

Poland

Office and Investment Market

Research, H1 2021



OFFICE MARKET IN WARSAW

6.1m sq m

total office stock

250,000 sq m

take-up volume (H1 2021)

226,000 sq m

new supply (H1 2021) in 10 buildings

360,000 sq m

supply under construction (Q2 2021)

12.5%

vacancy rate (Q2 2021)

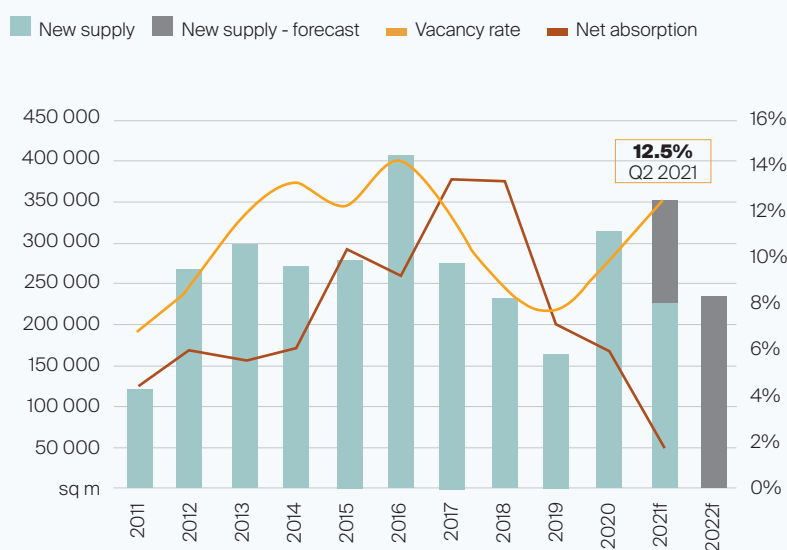
With the significant volume of new supply being delivered to the Warsaw market in H1 2021, the total stock of modern office space reached a level of almost 6.1 million sq m. Over this period, occupancy permits were granted to 10 office buildings with a total area of approx. 226,000 sq m. It is worth noting that 67% of this space was located in only 3 buildings: Skyliner (48,500 sq m, Karimpol Polska); the final stage of the Generation Park complex - building Y (44,200 sq m, Skanska Property Poland); Warsaw UNIT (56,400 sq m, Ghelamco). These three investments are all located in the vicinity of Daszyński Roundabout and as a result the office stock in this sub-area now stands at some 675,000 sq m.

It should, however, be remembered that the high level of new supply does not equate to increased developer activity. Projects started pre-pandemic are

being constructed without delays, whereas many decisions to start new investments remain on hold until the pandemic is over and tenant activity is back to desired levels.

Currently, the volume of office space under construction, 360,000 sq m, is at the lowest level for a decade. More than 1/3 of this space is due for completion by the end of 2021 and, as long as developers complete construction works at previously set dates, this year's new supply should approach the second highest result in the history of the Warsaw office market (behind 2016). Over 75% of the supply under construction is in the central business zones, which is unsurprising given that this is where the largest office towers are currently being built - including Varso Tower, the highest in the European Union (68,600 sq m, HB Reavis), and Skysawa, with its direct

Chart 1: Annual supply, net absorption and vacancy rate in the Warsaw office market



f-forecast based on schemes under construction

Source: Knight Frank

metro station connection (34,200 sq m, Polski Holding Nieruchomości).

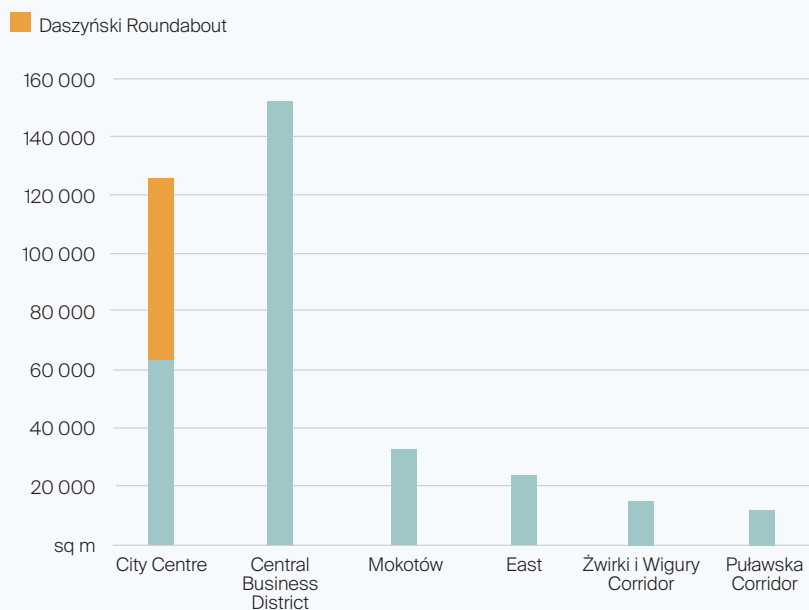
In the second quarter of 2021, lease agreements for approximately 140,000 sq m were signed, and tenant activity in Q2 2021 exceeded the level recorded over the first three months of the year (110,000 sq m). The total volume of 250,000 sq m, however, is the lowest six-month result on the demand side in the last 10 years. In the first half of 2021, central zones were the most preferred by with tenants. In the CBD and in the vicinity of Daszyński Roundabout, 60,000 sq m and 52,000 sq m were leased respectively. The Służewiec area ranked third in terms of take-up volume (almost 35,000 sq m).

New lease contracts and expansions accounted for almost half of the six-month take-up, although tenant interest in projects under construction declined significantly - the share of pre-lease contracts in total demand was only 11%. In the Warsaw office market tenants are still more willing to renegotiate existing contracts than they had been pre-pandemic. Extensions of existing agreements accounted for over 40% of the volume of space leased in the first half of 2021.

The visible decline in tenant activity and the high supply of new space (which was only 55% leased at the time of delivery) led to a further increase in the vacancy rate. After two years at levels below 10%, the vacancy rate at the end of Q2 2021 stood at 12.5%. The rate in Warsaw increased by 1.1 pp. over the quarter, and by some 4.6 pp. compared to the corresponding period of 2020. This vacancy rate translates into almost 760,000 sq m of space available for immediate lease, of which almost 110,000 sq m is in investments completed in the first and second quarters of 2021. It should be remembered that the actual volume of space for rent is higher, as the market also contains space offered for sublet lease.

Despite the changing market situation, asking rents in the Warsaw market have thus far remained stable, although the beginning of 2021 has already seen slight corrections, in the region of

Chart 2: Supply under construction in Warsaw by business zone

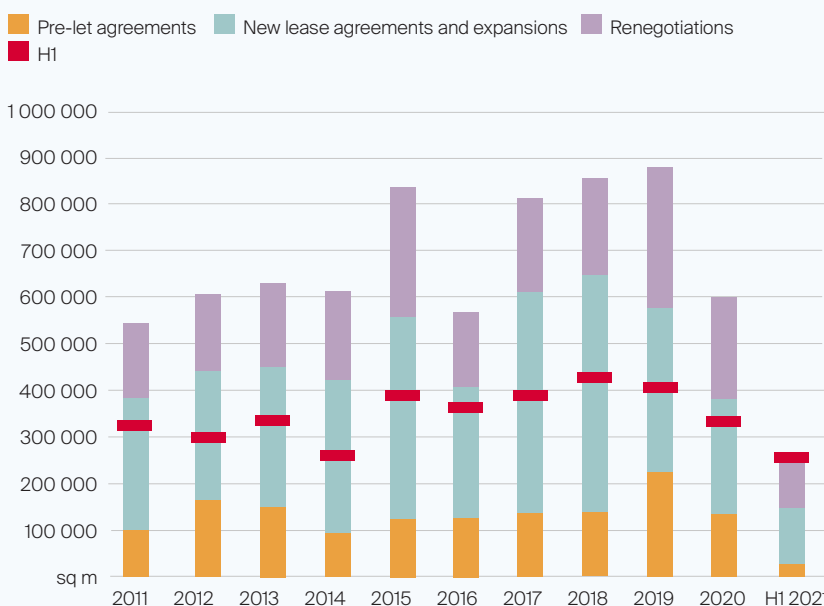


Source: Knight Frank

EUR 0.5/sq m/month. These changes can be observed mainly in projects located in central locations. In the CBD rents fall within the range of EUR 20-25/sq m/month, although some prime office space on the top floors of the towers may command rents as high as EUR 27-28/sq m/month. In other central locations, rates ranged from

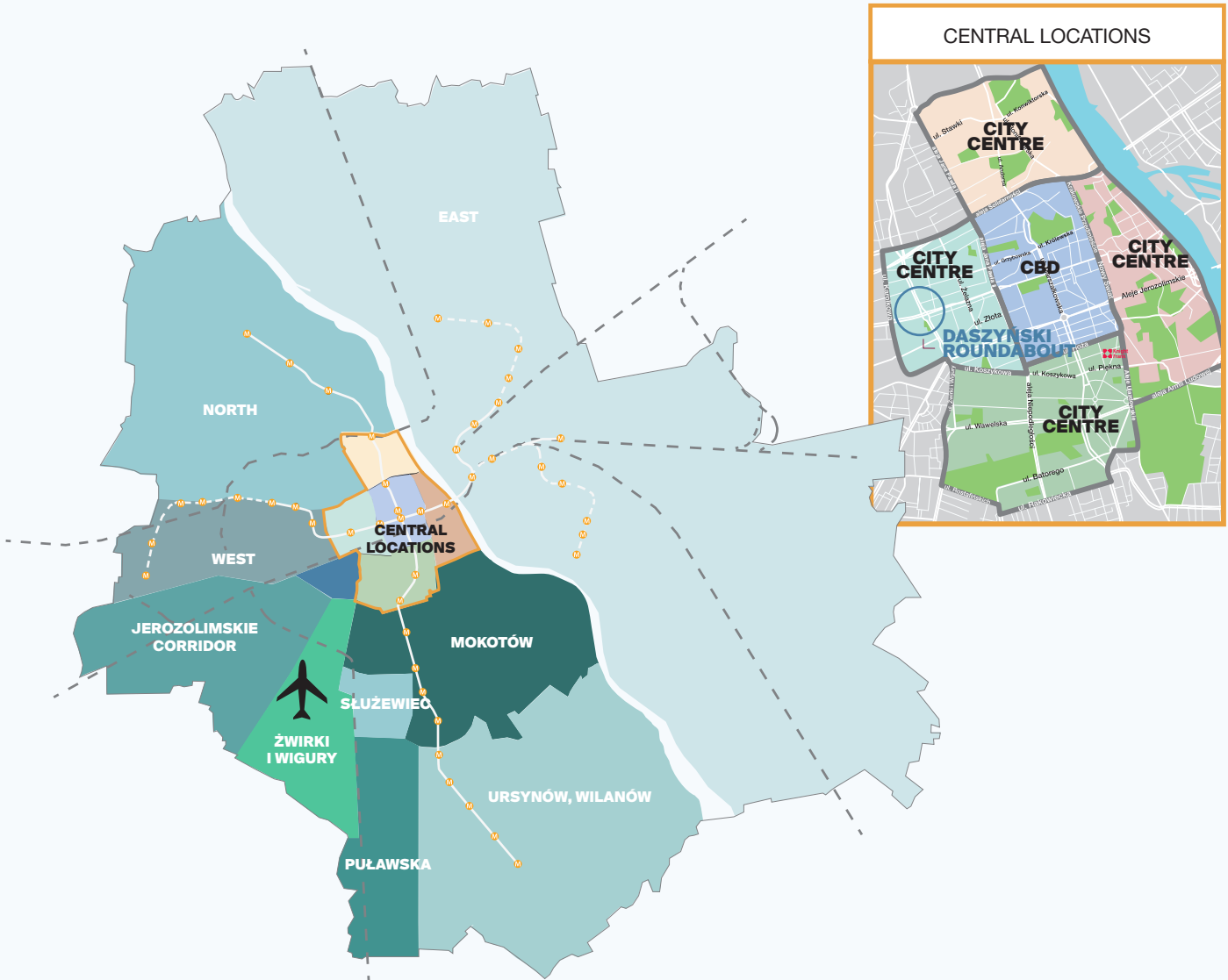
EUR 15 to EUR 22/sq m/month. Asking rents in non-central locations range from EUR 10 to EUR 15/sq m/month. Due to the wide package of incentives on offer from landlords to potential tenants, even more so during the COVID-19 pandemic, effective rates remain approx. 20% lower than asking levels.

Chart 3: Office take-up in Warsaw



Source: Knight Frank

MAJOR OFFICE CONCENTRATION AREAS



Central Business District (CBD)	
Total stock (sq m)	931 000
Vacant space (sq m)	103 000
Take up (sq m)	59 200
Asking rents (EUR/sq m/month)	20-25
Offices under construction (sq m)	152 000

Selected projects under construction		
Property name	Rentable office space (sq m)	Owner / Developer
Varso Tower	69 000	HB Reavis
Skysawa	34 000	Polski Holding Nieruchomości
Widok Towers	31 000	Commerz Real AG S + B Gruppe
Central Point	18 000	Immobel Poland

CITY CENTRE
(excluding Daszyński roundabout)

Total stock (sq m)	1.04m
Vacant space (sq m)	123 800
Take up (sq m)	27 700
Asking rents (EUR/sq m/month)	15-22
Offices under construction (sq m)	63 500

DASZYŃSKI ROUNDABOUT

Total stock (sq m)	674 000
Vacant space (sq m)	136 800
Take up (sq m)	51 800
Asking rents (EUR/sq m/month)	16-25
Offices under construction (sq m)	61 700

MOKOTÓW
(excluding Służewiec)

Total stock (sq m)	365 000
Vacant space (sq m)	28 000
Take up (sq m)	12 800
Asking rents (EUR/sq m/month)	12-16
Offices under construction (sq m)	-

SŁUŻEWIEC

Total stock (sq m)	1.09m
Vacant space (sq m)	196 000
Take up (sq m)	35 600
Asking rents (EUR/sq m/month)	10.5-15
Offices under construction (sq m)	32 000

JEROZOLIMSKIE CORRIDOR

Total stock (sq m)	747 000
Vacant space (sq m)	65 000
Take up (sq m)	17 200
Asking rents (EUR/sq m/month)	12-15
Offices under construction (sq m)	-

EAST

Total stock (sq m)	257 000
Vacant space (sq m)	33 200
Take up (sq m)	14 400
Asking rents (EUR/sq m/month)	11-15
Offices under construction (sq m)	23 000

Selected projects under construction

Property name	Rentable office space (sq m)	Owner / Developer
Forest II	52 000	HB Reavis
Intraco Prime	11 500	Polski Holding Nieruchomości
Fabryka Norblina	39 000	Capital Park
LIXA C/D	22 700	Yareal Polska
P180	32 000	Skanska Property Poland
Fabryka PZO	16 000	White Star Real Estate
Bohema	7 000	Okam Capital

OFFICE MARKET IN REGIONAL CITIES

The second quarter of 2021 saw a slight revival in tenant activity in regional cities. Between April and June 2021, quarterly demand approached 166,000 sq m, some 70% higher than in the previous quarter. It is, however, worth mentioning that despite such a dynamic increase, approx. 46% of the transaction volume came in renewals. Additionally, the regional office sector registered an increase in new supply compared to the previous quarter, with 6 projects being delivered, offering over 80,000 sq m. Despite stronger demand and because of only partially pre-leased new supply, the average vacancy rate in 8 largest regional cities increased by 0.7 pp. q-o-q and by 3.1 pp. compared to Q2 2020 and, at the end of June 2021, it stood at 13.4%.

5.9m sq m

total office stock

127,000 sq m

new supply H1 2021 (11 projects)

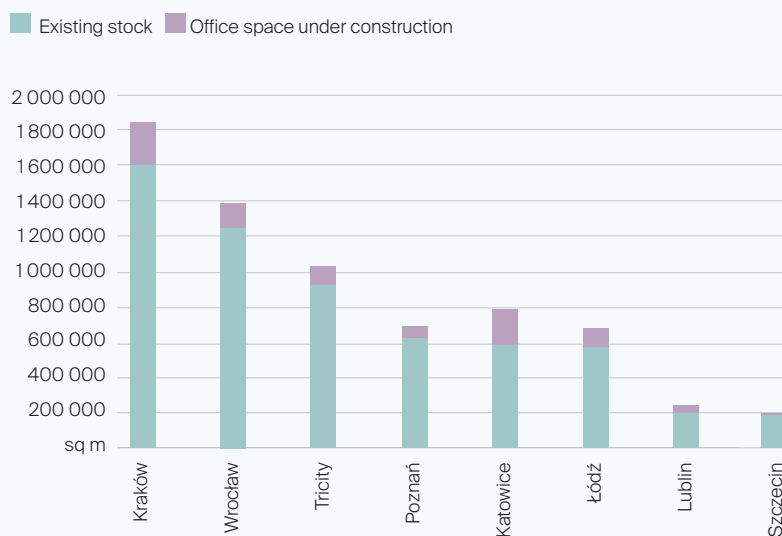
264,000 sq m

office take-up in H1 2021

13.4%

vacancy rate in regional cities (Q2 2021)

Chart 1: Existing stock and office space under construction



Source: Knight Frank

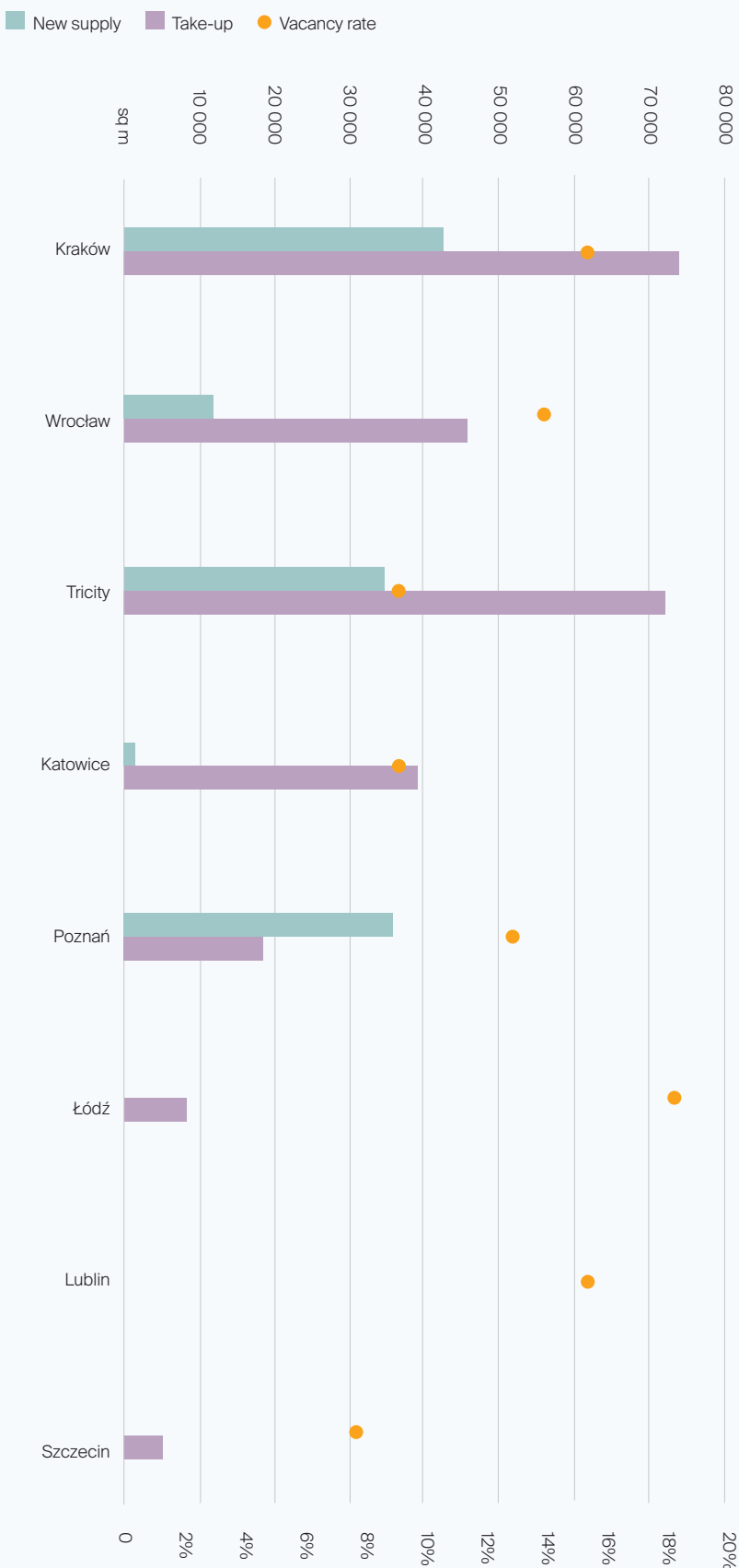
KRAKÓW

Over 42,000 sq m in 5 projects was delivered to the Kraków market in H1 2021. As a result, the total stock in the capital of Małopolska approached 1.6m sq m, and the city thus maintained its leader status among regional markets. At the end of June 2021, a further 250,000 sq m was identified as being under construction, of which approximately 25% is to be delivered in 2021, with the new supply by the year

end set to reach 100,000 sq m. The first quarter of 2021 saw a continuation of the effects of the pandemic on demand and vacancy rates visible in 2020. However, increases in Q2 2021 on both the supply and demand side may indicate the beginning of a stabilisation of the market. H1 2021 take-up volume was 35% lower than in the previous year, reaching 74,000 sq m. In terms of quarterly demand in Kraków, the transaction volume in Q2 2021 was 78% higher than in the previous quarter, and

10% lower than in Q2 2020. In Q2 2021, renewals took up the largest share, accounting for 62% of leased office space. New agreements in existing buildings constituted 38% of total take-up. The large share of renewals and not fully-leased new supply caused a further increase in the vacancy rate, which at the end of June 2021 stood at 15.5% (a 0.5 pp. increase q-o-q and 4.4 pp. increase y-o-y).

Chart 2: New supply, take-up and vacancy rate in major regional office markets (H1 2021)



Source: Knight Frank

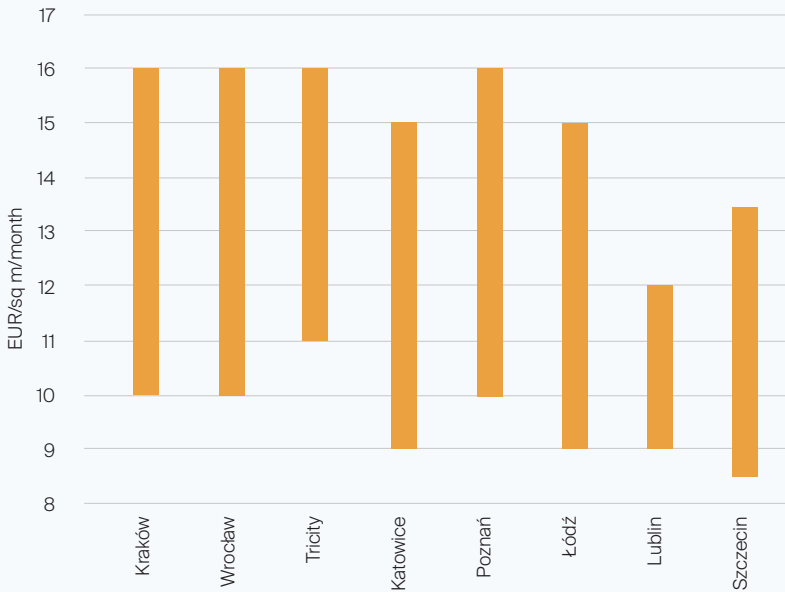
WROCLAW

At the end of June 2021 total office stock in Wrocław reached 1.24m sq m, placing it the second largest office hub among regional markets. Developer activity weakened slightly in the capital of Dolny Śląsk. In the first six months of 2021, only one project was completed – Krakowska 35, offering 11,800 sq m. Caution among developers could also be observed in their approach to new investments. In H1 2021 only one planned project was started – the second phase of Centrum Południe by Skanska Property Poland - and 140,000 sq m of office space remains under construction. If developers keep to their schedules, approximately 40% will be delivered in 2021. Compared to Poland's other regional markets, tenants in Wrocław were relatively active – in Q2 2021 almost 24,400 sq m was subject to lease. During the first six months of 2021 tenants leased almost 46,000 sq m. In Q2 2021 approx. 50% of the take-up volume was in one pre-let agreement in MidPoint71, with renewals accounting for a further 30% of transaction volume. The vacancy rate remains at a stable level - decreasing by 0.1 pp. compared to Q1 2021 and standing at 14.1%.

TRICITY

Total office stock in Tricity reached 924,000 sq m at the end of June 2021. In H1 2021 almost 35,000 sq m was delivered in 3 projects. Additionally, at the end of June 2021 approximately 100,000 sq m was under construction, of which over 50% is scheduled to be delivered by the end of 2021. Together with substantial developer activity, even despite the pandemic, the tenant interest in the Tricity market is not weakening. From January to June 2021 over 72,000 sq m was subject to lease, accounting for 27% of total regional take-up. Due to high tenant and developer activity, the vacancy rate in Tricity remains stable. It increased by 0.1 pp. over the quarter and at the end of June 2021 stood at 9.2%. It is the third lowest result in the largest cities in Poland.

Chart 3: Asking rents for office space in regional cities



Source: Knight Frank

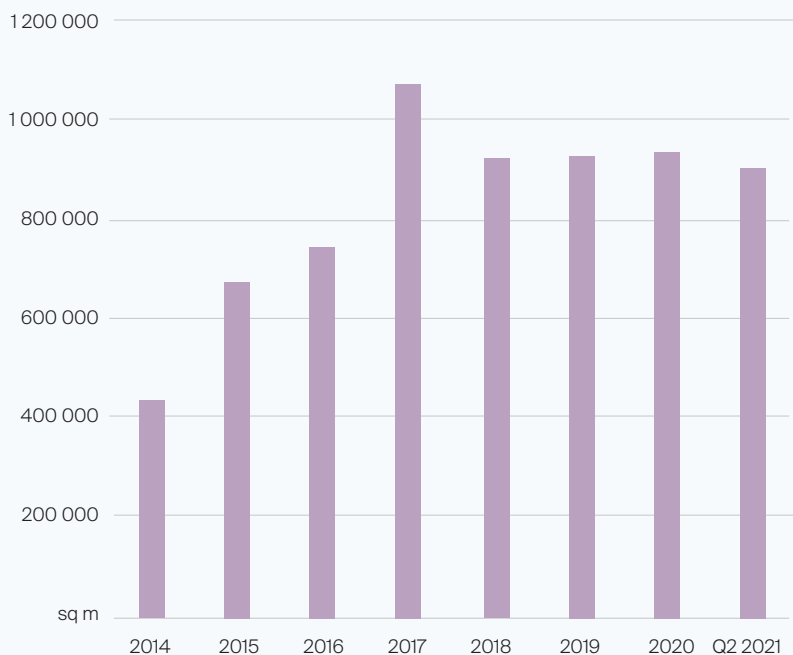
POZNAŃ

Total office stock in Poznań at the end of June 2021 exceeded 618,000 sq m. In H1 2021 only one new project was completed, although developers did start new investments. In Q2 2021, the next phase of the Nowy Rynek complex was completed, adding approx. 36,000 sq m to the local stock. At the end of June 2021 approximately 75,000 sq m, in four projects, was identified as being under construction, of which the two largest: Nowy Rynek E and Andersia Silver are scheduled for completion in 2023. Tenants remain relatively active in the local market – during H1 2021 almost 20,000 sq m was subject to lease, which is a result 10% higher than H1 2020. At the end of June 2021 the vacancy rate stood at 12.9%, which is 0.4 pp. higher than the previous quarter and 1.6 pp. lower compared to the corresponding period of 2020. The y-o-y decrease in vacancy rate occurred due to limited new supply.

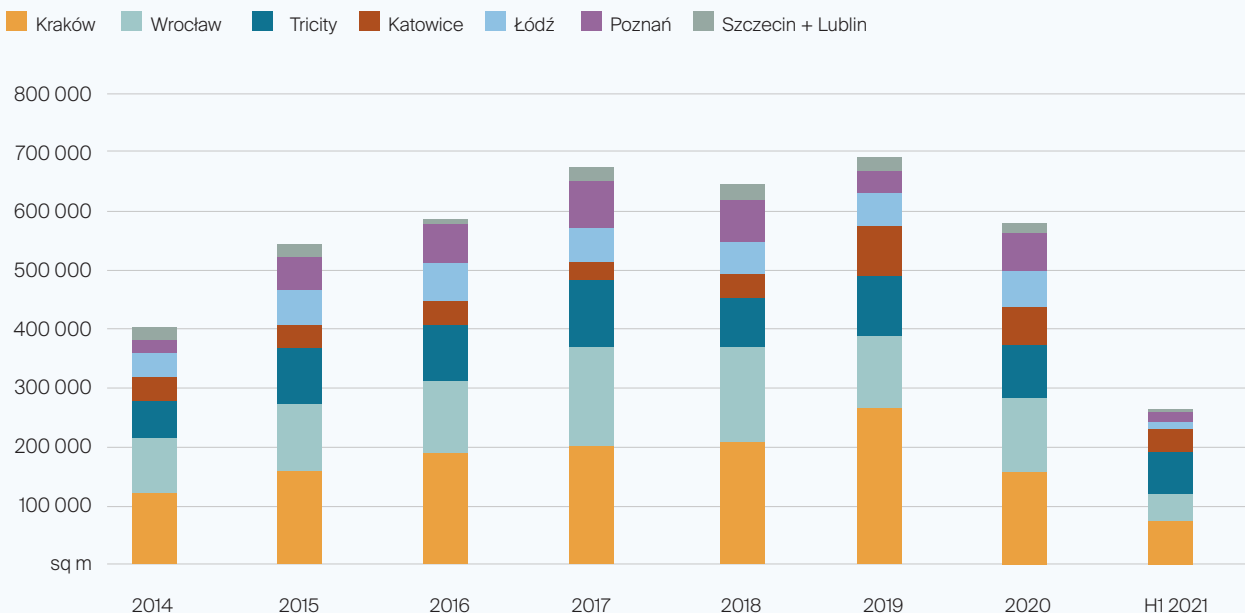
KATOWICE

Between January and June 2021 only one project was completed, meaning that the total stock exceeded 590,000 sq m. Another 200,000 sq m remains under construction, of which the biggest projects are set to be delivered in 2022. Developer activity remains strong, with such a large volume of supply under construction in Katowice not having been previously recorded. Despite a slight slowdown in demand in Q1 2021, the following three months brought a revival – three of the ten largest lease agreements signed in regional cities in Q2 2021 were concluded in Katowice. In Q2 2021 alone, almost 35,000 sq m was subject to lease - some seven times higher than in the previous quarter. In terms of take-up in H1 2021, there was a 50% increase compared to the corresponding period of the previous year. At the end of June 2021, the vacancy rate stood at 9.2%, i.e. 0.1 pp. lower than in Q1 2021 and 3.2 pp. higher compared to the previous year.

Chart 4: Supply under construction in regional markets



Source: Knight Frank

Chart 5: Annual take-up in regional markets

Source: Knight Frank

ŁÓDŹ

Total stock in Łódź reached 580,000 sq m at the end of Q2 2021. Due to a lack of new supply, the total stock remained the same as the previous year. Approx. 100,000 sq m remains under construction, with it due for systematic completion in the coming years, and with some 50% due for delivery in 2023. Demand in the second quarter of 2021 remained at a similar level to that in Q1, continuing a trend observed in the previous quarters, i.e. tenants withholding decisions regarding the leasing of office space due to the uncertainty surrounding the COVID-19 pandemic. Łódź is the market with the highest increase in the vacancy rate over the past year, reaching 18.3% at the end of June (a 1.5 pp. increase q-o-q and 5.1 increase y-o-y). The growth in amount of available office space is the result of the low level of leased new supply in projects completed in 2020 and weaker tenant activity in H2 2020 and H1 2021.

LUBLIN

Lublin is one of the smallest regional office markets in Poland with a total stock of some 198,000 sq m. Increased developer activity in 2017-2018 brought an increase in the vacancy rates, and an attendant slowdown in the completion of new projects occurred in subsequent years. The last project completed in Lublin was Point 75, offering approx. 1,800 sq m (delivered in Q2 2018). In Q1 2021, no new project was delivered, but investors are still planning further projects. Developers are starting new projects, but due to the uncertainty in the office sector, the completion of office buildings under construction is taking longer. Currently, approximately 40,000 sq m of office space in Lublin is under construction and if developers keep to their schedules, the majority of the supply being built will be completed in 2021. The difficult situation on the market caused by the pandemic resulted in a decline in tenant activity and a significant amount of office space being vacated in several buildings. At the end of June 2021, the vacancy rate stood at 15.2%, an increase of 3.7 pp. compared to the previous quarter, and 4.9 pp. year on year. In H1 2021, no new leases were noted on the market.

SZCZECIN

Szczecin, with a total office stock of 183,000 sq m, is one of the smallest regional office hubs in Poland. After the exceptionally high developer activity recorded in 2019, when approximately 25,000 sq m of office space was completed (the second highest result in the history of the local market), the following quarters brought a slowdown. Between April and June 2021, approx. 4,000 sq m of office space was subject to lease, with most of the lease agreements being renewals. Take-up volume in H1 2021 amounted to 5,000 sq m and was some 35% higher than in the corresponding period of 2020. At the end of Q2 2021, there was a slight increase in the amount of space available for lease. This led to an insignificant increase in vacancy rate, which stood at 7.8%. Szczecin remains the market with the lowest vacancy rate among the analysed regional hubs.

INVESTMENT MARKET

Prime yields:

4.75%

office market

2bn EUR

investment transaction volume (H1 2021)

Record-high interest in warehouse assets

5.50%

retail market

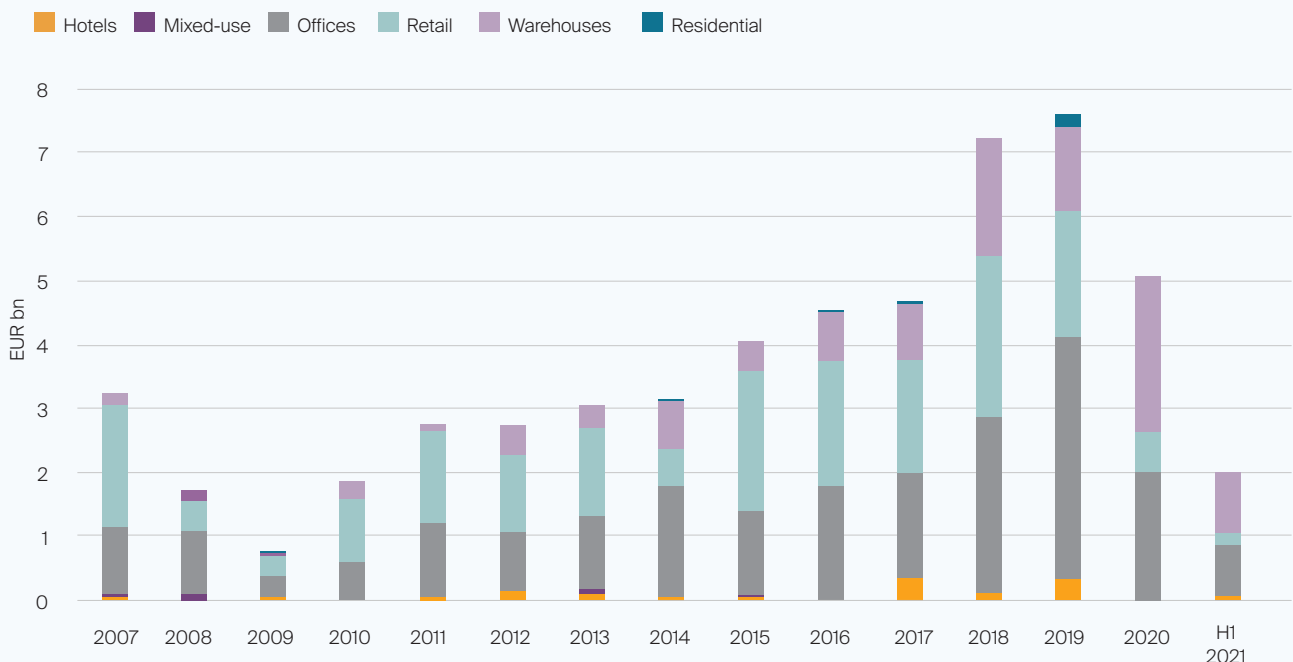
4.50%

warehouse market

In the second quarter of this year, over EUR 770 million was invested in commercial properties in Poland. As a result, the first half of 2021 closed with an investment volume of EUR 2 billion. This result is 30% lower than the figure registered in H1 2020, although it should be remembered that last year's transactions were driven by projects started in the record breaking year of 2019. The H1 2021 result reflects the good situation on the commercial market, and is evidence of the resilience of the real estate sector in the face of the continuing economic turmoil stemming from the COVID-19 pandemic.

During the first six months of 2021, the warehouse and office sectors attracted the highest interest of investors, whose strategies remain unchanged and are based on the sectors' stability and relatively low risk. Additionally, interest in the PRS market has been accelerating and it has been attracting the attention of a growing group of investors, while the transactions confirm the attractiveness of the Polish rental market.

Chart 1: Investment transaction volume by sector in Poland



Source: Knight Frank

45% of H1 2021's transaction volume was in the warehouse sector – a sector which has recently seen record results in terms of both supply and demand. The best historical result in the sector, EUR 2.6 billion, was registered in 2020. This has been largely a reaction of investors to the development of the e-commerce market, strengthened further in the era of the COVID-19 pandemic, and changing market sentiments. Investor activity at the beginning of 2021 was equally high, leading to an acquisition volume of EUR 920 million. The most desirable assets are still warehouse portfolios, along with BTS projects with long lease contracts. The transactions closed between January and June 2021 include: the purchase of BTS Castorama in Stryków by Savills Investment Management; the sale of 7R City Flex in Rzeszów to PAREF; the purchase of the Duo Portfolio of 7R projects in Siemianowice and Sosnowiec by M7 RE; the sale of the TDP Park Piaseczno project near Warsaw to Hines.

A further 39% of the H1 2021 investment volume was accounted for by office properties, with transactions reaching EUR 790 million. Their investment volume decreased compared to the corresponding period of 2020 by over 40%. In the first half of the year, there were 12 acquisitions of office buildings in Warsaw and 7 in regional cities, the largest of which were: the purchase of Alchemia Neon in Gdańsk by the

German DWS fund; the sale of Villa Offices to KGAL; the purchase of a portfolio of 11 BUMA GROUP schemes by Partners Capital / REINO Capital; the sale by Immofinanz of a portfolio of its 4 properties to the Hungarian company Indotek.

Additionally, in the second quarter of 2021, further transactions in the PRS sector were also recorded, leading to over EUR 550 million in the first half of the year. However, it is not included in the total volume of investment transactions due to the structure of the financing of these transactions in the “forward funding” formula, which is only the obligation to acquire the property, where the buyer is the party financing the process until the completion of its construction. Recent months have seen increased investor activity in Poland. The main factors driving the market include the limited supply of high-quality investment products, and the enormous potential of the Polish market, which remains very competitive with the markets of Western Europe. The scale of investments is gaining momentum, with the major transactions concluded in the second quarter of 2021 including: an agreement between the Heimstaden Bostad fund and Budimex finalizing the purchase of 2,500 units for over EUR 300 million; an agreement concluded between YIT - a Finnish developer, and NREP - an investor from the Nordic countries. The subject of the latter transaction is the

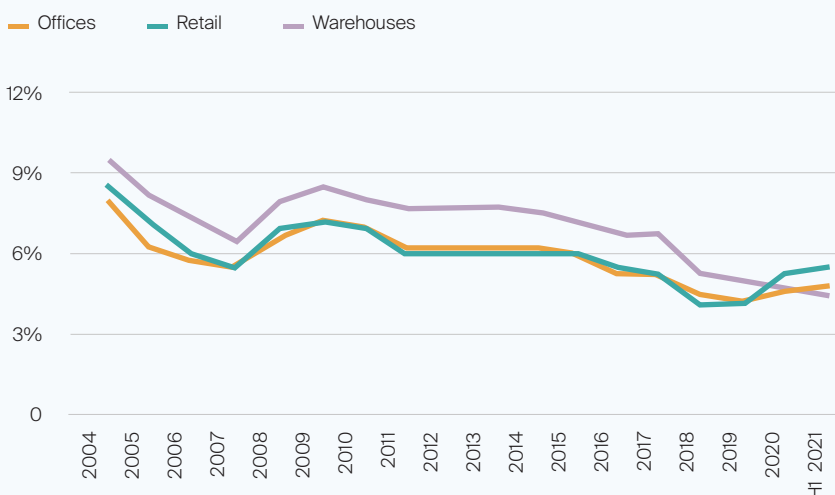
construction and sale of approximately 1,000 units for rent, mainly in Warsaw, with the completion of the first of them scheduled for the end of 2022.

The value of H1 2021 retail market investment transactions amounted to over EUR 285 million, some 14% of the total transaction volume, and much lower than in previous years. The sector's performance is attributable to the current economic situation. The inability to conduct commercial activities in large shopping centres for several months, the exemption of tenants from rent payments, and a lack of support for landlords mean that the entire traditional retail sector has found itself facing a number of challenges. Retail parks and small convenience projects have come out on the defensive against the pandemic. Recently, we have been observing a certain interest and willingness to invest capital in shopping centres, but with the idea of their repositioning or reconstruction. The portfolio purchase of four properties by EPP for over EUR 100 million took the majority share in the structure of transactions on the retail market. Additionally, several smaller discounted transactions were concluded by opportunistic funds.

The current global economic situation caused by the pandemic is having a significant impact on yield levels. The best logistic properties are valued at 4.50-4.75%, and prime BTS properties with long leases at between 4.25% and 4.50%, with tendency to compress. In the office sector, prime assets can currently achieve a yield of around 4.75% - compared to early 2020 negotiations which had a range of 4.25% - 4.35%.

The second half of 2021 remains a big unknown, although it can be expected that real estate in Poland will be of great interest to funds from Europe, USA, China and Singapore. The market situation and associated trends will be shaped by a number of factors - primarily the evolution of the global epidemic situation, imposed restrictions, sanitary regimes, and the choices made regarding the return of employees to offices.

Chart 2: Prime yields



Source: Knight Frank

CONTACT IN POLAND:

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

RESEARCH

Elżbieta Czerpak
elzbieta.czerpak@pl.knightfrank.com

COMMERCIAL AGENCY - OFFICE

L-REP Janusz Garstka
janusz.garstka@pl.knightfrank.com

T-REP Karol Grejbus
karol.grejbus@pl.knightfrank.com

Regions: Kraków, Katowice, Wrocław
Monika Sułdecka-Karaś
monika.suldecka@pl.knightfrank.com

CAPITAL MARKETS

Krzysztof Cipiur
krzysztof.cipiur@pl.knightfrank.com

PROPERTY MANAGEMENT

Izabela Miazgowska
izabela.miazgowska@pl.knightfrank.com

PROPERTY MANAGEMENT COMPLIANCE

Magdalena Oksańska
magdalena.oksanska@pl.knightfrank.com

PROJECT MANAGEMENT

Urszula Łuszyńska
urszula.luszyńska@pl.knightfrank.com

VALUATION & ADVISORY

Grzegorz Chmielak
grzegorz.chmielak@pl.knightfrank.com

STRATEGIC CONSULTING EMEA

Marta Sobieszczak
marta.sobieszczak@knightfrank.com

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 PUBLICATIONS:

Office Re-Boarding Roadmap 2020



Operational Costs and Service Charges in Office Buildings in the years 2011-2019



Commercial real estate market in Poland. Facing the second wave 2020



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

© Knight Frank Sp. z o.o. 2021

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, this 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.



The brochure was printed on Cocoon Eco paper, which is made of 100% recycled paper in environmentally friendly technology.