

Property investment market in Poland

H1 2022



Investment market

Polish investment market stays the course despite rocky road

Challenging times are still going on, thus investment market participants are closely following the impact of the turmoil in Europe on the economy and its long-lasting consequences. In spite of the record-high inflation as well as continuously raised interest rates, Polish investment market keeps the track with 32 investment deals closed in Q2 2022, exceeding €1.2 billion.

Echo of the dynamically changing and testing economy environment is not reflected in the investment market results so far. Q2 2022 brought fine outcome, contrary to rather conservative expectations. The current year closed its first half with €2.9 billion of total investment volume, being the third best

H1 period result. Q2 was characterised with the definitely much more balanced transaction set than Q1, when three extraordinary deals amounted to 75% of total volume transacted.

First half of 2022 was dominated by office transactions, which amounted to 44% of the total investment volume, after the previous leading position of warehouse deals. Industrial properties have stopped breaking records facing the pricing mismatch. Majority of retail transactions were due to small convenience schemes, unsurprisingly. CEE investors became more active on the Polish market, focusing mainly on value-add and opportunistic transactions.

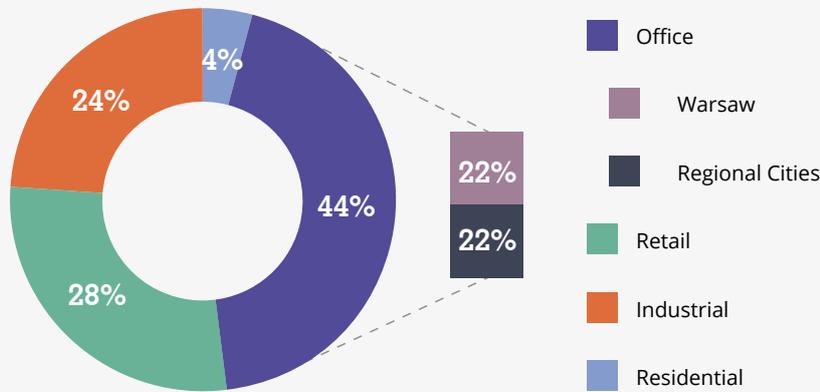
3rd
best H1 period
since 2016

€2.9bn
total investment volume
H1 2022

55
transactions
H1 2022

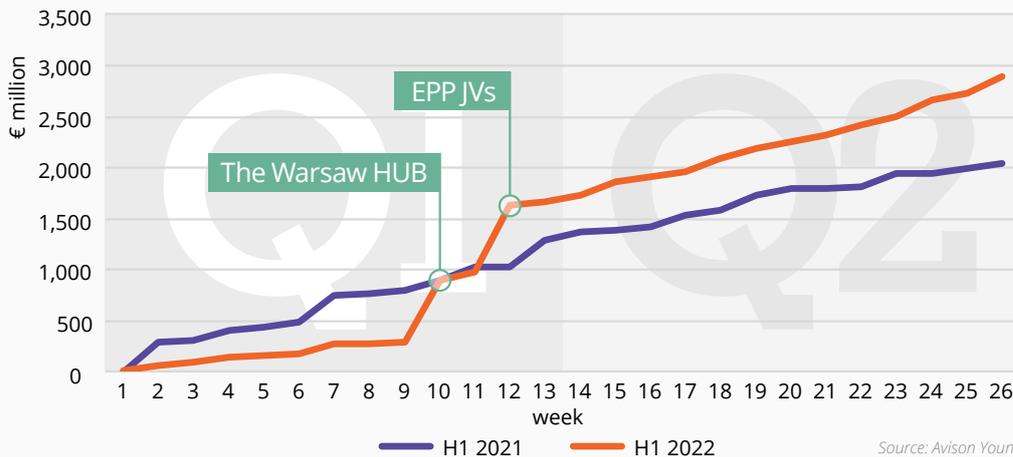
44%
share of office sector
H1 2022

H1 2022 investment volume share by sector



Source: Avison Young

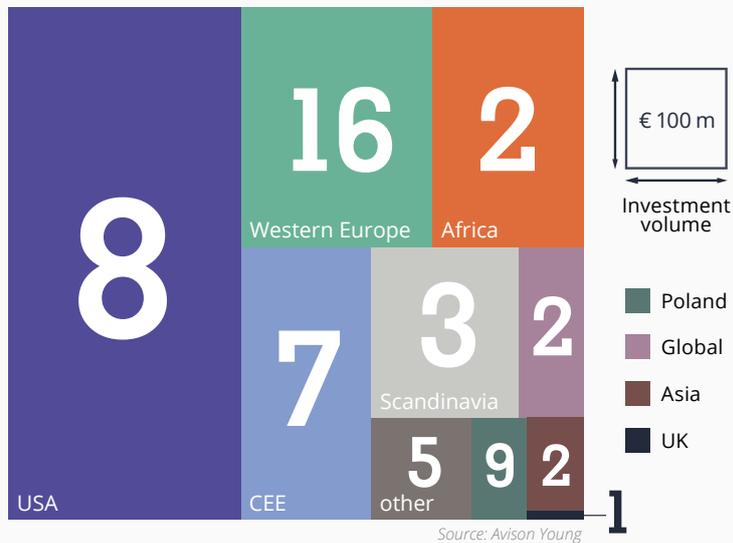
Weekly investment volume (cumulative)



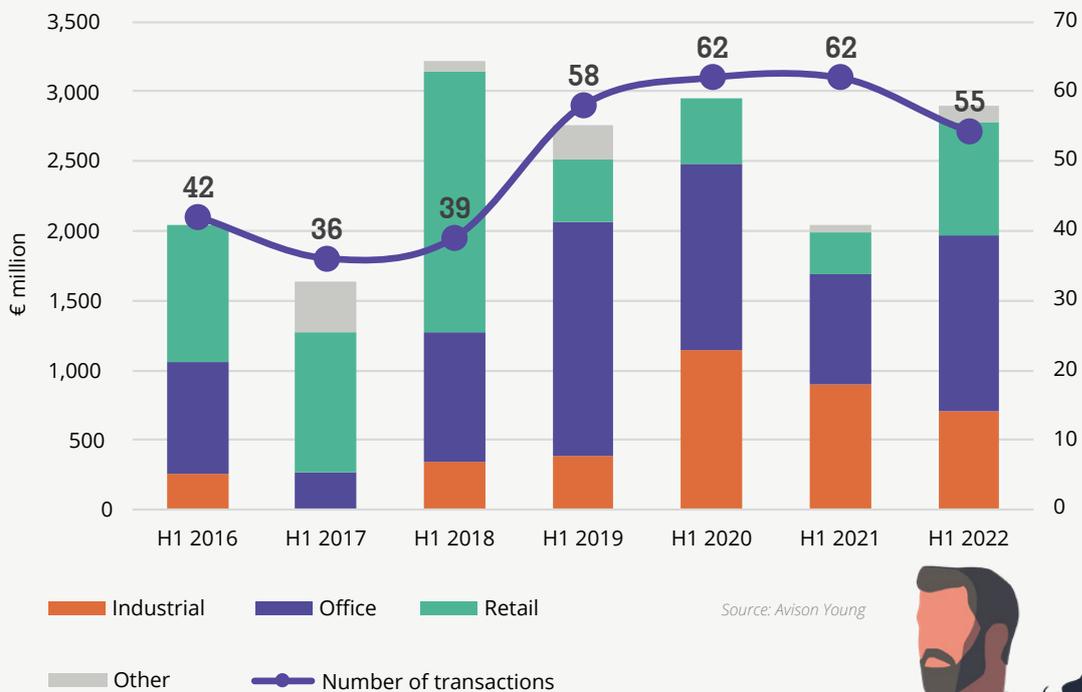
Source: Avison Young

Investment market

Investment volume and number of transactions by investors' origin



Investment volumes and number of transactions in H1 periods



Office market

Regional markets' shining stars

2022 started with several core asset acquisitions and it looks like this trend is about to strengthen on the Polish office investment market. Only in Q2, there were 8 office transactions of which 7 took place in regional cities. The biggest closed deals were the sale of Nowy Rynek D in Poznań to Eastnine AB, the newcomer from Sweden, and MidPoint 71 in Wrocław to Trigea Real Estate Fund. Office investment market was the undisputed leader, accounting for 43% of total Q2 investment volume in Poland.

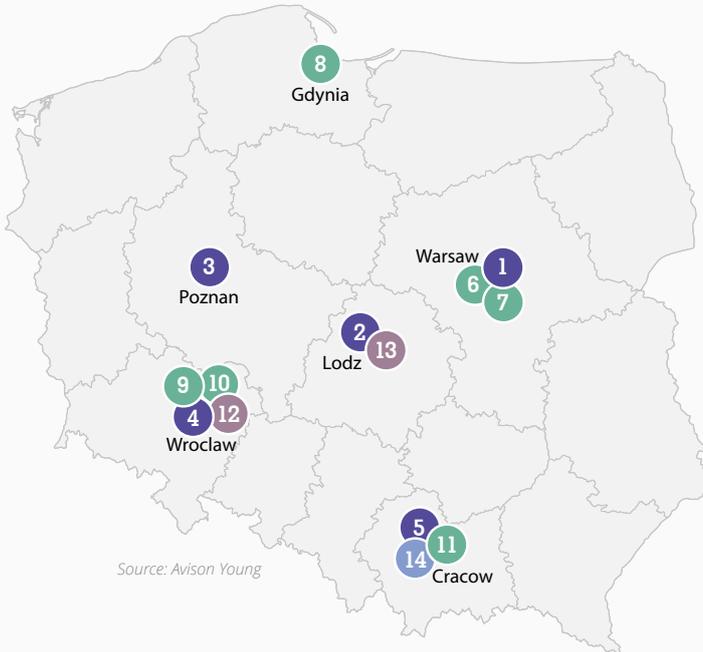
Similar domination has been seen when considering all H1 2022. With almost €1.3 billion, offices stood for 44% of the total investment volume, what was somewhat the result of The Warsaw Hub acquisition by Google at the beginning of the year. This is a considerable shift, as for the last two years industrial sector ranked first. 11 out of 14 transactions concerned offices located in regional cities, with the predominance of core and core+ assets. Unsurprisingly, investor's appetite for regional offices refers to direct purchases from the primary market.

€1.3 b
office investment volume
H1 2022

11/14
share of transactions
in regional market
H1 2022

44%
of total investment
volume
H1 2022

Office buildings transacted in H1 2022



Core offices

- 1 The Warsaw Hub
- 2 Fuzja
- 3 Nowy Rynek D
- 4 Centrum Południe
- 5 HighFive 3

Core+ offices

- 6 Astrum Business Park
- 7 NC3
- 8 Tensor Office Park Gdynia
- 9 West4 Business Hub
- 10 MidPoint 71
- 11 Browar Lubicz

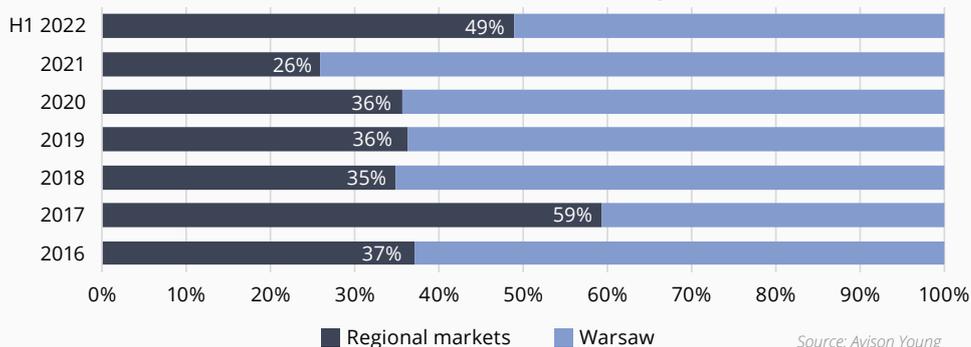
Value-add offices

- 12 Sky Tower
- 13 Red Tower

Other

- 14 Al. Pokoju 81

Office investment volumes by location



Retail market

Convenience schemes are on the roll again

As far as retail acquisitions are concerned, the domination of small retail parks with convenience offer is not surprising. Among 11 transactions regarding retail schemes in Q2 2022, 7 were due to small convenience centres up to 3,500 m² of GLA. Additionally, two Biedronka discount stores were purchased by Centerscape Investments, while closed former hypermarkets, namely Auchan in Grudziądz and Tesco in Gdynia, were acquired for redevelopments. There was only one retail portfolio transaction in Q2 regarding the sale of 3 retail parks. On another matter, Avison Young represented Newbridge

Poland in the refinancing process of SMART Portfolio, composed of schemes located in Grodzisk Mazowiecki, Włocławek and Namysłów.

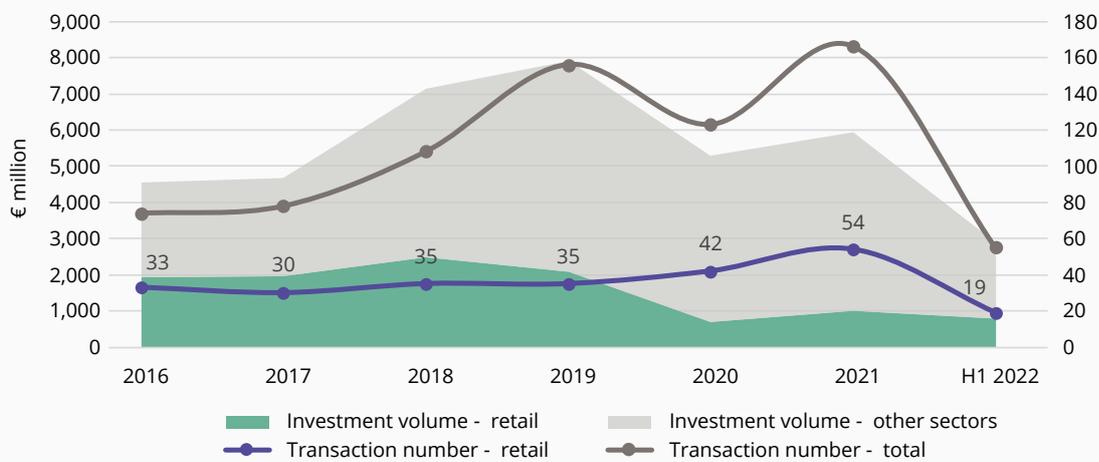
Retail investment volume in Q2 2022 amounted to nearly €69 million, what is the second lowest quarterly result since 2016. However, due to extraordinary results recorded at the beginning of the year, H1 2022 with €797 million transacted looks fairly well. The continuous downtrend in retail investment volume is not surprising, as investors keep their strong confidence in small retail parks.

€797 m
retail investment volume
H1 2022

13/19
share of convenience transactions
H1 2022

persistent high number of deals

Retail investment volumes (€ m) and number of transactions on the background of the total investment market



Source: Avison Young



Industrial market

Time to lower the bar?

Warehouse investment market in Poland after records broken in 2021 is about to stabilise. Up to July 2022, warehouse share in total investment volume reached 24% with over €700 million transacted. Compared to the similar period in 2021, industrial share in total investment market dropped by 20 pps. The decrease of investment volume is more the consequence of the limited product availability accompanied by rising financing costs, rather than limited investors' appetite for warehouses in Poland. H1 2022 saw five portfolio transactions, including the closure of Panattoni portfolio

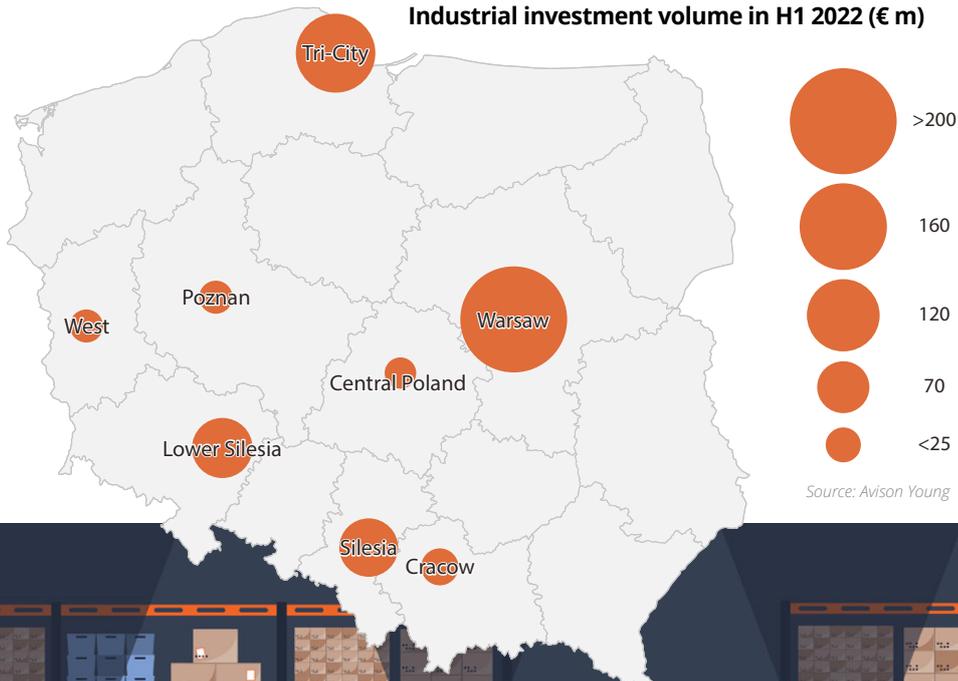
acquired by the BentallGreenOak with the acquisition of the last fifth warehouse in Warsaw and the sale of 7R development portfolio with two warehouses in the construction stage. Portfolio transactions totalled €275 million, accounting for 40% of total volume recorded in the industrial sector. In coming months, we expect the growing interest in sale-and-leaseback transactions, which allow the company to extract the property's value and to convert an otherwise illiquid asset into working capital, while maintaining operational control.

€701 m
industrial investment volume
H1 2022

40%
share of portfolio transactions
H1 2022

Number of transactions
22 **18**
H1 2021 H1 2022

Industrial investment volume in H1 2022 (€ m)



PRS market

Housing market under unusual pressure

It was obvious, that the outbreak of the war in Ukraine will be influencing Polish economy as well as demography. A clearly visible impact is seen also regarding housing market in Poland. The influx of Ukrainian refugees, of who approx. 1 million is estimated to settle down in Poland, is a giant challenge for the residential sector. Compared to April 2021, number of flats available for rent decreased by over 80%. Simultaneously, the sharp increase in asking rents is observed, boosted by jumping leaps and bounds inflation.

The decrease in the sale of apartments and good rental prospects support the development of institutional rental (PRS) in Poland and will increase the involvement of funds. Developers also see good prospects for PRS - the demand for rent is growing, and interest in package purchases remains high. In Q2 2022 Heimstaden Bostad invested in Aurora housing estate located in Warsaw (Włochy district) by acquisition 4 residential buildings from Dantex, which will be dedicated to PRS function once investment will be completed.

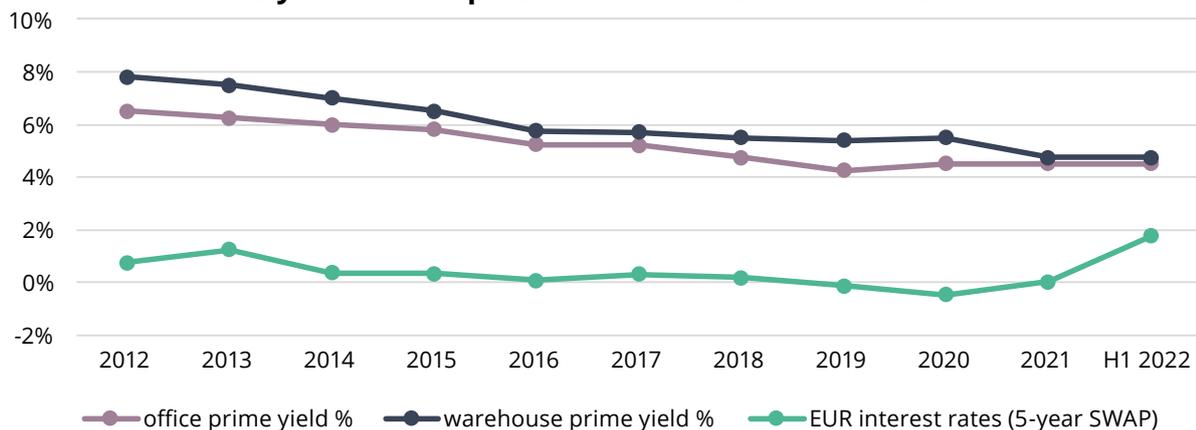


What's next?

Dynamically changing economic environment makes it difficult to forecast the future of the commercial real estate investment market in Poland. Nevertheless, upcoming months will be shaped by repercussions of very high inflation, monetary policy as well as general geopolitical situation. Solid H1 2022 results, however, let us stay optimistic. Not only deals started in 2021 are closing now, but the investment pipeline also looks promising.

In Western Europe, cap rates keep the decreasing trend yet. In Poland rents have started to grow, while yields remain steady. Having lessons learned from the COVID-19 pandemic, we believe that the strong foundations of the Polish market will let it stay resilient.

Prime yields development in Poland vs. EUR interest rates



Source: Avison Young

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