

Investment Market stood. First or Last Chance for Cheap Acquisition?

2008 compared to 2007 was characterized by a significant slowdown in the commercial properties investment market. The main reason for a lower volume of transactions was a limited number of quality investment properties sale offers as well as difficulties in securing financing, which in turn was the result of a turbulence at financial markets in Europe and USA. It is worth mentioning that in November 2008 the difference between the capitalization rate for the highest quality office buildings in Warsaw, which is the rate of return on a property investment, and the reference interest rate fluctuated at the level of 0. This illustrates that it was more profitable for the investors to place the funds destined for a investment property purchase on a secured bank account and postpone the investment decision in 2008. It is highly likely that 2009 will be an anticipation period. Investors will show more selective approach and be only looking for cheap investment opportunities. Only an increase in a confidence on the interbank market and thus gradually unfrozen lending activity by banks, combined with falling interest rates and faster growth of capitalization rates will allow investors to achieve a reasonable rate of return on the commercial properties investment market.

Investment Market In 2008

One of the factors that contributed significantly to the slowdown at the commercial properties investment market in 2008 were significant differences in expectations of buyers and sellers regarding the level of the capitalization rate. The potential buyers of commercial properties demanded taking into account in the capitalization rates the risk associated with the global financial crisis. Owners, in turn, due to the good form of commercial properties market were reluctant to accept higher yields.

Vendors' expectations

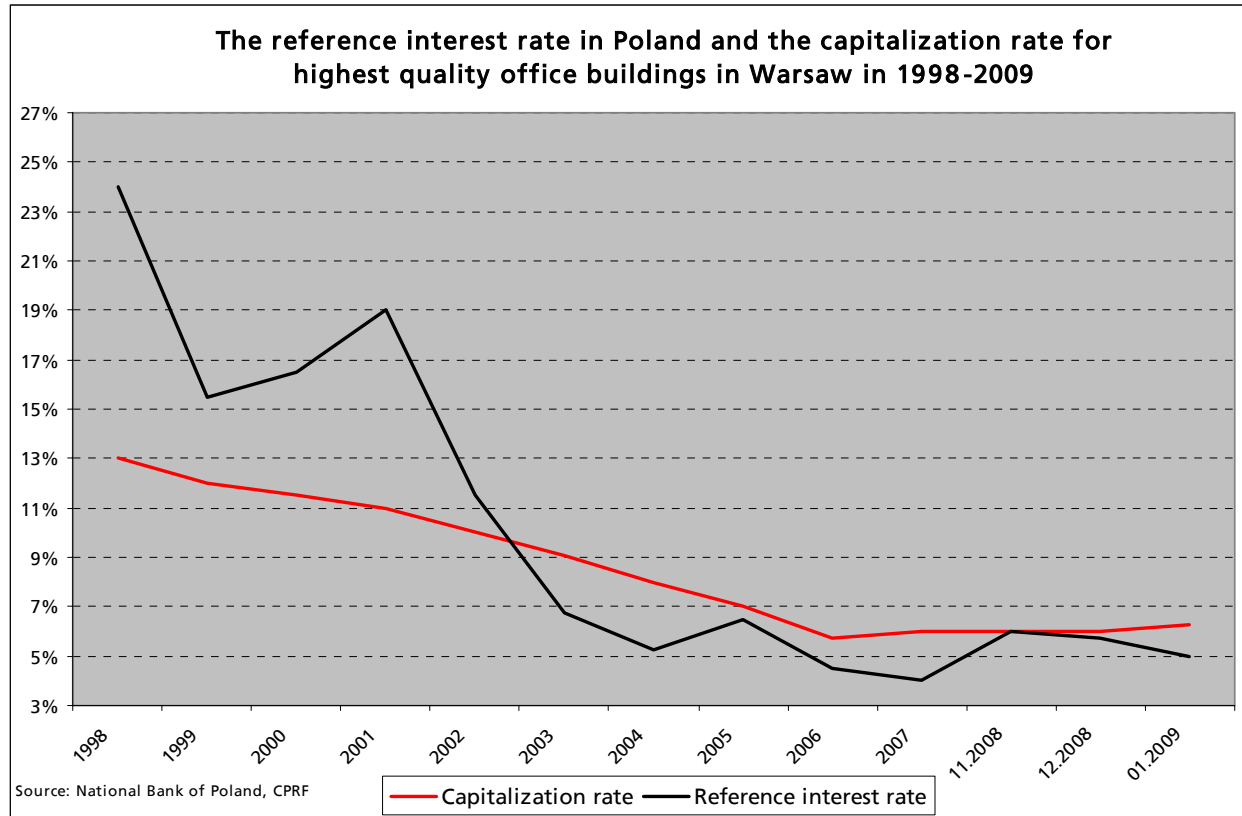
In 2008 in Poland, we had to do with a strong demand for commercial space for a lease, which resulted mainly from the growing Polish economy and a stable political climate backed by an increased foreign investment. The continuing high demand for commercial space for a lease has contributed to the fact that the property owners achieved more efficient rents by reducing rent free periods and their capital expenditures for tenant fit-outs, and hence higher incomes. The growing demand and insufficient supply has contributed to a rents increase and occupancy rate. It comes as no surprise that the property owners were not willing to sale developments at any price and accept the higher capitalization rates.

Purchasers' expectations

The difficulties in obtaining financing, as a result of the crises in the market of the U.S. subprime loans and the financial markets, have contributed to reducing buyers activity in the property investment market. In addition, the interest rates held by the Monetary Policy Council on a high level resulted in that the difference between the capitalization rate for the highest quality office buildings in Warsaw and the reference interest rate fluctuated virtually at the level of 0 (see [Chart 1](#)) until November 2008. It resulted in that it was more profitable for investors to place the investment funds on a secured bank account, and postpone investment decision.

The process of reducing the reference interest rate since November 2008 and an increase of capitalization rates as a result of declining activity of the buyers resulted in that from December 2008 to February 2009 the gap between these rates is becoming wider, which should soon translate into an increase of purchasers investment activity.

Chart 1:



Summary

In 2009 we can expect a further capitalization rate growth and falling down reference interest rate. The increasing potential rate of return on property investments will encourage investors to return to this market, although they will look for opportunities in undervalued properties/developments. It can be also expected that negotiations of transaction terms and purchase of investment property will be extended as the due diligence process will be subject to more detailed analysis.

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