

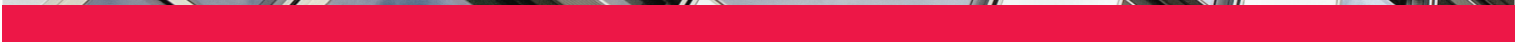
RESEARCH



POLAND

COMMERCIAL MARKET

Q1 2017



OFFICE MARKET IN WARSAW

Total stock:

5.12 sq m

New supply (Q1 2017):

84,000 sq m
in 6 projects

Office space under construction

662,000 sq m

Take up (Q1 2017):

194,000 sq m

Vacancy rate:

14%

Q1 2017 saw:

- ◆ Stable vacancy rate
- ◆ Strong demand for office space
- ◆ High net absorption

Between January and March 2017, six office schemes were delivered to the Warsaw market, i.a.: the next stage of the Business Garden complex (54,800 sq m in total, Vastint Poland), EQlibrium (9,900 sq m, Grupa Waryński), Airtech Business Park III (6,700 sq m, Juma). Consequently, at the end of Q1 2017, the total office stock in Warsaw exceeded 5.12m sq m.

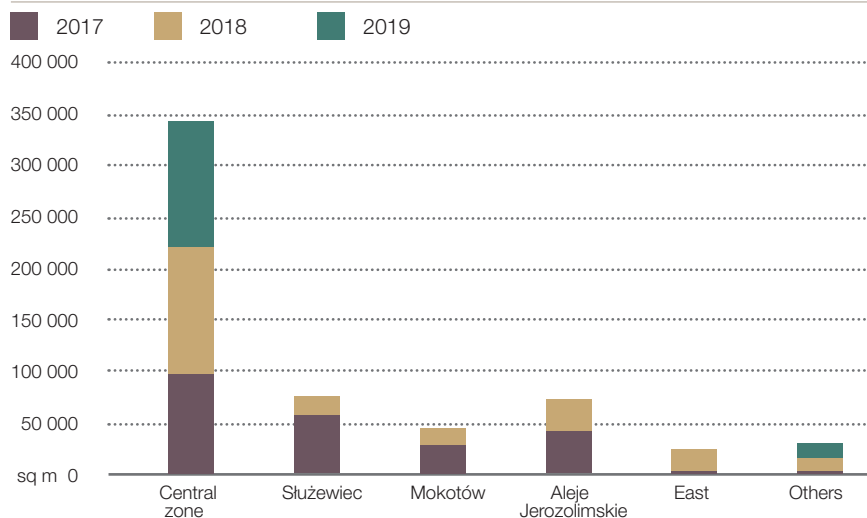
After the record-breaking new supply noted in 2016, in Q1 2017 developers approached new projects carefully. Since the beginning of 2017, only two developments have been started - the acknowledged project Rotunda PKO (3,300 sq m, PKO Bank Polski) and the Vector building (13,500 sq m, City Level) located in the north of the city. Nevertheless, developers remained very active with some 662,000 sq m under construction at the end of Q1 2017. If the projects under construction are completed in line with the developers' schedules, new supply in 2017 may amount to 241,000 sq m. By the end of this year projects such as West Station II (36,900 sq m, HB Reavis), D48

(26,000 sq m, Penta Investments), Bobrowiecka 8 (22,000 sq m, Spectra Development) or Generation Park X (21,400 sq m, Skanska Property Poland) are due to be delivered to the market. Simultaneously, substantial tenant activity has still taken place in Warsaw. In Q1 2017, take-up reached almost 194,000 sq m. The volume of leased space was nearly 40% higher than in the same period of 2017 and only 12% lower than in Q4 2016. The new lease agreements in existing buildings and schemes under construction accounted for 46% and 8% respectively. Renewals represented some 37% of total take-up and expansions accounted for 9%. High tenant activity was also reflected by the high net absorption, which in Q1 2017 amounted to 86,000 sq m and was 60% higher than the average quarterly net absorption noted within 2012-2016.

In Q1 2017, the vacancy rate was stable in comparison to the last quarter of 2016 and accounted for 14%, while the vacant space



CHART 1
Supply under construction by location and planned completion date
Q1 2017

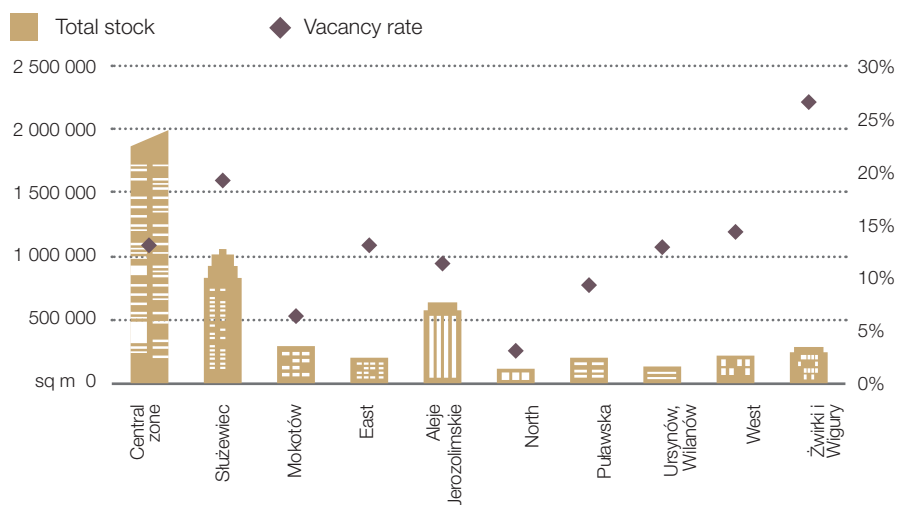


Source: Knight Frank



Mokotowska Square, DEKA Immobilien

CHART 2
Total office stock and vacancy rate by location
Q1 2017



Source: Knight Frank, PORF

amounted to 718,000 sq m. The vast majority of vacant space was offered in the central part of the city – 258,000 sq m and in Służewiec – 200,000 sq m. It is worth mentioning that a significant decrease of vacancy rate to 13.1% was noted in central zones of the city in the last quarter (2.1 pp. down when compared to the end of 2016).

Asking rents have remained stable in the most office buildings. The asking rents in the prime buildings in Central Business District ranged between EUR 19-23 per sq m per month, while asking rents in other central locations varied from EUR 13 to EUR 21 per sq m per month. The asking rents in buildings outside the city centre were quoted at EUR 10.5-18 per sq m per month. Effective rents remained lower than the asking level by 15-25%.



North Gate, DEKA Immobilien

REGIONAL MARKETS

The beginning of 2017 in the office market in regional cities brought the continuation of trends observed in the previous year. Developer activity has not decreased – according to forecasts, this year should be record-breaking in terms of new supply. Q1 2017 was also one of the best in the history in terms of volume of lease agreements, especially in the largest markets. As a result of a moderate new supply delivered to the market within the first three months of current year, vacancy rate decreased in most of the markets, both y-y and q-q. Asking rents in majority of the cities remain unchanged, though in some markets a slight revision can be observed in selected office buildings.

Unprecedented developer activity:

826,000 sq m
of office space under construction

Expected record-breaking new supply in 2017

527,000 sq m

(including 67,000 sq m completed in Q1 2017)

High tenants activity :

170,000 sq m
leased in Q1 2017

Decrease of vacancy rate in the majority of markets

KRAKÓW

In Kraków Q1 2017 resulted in 28,200 sq m of new supply in 4 schemes. The capital of Małopolska has still recorded the highest volume of office space under construction among regional markets. 200,000 sq m of 270,000 sq m being developed in the city is scheduled to completion in 2017. Kraków is characterised by high tenant activity. Within the first three months of this year, 52,500 sq m of space was the subject of lease agreements. Vacancy rates remain at relatively low level of 6.8%, nevertheless the systematic growth of vacancy rate is expected upon delivery of a record-breaking new supply by the end of this year.

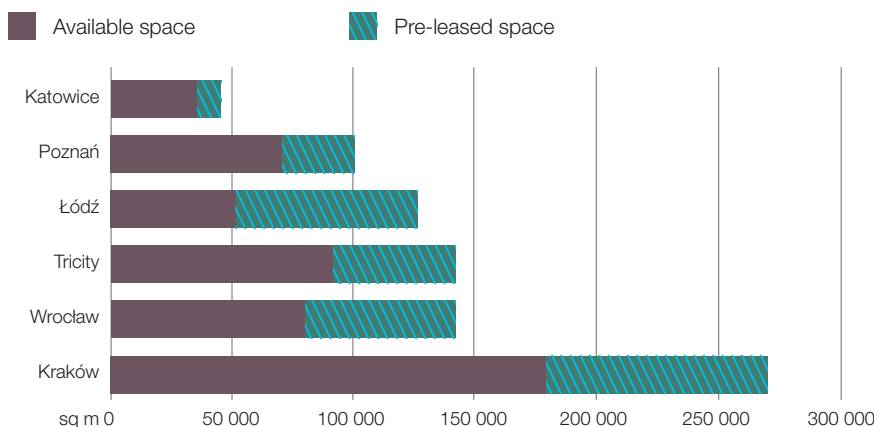
WROCLAW

In Q1 2017, Wrocław noted the highest lease transactions volume among regional cities (58,900 sq m) including the largest new lease within the first three months of the year – 13,100 sq m leased by Capgemini in Business Garden 1. Relatively low new supply (18,000 sq m) accompanied by such a high tenant activity resulted in a decrease of vacancy rate to 9.5%. Some 141,500 sq m of office space is at the construction stage, of which approximately 40% is scheduled for delivery in 2017 and a further 60% in 2018. Thanks to such an equal distribution of new supply and high tenant activity, vacancy rates remain relatively stable with a slight upward trend.

TRICITY

Limited new supply delivered to the market in Q1 2017 (2,800 sq m) and commencement of a next large-scale investment - Olivia Seven (TPS Otwarta Przestrzeń; 30,000 sq m) have raised the volume of office space under construction. At the end of Q1 2017 it exceeded 140,000 sq m, of which some 86,000 sq m may be completed by the end of this year. Within the last three months a relatively high demand (37,100 sq m) has been observed in the Tricity office market, with the largest transaction concluded in Q1 2017 – renewal of Energa Group lease agreement in Olivia Business Centre (15,100 sq m). As a result, the vacancy rate has fallen below 10% for the first time since 2 years.

CHART 1
Office space under construction in major regional cities in Poland
Q1 2017

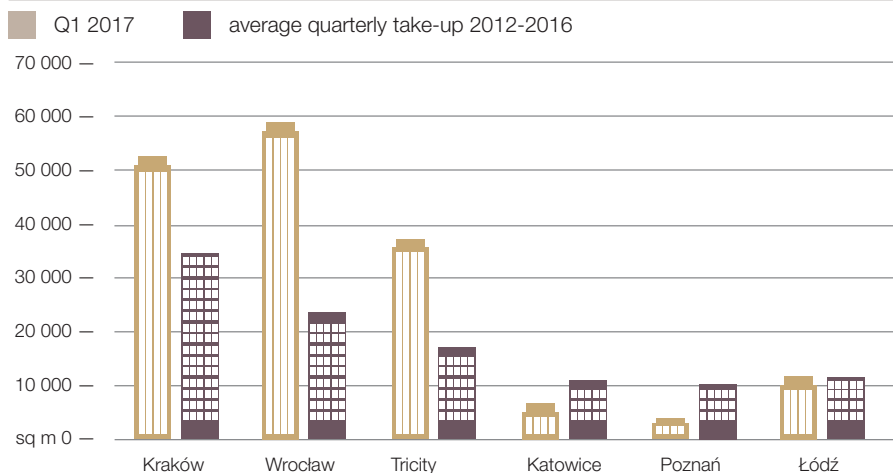


Source: Knight Frank

KATOWICE

After a period of a high activity in 2016, developers in Katowice have slowed down. In Q1 2017, one scheme (4,000 sq m) was delivered to the market and only 16,500 sq m of office space under construction may be completed by the end of 2017. Katowice is the only regional city, where the volume of office space under construction is under 100,000 sq m. It may induce the decrease of vacancy rates in the nearest future. Currently, the indicator in the city is the highest among regional markets and amounts to 14.6%. Within the first three months of this year, lease agreements amounting to 6,700 sq m were signed in Katowice, which was a slightly lower result when compared to the average quarterly lease volume within last 5 years.

CHART 2
Office take-up in major regional office markets
Q1 2017 vs. average quarterly take-up 2012-2016



Source: Knight Frank, PORF

POZNAŃ

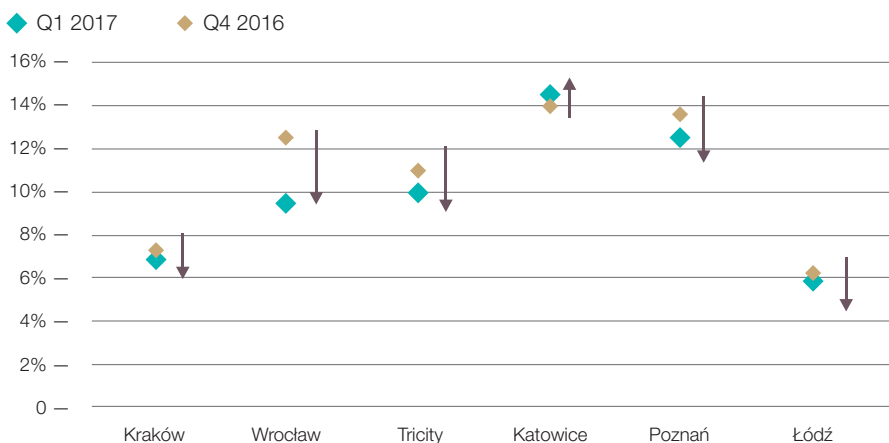
In 2016, we observed a slight decrease of developer activity in Poznań, but currently investments are gaining momentum. Although in Q1 2017 no new office schemes were completed, together with commencement of the 2nd stage of Pixel (Garvest; 17,700 sq m) and the 2nd stage of Business Garden complex (Vastint Poland; 38,400 sq m) the volume of office space under construction in the city exceeded 100,000 sq m. Lease volume noted in Q1 2017 was relatively low (3,900 sq m), but this does not indicate the decline of tenant activity. Vacancy rate is systematically decreasing (at the end of Q1 2017 it was at the level of 12.6%) and should remain at a comparable level in the forthcoming quarters.



ŁÓDŹ

The Łódź office market is in phase of dynamic development. In Q1 2017, 4 new schemes amounting to 14,200 sq m were delivered to the market. Additionally, the volume of office supply under construction in the city is exceptionally high, reaching 126,500 sq m. It is worth highlighting that the vast majority of this space is secured with pre-let agreements, so an increase in the vacancy rate (which has achieved the lowest level in Poland – 5.8%) at the moment of delivery of new supply to the market should not be too rapid. Office take-up in Q1 2017 remained stable and amounted to 11,400 sq m – a level comparable to an average quarterly lease volume within the last 5 years.

CHART 3
Vacancy rate in major regional office markets
Q1 2017 vs. Q4 2016



Source: Knight Frank, PORF

INVESTMENT MARKET

A record-breaking 2016 ended with the highest investment volume for the last 10 years, reaching over EUR 4.5 bn. However, Q1 2017 ended with a small volume of closed transactions, reaching approximately EUR 450 m. Compared to the corresponding period from the previous year the value of acquisitions in Q1 2017 was 11% lower. Nearly half of the investment volume between January and March 2017 EUR 218 m

constituted acquisitions in the hotel sector. Simultaneously, retail purchases worth EUR 135 m made up 30% share and office acquisitions amounted to EUR 97 m accounting for 22% share of total investment volume.

According to the forecasts and market trends, institutional investors are more and more interested in alternative assets e.g. from the hotel sector. Q1 2017 has turned out to be

record-breaking in terms of transaction volume in that segment in Poland. The largest finalised deals were the purchases of the Sheraton Grand Krakow for EUR 70 m by Invesco RE, the acquisition of Radisson Blue Hotel in Warsaw by Europa Capital for EUR 60 m and the five star Westin Hotel Warsaw by Qatar holding Al Sraiya Group for EUR 56 m.

EUR **450 m**
invested capital in the commercial sector in Poland in Q1 2017

48%
of total investment volume allocated in the hotel sector

EUR **218 m**
the record-breaking transaction volume invested in the hotel sector

CHART 1
Prime Yields
2004 - Q1 2017



Source: Knight Frank





Ilmet, Skanska Property Poland, Warsaw

Due to the volume of finalised deals in the hotel sector, 2017 is already exceptional in terms of hotel scheme transactions. According to the investors' schedules and ongoing deals, a further increase of value of hotel asset transactions is expected in the upcoming quarters.

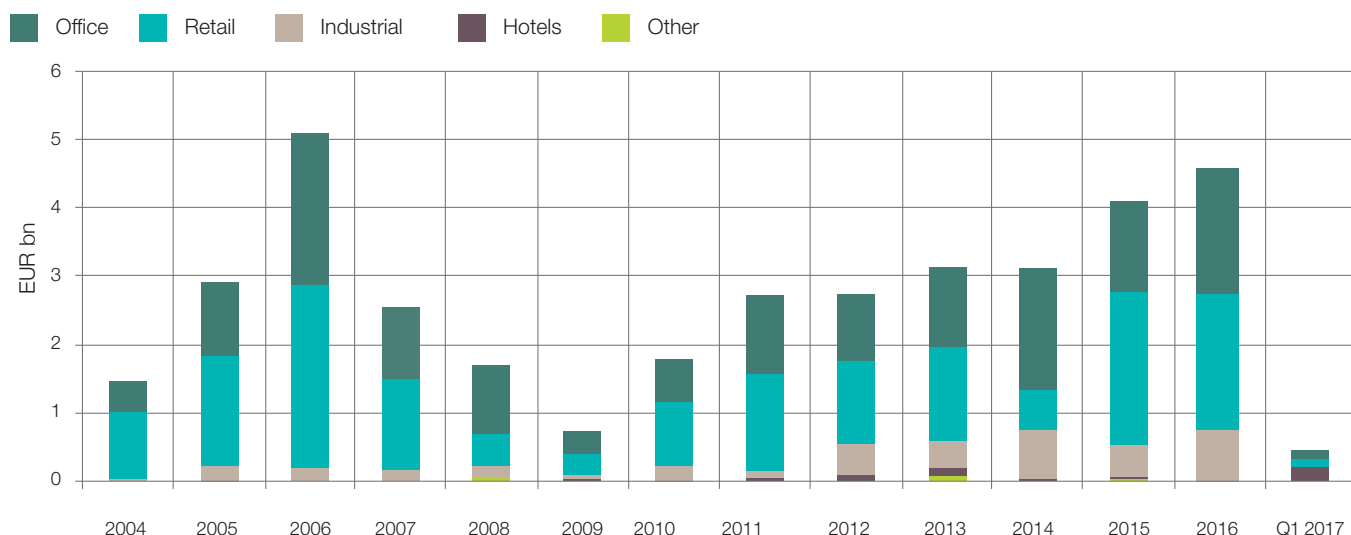
After an intensive end of year and a significant number of finalised acquisitions in the final months of 2016, the other sectors in the commercial real estate market noted a temporary slowdown in terms of investment market in Q1 2017. The value of retail purchases concluded in the first three months of 2017 was 14% lower than results in the same period previous year. The largest

acquisition was the purchase of shopping centre in Elbląg Ogrody Shopping Centre by CPI Property Group for EUR 91 m. On the other hand, the total volume of office transactions amounted to nearly EUR 100 m and the market noted only 5 signed contracts, out of which 3 were concluded in Warsaw. The largest was the purchase of the Prosta Office Building and Trinity Park II by Cromwell/ Goldman Sachs, for EUR 45 m and EUR 33 m respectively.

Currently, the best located assets are valued with the yields at a stable level. The office projects located in the Warsaw core city centre are estimated to have yields at 5.25%. Outside the city centre yields are slightly higher

and range between 7.00% and 7.50%. On the other hand, the regional markets office schemes were estimated at 6.25%-7.00%. However, in the retail and industrial sector there were compression yields in the last few years and currently, the expected level of prime yields for retail assets range between 5.25%-5.50%, while warehouse assets are approximately at 6.75%.

CHART 2
Transaction volume in Poland
2004 - Q1 2017



Source: Knight Frank



COMMERCIAL
MARKET

As one of the largest and most experienced research teams operating across Polish commercial real estate markets, Knight Frank Poland provides strategic advice, forecasting and consultancy services to a wide range of commercial clients including developers, investment funds, financial and corporate institutions as well as private individuals.

We offer:

- ◆ strategic consulting, independent forecasts and analysis adapted to clients' specific requirements,
- ◆ market reports and analysis available to the public,
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Reports are produced on a quarterly basis and cover all sectors of commercial market (office, retail, industrial, hotel) in major Polish cities and regions (Warsaw, Kraków, Łódź, Poznań, Silesia, Tricity, Wrocław). Long-term presence in local markets has allowed our research team to build in-depth expertise of socio-economic factors affecting commercial and residential real estate in Poland.

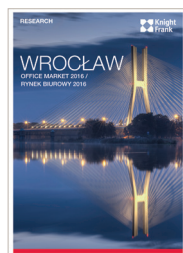
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