

Chance favours the prepared mind



Investment market

Polish investment market in slow motion

The current results may not appear very optimistic at the moment, but this is only a temporary situation. Polish real estate market has a solid foundation, and investors have proven to be highly adaptable, as evidenced by the results achieved in previous challenging years.

The COVID-19 pandemic significantly impacted the economy and customer behaviour, consequently affecting the real estate market and investors' activity. However, buyers relatively quickly adapted to the new circumstances and the total investment volume reached EUR 5.3 billion in 2020 and EUR 5.9 billion in 2021. While these figures were lower than the volumes seen in 2018 and 2019, they still secured the market's third and fourth highest positions in terms of volume. In 2022, the outbreak of war in Ukraine further disrupted the market, leading to record-high inflation, increasing interest rates, and escalating investment uncertainty. Despite these challenges, the year concluded with a volume close to that of 2021 (EUR 5.8 billion),

once again highlighting the maturity and liquidity of the Polish real estate market.

However, 2023 is facing a significant slowdown as the one to bear the pricing clash. During the first half of the year, the total volume of completed transactions reached only EUR 802 million, which was the first H1 period since 2015 below EUR 1 billion. To put this into perspective, the transaction volume during the same period in 2022 was over three times higher. Particularly concerning was the performance in Q2, with a mere EUR 150 million of investment volume, marking the lowest quarterly result in the last decade.

Nevertheless, the current moment presents a significant opportunity for strategic purchases. Market prices are becoming increasingly favourable, and there are prospects for financing to be cheaper next year. Moreover, rental rates in Poland have not yet experienced a significant surge, while the solid economy continues to sustain cash flows.

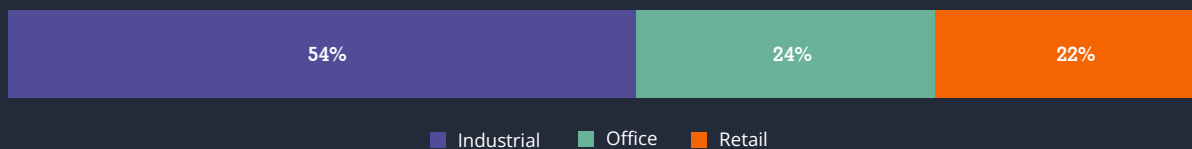
54%
share of industrial sector
in H1 2023

€ 802 m
total investment volume
in H1 2023

33
transactions closed
in H1 2023

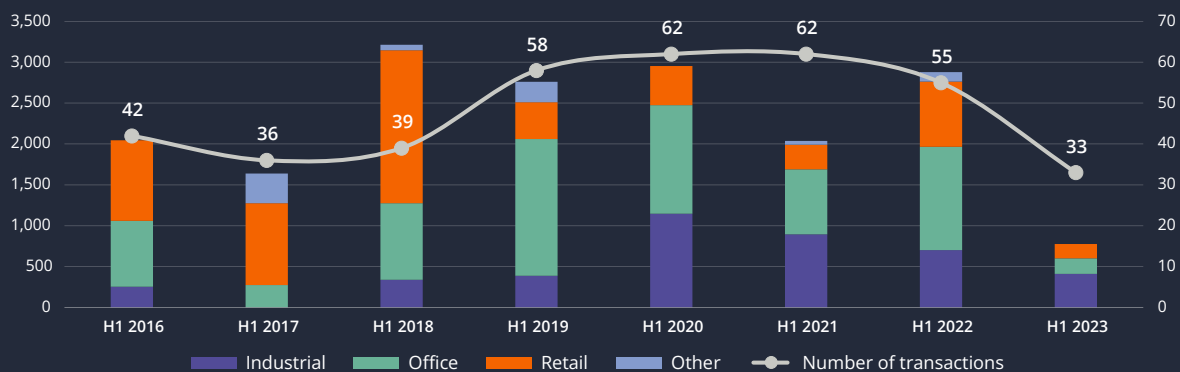
< 1 bn
first H1 period
since 2015

Investment volume in H1 2023
(share by sector)



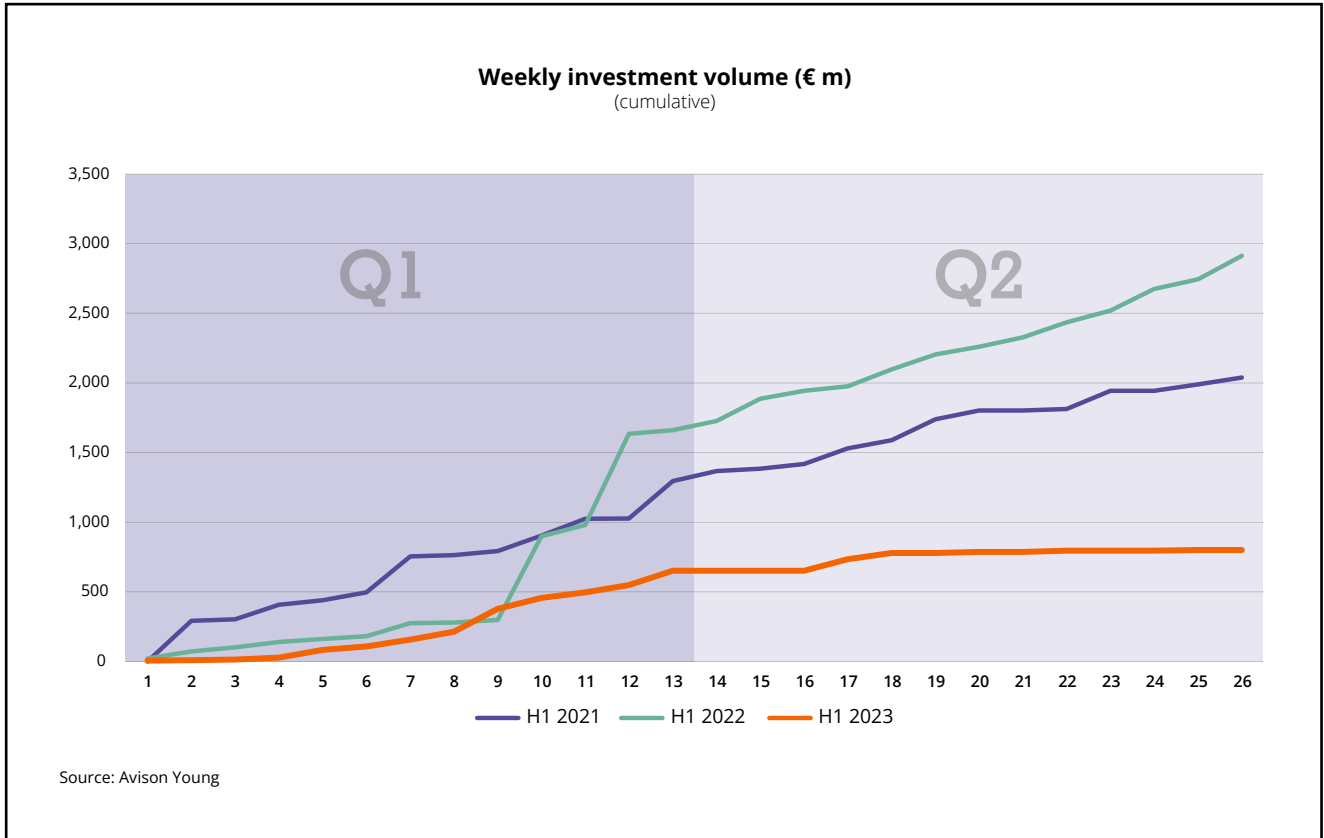
Source: Avison Young

Investment volumes (€ m) and number of transactions
(in H1 periods)



Source: Avison Young

Investment market



Investment volume structure in H1 2023 (by investors' origin)



Industrial market

Industrial market's driving power

The industrial investment market was significantly impacted by the pricing clash in 2022. However, there was a slight improvement in H1 2023. Warehouses, with EUR 436 million transacted accounted for 54% of the total investment volume during this period. Following a strong Q1, which ranked as the third best opening in history after the record years of 2020-2021, Q2 saw only two deals - LeadCrest Capital Partners acquired the KGL warehouse in Czosnów from KGL and LCN Capital Partners invested in K-Flex BTS in Uniejów developed by Panattoni.

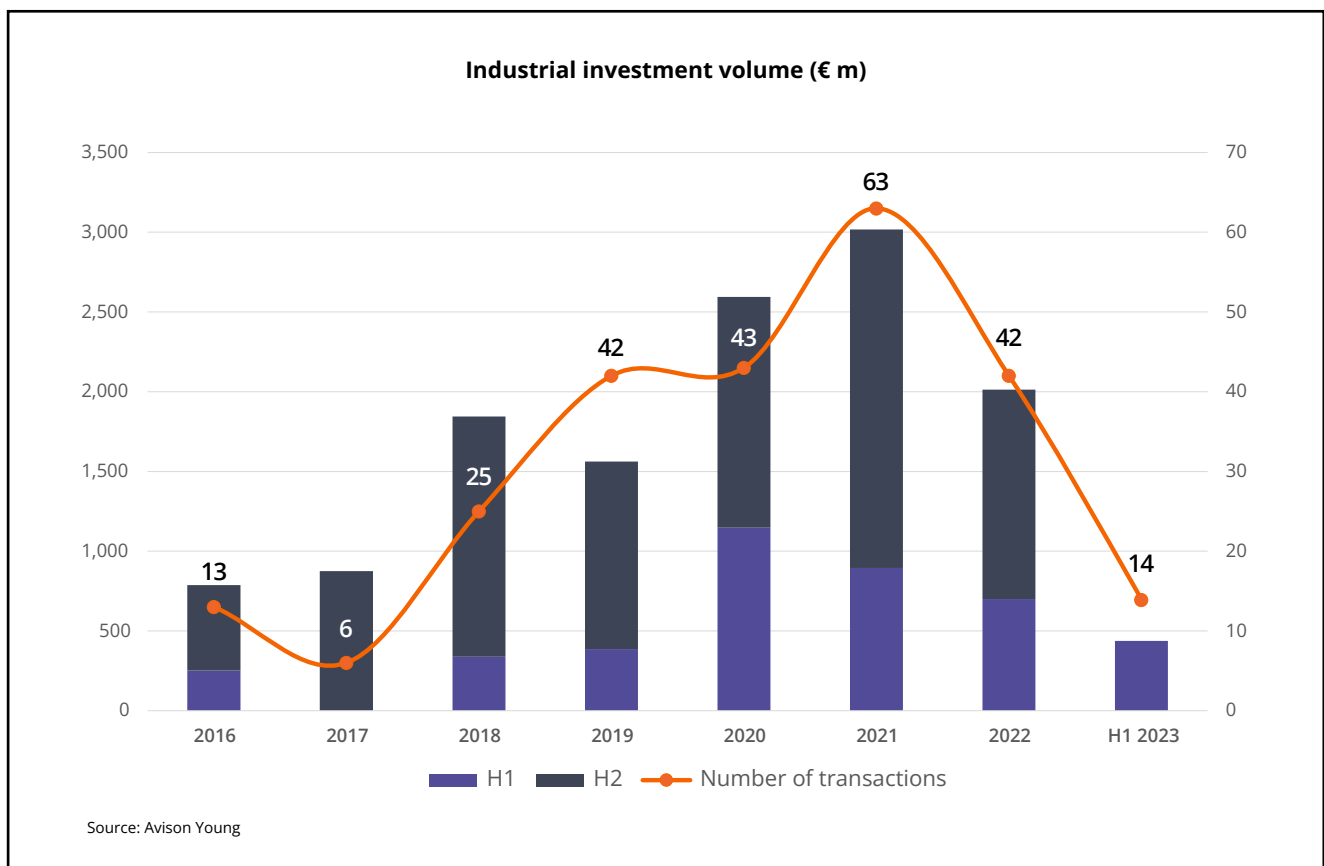
H1 2023 did not witness any portfolio deals, and it is likely that the market will await

the return of significant multi-asset transactions. To minimize risk, investors are currently focusing on small-scale projects. Out of the 14 single-asset transactions, 12 were below EUR 50 million in value. The most notable transaction was the acquisition of Campus 39 in Wrocław, which surpassed the EUR 100 million threshold. The new pricing dynamics may entice major warehouse developers to consider acquisitions instead of constructing new assets to expand their portfolios in Poland. The costs of new investments are gradually approaching the attractiveness of acquisitions. Hopefully, the industrial investment market will continue its recovery trajectory and gradually address the pricing imbalance.

€ 436 m
industrial investment
volume
in H1 2023

14
transactions
in H1 2023

single-asset
transactions only



Office market

Regional office markets faded into the background

In contrast to the previous year, where 50% of the office sector's transaction volume was attributed to regional markets, the focus of investors in 2023 has shifted to the capital city.

During H1 2023, all of 8 office buildings acquired were located in Warsaw. The transaction structure consisted of a mix of core+ and opportunistic assets, with plans for further redevelopment or change of function. Over 95% of the invested capital originated from companies based in CEE, the Baltics and Poland.

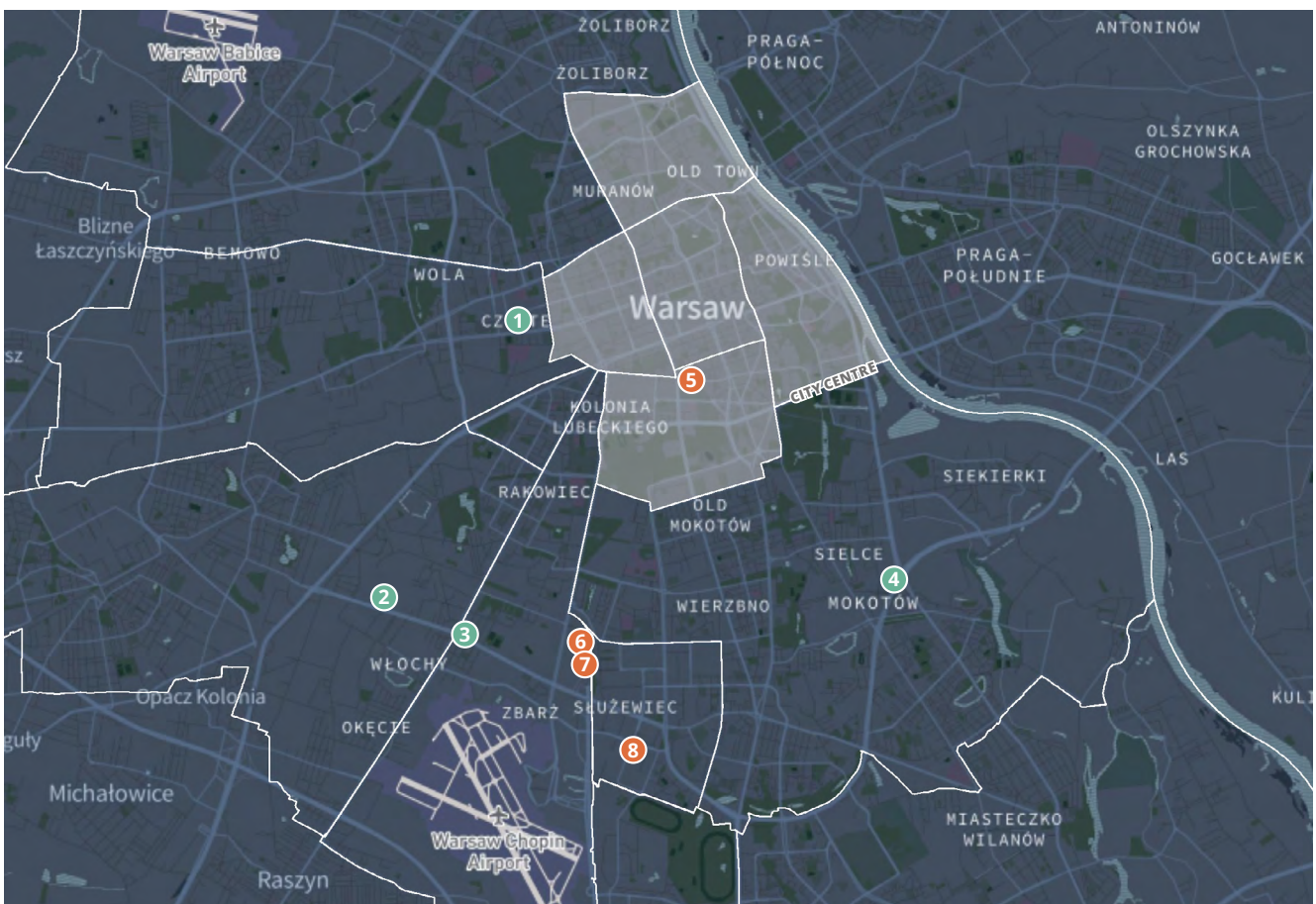
In H1 2023, the office investment volume amounted to a modest EUR 190 million, accounting for 24% of the total investment market in Poland during that period. Interestingly, out of the 8 office buildings transacted, 7 were situated outside the city centre of Warsaw. The largest deal, valued at EUR 69.8 million and with Avison Young co-representing the seller, involved the acquisition of the Wola Retro office building by Adventum Group (CEE origin) from Develia.

€ 190 m
office investment volume
in H1 2023

all 8
transactions regarded
Warsaw office market

CEE
investors
dominating

Office buildings acquired in H1 2023 by asset type



Source: Avison Young based on ArcGIS Online

CORE + OFFICES

1	Wola Retro
2	Bolero Office Point
3	Celebro
4	My Place Office II

VALUE-ADD / OPPORTUNISTIC OFFICES

5	Koszykowa 69
6	Wiśniowy Business Park (C,D,E,F)
7	Wiśniowy Business Park (B)
8	Solar

Retail market

Seeking new possibilities

After several years of unquestionable dominance by retail parks and convenience schemes, the structure of the retail investment market is undergoing a shift in 2023. Investors are actively seeking new opportunities, primarily focusing on transactions involving both local shopping centres and those earmarked for redevelopment, as well as stand-alone retail warehouses.

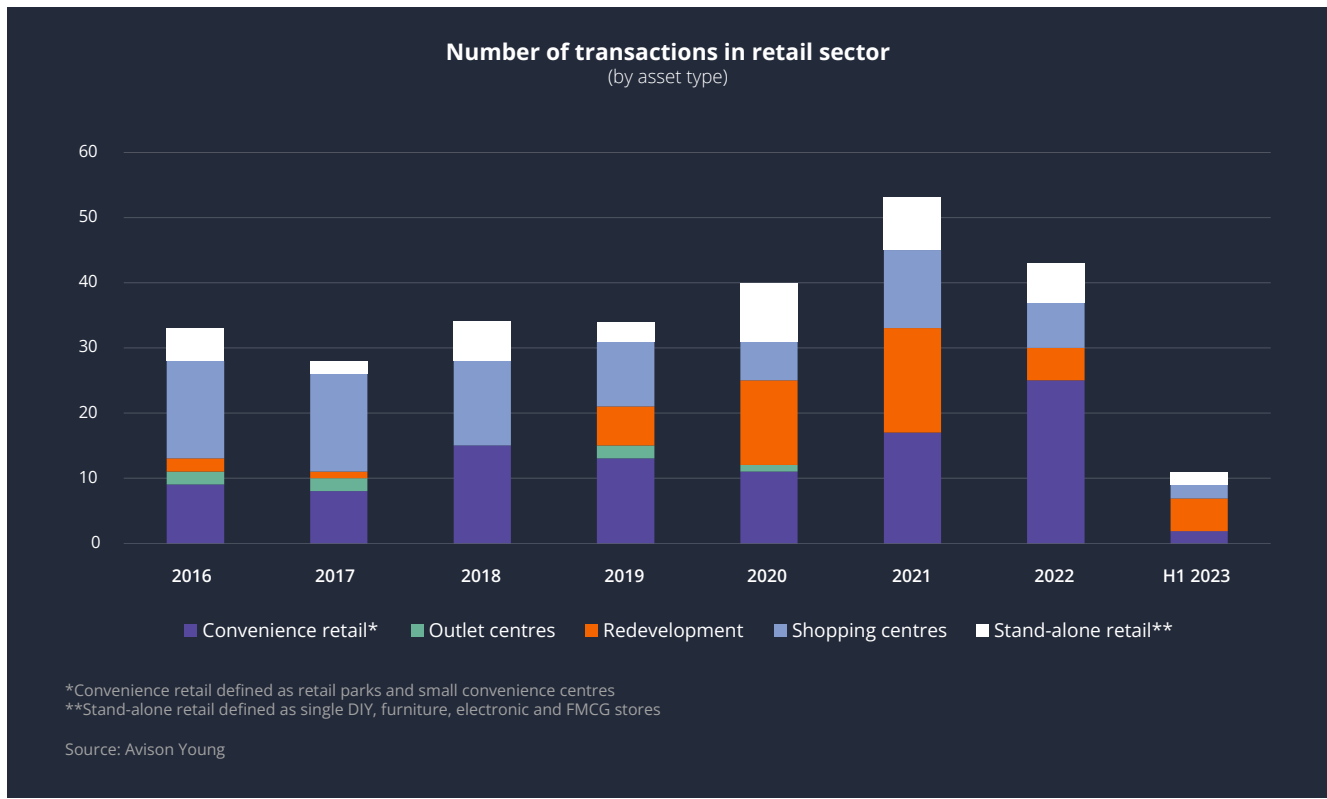
The retail investment volume in H1 2023 reached EUR 175 million, marking the lowest H1 result since 2010.

During the beginning of the year, the market witnessed some transactions of regular shopping centres in regional cities and acquisitions for redevelopment purposes. In Q2, the closed deals primarily involved retail warehouses. Notably, New Gate Investment acquired the Castorama DIY store in Płock from P.A. NOVA, while LeadCrest Capital Partners made investments in three professional DIY warehouses owned by 3W, located in Warsaw (two stores) and Silesia (one store).

€ 175 m
retail investment volume
in H1 2023

2/11 deals
due to convenience retail
in H1 2023

retail warehouses
dominated in Q2



PRS

Potential niche in redevelopments?

Older buildings are making way for new ones, and the trend of redeveloping plots in the centers of large cities in Poland is intensifying. Furthermore, the plans include not only new development projects that arise after demolitions but also transforming existing office buildings into residential projects, including those in Private Rented Sector formula.

The number of inquiries regarding analyses of the possibility of adapting existing commercial properties for new purposes is increasing. In such cases, Avison Young team evaluates, among other things, the profitability of the investment, considering options of demolishing older office buildings or transforming them into PRSs. When planning such actions, investors

seek well-located, easy accessible office buildings, with a rich offering of gastronomy and services in the vicinity.

The technical advisory team at Avison Young highlights that older office buildings, which often exhibit significant differences in standards compared to modern and energy-efficient Class A office buildings, in many cases might be relatively easily converted into residential function. As a result, converting these buildings into residential spaces may prove to be more profitable than persisting with the upkeep and leasing challenges of increasingly less appealing office spaces. The Polish market is eagerly anticipating the first conversions of such buildings.

What's next?

One of the factors contributing to the decline in the number and volume of transactions in the first half of 2023 is the ongoing process of aligning price expectations between sellers and buyers. However, there are early indications that this situation may improve by the end of the year.

At present, numerous buyers are seeking to capitalize on the market conditions by submitting bids significantly below property valuations, hoping to secure favourable deals.

However, many owners are not in a hurry to sell. This situation tends

to change when circumstances arise, such as the need to liquidate a fund, depletion of funding, underperformance of the property, or an individual's inability to proceed. We anticipate that opportunistic and value-add assets will dominate the commercial real estate market in Poland across all sectors during the second half of the year.

The inflation is showing signs of slowing down and we expect interest rate situation to stabilise next year, thus financing may be cheaper. Cash flow remains stable as the Polish economy is resilient. Therefore, this is indeed a good time for investments at good prices.



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