RESEARCH

Knight Frank

Poland
COMMERCIAL MARKET 2018

Warsaw
Office market

5.5 m sq m
total stock

233,000 sq m
new supply in 21 projects

830,000 sq m
supply under construction

858,000 sq m
office take-up

8.7%
vacancy rate

Retail
market

360,000 sq m
retail space completed in 2018

16%
extensions in annual supply

370,000 sq m
space under construction

3.1%
vacancy rate for Poland

Hotel
market

53%
the average occupancy rate in Poland

approx. **3,800**
new hotel rooms delivered in 2018

137,000 units
total stock of hotel rooms

Regional cities
Office market

4.5 m sq m
total office stock

485,000 sq m
new supply in 2018 (56 projects)

620,000 sq m
office take-up in 2018

500,000 sq m
net absorption

Warehouse
market

15.9 m sq m
total warehouse stock in Poland

2 m sq m
new supply in 2018

4.8%
vacancy rate in Poland

3.8 m sq m
leased – the highest take-up in history

Investment
market

EUR **7,2** bn
record-high investment volume

38%
share of office sector in the investment volume

EUR **1** bn
the largest transaction in the history of the Polish investment market

Warsaw office market

In 2018, twenty one office buildings with a total area of 233,000 sq m were delivered to the Warsaw office market. Although the new supply noted in 2018 was the lowest since 2011, the total stock increased to 5.5m sq m. Over half of new office space was completed in central locations and included: Proximo II (20,000 sq m, REICO Česká spořitelna), Browary Warszawskie: Gatehouse Offices (15,000 sq m, Echo Investment), and CEDET (14,300 sq m, GLL Real Estate Partners). A number of office schemes were completed outside the city centre, viz; Koneser – Centrum Praskie (21,000 sq m, the H,O,P,C buildings, BBI Development /Liebrecht &WooD), Equator IV (19,000 sq m, Karimpol Polska). Strong developer activity is still being observed in the Warsaw office market. At the end of 2018, a record-breaking volume of office space was identified as under construction – approximately 830,000 sq m. The majority of this office space (almost 60%) was in the shape of large-scale projects, with completion dates planned for 2019-2021.

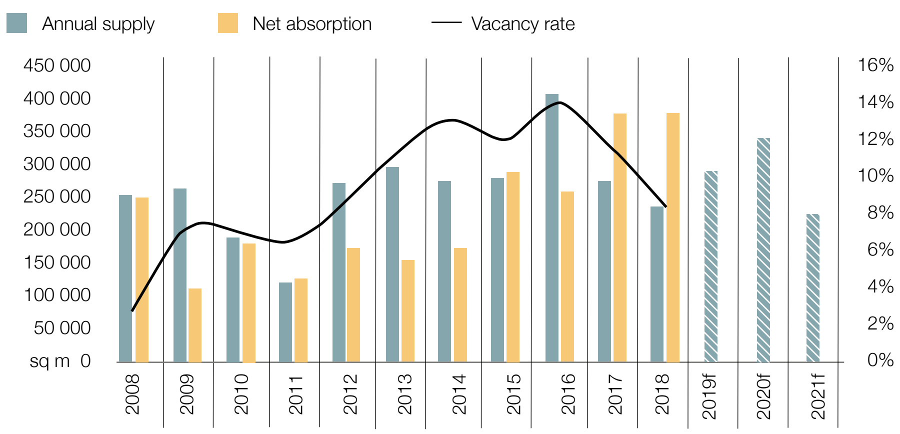
The largest office projects with construction works commencing in 2018 include; HB Reavis' Forest building near the Radosława roundabout, and Capital Park's revitalization of the Norblin factory.

Strong take-up rates are still being observed on the Warsaw office market, with almost 858,000 sq m leased in 2018. Additionally, it's worth noting that the transaction volume was at a historically high level for the Warsaw office market. The high volume of transactions was generated mainly by the new lease agreements which made up 64% of the take-up volume (of which 16% were pre-lease agreements). The remaining take-up volume included renewals – 25% (the lowest share of renewals ever noted), and expansions - 11%. In 2018 the most vigorous tenant activity was observed in central locations, in the Służewiec area, and in the Jerozolimskie Corridor. The largest lease agreements were: the renewal and expansion of


Lipinski Passage

Deloitte in Q22 (22,100 sq m), the pre-lease of WeWork in Mennica Legacy Tower (14,200 sq m) and the pre-lease agreement of Cambridge Innovation Center in Varso Place (13,500 sq m).

CHART 1
Annual supply, net absorption and vacancy rate on the Warsaw office market
2008-2021f



f - forecast
Source: Knight Frank

By the end of 2018, the lowest vacancy rate since 2012 had been recorded, standing at 8.7% (473,000 sq m available office space). Compared to the corresponding period of 2017, the vacancy rate decreased by 3 pp. in Warsaw overall, and by 3.7 pp. in central locations. The vast majority of vacant space was to be found in the Służewiec district (206,000 sq m), and in central locations (115,000 sq m). The decline in the vacancy rate was significantly influenced by net absorption, which exceeded 375,000 sq m in 2018, and was some 30% higher than the annual average net absorption registered within the last five years. The 2018 result was comparable to the record-breaking net absorption registered in 2017 (379,000 sq m), which confirms continuing high tenant interest in the Warsaw office market.

At the end of December 2018, asking rents in most locations in the Warsaw office market remained relatively stable with slight increases being noted in the City Centre. At the end of 2018, the asking rents in the prime buildings of the Central Business District ranged between EUR 20-24 per sq m per month, while asking rents in the City Centre varied between EUR 15-22 per sq m per month. The asking rents in buildings outside central locations ranged between EUR 9-15 per sq m per month. Effective rents remained lower than asking rents by 15-20%.

5.5 m sq m
total stock

233,000 sq m
new supply in 21 projects

830,000 sq m
supply under construction

858,000 sq m
office take-up

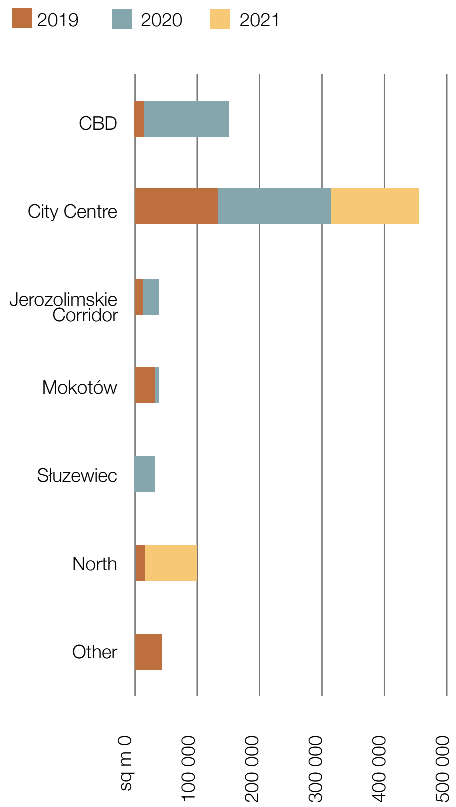
8.7%
vacancy rate

CHART 2
Office take-up in Warsaw
2010 - 2018

Source: Knight Frank


Trinity Park III

CHART 3
Supply under construction by location and completion date
Q4 2018



Source: Knight Frank

Regional cities
Office market


Promenady Business Park – Zita, Wrocław

4.5 m sq m
total office stock

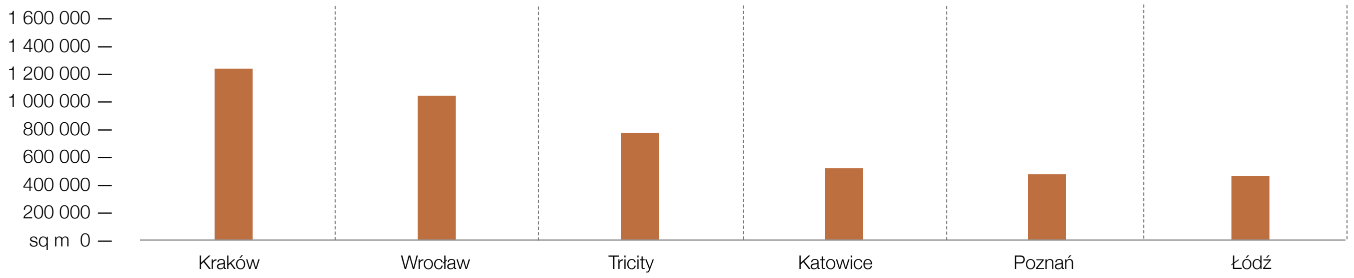
485,000 sq m
new supply in 2018 (56 projects)

620,000 sq m
office take-up in 2018

500,000 sq m
net absorption

2018 in the largest office markets in Poland brought a continuation of the positive trends recorded in 2017. In the previous year, the office take-up was at a very high level, which significantly influenced the vacancy rate decrease in the six major regional markets. Furthermore, the strong demand for office space noted in the largest cities encouraged developers to continue their activity. In 2018, the volume of new supply stood at a record high, with approximately 950,000 sq m of office space being identified as under construction. The asking rents in the six regional cities under consideration remained relatively stable. However, due to growing construction costs, a more limited offer of healthy returns was to be observed.

CHART 1
Existing office stock in major regional cities
Q4 2018



Source: Knight Frank

CHART 2
New suppy, take-up and vacancy rate in major regional office markets
Q4 2018

Source: Knight Frank

KRAKÓW

In 2018, 18 office buildings with a total area of 155,000 sq m were delivered to the Kraków office market, representing the second highest result in the history of the local market and the highest among the six largest regional cities. Consequently, the total stock in the city exceeded 1.26m sq m and Kraków maintained its leading position among regional markets. Furthermore, by the end of December 2018, there was approximately 260,000 sq m of office space under construction in Kraków, of which almost 70% was due for completion by the end of 2019. It's worth noting that the take-up volume registered in 2018 (209,000 sq m) was at a historically high level for the local office market (20% higher than the five-year average take-up) and translated into vacancy rate decrease by 1.2 pp y/y - 8.6% (108,000 sq m of available office space).

WROCŁAW

At the end of 2018, Wrocław with a total office stock in the region of 1.05m sq m, remained the second largest regional office market in Poland. Strong developer activity was observed in the Lower Silesian capital in 2018. The new supply delivered to the local market in 2018 was historically high (almost 145,000 sq m) - three times higher than the new supply delivered to the market in 2017. Additionally, at the end of 2018 over 200,000 sq m of office space was at the construction stage. If developers meet their deadlines, almost 65% of this space will be delivered in 2019. Despite the significant volume of new supply, the vacancy rate decreased by 0.3 pp. compared to the corresponding 2017 period, standing at 9.1%. The decline in the vacancy rate was influenced by the strong take-up, which exceeded 162,000 sq m and was on a par with the record-breaking result noted in 2017 (approximately 170,000 sq m).

TRICITY

At the end of 2018, the total office stock in Tricity amounted to 775,000 sq m. Despite no office project being delivered in the last quarter, the new supply in 2018 accounted for 77,000 sq m of the total stock. This result was higher than the annual new supply registered in 2017 and constituted more than the average annual supply noted over the previous five years. At the end of December 2018, almost 138,000 sq m of office space was under construction, of which 95% was planned for completion in Gdańsk. At the end of the year, the vacancy rate stood at 6.9% of the total stock. This result was one of the lowest within the major office markets in Poland, as well as being the lowest result recorded in the Tricity market since 2007. In 2018, slightly lower tenant activity was recorded in Tricity - the volume of lease transactions stood at some 84,000 sq m and was 25% lower than the volume signed in 2017.


V.Offices, Kraków

KATOWICE

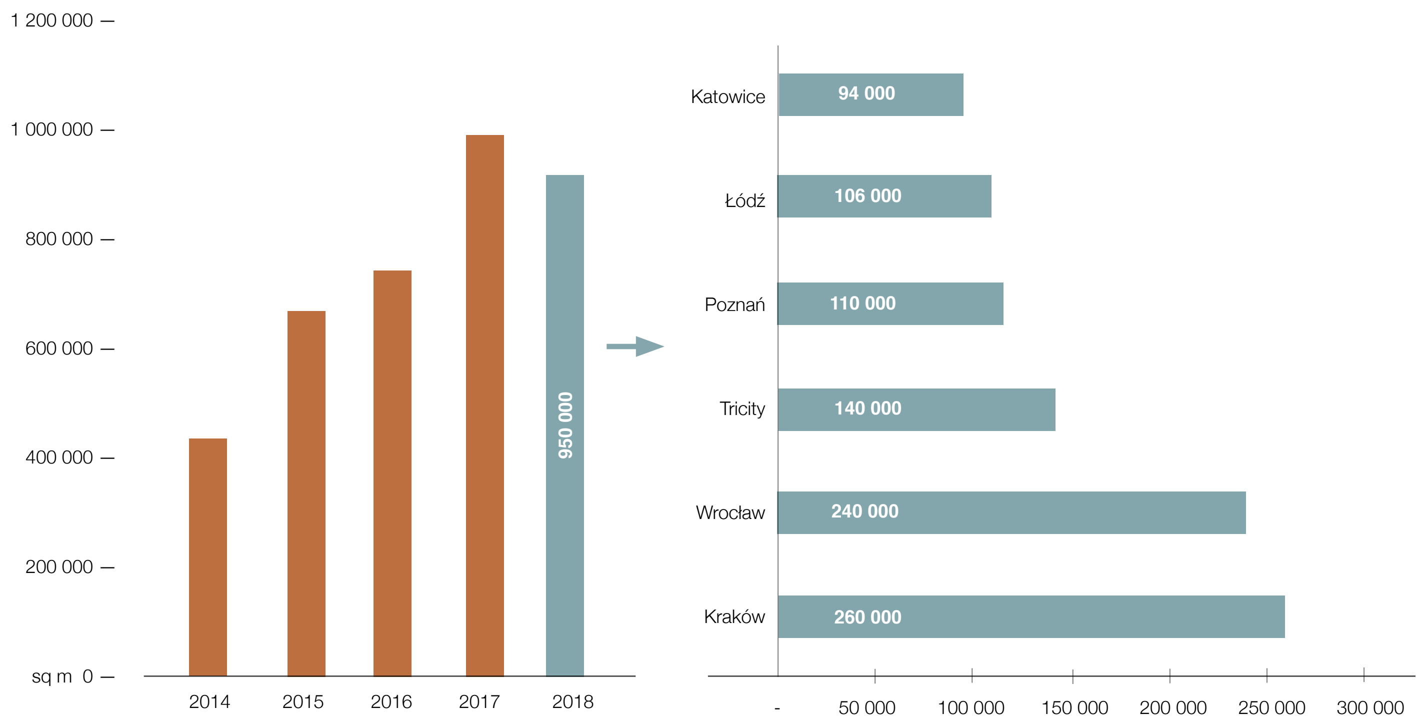
In 2018 the Katowice office market grew by approximately 51,000 sq m of office space, meaning the total existing stock in the city exceeded 0.5m sq m. After 2017's slowdown, 2018 was a year of high developer activity, visible in the volume of new supply delivered to the market (three times higher than 2017's figure, and a historical high for the local market), and in the volume of space under construction – 94,000 sq m. The Katowice office market has been showing signs of a revival in demand. In 2018, lease agreements amounting to 38,000 sq m were signed, 23% more than for the analogous period of 2017. Since 2016, the vacancy rate in the city has been steadily decreasing and at the end of 2018 stood at 8.8% of the total stock (a 2.5 pp. decrease compared to December 2017), which was the lowest level since 2013.

Zielona 3, Poznań

CHART 3

Office space under construction in major regional cities

Q4 2018

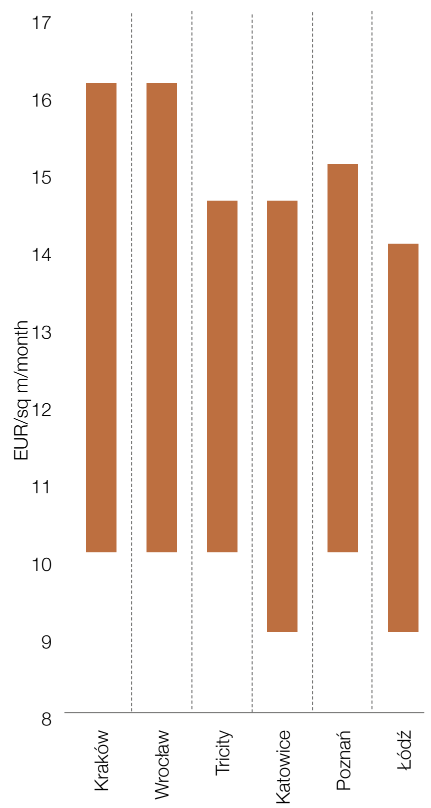


Source: Knight Frank

CHART 4

Asking rents for office space in regional cities

Q4 2018



Source: Knight Frank

POZNAŃ

In 2018, the total volume of office stock in Poznań increased by 21,000 sq m, and at the end of the year stood at 480,000 sq m. Due to the high developer activity, the existing office stock in the city will exceed 0.5m sq m in the coming months. At the end of 2018, there was approximately 112,000 sq m of office space identified as under construction. Over 80% of this space was due for completion in 2019. Simultaneously, lively tenant activity was observed in the Poznań office market. In 2018, 70,000 sq m of office space was subject to lease - the second highest volume in the history of the local market (after 2017 when 78,000 sq m of offices was leased). The limited new supply and high volume of take-up translated into a vacancy rate decrease of 1.3 pp. y-o-y to a level of 7.3%.

ŁÓDŹ

At the end of 2018, the total office stock in Łódź stood at some 470,000 sq m. Despite the new supply delivered to the market in the last year being 50% lower (34,000 sq m) than the 2017 figure, there were no observable signs of a slowdown. A further 100,000 sq m of office space was identified as under construction, of which 80% was due for completion by the end of 2019. Together with high developer activity, a lively demand for office space was also registered. In 2018 approximately 57,000 sq m of office space was leased in the city, almost reaching the 2017 result (58,000 sq m). Similar to the other regional markets, a decrease in vacancy rate was also recorded in Łódź. At the end of December 2018, the rate stood at 8.7% (lower by 0.8 pp. compared to the corresponding 2017 period).

Arkońska Business Park, Gdańsk

Retail market

360,000 sq m
retail space completed in 2018

16%
extensions in annual supply

370,000 sq m
space under construction

3.1%
vacancy rate for Poland

The 12 months of 2018 witnessed lower developer activity both in terms of newly opened shopping centres and projects under construction. The demand for modern retail space, however, showed no sign of weakening. Not only international brands, but also national ones debuted in Poland. Moreover, many tenants continued to expand, e.g. through taking over premises vacated by competitors. As a result, the vacancy rate in many Polish cities decreased over 2018. A new law aimed at limiting trade on Sundays, which came into force in March 2018, was amongst the most commented on topics on the market. Although landlords have introduced measures to mitigate the impact of the law, slight reductions were noted in both footfall volumes and shopping centre turnovers.

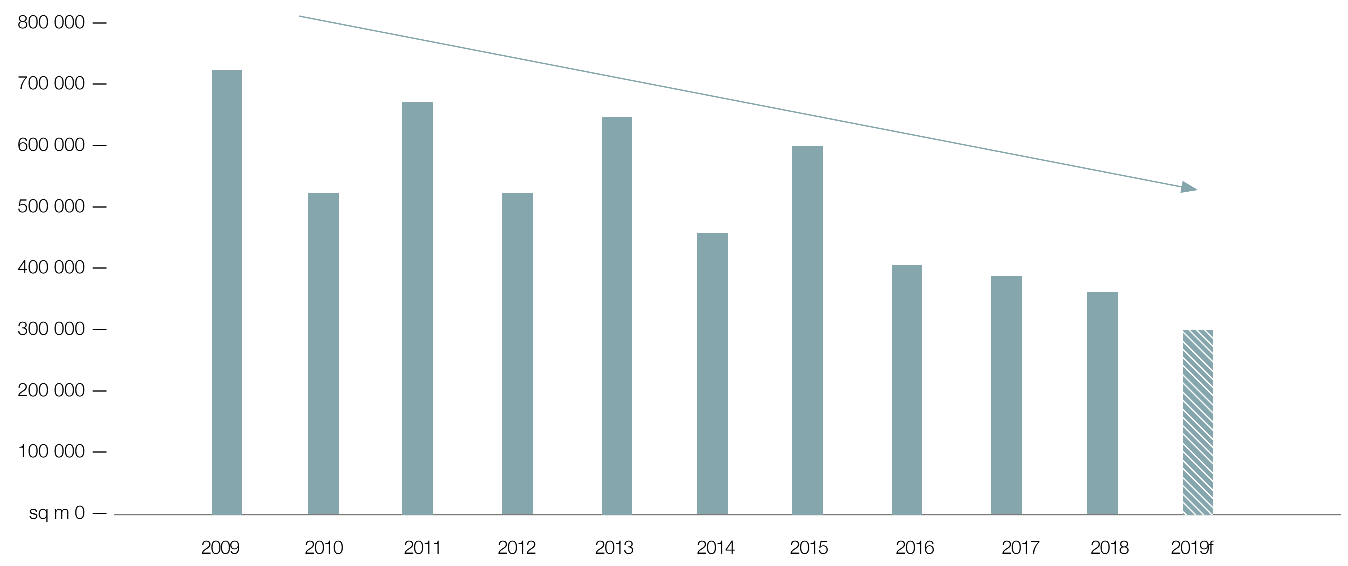
Albatros, Kołobrzeg

SUPPLY

At the end of 2018, the retail market in Poland stood at some 12m sq m of GLA. Over the last 12 months, approaching 360,000 sq m of retail space was delivered, and the annual volume registered a third successive year-on-year decrease. The largest projects opened in 2018 were Forum Gdansk (62,000 sq m), Galeria Libero in Katowice (45,000 sq m), Gemini Park Tychy (36,000 sq m) and Nowa Stacja in Pruszków (27,000 sq m). Apart from the new projects, the annual supply included extensions of existing projects, which accounted for 16% of the total. Approximately 370,000 sq m of retail space was under construction in Poland at the end of 2018. Only 300,000 sq m is scheduled for delivery in 2019, 20% of which is within Galeria Młociny (73,500 sq m) - the largest amongst the projects under construction, both in the Warsaw agglomeration and Poland. Extensions and modernisations of existing projects occupy a high share of the volume under construction as well. At the end of 2018, they accounted for 19%, the largest including; the extension of Morski Park Handlowy in Gdańsk by 16,500 sq m, and the enlargement of Focus Mall Zielona Góra by 15,000 sq m.

Having observed the increasing saturation of the Polish retail market with retail space, developers have been limiting their activities in the field of large-scale projects. At the end of 2018, the volume of modern retail space under construction stood at its lowest level for over 10 years. That said, development of alternative retail formats (such as mixed-use projects or convenience shopping centres) has been gaining momentum, with them being viewed as effective responses to changing customer shopping habits.

CHART 1
Annual modern retail supply in Poland
2009 - 2019f



f - forecast based on schemes under construction
Source: Knight Frank

VACANCY RATE

The vacancy rate in the retail sector has remained at a very low level. December 2018 ended with only 3.1% vacant retail space in the 18 cities with the largest retail stock. Over the preceding 12 months, the rate decreased by 0.9 percentage points, thanks in no small way to the completion of new large-scale projects which had been almost 100% pre-leased before their completion dates.

Moreover, in 2018 the DIY chain OBI continued its strategy of take-overs of large-scale stores emptied by Praktiker in 2017. This mitigated the increase of vacant space volume resulting from the Piotr i Paweł grocery chain closing its unprofitable stores (e.g. in Bielsko-Biała, Łódź, Katowice and Gdańsk) as part of its restructuring.

Poland's 8 major agglomerations offered some 3.3% of total retail stock with the rate decreasing by 0.9 percentage points over 12 months. Vacant space in medium-sized cities (200,000-400,000 inhabitants) accounted for 3.2% of stock (a decrease of 0.8 pp.) while in the 4 cities with less than 200,000 inhabitants the figure was 1.3% (a decrease of 1.2 pp.).

DEMAND

Demand for modern retail space in 2018 was created both by newcomers and by brands which already had a market presence in Poland. The majority of new international brands entering the market opted for Warsaw shopping centres; others, however, chose Poznań or Wrocław.

Among foreign debutants, along with brands from the fashion and interior design sectors, there are also tenants from the world of entertainment (e.g. TEPfactor, Blue City in Warsaw) and food and drink (Ramen Shop Menya Musashi with Japanese cuisine, Blue City in Warsaw).

In 2018, a number of Polish brands debuted on the market as well. One of them was the new food concept introduced by the Helios network - Papa Diego - which within six months of its arrival had opened three restaurants in shopping centres in Poland.

Tenants from the food and drink sector also occupy an important place on the list of brands expanding in Poland. Among them there is Gastromall Group (owner of Olimp restaurants) which in 2018 opened 15 restaurants, Sphinx Polska which opened 11 new restaurants, and Starbucks which unveiled 7 new cafes.

Not only shopping centres but also tenants have been forced to adapt their range of services to the changing shopping habits of Polish consumers. In 2018, many of them carried out rearrangements of their stores and introduced new visual concepts (e.g. Empik Future Store), in order to refresh their appearance, attract customers and improve their shopping experience.

Some retailers caught the eye with their activities. IKEA has opened a concept store unique on a global scale in Blue City, Warsaw - a smaller store close to the city centre - which offers only a selection of products from their entire range. In Poznań, Bio Market Polska opened the first cashierless organic food store in Poland. The eobuwie.pl store, with products hitherto only available on the Internet, opened its pioneer brick-and-mortar store in Wrocław, combining online and "offline" sales. The Żabka grocery chain has been working on the "store of tomorrow", which will be equipped with technological innovations powered by Microsoft.

TABLE 1
Selected international brands which entered Poland in 2018

BRAND	SECTOR	CITY	RETAIL SCHEME
ARMANI EXCHANGE	Fashion	Warsaw	Galeria Mokotów
BEBE	Fashion	Warsaw	Galeria Mokotów
CHANEL	Health & Beauty	Warsaw	Galeria Mokotów
DEALZ	Other	Swarzędz	ETC Swarzędz
FISSMANN	Home Accessories	Warsaw	Wola Park
FRAAS	Accessories & Jewellery	Poznań	Stary Browar
KARACA	Home Accessories	Wrocław	Wroclavia
KOCCA	Fashion	Warsaw	Galeria Północna
MINISO	Other	Warsaw	DT Wars Sawa Junior
SAFFIANO	Shoes, leather & accessories	Warsaw	Galeria Północna
SAN MARINA	Shoes, leather & accessories	Wrocław	Wroclavia
TEDI	Other	Dąbrowa Górnicza	Vendo Park
TEMPUR	Home Accessories	Warsaw	Klif
XIMI VOGUE	Other	Warsaw	Galeria Wileńska

Source: Knight Frank

LAW

Since 1 March 2018, the retail market in Poland has been affected by new law regulations aimed at phasing out trade on Sundays and bank holidays. The legislation in question introduced a ban on trade on Sundays and national holidays, and limited trading hours on other selected days. In 2018, trade was allowed on 2 Sundays a month, reduced to one Sunday a month in 2019. In 2020 trade will be forbidden on every Sunday.

At the end of 2018, the Retail Institute analysed footfall in over 120 shopping centres across Poland. The survey showed that footfalls decreased by 1.9% (7.23 million customers) compared to 2017. The largest decreases in the number of customers were recorded by centres located on the outskirts of cities (by 6.2%) and in those centres where grocery operators play a key role (by 5.3%).

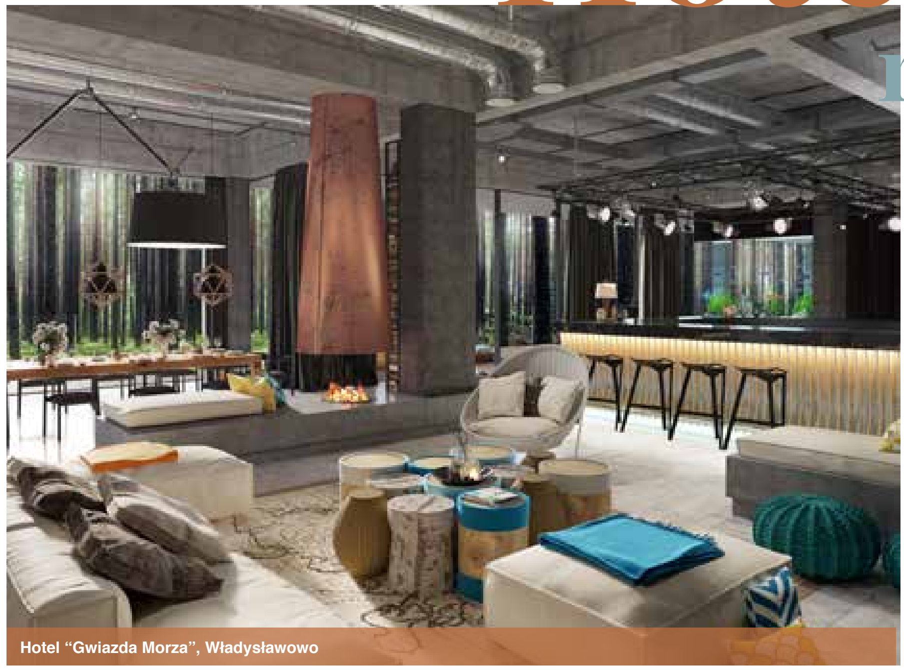
The largest shopping centres (over 40,000 sq m GLA) coped relatively well with the effects of the new law as their footfall increased by 0.3% y-o-y. Nevertheless, in smaller shopping centres, declines in footfall were noticeable and exceeded 4%. However, the new regulations had most effect on the smallest stores run by private individuals, who struggled with the loss of customers to shopping centres on other days.

The Retail Institute's analysis of turnover figures for some 120 shopping centres in 2018 reveals that the turnover of retailers in these centres increased by only 0.5% (y-o-y). Yet the highest turnovers are still recorded by grocery operators and specialist grocery stores, which approached 8.4% increase (y-o-y).

Implementation of the new law aimed at limiting of trade on Sundays was amongst the most frequently commented on aspects of the market situation in 2018. The first 10 months of it showed that only the largest shopping centres have got off relatively lightly.

Galeria Ostrowiec, Ostrowiec Świętokrzyski

Hotel market


Hotel "Gwiazda Morza", Władysławowo

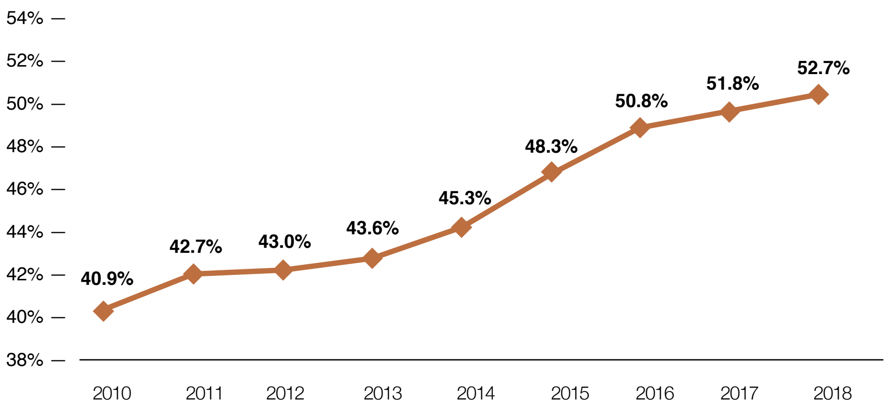
53%
the average occupancy rate in Poland

approx. 3,800
new hotel rooms delivered in 2018

137,000 units
total stock of hotel rooms

The hotel sector in Poland has continued its dynamic growth. The rapid development of the sector is reflected in the increasing new supply in the market as well as a growing interest in the local market of new international hotel brands, and a rising number of tourists visiting Poland – a number which reached 22 million in 2018. The dynamically developing sector of condohotels and apartments for rent remained a strong trend on the Polish hotel market.

CHART 1
Average occupancy rate in Polish hotels
2010 - 2018



Source: Knight Frank

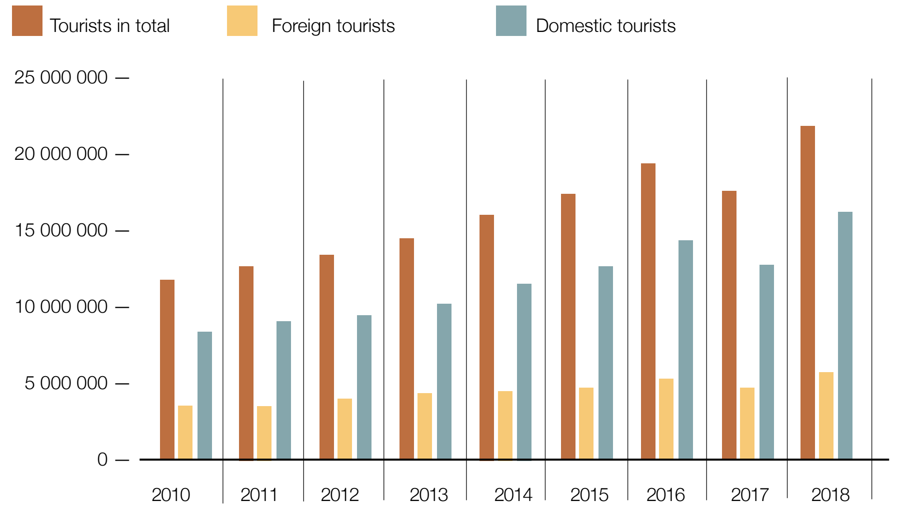
At the end of 2018, there were over 2,850 projects in Poland categorized as hotels, offering over 137,000 hotel rooms. Within the last year, the total hotel stock grew by over 3,800 hotel rooms, of which the majority were in the largest Polish cities. The figure represents approximately 1,200 more hotel rooms delivered than in 2017. Despite the large number of new projects completed in 2018, the market structure remained unchanged, with the largest share being 3-star hotels, constituting 45% of the total hotel room stock.

The average annual occupancy rate reached nearly 53% in 2018 which turned out to be a record-breaking result in terms of demand, and grew by 1 pp. compared to 2017. At the same time, key operational indicators, such as ADR and RevPAR, in the biggest cities in Poland remained at a high level. The good market condition is also confirmed by growing revenue rates noted in almost every large city. According to STR Global, the leading compilers of hotel data, the largest revenue growth per available room (RevPAR) and growth in average daily rate (ADR) in the last year, of all major business hubs, were seen in Warsaw.

The key factors influencing demand growth for hotel services are the steady development of tourism in Poland, along with a wider and more diverse range of hotel services. Since 2010 the total number of hotel guests in Poland has grown by 88%, including a 52% increase in foreign tourists. The market is boosted by the organising of worldwide cultural and sporting events, Poland's promotion on the international stage, and an extended range of flight connections. In 2018, Poland hosted, among others, the UN Climate Change Conference and the UNESCO Creative Cities Network Annual Meeting in Katowice, and in 2019 will host the World Anti-Doping Agency Conference. 2018 was also a record year for Polish airports which jointly served 46 million passengers – a 17% y-o-y increase. A growth in passenger traffic was noted at almost every airport, however the largest beneficiary was Chopin Airport in Warsaw, which served over 17.8m passengers, a 12.7% growth y-o-y.

Forecasts for the hotel sector in Poland remained positive. The market upturn is set to continue in the coming years due to the growing demand for hotel services and the interest of international brands in this part of Europe. The most significant openings in Poland of new brands planned for 2019-2020 include: Staybridge Suites, Mote One, Crowne Plaza and NYX Hotel in Warsaw, Radisson Red and Autograph Collection in Kraków, and Sure Hotel by Best Western in Poznań.

CHART 2
Number of tourists accommodated in hotels in Poland
2010 - 2018



Source: Knight Frank

TABLE 1
Selected hotels opened in 2018

CATEGORY	CITY	NAME	HOTEL CHAIN	NUMBER OF HOTEL ROOMS
5*	Warsaw	**Renaissance by Marriott**	Marriott International	225
5*	Warsaw	**Raffles Europejski**	Raffles Hotels & Resorts	105
5*	Poznań	**Park Inn by Radisson**	Radisson Hotel Group	166
5*	Warsaw	**Hotel Warszawa**	Likus	142
4*	Kraków	**Puro Kazimierz**	Puro Hotels	228
4*	Kraków	**Metropolo Kraków by Golden Tulip**	Louvre Hotels	220
4*	Warsaw	**Arche Krakowska Residence**	Arche	344
3*	Poznań	**Focus Poznań**	Focus Hotels	92
3*	Katowice	**Moxy Katowice Airport**	Marriott International	100
3*	Gdańsk	**Hampton by Hilton Old Town**	Hilton	174
3*	Warsaw	**Ibis Styles Warszawa City**	Accor	220
3*	Kraków	**B&B Kraków Centrum**	B&B Hotels	130
3*	Sopot	**Focus Hotel Premium Sopot**	Focus Hotels	70
3*	Oświęcim	**Hampton by Hilton Oświęcim**	Hilton	120
3*	Góra Kalwaria	**Koszary**	Arche	82
3*	Warsaw	**Hampton by Hilton Warsaw Mokotów**	Hilton	163
3*	Warsaw	**Ibis Styles Warszawa Centrum**	Accor	179

Source: Knight Frank

Warehouse market


Hillwood, Łódź

15.9 m sq m
total warehouse stock in Poland

2 m sq m
new supply in 2018

4.8%
vacancy rate in Poland

3.8 m sq m
leased – the highest take-up in history

In 2018, the demand observed in the warehouse market in Poland exceeded the previous year's record-breaking take-up. High tenant activity led to a vacancy rate decrease and dynamic growth in new supply on the market. Poland's location in the heart of Europe and relatively low labour costs contribute to an increasing interest in the Polish market, mainly from logistics companies, and the distribution and e-commerce sectors. Intensified demand from the e-commerce industry is contributing to the dynamic development of SBU (small business unit) and last mile logistics located in the vicinity of large cities in Poland.

2018 has brought to the market a near 17% increase in total warehouse stock in Poland, which at the end of the year exceeded 15.9m sq m. The vast majority of supply is concentrated in the five largest warehouse hubs, namely; Warsaw and its surroundings, Upper and Lower Silesia, Wielkopolska and Central Poland. Warsaw and its surroundings still remains the biggest warehouse concentration area, responsible for 26% of the total stock in Poland. However, the highest sector dynamics can be observed in regional locations, especially in emerging markets outside key industrial hubs. As a result, Warsaw's share in warehouse stock decreased by 2 pp. year-on-year.

Positive sentiment in the Polish economy helped maintain developer activity at a high level. In 2018 almost 2m sq m was delivered to the market, almost reaching the previous year's record-breaking new supply volume. The largest volume of new supply, 34% of new supply, was delivered in Central Poland. BTS (built to suit) projects have been consistently dominating the market for several years. The largest projects delivered to the market in 2018 were Zalando BTS in Głuchów (126,000 sq m) and phase I of Leroy Merlin's BTS in Piatek, near Łódźź (62,000 sq m).

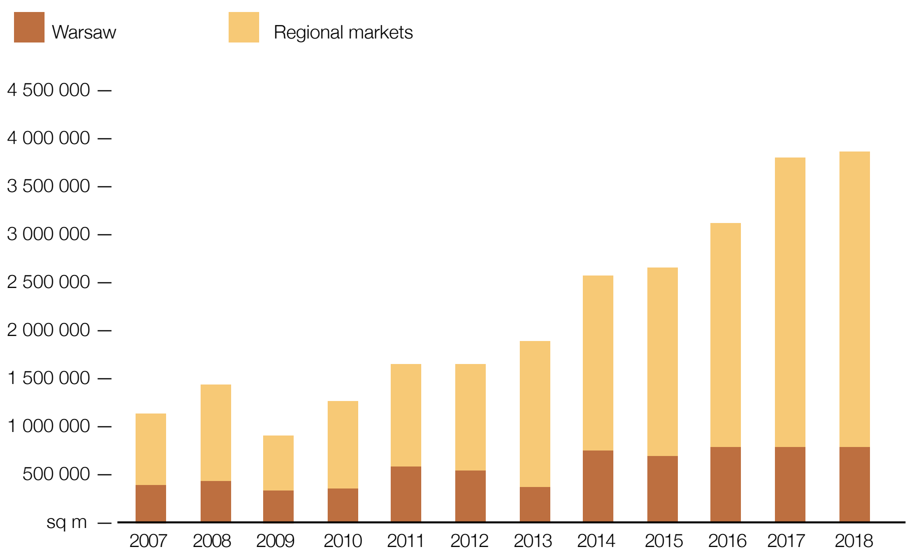
The market forecasts for the coming years are optimistic, with further dynamic growth of the warehouse sector expected. Increasing developer activity is confirmed by the high volume of space under construction, reaching nearly 2m sq m, and constituting 45% growth compared to 2017. Most construction work has started in Upper Silesia, Central Poland and Warsaw and, according to developer plans, a significant volume of industrial space will be delivered by the end of 2019.

2018 also saw record-breaking levels of tenant activity. The total annual take-up reached 3.8m sq m, equating to 2% growth year-on-year. Tenants were mainly attracted to the major warehouse concentration areas, with the largest volume leased in Warsaw (20% of total take-up in Poland), in Central Poland (19% of take-up), and in Upper Silesia (with 16% of share). The largest deals signed in 2018 were Hillwood BTS Zalando in Olsztynek with 130,000 sq m, Panattoni BTS for Leroy Merlin in Piatek with 124,000 sq m, and Goodman Wrocław V Logistic Centre for The Hut Group with 65,000 sq m.

Continuing upward trends in the warehouse sector led to decreasing vacancy rates, despite the significant growth of total stock. At the end of 2018, available space for lease amounted to approximately 760,000 sq m, placing the vacancy rate at a level of 4.8%, a fall of 0.3 pp. compared to the end of 2017.

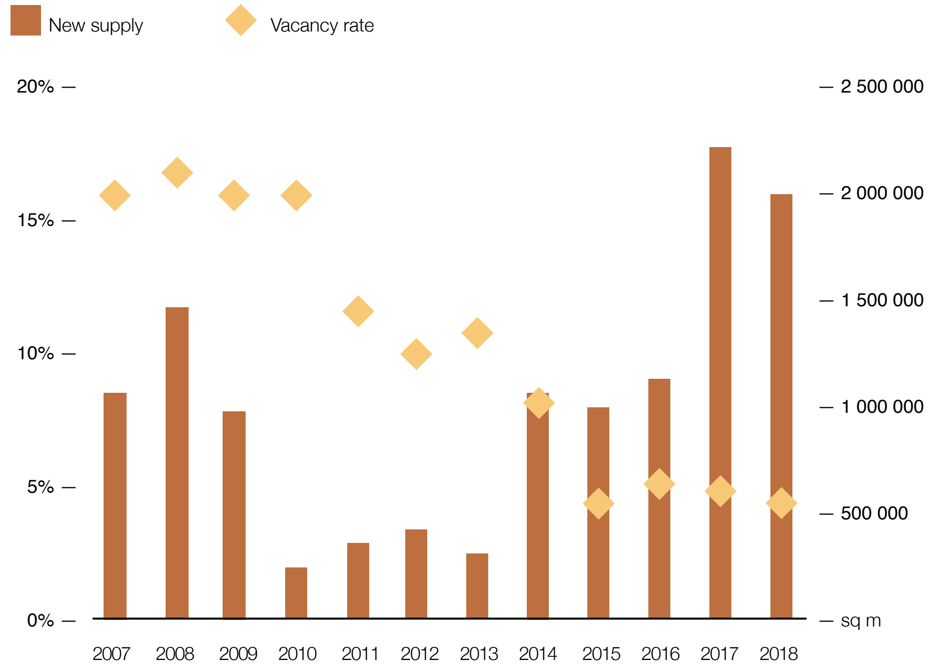
The asking rents in all major industrial hubs in Poland remained at the stable level of EUR 2.50-5.00/sq m/month while the highest rates were noted within the administrative borders of Warsaw. However, the rising construction costs can translate into gradual reduction of incentives for tenants in warehouse projects across Poland.

CHART 1
Leased space by location
2007 - 2018



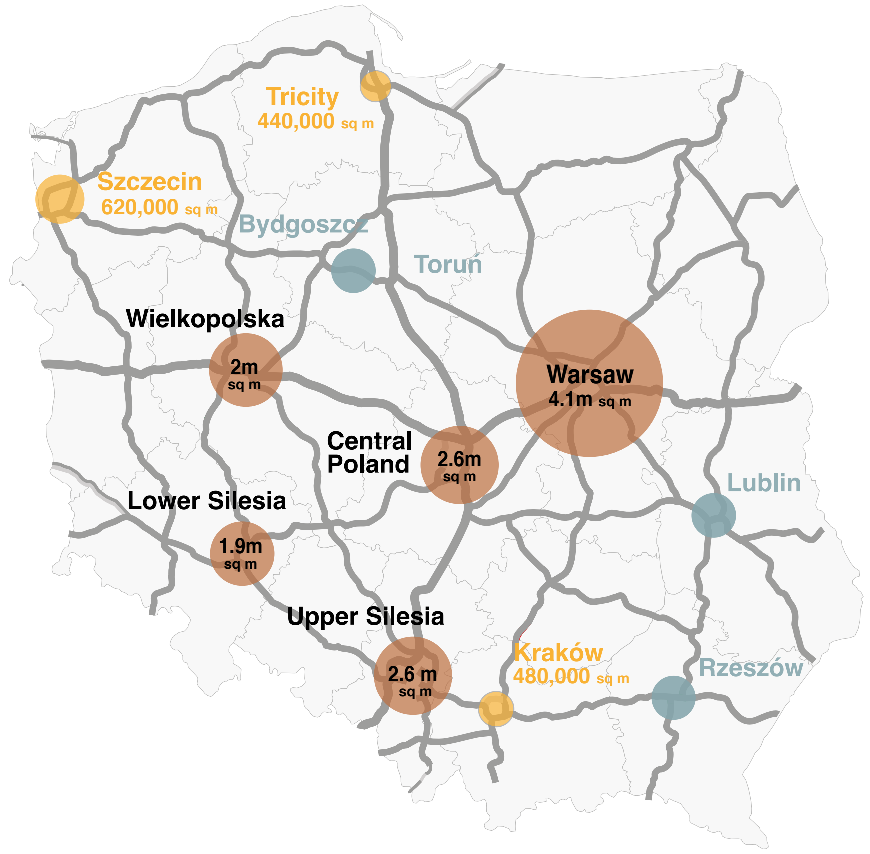
Source: Knight Frank

CHART 2
New supply and vacancy rate
2007 - 2018



Source: Knight Frank

MAP 1
Warehouse stock by location
Q4 2018



Source: Knight Frank

Investment market

Wratislavia Center, Wrocław

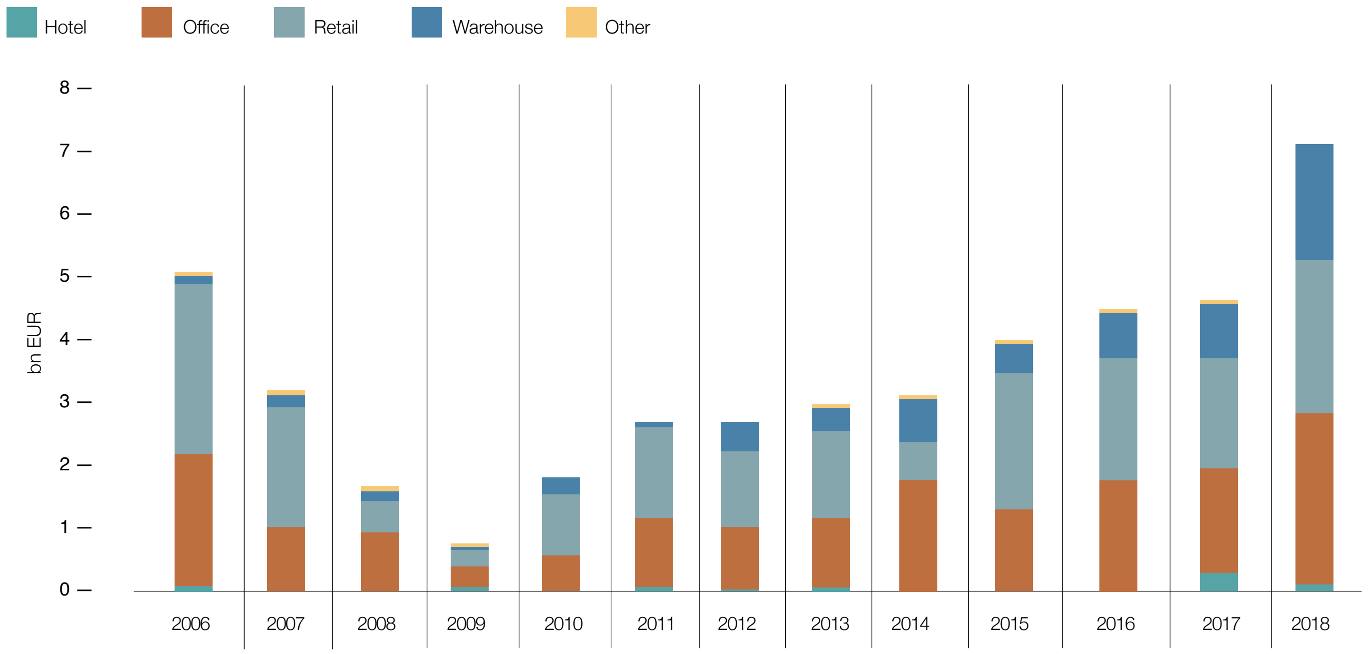
The record year 2018 ended with an investment volume totalling EUR 7.2 bn, the highest result in the history of the Polish market (the previous record, reported in 2006, stood at EUR 5.1 bn). Such a high result is attributable mainly to a dynamic growth in the commercial market, the emergence of new investment entities, and the rise of the Polish economy in international rankings. In addition, investment is spurred by low interest rates, good consumer sentiment and high demand for commercial space.

EUR 7,2 bn
record-high investment volume

38%
share of office sector in the investment volume

EUR 1 bn
the largest transaction in the history of the Polish investment market

CHART 1
Investment transaction volume in Poland
2006 - 2018



Source: Knight Frank

CHART 2
Prime yelds by sector
2004 - 2018

Source: Knight Frank

As the most attractive market in Central and Eastern Europe, Poland is an excellent alternative to the Western European markets. With an extensive array of assets of each category on offer, the country has attracted the attention of an increasingly large group of investors year on year. Last year funds from countries such as the Phillipines or Singapore made their debut in Poland. Besides, Poland advanced in the FTSE Russel ranking, as the first country of the region to be classified among developed countries, which will translate in the long term into investment volume, not only in the commercial property sector, and improve the perception our economy by international players.

2018 abounded with portfolio transactions, especially in the warehouse market, where the total volume of invested capital in the sector amounted to EUR 1.8 bn and almost doubled the 2017 result, with more than EUR 1.3 bn of the warehouse acquisition value representing portfolio transactions. Such high interest in the logistics sector is a result of the market's stable growth and development due, among other things, to a significant improvement of the road and motorway network, relatively low costs of business, as well as a dynamic development of the e-commerce sector. The largest warehouse portfolio transactions in 2018 involved the purchase of the Hines properties by Blackstone, the sale of the Prologis portfolio to Mapletree, and a partial takeover of the Panattoni portfolio by European Logistic Investment BV.

Despite a dynamic situation in the warehouse sector, the assets in highest demand last year were office assets, located mainly in the Warsaw market. As much as 38% of the total acquisition volume, i.e. EUR 2.7 bn, was invested in offices, of which an impressive EUR 1.7 bn represented transactions made in Warsaw. A very good condition of the metropolitan market, with a high supply of modern assets already rented at the construction stage, makes investors increasingly often view Warsaw as a stable market promising long-term returns. In terms of volume, the largest finalised office transactions include the Gdański Business Center (C&D) take over by Savills IM, the purchase of the Skylight and Lumen office buildings by Globalworth, the acquisition of Warsaw Spire A (50%) by Madison or the sale of the CEDET office building to GLL.

The retail sector also continues to attract investors' attention, with a total of EUR 2.5 bn invested in 2018, representing a 41% increase in volume from the prior year. However, this high volume was predominated by the sale of 28 shopping centres to Griffin Real Estate for nearly EUR 1 bn, the largest transaction in the history of the Polish investment market. In addition, properties such as Wars Sawa Junior, Galeria Katowicka or Galeria Malta changed owners.

2018 was also marked by the yield compression for the best assets, which also reached a historical low level. In the office segment, the 5% level was exceeded, for products located in the core city centre of Warsaw. Prime yields for retail properties also dropped, which were valued slightly above 4% last year, whereas the best warehouse products, secured by long-term lease agreements, reached nearly 5.25%. In the near future, the prime yields should remain stable.

COMMERCIAL MARKET

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.

We offer:

- strategic consulting, independent forecasts and analysis adapted to clients' specific requirements,
- market reports and analysis available to the public,
- tailored presentations and market reports for clients.

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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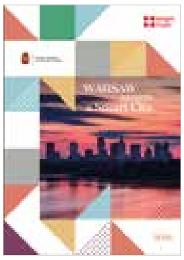
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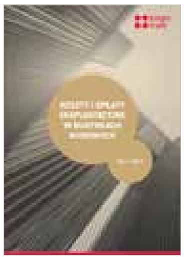
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