

# Poland

# Warehouse Market

Research, Q1 2020

INFLUENCE  
OF COVID-19  
ON THE POLISH  
WAREHOUSE  
MARKET



# WAREHOUSE MARKET IN POLAND

**19.2m** sq m **2.2m** sq m **6.8%**

total warehouse stock

supply under construction

vacancy rate

**3.8 m** sq m **2.50-5.00** EUR/sq m/mth

average annual take-up 2017-2019

average headline rents

The warehouse market in Poland is one of the fastest growing sectors of the Polish economy.

Strategic location in the central part of Europe, on the crossroads of many important European routes influences dynamic development of warehouse market in the country.

During the last 5 years, total warehouse stock doubled and exceeded 19.2m sq m at the end of Q1 2020. The industrial market in Poland can be divided into the following categories:

- ESTABLISHED LOCATIONS:** five largest industrial markets encompassing over 80% of modern warehouse space: Warsaw and surroundings, Upper and Lower Silesias, Wielkopolska and Central Poland.

- DEVELOPING MARKETS:** locations such as Kraków, Tricity and Szczecin that are growing in importance as logistics hubs. Their expansion is strongly triggered by development of road infrastructure (highways and expressways), as well as ancillary infrastructure (e.g. freight, handling or cargo facilities).
- EMERGING MARKETS:** including e.g. Kielce, Lublin, Bydgoszcz, Konin, which recently appeared on the developers' radar. Their location is strongly stimulated by the improving road infrastructure, expanding supply chains of the key logistic operators and relatively higher availability of the workforce. Emerging markets already cover as much as 8% of warehouse stock in Poland.

Developer activity consistently stays strong, with nearly 2.2m sq m of warehouse space being under construction at the end of Q1 2020. Modern warehouse stock in Poland is expected to exceed 20m sq m by the end of 2020. The highest developer activity is noted in 2 largest concentration hubs, i.e. Warsaw area and Upper Silesia, where a total of 52% of warehouse space under construction is located.

Demand for modern warehouse space remains high, with the recent 3-year average approaching 3.8m sq m of leased space. Logistics and production companies which have long remained among major players on demand side of the warehouse sector, have been joined by e-commerce tenants (such as Amazon and Zalando, which opened 8 and 3 fulfilment centres in Poland respectively over this time).

# INVESTMENT MARKET

## THE MOST SOUGHT-AFTER ASSETS:

- BTS PROJECTS WITH LONG-TERM LEASES
- PORTFOLIO TRANSACTIONS ALLOWING A GEOGRAPHIC DIVERSIFICATION
- SBU'S / LAST MILE LOGISTICS ASSETS SITUATED WITHIN ADMINISTRATIVE BORDERS OF THE LARGEST CITIES

Prime yields (BTS\*): **5.00%-5.50%**

Prime yields (multi-let\*): **5.50%-6.00%**

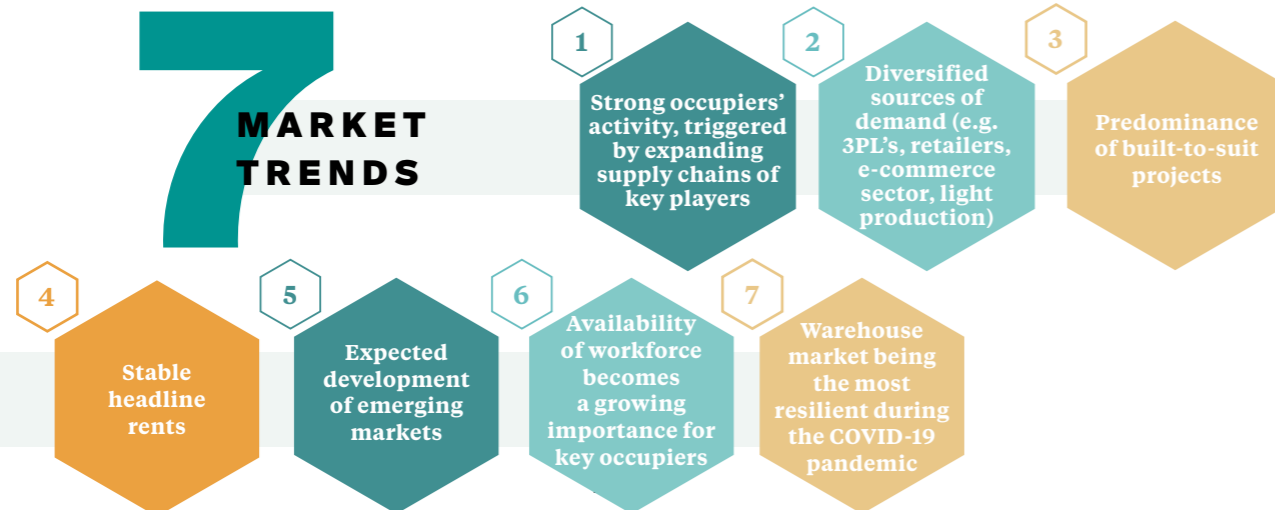
2019 investment volume (industrial): **1.3bn EUR**

\* assuming long WAULT, substantial volume, very good covenants, market rents and location at the highway / expressway with close distance to the largest cities

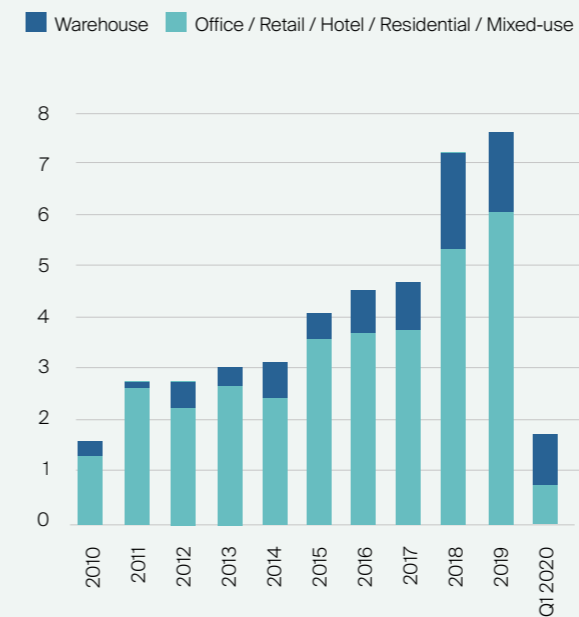
Early 2020 showed continued strong activity in the investment market in Poland with the total level of transactions amounting to EUR 1.7bn. Investors' activity and the volume of purchases in the first quarter did not slow down but economic downturn caused by the COVID-19 pandemic can be seen on the real estate market within next months. Nevertheless, in Q1

2020 industrial market maintained its leading position within the commercial sector with nearly 60% of investment volume constituted by transactions in the warehouse sector, of which the most significant were portfolio deals. Total volume of acquisitions in this segment reached value of EUR 994m in the first months of the year, comparing to over EUR 5bn within the last 3 years.

The current market sentiment proves that the industrial market is the most resilient in light of the COVID-19 pandemic, which is clearly visible in the number of ongoing transactions and prime yields, which remained intact since the beginning of the year. Many institutional buyers perceive warehouse market as a safe haven in the current circumstances and decide to increase their allocations in Poland.

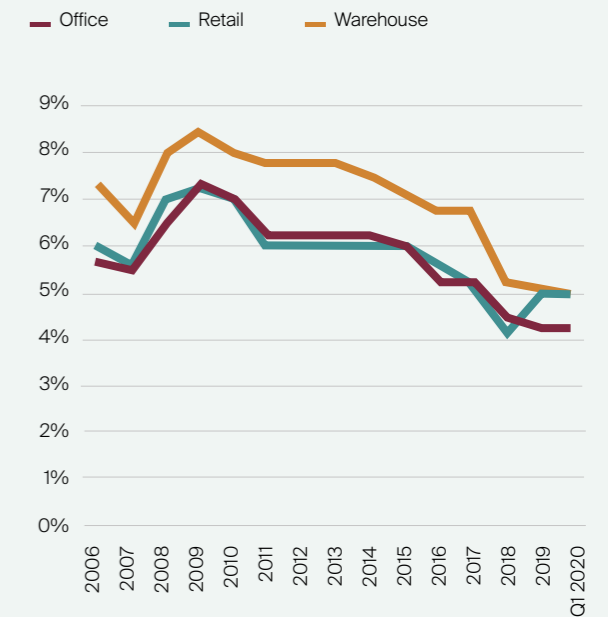


Investment transactions volume in Poland (EUR bn)



Source: Knight Frank

Prime yields



Source: Knight Frank

# WAREHOUSE CONCENTRATION AREAS IN POLAND

## WARSAW

Total stock:	<b>4.5m sq m</b>
Stock increase (2014/2019):	<b>44%</b>
Supply under construction:	<b>584,000 sq m</b>
Vacancy rate:	<b>7.3%</b>
Headline rents:	<b>2.50-5.00 EUR</b>

## CENTRAL POLAND

Total stock:	<b>3.1m sq m</b>
Stock increase (2014/2019):	<b>147%</b>
Supply under construction:	<b>78,000 sq m</b>
Vacancy rate:	<b>10.1%</b>
Headline rents:	<b>2.50-3.50 EUR</b>

## UPPER SILESIA

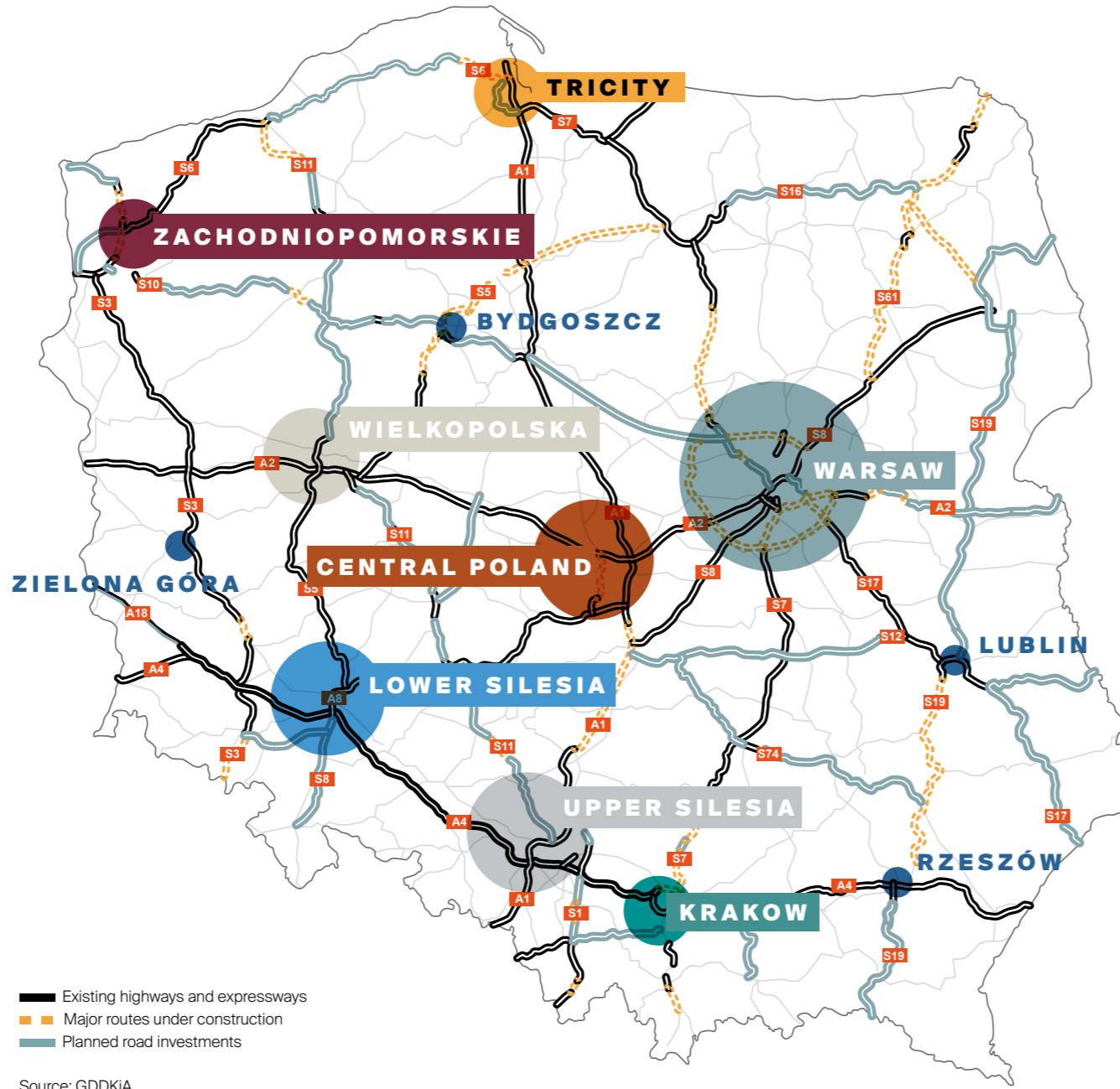
Total stock:	<b>3.2m sq m</b>
Stock increase (2014/2019):	<b>100%</b>
Supply under construction:	<b>540,000 sq m</b>
Vacancy rate:	<b>6.3%</b>
Headline rents:	<b>2.80-3.60 EUR</b>

## LOWER SILESIA

Total stock:	<b>2.5m sq m</b>
Stock increase (2014/2019):	<b>104%</b>
Supply under construction:	<b>257,000 sq m</b>
Vacancy rate:	<b>5.7%</b>
Headline rents:	<b>2.70-3.90 EUR</b>

## WIELKOPOLSKA

Total stock:	<b>2.1m sq m</b>
Stock increase (2014/2019):	<b>67%</b>
Supply under construction:	<b>52,000 sq m</b>
Vacancy rate:	<b>8.1%</b>
Headline rents:	<b>2.70-3.50 EUR</b>



Source: GDDKiA

## ZACHODNIOPOMORSKIE

Total stock:	<b>736,000 sq m</b>
Stock increase (2014/2019):	<b>809%</b>
Supply under construction:	<b>105,000 sq m</b>
Vacancy rate:	<b>1.5%</b>
Headline rents:	<b>3.20-3.80 EUR</b>

## KRAKOW

Total stock:	<b>625,000 sq m</b>
Stock increase (2014/2019):	<b>294%</b>
Supply under construction:	<b>25,000 sq m</b>
Vacancy rate:	<b>7.2%</b>
Headline rents:	<b>3.60-4.50 EUR</b>

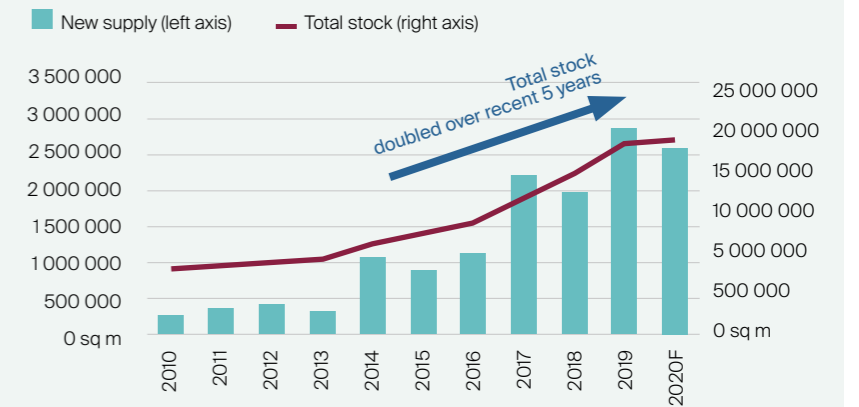
## TRICITY

Total stock:	<b>623,000 sq m</b>
Stock increase (2014/2019):	<b>181%</b>
Supply under construction:	<b>265,000 sq m</b>
Vacancy rate:	<b>4.4%</b>
Headline rents:	<b>2.70-3.60 EUR</b>

## EMERGING MARKETS

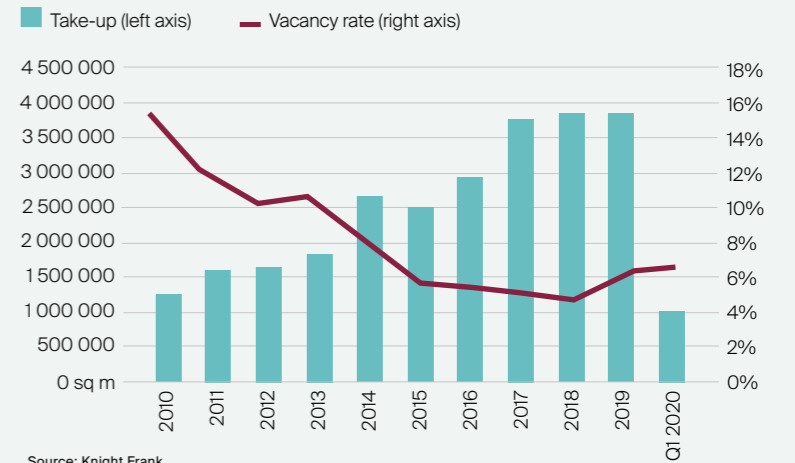
Total stock:	<b>1.6m sq m</b>
Stock increase (2014/2019):	<b>not existed in 2014</b>
Supply under construction:	<b>272,000 sq m</b>
Vacancy rate:	<b>2.7%</b>
Headline rents:	<b>2.60-3.50 EUR</b>

### Annual warehouse supply and total stock in Poland



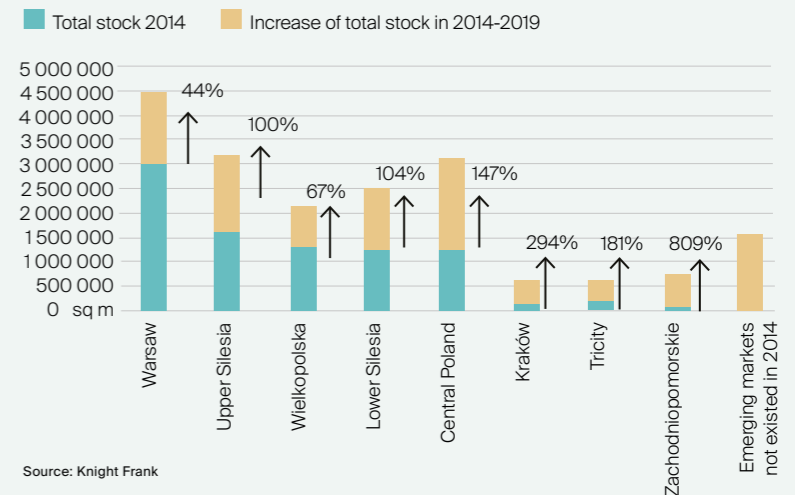
Source: Knight Frank

### Warehouse take-up and vacancy rate in Poland



Source: Knight Frank

### Development of major warehouse hubs in Poland



Source: Knight Frank

# E-COMMERCE AND THE WAREHOUSE SECTOR

GEORGE LEWIS  
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We have been living in a strange world of lockdown and everyday life has changed in a way that many of us could have never imagined. For better or worse how the world functions once we come out of this crisis will be very different than before. This lockdown has accelerated the growth of e-commerce Direct-To-Consumer (DTC).

E-commerce has boomed in this lockdown period with COVID-19 and it clear that it's accelerated its growth by several years in a matter of weeks. Poland has been some way behind Western Europe in its use of e-commerce but is fast catching up and embracing it. An older generation less comfortable with ordering online has been forced to embrace this new way of shopping in a short space of time. People who have previously refused to create an email account have now been forced into it and discovered

a whole new online world opening up to them. Retailers who have not created platforms to sell product online have had to adapt very quickly to offer this or face the prospect of going out of business. It's really a case for many of innovate or die. In certain cases this has created a requirement from retailers for short term warehouse space to handle this new way of operating along with creating user friendly web sites to allow goods to be ordered and payments to be taken securely.

Clearly many products which consumers are familiar with can be readily viewed and ordered online with no need to be physically present when buying. Other goods will continue to need a face-to-face interaction and physically selecting in cases of certain food, high-end consumer products, clothing and accessories where the choice is very personal and for many the

whole shopping experience forms part of the desire to buy. Many shops will survive and coffee shops will no doubt thrive but many retailers will need to be innovative and creative to justify a physical presence in shopping centers, towns and cities.

The current high demand for warehouse space has been evident with logistic owners and industrial agents kept very busy letting space. Developers are reporting significant leasing activity and literally working around the clock to satisfy their tenants requirements. Once things start to settle there will be more clarity on the availability of space. At that point developers will review if they will be prepared to undertake speculative development. It seems relatively unlikely that this will happen to any great extent until it's clear how much space may re-enter the market after the short term demand

has subsided and the availability of spaces from tenants who did not make it through this challenging period. In cases where speculative development does take place the developers will very carefully control the process with their own in-house construction team and make sure that the project completes on time and as quickly as possible.

Direct product delivery to people's homes requires more advanced logistics technologies compared to deliveries to large-scale stores. The growth in e-commerce will need warehouse/logistic facilities which are suitable in the longer term for such a use. There will be a requirement for new developments with cross-docks and for taller buildings which are higher than the standard 10 metre eaves height. There is a further challenge that many companies find it difficult to anticipate growth and how much storage space they will need in the future. This is alongside surges that can surround situations such as the current lockdown, the launch of new product or at say Christmas when there is the need for extra space is temporary. This is not a new situation with third-party logistics companies (3PLs) managing outsourced warehouse space for some time.

For many companies they will be reviewing their supply chain and in

turn manufactures will be looking at where they produce their goods. There is a feeling there will be less focus on cost and more resilience in supply chains. Manufactures may be considering moving their production into the region where they are based. There is the potential that CEE will benefit from some fall out from production moving from Asia. This creates greater certainty over the process and supply but naturally may have cost implications. Clearly the raw materials are often imported and manufactures will need to consider how much stock they are able to hold and how long this takes to arrive.

Automation of warehousing for e-commerce and the future employment prospects is a clear trend and many operators require relatively small workforces. Although on a positive in the case of Amazon some of their larger facilities do in fact employ a significant number of people. If however more production is located closer to end destination then are their opportunities for the training and development of new workers.

Warehouse/logistics is today the star performer of the commercial property world. It was already heading that way prior to COVID-19 and that has now simple pushed to the top. This is

a sector which a diverse range of investors wish to now deploy significant funds to acquire and invest in standalone projects, portfolios and platforms. This is the sector which is currently viewed as most resistant by investors and the sector which banks feel more comfortable to provide debt subject to careful review of the tenants and the project.

In terms of current activity investors fall into several camps: the first being those who are in transactions and are committed to closing the deal, there are those who are putting everything on hold and watching and waiting and then there are those investors who are carefully analyzing interesting opportunities and selectively proceeding on some of them. This last group are in a great place and will be able to acquire with reduced competition.

In all it's a dynamic time for the warehouse and logistics sector as the growth and development of e-commerce massively accelerates. COVID-19 has brought many changes into our lives and not least how we shop and spend our money. In commercial property this has been great news for the warehouse, but created further challenges for the retail sector.



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