RESEARCH

Knight Frank

Poland

COMMERCIAL MARKET 2019

Warsaw
Office market

5.6 m sq m
existing office stock

800,000 sq m
office space under construction in 27 projects

878,000 sq m
leased office space

162,000 sq m
new supply in 17 projects

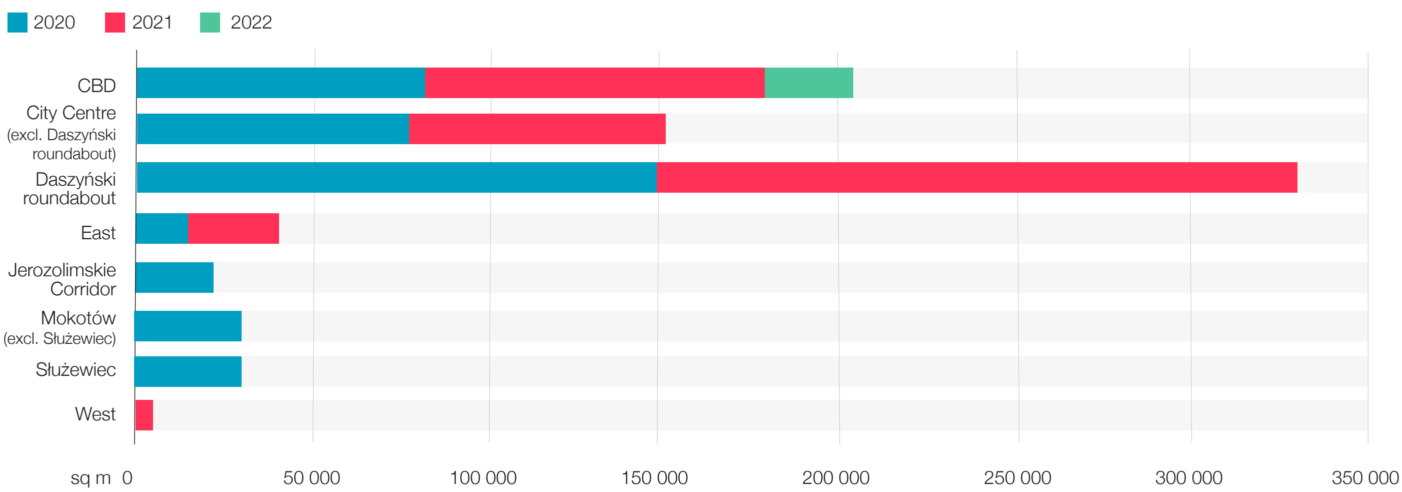
7.8%
vacancy rate

At the end of 2019, total Warsaw office stock amounted to some 5.6m sq m. Over the past year, 17 projects delivered 162,000 sq m to the market - one of the lowest results in the history of the local market (the last such figure was recorded in 2011, when only 120,000 sq m was completed). The largest projects completed in 2019 were; Wola Retro with an area of 24,500 sq m (Develia), Echo Investment's 18,700 sq m Moje Miejsce B1, and two buildings owned by Skanska Property Poland: Generation Park Z and Spark B, supplying 17,300 sq m and 15,700 sq m of office space respectively. It is worth mentioning that, at the time of completion of the new projects, an average of 70% of the offered space had already been preleased.

In 2019, approximately 56,000 sq m of the annual supply was completed in Warsaw's central districts, with almost twice as much being delivered in non-central locations, of which Jerozolimskie Corridor and the West Zone had the largest share.

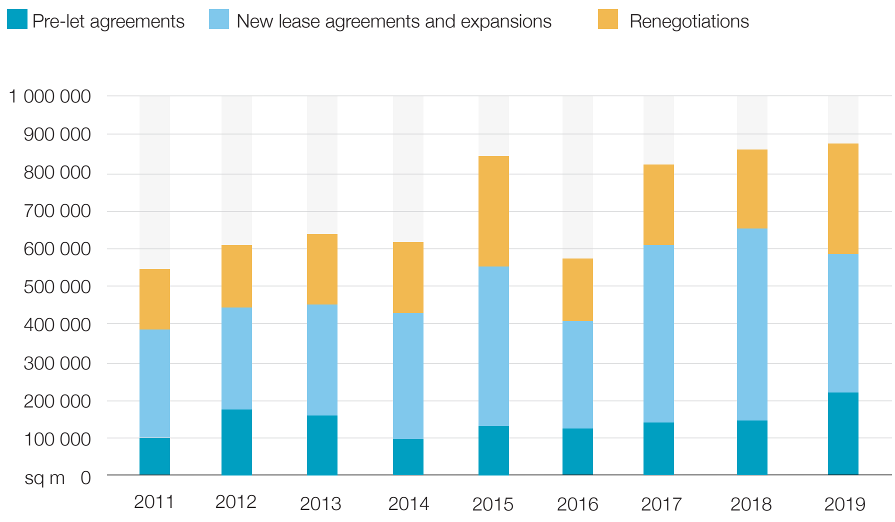
The relatively limited new supply delivered to the Warsaw market in 2019 does not, however, represent a weakening in developer activity since, currently, there are approximately 800,000 sq m of office space under construction. If these projects are completed on schedule, 2020 will see historically high volumes of new supply reaching the market, comparable to the record year of 2016. Daszyński roundabout continues to be the area with the most vigorous development. At the end of 2019, eight large-scale investments totalling approximately 330,000 sq m of office space were designated as being under construction there, of which

CHART 1 Supply under construction by location and completion date (2019)



Source: Knight Frank

CHART 2 Office take-up in Warsaw



Source: Knight Frank

the largest were two Ghelamco Poland projects: The Warsaw Hub (61,000 sq m) and Warsaw UNIT (57,000 sq m). That said, the largest project under construction in Warsaw remains HB Reavis' Varso Place, located in the Central Business District and set to offer over 115,000 sq m of office space in three buildings, one of which will be the tallest tower in the European Union.

2019 continued to see strong, record-breaking demand for Warsaw office space, with some 880,000 sq m subject to lease. The areas of greatest interest to tenants were the City Centre Zone, where vast majority of demand came from contracts signed for space in buildings located in Daszyński roundabout subzone; and the Mokotów district, where almost all agreements were concluded in schemes located in Służewiec subzone. These two zones accounted for more than half of the total take-up volume in 2019. Undoubtedly, this impressive result was influenced by a number of significant, individual lease agreements signed in 2019: e.g. the pre-lease of 45,600 sq m by mBank in Mennica Legacy Tower, and the renegotiation of 44,850 sq m by Orange Polska in Miasteczko Orange. Renegotiations accounted for the highest share of the 2019 lease volume – 34% (almost 300,000 sq m). The figure is also a record for such agreement types in the Warsaw office market. Another record-high level was witnessed in pre-lease contracts signed in buildings under construction – 26% (225,000 sq m) – a figure influenced by both the small amount of new space delivered in 2019 and the limited availability of office space in existing buildings.

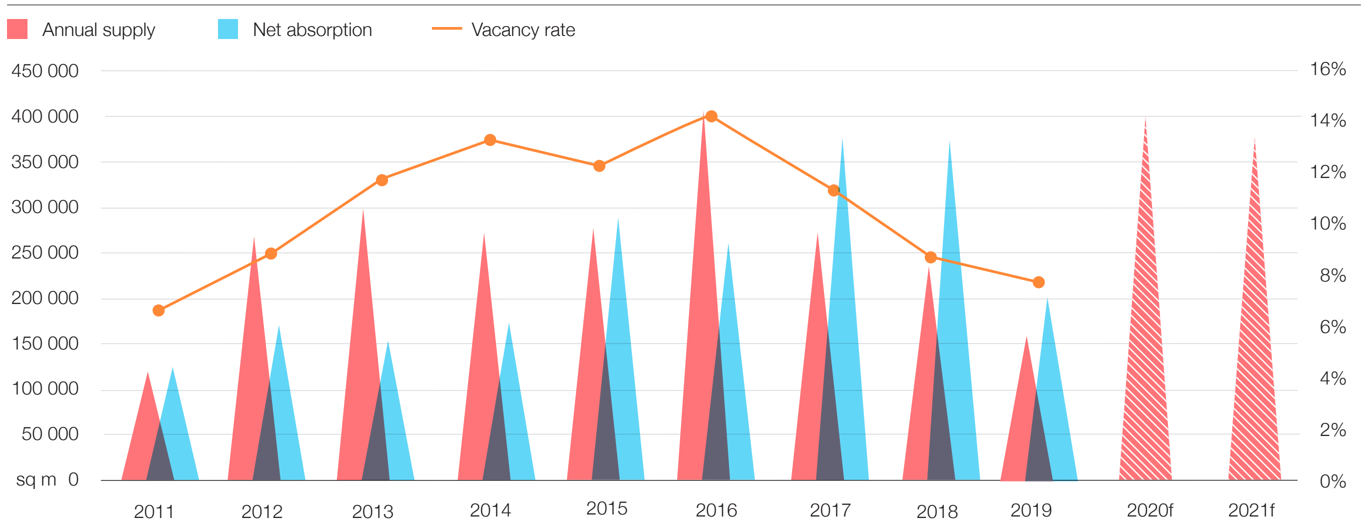
High tenant activity combined with limited new supply has brought about a decrease in the vacancy rate, which stood at 7.8% at the end of 2019 (435,000 sq m of office space for immediate lease). This represented a 0.9 pp. decrease compared to the corresponding 2018 figure, and was the lowest level since 2012. The highest amount of vacant space was available in the Służewiec area (180,000 sq m) and in central locations (117,000 sq m).

2020 may well be a record year in terms of new supply to the Warsaw office market. Thus, a vacancy rate increase is expected in the second half of the year, although this increase is unlikely to be significant since a substantial part of the space under construction (over 70%) has already been secured by lease agreements.

Due to the exceptionally low volume of newly constructed space, net absorption in 2019 was at one of the lowest levels in recent years, amounting to approximately 200,000 sq m. This result was almost half the figure for 2018. Nevertheless, given the supply scheduled for completion in 2020, which has been highly preleased, and the continued stable demand for Warsaw office space, the decline in net absorption is set to be short-lived.

Increasing construction costs, high demand for office space, and a low vacancy rate have all contributed to a small increase in asking rents since the beginning of 2019 – most notably in new office buildings.

CHART 3 Annual supply, net absorption and vacancy rate in the Warsaw office market



f - forecast
Source: Knight Frank

Regional cities
Office market

5.6m sq m
total office stock

547,000 sq m
new supply in 2019

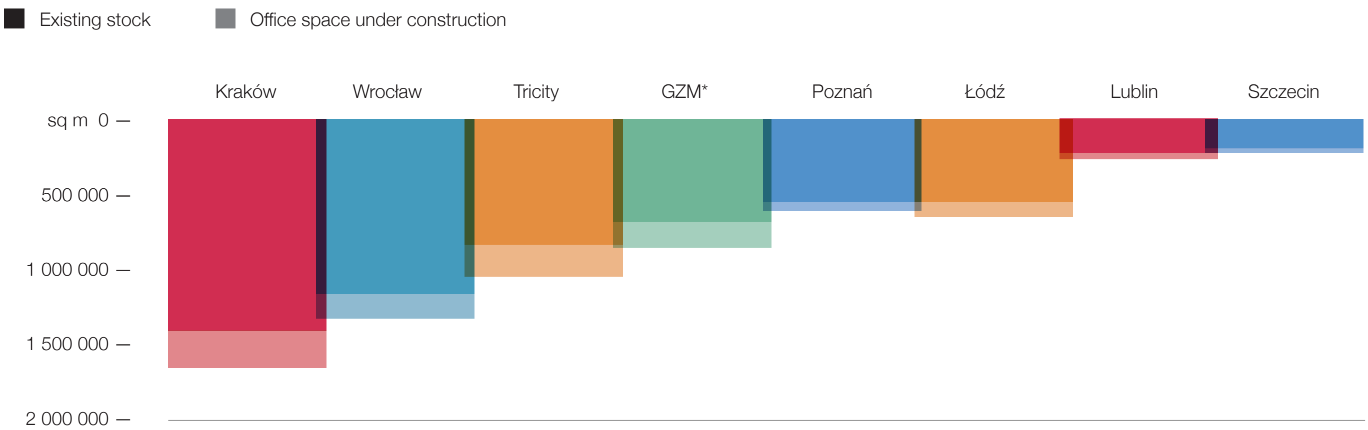
693,000 sq m
office take-up in 2019

420,000 sq m
net absorption in 2019

950,000 sq m
supply under construction

2019 turned out to be a ground-breaking one for the largest regional office markets. By the end of the year, the combined total office stock in the eight biggest regional cities exceeded Warsaw's stock, reaching 5.6m sq m. Moreover, together with the increase in stock, the demand for office space is also growing. At the end of 2019 the annual take-up had reached some 700,000 sq m - the highest historical result. The growth in demand has translated into high developer activity. Another record-breaking figure was recorded with the exceptionally high annual new supply reaching almost 550,000 sq m. It seems likely this trend may persist due to the high volume of supply under construction – the figure of 950,000 sq m being similar to the result seen at the end of 2018.

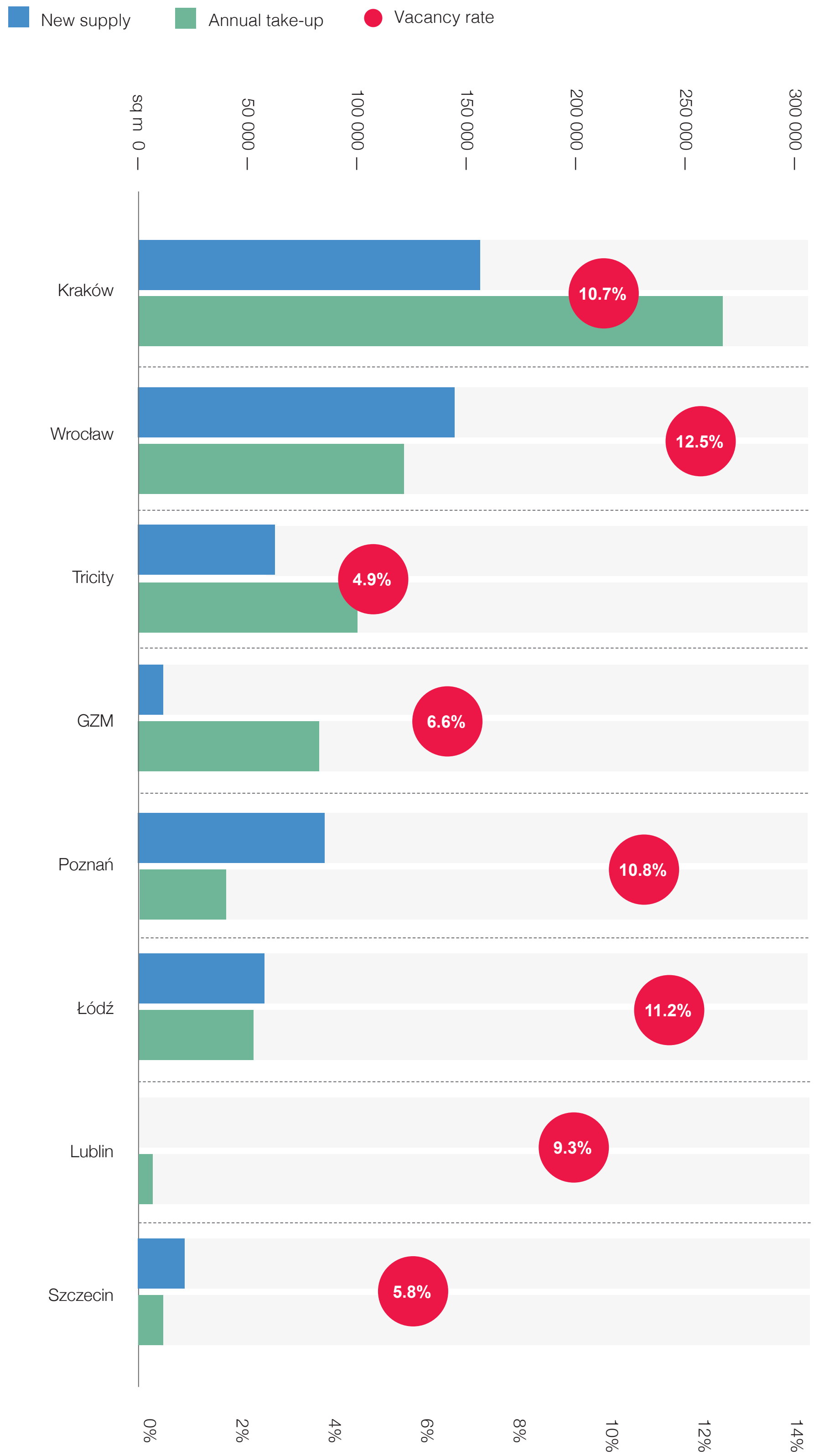
CHART 1 Existing stock and office space under construction (Q4 2019)



*Górnośląsko-Zagłębiowska Metropolia includes: Katowice, Gliwice, Tychy, Dąbrowa Górnicza, Bytom, Zabrze, Ruda Śląska, Chorzów, Sosnowiec

Source: Knight Frank

CHART 2 New suppy, take-up and vacancy rate in major regional office markets (2019)



Source: Knight Frank

KRAKÓW

In 2019, 16 office buildings with a total area of 155,000 sq m were delivered to the Kraków office market. This is the second highest result in the history of the local market and, at the same time, the highest result among the largest regional cities. As a result, the city's total stock exceeded 1.4m sq m, allowing Kraków to maintain its leading position among regional markets. Furthermore, by the end of December 2019, there was approximately 250,000 sq m of office space under construction in Kraków, of which almost 70% was due for completion by the end of 2020. Kraków has also been breaking its own records for demand. A revival in developer activity is the response to the growing demand in the office sector. At the end of 2019 the transaction volume was 30% higher than the 5-year average take-up volume, and had reached a record-breaking result of 267,000 sq m. Despite a significant transaction volume, the vacancy rate stood at 10.7% (an increase of 1.2 pp. q-o-q and 2.1 pp. y-o-y) – this is largely due to the high volume of annual new supply that was not fully leased prior to completion.

WROCŁAW

At the end of December 2019, Wrocław, with a total office stock of some 1.2m sq m, remained the second largest regional office market in Poland. Strong developer activity was still being observed in the Lower Silesian capital in 2019. The new supply delivered to the local market in 2019 was historically high (over 147,000 sq m) – and at a similar level to the end of 2018. Additionally, at the end of 2019, over 146,000 sq m of office space was at the construction stage and is set to be delivered in the coming years. As long as developers meet their deadlines, some 50% of this space will be completed in 2020. Due to the significant volume of new supply not fully commercialised, the vacancy rate showed a significant increase of 3.4 pp. (to 12.5%) compared to the figure for the end of 2018.

TRICITY

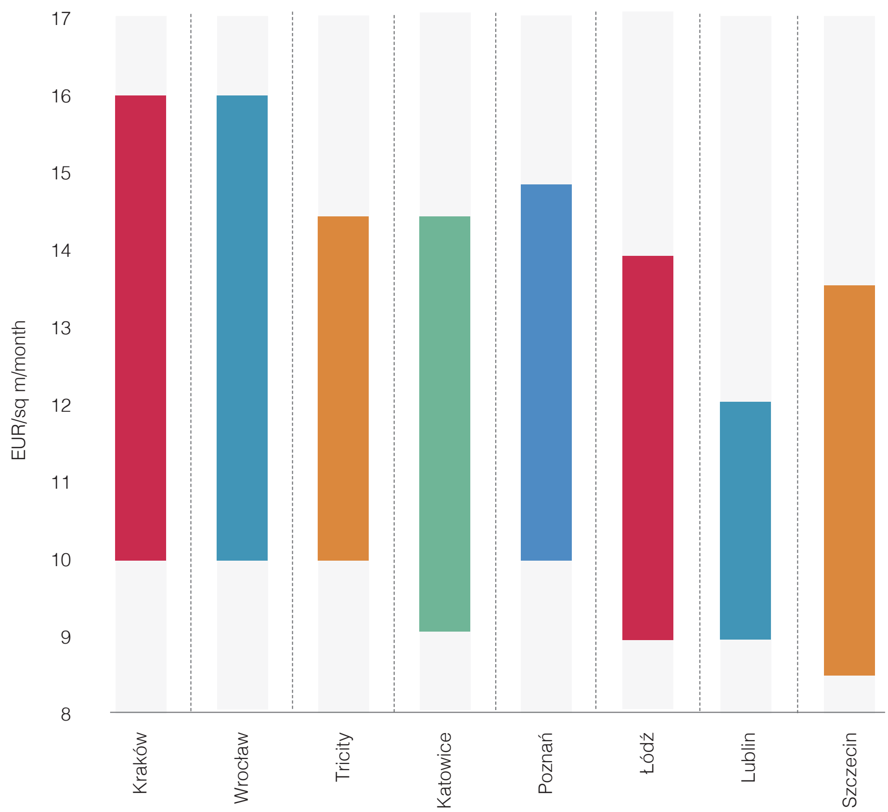
At the end of 2019, the total office stock in Tricity stood at almost 840,000 sq m. The Tricity office market has been developing steadily for several years and 2019's new supply accounted for 60,000 sq m of the total stock. This result was lower than the annual new supply registered in 2018, but the steady market development is mirrored in the large supply under construction, some 210,000 sq m, which will be delivered to the market in the coming years - of this, 60% is planned for completion in Gdańsk. Along with high developer activity in the Tricity office market, tenant interest shows little sign of weakening. Between January and December 2019, over 100,000 sq m was subject to lease, a 20% increase on the previous year's figure. The Tricity vacancy rate stood at 4.9%, giving it the lowest result among the eight largest regional markets, and the lowest result in the local market since 2007.

GÓRNOŚLĄSKO-ZAGŁĘBIOWSKA METROPOLIA

*Górnośląsko-Zagłębiowska Metropolia includes: Katowice, Gliwice, Tychy, Dąbrowa Górnicza, Bytom, Zabrze, Ruda Śląska, Chorzów, Sosnowiec

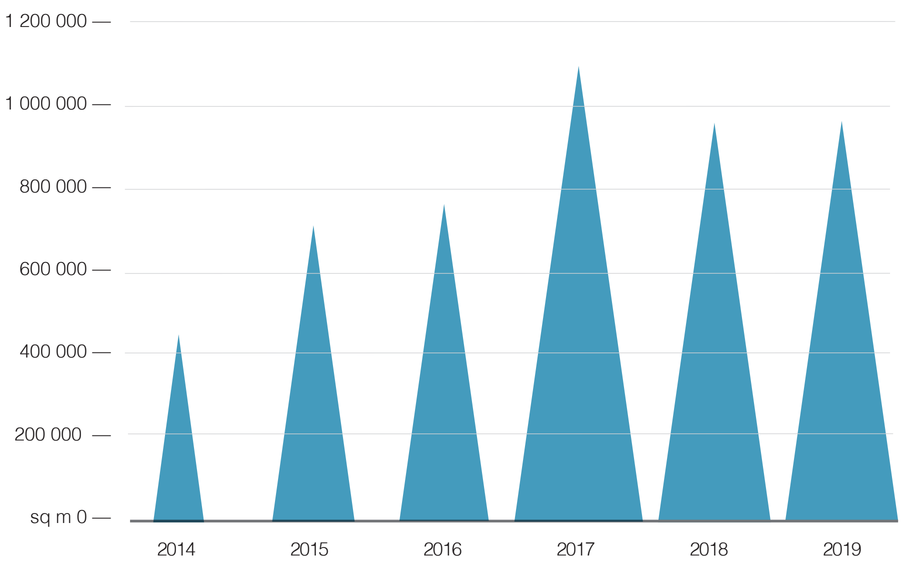
Currently, office stock in GZM has reached almost 700,000 sq m, of which 530,000 sq m is in Katowice. In 2019 only 10,000 sq m was delivered to the local market; however, it by no means signals a slowdown, as another 160,000 sq m is under construction, of which 75% is due to be delivered in 2020 and 2021. The record-breaking demand of 2019 is further evidence of the healthy condition of the sector - some 85,000 sq m was subject to lease, over double the previous year's figure. Such vigorous tenant interest is certain to have a positive influence on developer activity in the coming years, with the local market set to attract new investors. New projects have been announced by Cavatina and Vastint, two developers new to the market. In December 2019 the vacancy rate reached 6.6%, a 1.6 pp. decrease on the previous quarter, and a 2.2 pp. decrease y-o-y. The decline in the vacancy rate is due to the limited new supply and vigorous tenant activity.

CHART 3 Asking rents for office space in regional cities (Q4 2019)



Source: Knight Frank

CHART 4 Supply under construction in regional cities



Source: Knight Frank

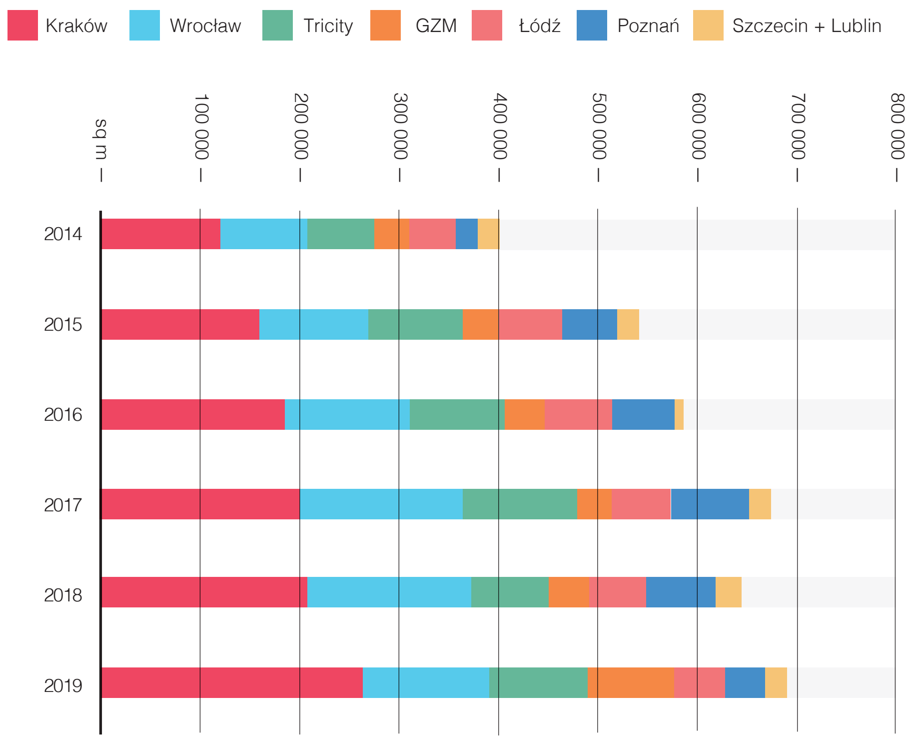
POZNAŃ

After a dynamic first six months of 2019, when almost 75,000 sq m was delivered to the market, the last two quarters of the year brought a slight slowdown. Between July and December 2019, only 10,000 sq m was completed in Poznań, meaning that, at the end of the year, total stock had reached 565,000 sq m. After 2019's record-breaking new supply volume, developer activity is expected to decrease – at the end of the year 84,000 sq m was at the construction stage. Tenants remain active: 2019's transaction volume exceeded 40,000 sq m, although this figure is almost 50% lower than 2018's take-up volume. The vacancy rate increased to 10.8% (an increase of 3.5 pp. y-o-y) – a situation caused by 2019's significant volume of new supply not being fully leased before completion. At the same time, from the end of Q1 2019, when the vacancy rate stood at 15.8%, the level of vacant office space in Poznań has been systematically decreasing.

ŁÓDŹ

At the end of 2019, the total office stock in Łódź stood at some 530,000 sq m. During the year almost 63,000 sq m was completed; a result for the local market second only behind 2017's record-breaking year. 2019's new supply was twice as high as the previous year's, and further dynamic development of the Łódź office market is expected, with another 100,000 sq m of office space identified as being under construction - 70% of which is due for completion in 2020. Coupled with high developer activity, there is lively demand for office space, with 53,000 sq m being leased, a similar result to that of 2018 (57,000 sq m). Tenant interest in the local market remains stable – the 5-year average take-up stands at 58,100 sq m. At the end of 2019, the vacancy rate grew to 11.2% (a 2.5 pp. increase compared to the end of 2018). The higher level of available office space is the result of the low commercialization of projects completed in 2019 - more than half of the annual new supply was available for lease at the end of the year.

CHART 5 Office take-up volume in regional cities



Source: Knight Frank

LUBLIN

The total stock in Lublin exceeded 190,000 sq m. After increased developer activity in 2017-2018, last year witnessed a slight slowdown. In 2019, no new projects were delivered, although investors are still planning further projects. In 2019 the construction of G7 Inter Office by JBU started, which will bring 16,000 sq m of space to the office market. The gradual absorption of the available office space resulted in a further decrease in the vacancy rate to the lowest level seen in the past two years. At the end of December 2019, the vacancy rate stood at 9.3% - a decrease of 0.5 pp. compared to the previous quarter, and a 6.1 pp. y-o-y decrease.

SZCZECIN

Szczecin, with a total stock of 180,000 sq m, is the smallest among the analysed markets in Poland. After a visible slowdown in previous years, 2019 brought an upturn in new supply. Approximately 25,000 sq m was completed in four projects, representing a record-breaking result in the history of the local market. The largest office building completed in 2019 was Porto's Posejdon project, which will offer 18,100 sq m of space. One project remains under construction, which is set to supply the Szczecin office market with a further 6,000 sq m in 2020. Similar to the supply side, the demand side saw a significant increase in tenant activity. In 2019 over 13,500 sq m of office space was subject to lease in Szczecin – the city's second best result after 2017. Due to the significant increase in the annual new supply, a slight increase in the vacancy rate was noted compared to the previous year – 0.8 pp. up, to 5.8%.

Retail market

280,000 sqm
retail schemes opened in 2019

401,000 sqm
supply under construction in end-2019

65%
share of small cities in supply under construction

3.9%
vacancy rate in Poland in end-2019

The last five years has seen a systematically decreasing growth dynamic in modern retail supply. The volume of newly delivered retail schemes has been dropping year by year. The 5-year average annual new supply (approx. 410,000 sq m) was 25% lower than the corresponding figure for 2010-2014. The main reason behind the trend is the growing saturation of agglomerations with large-scale retail projects. In contrast, the number of projects (and their total surface area) implemented in small towns, i.e. with population less than 100,000, has been steadily growing. In 2019, such locations accounted for 40% of annual supply. It is expected that these locations will also be characterized by the highest development dynamics in coming years, as 65% of all schemes currently under construction are located in towns and small sized cities.

Outlook:

1

The systematic saturation of the Polish market with traditional retail formats should encourage developers to look for alternative areas of investment (e.g. mixed-use projects, convenience projects or small retail parks), and new locations (including smaller cities, of even below 50,000 inhabitants). As a result, these actions should translate into increased interest in land and developed properties with redevelopment potential and an option for change of functions.

2

Uncertainty related to the possible reactivation of the retail sales tax in mid-2020 may temporarily slow down the processes of expansion of large retail chains, which may further have a negative impact on the vacancy rate.

3

Expansions and modernization of older shopping centres are expected to constitute a significant part of the new supply. Simultaneous commercialization should help adapt the offer of schemes to the changing expectations and shopping habits of consumers.

4

Positive forecasts for the development of segment of convenience shopping centres should activate players looking for portfolios of such projects as well as of shopping centres with a leading position in the region.

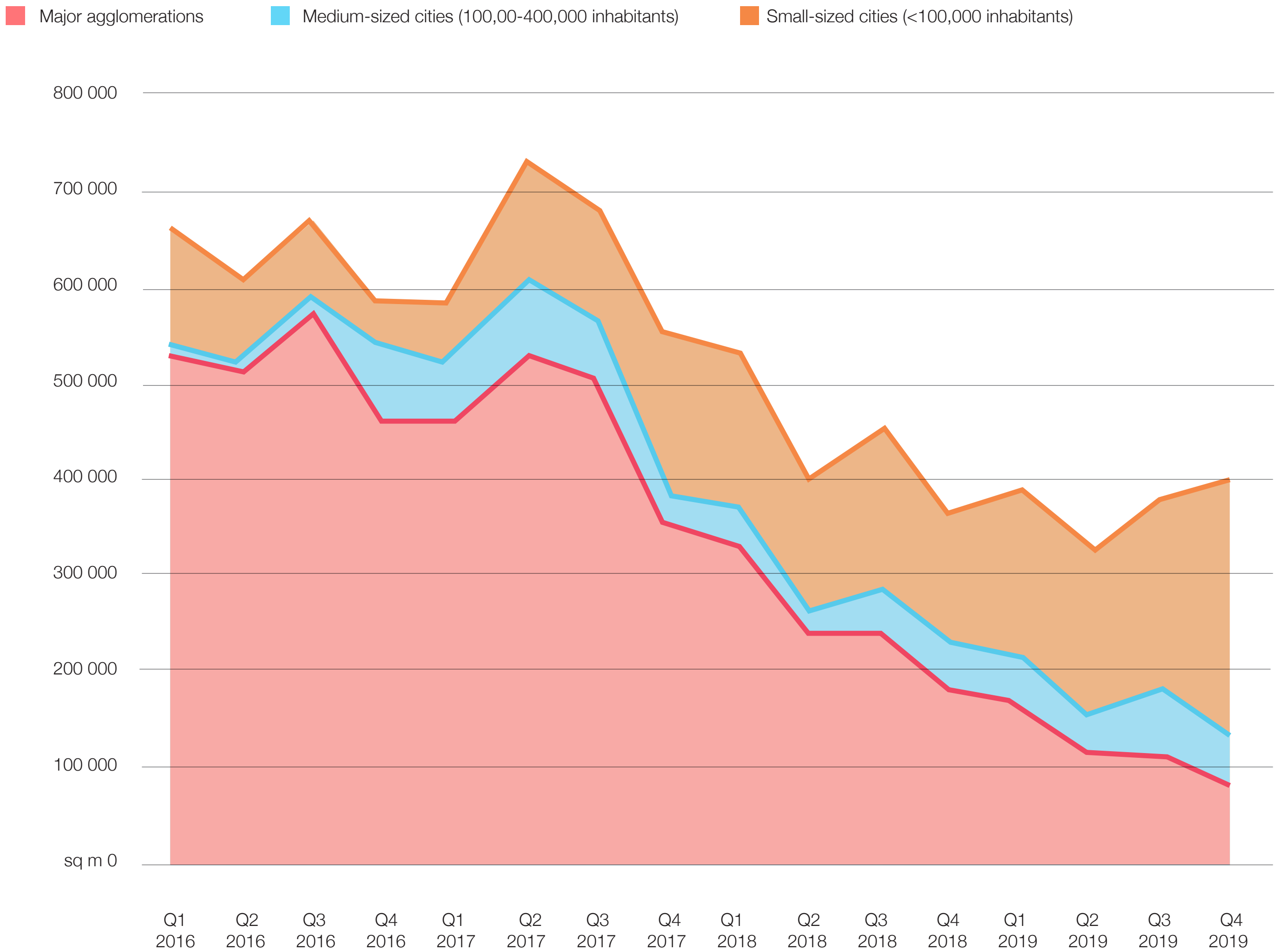
More and more consumers are preferring to do shopping quickly and in places close to their homes. As a result, the popularity and number of convenience type centres is growing. These are defined as small-scale retail schemes (up to 5,000 sq m) with a comprehensive food, drugstore, fashion and service offer, provided by a limited number of (i.e. several) tenants; they are most often located in or beside large housing estates.

In addition, the dynamic development of stand-alone discount stores, such as Biedronka, Lidl and Aldi, along with grocery stores (e.g. Kaufland), has initiated and accelerated the appearance of other small-scale retail projects. In their vicinity, small (approx. 2,000 sq m, several tenants) retail parks are being developed, creating a complementary shopping location with their offer. In recent years, developers specializing in this type of project have appeared on the market – examples being Trei Real Estate and JB Development.

A stable economy and the growing purchasing power of Polish consumers, along with the availability of modern retail space of a high technical standard, are encouraging new foreign brands to enter the Polish retail market (some 20 players debuted in 2019). In addition, many brands already present on the Polish market have decided to expand, resulting in a vacancy rate in large cities which remains low. The vacancy rate in the 18 largest retail markets in Poland increased by 0.8 percentage points in 2019, standing at 3.9% at year end. Significant to this result was Tesco's decision to downsize several of its stores due to its restructuring process in Poland.

Warsaw remains the most expensive retail market in Poland, with monthly prime asking rents (units of below 100 sq m in the best shopping centres) ranging between EUR 100 and 130 per sq m. Regional cities (Kraków, Poznań, Wrocław, Katowice, Szczecin, Łódź, Tricity) are quoted at EUR 40-75 per sq m per month (asking) and remain at stable levels.

CHART 1 Annual supply by location



Source: Knight Frank

Hotel market

53.7%
the average occupancy rate in Poland

4,430
new hotel rooms delivered in 2019

144,000
total stock of hotel rooms

The hotel sector in Poland has been growing dynamically in recent years. Both the supply and occupancy rate of hotel rooms have seen significant growth over the last 10 years. In 2019, the hotel sector welcomed a number of new brands to the Polish market, including some hotels at the luxury end of the scale. Poland's attractiveness is reflected in the burgeoning number of foreign tourists visiting this part of Europe - according to the United Nations World Tourism Organization, Poland is now in 19th place in the list of most visited countries in the world. In 2019, Poland played host to some 21.4m tourists. Although this number was a slight decrease on the 2018 figure, it still represented a very healthy situation. The development of the hospitality sector has been noticeable not only in the hotel market itself, but also in the condo hotel and rental apartments sector.

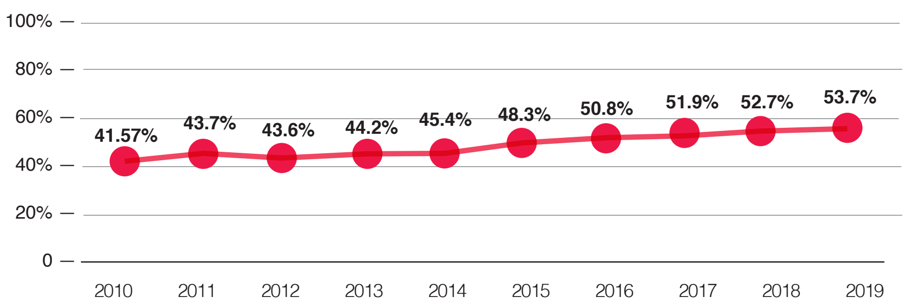
At the end of 2019, there were over 2,951 buildings and facilities categorized as hotels in Poland, offering 144,077 hotel rooms - i.e. 4,430 more hotel rooms than there were in 2018. This is the highest number of completed and functioning hotel units in the history of the market. Despite numerous new projects delivered in 2019, the market structure remained essentially unchanged - 3-star hotels retained the largest share in Poland's hotel structure, both in terms of the number of hotels and available hotel rooms, representing 52% and 45% respectively of the total hotel and room stock.

The hotel sector's results for 2019 represent the highest occupancy rate in the history of the market, estimated at a level of 53.7%, a 1pp. increase compared to 2018's occupancy rate. At the same time, basic operating indicators such as ADR and RevPAR in Poland's major cities remain at a high level. The healthy condition of the hotel sector is further evidenced by the growing revenue ratios observed in almost all the largest cities. According to STR Global, a leading company collating hotel performance results, the highest increase in revenue per room (RevPAR), as well as the largest increase in the average price per room (ADR), among major business centres in 2019, was recorded in the Tricity, as opposed to the previous year's high in Warsaw. The opening of the Radisson Hotel & Suites Gdańsk near the Wyspa Spichrzów area contributed to the average price growth in the Tricity hotel market in general.

The number of hotel guests in Poland has increased by approximately 86% since 2010, with the number of foreign tourists rising by 65%. The market expansion has been fuelled by both cultural and sporting events. The developing offer of airlines has had a huge influence too, particularly given the growing number of direct connections that have been introduced. 2019 saw a record year at Polish airports, with the number of passengers served approaching the 50 million mark, some 4 million passengers more than the previous year.

Poland is attracting the attention of many international hotel chains due to the growth in tourist numbers it has been experiencing, its expanding hotel stock, its increasing occupancy rates, and the growing profile of Poland on the international stage. These factors are drawing the attention of foreign investors, who are in turn influencing the development of international hotel chains, along with the appearance of new hotel brands

CHART 1 Average occupancy rate in Polish hotels



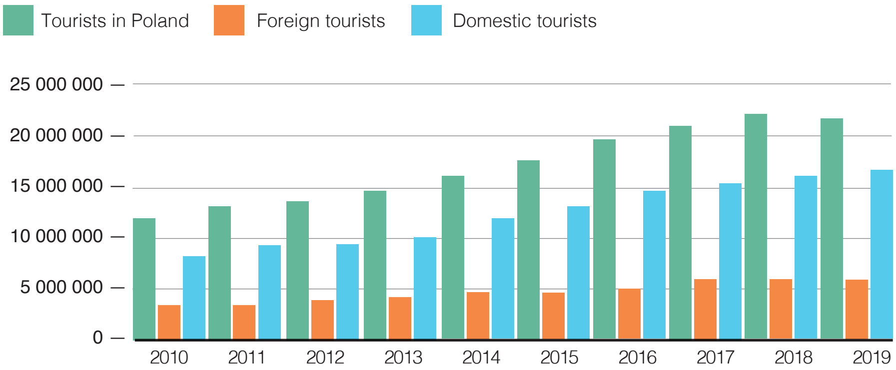
Source: Knight Frank based on Central Statistical Office as yet unseen in Poland – examples include MGallery by Sofitel, Motel One, and Four Points by Sheraton.

37 hotels opened their doors in 2019, with 21 of them chain hotels offering 3,242 rooms, representing a significant new supply volume, and a high share of the year's new supply (73%). In 2019, 3-star hotels had the highest share among new openings (49% of new supply). Accor, the foreign-owned chain hotel opened three facilities in 2019, two in Kraków and one in Wrocław, offering a total number of rooms amounting to 311 units. There were also two new hotel openings for the Radisson chain (in Gdańsk and Zakopane), with 792 units becoming available for guests. Arche, the Polish chain, opened two 3-star hotels in Warsaw, adding 230 rooms to the hotel base. In 2019, the 5-star Bachleda Luxury Hotel Krakow MGallery by Sofitel was opened – the brand's first hotel in Poland.

As a new trend in the hotel sector, lifestyle hotels addressed to younger travellers are gaining in popularity. The Puro brand, as an example, has expanded its offer further with the opening of two hotels in Warsaw and Łódź. The Moxy lifestyle brand, which belongs to the Marriott International Group, opened three facilities in 2018 and 2019, and the opening of two more in Szczecin and Warsaw is planned for the coming year. 3-star hotels still dominate the share of new supply, offering further evidence of the development of the economy and business hotel markets. That said, as the hotel market in Poland gradually matures, the share of hotels of a higher standard is increasing – 4-star hotels had the highest share in terms of new hotel room supply in 2019.

If investor plans come to fruition as intended, 28 new chain hotels with 4,000 hotel units will appear on the Polish market by the end of 2020. Hilton is planning to open five new facilities in 2020 - in Łódź, Warsaw, Olsztyn, Świnoujście and Swarzędz (near Poznań) – with the Arche chain set to open three facilities in Żnin, Drohiczyn and Piła. In 2020, the IHG chain is developing four new hotels in various locations in Warsaw, three of them of 4-star standard: Best Western in Warsaw, Kraków and Poznań. B&B Hotels, and Motel One will also expand their chains. In 2021, 16 more hotels are scheduled to open their doors, adding another 2,340 hotel rooms to the national base.

CHART 2 Number of hotel guests in Poland



Source: Knight Frank based on Central Statistical Office

TABLE 1 Selected hotels opened in 2019

Category	Hotel names	City	Hotel chain	Number of hotel rooms
5*	**Bachleda Luxury Hotel Kraków MGallery by Sofitel**	**Kraków**	Accor	64
5*	**Four Points by Sheraton**	**Warsaw**	Starwood	190
4*	**Radisson Hotel & Suites Gdańsk**	**Gdańsk**	Radisson Hotel Group	341
4*	**Focus Hotel Premium Lublin**	**Lublin**	Focus	77
4*	**Puro Łódź**	**Łódź**	Puro	130
4*	**B&B Hotel Rzeszów Centrum**	**Rzeszów**	B&B	64
4*	**Puro Warsaw**	**Warsaw**	Puro	149
4*	**Vienna House Mokotów**	**Warsaw**	Vienna House	164
4*	**Best Western Wrocław City Center**	**Wrocław**	Best Western	69
4*	**The Bridge Wrocław MGallery Hotel Collection**	**Wrocław**	Accor	184
3*	**Ibis Styles Kraków Santorini**	**Kraków**	Ibis Styles	63
3*	**B&B Hotel Nowy Targ Centrum**	**Nowy Targ**	B&B	76
3*	**Holiday Inn Express Rzeszów Airport**	**Rzeszów**	IHG	120
3*	**Arche Hotel Geologiczna**	**Warsaw**	Arche	80
3*	**Arche Hotel Poloneza**	**Warsaw**	Arche	150
3*	**Motel One**	**Warsaw**	Motel One	333
3*	**Moxy Praga**	**Warsaw**	Marriott International	141

Source: Knight Frank

Warehouse market

18.8m sq m
total warehouse stock in Poland

2.8m sq m
new supply in 2019

6.5%
vacancy rate

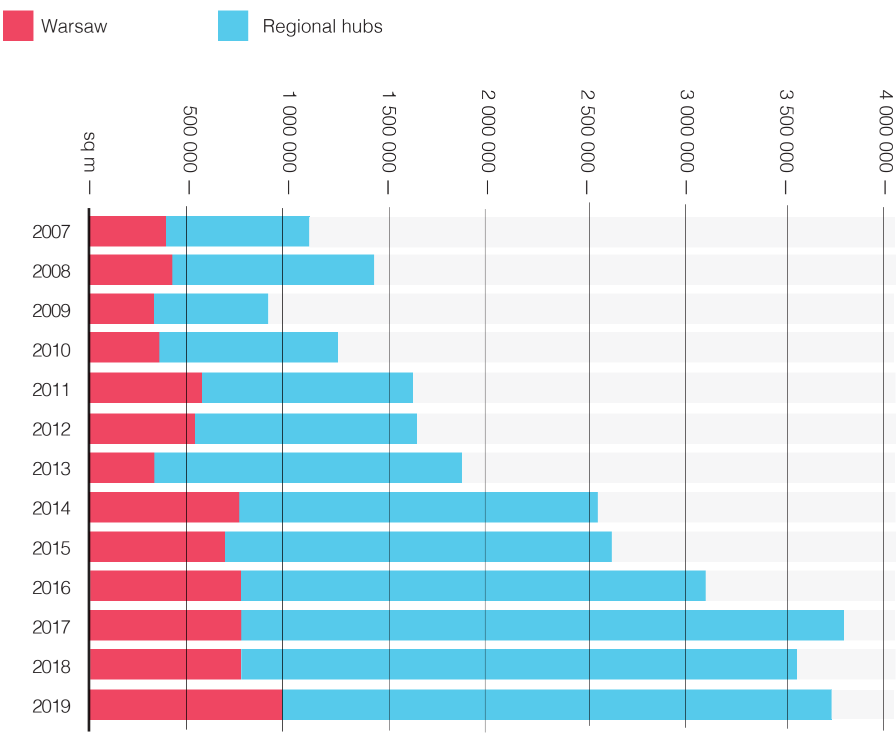
3.8m sq m
take-up

2019 has seen another year of records in the warehouse sector, with exceptional results being noted in the volume of new supply, developer activity, and demand. Poland's location in the heart of Europe and its relatively low labour costs have contributed to a growing interest in the Polish market, mainly from the logistics, manufacturing, distribution and e-commerce sectors. Intensifying demand from the e-commerce industry is a major factor in the dynamic development of SBUs (small business unit) and last mile logistics facilities located in the vicinities of Poland's large cities.

2019 saw Poland's total warehouse stock grow by over 18%, meaning that at the end of the year the volume stood in excess of 18.8m sq m. The vast majority of new supply (almost 81%) is concentrated in the five largest warehouse hubs, namely; Warsaw and its surroundings, Upper Silesia, Lower Silesia, Wielkopolska and Central Poland. Warsaw and its surroundings still retains the highest concentration of warehousing, with 24% of Poland's total stock. However, the highest sector dynamics are being observed in regional locations, particularly in emerging markets outside the key industrial hubs. As a result, the regional location share in warehouse stock increased by 2 pp. year-on-year.

As a result of the healthy condition of the Polish economy, of the steady development of road infrastructure, and of the high warehouse market absorption, the logistics sector observed the highest developer activity in the history of the market. At the end of 2019, a record-breaking volume of new supply was recorded. Over the year, investors delivered over 2.8m sq m of supply to the market - a significant increase on 2018's 1.9m sq m. Nearly 60% of the total new supply was delivered in 3 developed warehouse hubs; namely, the Upper Silesia area (21%), Central Poland (19%) and the Lower Silesia region (18%).

CHART 1 Warehouse take-up volume by regions



Source: Knight Frank

BTS (built to suit) projects have been consistent in their dominance for several years. That said, the number of speculative projects is now steadily increasing in importance. The largest facilities delivered to the market in 2019 were BTS Amazon in Gliwice (210,000 sq m) and BTS Zalando in Olsztynek (130,000 sq m).

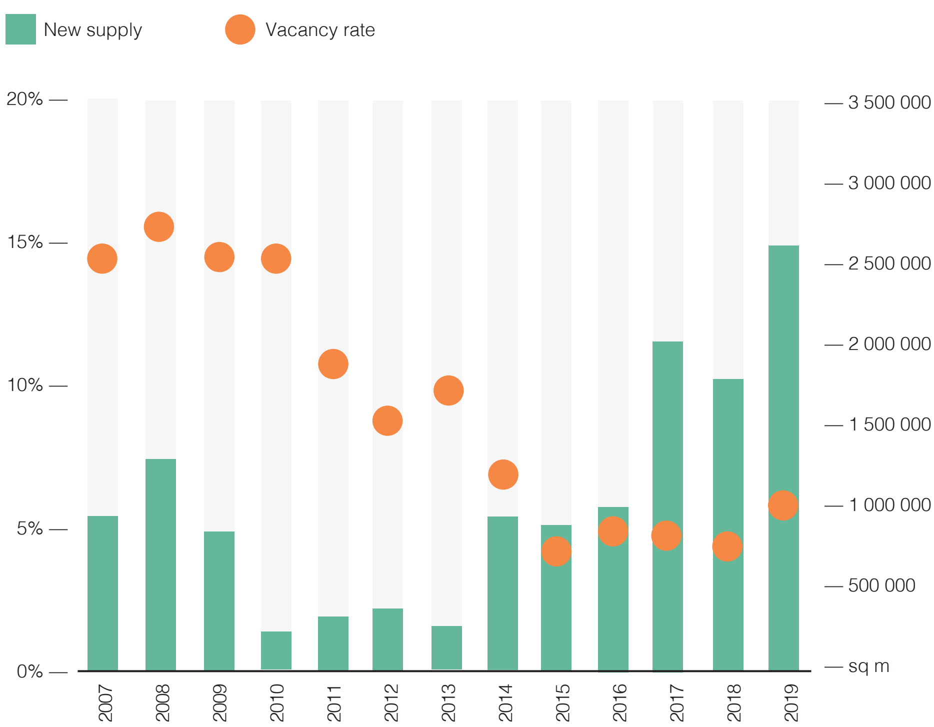
Market forecasts for the coming years are optimistic, with further dynamic growth of the warehouse sector expected. Increasing developer activity is confirmed by the high volume of space under construction – a figure currently around 2m sq m. Most of the work under construction is in the Upper Silesia, Warsaw and Lower Silesia regions and, according to developer plans, a significant volume of industrial space will be delivered for use by the end of 2020.

2019 was also one of record-breaking tenant activity level. The volume of signed deals was close to the previous year's record, exceeding 3.8m sq m of leased space. Tenants were mainly attracted to the major warehouse concentration areas, with the largest volume leased in Warsaw (26% of Poland's total take-up), in Lower Silesia (16%) and Central Poland (15%). The largest deals signed in 2019 were in Panattoni Park Gdańsk Airport with 69,000 sq m for BBK S.A., Panattoni Park Wroclaw XI with 60,500 sq m for Pantos Logistics, and P3 Mszczonów with 59,000 sq m for PepsiCo.

The increasing number of speculative projects, despite high tenant interest in modern warehouse space, had an influence on the vacancy rate. At the end of 2019, available space for lease amounted to some 1.1m sq m, equating to a vacancy rate of 6.5%, an increase of 1.7 pp. on the 2018 figure.

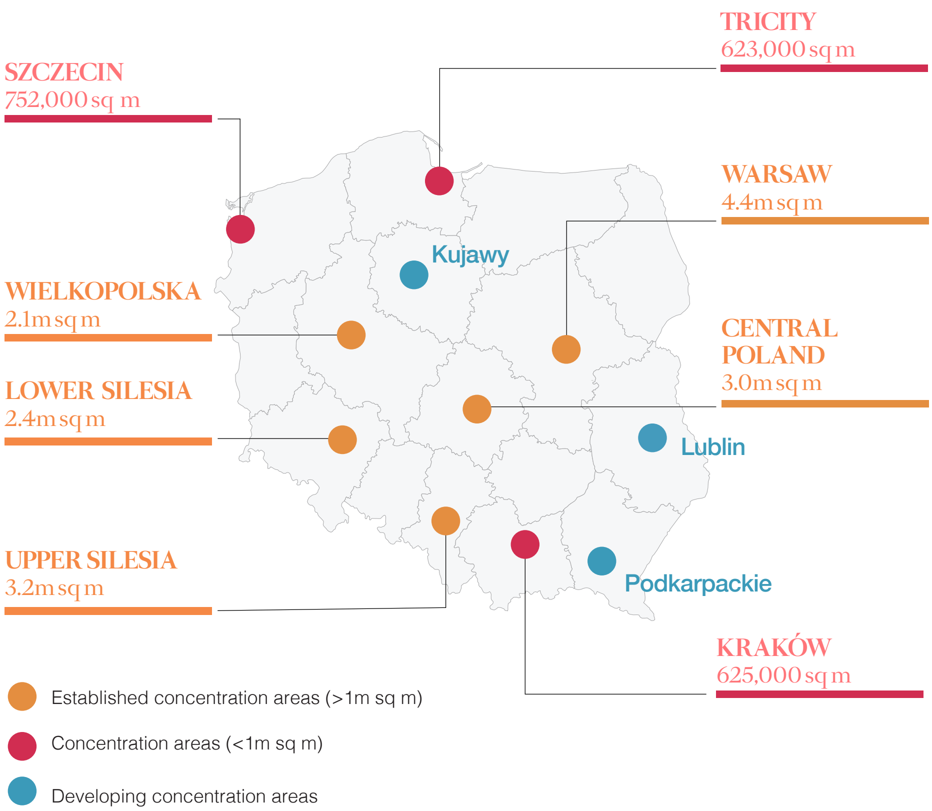
The asking rents in all major industrial hubs in Poland remained at a stable level of EUR 2.50-5.00/sq m/month with the highest rates within the administrative borders of Warsaw. However, rising construction costs may lead to a gradual reduction in incentives for tenants in warehouse projects across Poland.

CHART 2 New warehouse supply and vacancy rate



Source: Knight Frank

MAP 1 Areas of warehouse space concentration in Poland (Q4 2019)



Source: Knight Frank

Investment market

EUR 7.6 bn
investment transaction volume in 2019

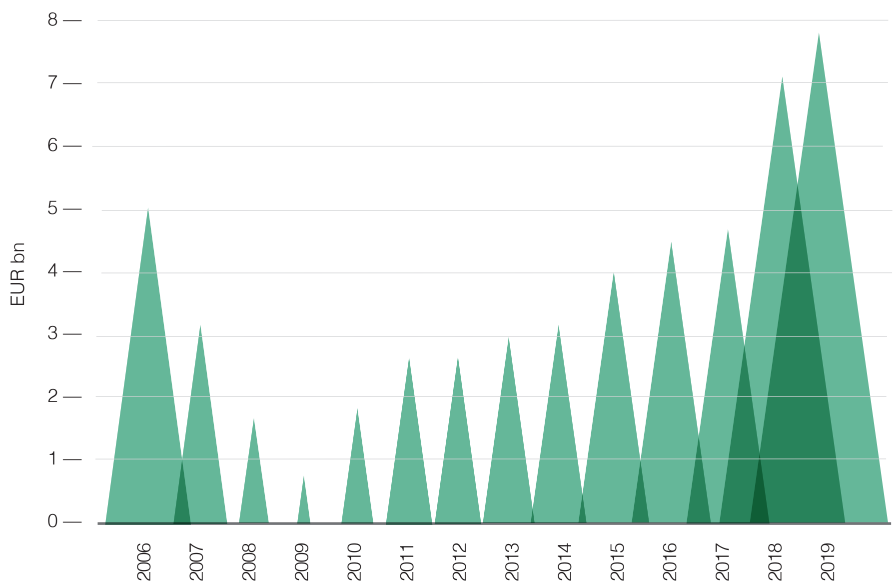
50%
share of the office sector in the investment volume

Prime yields compression

Total investment volume in Poland in 2019 reached EUR 7.6bn, noting a 5% increase when comparing to 2018 (EUR 7.2bn). Nearly 50% of total volume of acquisitions constituted office transactions, 18% was made up by warehouse deals, 26% of share belonged to retail sector and 4% to hotel properties.

Despite the limited number of prime assets available for sale, investors' activity is growing. The most sought after assets are in all categories, situated in the most prestigious location. The growing interest has been also noticed in the alternative sectors such as PBSA segment or institutional rental market. In addition, the investment market in Poland remains very attractive for investors looking for a safe capital allocation, offering a return close to 4.25% -4.50% compared to Western European countries, where the return on investment reaches 2.50%. Low prime yields for the best assets enable foreign investors to perceive Poland as a great location for risk diversification and stable investment returns in the long term perspective.

CHART 1 Investment transaction volume in Poland



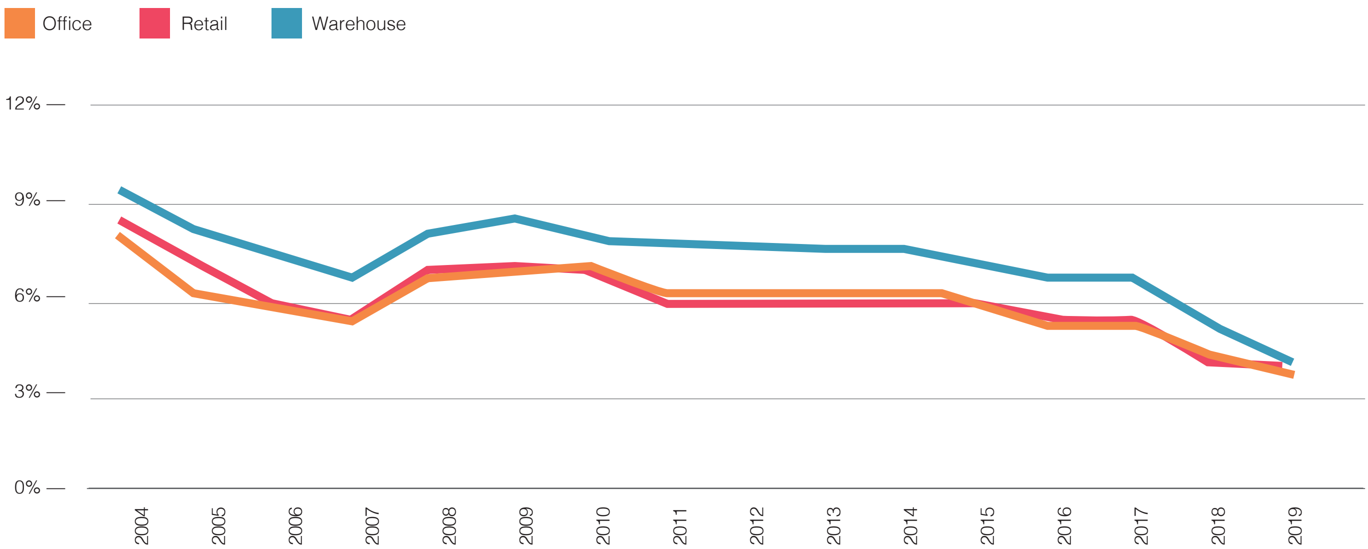
Source: Knight Frank

In 2019 total transaction volume in the office sector accounted for EUR 3.8bn which constituted 37% growth when compared to 2018. In comparison to previous years when investors were mainly focused on regional cities, in 2019 the Warsaw office market was the leader. It was a consequence of increasing supply of well-located and commercialised buildings available for sale. Total volume of capital allocated in the office segment in Warsaw reached EUR 2.4bn, which made up 63% of all investments in the sector in Poland. The most spectacular transactions were the acquisition of the tower of Warsaw Spire A by Immofinanz for nearly EUR 390m, the purchase of Warsaw Trade Tower by Globaworth, the purchase of Astoria & Ethos by Credit Suisse or Eurocentrum complex by CPI Property Group. It is worth mentioning that Warsaw market is drawing attention of new players, such as Singapore fund Mapletree Investments which acquired West Station I & II last year.

Total volume of investment transactions in the retail sector amounted to EUR 1.9bn (24% decrease when comparing to 2018). Notwithstanding the weaker investor interest in retail properties has been noted mainly due to market changes and limited number of properties being offered for sale.

The largest portfolio transaction was acquisition of shopping centres by Cromwell Property Group for nearly EUR 600m.

CHART 2 Prime yields by sector



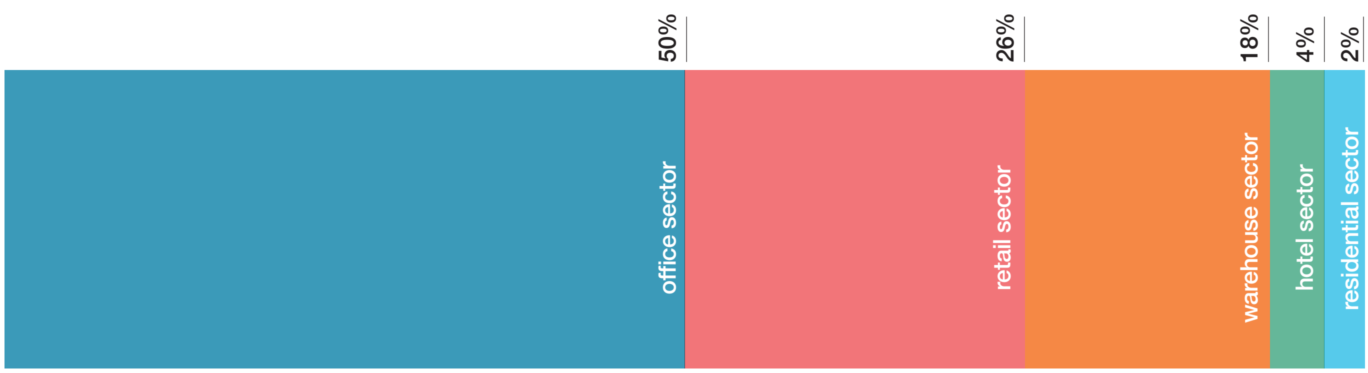
Source: Knight Frank

Moreover, Atrium European RE sold out its two projects Atrium Felicity in Lublin and Atrium Koszalin to ECE European Group for nearly EUR 298m. There was also transaction of 5 Makro assets from Metro Properties acquired by FLE GmbH, the purchase of Galeria Leszno by Prime Holdings and the purchase of King Cross Praga by Atrium European RE.

Despite the fact that the volume of warehouse transactions declined when compared to previous year, the dynamic growth of the market does not slow down and investment potential is still at the high level. At this stage of economic development, investors are looking for long-term opportunities and revenues streams, therefore they are most often focused on BTS (built-to-suit) facilities with long lease contracts or well-rented multi-let projects. They should be located among major road infrastructure or within the big cities or agglomerations. Total volume of warehouse transactions in 2019 amounted to EUR 1.3bn and the most significant of them were the purchase of two Amazon assets by Chinese fund CNIC Corporation Ltd., the acquisition of warehouse Blackstone platform by Mirae Asset Management / Hines or the purchase of some warehouse portfolio in Tczew, Marki and Kraków by GLL Partners.

Given Poland's economic prosperity, positive investor sentiment, and the number of ongoing acquisitions, the increase of investment activity in the segment of commercial properties is expected to continue. With the market's further growth in mind, prime office yields on regional markets remained at 5.50%-6.50% with further compression possible. This compares to Warsaw, where prime office yields stood below 4.50%. Prime yields for retail properties also dropped, seeing them valued slightly above 4% last year, whereas the best BTS warehouse products, secured by long-term lease agreements, varied between 4.25%-5.55% with further compression tendency, while yields for the best multilet products varied between 5.75% and 6.25%.

CHART 3 Investment transaction volume by sector in 2019



Source: Knight Frank

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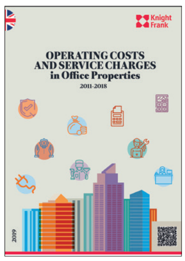

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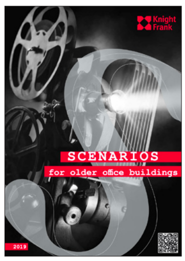

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