

M A R C H 2 0 2 3

PRS market in Poland



Foreword

It is a pleasure to present the first Avison Young report on the Private Rented Sector (PRS) market in Poland. Institutional rental housing, although still in the early stage of development, is undoubtedly an emerging real estate category fuelled in terms of demand by global economic turmoil and the geopolitical situation.

The following publication gives a unique insight into the PRS market not only in terms of supply but also investment transactions.

Interest in PRS has been growing in Poland for several years already, from both tenants and investors. Despite the fact that homeownership is firmly rooted in Poland, we are just experiencing a change in this attitude. In the face of economic uncertainty, PRS housing – due to its function – creates a promising potential for all parties.

Enjoy the reading!

Michał Ćwikliński MRICS
Principal,
Managing Director - Poland



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1 Polish PRS market Overview

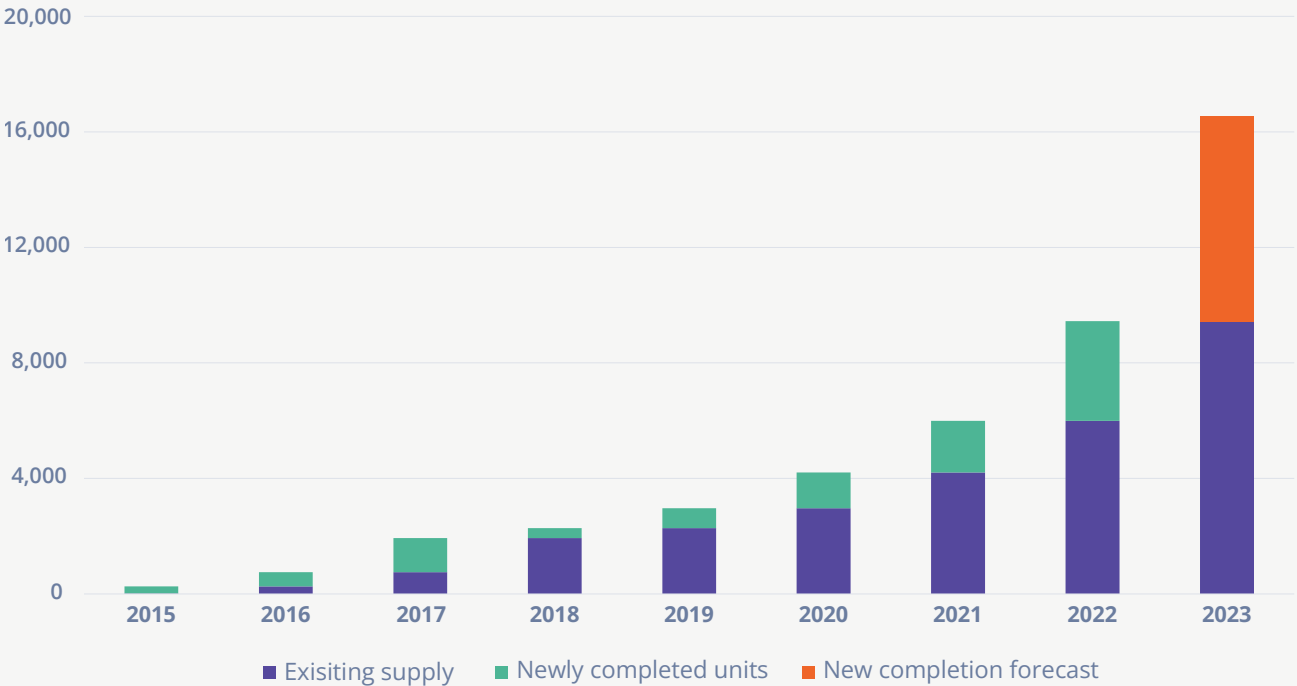
The institutional rental sector in Poland is an emerging sector, with the first transaction closed in 2014. The state-owned Fundusz Mieszkań na Wynajem was the pioneer in the Polish market, buying the first apartment building in Poznań and starting operating in 2015.

New investors had gradually launched in Poland, but the breakthrough came after 2019, when more private companies began to announce and implement projects, owning more than 9,400 units by December 2022 and having over 13,000 new apartments at the construction stage.

The trend of institutional rental comes from the most developed markets in Western Europe, such as Germany, Switzerland, or the Netherlands. In Poland, we are witnessing an initial stage of the PRS sector, which was somehow rediscovered by the COVID-19 pandemic and uncertainty regarding the real estate market.

Moreover, the pandemic has become the reason for the shift from short-term tourist rental to increasing interest in a long-term living rentals. Recent circumstances, namely inflow of the Ukrainian refugees and the sharp increase of interest rates, which has almost frozen the residential market, play in favour of the growing demand for rental options.

PRS apartments' supply development in major Polish cities

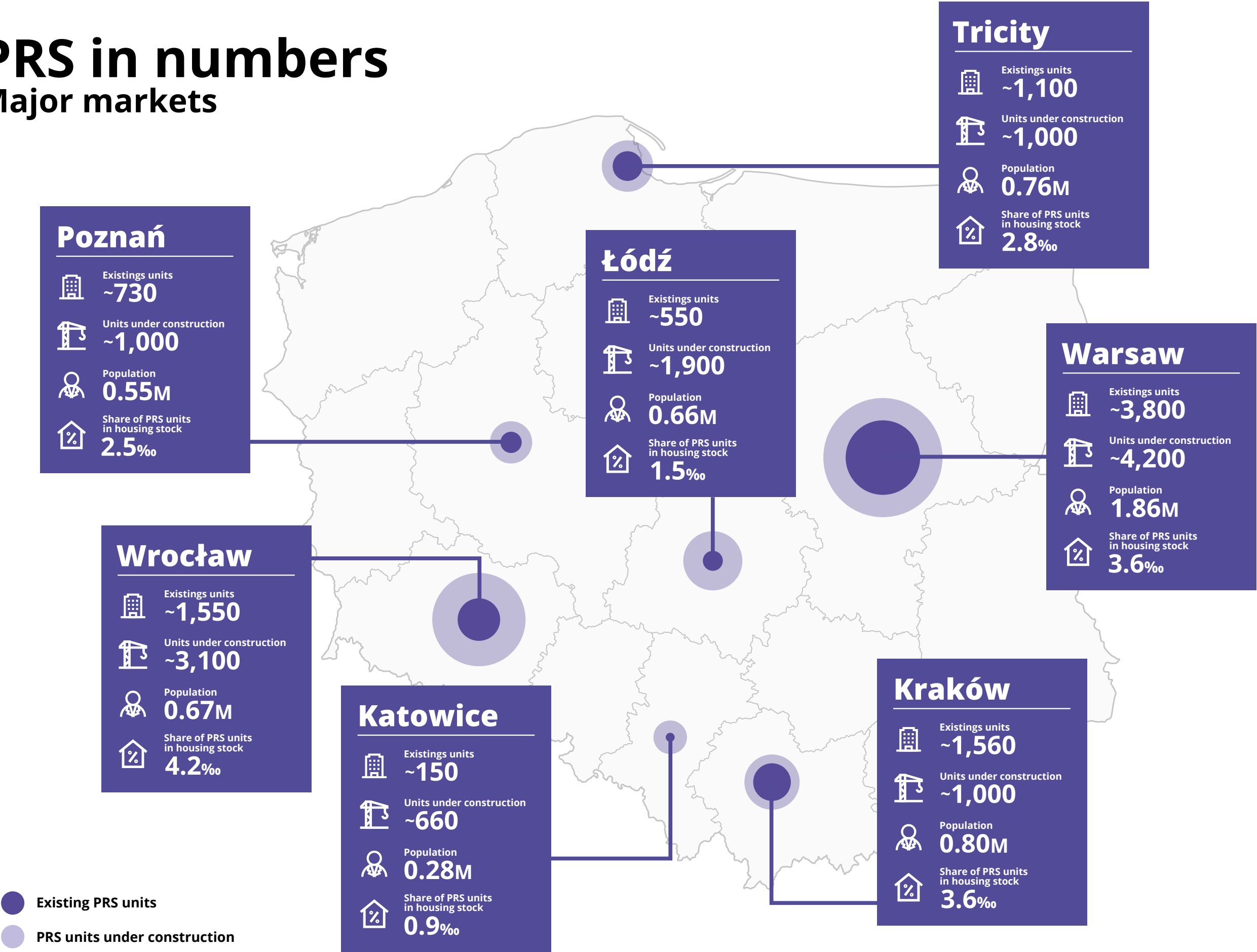


Source: Avison Young



PRS in numbers

Major markets



Source: Avison Young; population and housing stock as of Statistics Poland 2021

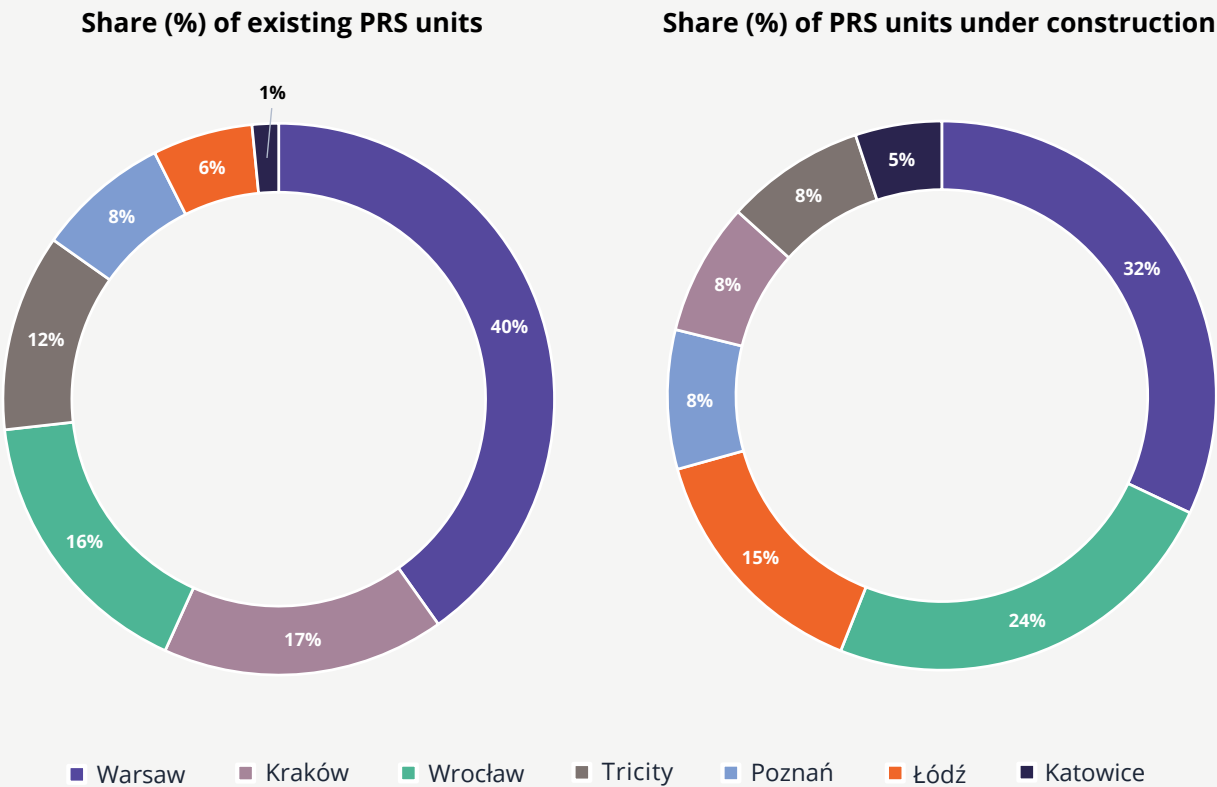


By the end of 2022, 40% of existing PRS units in Poland were clustered in Warsaw.

The remaining units were located in the major Polish cities, what confirms the growing rental trend also outside the capital city. Currently, the biggest share of already existing PRS units in total city housing stock is to be found, interestingly, in Wrocław (4.2‰)

and further in Warsaw (3.6‰) and Kraków (3.6‰). Nevertheless, the ratios are still considerably below 1%, thus the presence of institutional rental housing is rather marginal, compared to e.g. Berlin with over 30% share of PRS flats in the total housing stock.

Share of existing and under construction PRS units by major markets at the end of 2022



Source: Avison Young



We are currently involved in a number of PRS projects, monitoring construction progress and supervising apartment fit out works.

From a fenced site to final handover of apartments ready to let, we support our clients through all stages of the development. Fast and steady increase of demand for our services demonstrates how big the need for such apartment is.

Moreover, these are brand new buildings, and I'm not surprised that many people prefer these over older ones with neglected interiors and furniture. Here they become the first tenants and benefit from modern, but also versatile and cosy interior design. Transparent lease contracts, ease of moving to a larger (or smaller) apartment if needed, within the same location and landlord, is also an important factor for selecting a PRS project.

Tomasz Daniecki
Director, Head of Technical Advisory

As a matter of course, Warsaw with over 4,000 PRS units at the construction stage is also the biggest building site in Poland. However, regional cities are the ones responsible for most of the new developments. In cities Wrocław, Poznań or Łódź amount of PRS units under construction exceeds number of existing ones.

Interestingly, 75% of the newly constructed PRS stock will belong to 4 institutional investment funds, namely Heimstaden Bostad, Echo Investment/Griffin Real Estate (Resi4Rent), TAG Immobilien (Vantage Rent) and Cavatina Holding (Resi Capital). The housing gap in Poland, resulting in 35% of people living in the overcrowded flats, while in the EU the ratio is estimated at 17% (Eurostat 2021) is among factors indicating the niche for the PRS sector development. As far as living habits in the EU are concerned, 30% of population lives in rented flats, while in Poland it is approx. 13% (Eurostat 2021).

Nevertheless, this structure will change in the upcoming years due to the rising costs of mortgages resulting, among other things, from rising interest rates and an increased level

of stringency in consumer creditworthiness evaluation. Moreover, we should not forget about the influx of Ukrainian refugees, generating additional demand. The scale of this fact is reflected in a ~30% drop in the apartments for rent offer (of the entire market) in just one week after the Russia's aggression against Ukraine.

Forecasts for the upcoming years indicate a stable development of PRS housing in Poland. According to investors' statements, the development pipeline (including projects under construction) is estimated at approx. 20,000-25,000 of new apartments for rent to be delivered in the next years. Moreover, smaller regional cities such as Szczecin or Zielona Góra will also appear on the PRS map in the near future.



2 Major players on the Polish market

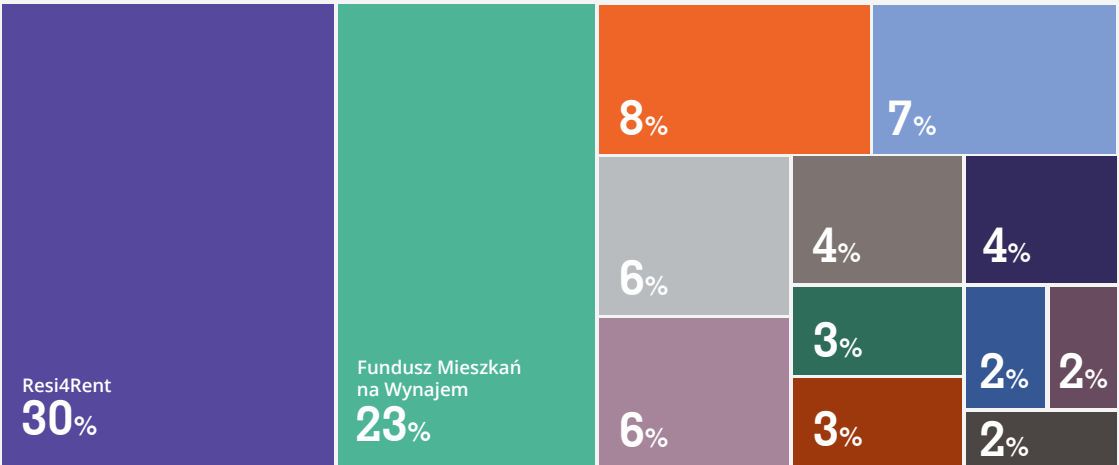
Real estate investment funds usually purchase entire apartment buildings and even housing estates, which are then put up for institutional rent. With the development of the PRS sector in Poland, changes in the cooperation model

are also observed. Projects developed in built-to-rent formula, where residential properties are built from the beginning for rent purposes, have gained popularity. Such a formula allows to standardize later rental rates.

Investors most active at the beginning of the PRS market in Poland are now handing over the floor to the new market players. Heimstaden Bostad from Sweden is the undisputed leader in terms of number of PRS units at the construction stage (27% share in total stock under construction), followed by the current major operator Resi4Rent and further by Vantage Rent and Resi Capital. After putting on the market

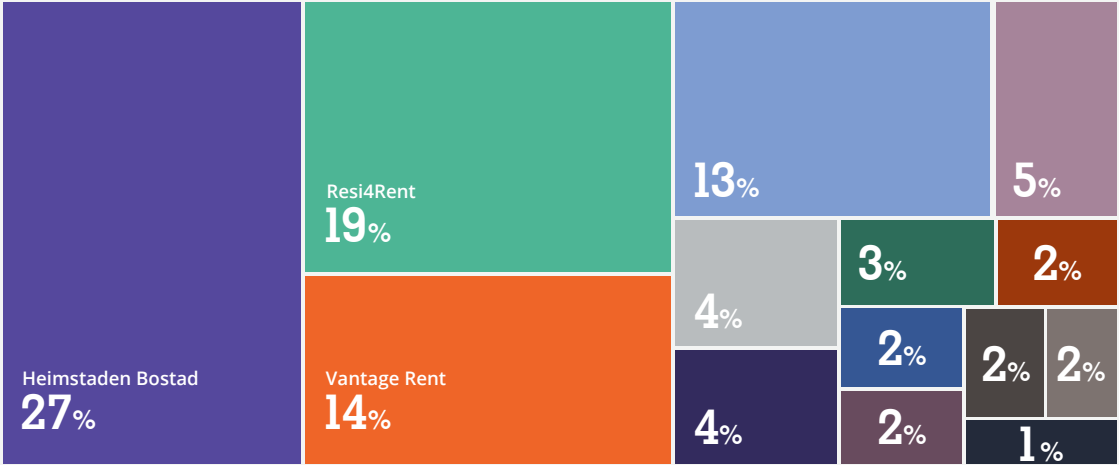
all new developments being at the construction stage, Resi4Rent will keep its dominant position owning 24% of the PRS stock. Nowadays, PRS portfolios developed by rental platforms, like Resi4Rent, are likely to grow fastest in the PRS market. Heimstaden Bostad, the most dynamically developing operator expanding in the forward funding formula, will be ranked second with 17% market share.

Major players by share (%) in total existing PRS units



Source: Avison Young; only major players' names displayed

Major players by share (%) in total under construction PRS units



Source: Avison Young; only major players' names displayed



Our experience with build-to-rent projects has shown that investors are very keen on meeting the latest energy efficiency and safety standards.

From the very beginning of the project, a number of solutions are being analysed to create a safe, friendly, integral space equipped with numerous facilities for tenants, such as bicycle racks, car charging stations, communal areas and even a visitor receptions. In addition, PRS investors are focused on the possibility of obtaining green certificates, which, in contrast to the private rental market, means that a variety of environmentally friendly solutions are applied.

All of this makes PRS developments very attractive to future tenants, as they are not only visually appealing but also meet many current building standards.

Karolina Hytroś
Project Manager, Technical Advisory



3 PRS investment market in Poland

Ballooning inflation and interest rates resulted in the slowdown on the housing sales market and increased occupiers’ demand for PRS.

However, due to rising construction costs, resulting from increase in energy and raw material prices, unsteady supply chains and rise in financing costs, some investors suspend or renegotiate new forward transactions.

The widespread uncertainty observed in the markets often pushes investors to focus on projects centred around the basic needs, namely residential real estate and convenience

retail projects. These two types of assets are on the radar of a growing number of investors, as they are considered the safest.

Looking at the operations undertaken on the investment market from the perspective of the end of 2022, it seems that these segments will be even more popular in 2023, provided that the costs and strategies of financing investment projects adopted by banks do not prevent it.



2022 closed with the transacted volume of €150 million, which is the highest result recorded in Poland.

Among the 7 PRS transactions, 5 projects were located in Warsaw. The largest transactions in terms of volume were due to the acquisition of the operating Catella portfolio: Złota 44 in Warsaw, Pereca 11 in Warsaw and Trio in Kraków. Simultaneously, there are many ongoing PRS projects which have been the subjects of the forward funding agreements, what confirms the market’s dynamics.

Major PRS transactions closed in 2021-2022 in Poland

Project	Location	Asset type	Number of units
Bohema	Warsaw	newly developed	200
Pereca 11	Warsaw	operating	193
Trio	Kraków	operating	152
Studio Plac Dominikański	Wrocław	newly developed	138
Unique Tower	Warsaw	newly developed	136
Bagry Park	Krakow	newly developed	132
Wola Nova	Warsaw	newly developed	116
Złota 44	Warsaw	operating	63
Metro Połczyńska	Warsaw	newly developed	55



PRS investment market in Poland, due to its initial phase, is dominated by the primary market transactions when buildings are acquired directly from the developers.

Thus closed deals do not reflect the real market dynamics and investors interest in this sector. When looking at the forward funding transactions signed in 2021-2022, their total volume stood for around €700 million, while closed deals amounted to €170 million investment volume only.

In 2022 Catella sold its three operating assets in Warsaw and Kraków, simultaneously withdrawing from the Polish real estate market. It also accelerated the next phase of the PRS market in Poland. Polish PRS market attracts investors, what is echoed in the number of apartments under construction, exceeding currently operating PRS stock.

Michał Ćwikliński MRICS
Principal, Managing Director - Poland

Source: Avison Young

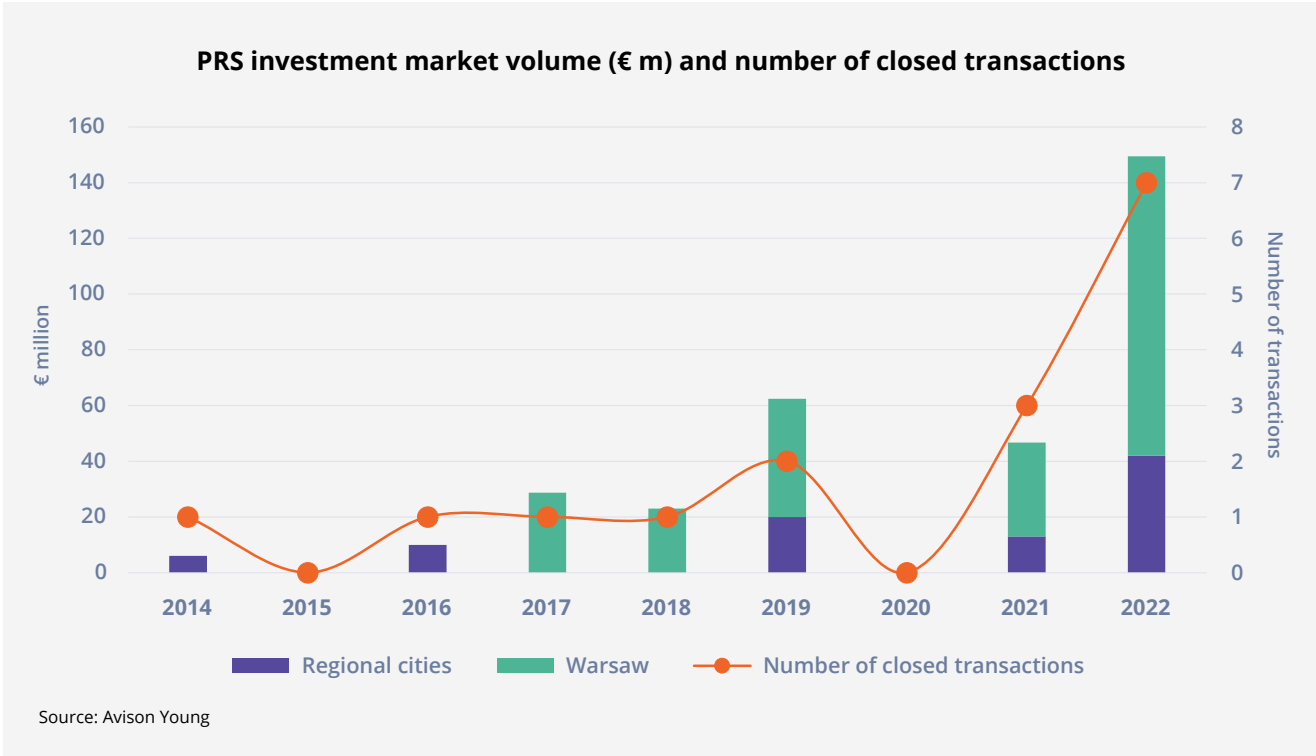
4 Active investors & yields

PRS investment market is characterised by different types of acquisitions, depending on the project status. The majority of deals signed in 2021-2022 in Poland regarded forward funding agreements, where the parties enter into the sale and purchase agreement at the beginning of the construction process. The investor provides financing of the particular stages of the project, usually in the form of advance payments towards the purchase price.

Thus, forward funding agreements reflect the real market dynamics and investors' appetite for the PRS product, while deals are finalised within

~2 years after signing PSPA. In 2021-2022, around 6,000 PRS units in 15 investments were the subject of forward funding agreements. The total volume transacted in 2021-2022 in the form of forward funding stood at approx. €700 million.

The most active investor and the undisputable leader as far as forward funding is concerned was Heimstaden Bostad representing over 60% of the volume transacted in 2021-2022.



Over the last 9 years of the PRS operations in Poland, total investment volume of closed transactions exceeded €325 million. We observed a sharp increase in 2022, also as a consequence of the secondary investment market transactions regarding operating assets (Catella withdrawal from the Polish market). Over 70% of the total

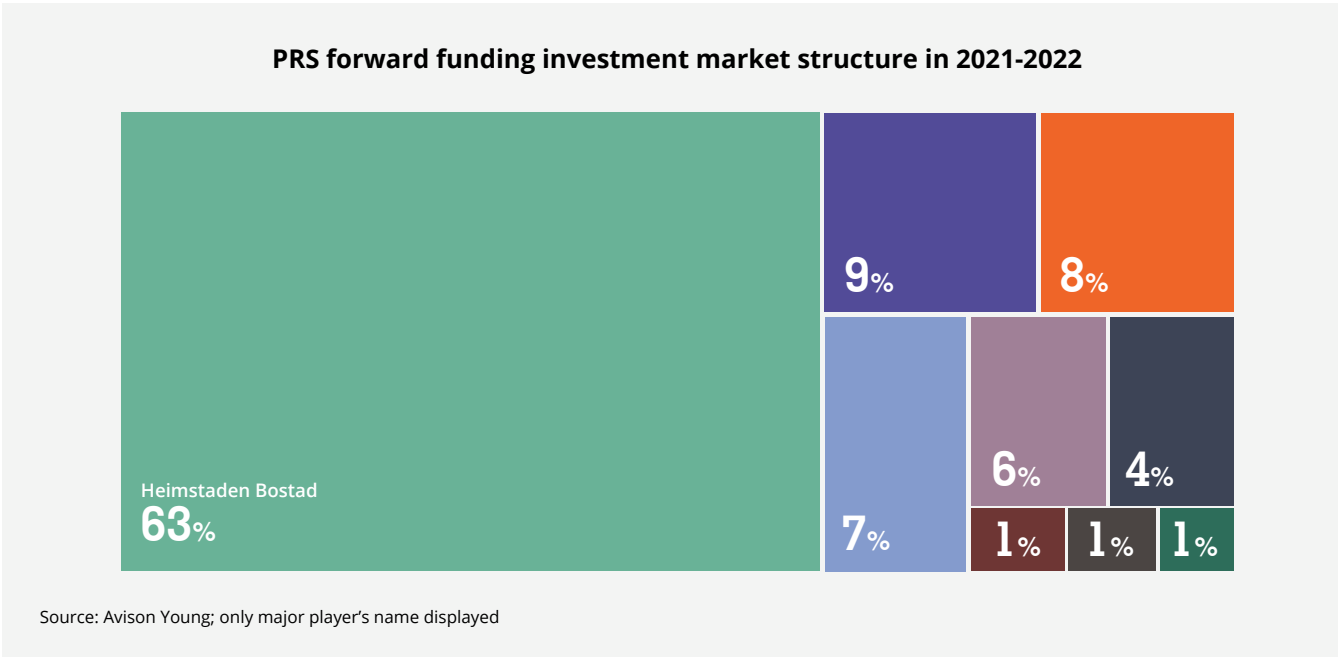
investment volume was due to PRS projects located in Warsaw. As far as the capital origin is concerned, Polish PRS market structure was dominated by investors from Israel, Germany and the Netherlands. Altogether, they stood for 75% of the total volume transacted since 2014.



There is an increasing number of requests for PRS property valuations, both from financing banks and investors.

To date, we have valued both completed properties with full commercialization, and land properties with a concept for development of a PRS facility – upon completion scenario. A noticeable trend in the PRS sector is increase in rents, rising project financing costs and rising yields. The risk of investing in PRS properties could be limited by concluding lease agreements in EUR, not PLN. However, some tenants may not accept the uncertainty of exchange rate fluctuations.

Monika Bronicka MRICS
Director, Head of Valuation and Advisory



5 Case study

Focus on PRS in Wrocław

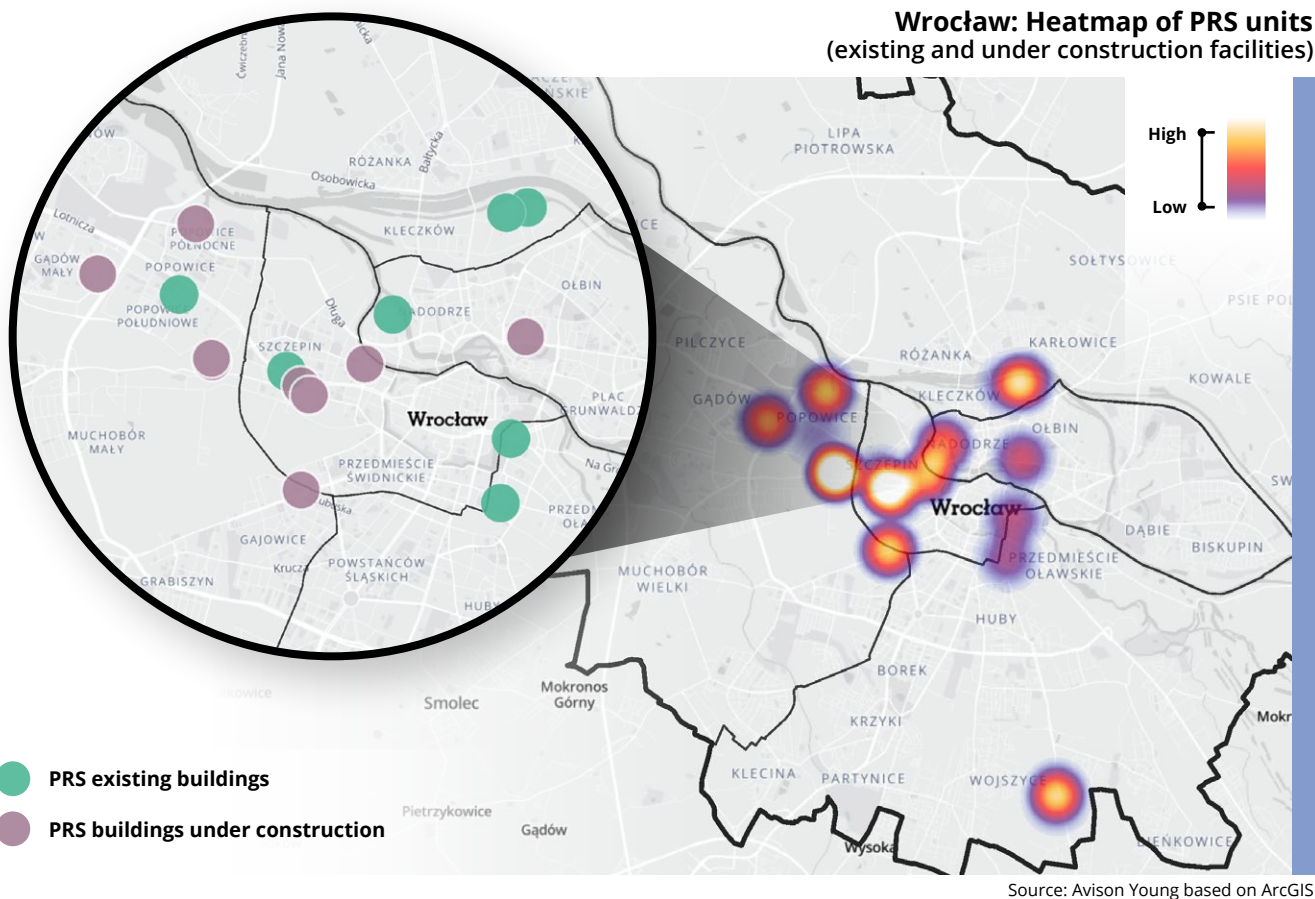
Wrocław is the second biggest market, after Warsaw, in terms of PRS stock in Poland. At the end of 2022, the number of units for rent in the PRS formula was over 1,500 and another 3,100 were at the construction stage.

Wrocław is one of the fastest growing cities in Poland. The number of Wrocław Agglomeration residents is increasing every year and has currently exceeded 1.25 million. The development of the city's infrastructure influences investment attractiveness and business placement.

Moreover, Wrocław is a university city and a home for many young people. In addition, due to its location, it also attracts tourists from across the Western border. Thus, the inflow population profile i.e. students and young professionals as well as refugees, are more interested in renting a flat than buying one.

The capital of the Lower Silesia region has a 16% share in the operating PRS stock in Poland. Moreover, Wrocław is characterised by the highest share of PRS units in total housing stock, which at the end of 2022 accounted for 4.2%.

Recent years have seen the greatest development of the PRS sector. Since 2020, the number of newly completed PRS premises has doubled the stock of rental housing in Wrocław and further growth is expected. The amount of PRS apartments at the construction stage exceeds the existing supply. However, assuming that all developments are completed, the share of PRS units in Wrocław's total housing stock will be at 1%.



The PRS housing offer in Wrocław is concentrated mainly in the city centre.

Currently, it also slowly expands to the northwest, namely the area of Popowice, Nadodrze and Legnicka Street, where the majority of PRS housing estates are developed. An interesting enclave of rental apartments has been created in Wojszyce in the southern part of Wrocław, where Vantage Rent delivered 150 PRS units in 2021. Later on, Life Spot put on the market another 244 apartments. Due to the dynamic development of this part of Wrocław, a new residential hot spot is being created, which attracts not only individual

but also institutional investors.

The leading PRS operator in Wrocław is Resi4Rent with 37% of units operating on the market. The platform is also responsible for the majority of PRS units at the construction stage (over 40%). Another active investor is TAG Immobilien (Vantage Rent) owning over 30% of PRS stock under development. Heimstaden Bostad also has expansion plans in Wrocław - part of Budimex portfolio purchased by the Swedish investor in 2021 is being developed there.

Demand and rents in Wrocław.

The dynamic development of investments offering institutional rental units and the great interest of investors in this type of projects is a response to the growing demand from potential clients. The interest in renting flats has been growing due to the increase in interest rates, which significantly limited the creditworthiness of apartment buyers with bank support, as well as the influx of Ukrainian refugees.

Moreover, the example of Vantage Rent development proves how desirable new PRS apartments are in Wrocław. The first Vantage Rent units came on offer in mid-2021 in Wrocław and were rented out within a few months. Similarly, the resources of Fundusz Mieszkań na Wynajem were leased in a flash, with no units available at the moment. Only 10 units out of the 570 apartments offered by Resi4Rent were available at the end of 2022.

Prime PRS rents in Wrocław

Unit type	Rental rate in PLN / month*
1 bedroom	~ PLN 2,400 – 2,900
2 bedrooms	~ PLN 3,400 – 3,900
3 bedrooms	~ PLN 4,600 – 4,900
4 bedrooms	> PLN 5,000

* rental for 12 months, without utility costs
Source: Avison Young

Rental rates depend on the size of the unit and its attractiveness - location in the building, floor, orientation and additional amenities such as balcony, loggia, terrace or garden. Such simplification of rates is enabled by build-to-rent formula. Thus, for example, the average rental rate for 1-bedroom

apartment in the Resi4Rent development on Zakładowa Street at the end of 2022 amounted to PLN 2,400/month with a 12-month contract, and PLN 2,900/month on Mieszcząńska Street. Nevertheless, the inflation and rising service costs are not indifferent to PRS rental rates, which have recently increased.



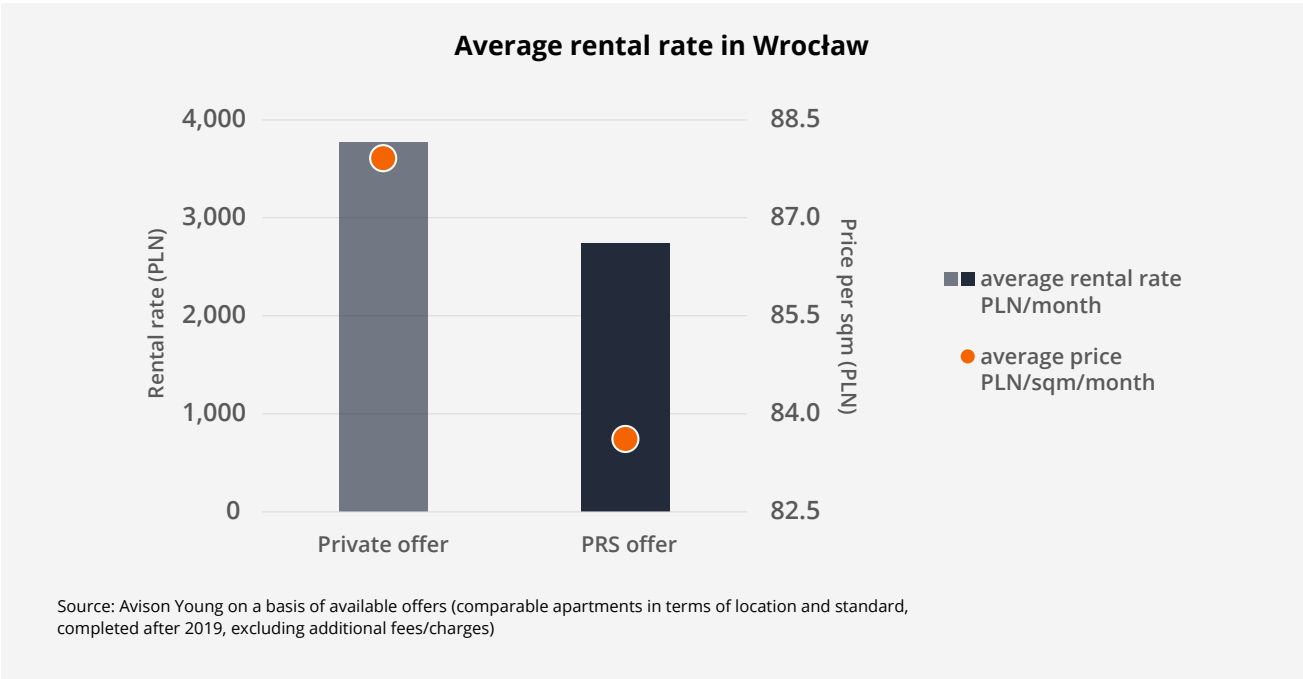
From the perspective of property valuation, it is important to monitor the PRS market because of dynamically changing rents.

It is also significant whether the offered rents include service charges or whether they are additional charges to the monthly rent. For the purposes of PRS property valuation, we also analyse the rental housing market - rental rates offered by private individuals for residential units in modern housing developments and maintained in a similar standard as PRS facilities.

Marta Marat
Qualified Valuer, Valuation and Advisory

Based on the market data analysis, institutional housing is still characterized by lower prices compared to the offers of private owners. Tenants still have to pay more for private units in different districts of Wrocław, although the average size of private apartments was found larger.

The average price per 1 sqm at the moment is around 5% higher in private units compared to the PRS offer. However, PRS units – unlike private apartments - offer additional services such as 24-hour security, common areas, professional management and operator support.



6 Looking forward

The housing market situation in the upcoming years will depend on both the geopolitical and macroeconomic environment.

A prolonged war will mean problems with inflation, public debt, labour market and financing costs. On the other hand, the influx of immigrants and the deteriorating housing situation of a growing number of Poles will create favourable conditions for PRS developments.

Thus, the sector will continue to grow, which is also confirmed by the already present announcements of many investors to build another ~ 20,000 rental apartments within the next few years. What is more, due to the early stage of this sector, Polish market will be attractive to both local and foreign investors, who can get higher rates of return on their investments than in the Western European market.

housing sector will grow not only due to inflation or high mortgage rates, but also thanks to the changing perception of homeownership. Across Europe, the number of people renting rather than owning an apartment has been increasing for many years. The rental trend is starting to gain momentum thanks to the greater mobility of Poles and more frequent changes, which have also been made possible to some extent by the pandemic.

This is because renting does not oblige people to bind themselves to their place of residence permanently, but offers the possibility of flexible changes, such as moving to another city for professional purposes.

It is worth adding that the PRS rental



7 Avison Young

Technical Advisory track record

PRSPRS

Aurora

Heimstaden Bostad

Client

Warsaw

Location

146

apartments


ongoing

Year

✓ Monitoring of the construction progress on site

✓ Hand over management of the finished project

✓ Fit-out works site inspection and coordination



PRSPRS

Moko Botanika (3 phases)

Heimstaden Bostad

Client

Warsaw

Location

435

apartments

2022

Year

✓ Monitoring and supervision of the construction on site

✓ Hand over management of the finished project

✓ Fit-out works site inspection and coordination



PRSPRS

Unique Tower

Heimstaden Bostad

Client

Warsaw

Location

130

apartments

2022

Year

✓ Monitoring and supervision of the construction on site

✓ Hand over management of the finished project

✓ Fit-out works site inspection and coordination



PRSPRS

Miasteczko Nova Sfera Phase 3

Confidential

Client

Warsaw

Location

230

apartments

ongoing

Year

✓ Monitoring and supervision of the construction on site

✓ Hand over management of the finished project

✓ Technical Due Diligence services prior to acquisition of the project by Vivion



PRSPRS

Project: Podskarbińska

Confidential

Client

230

apartments

Warsaw


Location

2022

Year

✓

Technical Due Diligence services of the project



PRSPRS

Project: Confidential

Confidential

Client

398

apartments

Gdańsk


Location

ongoing

Year

✓

Technical Due Diligence services of the project



PRSPRS

Project: Confidential

Confidential

Client

confidential

apartments

Warsaw

Location

ongoing

Year

✓

Technical Due Diligence services of the project



PRSPRS

Project: Stellar

NREP

Client

389 (2 buildings)

apartments

Gdańsk

Location

ongoing

Year

✓

Monitoring and supervision of the construction on site

✓

Hand over management of the finished project

✓

Technical Due Diligence services prior to acquisition of the project by Vivion



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