KEY STATISTIC

- **GDP GROWTH**: 2.8% (GUS, 2016)
- **GDP GROWTH FORECASTS**: 3.2% in 2017, 3.1% in 2018 (European Commission)
- **INHABITANTS**: 38.5 m
- **THE UNEMPLOYMENT RATE IN POLAND**: 8.6% (GUS, January 2017)
- **INFLATION RATE**: 2.1% (GUS, February 2017)
- **SPECIAL ECONOMIC ZONES**: 14
- **POLAND IS THE LARGEST BENEFICIARY OF EU FUNDS. EUR 105BN OF EU FUNDS WITHIN 2016-2020**
- **DISPOSABLE INCOME**: EUR 12,309
- **DISPOSABLE INCOME**: EUR 330
- **POLAND IS THE LARGEST MEMBER OF THE EUROPEAN UNION AMONG ALL THE COUNTRIES OF CENTRAL AND EASTERN EUROPE**
- **1st IN CEE and 7th IN EUROPE IN TERMS OF NUMBER OF FDI PROJECTS**
- **PASSENGER AIRPORTS**: 15
- **GDP PER CAPITA (2016)**: EUR 12,309
In 2016 investors allocated to Poland over EUR 4.5bn representing 11% growth when compared to 2015 (EUR 4.1bn). It was also the second highest volume in the history of the Polish investment market since the record EUR 5.1bn achieved in 2006. Poland, the most attractive market among the CEE countries, 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 attracts a growing number of investors every year. They are interested both in the acquisition of single assets and entire portfolios which enable them rapidly to increase exposure to the domestic market. This type of transactions were seen in 2016, especially in the office and warehouse markets. The best example was the largest transaction in the history of the CEE capital market, when South African fund Redefine Properties acquired a 75% share in Echo Prime Properties portfolio. Other significant transactions concluded in the last year were the purchases of large warehouse portfolios by Hines, CBRE GI and GIC.

2016 saw the highest investment transaction volume in the commercial real estate market for the last 10 years.
Transactions in the office sector were mainly concentrated on Warsaw assets, in contrast to the previous year when investors focused primarily on the regional markets. This was a consequence of the limited number of well-commercialized buildings available for sale, all located outside the administrative borders of the capital city. Nearly EUR 1.15bn was invested in the office segment in Warsaw, accounting for 63% of all funds allocated to that sector in Poland. The largest transactions were the purchase of Q22 by Invesco RE (EUR 273m), the acquisition of part of office complex Gdański Business Centre by Savills Investment Management (EUR 186m), the purchase of Konstruktorska Business Centre by Golden Star (EUR 120m), and the acquisition of Prime Corporate Centre by Warburg-HIH Invest Real Estate, and the acquisition by GTC of two office buildings developed by Hines - Sterling Business Center in Łódź and Neptun Office Center in Gdańsk.

Currently, the most sought-after assets in the office sector are newly built, fully commercialized schemes located in Warsaw and in central locations of other large Polish cities. Because of the strong demand created by the rapidly growing BPO/SSC sector, investors are more willing to allocate their funds to regional markets. When compared to Wroclaw or Krakow, the difference in the valuation of office assets located in Warsaw, reached approximately 100-150 basis points, a significant compression within the last 12 months. This reflects the strengthening position of the office market in the major regional cities in the view of institutional investors. Last year in Warsaw saw a further increase in the difference in the valuation of the prime and secondary office assets, reaching approximately 200-250 basis points. On the one hand, that was the result of a decrease in estimated risk for the best assets, and on the other, a consequence of a slight growth in yields in the secondary segment.

In 2016, the retail schemes which most attracted investors were shopping centres with a dominating position in the region, retail parks, and outlet centres. Investors focused on schemes in the main regional markets but also on projects situated in smaller cities that are safe for capital allocation. The purchase of the Bonarka City Centre shopping centre in Kraków by Rockcastle for EUR 361m was the largest finalised retail deal in 2016. Investors also signed acquisition contracts for Galeria Warmińska in Olsztyn, Focus Mall in Zielona Góra and Piotrków Trybunalski. Other significant deals last year were the purchases of Nova Park in Gorzów Wielkopolski (EUR 88.5m) by MAS RE and acquisition of 8 schemes by the Arcona fund for EUR 216m. Both transactions were signed by investors new to the Polish market. It is expected that the capital inflow for this sector will come from two sources in 2017. Funds active on the Polish market will seek the best assets with a stable position which are often bought for the long-term, while there is also an interest in projects that require recommercialization, new market positioning or additional financial resources. This type of projects are often resold after the assumed investment term.
INDUSTRIAL SECTOR

The enhanced position of Poland on the European logistics map is one of the main factors which attract investors to allocate funds to the Polish warehouse market, with the development of road infrastructure reducing travel time to the major markets. Poland is also an attractive location for the e-commerce sector, with relatively low labour costs when compared to Western European markets.

In 2016, the warehouse sector had the lowest share in total transaction volume but in comparison to the previous year saw a 66% growth in invested funds. The largest investment demand was for the portfolio of modern industrial assets which attracted over 70% of capital allocated to that segment. The significant acquisitions on the market were the purchase of the Hillwood portfolio by CBRE GI, the purchase of PS/TPG portfolio by Blackstone, and the purchase of Hines portfolio by Blackstone Global Investors. Given the economies of scale, the purchases of entire portfolios represent an attractive investment opportunity for some funds. Diversified access to different locations in the country enables the creation of an interesting investment product for logistics operators and food chains operating nationally.

PRIME YIELDS

Stable rental levels in all commercial sectors and low prime yields for the best assets enable foreign investors to look at Poland as an alternative location for risk diversification and offering a guarantee of stable investment returns in the long-term.

NEW INVESTMENT OPPORTUNITIES

RESIDENTIAL SECTOR

A new tendency is an increasing interest among institutional investors in residential schemes. The best examples are the purchase of Złota 44 by the Catella fund and the purchase of the residential building at 5 Poreca St. by Bouwfonds. Although both transactions were concluded in Warsaw, regional residential markets also attract investors. The Rental Housing Fund managed by BGK is constantly expanding its portfolio and Griffin has announced similar investments as part of the Res4Rent fund. Investment returns achieved in the residential sector attract many of the foreign market players with experience of the highly developed Western European rental markets.

PRIVATE DORMITORIES & NURSING HOMES

A completely new area of investor interest on the Polish capital market is the private student housing and nursing home sectors. As with the residential sector which is a popular asset source for funds operating on Western European markets, demographic changes and a significant growth in foreign student numbers suggest an increasing importance of both segments in Poland. The first investments have already been realized by funds such as Orpea or Griffin, and other investors such as Andeon Holding have declared an interest in the Polish market for a long time.

HOTEL MARKET

An increased interest has also been shown in the hotel market in Poland. In the last year this segment has attracted investors which have already invested in Poland, and new entities such as Qatar Holding Al Sraiya which acquired the five-star The Westin Warsaw hotel located in the city centre.
Despite the limited number of the best assets available for sale, investor activity remained high. Investors are looking for investment opportunities in all real estate categories, not only those situated in the most prestigious locations. Poland’s attractiveness is confirmed by the entities operating on the market. 2016 brought new investors such as South African funds Redefine Properties and MAS RE, German fund Warburg-HIH Invest Real Estate, Hansa Invest, and GIC – the Government of Singapore Investment Corporation.

The capital market in Poland remained very attractive to investors looking for fund allocation, offering investment returns at the level of 125-175 basis points higher than Western European countries. The total volume of transactions in 2016 exceeded forecasted. In 2017, further capital inflow to the domestic market is expected from both existing investors and those new to the market.

In 2017, planned tax regulations and a new law concerning REIT funds should see investment volumes and yields for the most attractive assets remain at a similar level to 2016.
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.

OUR RECENT PUBLICATIONS:

- Shulmanic. There’s more to life than office work.
- Office Market in Warsaw: Q4 2016
- Commercial Market in Poland 2018
- Let’s Meet in Warsaw: A culinary map 2016

Knight Frank Research Reports are available at KnightFrank.com.pl/en/research/

© Knight Frank Sp. z o.o. 2017

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, the material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank to the form and content within which it appears.