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Sentiment Index Interviews

2016



About the Sentiment Index

Our Sentiment Index Interviews comprise answers from 40 real estate companies operating on the Polish market. The interviews were directed into four groups of market participants: agents, investors, advisors and developers.

In the interesting times we are interested in other market participants' opinions and expectations concerning current market conditions and future opportunities. To answer the market needs Deloitte Real Estate team had pleasure in interviewing 40 Real Estate market key experts to find out their feelings about the real estate market in Poland. We plan our interviews as recurring examination of the market sentiment which would not replace the numeric info from the market, but would fill the info up with more human element - how do we feel about the figures. It is also interesting that the same market situation can generate different impressions and expectations concerning future trends.

All of the reviewed experts are experienced market participants, who have had a chance to act on the market in very different real estate cycle stages. Therefore, however we ask about their sentiment but their view on the market is mature and reasonable.

Do we take better decisions when we are not so confident about present and future?

“ Every market situation gives opportunities. The key is to understand the market and be there before others. You cannot manage the market cycle and macro changes but you can always adjust to them before others. ”

Marta Kamionowska, Director, Financial Advisory

It is hard to summarize in a smooth way the market situation where: the market participants feel somewhere between optimistic and pessimistic, most of the observed market indicators is stable and in the investors and their advisors' common usage is the adjective "average", as the one describing the market situation.

Current market situation is affected by three factors:



General
Real Estate
cycle



Pan European
movements of
investment capital



Polish political
situation

What is important, the situation is not pessimistic yet, but the market participants are getting more cautious.

Let's have a look on details to understand more.

Agents - the mirror of the market

In general, the agents' story about the market would be: Once upon a time there were 3 kids...



Office market - the
most problematic
one

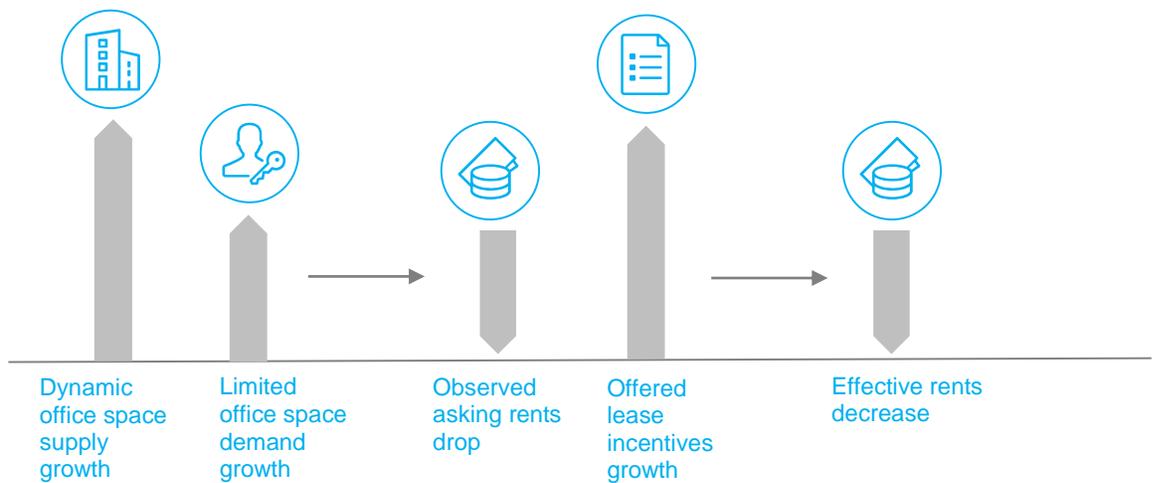


Nice and stable
retail kid



A bit lazy but
talented logistic

The less positive outlook on the office sector is mainly caused by the observed growing supply with not alike dynamic demand. The two affect the drop of asking rents, as well as increasing value of tenants' incentives. On the other hand, from tenants' perspective it is ideal time for relocation rather than leases extension in current location. However, the rent levels for similar locations might be very alike but the newly constructed buildings offer more than the ones 3-5 years old. The expected by tenants functions are: the new office space concept, flexibility, green technology and common areas facilities. The contracts are signed for up to 5 year term and not for more than 2.000 sqm area. The lease term is actually typical for all the sectors, even for logistics. It is interesting since the sector was always associated with a long term leases (up to 10 years). Since 2008 global crisis, when the risk connected with business operations increased, the shorter lease periods become safer both for the landlords and the tenants. However nowadays the situation is more stable, but still the preferences for up to 5 year leases prevail. On the other hand, the short leases in case of retail and logistic sector do not mean that the tenants would relocate every 5 years. Retail and logistic seem to be even more than offices addicted to location. For offices location can be discussed in wider categories as CBD, out of CBD or the city outskirts. Within the categories competition between buildings is quite high, so tenants are happy to make a deal on it.



Renegotiations

In case of the buildings where location is their one and only benefit and the other functionalities and amenities are missing, it is hard to compete with the new projects, so the renegotiations are less attractive.

Relocations

-  Modern and Flexible office space
-  Additional building amenities
-  Green buildings, less expensive solutions

Based on the above - is the market still attracting the investors?

In general Investors as well as their Advisors are in low optimistic mood. The main risk they see currently on Polish market is the “political risk affecting RE market”, as well as “lack of prime assets to buy”. Hard to say if the above speaks for rising willingness to exit Polish market expressed by some of the Investors. On the other hand, most of them see alternative investment opportunities in other CEE countries and plans to enter the markets. The Polish office and retail sectors are recognized as ‘average risk’ options whereas, which is interesting, the logistic one is said to be related with ‘high risk and low potential’. The last assessment is completely different from Advisors opinions where the logistic is of ‘high or at least average potential’.

The residential sector is still recognized as ‘average’ in terms of risk as well as investment potential nevertheless some of the investors are currently in acquisition process of the kind of properties.

Developers and investors

The expected average exit yields on specific sectors indicate very similar level for offices and retail, with the exception of local markets retail schemes expecting higher by 1 or 2 %age points yields.

The expected developers’ profits on commercial projects vary from 15 - 30% where the high end seems very demanding.

The residential projects ask for 20 - 25% profit.

If the “lack of prime assets to buy” is one of the investors’ worries, the developers seem to do their best to deliver the new buildings. Most of them still focuses on office buildings having up to 3 such projects in their pipelines for the next 2 years. Retail projects seem to be less attractive, as well as the mixed use ones. Developers are active in the pre- commercialization process and do not believe in speculative investments. They also seem not to trust in PPP projects. Warsaw is the preferred location with the second position guaranteed to other large Polish cities (over 400k), as well as the outside Poland locations.

The market picture based on the above results is not very surprising, since we all have good perception of the market factors, trends and risks. Interesting will be the next 6 months results. Will we be more optimistic about the market? For sure we need to be realistic about it.

We are happy and glad you joined us in the first Sentiment Index edition. We hope to hear from you next time as well!



About the author



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For over 12 years she has supported real estate Clients in complex and challenging projects focused on Real Estate aspects including: valuations, management, and efficiency analysis and feasibility studies. She is a member of RICS, qualified Polish Real Estate Appraiser and a licensed Property Manager

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