RESEARCH

Knight Frank

# Poland

## COMMERCIAL MARKET Q1 2019

# Warsaw Office market


Ostrobramska 86

**5.5m sq m**
total stock

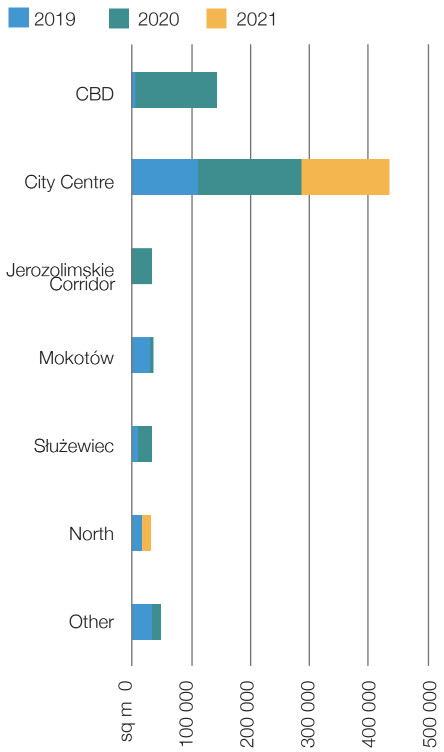
**20,200 sq m**
new supply in 3 projects

**767,000 sq m**
supply under construction

**140,000 sq m**
office take-up

**9.1%**
vacancy rate

CHART 1
**Supply under construction by location and completion date**
Q1 2019



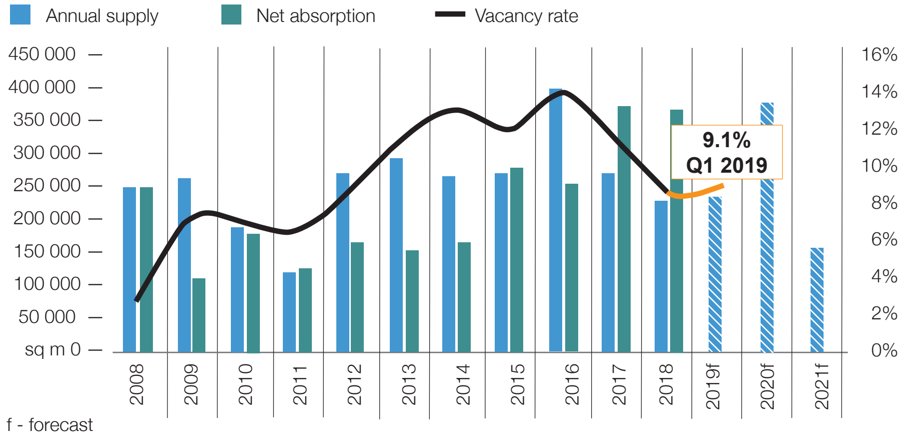
Source: Knight Frank

At the end of March 2019, the total office stock in Warsaw exceeded 5.5m sq m. In Q1 2019, three office schemes totaling 20,200 sq m were delivered to the Warsaw market: the next phase of the Spark complex (building B, 15,700 sq m) developed by Skanska Property Poland; a modernized tenement building – Poznańska 37 (3,000 sq m) - constructed by Icon Real Estate; a small-scale building – Kaleńska 5 (1,500 sq m) – located in the Praga district. If the projects under construction are completed in line with developer schedules, new supply to be delivered in 2019 will amount to 240,000 sq m. The result is expected to be slightly higher than in 2018, despite the limited new supply completed in Q1 2019. By the year end, such projects as Mennica Legacy Tower (66,200 sq m, Golub GetHouse), Chmielna 89 (26,000 sq m, Cavatina Holding), and Wola Retro (25,000 sq m, LC Corp) are due be delivered to the market.

Between January and March 2019, the construction process of only two office buildings, with a total area of 25,000 sq m, commenced. However, it is not a sign of developer activity slowdown, as at the end of March 2019 almost 767,000 sq m of office space was under construction. The largest office schemes in the pipeline include: Varso Place (114,000 sq m, HB Reavis) opposite the Central Station; the Warsaw Hub (76,000 sq m, Ghelamco Poland) near the Daszynski roundabout; Mennica Legacy Tower (66,200 sq m, Golub GetHouse).

Lease agreements signed in Q1 2019 totaled 140,000 sq m of leased office space. The transaction volume was 40% lower than the Q4 2018 result. However, this result isn't necessarily a sign of declining interest in office space. According to historical data, the volume of lease transactions in previous years has never exceeded 200,000 sq m in the first quarter. Additionally, the following quarters have usually compensated for the lower volume of lease transactions registered in the first three months of the year.

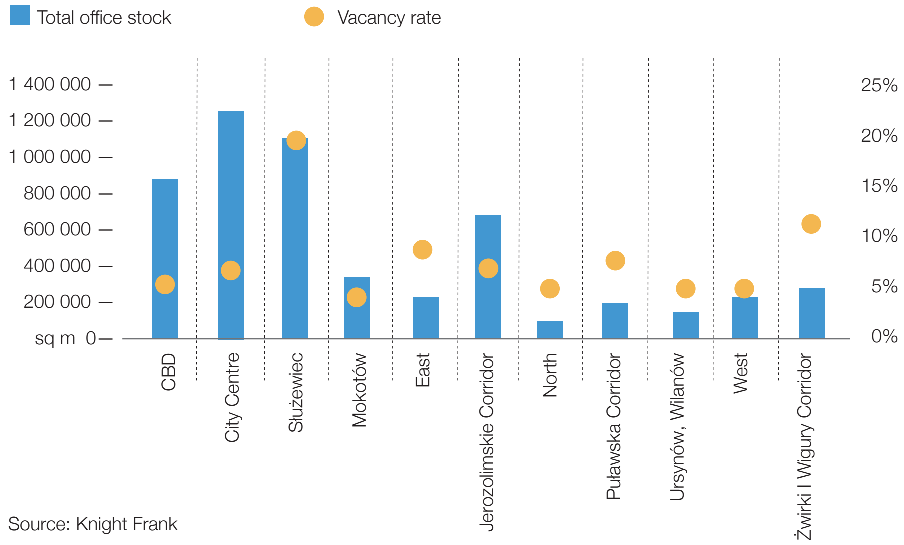
CHART 2
**Annual supply, net absorption and vacancy rate in the Warsaw office market**
2008-2021f



f - forecast
Source: Knight Frank


Lipiński Passage

CHART 3
**Total office stock and vacancy rate by location**
Q1 2019



Source: Knight Frank

New lease agreements signed in existing buildings and in schemes under construction accounted for 47% (including owner-occupied space) and 16% of all agreements respectively. Renewals represented some 28% of the total take-up and expansions accounted for 9%. The strongest leasing activity was recorded in the Służewiec zone, the Central Business District and the Jerozolimskie Corridor.

The lower tenant activity in Q1 2019 and the 70% vacancy in new supply led to a slight increase in the vacancy rate, which stood at 9.1% (501,000 sq m of available office space) and was 0.4 pp. lower than the result at the end of 2018. That said, the vacancy rate in Warsaw has decreased by 1.7 pp. over the last year and remains at the lowest level since 2012. A significant decrease in the vacancy rate was recorded outside the central locations, especially in the Żwirki i Wigury area (a decrease of 9.6 pp. y/y). This substantial change is a result of the successful commercialization of the Business Garden complex (completed at the beginning of 2017). The vast majority of vacant space was situated in the Służewiec district (220,000 sq m) and in central locations (135,000 sq m)

At the end of March 2019, a slight increase in prime asking rents was observed. The rents in prime buildings in the Central Business District ranged between EUR 20-25 per sq m per month, while in other central locations the rental rates varied from EUR 15 to EUR 22 per sq m per month. The asking rents in buildings located outside the city centre were quoted at EUR 10-15 per sq m per month. Effective rents remained lower than the asking level by 15-20%.

# Regional cities
## Office market


Promenady Business Park – Zita, Wrocław

**4.67**m sq m
total stock

**120,700** sq m
new supply in Q1 2019 (in 15 projects)

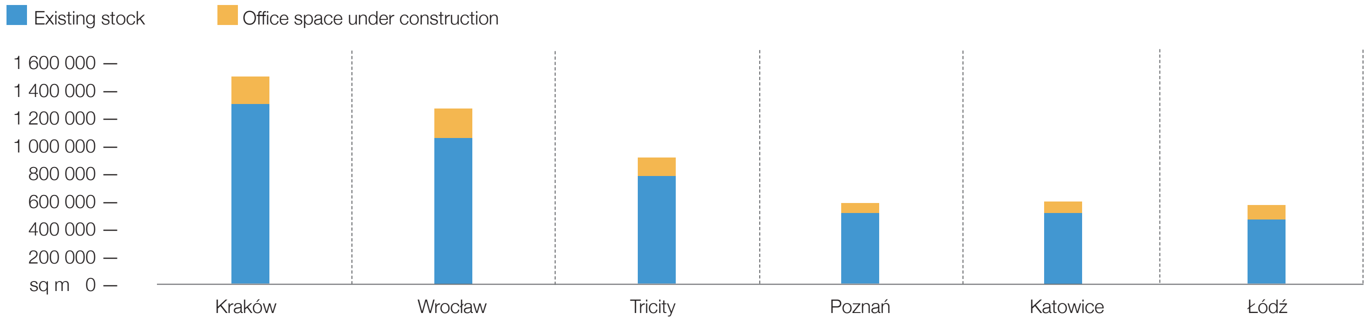
**802,000** sq m
supply under construction

**9.1%**
vacancy rate

**128,200** sq m
office take-up (Q1 2019)

The revival of developer activity in the major regional office markets is continuing. The volume of new supply was higher than that completed in Q4 2018 and comparable to the average quarterly level recorded in previous years. That said, between January and March 2019, the construction of a limited number of office buildings commenced, meaning the space under construction in the regional markets was lower than at the end of 2018. However, due to the new supply delivered to the market in Q1 2019 which had not been 100% pre-leased before opening, an increase in the vacancy rate was observed. Tenant activity was slightly weaker than in previous quarters, yet remained at a level comparable to Q1 2018. There was, therefore, little sign of a slowdown in activity. A slight growth in asking rents and service charges was also noted in the mature major regional cities.

CHART 1
**Existing stock and office space under construction**
Q1 2019




Source: Knight Frank



## KRAKÓW

Q1 2019, saw the completion of 46,100 sq m of office space in 6 projects in Kraków. This volume (on a par with Poznań) was one of the largest registered in the six major regional cities. As a result, Kraków with a total existing stock of 1.3m sq m maintained its leading position among regional markets. Furthermore, at the end of March 2019, there was approximately 194,200 sq m of office space under construction in the city. In line with developer schedules, 70% of this space was planned for completion by the end of 2019. The largest projects under construction included two phases of High5ive with 36,700 sq m of leasable space. Such a dynamic pace of growth in office supply is a result of the visibly strong demand observed for a number of years now. Lease agreements amounting to some 56,000 sq m were signed in Q1 2019 - a comparable level to the two-year quarterly average take-up. The significant volume of new supply delivered to the market in Q1 2019, 50% of which remained vacant, translated into an increase in the vacancy rate (by 1.5 pp. q-o-q). At the end of March 2019, the vacancy rate stood at 10.1% (131,000 sq m available office space).

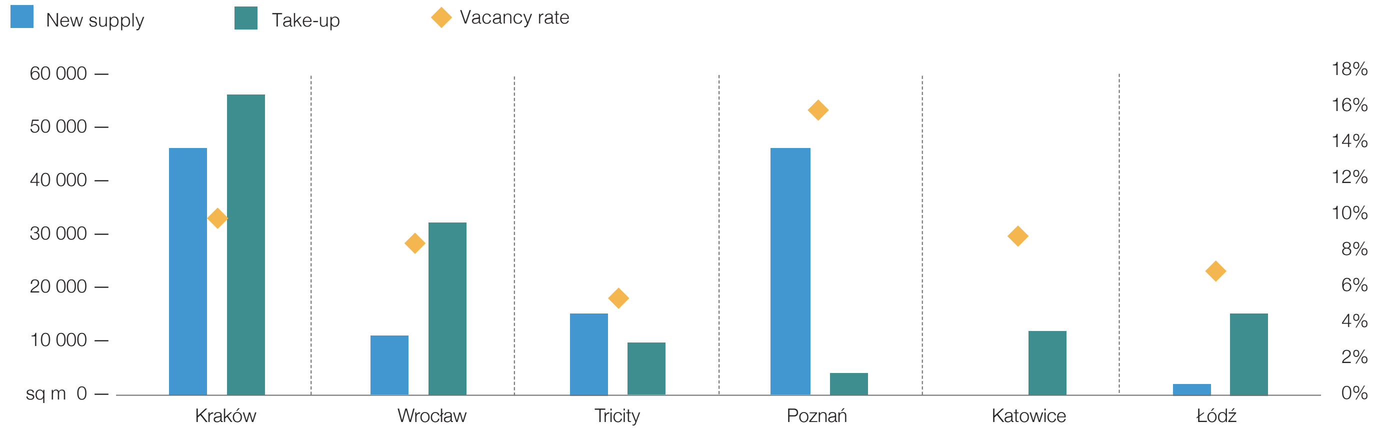
## WROCŁAW

Wrocław, with a total existing modern office space amounting to 1.07m sq m, was the second largest regional office market in Poland in terms of the total stock (behind Kraków). After a record-breaking 2018 in terms of new supply, Q1 2019 saw lower developer activity. Only one project was completed in this period in Wrocław – City Forum: City One (11,200 sq m). The limited new supply in Q1 2019 is not a symptom of developer activity slowdown, as at the end of Q1 2019 approximately 211,000 sq m of office space was under construction. Almost 65% of this volume is to be delivered to the market by the end of 2019. The largest office scheme in the pipeline is Business Garden (76,800 sq m). The limited volume of new supply in Q1 2019 (almost fully pre-leased) led to a decrease in the vacancy rate, which stood at 8.5% (90,400 sq m of available office space). The vacancy rate decreased by 1.6 pp. compared to the corresponding period of the previous year. In Q1 2019 demand for office space has not weakened. Lease agreements signed in this period totalled 31,900 sq m (32% higher than in Q1 2018).

## TRICITY

In Q1 2019, only two office projects, totalling 15,000 sq m, were completed on the Tricity market. Accordingly, the total volume of modern office stock rose to 790,000 sq m. At the end of March 2019, approximately 134,000 sq m of space was identified as being

CHART 2
**New suppy, take-up and vacancy rate in major regional office markets**
Q1 2019




Source: Knight Frank

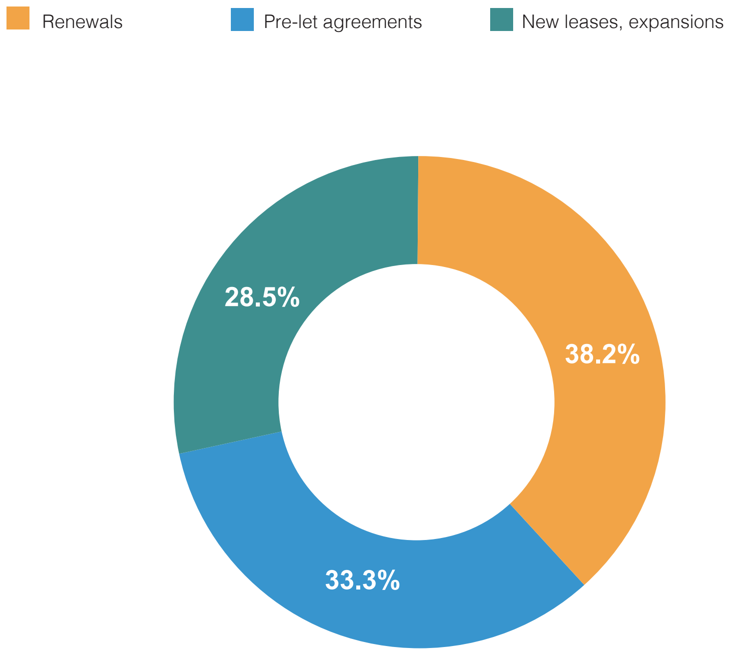

V.Offices, Kraków

under construction. If the projects in the pipeline are completed in line with developer schedules, new supply delivered in 2019 will be only 10% lower than recorded in the corresponding 2018 period. The largest project under construction in Tricity was Alchemia – Neon (34,000 sq m). Noticeably lower interest in office space was recorded in the first quarter of 2019. Only 9,100 sq m was subject to lease (a 50% decrease compared to Q4 2018, and over 60% lower than the two-year quarterly average). Despite this limited take-up, a further decrease in vacancy rate was observed in Tricity. At the end of March 2019, the vacancy rate stood at 5.4%, the lowest level since 2007, as well as the lowest level among regional cities.

## KATOWICE

The beginning of 2019 in the Katowice office market was weaker than Q4 2018 in terms of new supply. No new office project was completed in the city, resulting in the total office stock remaining at 519,000 sq m. However, this is not a symptom of developer activity slowdown, as at the end of Q1 2019 approximately 86,000 sq m of office space was under construction. Approximately half of this space is planned for completion by the end of 2019. The largest office project under construction in Katowice was Face2Face (two phases totalling 44,800 sq m). In Q1 2019, some 12,100 sq m of office space was leased (higher when compared to the average quarterly result in the two previous years – 8,700 sq m). Due to the fact that the majority of take-up constituted pre-lease agreements, the vacancy rate in Katowice remained unchanged compared to the previous quarter, standing at 8.8%.

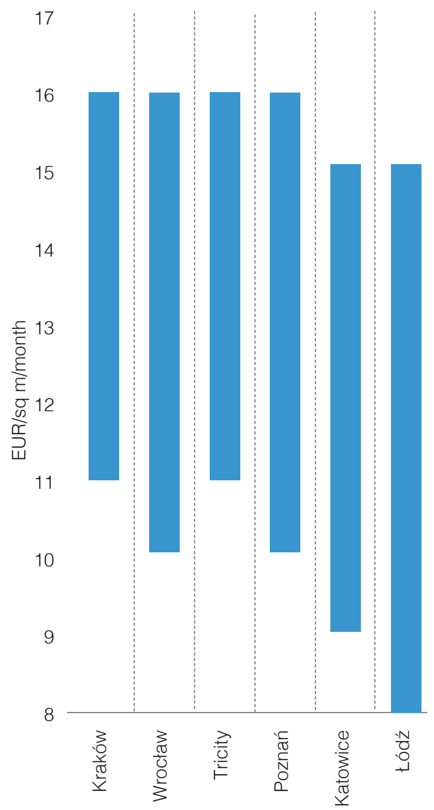
CHART 3
**Take-up structure in major regional cities**
Q1 2019




Source: Knight Frank

Arkońska Business Park, Gdańsk

CHART 4
**Asking rents for office space in regional cities**
Q1 2019




Source: Knight Frank

Zielona 3, Poznań

## POZNAŃ

Since the beginning of 2019, only one office project was delivered to the Poznań market. It did, however, account for 38% of the total new supply completed in all six major regional office markets in Poland. Thanks to the completion of the Business Garden project (46,100 sq m of office space), Poznań's total modern office stock exceeded 0.5m sq m. If the projects under construction (67,000 sq m in total) are completed in line with developer schedules, the new supply delivered in 2019 will reach a record historical high for the local market. The largest scheme under construction was Nowy Rynek (37,000 sq m). In the first three months of the year, demand for office space in Poznań was limited, with only 3,900 sq m subject to lease, of which 80% was renegotiated. This, coupled with the completion of a fully vacant new large-scale scheme, led to the vacancy rate increase. The ratio stood at 15.8% - the highest in 15 years, and the highest among the major regional office markets.

## ŁÓDŹ

At the end of Q1 2019, the total modern office stock in Łódź amounted to 471,000 sq m. Only one project was completed in this period – Sepia Office (part of OFF Piotrkowska Centre). The limited new supply recorded in Q1 2019 is not a sign of developer activity slowdown as, at the end of Q1 2019, approximately 110,000 sq m of office space was under construction, of which 65% is planned for completion in the remaining months of 2019. The largest office project identified as under development was Brama Miasta (its two phases totalling 38,000 sq m). Developer activity has been supported by relatively strong demand. In Q1 2019, lease agreements amounting to 15,100 sq m were signed in Łódź (a level comparable to the average quarterly result in the previous years, and above that recorded in previous first quarters of the year). Relatively high demand accompanied with a limited new supply led to a decrease in the vacancy rate to 7% (8.7% in Q4 2018) – a rate among the lowest in major regional cities.

# Retail
# market in Poland

**40,000** sq m
shopping centres opened

**16%**
share of extensions in quarterly new supply

**390,000** sq m
in projects under construction

Q1 2019 supported the theory that the first quarter is the weakest period of the year in terms of new supply. Although the volume of space under construction showed a slight increase on the end of 2018, a wholesale revival in developer activity should not be expected. Nevertheless, the demand for retail space remains stable. Both domestic and international brands present on the Polish market have been steadily expanding their activity. Additionally, several foreign newcomers have entered the Polish market. Due to the implementation of the new law limiting Sunday trading, shopping centres in Poland are facing a downward trend of footfall and turnover volumes.

Albatros, Kołobrzeg

In the first three months of 2019, approximately 40,000 sq m of modern retail space was delivered to the Polish market, constituting only 60% of the supply opened in the corresponding period of 2018. The list of the largest projects includes: Silesia Outlet in Gliwice (12,000 sq m), Hosso in Drawsko Pomorskie (9,000 sq m) and ATUT Ruczaj in Kraków (6,800 sq m). Expansions of existing schemes were still observable on the market. In March 2019, they accounted for 16% of the quarterly volume.

At the end of Q1 2019, some 390,000 sq m was designated as being under construction. Around 280,000 sq m of this is to be opened in the coming quarters of 2019, maintaining the downward trend in annual supply which has been observed for several years in Poland. Galeria Młociny (73,500 sq m) remains the largest of the retail projects currently under construction, both in the Warsaw agglomeration and Poland.

Faced with the saturated Polish shopping centre market, developers have become more and more restrained in implementing new large-scale schemes. Consequently, the volumes of modern retail projects under construction, at a level below 400,000 sq m, have not been registered in Poland for at least a decade. That said, the development of alternative retail formats, such as mixed-use projects and small convenience-type shopping centres, has been seen as a fitting response to changing consumer shopping habits.

Demand for modern retail space in Poland remains stable. However, due to the very low vacancy rate in shopping centres in the largest Polish cities (averaging 3.1% at the end of 2018) potential newcomers (provided they fit into the owner's strategy) are being forced to wait for space to become vacant. As a result, the foreign brands debuting in the first three months of 2019 appeared primarily in mixed-use projects. Two luxurious Italian brands: Corneliani and Fabiana Filippi are to join the Ethos project in Warsaw, while Marc O'Polo Denim plans to open a boutique in Elektrownia Powiśle.

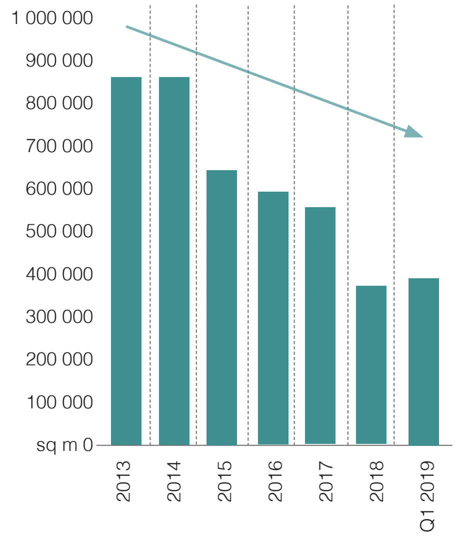
According to Retail Institute data, between January and March 2019, shopping centres reported a 0.5% decrease in footfall compared to the corresponding 2018 period. The largest drop in the number of visits (- 4.8%) was recorded by the small retail schemes of less than 20,000 sq m of GLA. Medium-sized centres ended the quarter with a footfall decrease of 1.8%. The results of the largest centres were positive, with an increase of 2.2%. In the first quarter of 2019, the turnover of retail chains operating in the 120 shopping centres analysed by RI decreased by 0.1% (y-o-y).

CHART 1
**Selected largest shopping centres under constrution with opening date in 2019**
Q1 2019

| Name | Owner / developer | Location | GLA (sq m) |
|---|---|---|---|
| Galeria Młociny | EPP | Warszawa | 72 300 |
| Stara Ujeżdżalnia | CD Locum | Jarosław | 26 000 |
| Color Park | Nowotarska sp. z o.o. | Nowy Targ | 25 000 |
| Morski Park Handlowy (expansion) | Liebrecht & wooD | Gdańsk | 16 500 |
| Park Handlowy Kasztelania | STEC sp.j. | Chrzanów | 12 500 |
| Tkalnia | A&A | Pabianice | 12 000 |
| Regionalne Centrum Janki (expansion II) | Apsys Group | Janki | 11 000 |

Source: Knight Frank

CHART 2
**Retail supply under construction in Poland**
2013 - Q1 2019




Source: Knight Frank

# Investment market in Poland

Retro Office, Wrocław

**A record-breaking year 2018 ended with the total transaction volume at a historically high level of EUR 7.2bn. However, Q1 2019 brought with it a modest volume of acquisitions, totalling EUR 732m, of which more than 70% were office transactions. Purchases in the retail sector amounted to EUR 34m, making up 5% of total transaction volume, while warehouse acquisitions stood at EUR 82m - 11% of the volume. Some EUR 90m, accounting for 12% of the volume achieved between January and March 2019, were acquisitions in the hotel sector.**

**EUR 732 m**
investment transaction volume Q1 2019 roku

**70%**
share of office sector in the investment volume

Expected further growth of investment activity in the commercial sector

After high investor activity during the final months of 2018, Q1 2019 saw the market experience a temporary slowdown in the area of investment. Completed transactions in the first three months in the retail sector amounted to EUR 34m, a very low level compared to the corresponding period in previous years. Due to the limited number of well-located retail properties for sale, the transaction volume in the sector may remain low when compared to the results of recent years.

Despite the dynamic market situation, the most sought-after assets are still office buildings, both in Warsaw and the regional markets. The most popular locations are the largest Polish cities such as Kraków, Wrocław, Poznań, Katowice and Gdańsk.

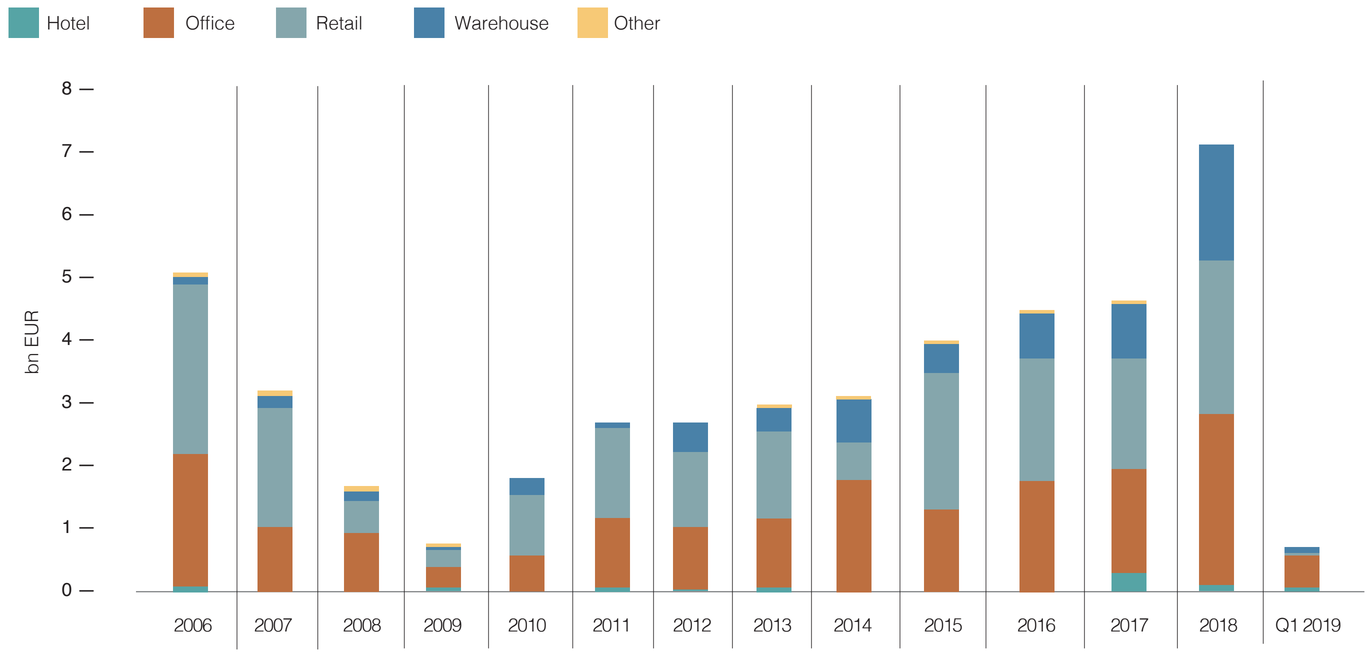
In the first three months of 2019, office transactions exceeding EUR 526m were finalized, some 40% of which were acquisitions in regional cities. The largest Q1 transactions include the acquisition of office buildings in Kraków: .BIG (by Credit Suisse), K1 (by FLE GmbH) and Rondo BP (by Globalworth). Additionally, such assets as Gdańsk's Argon and Arkońska Business Park changed owners. Warsaw office transactions reached EUR 320m, and included the purchase of the office part of Browary Warszawskie by GLL, the purchase of the Atrium IBC office building by Strabag RE, and the purchase of Graffit by Zeus Capital Management.

The beginning of 2019 also saw transactions being finalised in the warehouse sector, to the tune of EUR 82m. Five warehouse properties changed hands for some EUR 82m, among which were 7R Park Czechowice and Hillwood Warsaw I purchased by CBRE GI. The healthy warehouse market condition may well translate into high investor activity, and the total volume of acquisitions in the sector may turn out to be comparable to results from previous years.

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 yields on regional markets remained at 5.75%–6.75%, with further compression possible. This compares to Warsaw, where prime yields stood at 4.50%–5.00%. Prime yields for retail properties also dropped, seeing them valued slightly above 4% last year, whereas the best warehouse products, secured by long-term lease agreements, marginally exceeded 5%.

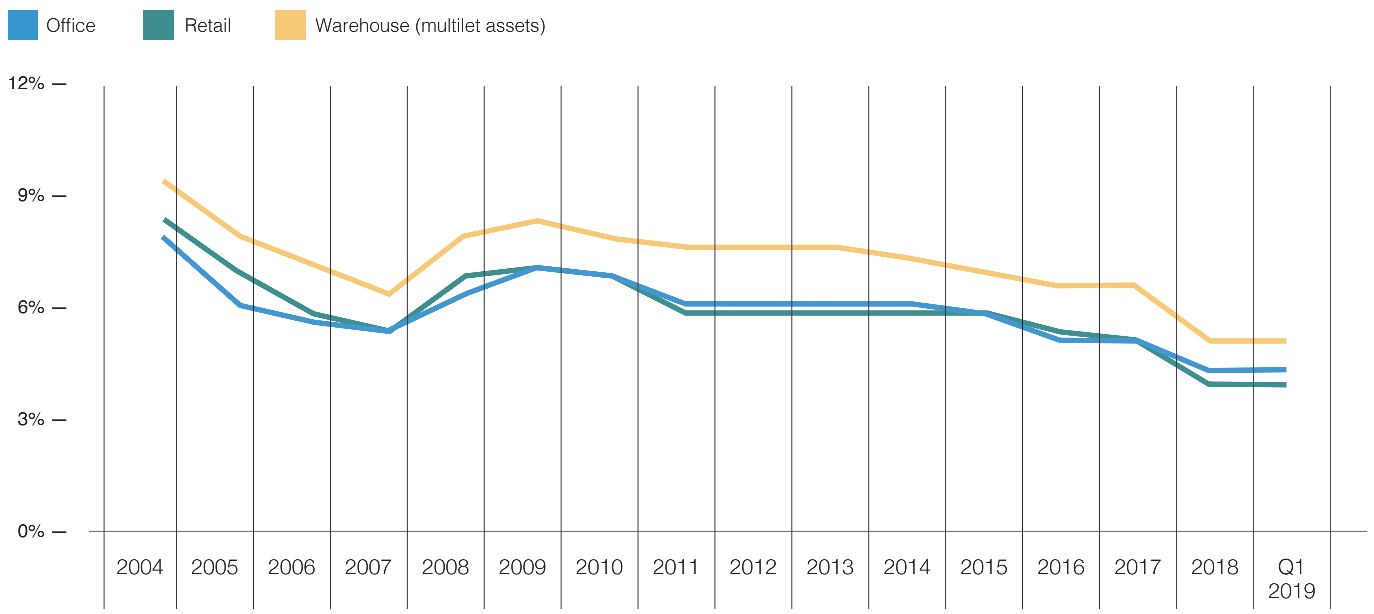
Simultanously, prime multilet warehouse assets were valued based upon yields at a level of 6.25%.

CHART 1
**Investment transaction volme in Poland**
2006 - Q1 2019




Source: Knight Frank

CHART 2
**Prime yields by sector**
2004 - Q1 2019




Source: Knight Frank

COMMERCIAL MARKET

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- market reports and analysis available to the public,
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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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