PROLOGIS TO THE POINT
2021 POLISH RENTS UNCOVERED

Dear Sir or Madame,

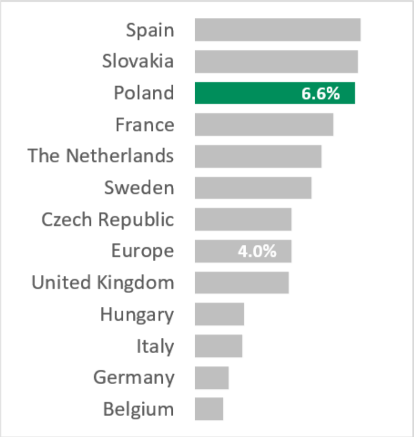
Through our ongoing "Rents Uncovered" series we aim to bring the same level of transparency to Poland's leasing market as is seen in the other 18 countries around the world in which Prologis does business. Started in 2016, in "Rents Uncovered", we publish the actual rent levels that we have achieved in Poland in recent months, with complete openness and transparency. We do this to sustain a continued focus on transparency and awareness, for the benefit of everyone who operates in the logistics real estate market.

Where we stand

Market statistics show that 2020 was another huge year for Polish logistics real estate. It was the fourth consecutive year in which there was both net absorption and new build in excess of two million square meters. However, market vacancy is one of the highest and rental rates remain the lowest in Europe. Prime net effective market rents are on average below €30 per sqm/year in the main markets, while for the rest of the continent the average is €57 per sqm/year.

Notably we observe the widest spread between base and effective rents in any of the markets in which we operate. Largely, this is linked to deal set up and structure of the lease contract. Poland is the only country in Europe where side letters to lease contracts are still widely used. These are additional agreements under which customers receive financial incentives that are not disclosed under the lease agreement. Unsurprisingly, the use of side letters leads to uncertainty in the calculation of effective rent for customers, landlords and investors. We continue to question why side letters do not form part of the lease agreement and why they are usually "confidential" in nature. Undisclosed financial incentives lead to a risk of artificially inflated nominal rents and project valuations.

Market vacancy, main markets
%, as of Q4 2020



Source: CBRE, JLL, C&W, Fraunhofer, Gerald Eve, Colliers, Prologis Research

Risk and VAT

The practice of concealing rent incentives in side letters is not only questionable from an ethical and fair competition standpoint, it is also a source of potential risk for both the tenant receiving the incentive and for investors buying completed buildings.

Risks related to VAT tax recovery:

- Cash incentives are usually classed as taxable sales by the tenant. Nevertheless, VAT recovery might not be a straightforward matter. Difficulty may be encountered evidencing to the tax authorities that the tenant has provided a significant service to their landlords since the tenant's activity is very often limited to only extending or concluding lease agreements. It can be argued by the tax authorities that the cash incentive is in fact rebate-decreasing, which cannot be treated as supply of services. VAT accountability difficulties may therefore be experienced by both the landlord and the tenant. These difficulties can easily be inherited by an investor purchasing a project through a share transaction.

Risks related to asset sale transactions:

- Under Article 678 of the Polish Civil Code the purchaser of a property automatically becomes the landlord under a lease agreement but landlord obligations in side letters do not transfer automatically. If the cash incentive to tenants is staggered over several payments and the project is sold to a new investor, it creates a significant risk for tenants.

For the Polish logistics real estate market to continue to develop dynamically, business ethics and fair competition standards should uniformly be adopted. Every market participant has a responsibility to mitigate risk and pay attention to non-transparent contractual practices.

The position of valuers also deserves special scrutiny. Valuers are well aware that side letters are commonplace in the market and are potentially opening themselves to reputational and financial risk and claims for negligence if they do not act in good faith and insist on full and complete disclosure of all financial incentives before providing a valuation.

Prologis manages one of the leading logistics real estate portfolios in Poland and the rents we achieve on our properties fully reflect current market conditions. Below we share with you the details of our Q1 valuations and a list of lease transactions executed in the last 6 months.

Market	Q1 2021 Cap Value/sqm
Warszawa Miasto	988
Warszawa Janki	712
Warszawa 2nd zone	514
Central/Łódź	702
Central Piotrków/Stryków	514
Upper Silesia	704
Wrocław	715
Poznań	632

Quarter	Market	Customer	Lease area	Lease type	Headline rent	Net effective rent	Concessions (% of headline)	Lease term (months)
Q1 2021	PL-Poznan	Cosmetics	2932	New	3,00	2,61	13%	36
Q1 2021	PL-Poznan	3PL	9638	Renewal	2,96	2,41	19%	29
Q1 2021	PL-Poznan	3PL	48346	New	3,20	2,62	18%	61
Q1 2021	PL-Upper Silesia	3PL	3300	Renewal	2,96	2,35	21%	36
Q1 2021	PL-Wroclaw	3PL	5554	New	2,90	2,62	10%	37
Q4 2020	PL-Central Poland	3PL	6774	Renewal	2,50	2,01	20%	20
Q4 2020	PL-Central Poland	3PL	23735	Renewal	2,49	2,01	19%	24
Q4 2020	PL-Poznan	FMCG	3637	Renewal	3,00	2,45	18%	24
Q4 2020	PL-Poznan	Parcel delivery	5580	New	3,35	2,89	14%	60
Q4 2020	PL-Upper Silesia	Archiving	22153	Renewal	2,93	2,50	15%	74
Q4 2020	PL-Upper Silesia	New tech.	27050	New	3,00	2,35	22%	60
Q4 2020	PL-Upper Silesia	Parcel delivery	6138	New	3,10	2,72	12%	18
Q4 2020	PL-Upper Silesia	3PL	8436	Renewal	3,00	2,22	26%	36
Q4 2020	PL-Upper Silesia	FMCG	5700	New	2,90	2,43	16%	36
Q4 2020	PL-Wroclaw	3PL	10541	Renewal	3,20	2,55	20%	60
Q4 2020	PL-Wroclaw	Food retail	4812	Renewal	3,19	2,60	18%	12
Q4 2020	PL-Wroclaw	3PL	15200	Renewal	2,65	1,95	26%	36
Q4 2020	PL-Wroclaw	Retail	8064	New	3,20	2,41	25%	34

Should you have any questions, or would you like any additional information please feel free to contact me at any time.

Thank you,

Paweł Sapek
Region Head, Prologis Poland