

Property investment market in Poland

Q3 2022



Investment market

Polish investment market falloff? Not this time!

In times of uncertainty ridden by war, inflation and skyrocketing interest rates investment value is double-checked. The real estate sector has always been a great hedge against higher inflation as rental levels are adjusted accordingly. The industry now finds itself in a difficult macroeconomic environment, accompanied by the looming potential energy crisis. This presents challenges for investors and reinforces the rationale behind the need to have an ESG strategy for real estate.

Q1-Q3 2022 period didn't indicate any alarming signs of slowdown. Contrary, the total investment volume exceeded the analogous result of 2021 by over 20%. Transactions that proceeded from the end of 2021, moved into 2022, so even though the war in Ukraine and the record-breaking inflation impacted all the CEE markets, it didn't reflect in Polish

investment market volume in Q1-Q3 2022 to a great extent. In comparison to 2021, this year's volume is shaped by five impressively large investment transactions, responsible for 47% of total investment volume in Q1-Q3 2022.

After domination of office transactions seen in the first half of the year, in Q3 2022 industrial sector took the lead again.

The office market, however, recorded the increase of volume transacted on the Warsaw office market, while retail investments, unsurprisingly, remain based on small, convenience schemes. Residential sector highlighted in Q3 2022, residential sector saw two PRS transactions in Warsaw and Wrocław. What's interesting, the past quarter recorded an increased interest from the investors and funds with the Israeli capital.

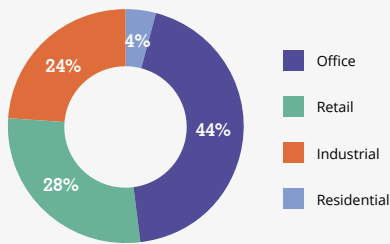
3rd
best Q1-Q3 period
since 2016

€4.3bn
total investment volume
Q1-Q3 2022

84
transactions
Q1-Q3 2022

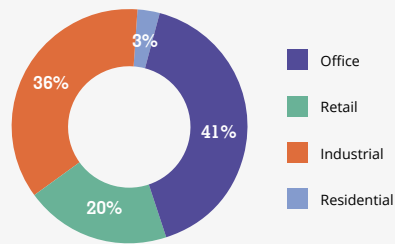
103 **84**
Q1-Q3 2021 Q1-Q3 2022
number of transactions

H1 2022 investment volume share by market sector



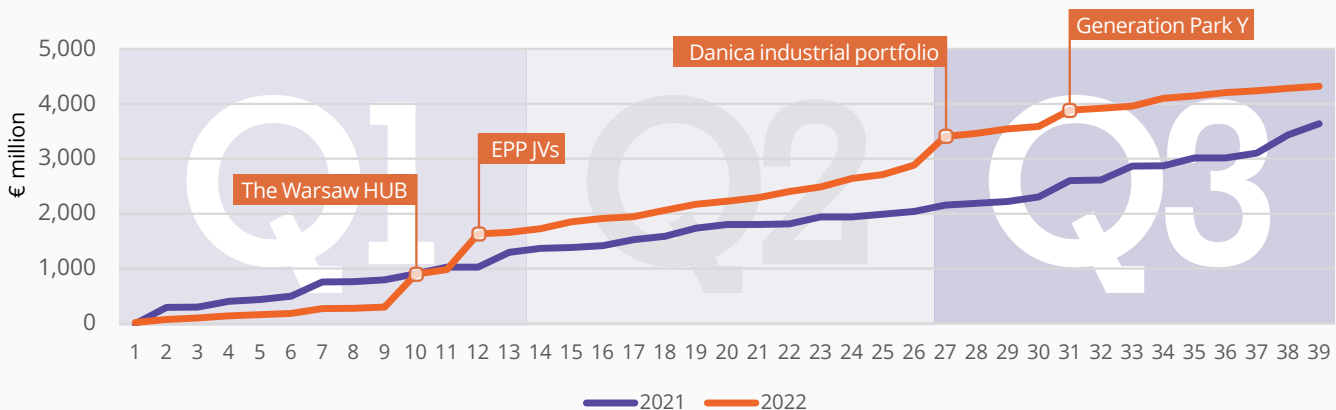
Source: Avison Young

Q1-Q3 2022 investment volume share by market sector



Source: Avison Young

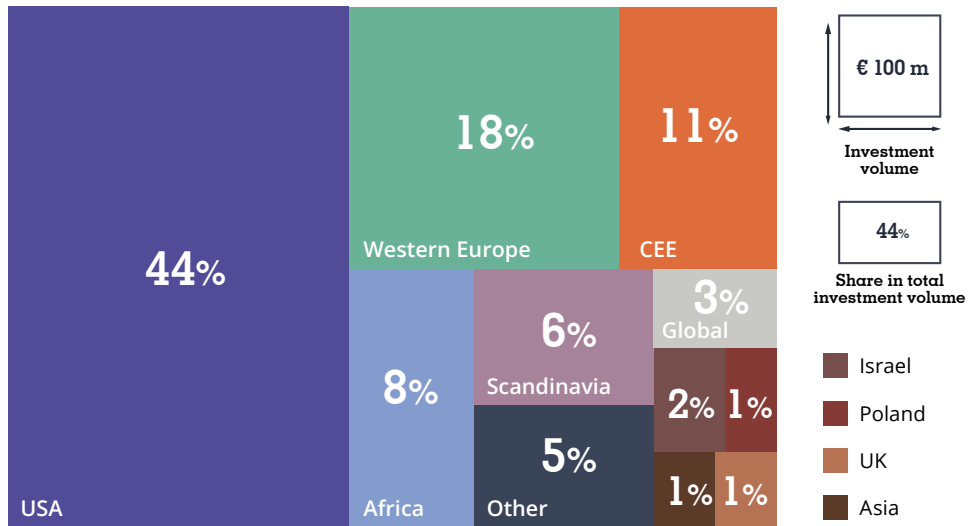
Weekly investment volume (cumulative)



Source: Avison Young

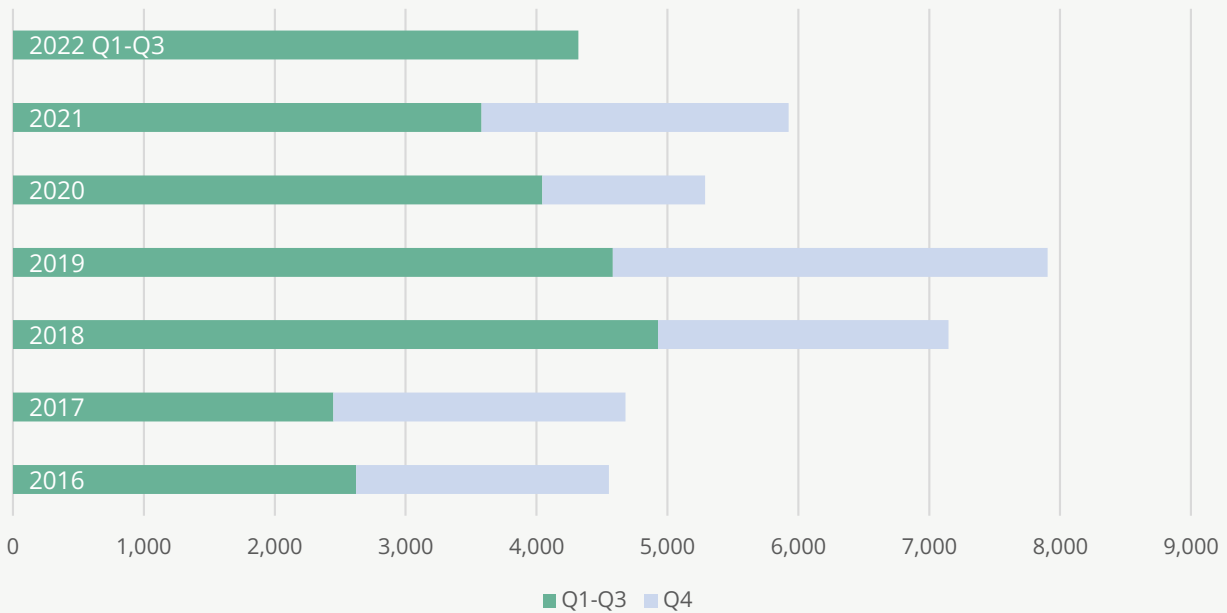
Investment market

Investment volume by investors' origin in Q1-Q3 2022



Source: Avison Young

Investment volumes in recent years (€ million)



Source: Avison Young



Office market

Warsaw comes out of the regional markets' shadow

Office sector in Poland continuously whets investors' appetite. However, major institutional investors have narrowed their investment criteria as a direct result of the current cost of debt and the focus on ESG. The growth in construction costs over the past years accompanied by continuous rental growth offer landlords' of existing assets a huge competitive advantage and improved returns over a new-build project when setting rental rates and leasing strategies.

With €1.77 billion, office sector remains the largest investment volume maker, featuring 41% of the total Q1-Q3 2022 Polish investment market. However, the distance to the industrial sector shrunk from 20% in H1 2022 to only 5% in Q1-Q3 2022 period.

Among 21 office transactions recorded in Q1-Q3 2022 period, 15 regarded regional office markets. Nevertheless, two most impressive deals took place in Warsaw.

H1 2022 was dominated by the office acquisitions on the regional markets, which amounted for 80% of number of deals signed and shared the same investment volume as transacted in Warsaw, because of the extraordinary acquisition of The Warsaw HUB. Q3 2022 tipped the scales slightly in favour of the capital city. The 4th biggest office transaction in Poland, namely the purchase of Generation Park Y by Hansainvest, brought Warsaw ahead, with 55% share in office investment volume in Q1-Q3 2022 period.

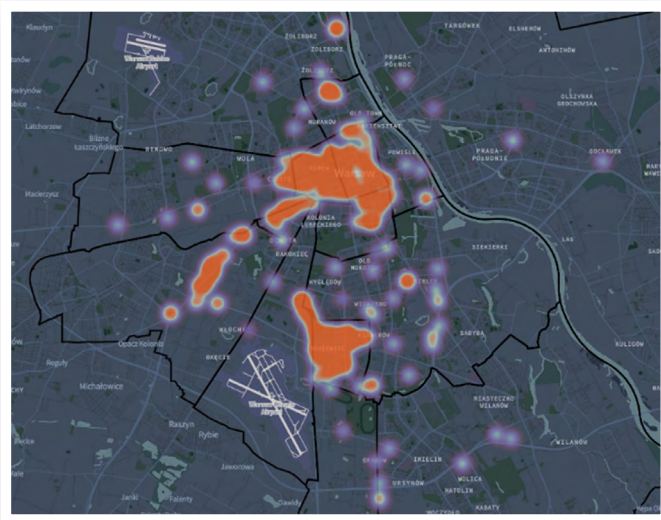
€1.77 bn
office investment volume
Q1-Q3 2022

55%
office investment volume
transacted in Warsaw

The 1st and the 4th
largest single-office-building
acquisitions in Poland since
the beginning of the market

Office investment market in Warsaw

Heatmap by investment volume since the beginning of the market



Source: Avison Young



TOP 10 biggest single-office-building acquisitions in Poland by sales volume since the beginning of the market

	Office Building	Size m ²	Office District	Transaction Year
1	The Warsaw HUB	101,000	City Centre West	2022
2	Warsaw Spire A	71,200	City Centre West	2019
3	Rondo 1	58,000	CBD	2014
4	Generation Park Y	47,600	City Centre West	2022
5	Warsaw Financial Center	50,000	CBD	2019
6	Q22	53,800	CBD	2016
7	Rondo 1	58,000	CBD	2006
8	Eurocentrum Office Complex	84,100	Jerozolimskie Corridor	2019
9	Metropolitan	38,300	CBD	2021
10	Rondo 1	58,000	CBD	2005

Source: Avison Young



Industrial market

Secondary hubs hold the guns

Industrial and logistics, being the darling sector of 2021 sought-after by almost every institutional investor stays atop the shopping list in 2022, albeit recording lower investment volumes. The repricing clash is that investors still want to purchase warehouse properties, while owners are not ready yet to lower prices. Demand is propelled by the record-low vacancy, which is driving rental growth across Poland.

Q3 2022 strengthened the warehouse sector position as far as Polish investment market is concerned. Acquisition of Danica industrial portfolio by CBRE IM from Hillwood was the second largest transaction recorded in the whole Q1-Q3 2022 period, what is reflected in the 50% share of portfolio transactions.

Notwithstanding, €1.54 billion of investment volume didn't catch up 2021 y-o-y results. Industrial transactions amounted to 36% of the Polish investment market volume, indicating considerable shift compared to H1 2022 (24%).

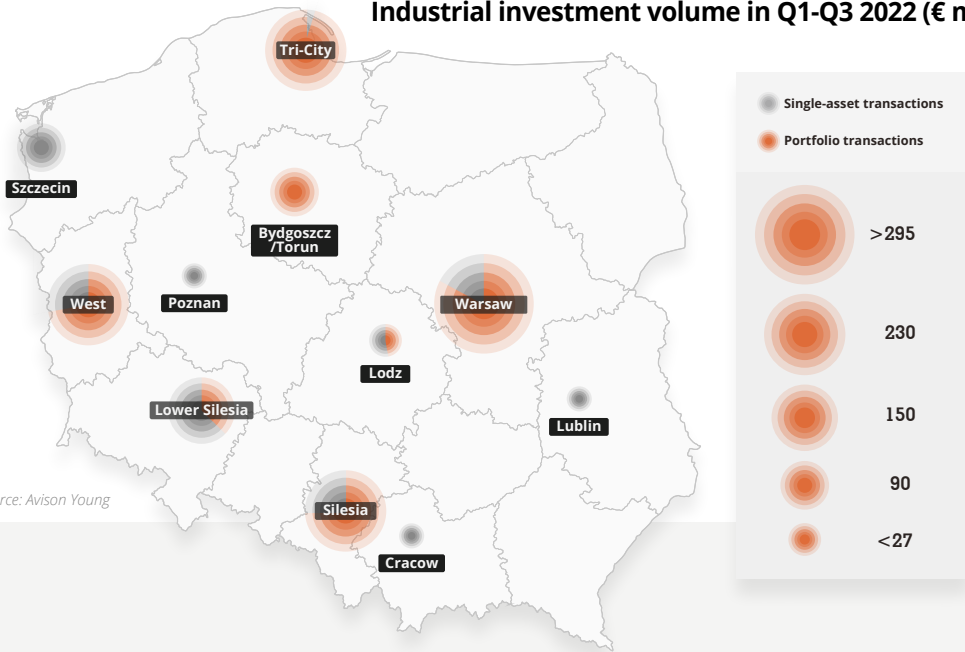
Interesting pattern highlighted in Q1-Q3 2022 period in the industrial sector is the growing importance of emerging markets over the "Big Five" warehouse and logistics hubs. 47% of transacted volume regarded secondary industrial hubs. Especially visible trend is the increase of property investments in Western Poland in rising markets of Szczecin and Lubuskie Voivodship, which is currently the most intensively developing industrial market in Poland.

€1.54 bn
industrial investment volume
Q1-Q3 2022

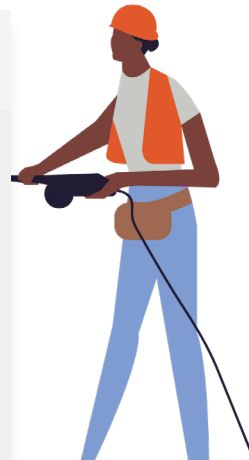
50%
share of portfolio transactions
Q1-Q3 2022

47%
share of secondary hubs in industrial investment volume
Q1-Q3 2022

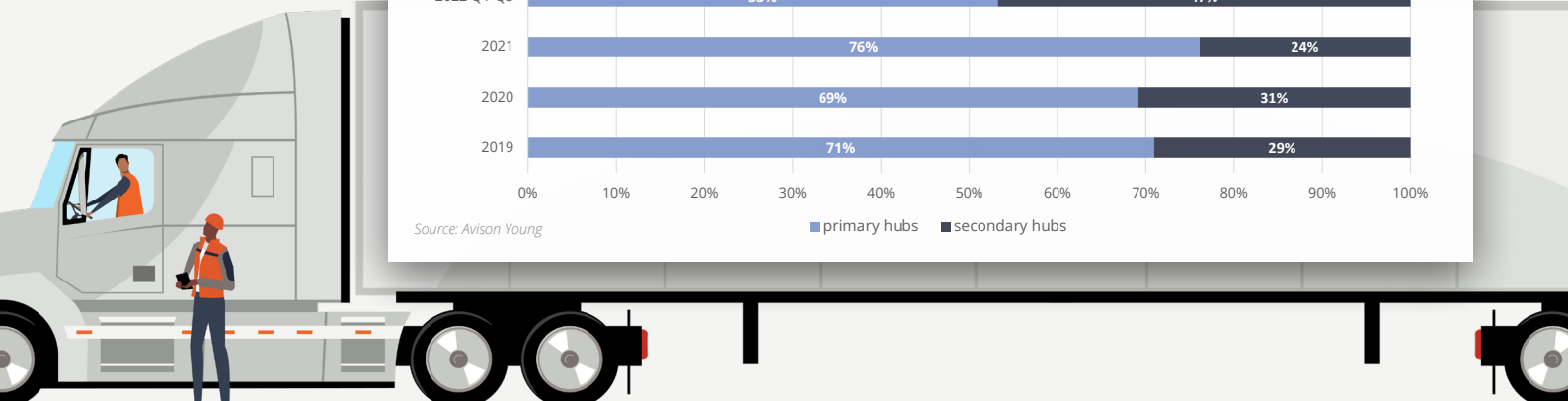
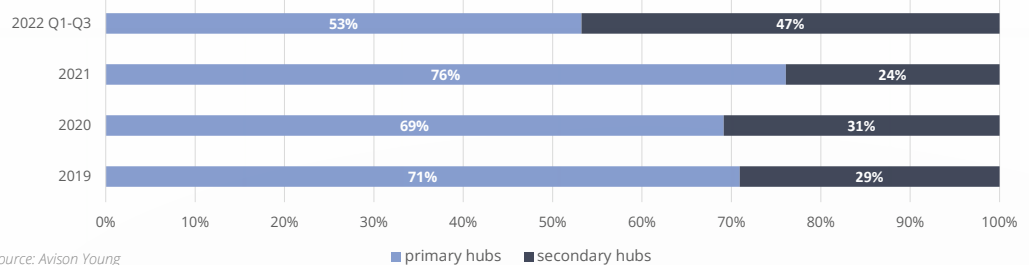
Industrial investment volume in Q1-Q3 2022 (€ m)



Source: Avison Young



Industrial investment volume distribution



Retail market

Convenience – what else?

Convenience schemes still dominate the retail investment market in Poland and investors have confidence in small retail parks. They often accommodate discounters and value retailers of strong performance today, when people curb unnecessary purchases and are more price-sensitive on the first-need goods. Poland still offer very generous yields in retail parks (6.8%), which confirmed to be the recession-resilient sector. Upcoming months should bring two newcomers from France and Israel, attracted by the retail park product. PSPAs has been already signed.

In Q1-Q3 period retail sector recorded 26 transactions, of which 17 were due to retail parks and convenience-based schemes. Redevelopment was the purpose

of 5 investment deals, considering former hypermarkets as well as Sukcesja shopping centre in Łódź (stopped operations in 2020). Shopping centres featured comparable share in retail transactions, including two small facilities in Płock and Zielona Góra as well as EPP JVs transactions from the beginning of the year.

Retail investment volume Q2 and Q3 accounted for €69 and €62 million respectively, ranked on the third and second lowest place since 2016. Nevertheless, due to unprecedented results of Q1 2022, total retail investment volume at the end of September stood at €859 m, what translates to 20% share in total investment market in Poland.

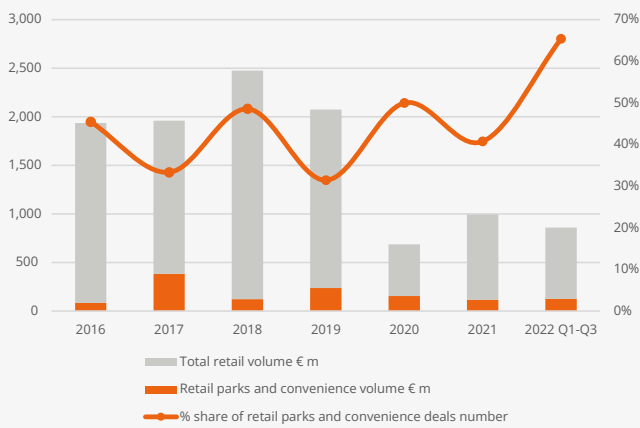
Two newcomers
about to debut in the
retail park sector

€859m
retail investment volume
Q1-Q3 2022

17/26
share of retail park
& convenience transactions
Q1-Q3 2022

5/26
share of redevelopment
deals
Q1-Q3 2022

Retail investment volumes (€ m) and share of retail park and convenience transactions number (%)



Source: Avison Young

Retail transactions structure in Q1-Q3 2022

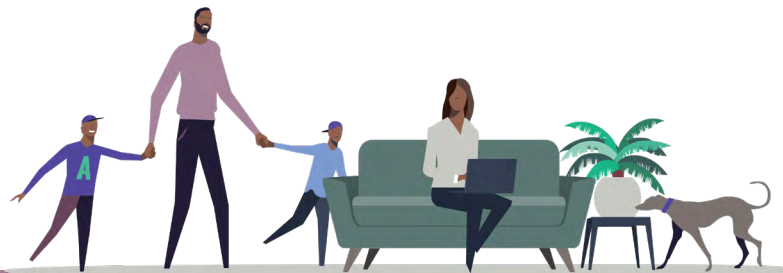


PRS market

Emerging market under investors' magnifying glass

Ballooning inflation and interest rates resulted in the slowdown on the housing sales market and increased occupiers' demand on the Private Rented Sector (PRS). Investment environment shaped by rising construction costs, as a result of increasing energy and raw material prices, unsteady supply chains and financing costs growth, however, make some investors suspend or renegotiate new forward transactions. Previously started transactions are closing; altogether with student housing, PRS sector featured 3% share in total investment market volume in Poland in Q1-Q3 period.

Only in Q3 2022 two new PRS acquisitions were noted. Heimstaden Group finalized transaction regarding Unique Tower D in Warsaw with Marvipol Development, while Atrium European Real Estate acquired Studio Plac Dominikański in Wrocław from Toscom Development. PRS investment market is characterised with the predominance of forward funding agreements, thus many projects are still under development. Avison Young has been involved in the delivering wide scope of technical advisory services, from construction monitoring to final handovers for the entire Warsaw PRS portfolio by Heimstaden Group.



Looking forward

A hard start to the 2022 brought many question marks regarding the condition of the Polish investment market and its future shape. As time goes on, all the stakeholders observed the market with bated breath as none of scenarios could have been excluded. Fortunately, despite treading on thin ice, the resilience of the Polish investment market has resulted in good performance again, exceeding 2021 y-o-y investment volumes by over 20%.

In coming quarters we expect the large industrial portfolios to be put on the market, benefiting from the record-high indexation rates, allowing to achieve same pricing despite increasing yield levels. Retail sector may change its course and turn investors' attention to well-performing shopping centres again, however on much higher yields that we observed before pandemic. Hopefully, Polish investment market will keep demonstrating its strength. Let sleeping dogs lie.



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