PRS MARKET IN POLAND

2021

Knight Frank

大成 DENTONS

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INVESTING IN PRS MARKET IN POLAND. ADVANTAGES

+ deficit of apartments increasing prices of apartments and the consequences - a considerable projected increase in rents
+ own contribution required for securing a loan is an impediment for young people
+ generational changes towards using instead of owning
+ insufficient number of dormitory places
+ – 130,000 beds vs. 1.3 million students
+ over 700,000 foreigners
+ society is growing wealthier
+ favorable political climate for housing investments
+ early stage of market development, giving possibility of high rates of return

INVESTING IN PRS MARKET IN POLAND. BARRIERS TO ENTRY

- lack of sufficient analytical data and lease statistics (rents, collectability of receivables, costs, etc.)
- installments on home loans at similar levels to rent levels
- legal and tax regulations: lack of REITs; VAT taxation (no established practice regarding VAT taxation of lease / issues related to VAT deduction when renting out residential property).
- a limited number of functioning portfolios of rented real estate
- small number of transactions in the PRS segment of the investment market
- early stage of development of the PRS market, and a pace of development that is hard to predict in the future

Dear Readers,

As a team, Knight Frank's consultants have many years' experience participating in the most important business decisions regarding real estate investments. Recent developments around the COVID19 pandemic and the number of restrictions and constraints affecting the functioning of the economy have accelerated the activities of investors seeking alternative capital placement opportunities, looking to spread risk and take advantage of new market opportunities. The housing rental and student accommodation sectors can be viewed as the biggest winners from these changes.

Poland, as the most attractive country in Central and Eastern Europe in terms of investment, is an excellent alternative to the Western European markets where the PRS sector offers very good financial returns. Investors assume such successes can be replicated in Poland, despite the PRS market still being at an early stage of development, with some way to go to reaching maturity.
Despite the limited number of investment products, the potential of the Polish market is increasingly being recognised by new investment entities, serving only to confirm that the investment volume achieved in the previous two years is only the start. The market is gaining momentum, with more than EUR 800 million being invested. Next year remains a big unknown, but it can be reasonably assumed that interest in alternative products will not wane.

An additional influence on the potential of the rental housing sector are the rapidly rising housing prices in Poland's largest cities, although planning and tax issues can represent something of a challenge.

This report summarises the performance of the PRS sector in Poland to date. It incorporates an analysis of the demographic situation in the country whilst attempting to analyse the housing needs of Poles who, influenced by generational differences, are changing towards favouring the rental market. We present the report in conjunction with Dentons global legal practice, ensuring not only market situation insight into the PRS sector, but also a wealth of tax and legal knowledge.

KRZYSZTOF CIPIUR

Partner, Head of Capital Markets,
Knight Frank

Dear Readers,

We are proud to say that, thanks to our clients and the matters they entrust us with, we take part in the most important market events and key transactions. In 2020-2021, we view as a major turning point the emergence of the Private Rented Sector as a real estate asset class that is attracting investor interest. In the last 12 months, several leading European players entered the Polish housing market, and many investors and developers already present in Poland have extended their strategies to encompass this sector. This shows that Poland remains a very attractive investment market that is constantly evolving, creating new opportunities for investing capital.

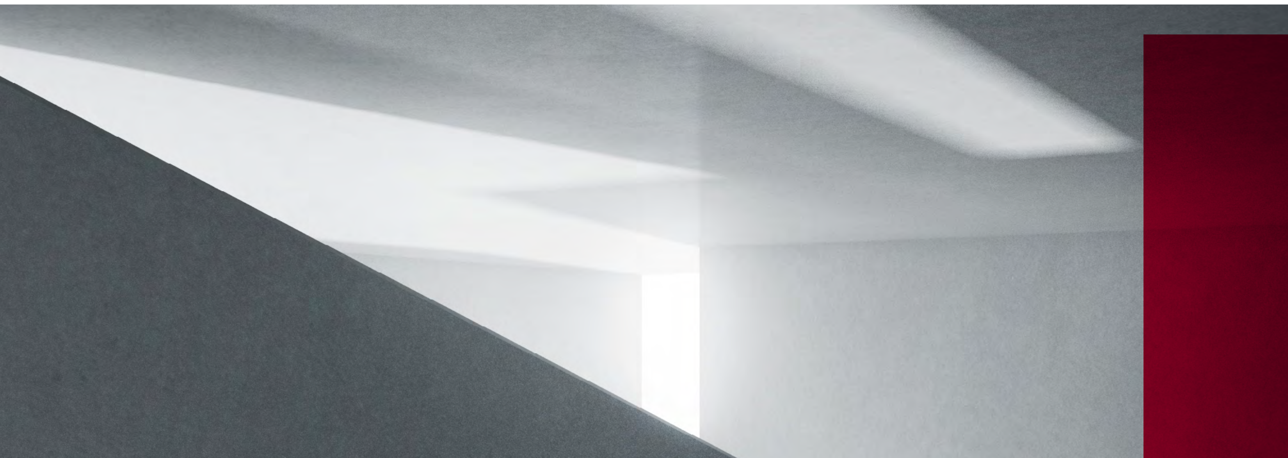
PRS in Poland is still at a very early stage of development, as we show in detail in this report. At the same time, Poles as consumers of the housing market are very much attached to the ownership model, as evidenced by the record sum of mortgage loans granted in July 2021 - PLN 8 billion.

However, many analyses indicate that this sentiment may change in the future, and the attractive offer of apartments for rent will contribute to the popularization of this method of satisfying housing needs. In the background, legislative work is also underway to create a Polish REIT, i.e. a company investing in real estate leasing. If the current attempt to pass such legislation is successful, it will further contribute to the deepening of the investment market, probably in the PRS sector as well.

Many changes are without doubt still ahead of us in this dynamic business environment. As lawyers, we always try to follow the latest trends and be part of this active economic ecosystem. Therefore, we hereby present to you our first report on the condition of the housing market for rent, prepared in cooperation with partners from Knight Frank. On behalf of our team, I wish you interesting reading and new investment inspirations.

PIOTR STANISZEWSKI

Partner, Real Estate
Dentons



ANALYSIS AND POTENTIAL OF THE **PRS MARKET**

DEFINITIONS

APARTMENTS FOR RENT SECTOR FROM THE INSTITUTIONAL PERSPECTIVE – WHAT DOES IT MEAN?

In Poland, until very recently, the market of apartments for rent was associated solely with private investments in apartments purchased for rental. Under discussion here is the market of apartments for rent from the institutional perspective.

CHARACTERISTICS OF THE RENTAL SECTOR:

- applicable to entire buildings / housing developments or their separate parts
- owners manage both rentals and real estate directly or through specialist entities

Institutional investment residential market in Poland is at an initial stage of development. The scale and amount of such facilities are still relatively small, although they are gradually increasing. There is thus a need to establish a definition of the sector corresponding to the Polish market reality. Currently, the market relies on terminology adopted from Great Britain. There, the PRS sector distinguishes between:

BTR (Build-to-Rent)
- housing investments designed, built, and owned by one owner and managed on their behalf by specialist entities

BTL (Buy-to-Let)
- projects built according to the BTR formula, but offered for sale and often purchased by private investors, which may correspond to the practice observed on the Polish market, consisting of private entities investing in single apartments purchased for rental

The PRS segment in Poland corresponds in the main to the British BTR formula. From beginning to end, it focuses on tenants, guaranteeing an apartment in subscription form, as a service. BTR projects are based to a large extent on long-term cost forecasts, and also offer additional services, facilities, and shared areas for inhabitants, potentially increasing the attractiveness and functionality of a given project.

gyms

laundry service

rooms for bicycles

24/7 CCTV

reception desk

PRS SECTOR SEGMENTS

BUYING PROPERTY TO LET

- The sector of property for rent belonging to private owners constitutes the largest part of the private lease market in Poland. Both individual owners renting their apartments by themselves, as well as larger private players who own a number of apartments operate on this market.
- Apartments rented from private owners are often of inferior quality. Usually, they do not offer any additional services and are not managed professionally.

MULTI-FAMILY BUILDINGS

- Institutional investments in multi-family buildings (apartments) appeared after investors had noticed the opportunities created by taking advantage of the potential related to an increase in rents. This offers an attendant maximization of operating efficiency thanks to a larger density of development, an optimum size of apartments, and better facilities in the close neighborhood.
- This type of product is suited to city centres, with good access to public transportation systems and employees.
- Such investments are managed by specialist entities offering a wide range of facilities to tenants.

CO-LIVING

- Recently, the emergence of the idea of sharing, so-called co-living, along with co-working (individual or shared work in a rented space, mostly office space) has increased interest in leases among young people who focus on the social aspects of life and appreciate the value of a local community, thanks to larger social space and micro housing.
- Co-living may be perceived as an element of multi-family residential construction, where the main role is played by apartments, Such products usually attract people aged 21 or over - mostly graduates and people already in work.

SINGLE-FAMILY HOUSES

- In terms of lease, the group of people aged 35 and over is dominated by a similar trend to that seen in younger people. It is less noticeable, and the ultimate aim is still to own a house. There is a need, however, for flexible housing solutions in suburban areas, addressed towards single people or families with adults aged 35 and over.
- In this area, the benefits for investors primarily include the possibility of offering a longer lease term and lower operating costs (without having to ensure cleaning of common space, maintenance, elevators, or other facilities).

CATEGORIES OF PRS APARTMENTS IN POLAND

STANDARD OF SUPPLY IN POLAND

1 ROOM (25-35 m²):

room, kitchenette, bathroom

MONTHLY RENT:	OPERATING COSTS (INCLUDING UTILITIES):	CLIENT TYPE:
PLN 2,000-2,400	**PLN 250-350**	• **students** • **young, qualified employees** • **singles** • **foreigners**

2 ROOMS (35-55 m²)

living room, bedroom, kitchenette, bathroom

MONTHLY RENT:	OPERATING COSTS (INCLUDING UTILITIES):	CLIENT TYPE:
PLN 2.600-3.500	**PLN 300-450**	• **two students** • **two working people aged 20-30** • **family with a child** • **foreigners**

3 ROOMS (> 55 m²):

living room, 2-3 bedrooms, kitchen, 1-2 bathrooms, terrace/garden, higher standard of design

MONTHLY RENT:	OPERATING COSTS (INCLUDING UTILITIES):	CLIENT TYPE:
>PLN 3,500	**PLN 700-800**	• **wealthy people** • **family with children** • **foreigners**

COMMON AREAS:

- reception desk
- security
- lobby
- parking space (additional fee)
- room for bicycles
- laundry service
-

and additional amenities

- lounge zone
- fitness center
- SPA
- e-commerce point (e.g. automa-ted parcel machine)
- TV room
- common dining room
- terrace with a barbecue place

EQUIPMENT:

- equipped kitchen
- bathroom
- all household appliances
- moveable equipment (sofa, bed, mattress, closets, chairs).

SERVICES (INCLUDED IN RENT):

- lease management via app
- possibility of reporting defects remotely
- payment of utilities
- wireless internet
- 24/7 security
- administrator support
- CCTV

*Typical model for provision

PRS MARKET IN POLAND

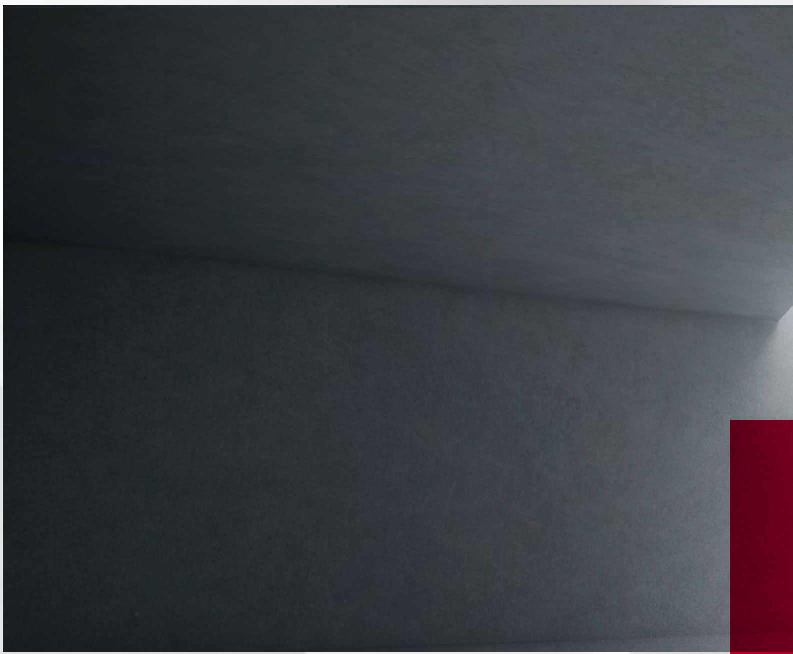
34
PRS investments in Poland in total over 5,600 apartments

2,500
PRS apartments in Warsaw

25,600
new PRS apartments announced by developers

16
active operators in the PRS sector

4,400
PRS apartments under construction



The PRS market in Poland is at an early stage of development although the increase in investor interest in this sector over recent months has become more noticeable. This trend has also been positively impacted by the COVID-19 pandemic. A consequence of this for the commercial real estate sectors (particularly retail and hotels) has been to force investors to look more closely at the possibility of investing in assets on the real estate market, which are more closely aligned with living.

The supply projected for the upcoming years confirms the trend that investors have identified the PRS sector potential offered by the Polish market.

PARTIES TO THE INVESTMENT PROCESS AND THEIR ROLE

INVESTOR
(provides source of finance)

DEVELOPER
(builds)

PLATFORM
(rental tool)

MANAGER
(provides asset management, property management, facility management)

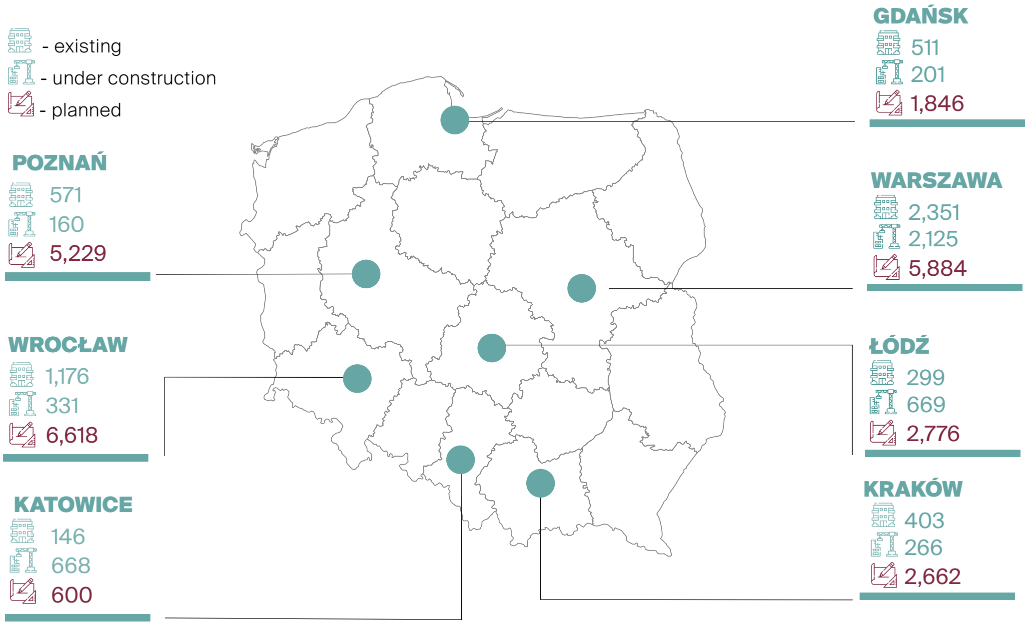
PRIME RENTS IN WARSAW IN THE INSTITUTIONAL SECTOR

2,330 - 2,800 PLN/month (27-37 m²)
3,140 - 3,530 PLN/month (42-55 m²)
>4,480 PLN/month (>65 m²)

COMPARISON OF LEVEL OF PRIVATE AND INSTITUTIONAL RENT

	2-room apartment (40-45 m²)	
Warsaw	**Private sector** (PLN/month)	**Institutional sector** (PLN/month)
Mokotów/Służew	2,100 – 2,800	2,300
Śródmieście	3,200 – 4.000	3,000 – 3,200
Wola	2,500 – 3,300	3.,000 – 3,700

SUPPLY OF PRS APARTMENTS IN POLAND
(H1 2021)



Source: Knight Frank

DEVELOPMENT POTENTIAL OF PRS SECTOR IN POLAND

SHORTAGE OF APARTMENTS AND HOUSING CONDITIONS WORSE THAN IN THE EU

An analysis of the current housing situation in Poland indicates 3 main factors determining the potential of the market:

1. increasing prices of apartments and their limited availability
2. generational attitude changes towards using instead of owning
3. increasing numbers of demanding clients / tenants expecting high quality service and predictability that is hard to provide in leases on the private apartments market

POLAND COMPARED TO EUROPE

Prospects for the development of the PRS sector appear positive, in particular with regard to the structure of the Polish housing market compared to the structure in selected European countries.

30.2%
of the **EU population** rent apartment

69.8%
own the properties they inhabited

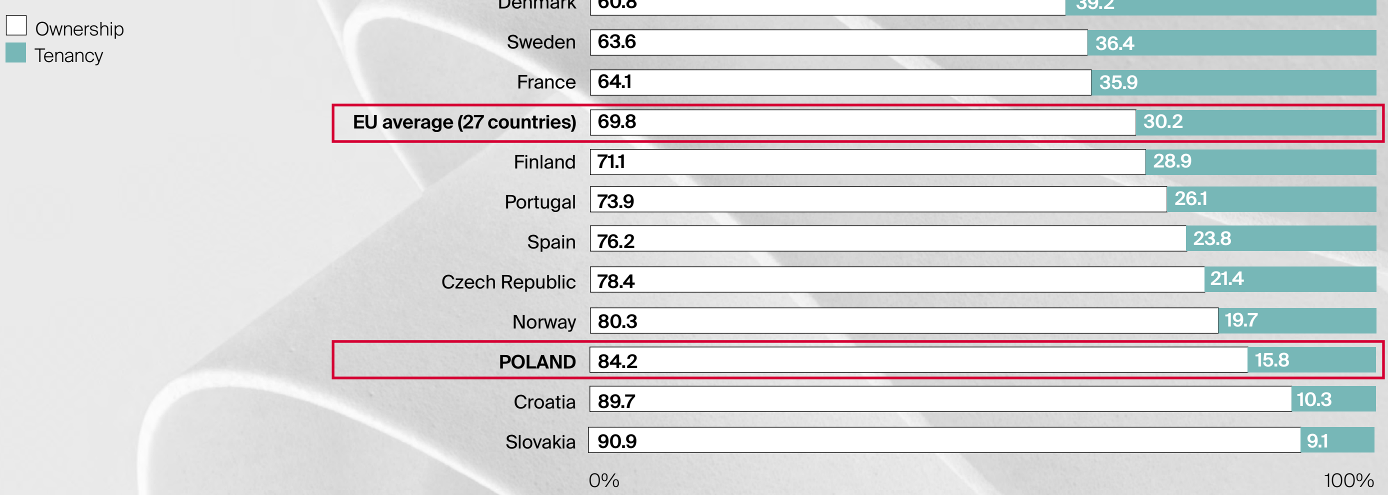
15.8%
of the **Polish population** rent apartments

84.2%
own the properties they inhabited

This structure suggests a considerable advantage in the tendency to own instead of rent apartments. However, in Poland this trend is significantly more noticeable since only 15.8% of the population are tenants, with 84.2% of people owning apartments and houses. Nevertheless, a detailed analysis of Eurostat data supports the idea that renting is a significantly more common legal form in the countries of Western Europe than in the eastern part of Europe. In Germany, for example, as much as half of the population do not own the properties they inhabit.

According to Eurostat data, an increase in the number of people renting apartments in the European Union has been observable since 2010. The ownership trend is weakening and being gradually replaced by an increasing openness to lease, which is noticeable in many countries in Europe.

STRUCTURE OF THE HOUSING MARKET IN SELECTED EUROPEAN COUNTRIES 2019



Source Eurostat

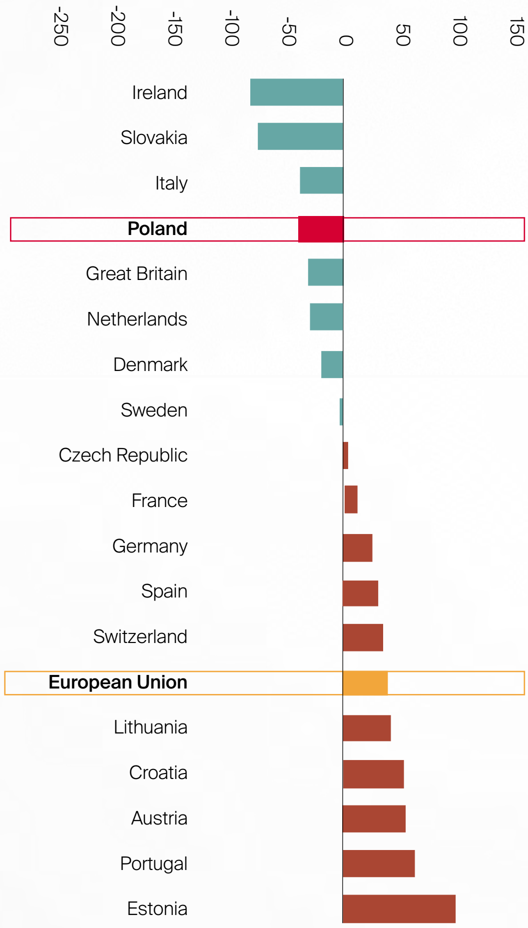
DEFICIT OF APARTMENTS AND OVERPOPULATION

Despite such a huge share of privately-owned apartments in Poland, the market has long been facing the problem of a deficit in the number of apartments. This shapes and maintains a high interest in lease. At the same time, countries such as Germany, Belarus, Spain, Hungary, and Ukraine have recorded a surplus in apartments. The EU average indicated an oversupply of apartments estimated at approximately 40 apartments per 1,000 inhabitants.

According to calculations made by mBank, the number of apartments per 1,000 inhabitants in Poland was 38 lower than the required number. This indicates a deficit in apartments estimated at approximately 1.5 million apartments.

The problem, however, that housing in Poland faces is not only a shortage of apartments, but also their size and the level of overpopulation. An average estimated for the EU27 countries indicated that in 2019 approximately 17% of the population lived in overpopulated households, whereas in Poland this was over 37%. It is worth adding that there were only four countries with an indicator higher than in Poland - Romania, Latvia, Bulgaria, and Croatia.

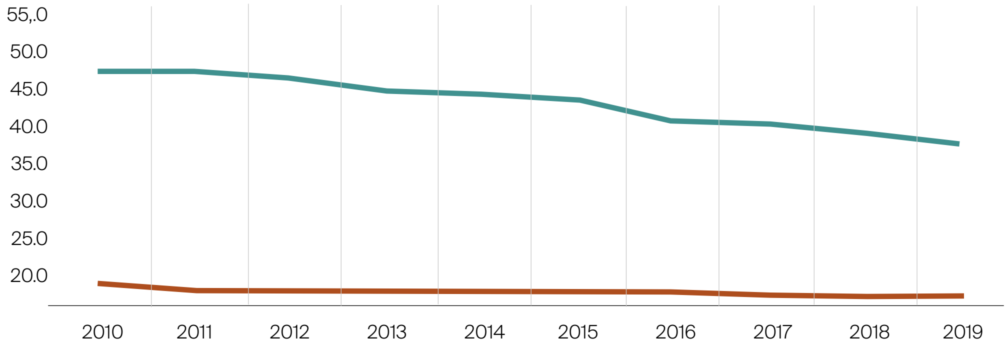
SHORTAGE AND OVERSUPPLY OF APARTMENTS IN SELECTED EUROPEAN COUNTRIES IN 2015 (NUMBER OF APARTMENTS PER 1.000 INHABITANTS)



Source: mBank

POPULATION LIVING IN OVERPOPULATED APARTMENTS (%) IN 2010-2019 (POLAND VS. EU)

EU27
PL

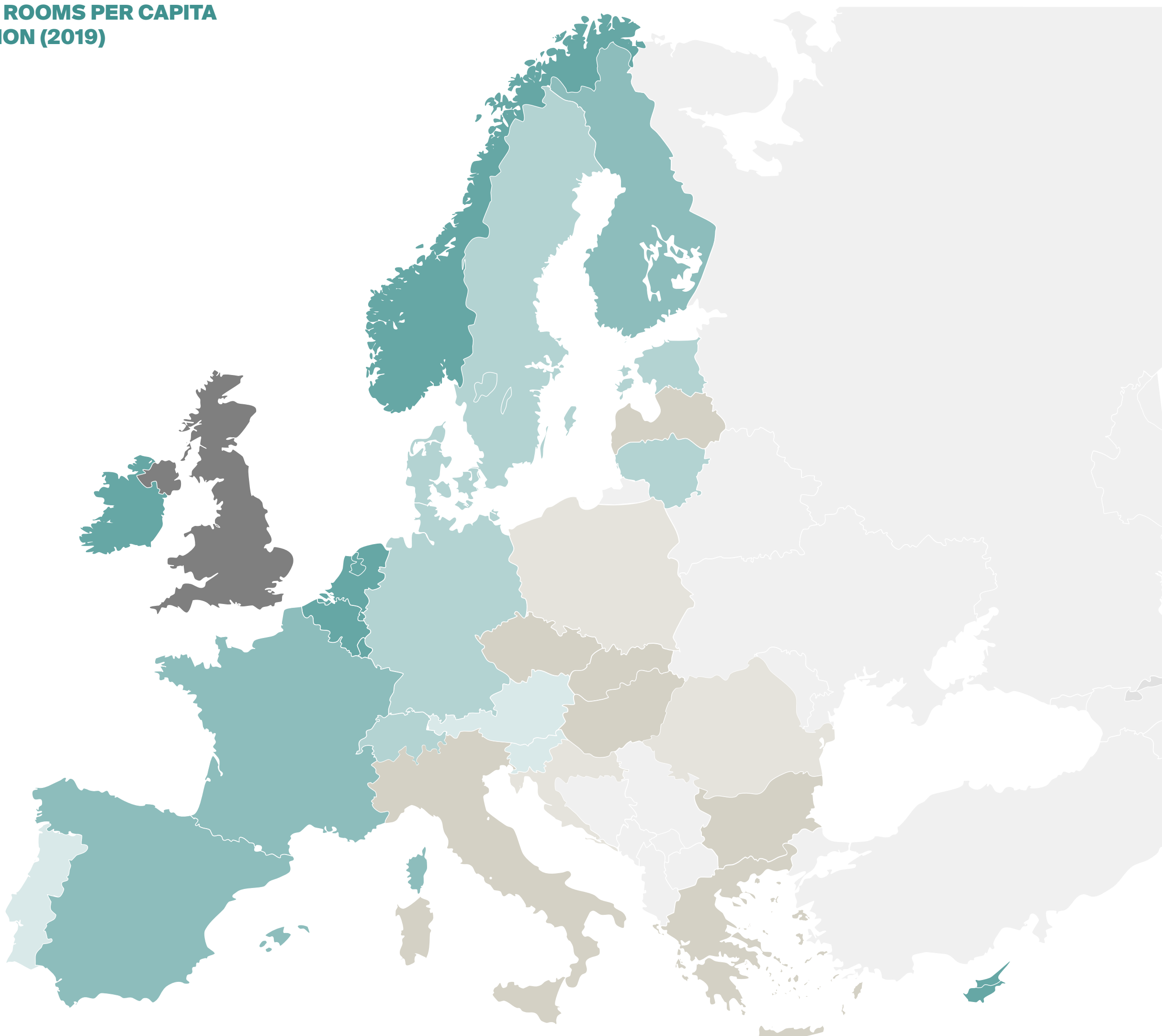


Source: Knight Frank based on Eurostat

Poland also deviates from European standards in terms of living area available to one person. The number of rooms per capita in Poland is a mere 1.1 - the lowest value among all European countries. Similarly low indicators were also recorded in Romania and Croatia. EU countries with the highest indicators are Malta (2.2), Ireland (2.1), and Belgium (2.1).

AVERAGE NUMBER OF ROOMS PER CAPITA IN THE EUROPEAN UNION (2019)

≥ 1.1 to 1.2
≥ 1.2 to 1.53
≥ 1.53 to 1.7
≥ 1.7 to 1.9
≥ 1.9 to 2
≥ 2
Data unavailable

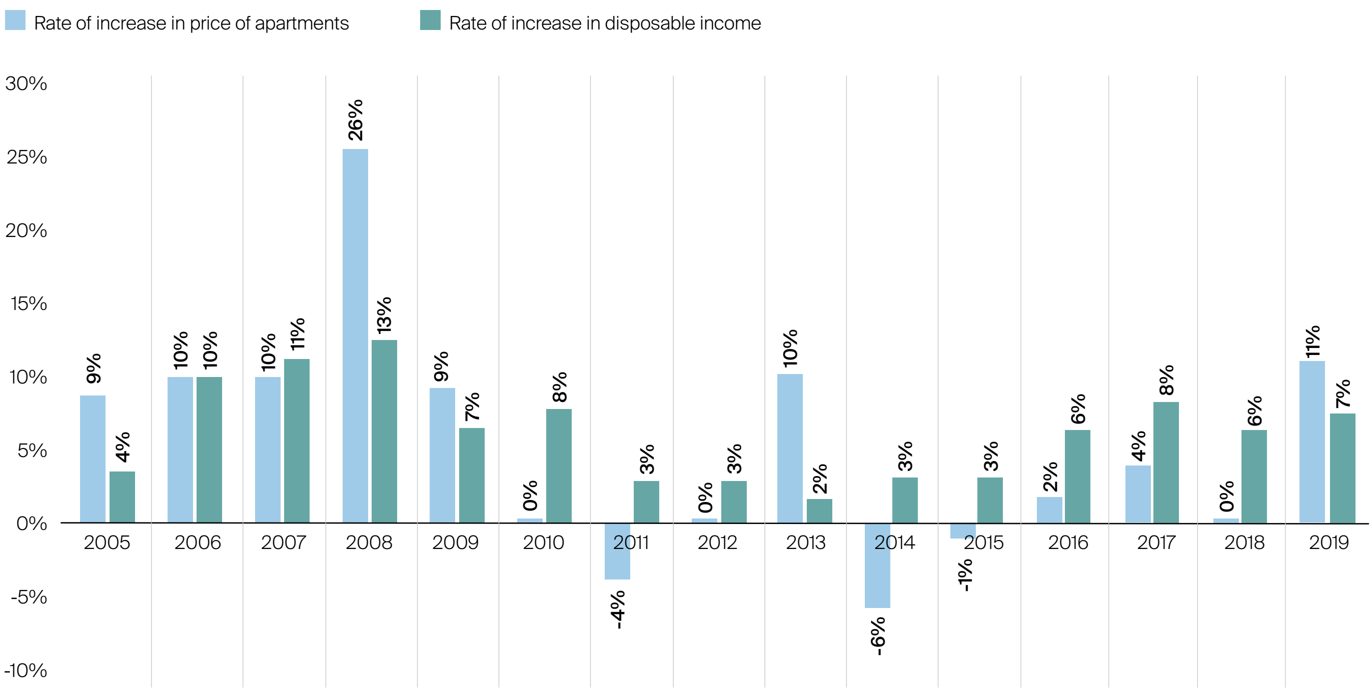


Source: Eurostat

INCREASING LEVEL OF DISPOSABLE INCOME

A steady increase in disposable income per capita has been observed for over a dozen years in Poland. Increasing disposable income allows people to satisfy their basic needs, and focus on improvements to their quality of life - offering greater opportunities for improving housing conditions.

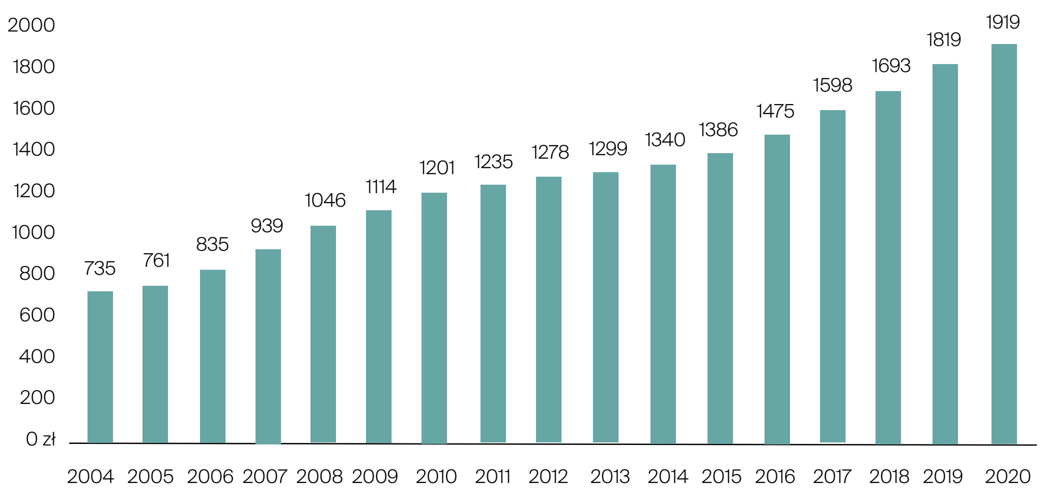
RATE OF INCREASE IN PRICE OF APARTMENTS IN POLAND (PER 1 m2) VS. RATE OF INCREASE IN DISPOSABLE INCOME (PER PERSON)



Source: Knight Frank based on Statistics Poland

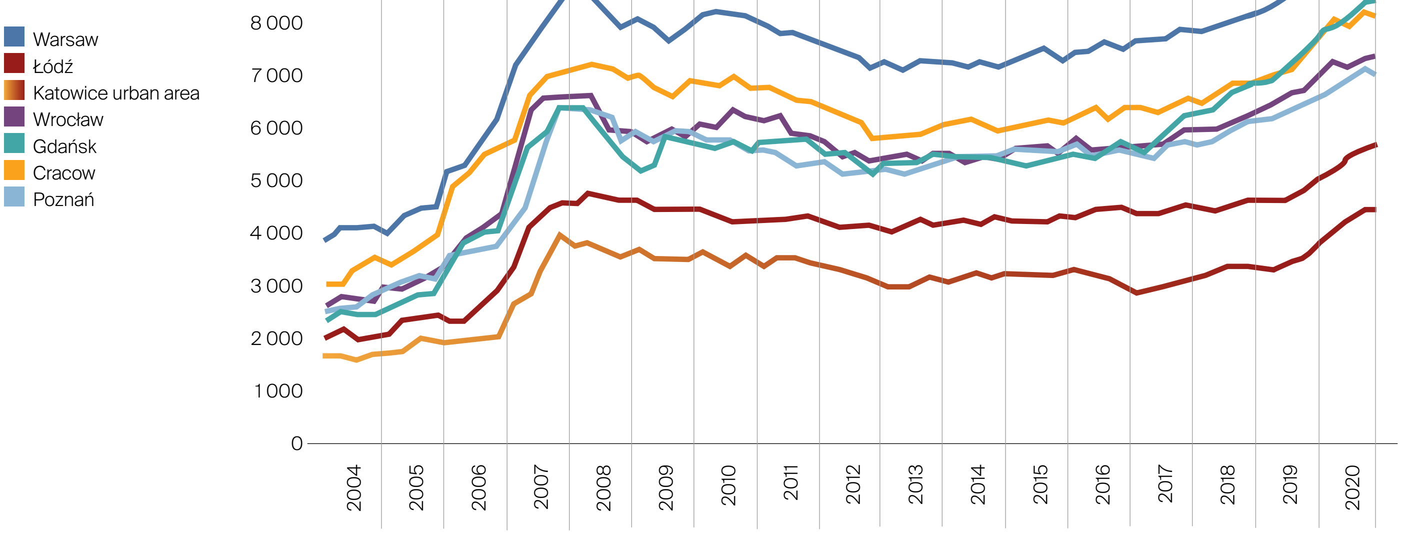
Record low interest rates and a fast rise in disposable income are factors driving an increase in the price of real estate, which rose by more than 11% in 2019.

AVERAGE DISPOSABLE INCOME PER CAPITA IN HOUSEHOLDS IN POLAND 2004-2020 (PLN)



Source: Statistics Poland

AVERAGE PRICES PER SQUARE METRE OF APARTMENTS IN THE LARGEST CITIES IN POLAND 2004-2020 (PLN)



Source: Knight Frank based on AMRON

LEASE OR LOAN?

In this context, the relationship between cost of average monthly rent and size of mortgage monthly repayment is important. The National Bank of Poland has compared these two values and indicates that currently they represent similar burdens on household budgets.
As a result, decisions on such matters are more frequently not taken on the basis of economic factors alone, but in accordance with consumers' individual preferences. In the end, it comes down to a simple choice between renting or buying.

APARTMENT RENT RATE VS. MORTGAGE MONTHLY REPAYMENT IN PLN (2018)

	NEW BUILD	OLDER STOCK
Apartment rent rate (PLN)	1,426	1,426
Loan (PLN)	239,626	207,692
Monthly loan repayment for 20 years (PLN)	1,491	1,292

*a credit calculator of one of the commercial banks and interest rates for a loan in PLN of 4.29% for a standard offer were used for calculations - data refers to rates and apartment space rented – BaRN for 6 cities

Źródło: NBP

DEMOGRAPHY

The demographic situation in Poland, characterized by a negative natural increase in population, could be viewed as unfavorable for the development of the PRS sector. According to Eurostat forecasts, Poland's population may shrink by around 1 million in the coming decade. An aging population is another potential threat to the prospects for the development of the PRS sector in Poland. According to OECD estimates, Poland currently has approximately 30 inhabitants over 65 for every 100 of working age. Forecasts, however, indicate that the respective figures will be 70 for every 100 by 2060.

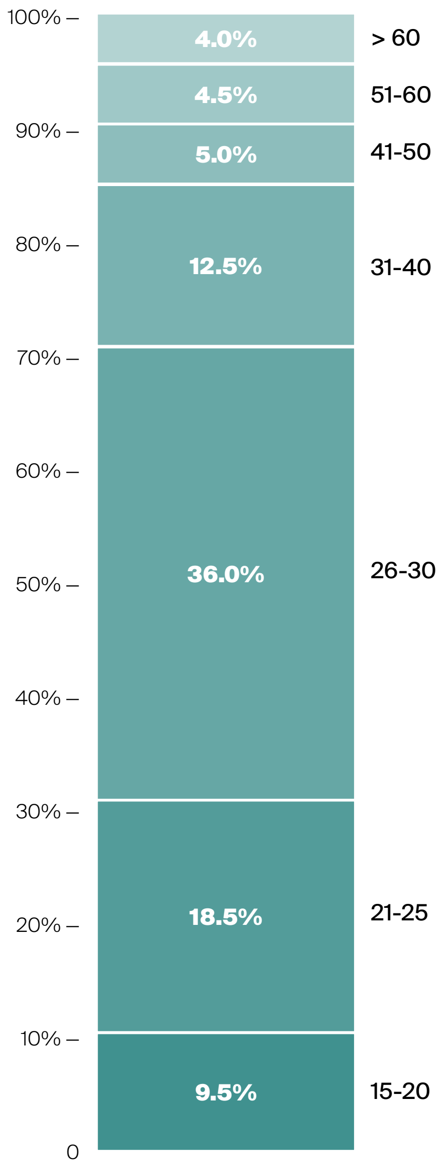
Although similar demographic trends are observable in many European countries, where the scale of the PRS sector is growing, the prospects for the market are positive.

SHARING ECONOMY

The pursuit of apartment ownership among young people, which has so far been the norm in Polish society, is ceasing to be the standard. The domination of ownership in the housing structure – a consequence of the Polish mentality caused by the economic landscape in the times of the Polish People's Republic - has started to change in favor of renting apartments.
The change in the way of thinking is also influenced by ideas related to the sharing economy – a trend gaining in popularity around the world.

The openness of Poles to subscription models, which are already present in many areas (e.g. in entertainment – cinema, music - and transport – bikes, scooters, cars rented by the hour), may be viewed as a positive phenomenon, offering the opportunity for a dynamic increase in the popularity of the PRS formula in the coming months and years.

STRUCTURE OF TENANTS BY AGE GROUPS (2019)



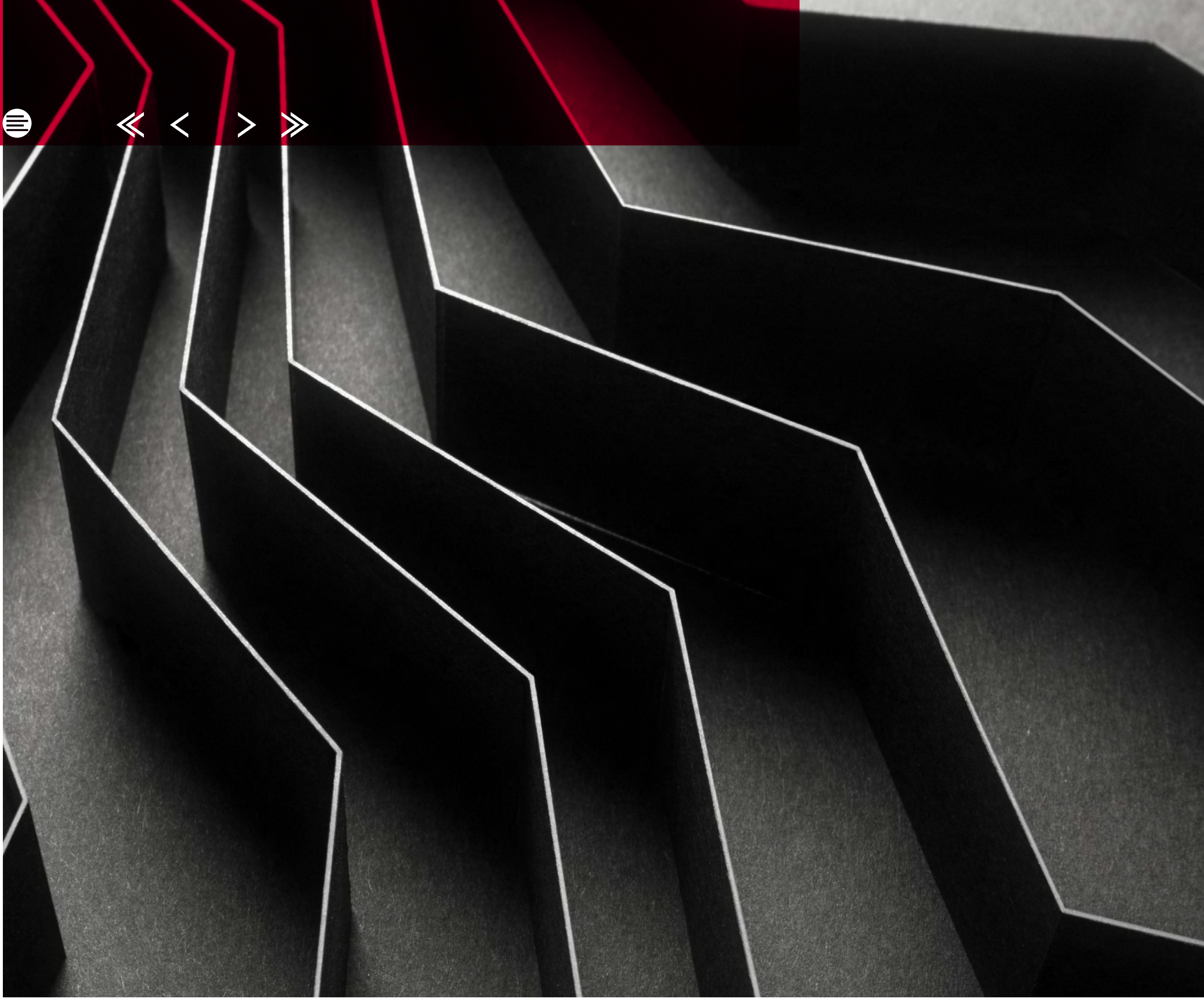
Source: Statistics Poland

GENERATION Y

- born 1985-1995
- conscious and mature consumers, usually with a well-established professional position
- characterized by well-developed internet navigation skills,
- knowledgeable about new technologies and social media.

GENERATION Z

- born 1996-2010
- at an initial stage of their professional career
- the first demographic group raised in the times of widespread access to smartphones and new technologies.

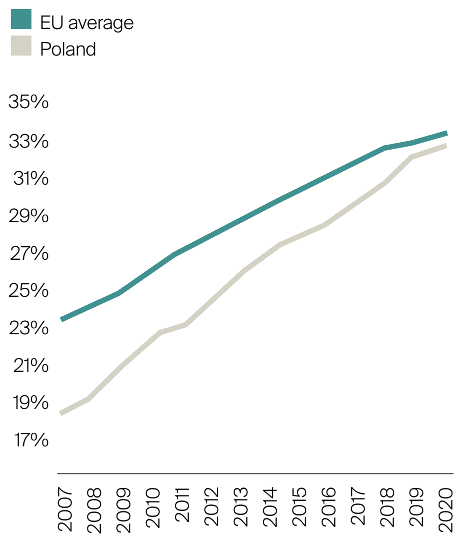


EDUCATION AND INTERNAL MIGRATION

The development of the PRS sector may be positively impacted by the greater percentage of Poles with a higher education qualification in the 25-64 age group. In 2018, the number in Poland was almost 31%, whereas the EU average was 33%. This facilitates internal migration from small and medium-sized towns to the largest academic and business centers, a trend identifiable in changes in the population of cities. It should be noted that a negative rate of natural population increase and emigration (with negative net migration) have resulted in a decrease in the number of people living in most Polish towns and cities. In 2019, a decrease in the population compared to the previous year was recorded in 54 out of 66 cities. Analyzing, however, the rate of depopulation of cities in demographic terms, small and medium-sized towns generally lose a considerably larger part of their population than big agglomerations – the latter attracting people with higher education and wider prospects for finding work. The impact of cities as innovation hubs also helps attract and retain tenant, including graduate retention.

Despite the tendency of the Polish cities to depopulate, an increase in the population was recorded last year in 12 cities, with the largest increases in Warsaw, Cracow, Gdańsk, Rzeszów, and Wrocław.

PERCENTAGE OF PEOPLE WITH HIGHER EDUCATION IN POLAND AND EU (AGE GROUP 25-64) IN 2007-2020



Source: Knight Frank based on Eurostat

DORMITORIES

The limited number of beds in dormitories for students of Polish universities is also a factor driving the development of the PRS sector. It is estimated that there are currently 130,000 places - able to meet only 10% of the demand for all students in Poland. Furthermore, only 5% of these places are in private dormitories (so-called PBSA, Purpose Built Student Accommodation). In most cases, these are rented by foreign students, although a shortfall is noticeable even here – with only 9% of the foreign students satisfactorily served.

10%
existing dormitories are able to meet the demand of 10% of students

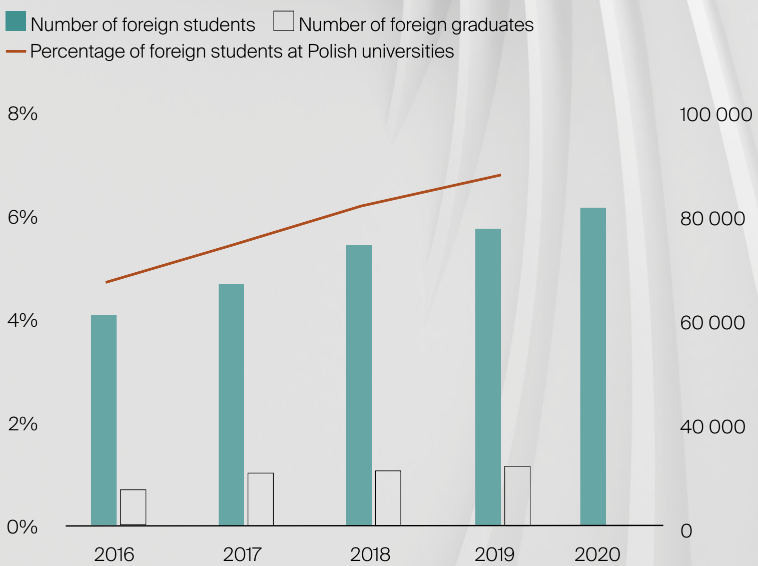
130,000
number of beds in Polish dormitories

1.3 mln
number of students in Poland

80,000
number of foreign students in Poland

95%
occupancy rate in dormitories

NUMBER OF FOREIGN STUDENTS STUDYING AT UNIVERSITIES IN POLAND (2016-2020)

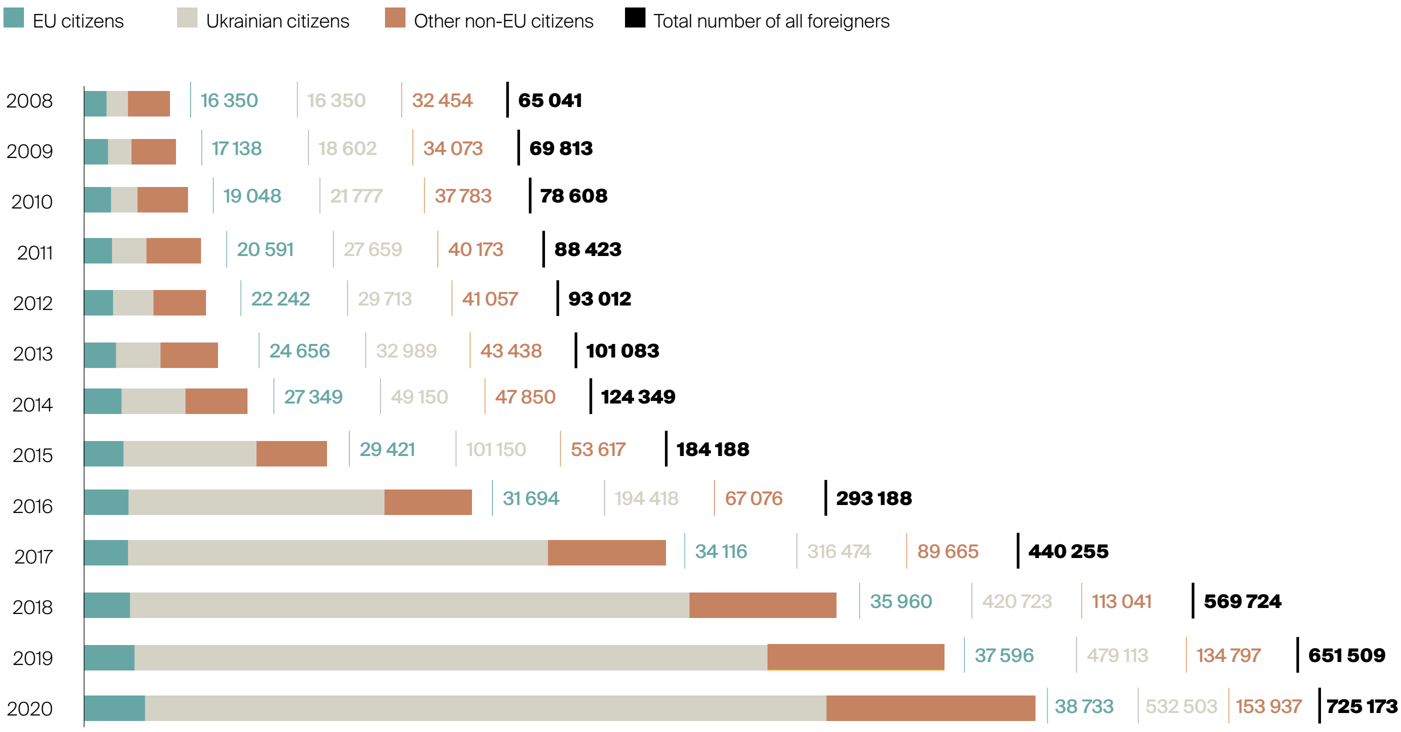


Source: Supreme Audit Office

INTERNATIONALS AS TENANTS

In Poland, there has been an observable increase in the number of foreigners working in the country for many years. The largest growth rate in the number of foreigners (as reported to pension and social insurance services) is in citizens of non-EU countries.

NUMBER OF FOREIGNERS REPORTED TO PENSION AND SOCIAL INSURANCE BY HOME STATE – AT THE END OF THE YEAR



Source: Knight Frank based on Social Security Institution

SUMMARY

A comparison of the Polish apartments for rent market to that of other European countries, invites the conclusion that the Polish PRS sector still has a long way to go to reach maturity. Nevertheless, it is this current, less mature stage that has for some 2-3 years been attracting an increasing number of foreign investors and encouraging existing developers to dedicate apartments to this model. This is clearly reflected in figures relating to apartments and buildings planned, for which developers present in this sector have already secured the land for construction.

Such a dynamic development of the market would not be possible without the social and economic development of Poland, and specific aspects determining the development of PRS segment. Thanks to stable economic development, expected GDP growth, and increasing disposable income, more and more Poles can use their personal capital to improve their housing conditions.

Simultaneously, we can see that the need to own an apartment - which has been the case for the past decades - is changing. Subscription models are becoming increasingly popular among young Poles, who are familiar with and open to the idea of taking advantage of things they do not own, which offers other benefits.

Although long-term demographic forecasts for the Polish population show a decreasing tendency, the situation experienced by the largest Polish cities and agglomerations is quite the opposite. Systematically creating new jobs, they are able to attract people from beyond their boundaries, as well as labor migrants from further afield – a trend which has shown a considerable increase for several years. A similar tendency is observable in the number of foreign students, who, given the limited number of places in private dormitories, constitute a potential target group for the PRS sector.

INVESTMENT MARKET_

PRS IS GAINING MOMENTUM IN CAPITAL MARKETS

Recent months have witnessed an increase in activity from investors seeking on the market of apartments for rent in Poland. The sizeable demand main factors driving the market are a limited supply of high-quality investment products, the sizeable potential of the Polish market, and above-average results for PRS in Europe and globally compared to other classes of assets.

In Europe, increased interest in assets from the institutional rental sector has been noticeable for several years already, whereas on the Polish market there has been visible growth for several quarters.

29%
Share of transactions in the housing segment in Europe In 2020

62.9 bn euro
Invested in the housing market in Europe in 2020

Although there are still few assets of an appropriate scale in Poland, new entities expanding into the Polish market only confirm the fact that the segment of apartments for rent in Poland is gaining in momentum. Examples can be seen with funds such as Heimstaden Bostad from Sweden, which became an investment partner with Eiffage Immobilier Polska at the end of 2020. One element of the cooperation will be to finance construction, and follow up with the fund becoming owner of two housing projects located in Warsaw, providing some 640 apartments for institutional lease. The approximate value of the transaction is 65 million euro. Additionally, at the end of May 2021, Heimstaden Bostad entered into an agreement with Budimex Nieruchomości, finalizing the purchase of 2,500 apartments for nearly PLN 1.4 billion.
As a result of these transactions, Heimstaden will become the owner of approximately 4,000 apartments in the next five years. In June 2021, the Finnish development company YIT finalized an agreement with the Nordic investor NREP for the construction of over 1,000 apartments for rent in Warsaw. The first of them will be ready for use at the end of 2022.

Other funds that have invested in the Polish PRS market include: TAG Immobilien, which acquired 100% of shares in Vantage Development, announcing its expansion on the local market and the extension of its portfolio of apartments for rent in Poland by 10,000 units; Catella European Residential Fund („CERF"), which previously had acquired 72 apartments in the Złota 44 apartment building and the entire Pereca 11 project, offering long-term rental of 193 apartments. The aforementioned funds are joined by; Zeitgeist Asset Management, Echo Investment, Golub GetHouse, Aurec Capital and AFI

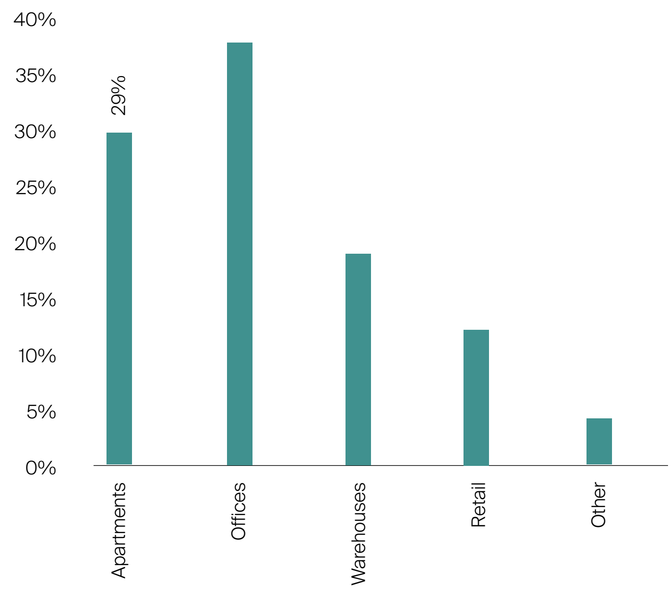
EUR 860 million
invested in the housing market in Poland in 2019 - H1 2021

The development of the market of apartments for rent is therefore undeniably growing at a quickening tempo, although this segment is still characterized by supply limitations. Attractive rates of return in this segment are attracting many international players with experience in the countries of Western Europe where the rental markets are more highly developed.

LARGEST PROVIDERS ON THE POLISH MARKET, AND THEIR REAL ESTATE PORTFOLIOS

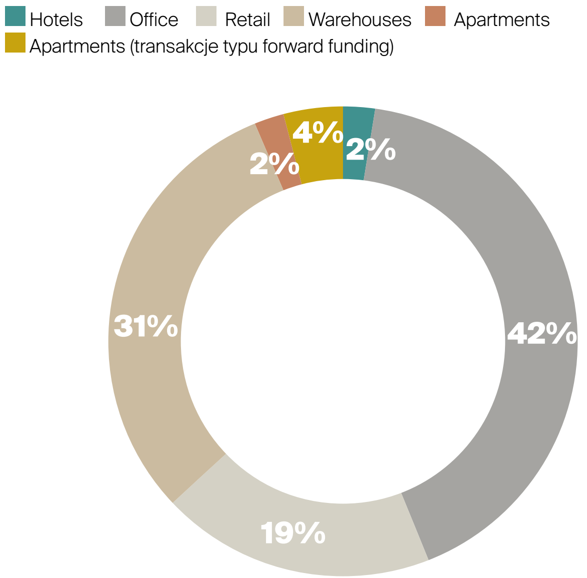
Platform	Cities	Number of properties	Investor	Number of apartments
Resi Capital	Katowice, Cracow, Łódź, Tricity, Warsaw, Wrocław	10	Cavatina	Under construction: 1,413 Planned: 4,300
Resi4Rent	Warsaw, Wrocław, Poznań, Łódź, Cracow, Gdańsk	18	Echo Investment/R4R Sarl	Finished: 2,140 Under construction: 470 Planned: 2,675
Vantage Rent	Wrocław, Poznań, Łódź	29	TAG Immobillien / Vantage	Finished: 510 Under construction: 255 Planned: 9,600
Fundusz Mieszkań na Wynajem	Gdańsk, Katowice, Cracow, Łódź, Poznań, Wrocław, Warsaw	18	Fundusz Mieszkań na Wynajem / PFR	Finished: 2,049 Planned: 318
Heimstaden Bostad	Warsaw, Gdańsk, Cracow, Wrocław, Poznań	18	Heimstaden Bostad	Under construction: 730 Planned: 3,109

VOLUME OF INVESTMENT TRANSACTIONS IN EUROPE IN 2020



Source: Knight Frank

SECTOR OF TRANSACTIONS IN POLAND IN 2019-H1 2021



Source: Knight Frank

SUMMARY OF HOUSING INVESTMENTS IN EUROPE

	GERMANY	FRANCE	SPAIN	NETHER-LANDS	AUSTRIA	IRELAND	GREAT BRITAIN
Total population	83.2 million	67.1 million	47.3 million	17.4 million	8.9 million	4.9 million	67.8 million
Population of cities	64.5 million	54.1 million	37.9 million	15.9 million	5.2 million	3.1 million	55.9 million
Limitations on rent / tenant's rights	rent regulation in Berlin	rent regulation in Paris	rent regula-tion under negotiation	free market, legally regu-lated	partially regu-lated market	rent regulation	affordability requirements
Net capitalization rate	3.00%	2.50%	3.00%	3.25%	2.90%	3.75%	3.25%
Gross capitalization rate	3.35%	3.00%	3.70%	3.50%	3.10%	4.50%	4.30%
Capital value / m²	EUR 7,500	EUR 10,700	EUR 5,750	EUR 10,000	EUR 6,500	EUR 8,000	EGBP 8,500
Average rent / month / m²	EUR 22	EUR 27	EUR 14.5	EUR 22	EUR 13.5	EUR 30	GBP 30

Source: Knight Frank

6 LARGEST TRANSACTIONS

PRS

Year	Q2 2021
City	Warsaw, Gdańsk, Cracow, Wrocław, Poznań
Real estate	Budimex Portfolio
Number of apartments	2,500
Estimated value	EUR 310 million
Seller	Budimex Nieruchomoci
Buyer	Heimstaden Bostad

PRS

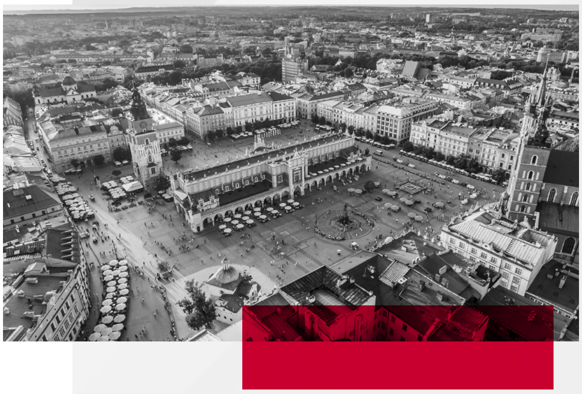
Year	Q1 2021
City	Warsaw
Real estate	Marvipol Portfolio
Number of apartments	647
Estimated value	EUR 88.6 million
Seller	Marvipol
Buyer	Heimstaden Bostad

PBSA

Year	Q2 2020
City	Warsaw
Real estate	YIT portfolio
Number of apartments	1,071
Estimated value	EUR 100 million
Seller	YIT
Buyer	NREP

PRS

Year	Q2 2019
City	Wrocław, Poznań, Łódź
Real estate	Vantage Development portfolio
Number of apartments	-
Estimated value	EUR 88 million
Seller	Vantage Development
Buyer	TAG Immobilien AG

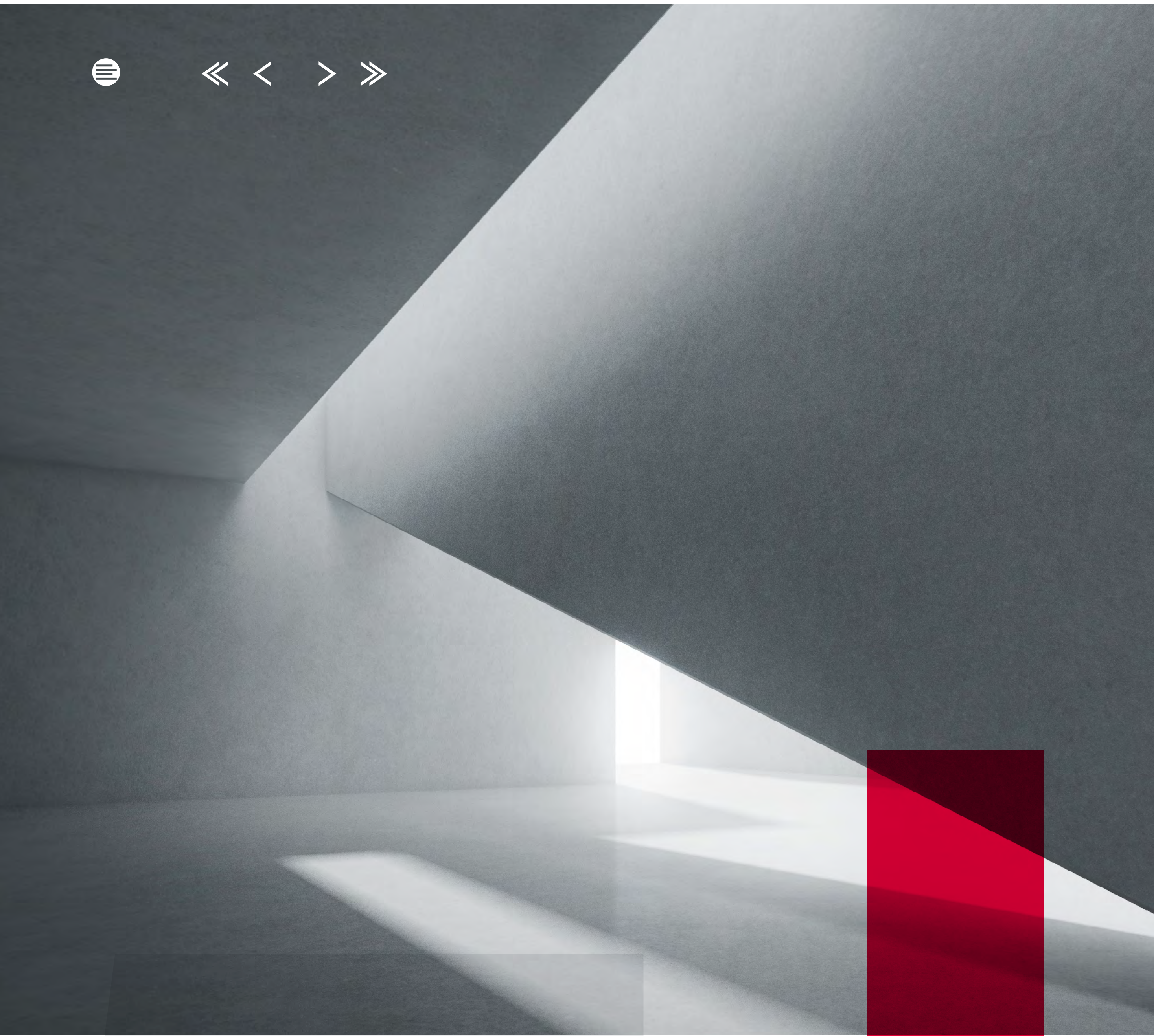


PBSA

Year	Q4 2019
City	Cracow
Real estate	Trio Kraków (Dormitory & PRS)
Number of apartments	293
Estimated value	EUR 20 million
Seller	Heitman jv. Hines
Buyer	Catella European Residential Fund

PBSA

Year	Q2 2019
City	Warsaw / Łódź / Poznań / Wrocław / Lublin
Real estate	Portfolio Student Depot 2019 (Student Depot Warsaw, Salsa, Polonez, Student Deport Wrocław, Duet)
Number of apartments	2,043
Estimated value	EUR 60 million
Seller	Oaktree Capital Management
Buyer	Kajima Student Housing Limited



5

PRS FROM INVESTORS' PERSPECTIVE

REDNET PROPERTY GROUP

The current situation with the Covid-19 pandemic is seeing a shift in investment preferences, and the desire to seek out real estate sectors that have been less negatively impacted by recent events. For institutional real estate investors, both globally and in Poland, this has brought about a change in perception of the PRS/BTR sector. What was once viewed as an alternative asset class, is becoming a key component in asset allocation. The momentum created by the behavioural changes of a new generation of consumers, the potential for attractive returns, and the opportunity for a feasible scale of investment, are all combining to generate very strong interest in the PRS/BTR sector in Poland.

Finding the right flat in Warsaw, Krakow, Wroclaw, Poznan or Gdansk can be something of a challenge. In terms of supply, compared to the European average, there is still a shortfall of over 3 million flats in Poland. Young professionals, active professionals, and students are all looking for contemporary housing supply options– options which will suit their evolving lifestyles. They expect comfort, flexible living conditions and a sense of community, all under one roof. When it comes to selecting locations for PRS/BTR projects, it is important to have in mind both a macro view of which cities are attractive to young professionals and students, and a micro view of which districts and locations in the city draw the collective attention of the selected target group.

Currently, PRS/BTR investments in Poland are still at an early stage of development. It is, however, a stage characterised by high growth potential. Once the projects currently being implemented reach fruition and confirm assumptions and expectations, the demand for new locations will inevitably grow, along with the interest of investors. The rate of development of the PRS / BTR sector will be further influenced by the attention of the municipal authorities being drawn to these projects – the authorities assessing them in a positive way in terms of their contribution to the city's landscape, structure, and future.

LESZEK MACIUSOWICZ

Managing Director
Investment Management
REDNET Property Group

Heimstaden
friendly homes

"

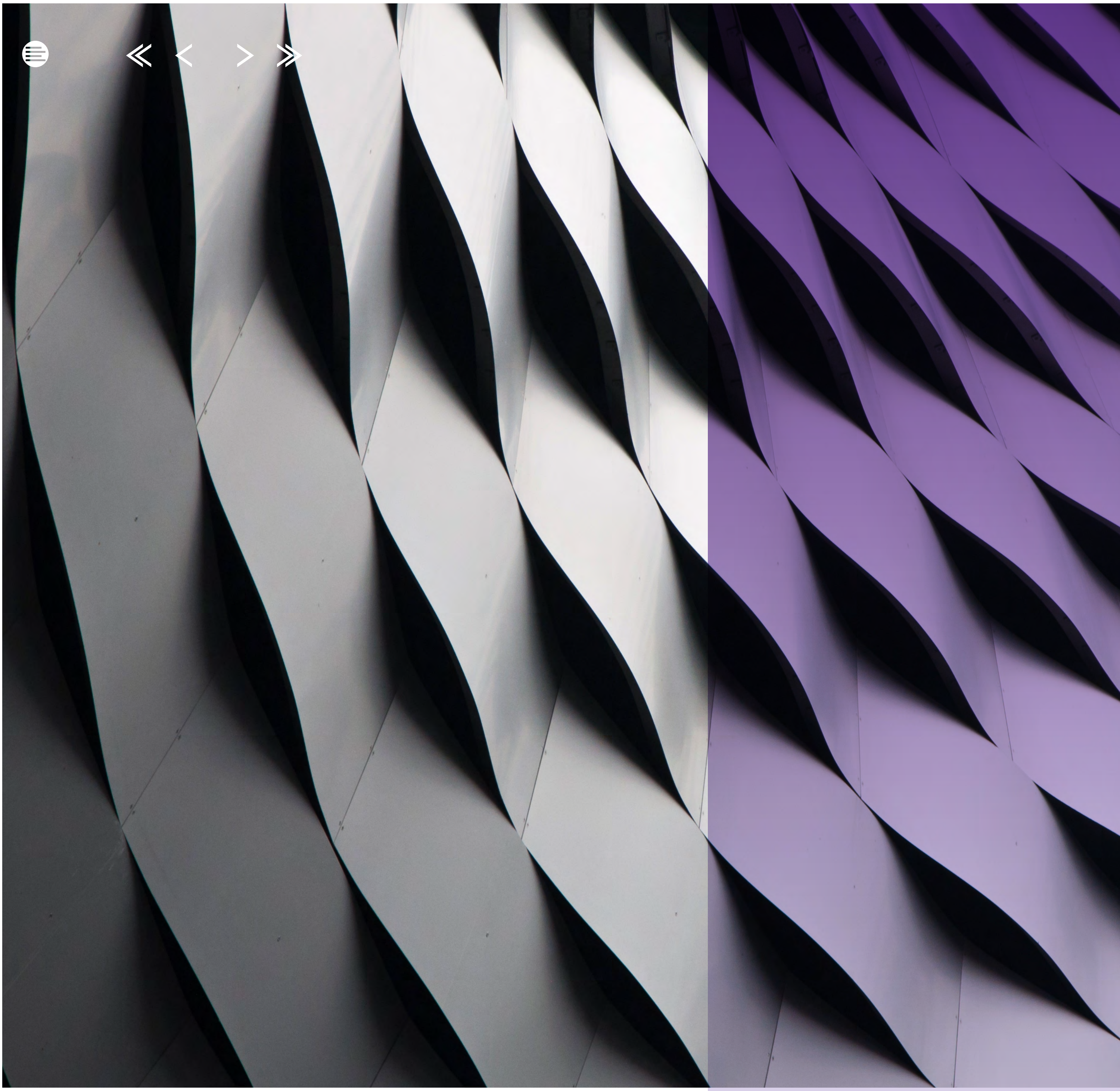
Heimstaden as a company focuses on providing friendly homes to its European markets. For us, the residential rental market offers long-term, secure income stream, attractive risk / return profile, and low levels of volatility. The granular nature of the tenant dilutes income risk profile and offers potential for considerable upside through effective asset management, brand creation etc. Residential investment has typically offered a defensive investment position immune to market cycles. The yield trend of the past four years indicates that the residential market remains a stable investment despite the peak of the COVID 19 pandemic in 2020. Out of six real estate sectors, only residential and industrial yields compressed between 2020 and 2021.

Our focus has been on designing projects that are appropriate for the micro-location, and on owning and controlling entire buildings. While we do see merits in student and senior living, our focus is providing friendly homes into the residential rental market. We have established criteria for investment into certain locations, and thoroughly research the micro-location to understand macro-economic dynamics, income levels, existing and new transport infrastructure, and existing and pipeline PRS projects. We must justify that the location will support the rents we have underwritten, and the design of the building in terms of unit mix, layouts and amenity is appropriate for the location, and our target market.

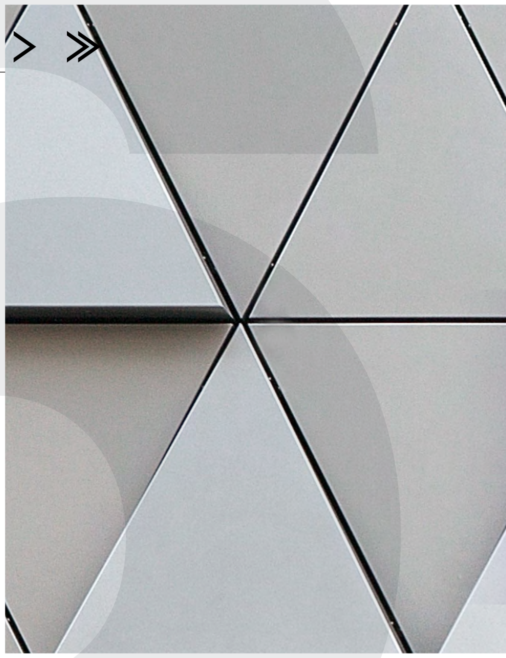
Poland is a dynamic productive and fast growing economy that we see as a core market. We entered this market as we saw the potential to build significant scale quickly. If we observe current investors' strategies, the number of operating schemes and active pipeline PRS projects across the country, Warsaw is the most preferred location. It is expected there will be as many as 40 completed rented residential schemes by 2024. Heimstaden has 7 projects across the city with 613 units due by Q2 2022, and further 1,535 units to be delivered over the next 2 years. We remain cautiously optimistic to selectively add strategic locations to further grow in Warsaw. In terms of completed and planned units generally in the market, Warsaw is followed by Wrocław, Poznan, Tricity, Kraków, Łodź, and Katowice.

JASON DRENNAN

Investment Director
Heimstaden Investment CEE



LEGAL ASPECTS OF PRS INVESTMENTS AND **TAX** Q&A



TRANSACTIONS ON THE PRS MARKET

Main characteristics of transactions on the PRS market is the need for the investor's very close cooperation not only with legal advisors responsible for implementation, but above all technical and commercial advisors, specialists in the implementation of fit-out works, as well as with tax advisors. This is because the emerging PRS market focuses on forward transactions consisting in a commitment to acquire a residential project implemented by the developer, financed by the investor at the initial stage and during the project implementation. The reason for this is that there are still very few finished PRS products that can be traded.

Initial stage – defining the transaction's subject

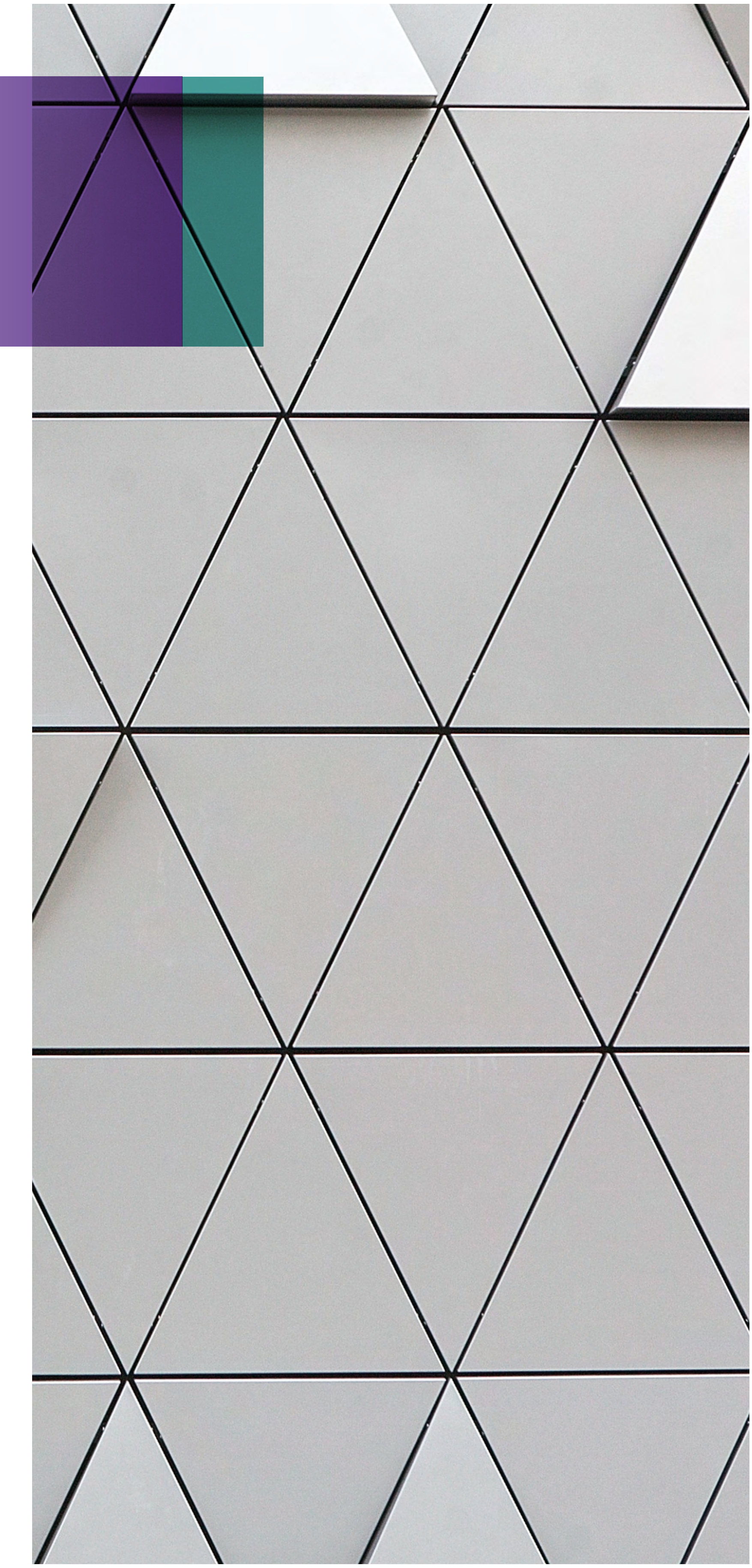
The PRS investments focusing on projects that are yet to be built, have as their subject an architectural concept for the implementation of a residential design. In situations where this concept has been approved by the building permit, the investor theoretically gains time and at the same time reduces risks related to the completion of the administrative approval process. The permitting process is time-consuming and burdened with the risk of objections and neighbours' protests, so having a building permit in place may be perceived as an advantage. On the other hand, an already approved design rarely gains the investor's full approval, as the investor would usually like to optimize and adapt it to its business model. The scope of these changes may be insignificant, however, when the investor requires further modifications to the design requiring changes to the building permit, all risks related to the administrative construction process and possible delays in project implementation must be considered. Determining the correct target concept of the PRS project is crucial for properly defining the subject of the transaction. Transaction documentation, prepared with the participation of legal and technical advisors, must therefore precisely indicate the concept being implemented or at least set out transparent rules concerning its negotiations and approval (and the consequences of no approval).

Financing and monitoring of investments

Due to the fact that project financing is usually provided by the investor, the relationship between the investor and the developer becomes quite similar to the relationship between the developer and the financing bank. The investor will typically expect a similar scope of security as the financing bank in respect of the funds it invested. In addition to the obvious requirement that there are no risks related to the legal title to the real estate, there is also a need to provide the investor with an opportunity to secure its claims on the investor's property by establishing an appropriate mortgage. As the value of such security usually does not correspond to the amount of the invested funds (the property 'gains' value as the investment is completed), additional securities are necessary in the form of guarantees or sureties from the developer's affiliates with appropriate financial capacity. Also, at the stage of project implementation, the investor—like the financing bank—must have control of the implementation process by a technical expert appointed by the investor (monitor). The monitor must have a real insight into the construction process, and have the basic authorization to approve the next stages of construction, and thus to launch subsequent tranches of investment financing.

Handover and acceptance of the project

The process of implementing a residential investment, as well as its handover and acceptance from the



developer (and through the developer—from the general contractor) is the domain of the investor's technical advisors, as well as the developer's implementation team. Cooperation in this area is a condition for the timely completion of the project and its success. At this stage, commercial advisors and interior fit-out specialists come to the fore, and, considering market conditions and trends in this area, ensure that the final product is most suited to the changing preferences of future clients. This stage is also a true verification of contractual provisions—without a precisely described process of arrangements and acceptance and the designated role of the investor, developer and monitor, it is easy to end up in time- and money-consuming dispute.

Transaction documentation and venture safety

The transaction documentation should ensure a smooth process of transferring the completed investment to the buyer. As the investor is interested in purchasing the finished product, this process usually takes place after obtaining an occupancy permit. As part of the project handover, the developer should provide the investor with all documentation related to the building under construction, which is necessary for its proper use. Regardless of this, it will be necessary to transfer to the investor the construction guarantees obtained from the general contractor and the building designer, as well as to secure the process of 'handling' any complaints related to building defects, usually appearing in the first two years of occupancy. In some cases, however, it will not be possible to finalize the transaction immediately after obtaining the occupancy permit. In the case of projects implemented on land in perpetual usufruct, obtaining an occupancy permit results in the transformation of perpetual usufruct into land ownership. Although this transformation happens by operation of law, the regulations make real estate transactions involving the transformed real estate conditional on the issuance of a special certificate confirming the transformation. Currently, it takes several months to have such a certificate issued, and this time can be spent on finalizing the offer to future clients and marketing activities.

ZONING ISSUES

What should be the starting point for a PRS project?

Investments in the PRS market require an in-depth analysis in terms of their feasibility in a given location. At the beginning of planning any new project, it is crucial to verify the zoning opportunities and limitations related to the land intended for such investment. This is particularly important as the Polish zoning regulations do not provide for a separate category of functions corresponding to the Build-To-Rent (BTR) concept. The absence of such category causes considerable confusion and interpretation doubts. The controversy in this respect is exacerbated by discrepancies in both the regulations and the jurisprudence of administrative courts. Moreover, as the pool of land expressly designated in the master plans for housing projects is shrinking practically every year, the investors' attention turns to areas with different development purpose allocations, which may not always be legally suitable for BTR investments.

What areas are suitable for this type of investments?

The master plan determines the framework of the building's final use, and in PRS projects, as a rule, their purpose is to satisfy housing needs. The issue whether a client will use the apartment for a short or long term does not affect the zoning qualification of a PRS project. The PRS investment projects should, therefore, be located on land designated in master plans for multi-family housing with acceptable retail-service function (land marked as MW or MW/U).

Can every residential building be slated for a PRS investment?

In general, the regulations distinguish between residential and non-residential buildings. In the Polish Classification of Types of Constructions (in Polish: Polska Klasyfikacja Obiektów Budowlanych, PKOB) ("**Classification**"), the "residential" building category includes single-family and multi-family houses, collective residence buildings (residential houses for elderly people, students and other social groups, boarding houses, school dormitories). Hotels, tourist accommodation buildings and the like belong to the category of "non-residential" buildings.

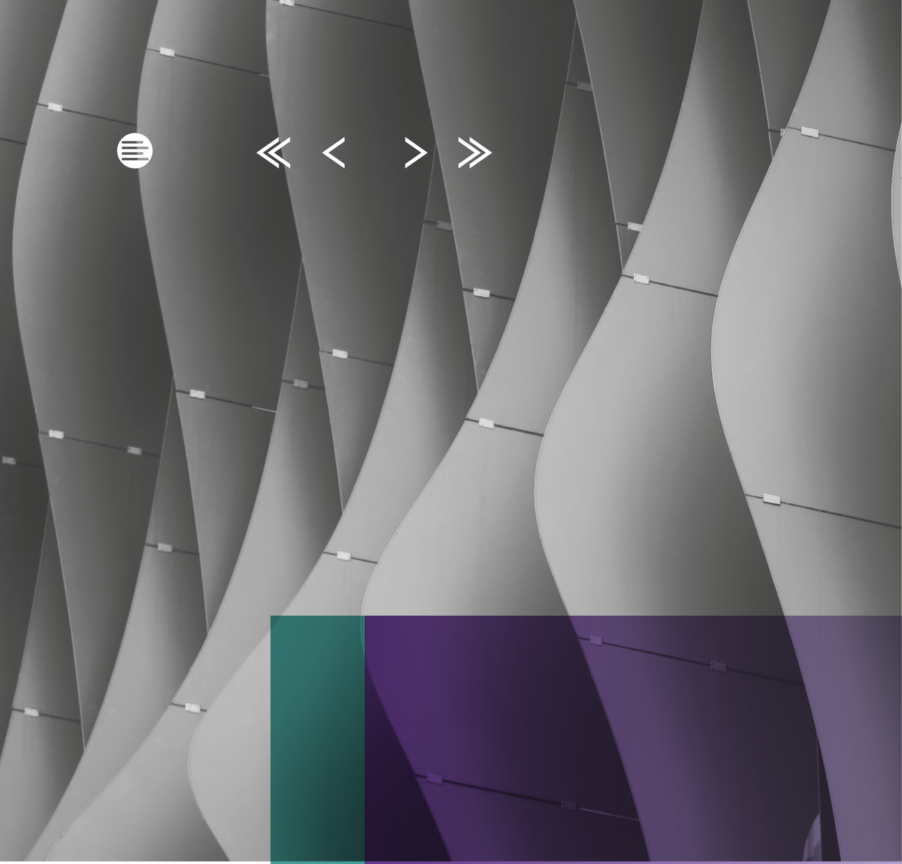
Buildings are defined differently in another important legal act - the ordinance of the Minister of Infrastructure on technical conditions to be met by buildings and their location ("**TC Ordinance**").

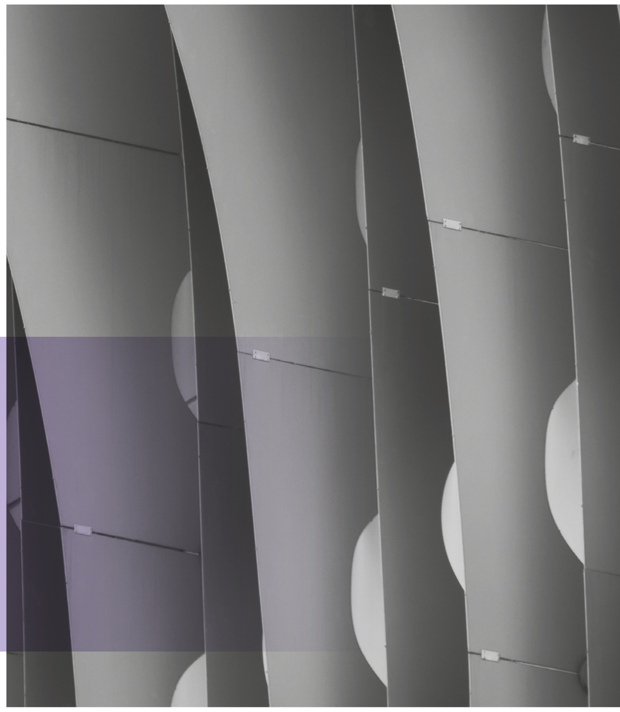
According to the TC Ordinance, collective residence buildings do not belong to residential buildings, but constitute a separate category of buildings intended for temporary stay (e.g. hotel, motel, guesthouse, rest house, excursion house, youth hostel, hostel, boarding house, student house). There is no major doubt that multi-family residential buildings are the essence of PRS investments. Controversies arise, however, when it comes to "collective residence" buildings, which, although recognized as residential buildings in the Classification, are treated differently in the TC Ordinance – as buildings designated only for temporary stay and allocated to the same category as, for example, a hotel. Neither the Classification nor the TC Ordinance include "collective residence" buildings in the category of „non-residential" buildings. The distinguishing feature of collective housing is therefore the periodicity of stay, which, however, is not further specified in the regulations. In other words, there is no clear legal guideline what "temporary stay" actually means in the context of property development.
The Classification and the TC Ordinance describe potential PRS buildings in different legal terms and this ambiguity extends also to provisions of particular master plans, in particular in areas, which are not clearly designated for residential investments (MW or MW/U), but instead operate different designations, allowing for placement of services, non-residential buildings of various types, etc. Master plans may also differ significantly in details, even within one commune. Each PRS investment should therefore be coupled with a thorough analysis of the applicable regulations on spatial development of the real estate, especially in the case of areas that are, in principle, intended for service or service-like purposes.

Does the lack of a master plan preclude PRS investments?

The lack of appropriate designation in the master plan does not close the way to the implementation of a PRS project. The investor may obtain a decision on zoning conditions ("**Zoning Decision**"), provided that the requirements for issuing such a decision are met. The main constraint on obtaining the Zoning Decision is the requirement of the vicinity of existing investments of a similar nature and height parameters.

The investor may also utilize a special option resulting from the act commonly referred to as *'lex developer'*, which makes it possible for the investment to go through in a manner that is completely independent of (and therefore completely inconsistent with) the applicable zoning arrangements. The only measurable





restrictions imposed by law on the investor who would like to take advantage of *'lex developer'* are: (i) no contradiction of the planned investment with the findings of the commune's zoning study (in principle, as some areas are excluded from this restriction), and (ii) keeping the required distance from the public facilities, such as public transport stops, schools or recreational areas. The use of this option requires an appropriate resolution of the commune council, which, for many reasons, is very difficult to obtain. The main obstacles are the necessity to convince the majority of councilors that a given project should actually be implemented in this manner, despite the fact that, as a rule, the local authorities did not plan housing investments in the area in question.

Will the amendments to the zoning and spatial development act accelerate investments on the PRS market?

The emerging concepts of amendments to zoning regulations do not include detailed solutions for PRS investments. An important step would be to standardize the terminology of the admissible types of investments in individual master plans. It is very important to provide local authorities with the possibility of a quick change of designation of specific areas along with the change of priorities of urban spatial policy. This applies in particular to areas that in the past experienced extensive office and service development, and which now require 'revival' through the possibility of implementing residential investments. Thus, the need to improve the process of changing master plans, which has been raised for many years, is very desirable now.

To rent or to buy an apartment? Which variant is the best solution for the present times?

The essence of the BTR concept is to meet housing goals in the long-term perspective, therefore, residential premises intended for long-term rental will become a very interesting alternative to home-ownership. The main arguments in favor of such a concept will be the lack of obligations in the form of a mortgage, and greater mobility and freedom when changing the place of residence. A key element for further development of the market is a mental shift occurring in both the generation entering the labor market, as well as the generation that is already firmly established in this market and shapes trends. Stabilization, understood as one and the same place of residence for many years, has significantly dropped in the hierarchy of professed values, which, however, does not mean abandoning the dreams of one's own home. However, these dreams can be easily materialized using the possibilities offered by the BTR concept, which—more readily than a long-term mortgage—is at one's fingertips. The growing importance of institutional renting will certainly significantly change the housing culture of Poles in the next few years.

8 RESIDENTIAL RENTAL AGREEMENTS

One of many concerns of potential investors is the stability of rental agreements on the Polish housing market. For many years, the lack of appropriate legal regulations posed significant risks for the landlord if the tenant falls behind on rent and does not want to move out voluntarily. It may take up to several months to complete the standard eviction procedure, which include the necessity to obtain a court judgment and requires a court enforcement officer's participation. During this period, the premises do not bring the expected income, which can be then recovered by the landlord, yet also through court and enforcement procedure.

New legal regulations and new opportunities

The concept of institutional renting offers new solutions providing investors with greater security. It has been introduced to the legal system quite recently, and is similar to occasional renting—a solution that has been in force for some time now. The essence of institutional renting is the conclusion of a fixed term rental agreement and the tenant's obligation to produce a notarial deed, on the basis of which faster eviction to the premises indicated by the tenant is possible.

Other security measures

The standard security measure for claims pursued on the basis of the rental agreement is a deposit in the amount of one-month's (or several-months') rent. The deposit is paid to the landlord's bank account and returned after the rental term has elapsed, the condition of the premises after its return has been verified and the costs of any repairs have been settled.

This table presents the characteristics of residential rental agreements available in the Polish legal system:

	Rental / accommodation services agreements	Rental agreement for properties in the community housing stock	Institutional rental agreement	B2B lease agreement
Purpose	**temporary accommodation**	**meeting the housing needs of a self-government community**	**meeting housing needs**	**running a business**
Tenant and landlord	• **tenant:** natural / legal person • **landlord:** entrepreneur	• **tenant:** a person with low-income household • **landlord:** self-government community	• **tenant:** natural person • **landlord:** only a natural person, legal person or an organizational unit that is not a legal person, running a premises rental business	• **tenant:** entrepreneur • **landlord:** entrepreneur
Term	fixed term (short term of the agreement)	only non-fixed term (unless the tenant requests a fixed-term agreement)	fixed term	fixed term
Notice period	short notice period to emphasize the agreement's temporary nature	statutory notice period	statutory notice period; the parties may set the notice period in relation to additional grounds for termination agreed by the parties in the agreement	the parties may agree the notice period in the agreement
Tenant's fees	• basic remuneration including service charges • weekly payments • fees for additional services	the rent amount for renting residential premises is regulated by the statute; additional fees for the use of the premises	rent and fees independent of the owner, unless the institutional rental agreement provides otherwise	• monthly rent • monthly advances towards service charges • utility charges
Security for performance of tenant's obligations	• cash deposit • retention of funds on the client's card • declaration on voluntary submission to enforcement	optional cash deposit, statutory deposit cap	• optional cash deposit, statutory deposit cap • declaration on voluntary submission to enforcement and the obligation to vacate and hand over the premises must be attached to the agreement	• bank guarantee • cash deposit • parent company's guarantee / surety • declaration on voluntary submission to enforcement

9 TAX ASPECTS OF PURCHASING RESIDENTIAL REAL ESTATE IN POLAND

1 What to pay attention to when investing in residential real estate in Poland?

Depending on the adopted structure (investment through a Polish entity or directly through a foreign entity), investors will face different tax issues, which will largely affect the efficacy of investments and the level of interest expressed by potential buyers in the coming years. The appropriate structuring of investments from the tax perspective at an early stage of planning is an extremely important element that may have a significant impact on the profitability and, consequently, the entire project's success.

Pay particular attention to:

- optimal structure for the investments and the buyer's tax status;
- tax consequences of purchasing real estate in the context of corporate income tax (**CIT**), VAT and tax on civil law transactions (**TCLT**);
- tax consequences of obtaining financing by the buyer of real estate;
- CIT and VAT taxation of operating activities, as well as the level of burdens with respect to real estate tax (**RET**).

Note: In Poland, the tax practice regarding the purchase and lease of entire residential or mixed-use buildings is still developing and may be subject to various interpretations. The preparation and planning of investments in this area requires special care and diligence.

2 Are there significant differences in the taxation of Polish and foreign entities investing in residential real estate?

As a rule – no. Both a Polish entity and a foreign entity may purchase residential real estate located in Poland. With respect to CIT, the buyer can be a tax transparent entity or a company subject to taxation with CIT. Even in the case of CIT-exempt investment funds (both Polish and foreign), this exemption generally does not include income from lease of real estate.

So far, the most popular form of investing in real estate assets in Poland has been a Polish limited liability company. However, in recent years we have seen a significant increase in the number of transactions in which the buyer is a foreign entity. In terms of taxation, this formula of investment in Poland does not differ significantly from investment through a Polish company, but may slightly simplify flows and reduce obligations regarding, for example, withholding tax

3 What are consequences in respect of VAT of purchasing residential real estate in Poland?

The purchase of developed real estate may:

- be taxed with VAT;
- be exempt from VAT; or
- remain outside the scope of VAT.

In the latter two cases, the purchase of real estate will in principle be subject to 2% TCLT (which – unlike VAT – is not refundable) payable by the buyer. The rules for taxing real estate acquisition depend primarily on the tax status of the real estate itself.

If the real estate acquisition transaction is taxed with VAT, it is extremely important to analyze the right to deduct VAT (and obtain a refund by the buyer), which depends on the building's intended use.

Example
A building is to be fully used for rental purposes subject to VAT at the rate of 8% or 23%. In such a case, the buyer should have the full right to deduct VAT.

The VAT Act also provides for appropriate correction rules in the event that, within a certain period from the acquisition of real estate, its intended use changes (e.g., from the VAT-exempt use to the use subject to VAT and vice versa).

Example
Part of the building (e.g. 20 separated premises) is to be used for VAT-exempt activities. In such a situation, the buyer will not be entitled to deduct VAT on the purchase price of the premises acquired for the purposes of the tax-exempt activity.

The right to deduct and refund VAT in connection with the acquisition of real estate will also depend on the adopted business model.

Example
The buyer will lease the entire apartment building to a company subletting the property. According to the tax authorities' current line of interpretation, the rent obtained by the buyer should be taxed at 23% VAT, and thus, the buyer should have the full right to deduct VAT in connection with the real estate acquisition. However, such a business model may result in the subletting company not having the right to deduct the VAT charged on the rent for premises that will be further rented by that entity to natural persons with the VAT exemption.

The decision to choose a business model should be preceded by a detailed tax and financial analysis aimed at identifying flows, and potential tax leaks and estimating their size over time. Information on the VAT taxation of different types of lease is provided in Q6.

Note: The correct tax classification of the subject of the transaction (as an enterprise / organized part of the enterprise or standalone asset) and the application of the correct VAT tax rates, both at the acquisition and at the operational stage, is extremely important not only due to the impact of this tax (including leakages, if any) on cash flows, but also due to potential significant sanctions (including additional 20% or 30% VAT liability, penal fiscal liability of management board members), which the tax authority will be able to apply if irregularities in the taxpayer's settlements are detected.

4

How are expenses relating to the purchase of residential real estate accounted for in respect of CIT purposes?

As a rule, expenses for the purchase of land do not constitute tax-deductible costs (they may be deducted for the CIT purposes only upon the sale of land).

On the other hand, expenses for the purchase (or development) of a residential building or premises, which will be used by the buyer for a period longer than one year, may be recognized as tax deductible costs via depreciation write-offs.

Depreciation rates:

- 1.5% per annum for new residential buildings and premises;
- 2.5% per annum for new non-residential premises (e.g., service premises);
- higher rate (up to 10%) for buildings and premises used by previous owners for a period of at least 60 months;
- 4.5% per annum for structures.

Separate rules may apply to the CIT settlement of premises equipment, which – depending on its value and type – may be recognized as tax-deductible as a one-off or through tax depreciation (usually at the rate of 20%).

5

How to provide the buyer with cash for the purchase of real estate and how to account for financing costs for tax purposes in Poland?

As a rule, cash for the acquisition of real estate can be obtained by the buyer as a contribution from a shareholder or in the form of debt financing. In this context, in particular, the following tax issues should be considered:

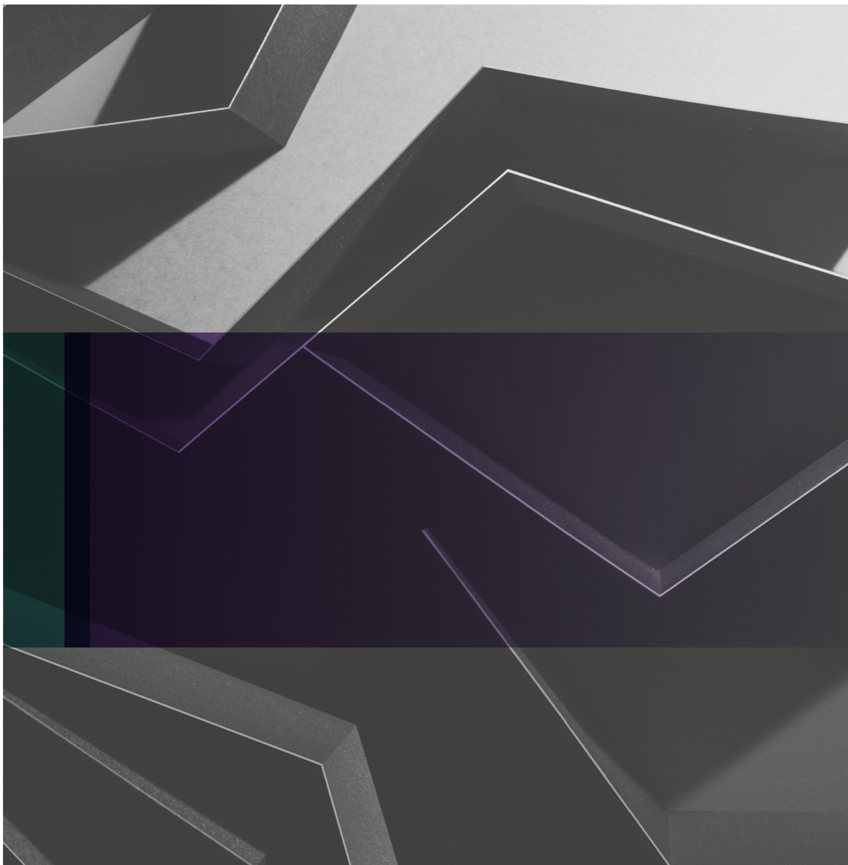
Cash contributions
(including so called additional payments)

- neutrality in terms of CIT and VAT
- TCLT paid by the company receiving the contribution at the rate of 0.5% of the contribution's value (except for surplus of the emission value over nominal value of the new shares (agio)).

1) In tax practice, the above principles are interpreted in two ways. Namely, interest (and other debt financing costs) may constitute a tax cost:
  a. PLN 3 million and 30% tax EBITDA over that amount (a position benefitting taxpayers, accepted by administrative courts), or
  b. up to 30% of tax-EBITDA or PLN 3 million, whichever is higher (opinion of the tax authorities).

Although the administrative courts have confirmed the correctness of the taxpayers' position (point a) above), the tax authorities, in their interpretations, still present an approach that is less favorable to taxpayers.

Thus, this issue is still controversial in tax practice and should be monitored on an ongoing basis.



Debt financing

- limiting the deductibility of interest on financing based on the regulations implementing the ATAD I Directive (30% of tax-EBITDA or PLN 3 million [1])
- limiting the deductibility of interest on financing based on the provisions implementing the ATAD II Directive (provisions preventing discrepancies in the tax qualification of hybrid structures)
- proper assessment of interest payments in the context of withholding tax provisions (including in particular due diligence, determination of the beneficial owner of interest and the potential risk of applying tax anti-abusive clauses), taking into account potential exemptions from this tax or the possibility of applying lower rates resulting from the relevant double tax treaties
- in the case of financing obtained from related entities – analysis in terms of transfer pricing regulations (the arm's length principle)
- TCLT at the rate of 0.5% payable by the borrower (there are a number of exemptions from this tax regarding, for example, shareholder loans or loans constituting a financial service exempt from VAT)

6 How is VAT on the lease of real estate charged?

As a rule, the lease of real estate by a taxpayer in connection with their business activity is subject to VAT at the rate of 8%, 23% or is exempt from VAT. The rate depends on the purpose of the lease or the use of the rented building or individual premises.

Example

VAT at 23%

- *lease of an residential property to another taxpayer that subleases that property to individuals*
- *rental of a service premises to another entrepreneur (B2B)*
- *renting an apartment for purposes other than residential (such as an office)*
- *rental of a garage space*

VAT at 8%

- *rental of residential premises for the provision of accommodation services;*

VAT exemption

- *rental of real property of residential nature or part of real property, on own account, solely for residential (housing) purposes*

Note: The qualification of services provided as accommodation services (taxed with 8% VAT) or rental for residential (housing) purposes (VAT-exempt services) is in practice controversial due to the lack of relevant statutory definitions and the limited practice of tax authorities in this respect, under which there have not yet been well-established and unambiguous criteria or guidelines developed that would allow a simple distinction between these services. It is usually assumed that the accommodation service is the case of short-term rental of premises for business or leisure purposes. However, if the tenant's intention is to permanently reside in the premises and fulfill their housing needs, then this service should in principle be classified as renting premises for residential (housing) purposes. In practice, the classification / type of the rented property may affect the VAT taxation of lease. The appropriate qualification of the service provided by the landlord is crucial, since – assuming that the purchase of a residential building taxed with VAT – the structure of leases in a given building (taxable lease vs. VAT-exempt lease) may directly affect the scope of the buyer's right to deduct VAT or the obligation to make appropriate corrections (the correction period for real estate is 10 years, and for other fixed assets – 5 years), as well as, for example, the scope of the right to deduct VAT in connection with the purchase of services related to VAT-exempt activities. It is important to consider possible business models already at the investment planning stage, taking into account the impact of the above-mentioned adjustments on the rate of return on investment.

7 How is the lease of real estate taxed with CIT?

Rent constitutes the landlord's taxable revenue that is subject to CIT at the rate of 19%[2)] (regardless of whether the landlord is a Polish or foreign entity).

The landlord's tax costs may be any expenses related to the business and incurred in order to generate, maintain or secure the source of income, including, for example, depreciation write-offs, financing costs (subject to appropriate restrictions), RET, or general operating costs (such as legal, tax, accounting services, management costs, etc.).

The CIT Act contains a catalog of costs that are not tax deductible (including, for example, certain contractual penalties and damages, or representation costs), as well as provisions limiting the possibility of including certain expenses as tax deductible costs. For example, expenses incurred for the acquisition of certain intangible services (consultancy services, market research, advertising services, management and control, data processing, insurance, guarantees and sureties, and similar benefits) from related entities may be a tax deductible cost (subject to exceptions to applying these regulations) up to the amount of 5% of tax-EBITDA (this cap applies to the excess of the value of expenses over PLN 3 million in the tax year).

The landlord's activity may also be subject to the tax on revenues from buildings (also known as the minimum CIT levy), which is 0.035% per month (0.42% annually) of the initial value adopted for tax purposes of the taxable building(s) (the basis for calculating the tax is reduced by PLN 10 million). However, to put it simply, this tax is ultimately imposed on the landlord's activity only in cases where the amount of this tax is higher than the amount of CIT payable on general terms [3)].

As a side note, it is worth remembering that the CIT Act defines the so-called real estate companies and impose a number of reporting obligations on them (and some of their shareholders).

8 How is RET charged?

As a rule, land, buildings or their parts and structures are subject to RET. The buyer of real estate (who is not a natural person) should submit a RET declaration to the competent tax authority in due time and – starting from the month following the month of purchasing the real estate – pay tax installments. Installments are payable by the 15th day of each month, and for January – by January 31.

RET rates are established in the form of a resolution of the commune council and within statutory limits. If the purchased real estate is to be used as part of the buyer's business (renting buildings or separate premises), the maximum tax rates for 2021 are as follows:

- land: PLN 0.99 per 1 m^2
- buildings or parts thereof (including residential buildings): PLN 24.84 per 1 m^2 of usable area (calculated in accordance with the provisions on RET)
- structures: 2% of their initial value adopted for the CIT purposes

The property tax paid constitutes a CIT deductible cost.

2) Taxpayers who meet certain criteria (including, in particular, income-related criteria) may settle CIT at the rate of 9%.

3) The amount of the minimum CIT not deducted from the tax paid on general principles is refundable at the taxpayer's request, if the tax authority does not find any irregularities in the amount of the tax liability or tax loss in the submitted tax return and the minimum tax, in particular, if the costs of debt financing incurred in connection with the purchase or construction of the building, as well as other revenues and costs, were determined on an arm's length basis.

9 What are the tax consequences of selling real estate in Poland?

Asset deal

- CIT: As a rule, sale of real estate located in Poland is subject to CIT on general principles. CIT at 19% is charged on the income from sale of real estate (i.e., the difference between the sale price and the net tax book value of the real estate).
- VAT/TCLT: Sale of real estate is taxed on the same terms as described in Q3 above.

Share deal

- CIT: Sale of shares in a Polish company by a foreign shareholder is not subject to taxation in Poland, unless the relevant double tax treaty contains the so-called real estate clause – then the profits from the sale of shares (stocks) will be taxed with CIT at 19% in Poland.
- In the case of (direct or indirect) sale by a foreign shareholder of at least 5% of shares (stocks) in a Polish real estate company (as defined in the CIT Act), the obligation to pay a CIT advance on the capital gains may be imposed on this Polish real estate company (acting as a tax remitter – the seller of shares (stocks) should provide such company with funds for the payment of this tax advance). However, this obligation arises only in case the relevant double tax treaty includes the real estate clause.
- TCLT: As a rule, sale of shares in a Polish company is subject to a 1% TCLT payable by the buyer.

10 Could the changes in tax legislation proposed in the Polish Deal impact the residential rental market?

Recently, as part of the work on the Polish Deal, a draft bill was published amending the Personal Income Tax Act, the Corporate Income Tax Act and certain other Acts, which provides, among other things, for:

- exclusion of tax depreciation of residential buildings and premises (costs of acquisition or production of such facilities would be then recognized only upon their sale),
- in respect of buildings and premises other than residential - limitation of the amount of depreciation write-offs qualified as tax deductible costs for real estate companies within the meaning of CIT Law to no higher than the depreciation write-offs made for accounting purposes,
- changes in calculating the limit for debt financing costs (deductibility of excess of debt financing cost of up to PLN 3 million or 30% of tax EBITDA),

- introduction of (i) a tax on so called 'shifted profits' and (ii) minimal tax on revenues (the latter generally concerning businesses with profitability under 1%) that may impact tax treatment of e.g. fees for intangible services payable between related entities (this mechanism shall replace EBITDA based limitation mentioned in Q7 above).

As at the date of publication of this report, the legislative process is still pending, but it is very likely that the above changes will apply starting from 2022 (subject to interim provisions). Given the significance of the potential changes in the context of residential projects, these issues should be monitored.

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