

REAL RETURNS: POLAND'S EVOLVING PROPERTY MARKET

Greenberg Traurig's expanding Warsaw team is in a prime position to make its mark on emerging Europe's most dynamic real estate market.



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Since the late 1980s, and following Poland's accession to NATO and the European Union (EU), one of the world's most dynamic real estate markets has emerged in this key Central European country.

"The roots of the modern real estate industry in Poland grew out of a unique intersection of history and commerce: the fall of the Soviet Union and a desire by Western real estate investors to diversify their portfolios and capture higher emerging real estate market returns," said Lejb Fogelman, the senior partner at Greenberg Traurig Grzesiak sp.k., established in 2012 as the 35th office for global law firm Greenberg Traurig, LLP.



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"The development of Poland's modern day real estate market is a particularly remarkable achievement considering that most of its capital city buildings were destroyed in World War II, street names erased, and property records lost. Real estate laws were heavily influenced by the agricultural sector that grew during Communist rule," said Jaroslaw Grzesiak, managing shareholder of Greenberg Traurig Grzesiak sp.k.

NEW BEGINNINGS

Through the late 1980s and 1990s, Poland and its Central European neighbors rapidly progressed through emerging market status. Real estate markets advanced through multiple 'generations' in just a few years, as office buildings and retail centers moved from rudimentary standards to world class in little more than a decade. From an underwriting perspective, Poland's accession to NATO and EU membership gave international investors the confidence that the trends would last and investments would be safe as new legal and regulatory frameworks grew up along with Poland's building boom.

"Institutional real estate investors in particular were drawn by the traditional emerging market attractions in Poland and Central and Eastern Europe (CEE) generally, including a relatively young, well-educated population entering the middle classes, growing consumer

purchasing power, improving infrastructure, wage arbitrage, and urbanization," said Eric Rosedale, chair of International Real Estate at Greenberg Traurig.

"However, unlike many other global emerging markets, Poland's location on Western Europe's doorstep and Western political and military alliances enabled it to converge with more mature real estate markets more easily and cost-effectively."

POLAND: A REGIONAL REAL ESTATE LEADER

At the outset of the property revolution in the CEE, institutional investors tended to view the region as a whole. Poland and Russia soon accounted for the vast majority of CEE cross-border real estate investment due to their relatively larger populations and numbers of urban centers. The Czech and Hungarian markets were perceived as relatively small and prone to bouts of political instability, while peripheral real estate markets in South East Europe (SEE) had higher underwriting risk profiles and were unable to attract broad international investor interest.

Although the Russian real estate market tanked in 2014 as a result of hostilities in Ukraine, sanctions, a precipitous drop in oil prices, and currency instability, Poland has remained a relative sea of calm from an investment underwriting perspective. Cross-border transaction volumes in Poland have remained strong and have grown steadily and substantially since the onset of the global financial crisis. Regionally, the inflow of real estate capital into the CEE is the strongest it has been in the past seven years, with investors' transaction volumes set to reach EUR 7.5 billion this year and projected to reach EUR 10 billion within the next five years.

"Market players including leading United States private equity investors and a wide range of European investors are attracted to Poland's stable economic and political landscape. The wave of real estate capital from the United States has increased over the past few years as a result of a perception that Europe is in an earlier stage

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of the recovery of the global financial crisis with more upside potential relative to the United States," said Richard A. Rosenbaum, chief executive officer of Greenberg Traurig.

Furthermore, new real estate investors from Asia and the Middle East have been canvassing Central Europe generally and Poland in particular. Poland is also profiting from a grand global rotation of investments into real assets, as pension funds, insurance companies, and other yield-starved investors allocate more of their money to property over paper investments.

"In addition to the logistics sector, multifamily residential projects have become targets of investors alongside the retail and office sectors that have been the traditional drivers of CEE real estate markets," said Fogelman.

"International law firms started appearing in Central Europe on the back of the first wave of government privatizations, which generated an array of corporate and M&A work in the region's emerging financial, telecoms, energy, pharma, and manufacturing sectors," remarked Agnieszka Stankiewicz, formerly head of real estate at the Warsaw office of Norton Rose Fulbright. She joined Greenberg Traurig Grzesiak sp.k in May 2015.

"Poland has also benefited from its proximity to Germany and as a major European logistics hub, with the logistics sector breaking new transaction volume records for the past few years," said Radomił Charzyński, formerly head of real estate at the Warsaw office of Allen & Overy who, along with his team, also joined Greenberg Traurig Grzesiak sp.k in May.

As the market in Poland has matured, transactions have become more complex, with domestic and cross-border transaction sizes becoming substantially larger. This has created the need for a select number of law firms to have larger legal teams with a full range of integrated real estate, finance, corporate, tax, and capital markets experience. It also allows Warsaw to act as an experience hub for legal services to other CEE and SEE countries in cooperation with local counsel relationships and alliances.

CEE LEGAL CONSOLIDATION

Dedicated real estate practices materialized at a later stage in the development of the CEE legal market, until they were eventually found in most of the large international firms in the region, as well as a few national players. As in many emerging markets, real estate was an area that was initially considered capable of being handled by generalists, or corporate attorneys as a sideline, and many law firms initially resisted the trend to invest in dedicated real estate teams.

As CEE real estate markets evolved and became institutionalized, a wave of consolidation hit the Polish legal market. Now only three international firms have substantial real estate teams with more than 30 professionals and several firms have withdrawn from parts or all of the CEE market. Similar consolidation trends have shaped tax, investment banking, brokerage, and other advisory businesses in the region.

The International Real Estate Group at Greenberg Traurig is one of the largest in the world among leading global law firms. The group includes more than 400 specialists in all aspects of real estate law and related areas such as corporate, M&A, private equity, capital markets, finance, tax, and funds. More than 80 members of the international real estate team work outside of the United States, across a growing network of offices and alliances that span Europe, Asia, Latin America, the Middle East, and Africa.

"We are exceptionally pleased that Greenberg Traurig was able to make its

mark on the CEE legal services market by simultaneously taking on the two real estate teams from Allen & Overy and Norton Rose Fulbright," said Robert Ivanhoe, co-chair of the firm's Global Real Estate Practice.

"During a period of nearly 50 years, this practice has consistently delivered high quality, multidisciplinary legal services for all types of property investment, development, management, and real estate finance," said Corey Light, co-chair of Greenberg Traurig's Global Real Estate Practice.

"Adding the 12 new attorneys to our legacy team and expanding our already substantial finance, corporate, and capital markets practices is further evidence of our strong commitment to Poland and Europe and plays into our long term strategy while growing our market share in this dynamic region," said Rosenbaum.

"The wave of real estate capital from the US has increased over the past few years as a result of a perception that Europe is in an earlier stage of the recovery of the global financial crisis with more upside potential relative to the US."

Greenberg Traurig, LLP is an international, multi-practice law firm with approximately 1800 attorneys serving clients from 37 offices in the United States, Latin America, Europe, Asia, and the Middle East. For additional information, please visit www.gtlaw.com.

Greenberg Traurig Grzesiak sp.k was named the 2013 International Law Firm of the Year in Poland by Chambers and Partners. The Warsaw office of Greenberg Traurig, LLP provides legal services to clients in Central Europe and beyond and is comprised of 80 lawyers. Team members are regularly recognized as leaders in numerous practice areas.