REPORT

Knight Frank

POLAND
COMMERCIAL MARKET
Q1 2015

OFFICE
Strong developers' activity both in Warsaw and regional cities

RETAIL
Significant supply under construction in the major markets

INVESTMENT
Increasing performance of the regional office markets

Office Market

Warsaw

The first quarter of 2015 in the Warsaw office market brought increases in both new supply and the volume of total take-up, while vacancy rate and asking rents stabilised in comparison with Q4 2014.

Between January and March 2015, 57,000 sq m of rentable office space was completed in Warsaw. Consequently, the rentable office stock reached a level of 3.74 million sq m which together with owner-occupied offices exceeds the 4.4 million sq m of modern office space.

Many market players who have observed the scale of office supply being delivered to the market, purposely refrained from starting new projects. At the beginning of the year, only a number of investments commenced and, as a result, in March 2015, some 735,000 sq m of leasable office space was under construction. The majority of this is scheduled for completion in the following quarters of 2015 and for 2016. Unless developers meet obstacles with deliveries, 2015 and 2016 should be unique in the history of the Warsaw office market due to the fact that the annual supply is expected to reach a record-breaking 350,000-370,000 sq m.

When observing the volume of supply under construction, developers should not be expected to commence a large number of new investments in the coming quarters of

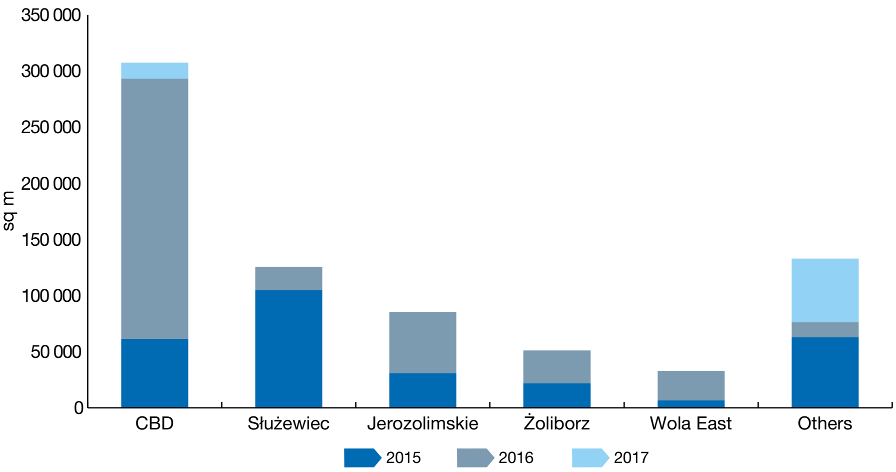
North Gate, DEKA Immobilien, Warsaw

Trinity Park III, SEB Investment, Warsaw

CHART 1

Supply under construction by location

Q1 2015

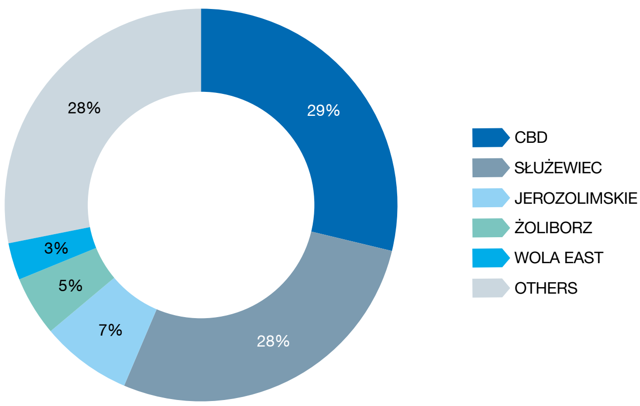


Source: Knight Frank, PORF

CHART 2

Quarterly take-up by location

Q1 2015

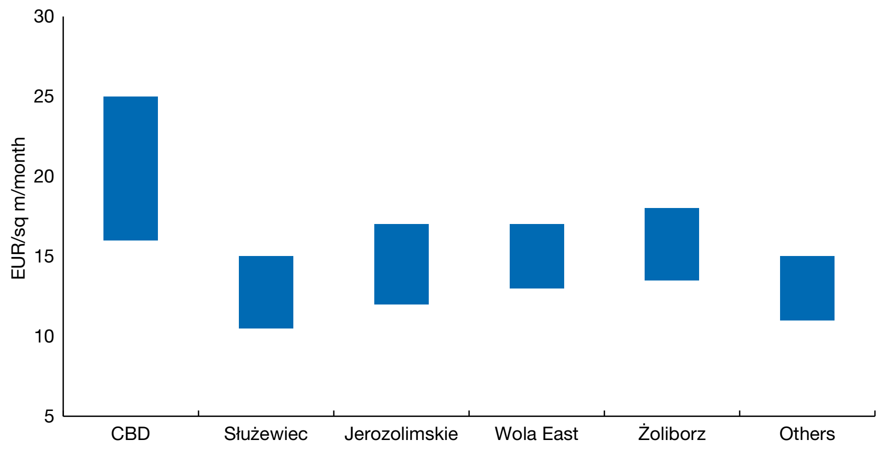


Source: Knight Frank, PORF

CHART 3

Asking rents by location

Q1 2015



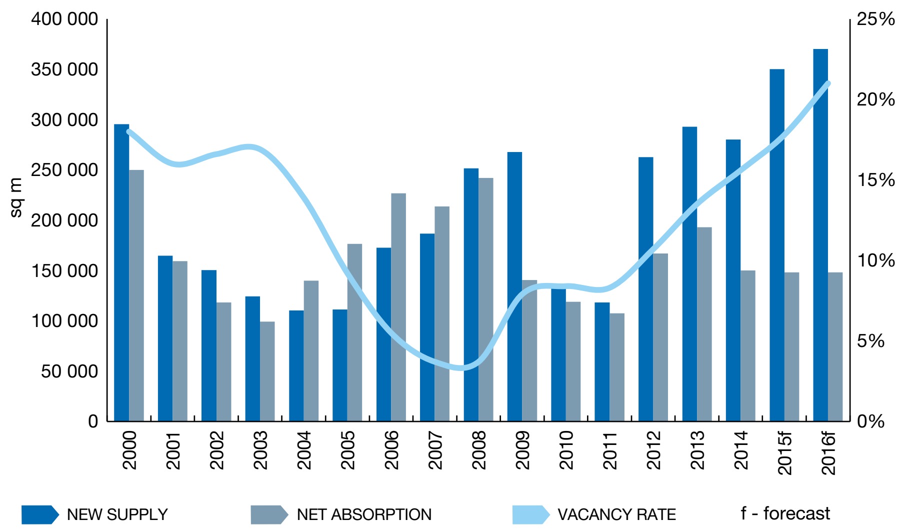
Source: Knight Frank, PORF

Horizon Plaza, Union Investment, Warsaw

CHART 4

New supply, vacancy rate and net absorption in Warsaw

2000 - 2016f



Source: Knight Frank, PORF

2015. Despite the fact that over 1.2 million sq m of potential office space in Warsaw has obtained building permits, only those players who are able to win key tenants will decide to start constructions.

At the beginning of 2015, the sustained, increased activity was accompanied by a revival of demand. In the first quarter of 2015, lease agreements for over 110,000 sq m were signed in existing buildings and schemes under construction. A further 58,000 sq m constituted renegotiated contracts and tenants' expansions within the buildings. In total, lease agreements for almost 170,000 sq m were concluded in Warsaw; 30% more than in Q1 2014.
Competition among developers and owners remains intense. In Q1 2015, over 573,000 sq m of existing office space was available in Warsaw. This represented 15.3% of the rentable stock (13% of the total stock). The vacancy rate recorded a slight decrease compared with the end of 2014, yet remained at a much higher level than in Q1 2014.

The reduction of the share of vacant space in the Warsaw stock is caused by the relatively high net absorption recorded in the first quarter of 2015. It is estimated that over the first three months of the year the market absorbed about 55,000 sq m of offices, which is only slightly less than the volume of new supply completed in this period. Assuming that development activity does not grow, any vacancy rate change will depend primarily on the net absorption volume. However, taking into account the five-year average net absorption, we estimate that the observed decrease in the vacancy rate will be short-term.

Due to the high levels of availability of office space in Warsaw, developers are trying to keep asking rents unchanged, yet remain quite flexible when negotiating the non-rent conditions of lease contracts (such as rent-free periods or fit-out contributions). As a result, asking rents (which in the Central Business District ranged between EUR 16 and 25/sq m/month while outside the city centre varied between EUR 10.5 and 18/sq m/month) may be up to 20-30% higher than effective rates.

Major regional cities

The office market in major regional cities has been developing dynamically. A favourable situation can be observed in most of the markets. Levels of developers' activity and tenants' interest in office space outside the capital remain high, which results in relatively stable vacancy rates and asking rents in most of the cities.

In Q1 2015, a total of almost 79,000 sq m of rentable office space was delivered to six major regional office markets (Kraków, Wrocław, Tricity, Poznań, Katowice, Łódź) in eight separate schemes. It was approximately 10,000 sq m less than during the previous quarter, but 32% more than in the corresponding period of 2014. Over 50% of the new supply consisted of office space of the largest scheme in the history of regional office markets completed in one phase – Poznań Business Garden complex (41,900 sq m) by Vastint Poland.

The volume of office space under construction in March 2015 remained at the same level as at the end of 2014 and amounted to nearly 470,000 sq m. Most of it was located in Wrocław (33%). A little less – 129,000 sq m - was being built in Kraków, while Tricity ranked third with approximately 110,000 sq m of rentable office space at the construction stage. Over 276,000 sq m are scheduled for completion in 2015, which should result in record-breaking new supply to be delivered by the end of the year (around 350,000 sq m).

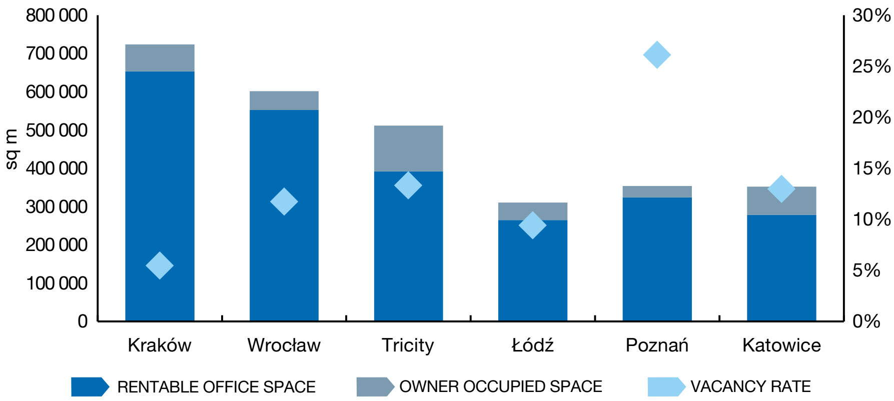
According to Knight Frank, office take-up in Q1 2015 on major regional markets amounted to 75,000 sq m and was slightly lower than the average outcome recorded in recent years. However, it does not mean a decrease of tenants' interest in office space in regional cities. The highest volume of transactions was observed in Katowice, where lease agreements amounting to 18,500 sq m were concluded (i.e. 50% of total take-up noted on the local market in 2014) during the first three months of 2015. These were almost only new leases and pre-let agreements. As compared with recent quarters, high volume of transactions was also recorded in Tricity (15,200 sq m) and Łódź (14,000 sq m).

The vacancy rate on most of the analysed markets remained stable. A slight decrease

CHART 5

Office stock in major regional markets including owner occupied space

Q1 2015



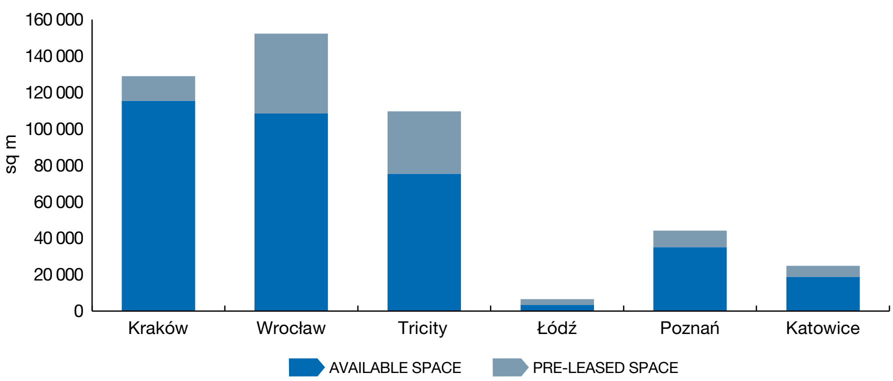
Source: Knight Frank

Opolska Business Park, Echo Investment, Kraków

CHART 6

Office space under construction in major regional markets

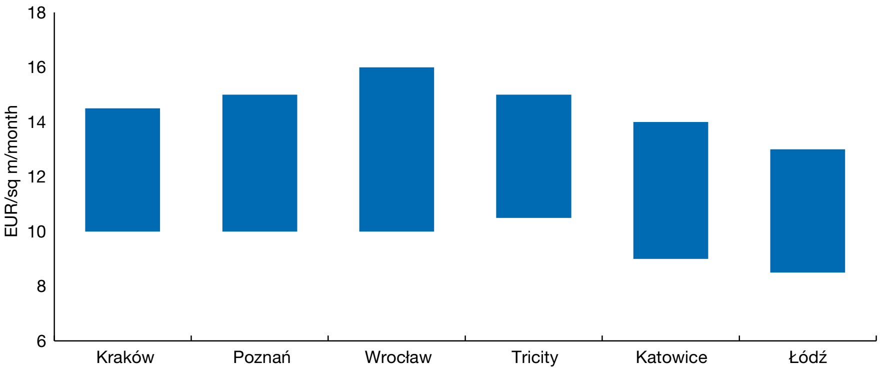
Q1 2015



Source: Knight Frank

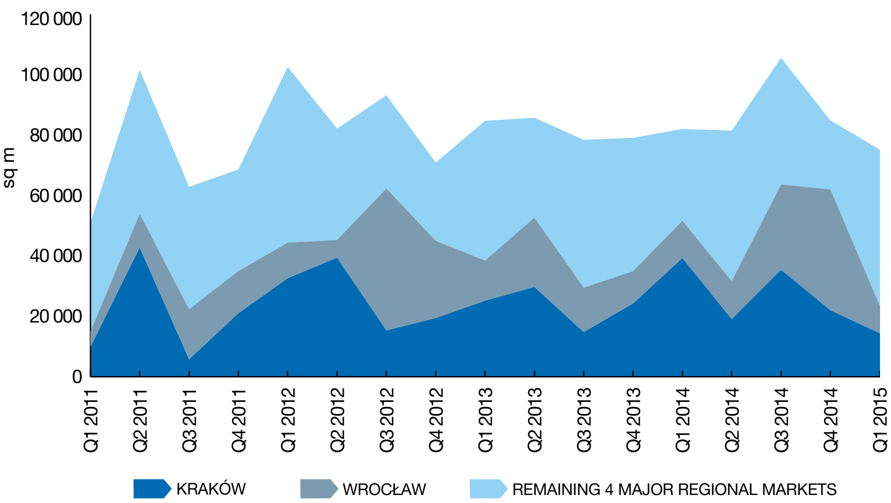
Silver Tower Center, Wisher Enterprise, Wrocław

CHART 7
Asking rents in major regional office markets
Q1 2015



Source: Knight Frank

CHART 8
Take-up volume on major regional office markets
2011 - Q1 2015



Source: Knight Frank

(as compared with December 2014) was recorded in Łódź and Katowice, while an inconsiderable increase was noted in Wrocław and Tricity. The most significant change was observed in Poznań – the amount of available space doubled due to the delivery of the largest office scheme in the city, which resulted in an increase of the vacancy rate from 14.7% to 26.1%. The lowest level of vacancy was once again noted in Kraków (5.5% unchanged when compared with the previous quarter).

Asking rents in major regional markets remain stable, varying from EUR 8.5-10/sq m/month to EUR 13-16/sq m/month, depending on the city. As of the end of March 2015, the lowest rates were quoted in Łódź, the highest - in Wrocław. According to Knight Frank, effective rates in regional markets are approximately 10-20% lower than asking rents.

Retail Market

In Q1 2015, the Polish retail market saw a number of completions and extensions of retail projects. Approximately 125,000 sq m of retail space was completed, over 60% of which was in medium-sized markets (100,000-400,000 inhabitants). Thus the total modern retail stock in Poland amounted to 11.6m sq m. Two shopping centres (Tarasy Zamkowe in Lublin – 38,000 sq m and Galeria Sanok – 7,000 sq m) and three retail parks (totalling 16,000 sq m) were among the newly constructed schemes.

Developers are prompted to expand and modernise existing shopping centres because of the growing competition in the regional cities, as well as the redefining specificity of the retail market. The total space of extensions completed in Q1 2015 amounted to over 50% (64,000 sq m) of the total new supply. The largest of the recent extensions included: CH Ogrody in Elbląg and Magnolia Park in Wrocław.

According to the Experian's „FootFall Index Polska" report, in 2014, the average footfall in shopping centres in Poland recorded a 10% decrease year-on-year. The decrease in retail traffic does not result only from changing shopping habits, but also from the increasing role of the e-commerce sector. Despite the unfavourable data about the decline in footfall in shopping centres, developers have commenced new projects. Currently, there is over 750,000 sq m of retail space under construction. Over 500,000 sq m will be completed within the major markets, one quarter of which in the agglomeration of the capital. Assuming that the completion dates won't be postponed, another 500,000 sq m of retail space will be delivered by the end of the year in Poland, thus exceeding the volume of new supply recorded in 2013 by 500,000 sq m.

Demand for retail space has not slowed down in the first quarter. Retail chains that were already present on the market continued to expand (Jacadi opened their first store in Warsaw, LC Waikiki - in Wrocław). What's more, a number of foreign brands announced their entrance to the Polish market (e.g. Czech brand Sportissimo in Jelenia Góra and Swedish brand Fitness24Seven in Poznań, Łódź, Wrocław).

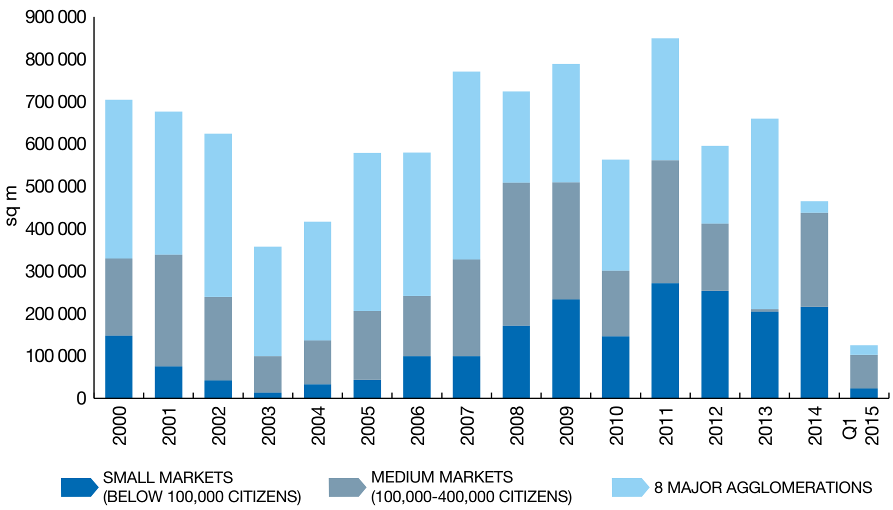
Moreover, in Q1 2015, the luxury brand Michael Kors and the Polish fashion designer Lidia Kalita opened their first outlet stores in Warsaw. Outlet centres (consisting mainly of fashion brands) adapt to market trends and to the needs of the client by introducing new solutions to their offers, e.g. pharmacies, drugstores and playgrounds for children (e.g. recently opened Leopart in Ptak Outlet in Rzgów).

The rates of rent for prime retail space in Poland remain fairly stable in most locations. With the exception of Warsaw, any significant changes are not expected during the upcoming months. The availability of retail space in the capital is low, and because of that the rates of rent in prime shopping centres recorded a slight growth to over EUR 100/sq m/month. The rates range from EUR 30 to EUR 60/sq m/month on the regional markets.

CHART 9

Annual new retail supply in Poland by location

2000 - Q1 2015



Source: Knight Frank

TABLE 1

Largest shopping centres completed in Poland in Q1 2015

Project name	Location	GLA (sq m)	Developer
Tarasy Zamkowe	Lublin	38,000	Immofinanz Group
CH Ogrody – extension	Elbląg	22,500	CBRE Global Investors
Magnolia Park – extension	Wrocław	20,000	Blackstone
Atrium Copernicus – extension	Toruń	17,000	Atrium Poland Real Estate Management

TABLE 2

The largest shopping centres under construction in Poland in Q1 2015

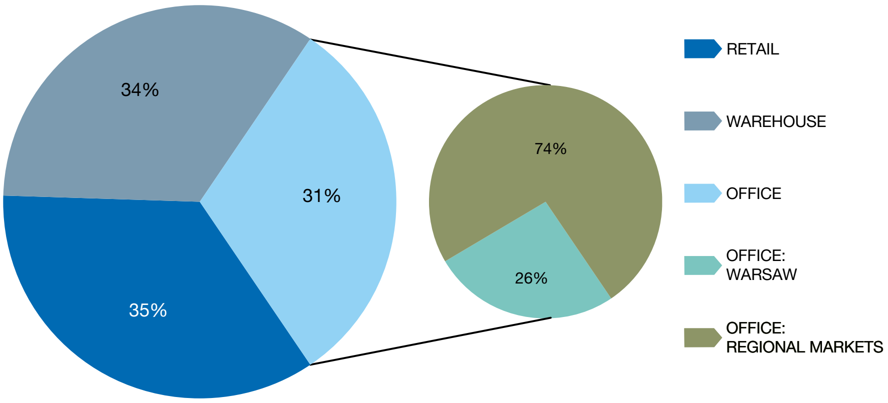
Project name	Location	GLA (sq m)	Developer
Posnania	Poznań	100,000	Apsys
Sukcesja	Łódź	57,000	Fabryka Biznesu
Zielone Arkady	Bydgoszcz	48,000	ECE Projektmanagement
Serenada	Kraków	42,000	Mayland Real Estate

Supersam, Griffin Group, Katowice

Investment Market

The situation on the European investment markets remains positive. In Q1 2015, a high level of investment activity was observed and transaction volumes appeared to be similar to those in 2007. Portugal, Italy, Norway and the Czech Republic experienced highest investment dynamics every year. The investment boom on those markets resulted from the influx of foreign investors who were looking for new investment opportunities. The increase in volume of "cross-border" transactions, as well as the smaller involvement of local investors are trends that can be observed on most European markets.

CHART 10
Volume of investment transactions by sector and location
Q1 2015



Source: Knight Frank

Kapelanka 42, Skanska Property Poland and REINO Dywidenda FIZ, Kraków

West House 1B, GNT, Wrocław

Investment transactions concluded in Q1 2015 in Poland totalled to EUR 438m, over 50% less than in the corresponding quarter of 2014. Poland ranked second in the CEE region and followed the Czech Republic with EUR 730m worth of investment deals. Poland's investment portfolio in Q1 2015 was dominated by small-scale projects (contrary to Q1 2014) with an average price of EUR 37m for purchased assets. The retail sector achieved only a slight advantage over other sectors with 35% of the value of transactions on the market. The largest deals included the acquisition of Sarni Stok shopping centre in Bielsko-Biała by Union Investment and the purchase of CA Immo's warehouse portfolio by P3 and TPG.

The volume of investment transactions concluded in Q1 2015 on Warsaw's office market was modest and barely reached EUR 34.7m, which accounted for 25% of the total value of office buildings purchased between January and March 2015. The buyers were Octava FIZAN, who purchased an office building in Obrzeżna Street, and Yareal, who acquired Kredyt Bank headquarters on Kasprzaka Street from DEKA Immobilien. Although the outcome of the first three months of 2015 was not impressive, the office market in Warsaw remains to be of great interest in the eyes of investors, and agreements under negotiations indicate that the H2 2015 should end with many interesting closings.

In Q1 2015, three office investment transactions on regional markets closed with a total value of EUR 101.3m. The largest one was the sale of Green Horizon office complex built by Skanska in Łódź to a fund managed by Griffin Real Estate for approx. EUR 65m. Another purchase included West House 1B located in Wrocław. The building constructed by Archicom was purchased by the Irish group GNT. The third transaction was the acquisition of Baltic Business Centre by Octava FIZAN (Polish closed-end investment fund) from BPT Optima fund as part of a portfolio transaction. The transactions cited above announce a high growth on the regional office markets throughout 2015.

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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Office Market in Warsaw: Q1 2015

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