



# Preliminary Results

for the year ended March 2015

**First Property Group plc**

11 June 2015



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 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 in the UK and Poland;
- **Group Properties** – principal investments by the Group, currently comprising:
  - Six directly owned properties in Poland and Romania;
  - Five properties in Poland held by Fprop Opportunities plc (FOP), an FPAM managed fund in which the Group is a 76.2% shareholder;
  - Non-controlling interests in four other funds managed by FPAM.

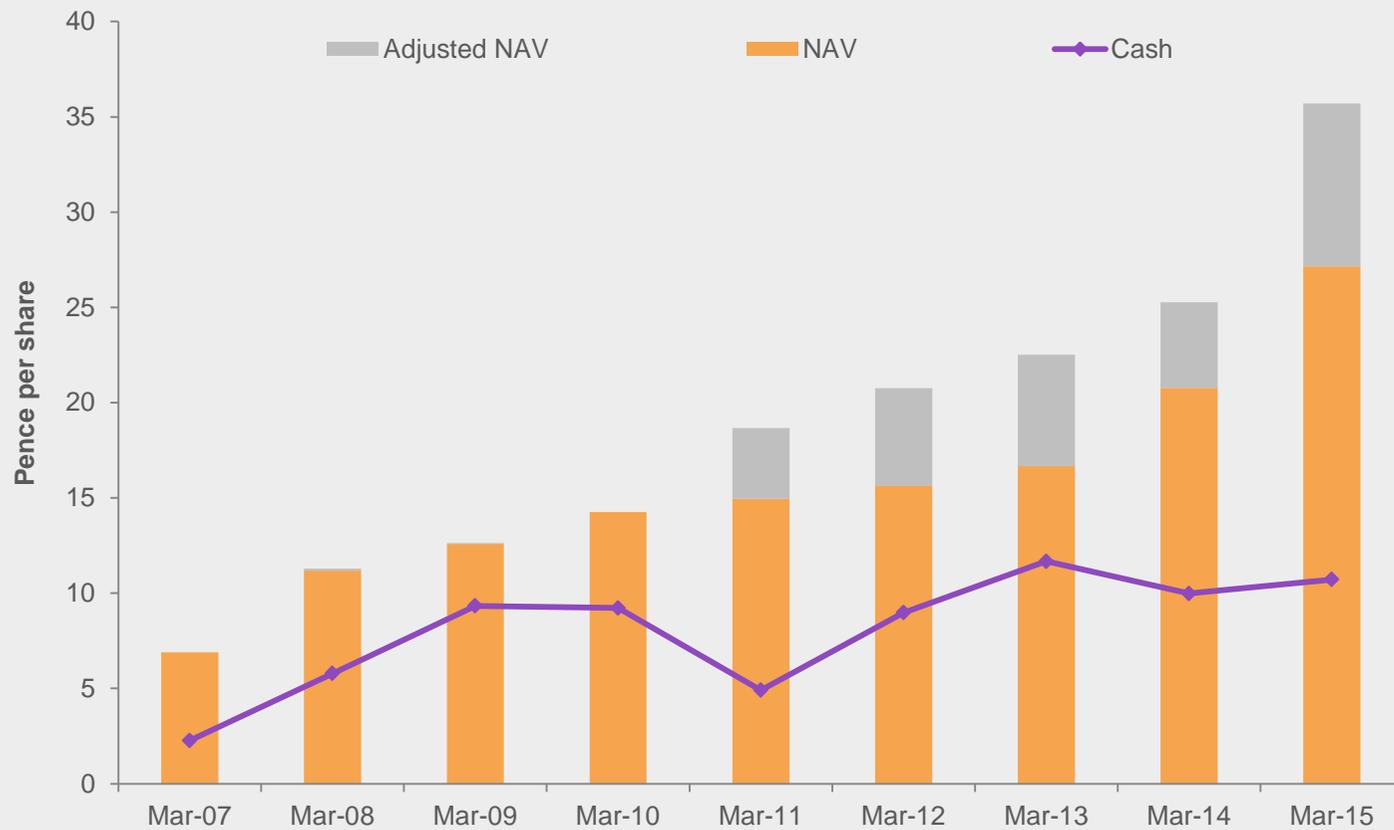


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- **A fundamental approach to investing** (sentiment may chase a theme but does not justify the theme). **Thinking from first principles.**
- **Sustainable income is a priority:**
  - The yield at purchase of any property investment must ALWAYS exceed 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 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.**



**Adjusted NAV** = adjusted to market value in line with EPRA triple net valuation methodology, which includes fair values of:

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

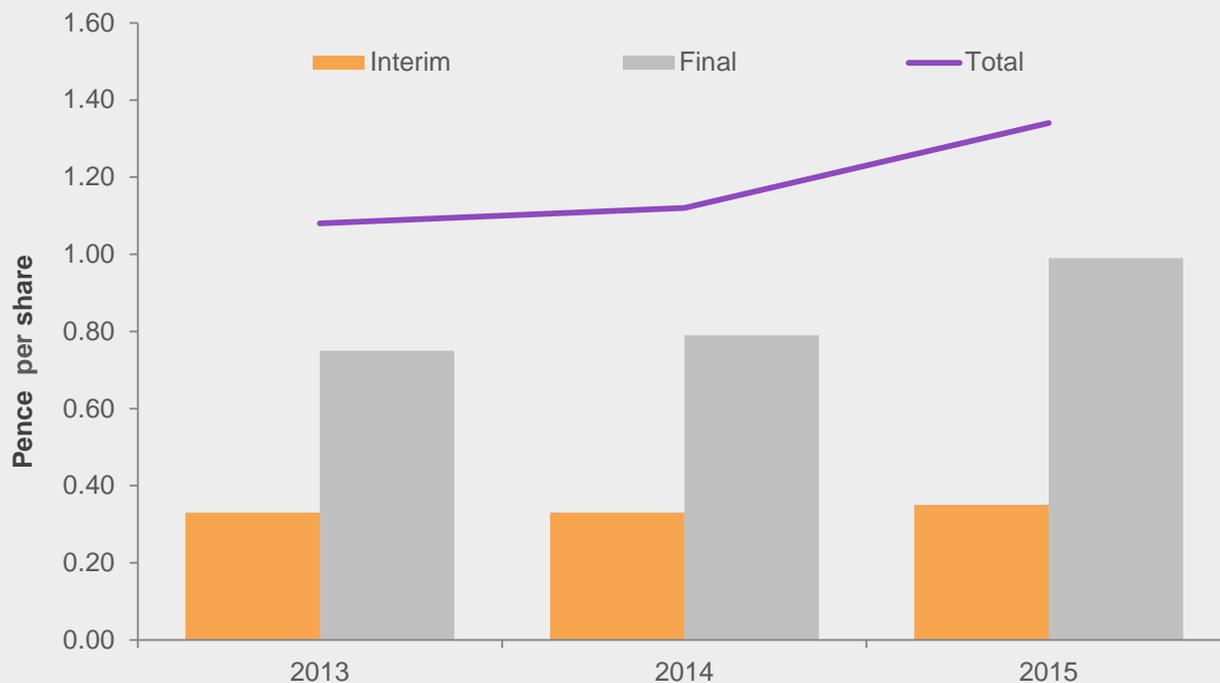
	Unaudited year to 31-Mar-2015	Audited Year to 31-Mar-2014	Percentage change	Notes
Profit before tax	£8.08m	£6.60m	+22.4%	
Diluted Earnings per share	6.93p	4.53p	+53.0%	
Total Dividend per share	1.35p	1.12p	+20.5%	
<b>Profit before tax by segment (prior to deduction of unallocated central overheads):</b>				
Property fund management (FPAM)	£4.44m	£2.63m	+68.8%	Includes performance fees of £3.37m
Group Properties (incl FOP)	£6.57m	£6.32m	+4.0%	Includes partial year contributions from 6x acquisitions
Average €/£ rate used	1.285	1.188	-8.2%	
<b>Net Assets</b>	<b>£31.02m</b>	<b>£23.46m</b>	<b>+32.2%</b>	Properties held at the lower of cost or value
<b>Cash balances</b>	<b>£12.24m</b>	<b>£11.28m</b>	<b>+8.5%</b>	Despite some £80m of new property investments
<b>Group Properties at market value</b>	<b>£142.04m</b>	<b>£69.08m</b>		Comprises 11 properties held by Group and FOP. Excludes Group's non-controlling interests in 4x other FPAM funds.
<b>Group Properties at book value</b>	<b>£126.90m</b>	<b>£61.06m</b>		
<b>Gross Debt secured against Group Properties</b>	<b>£107.78m</b>	<b>£49.33m</b>	<b>+112.6%</b>	Individual loans are ring fenced in SPV's and are non-recourse to the Group
<b>LTV</b>	<b>75.89%</b>	<b>71.41%</b>		
<b>Net assets per share</b>	<b>26.30p</b>	<b>20.00p</b>	<b>+31.5%</b>	
<b>Adjusted net assets per share</b>	<b>35.75p</b>	<b>24.80p</b>	<b>+44.0%</b>	includes fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes
<b>Year-end €/£ rate used</b>	<b>1.382</b>	<b>1.210</b>	<b>-14.2%</b>	

	Year to 31-Mar-2015	Year to 31-Mar-2014
<b>Assets under management (including Group Properties):</b>	<b>£327m</b>	<b>£341m</b>
Poland	65%	67%
United Kingdom	33%	30%
Romania	2%	3%

### Operational Highlights (and Explanatory Notes):

- The increase in profit before tax to £8.08 million (2014: £6.60 million) was largely attributable to the contribution made to earnings by:
  - Fund Management - The performance fee earned by the Group of £3.2 million (2014: nil) on profits realised by Fprop PDR.
  - Group Properties:
    - i. The purchase by the Group and FOP of six properties in Poland and Romania during the year which made a contribution to the Group's profit before unallocated overheads and tax of £2.27 million (2014: nil). These acquisitions also resulted in £1.84 million of negative goodwill, a non-cash item which has been credited to the Income Statement; and
    - ii. The full year contribution to profit before tax and unallocated overheads from the additional properties purchased by the Group and FOP in the previous year of £1.83 million (2014: £676,000).

- Final dividend increased to 1 penny per share (2014: 0.79 pence per share), an increase of 27%, which together with the interim dividend of 0.35 pence per share (2014: 0.33 pence per share) equates to a dividend for the year of 1.35 pence per share (2014: 1.12 pence per share).
- New fund established in January 2015 on behalf of Shipbuilding Industry Pension Scheme (SIPS) with a commitment of £125 million for an initial term of ten years targeting investments in the United Kingdom. The Group's UK efforts are now concentrated on investing this.
- Funds under management in Central and Eastern Europe (CEE) once again rated by Investment Property Databank (IPD) as the best performing versus the IPD CEE universe, now for the annualised periods from 2005 to the end of each of the years between 31 December 2008 and 31 December 2014.
- The impact of a weaker Euro versus Sterling during the year resulted in profit before tax being some £258,000 lower than it would otherwise have been.



### Final dividend:

1p (2014: 0.79p) = +26.6%

### Total dividend for year:

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

<b>Ex-Dividend</b>	20-Aug-2015
<b>Record Date</b>	21-Aug-2015
<b>Payment Date</b>	30-Sep-2015

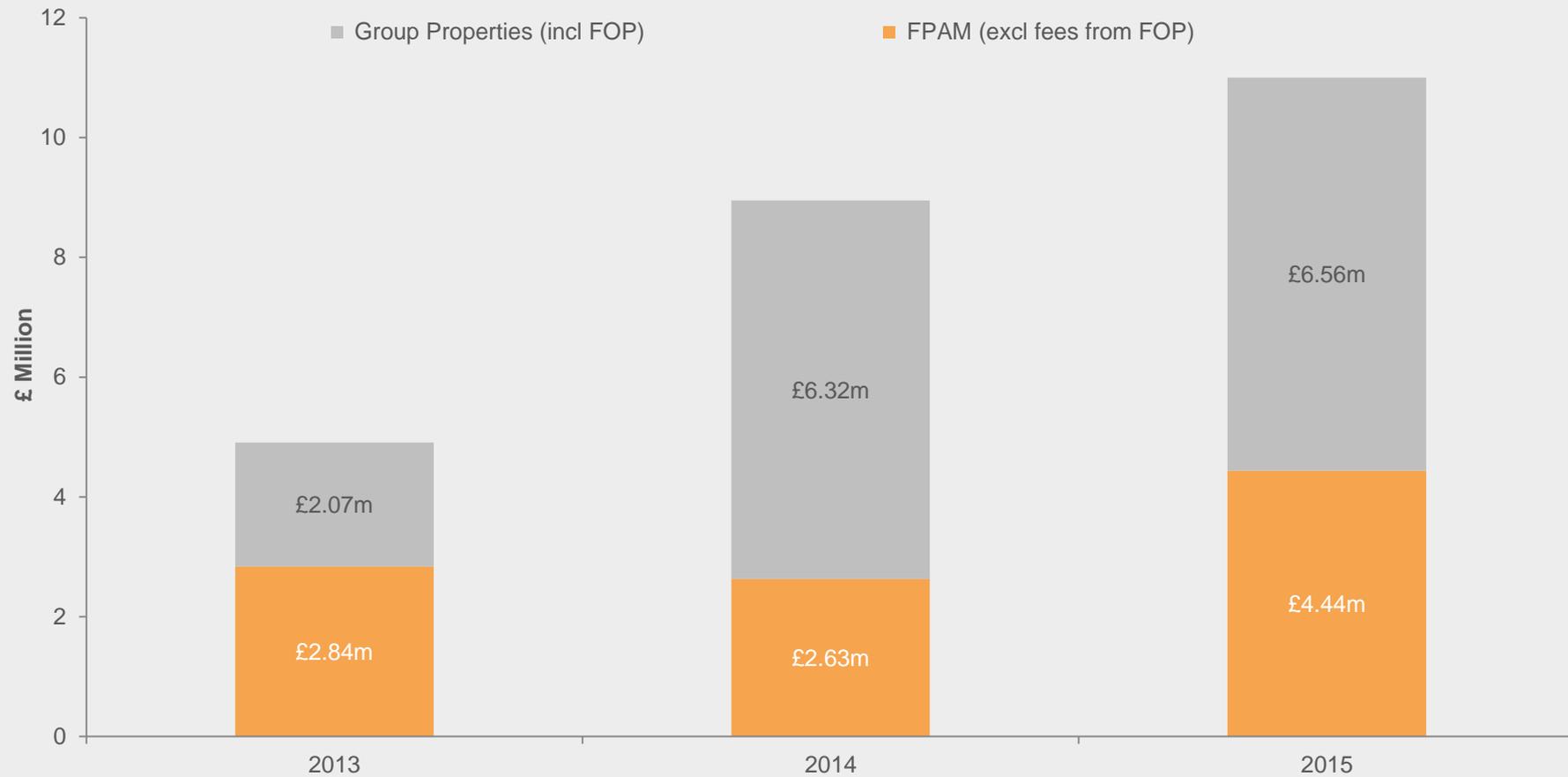
### DIVIDEND POLICY:

Progressive, aligned to the free cash generation of the Group.

Dividend has been **Maintained** or **Increased** every year since 2003.

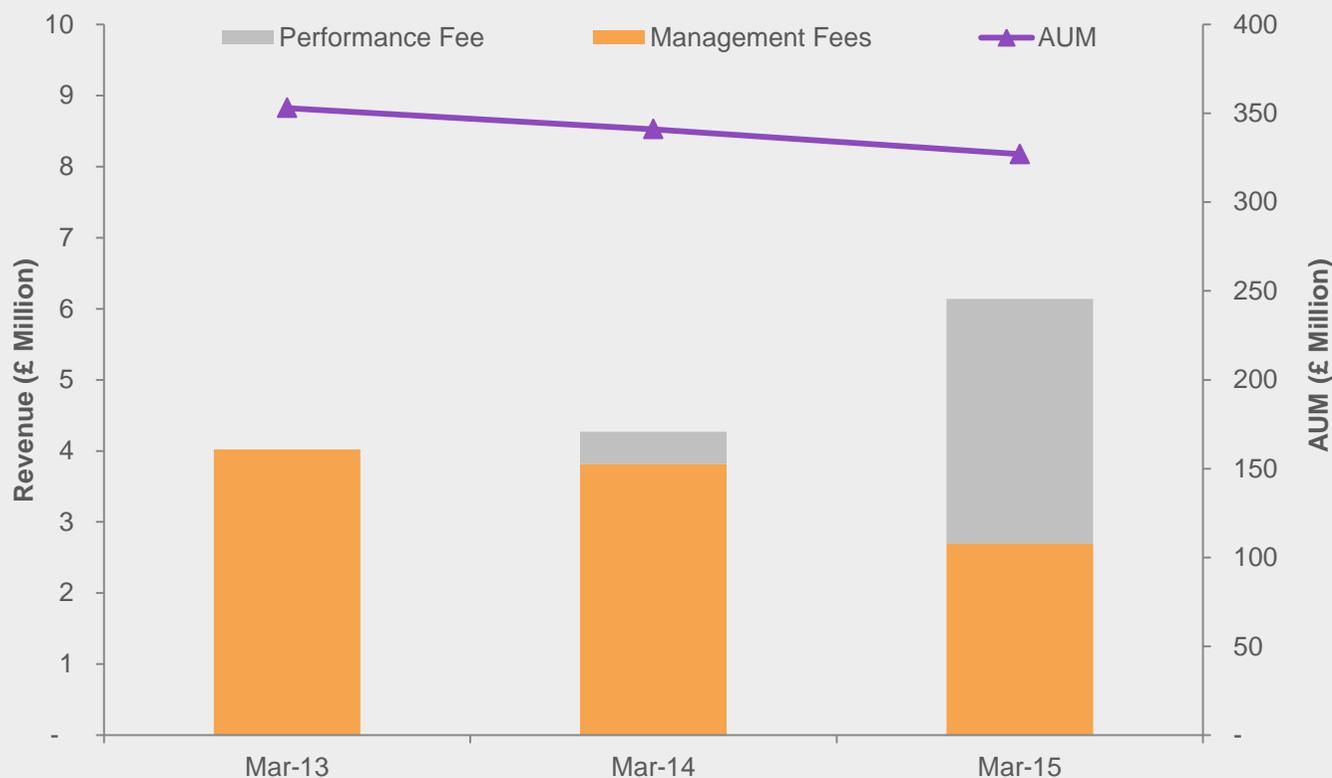
# Segmental Analysis

## Operating profit by segment (prior to deduction of unallocated central overheads)



### Fund Management (FPAM):

Contributed profit before unallocated central overheads and tax of **£4.44 million** (2014: £2.63 million), representing **40%** (2014: 29%) of Group profit before tax and unallocated central overheads.



#### Performance fees:

- Increased to £3.37m (2014: £451,000);
- Mainly earned by Fprop PDR;
- Fprop PDR LP expected to contribute c£1m in FY 2016

#### Management fees:

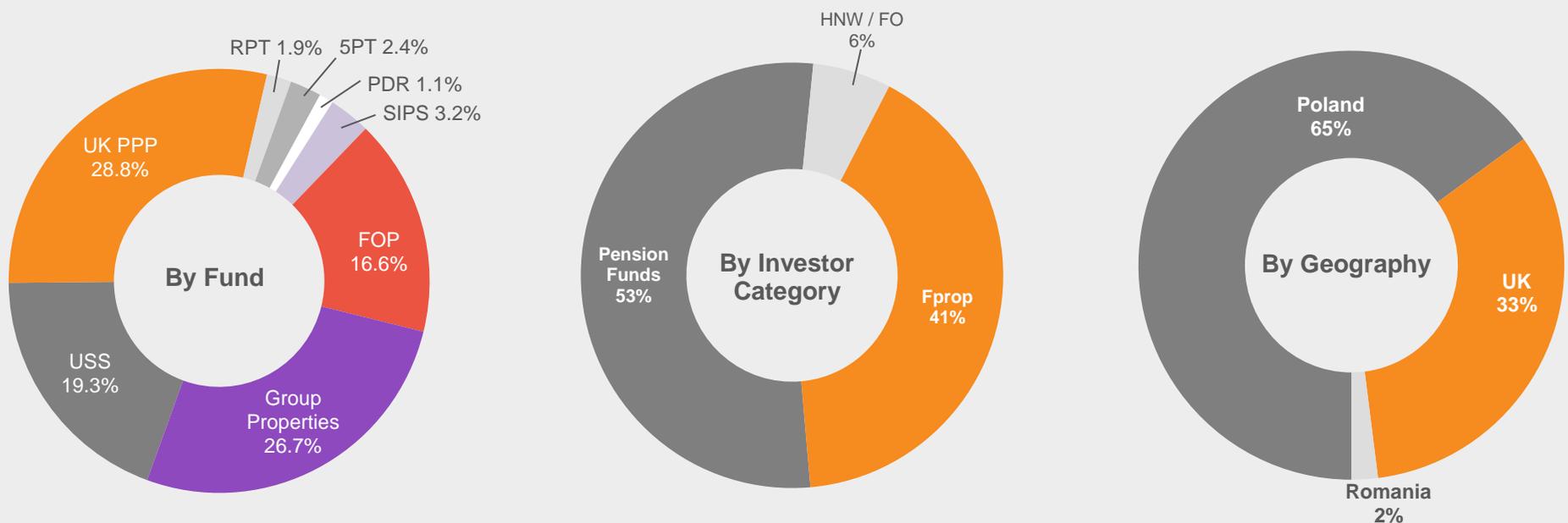
- Revenue from USS fund declined to £1.54m (2014: £2.54m) due to property disposals ahead of its expiry in Aug-2015;
- Following expiry of USS fund, management fee income amounts to some £1.35m per annum;**
- Revenue should grow as SIPS fund becomes more fully invested.

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

Fund		Country of investment	Termination Date (unless extended)	Commitment	AUM 31-Mar-2015	% of AUM 31 Mar-2015	AUM 31 Mar-2014
1.	SAM Property Company Ltd ( <b>SAM</b> )	UK	Rolling	Fully invested	Not subject to revaluation	n/a	n/a
2.	Regional Property Trading ( <b>RPT</b> )	Poland	Aug-2020	Fully invested	£6.21m	1.9%	£7.1m
3.	5 <sup>th</sup> Property Trading ( <b>5PT</b> )	Poland	Dec-2017	Fully invested	£7.68m	2.4%	£9.0m
4.	USS Fprop Managed Property Portfolio LP ( <b>USS</b> )	Poland	Aug-2015	Fully invested	£62.91m	19.3%	£160.5m
5.	UK Pension Property Portfolio LP ( <b>UK PPP</b> )	UK	Feb-2017	Fully invested	£94.35m	28.8%	£90.5m
6.	Fprop PDR LP ( <b>PDR</b> )	UK	May-2018	£42 m	£3.61m	1.1%	£11.8m
7.	SIPS separate account ( <b>SIPS</b> )	UK	Jan-2025	£125 m	£10.33m	3.2%	n/a
				<b>Sub total</b>	<b>£185.09m</b>	<b>56.7%</b>	<b>£278.9m</b>
1	Fprop Opportunities plc ( <b>FOP</b> )		Oct-2020	Fully invested	£54.44m	16.6%	£62.0m
2	6x Group Properties (excludes non-controlling interests in 4x funds managed by FPAM)	Poland & Romania	n/a	n/a	£87.60m	26.7%	£16.2m (Blue Tower only)
				<b>Sub total</b>	<b>£142.04m</b>	<b>43.3%</b>	<b>£78.2m</b>
				<b>Total</b>	<b>£327.1m</b>	<b>100%</b>	<b>£357.1m</b>

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

- FPAM earns fees for supplying fund management services based on the value of properties under management;
- The quantum levied varies depending on the investment strategy;
- In the case of Fprop PDR, a trading strategy, FPAM does not levy any ongoing management fees but instead is entitled to 20% of realised profits, subject to claw-back in the event of subsequent losses.

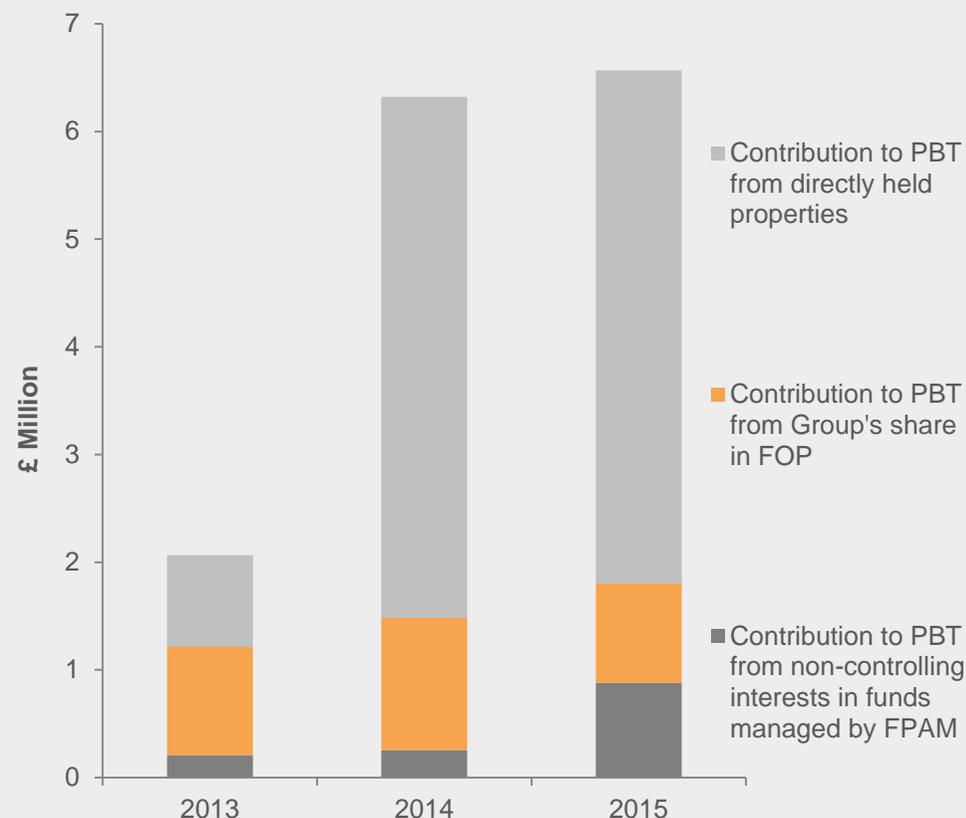


- Assets under management (AUM) calculated by reference to independent third party valuations.
- Includes £142.04m of investments held directly by the Group and FOP.

### Group Properties:

Contributed profit before unallocated central overheads and tax of **£6.57 million** (2014: £6.32 million), representing **60%** (2014: 71%) of Group profit before tax and unallocated central overheads, of which:

- **Six directly held properties** – contributed £4.76 million, comprised of:
  - Blue Tower - contributed £1.46m (2014: £1.26m) - increase attributable to Group increasing its shareholding from 28.5% to 48.2% during 2H FY2014;
  - 2x new investments in Poland contributed £1.26m (2014: nil);
  - 3x new investments in Romania contributed £634,000 (2014: nil);
  - These acquisitions resulted in £1.84m of negative goodwill which has been credited to the Income Statement;
  - Less c£430,000 of direct overheads.
- **FOP** – contributed £927,000 (2014: £1.23m) - reduction attributable to impairment in value of 2x properties by £876,000, offset by:
  - full year contribution from 2x investments made in previous financial year; and
  - partial year contribution from 1x new investment during the year.
- **Non-controlling interests in 4x funds managed by FPAM** - contributed £879,000 (2014: £253,000), the increase being attributable to the Group's investment in Fprop PDR LP which contributed £630,000 (2014: -£2,339).



## 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 and overheads
<b>Continuing</b>				
Blue Tower	1	£12.54m	£14.18m	£1,461,000
FOP	4	£42.76m	£45.76m	£1,135,000
<b>Sub total</b>	<b>5</b>	<b>£55.30m</b>	<b>£59.94m</b>	<b>£2,596,000</b>
<b>New investments during the year</b>				
Poland	2	£58.00m	£66.19m	£1,263,000 <sup>1</sup>
Romania	3	£5.08m	£7.23m	£634,000 <sup>2</sup>
FOP	1	£8.42m	£8.68m	£369,000 <sup>3</sup>
<b>Sub total</b>	<b>6</b>	<b>£71.50m</b>	<b>£82.10m</b>	<b>£2,266,000</b>
<b>Total</b>	<b>11</b>	<b>£126.80m</b>	<b>£142.04m</b>	<b>£4,862,000</b>

<sup>1</sup>The contribution to Group profit from its two new property investments in Poland was for the period from 15 December 2014 to 31 March 2015.

<sup>2</sup>The contribution to Group profit from its three new property investments in Romania was for the period from 27 July 2014 to 31 March 2015.

<sup>3</sup>The contribution to FOP's profit (which is consolidated into the accounts of the Group) from its one new property investment in Poland was for the period from 19 September 2014 to 31 March 2015.

**When the earnings from the six new property investments are combined with the Group and FOP's existing investments, the annualised recurring contribution to Group profit before unallocated overheads and tax will amount to some £9.5 million.**

## Segmental Analysis – Group Properties (cont)

### Eleven properties owned directly by the Group and FOP

#### Eleven properties owned directly by the Group and FOP

(8 in Poland, 3 in Romania = 11)

##### ➤ Cash flows:

Net rent (after property operating costs but before interest payments)	€19.5 million p.a.
Interest payments	c22% of NOI
Loan amortisation	c43% of NOI
Tax	c10% of NOI
Free cash*	c€4.8 million p.a.
ROE	>40% p.a.

\*excludes overheads and capex. Assumes current rent levels, FX rates and interest payments.

##### ➤ FX:

Further weakening of EUR vs GBP by 10% (from £1 / €1.382 to £1 / €1.520) would reduce profit before tax by c£600,000 per annum.

##### ➤ Top 10 tenants:

1	Asseco S.A.	Technology	26.79%
2	Citibank International PLC	Finance	11.58%
3	Carrefour	Food Retail	7.83%
4	Aquila	Logistics	6.23%
5	Skanska S.A.	Construction	5.94%
6	Tesco (Polska) sp z o.o.	Food Retail	3.29%
7	PKO Bank Polski SA	Finance	3.18%
8	Narodowego Funduszu Zdrowia	Healthcare	3.12%
9	Operator Logistyczny Paliw Płynnych	Energy	2.95%
10	KB ->BZWBK	Finance	2.04%
<b>% of rental income attributable</b>			<b>72.96%</b>

➤ WAULT = 4 years, 4 months

➤ Occupancy ratio = 98%

➤ Valuation:

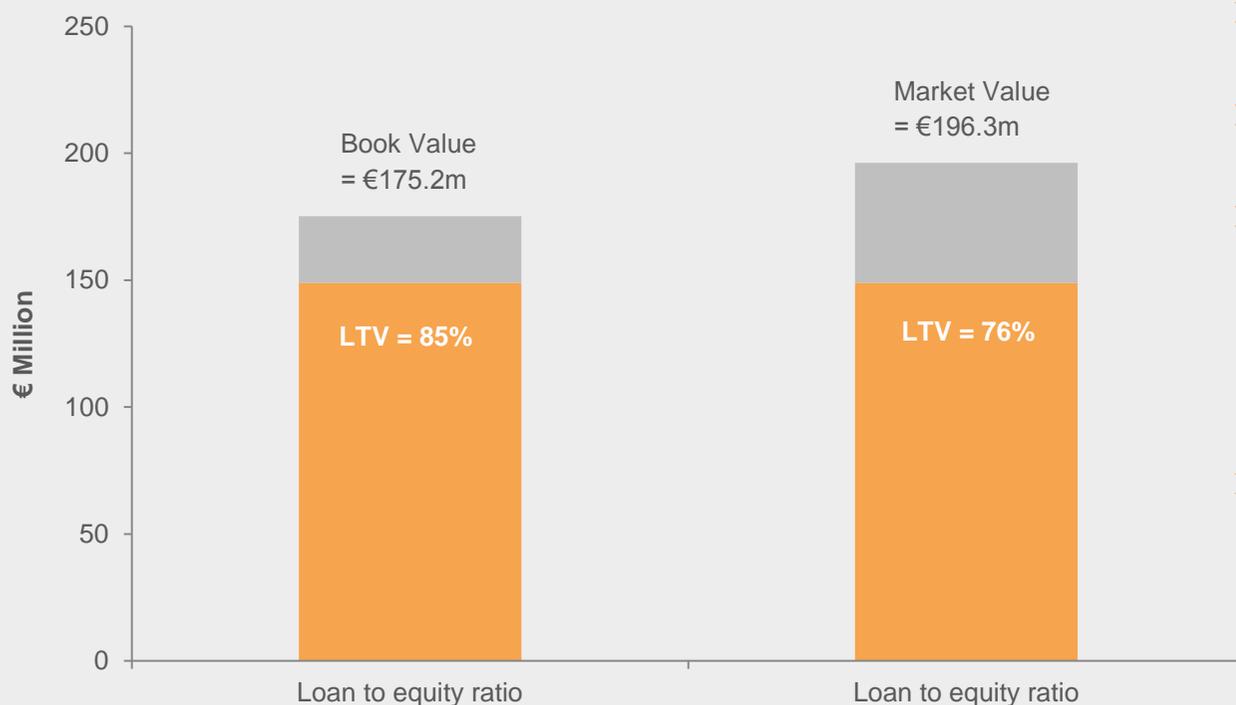
- Yield vs market value = 9.8%
- Yield vs book value = 11.0%

# Segmental Analysis – Group Properties (cont)

## Eleven properties owned directly by the Group and FOP

### Eleven properties owned directly by the Group and FOP – Debt exposure:

(8 in Poland, 3 in Romania)



- Each property is held in a separate non-cross collateralised SPV.
- Debt secured against each property is non-recourse to the Group.
- Interest rates:
  - Current weighted average borrowing cost = c3.58% per annum;
  - Group exposure to interest rate rises is mitigated by selective use of interest rate caps and fixes.
- Valuation:
  - Yield vs market value = 9.8%
  - Yield vs book value = 11%

## Segmental Analysis – Group Properties (cont)

### Non-controlling interests in funds managed by FPAM

#### Non-controlling interests in funds managed by FPAM:

Contributed £879,000 (2014: £253,000), the increase being attributable to Fprop PDR LP.

As at 31-Mar-2015:

Fund	Group's shareholding	Book value of Group's Share	Market Value of Group's share	Contribution to Group PBT
<b>Investments:</b>				
UK Pension Property Portfolio (UK PPP)	0.9%	£893,000	£893,000	£64,000
Fprop PDR LP	5.0%	£638,000	£638,000	£630,000
<b>Interest in associates:</b>				
5 <sup>th</sup> Property Trading (5PT)	37.8%	£519,000	£998,000	£153,000
Regional Property Trading (RPT)	28.6%	£152,000	£177,000	£32,000
Share of Results in Associates				<b>£185,000</b>
<b>Total</b>		<b>£2,202,000</b>	<b>£2,706,000</b>	<b>£879,000</b>

NB: Group accounting policy = properties/shares in funds are held at lower of cost/ valuation.

➤ **GDP growth:**

- 2014: 3.4%
- 2015: 3.4% (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 =  
INGREDIENTS TO MAKE MONEY.**

## ➤ GDP growth:

- 2014: 2.8% - fastest growing major advanced economy
- 2015: > 2.5% (E)
- Consumer confidence is at a twelve year high

## ➤ Commercial Property

- Occupier demand growing across the board.
- Slowly manifesting itself in upward property revaluations and rising rents.
- Investment demand, including from international investors, continues to spread into the regions.

## ➤ Planning

- We expect the Government to continue its efforts to loosen the planning system to enable higher rates of new development.
- We shall be looking out in particular for any news of its intention to extend Permitted Development Rights (PDR) beyond its current scheduled expiry in May 2016.

We have some £12 million in cash which is intended to seed new funds and invest in properties.

### FPAM

- Lost fee income from expiry of USS contract in Aug-2015 has been **more than entirely** replaced by increased rental income from new investments made by Group Properties (including FOP).
- Fprop PDR:
  - Likely to contribute c£1 million to Group PBT in FY2016 (prior to deduction of central overheads) from transactions concluded last year;
  - New investments on hold, subject to the outcome of Government review.
- SIPS – focused on investing this mandate.
- New business - planning new high income fund focused on Polish property.

### Group Properties

- Annualised recurring contribution to Group profit before unallocated overheads and tax = c£9.5 million.

### First Property Group plc

**Website**      [www.fprop.com](http://www.fprop.com)

**Telephone**    +44 20 7340 0270

**Address**        First Property Group plc  
35 Old Queen Street  
London  
SW1H 9JA

Jeremy Barkes  
Director, Business Development  
[jeremy.barkes@fprop.com](mailto:jeremy.barkes@fprop.com)

### Financial PR

**Redleaf Polhill**  
[www.redleafpolhill.com](http://www.redleafpolhill.com)

Richard Gotla / Henry Columbine  
[firstproperty@redleafpr.com](mailto:firstproperty@redleafpr.com)  
+44 20 7382 4747

### NOMAD & Broker

**Arden Partners**  
[www.arden-partners.com](http://www.arden-partners.com)

Chris Hardie  
[chris.hardie@arden-partners.com](mailto:chris.hardie@arden-partners.com)  
+44 20 7614 5929

Michael McNeilly  
[michael.mcneilly@arden-partners.com](mailto:michael.mcneilly@arden-partners.com)  
+44 20 7614 5927

# Appendix

	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	12,440,000	10.9%
Universities Superannuation Scheme Limited	9,550,000	8.4%
Alasdair Locke (Non-Executive Chairman)	8,571,990	7.5%
<b>Total</b>	<b>62,268,773</b>	<b>54.5%</b>

<b>LSE (AIM) Symbol</b>	FPO.L	
<b>Share price</b>	40p	
<b>Market Cap</b>	£46 million	
<b>Dividend</b>	Final	1.00p
	Interim (paid)	0.35p
	Total	1.35p
<b>EPS (undiluted)</b>	7.21p (2014: 4.75p)	
<b>EPS (diluted)</b>	6.93p (2014: 4.53p)	

	2015	2014	% change
<b>Issued &amp; Fully Paid</b>	114,851,115	114,851,115	-
<b>Issued (excl Treasury)</b>	114,192,541	112,952,158	+1.1%
<b>Shares held in Treasury</b>	658,574	1,898,957	-65.3%
<b>Outstanding share options over Ordinary shares</b>	4,450,000	5,750,000	-22.6%
<b>Average strike price of outstanding share options</b>	16.26p	15.49p	-5.0%

### **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 in 1989 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.

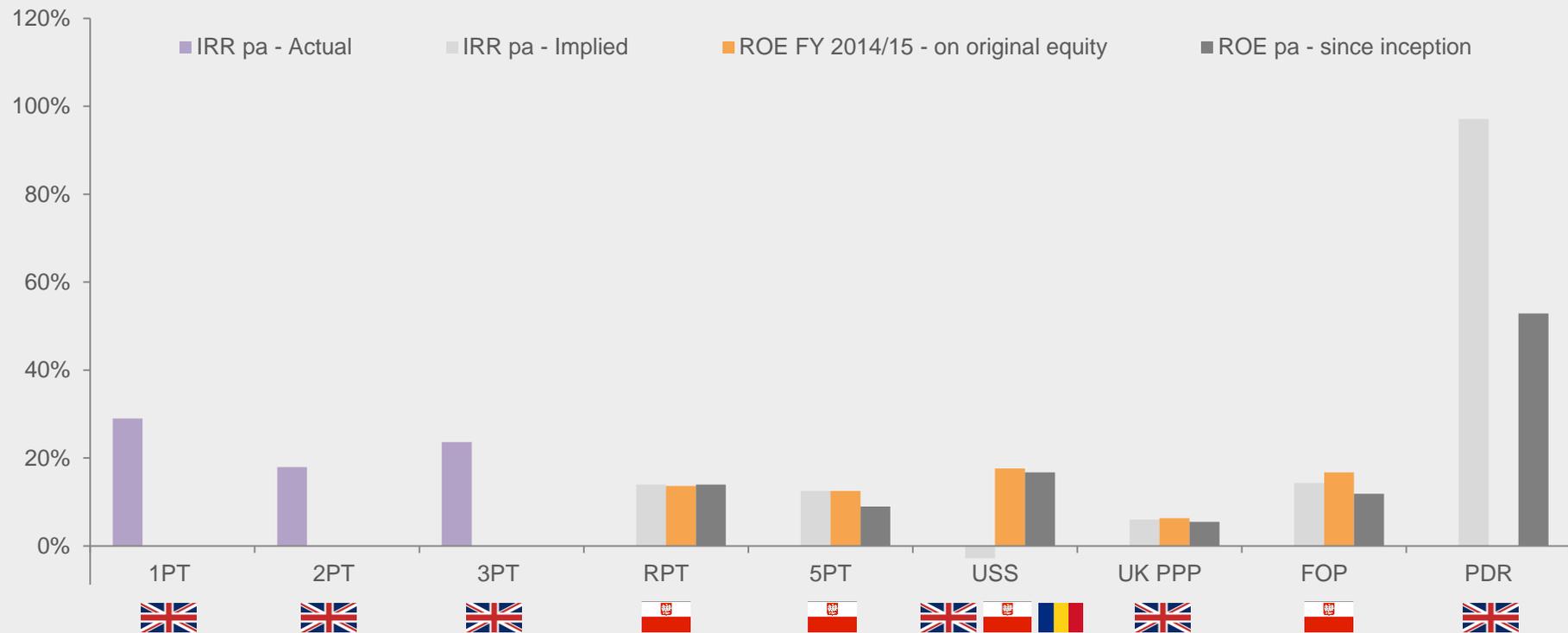


### **Group Chief Financial Officer & Company Secretary — George Digby, BA (Hons), ACA**

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.



### Fund performance at 31 March 2015:



- All implied IRR calculations use NAVs at 31-Mar-2015, and are since inception.
- All ROE's are calculated using annualised 2014/15 pre-tax income ÷ original shareholders' equity employed.
- All ROE's are calculated using annualised 2014/15 pre-tax income ÷ by opening equity (NAV at 31-Mar-2014).

- GDP growth:
  - Since 2009: 16% (cumulative). Highest in OECD. Only euro zone country NOT to enter recession in 2009.
  - 2014: 3.4%
  - 2015: 3.4% (E)
  
- GDP per capita:
  - 1995: 43% of the average of EU countries;
  - 2000: 48%
  - 2011: 64%
  
- 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 – 2013: €160bn (2012: €178bn)
- Big population (39 million), balanced economy (60% of GDP internally generated);
- Lowly levered – 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 Euro's despite corporate earnings being predominantly in PLN.

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