Knight Frank

2019 Review & 2020 Outlook

COMMERCIAL ASSETS AND INVESTMENT LAND

INTRODUCTION

As one of the most attractive countries in Central and Eastern Europe for investment, Poland is an excellent alternative to Western European markets. The wide range of modern assets on offer in each category is drawing the attention of a growing number of new buyers. In 2019, new funds appeared with Asian, Hungarian and German capital, and the year saw a wealth of purchases, primarily in the office and logistics segments. The past 12 months have seen another period of historically high results on the investment market in Poland. The total value of the transaction volume exceeded the previous record value of EUR 7.6 billion, and was 5% higher than the 2018 result of EUR 7.2 billion.

Despite the increasingly limited number of prime properties available for sale, investor activity is increasing. Assets from all sectors are being sought, and not only those located in the most prestigious locations. Furthermore, there is growing interest in alternative real estate sectors, including PRS sector and private student dormitories.

The investment market in Poland remains highly attractive to investors looking for safe investment opportunities, offering returns in the region of 4.25% - 4.50%, compared to the figures of 2.50% associated with Western European countries. Low yields for the best assets lead foreign investors to find Poland a location offering risk diversification, and one with the promise of stable investment returns in the long run.

In 2020, further capital inflow to the domestic market is expected, both from investors already present in Poland, and new entrants to the market.

The trend and associated expectations are supported by positive economic conditions – with Poland remaining one of the fastest growing economies in Europe. Despite a lower economic growth rate compared to previous years, the forecasts of numerous financial institutions should remain positive in the coming years, and the macroeconomic environment and key factors affecting the commercial real estate sector look set to remain relatively stable.

The perception of the Polish economy by international investors was positively influenced by last year's advancement of the country in the FTSE Russell ranking, in which Poland was the first country in the region to be placed among the list of developed countries. All these factors create very good investment conditions for commercial real estate in the long term.

As a result, it has been possible to observe a steady, vigorous revival in developer activity in almost all commercial real estate segments over the past several years. Every year we are seeing new supply side records in the office, warehouse and hotel sectors. Furthermore, the development of alternative sectors such as PRS sector, mixed-use projects and private student dormitories has been gaining momentum. This situation is further reflected in the investment land market.

The dynamic development of the real estate market, and a limited supply of attractively located, undeveloped land are encouraging developers to take a creative approach to their explorations. Analyses include areas with an option for the demolition of existing buildings, which may subsequently be developed more intensively, and areas with the possibility for changes of purpose. Contrasting with this, developers, despite their purchasing intentions, are somewhat cautious about prevailing conditions. An ideal location where projects cannot be completed quickly enough will not readily find a buyer - on the investment land market, rational profitability analysis, along with a knowledge of local land resources, spatial planning conditions, and the ability to act quickly are key. That said, the final assessment and purchasing decisions are based on low risk criteria.

01 OFFICE SECTOR

THE INVESTMENT MARKET IN THE OFFICE SECTOR

Investment transaction volume:

EUR 3.8bn

Prime yields:

Warsaw: 4.25%-5.50%

Regional cities: 5.50%-6.50%

In 2019 total transaction volume in the office sector was estimated at EUR 3.8bn, a 37% growth compared to 2018. In comparison to previous years, when investors were mainly focused on regional cities, 2019 saw the Warsaw office market leading the way. This was a consequence of an increasing supply of well-located and commercialized buildings available for sale.

The total volume of capital allocated to the Warsaw office segment reached EUR 2.4bn, making up 63% of all investments in the sector countrywide. The most spectacular transactions were; the acquisition of the Warsaw Spire A by Immofinanz for close on EUR 390m, the purchase of the Warsaw Trade Tower by Globalworth, the purchase of Astoria & Ethos by Credit Suisse; and the sale of the Eurocentrum complex to the CPI Property Group. It is worth mentioning that the Warsaw market is attracting the attention of significant new investors, such as Singapore's Mapletree Investments fund, which acquired West Station I & II last year.

Office buildings in regional markets are also attracting investor attention. Significant transactions include the purchase of the .BIG building in Kraków by Credit Suisse, and the acquisition by Globalworth of two buildings from Develia - Retro Office House in Wrocław and Silesia Star in Katowice.

The most popular assets are invariably new, fully-leased buildings located in Warsaw and the central parts of the largest regional cities in Poland. Investors are considering acquisitions in regional office hubs mainly due to the improving rental sector results achieved thanks to the development of the BPO/SSC segment. The difference in valuation for the prime assets in Warsaw compared to Kraków or Wrocław stands now at around 100-150 basis points, with substantial compression seen in recent months. This is evidence of the strengthening position of the sector for institutional investors in the biggest regional hubs.

In Warsaw, last year brought a further increase in the valuation difference between prime and secondary assets, reaching approx. 200-250 basis points for the office market. A decrease in perceived risk connected with prime asset acquisition was noted, however the market saw a simultaneous slight increase in yields for secondary assets.

Prime yields reached a historically low level in 2019 and for the best products in central Warsaw locations the capitalisation rate stood at 4.25 - 4.50%, while in regional cities the corresponding figure was 5.50 - 6.50%.

THE OFFICE MARKET REVIEW

For several years, the office sector has been witness to record-breaking results in terms of both demand and supply. 2019 brought continuous high developer and tenant activity on most of the Polish markets and, by the end of the year office stock exceeded 11.2m sq m, half of which was located in Warsaw, while regional markets crossed a symbolic threshold and now offer 5.6m sq m of office space. In 2019 in the biggest office hubs in Poland, some 709,000 sq m was delivered - one of the highest results recorded in the analysed markets. For the first time in history, new supply in regional cities (547,000 sq m) exceeded by a factor of three the new supply in Warsaw (162,000 sq m). That said, developers remain continually active across the whole country, and 2020 is likely to bring a record-breaking result in terms of supply in Warsaw. Currently, over 1.7m sq m is at the construction stage, half of which is due for delivery by the end of 2020. The revival of the office market is fuelling demand from the technology, finance and service sectors. Tenant activity has been increasing systematically for 4 years, and 2019 saw a record-breaking transaction volume in both regional markets and Warsaw. Almost 1.6m sq m was subject to lease. The ongoing revival in tenant activity brought a decrease in the Warsaw vacancy rate, which stood at 7.8% at the end of 2019. However, in most regional cities, with the high volume of office space delivered during the year, vacancy rates increased. In recent years, regional markets have been under increasing pressure to reduce effective rents while asking rents remained relatively stable - a pattern directly related to the growing competition between developers and building owners. Additionally, Warsaw has seen a reduction in tenant incentives, along with a slight increase in asking rents in selected prime buildings in the city centre.

INVESTMENT LAND MARKET

Central locations in large cities and favourable transportation accessibility are the main determiners of a land's attractiveness as mentioned by institutional investors. Areas with zoning plans and development conditions, along with architectural concepts, and, ideally, valid building permit are more likely to find a potential buyer.

Due to a lack of or a significantly limited supply of greenfield plots which meet these conditions, 2019 saw transactions involving the acquisitions of older buildings for demolition which, thanks to appropriate zoning plans, can see their redevelopment intensity increase. An example of this is the acquisition of the Atrium International office building, which the Patrizia AG investment fund sold as a new investment location to Strabag, who plan to implement a new concept to maximize development potential - according to our calculations, the existing volume could be expanded 3-4 times. Such a dynamic change in GLA will be possible mainly due to the prospect of developing a much taller building - one which currently is 25 metres in height, but which is permitted to rise to 135 metres. Investment potential may also lay in non-standard, less obvious lots; for example land with a non-commercial structure.

A case in point is the acquisition of the plot at 7 Towarowa St., bought from Innogy, where there was a voltage-transformer technical building. The buyer, Ghelamco, is currently developing office towers on the neighbouring plot. In a similar example from Wrocław, Echo Investment bought a lot from Orbis, developed with a petrol station and located in the immediate vicinity of a Novotel hotel.

WARSAW

CITY CENTRE
PLN 3,200 – 4,500 per sq m GLA

OUT OF CITY CENTRE
PLN 1,000 – 2,500 per sq m GLA

KRAKÓW
PLN 800 – 2,000 per sq m GLA

TRICITY
PLN 1,000 – 1,600 per sq m GLA

POZNAŃ
PLN 700 – 1,200 per sq m GLA

KATOWICE
PLN 700 – 1,100 per sq m GLA

ŁÓDŹ
PLN 700 – 1,000 per sq m GLA

OUTLOOK

1. Evolving market conditions are leading to increasing tenant expectations in terms of fit-out and the range of amenities on offer. Additionally, there are new demands for workplace comfort and keen interest in more environmentally friendly services and initiatives from landlords. Office buildings that do not heed the trends may well experience reduced tenant interest.

2. The revival in developer activity will continue in the coming quarters and as long as investors keep to their schedules, 2020 will see a record-breaking year in terms of new supply in Warsaw.

3. Capital investor activity is expected to remain stable in the office sector in 2020, due to; the large volume of projects in the pipeline, low vacancy rates, record-high take-up volumes, and attractively located, well-leased investment assets delivered to the market on regular basis.

4. The real estate market is increasingly witnessing the appearance of development land for office buildings in mid-scale cities such as Opole, Bydgoszcz and Kielce. However, it is too early to view these as desirable assets on the investment market.

02 RETAIL SECTOR

THE INVESTMENT MARKET IN THE RETAIL SECTOR

The total investment volume in the retail sector in Poland in 2019 reached EUR 1.9bn. Despite the figure being much lower than that recorded in the previous year (24% decrease y-o-y), investors still showed great interest in purchasing retail schemes.

The most sought-after assets included shopping centres in smaller cities (with dominant roles in their regions), retail parks and outlet centres. Investor attention was drawn to projects with good transport connections and limited competition, allowing safe capital allocation.

The largest portfolio transaction was the acquisition of shopping centres by the Cromwell Property Group for nearly EUR 600m. Furthermore, Atrium European RE completed the near EUR 298m sale of its two projects - Atrium Felicity in Lublin and Atrium Koszalin - to ECE European Group. Additionally, 2019 saw the sale of 5 Makro assets from Metro Properties to FLE GmbH for almost EUR 130 million, the purchase of Galeria Leszno by Prime Holdings (EUR 70 million), and the purchase of King Cross Praga by Atrium European RE for EUR 43.1 million.

In 2020, an inflow of capital from several sources is expected. On the one hand, some funds active on the Polish market are seeking prime assets with a stable position, which are often the subject of long-term purchases; on the other, there is growing interest in projects which require a re-letting process, market repositioning, or additional financial outlay. Such projects are often resold on completion of the assumed investment cycle. Entities looking for portfolios of convenience stores are also active due to the positive forecasts for the segment's development in the face of a slowdown in growth dynamics, and the general changes affecting the retail sector.

Investment transaction volume:

EUR 1.9bn

Prime yields:

5.00%-5.50%

Despite the retail sector slackening, prime yields remain stable. At the end of 2019, the best shopping centres with a leading position in cities were valued at 5.00% - 5.50%.

THE RETAIL MARKET REVIEW

The last five years have seen a steadily declining growth dynamic in modern retail supply, with the volume of newly delivered retail schemes dropping each year. The 5-year average annual new supply (approx. 410,000 sq m) was 25% lower than the corresponding 2010-2014 figure. The main reason behind the trend is the growing saturation of agglomerations with large-scale retail projects. Set against this is the systematic growth in the number and volume of projects opening in small towns - those with a population of less than 100,000. In 2019, these locations accounted for 40% of annual supply. It is expected that these locations will be characterized by the highest development dynamics in the coming years, as 65% of all projects currently under construction are located in towns and cities of this scale.

More and more consumers want to do shopping quickly and in shops close to their homes. As a consequence, the popularity and number of convenience centres is growing. These are small-scale retail schemes (up to 5,000 sq m) with a comprehensive food, drugstore, fashion and service offer, restricted to several tenants, and most often located in, or close to, large housing estates. In addition, the dynamic development of stand-alone discount stores, such as Biedronka, Lidl and Aldi, along with grocery stores (e.g. Kaufland) has initiated and accelerated the appearance of other small-scale retail projects. In such locations, small (approx. 2,000 sq m, several tenants) retail parks are being developed, creating a new shopping location with their complementary offer. In recent years, developers specializing in these types of schemes have appeared on the market; including Trei Real Estate and JB Development.

A stable economy and the growing purchasing power of Polish consumers, along with the availability of modern retail space of a high technical standard has encouraged new, foreign brands to enter the Polish retail market, some 20 of whom debuted in 2019. In addition, many brands already present on the Polish market are expanding, resulting in a vacancy rate in large cities which remains low at around 4%.

Warsaw remains the most expensive retail market in Poland, with monthly prime asking rents (units below 100 sq m in the best shopping centres) ranging between EUR 100 and 130 per sq m. The corresponding figure for regional cities (Kraków, Poznań, Wrocław, Katowice, Szczecin, Łódź, Tricity) is between EUR 40-75 per sq m per month, and remains at a stable level.

INVESTMENT LAND MARKET

High retail space saturation limited developer activity in implementing large-scale projects. On the other hand, market analysis shows that, even in large agglomerations, locations with retail development potential can still be found. The smallest cities (below even 50,000 inhabitants) still offer attractive investment opportunities, and an increasing number of developers are looking towards them. Areas are sought designated for small- or medium-sized retail parks (usually 3,000-10,000 sq m GLA) or for mixed-use projects. The above trend is illustrated by two examples; Trei Real Estate's purchases of land in Bolesławiec (7 ha), Kobyłka (0.85 ha) and Kutno (2.8 ha in immediate neighbourhood of Carrefour supermarket), and Grupa Inwestycyjna REB's purchase of a plot of 0.53 ha adjacent to a Lidl discount store in Radzymin. The land in both cases was designated for retail parks.

WARSAW LARGE-SCALE RETAIL
PLN 2,000 – 2,800 per sq m GLA

WARSAW SMALLER SCHEMES
PLN 1,500 – 2,200 per sq m GLA

OTHER MAJOR AGGLOMERATIONS
PLN 500 – 2,000 per sq m GLA

OUTLOOK

1. The systematic saturation of the Polish market with traditional retail formats will likely encourage developers to look for alternative areas of investment (e.g. mixed-use projects, convenience projects and small retail parks), and new locations (including smaller cities, of below 50,000 inhabitants). The resulting effect will be an increased interest in land and developed properties with redevelopment potential and options for changes of functions.

2. Uncertainty related to the possible reintroduction of the retail sales tax in mid-2020 may cause a temporary slowdown in the processes of expansion of large retail chains, which may have a further negative impact on the vacancy rate.

3. Expansion and modernisation of older shopping centres is expected to make up a significant part of new supply. Simultaneous commercialisation should help in adapting the tenent-mix to the changing expectations and shopping habits of consumers.

4. Positive forecasts for the development of the convenience shopping centre segment should stimulate investors looking for portfolios of such projects. Simultanously and shopping centres with leading positions in the regions constantly attact investors attention.

03 WAREHOUSE SECTOR

THE INVESTMENT MARKET IN THE WAREHOUSE SECTOR

Investment transaction volume:
EUR 1.3bn

Strong compression of yields:
BTS schemes (with long term lease agreements):
4.25%-5.55%

Strong compression of yields:
Multilet assets:
5.75%-6.25%

The strengthening position of Poland on the European logistics map is one of the most important factors encouraging investors to allocate capital to the Polish warehouse market. It comes mainly from the development of road infrastructure, which significantly reduces the connection time to the largest markets. The development of the e-commerce sector and lower operating costs compared to most Western European countries are also of some significance.

Despite the fact that the volume of warehouse transactions in 2019 fell compared to the previous year, the dynamic growth of the market is not slowing down and investment potential is still at a high level. At the current stage of economic development, investors are looking for long-term opportunities and revenue streams, and are therefore most often focused on BTS (built-to-suit) facilities with long lease contracts, or well-rented multi-let projects. These should be located along major road and infrastructure corridors, or within big cities and agglomerations. The total volume of warehouse transactions in 2019 was EUR 1.3bn, with the most significant of them being; the purchase of two Amazon assets by Chinese fund CNIC Corporation Ltd., the acquisition of the warehouse Blackstone platform by Mirae Asset Management / Hines, and the purchase of warehouse portfolios in Tczew, Marki and Kraków by GLL Partners.

Ready access to locations throughout the country now makes it possible to create an attractive product for logistics operators and food chains operating on a national scale. As a result, due to economies of scale, the purchasing of entire portfolios is found as a very attractive opportunity for many funds.

In the last year, the warehouse market has been marked by a compression of yields, due in the main to the dynamic development of the sector and strong investor demand, but also the limited number of investment products for sale. For best BTS warehouse products secured by long lease agreements, rates were close to 4.25% - 5.55% with a further tendency to compress, while yields for the best multi-let facilities were in the range 5.75% - 6.25%.

THE WAREHOUSE MARKET REVIEW

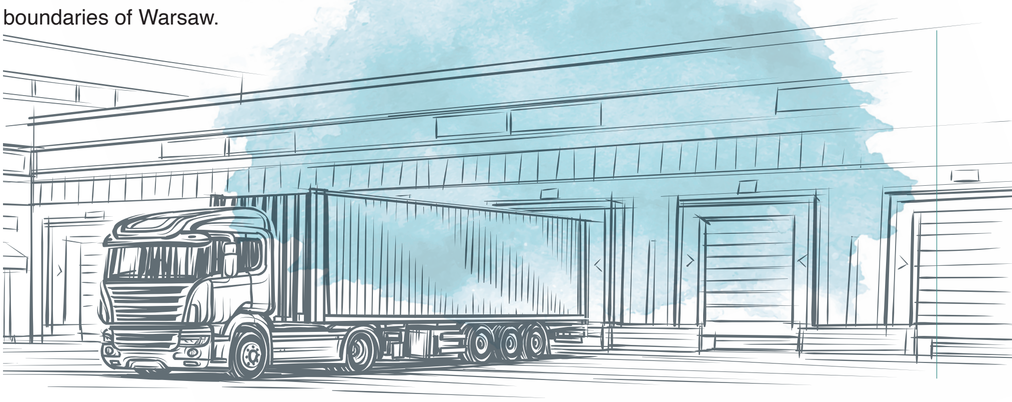
For the last four years, each year had seen records in the performance of the warehouse sector. During this period, total warehouse stock almost doubled and exceeded 18.8m sq m.

The most dynamic development has been observed in the 5 largest logistics hubs, i.e. Warsaw and surroundings, Upper and Lower Silesia, Wielkopolska and Central Poland, where more than 80% of modern warehouse space is situated. However, due to the development of road infrastructure (new sections of motorways and express roads A2, A4, S3, S5, S7, S8) and increasing difficulties in labour supply, new locations such as Kielce, Radom, Częstochowa and Konin are growing in importance as key logistics hubs. Strong activity in the sector has been seen since 2016, and 2019 continued the trend, with record-breaking volumes in terms of new supply.

At the end of 2019, 2m sq m remained at the construction stage, a comparable level to the end of 2018. The largest share in the supply under construction was in the regions of Upper Silesia, Central Poland and Warsaw. Investments are still dominated by BTS-projects, but the share of speculative schemes has increased significantly compared to previous years; a fact reflected in a minimal increase in vacancy rates. That said, developers are not afraid of speculative projects, which indicates that both the investment market and the lease market for warehouse space are very stable.

Demand for modern warehouse space, mainly created by logistics and production companies and e-commerce tenants, remains high, at a level (over 3.8m sq m) comparable to the record-breaking previous two years.

Asking rates in all areas of the warehouse market in Poland remain stable at EUR 2.50-5.00/sq m/month. The highest asking rents were to be found within the administrative boundaries of Warsaw.



INVESTMENT LAND MARKET

The improving and expanding road, air and maritime infrastructure are encouraging developers in their speculative acquisitions of land and creation of land banks. A growing interest in the eastern part of the country is an increasingly visible trend, although investors are not missing the opportunity to acquire attractive land in the most developed logistics hubs, such as Silesia, Central Poland and in the vicinity of Warsaw.

Despite developer interest in investment land for large-scale logistics parks near express routes or motorways, 2019 saw a visible increase in areas dedicated to the construction of smaller warehousing facilities serving urban markets. For example, in 2019, the logistics developer 7R bought 7 ha of land, located in the Konstantynów Łódzki area, for the 7R Park Łódź West logistics centre, with an area of 32,000 sq m (planned two buildings with a volume of 27,000 sq m and 5,000 sq m).

Such increased demand stirs developer interest in land close to large cities, causing dynamic growth in small business units (SBUs) and last mile warehouses. In order to meet these market expectations, developers are searching for land with slightly different characteristics, offering the opportunity for obtaining higher rental rates for the lease of warehouse space.

WARSAW WITHIN CITY BORDERS
PLN 200 – 400 per sq m

WARSAW OUT OF CITY
PLN 100 – 250 per sq m

REGIONAL CITIES, WITHIN CITY BORDERS
PLN 80 – 250 per sq m

REGIONAL CITIES, OUT OF CITY
PLN 60 – 200 per sq m

OUTLOOK

1 Increasing demand on reloading platforms within administrative city boundaries due to the development of last mile logistics. This will result in higher demand for land dedicated to city logistics in coming years.

2 New locations are expected to develop in places where road infrastructure improves and labour force access is higher than in the country's main logistics hubs, leading to increased interest in land located near expressways in the vicinity of medium-sized cities.

3 The economic slowdown in Western Europe could have an impact on demand for manufacturing companies however, due to the dynamic development of the e-commerce sector, demand for warehouse space from logistics operators and e-commerce platforms is unlikely to change.

4 A large amount of speculative projects coupled with a lower demand for warehouse space might cause an increase in vacancy rates.

5 Taking into account the healthy economic situation and the number of investment transactions at the negotiating stage, investment volume in 2020 should remain high.

04 HOTEL SECTOR

THE INVESTMENT MARKET IN THE HOTEL SECTOR

Increased investor activity has also been recorded in the hotel market. In recent years, the segment has stimulated those already present in the market, as well as attracting brand new investors such as the Qatari holding Al Sraiya, the French Covivio Hotels and the Norwegian Wenaas Hotels.

In 2019, the volume of transactions in the hotel sector in Poland came to almost EUR 300 million, some 4% of the total value of acquisitions, and almost double the result achieved in 2018. New schemes, new brands entering the Polish market, along with growing occupancy, were just a few factors influencing the development of the hotel market in Poland.

The dynamic growth rate of the hotel sector is increasingly reflected in the growing interest of those investing in this type of property. Due to the increasingly limited availability of high-quality, well-located office or commercial projects, investors are more likely to look at alternative investment products and hotels, both of which allow for risk diversification and business expansion.

In 2019, 7 transactions in the hotel sector were completed, the majority of which were four- and five-star chain hotels. In the first months of 2019, Warsaw's five-star Sheraton was sold to the European private equity Patron Capital fund. The next transaction included a complex of two DoubleTree hotels and Hampton by Hilton hotels in Kraków offering a combined total of 393 rooms. The purchase, by the Polish Unirest Group, is the biggest transaction of its type in Poland in recent years. In the third quarter, the German Union Investment completed the acquisition of the Holiday Inn Gdańsk City Center Hotel, located in a revitalized part of the city, on the Wyspa Spichrzów island.

Accor and the Orbis Group took over the 4-star Mercure Bydgoszcz Sepia, opened in December 2014 in a historic tenement house. The acquisition of the Grand Royal Hotel in Poznań by CFI Holding, along with the portfolio of 3 properties of B&B chain hotels in Łódź, Kraków and Warsaw by the French Covivio Hotels platform was also a transaction of note. At the end of 2019, Europe Capital sold the Radisson Collection five-star hotel in Warsaw to the Wenaas Hotels Europe A/S, a Norwegian investor of the Wenaasgruppen, one of the largest investors in the Scandinavian hospitality industry.

Further dynamic development of the hotel sector in Poland is expected. The growing demand for hotel services, the growth in tourism, the number of new entrants and new investments, as well as the expansion of the premium end of the sector, all point to an increasing maturity in the sector – a maturity which translates into expansion in the number and volume of hotel transactions and the further increasing interest of investors.

THE HOTEL MARKET REVIEW

The hotel sector in Poland has been growing rapidly in recent years in response to the growing demand for hotel services. In the last 5 years, the number of tourists using hotels has increased by 8 million people and in 2019 the figure stood at some 33.4 million stays. Furthermore, the average occupancy of hotels has increased by more than 10 pp. in this period, and the activity of investors in this sector has increased considerably, with last year welcoming a wealth of new facilities.

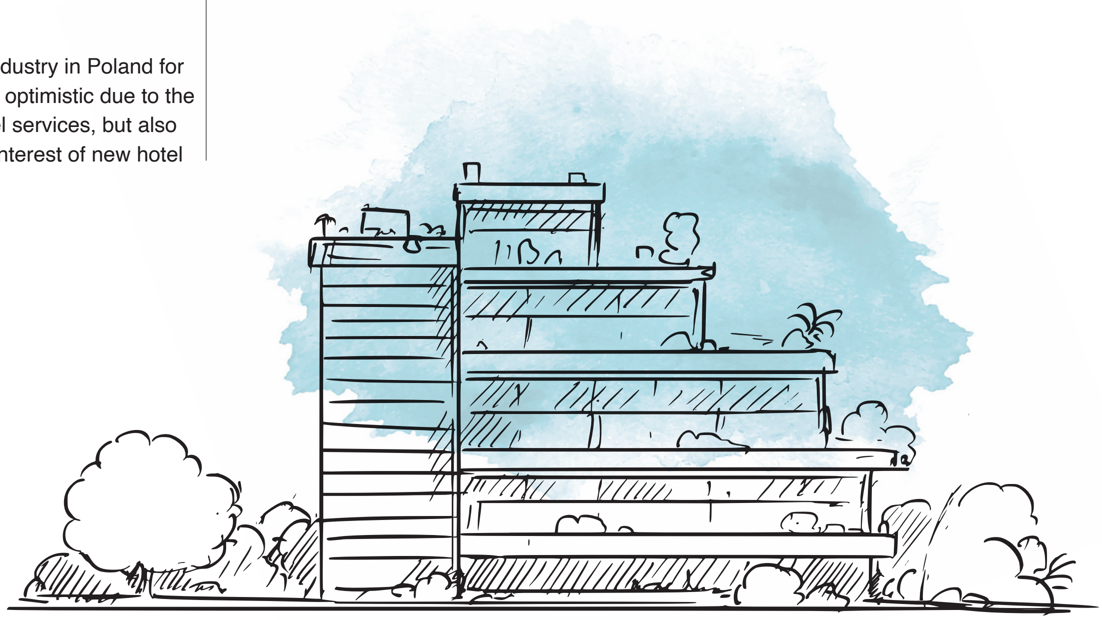
At the end of 2019, Poland had nearly 3,000 hotels with a total room supply of more than 144,000. The most categorized hotels are in Kraków, although Warsaw has the most extensive offer of hotel rooms. In turn, the most dynamic hotel market in Poland is the Tricity where, for example, the revitalization of the Wyspa Spichrzów area has seen a number of new hotel investments and rental apartments being built.

2019 was an exceptional period in the hotel sector in terms of developer activity and number of new developments. 37 new facilities have opened their doors, offering 4,430 rooms - more than twice as many as in previous years. The hotel offer continues to be dominated by 3-star hotels, which account for 32% of the new supply of rooms, although the past year has seen a significant change in market structure. Nearly 65% of newly completed rooms were in 4- and 5-star projects, and the total share of this type of hotel was up to 40% of the market from its previous 18% share.

The average annual occupancy of the hotel rooms due to high supply and demand has increased slightly to 53.7%. Despite 2019's record growth in new hotel room supply, the key indicators used for the estimation of hotel profitability, i.e. average occupancy, ADR (average daily rate) and RevPAR (revenue per available room,) have over the past year, in most of the main business centres in Poland, remained stable.

Demand for hotel services in Poland is growing mainly due to the development of domestic tourism, the increasing number of air connections and an increasing supply of hotels. It is worth pointing out that Poland is at the head of the countries with the highest growth in air transport passengers. In 2019, Polish airports served almost 50 million passengers - some 7% more than in the previous year.

Forecasts for the hotel industry in Poland for the coming years remain optimistic due to the growing demand for hotel services, but also because of the growing interest of new hotel operators not yet present in Poland. Among new hotel brands with plans to establish themselves in Poland are Kyriad Hotel and Nobu Hospitality, while chain hotel such as B&B Hotels, Best Western and Motel One are also planning to extend their portfolios.



INVESTMENT LAND MARKET

The hotel sector ranks high on the list of investor interest, which translates into a significant volume and value of completed transactions. The growing demand for hotel services is creating interest in land in Warsaw, Kraków and Gdańsk, where investors are aiming to find the most attractive locations for their buildings. Łódź and Katowice are also of great interest. Furthermore, investors are also analysing both undeveloped plots and land beneath currently built properties.

In addition, due to strong competition from large hotel chains, some private owners of hotel facilities of particular interest are opting to sell their properties. In 2019, the Polish hotel chain Q Hotel bought a plot of land and a building on Nowogrodzka Street, in which the PIS party is currently headquartered, from Metropol NH. The building is to be demolished, to be replaced by a hotel.

In Poznań, there was an unusual transaction in which confidential buyer purchased a former synagogue with the intention of turning it into a hotel.

OUTLOOK

1. The luxury hotel segment is expected to develop further, given that the premium hotel offer on the Polish market is still relatively limited.

2. From year to year, the number of hotel guests using hotels for business purposes is increasing, meaning that more and more hotel investments are being made in the business areas of cities or as a part of mixed-use facilities combining office functions. At the same time, expansion in Poland is planned by internationally recognized brands focused mainly on business customers.

3. In the largest cities, there is expectation of further expansion of the lifestyle hotel brands which dedicate their offer primarily to young people, with interior design and overall character inspired by current trends drawing on new technologies, art and music.

4. The increase in demand for hotel services and, as a result, the improved operational performance of hotels, along with an increasingly diverse market offer, may well attract capital investment from those seeking portfolio diversification.

05 NEW INVESTMENT AREAS

PRIVATE RENTED SECTOR

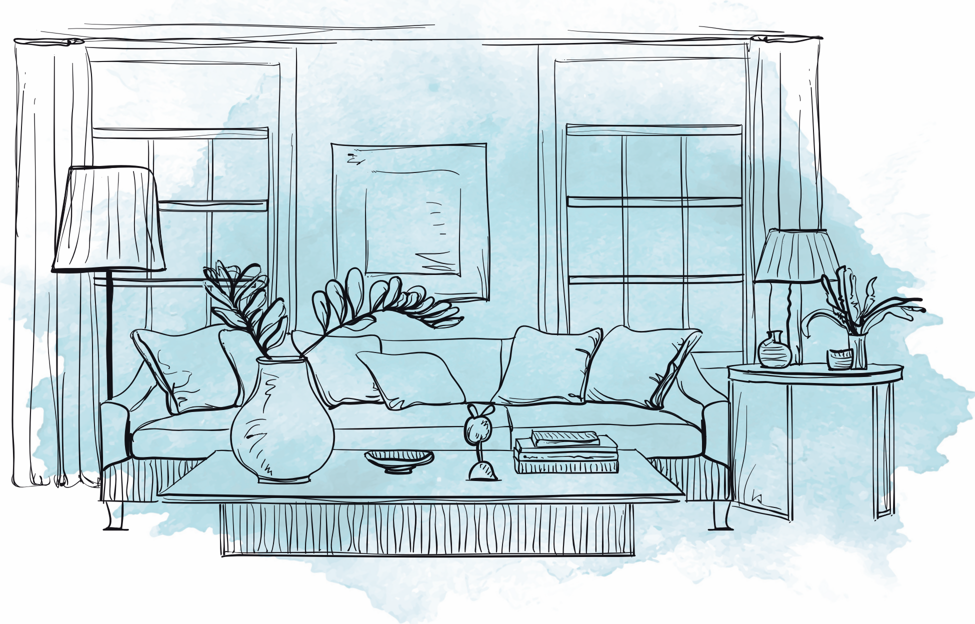
Growing interest in the PRS market (Private Rented Sector) from institutional investors is a relatively new trend in Poland. Although there is a supply shortfall in buy-to-let schemes of an appropriate scale, 2019 witnessed a clear, high pace of development in this sector. The presence of new operators and the number of new investments only confirm the fact that the PRS market is gaining momentum in Poland. At the end of 2019, TAG Immobilien, the German developer, signed an investment agreement to acquire 100% of the shares in Vantage Development S.A. Moreover, they announced an expansion on the local market with plans to enlarge their portfolio by as many as 10,000 apartments for rent in Poland.

An increasing interest in institutional leasing in the last year was also seen from developers who have already been operating and investing in the country for years. The Resi4Rent platform is steadily growing, and has completed its first facilities in Wrocław and Łódź, with others under construction in Wrocław and Warsaw. Ultimately, the platform, managed by Echo Investment and the R4R Sarl investment fund, will offer 5,000-7,000 apartments for rent. The Czech fund, Zeitgeist Asset Management, has recently purchased several properties in Poland intended for apartments for rent or student houses, an example of which is the plot of land in Warsaw's Praga Północ district where they will build a 107-apartment-for-rent residential property in 2021.

In addition, 2019 saw Golub GetHouse, currently operating mainly in the office sector, create Inspirentals – a platform for residential long-term rental. Construction of projects under this brand, located in Warsaw's office districts, will start in 2020. Postępu Apartments in Służewiec will consist of four buildings with 371 apartments for rent, while Liberty Tower in the Wola District will be a 140-metre-high tower containing 500 apartments for rent alongside a renovated tenement house. In addition, Golub GetHouse conducted the resale of a plot and a tower project with 900 units for rent in the centre of Warsaw. Another entity already present on the market is the Israeli fund AFI Europe, which in 2019 acquired two tenement houses in the heart of Warsaw, with plans for revitalisation. The investor has announced that both projects will be premium buy-to-let investments.

The development of the residential rental market is driven by lively demand generated by individual investors who are driven by growing purchasing power, healthy consumer sentiment and low interest rates, to seek alternative investments.

The PRS rental market in Poland, faced also a few transactions in 2019. Catella European Residential Fund (CERF), a German fund, acquired 72 apartments in the Złota 44 building and purchased the



Pereca 11 project, offering long-term leases on 193 apartments. Additionally, the purchase of three buildings in Kraków from Hines was completed in 2019; buildings where private student housing and apartments for rent are planned.

The growing attractiveness of the Polish rental market is reflected in funds' decisions - even the more conservative leaning ones. The higher risk associated with such projects is becoming less and less of a major decision-making factor, and we are seeing the recognition of opportunities to diversify portfolios and obtain higher rates of return than offered by the Western European markets.

The development potential of this sector in Poland is mainly a reflection of its scale. Even though the rental market structure is dominated by units owned by individual investors (approximately 85%), the country's 14 million households mean Poland is one of the markets with the greatest potential for rental sector development in the CEE region. Additional factors stimulating demand for such properties are the significant increase in housing prices observed in recent years, and the changing preferences of young people, who are shying away from long-term commitments and deciding to rent apartments instead.

The development of the residential market in undoubtedly accelerating, although this segment is still characterised by a limited supply. Attractive rates of return in this sector are drawing many experienced international players from Western Europe, where the PRS market exhibits far greater maturity.

INVESTMENT LAND MARKET

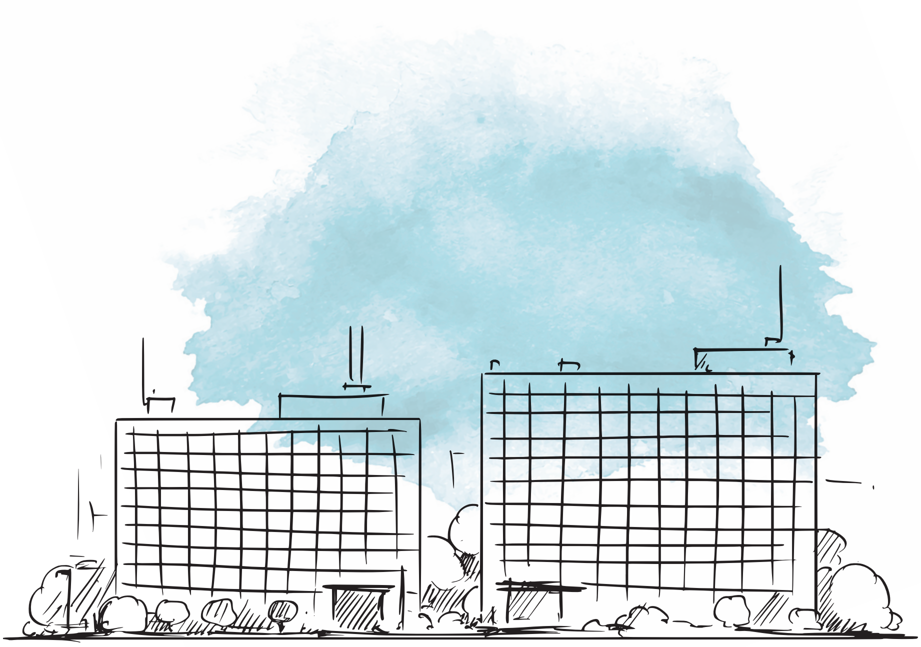
Year by year, there has been a growth in the number of companies interested in the continuing acquisition of land for apartments for rent, as well as in institutional investors who consider Poland as part of Europe being an attractive alternative to their own domestic markets. The acquisition of land for these types of investments is becoming increasingly popular due to them being treated as an opportunity for portfolio building via a growing and pioneering market in its field.

The demand for apartments for rent is being created, among other factors, by a young generation characterized by a lack of attachment to their place of living or work. Less and less, Poles want to own properties, and they want to take full advantage of such choices. As a result, there will be a growing interest in land purchase for these types of investments.

One such transaction was the purchase of the 2,740 sq m plot at 59 Grzybowska Street in Warsaw by Golub GetHouse in 2019. According to the provisions of the issued building permit, a 160-metre residential tower offering apartments for rent is planned. Construction work is due to begin around the turn of 2020/2021. The plot in question was sold to a consortium of three companies, including LRC Group and Atrium European RE.

Observing investor preferences, it is to be expected that the sector will be one of important asset areas for institutional investors in the coming years. For investors seeking risk diversification, it is currently difficult to buy a portfolio of apartments for rent in Poland and, realistically at the moment, entering this market means being involved in the development process. As a result, it is expected that interest in land for this type of investment will grow.

PRIVATE STUDENT HOUSING



Private dormitories are another new area of interest for investors in the Polish market. As with the PRS sector, dorms are gaining in importance as alternative assets for funds operating in Western European markets. A marked increase in the number of foreign students in Poland, as well as the changing preferences and financial means of the younger generation have translated into developer interest in this sector, as well as into a growing number of new investments. Currently, high demand comes up against a limited supply in Poland, as the number of beds in student housing provided by both public and private universities meets only 10% of need.

In total,1.23 million students studied in Poland in the academic year 2018/2019. The share of foreign students in this number (over 78,000 students in the 2018/2019 academic year) has been rising at the fastest pace in Europe, and has more than doubled in the last five years. Public universities currently offer some 126,000 beds, while private dorms provide only approx. 6,500 beds. These statistics point to the enormous development potential of the sector, as the share of private dormitories in the total supply of student accommodation is only 5%. In comparison with mature PBSA (Purpose Built Student Accommodation) markets such as those of Germany and the UK, the sector in Poland is at a fledgling stage of development, thus offering a relatively new class of asset with high growth potential.

The first investments have already been completed, and new investors interested in the local market have announced their projects in preparation. According to developer assumptions, the near future should bring to the largest academic cities over 10,000 new beds, the majority of which will be in Warsaw, Kraków, Wrocław, Gdańsk, Poznań, Łódź and Lublin. The most active investors in the PBSA sector in Poland include Golub GetHouse, BaseCamp, Student Depot, Gent Holding, IC Campus, Silver Rock and Metropolitan Investments.

2019 also saw a number of transactions in alternative investment products in Poland. Last year, for example, witnessed the EUR 60 million acquisition of the largest Student Depot dormitory platform in Poland with a portfolio of almost 2,000 beds. The buyer was the Japanese Kajima Student Housing fund together with entities related to Griffin RE. The purchase of the aforementioned Trio Kraków by the Catella European Residential Fund also took place in 2019, and will see a 139-room dormitory built as part of an investment close to Kraków's Old Town and Market Square.

The private student housing market is gaining traction and offers the opportunity to diversify portfolios, not only for developers who are willing to build their own projects, but also for private investors and investment funds.

Despite the slightly higher risk resulting from its relative immaturity in Poland, the PBSA sector affords not only the chance to obtain adequate profits, but also enables the building of portfolios across the country. Yields for such assets in Europe range between 3-4% in the most mature markets, set against a level 250-300 basis points higher in Poland.

INVESTMENT LAND MARKET

As expected, growth dynamics in the private student housing sector remains high. Warsaw, Kraków, Gdańsk, Poznań, Wrocław, Lublin, Łódź are cities where investors are competing in their search for the most attractive plots for this type of investment. A growing number of foreign investors are entering the Polish market, expecting close proximity to universities, good transport infrastructure, and appropriate accompanying infrastructure for the future student in order to gain a competitive advantage. Investment land with properties that will allow for the construction of 100 but also 400 rooms are popular.

MIXED-USE SECTOR

Due to the limited amount of undeveloped land with regulated legal status in the centres of the largest cities, developers are increasingly turning to investments aimed at giving new life and new functions to rundown and forgotten areas or buildings.

The popularity of hybrid projects which combine an assortment of functions and which encourage unconventional solutions has been growing all over the world. It may be expected that due to current trends, such as „user in the spotlight" and „customer experience", the coming years will see the mixed-use sector become one of important elements shaping urban spaces.

Revitalization of historic buildings requires cooperation between curators and developers, resulting in an investment process that is often longer and more expensive. However, such projects, when combined with placemaking, offer the opportunity for a „new life" for unique places and buildings. In historic, oft-forgotten places, the character, story and heritage of a property is revealed, whilst also incorporating new functions: office, hotel, commercial space, along with places to live, and for meetings, festivals and outdoor events. Such combinations of functions require the granting of access to both users of the building and the general populace, as a result of which the historical areas, following completion of refurbishment, are "returned" to the city and its people.

In Poland, mixed-use schemes have been winning many supporters. New projects were implemented or are undergoing regeneration in all large cities and agglomerations. Centrum Praskie Koneser, Bohema and Elektrownia Powiśle in Warsaw; Stary Browar in Poznań; Browar Lubicz in Kraków; Textorial Park, OFF Piotrkowska and Monopolis in Łódź; Garnizon in Gdańsk – these all represent examples of post-industrial spaces which can attract diverse groups of users and in the process create „cities within cities".

Importantly, due to social change, new trends and evolving workplace expectations, such projects boast healthy tenant interest, whilst also bestowing advantages on investors, who see multifunctional projects as risk diversification vehicles. In recent years, a handful of mixed-use scheme transactions have been completed, but with the recent dynamic growth of this sector, along with very good operating results for existing facilities, an increase in interest in the sector is anticipated among equity investors.

INVESTMENT LAND MARKET

In addition, post-industrial areas are often an opportunity to buy property in an attractive location, at a favourable price. These facilities have existing infrastructure that can be used by the developer both at the stage of investment project design and during construction works. As a result, interesting mixed-use projects are being created, combining several functions in one place, including commercial, residential and even cultural.

At the beginning of 2019, a local developer Euro Styl S.A. (Dom Development Group) purchased a plot of 6.8 ha adjacent to the European Solidarity Centre in Gdańsk. The planned project includes a mix of functions with a significant residential element.

Austria's Immofinanz has prepared a new multi-function concept for its EMPARK office complex in Warsaw (total area 117,000 sq m). The project in its new form is aimed at satisfying residential need in the Służewiec Przemysłowy district. Part of the complex was sold to Echo Investment, who plan to deliver the residential buildings to the market.

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LEGISLATIVE CHANGES

Knight Frank has identified examples of legislative changes either recently introduced or in the process of being introduced which, in our opinion, have already or will soon have an impact on the commercial property market in Poland.

THE LAW OF 26 APRIL 2019: AMENDMENT OF THE LAW ON THE FORMATION OF THE AGRICULTURAL SYSTEM AND CERTAIN OTHER LAWS

This is a key change brought into law to increase the area of agricultural land that can be sold to a non-farmer without the agreement of the Director General of the National Agricultural Support Centre – the area increasing from 0.3 ha to 1 ha. Additionally, agricultural land within administrative city boundaries is not subject to the law relating to the formation of the agricultural system.

PROPERTY MANAGEMENT ACT

The Act of 13 June 2019 amending the Law on National Real Estate Assets and certain other laws clarifies the issue of annual charges for perpetual usufruct and changes to the objectives of perpetual usufruct of land.

REGULATION OF 10 SEPTEMBER 2019 CONCERNING INVESTMENTS WHICH COULD POSSIBLY HAVE SIGNIFICANT EFFECTS ON THE ENVIRONMENT

The Regulation has made changes to the scope of the obligation for obtaining environmental decisions, and has prevented several uncontrolled extensions or conversions of projects likely to have significant effects on the environment from being carried out without a prior environmental decision.

CONSTRUCTION LAW

The draft act amending The Construction Law and other laws was adopted by the Sejm on 23 January 2020. The main objective of the amended Act is to simplify the investment process and speed up the execution of investment. The changes concern, amongst other points; procedures for obtaining exemptions from technical building regulations; rules for the drawing up of construction projects; the transfer of decisions on building permits; the conducting of self-build works; the regulation of the illegal use of buildings. The revised Construction Law also aims to speed up the process of investment and construction relating to electricity, gas, heating, water and sewage networks.

GEODETIC AND CARTOGRAPHIC LAW

A draft amendment to the Geodetic and Cartographic Law is in progress. The main aim of the project is to improve geodetic and cartographic works, and to reduce the bureaucratic burden during their implementation. The proposed amendment introduces the possibility of starting geodetic works before the submission of an intention to perform them. It also provides a maximum deadline for the verification of the results of geodetic and cartographic works at poviat level. Another proposed amendment concerns the process of updating data in the land register. In the proposed wording, any changes to the data will be made ex officio, based on the data contained in the geodetic documentation of the state geodetic and cartographic resource (in contrast to the current situation when any change is made upon request of the interested party).

RETAIL SALES TAX

The retail sales tax regulations, imposed on retail chains with monthly revenues exceeding PLN 17 million, came into force at the beginning of September 2016. However, the European Commission questioned the law and initiated tax proceedings. It called on Poland to suspend implementation of the tax due to the possibility of it favouring smaller stores – something which could be construed as state aid. Following this decision, the collection of retail tax was suspended, until in May 2019 Poland won a case against the European Commission in the EU Court. The Act of December 12, 2019 amending the Act on retail sales tax, postponed its collection until June 30, 2020.

RESUMPTION OF WORKS ON REGULATIONS FOR REITS

The Ministry of Development has announced the resumption of work on regulations for real estate investment companies whose profits on leasing activity are paid out to shareholders.

ACT ON SPATIAL MANAGEMENT

The Ministry of Development is continuing work on the projected Act on Spatial Management, and is conducting social consultation on the bill, in order to reorganize the Polish spatial planning system. The key goal of the project is to create effective spatial planning tools, whilst integrating the system into city development strategies. The legislation that regulates the issue of spatial planning at the national level will be both the planning standard and the urban standard. The proposed acts of local law include a general overall plan, along with development plans for communes, and a municipal standard.

AMENDMENT TO THE ACT ON SUPPORTING THE DEVELOPMENT OF TELECOMMUNICATIONS NETWORKS AND SERVICES

The Act on supporting the development of telecommunications networks and services and certain other acts aims to promote access to telecommunications services. Amendments to this law, dated 30 August 2019, additionally imposed a number of new obligations on landlords, perpetual users and property managers. These provisions gave telecommunications companies increased rights whilst limiting the rights of landlords. The changes also affect the legal status of the property (limitation of ownership, unlimited access to the property for telecommunications companies, taking over by law the obligations of the current owner by the new one).

07 OUTLOOK 2020 INVESTMENT MARKET

OFFICE SECTOR

OFFICE MARKET	
SUPPLY	↗
DEMAND	→
RENTS	→
INVESTMENT MARKET	
WARSAW PRIME YIELDS	↘
REGIONAL CITIES PRIME YIELDS	↘

RETAIL SECTOR

RETAIL MARKET	
SUPPLY	↘
DEMAND	→
RENTS	→
INVESTMENT MARKET	
WARSAW PRIME YIELDS	→
REGIONAL CITIES SCHEMES	→

WAREHOUSE SECTOR

WAREHOUSE MARKET	
SUPPLY	↗
DEMAND	→
RENTS	→
INVESTMENT MARKET	
BTS - SCHEMES PRIME YIELDS	↘
MULTILET - SCHEMES PRIME YIELDS	↘

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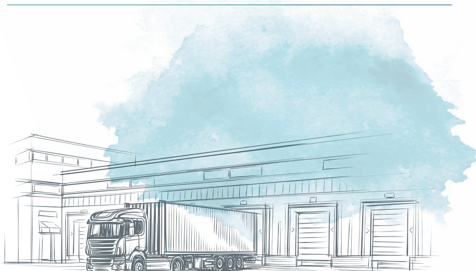
OUTLOOK 2020
INVESTMENT LAND MARKET

OFFICE SECTOR

INVESTMENT LAND	
SUPPLY	↘
DEMAND	→
PRICES	→

RETAIL SECTOR

INVESTMENT LAND	
SUPPLY	↘
DEMAND	↘
PRICES	→



WAREHOUSE SECTOR

INVESTMENT LAND	
SUPPLY	↘
DEMAND	→
PRICES	→

RESIDENTIAL SECTOR

INVESTMENT LAND	
SUPPLY	↘
DEMAND	→
PRICES	→

As one of the largest and most experienced research teams operating across Polish commercial real estate markets, Knight Frank Poland provides strategic advice, forecasting and consultancy services to a wide range of commercial clients including developers, investment funds, financial and corporate institutions as well as private individuals.

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Reports are produced on a quarterly basis and cover all sectors of commercial market (office, retail, industrial, hotel) in major Polish cities and regions (Warsaw, Kraków, Łódź, Poznań, Silesia, Tricity, Wrocław). Long-term presence in local markets has allowed our research team to build in-depth expertise of socio-economic factors affecting commercial and residential real estate in Poland.

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