Knight Frank

REVIEW 2023 2024 OUTLOOK

COMMERCIAL REAL ESTATE MARKET

INTRODUCTION

The Polish commercial real estate investment market contracted in 2023 to its lowest level since 2010, amounting to just over EUR 2 billion. Compared to the previous year, the total volume decreased by more than 60%, affecting all asset classes. The smallest reduction in turnover was noted in the warehousing sector, with the total investment volume halving compared to the previous year's figure of EUR 970 million. Market liquidity also declined, with around 80 transactions recorded in 2023, down from almost 130 in the previous year.

Warehouse real estate has been the most attractive investment and has dominated the total volume since the start of the pandemic, reaching nearly 50% share in 2023. Meanwhile, investments in office and retail properties accounted for approximately 20% share each (EUR 429 million and EUR 430 million, respectively). In 2023, several transactions were concluded in the Built to Rent (BTR) and private student accommodation (PBSA - Purpose-Built Student Accommodation) sectors. These sectors, due to their countercyclical nature and strong market fundamentals, have displayed remarkable resilience to capital market turbulence. The sectors' share of the total volume reached the highest in the history of the Polish investment market in 2023, at 9%.

Persistently high inflation and consequently elevated interest rates have led institutional investors to maintain a cautious approach. With this sentiment remaining unchanged, it is expected that in 2024, the market will predominantly consist of transactions in higher risk and alternative asset classes.

Anticipating a decrease in interest rates in the eurozone during the second half of 2024, it is expected that institutional capital inflows to Poland will rise, leading to an increase in core transactions. Moreover, a stabilisation of prices and rates of return is anticipated in 2024, following their steady upward trend throughout 2023.

Research & Capital Markets Team

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Office sector

- **Office space take-up is increasing for the fourth consecutive year. In 2023, leased space amounted to 1.5 million sq m, only 5% lower than the record set in 2019.**
- **The vacancy rate rose to 14.1% at the end of 2023, up from 13.5% in 2022, mainly due to the substantial amount of office space delivered to the market over the previous two years.**
- **The growth rate of new office space is slowing down. In 2023, approximately 340,000 sq m of office space was completed, marking an 89% decrease compared to 2022, and the lowest figure since 2011.**
- **Asking rents in new, centrally located buildings showed a slight increase in 2023, typically ranging from EUR 10 to EUR 27/sq m/month in Warsaw and from EUR 8 to EUR 16 /sq m/ month in regional cities.**

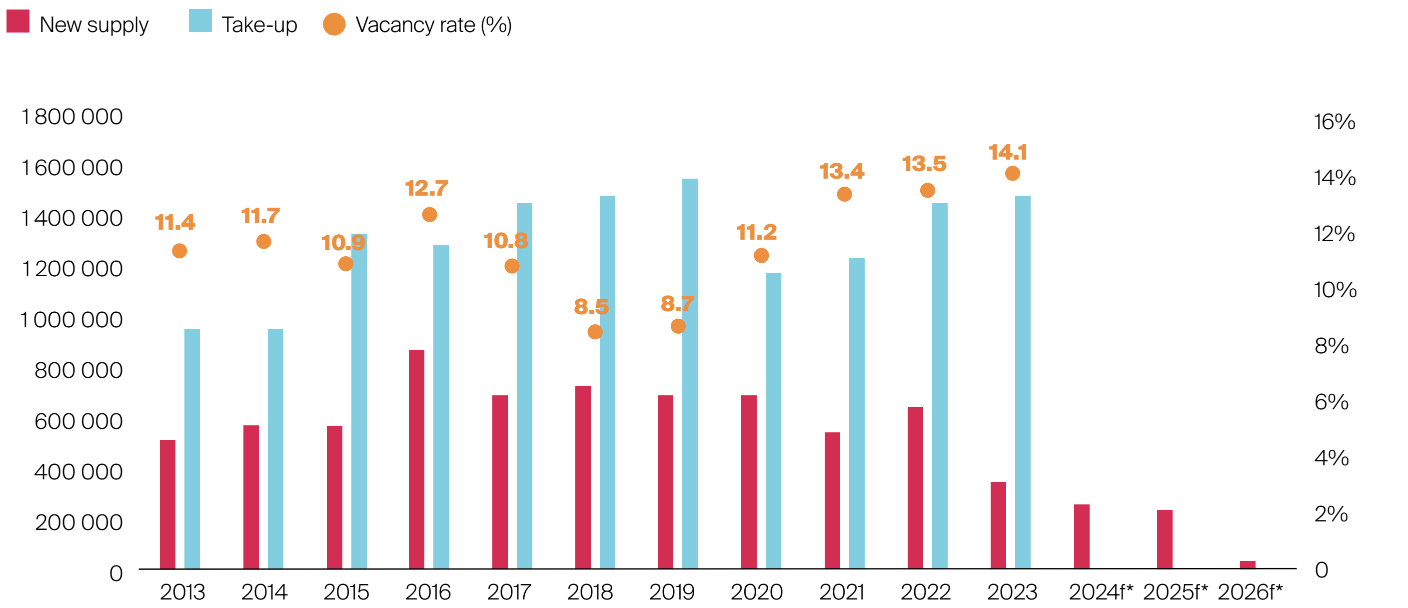
Office market in Poland

In 2023, rental demand for office space remained robust, with the uptake reaching almost 1.5 million sq m, only 5% below the pre-pandemic record achieved in 2019. Despite the general economic downturn, the amount of leased office space grew for the fourth consecutive year.

The office market in Poland is experiencing increasing geographic diversification. After many years of Warsaw's dominance in the domestic office real estate market, regional cities now lead on both the supply and demand sides. In 2023, for the first time in the market's history, combined demand in the eight largest regional cities surpassed that of Warsaw, reaching a record level of 750,000 million sq m (compared to 749,000 sq m in Warsaw). Notably, the highest demand outside Warsaw was observed in Krakow (201,000 million sq m), Wrocław (166,000 sq m), and the Tri-City (153,000 million sq m).

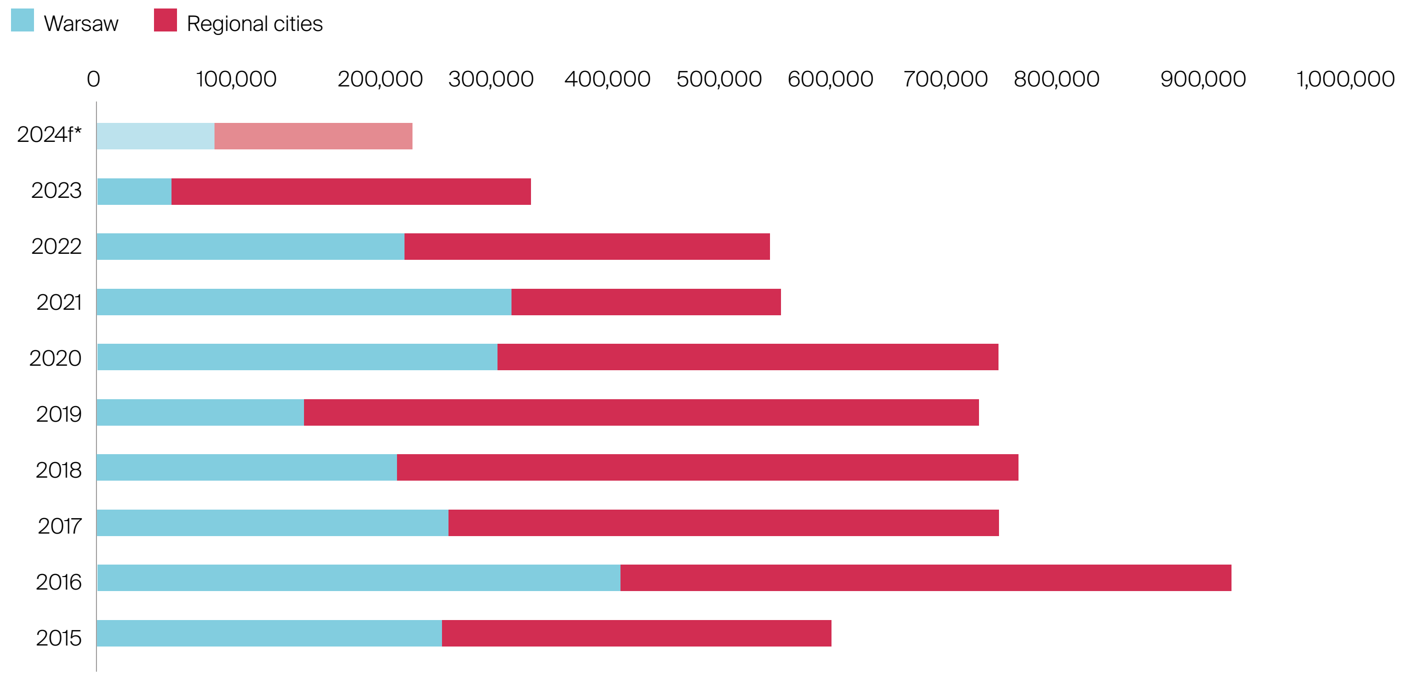
The rise in demand for office space rentals in regional cities is influenced by various factors, including the structure of demand. Some 42% of the leased space in regional cities and 30% in Warsaw was attributable to the IT sector and shared service centres.

Chart 1 New supply, take-up and vacancy rate in Poland (sq m)



Source: Knight Frank, f* - forecast

Chart 2 Annual supply in major office market in Poland (sq m)



Source: Knight Frank, f* - forecast

The increasing interest in regional cities from the BSS (Business Support Services) sector is due to the more advantageous availability and cost of employees in regional cities compared to Warsaw, alongside lower office rents.

New contracts dominated the take-up structure, ranging from 52% in Wrocław to 76% in Lublin. Conversely, renegotiations were more prevalent in only Krakow and Szczecin, accounting for 47% and 52% of the leased space, respectively. The share of expansions in the lease structure remained small, falling below 5% in all cities except for Katowice and Krakow, where it accounted for 12.3% and 7.9%, respectively.

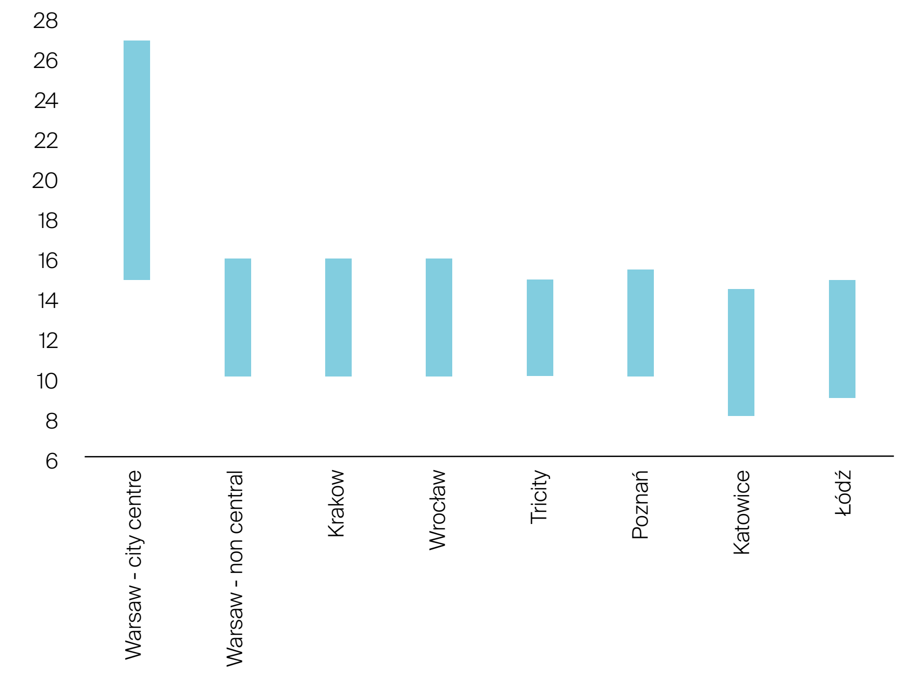
Simultaneously, the percentage of pre-lets in the transaction volume decreased, with Warsaw registering 8% (a 2 pp decrease y-o-y) and the regions only 3% (a 7 pp decline y-o-y).

The overall office market vacancy rate at the end of 2023 stood at 14.1%, up from 13.5% in 2022. The consistent increase since 2019 across Poland's office markets can be attributed to reduced demand and steady supply growth.

In the past 12 months, the vacancy rate decreased only in Warsaw and Łódź. Katowice recorded the highest vacancy rate at 21.5%, driven by a significant growth in new supply in 2022. Conversely, Szczecin remained the lowest, steady at 4.8%, making it the sole city with a vacancy rate below 10%.

By the end of 2023, the total stock of existing office space in Poland had reached approximately 12.9 million sq m, of which 48% is situated in Warsaw. Krakow and Wroclaw are the other significant office markets, with 1.8 million sq m and 1.3 million sq m, respectively.

Chart 3 Asking rents (EUR/sq m/month)



Source: Knight Frank

In 2023, there was a notable decrease in the growth rate of new office space completion, with only around 340,000 sq m completed. This marked an 89% decline compared to the previous year and was the lowest output since 2011. This trend is expected to persist, given that there are presently 534,000 sq m of office space under construction, reflecting a 28% decrease from the previous year.

Developers are showing hesitation in commencing new construction projects due to the abundant availability of office space, high financing costs, and persistently high construction expenses.

As a result, the amount of office space completed in the next two years is expected to continue to decline, to an estimated 260,000 sq m in 2024 and 240,000 sq m in 2025.

The significance of ecological and sustainable office buildings is expected to increase, with certified properties accounting for over 55% of all office buildings in the main regional markets. The majority (29%) are situated in Warsaw, with the remaining 26% spread across the main regional markets, led by Krakow (9%).

Both Warsaw and the regional cities experienced a slight increase in rent levels, particularly in new buildings in central locations. In the Central Business District of Warsaw, asking rents at the end of 2023 ranged from EUR 18 to EUR 27/sq m/month. Meanwhile, outside the city center, asking rents varied from EUR 10 to EUR 16/sq m/month. In regional cities, the monthly asking rents ranged from EUR 8 to EUR 16 /sq m/month.

There was a noticeable increase in service charges due to the ongoing rises in the prices of services and utilities. In Warsaw, service charges ranged from EUR 18 to EUR 38/sq m/month, while in regional cities, they ranged from EUR 14 to EUR 32/sq m/month.

TRENDS

- Demand for office space rental is projected to remain high, but the upward trend is expected to be curtailed due to the unfavourable macroeconomic environment.
- The importance of regional office markets is set to continue growing, both on the demand and supply sides.
- The rate of new office supply will continue declining, to levels unprecedented in the office market in two decades, not surpassing 300,000 sq m per year for the next two years.
- Although limited supply is set to temper the rising trend in the vacancy rate, it is projected to continue growing, albeit at a reduced tempo.
- Rents for prime office space in new buildings situated in city centres are set to rise, while rents in older buildings are expected to stabilize.

Economic indicators

The demand for office space is directly linked to growth of real GDP, as evidenced by the subdued demand observed last year. Additionally, the activity of international tenants, such as multinational corporations or financial institutions, is tied to the global economic climate, impacting real estate strategies and office space requirements, which are sensitive to fluctuations in the external economic landscape.

In 2023, real **GDP** (adjusted for inflation) rose by 0.2%, a notable slowdown compared to the 5.3% growth recorded in the previous year. Despite the modest growth in 2023, GDP dynamics were adversely influenced by domestic demand, linked to geopolitical instability and prolonged high inflation. The economic condition in Poland is showing signs of improvement, with the European Commission forecasting a real economic growth rate of 2.7% for Poland in 2024. This prediction foresees Poland having the highest growth among major EU economies, surpassing the EU average of 1.4% and the euro area average of 2.2%.

Encouraging signs for the rental market are also being observed in the growing workforce in Poland. According to Eurostat data, the **unemployment rate** in December 2023 was reported at 2.7%, reflecting a 0.2 pp decline compared to the previous December. Despite the substantial inflow of refugees from Ukraine, totalling 1.2 million, the Polish labour market remains robust. Eurostat data further indicates that Poland had the second lowest unemployment rate in the EU at the end of 2023, behind only Malta with a rate of 2.4%.

Investment market

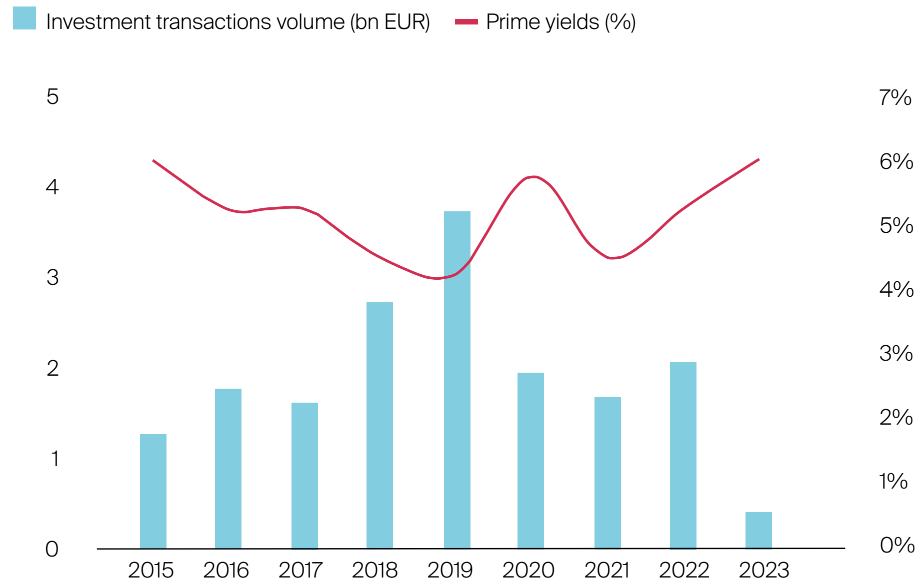
In 2023, the office sector ranked third in terms of investment volume, trailing the warehouse and retail sectors. The total investment amount of EUR 429 million represented a substantial decrease, being five times lower than the previous year and the lowest recorded since 2009. As with other sectors, a decline in both the number and value of individual transactions has been observed in the office market, alongside a noticeable decrease in value per square meter.

During 2023, only 18 transactions were documented, marking a significant decline from the 28 transactions in the previous year. Nearly all transactions (17) concerned properties located in Warsaw, primarily in non-central locations. The sole office transaction outside the capital involved a small office building of 2,000 sq m in Krakow.

Moreover, the office market in 2023 did not witness any transactions involving prime office properties. The most substantial transactions included the sale of the Mokotów Nova office building by Tristan Capital Partners for EUR 75 million and the acquisition of the Wola Retro building by Adventum International from Develia for EUR 69.8 million.

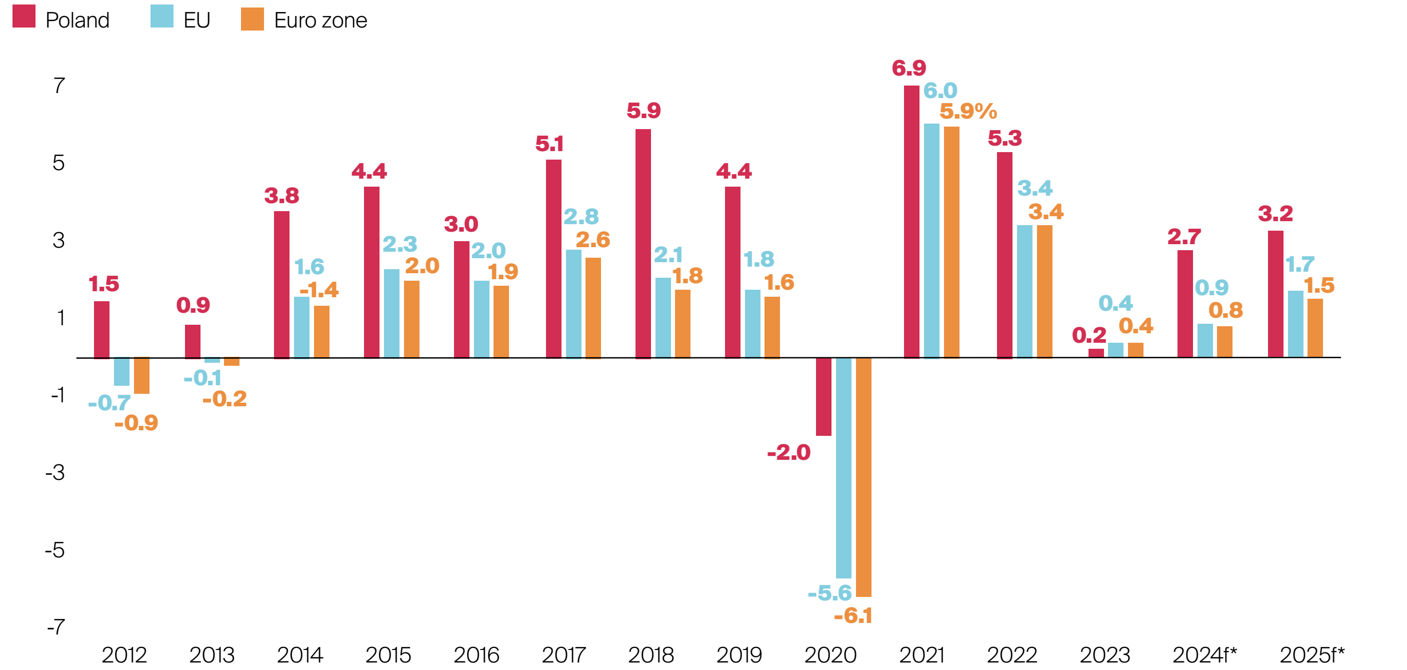
The subdued activity of investors can be attributed to high interest rates, stringent credit conditions, and an uncertain macroeconomic environment. Nevertheless, with the falling inflation rate and anticipated interest rate cuts in the euro zone, the investment market is anticipated to rebound in the second half of 2024.

Chart 4 Investment transaction volume and prime yields in the office sector



Source: Knight Frank

Chart 5 GDP growth dynamic in Poland (y-o-y) (%)



Source: Knight Frank based on Eurostat and European Comission
f* - European comission forecast

Retail sector

- **The sentiment in the retail market has shown improvement, with footfall in shopping centres and their nominal turnover in 2023 rebounding to pre-pandemic levels.**
- **The vacancy rate in shopping centres remained low, dropping to 3.6% in the third quarter of 2023 in the eight largest agglomerations, down from 4.7% in the same period of 2022.**
- **Prime properties are experiencing an upward trend in rents, with notable increases exceeding 10% observed in prime locations within retail parks.**
- **During 2023, the retail space delivered for use saw a significant increase, totalling 420,000 sq m, marking the best result since 2016.**
- **Developers continue to concentrate their activity on small towns (less than 100,000 inhabitants), where over 60% of the new supply was delivered, and 66% of the total area under construction is situated.**
- **The majority (65%) of the retail space delivered in 2023 comprised properties with an area of up to 12,000 square meters, with retail parks remaining the most frequently built format.**

Retail market in Poland

The retail sector in Poland experienced substantial growth in 2023, particularly in smaller towns with populations not exceeding 100,000 inhabitants. Over 250,000 sq m of modern retail space were introduced in the smallest towns, accounting for over 60% of the total new supply in the country. In contrast, only 17% of the new supply in Poland was completed in the eight largest agglomerations.

Consequently, the total stock of modern retail space in Poland by the end of 2023 reached almost 13 million sq m, with slightly more than half located in the eight largest agglomerations, 23% in medium-sized cities with populations between 100,000 and 400,000, and 26% in the smallest towns (below 100,000 inhabitants).

Following a period of stagnation during the pandemic, developer activity has rebounded. By the close of 2023, 380,000 sq m of modern retail space were under construction, representing the highest volume in three years.

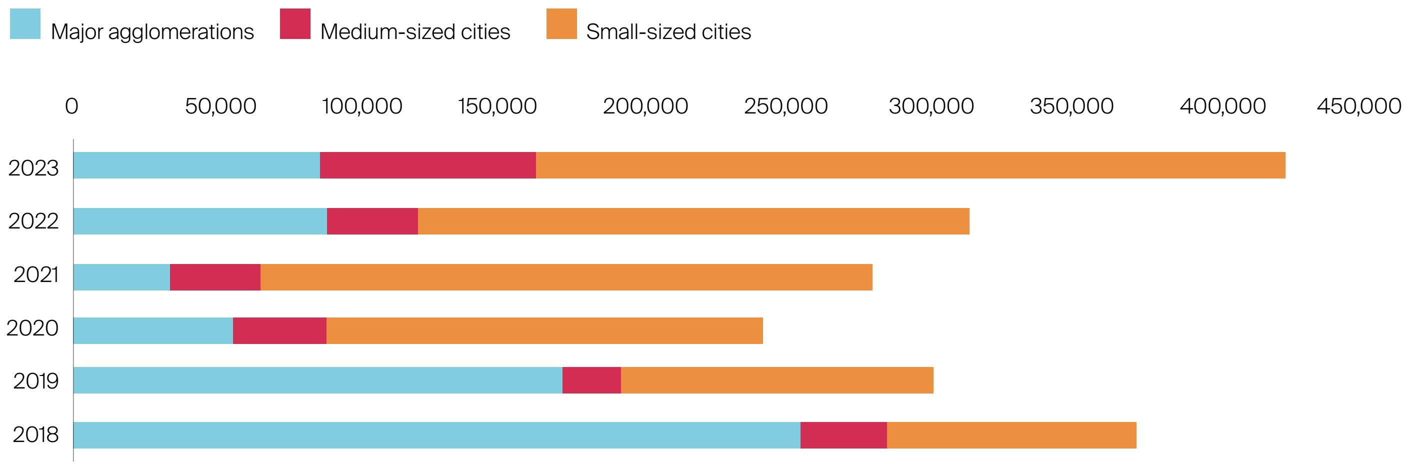
Most of the new space, over 65%, is being developed in small and medium-sized cities, a situation influenced by the high saturation of retail space in the largest agglomerations, the scarcity of suitable plots or their high cost, and robust demand from the investment market for small retail properties.

In 2023, the majority of the retail space introduced to the market consisted of small retail properties ranging from 5,000 to 10,000 sq m, primarily in the retail park format , which demonstrated strong resilience against declines in footfall and turnover during the pandemic. Additionally, almost 20% of the total new supply in the real estate market comprised extensions of existing properties. For the previous four years, no properties with an area exceeding 40,000 sq m have been developed in the Polish market.

The largest property completed in 2023 was the modernization of the Fort Wola shopping centre in Warsaw, with an area of 22,000 sq m. Currently, the largest retail developments under construction include the OTO Park Koszalin retail park with an area of 38,000 sq m, built by Acteeum Group, and the Nowa Sukcesja shopping centre in Łódź, with an area of 35,000 sq m. The latter, which faced bankruptcy in 2020, was acquired by Amush Investment Group, and following modernization and re-commercialization, is scheduled to open under a new name in the fourth quarter of 2024.

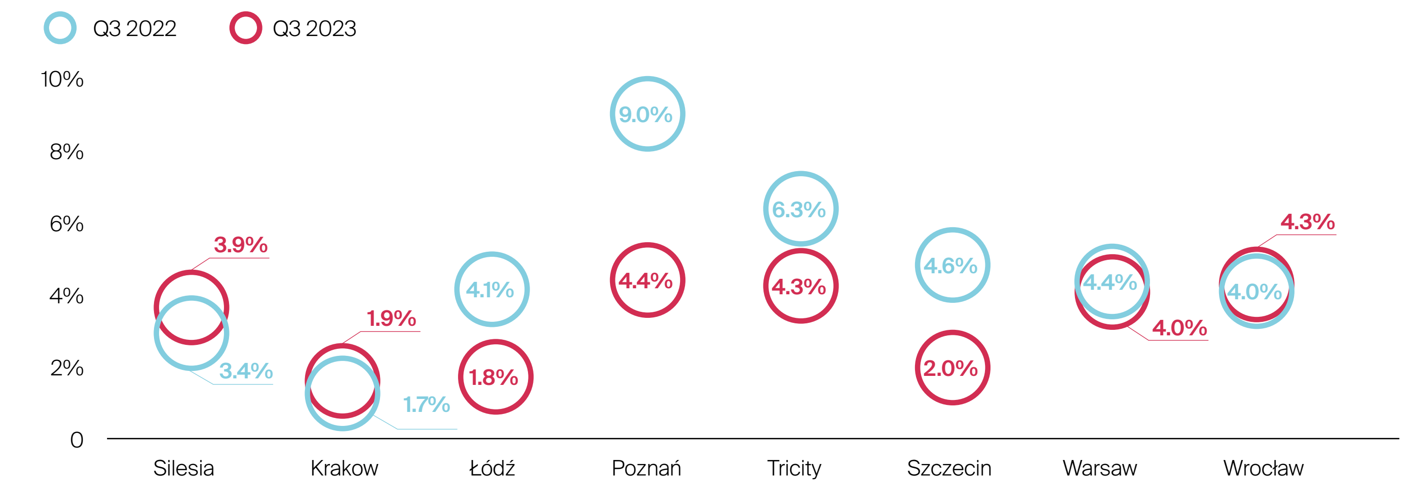
The retail market in the largest agglomerations has reached a stable and mature state, with a very limited number of locations featuring a favourable catchment area to competition ratio. Consequently,

Chart 1 **Annual supply of retail space (sq m)**



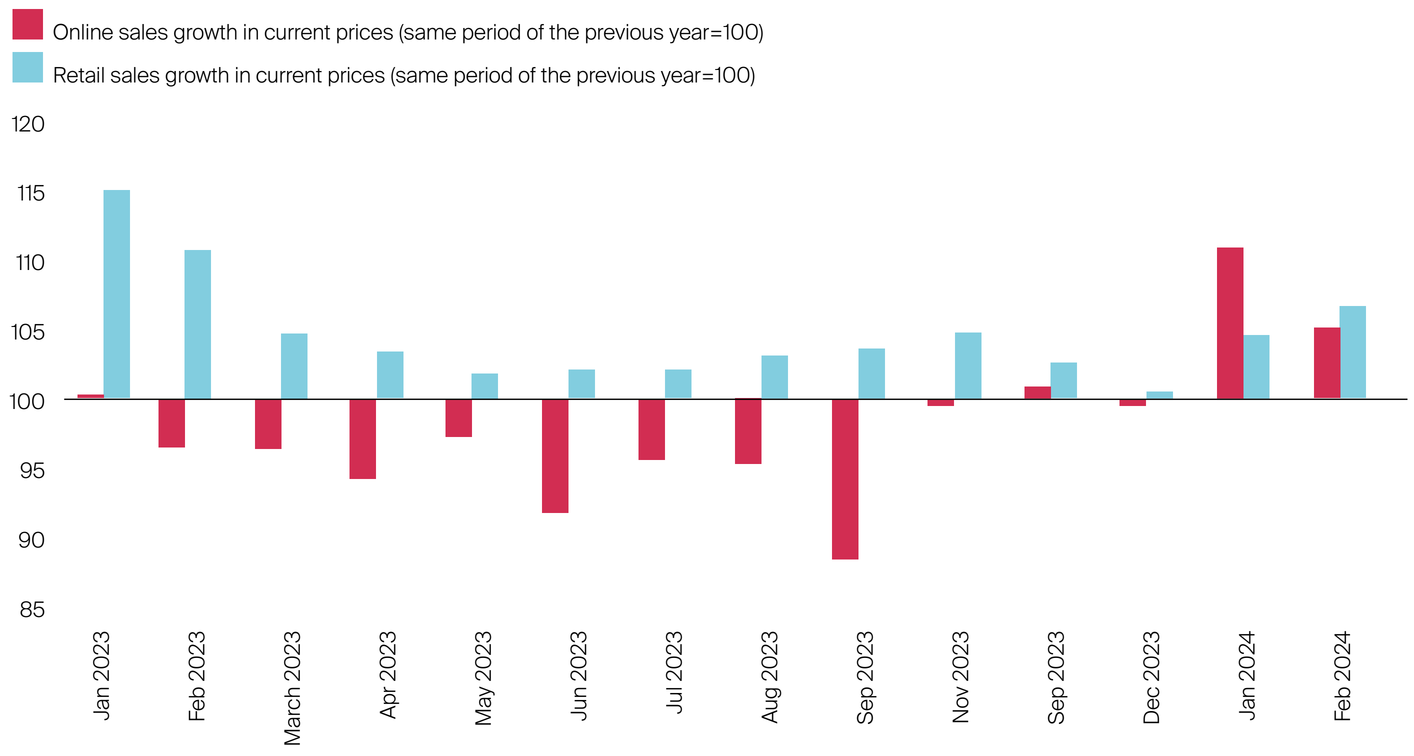
Source: Knight Frank

Chart 2 **Vacancy rates in 8 major agglomerations**



Source: Knight Frank

Chart 3 **Retail sales growth and online sales growth**



Source: Statistics Poland

modernizations and extensions are increasingly being observed in the largest cities, while new properties are being constructed in smaller urban centres where the market is much less saturated.

Retail market sentiment showed improvement in 2023, as evidenced by the decreased vacancy rate in shopping centres within the largest agglomerations. The annual vacancy survey in the eight largest agglomerations, conducted between July and August 2023, showed a decline in the unlet area ratio to 3.6% from 4.7% in the same period of the previous year.

In two agglomerations, there was a minor increase in the unlet area, with the Silesian agglomeration rising from 3.4% to 3.9% and the Wrocław agglomeration increasing from 4.0% to 4.3%. Conversely, a decrease in the unlet area was observed in the remaining agglomerations, notably in the Poznań (from 9.0% to 4.4%), Szczecin (from 4.6% to 2.0%), and Łódź (from 4.1% to 1.8%) agglomerations.

The demand for retail space is rebounding to pre-pandemic levels, as evidenced by some 30 debuts on the Polish market in 2023, marking the best result in four years. Notable new entrants to the retail market included Woolworth, Lush, Moschino, Candy Pop, Solmar and Mokida.

Furthermore, customers have returned to shopping centres, as indicated by a survey of footfall conducted by the Polish Council of Shopping Centres, which revealed a 4.6% increase in the number of customers per 1 sq m of GLA in 2023 compared to the previous year, exceeding the results achieved before the pandemic in 2019.

The size of the shopping centre appears to correlate with footfall indicators, as properties with an area above 60,000 sq m experienced a 6.1% increase, while those with an area between 5,000 and 20,000 sq m saw a more modest 2.4% increase.

Concurrently, the turnover of shopping centres in current prices witnessed an overall increase in 2023, with a 9.2% rise compared to the previous year. The largest increase in turnover was recorded in the smallest properties (5,000 - 20,000 sq m), where the turnover increased by 12.2% compared to 2022, despite experiencing the smallest increase in the number of visitors during the same period.

Medium-sized properties (20,000 - 40,000 sq m) recorded the smallest increase in turnover, 6.5%, compared to 2022, while the average increase in the largest shopping centres (above 60,000 sq m) was 9.1%.

Economic indicators

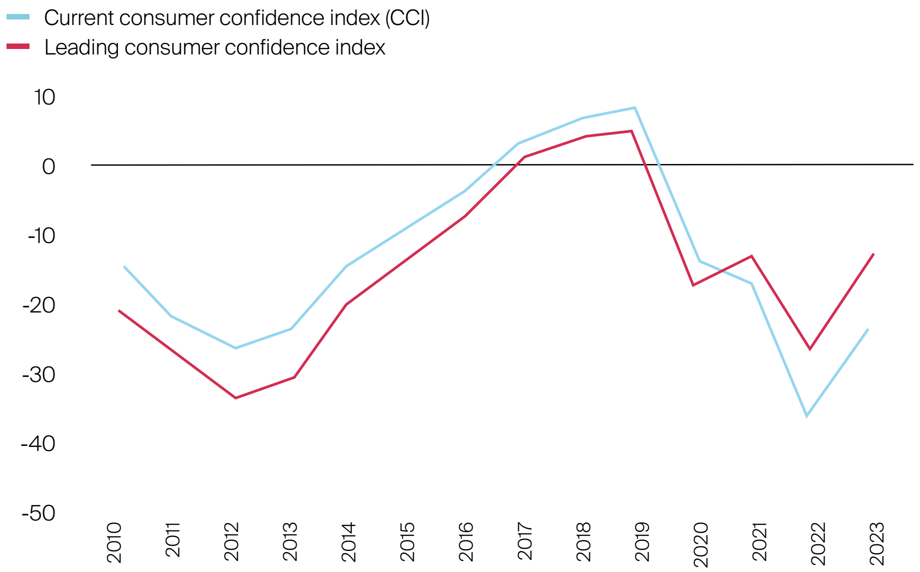
The modern retail sector remains resilient even with the challenging macroeconomic landscape. Despite constrained consumer spending and a decline in the country's retail sales growth rate due to high inflation, shopping centres in 2023 saw an uptick in both turnover and footfall compared to 2022. Additionally, the retail market is bolstered by favourable labour market conditions, with wages outpacing inflation and the country boasting the second-lowest unemployment rate in the EU.

In 2023, **retail sales** in Poland experienced a 2.7% decline in constant prices compared to the previous year, marking a second historic downturn after the pandemic-impacted year of 2020. However, with declining inflation rates, retail sales are expected to rebound in 2024, leading to improved performance in the retail sector. In terms of current prices, retail sales showed positive momentum compared to the previous year.

The share of **online sales** in retail sales saw a decrease from 8.4%-11.9% in 2022 to 7.7%-11.7% in 2023, depending on the month. This trend aligns with the increase in footfall in shopping centres, suggesting a growing preference among customers to return to the traditional shopping experience.

In 2023, the **current consumer confidence index**, which indicates current individual consumption trends, marked the third lowest result in a decade, following 2022 and 2013, at -39.8 and -26.7, respectively. However, the **leading consumer confidence index**, which forecasts expected individual consumption trends in the future, exhibited a 14.7 point increase compared to the whole of 2022, standing at -14.8. This value for the leading CCI in 2023 represented the most favourable outcome since the pandemic year of 2020, providing a basis for optimistic forecasts for 2024.

Chart 4 Consumer confidence index (CCI)



Source: Statistics Poland

TRENDS

Development activity will persist in focusing on smaller cities, driven by the high saturation in the largest urban centres and the strong demand for small retail formats.

Along with the improvement of macroeconomic factors, footfall and turnover in shopping centres are expected to increase further.

The trend of rejuvenating older properties is set to intensify due to the aging of retail facilities and increasingly stringent requirements of EU ESG standards.

The vacancy rate in shopping centres is set to continue its downward trajectory, due to the limited new supply in this market segment, and demand remaining at a strong, unchanged level.

Anticipating a decrease in inflation and a stable labour market situation, we foresee a further improvement in the Consumer Confidence Index (CCI) and an upturn in retail sales.

Rental rates are poised to continue their upward trajectory owing to stable tenant demand, along with a rise in both footfall and turnover.

Investment market

The total investment value in retail spaces in Poland declined sharply in 2023 to EUR 430 million from over EUR 2 billion in the previous year. This reduced investment accounted for 21% of the total volume, marking the smallest share since 2010 when it stood at 13%.

Although market liquidity remains intact, the decrease in volume can be attributed to demand dynamics, as most transactions involved small properties in smaller cities. Notably, since 2019, there have been no significant transactions involving "prime" shopping centres on the Polish investment scene.

In 2023, only one transaction exceeded EUR 100 million, which was the purchase of the Matarnia Retail Park by Frey from Ingka Centres for EUR 102 million. The second largest transaction was the acquisition of the PKO TFI Portfolio by Lords FB for EUR 56 million.

Overall, close to 30 transactions took place in the commercial real estate market, with the average transaction value at a modest EUR 15.9 million, a decline from EUR 32.9 million in 2022 and EUR 56.9 million in the pre-pandemic year of 2019.

Chart 5 Investment transaction volume and prime yields in the retail sector

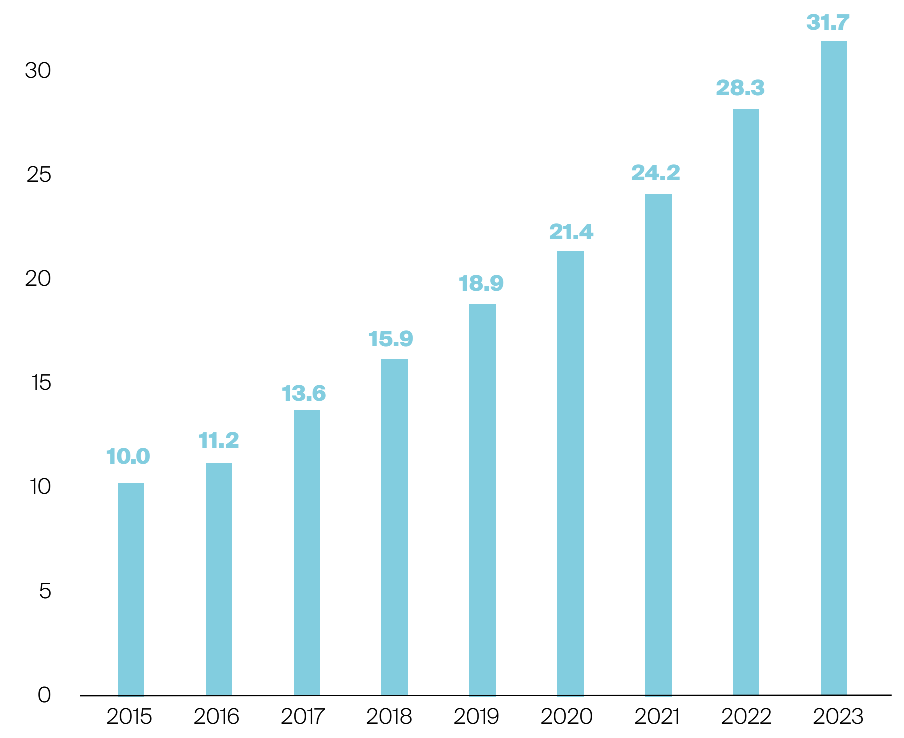
Source: Knight Frank

Warehouse **sector**

- **The demand for warehouse space rental remains robust, with over 5.6 million sq m leased in 2023, marking the third highest result ever recorded in the Polish warehouse market.**
- **The amount of warehouse space continues to grow significantly, with the total stock doubling over the past five years to reach 31.7 million sq m by the end of 2023.**
- **Although the warehouse market is expected to continue growing, the pace of expansion is expected to be slower than the previous year. Currently, there is 2.8 million sq m of space under construction, representing an 18% decrease compared to the end of 2022.**
- **The vacancy rate in 2023 rose to 7.4%; however, the limited space under construction and the high level of pre-lets are expected to mitigate this upward trend.**
- **Rental levels, having experienced an increase in 2022, stabilized at the end of 2023 at 3.5 – 4.5 EUR/sq m/month in the primary logistics hubs and at 6 – 7.5 EUR/sq m/month for SBU within the administrative boundaries of the largest cities.**

Warehouse sector in Poland

Chart 1 **The total warehouse space in Poland (m sq m)**



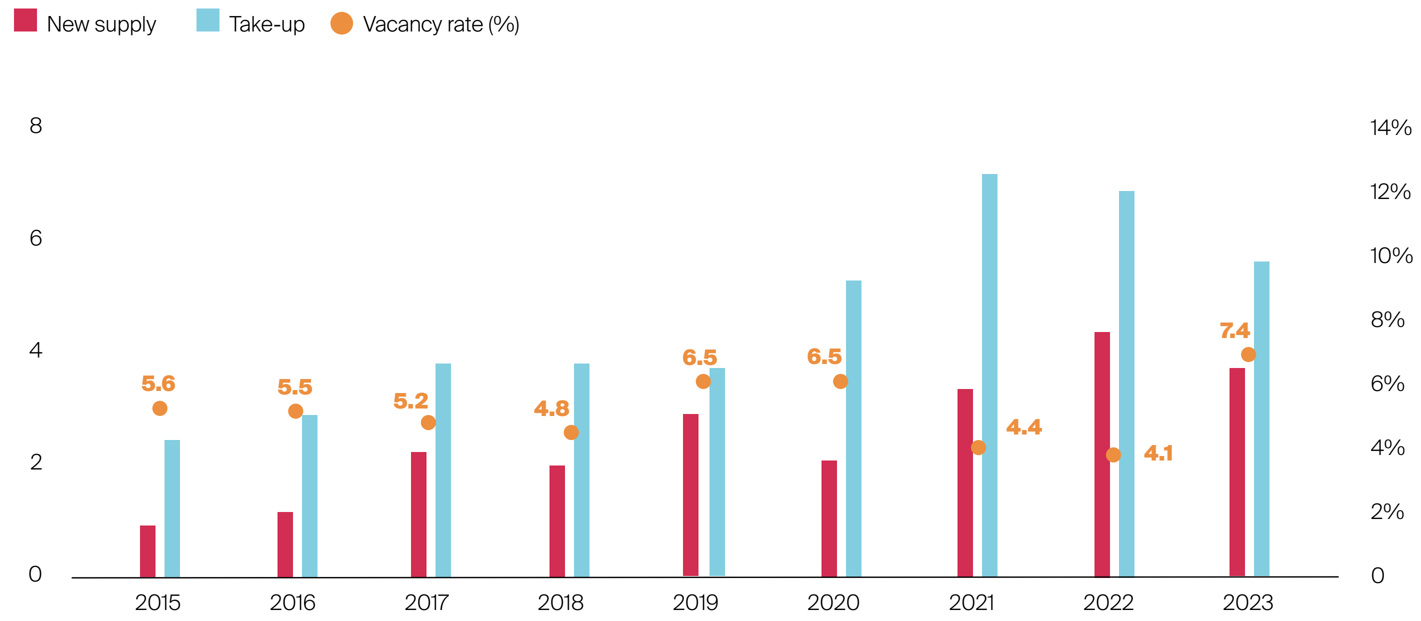
Source: Knight Frank

The warehouse market in Poland experienced significant growth, with a 12% increase in 2023. The expansion of warehouse space has been remarkable over the past decade, surging from 7.5 million sq m in 2014 to 31.7 million sq m by the end of 2023. In 2023 alone, developers introduced 3.7 million sq m to the market, marking the second-highest volume of new space delivered annually in history.

Key factors driving the warehouse market's development in Poland include the country's strategic European location, improved transport infrastructure, and a sizable domestic market. Poland's position as a hub for nearshoring, positioning warehouses closer to end customers, also contributes to its growth.

Market progression has been swift since the pandemic outbreak, with 42% of the total warehouse stock built in the last three years. This accelerated growth has been fuelled by the resurgence of domestic consumption, amplified online retail sales, and the increase in industrial transactions since 2021, boosting demand for warehouse and logistics space.

Chart 2 **New supply, take-up and vacancy rate in Poland (m sq m, %)**



Source: Knight Frank

However, a dip in consumption due to inflation and a slump in industrial sales in 2023 led to a slight decrease in demand for warehouse space rentals. Despite this, leased warehouse space in 2023 totalled 5.6 million sq m, falling below the record levels of 7.1 million sq m in 2021 and 6.8 million sq m in 2022, yet still ranking as the third-highest volume of leased warehouse space in history.

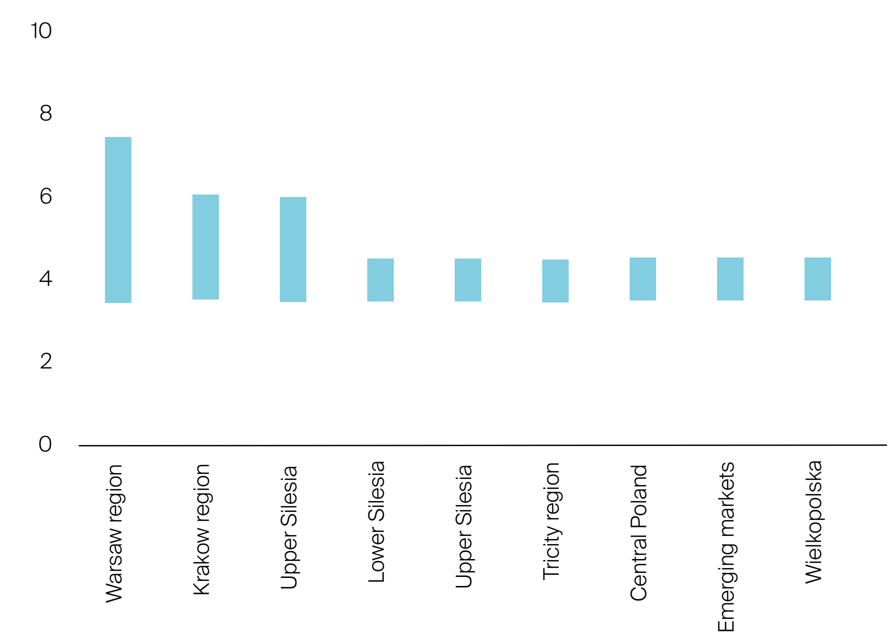
The demand for warehouse space in 2023 was primarily driven by the logistics, manufacturing, e-commerce, distribution, and FMCG sectors.

Notably, the most significant amount of space was leased in Poland's key markets, specifically in the Warsaw region, Lower Silesia, and Upper Silesia, characterized by strategic locations and robust infrastructure facilitating easy access to sizeable domestic and international markets.

In 2023, spaces totalling up to 10,000 sq m were the most sought after, with the total volume of leased space within this range amounting to 1.9 million sq m, constituting 35% of the total signed contracts. This trend aligned with the previous year's pattern. Moreover, six contracts were signed for areas surpassing 80,000 sq m, with the largest lease transactions occurring at the P3 Wrocław park, totalling 265,000 sq m.

The surge in new supply coupled with slightly reduced tenant activity led to an uptick in the vacancy rate, reaching 7.4% by the end of 2023, up from 4.15% at the close of 2022. The highest vacancy rate was observed in Central Poland, reaching 10.2%, whereas the lowest was in the Tri-City at 1.7%.

Chart 3 **Asking rents (EUR/sq m/month)**



Source: Knight Frank

Driven by its response to market environment changes, the warehouse sector experienced an 18% decrease in the number of construction starts compared to the previous year, with a total of 2.8 million sq m. Developers are showing reduced interest in commencing speculative construction, as 51% of the space under construction is already secured with lease agreements.

The reduction in space under construction and the high proportion of pre-secured leases will constrain the growth trend in the vacancy rate. After substantial growth in 2022, asking rents stabilized in 2023 across the primary logistics areas, typically ranging from EUR 3.5 to EUR 4.5/sq m/month, and from EUR 6 to EUR 7.5/sq m/month for SBU within the administrative boundaries of the largest cities. The most expensive locations, notably Warsaw and Krakow, reflect elevated land prices and limited availability.

Tenants additionally face escalating operational costs, which have surged by at least 1/3 over the past two years, and in some cases as much as 50%. Operating costs currently range from PLN 4 to PLN 7/sq m/month.

Economic indicators

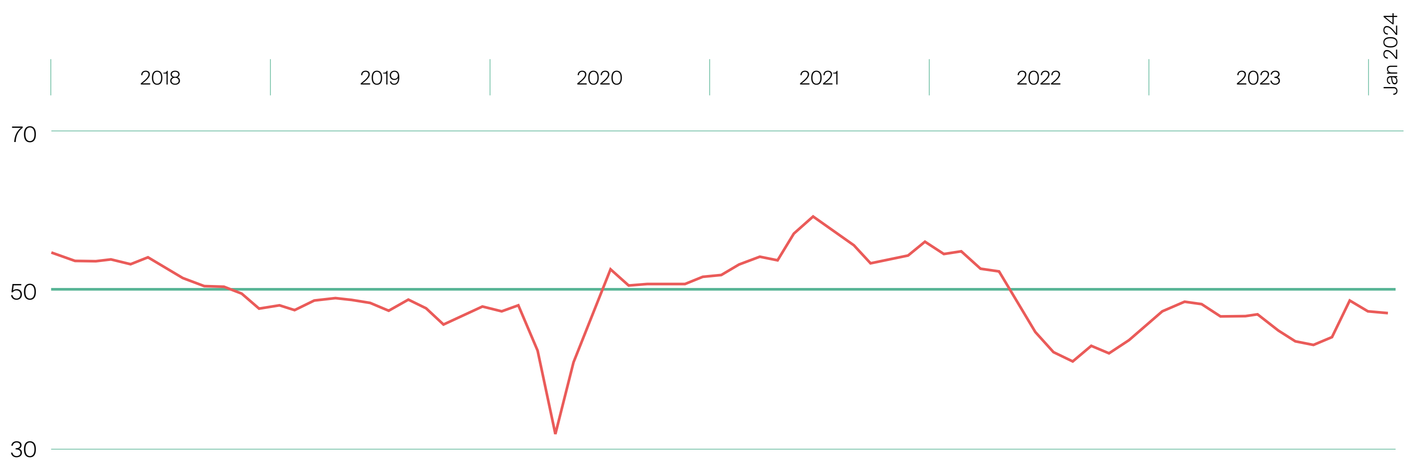
The reduced amount of leased space in the warehouse sector in 2023 is correlated with the decline in retail sales dynamics, as well as the decrease in industrial production sold and the purchasing activity within the manufacturing sector, indicated by the **PMI (Purchasing Managers' Index)**.

Expressed on a scale of 1 to 100, the PMI has consistently remained below the neutral threshold of 50 points over 20 consecutive months. Specifically, the PMI for Polish industry in December 2023 was 47.4 points, in contrast to 48.7 points in the previous month, with the average PMI for 2023 standing at 46.2 points. This result reflects the third lowest level of the Polish PMI since the survey's inception in 1998.

Despite the low PMI, there are positive signals from industry and the economy overall. Notably, the PMI value for December saw the second highest increase (after November's 48.7 points) since March 2023. Moreover, the Polish Purchasing Managers' Index (PMI) demonstrated robust performance compared to other EU countries, surpassing the eurozone average (44.2 points) and outperforming France (42.0 points) and Germany (43.1 points) in December 2023.

Additionally, **industrial production sold** in Poland experienced a slowdown in 2023, marking a 1.5% decrease in the last 12 months compared to the previous year, when it had risen by 10.2% in comparison to 2021. It's essential to note that the deceleration of industrial production is representative of the broader European landscape, with Poland's decline in industrial production sold remaining below the EU and eurozone averages, which decreased by 2.0% and 2.4%, respectively, in comparison to 2022.

Chart 4 PMI in Poland



Source: Knight Frank

TRENDS

The demand for warehouse space rental is expected to remain at a high level due to the anticipated increase in retail sales. However, it is projected to stay below the record levels achieved in previous years.

The pace of new warehouse supply is expected to continue declining as a result of the growing vacancy rate. Moreover, the number of speculative warehouse developments is likely to decrease.

The warehouse sector is expected to undergo increased development outside of the primary agglomerations.

Technical standards are expected to evolve, particularly concerning storage capacity and meeting ESG criteria. This includes changes such as heightened storage capacity of up to 12 meters, the installation of photovoltaic panels, and rainwater recovery systems.

Following upward trends in previous years, asking rents are expected to stabilize in 2024 due to reasons such as the high level of vacancies.

Investment market

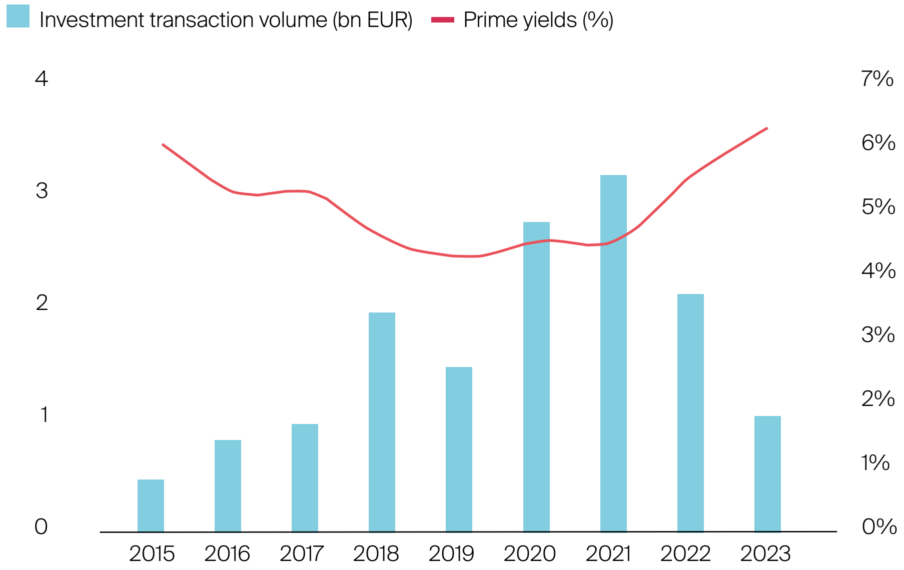
Warehouse and logistics facilities have maintained their status as the most liquid commercial real estate sector, drawing sustained investor interest following the pandemic and market structural changes. While this sector has not been immune to the economic downturn, evidenced by reduced investment volumes, increased yields, fewer transactions, and lower average transaction values, it continues to be a highly attractive segment of the commercial real estate market for investors, alongside the living sector.

Notably, in 2023, almost 30 transactions were recorded with a total value of some EUR 966 million. This underscores the warehouse sector's significant performance, constituting 33% of the total number of transactions and 47% of the total investment volume, outperforming both the office and retail sectors for the fourth consecutive year. The most notable investment transactions in the warehouse market included NREP's acquisition of 80% of 7R's shares for EUR 200 million and the sale of the Wrocław Campus 39 logistics park by Panattoni for EUR 138.5 million.

Although the warehouse and logistics properties experienced a decline in the total investment volume, the decrease was notably smaller compared to the retail and office sectors, which witnessed declines of 70% and 80% respectively, while the warehouse sector experienced a 50% decrease.

Furthermore, the average value of a single transaction also decreased from EUR 46 million in 2022 to EUR 36 million in 2023, marking the lowest value observed since the onset of the pandemic.

Chart 5 Investment transaction volume and prime yields in the warehouse sector



Source: Knight Frank

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