



*Achieve  
Ambitions*

# City Report

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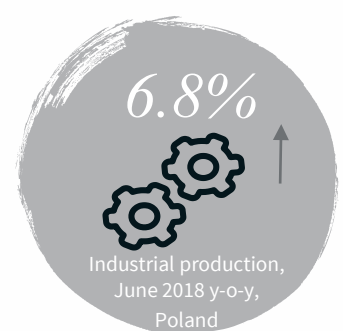
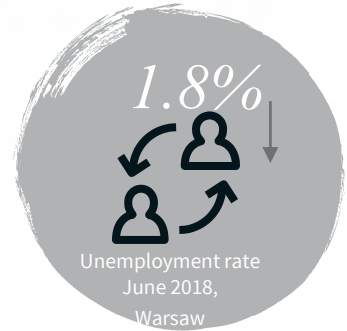
Q2 2018

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# Warsaw



# Economy & Investment



Source: Consensus Forecasts, July 2018, Central Statistical Office, July 2018, \*forecast

## Investment market

The Polish Investment market, which saw €4.991 billion traded in 2017, continued to perform strongly in 2018 to date, with already €4.166 billion traded. The sector split for 2018 to date comprised ca. €2.07 billion in retail, ca. €1.50 billion in offices, ca. €530 million in warehousing and the remaining of ca. €70 million in the hotel sector. Following the record first quarter of 2018, when the market saw retail investment transactions with an overall volume exceeding €1.755 billion, the second quarter was remarkably less active, with the total volume slightly in excess of €110 million, however already in Q3 assets worth over €204 million transacted.

The volume of retail transactions in 2018 to date resulted largely from transactions that started in 2017 and included so far four major portfolio deals and two major regional shopping centres sales, i.e.:

- Project Chariot, a portfolio of 28 properties, including 9 M1 shopping centres, 12 standalone hypermarkets, 4 retail parks and 3 standalone stores, which was sold by ARES / AXA / Apollo Rida to a Griffin-led consortium for a price of approximately €1 billion;
- the Griffin-led consortium subsequently sold four M1 shopping centres (Krakow, Zabrze, Czeladz and Lodz) to EPP for €359 million. The sale of a further 8 assets has been agreed and will be completed in two tranches in the course of 2019 and 2020;
- Newbridge acquired from Aerium three Carrefour-anchored shopping centres (Czyzyny in Krakow, Guliwer in Lodz and Bielawy in Torun) for ca. €110 million;
- Meyer Bergman sold prime shopping centre located on the main train station in Silesia, Galeria Katowicka, to EPF for price that remains confidential;
- The sale of the Aura shopping centre in Olsztyn by Rockspring to NEPI Rockcastle for €64.9 million. This was the last property that Rockspring sold in Poland ahead of its merger with Patrizia and Triuva;
- The acquisition by Balmain European Retail Properties of Galeria Malta shopping and leisure centre located in Poznań, for an undisclosed price;
- And the purchase of King Cross Marcellin shopping centre, also in Poznan, by EPP for €91.1 million.

These transactions confirm that international investors remain very active on the Polish retail investment market. Prime yields achievable for best-in-class, dominant, major shopping centres in Poland currently stand at a level of 4.90%, while prime retail parks are expected to trade at approximately 7.00%.

Given the number of on-going transactions and the availability of product we envisage that retail investment will exceed €3 billion in volume for entire 2018.

After a relatively quiet first quarter, with only ca. €142 million trading, the office sector picked up pace in the second quarter 2018 with ca. €796 million trading. Further trades have been seen at the start of Q3 bringing the volume for 2018 year-to-date to ca. €1.5 billion. Transactions in Warsaw account for ca. €905 million representing 60% of investment volumes, with 40% in the regional cities. Key transactions in Warsaw include that of Savills Investment Management, on behalf of the Employee's Pension Fund of Malaysia purchasing Gdanski Business Center C&D for ca. €200 million from HB Reavis and Madison International Realty bought a 50% stake in the landmark Warsaw Spire Tower from Ghelamco for ca. €175 million. Sentiment in the office market is optimistic and the conclusion of 2018 looks set to continue this strong trend, with a number of large schemes waiting to close post PSPA, such as CEDET, Palac Malachowskiego and Pięknka 2.0 and with other schemes in advance due diligence such as Gatehouse (Browary) and Ethos. With the conclusion of the deals prime yields in Warsaw now stand at 4.75%. Core regional city yields now stand at 5.75%.

Activity in the logistics market in 2018 has been high, although limited to single asset transactions. The ca. €205 million traded in Q2 across 5 deals complimented the ca. €139 million traded in Q1 across 4 deals. The stand-out logistics transaction of H1 2018 was the purchase of Amazon Szczecin by Vestas Investment Management from Invesco for ca. €110 million. In July, JLL advised Redefine/ Griffin on a purchase transaction for a logistics portfolio worth almost €200 million. We expect that in the next few months a number of large industrial portfolios will change hands for more than €500 million in total. Thus bringing the forecast for 2018 to in excess of €1 billion in the logistics market, reflecting a sector record. There continues to be strong, but selective, appetite in the logistics market, focusing on best-in-class assets in primary sub-markets with rental growth projections. Prime warehouse yields stand at 6.50% with exceptional, long leased assets trading well below 6.00%.

H1 2018 has seen three hotel transactions totalling ca. €70 million. Two of the deals have been Union Investment purchasing from UBM Development. They have bought the 256 room Holiday Inn Warsaw for ca. €41 million and the 152 room Park Inn by Radisson, Krakow for €26 million. Whilst there have been no hotel transactions in Warsaw during Q2 2018, the Sheraton Warsaw went on sale pouring considerable international investment interest to the city. Investment appetite for Warsaw hotels is indeed rising, predominantly driven by greater availability of leases. A shift towards lease structures is not limited to new hotel developments alone. Conversion to sandwich leases & sale and leaseback opportunities are reshaping the local investment landscape. Whilst the transactional evidence is limited, yields south of 5.75% are achievable on institutionally accepted lease contracts in best locations.

The H2 2018 pipeline; committed, in due-diligence and in advanced marketing lead us to believe that all-time record volumes will be achieved with over €5.5 billion trading in Poland across all sectors.

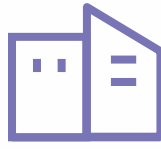
## Prime Yields

4.90%



Shopping Centre

4.75%



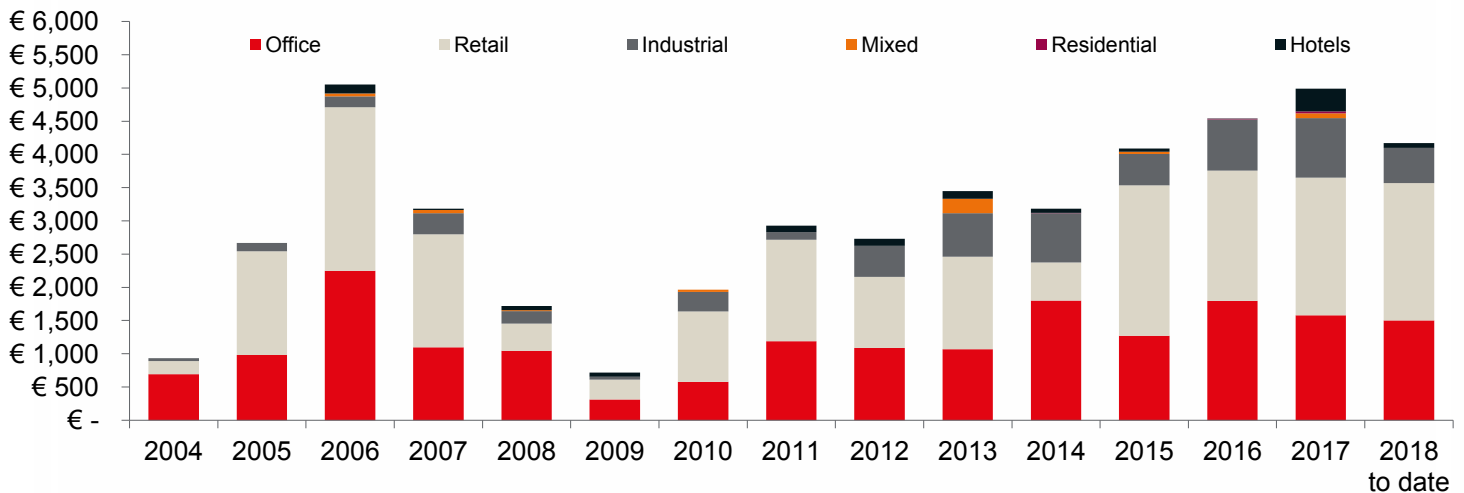
Office

6.50%



Industrial

## Poland Investment Volumes



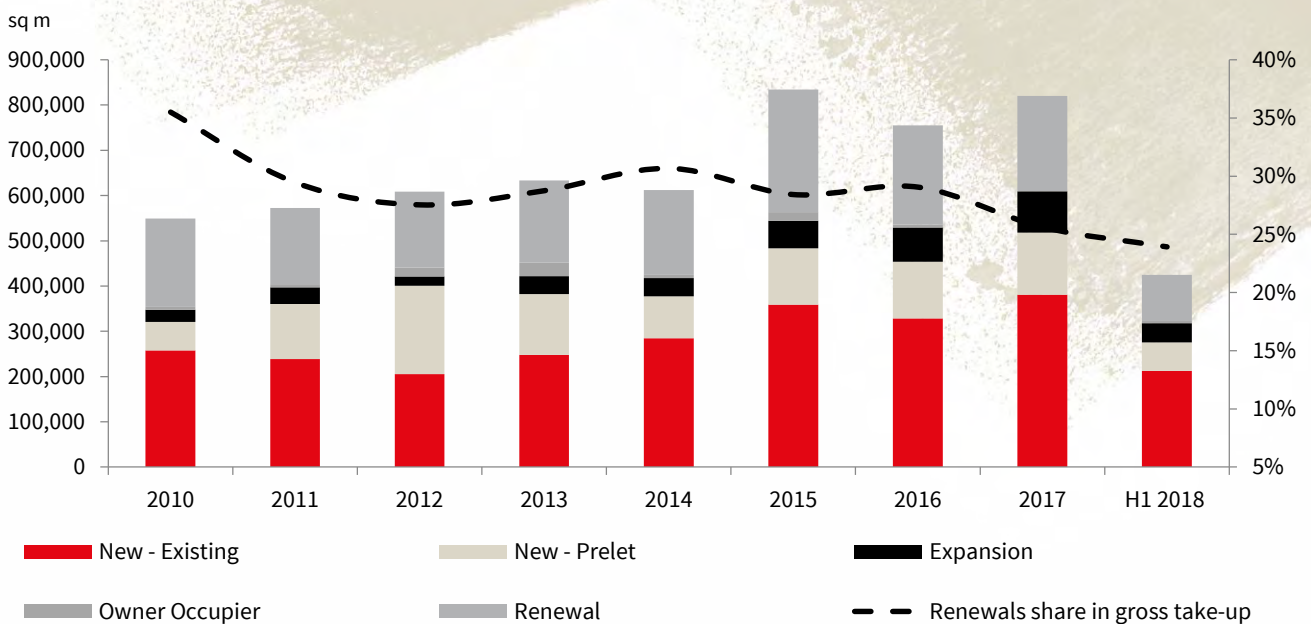
The total volume of investment in Poland to date exceeded €4.17 billion out of which 54% equal to €2.23 billion have been closed with JLL involvement. Party whom JLL advised is highlighted in red in the table below.

## Key Investment Transactions 2018 to date

Sector	Property name	Location	Approximate sale price (€ million)	Vendor	Purchaser
Retail	Project Chariot (28 retail properties)	Various	1,000	Ares/ Axa/ Apollo Rida	Griffin led Consortium
Retail	M1 Czeladź, M1 Kraków, M1 Łódź, M1 Zabrze	Various	359	Griffin led Consortium	EPP
Retail	Guliwer Łódź, Bielawy Toruń, Czyżyny Kraków	Various	110	Aerium	Newbridge
Retail	Galeria Katowicka	Katowice	Confidential	Meyer Bergman	EPF
Industrial	Prologis Park Sochaczew	Sochaczew	Confidential	Prologis	Ares
Office	Warsaw Spire A (50% of shares)	Warsaw	350 (50% of shares)	Ghelamco	Madison International Realty
Retail	Aura Centrum Olsztyna	Olsztyn	65	Rockspring	NEPI Rockcastle
Office	Quattro Business Park	Krakow	140	Starwood	Globalworth Poland RE
Industrial	Amazon Szczecin	Szczecin	110	Invesco	Vestas
Office	Atrium Centrum & Atrium Plaza	Warsaw	80	Peakside	CPI
Industrial	Panattoni portfolio (9 assets)	Various	200	Panattoni	JV Redefine/ Griffin
Office	Spektrum Tower	Warsaw	101	Europa Capital	Globalworth Poland RE
Office	Crown Square	Warsaw	Confidential	Invesco	Menora/ Rothschild
Retail	Galeria Malta	Poznań	Confidential	Confidential	Balmain European Retail Properties
Office	Plac Małachowskiego	Warsaw	100	White Star/ Europa Capital	Generali Real Estate
Retail	King Cross Marcellin	Poznań	91	King Cross	EPP
Office	Gdański Business Centre II (C&D)	Warsaw	200	HB Reavis	EPF

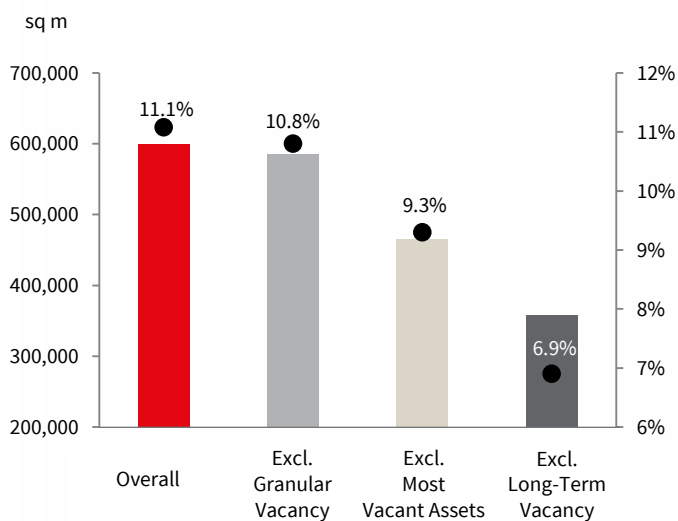
# Office Market

## Evolution of Gross Take-up, 2010 – Q2 2018



Source: JLL, Q2 2018

## Adjusted Vacancy\*, Q2 2018



Source: JLL, Q2 2018

- Continuing its position from 2017, Poland is still perceived as a safe haven for investors. US News & World Report ranked it as the third best global (and No. 1 in Europe) location for investments
- This is reflected in booming business and occupier activity. Driving Warsaw's office market are three sources of demand: newcomers which have decided to open offices in the city, expansions by companies already operating in Warsaw and tenants relocating from non-modern developments to new ones.
- Such excellent market sentiment has resulted in increased occupier activity, which totalled 424,700 sq m in H1 2018.
- Currently, the total under-construction volume amounts to 700,000 m<sup>2</sup>. However, as Warsaw is one of the most absorbant markets in Europe, that volume will not affect the balance between supply and demand.

\* **Adjusted Vacancy Rate** represents completed floorspace offered on the market for leasing, vacant for immediate occupation on the survey date within the market, excluding the floorspace that can be regarded as unattractive given the current market conditions.

The rate was calculated using three different approaches i.e. either:

- by subtracting from the overall vacancy the „granular vacancy“ (i.e. units smaller than 500 sq m), or
- by subtracting from the overall vacancy the most vacant assets, or
- by subtracting from the overall vacancy the long term vacancy (i.e. units vacant for more than two years).

Prime headline rents (€ / sq m / month)

A-class  
B-class

**CBD**

**City Centre**

- 1 City Centre North
- 2 City Centre East
- 3 City Centre South
- 4 City Centre West

**East**

**Jerozolimskie**

- 5 Upper
- 6 Lower

**Mokotów**

- 7 Służewiec

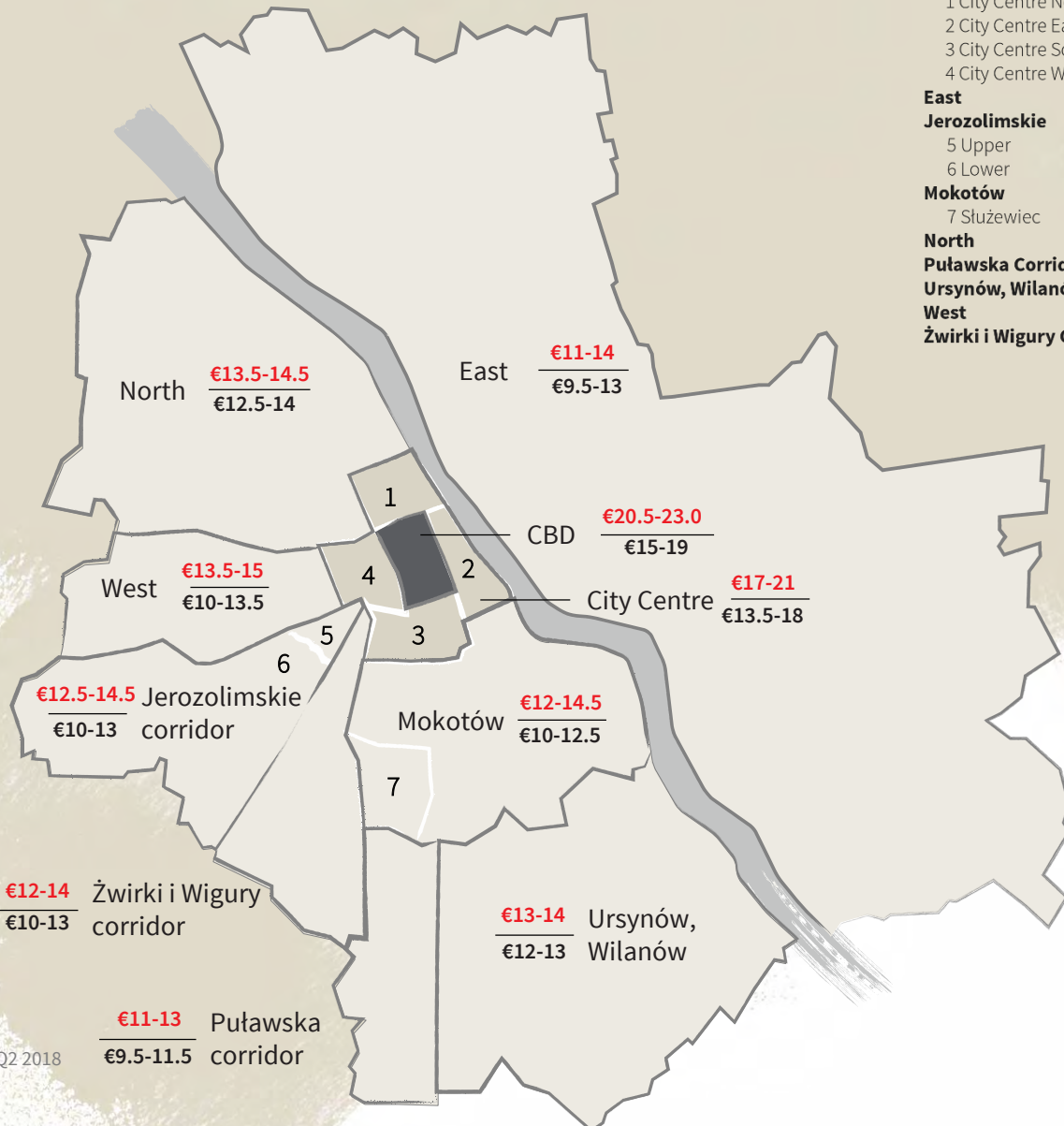
**North**

**Puławska Corridor**

**Ursynów, Wilanów**

**West**

**Żwirki i Wigury Corridor**



Source: JLL, Q2 2018

**Key completions in H1 2018**

Qtr	Property	Submarket	Size (sq m)
Q2	Proximo II	City Centre West	20,000
Q2	Equator IV	Jerozolimskie Upper	19,200
Q2	Koneser Centrum Praskie H,O,P	East	17,300
Q1	Graffit	Mokotów	16,600
Q2	CEDET	CBD	14,300
Q2	Centrum Marszałkowska	CBD	13,100

Source: JLL, Q2 2018

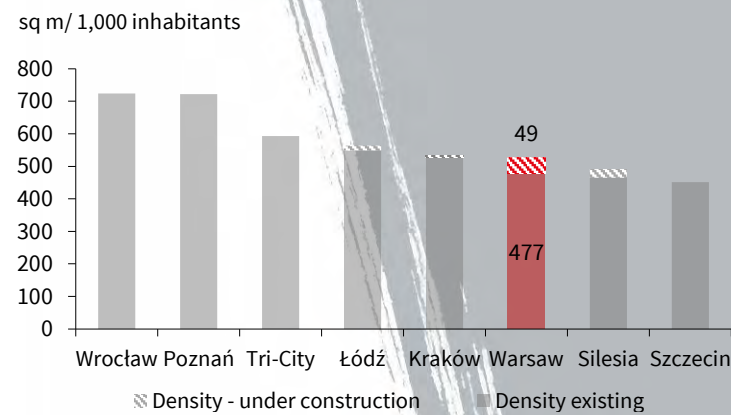
**Key Leasing Transactions in H1 2018**

Qtr	Property	Occupier	Contract type	Deal size (sq m)
Q1	Piękna 2.0	Polish Financial Supervision Authority	New deal	14,800
Q1	Varso II	Cambridge Innovation Center	Pre-let	13,500
Q2	PLL LOT HQ	PLL LOT	Renewal	11,800
Q1	Wolf Marszałkowska	Ad Pilot	New deal	10,300
Q1	Harmony Office Center II	Bank Millennium	Renewal	7,500
Q1	Spark C	Skanska Property Poland	Pre-let	7,400

Source: JLL, Q2 2018

# Retail Market

## Shopping centre density per 1,000 inhabitants



\* data as of August 2018

## Prime rents (€/sq m/month)



\* Prime rents relate to a well located 100 sq m unit shop from the fashion and accessories category in leading retail assets in capital city (for retail parks – 2,000 sq m units).

## Schemes completed in the Warsaw Agglomeration in H1 2018

Property	Format	Developer	Size (sq m)
Rondo Wiatraczna	Shopping Centre	Dantex	11,000
Centrum Janki extension (1st phase)	Shopping Centre	Cromwell Property Group	+9,800
Centrum Marszałkowska	Mix Use Development	BBI Development	3,400

At the end of H1 2018, the modern retail stock in the Warsaw Agglomeration totalled 1.79 million sq m with shopping centres representing 70% of the stock. The remaining formats include retail parks and warehouses (27%), and outlet centres (3%).

Two schemes opened in Q2 2018, namely Centrum Marszałkowska, a mixed-use project (3,400 sq m of retail space) and the extension of Centrum Janki shopping centre (9,800 sq m of GLA). Together with retail stock delivered in Q1 2018, the retail market grew by 24,200 sq m of GLA in the first half of 2018.

The development of the retail market in Warsaw shows no signs of slowing down. By the end of this year the total retail stock is expected to grow by an additional 69,800 sq m of GLA, with 102,500 sq m due to enter the market in 2019, and 30,000 sq m in 2020.

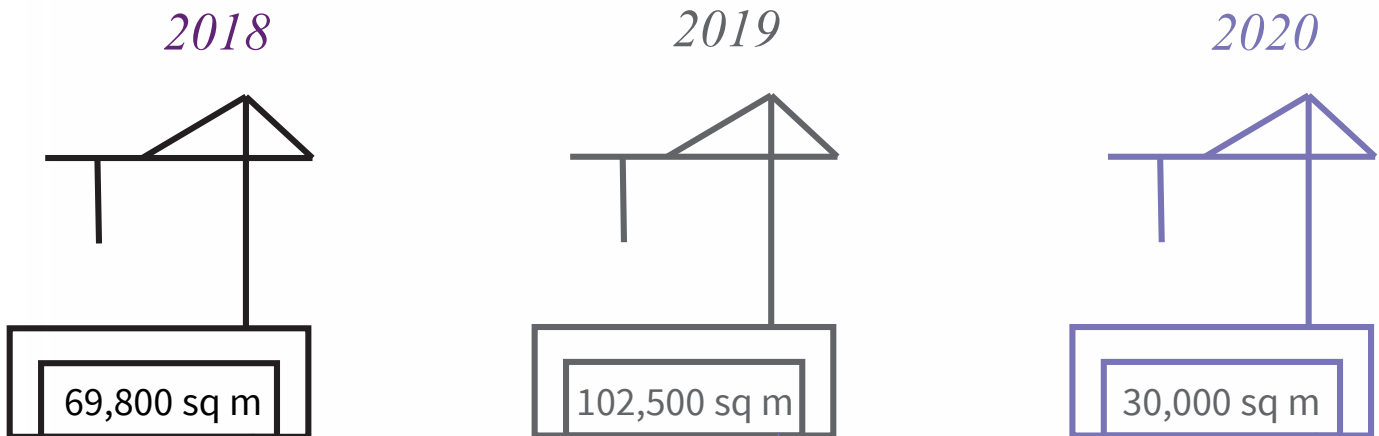
Warsaw's market offers much more modernity, due to its markedly younger stock than that of its Western European counterparts. Only 30% of supply here was completed before 2000, while in Western Europe the figure is 47%. This results in the Warsaw market offering multiple projects that are state-of-the-art amongst others in Europe, and which include modern retail trends in their architecture and interior design.

## Schemes under construction in the Warsaw Agglomeration\*

Property	Format	Developer	Size (sq m)
Galeria Młociny	Shopping Centre	Echo Investment/ Echo Polska Properties	76,000
Nowa Stacja in Pruszków	Shopping Centre	ECC	26,800
ArtN	Mix Use Development	Capital Park	24,000
Centrum Praskie Koneser	Mix Use Development	BBI Development/ Liebrecht & wood	21,000
EC Powiśle	Mix Use Development	White Star Real Estate/ Tristan Capital Partners	15,500
Centrum Janki extension (2nd phase)	Shopping Centre	Cromwell Property Group	+11,000
Atrium Targówek extension	Shopping Centre	Atrium Poland Real Estate Management	+8,600
CEDET (retail part)	Mix Use Development	Immobel	7,000
Browary Warszawskie	Mix Use Development	Echo Investment	6,000
Atrium Reduta extension	Shopping Centre	Atrium Poland Real Estate Management	+4,400
Atrium Promenada extension	Shopping Centre	Atrium Poland Real Estate Management	+2,000

\* Rows marked dark grey apply to projects located in Warsaw city

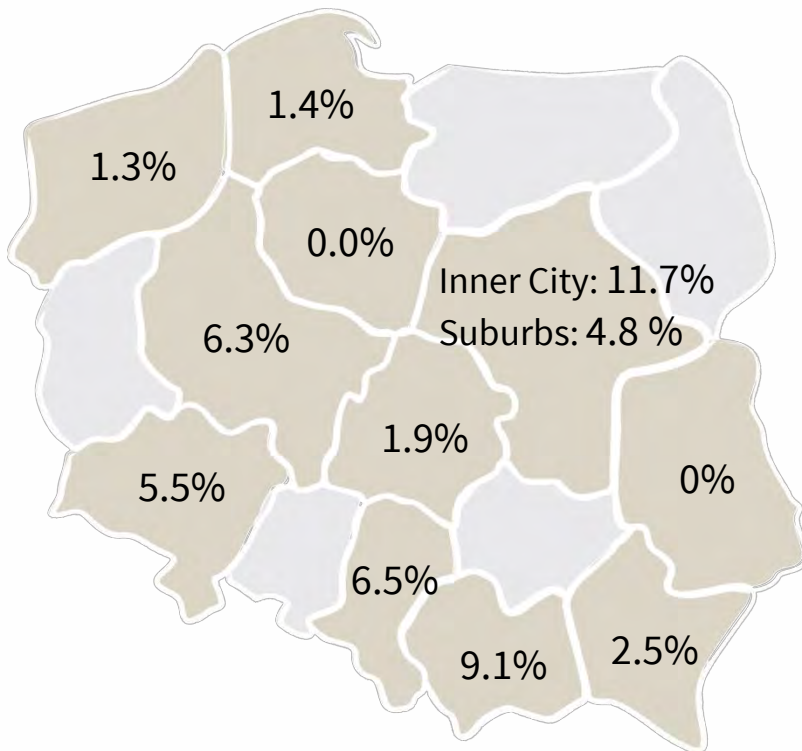
## Quantum of space under construction with completion scheduled for the following years\*



\* Including all retail formats, status as of August 2018

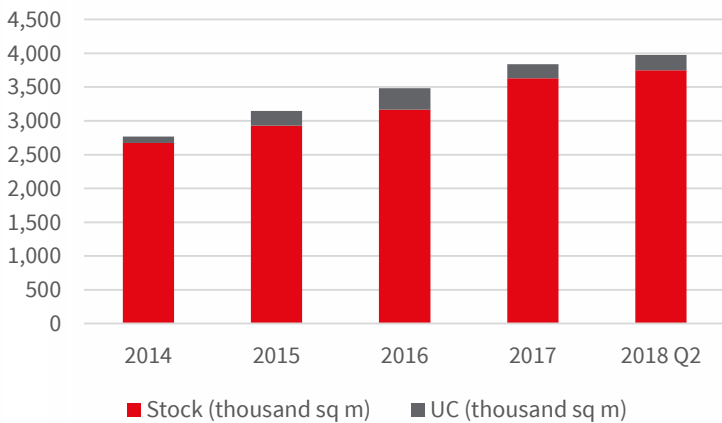
# Industrial Market

Vacancy Rate in Poland: 4.9%

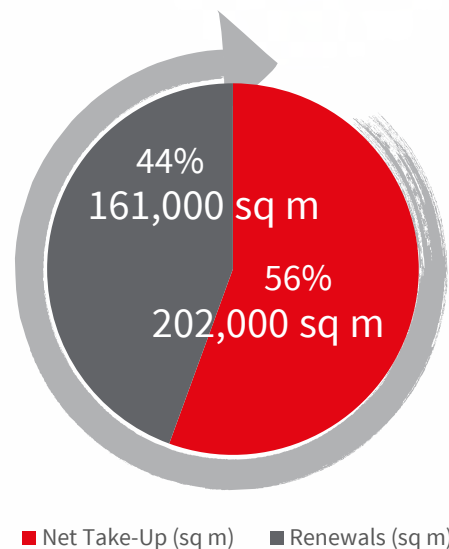


## Supply (thousand sq m)

Warsaw Inner City & Warsaw Suburbs zones combined



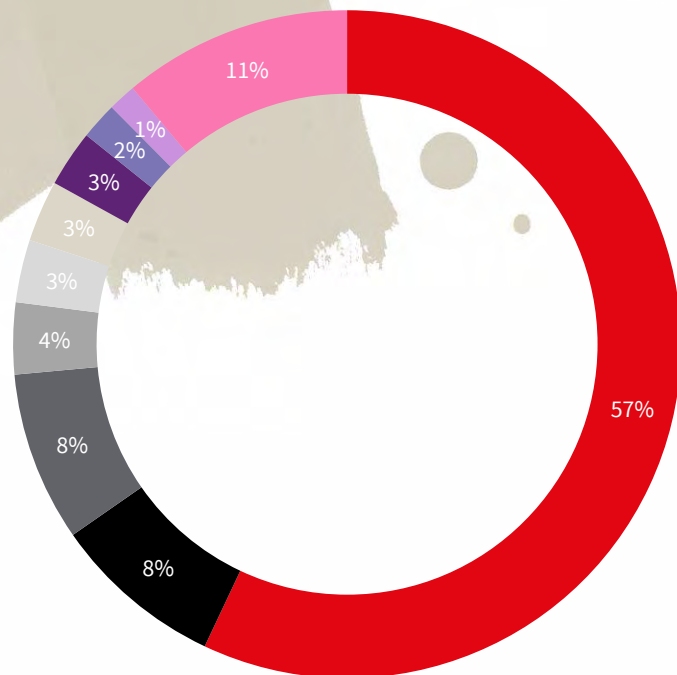
## Demand in H1 2018





## Net take-up by Sector in H1 2018 (sq m)

Warsaw Inner City & Warsaw Suburbs zones combined



## Key Transactions in H1 2018

Tenant	Property	Size (sq m)	Deal Type	Sector
L'Oreal	Prologis Park Błonie II	19,500	Renewal	FMCG
Fiege	P3 Mszczonów	17,200	Renewal	Logistics operator
Cursor	Hillwood Kalwaria	13,800	New deal	Logistics operator
Frisco	City Logistics Warsaw I	12,000	New deal	Food
DB Schenker	Prologis Park Nadarzyn	11,000	Renewal	Logistics operator

## Prime rents\* (€ / sq m / month)

Zone	Headline Rents	Effective Rent
Warsaw Inner City	4.30 – 5.10	3.50 – 4.60
Warsaw Suburbs	2.70 – 3.60	1.90 – 2.80

\*as of end Q2 2018

# Hotel Market

## Hotel Operational Performance

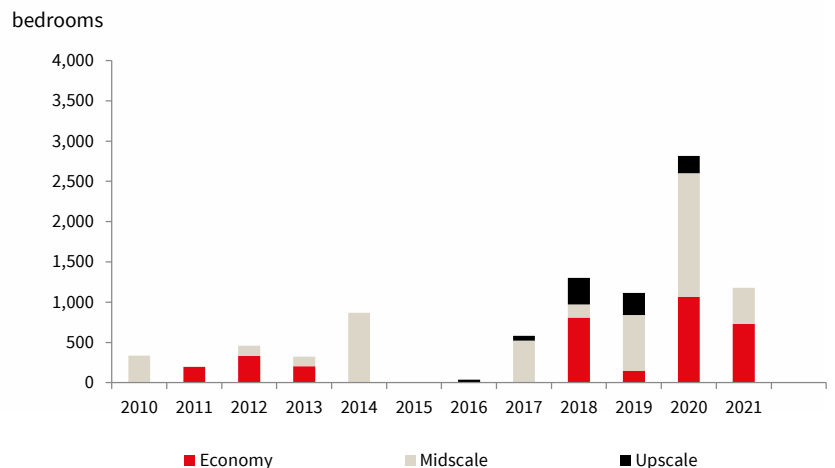
<b>Q2 2018 Room Supply</b> ▲ +4.0% <b>15,651</b>	<b>% of Branded Rooms</b> <b>60%</b>	<b>2017 Passengers at Chopin Airport</b> ▲ +22.7% <b>15.8m</b>
<b>Q2 2018 RevPAR</b> ▼ -2.0% <b>EUR 57</b>	<b>Q2 2018 ADR</b> ▲ +1.0% <b>EUR 77</b>	<b>Q2 2018 Occupancy</b> ▼ -200bps <b>74.0%</b>

Source: JLL, STR

- Operational performance (measured in RevPAR) across Warsaw hotels saw an impressive double digit growth in the last three years, underpinned by strong guest demand and increases in rates.
- Whilst demand is holding strong, significant new supply is likely to outpace it in the interim.
- The growth has already started to slow down. June YTD 2018 RevPAR was 2% below the corresponding period last year, largely driven by a drop in occupancy.
- New hotel openings are also likely to put pressure on prices going forward.
- On a positive note, however, a recent opening of the Raffles will establish a new rate ceiling for the Warsaw market.
- Overall, we are likely to see market reshuffle. Worst located and underinvested hotels will be mostly impacted. Best in class hotels will continue to perform strongly, albeit in a far more competitive environment.

## Evolution of Hotel Supply, 2010 – 2018

- Warsaw is experiencing an unprecedented period of growth. New supply to be delivered to the market by 2020/2021 will largely match a total number of bedrooms developed in Warsaw over the last decade.
- Development activity is mostly concentrated around central locations. An area of substantial growth is City Centre West, where new hotel locations are being secured alongside major office developments. In addition, a well-developed out of town office market, Mokotów, is now emerging as a hotel market.
- The market is becoming more diverse with new hotel sub-markets and a greater proliferation of the hotel product. Lifestyle hotels are the current flavour of the month. Design-led PURO, NYX and Moxy as well as Autograph Collection will soon make their Warsaw debut.



Source: JLL, H1 2018

**Economy** includes budget and lower midscale classes  
**Midscale** is defined as upper midscale and upscale  
**Upscale** is upper upscale and luxury

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