RESEARCH

Knight Frank

POLAND

OFFICE AND INVESTMENT MARKET
Q1 2018

OFFICE MARKET IN WARSAW

The first quarter of 2018 saw:

- decrease of the vacancy rate,
- high developer activity,
- substantial take-up.

Total stock:
5.3m sq m

New supply (Q1 2018):
24,000 sq m
in 2 projects

Office space under construction:
802,000 sq m

Take-up (Q1 2018):
202,000 sq m

Vacancy rate:
10.8%

At the end of March 2018, the total office stock in Warsaw exceeded 5.3m sq m. In Q1 2018, two office schemes were delivered to the Warsaw market: the Europejski building (7,000 sq m, H.E.S.A.) in the Central Business District, and the Graffit project (16,000 sq m, Hines Polska) in the Służewiec district. The beginning of 2018 started quite calmly in terms of new supply. However, more than half of the supply scheduled for completion this year is to be delivered in Q2. If the projects under construction are completed in line with developer schedules, new supply expected in 2018 will amount to 260,000 sq m, slightly lower than in 2017.

Strong developer activity is still being observed in the Warsaw office market. Since the beginning of 2018, three developments have been started, totalling over 70,000 sq m: the ArtN project (Capital Park), the Chmielna 89 (Cavatina GW) and the Libra Business II building (Mermaid Capital). Consequently, at the end of Q1 2018, there was over 800,000 sq m office space under construction. By the end of this year such projects as CEDET (14,200 sq m, Immobel), Centrum Marszałkowska (13,100 sq m, BBI Development), Park Avenue (12,200 sq m, Park Project) and Nowogrodzka Square (10,800 sq m, Yareal Polska) may be delivered to the market.

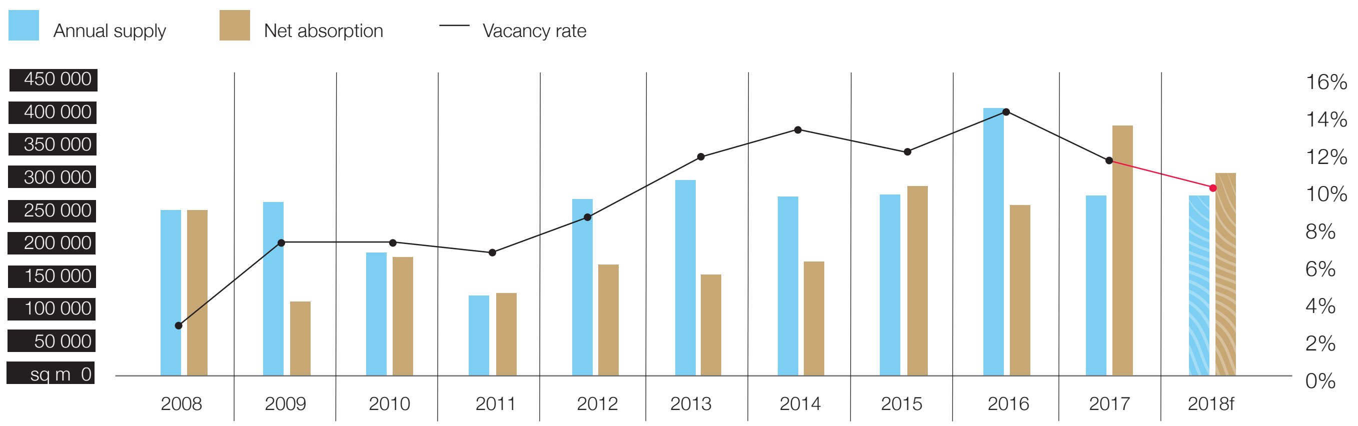
Tenant activity has also remained strong in Warsaw. In Q1 2018, the area of lease agreements reached over 202,000 sq m, slightly higher than in the same period of 2017.

New lease agreements in existing buildings and schemes under construction accounted for 55% and 16% respectively of all agreements. Renewals represented some 21% of the total take-up and expansions accounted for 8%. The strongest leasing activity was recorded in the City Centre zone, the Central Business District and the Jerozolimskie corridor. Vigorous tenant activity is also reflected in the high net absorption, which in Q1 2018 amounted to nearly 67,000 sq m, some 10% higher than the average quarterly net absorption noted for 2013-2017.

Strong tenant activity and limited new supply led to a further decrease in the vacancy rate, which accounted for 10.8% (572,000 sq m) of available office space at the end of Q1 2018. Over the last year, the vacancy rate has decreased by 3.2 pp in Warsaw, with the largest vacancy rate decline (5.8 pp) being noted in the city's central zones. It is worth pointing out that the share of vacant space in Warsaw is the lowest since 2013, with a further decrease in the vacancy rate expected.

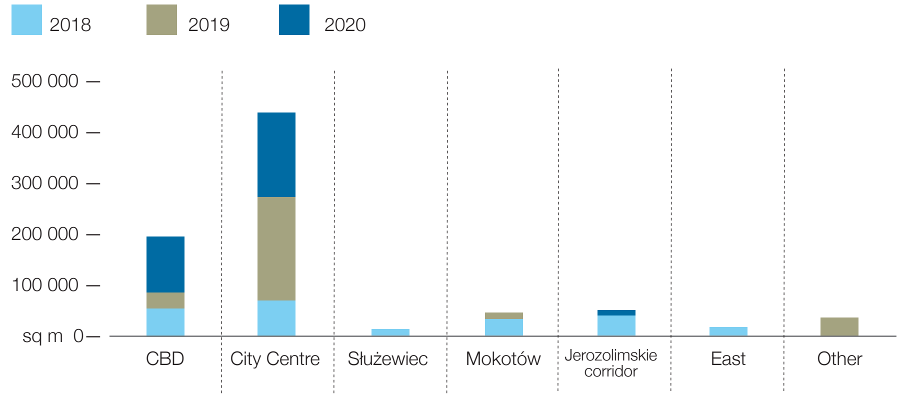
At the end of Q1 2018, asking rents in most Warsaw office locations remained stable. The asking rents in prime buildings in the Central Business District ranged between EUR 20-23 per sq m per month, while asking rents in other central locations varied from EUR 13-21 per sq m per month. The asking rents in buildings outside the city centre were quoted at EUR 10.5-16.5 per sq m per month. Effective rents remained lower than the asking level by 15-25%.

CHART 1
Annual supply, net absorption and the vacancy rate in the Warsaw office market
2008-2018f



f - forecast
Source: Knight Frank, PORF

CHART 2
Supply under contruction by location and scheduled completion date
Q1 2018

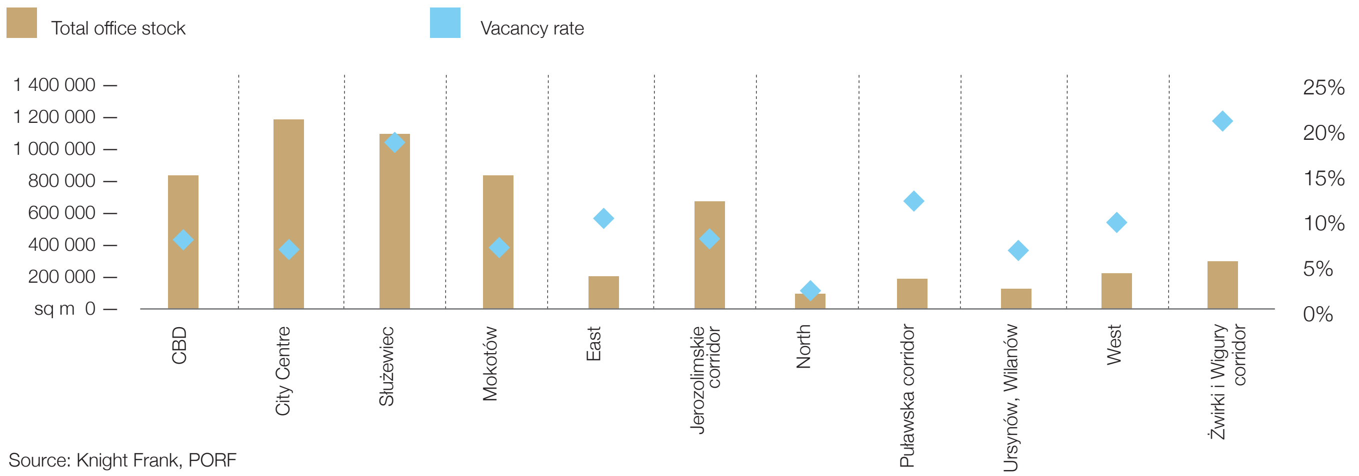


Source: Knight Frank, PORF


Marynarska Point

Lipiński Passage

CHART 3
Total office stock and vacancy rate by location
Q1 2018



Source: Knight Frank, PORF

OFFICE MARKET IN REGIONAL CITIES

In major regional office markets, Q1 2018 saw a continuation of the positive market sentiment observed in the previous year. In the period between January and March 2018, 7 new office schemes amounting to 129,000 sq m were delivered to the market and a further 975,000 sq m of office space was under construction, of which some 50% is scheduled for completion by the end of 2018. Office take-up recorded in the first months of this year was slightly lower than the average quarterly lease volume of the most recent three years. However, vacancy rates in most cities decreased or remained unchanged compared to the end of 2017. Asking rents have also been stable.

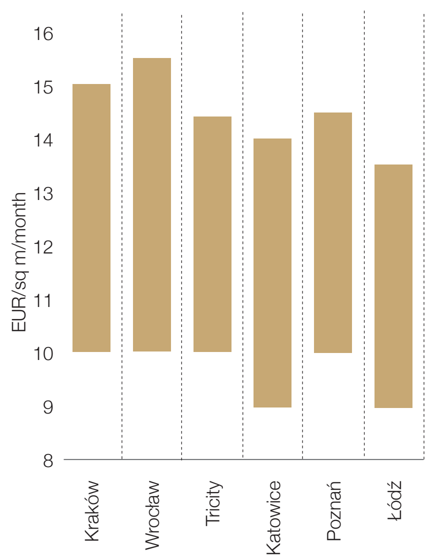
4.18m sq m
total office stock in 6 major regional markets

975,000 sq m
office space under construction

129,000 sq m
in 7 schemes new supply in Q1 2018

118,700 sq m
office space leased in Q1 2018

CHART 1
Asking rents for office space in regional cities
Q1 2018



Source: Knight Frank, PORF

KRAKÓW

Kraków maintains its leading position among regional office markets in terms of supply. At the end of March 2018, total office stock in the city amounted to some 1.13m sq m with a further 302,000 sq m under construction - the highest figure for all regional markets. Upwards of 160,000 sq m of space under construction is scheduled for 2018. Between January and March 2018, approximately 42,600 sq m of office space was the subject of lease agreements. Relatively strong tenant activity and low new supply (28,500 sq m in 2 schemes) resulted in a decrease in vacancy rate of 0.7 pp. to 9.1% compared to the end of 2017.

WROCŁAW

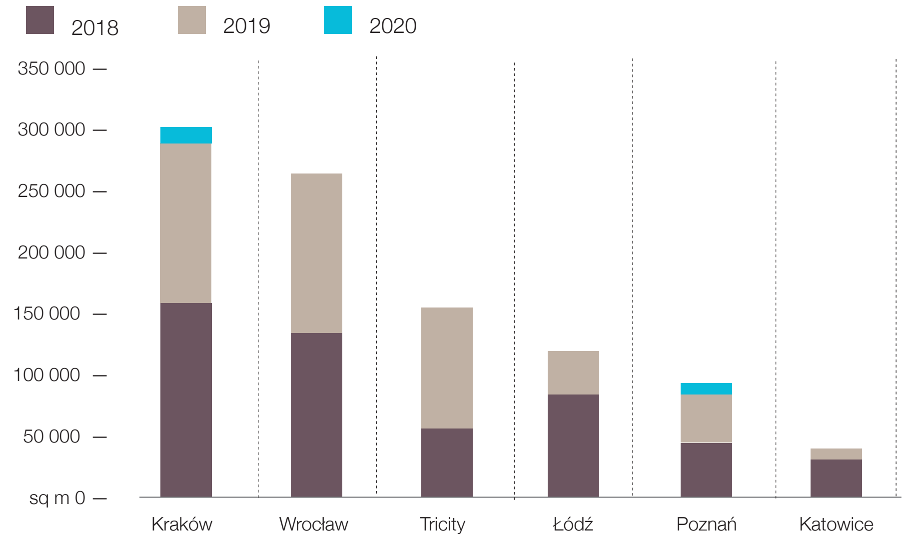
It is expected that, thanks to vigorous developer activity, the total modern office stock in Wrocław will exceed 1m sq m this year. In Q1 2018, 36,600 sq m in 3 schemes was completed with a further 134,000 sq m of 263,000 sq m of space under construction likely to be delivered to the market by the end of 2018. The demand recorded in the first three months of the year was slightly lower when compared to the results noted in recent years – in Q1 2018, lease agreements amounting to some 24,100 sq m were signed. However, taking into account the fact that almost all newly delivered space was leased upon completion, the vacancy rate in Wrocław decreased by 1.1 pp., quarter-on-quarter, to 8.3%.

Promenady Business Park – Zita, Vantage Development, Wrocław

TRICITY

In Q1 2018, new supply in Tricity was the highest in Poland, as 45,700 sq m was delivered to the market in one building – Olivia Star owned by Olivia Business Centre. Completion of a further 56,000 sq m (of over 157,000 sq m currently under construction) is planned by the end of 2018. As a consequence, the total modern office stock in the local market will reach 800,000 sq m. As in other regional cities, office demand in Q1 2018 in Tricity has slightly weakened, amounting to approximately 13,400 sq m. Nevertheless, the vacancy rate has decreased by 0.5 pp., quarter-on-quarter, to 7.7%, the indicator's lowest level among all major office markets in Poland.

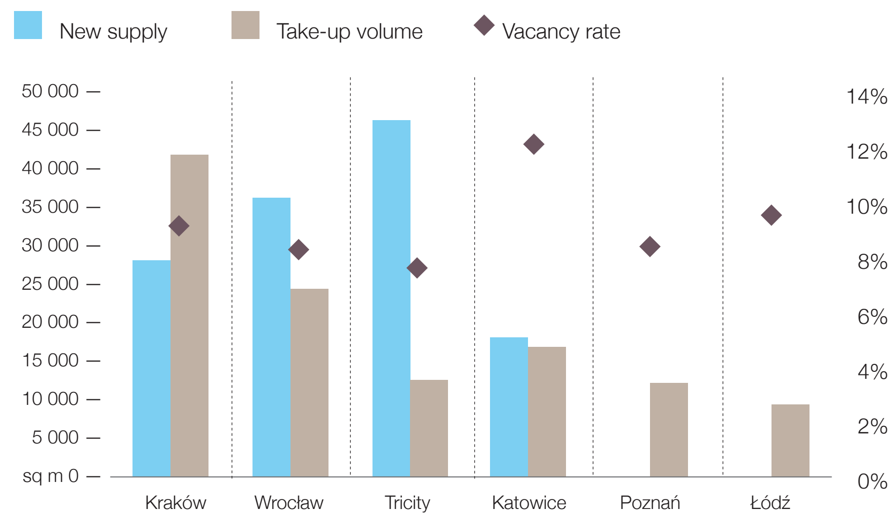
CHART 2
Office space under construction in major regional markets by planned completion date
Q1 2018



Source: Knight Frank

V.Offices, AFI Project 1, Kraków

CHART 3
New suppy, take-up and vacancy rate in major regional office markets
Q1 2018



Source: Knight Frank, PORF

POZNAŃ

Although in Q1 2018 no new office building was delivered to the market, developer activity in the city remains high. Nearly 84,000 sq m of 120,000 sq m of office space under construction is planned for completion this year. As a result, the total stock of office space in Poznań will exceed 500,000 sq m. Lease volume noted in the capital of Wielkopolska in the period between January and March 2018 has amounted to some 11,800 sq m, which was, as with other analysed cities, slightly lower compared to the results of the last three years. At the same time, the vacancy rate remained almost unchanged (decreasing by 0.1 pp., quarter-on-quarter, to 8.5%).

ŁÓDŹ

In Łódź, the beginning of 2018 was dominated by a growth in developer activity. Though the total office stock did not increase within the first three months of 2018, approximately 94,000 sq m of new office space was under construction, of which nearly 50% should be completed in 2018. In the analysed period, office take-up in the city amounted to some 9,500 sq m, which was a significantly lower result compared to the most recent three years. Compared to the previous quarter, the vacancy rate has remained relatively stable, at a level of 9.6% (an increase of 0.1 pp. quarter-on-quarter).

KATOWICE

In Katowice, the beginning of 2018 has brought some 18,200 sq m of new office space via the first building of the .KTW scheme developed by TDJ Estate. Another 34,000 sq m of office space (of 41,500 sq m under construction) may be completed by the end of 2018 - when the total office stock in the city may exceed 500,000 sq m. Unlike other major regional markets, office take-up in the capital of Upper Silesia in Q1 2018 was significantly higher compared to previous quarters, as some 17,200 sq m was the subject of leases. However, a slight growth in the vacancy rate was recorded (by 0.8 pp., quarter-on-quarter, to 12.1%).

INVESTMENT MARKET IN POLAND

Significant volume of investment transactions

EUR **2,1** bn

allocated in commercial properties

85%

of total quarterly volume allocated in retail sector

Yields remain at stable levels

The largest investment transaction

EUR **~1** bn

the M1 portfolio acquisition by the Chariot Top group (a Griffin Real Estate subsidiary company)

Wratislavia Center, FLE GmbH, Wrocław

A strong Polish economy coupled with positive investor sentiment contributed to a high transaction volume in Q1 2018. The total allocated funds in the commercial sector were estimated at EUR 2.1bn, of which portfolio transactions in the retail sector constituted the largest share. Due to the market's development, a high growth rate and brisk investor activity, the end of 2018 may well bring further record-breaking results in the investment market.

In Q1 2018, nearly 85% of the total transaction volume in Poland was made up of acquisitions in the retail sector. Such a high volume was achieved by the M1 portfolio acquisition by the Chariot Top group (a Griffin Real Estate subsidiary company) for EUR 1bn and the resale of 4 assets to Echo Polska Properties. The largest single transaction in the first three month of 2018 was the purchase of the Silesian shopping mall Galeria Katowicka for nearly EUR 300m by the Employees Provident Fund.

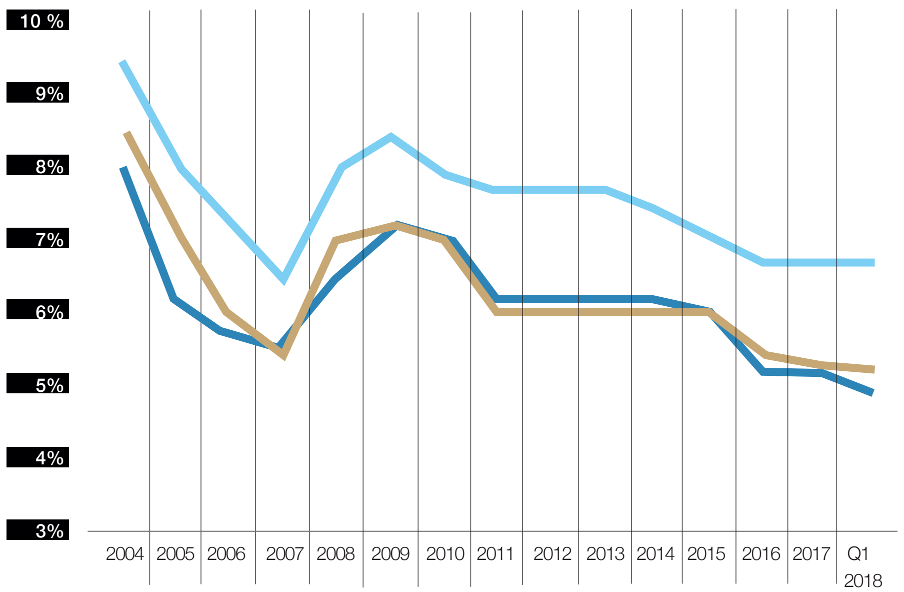
After an intensive end to the year and a significant number of finalised acquisitions in the last months of 2017, the other commercial real estate sectors, such as the office and warehouse segments, noted a temporary slowdown in terms of investment markets in Q1 2018. The value of office purchases reached EUR 142m, constituting 7% of total investment volume.

The regional markets are still attracting investors, such as in Wrocław where two transactions were finalised, including the purchase of the Pegaz office building by Warburg HIH-Real Estae GmbH. In comparison, the volume of finalised warehouse transactions in Poland amounted to EUR 135m and made up 6% of allocated capital. The largest acquisition was the purchase of the Prologis Park Sochaczew logistic park by the Ares fund, followed by the purchase of Ideal Idea IV in Warsaw by Segro, and the acquisition of Good Point II in Warsaw by Hillwood.

According to forecasts and market trends, institutional investors are more and more interested in alternative assets, such as those in the hotel sector. After an intensive and record-breaking 2017 in that sector, when total hotel transactions amounted to EUR 340m, the beginning of 2018 turned out to be similarly productive. The largest transaction was noted in Warsaw where Union Investment purchased the newly opened Holiday Inn Warsaw City Centre for EUR 41m. Furthermore, based on investor schedules and the number of transactions under negotiation, it seems likely there will be further growth in investment activity in the upcoming quarters.

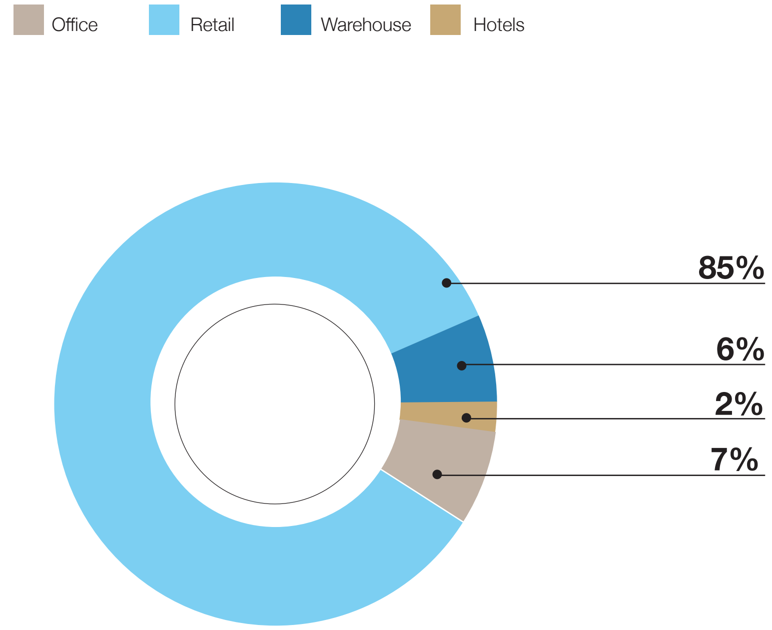
Currently, the best located assets are valued with yields at a stable level. The office projects located in the Warsaw city centre core are estimated to have yields at 5.00%-5.50% with a tendency to compress. Outside the city centre, yields are slightly higher and range between 7.00% and 7.50%. In comparison, regional market office schemes were estimated at 6.00%-6.75%. However, in the retail and industrial sector, recent years have seen compression yields, and currently the expected level of prime yields for retail assets ranges between 5.25%-5.50%, with warehouse assets at approximately 6.75%.

CHART 1
Prime yields
2004 - Q1 2018



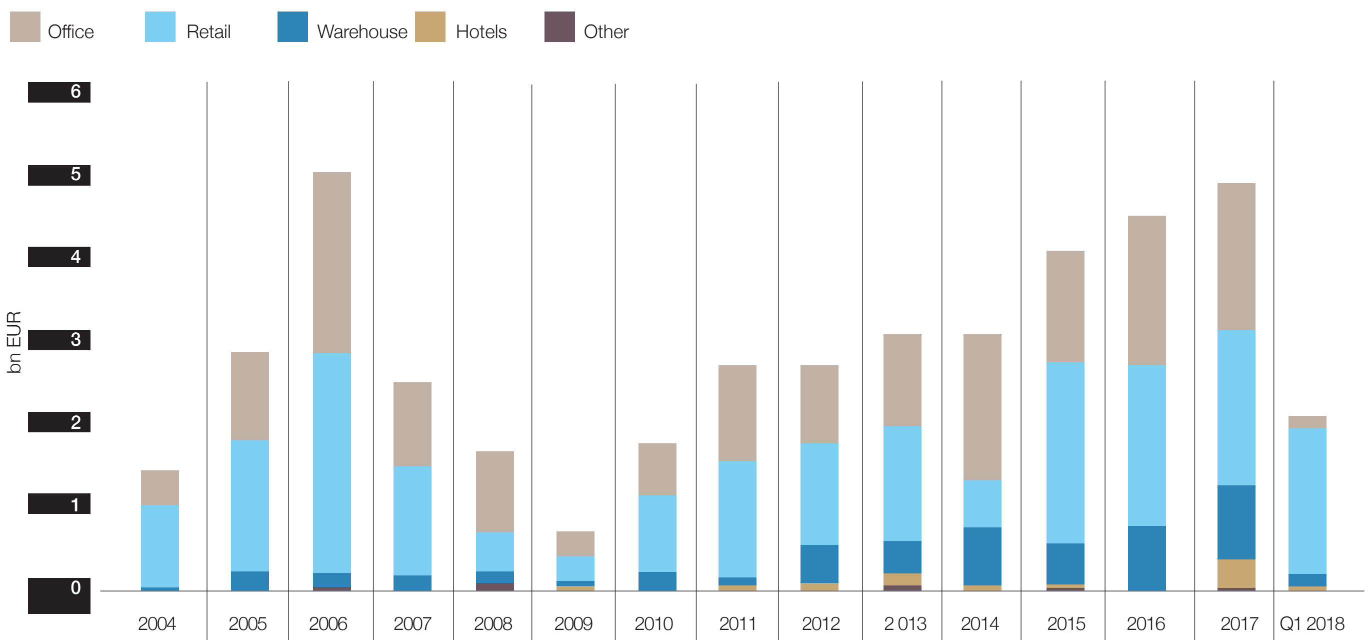
Source: Knight Frank

CHART 2
Structure of transactions in Poland
Q1 2018



Source: Knight Frank

CHART 3
Investment transaction volume in Poland
2004 - Q1 2018



Source: Knight Frank

COMMERCIAL MARKET

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.

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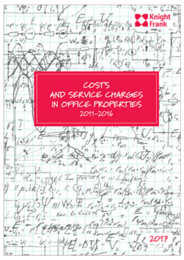

Cost and service charges in office properties 2011-2016

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