OFFICE MARKET IN WARSAW

Total stock: 5.22m sq m
New supply (Q1-Q3 2017): 205,000 sq m, 15 projects
Take-up (Q1-Q3 2017): 590,000 sq m
Office space under construction: 820,000 sq m
Vacancy rate: 12.9%

OFFICE MARKET IN REGIONAL CITIES

Total office stock: 3.9m sq m
New supply (Q1-Q3 2017): 314,000 sq m, 41 schemes
Investment boom: Over 1m sq m of office space under construction
Strong demand: 456,000 sq m leased between January and September 2017
RETAIL MARKET

Limited new supply: 164,000 sq m completed in Q1-Q3 2017

Supply under construction: 680,000 sq m

Density of the Polish shopping centre market: 253 sq m /1,000 inhabitants

INVESTMENT MARKET

Over EUR 2.4bn invested in Poland in Q1-Q3 2017

50% of invested capital was allocated in the retail sector

EUR 334m Record-breaking volume of investment transactions in the hotel sector in Poland
OFFICE MARKET IN WARSAW

The first three quarters of 2017 saw:

- decrease of vacancy rate;
- strong take-up;
- commencement of numerous new office projects.

Since the beginning of the year, fifteen office buildings with a total area of 205,000 sq m have been delivered to the market. In line with developers’ schedules, about 104,000 sq m is planned to be completed by the end of 2017 and, if deadlines are met, new supply at the end of 2017 will be comparable to the annual average new supply noted from 2012-2016 (305,000 sq m). Over 80% of the new supply was completed in non-central locations. In Q3 2017, three office buildings were delivered: West Station II (35,000 sq m, HB Reavis), D48 (23,400 sq m, Penta Investments) and Wronia 31 (14,000 sq m, Ghelamco Poland). In the same time period, construction of five new office buildings totalling 140,000 sq m commenced. As a result, at the end of September 2017, there was around 820,000 sq m of office space under construction. Such a large volume has not been recorded in the Warsaw office market before.

Over 70% of new supply under construction is situated in central locations. Dynamic development is observed especially in the vicinity of the Daszynski roundabout, where about 255,000 sq m is under construction, constituting nearly 31% of the total office space under construction in Warsaw. The largest projects under construction in this area include: Skyliner (43,600 sq m, Karimpol Polska), the Generation Park complex (buildings Y – 42,000 sq m, X – 20,300 sq m, Skanska Property Poland), Spinnaker Tower (40,000 sq m, Ghelamco Poland) or Warsaw HUB (76,000 sq m, Ghelamco Poland).

Strong take-up is still observed in the Warsaw office market, with the level in the first three quarters of 2017, reaching almost 590,000 sq m. This result was only 17% lower than the average annual demand registered from 2012-2016. Between January and September 2017, the strongest leasing activity was recorded in central locations, in the Służewiec area and along the Jerozolimskie Corridor. New lease agreements in existing buildings accounted for 45% of the take-up volume.

CHART 1
Net absorption, annual supply and vacancy rate on the Warsaw office market
2008 - 2018f

- Annual supply
- Net absorption
- Vacancy rate

Source: Knight Frank, PORF
while pre-lease transactions represented 17% of all agreements. The remaining take-up volume consisted of renewals – 25% and expansions - 13%. The largest lease agreements included the renewal of the Millennium Bank lease agreement in Harmony Office Center (18,300 sq m), the pre-let agreement of Citi Service Center Poland in Generation Park X (13,600 sq m), the renewal and expansion of AstraZeneca in Postępu 14 (13,200 sq m) and a new lease for Nokia in Domaniewska Office Hub (6,200 sq m).

Since the beginning of the year, a decrease in vacancy rate has been observed in Warsaw, which was at the level of 12.9% (672,000 sq m of available office space) at the end of Q3 2017. After a few years of steady increase in vacancy rate, we can now observe a clear inversion of this trend. When compared to the previous quarter, the vacancy rate in Warsaw decreased by 1 pp. (a 0.3 pp. decrease in central locations). In relation to the analogical period of 2016, the vacancy rate decreased by 1.7 pp. (3.1 pp. in central locations). The vast majority of vacant space was offered in central locations – 220,000 sq m and in the Służewiec area – 211,000 sq m. The decline of the vacancy rate was influenced by significant net absorption, which exceeded 251,000 sq m after three quarters of 2017 and was 17% higher than annual average net absorption registered in 2012-2016. This confirms the growing demand for office space in Warsaw. In consequence, taking into consideration the strong take-up and developers’ plans concerning new projects, a further decrease of vacancy rate is expected in the forthcoming quarters.

At the end of Q3 2017, asking rents in most locations in the Warsaw office market have remained stable. At the end of September, the asking rents in prime buildings in the Central Business District ranged between EUR 20-23 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 the city centre were quoted between EUR 10.5-16.5 per sq m per month. Effective rents remained lower than the asking level by 15-25%.
OFFICE MARKET IN REGIONAL CITIES

Kraków is the first regional city with the total stock exceeding 1 million sq m. The volume of space under construction in all regional cities is almost two times higher than it was 2 years ago. Within three quarters, the office take-up exceeded the average annual lease volume for the past years. Also, most regional markets have experienced decreasing vacancy rates. All the data collected at the end of Q3 2017 confirms the rapid development of the office market in regional cities. Although the competition is increasing, rental rates in regional markets remain stable.

Total office stock: 3.9m sq m
New supply (Q1-Q3 2017): 314,000 sq m 41 schemes
Investment boom: Over 1m sq m of office space under construction
Strong demand: 456,000 sq m leased between January and September 2017

KRAKÓW

In the Kraków office market, the first three quarters of 2017 were dominated by record-breaking new supply, as 17 buildings amounting to 146,600 sq m were delivered to the market. What is more, an additional 279,000 sq m was identified as being under construction, of which nearly 52,000 sq m may be completed by the end of this year. Significant new supply resulted in a sharp increase of the vacancy rate to 11.3% At the same time, the demand for office space in the capital of Małopolska remains strong. Lease agreements amounting to 128,000 sq m were signed from January to September.

WROCŁAW

Since the beginning of the year, only 27,500 sq m of new office space has been completed in Wrocław, but another 46,000 sq m of new supply is expected in Q4 2017. It is worth pointing out that at the end of September 2017 Wroclaw became a leader among regional cities when it comes to the activity of developers: record-breaking volume of 309,000 sq m was identified as being under construction. It is mainly a result of tenants being very active. After the first three quarters of 2017 the capital of Lower Silesia ranked first in terms of lease volume – 132,000 sq m, which was the highest result in the history of the local market. As a result vacancy rate maintained at 8.5%.

TRICITY

Within the period of Q1-Q3 2017, approximately 62,500 sq m of office space was delivered to the market, including the largest office building completed in regional markets, Argon – the third stage of Alchemia complex (36,000 sq m) by Torus. Additionally, at the end of September 2017

CHART 1
New supply in major regional office markets 2012-2018f

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual new supply</th>
<th>New supply - forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>200,000 sq m</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>180,000 sq m</td>
<td></td>
</tr>
<tr>
<td>2014</td>
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<tr>
<td>2015</td>
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<tr>
<td>2016</td>
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</tr>
<tr>
<td>2017f</td>
<td>100,000 sq m</td>
<td></td>
</tr>
<tr>
<td>2018f</td>
<td>80,000 sq m</td>
<td></td>
</tr>
</tbody>
</table>

1 - forecast
Source: Knight Frank, PORF

Equal Business Park, Cavatina, Kraków
As opposed to other regional cities, a slight deceleration can be currently observed in the Katowice office market. Between January and September 2017, 17,500 sq m of office space was completed, and approximately 44,000 sq m was identified as being under construction, of which the vast majority is scheduled for 2018. A slight decline was also recorded in the demand. During the period of Q1-Q3 2017, some 24,000 sq m was leased in the capital of Upper Silesia. Nevertheless, a further decrease of the vacancy rate to 11.8% was recorded during the analysed period.

ŁÓDŹ remains the smallest among six major regional markets, but thanks to the high activity of developers Łódź continually pursues Katowice and Poznań. Between January and September 2017, 33,700 sq m of new office space were delivered to the market, and approximately 55,000 sq m (of 145,000 sq m being under development) is expected to be completed by the end of this year. At the same time demand remained relatively high – 36,000 sq m of office space was leased. The vacancy rate in Łódź is still the lowest among major office markets in Poland. At the end of September 2017 the rate was at 6.7%.

POZNAŃ

During Q1-Q3 2017, new supply in Poznań amounted to 26,300 sq m, and was slightly lower when compared to the previous years. Record-breaking new supply is expected in 2018, when approximately 71,000 sq m of office space should be completed (of 108,000 sq m identified as being under construction). Office take-up remains at a level comparable to years 2015 and 2016. Between January and September 2017 some 41,500 sq m was leased. Moderate new supply and stable demand resulted in a decrease of the vacancy rate to 10.1%.
RETAIL MARKET

Following 2016, when approximately 410,000 sq m of retail space was delivered in Poland, Q1-Q3 2017 witnessed a moderate dynamic in the retail sector. Slightly over 164,000 sq m of retail space was delivered to the market. As much as 10% of the volume is accounted for by extensions of existing schemes, which suggests that the trend observed in previous years will be sustained. The new supply consisted of, first and foremost, two long-awaited openings: IKEA in Lublin (33,500 sq m) and Galeria Północna in Warsaw (64,000 sq m).

Limited new supply:
164,000 sq m
completed in Q1-Q3 2017

Supply under construction:
680,000 sq m

Density of the Polish shopping centre market:
253 sq m /1,000 inhabitants

The analysis of the current retail pipeline suggests that the 2017 annual supply level will be comparable to the volume recorded in 2016. Developers have been constructing some 680,000 sq m of retail space, 230,000 sq m of which is to be delivered in Q4 2017. Approximately 75% of the total supply under construction is located in major agglomerations, e.g. in the Warsaw agglomeration (over 170,000 sq m), the Silesia agglomeration (99,000 sq m) and the Wrocław agglomeration (81,000 sq m).

The first nine months of 2017 have observed the trend of extending and refurbishing existing schemes, which accounts for almost 12% of the volume currently under construction. It should be expected that this trend will be sustained in medium term due to the fact that over 50% of the Polish stock is over 10 years old, and that shopping habits of consumers have been changing. This should incite landlords of older schemes to conduct redevelopments or at least refurbishments.

At the end of Q3 2017, the density of the Polish shopping centre market amounted to 253 sq m/1,000 inhabitants. It is higher than the European average, yet still below the average for Western European countries. The highest saturation ratio among the 8 major agglomerations is registered in Poznań (718 sq m/1,000 inhabitants) and Wrocław (602 sq m/1,000 inhabitants). It is expected that these cities will remain the leaders following the completion of the supply under construction.

Brands that have already been active on the Polish market are the ones that are most present in the new retail schemes. Nevertheless, there is a group of newcomers in Poland as well. Over the first nine months, the following brands have opened their first stores in Poland: Trespass (Warsaw), Freya (Poznań), Maxi-Cosi (Katowice) and Hamleys (Warsaw). In Q2 2017, Melon Fashion Group entered into Poland as well. The Russian fashion company started by opening befree and Love Republic stores in Poznań, Gdynia and Warsaw. September 2017 witnessed the opening of the first restaurant of the Swedish chain Max Premium Burgers in Wrocław.

Stable demand for retail space in modern retail projects in Poland creates conditions conducive to low vacancy rates. In mid-2017, the average vacancy rate for 18 retail markets in Poland amounted to 4.1%, a higher result than the one noted at the end of 2016 (3.5%). The increase was caused mainly by the emptying of the large-scale DIY stores by Praktiker, who decided to withdraw from Poland at the end of 2016. Moreover, the retail
space formerly occupied by Alma Delicatessen is still available. Nevertheless, it is being leased out by other grocery operators slowly but systematically.

Katowice and Kraków have had the highest vacancy rates out of all major agglomerations (5.9% and 5.3% respectively). The lowest ones, on the other hand, were registered in the Warsaw agglomeration (2.6%) and in the Szczecin agglomeration (3.3%). Amongst the cities with a population between 200,000 and 400,000 inhabitants, the highest vacancy rate was in Radom (10.9%) and Częstochowa (6.9%), while the lowest in Kielce and Toruń (2.6% each).

Asking rents for prime retail space in the best shopping centres are relatively stable. Warsaw remains the most expensive market with rates up to even EUR 100/sq m/month (unique units in the best shopping centres may achieve even higher rates). In the regional markets, rents are lower and similarly to Warsaw, depend on different factors, e.g.: the tenant sector, the unit’s size and its location within the shopping centre.

**CHART 1**

**Vacancy rates in the largest agglomerations**

**H1 2017**

Source: PRRF, Knight Frank
INVESTMENT MARKET

Q3 2017 brought a slight decline to the capital market in Poland. Since the beginning of the year, the total volume of funds invested in the commercial sector amounted to over EUR 2.4bn, which constitutes an 8% decrease in comparison to last year. However, taking into account the plans and activity of investors, the volume of acquisitions in 2017 may exceed the historic result achieved in 2016 (EUR 4.5bn) and Poland will maintain the leading position in the CEE region.

From the beginning of January to the end of September 2017, the retail sector has observed the highest investors’ activity where the volume of acquisitions exceeded 50% of all transactions. The office segment accounted for 30% of the total investment volume of concluded deals in Q1-Q3 2017; acquisitions in the hotel sector accounted for 14%; signed contracts in the warehouse and residential segment reached 5% and 1% of the total volume respectively.

Since the beginning of the year, the retail sector has been distinguished by high investors’ activity. In the period of Q1-Q3 2017 the total volume of signed contracts in the sector amounted to EUR 1.2 bn and noted a 14% decline when compared to 2016. Certain portfolio transactions were finalised during the analysed period, e.g.: the purchase of Ikea Centres retail parks by Pradera fund, the acquisition of Blackstone portfolio by EPP and the purchase of Fashion House outlet centers by RREEF Spezial Investment GmbH. Moreover, the highest value acquisitions consisted of the purchase of Galeria Słoneczna in Radom by REICO (Ceska Sporitelna), Zakopianka Shopping Center in Krakow by EPP and the acquisition of Ogrody Shopping Center in Ełbąg by CPI Property Group. Prime retail assets are valued based upon yields at a stable level of 5.25%-5.50%.

During the analysed period the office transactions in Poland amounted to nearly EUR 725m and constituted 30% of the total capital allocated in the commercial sector. Contrary to the previous year, investors were mainly focused on Warsaw. The largest office

CHART 1
Investment transactions volume in Poland
2004 - Q1-Q3 2017

Source: Knight Frank
acquisitions in Q1-Q3 2017 were the BPH portfolio purchased by Octava fund, the acquisition of Proximo I by REICO (Ceska Sporitelna) and the purchase of Warsaw Spire phase B by CA Immo. Currently, the most attractive assets in the regional office markets are valued at the level of 6.25%-6.50%. Prime yields for office schemes located in the Warsaw city centre are estimated at the level of 5.25%-5.50%, while outside the city centre they range between 7.00% and 7.50%.

At the same time, the warehouse market faced a slight decline, and the volume of transactions was estimated at EUR 119m. Nevertheless, the investors’ interest in this sector has not weakened, and the most sought-after assets are still warehouse portfolios. The most significant transactions in 2017 included the purchase of the Gramercy portfolio consisting of 3 schemes, and the acquisition of the warehouse park Panattoni Park Konotopa by M&G Real Estate. The industrial prime yields remain at the stable level of 6.75%.

Source: Knight Frank
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