RESEARCH

Knight Frank

POLAND

COMMERCIAL MARKET H1 2018

WARSAW OFFICE MARKET

The first half of 2018 saw:

- historically high six-month take-up volumes,
- stable vacancy rate despite a high volume of new supply,
- sustained, strong developer activity.

Total stock:
5.4m sq m

New supply (H1 2018):
174,000 sq m
in 14 projects

Office space under construction:
739,000 sq m

Take-up (H1 2018):
425,000 sq m

Vacancy rate:
11.1%

Since the beginning of the year, 14 office projects with a total area of 174,000 sq m have been completed. This result is over 30% higher than new supply registered in the corresponding period of 2017. It is worth mentioning that over half of the supply scheduled for delivery in 2018 had already been completed by the end of Q2 2018. If the projects under construction are completed in line with developers' schedules, new supply expected for H2 2018 should amount to approximately 100,000 sq m. Over half of the new supply was delivered in central locations. The largest office schemes completed in H1 2018 include: Proximo II (20,000 sq m) and the Graffit building (16,600 sq m), both developed by Hines Polska; Equator IV (19,200 sq m) which belongs to Karimpol Polska; and CEDET (14,300 sq m) constructed by Immobel Poland.

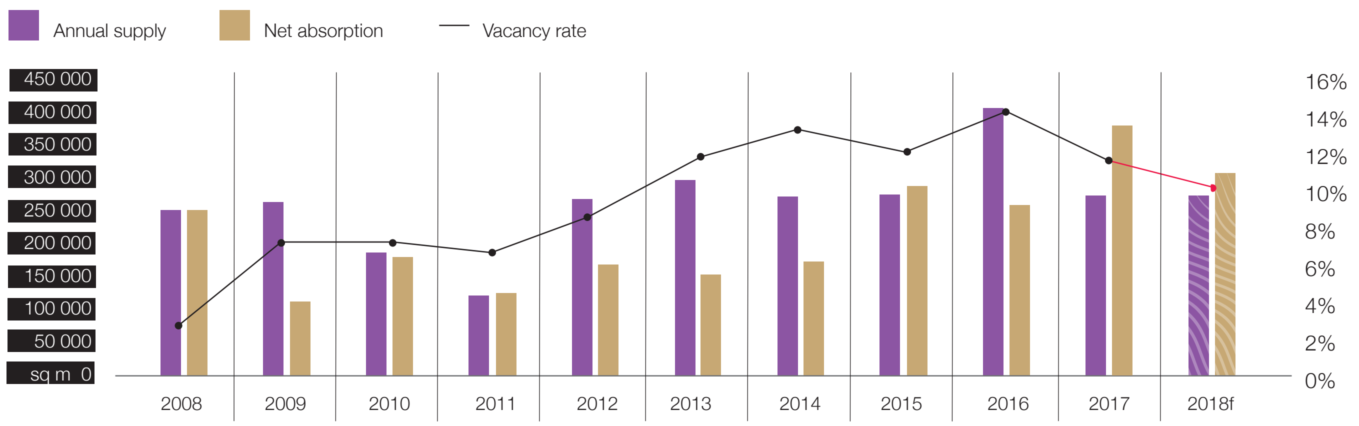
Strong developer activity is still being observed in Warsaw. At the end of June 2018, there were over 739,000 sq m of office space under construction. Since the beginning of 2018, eight developments totalling over 151,000 sq m have commenced including: the ArtN project (Capital Park, 39,000 sq m), the DSV building in the Służewiec area (DSV International Shared Services, 30,000 sq m), Central Point near the Świętokrzyska metro station (Immobel Poland, 18,000 sq m), and the second office phase of the Browary Warszawskie complex – "Biura przy Willi" (Echo Investment, 14,000 sq m). Almost 80% of the office space under construction is located in the Central Business District (CBD) and the city centre area.

Take-up in the first half of 2018 reached 425,000 sq m. This result was over 20% higher than the half-year average demand for 2013-2017. It's worth noting that the transaction volume for the first half of the year is a historical high for the office sector. Over the last two quarters, the most vigorous tenant activity was observed in the City Centre area, the CBD, the Służewiec area and the Jerozolimskie Corridor. Therefore, take-up in H1 2018 showed an even distribution between central and non-central districts. New lease agreements in existing buildings accounted for 51% of the take-up volume and pre-lease transactions represented 14% of all agreements. The remaining take-up volume included renewals (25%) and expansions (10%). Net absorption in the first half of 2018 amounted to 190,000 sq m and was almost 40% higher than the net absorption registered for the first half of 2017.

Since the beginning of the year, the vacancy rate has remained relatively stable, standing at 11.1% (600,000 sq m of available office space) at the end of Q2 2018. Despite the high volume of new supply, the vacancy rate increased by only 0.3 pp. (q-o-q) in Warsaw and 0.6 pp. (q-o-q) in central districts. The vast majority of the vacant space was in the Służewiec area (214,000 sq m) and central districts (168,000 sq m). Taking into account stable tenant activity and limited supply due for completion in H2 2018, a decrease in vacancy rate is expected by the end of the year.

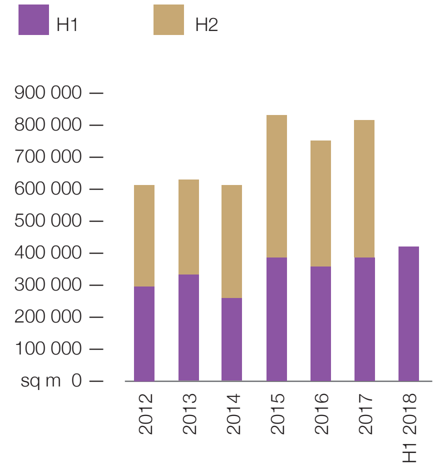
At the end of Q2 2018 asking rents increased slightly. At the end of June, asking rents in the prime buildings in the CBD were between EUR 20-24 per sq m per month, while asking rents in other central locations varied from EUR 13 to EUR 21 per sq m per month. The asking rents in buildings outside central locations were quoted between EUR 9-15 per sq m per month. Effective rents remained lower than the asking level by 15-25%.

CHART 1
Annual supply, net absorption and the vacancy rate in Warsaw
2008-2018f



f - forecast
Source: Knight Frank

CHART 2
Take-up
2012-H1 2018



Source: Knight Frank

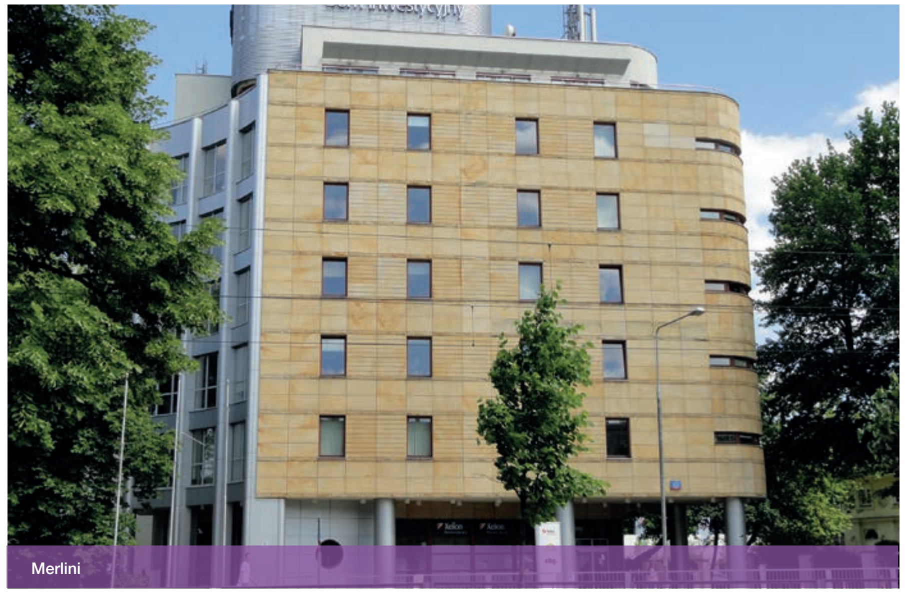
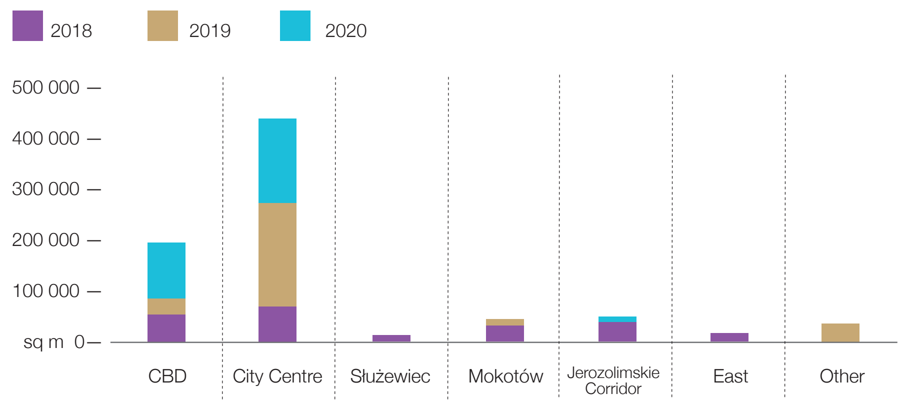

Merlini

CHART 3
Supply under construction by location and scheduled completion date
H1 2018



Source: Knight Frank


Ostrobramska 86

OFFICE MARKET IN REGIONAL CITIES

H1 2018 in regional office markets in Poland was a period of a continuously high developer activity. Approximately 238,000 sq m of new office space was delivered to the market, with in excess of 1 million sq m still under construction. Furthermore, Wrocław joined the cities with total office stock exceeding 1 million sq m, and by the end of the year another 2 cities may well reach 500,000 sq m of office space. At the same time, tenant activity in regional markets remained high, although in some cities, the volume of concluded lease agreements since the beginning of the year was noticeably lower when compared to the corresponding 2017 period. Asking rents and vacancy rates remain relatively stable, but in selected markets an increase in vacancy is expected due to the record-breaking new supply that is scheduled for completion by the end of 2018.

Total stock:
4.3m sq m

New supply (H1 2018):
238,000 sq m
in 21 projects

Take-up (H1 2018):
249,000 sq m

Net absorption:
240,000 sq m

KRAKÓW

Kraków remains the largest regional office market in Poland. The office sector in the capital of Małopolska has been developing dynamically for several years, and the coming years will be record-breaking in terms of supply. At the end of June 2018, the total office stock in the city amounted to some 1.16m sq m. New supply in H1 2018 totalled 59,700 sq m in 8 projects, and at the end of the same period another 346,000 sq m was identified as being under construction – the highest figure for all regional cities, and the highest figure in the history of the Krakow market. Some 139,000 sq m is scheduled for completion in 2018, with another 170,000 sq m due for completion in 2019. Consequently, total office stock in Kraków may well exceed 1.5m sq m during the coming year.

Such dynamic growth in office supply in the city is a result of the lively demand which has been clearly observed for a number of years now. Within the January-June 2018 period, over 77,000 sq m of office space was subject to lease. Although the result was 20% lower than in the analogous period of 2017, and constituted 40% of the average annual take-up within the most recent 3 years, it must be noted that recent years have seen a period of record-high tenant activity. High interest in Krakow office space is further confirmed by the net absorption indicator, which in H1 2018 amounted to some 59,000 sq m.

At the end of June 2018, approximately 108,000 sq m of Krakow office space remained vacant, which represented 9.3% of the total stock. This means a 0.2 pp increase in the vacancy rate compared to the figure for the end of Q1 2018. At the same time, the indicator remained stable in comparison with the previous year's corresponding period. In the coming quarters an increase in a vacancy rate is expected along with the completion of a significant volume of new office space which, however, will probably not be fully leased upon completion.

V.Offices, AFI Project 1, Kraków

WROCŁAW

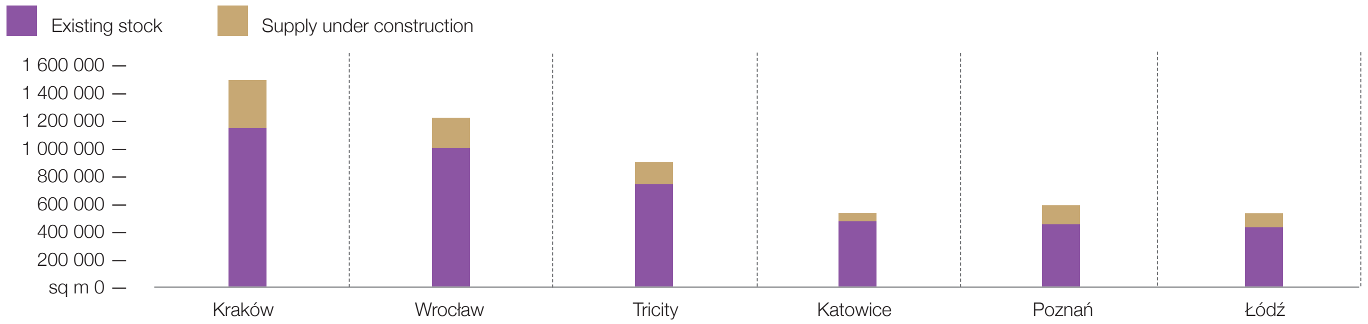
Thanks to the completion of nearly 104,000 sq m of office space in eight projects, in H1 2018 the total office stock in Wrocław exceeded 1 million sq m. Developers are not slowing down – as of the end of June 2018 a further 216,500 sq m was under construction, of which some 70,000 sq m is due to be delivered to the market in 2018, with118,000 sq m planned for completion in 2019.

Similar to Kraków, in H1 2018 tenant activity in Wrocław weakened slightly. Within the period between January and June, some 58,000 sq m of office space was subject to lease, 38% less compared to the corresponding period of a record-breaking 2017, and some 44% of the average annual lease volume recorded in 2015-2017. However, positive market sentiment is reflected by the net absorption level, which in H1 2018 amounted to 91,000 sq m and was higher than the previous annual record of 2016.

Despite high tenant activity, a significant volume of new supply in buildings not fully leased upon completion resulted in an increase in the vacancy rate. At the end of June, approximately 98,300 sq m of office space in Wrocław remained available for lease, which constituted 9.7% of total stock. The vacancy rate increased by 1.4 pp. q/q and 1.2 pp. y/y. The upward trend is expected to continue in the coming quarters.

Promenady Business Park – Zita, Vantage Development, Wroclaw

CHART 1
Existing stock and supply under construction in major regional office markets in Poland
H1 2018



Source: Knight Frank

Arkońska Business Park, Gdańsk

TRICITY

With its total stock amounting to 747,000 sq m, Tricity is currently the 4th largest office market in Poland. Since the beginning of the year, approximately 49,200 sq m has been delivered to the market in 2 projects, of which 45,700 sq m is contained in Olivia Star, developed by Olivia Business Centre. Additionally, at the end of June 2018 some 153,000 sq m of office space was under construction, of which over 52,000 sq m is due for completion in 2018 and 101,000 sq m in 2019.

Between January and June 2018, lease agreements amounting to 25,900 sq m were concluded in Tricity. The demand was significantly lower than in the corresponding period for 2017, and constituted barely 26% of the average annual take-up recorded in the most recent 3 years. However, it should not be seen as a sign of decline. Positive market sentiment is evidenced by a high level of net absorption, which in H1 2018 amounted to 56,100 sq m, and a systematic decrease in the vacancy rate. At the end of June 2018, approximately 50,300 sq m of office space in Tricity remained vacant, which constituted 6.7% of total stock. It was the lowest vacancy rate among all the major office markets in Poland. The indicator decreased by 1.0 pp. q/q, and 1.1 pp. y/y. Taking into account new supply planned for completion in H2 2018, a slight increase of the indicator is expected in the coming months.

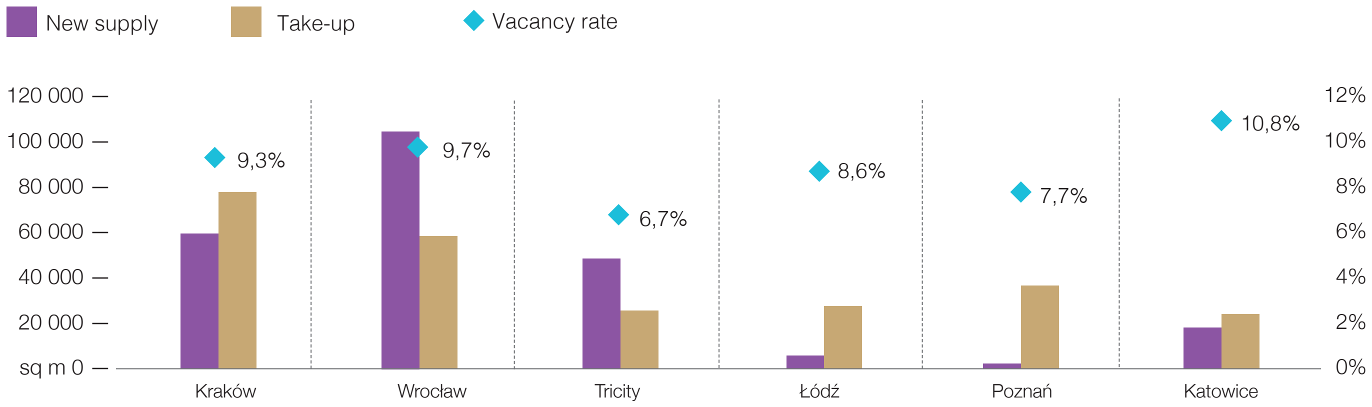
KATOWICE

Katowice, with a total office stock amounting to 477,000 sq m, remains the 4th largest regional office market in Poland. Current developer activity in the city is slightly lower than in other regional markets. In the first six months of this year, office stock in the city expanded by 18,200 sq m in 1 project, with another 59,100 sq m identified as being under construction, of which 30,100 sq m should be completed by the end of this year and 29,000 sq m in 2019.

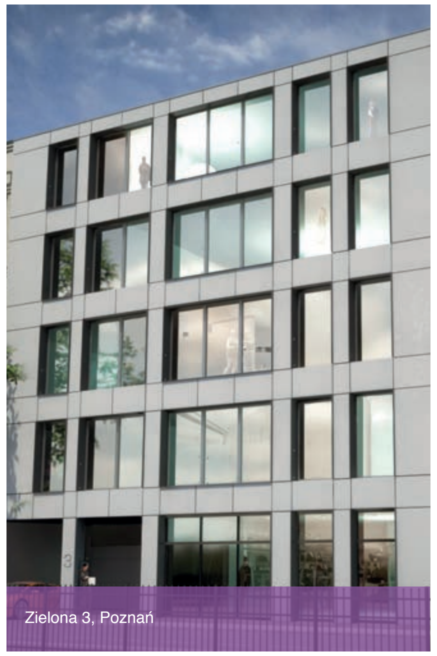
On the other hand, the Katowice office market is showing signs of a revival in terms of demand. In H1 2018, lease agreements amounting to 23,900 sq m were signed, which was 65% more than in the analogous period of 2017, and constituted 61% of the average annual take-up recoded in 2015-2017. Systematic absorption of the vacant space is confirmed by the net absorption level, which in the period under consideration came to 18,400 sq m.

At the end of June 2018, available office space in Katowice amounted to approximately 51,800 sq m, giving a vacancy rate of 10.8%. This was the highest vacancy rate among major regional markets, although there has been a steady decrease in recent quarters – by 1.3 pp. q/q, and 1.9 pp. y/y, which was the result of higher tenant activity and relatively low new supply. Taking into account the modest volume of supply for completion by the end of this year, the vacancy rate is expected to remain stable.

CHART 2
Office take-up, new supply and vacancy rate in regional markets
H1 2018



Source: Knight Frank


Zielona 3, Poznań

POZNAŃ

Modern office stock in Poznań amounts to 457,000 sq m, which sees the city ranking fifth among regional office markets in Poland in terms of total stock. The office sector in the city is currently undergoing a phase of dynamic growth. Although in H1 2018 only 1 project (1,600 sq m) was delivered to the market, by the end of the year completion of a further 86,000 sq m is expected (of 139,000 sq m of office space under development). Another 38,000 sq m is due for completion in 2019.

H1 2018 saw a continuation of the high tenant activity observed within the most recent three years. Some 35,700 sq m was subject to lease, which constituted 54% of the average annual take-up for 2015-2017, and at the same time was nearly 3 times higher compared to the analogous period of 2017.

The relatively low new supply delivered to the market in the last year resulted in a decrease in the vacancy rate. At the end of June 2018, only 35,200 sq m of office space was available for lease in the city, which constituted 7.7% of the total stock. The vacancy rate decreased by 0.8 pp. compared to the previous quarter, and by 4.5 pp. compared to 2017's corresponding period. In the coming quarters an increase in vacancy rate is expected, due to the significant volume of new office space that is to be delivered to the market.

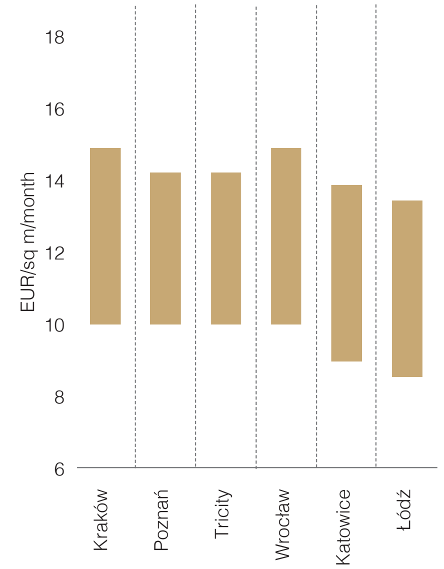
ŁÓDŹ

Łódź, with a total office stock amounting to 439,000 sq m, remains the smallest of the major regional office markets in Poland. Currently an increase of developer activity is being observed in the city. Although in H1 2018, only one project, amounting to 5,500 sq m, was completed, over 98,000 sq m is under construction, of which 38,200 sq m may be delivered to the market in H2 2018, with a further 47,300 sq m due for completion in 2019.

Tenant activity in Łódź in H1 2018 was slightly lower compared to 2015-2017. In the period between January and June 2018, lease agreements amounting to 27,800 sq m of office space were signed, which was some 8% more than in the corresponding period of 2017, and at the same time constituted 44% of the average annual take up recorded within the most recent three years.

The limited new supply resulted in a decrease in the vacancy rate in H1 2018. At the end of June 2018, some 37,900 sq m of office space remained vacant, giving a vacancy rate of 8.6% - 0.7 pp. lower than at the end of Q1 2018, but 2.6 pp. higher than in the corresponding period of 2017. A slight increase in the vacancy rate is expected in the coming months, along with the completion of further new projects.

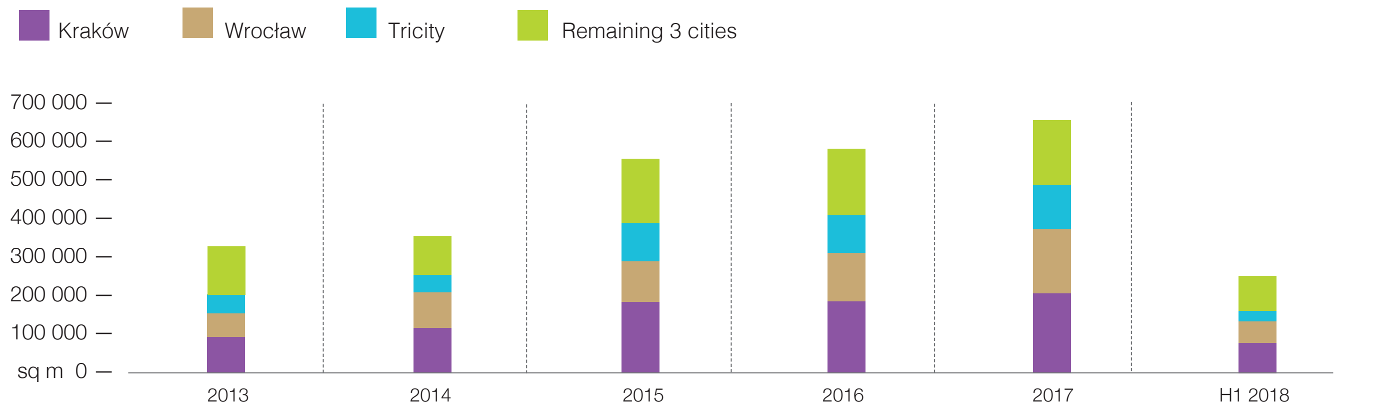
CHART 3
Asking rents in major regional markets
H1 2018



Source: Knight Frank


City Forum, Archicom, Wrocław

CHART 4
Volume of lease transactions in major regional markets
(2013 - H1 2018)



Source: Knight Frank

INVESTMENT MARKET

3.24bn EUR
record-breaking investment volume in H1 2018

59%
total investment volume constituted retail transactions

office prime yields compression

In the first half of 2018, the transaction volume reached over EUR 3.24bn invested in the commercial real estate sector in Poland, which has doubled when compared to the same period of 2017.

Poland has maintained its leading position in the CEE region and is a perfect alternative location to the Western European markets. As a result of the wide range of modern assets of all categories on offer, it is attracting a growing number of investors year by year. They are interested both in the acquisition of single assets and entire portfolios which enable them to rapidly increase their presence on the domestic market. Additionally, the prospect of stable rents, combined with decreasing vacancy rates, represent other key elements in the growth of the capital market.

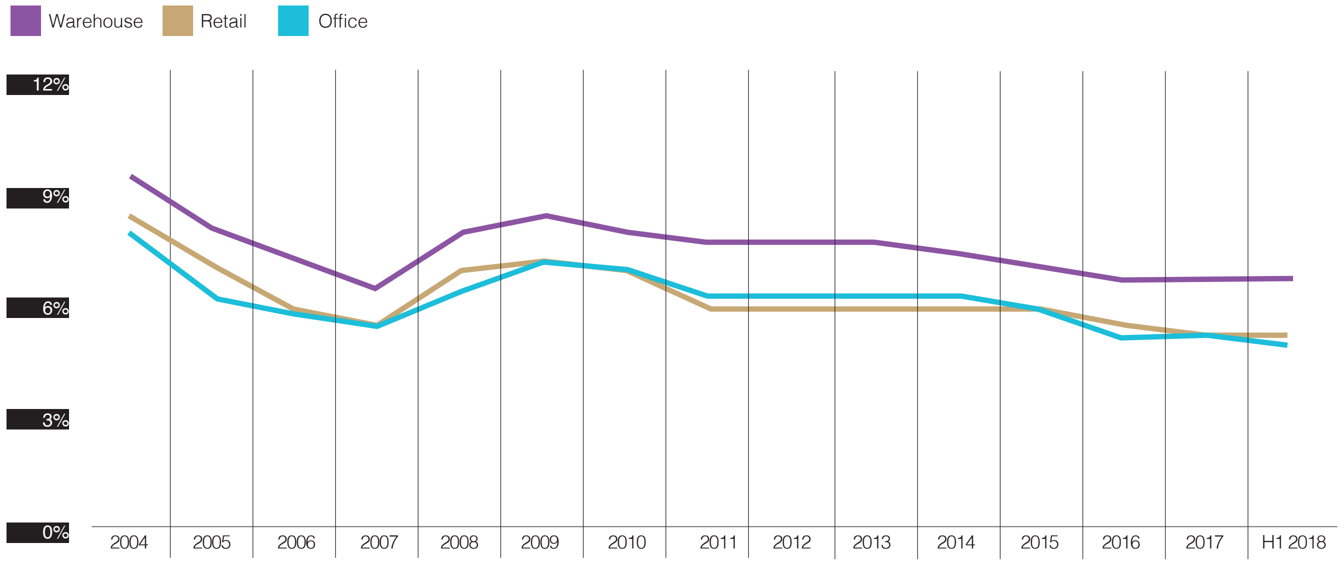
Such a high investment volume is a consequence of the healthy condition of the Polish economy, high tenant activity in the commercial sector, along with a relatively low investment risk in Poland, and significant opportunities for portfolio diversification with an appropriate rate of return on investment. As a result, the commercial market is developing dynamically, and Poland's investment attractiveness in terms of its location is confirmed by the increasing interest of new entities on the capital market.

The largest investor interest in H1 2018 was still observed in the retail market, where 59% of allocated funds were invested, equal to EUR 1.9bn. Investor appetite for commercial real estate is not weakening; a fact reflected in a number of sizeable portfolio transactions, of which the largest included: the acquisition of HopStop retail assets by the CPI Property Group fund; the purchase of the M1 portfolio by the Chariot Top Group; and the purchase of properties from the Aerium Group portfolio by Newbridge.

The volume of office transactions in the first six months of 2018 reached nearly EUR 937m, accounting for 29% of all investments. The largest office deals were concluded on the regional markets, where the new owners gained such properties as Quattro Business Park in Kraków and West Link and Pegaz in Wroclaw. Furthermore, on the Warsaw office market there were noteworthy transactions including properties such as Warsaw Spire B, Atrium Centrum, Atrium Plaza and Postępu 3.

Compared to previous years, the warehouse market has attracted a number of investors. In the period under consideration, investors allocated over EUR 337m, making up 10% of the total volume of transactions. The largest transactions were Vestas' acquisition of the Amazon warehouse in Szczecin, and the purchase of Segro Park Komorniki by the Palmira fund.

CHART 1
Prime yields by sector in Poland
2004 - H1 2018



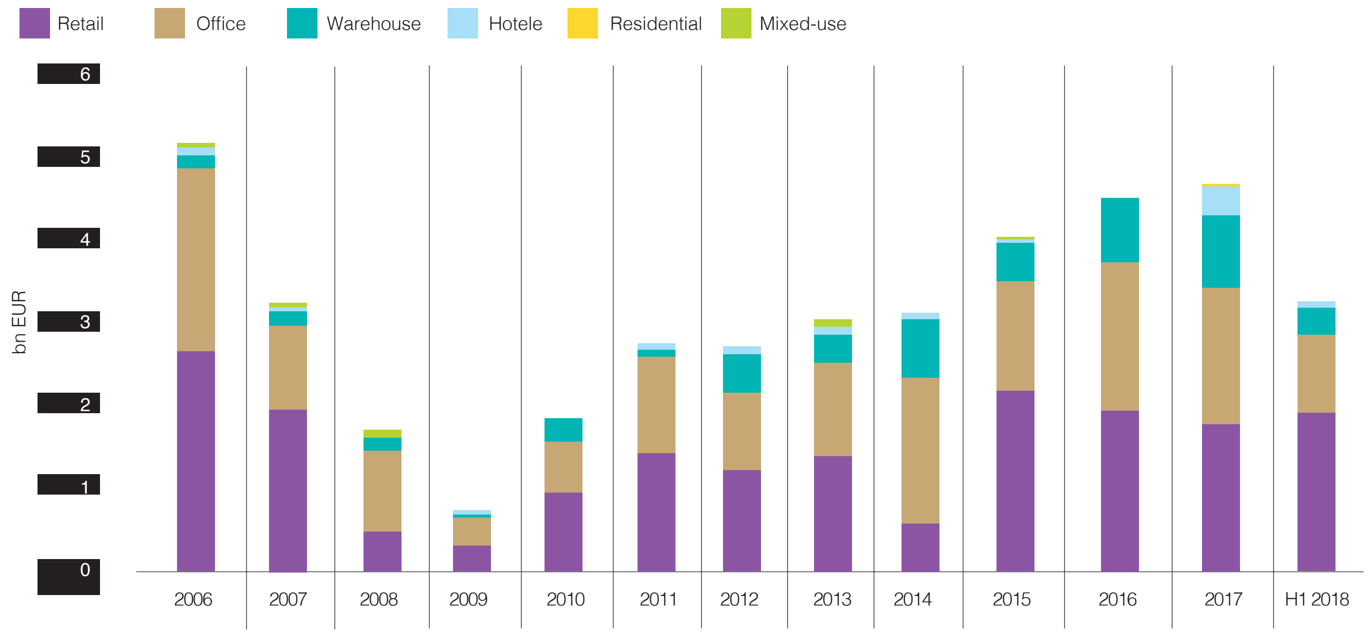
Source: Knight Frank

Wratislavia Center, FLE GmbH, Wroclaw

The good condition of the commercial market in Poland has resulted in a prime yields decrease, which for office properties located in Warsaw city centre are currently valued at 5.25%, with a tendency to compress. Outside the city centre prime yields are between 7.00% and 7.50%.

On regional markets, the prime office yields range between 6.00% and 6.75%. Prime retail assets are valued, based upon yields, at a stable level of 5.25%-5.50%, and industrial prime yields remain at 6.50%-7.00%.

CHART 2
Transaction volume in Poland
2006 - H1 2018



Source: Knight Frank

RETAIL MARKET

172,000 sq m
new openings in H1 2018

400,000 sq m
under construction in mid-2018

3.2%
vacancy rate in mid-2018

Over the first six months of 2018, in excess of 170,000 sq m of retail space was delivered to the market in Poland. Major projects opened within this period included Forum Gdańsk (62,000 sq m) and Gemini Park Tychy (36,000 sq m). Along with new projects, there was a significant volume of extensions to existing schemes. Among the largest of these was the extension of Regionalne Centrum Janki (10,000 sq m).

2018 is expected to end with even higher results than 2017. Some 240,000 sq m of the 400,000 sq m under construction is due for completion in H2 2018. The 8 major agglomerations with still dominate supply under construction (60%), followed by small-sized cities (35% supply under construction).

The vacancy rate in the 18 largest retail markets in Poland decreased by 0.8 pp over the first 6 months of 2018 to 3.2%. The trend resulted in large part from OBI's leasing of several large-scale units vacated by Praktiker in 2017. Additionally, the rate was positively impacted on by the completion of a number of new large shopping centres with high pre-lease figures prior to opening. In the 8 major agglomerations prospective tenants could choose from some 3.3% of retail stock, while in medium-sized cities the vacancy rate stood at 3.7% (cities between 200,000 - 400,000 inhabitants) and at 2% (in 4 cities with less than 200,000 inhabitants).

In H1 2018, the Polish market welcomed a few brands previously absent from the country: Tedi (Vendo Park Dąbrowa Górnicza), Dealz (ETC Swarzędz) and Fissman (Wola Park in Warsaw). Additionally, there are also other brands monitoring the Polish market, their entrances dependent on the operating results of existing shopping centres following the implementation of the new Sunday trading laws. Regulations have been in force since 1 March 2018, introducing heavy restrictions on trade on Sundays and national holidays, along with limited trading hours on selected other days. In 2018, trade is forbidden on two Sundays a month, a figure which will extend to three Sundays a month in 2019, and all Sundays in 2020.

The first weeks following the law's introduction saw different approaches from landlords aiming to mitigate the impact of the new regime on retail schemes. Some landlords extended operating hours on Fridays and Sundays, while others decided to remain open on Saturdays. Nevertheless, many of them did little or nothing to observe what was happening and respond accordingly later.

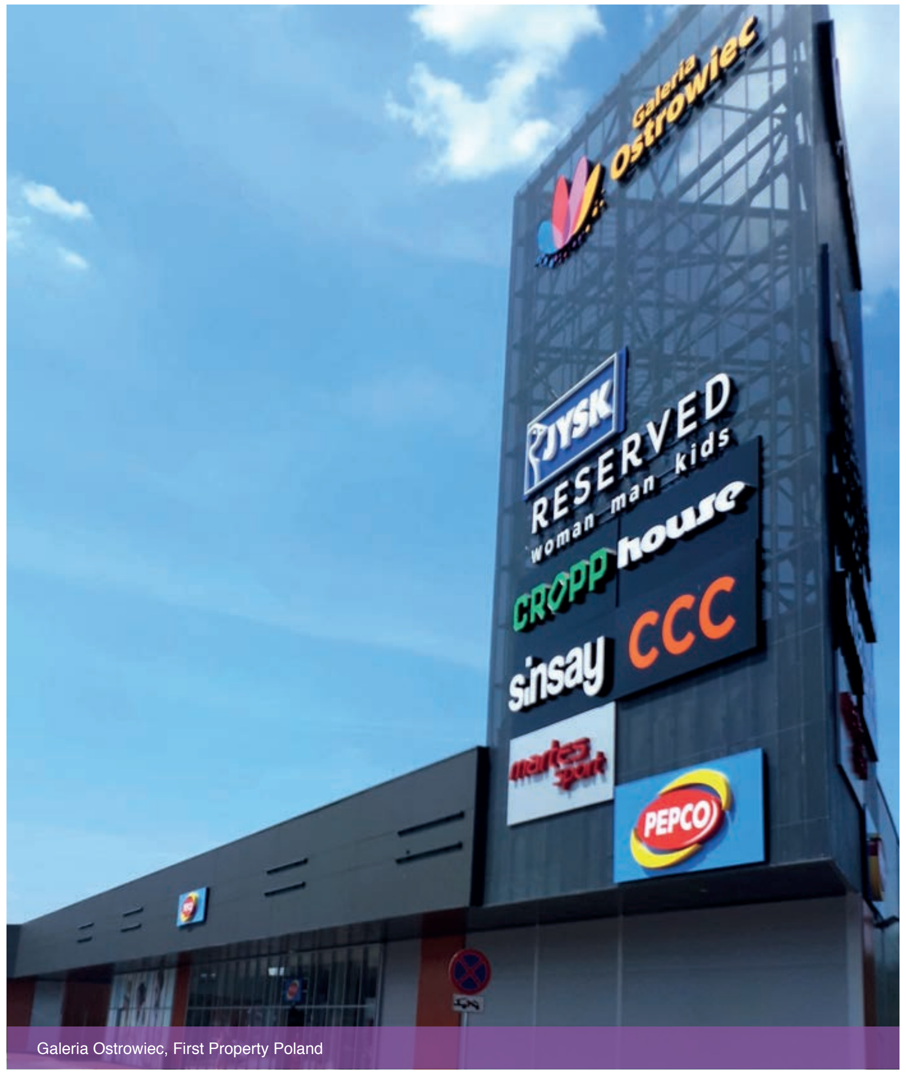
The Retail Institute carried out an analysis of footfall in 120 shopping centres in the first 11 weeks of the new law (5 March to 13 May). The following results were observed:

↓ a decrease in footfall of 2.75m visitors in comparison with the corresponding period of 2017 (-4.12%);

↓ a decrease in footfall registered on Sundays – by 5.8m visitors (-58.2%);

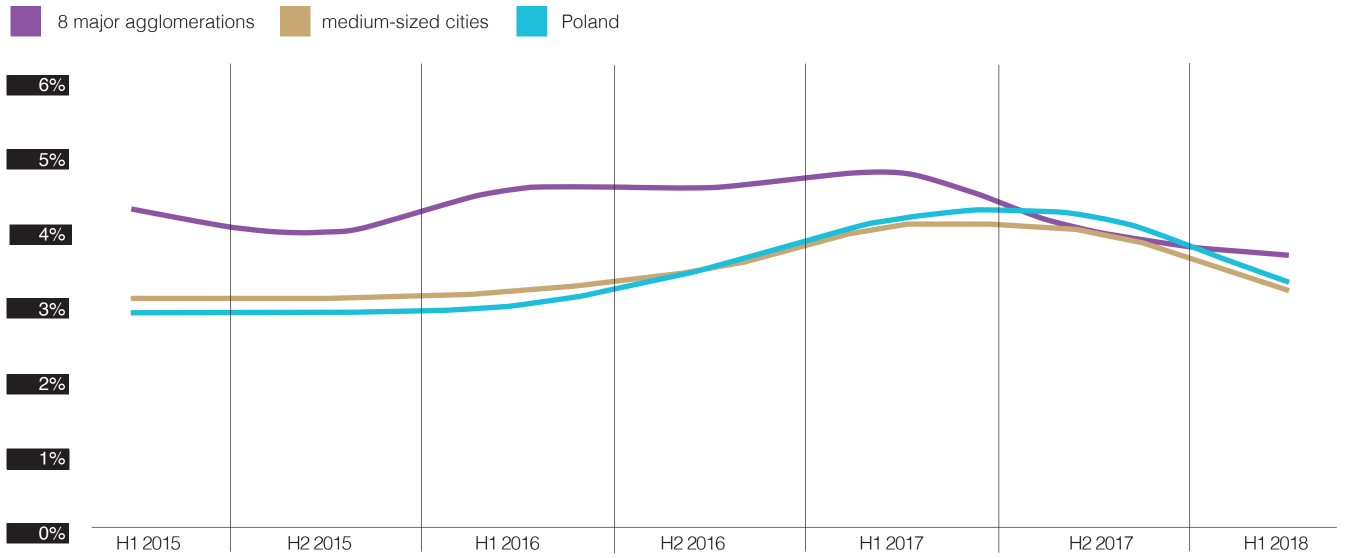
↑ an increase in footfall registered from Mondays to Saturdays – by 3.05m.

Due to the fact that the analysed periods of 2018 and 2017 had different numbers of working days and working Sundays, the Retail Institute carried out a "like for like" analysis to compensate for the "calendar effect". The Retail Institute analysed footfall in weeks with the same number of working days, and it turned out that footfall on working days in the first half of 2018 increase by 2.9% in comparison with the corresponding 2017 period. Additionally, the shopping centres registered a slight increase (0.67%) of footfall on working Sundays, suggesting that consumers still willingly do shopping on Sundays if permitted to do so.



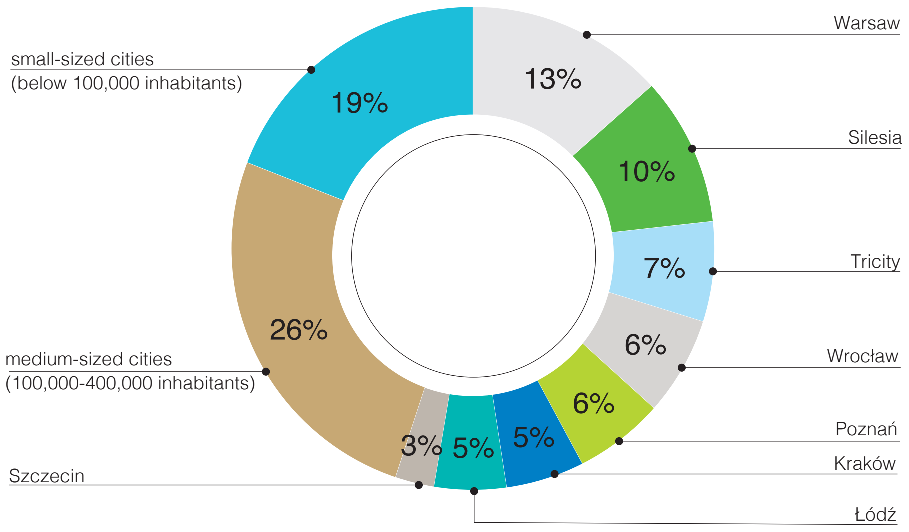
Galeria Ostrowiec, First Property Poland

CHART 1
Vacancy rate by location
2015-2018



Source: Knight Frank, CBRE, Colliers, Cushmann & Wakefield, JLL, Savills

CHART 2
Location structure of the Polish retail stock
H1 2018



Source: Knight Frank

COMMERCIAL MARKET

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We offer:

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- 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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