

# COMMERCIAL REAL ESTATE MARKET IN POLAND

**Q1 2022**





**Investment  
market**



**Retail  
market**



**Economic  
situation**



**Office  
market**



**Warehouse  
market**



# INVESTMENT MARKET

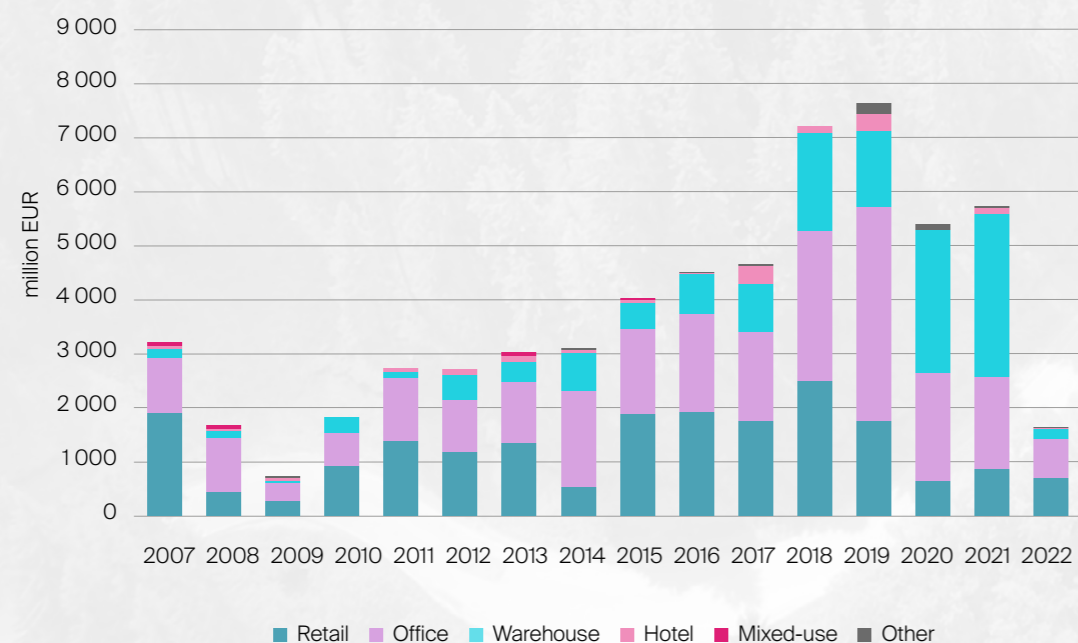
The value of the Polish investment market approached EUR 1.65 billion in Q1 2022, a result 30% higher than the figure registered in Q1 2021. It should, however, be noted that some 70% of this volume came in three transactions - the purchase of the Warsaw HUB office building by Google (from Ghelamco), and two retail sector deals which included the offloading of around 50% of shares in EPP's two retail portfolios to PIMCO and I Group, as a consequence of EPP's delisting from the Johannesburg and Luxembourg stock exchanges.

Analysis of the remaining volume (i.e. without the three largest deals) reveals the continuing strong position of the warehouse sector. Over the first three months of the year, the sector

approached a volume of EUR 190 million. Warehousing was followed by the office sector (EUR 147 million), with retail scheme purchases reaching EUR 75 million.

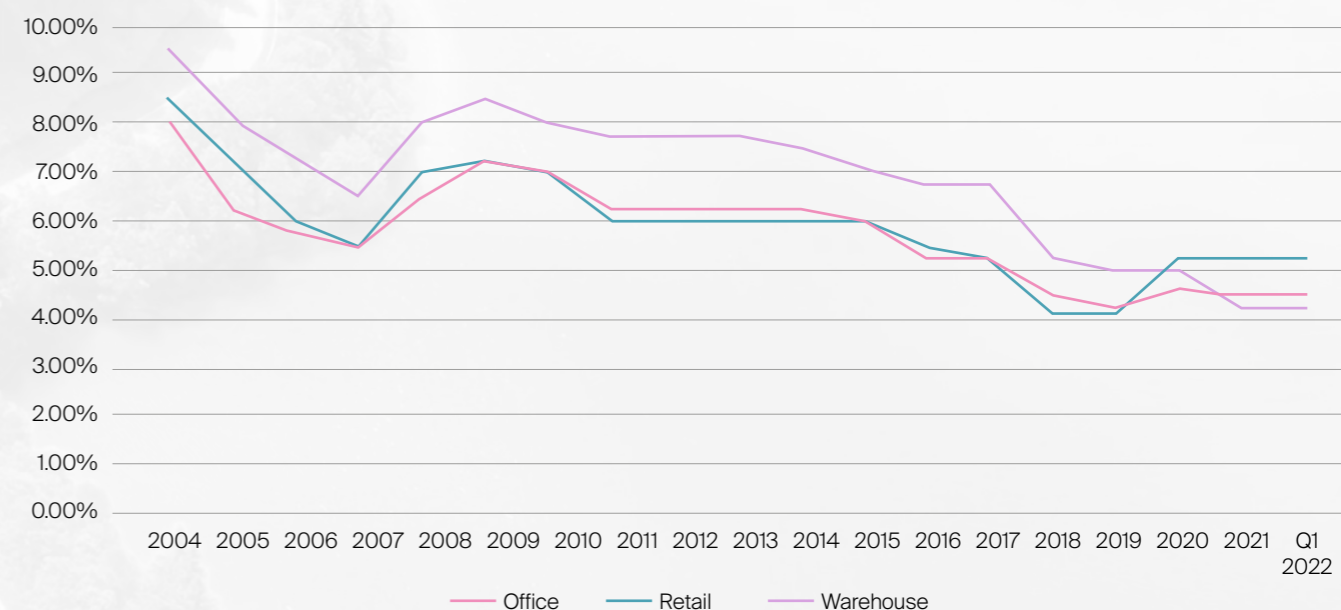
It is worth highlighting that Q1 2022 saw Polish investment market deals closed where negotiations had started in 2021. The market, therefore, is yet to feel the consequences of the outbreak of the war in Ukraine. Knight Frank experts expect that the consequences of the war are likely to be seen no earlier than Q3. This is down to the fact that many investors who were about to start acquisition processes in Q1 decided to implement a "wait and see" strategy following the war's commencement in late February.

Graph: Annual investment volume in Poland (2007-Q1 2022)



Source: Knight Frank

Graph: Prime yields in Poland (2004 - Q1 2022)



Source: Knight Frank

At the end of Q1 2022, prime yields for transactions of multi-let big box warehouses located in Poland's major areas of concentration stood at a level of 5.00-5.50%, remaining stable when compared to Q4 2021. The best facilities, with longer than standard (over 10 years) lease contracts, would still have been expected to be priced at 4.25-4.50% - although no such deals were closed in Q1 2022. The yields for prime office buildings in Warsaw stood at 4.50%, as evidenced by the Google-Ghelamco deal. Q1 2022 saw no prime retail transactions. Knight Frank experts estimate, however, that if such transactions had taken place, the projects would have been priced at around 5.25% (in line with end-2021 levels). The vast majority of retail deals concluded at the beginning of 2022 came in smaller projects (small retail parks and convenience centres); an area which has drawn investor focus in recent months.

As mentioned above, the behaviour of international investors on the Polish

market in the coming months of 2022 is expected to be influenced by the development of the war in Ukraine and the consequences felt in the Polish economy. 2021 had already brought investor concern in the shape of systematically increasing inflation rates and the Monetary Policy Council's response in the form of a series of interest rate hikes (started in October 2021). The consequences of this have been felt in increasing loan costs and decreasing returns on investments. The beginning of 2022 saw the market additionally starting to suffer the uncertainty connected with the war, with the first consequences coming in a worsening situation in the construction sector.

Difficulties in obtaining construction materials because of interrupted supply chains, dynamic growth in their prices, and workforce problems related to the departure of Ukrainian workers to Ukraine and the army, have meant that the implementation of construction

contracts may see a temporary slowdown in 2022. In the short term this may see a decrease in the number of newly started constructions across various sectors of the Polish property market; in the medium-term it may limit the supply of modern commercial space. A consequence of this trend may be a pressure on rents increases. On the other hand, uncertainties in the Polish economy, rising inflation and, consequently, interest rates, should slow down price increases of investment assets, and may even soften yields.



# OFFICE MARKET

At the end of Q1 2022, the total office stock in Poland exceeded 12.5 million sq m. For the first time in the history of the Polish office market however, the supply in regional cities exceeded that in Warsaw. Kraków and Wrocław, with total office supply estimated at 1.64 million sq m and 1.28 million sq m respectively, remained the largest regional office markets in Poland. Next on the list, once again, was

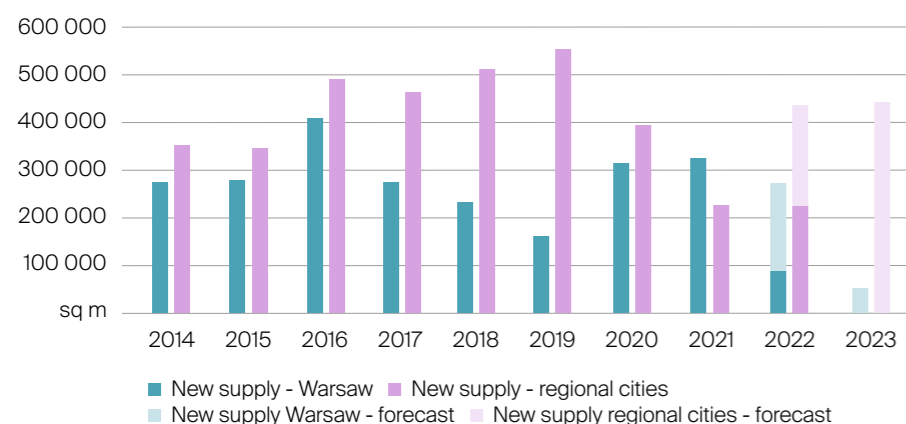
Tricity, with over 992,000 sq m of office space at the end of Q1 2022.

Between January and March 2022, the office sector saw the highest delivered quarterly supply in recent years, with more than 333,000 sq m of office space being completed in Poland. Approximately 35% of the total volume of new supply

(116,000 sq m) came in Katowice. Warsaw was second, with new supply accounting for 27% of the office space completed in Q1 2022 (90,000 sq m), and Wrocław third (36,000 sq m). The remaining cities recorded a new supply of 91,000 sq m in total, with no new buildings completed in either Poznań or Szczecin.

Although Warsaw recorded the highest supply under construction among Polish cities in Q1 2022, developer activity in the city was at its lowest level for a decade (282,000 sq m). A comparable situation was observed in the regional markets at the beginning of 2022, where some 675,000 sq m was under construction (half of this volume was to be found in two cities: Kraków - 197,000 sq m, and Tricity - 140,000 sq m). Nevertheless, as nearly 1/3 of this space is to be delivered to the regional markets in 2022, with the remaining offices scheduled for 2023 completion, the new supply in the coming years will reach the high, levels seen pre-pandemic.

► Graph: Annual office supply in Warsaw and regional cities, forecast 2022-2023



Source: Knight Frank

It should, however, be pointed out that in recent quarters developers have been holding back on decisions to start further construction processes, both in Warsaw and in regional cities. In 2021 these decisions were ostensibly related to a high supply of available office space coupled with a moderate pandemic-affected demand. In 2022, the consequences of the war in Ukraine also became a factor - rising prices for building materials, disrupted supply chains and interest rates driven upwards by the Monetary Policy Council in autumn 2021, causing increases in construction loan costs among other things.

In the first months of 2022, tenant activity in the office market remained at a comparable level to Q4 2021, with

nearly 427,000 sq m of space leased in Poland. Approximately 65% of the space was leased in Warsaw, with the remaining ca.154,000 sq m let in regional cities, and the highest demand being recorded in Wrocław and Kraków.

Demand had a direct impact on the vacancy rate, which for the largest nine business centres in Poland stood at 13.8% at the end of March 2022 - some 173 million sq m of available space. This represented an increase of 0.4 pp. q-o-q., and 1.7 pp. y-o-y. At the end of Q1 2022, with the exception of Szczecin, the vacancy rate in each of regional cities exceeded 12%. The highest vacancy rate, 19.8%, came in Katowice, and the lowest, 3%, in Szczecin.

In both Warsaw and regional cities, asking rents in Q1 2022 remained relatively stable, although more and more developers are announcing rent increases. Asking rates in Warsaw's Central Business District ranged between EUR 20-25/sq m/month, with prime office space on the top floors of modern towers reaching up to EUR 27-28/sq m/month. In other central locations rates ranged from EUR 15 to 24/sq m/month, while outside the centre asking rents stood at to EUR 10-16/sq m/month. In regional cities monthly asking rates ranged from EUR 8 to EUR 16.50/sq m/month, reaching EUR 17/sq m/month in some locations.

# TRENDS

The substantial amount of available office space in Warsaw and the regions, and the number of building projects in the pipeline in regional cities, mean that decisions to start new constructions are being postponed. The limited availability of construction materials and dynamically changing prices in the construction sector are additional reasons for delays. As a result, in the next 12-18 months the increase in the newly constructed supply in regional cities will be somewhat restricted. In Warsaw it may lead to a supply deficit.

Due to the significant amount of space to be delivered to the market in the coming quarters, a further increase in vacancy rates is expected in most regional markets. However, a further reduction of the Warsaw rate is possible in coming quarters if the demand for office space remains at the Q1 2022 levels.

The high availability of office space and an imbalance in demand and new supply may encourage tenants to undertake renegotiations of rental rates. That said, rising construction costs (increases in construction material prices and labour costs), as well as increased financing costs, may effectively inhibit investor negotiating power, particularly in new buildings.

High office net absorption recorded in Q1 2022, both in Warsaw and in the regions (which almost equaled the recorded absorbance throughout 2021) allows for moderate optimism in terms of the demand for offices in 2022.

Due to steady growth in the prices of services and utilities, an increase in service charges can be expected in all facilities.

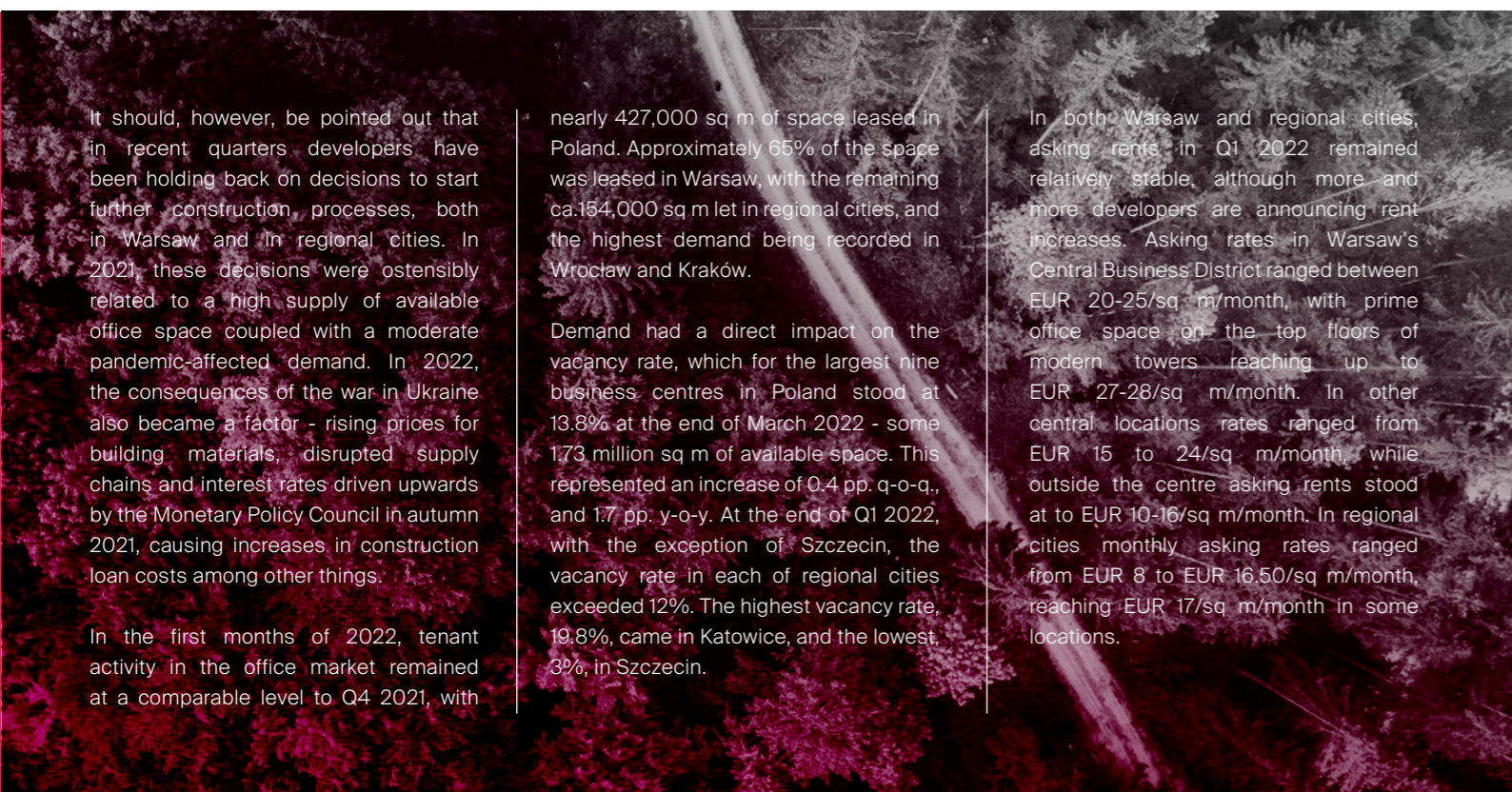
01

02

03

04

05





# RETAIL MARKET

Retail stock in Poland grew by only 25,000 sq m in the first three months of 2022, continuing the trend established in recent years. More than half of the new supply was located in retail parks of between 5,000 and 10,000 sq m. Among the newly opened facilities were: Stacja Sierpc (8,000 sq m), the extended part of Gemini Park in Tychy (7,400 sq m), Galeria Gama in Warka (5,200 sq m), and the extension of Galeria Radomsko (4,000 sq m). Accordingly, the total supply of retail space in Poland had reached almost 12.3 million sq m by the end of March 2022. It is worth mentioning that in Q1 2022 operations commenced on a Leroy Merlin shop (10,000 sq m), which is part of the Karuzela complex under construction in Kołobrzeg. As much as 70% of Q1 2022's new supply was in small towns - those with a population below 100,000 inhabitants. This reflects an ongoing change in the structure of retail formats on the Polish market, and a shift in investor focus towards smaller cities.

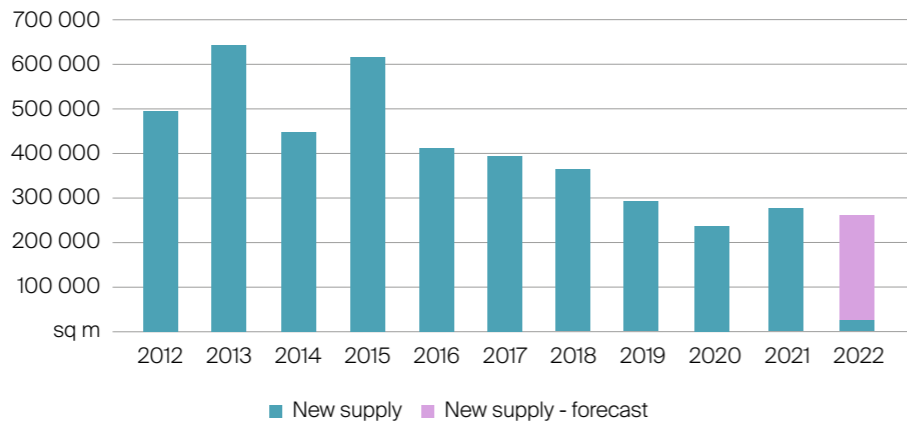
The last quarter of 2021 brought the first positive signals in a while for the retail market, as evidenced by turnovers returning to pre-pandemic levels and continued high developer activity. The limited new supply noted in Q1 2022 is

a result of not only the unprecedented situation of the COVID-19 pandemic, but also relates to Russia's attack on Ukraine in February 2022. Difficulties in delivery of construction materials, already lasting several months, further intensified in Q1 2022 as a result of the war, causing further delays in construction processes.

Nevertheless, at the end of March 2022 some 250,000 sq m of retail space was under construction. The vast majority of projects are still expected to be completed in 2022. The largest such investments include: Karuzela

Kołobrzeg (30,000 sq m in total), Nowy Fort Wola in Warsaw (28,000 sq m), the expansion of the Atut Ruczaj retail park in Kraków (25,000 sq m), the Dor Plaza retail park under construction in Częstochowa on the site of a closed Tesco shop (17,500 sq m), and Karuzela Puławy (14,000 sq m). Given the pace and structure of retail supply growth, primarily in smaller projects, as well as likely delays in new facility completion dates, 2022 may bring another year with new supply well below the annual average (300,000 sq m) for the last 5 years.

Graph: Annual retail supply in Poland



Source: Knight Frank



It is of note that shopping centres are gradually recovering to pre-pandemic footfall levels. Surveys of footfall conducted by the Polish Council of Shopping Centres (PRCH) have shown that customers are indeed returning to shopping activity in shopping centres. In January 2022, despite another pandemic wave, shopping centre traffic was only

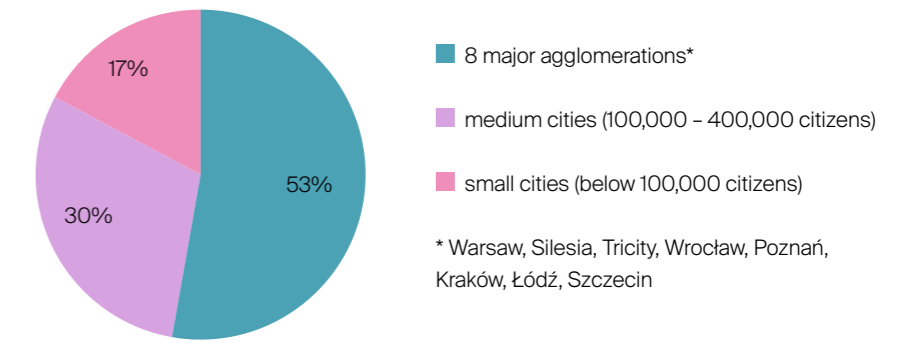
2% down on the equivalent period of 2019. In February 2022, the footfall ratio was at 89% of the February 2019 value, and 8.3% higher than the February 2021 value. In March 2022 the level was 99.7% of the value recorded in the corresponding month of 2019. According to PRCH data, turnover in shopping centres in January and February 2022 reached levels of

87.6% and 95% respectively compared to the corresponding months of 2019.

Over recent months, the market has seen a reduction in the pace of expansion of both domestic and international chains. Reduced pandemic period revenues have accelerated the decisions of international brands such as Camaieu,

Salamander, Sportisimo, Stefanel and Promod, among others, to withdraw completely from Poland. The Orsay chain also plans to close its shops in Poland by the end of June 2022. Nevertheless, it is worth noting that the Polish market continues to attract new brands: the German drugstore chain DM Drogerie Markt announced its expansion; the first Philipp Plein boutique opened in Warsaw; the German sports chain Snipes debuted in Poland as a result of its acquisition of the Distance stores.

Graph: Supply under construction according to location



Source: Knight Frank

\* Warsaw, Silesia, Tricity, Wrocław, Poznań, Kraków, Łódź, Szczecin

# TRENDS

01

Changes in the economic and social situation in Europe have not weakened interest in convenience shopping facilities for either consumers or investors. This is confirmed by the current supply figures, which see small retail parks accounting for around a quarter of constructions. It is expected that the market will continue to be supplied predominantly with space in this type of project, located to a large extent in smaller urban centres.

02

Observing consumer behaviour after the lifting of COVID-19 restrictions, a further gradual return of customers to shopping malls can be expected. This is reflected in, among other things, the improving shopping centre footfall figures presented by PRCH.

03

According to Statistics Poland data for March 2022, retail sales in Poland grew significantly - by 9.6% y-o-y and 16.4% compared to the previous month. This is accounted for, among other factors, by the arrival of refugees from Ukraine and the collections of basic products organized for them. This trend is expected to continue in the coming months. The long-term effect of the refugee situation, however, depends on how many of them decide to stay for an extended time in Poland.

04

As a result of the significant rise in prices seen in recent months, consumer attention has been focused primarily on essential goods. This has, in turn, contributed to an increase in the popularity of shopping at discount and outlet stores. It is worth noting, however, that a weakening in consumption has been observed due to the high inflation rate - a trend which will continue in the upcoming quarters. Consequently, a decline in GDP growth rates can be expected in the long term.

05

The share of the e-commerce sector in retail sales is forecast to remain higher than before the pandemic. According to Statistics Poland data for the first three months of 2022, the share was 11.1%, 10% and 9.4%, respectively. In the coming quarters, this value is expected to increase further, which may well be a consequence of consumers seeking cheaper offers online.





# WAREHOUSE MARKET

The warehouse market is currently one of the fastest growing sectors in the Polish economy. At the end of March 2022, the total stock of modern warehouse space in Poland exceeded 25.3 million sq m, an increase of over 17% on 2021's corresponding period. New space growth was recorded in each of the nine warehouse concentration areas, in the so-called „big five” markets: Warsaw (zones I and II), Upper Silesia, Central Poland, Lower Silesia, Wielkopolska and Tricity, the Szczecin region, Kraków and emerging markets. The markets with the largest warehouse stock in Poland are still: Warsaw, offering over 5.5 million sq m (22% of total supply), the Upper Silesia region (18%), and Central Poland (15%).

The beginning of 2022 saw a continuation of dynamic growth in the Polish warehouse market. From January to the end of March 2022, a record-breaking new supply of 1.3 million sq m of space was delivered. This result is the highest quarterly volume of new supply ever recorded in the domestic market. The largest number of finished projects, over 280,000 sq m, were completed by developers in the Wielkopolska region (21% of new supply), the Lower Silesia region (236,000 sq m), and

Upper Silesia (216,000 sq m). In Q1 2022, occupancy permits were granted to, among others: Hillwood BTS in Bydgoszcz (104,000 sq m), P3 Poznań II of 82,000 sq m, Hillwood BTS Stryków II (73,000 sq m), and Segro Logistics Park Poznań BTS in Gołuski (50,000 sq m).

Developer activity in the sector has remained exceptionally high. At the end of March 2022, 4.7 million sq m of space was under construction - only 2% less than in Q4 2021. This data confirms the fact that, despite limitations related to the availability of materials and workforce, and price increases, new investments are showing no sign of slowing. Currently, most new investments are taking place in emerging markets, where more than 860,000 sq m of new space is under construction. Central Poland (788,000 sq m) and Upper Silesia (743,000 sq m) also rank, not far behind, in the top 3.

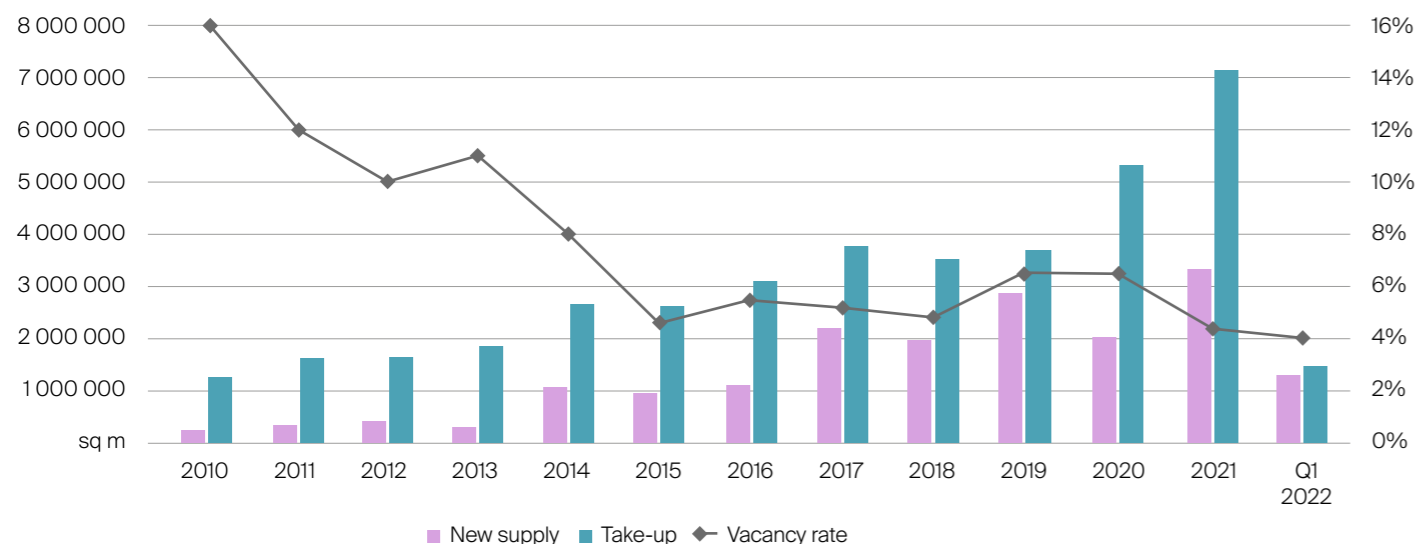
Tenant interest in warehouse space in Poland remains high, translating into 1.4 million sq m of leased space in Q1 2022. The most preferred warehouse destinations in the first months of 2022 were Upper Silesia (leading the way with 21% of the transaction volume), Warsaw (Zones I and II with 16% share in take-up),

and Central Poland (14%).

Despite the record-breaking new supply delivered to the market in Q1 2022, the vacancy rate in the Polish warehouse market witnessed a decline to a historically low value, estimated at 4.1% at the end of March 2022. The largest volume of available warehouse space was on offer in the Upper Silesia region, with a vacancy rate of 7%. At the same time, space availability in the region of emerging markets - Szczecin, Łódź, Kraków and Tricity - is very limited.

Q1 2022 saw an increase in asking rents in the main warehouse markets in Poland - a trend which is expected to continue in Q2 2022. The most expensive market remains Warsaw, where asking rents within the administrative borders of the city are EUR 4.00-5.60/sq m/month, while in zone II they are EUR 3.00-4.50/sq m/month. In the largest areas of concentration outside Warsaw asking rents are EUR 3.00-4.30/sq m/month, and in emerging markets EUR 3.00-3.80/sq m/month.

Graph: New supply, take-up and vacancy rate in Poland (2010 - Q1 2022)



Source: Knight Frank

# TRENDS

01

Along with the development and diversification of warehouse space, changes in the technical standards of constructed facilities are visible. Increasingly, developers are implementing projects with increased floor load capacities, increased heights and greater thermal insulation of walls.

02

Further dynamic development of urban formats and last mile logistics facilities is visible. These are highly sought by tenants from the e-commerce and q-commerce sectors. The new format of "dark stores" as mini distribution centres has also appeared on the Polish market, particularly in the e-grocery sector.

03

Pro-ecological solutions compliant with the ESG strategy, e.g. better glazing in office sections of warehouse facilities, grey water recovery, and installation of photovoltaic panels, are becoming an important consideration in both facilities under construction and existing facilities

04

Supply not in tune with demand, in tandem with low vacancy rates, is creating upward pressure on asking rents, the first signs of which are already visible.

05

High demand in the warehouse sector will be generated by further dynamic growth of the e-commerce sector, the logistics sector, and courier companies.

06

Due to increasing energy costs and service prices, a rise in service charges is forecast in warehouse facilities.

07

The record-breaking developer activity in the sector will influence the further development of the sector and dynamic growth in warehouse stock in 2022. However, limited availability of construction materials, a further increase in their prices, and workforce shortages (a consequence of the war beyond the eastern border) may cause delays in ongoing constructions in the coming quarters, and may delay decisions to start new speculative projects.



# ECONOMIC SITUATION

## KEY MACROECONOMIC INDICATORS

### ECONOMIC SITUATION IN THE CONSTRUCTION SECTOR

According to the Statistics Poland, the business climate index for the construction sector in May 2022 stood at -14 points, compared to April 2022's figure of -15.4 points. The main reasons for such a low level of the index are the increasing prices of raw materials and other materials, and the war in Ukraine, causing supply chain disruptions, especially in such raw materials as steel, aluminium, and wood. Furthermore, the increase in raw material prices is largely due to the rise in energy and fuel prices. In addition, employment costs, a shortage of blue-collar workers, uncertainty about the economic situation, and delayed investment decisions, are very important factors. It is anticipated that, due to rising inflation and interest rates, the subsequent quarters of 2022 may remain very challenging for the construction sector and may contribute to investors holding off on starting new projects.

-14 pt.

### INFLATION

Inflation in Poland in April 2022 stood at to 12.4% (an increase of 2% compared to March 2022) - the highest figure since 1998. The increase in the consumer price index was mainly driven by food and beverage prices (12.7% increase y-o-y) and fuel prices (27.8% y-o-y). Although a very restrictive monetary policy is being pursued, a fall in inflation to single-digit figures in the near future seems highly unlikely due to a simultaneous expansionary fiscal policy. The inflation rate is expected to rise further still in the coming months, possibly peaking by the end of Q3 2022. This will be largely driven by rising food, energy and fuel prices.

12.4%

### GDP GROWTH

In Q1 2022, GDP growth in Poland was as much as 8.5% higher than for the same period of 2021. It is worth noting that, excluding Q2 2020's post-covid GDP rebound figure, this is the highest GDP growth rate in Poland since 1995. Such growth at this level in the Polish economy, however, is unlikely to be continued in the coming quarters. Moreover, it is expected that throughout 2022 the real GDP growth rate will be at a level of some 3-4%. This will be influenced, among other things, by a slowdown in investment and rising inflation rates, causing a decline in household spending.

8.5%

### INTEREST RATES

At the beginning of Q4 2021, the interest rate in Poland stood at 0.1% - at the end of a period when the Monetary Policy Council had tried to dampen inflationary tendencies. At the end of December 2021, the interest rate had already risen to 1.75%, and after a series of increases in the following months, the rate was raised to 5.25% in May 2022. Interest rates are expected to rise further in Q2 2022, mainly influenced by rising inflation and levels of economic activity. Rising interest rates translate directly into higher loan repayments and lower creditworthiness, which will have a key impact on demand in the residential market in the short term, as well as causing a fall in the number of mortgages granted.

5.25%

### PMI

April 2022 saw the lowest PMI index since January 2021 at 52.4 points, down 0.3 points on March 2022. This was marginally better than the forecast of 52.3 points, despite a decline in both new orders and production in April 2022. Transportation delays and limited access to raw materials are also resulting in longer lead times. The condition of the industrial sector is also significantly affected by rising inflation and market instability related to the war in Ukraine. A further decline in the PMI index can be expected in the coming months of 2022, which may signal a slowdown in the growth of economic activity.

52.4 pt.



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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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