

REPORT



POLAND

COMMERCIAL MARKET 2014



OFFICE

Record-breaking year in terms of new supply in Poland

RETAIL

Significant supply under construction in the major markets

INVESTMENT

Increasing performance of the regional office markets

WAREHOUSE

Unprecedentedly high volume of lease transactions

Office Market

Warsaw

New office supply in Warsaw amounted to 280,000 sq m in 2014, a level some 5% lower than in 2013. Nevertheless, for three years the Warsaw office market has witnessed unprecedented high levels of developer activity. Within the next two years, the rentable office stock is expected to increase from the current 3.66m sq m to 4.3m sq m, as the 650,000 sq m of space currently under construction is scheduled for completion in 2015 and 2016 (Chart 1). Approximately 400,000 sq m is to be located in non-central locations and 250,000 sq m in the Central Business District (Chart 2).

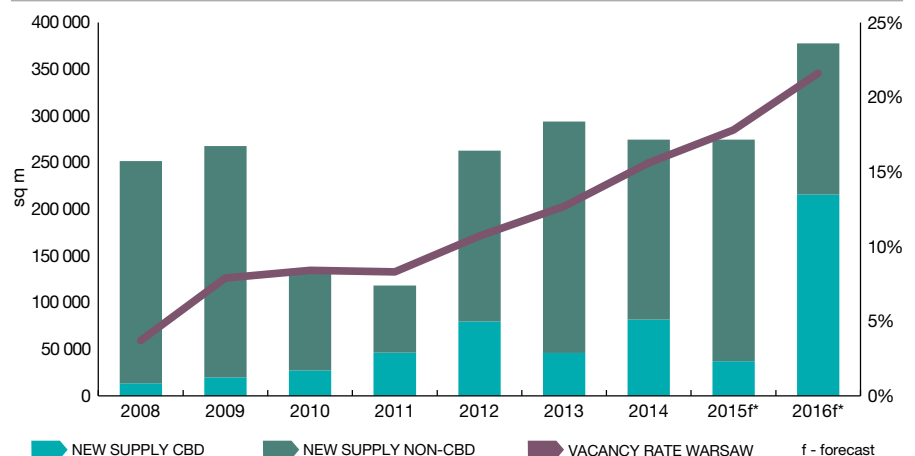
Lease transaction volume increased quarter on quarter in 2014, to reach approximately 611,000 sq m at the end of the year (only 3.5% less than in 2013). Despite the high transactional volume, the annual net absorption amounted to some 150,000 sq m of office space; approximately 25% less than in 2013. The largest portion of the concluded contracts comprised new leases (lease contracts in buildings both existing and under construction accounted for 61%).

The highest levels of tenant activity were registered in the CBD with lease contracts concluded for some 166,000 sq m of offices, and in Służewiec Przemysłowy (146,500 sq m). Despite the significant volume of space leased in the Służewiec area, its share in total annual lease volume has fallen, to the benefit of the other non-central locations (Chart 3).

Available office space for rent in December 2014 in Warsaw accounted for 15.6% of the rentable stock and increased by 3 percentage points over the previous 12 months. In existing schemes some 570,000 sq m is currently vacant of which over 200,000 sq m is situated in the CBD (18.1% of the sub-region's stock) with the remaining 370,000 sq m (14.5%) located outside the city centre. The substantial increase in vacancy rate has resulted from

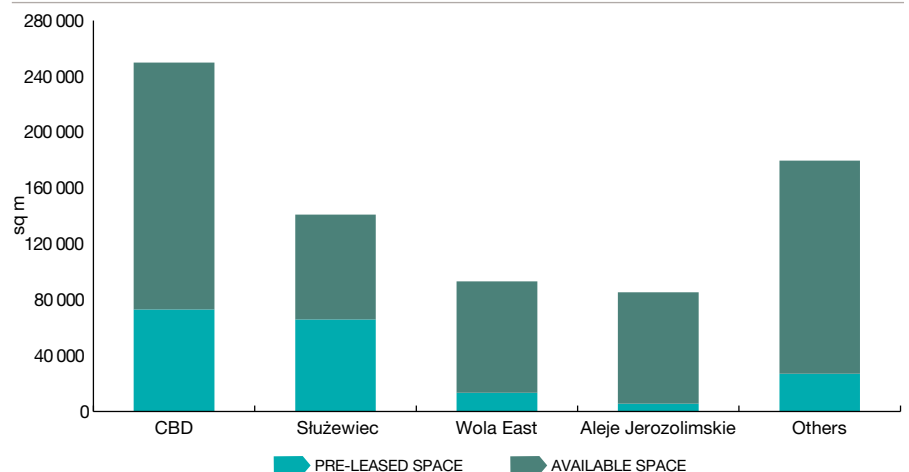


CHART 1
New supply and vacancy rate in Warsaw
2008-2016f



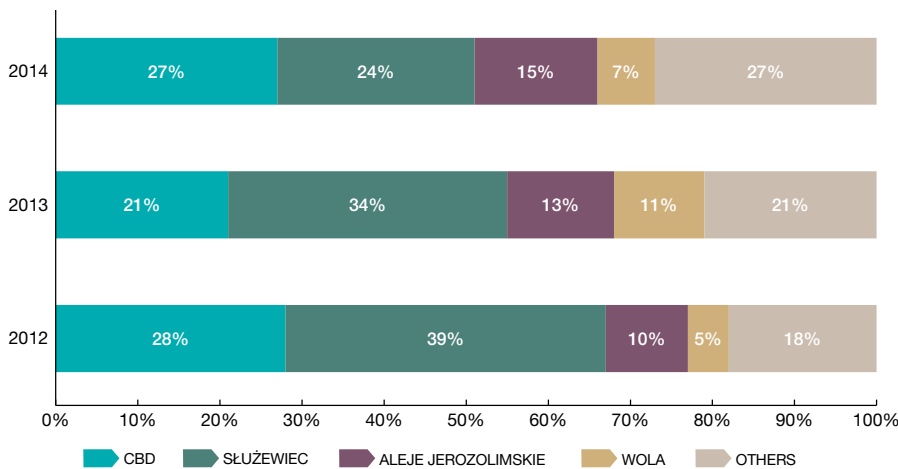
Source: Knight Frank, WRF

CHART 2
Supply under construction by location
End of 2014



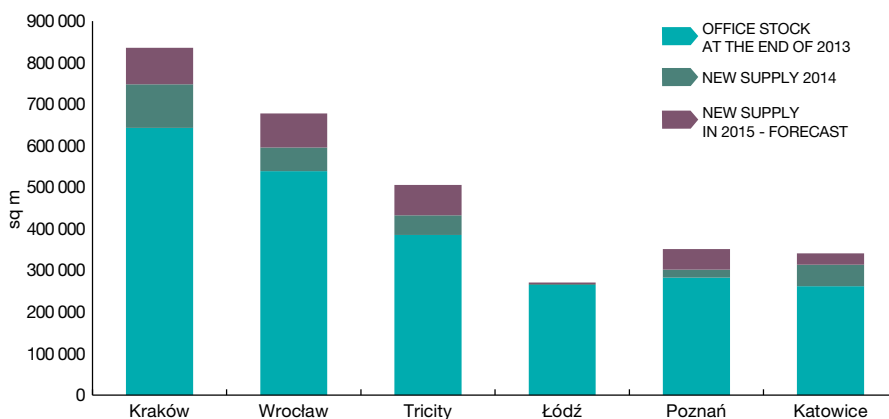
Source: Knight Frank, WRF

CHART 3
Annual take-up by location
2012-2014



Source: Knight Frank, WRF

CHART 4
Office stock in major regional markets
End of 2014



Source: Knight Frank, WRF



lower absorption of office space being delivered than in 2013 and the continued revival of developers' activity.

The vacancy rate forecast prepared by Knight Frank, which includes the 5-year average net absorption and new supply according to developers' schedules, indicates that vacant office space in Warsaw may account for as much as 18% at the end of 2015 and exceed 20% in 2016.

Monthly asking rents at the end of 2014 ranged between EUR 16 and EUR 25 per sq m in CBD locations and between EUR 11 and EUR 18 per sq m in other districts. Incentives offered by landlords result in effective rents 15-30% lower than the asking rents. Knight Frank forecasts that due to the high office availability, in the forthcoming quarters, landlords willing to win key tenants may decide to extend the range of incentives.

Major regional cities

Record breaking growth of supply.

In 2014, 284,000 sq m of rentable office space in 40 schemes was delivered to the market, in Kraków, Wrocław, Tricity, Katowice, Poznań and Łódź increasing office stock by 13.5% year-on-year. The highest volume of new supply was recorded in Kraków – over 105,000 sq m. Amongst the largest completed buildings 2 schemes by Skanska: Kapelanka 42 (28,200 sq m) in Kraków and Green Day (15,900 sq m) in Wrocław, 1st and 2nd stage of Orange Office Park in Kraków – Amsterdam and Rotterdam (18,700 sq m in total) completed by East West Development Office and Centrum Biurowe Neptun (15,300 sq m) by Hines in Gdańsk should be mentioned (Chart 4).

High levels of developer activity.

According to Knight Frank, as of the end of 2014, over 446,000 sq m of rentable office space remained under construction in the major regional cities, of which 322,000 sq m is scheduled for completion in 2015. The largest volumes of supply at the construction stage are in Kraków (127,600 sq m) and in Wrocław (124,400 sq m). The biggest schemes to be completed in 2015

are located in Poznań (Business Garden by Vastint Poland – 42,000 sq m), Wrocław (Dominikański by Skanska – 35,000 sq m) and in Kraków (1st stage of Opolska Business Park by Echo Investment – 19,000 sq m). As of the end of 2014, the share of pre-leased space under construction was highest in Wrocław (39%), but did not exceed 20% in other cities.

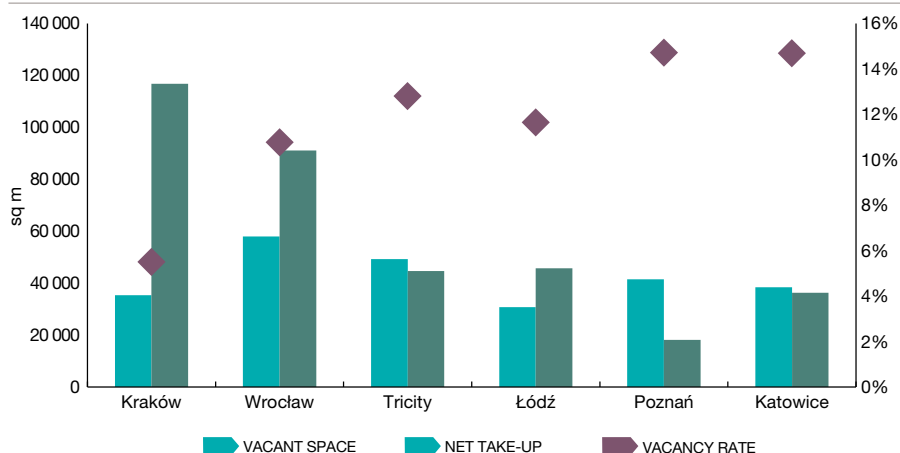
Lively demand. In 2014, lease transactions amounting to some 353,000 sq m of office space were concluded in the major regional office markets. The previous year was record-breaking in terms of office take-up, surpassing the best result previously recorded, in 2012. Nearly 1/3 of all transactions were concluded in Kraków, reaching a record level of 116,800 sq m although it was in Wrocław, that 3 of 5 largest leases in the previous year were signed, including 2 large pre-let agreements: HP Global Business Center in Dominikański (16,400 sq m) and Nokia Networks in West Gate (14,000 sq m). Office markets in the major regional cities in Poland remain popular among tenants from the BPO/SSC sector, with their occupancy of office space varying between 21% and 38% depending on the city according to Knight Frank estimates (Chart 7).

Balanced vacancy level. As of the end of 2014, approximately 250,000 sq m of office space was available in regional office markets in Poland (11% of the stock). The vacancy rate remained the lowest in Kraków, at a level of 5.5% - slightly higher

CHART 5

Vacant space, net take-up and vacancy rate in major regional office markets

End of 2014

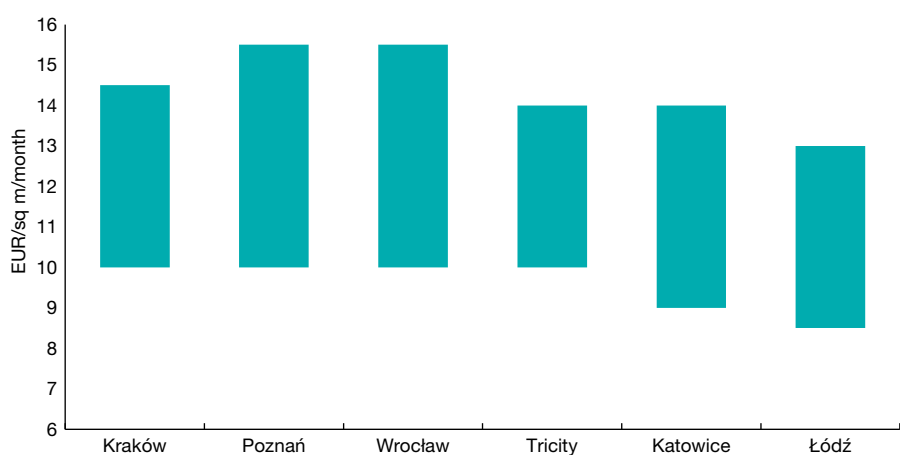


Source: Knight Frank, WRF

CHART 6

Asking rents in major office markets

End of 2014



Source: Knight Frank



Opolska Business Park, Echo Investment, Kraków



Opolska Business Park, Echo Investment, Kraków



than when compared to the end of 2013. The largest share of unoccupied space was observed in Poznań and in Katowice – 14.7%. The most significant decrease, compared to the end of 2013 was noted in Łódź – falling by 5.2 pp to 11.6%, while the most visible increase was recorded in Katowice – up 5.3 pp to 14.7%. Due to the significant volume of new supply due for completion in 2015, an increase in the vacancy rates in most of the analyzed markets may be expected (Chart 5).

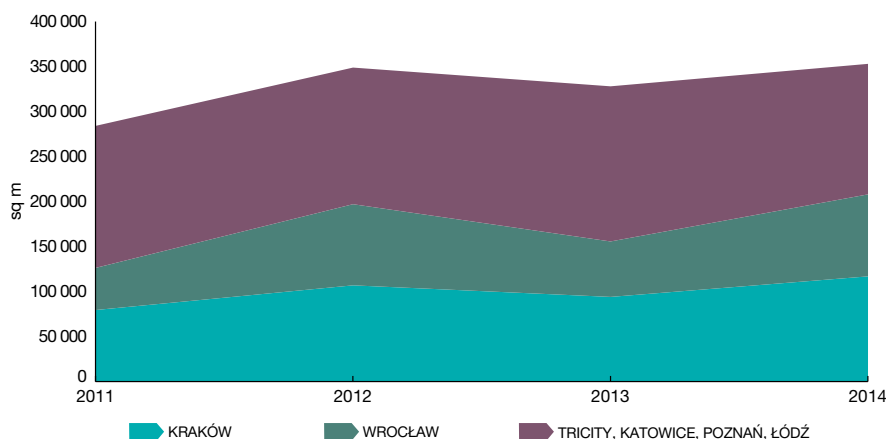
Stable rents. In 2014, rents in the major regional markets remained at a stable level, usually in the range of EUR 10-15/sq m/month. The lowest asking rents for A-class and B-class space were noted in Łódź, where they did not exceed EUR 13.5/sq m/month, and the highest were observed in Wrocław and Poznań, where prime office space in the centre of the city is priced at EUR 15.5/sq m/month. Our research has shown that currently, effective rents are approximately 10-20% lower than asking rents (Chart 6).

Retail Market

The total retail stock in Poland exceeded 11.5 million sq m at the end of 2014. The major agglomerations remain the largest markets totalling 6.3 million sq m of retail space, with an increasing share for medium-sized markets (cities of population 100,000-400,000 citizens) – 3.1 million sq m and small-sized markets (below 100,000 inhabitants) – 2 million sq m (Chart 8).

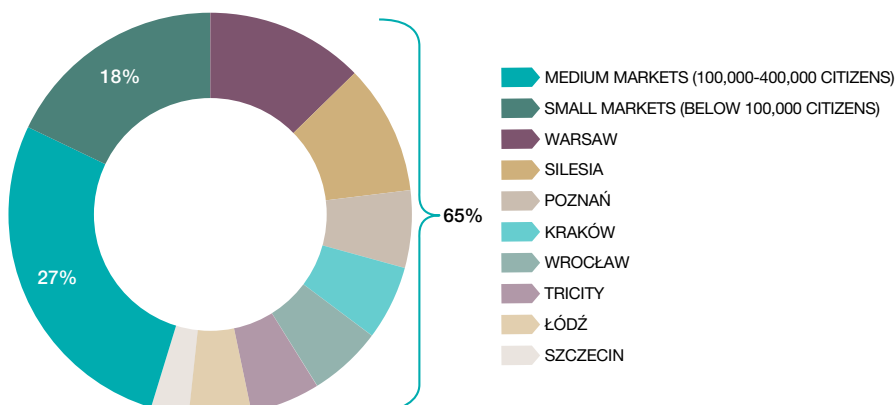
A significant share of new supply in smaller markets. New retail supply in Poland amounted to 450,000 sq m in 2014. Dynamic levels of developers activity were noted primarily in cities with populations below 400,000. In these markets approximately 93% (420,000 sq m) of the new supply was completed (of which 30% was located in Lublin and Olsztyn) with the remaining 7% (30,000 sq m) delivered to the major markets, while in 2013 70% of the new supply was completed in the major agglomerations (Chart 11). 2nd and 3rd generation shopping centres were the dominant formats in the new retail supply in Poland and their stock increased by 314,000 sq m in 2014. Another popular retail format was retail parks – 103,000 sq m of

CHART 7
Take-up volume in major regional office markets
2011 - 2014



Source: Knight Frank, WRF

CHART 8
Retail stock in Poland by locations*
End of 2014



Source: Knight Frank

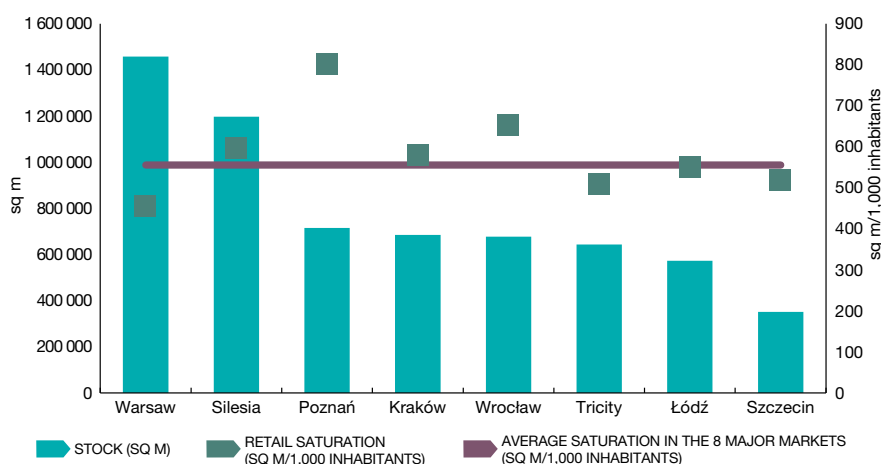
new retail space, and the remaining 35,000 sq m was delivered as outlet centres and DIY markets (Table 1).

Increasing levels of developers activity in the major markets. At the end of 2014, approximately 900,000 sq m of retail space was under construction in Poland. Despite the high retail saturation in the major agglomerations, approximately 60% of the space currently under construction is located in these markets. This high share results mainly from construction of several large scale projects, e.g. Posnania in Poznań (100,000 sq m) and Sukcesja in Łódź (57,000 sq m). Over 90% of the space under construction constituted 3rd generation shopping centres.

Continuing redevelopment, extension and re-letting of older shopping centres. The trend of modernisation and re-letting of older retail projects will continue in the forthcoming years. Faced with competition from newer, more attractive shopping centres, the owners of older schemes also will be forced to redefine functions of their shopping centres by introducing new elements, e.g. cultural, entertainment and service, or expanding gastronomic space.

The dynamic development of convenience shopping centres observed over the last 4 years, is not slowing down. Schemes completed in 2011-2014

CHART 9
Retail stock and saturation in the 8 major agglomerations
End of 2014



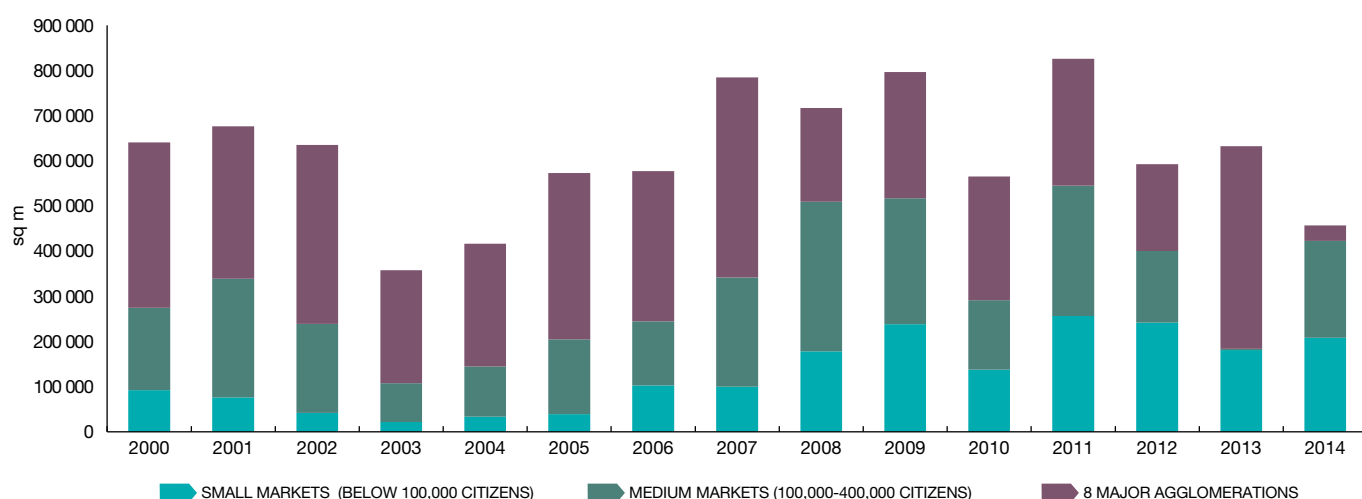
Source: Knight Frank

TABLE 1
Largest shopping centres completed in Poland
2014

Project name	Location	GLA (sq m)	Developer/ Owner
1. Atrium Felicity	Lublin	75,000	Atrium European Real Estate
2. Galeria Warmińska	Olsztyn	38,000	Libra Project
3. Galeria Siedlce	Siedlce	34,000	Przedsiębiorstwo Budowlane Konstanty Strus
4. Galeria Amber	Kalisz	33,500	Echo Investment
5. Galeria Bursztynowa	Ostrołęka	27,000	Narev Inwestycje
6. Vivo! Piła	Piła	23,800	Immofinanz

Source: Knight Frank

CHART 10
New retail supply in Poland by locations
2000 - 2014

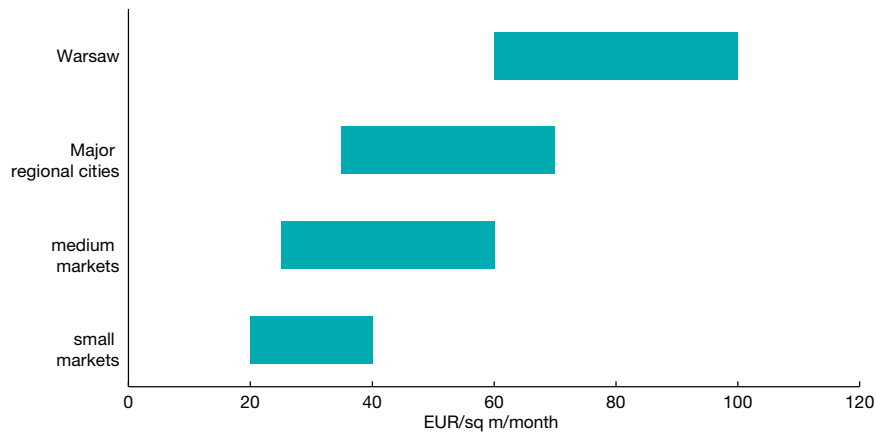


Source: Knight Frank

CHART 11

Headline rents for prime retail space*

End of 2014



*retail units in shopping centres to 100 sq m

Source: Knight Frank

constituted over 50% of the total space of convenience centres in Poland. The most active developers of this format are, amongst others: Budner (Shopin), Czerwona Torebka (Czerwona Torebka), Dekada Realty (Dekada), InBap (Inbag) and Katharsis (HopStop).

Newcomers highly interested in opening stores.

In 2014, as in 2013, a relatively high level of interest of retail brands was observed in Poland. Several newcomers entered the Polish market, such as Kiko Milano, Sinsequanone, Twin-Set, Inside and Valentina. In addition, companies already present in the major cities expanded their presence, e.g. Roberto Cavalli, Lavard, Pretty Girl, Bershka, TK Maxx, Neonet, Media Markt. Stable demand for retail space in projects under construction or at the planning stages translates into a low vacancy rate in existing schemes, especially in the major markets.

Expected development of high street retail.

Thanks to the sustained low levels of vacant space in the prime shopping centres in the major cities and the introduction of attractive units in the high streets, and high interest in these spaces development of prestigious shopping streets in the forthcoming years is to be expected.

Stable headline rents. Monthly rents for prime retail units (below 100 sq m) in shopping centres remained fairly stable in 2014. The highest rents were noted in Warsaw and reached over EUR 100/sq m/month. Due to the high levels of new supply,



Galeria Amber, Echo Investment, Kalisz



Supersam, Griffin Group, Katowice

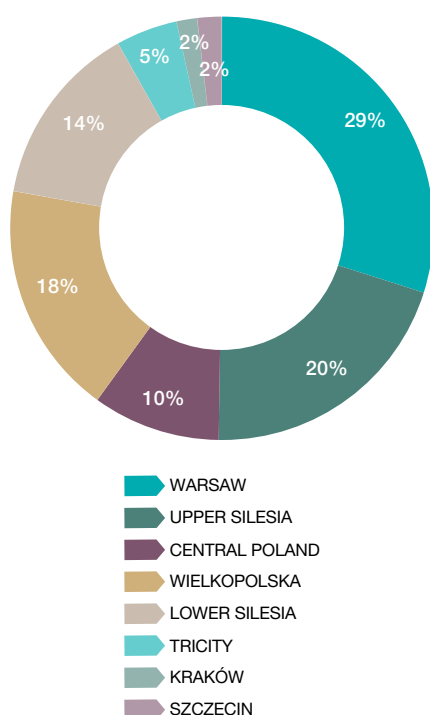
the retail market in Poland is becoming a tenant's market, with downward pressure on effective rents likely (Chart 11).

Warehouse Market

2014 was a record-breaking year in the warehouse market in Poland in terms of new supply, supply under construction and tenant activity. Taking into account the demand for warehouse space, the number of schemes under construction and the favourable economic climate in Poland, the upward trend is expected to continue in 2015.

At the end of 2014, the total modern warehouse stock in Poland amounted to 9.15 million sq m, of which 92% was located in the five largest areas of concentration (Warsaw, Upper Silesia, Central Poland, Wielkopolska and Lower Silesia). Warsaw and its surroundings remain the most developed and the largest logistics concentration area in Poland and account for 34% (3.1 million sq m) of the Polish warehouse market stock.

CHART 12
Take-up by regions
2014



Source: Knight Frank



TABLE 2
Selected largest warehouse schemes under construction
End of 2014

Scheme, location	Developer	Warehouse space (sq m)
Goodman Poznań Logistics Centre II, Wielkopolska	Goodman	82 400, BTS Intermarche
East A4 Logistic Park, Podkarpacie	East A4 Logistic Park	52 000, speculative scheme
PointPark Mszczonów, Warszawa Strefa 3	P3	46 200, BTS ID Logistics
Panattoni BTS Bielsko-Biała, Górny Śląsk	Panattoni	45 600, BTS GE
Panattoni Park Poznań IV, Wielkopolska	Panattoni	35 000, speculative scheme
Goodman Lublin	Goodman	33 400, BTS for FMCG company
Segro Logistics Park Poznań, Wielkopolska	Segro	32 000, BTS for Volkswagen
North-West Logistic Park, Szczecin	North-West Logistic Park	28 500, speculative scheme
Segro Logistic Park Gdańsk	Segro	27 100, BTS for Żabka

Source: Knight Frank

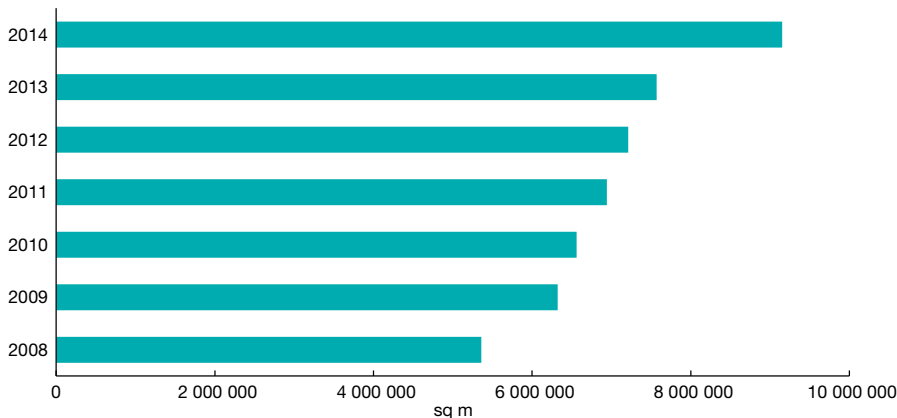
TABLE 3
Selected largest warehouse schemes completed in 2014
2014

Scheme, location	Developer	Warehouse space (sq m)
Goodman Wrocław South Logistics Centre, Dolny Śląsk	Goodman	123 500, BTS Amazon
Panattoni Poznań, Wielkopolska	Panattoni	123 000, BTS Amazon
Panattoni Wrocław, Dolny Śląsk	Panattoni	123 000, BTS Amazon
Goodman Konin Logistics Centre, Wielkopolska	Goodman	39 700, BTS Market-Detal
Centrum Logistyczno-Inwestycyjne Poznań (CLIP), Wielkopolska	CLIP Group	39 000
Prologis Park Wrocław V, Dolny Śląsk	Prologis	35 000, BTS Eko Holding

Source: Knight Frank

CHART 13

Warehouse stock in Poland 2008-2014



Source: Knight Frank

CHART 14

Warehouse stock and vacancy rate in Poland by regions End of 2014



Source: Knight Frank



Gate One, Raiffeisen Immobilien-Kapitalanlage, Warsaw

The significant increase in the volume of new supply in 2014 was in response to record demand in the warehouse market.

1.06 sq m of warehouse space was completed over the year, a level of supply over three times higher than in 2013. 90% of the newly delivered space was supplied in the five major regional warehouse markets, of which 33% was constructed in Lower Silesia, 26% in Wielkopolska and 12% in Central Poland.

Dynamic growth of total stock will also be recorded in 2015 as almost

882,000 sq m of warehouse space is under development (a 42% increase when compared to the previous year). Although BTS schemes have still been the most common warehouse developments in Poland, in regions with a low vacancy rate, developers more and more frequently decide to build schemes on a speculative basis.

Similarly to the previous year, intense development is noted in the four major regional warehouse markets with the well-developed road infrastructure gradually growing around the international warehouse hubs. At the end of 2014, the largest amount of warehouse space under construction was in Wielkopolska (33% of the total volume under construction) and Upper Silesia (16% of the total supply under construction).

The volume of lease transactions in the warehouse sector in 2014 approached a level previously not recorded in Poland of over 2.6 million sq m, almost 30% more than in the record-breaking 2013 (Chart 12).

The decreasing vacancy rate, which at the end of 2014 amounted to 8.2% of total stock, was a result of the growing demand for warehouses in Poland that has been observed over the last few years.

Rental rates in all major warehouse concentration areas in Poland, despite the favourable economic climate, have remained stable. Asking rents range from EUR 2.8 to EUR 5.6 per sq m per month and depend on the scheme's location within the sub-market.

Investment Market

Persistently high level of investor interest in the Polish real estate market.

In 2014, the total volume of investment transactions reached EUR 3.1 billion - the highest result since 2006. Similarly to previous years, foreign buyers dominated the market, particularly pension funds and REITs, though the primary source of capital inflow to Poland has changed. Previously prevalent German investors have stepped aside to be replaced by US funds as the top investors (in 2014, they spent around EUR 1.1 billion, i.e. 35% of the total volume of transactions in Poland). Starwood was the most active fund, purchasing assets worth EUR 307 million. Anglo-Saxon investors primarily follow opportunistic purchasing policies, aimed at obtaining higher returns on investment, hence they tend to favour investments with higher risk levels (Chart 16).

Dominance of the office sector. In 2014, the structure of the Polish transaction volume was dominated by the office sector (57% of the total volume). Significant levels of activity were demonstrated by investors in the warehouse sector (23%, up from 12% in Q4 2013), with retail projects ranking lower (only over 18% of all transactions). Although funds and asset managers continue to look for attractive shopping centres in Poland, their focus is on assets with a dominant regional role and the availability of schemes of this kind remains limited.

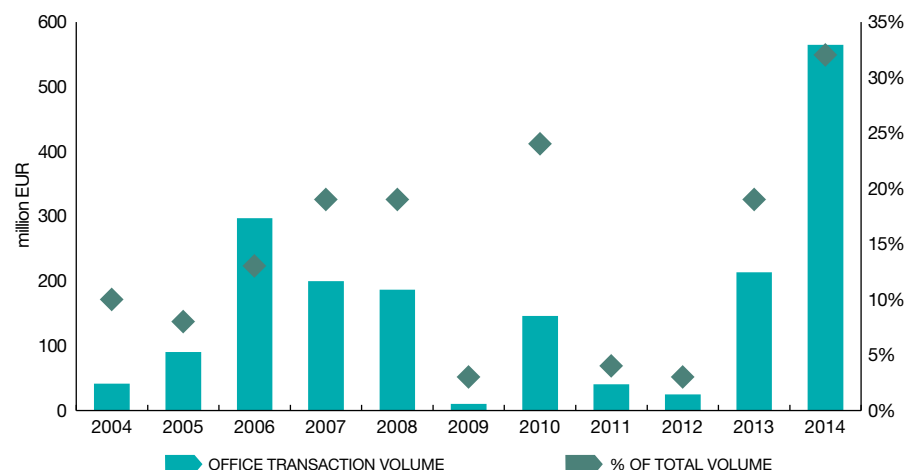
Increased performance of the regional office markets. The total volume of investment transactions concluded in the Warsaw office market in 2014 increased by over 30% y-o-y and reached EUR 1.2 billion. Nevertheless, Warsaw's share in the overall volume of transactions in the Polish office sector dropped to 68% to the benefit of the regional markets. In 2014, assets were acquired outside of Warsaw with a total value of EUR 565 million. Kraków achieved the leading position among regional cities, with five transactions of over EUR 200 million concluded, including Quattro Business Park, Centrum Biurowe Lubicz and Kapelanka 42. The upturn has resulted from the increasing supply of assets that meet the requirements of foreign institutional investors, as well as from the consistently growing interest of tenants



CHART 15

Office transaction volume in regional markets (m EUR)

2004-2014

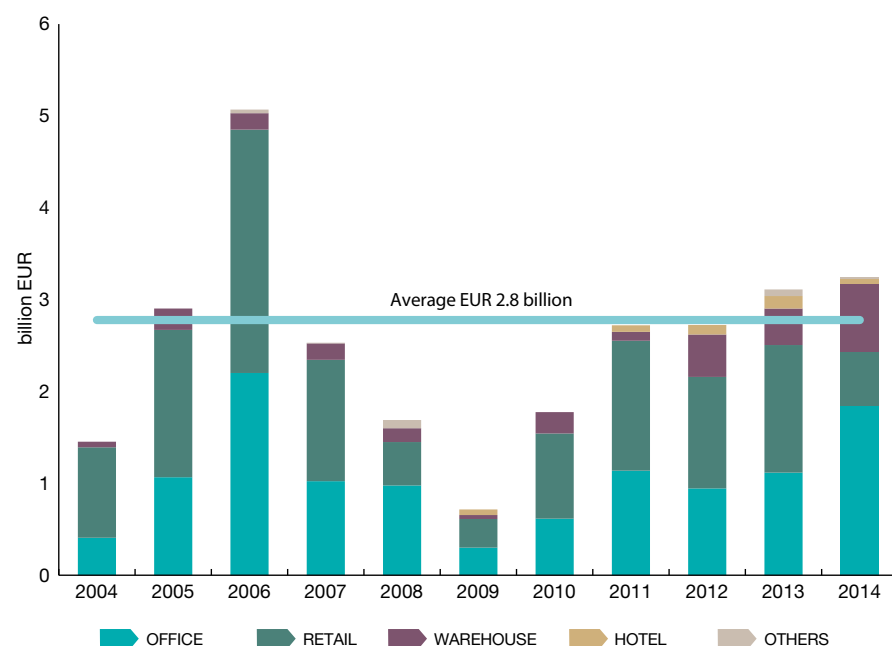


Source: Knight Frank, IRF

CHART 16

Volume of investment transactions in Poland by sector

2004-2014



Source: Knight Frank, IRF

from the BPO sector, keeping the office vacancy rates and rents stable. Moreover, the expected increase of the vacancy rate in Warsaw causes the funds investing in the Polish market to look for alternative locations. The US funds have been particularly active outside Warsaw and in 2014 made purchases for a combined total of more than EUR 350 million.

Stable yields. Numerous transactions within the prime office sector took place in 2014 in Warsaw with projects such as Rondo I, Metropolitan and Atrium 1 all changing hands. In the above transactions yields varied between 6.00% and 6.25%. Yields for the most attractive office projects outside Warsaw fluctuated around the 7.25% level. Similarly to 2013, prime retail yields stood at 6.00%, and in the logistics sector reached a level of 7.75%. With a limited supply of assets that meet the requirements of the particular groups of investors, a small compression of yields may be expected, especially for warehouse projects and office products in the regional markets.

TABLE 4

The largest investment transactions in Poland by sector

2014

City	Property name	Price (EUR)	Yield	Purchaser	Seller
OFFICE					
Warsaw	Rondo I	300m	6.80%	RREEF	BlackRock
Warsaw	Plac Unii	226m	>6.50%	Invesco	BBI Development & Librecht
Katowice, Warsaw	Katowice Business Point, T-Mobile Office Park, Łopuszańska Business Park	192m	7.50-8.00%	Starwood	Ghelamco
Warsaw	Metropolitan	187m	6.25%	Deutsche Asset & Wealth Management	Aberdeen Asset Management Deutschland
Kraków	Quattro Business Park	115m	<8.00%	Starwood Capital Group	Buma
Warsaw	Lipowy Office Park	108m	6.75-7.00%	WP Carey	CA IMMOBILIEN ANLAGEN
RETAIL					
Poznań	Poznań City Center	227 m	~7.00%	Resolution Property / ECE	Trigranit / Europa Capital / PKP
Bydgoszcz	Focus Park	122 m	~7.50%	Atrium European RE	Aviva
WAREHOUSE					
Łódź, Wrocław, Gdańsk	Business Center Łódź Panattoni Park Łódź East (Blg 1/Blg 3) Panattoni Park Wrocław II Panattoni Park Gdańsk	140 m	<8.25%	PZU	Panattoni Development
Poland	Select Portfolio	118m	7.50-8.00%	Blackstone	Standard Life Investments

Source: Knight Frank, IRF



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