



COMPANY NEWS | EDITION 8

August 2017

News Flash

- [EPP & Echo Continued Collaboration](#)
- [Interview with Prof. Marek Belka: 'The Economy is stable and growing at a reasonable fast pace, at an average of 4% annually'](#)
- [Getting ready for REITS and draft Polish tax regulations](#)
- [The retail landscape in Poland](#)

A WORD FROM OUR CEO

During the European summer, EPP has remained focused on building its Retail platform into a National Champion. There have been 3 main highlights:

- 1) We are looking forward to hosting a group of investors to Poland 17th - 22nd Sept and hope to be able to show case some of our retail pipeline as well as the changes we have made to our existing portfolio.
- 2) We also anticipate by early autumn to be in advanced discussions on the disposal of some of our office portfolio.

During this news update we wanted to focus on Poland and have asked Prof. Marek Belka to answer some of your questions on Poland's politics and economy.

Enjoy reading
Hadley Dean
CEO

EPP AND ECHO CONTINUED COLLABORATION

Echo Investment S.A. (Echo), a Polish real estate developer, whose strategic divestment of its developed property assets, resulted in the creation of EPP, recently sold 40 million of its EPP shares as part of its focus on its core business. This sale removes a significant overhang of shares from the market, evident in the recent pick-up in EPP's share price. The two companies currently collaborate on eight development projects with a development value of circa €1 billion and share three common non-executive directors, Maciej Dyjas, Nebil Senman and Przemek Krych.

The sale does not impact on the continued long-term partnership with EPP and was in line with Echo's strategy of positioning itself as pure developer – the balance of their holding in EPP is regarded as a long term high yielding investment. Nicklas Lindberg, CEO of Echo Investment commented: **"We continue to be strategically aligned with EPP and are excited to be working together on a number of projects including the large scale Warsaw retail projects of Towarowa and Mlociny.** Echo is a development company and our capital investment is focused on development projects rather than yielding assets. The sale is therefore a correction on our side to align with this stated strategy. We look forward to our continued relationship with EPP primarily as a developer."

Hadley Dean, CEO of EPP points out that this has broadened EPP's shareholder base, increased EPP's free float and improved liquidity in the EPP shares.



POLISH ECONOMIC AND POLITICAL UPDATE



An interview with Poland ex-prime minister, president of the Polish National Bank and EPP independent non-executive director Prof. Marek Belka

What are your thoughts on the present economic climate in Poland?

The condition of the Polish economy has never been stronger. The country is facing one of the lowest unemployment rates in Europe and the lowest rate in the post-communist era. The economy is stable and growing at a reasonably fast pace, at an average of 4% annually. Inflation has stabilised and is under control with no signs of upward trends. Poland is also benefitting from the current improving EU economy.

In addition, the Zloty is currently in an appreciation phase which presents a strong argument for international investors to consider Poland as an investment destination.

The macro fundamentals are very strong and this has not been undermined by the current policies, so both monetary and fiscal policies are in very good shape. If you take the strong macro economy and immense cost competitiveness, it is no surprise that foreign investors are investing: Poland is the cheapest country in Europe as far as foreign investment costs are concerned.

Should business be concerned about the Law and Justice party in Poland?

The Government had initiated numerous social policy programmes which have led to concerns on availability of financing. However, better tax collection procedures and enforcement (especially VAT) seem to be working and therefore we are facing a situation where the state budget deficit is not growing and most probably is even shrinking. From this point of view the economic and social policy programmes of the Law and Justice party are having a positive impact.

What is not supportive from the current ruling party perspective is the introduction of an array of fiscal policy legal amendments, which lead to a temporary negative impact on local businesses. On the other hand, I would underline again the fact that the state budget deficit is not growing anymore, the banking sector in Poland is stable and the economy is projected to be on an upward trend.

What impact could the current spat between the ruling party and the EU have on the Polish economy?

I think the main impact could be on the negotiations of the next budget perspective which will start after 2020. We are

seeing different proposals of increasing fiscal cooperation within the Eurozone, which may put other EU countries in a disadvantageous position. The currently disputed judiciary and environmental issues between the EU commission and Poland doesn't seem to have an impact on current economic growth indicators.

The Polish economy continues to steadily grow and attract foreign investors, why is this?

Firstly, as previously mentioned macro fundamentals are very strong and this has not been undermined by the current policies, as both monetary and fiscal policies are in very good shape. If you take a strong macro economy and an immense cost competitiveness it is not surprising that foreign investors are investing.

Is the relationship between Polish business and the state strong?

The Polish state's relationship with business measured by asset value is constant - just like in most Western European countries. Our government is working on improving tax collection procedures and this is something that some businesses may struggle with as legal instruments supporting the tax collection are aimed at any aggressive tax optimisation and potential tax fraud.

The judiciary policies which are currently discussed are an issue but the judiciary reform in Poland is needed in order to reduce the longevity of trials and rather limited competencies of commercial courts. The reform is meant to fix real issues in the court system, however the manner in which they have been introduced is problematic. Luckily, the President of Poland has already vetoed two legal acts on the juridical policy which are positive interventions for solving the issue.

GETTING READY FOR REITS AND DRAFT POLISH TAX REGULATIONS

On 26 May 2017, the Polish Ministry of Finance published a new draft of the legislation introducing real estate investment trust (REIT) structures in Poland. Currently a consultative process between the real estate industry and the Ministry of Finance is ongoing. The proposed modifications mainly concern the determination of the mechanics concerning calculation of mandatory profit distribution, but there are a number of other issues including the definition of qualifying assets, real estate or REITs subsidiaries. We anticipate that a revised draft of legislation will be published in autumn and it is estimated that the law will be in force by end of 2017

Key features of proposed REIT legislation include :

- The REIT must have shares listed on the Warsaw Stock Exchange (main board)
- At least 70% of the REIT's assets' book value must be real estate assets
- At least 90% of profit derived from lease/sale of real properties (increased by undistributed profits) must be distributed.
- Taxation of REIT's profits is deferred until the moment of their distribution. The tax rate is 8.5%
- Dividends paid by REITs will be exempt from withholding tax.

Finally, the Government is discussing legislative changes to the tax requirements on real estate funds. These changes are being lobbied against by the real estate industry as they are contradictory to REIT legislation and not compliant with EU tax law. If passed these changes could increase EPP's tax position by 2-3%. As more information becomes available we will update our investor base.

THE RETAIL LANDSCAPE IN POLAND

Retail is growing in Poland and at a strong pace. It's natural that Europe's rising star will experience a consumer boom. However, there will be challenges along the way and Poland's economy has shown a knack for handling challenges.

Recently released data showed that **retail sales in Poland increased 6% year-on-year** in June this year, following an 8.4% rise in the previous month but below market expectations of a 6.9% gain, but on the other hand, sales increased more for food, beverages and tobacco so essential goods are still selling strongly in Poland.

On a monthly basis, retail sales increased 0.9%, following a 0.2% drop in May. Retail Sales year on year in Poland averaged 7.17% from 2001 until 2017, reaching an all time high of 30.60% in April of 2004 and a record low of -14.40% in April of 2005. An average of 7% over a sixteen year period is staggeringly impressive.

EPP's CEO Hadley Dean says **Polish retail has not been heavily affected in a negative sense by e-commerce**. Many people are still keen on shopping at on street stores and at retail centres.

"There is a lot of noise building up which could be fostering investor concern for Polish retail assets, some is warranted, a lot is not. Externally there is the general concern that the value of traditional retail assets are being eroded by the relentless march of e-

commerce, specifically Amazon, over the department stores such as Sears and Macy's. This is mainly an American problem brought about by decades of over supply. Europe isn't there yet but there might be an underlying issue regarding asset mix between high street, urban mall and out of town. However, Amazon is a specific challenge which has created a business on a ultra low cost base, largely built on economies of scale but also on paying limited local taxes. More and more politicians are questioning the ethics of this business model," says Dean. This topic will be discussed in more detail in the next newsletter.

Polish retail includes many good quality, ambitious local retailers. However, it is also attracting international tenants.

Research by Jones Laing Lasalle (JLL) said **Poland is an attraction for international retailers**. Because of its considerable size, the Polish market is still attracting new international retailers. The following new brands entered the market in the second quarter of 2017; Russian fashion chain Befrer , Italian fashion brand Elisabetta Franchi and the first mono-brand store of Maxi-Costi. There is growing interest in the Polish market from Russian and Ukrainian fashion brands such as Goldi, Love Republic and Zarina. Love Republic and Zarina just debuted in Warsaw.

EPP has recognised that there is strong demand for new retailers and larger malls especially in Warsaw. This serves part of the reason that EPP is transforming from being a fund that owns malls and offices to being one that owns purely retail assets. Warsaw is the capital city of Poland and EPP's target city for various new shopping centres.

In March, we clinched the acquisition of a 70% stake in Galeria Mlociny in Warsaw for €29m from Rosehill Investments. This acted as our entry point into the lucrative Warsaw retail market.

In the meantime we are developing our Towarowa property. This property consists of a number of plots acquired through five separate transactions. The property is the single largest commercial area in the centre of Warsaw, with a total area of about 6.5ha and development capacity of more than 100,000m² to let. We own 70% of this Towarowa 22 site. Also the company has just signed signed Heads of Terms with the city setting out the zoning requirements for the development which are in line with expectations.

Warsaw attracts the highest prime rents. A prominently located 100 m² unit shop from the fashion category in leading shopping centres are in Warsaw can collect €130 / m² / month.

JLL anticipates that prime rents in Poland's other major markets, which currently range from €45 / m² per month to €60 / m² per month, will remain stable in the short- to mid-term.

The Retail Sales Tax Act and the potential ban on Sunday trading are two widely discussed topics which we note can affect retail trade in Poland. But there are no indications that either will go through Parliament as resistance is building to both.

A statement released by the European Commission actually said that the proposed tax on the retail sector violates EU law and state aid rules.

It said that the progressive tax rates based on turnover would give companies with low turnovers an advantage over their competitors. This decision means Poland will need to remove the unfair discrimination between companies under the retail tax and restore equal treatment for all players on the market. In terms of Sunday trading, we believe that a compromise can be found between retailers and staff.

In September 2016 the Solidarity trade union movement proposed a law banning Sunday trading. They collected half a million signatures on a petition in support of their proposal. There has been strong opposition to this bill from retail chains and since then all parties have been looking for a compromise. Several propositions on how to deal with Sunday trading have been made. The most recent one which retail chains put forward envisages some changes in Polish labour law. It has been suggested that instead of stores closing on Sundays all staff who work in the retail sector will have two Sundays per month off. The parliamentary work on a law restricting trade on Sundays could be finished as early as October.

In the meantime, EPP's malls are enjoying healthy and climbing footfall.



Rapenburgerstraat 175/M
1011VM Amsterdam
Netherlands

Tel. (+48) 22 43 00 300

Fax (+48) 22 43 00 301

E-mail: HQoffice@echo-pp.com

IR related comments / feedback welcome: IR@singular.co.za

Want to change how you receive these emails?

You can [update your preferences](#) or [unsubscribe from this list](#).

This email was sent to

<<Email Address>>

why did I get this?

unsubscribe from this list

update subscription preferences

Echo Polska · Rapenburgerstraat 175/M · 1011VM Amsterdam · Amsterdam, Netherlands B-2000 · South Africa

MailChimp