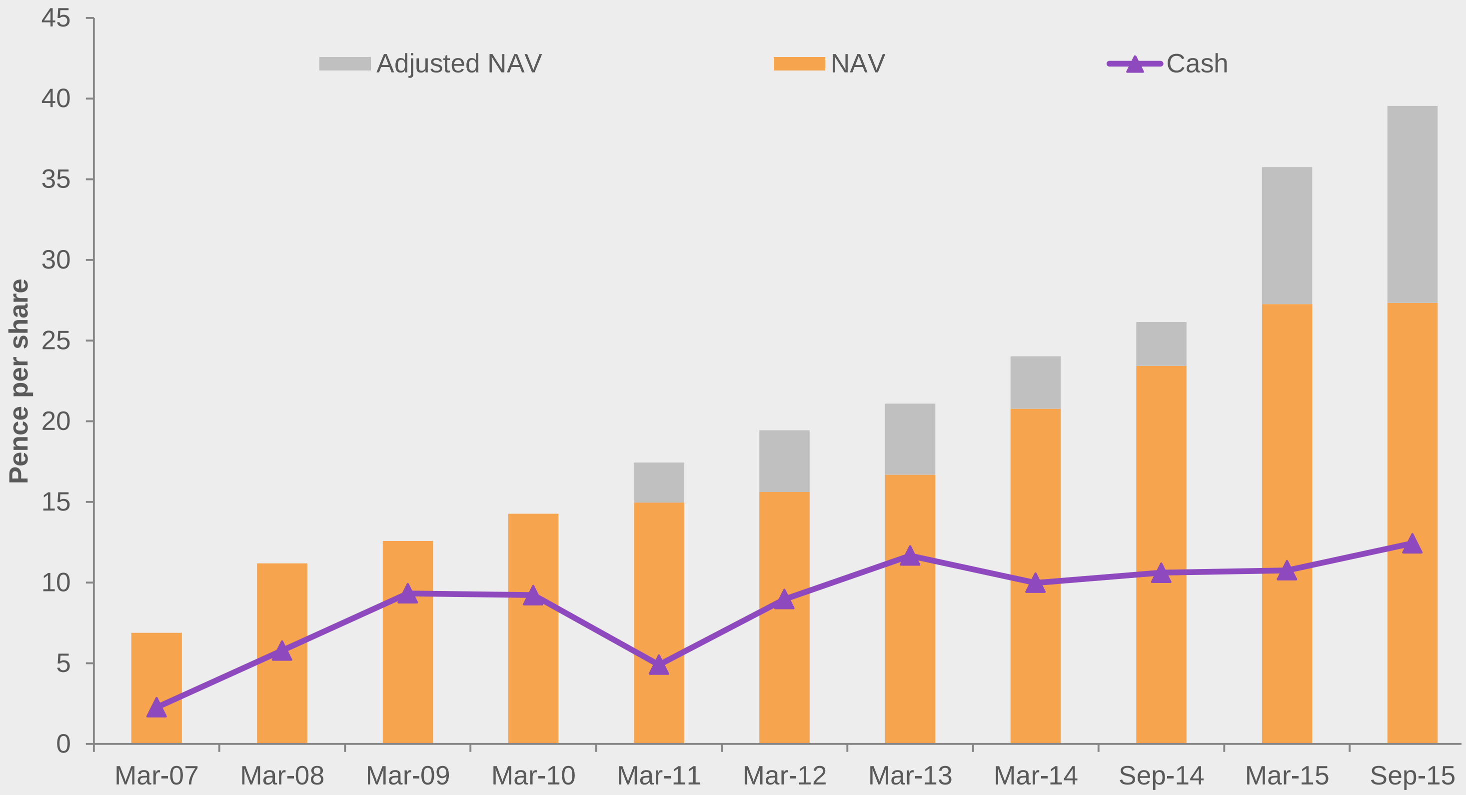
1.35p (2014: 1.12p) = +20.5%

Ex-Dividend	3-Dec-2015
Record Date	4-Dec-2015
Payment Date	31-Dec-2015

DIVIDEND POLICY:
Progressive, aligned to the free cash generation of the Group.

Dividend has been **MAINTAINED** or **INCREASED** every year since 2003.

NAV per share 2007-2015



Adjusted NAV = adjusted to market value in line with EPRA (European Public Real Estate Association) triple net valuation methodology, which includes fair values of:

(i) properties;
(ii) financial instruments;
(iii) debt;
(iv) deferred taxes.

- **GDP growth:**
  - 2015: 3.5% (E)
  - 2016: 3.5% (E)

- **Commercial Property:**
  - Rent levels generally sustainable, subject to location;
  - Capital values of secondary property remain largely unchanged from their credit crunch lows. Yield c2-3% more than equivalent property in Western Europe;
  - Banking sector is well capitalised and keen to lend against property at record low interest rates.

- **Tangential beneficiary of QE in euro zone:**
  - Economic activity boosted in Germany and by association Poland (c40% of Poland's trade is with Germany);
  - Value of the euro suppressed (the currency in which most Polish commercial property transacts and in which rents are paid), translating into reduced capital values for non-euro based investors;
  - Euro interest rates suppressed (Polish commercial property largely trades in euro)

Applying leverage at low interest rates to high yielding property in a growing economy = THE RIGHT INGREDIENTS TO MAKE MONEY.

- **GDP growth:**

  - 2015: 2.6% (E)
  - 2016: 2.4% (E)

- **Commercial Property**

  - Occupier Market:
    - Tenant demand growing;
    - Tenant default rates declining;
    - Leading to increased industrial and office rents, particularly in South East.

  - Investment Market:
    - Demand, including from international investors, has spread into the regions;
    - Net initial yield for All Commercial Property = 4.9% (equivalent yield = 5.9%)*;
    - Market expectation that yield stabilisation is approaching, with future gains expected from rental growth.

- **Planning**

  - We expect continued Government efforts to loosen the planning system to enable higher rates of new development.
  - Permitted Development Rights (PDR) to be made permanent but detail yet to be announced.

* Source = IPD

Outlook

FPAM

- Fund management fee income, excluding performance fees, is currently being earned at the rate of **£1.3 million per annum**. We expect this to increase from:
  - **SIPS** (minimum £125 million UK investment mandate) – we have invested £39 million to date and have a further £32 million of property under offer.
  - **New funds** – we have some €35 million of high income generating new investments under offer in Poland and Romania with more under review.

Group Properties

- Contributed **£5.22 million** to Group profit before central overheads and tax during the period.
- Capital values in CEE still largely unchanged from the lows of the credit crunch but QE has depressed borrowing costs. WE ARE PLANNING ADDITIONAL HIGH INCOME GENERATING INVESTMENTS.
- **NOW IS THE MOST ATTRACTIVE OPPORTUNITY WE HAVE SEEN TO INVEST IN CEE SINCE WE STARTED INVESTING THERE IN 2005.**

Pending investment – shopping centre, Poland

Purchase:

- Newly completed medium size (c10,000m^2) shopping centre;
- Purchase price = c€25m;
- Potential for rental growth;
- Medium term lease lengths;
- Loan: 75% LTV.

Business Plan:

- Hold for high ROE – 18% p.a. at purchase
- Income growth – automatic from rent increases linked to CPI and to tenant turnover.

Pending investment – portfolio of retail properties, Romania

Purchase:

- Purchase price = c€10 million (yield of 11.3%, 15% discount to independent valuation);
- Sustainable rent, subject to annual indexation (upward only);
- Weighted average unexpired lease term [WAULT] c7.5 years;
- Loan at 75% LTV

Business Plan:

- Hold for high ROE – 18% p.a. at purchase;
- Income growth – automatic from rent increases linked to CPI;
- Capital growth – from rent increases and yield narrowing (as capital markets recover from deep credit crunch):

Appendices

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Appendix

Shareholders > 3% at 21 Oct-2015

	No of shares	% held (of issued and fully paid)
Ben Habib (Chief Executive Officer)	16,700,000	14.6%
J C Kottler Esq	15,006,783	13.1%
New Pistoia Income Ltd	10,285,000	9.0%
Universities Superannuation Scheme Limited	9,550,000	8.4%
Alasdair Locke (Non-Executive Chairman)	8,571,990	7.5%
Total	**60,113,773**	**52.6%**

Appendix
Share Statistics at 26-Nov-2015

LSE (AIM) Symbol	FPO.L	
Share price	46p	
Market Cap	£52.5 million	
Dividend	Interim	0.385p
EPS (undiluted)	4.28p (2014: 4.24p)	
EPS (diluted)	4.13p (2014: 4.07p)	

	30 Sep-2015	30 Sep-2014	% change
Issued & Fully Paid	114,851,115	114,851,115	-
Issued (excl Treasury)	114,205,912	113,669,360	+0.47%
Shares held in Treasury	645,203	1,181,755	-45.3%
Outstanding share options over Ordinary shares	4,450,000	5,050,000	-11.9%
Average strike price of outstanding share options	16.26p	15.32p	+6.1%

Appendix
Plc Management Team

Non-Executive Chairman — Alasdair Locke, MA (Oxon)

Alasdair is the former executive Chairman of Abbot Group plc, an oil services company which he founded in 1992. It was listed on the London Stock Exchange from 1995 until its sale in 2008 for £906 million to Turbo Alpha Ltd, a company controlled by a US private equity fund. His early career started in investment banking at Citigroup in 1974, where he specialised in shipping and oil. Alasdair is also Chairman of Argenta Holdings plc, an unlisted holding company which trades in Lloyds of London, Non-Executive Chairman of Hardy Oil & Gas plc, and a Non-Executive Director of Ceramic Fuel Cells Limited (AIM / ASX: CFU).

Independent Non-Executive Director — Peter Moon, BSc (Econ)

Peter retired as Chief Investment Officer of Universities Superannuation Scheme (USS) in 2009 following a career steeped in the UK investment management industry. Aside from his 17 year tenure at USS, he was a member of the National Association of Pension Funds (NAPF) Investment Committee from 1990-1995, and more recently an adviser to Lincolnshire County Council and London Pension Authority. Earlier roles included investment management positions with British Airways Pensions, National Provident, Slater Walker and Central Board of Finance, Church of England. Additional directorships include Scottish American Investment Company plc (Independent NED) and Arden Partners plc (Non-Executive Chairman).

Group Chief Executive & FPAM Chief Investment Officer — Ben Habib, MA (Cantab)

Ben founded First Property Group plc in 2000. He is responsible for all aspects of the operations of Fprop and its fund management business. Prior to setting up Fprop, Ben was Managing Director of a private property development company, JKL Property Ltd, from 1994 - 2000, in which he held a 30% interest. He started his career in corporate finance at Shearson Lehman Bros. He moved in1989 to PWS Holdings plc, a FTSE 350 Lloyd's reinsurance broker, to be its Group Finance Director. He was educated at Rugby School and Cambridge University.

Group Chief Financial Officer & Company Secretary — George Digby, BA (Hons), ACA

George joined Fprop in 2003 and has overseen the rapid expansion of the fund management division during this period, including the development of operations in Poland. Prior to Fprop, George spent 10 years as FD of Fired Earth plc until its MBO in 1998, during which period he oversaw its listing on the London Stock Exchange, a tripling of its turnover and a doubling of its pre-tax profits. He qualified with Price Waterhouse in 1981, followed by positions with Collins Publishers and Nikon UK Ltd. After Fired Earth he set up and ran a successful accounting consultancy for five years. George brings broad financial experience to the Group. He is a member of the Institute of Chartered Accountants in England and Wales.

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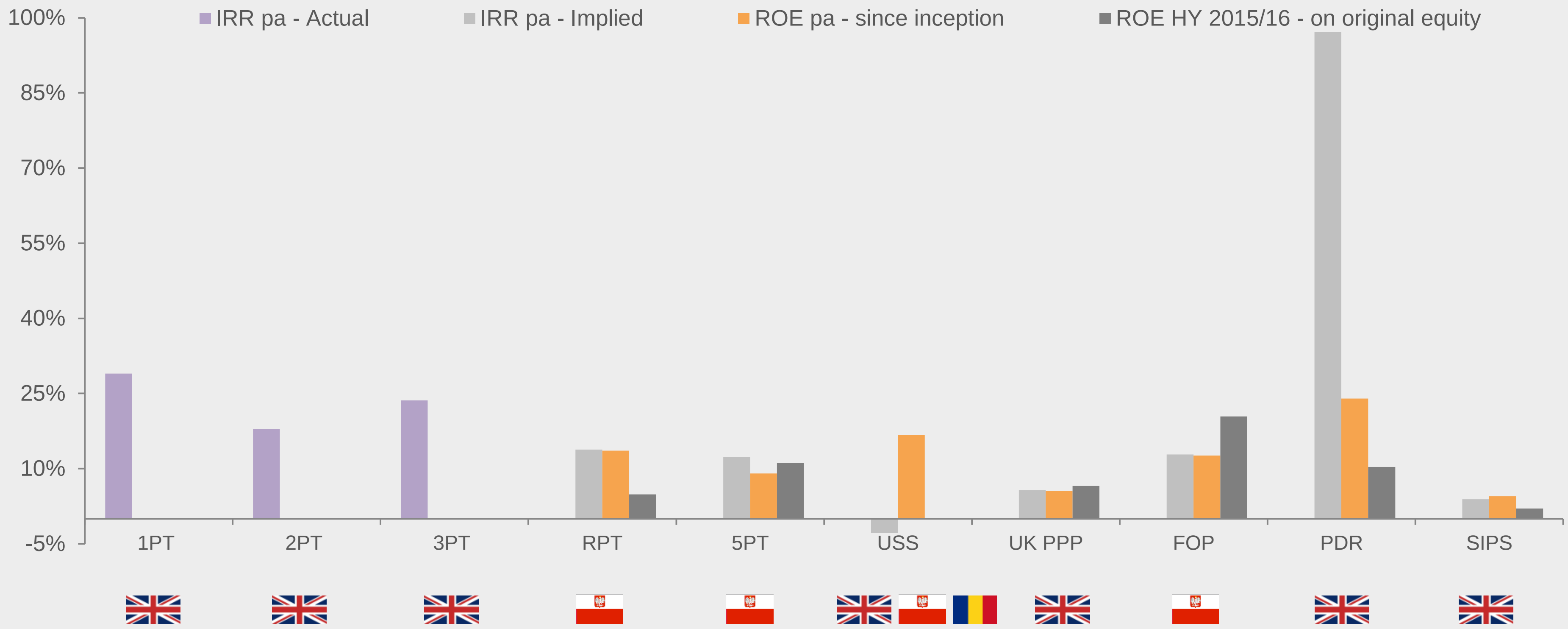
FPAM Track Record
All Funds (excl SAM) to 30-Sep-2015

Fund performance at 30 September 2015 (USS to 31-Mar-2015):



- Implied IRR calculations use NAVs at 30-Sep-2015, and are since inception, with the exception of USS & PDR (to 31-Mar-15).
- ROE's since inception are calculated using average pre-tax income per FY ÷ original shareholders' equity employed.
- ROE's for 2015/16 HY are calculated using annualised pre-tax income for HY period ÷ by opening equity (NAV at 31-Mar-2015).
- USS performance to 31-Mar-15.

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Case Studies - Poland

Blue Tower, Warsaw

Aggregate purchase price to date:

- 48.2% of Tower - £12.5 million in Dec 2008 & Nov 2013;
- 90% of Tower's management co (Corp SA) - £300,000 – in Dec-2008, Nov-2009, Dec-2013;
  = £12.8m (vs Mar 2015 valuation of £14.2m, excl Corp SA)

At purchase:

- Rents c25% below market and denominated in mixture of €, $ & PLN;
- Weighted average unexpired lease term [WAULT] c.2 years;
- Subject to high service charge (c.1.5x market) levied by tied management company (Corp SA).

Execution:

- Dec-2009 – gained control of Corp SA - enabling us to substantially cut costs but retain resultant savings for shareholders in Corp SA. The continued high service charge reduces ability of any would be acquirers of the balance of the building not owned by us to increase rent;
- By end 2010 – increased Net Operating Income (NOI) by 20%, extended leases to and simplified their FX denomination;
- Dec-2013 - increased our shareholding in building to 48% / Corp SA to 90%;
- TBC – develop the ground floor retail space.

Holding for:

- High ROE (c50% per annum);
- Capital gain from:
  - letting premium following acquiring full (100%) ownership of building;
  - development of retail space on ground floor.

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Case Studies - Poland
Oxford Tower, Warsaw

At first purchase (50.3%) for USS (Aug-2007):

- NOI = €2.6 million pa.;
- Let at average rent of c€8-10m^2 per month;
- WAULT = < 1 year
- Total return: €4.5m (IRR = infinite because equity refinanced out of deal within 3 months of purchase.)

At second purchase (50.3%) for Group Properties (Dec-2014):

- NOI = €4.5m pa. (+71% from first purchase in 2007)
- Let at average rent of €16-18m^2 per month;
- WAULT = 2 years, 2 months (Mar-2015).

Business Plan (in 2007 & 2014):

- Income – increase rents and reduce operating costs;
- Capital – increase value by:
  - extending leases;
  - acquiring balance of building not already owned by us;
  - obtaining planning consent to develop the site.

Execution:

- **2008** -
  - extended lease to Citi by 10 years and doubled their rent;
  - re-financed original loan to extract ALL equity invested.
- **2013** - obtained outline planning consent to develop adjacent additional tower on site;
- **2007-14** - increased NOI by 71% from €2.6m pa to €4.5m pa.

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Case Studies - Poland

Hypermarket single let Carrefour, Lodz, Central Poland

Purchase Price (2010):	€19.74 million
Equity invested:	€2.8m
NOI:	€1.6m p.a.
PBT:	€300k p.a.

Holding for:

- high ROE (>30% per annum)
- capital gain from development in car park: +€3.2m (+c100% on equity invested)

Description:

- Large format (15,900m^2) hypermarket constructed in 2000 with large car park (550 spaces);
- Single let to Carrefour Polska on a long lease guaranteed by French parent company, Carrefour S.A. (Euronext listed);
- Fully repairing & insuring (FR&I);
- BUT, rent level fixed for duration of lease (at €1.58m pa.).

Business Plan:

- Income – maximise ROE by leveraging the sustainable rent (creditworthy tenant / long term lease);
- Capital – increase value by:
  - extending the lease to Carrefour when it is closer to expiry and introducing annual upwards only rental uplifts indexed to CPI;
  - developing additional retail space of up to 4,000m^2 in the car park.

Execution:

- At purchase - obtained vendor financing at 90% of purchase price with no LTV covenant;
- 2013 – obtained building consent to develop 2,800m^2 of retail warehousing in car park. Construction costs estimated at €1.5 million, to commence once pre-lets agreed. End value when fully let = c€3.2 million.

Case studies - UK

Union Park, Packet Boat Lane, Uxbridge, London

Purchase Price (Aug-2014):
£7.8 million + costs = £8.7 million

Sale price (Mar-2015):
£18.3 million

Net profit:
£9.3 million (107% ROE)

Fprop profit share:
FPAM (20%): £1.86 million
Group (pro-rata): £340,000 (78% ROE)

Description:

- Office park in a mixed-use area beside the Grand Union Canal, mid-way between Heathrow and Uxbridge;
- 8x self-contained units arranged within 3x separate buildings totalling c70,000 ft2 of net internal space + 318 car park spaces.

Leases:

- Units 1-4: vacant;
- Units 5-8: partially let BUT 6x of the 9x leases were scheduled to expire after 30 May 2016 (expiry date of extension to Permitted Development Rights [PDR]).

Business Plan:

- Obtain planning consent for change of use from offices to residential via PDR;
- Enhance density of planning consent by obtaining planning permission to install dormer windows and to develop additional accommodation in the car park;
- Obtain vacant possession in preparation for sale as an “oven ready” site for a house builder.

Execution:

- Jan 2015 – PDR obtained over entire site for 190 residential units;
- Mar 2015 – sold for £18.3 million subject to delivering full vacant possession by 31 July 2015.

Poland
Economy

- GDP growth:
  - Since 2009: >20% (cumulative). Highest in OECD. Only euro zone country NOT to enter recession in 2009
  - 2015: 3.5%
  - 2016: 3.5% (E)
- GDP per capita:
  - 1995: 43% of the average of EU countries
  - 2000: 48%
  - 2008: 56%
  - 2012: 67%
- EU Cohesion Policy (transfer payments from richer EU nations for infrastructure development, etc):
  - 2007-13: €67.3 billion
  - 2014-20: €77.6 billion or €106bn incl CAP
- FDI – 2014: €172bn (2013: €160bn);
- Big population (39 million), balanced economy (60% of GDP internally generated);
- Low level of debt – national debt limited by Constitution to <55% of GDP;
- Healthy banking market.

Economic growth provides the backdrop for rental growth, which leads to capital growth.

COMMERCIAL PROPERTY MARKET:

- Opaque – creates opportunity;
- Occupier Market:
  - Tenant demand is generally robust - because of continued GDP growth;
  - But is insufficient in some sectors (eg. Warsaw non-CBD offices) to match pending supply.
- Investment Market:
  - Recovery well under way at prime end but capital values in broad market (where we focus) still down c20% since 2009;
  - Prime yields c50%+ higher / prime rents c60%+ lower than in Western Europe despite greater rental growth prospects - magnifying capital value differences.
- Development:
  - Less constrained than in more mature markets;
  - Has resumed following temporary halt during credit crunch (in particular office development in Warsaw);
  - Leads to variable vacancy rates (Warsaw offices currently at c14%, industrial down at 5%).
- Liquidity - dominated by foreign investors who focus on larger lot sizes.

COMMERCIAL PROPERTY FINANCE:

- Debt:
  - Readily available, enabling income returns on equity from rent alone >mid-high teens per annum;
  - Favourable terms for smaller loans against commercial property;
  - Larger loans require syndication and are generally subject to more demanding terms.
- Interest rates:
  - EUR base rate = 0.05%;
  - PLN reference rate = 1.5%;
- FX:
  - Largely transacts in EUR despite corporate earnings being predominantly in PLN.

Fprop plc

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