REPORT

POLAND

COMMERCIAL MARKET
Q3 2015

OFFICES: WARSAW
Lower volume of office commenced schemes

OFFICES: REGIONAL CITIES
Lively demand for office space

RETAIL
Intensified developers activity in major agglomerations

INVESTMENT
Downward pressure on the prime yields in all sectors

OFFICE MARKET
WARSAW

Over the third quarter of 2015, the Warsaw office market witnessed positive trends for all market indicators. The decrease in vacancy rates and an increase in both the quarterly volume of lease transactions and net absorption were among the major ones.

Trinity Park III, Savills Fund Management, Warsaw

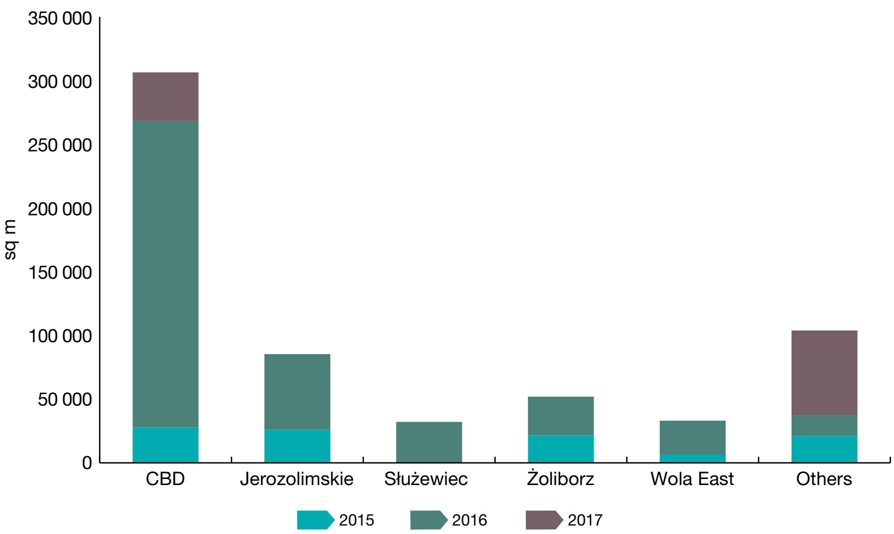
Between July and September 2015, some 92,000 sq m of office space was delivered and consequently the volume of new supply completed since the beginning of the year amounted to 235,000 sq m. Consequently, the total office stock in Warsaw reached almost 4.6 million sq m, while the leasable area exceeded 3.9 million sq m. Unless developers postpone completion dates of their investments, 2015 should close with annual new supply of approximately 340,000 sq m. Although it is a smaller volume than expected in mid-year, 2015 should be a record year in the history of the Warsaw office market in terms of newly completed offices.

During Q3 2015, developers still refrained from starting new projects. Within the first 9 months of the year, construction of only 60,000 sq m of offices commenced, which

CHART 1

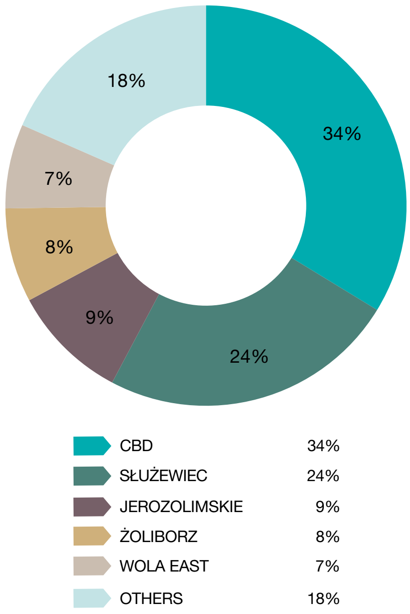
Office pipeline in Warsaw by location

Q3 2015



Source: Knight Frank

CHART 2
Office take-up in Warsaw by location
Q1 - Q3 2015



Source: Knight Frank, PORF

represented only 25% of the volume launched in the corresponding period of 2014. Knight Frank expects that the trend may be followed by a relatively limited annual supply in 2017.

The above developers' actions, as well as systematic deliveries of office projects, resulted in a reduction of the scale of supply under construction. In September 2015, approximately 613,000 sq m of office space was being built. Around 2/3 of the supply is expected to be completed in 2016.

Despite the relatively high new supply delivered to the market, availability of

CHART 3
Asking rents in Warsaw by location
Q3 2015

Source: Knight Frank, PORF

Horizon Plaza, Union Investment, Warsaw

existing office space in Warsaw declined compared with recent quarters. Approximately 590,000 sq m of vacant offices accounted for 12.9% of the total Warsaw office stock (15% of the rentable stock). The decline in the vacancy rate was made possible due to significant net absorption recorded in the third quarter of 2015 which exceeded 130,000 sq m. However, a reversal of the upward trend may be temporary due to the high new supply expected to be delivered in Q4 2015 (over 100,000 sq m).

In Q3 2015, tenants in Warsaw signed lease agreements for almost 210,000 sq m of office space. When adding office space leased in the first half of 2015, the level approached 600,000 sq m. This result almost levelled the volume recorded in the whole 2014. In comparison to the previous quarter, the processes of relocation of tenants were noticeable, both within areas of concentration, as well as between particular regions.

In the last three months asking rents remained at stable level in the vast majority of office projects. Monthly asking rates offered in the CBD start from EUR 15 per sq m and only the smallest office modules in prestigious office buildings exceed EUR 23 per sq m. In buildings outside the centre, asking rents still ranged between EUR 10.5 and 18, depending on location, age of the project and the availability of space in the building. Effective rates may be lower than asking rates by up to 30%, as developers in many cases still offer a substantial package of incentives to potential tenants.

REGIONAL CITIES

Q3 2015 in office sector was a period of continuing dynamic development of regional markets. Sharpening competition among developers and unabated tenants' activity will probably make 2015 record-breaking year both in terms of new supply and volume of space leased.

Opolska Business Park, Echo Investment, Kraków

At the end of Q3 2015, modern office space in six major regional markets in Poland (Kraków, Wrocław, Tricity, Poznań, Katowice, Łódź) was estimated at 3 m sq m, of which nearly 2.6 m sq m was rentable. In the period from July to September 2015, 5 schemes were delivered to the market in Wrocław, Tricity and Poznań, amounting to 42,700 sq m. The largest of them was 2nd stage of Dominikański (21,700 sq m) completed in Wrocław by Skanska Property Poland.

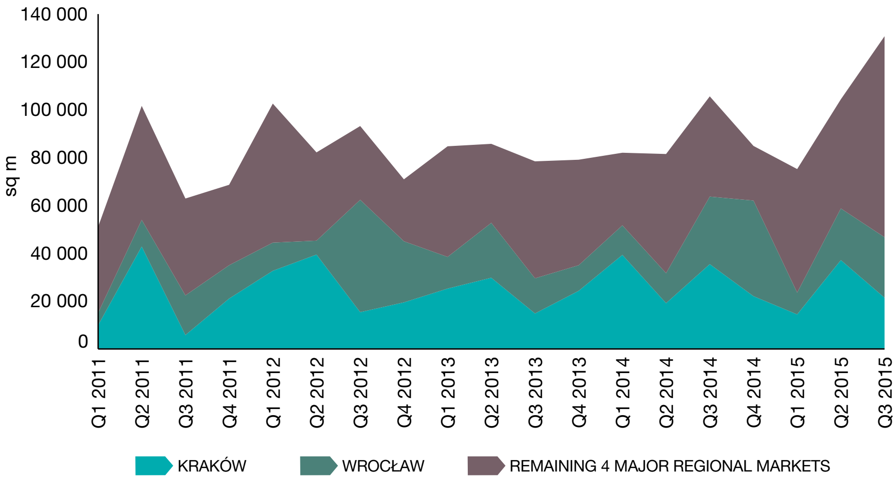
At the same time developers' activity has increased in the market, which is reflected by growing quarter-on-quarter volume of developed space. At the end of September 2015, approximately 583,000 sq m of rentable space was under construction, with the largest share in Kraków (174,000 sq m), Tricity (148,000 sq m) and Wrocław (121,000 sq m). Additionally, in Q4 2015 some 150,000 sq m may be completed, of which nearly 50% is located in Kraków. As a result new supply in regional markets in 2015 (which according to Knight Frank's forecast might even reach 340,000 sq m) can exceed 2014's record-breaking result of 283,400 sq m. According to developers' schedules, further 373,000 sq m should be delivered to the market in 2016 and remaining 64,000 sq m in 2017.

Q3 2015 also brought a continuation of positive trends in terms of demand. In six major regional markets transactions amounting to the record quarterly volume of 131,000 sq m were concluded. Poznań, with 29,500 sq m of leased space, has become a leader in terms of tenant's activity, thanks to 2 agreements signed by BZ WBK (13,000 sq m in Poznań Financial Centre and 11,000 sq m in Business Garden Poznań). However, other cities have not been left behind owing to other large transactions, among others: State Street in Alchemia, Gdańsk (15,000 sq m), ABB in Axis, Kraków (10,000 sq m), U4 in Globis, Wrocław (7,000 sq m) or Fujitsu in University Business Park, Łódź (6,000 sq m). Since the beginning of 2015, in regional office markets over 310,000 sq m have been a subject to lease. It means that office take up in major regional cities in 2015 will probably break the record result of 2014 (353,000 sq m).

CHART 4
Office stock in major regional markets including owner occupied space
Q3 2015

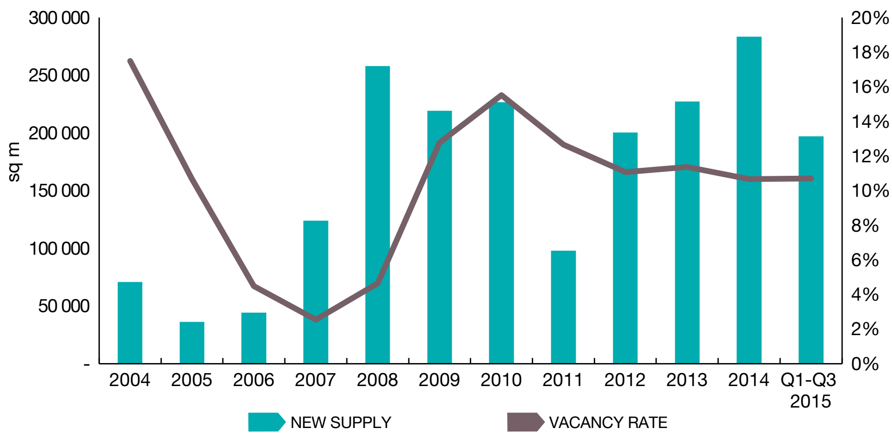
Source: Knight Frank

CHART 5
Take-up volume in major regional office markets
2011 - Q3 2015



Source: Knight Frank, PORF

CHART 6
New supply and vacancy rate in major regional office markets
2004 - Q3 2015



Source: Knight Frank, PORF

Wrocław 101, Crownway Investments, Wrocław

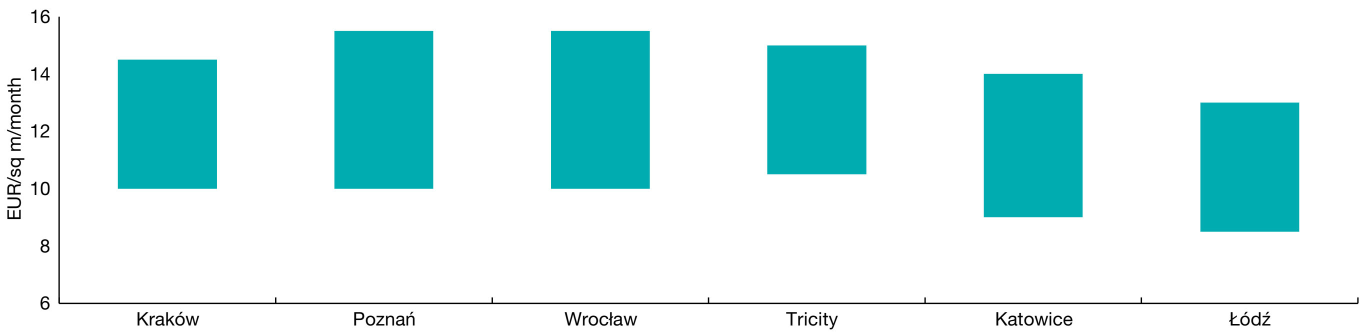
In Q3 2015, the total volume of available office space in major regional markets remained relatively stable when compared with the previous quarter. A decrease of the vacancy rate was recorded in Poznań and Łódź, and an increase was observed in Wrocław, Tricity and Katowice. In Kraków the vacancy level has not changed and amounted to 4%, once more the lowest level in Poland. The highest, but systematically decreasing rate was noted in Poznań (20.4%). Due to high volume of space under construction, of which 22% is secured with pre-let agreements, a slight increase of vacancy rate is expected in most of the markets.

Despite increasing competition among developers, asking rents in regional markets remain stable when compared with previous quarter. At the end of September 2015, the lowest rates were noted in Łódź, in the range of EUR 8.5-13.5/sq m/month, while the highest were observed in Wrocław and Poznań – varying between EUR 10 and 15.5/sq m/month. According to Knight Frank estimations, effective rents in regional markets were on average 10-15% lower compared with asking rates.

CHART 7

Asking rents in major regional office markets

Q3 2015



Source: Knight Frank, PORF

Galeria Północna, GTC, Warsaw

RETAIL MARKET

The retail market in Poland is maturing as well as more and more saturated. The average density of retail space in Poland accounts for approximately 240 sq m/1,000 inhabitants which is slightly higher than the EU average. A result of development of Polish retail market is launching new formats of retail facilities to the market.

The total retail stock* in Poland amounts to 10.6 m sq m and its development is fairly stable. New supply of retail area delivered to the market accounted for 270,000 sq m in Q1-Q3 2015.

The highest growth rate was noted in the medium markets where nearly 40% of the new supply was completed. The largest projects completed in Q1-Q3 2015 are: Sukcesja in Łódź (48,000 sq m), Tarasy Zamkowe in Lublin (38,000 sq m) and Supersam in Katowice (20,000 sq m).

Due to the increasing competition in the retail market in Poland, the older retail facilities have had to adapt their offer to the market's needs, usually by extension, modernisation or re-commercialization. This trend continued in 2015. The total area of extended shopping malls amounted to nearly half of the new supply delivered to the market in Poland within the last nine months. The largest volume of extended phases was completed in the medium-sized markets, while in the small-sized cities extensions comprised some 27% of the new supply. The largest projects with extended phases are: Ogrody in Elbląg (22,500 sq m), Magnolia Park in Wrocław (20,000 sq m), Galeria Sudecka in Jelenia Góra (18,500 sq m), Wola Park in Warsaw (17,600 sq m) and Atrium Copernicus in Toruń (17,000 sq m).

*including traditional shopping centres, retail parks and outlet centres.

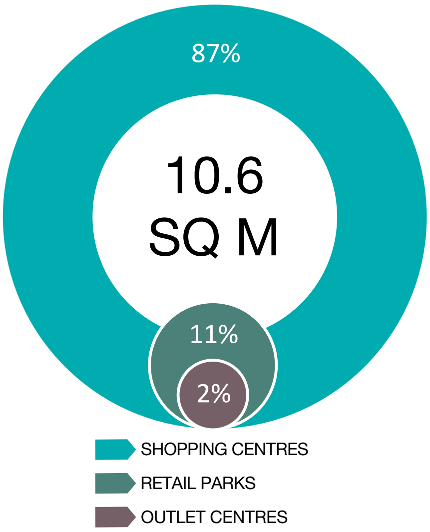
At the end of September 2015, there was 880,000 sq m retail area under construction. Even though the great majority of supply under construction is located in the major markets (585,000 sq m), the medium- and small-sized cities are still of interest to developers. The substantial volume of retail space under development in major agglomerations, when compared to the same period in the previous year, is a result of several large-scale shopping malls under construction, among others: Posnania in Poznań (100,000 sq m), Wroclavia in Wrocław (64,000 sq m), Forum Gdańsk in Gdańsk (62,000 sq m), Galeria Północna in Warsaw (60,000 sq m) and Serenada in Kraków (42,000 sq m).

It is worth indicating that the changes on the market in terms of the scale of retail

CHART 8

Retail stock

Q1 - Q3 2015

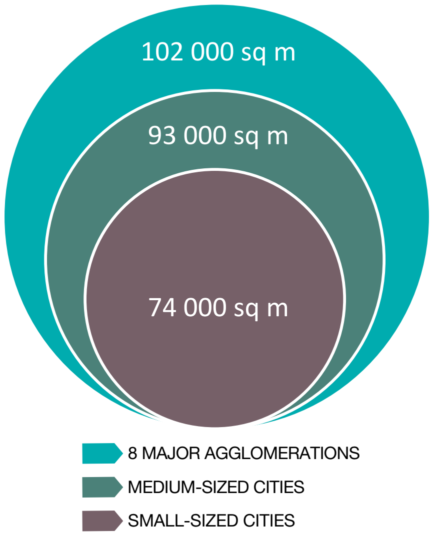


Source: Knight Frank

CHART 9

New retail supply

Q1 - Q3 2015



Source: Knight Frank

Centrum Praskie Koneser, BBI Development / Liebrecht & wooD Group, Warsaw projects and their profiles. Instead of traditional shopping centres, retail schemes are becoming increasingly popular, combining various functions such as retail, service and entertainment with extended foodservice offer. In the current climate of rapidly growing e-commerce sector, the wide range of pure retail offer is not enough. As a consequence, the new facilities are necessary to be implemented in order to attract consumers on a regular basis.

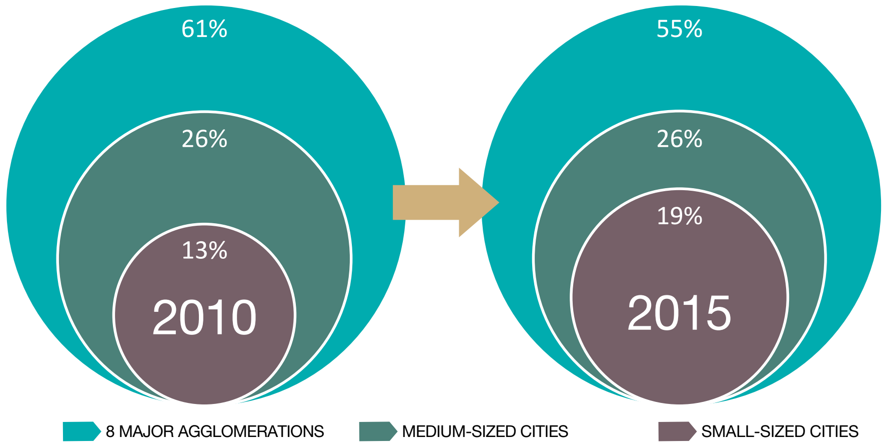
The remaining supply under construction (295,000 sq m) is situated in small- and medium-sized markets, out of which 200,000 sq m in cities with less than 100,000 inhabitants. The largest projects under construction in smaller markets are: Zielone Arkady in Bydgoszcz (48,000 sq m), Vivo! in Stalowa Wola (32,500 sq m), Galeria Glogovia in Głogów (27,000 sq m) and Galeria Aviator in Mielec (26,000 sq m).

The monthly rents on the retail market in Poland remained fairly stable within the last months. Warsaw remains the most expensive retail market. The prime rents for units up to 100 sq m in prime shopping centres in Warsaw often exceed EUR 100/sq m/month. The monthly prime rents are lower in the regional markets and range between EUR 30 to EUR 60/sq m.

CHART 10

Retail stock

Q3 2010 vs. Q3 2015

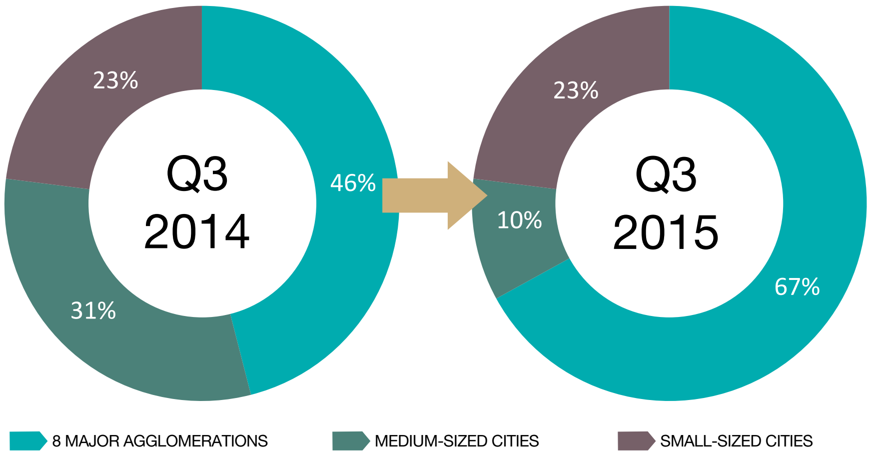


Source: Knight Frank

CHART 11

Supply under construction

Q3 2014 vs. Q3 2015



Source: Knight Frank

Supersam, Griffin Group, Katowice

INVESTMENT MARKET

In Q3 2015, there was high investment activity observed in the Polish commercial market. The total investment volume reached EUR 800.2 million and was nearly 70% higher than recorded in the same period last year.

The largest share in the investment volume were acquisitions in the retail sector which amounted to EUR 333.2 million and constituted 41% of the total investment volume in Q3 2015. The contracts in the office sector accounted for EUR 286.5 million and made up 36% of all transactions while industrial deals accounted for EUR 97.7 million with 12% of the total investment volume. The analysed period was also significant for the Polish hospitality market. One transaction has been concluded since the beginning of 2015 concerning the acquisition of Radisson Blu in Wrocław by Union Investment.

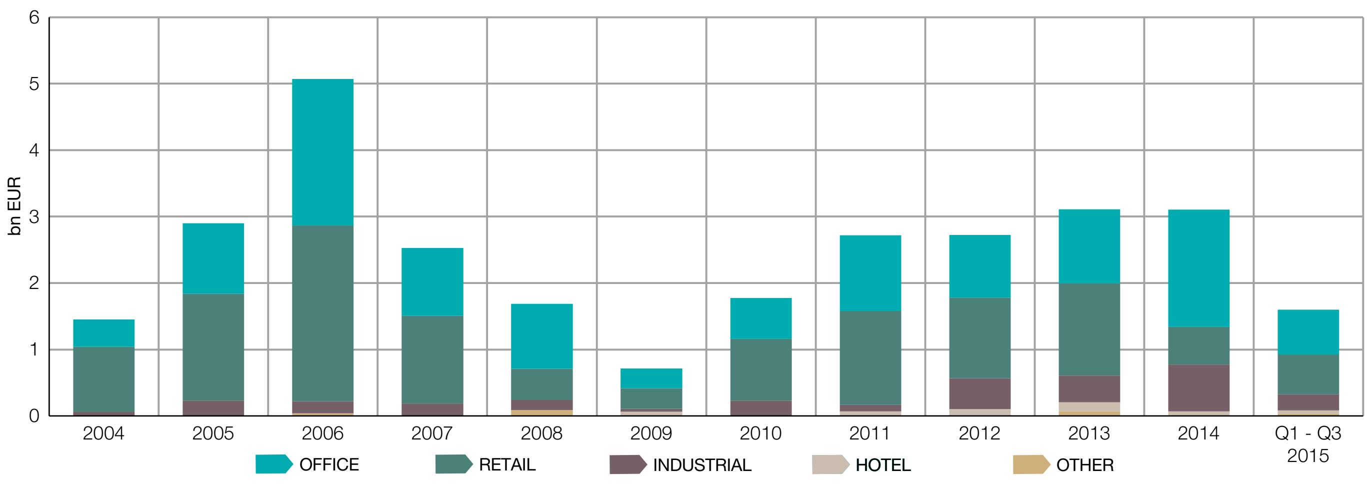
A significant demand in the retail sector for retail parks and shopping malls with leading market positions confirmed the largest transaction in Q3 2015 and simultaneously the largest deal in 2015, referring to the acquisition of Riviera shopping mall in Gdynia by German fund Union Investment (there was a noted record-breaking low prime yield at 5.4%). The other significant deals signed in Q3 2015 include: office building Andersia Business Center in Poznań purchased by PHN; two office buildings Malta House in Poznań and Alchemia I in Gdańsk acquired by REINO Partners jv. Bluehouse; industrial park MLP Tychy purchased by Deka Immobilien; 50% of share in office project Empark Mokotów Business Park in Warsaw purchased by Immofinanz and 75% of share acquired in 7R Logistics warehouse portfolio by Hillwood.

Summing up the investment transactions concluded within the first nine months of 2015, the largest share was made up by the office sector (42.4% total transaction volume). There were also ongoing investor's interests not only in the Warsaw office market but also in regional markets where transaction volume accounted for EUR 349.2 million (vs. EUR 329.3 million recorded for Warsaw) in Q1-Q3 2015. The second sector with the largest share in

CHART 12

Investment transaction volume

2004 - Q3 2015

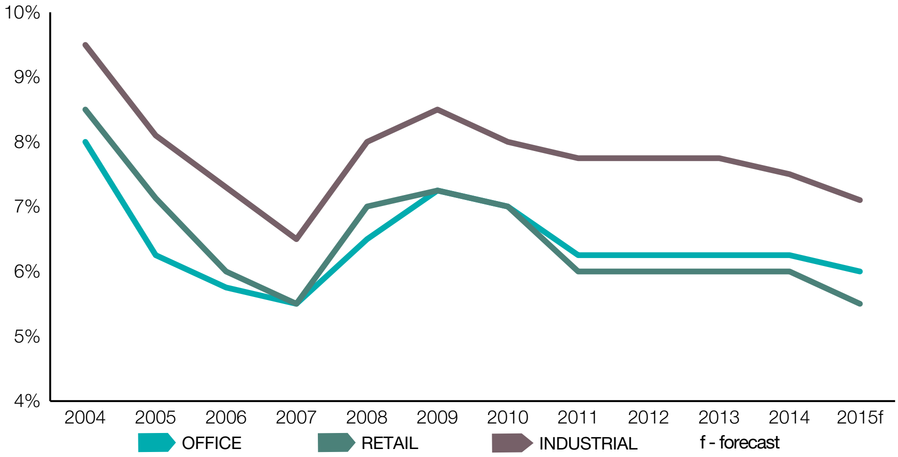


Source: Knight Frank

terms of investment volume was the retail market and total transactions volume, reached EUR 593.5 million and constituted 37% of all deals. Investment trends noted in the industrial market such as warehouse portfolio purchases and interest in BTS projects with long-term leases let investors for acquisitions in the sector accounting for EUR 246.7 million which made up 15% of the total investment volume in Q1-Q3 2015.

It is worth indicating the downward pressure on the prime yields in all commercial sectors observed over last months. Currently, the prime yields in the office sector range between 6.0%-6.5%. Retail sector recorded the prime yields lower than 6% while industrial sector noted prime yields at the level ca. 7%.

CHART 13
Prime yields
2004 - 2015



Source: Knight Frank

Andersia Business Centre, PHN, Poznań

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.

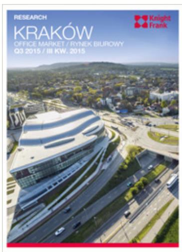
We offer:

- 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.

OUR RECENT PUBLICATIONS

Office market in Wrocław: Q2 2015



Office market in Kraków: Q3 2015

Office Market in Warsaw: Q3 2015

Commercial Market in Poland: H1 2015

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