

Commercial real estate market in Poland



Q1 2024

The guide to the commercial real estate market in Poland

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Macroeconomic overview

In Q1 2024, Poland's GDP grew in real terms (adjusted for inflation) by 1.9%, which marks a significant improvement compared to the 0.4% decline in the corresponding period of 2023. This positive growth exceeded expectations and was predominantly driven by increased consumption. Moreover, the Polish economy is on an upward trajectory, with the European Commission forecasting that Poland's real economic growth in 2024 will reach 2.8%, positioning it as one of the leading economies in the European Union. This growth rate surpasses both the EU average of 1.0% and the Eurozone average of 0.8%.

In March 2024, inflation in Poland stood at 2.0% y-o-y, dropping below the inflation target of 2.5% for the first time in three years. Despite this decrease, the National Bank of Poland's (NBP) reference rate has remained unchanged since September 2023, currently standing at 5.75%.

The decline in inflation had a positive effect on retail sales, with sales in constant prices increasing by 5.0% in Q1 2024 compared to the same period in the previous year.

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The Polish economy is on an upward trajectory, with the GDP growth in 2024 forecasted at 2.8%, above both the EU average of 1.0% and the Eurozone average of 0.8%.

There was a noticeable improvement in consumer confidence during the first quarter of 2024. The current consumer confidence indicator, reflecting trends in individual consumption, surpassed the previous year's figures in January and March (by 2.6 pp and 0.3 pp, respectively). In February 2024, it remained at the same level as in February 2023. Also, the leading consumer confidence indicator, which predicts future trends in individual consumption, exhibited a significant increase of 17.4 points compared to March 2023, reaching a value of -5.2. This Q1 2024 indicator marked the most favourable result since the challenging year of 2020, setting a positive tone for the rest of the year.

Despite the influx of refugees from Ukraine, the labour market in Poland remains in a good condition. The unemployment rate in March 2024, calculated using Eurostat methodology, stood at 2.9%, showing a decrease of 0.1 pp compared to December of the previous year. Furthermore, by the end of Q1 2024, Poland shared the lowest unemployment rate in the EU, on a par with the Czech Republic.

Consumer confidence index (CCI)

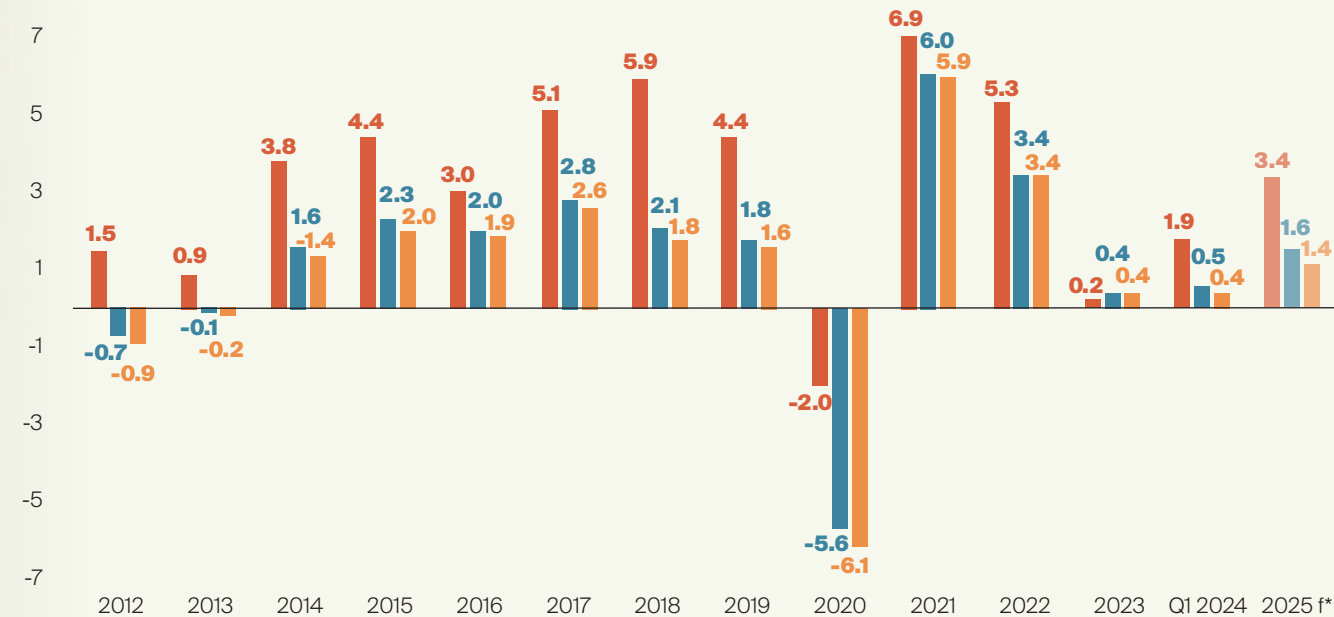
■ Current consumer confidence index (CCI)
 ■ Leading consumer confidence index



Source: Statistics Poland

GDP growth in Poland (y-o-y) (%)

■ Poland ■ EU ■ Euro Zone



Source: Knight Frank based on Eurostat and European Commission
 f* - European commission forecast

The PMI indicator, reflecting buyer activity in the manufacturing sector, has remained below the neutral threshold of 50 points for 23 consecutive months. However, a positive upturn in the Polish manufacturing PMI was evident in Q1 2024, reaching 48.0 points in March, showing improvement from 47.9 points in the previous month and 47.1 points in January.

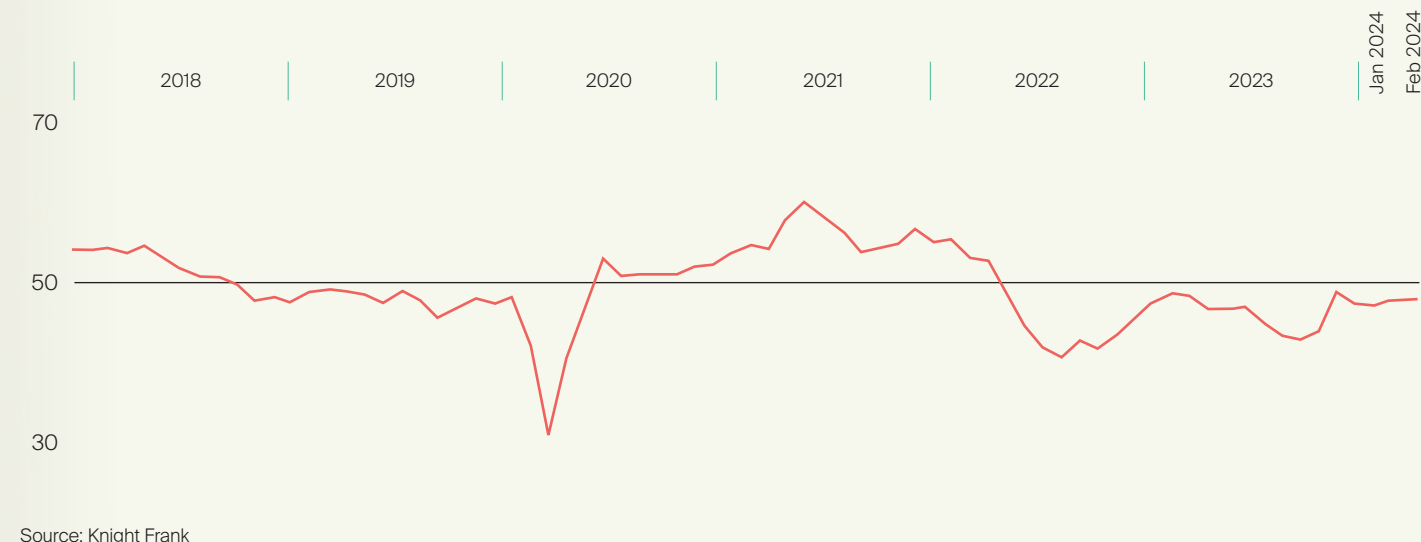
Polish industry demonstrates strong performance compared to other EU countries, as evidenced by the higher PMI in March 2024 than both the Eurozone (45.7 points) and Germany (41.6 points). The gap between the Polish and German PMI

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Polish industry demonstrates strong performance compared to other EU countries.

levels is the widest since mid-2012, marking a historical high in the survey's records.

However, in Q1 2024, industrial production in Poland experienced a slowdown, with a 0.7% decrease from January to March compared to the same period in 2023. This deceleration in industrial production mirrors a broader trend seen across Europe. Despite this, the downturn in Poland's industrial production is less pronounced than the EU average, which recorded a 1% decline in Q1 2023 compared to the previous year.

PMI in Poland



Source: Knight Frank

Office market

SUPPLY

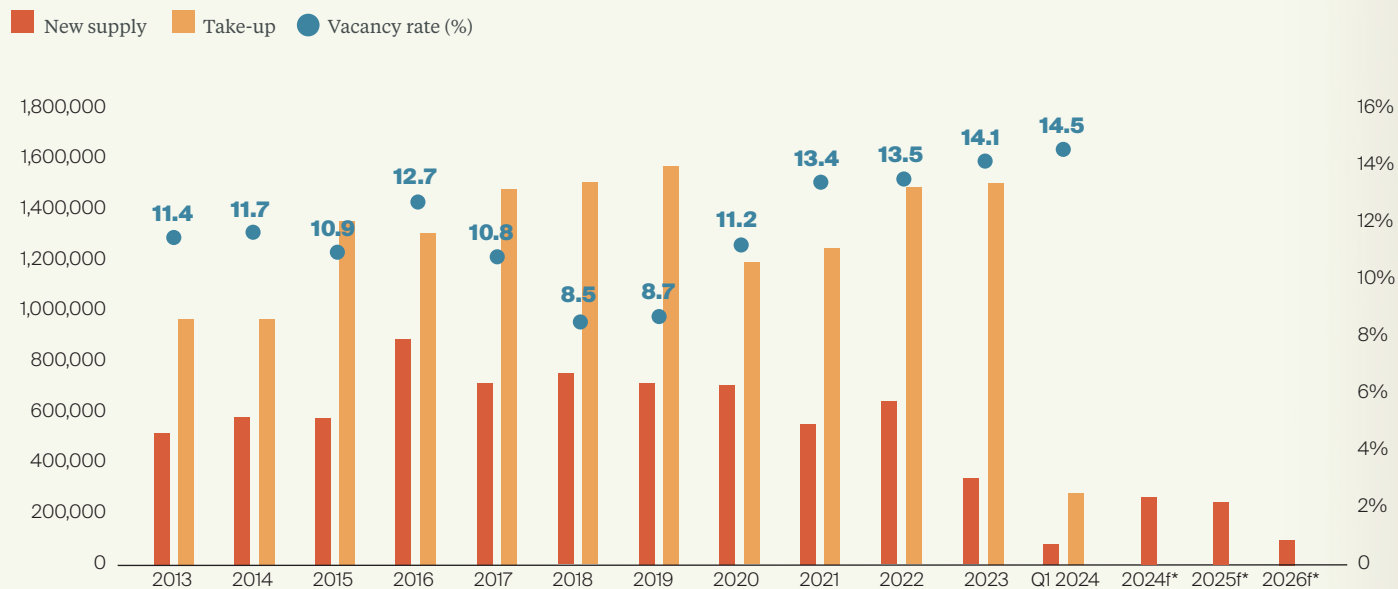
In Q1 2024, the total number of office space in Poland reached nearly 13 million sq m, with Warsaw accounting for 6.2 million sq m. The other significant office markets are Krakow and Wroclaw, comprising 1.8 million sq m and 1.3 million sq m, respectively.

With development activity remaining limited, there was a substantial decrease in modern office space delivered in 2023, totalling nearly 340,000 sq m. This marked an 89% decline compared to the previous year. The trend continued in Q1 2024, with 79,900 sq m of modern office space completed, reflecting a more than 6% decrease on Q4 2023.

Looking ahead, the pace of new office space additions in the upcoming quarters is expected to remain subdued. Currently, only 553,000 sq m is under construction, nearly 23% less than the corresponding period in the previous year. Consequently, the amount of office space entering the market is projected to continue to decline over the next two years, totalling around 260,000 sq m in 2024 and 240,000 sq m in 2025.

There is a growing emphasis on ecological and sustainable office buildings, with over 57% of all modern office space situated in certified buildings. The majority of these environmentally-friendly spaces (30%) are located in Warsaw, while the remaining 27% are distributed among the main regional markets, with Krakow leading the way at 9%.

New supply, take-up and vacancy rate in Poland (sq m)



Source: Knight Frank, f* - forecast

TAKE-UP

Since the beginning of 2024, more than 279,000 sq m of office space has been leased, marking a 41% decrease from Q4 2023 and a 16% decline compared to the same period in the previous year.

In Q1 2024, mirroring the trend of the entire year of 2023, take-up in the eight largest regional cities outpaced Warsaw, amounting to 140,000 sq m in regional cities versus 139,000 sq m in the capital. Notably, significant take-up outside Warsaw was seen in Krakow (44,000 sq m), Wroclaw (25,000 sq m), and Poznań (24,000 sq m). The rising interest in regional cities from the BSS (Business Support Services) sector is attributed to the better availability and cost of employees in regional cities, coupled with lower office rents.

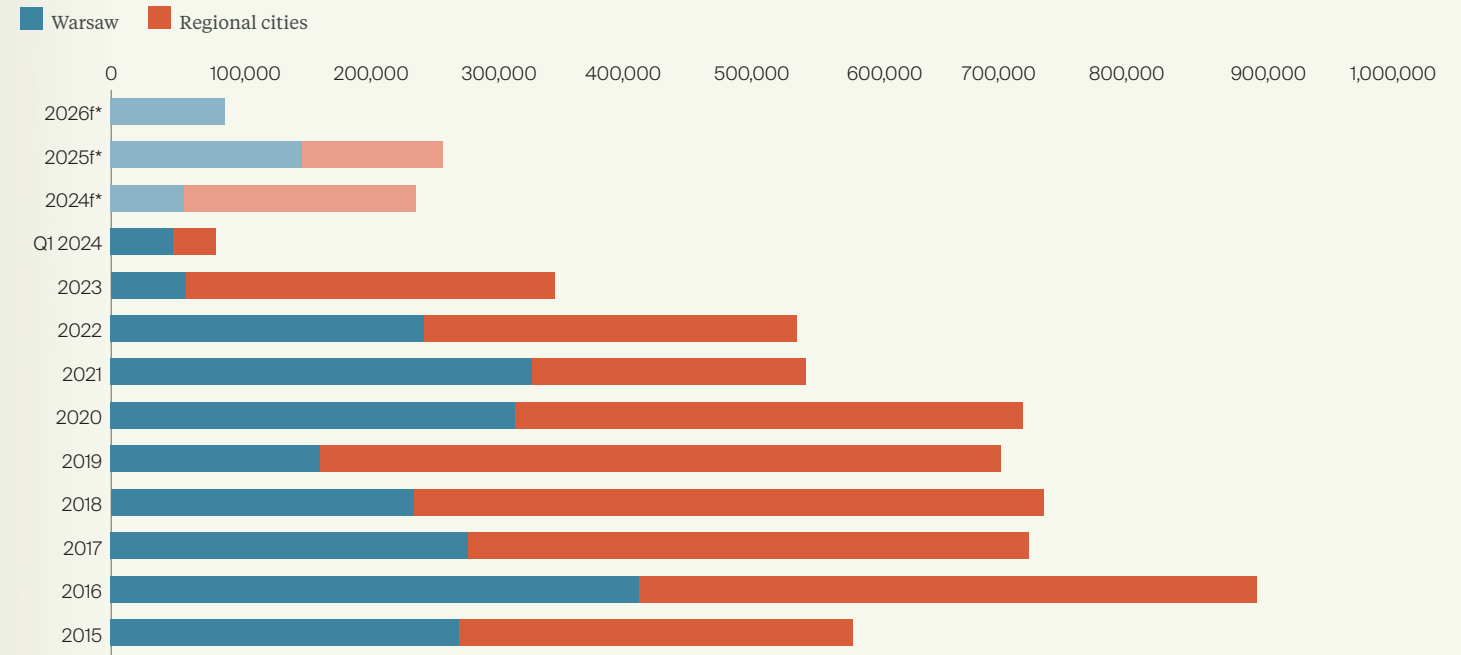
Approximately 29% of the leased space in regional cities and 13% in Warsaw was driven by the IT sector and shared service centres.

New contracts were predominant in the take-up structure, ranging from 44% in Lublin to 59% in Łódź. In contrast, renegotiations were more common in Wroclaw and the Tricity, constituting 62% and 57% of the leased space, respectively.

Expansions in the lease structure remained limited, accounting for less than 10% in all cities except for Katowice

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Currently, only 553,000 sq m is under construction, nearly 23% less than the corresponding period in the previous year.

Annual supply in major office market in Poland (sq m)



Source: Knight Frank, f* - forecast

and Lublin, with 22.5% and 15.3% respectively. The proportion of pre-lets in the transaction volume decreased, with Warsaw registering 2.7% (a 0.4 pp decrease y-o-y), while no pre-let agreements were noted in the regional markets.

VACANCY RATE

The vacancy rate in the Polish office market rose to 14.5% at the close of Q1 2024 from 14.1% in Q1 2023.

Łódź reported the highest vacancy rate at 21.3%, while Szczecin had the lowest rate at 5.5%, making it the only city with a vacancy rate below 10%.

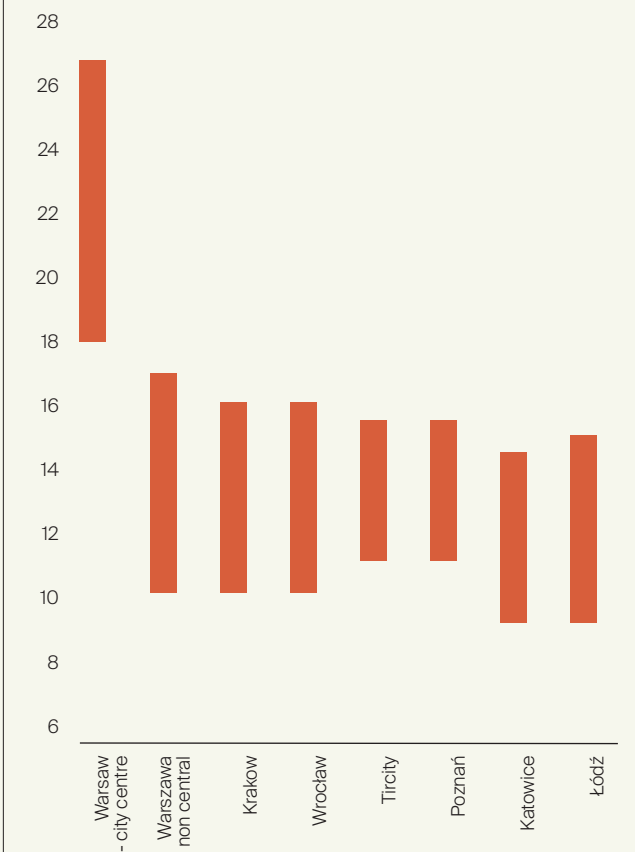
The consistent vacancy rate growth observed in Poland's office markets since 2019 is linked to declining demand and consistent supply growth. Over the last 12 months, the vacancy rate saw a decrease only in Warsaw and Lublin.

RENTS

Asking rents have shown relative stability in recent months, both in Warsaw and in regional office markets. In Warsaw, prime property rates typically varied from EUR 18.00 to 27.00/sq m/month in the city centre, and from EUR 10.00 to 17.00/sq m/month outside the city centre. Across regional cities, asking rents typically fell within the range of EUR 9.00 to 16.00/sq m/month. Service charges ranged typically from PLN 10.00/sq m/month to as high as PLN 32.00/sq m/month.

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Asking rents have shown relative stability in recent months reaching 27.00 EUR/sq m/month in Warsaw and 16.00 EUR/sq m/month in regional office markets.

Asking rents (EUR/sq m/month)

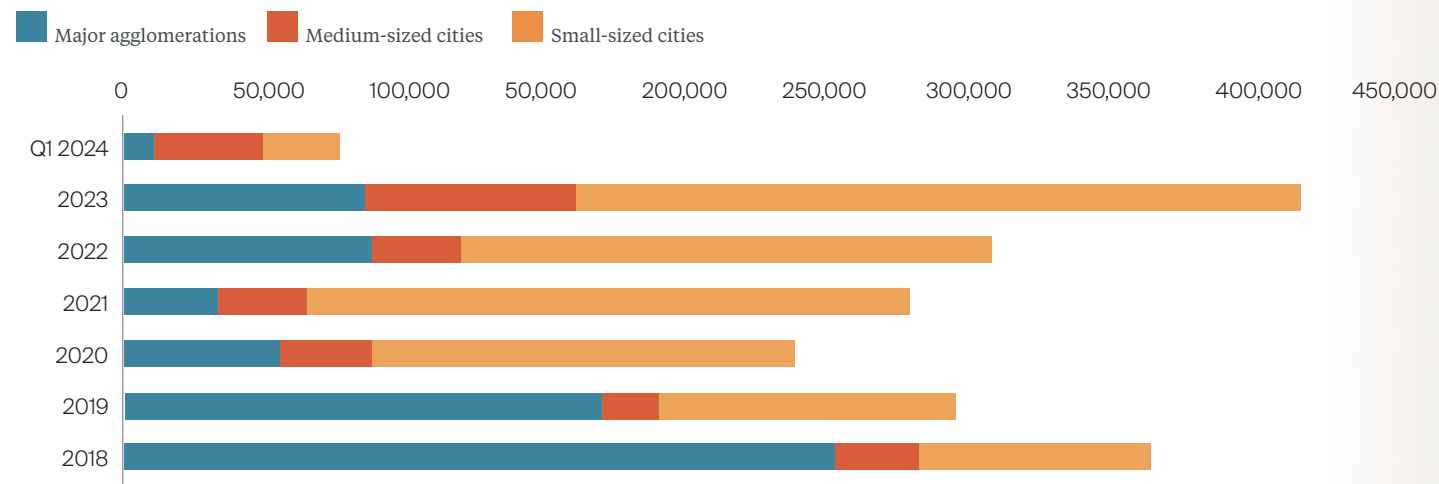


Source: Knight Frank



Retail market

Annual supply of retail space (sq m)



Source: Knight Frank

SUPPLY

At the end of March 2024, the amount of modern retail space in Poland surpassed 13 million sq m. Slightly over half of this area is concentrated in the largest agglomerations, while the remaining space is evenly distributed among mid-sized cities (with populations ranging from 100,000 to 400,000) and small towns with populations of less than 100,000.

In Q1 2024, developers completed the construction of 76,000 sq m of modern retail space, marking a 60% decrease compared to the previous quarter and a 25% drop from Q1 2023. However, there are currently approximately 380,000 sq m of modern retail space under construction, the second-highest level since the onset of the pandemic. The majority of new space (45%) is being developed in the smallest towns with populations below 100,000. Notably, there has been an increase in the amount of space under construction in the major agglomerations, where 157,000 sq m of retail space is currently being built, constituting 40% of the total area under construction.

The majority of projects currently under construction are retail parks, with only a few extensions of existing properties ranging from 850 sq m to 10,000 sq m. The largest project in progress is the Nowa Sukcesja shopping center in Łódź, covering an area of 35,000 sq m. This property was acquired by the Amush Investment Group after bankruptcy in 2020 and is scheduled to reopen under a new name in Q4 2024 following modernization and recommercialization. Other

There are currently approximately 380,000 sq m of modern retail space under construction, the second-highest level since the onset of the pandemic.

significant projects under construction include Silwana in Gorzów Wielkopolski and BIG Ostróda, both with an area of 25,000 sq m, and developed by Acteeum Group.

DEMAND

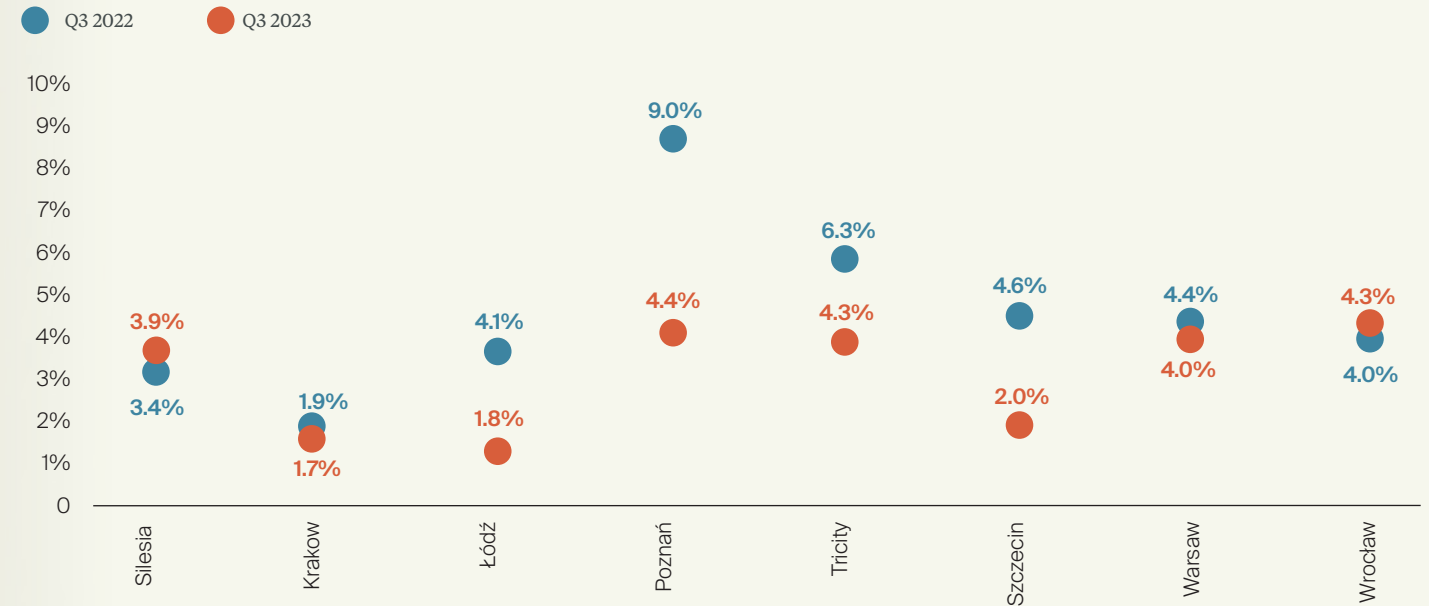
The situation in the retail market is showing a positive trajectory, as indicated by a footfall survey conducted by the Polish Council of Shopping Centers, revealing a 4.6% increase in the number of customers per 1 sq m of Gross Leasable Area (GLA) in 2023 compared to the previous year. This upward trend continued into the first quarter of 2024, with a 5% rise in the number of visitors compared to the same period in the previous year.

A similar positive trend is observed in the turnover of shopping centres. Throughout 2023, there was a nominal increase in turnover of around 9%. In Q1 2024, the turnover remained stable at a comparable level to the same period in the previous year.

Furthermore, retail sales experienced growth. According to analysis by Statistics Poland, retail sales in Q1 2024 were 5.0% higher than a year ago; contrasting with a 3.5% decline in Q1 2023 compared to Q1 2022. Moreover, in March 2024, retail sales showed a notable increase of 6.1% compared to February 2024. In contrast, March 2023 saw a 7.3% decline compared to February 2023.

The share of online sales (in current prices) in retail sales during Q1 2024 was reported at 8.5%, which was in line with the level of the previous year when it reached 8.7%.

Vacancy rates in 8 major agglomerations



Source: Knight Frank

In the first quarter of 2024, consumer sentiment also saw improvement. The current consumer confidence index, reflecting individual consumption trends, surpassed last year's indicators in January and March (by 2.6 pp and 0.3 pp respectively). In February 2024, it remained at the same level as in February 2023.

VACANCY RATE

Retail market sentiment exhibited improvement in 2023, as reflected in the reduced vacancy rate in shopping centres across the largest agglomerations. The annual vacancy survey conducted in the eight largest agglomerations between July and August 2023 revealed a decrease in the unoccupied area ratio to 3.6% from 4.7% in the corresponding period of the previous year. While two agglomerations experienced a slight increase in unoccupied areas, with the Silesian agglomeration rising from 3.4% to 3.9% and the Wrocław agglomeration from 4.0% to 4.3%, there was a notable decline in unoccupied areas in the remaining agglomerations. Particularly, the Poznań agglomeration saw a decrease from 9.0% to 4.4%, Szczecin from 4.6% to 2.0%, and Łódź from 4.1% to 1.8%.

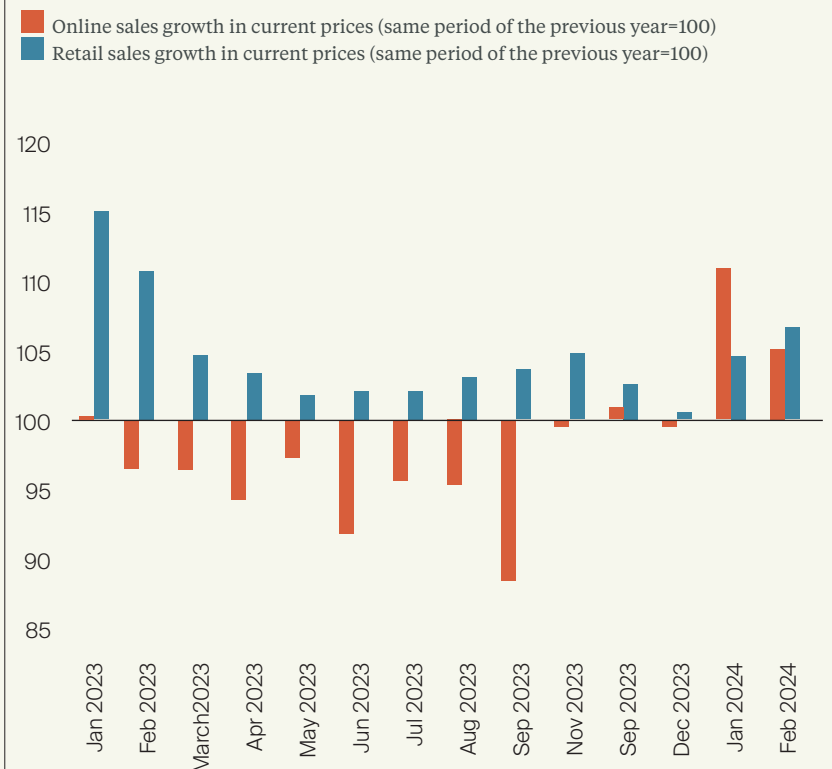
RENTS

Due to increasing tenant demand, average rental rates are showing a slight upward trend, particularly in retail parks, which are highly favoured by tenants. However, rental prices continue to vary significantly, contingent on the type of retail property and its location or prominence within the property.

Average rental rates are showing a slight upward trend.

The highest rental rates are found in shopping centres located in Warsaw, where prime premises of approximately EUR 50/sq m command rents of about EUR 115/sq m/month. In contrast, in other major cities, the highest rents in shopping centres are typically to be found around the EUR 55/sq m/month mark.

Retail sales growth and online sales growth



Source: GUS

Warehouse market

SUPPLY

At the end of Q1 2024, Poland's modern warehouse stock reached an impressive 32.7 million sq m, showing a notable 9.4% increase over the previous year. This robust growth positions the warehouse market as the fastest-growing sector in Polish commercial real estate. The growth is fuelled by factors such as Poland's strategic geographic location in Europe, ongoing enhancements in transport infrastructure, and a sizable domestic market.

Poland's modern warehouse space is predominantly concentrated in eight key regions: Warsaw and its environs, Upper Silesia, Central Poland, Wielkopolska, Lower Silesia, Szczecin, Tri-City, and Krakow. Nevertheless, recent improvements in road and rail networks have led developers to explore additional locations like Rzeszów, Kielce, and Lublin, as well as smaller warehouse hubs in Kujawy and western regions near the German border. This trend underscores the adaptability and diversity of the evolving market.



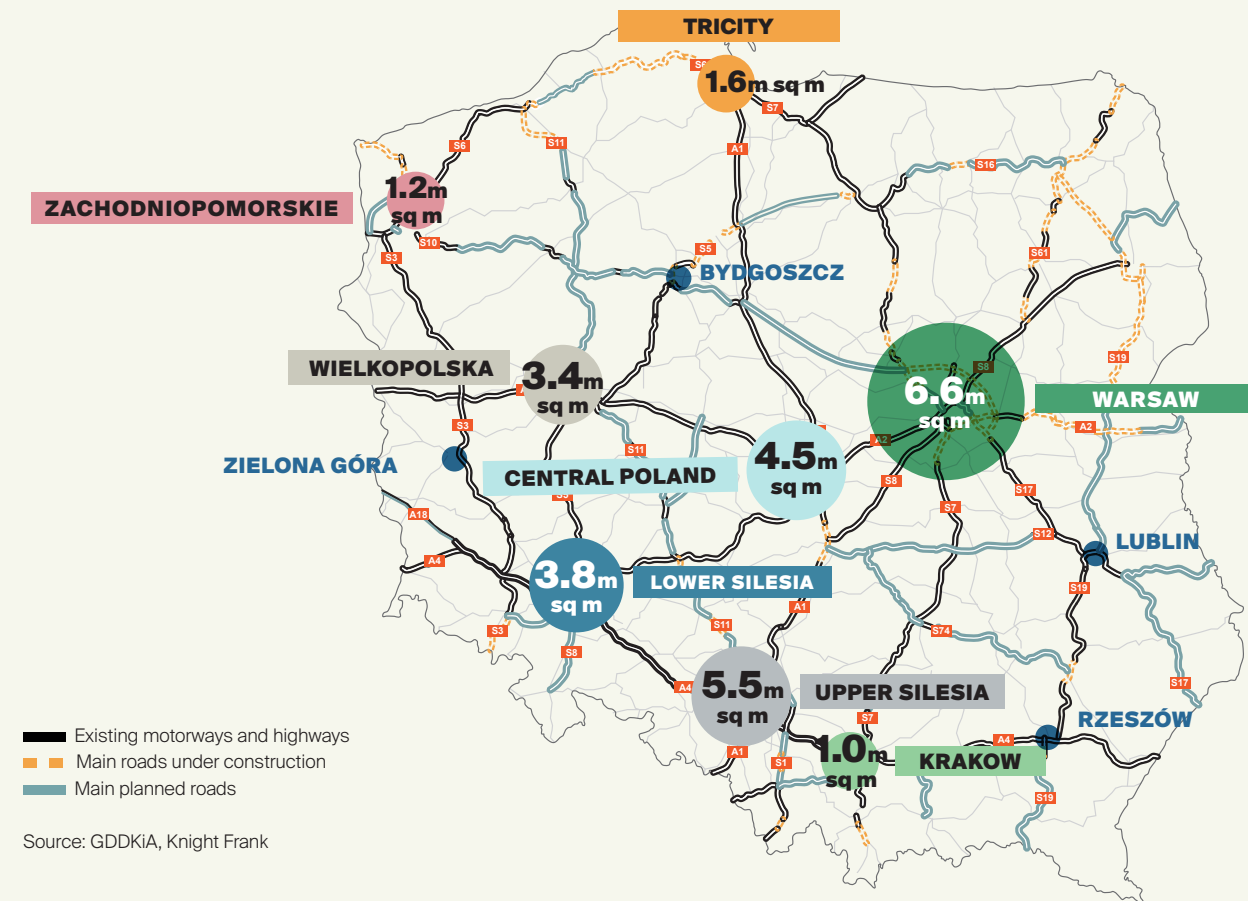
Poland's modern warehouse stock reached an impressive 32.7 million sq m, showing a 9.4% increase over the previous year.

In Q1 2024, the warehouse sector in Poland continued its development, albeit at a more moderate pace compared to preceding quarters. This deceleration was evident in both the demand for warehouse space and the new supply entering the market.

During the first three months of 2024, 850,000 sq m of warehouse space were completed, reflecting a reduction of over 50% from the same period the previous year but marking a notable 47% increase from Q4 2023. The most significant new supply, totalling 272,000 sq m, was observed in the Lower Silesia region. Key schemes that entered the market included Panattoni Park Wrocław Logistics South Hub (90,000 sq m), GLP Wrocław V Logistics Centre (86,200 sq m), and Panattoni Park Poznań A2 (60,000 sq m).

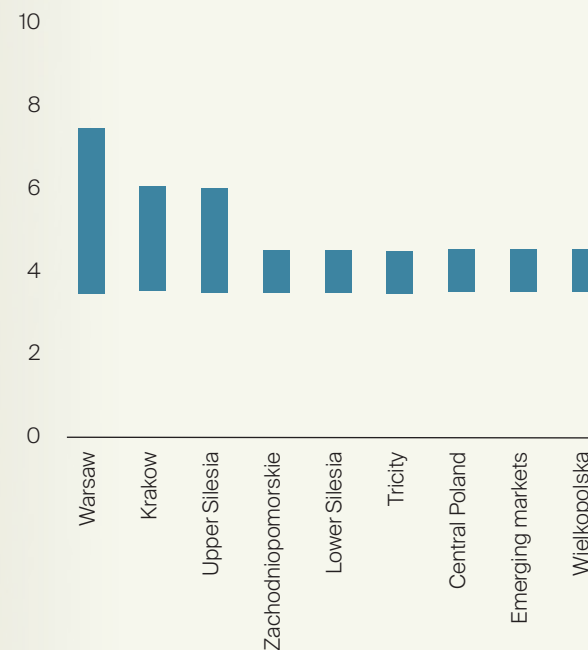
By the end of March 2024, the overall volume of warehouse space under construction had notably decreased when compared to Q4 2023, amounting to 2.3 million sq m. The most substantial warehouse project under construction consists of a complex of three buildings in the Lower Silesia region, covering a combined area of 265,000 sq m.

Warehouse stock in Poland by main warehouse hubs (Q1 2024)



Source: GDDKiA, Knight Frank

Asking rents (EUR/sq m/month)



Source: Knight Frank

In Q1 2024, the construction of 360,000 sq m of warehouse space commenced, reflecting one of the lowest results compared to preceding quarters.

TAKE-UP

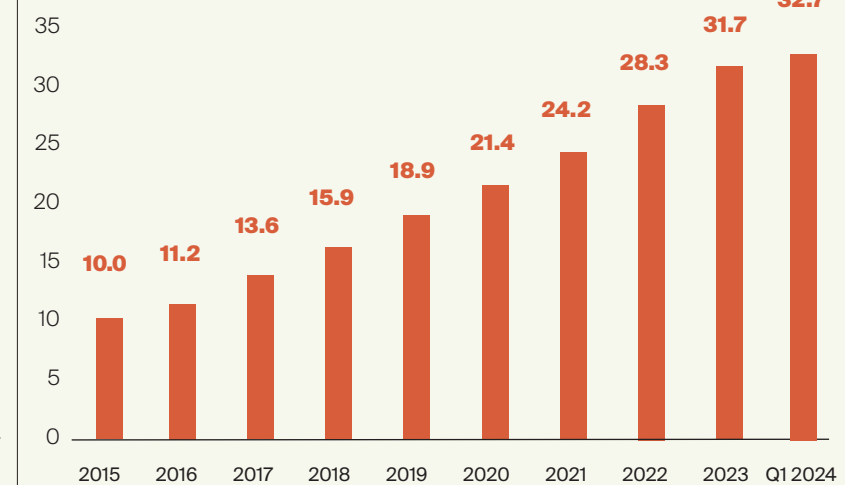
From January to March 2024, the leased warehouse space exceeded 870,000 sq m. The regions of Warsaw, Central Poland, and Poznań were the most sought-after locations, accounting for over 60% of the total take-up in Poland.

Notable lease transactions in Q1 2024 included Hillwood Łódź II (62,000 sq m), Panattoni Park Poznań A2 (60,000 sq m), and Panattoni Park West Gate II (48,000 sq m). Despite these sizable deals, there has been a noticeable downturn in the demand for warehouse space in Poland. In comparison to Q4 2023, leased warehouse space in Q1 2024 experienced a reduction of more than 50%.

VACANCY RATES

The decline in tenant activity contributed to an increase in the vacancy rate, which rose to 8.2% (an increase of 1.8 pp compared to Q1 2023). The highest vacancy rate was recorded in the Western Poland region, where it amounted to 16.5%.

The total warehouse space in Poland (m sq m)



Source: Knight Frank



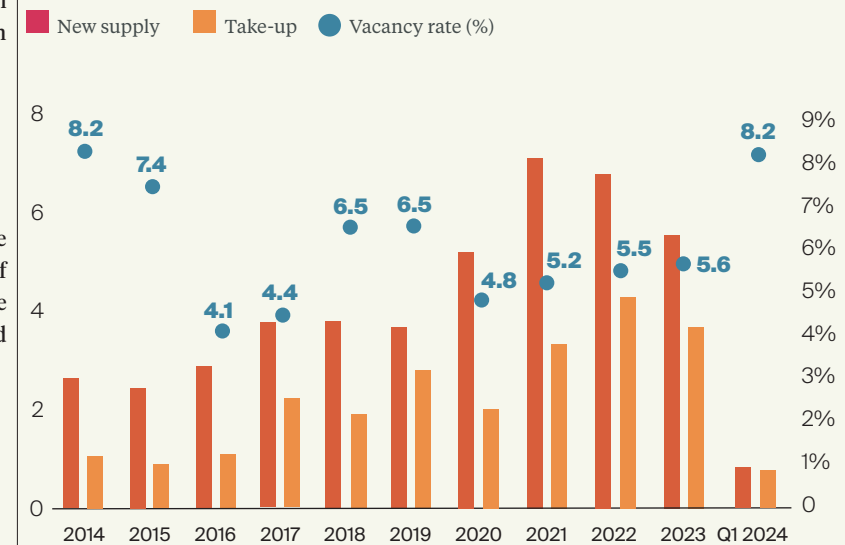
Asking rents in all regions remained steady typically ranging from EUR 3.5 to EUR 4.5/sq m/month in primary logistics areas and EUR 6 to EUR 7.5/sq m/month for Special Business Units (SBUs).

RENTS

In Q1 2024, asking rents in all regions remained steady compared to Q4 2023, typically ranging from EUR 3.5 to EUR 4.5/sq m/month in primary logistics areas and EUR 6 to EUR 7.5/sq m/month for Special Business Units (SBUs) within the city limits of major urban centres. The highest-priced areas, such as Warsaw and Krakow, reflect high land values and limited space availability.

Tenants are facing rising service charges, which have surged by at least one-third in the past two years and, in some instances, by up to 50%. Currently, service charges vary from PLN 4 to 7/sq m/month.

New supply, take-up and vacancy rate in Poland (m sq m, %)



Source: Knight Frank

Investment market

Investment activity in the commercial real estate market in Poland has remained subdued since 2023. In the first quarter of 2024, the total volume of commercial real estate investment transactions stood at only EUR 363 million, some half of the volume recorded in the same quarter the previous year. This decline in volume was evident across all asset classes.

The sluggish investor activity can be attributed to high financing costs and global economic uncertainty. Institutional capital involvement in the market has been limited, resulting in fewer transactions involving large prime facilities. Additionally, a significant bid-ask gap has further dampened transaction numbers. The structure of the origin of capital has also changed, with almost all capital invested in Poland now coming from Europe (including 40% from Central and Eastern Europe).

Amidst these challenges, higher-risk and alternative asset class transactions continue to predominate the market in 2024. The expected reduction in interest rates in the Eurozone in the second half of 2024 may stimulate more institutional capital inflow to Poland, potentially leading to an upturn in transactions. Market participants anticipate the stabilization of prices and yields, which were on an upward trajectory throughout 2023.

WAREHOUSES

Warehouses and logistics facilities have maintained their status as the most liquid asset class, attracting continuous investor interest since the onset of the pandemic and market structural shifts. In Q1 2024, the warehousing sector retained its allure among investors, mirroring the previous year's activity. Warehousing facilities accounted for 38% of the total volume, with EUR 138 million invested.

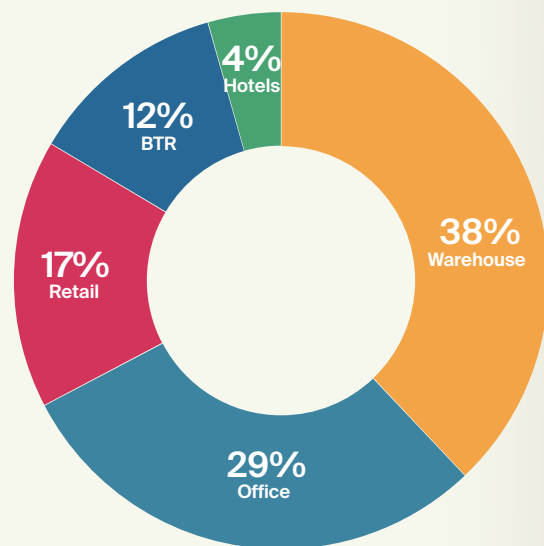
During the first quarter of 2024, there were six transactions involving warehouse facilities, with the largest being Hillwood's acquisition of Warsaw West Parks (comprising West Park Pruszków & West Park Ożarów) for EUR 54.8 million.

OFFICES

In the first quarter 2024, the Polish office market saw a total investment of EUR 107 million, constituting a 29% share of the overall investment volume. Seven of the eight office building transacted in the first three months of the year were situated in Warsaw, maintaining the trend from the

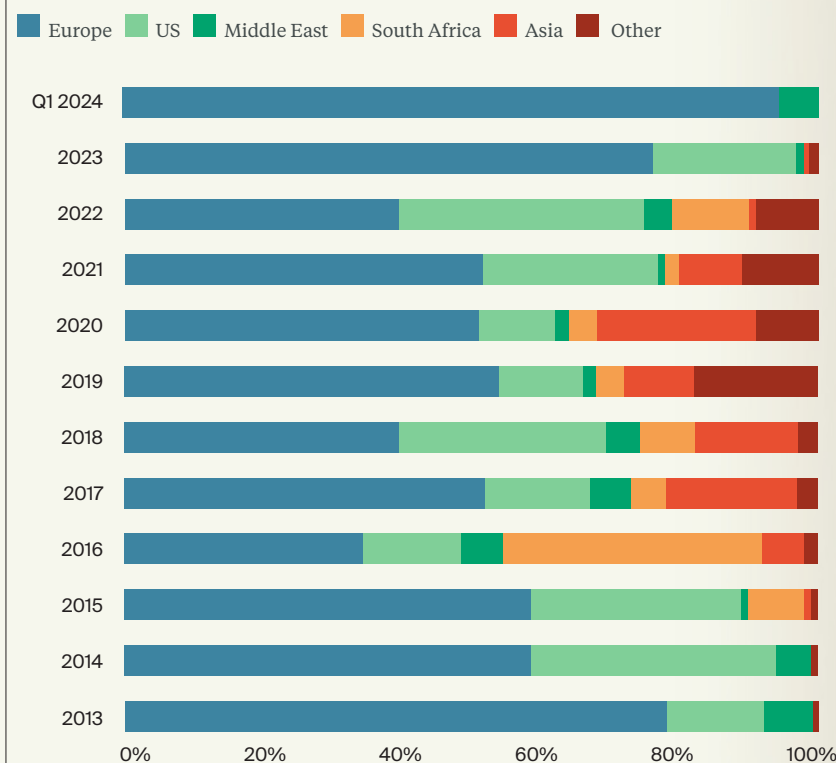
In the first quarter of 2024, the total volume of commercial real estate investment transactions stood at only EUR 363 million, some half of the volume recorded in the same quarter the previous year.

Investment volume in Poland by sector in Q1 2024



Source: Knight Frank

Investment volume in Poland by origin of capital



Source: Knight Frank

previous year. As in 2023, Q1 2024 lacked any prime facility transactions in the office market, with investor focus directed towards non-central locations. Additionally, two transactions involved the conversion of office buildings to residential functions.

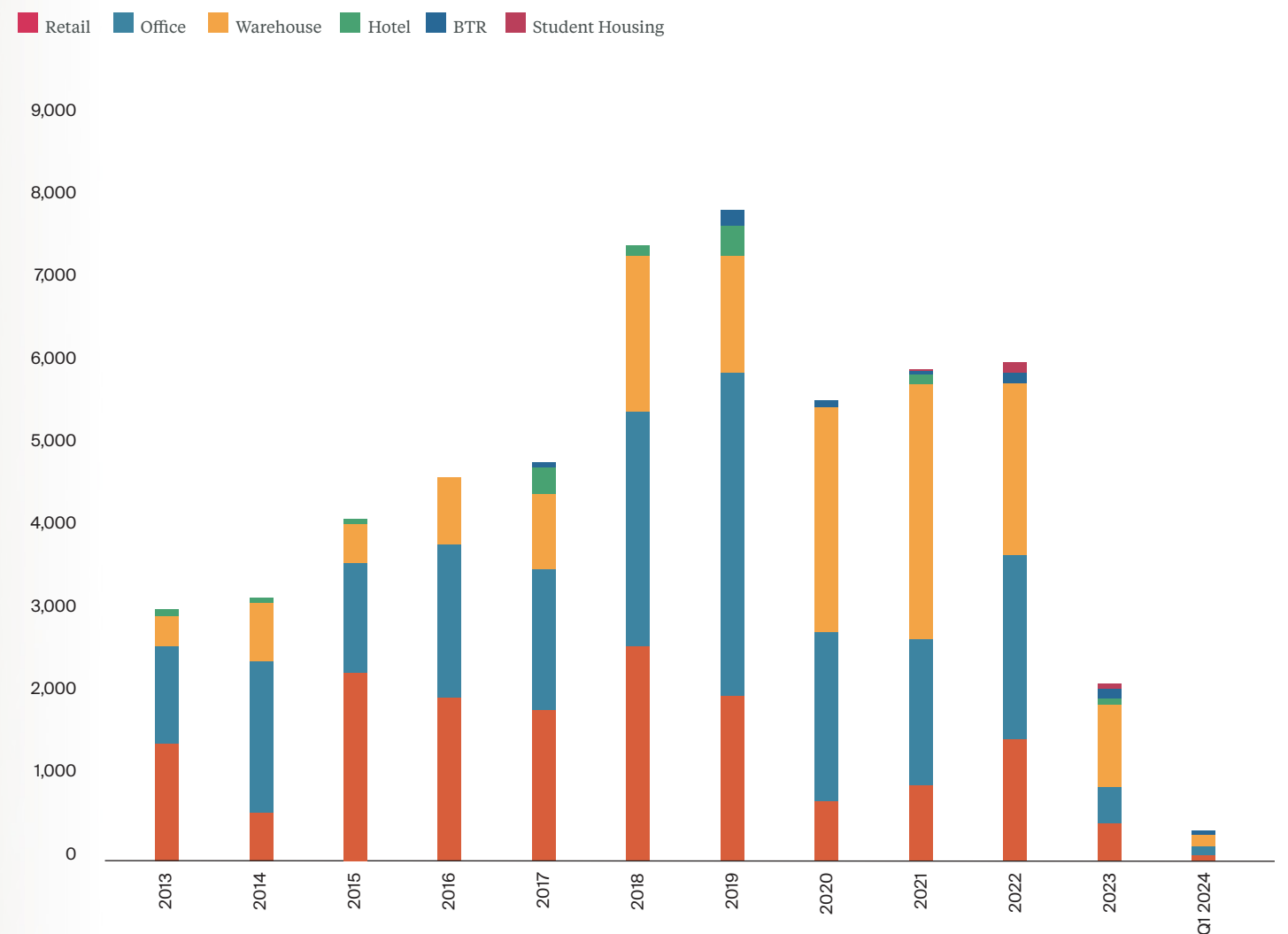
The most substantial transaction in the first quarter was the EUR 26.1 million sale of the Concept Tower building in Wola, with 9,000 sq m of leasable space, by the CPI Group to the Czech investment group Wood & Company.

RETAIL

In Q1 2024, the total retail investment volume stood at EUR 60 million, resulting in the sector's portion of the overall volume decreasing to 16% from the previous year's 20%.

The retail market remains characterized by transactions involving small facilities like retail parks and compact shopping centres designed to cater to the daily needs of local residents. Notably, there have been no significant transactions involving prime shopping centres in Poland since 2019, except

Annual investment volume in Poland



Source: Knight Frank

Alternative asset classes continue to grow in importance, with the BTR sector's share of total investment volume rising to a record 12% in Q1 2024.

for NEPT's acquisition of the Forum Gdańsk shopping centre in Q4 2022 at a capitalization rate of around 6%.

Among the six transactions recorded in the retail sector in the first quarter, the most significant was Dor Group's sale of Aniolów Park retail park in Częstochowa for EUR 25 million. This 18,000 sq m facility was acquired by the Polish company, Terg, the owner of the Media Expert retail.

BTR AND HOTELS

Alternative asset classes, such as the Built to Rent (BTR) sector, are gaining prominence, with the BTR sector's share rising to a record 12% in Q1 2024. Furthermore, there has been a resurgence of transactions in the hotel market, with two chain hotels exchanging hands in the first three months of 2024, boosting the sector's share of the total volume to 4%.

The historical high share of BTR facilities in the overall volume indicates the solid foundation and promising future prospects of this market segment.

Contact

in Poland

+48 22 596 50 50
www.KnightFrank.com.pl

RESEARCH
Dorota Lachowska
dorota.lachowska@pl.knightfrank.com

COMMERCIAL AGENCY
T-REP Piotr Kalisz
piotr.kalisz@pl.knightfrank.com

L-REP Monika Suldecka-Karaś
monika.suldecka@pl.knightfrank.com

CAPITAL MARKETS
Krzysztof Cipiur
krzysztof.cipiur@pl.knightfrank.com

VALUATION & ADVISORY
Małgorzata Krzystek
malgorzata.krzystek@pl.knightfrank.com

STRATEGIC CONSULTING EMEA
Marta Sobieszczak
marta.sobieszczak@pl.knightfrank.com

INDUSTRIAL AGENCY
Przemysław Jankowski
przemyslaw.jankowski@pl.knightfrank.com

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- ▶ 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, Lublin, Szczecin) and PRS sector in Poland. Long-term presence in major local markets has allowed our research team to build in-depth expertise of socio-economic factors affecting real estate market in Poland.

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