### Warsaw Office Market
- **Total office stock:** 5.3 m sq m
- **New supply:** 275,000 sq m in 23 projects
- **Office space under construction:** 765,000 sq m
- **Office take-up:** 820,000 sq m
- **Vacancy rate:** 11.7%

### Office Market in Regional Cities
- **Total office stock:** 4.6 m sq m
- **New supply:** 428,000 sq m in 53 schemes
- **Office take-up in 2017:** 651,000 sq m
- **Net absorption:** 430,000 sq m

### Warehouse Market
- **Total stock of warehouse space in Poland:** 13.6 m sq m
- **Record-breaking new supply in 2017:** 2.2 m sq m
- **Vacancy rate in Poland:** 5.2%
- **The highest take-up in the history:** 3.8 m sq m

### Retail Market
- **Total retail stock in Poland:** 11.6 m sq m
- **New supply in 2017:** 381,000 sq m
- **Supply under construction:** 550,000 sq m
- **Vacancy rate:** 4% at the end of 2017

### Hotel Market
- **Record-breaking hotel rooms occupancy rate:** 53%
- **The average occupancy rate in Poland:**
- **Over:** 2,500 new hotel rooms delivered in 2017
- **Total stock:** Over 130,700 of hotel rooms

### Investment Market
- **EUR 4.9 bn record-breaking volume of invested capital in 2017**
- **38% of total transaction volume was reached by the retail sector**
- **EUR 340 m the highest value of hotel acquisitions in the market history**
WARSAW OFFICE MARKET

In 2017, a strong activity of developers was observed on the Warsaw office market. Such large volume of office space under construction has not been recorded in the Warsaw office market before. New projects have been commenced mostly in central locations, especially in the vicinity of the Daszyński roundabout. A systematic decrease of a vacancy rate is also a positive signal for the market. The decline of the vacancy rate was influenced by a strong take-up and net absorption - the highest in the history of the Warsaw office market.

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New supply: 275,000 sq m in 23 projects
Office space under construction: 765,000 sq m
Office take-up: 820,000 sq m
Vacancy rate: 11.7%

At the end of 2017, the total office stock in Warsaw exceeded 5.3 m sq m. Of the total office supply, 23 office buildings of a total area of 275,000 sq m were completed. This result is 32% lower than new supply registered in the record-breaking year of 2016. Over 80% of the new supply was delivered in non-central locations. The largest projects completed in 2017 include: the next stage of the Business Garden complex (54,000 sq m, Vastint Poland), West Station II (35,000 sq m, HB Reavis), D48 (23,000 sq m, Penta Investments) or Generation Park X (60,000 sq m, HansaInvest Real Assets GmbH).

The successful leasing process of office buildings completed in 2016 encouraged developers to commence new projects. At the end of 2017, there was 765,000 sq m of office space under construction, of which over half was constituted by projects commenced in 2017. It's worth mentioning that over 50% of the office space under construction is in tower buildings. The majority of them are located in the vicinity of the Daszyński roundabout.

Developers decided to commence new large-scale projects following the success of the Warsaw Spire. The largest projects in this area include: Warsaw Hub and Spinnaker Tower (both by Ghelamco Poland) or Skyliner (Karimpol Polska). Additionally, the flagship project of HB Reavis - Varsò Plaza, currently under construction, is going to be the highest building in Poland and in Central & Eastern Europe upon completion.

2017 also brought a continuation of strong tenant activity. The annual take-up exceeded 820,000 sq m. This result was 8% higher than the demand registered in the previous year, and slightly lower than in the record breaking year 2015. Almost 80% of the annual volume was leased in three areas of concentration: central locations (47%), Służewiec (20%) and Aleje Jerozolimskie (14%). The new lease agreements, in existing buildings accounted for 46% of the take-up volume while pre-lease transactions represented 17% of all lease transactions observed in Warsaw since 2013. The decline of the vacancy rate was influenced by a significant net absorption which exceeded 380,000 sq m over four quarters of 2017 and was the highest in the history of the Warsaw office market. Despite the high volume of office space under construction, a further decrease of the vacancy rate is expected. This is mostly due to a limited new supply to be completed in 2018, and to a take-up expected to remain at a high level.

At the end of Q4 2017, asking rents in most locations on the Warsaw office market remained stable. 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. Asking rents in buildings outside the city centre were quoted at EUR 10.5-16.5 per sq m per month. Effective rents remained lower by 15-25% than the asking level.

Commecial Market in Poland Research
OFFICE MARKET IN REGIONAL CITIES

2017 brought a further dynamic development and numerous records being broken in the office market in regional cities. The highest take-up volume and net absorption as well as a stable vacancy level confirm a strong tenants’ interest in office space in major Polish regional cities. Positive market sentiments stimulate the activity of developers: new supply within recent 12 months was barely 10% lower than in the record-breaking 2016, and another 1 million sq m of new office space is currently under construction. Asking rents remain relatively stable, but the strengthening competition between landlords causes an increase of a downward pressure on effective rates.

KRAKÓW

2017 was a record-breaking period in Kraków. Upon the completion of 180,000 sq m of new supply, the total office stock in the city reached 1,1 m sq m. Further 301,000 sq m is under construction, of which some 200,000 sq m is scheduled for 2018. As of the end of December 2017, an increase of the vacancy rate was recorded by 2.6 pp. when compared with the end of 2016, to 9.8%, but a high market absorption and a record-breaking lease volume (which exceeded 203,000 sq m) made the vacancy increase less than it was predicted.

WROCŁAW

In 2017, the highest office demand in history was noted in Wrocław – approximately 170,000 sq m of office space was leased, which, together with the new supply at the level of some 54,000 sq m, resulted in a decrease of the vacancy rate by 3.1 pp. to 9.4% when compared with the end of 2016. Although the new supply in the previous year was relatively low, the activity of developers remains high. In 2017, office schemes amounting to nearly 200,000 sq m were commenced in the capital of Lower Silesia. As a result, at the end of 2017 office stock under construction amounted to 291,000 sq m, of which slightly above 50% is scheduled for completion in 2018.

ŁÓDŹ

In 2017, the total office stock in Łódź expanded by 74,000 sq m, which was the second highest result in regional markets (following Kraków), which confirms a revival of the market in Łódź. Additionally, at the end of 2017 nearly 90,000 sq m of new office space was under construction and a few other large-scale schemes were at different stages of the planning process. A high developers’ activity was accompanied by a strong demand. In 2017, lease agreements amounting to 58,000 sq m were signed in Łódź, which was slightly lower than in the record-breaking 2016, but remained at a level comparable with the average result for the past 3 years. At the end of December 2017, the vacancy rate in the city accounted to 9.5%, which was an increase by 3.3 pp. when compared with an analogous period of the previous year.

POZNAŃ

In Poznań, 2017 will go down in history due to a record breaking lease volume amounting to 78,000 sq m, with the largest transaction in the history of the local market – 25,000 sq m pre-leased in Nowy Rynok. New supply in 2017 was relatively low (26,300 sq m), but in 2018 some 90,000 sq m out of 126,000 sq m identified as being under construction is expected to be delivered to the market. Moderate new supply and a high tenant activity resulted in a decrease of the vacancy rate by 5 pp. to 8.6% when compared to the end of 2016.

KATOWICE

As opposed to other major regional markets, the year 2017 observed signs of slowdown on the office market in Katowice. Due to a lower activity of developers, only 17,500 sq m of new office space was completed and less than 60,000 sq m was identified as being under construction. Demand was weaker than in recent years, with the lease volume amounting to approximately 31,000 sq m. In 2017, a systematic decrease of the vacancy rate was observed in the city. At the end of December 2017, approximately 11.3% of the total stock remained vacant, 2.7 pp. less than in the previous year.

OFFICE MARKET IN POLAND RESEARCH

COMMERCIAL MARKET IN POLAND | RESEARCH

COMMERCIAL MARKET IN POLAND RESEARCH
RETAIL MARKET

2017 brought the completion of several long-awaited shopping centres. Major openings took place in H2 2017 and were initiated by IKEA which opened its store (33,500 sq m) in Lublin in August 2017. The following months witnessed the introductions of (among others): Galeria Północna in Warsaw (64,000 sq m), Wroclawa in Wroclaw (64,000 sq m), Skandia Shopping in Lublin (24,000 sq m) or Serenada in Krakow (42,000 sq m). Consequently, some 370,000 sq m of retail space was delivered in 2017 and total modern stock in Poland exceeded 11.6m sq m.

Total retail stock in Poland

11.6 m sq m

New supply in 2017

381,000 sq m

Supply under construction

550,000 sq m

Vacancy rate

4% at the end of 2017

The newly delivered supply (included apart from schemes built from scratch) extensions of existing schemes. Galaxy Szczecin grew by 17,000 sq m, and was the largest among existing schemes. Galaxy Szczecin grew by 17,000 sq m, and was the largest among existing schemes. The newly delivered supply included (apart from schemes built from scratch) extensions of existing schemes. Galaxy Szczecin grew by 17,000 sq m, and was the largest among existing schemes. The largest scheme currently under construction is Galeria Młociny in Warsaw (73,500 sq m) which is set for opening in 2019. As much as 20% of the total volume under construction is accounted for extensions of the existing retail schemes.

According to the Polish Retail Research Forum, available retail space at the end of 2017 accounted for 4% of the total stock. Over the 12 months, the rate increased by 0.5 percentage point, which resulted from the fact that several retail schemes still offered space. The lowest vacancy rates among the major agglomerations were registered in Szczecin (2.0%), in Warsaw and Wroclaw (2.1% each), Torun (1.7%), Katowice (1.8%) and Bydgoszcz (1.9%) were leaders in terms of the vacancy level among medium-size markets.

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Demand for retail space in Poland remained stable throughout 2017. The market welcomed brands that had not been present in Poland, which were: Freya (Stary Browar in Poznan) and Riviera in Gdynia, and stores of Love Republic and Zanita in Galeria Północna in Warsaw. Additionally, Wroclaw shopping centre Wroclawer Innenstadt (fashion brand from Ukraine) as well as La Maltese (fashion brands from Italy) opened in Galeria Północna in Warsaw. The last phase of the development of e-commerce more and more often forces the brands which have been operating in traditional stores to open on-line stores. However, the opposite trend has been recently seen as well. In 2017, demand for retail space in shopping centres was created by brands which until recently were present only on-line (e.g. ipartem.pl) or were selling their products from temporary space (e.g. mihitami.pl or talonice.com).

SUNDAY TRADING BAN BILL

• Dynamic development of e-commerce makes the retail sector more competitive. Brands operating off-line open their on-line stores, while companies present only in the Internet decide to lease space in shopping centres.

• The operators of shopping centres focus on encouraging people to spend their free time there, which is why more and more shopping centres offer social and entertainment functions.

• As a consequence of changing shopping habits, shopping is expected to become an experience, which is why brands are introducing the personalisation of their products and put much attention to the design of their stores’ interiors and functionality.

• Sunday Trading Ban Bill should affect the tenant profile and lead to an increase of the entertainment and gastronomy offer.

• Retail stock is ageing (some 50% of stock is over 10 years old), and therefore extensions and modernisations are expected to increase.

• The increasing saturation of the retail market encourages developers to seek alternative investments and locations.

Consequently, a further development of alternative investments and locations.

TRENDS IN RETAIL MARKET

Steady demand for retail space supported rental rates to stabilize. At the end of 2017, the highest headline rents for the best quality retail space in shopping centres (units of below 100 sq m) were reached in Warsaw and amounted to even EUR 100 per sq m per month. Monthly rents for high quality space in other major cities varied between EUR 35 and EUR 70 per sq m while in mid-size markets stood at EUR 25-60. The smallest markets were quoted at EUR 20-40 per sq m.

In 2018, the retail market in Poland is to be affected by regulations of the new law elaborated in H2 2017 and signed by the President in January 2018 which is aimed at banning the trade on Sundays and holidays which is to commence on force on March 1st, 2018.

Total retail stock in Poland

11.6 m sq m

New supply in 2017

381,000 sq m

Supply under construction

550,000 sq m

Vacancy rate

4% at the end of 2017

The newly delivered supply (included apart from schemes built from scratch) extensions of existing schemes. Galaxy Szczecin grew by 17,000 sq m, and was the largest among existing schemes. The largest scheme currently under construction is Galeria Młociny in Warsaw (73,500 sq m) which is set for opening in 2019. As much as 20% of the total volume under construction is accounted for extensions of the existing retail schemes.

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WAREHOUSE MARKET

2017 in the warehouse sector was another year of record-high results. A high new supply and a high activity of developers was noted, but also the highest volume of leased space. Together with an increasing stock of warehouse space, the market observed a dropping vacancy rate and a high activity of tenants. Moreover, the emerging markets such as Szczecin, Zielona Góra or Kielce gained importance on the warehouse map of Poland. That is a consequence of the development of a road infrastructure, and of the availability of investment lands and workforce. Poland’s location in the heart of Europe and relatively low labour costs contribute to the increasing interest in the Polish market from mainly logistics companies and from the distribution and e-commerce sector.

- Total stock of warehouse space in Poland: 13.6 m sq m
- Record-breaking new supply in 2017: 2.2 m sq m
- Vacancy rate in Poland: 5.2%
- The highest take-up in the history: 3.8 m sq m

2017 has brought a nearly 22% increase of the total stock of warehouse space in Poland, which at the end of the year exceeded 13.6 m sq m. The vast majority of new supply is still concentrated in the largest areas, such as Warsaw and its surroundings, Upper and Lower Silesia, Wielkopolska and Central Poland. Due to the completion of two large-scale schemes, BTS Amazon (161,000 sq m) and BTS Zalando (130,000 sq m), the region of Szczecin should be distinguished among all emerging markets. As a result of the good condition of the Polish economy, of the road infrastructure development, and of a high warehouse market absorption, the logistic sector observed the highest activity of developers in the history of the market. At the end of 2017, a record-breaking volume of new supply and a record-breaking volume of supply under construction were noted. During the last year, investors delivered over 2.2 m sq m to the market which was a significant increase when compared with 2016 (1.1 m sq m). The largest number of new schemes was delivered in Warsaw, which accounted for 20% of the total new supply, in Upper Silesia constituting 16%, and Szczecin with 14%. The BTS (built to suit) projects have been consistently dominating for several years. The largest projects delivered to the market in 2017 were, among others, the mentioned above Amazon and Zalando in Szczecin, H&M BTS in Boksąłowice (60,000 sq m), Castorama BTS in Łódź (50,000 sq m), Kaufland BTS in the Kujawy region (40,000 sq m), and Agata Mobile BTS in Piotrków Trybunalski (43,000 sq m).

The market forecasts for the upcoming years are optimistic, with a further dynamic growth of the warehouse sector expected. The total annual take-up of 1.1 m sq m in 2016 was marked by a 5% growth when compared to 2015. Most of construction works have started in Central Poland, Upper Silesia and Warsaw, and according to the developers’ plans, a significant volume of industrial space will be delivered until the end of 2018. The market 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. The rent depends primarily on the location of a project, access to infrastructure, quality, size of leased area and length of the lease contract.

The highest activity of developers in the history of the market.
HOTEL MARKET

The hotel sector in Poland continues to develop very dynamically. It is reflected in the increasing new supply on the market, growing demand for hotel services, increasing hotel operational indicators and occupancy rate, as well as in the growing interest in this part of Europe of new international hotel brands. What is more, hotel facilities are more often considered by institutional investors as an attractive and alternative investment product enabling to diversify portfolio risk.

Record-breaking hotel rooms occupancy rate:
53% the average occupancy rate in Poland

Over 2,500 new hotel rooms delivered in 2017

Total stock:
Over 130,700 of hotel rooms

At the end of 2017, there were over 2,730 schemes in Poland categorized as hotels, offering over 130,700 hotel rooms. Within the last year, the total hotel stock grew up by over 2,500 hotel rooms, mainly located in the largest Polish cities. Despite the large number of new schemes delivered to the market in 2017, the market structure remained unchanged, and 3-star hotels still have the largest share of the market, constituting 44% of the total stock of hotel rooms.

Record results in the hotel sector reflect the highest occupancy rate in the history of the market, as well as high basic operational indicators such as ADR and RevPAR. From January to October 2017, the cumulative occupancy rate of hotel rooms in Poland reached 53%. Analysing the monthly average occupancy rate, there was a significant increase within the last two years in every subsequent month, while the highest growth was noted in the summer period. Good market condition is also confirmed by growing revenue rates noted in almost every large city. According to STR Global, the leading company that compiles hotel data, the largest growth of revenue per available room RevPAR was noted in almost every large city.

The development of tourism in Poland, an attractive offer of hotel services, and their improving quality are the key factors influencing growth of the demand for hotel services. Since 2010, the total number of hotel guests in Poland grew by 77%, including a 59% increase of foreign tourists. The market is boosted by the organizing of worldwide cultural and sport events, by Poland’s promotion on the international stage, and by an extended offer of flight networks. In 2017, Poland was hosting, among others, the World Games and Men’s European Volleyball Championship. Additionally, Katowice will organise the United Nations Climate Change Conference and UNESCO Creative Cities Network Annual Meeting in 2018, and the World Anti-Doping Agency Conference in 2019. 2017 was also a record year for the Chopin Airport in Warsaw, which served over 15.7m passengers, constituting 22% growth y-o-y.

The forecasts for the hotel sector in Poland remain positive, and the market upturn is going to continue in the forthcoming years due to the growing demand and the interest of international brands in this part of Europe. The most significant openings of new schemes in Poland planned for 2018-2019 are, among others: Moxy, Staybridge Suites, Motel One, Crowne Plaza and Residence Inn in Warsaw, Radisson Red and Autograph Collection in Katowice, MGallery by Sofitel in Warsaw and Sure Hotel by Best Western and Curio a Collection by Hilton in Poznań.

SELECTED HOTELS OPENED IN 2017

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<td>Gdańsk Intercontinental Hotels Group</td>
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</tr>
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CHART 1
Number of tourists accommodated in hotels in Poland 2010 - January-October 2017

CHART 2
Average occupancy rate in Polish hotels 2010 - January-October 2017

CHART 3
Occupancy rate in Polish hotels by months 2015, 2016, 2017

Source: Knight Frank based on Central Statistical Office

Source: Knight Frank based on Central Statistical Office

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INVESTMENT MARKET

The investment market is still on the rise. Another record-breaking result was noted in 2017 when the total volume of transactions reached nearly EUR 4.8bn. That was the consequence of a high activity of investors at the end of the year, when the majority of single assets and portfolio purchases was finalised. The total value of the allocated capital in Poland grew up by 9% when compared to the previous year, and investors were mainly focused on the retail sector which accounted for 38% of the total investment volume of concluded deals in 2017. Moreover, a high volume of acquisitions was observed in the hotel sector where the allocated capital reached nearly EUR 340m, what made up 7% of the total value of all transactions in 2017. Such a high investment volume in 2017 is a result of the good condition of the Polish economy, a high tenants’ activity in the commercial sector, as well as a relatively low investment risk in Poland, and great opportunities for portfolio diversification with an appropriate rate of return on investment. Therefore, the commercial market is developing dynamically, and Poland’s investment attractiveness in terms of its location might be confirmed by the increasing interest of new entities on the capital market, such as investors from China or Singapore.

Nearly 38% of the total volume of signed contracts was finalised in the retail sector in 2017 which amounted to over EUR 1.86bn. The investors’ interest in retail assets is not weakening, which is reflected in large portfolio transactions. Certain portfolio transactions were finalised in 2017, e.g. the purchase of 4 large retail parks by the Pradura fund which was a part of a sale of 25 projects in 8 European countries, and the acquisition of Fashion House outlet centres in Płaszów, Gdańsk and Sochaczew by RREEF Spécial Investment GmbH. In 2017, a few purchases of smaller retail assets also took place, among them the acquisition of 4 retail properties from Blackstone by Echo Polska Properties, and the acquisition of Mareno by Master Management. The largest transaction of a single retail asset was the purchase of Magnolion in Wroclaw by the German fund Union Investment.

The total volume of concluded deals in 2017 in the office sector amounted to EUR 1.77bn, which accounts for 36% of the invested capital. An increasing interest in the regional markets such as Poznań, Tricity or Wrocław was also noted. The largest office transactions in the regional cities in 2017 were the acquisition of Maraton in Poznań by Union Investment, the purchase of Przyjaznik millbank in Łódź by LON Capital, the purchase of Wratislavia Center in Wrocław by the Austrian fund FLE GmbH, the acquisition of A4 Business Park III in Katowice by Echo Polska Properties, and the acquisition of Pilot Tower in Kraków by First Property Group.

The office transactions finalised in Warsaw primarily consisted of acquisitions of prime assets located in the core city centre. These acquisitions included the purchase of Proximo I by FIEGO (Ciclista Sportspalma), and the purchase of Warsaw Spire phase B by CA Immo. The acquisition of the BPH portfolio purchased by Octava fund was one of the largest office deals of 2017. The transaction included 3 retail assets and 8 office properties in Warsaw and Kraków.

At the same time, the good condition of the warehouse market resulted in an increasing investors’ activity in this sector. The volume of transactions in 2017 reached EUR 503m and was 19% higher when compared with the previous year. The largest portfolio acquisition was the purchase of Logicor assets from Blackstone by China Investment Corporation for nearly EUR 750m. The transaction was part of the acquisition of 650 warehouse assets located in 17 countries, including 28 properties in Poland. Moreover, the most significant transactions in 2017 included the purchase of the Hilwood Ośrody by CBRE GI, the acquisition of Panattoni Warszawa Koropola by MIG Real Estate, and the purchase of Motusa-Krapkowice by Hilwood.

The prime yields for the best assets remained at a stable level. The office properties located in the city centre of Warsaw are currently valued with yields at 5.25%-5.40%, and outside the city centre between 7.00% and 7.30%. In the regional markets, the prime office yields are ranged at 6.25%-7.00%. Prime retail assets are valued based upon yields at a stable level of 5.25%-5.50%, and industrial prime yields remain at 6.75%-7.00%.
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.

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