Polska

Greenfield & Brownfield investments: real estate market

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The Polish real estate market has been strongly dominated in the past years by the outstanding position of the Polish capital Warszawa as the centre for major investment activities

In a second wave within the last five years other cities such as **Wroclaw, Tri City** (Gdańsk, Gdynia, Sopot), **Poznań, Katowice, Kraków** or **Lódź have also developed a strong position. Not only have they attracted Industrial, BPO** (Business Process Outsourcing) – **or logistics investments**, in addition **they have become serious markets for international developers and investors**, which have invested in local commercial and housing projects.

The financial crisis, which limited or partly blocked access to financial sources led to a generalized "high risk classification" of Poland within the Central and Eastern Europe countries on one level with Hungary, Ukraine or the Baltic countries. After the first wave of panic, **international investors have stated that the Polish economy is stable**. The European Commission expects Poland to grow by 3.4% in 2017. This aspect of stability is attracting new potential investors to Poland. Nevertheless, the adjustment in the strong growth of real estate prices has probably prevented the market from the creation of a Real Estate bubble, which has already been developing quite strongly in the housing market.

Poland is now going through a phase of consolidation, but in a third wave we do expect the following market developments:

- more selective choice of attractive locations (while new well located objects have lost within the crisis from 7.5%–15% of the boom-value, the price decrease of 2nd and 3rd choice locations will exceed 20% or 25% due to higher vacancies and more competition on the market),
- focus on investments and growth in less developed Cities with 100,000–500,000 inhabitants (Lublin, Rzeszów, Kielce, Białystok) – third wave after Warszawa, and other top Polish cities (Poznan, Wrocław, Tri City (Gdansk, Gdynia, Sopot), Kraków, Katowice, Lódź,
- the role of build quality will grow and become more crucial for the valuation of the real estate.

The Polish market is becoming more mature. Poland and the Czech Republic remains the most developed and liquid market in the Central and Eastern Europe region. Increasing diversity of capital flowing into Poland, which in turn translates into increasing competition among investors, greater liquidity and exerting upward pressure on property prices.

Warehouse & industrial market

The Development of modern warehouse space in Poland exceeded in 2016 more than 9.9 mln m^2 with a vacancy rate of 5%, which has been built mostly amongst the major industrial centres such as Wrocław, Warszawa, Katowice or Poznań and among existing or planned Polish highways. **Two famous logistics locations in Poland are Piotrków Trybunalski and Stryków (next to Lódź)**, which profit from their precise central position and the fact they have already attracted global players into their portfolio. Logistics, FMCG and key investments in electronics and white goods are the drivers for new warehouse developments. Beside that, **Poland often plays a strategic role as a server market for further expansions to Eastern markets**. Based on that approach it can be assumed that future development will be focused closer to the eastern border of Poland. Today we can define **five major Clusters for Warehouse investments in Poland**:

- Śląskie voivodship around Katowice,
- Central Poland around Łódź,
- Warszawa and Mazowieckie voivodship,
- Wielkopolskie voivodship around Poznan,
- Dolnośląskie voivodship around Wrocław.

Major developers have established their projects in 10–20 different locations. **Rental costs for those modern-standard warehouses** are between 2.5–5.0 EUR depending on location of warehouse and time of contracting.

Industrial factories are either developed in BTS (build-to-suit) solutions on a minimum of 5–10 years financial leasing-/rental- contracts or mainly built by industrial companies themselves. **These industrial companies invest directly in individual locations because of specific location requirements** (often high unemployment, high availability of workers, closeness to customers / suppliers or raw materials, etc.). Those **peripheral locations are usually chosen in order to keep investment and production costs low and to achieve the highest possible level of workforce availability**. A well developed peripheral plot offered by a local municipality or the Agricultural Property Agency – ANR for a Greenfield investment can cost around 30 to 60 PLN/m^2 (within a SEZ usually more), while a medium developed private plot in a top logistics region can be offered for between 100 and 200 PLN /m^2. Crucial criterion analysed by investors is land situated in the vicinity of major roads (A1, A2, A4 and express roads) close to Warszawa, Łódź, Wrocław, Poznan and Katowice.

Source: Polish Investment and Trade Agnecy, *Poland your business Partner. Invest in Poland, 2016.*

Office market

Between 1990 and 2000 the Warsaw Office market was at the centre of the first investment wave, which started during the transition process. During this process almost **all global players, consulting companies and banks installed their head offices in Warszawa** to communicate the necessary presence in the market and in order to start business activities within the whole country. After this first investment wave as in other Central and Eastern Europe Capitals, Warszawa has become one of the most expensive office markets in the world. Presently the modern office stock reached almost 8.6 mln m^2 with vacancy rate 13.4%.

Within recent years a wave of foreign Business Process Outsourcing and specific local Investments with high quality requirements in towns like Kraków, Poznan or Wrocław have had a strong impact on the development of modern office space in these regions. These markets had been dominated previously by local office supplies with low quality. This was unsuitable for global players who invested in Business Process Outsourcing or other services. Meanwhile, after a certain quality level was set, local Polish developers have entered the market and created local brands for smaller and medium size offices, which are also accepted by foreign customers. Due to growing competition, developers and property owners are willing to negotiate lease terms regarding both: expansion (or renewal) and reductions of leased space. Current market conditions are favourable for tenants who want to increase the efficiency of their office space. Base rents have remained unchanged. Office space in Warsaw was offered from EUR 12 to EUR 22.5/m^2 per month, while in regional cities from EUR 10 to EUR 16.5/m^2 per month. Concluding pre-lets agreements is intensifying trend and represents 17% of total transaction volumes.

Retail and commercial market

After Russia and the Ukraine, Poland is the biggest consumer market in Central and Eastern Europe and the biggest within the new European Union accession countries. This fact was already clear in the beginning of the transition process and it is one of the reasons why the **retail market is now the most mature and developed part of real estate market in Europe**.

From the beginning of the 90´s big French retail groups such as Carrefour, Auchan, Géant and E.Leclerc had already started trading in Poland with big hypermarkets to meet the significant demands of the population's quickly growing market. Today´s modern retail supply exceeds more than 10.5 mln m^2. The largest retail markets remain the Warsaw Agglomeration with 1.5 million m^2 in 45 schemes and the Katowice Conurbation (44 schemes, 1.1 million m^2 GLA).

The retail market already passed certain stages. The first basic satisfaction through the **creation of big hypermarkets and malls, the change of focus from hyper- to supermarkets and the establishment of discount markets mostly in rural regions in order to substitute little local shops**. Now, the trend is to minimize the distance from customers living areas instead of forcing them to travel long distances to the suburban hypermarkets and malls. Investors are now more open to enter municipalities which have Gdynia, Sopot) between 50,000–100,000 inhabitants for super-markets or for discount markets with a minimum of 15,000 inhabitants. The retail space density ratio reached the European average level, and at the end of June 2016, it amounted to 284 m^2/1000 inhabitants. In the group of the biggest agglomerations the highest density is in Wrocław (821 m^2/1,000) but the leaders on a national scale remain Zgorzelec (1665 m^2/1000), Opole (1361 m^2/1000) and Rzeszów (1259 m^2/1000).

The market of shopping malls in Poland has grown significantly within the last few years. Insufficient existence of coherent and developed shopping streets or city areas have initialized developers to build big shopping malls, which have been integrated into the cityscapes or built just outside the cities. The vacancy rate is decreasing on the most saturated markets. The average vacancy rate hovers below 3.2%. Approximately 620,000 m^2 of shopping centre space was under construction with planned opening dates estimated for the end of 2018.

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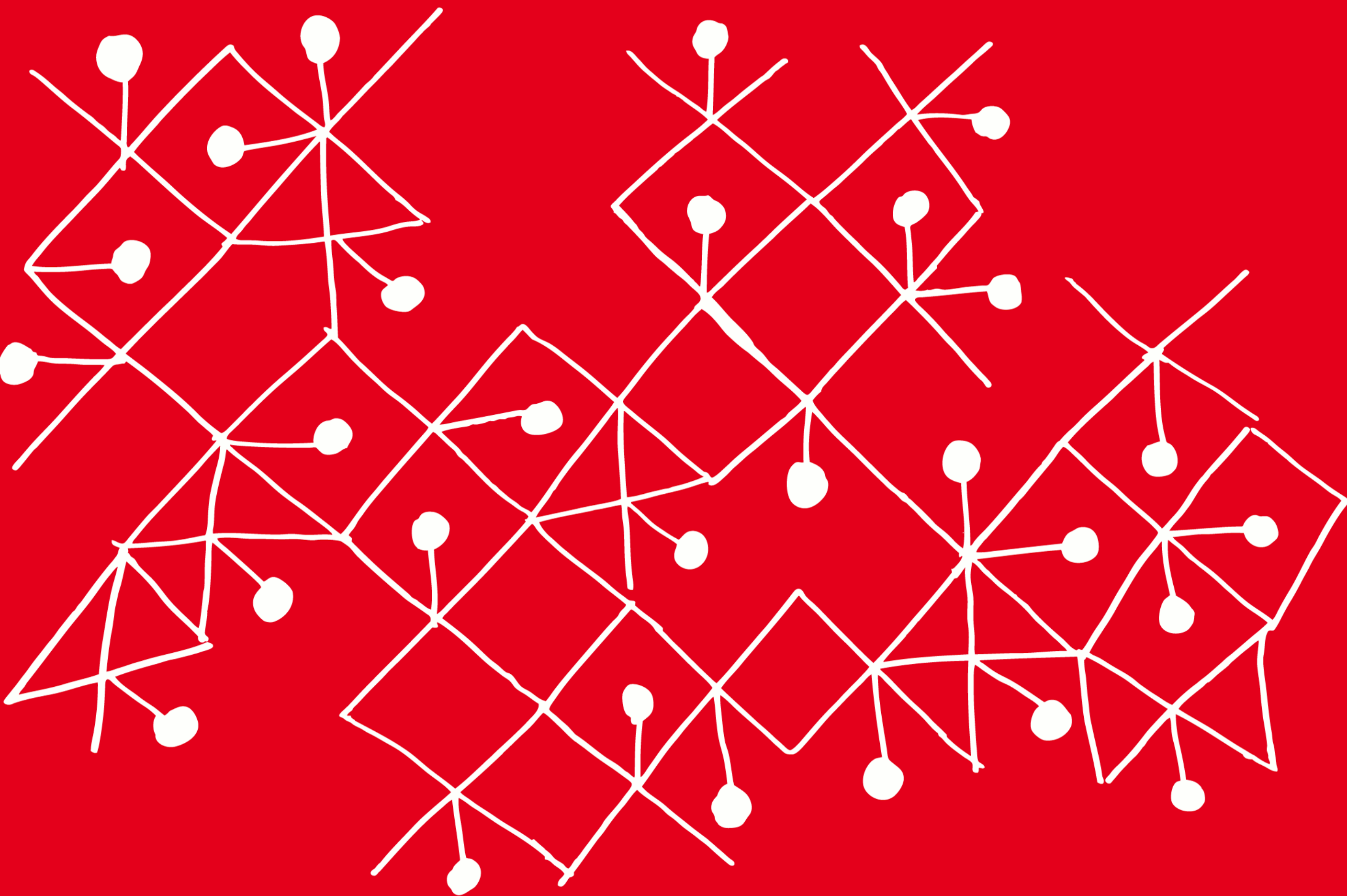
Source: Polish Investment and Trade Agnecy, *Poland your business Partner. Invest in Poland, 2016.*



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