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INFORMATION:

REAL ESTATE BUSINESS IN POLAND (Stand 2006)

As generally known, new CEE member states have been experiencing strong development of their domestic real estate markets long before they joined the EU. Since 1998 the activities in the CEE real estate market grew exponentially. By the end 2005, investment volume achieved a new all time high with a total of 6 billion EURO in the CEE region. Since 1998, total investment into first rate real estate amounted to 13 billion EUR. Poland, Czech Republic and Hungary are the core markets for investors, but the interest of investors in emerging central and east European markets is growing strongly.

Austria, Germany, USA and France aggregate 77 % of the real estate investment in CEE since 1998.

BOOM AND YIELD COMPRESSION

Poland is going through a boom in its real estate market. In 2005, 3.9 bn EURO was invested in the Polish real estate sector. Investors concluded 72 deals with an average value of 55 million EURO. In 2005, large retail projects were the most attractive investment projects for real estate investors.

However, there is a lack of high quality investment products. So it comes as little surprise that a land mark office building in Warsaw had been already sold twice, although its official opening was only recently and it hasn't yet been fully leased.

The lack of investments products has lead to a significant "yield compression". The lowest yields were achieved in the office building sector; some transactions concluded in the second half of 2005 included a yield of approximately 6 %. In the beginning of 2004, the yields in the office building sector still amounted to 7, 25 %. It is widely expected that yields in Poland and the core CEE market will get close to the yields in the EU 15 markets.

INVESTMENT FOCUS

At present, investment activities are still concentrating on major projects with institutional "triple net" leases located in city centres.

However, in Warsaw a trend to fringe-centre office buildings can be noted. The total stock of class A and B+ office space in Warsaw stood at just over 2,3 mln sqm at the end of 2005, with a market split 60:40 in favour of non-central districts.

Warsaw still being the centre of interest for investors, the short supply in attractive investment projects has lead to a "regionalization" of the investment activity, driving more and more investors into investing in major regional cities in Poland such as TriCity (Gdansk, Sopot, Gdynia), Wroclaw, Poznan, or Krakow.

Take-up in office space in Warsaw was very positive in 2005. The vacancy rate in Warsaw dropped below 10 %.

The limited possibilities for investing in office, retail, logistic and hotel markets have encouraged more and more investors to enter the residential sector. Warsaw and the major Polish cities have experienced a substantial rising demand for residential real estate attracting a long list of real estate development companies or making established real estate developers shift their focus on the residential market.

OBSTACLES TO INVESTMENT

The serious obstacle to real estate investors in Poland is a lack of construction plots covered by land development plans or a valid decision on outline building conditions (so called WZ decision). Although most of the development plans stemming from the communist times have expired – after a long transitional period that was extended several times - especially major cities in Poland as the City of Warsaw failed to set+ up new development plans on which a building permit could be based. Without of a development plan, a WZi decision is required to outline the conditions of building of a given plot - a lengthy process largely depending on the discretion of the building local.

Poznan and Krakow have development plans for 5 % of their surface, Warsaw for 15 %. Investors who obtained a WZ decision still under the rule of the old development regime but did not finish the project before the development plan went out of force, have to apply for a new WZ decision according to the new "rules". Since in most of the cases no new development has been implemented the legality of a project will be assessed according the principle of "good neighbourhood". This principle includes a double requirement: At first, the project has to be located in a built up area, meaning, a plot obtains a building permit only if there is a building adjacent to it. Secondly, the project has to "fit in" into the existing building structure on the neighbouring plots. There is still no clear practice of the municipal building offices as to the interpretation of "good neighbourhood". It is still unclear if this principle refers only to plots in immediate vicinity or also to plots in the more distant neighbourhood.

On the clients' side it has to be noted that the project of a law envisaging protecting private buyers purchasing real estate from a development company from the risks typically inherent in such kind of transactions has not been enacted. This project was to provide for the prohibition of certain clauses overly disfavouring the buyer. In addition, the project made the payment of the sales price into a fiduciary account compulsory. The bank that controlled the account had to pay out the funds in accordance with the actual progress in the construction activities. Since the residential market is now becoming a developer's market, consumers intending to buy real estate might face tough negotiation to obtain reasonable conditions in their purchase agreements.

OVERVIEW ON POLISH REAL ESTATE LAW

As general information on the Polish legal system the reader should note that in Poland there are two basic forms of title to real estate: full property (similar to "freehold" title) and the right of perpetual usufruct. The latter is a form of ownership where the government owns the underlying title and grants the user full right to use and enjoy the property for up to 99 years. Generally, the direct or indirect acquisition of real estate by foreigners requires a permit by the Ministry of Internal Affairs and Administration. However, foreign entities or individuals from EEA countries (EU 25 plus Norway, Iceland, and Lichtenstein) are free to acquire real estate directly or indirectly. An exception applies to agricultural and forest land and land in certain area adjacent to the Polish border.

The Land and Mortage registers kept by the District Courts show the owner of the property and also indicate encumbrances the land or the usufruct by mortgages or servitudes. As rule, "good faith" purchasers of land are entitled to rely upon information contained in the register. Leases are freely negotiable. However, a lease ("najem") for a fixed period of time is limited to a maximum term of 10 years. A long term lease ("dzierżawa",) which was originally designed for agricultural land, is often used to lease commercial property for up to a maximum of 30 years.

There is no comprehensive restitution law in Poland. Nonetheless, former owners of real estate can seek restitution based on a complex web of laws. Restitution claims may be registered in the Land and Mortgage register, but the absence of such registration does not indicate that no such claim exists. Most legal documents need no

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longer to executed in Polish to be enforceable in Poland. Nevertheless a notarial form of real estate transfer can only be executed in Polish.

GENERAL ECONOMIC OUTLOOK

The general economic outlook for Poland is that without any serious effects external, the prospects for Poland's economy are very good. Experts expect GDP growth of between 4 % and 5 % both in 2006 and 2007. There should be little threat from abroad. Both foreign demand and – thanks to increasing price-setting power by Polish exporters – the terms of trade will develop favourably. In addition, Poland can expect net transfer payments from the EU in the amount of 3 % - 4 % of GDP annually. Even if it utilizes only half of those funds, this will strongly support growth. Even if the government does not pursue an optimum economic policy, this will hardly affect Poland's economy under these circumstances in the medium term. Long-term success would however require a stronger orientation towards the Euro, the avoidance of striking a too nationalistic note and further acceleration of the transfer of technology and management by increasingly opening the country vis-à-vis Europe and the world, thus quickly achieving a further improvement in productivity. As it seems a very friendly climate also for real estate investors!