

RESEARCH



POLSKA

RYNEK KOMERCYJNY
III KW. 2016





PROMENADY WROCLAWSKIE, Vantage Development, Wroclaw

OFFICE MARKET IN WARSAW

Total stock:

5m sq m

New supply (Q1-Q3 2016):

379,000 sq m
in 17 projects

Office space under construction:

634,000 sq m

Vacancy rate:

14.6%
of total stock

Take up (Q1-Q3 2016):

531,000 sq m

OFFICE MARKET IN REGIONAL CITIES

Nearly

300,000 sq m
of office space completed within
Q1-Q3 2016

780,000 sq m
of office space under construction

Increase of vacancy rate:

10.5%
of total stock

390,000 sq m
leased since the beginning of 2016

RETAIL MARKET

An existing retail stock:

11 m sq m

Exceptionally low volume of newly completed space in Q1-Q3 2016:

90,500 sq m

(in Q3 only 7,500 sq m)

Retail space under construction:

670,000 sq m

87% in major agglomerations

Vacancy rate in Poland:

3.2%



STRATOS, GNT Ventures, Warsaw

INVESTMENT MARKET

Decrease in the investment volume in Europe:

29% y-o-y

Volume of invested capital in Poland in Q1-Q3 2016:

EUR **2.62** bn

Share of retail investments in the total transaction volume:

54%



ALBATROS, Albatros Kolobrzeg, Kolobrzeg

OFFICE MARKET IN WARSAW

The Warsaw office market has seen substantial activity from developers who have not been refraining from commencement of new projects. At the same time strong demand for office space has been observed, confirmed by the high volume of lease agreements signed between January and September. Another positive sign was the decrease of vacancy rate, whilst asking rents have remained stable.

Total stock:

5m sq m

New supply (Q1-Q3 2016):

379,000 sq m
in 17 projects

Office space under construction:

634,000 sq m

Vacancy rate:

14.6%
of total stock

Take up (Q1-Q3 2016):

531,000 sq m

In Q3 2016 the total office stock in Warsaw passed the turning point and now exceeds 5m sq m. After a spectacular record amount of supply in the first half of the year, only one office scheme was completed in Q3 2016 – West Station I (ca. 29,000 sq m) developed by HB Reavis. Consequently, new supply in the first three quarters of 2016 amounted to 379,000 sq m of office space. Additionally, based on developer schedules more than 70,000 sq m is to be completed by the end of the year.

Despite the rapid growth of supply, the developers are not refraining from commencement of new projects. At the end of September 2016, there was around 634,000 sq m of office space under construction. Increased activity of developers is confirmed by the construction of approximately 80,000 sq m of offices commenced in Q3 2016. When compared to the previous year, developers started to build some 100,000 sq m in total in the whole of 2015.

The largest buildings under construction are as follows: Sienna Towers (74,000 sq m, Ghelamco Poland), West Station II (36,900 sq m, HB Reavis), EC Powiśle (26,300 sq m, White Star

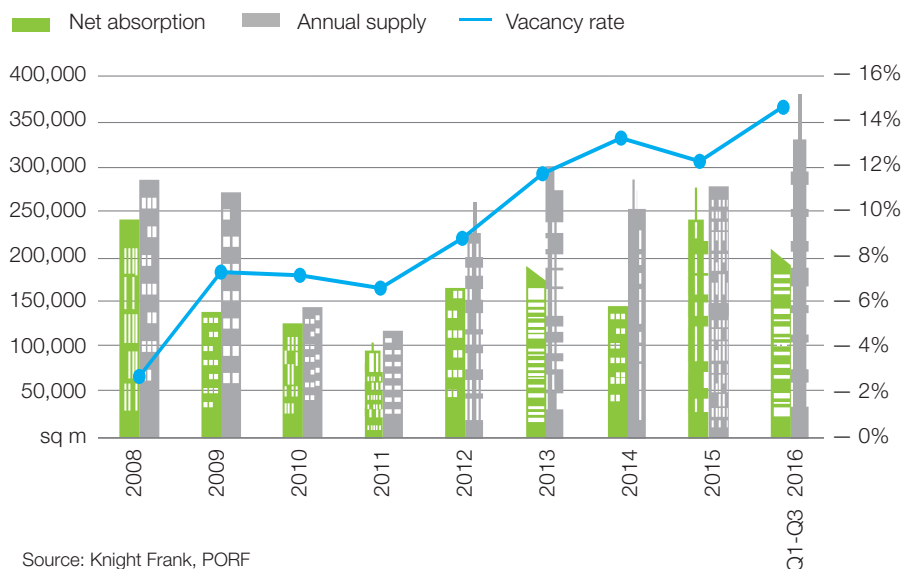
and Tristan Capital Partners) and D48 (26,000 sq m, Penta Investments).

Q3 2016 resulted in a correction of the vacancy rate, which dropped by 0.8 pp. to 14.6%, which is a positive sign after a significant rise in vacancy in the first half of the year. It was affected by the limited supply of space completed in recent months but also due to the continuing strong levels of tenants' activity. In the city centre, the vacancy rate accounted for 16.7% (a decrease by 0.5 pp. when compared to Q2 2016) with approximately 266,000 sq m of office space remaining vacant.

In Q3 2016 the take-up reached around 171,000 sq m, while lease agreements for nearly 531,000 sq m have been signed since the beginning of the year. If the demand for office space remains strong until the end of the year, there is a big chance of surpassing the average lease volume from the last 5 years, of around 630,000 sq m. Between January and September 2016 new leases accounted for 60% of all deals, renewals represented some 30% of total take-up and expansions accounted for 10%.

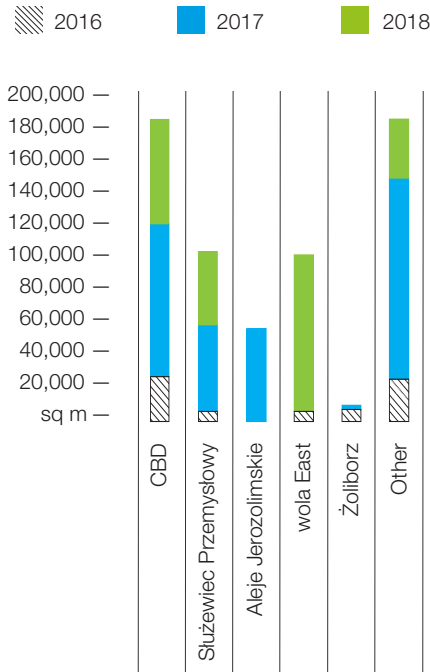


CHART 1
Net absorption, annual supply and vacancy rate
2008 - Q3 2016



Source: Knight Frank, PORF

CHART 2
Supply under construction
in Warsaw (sq m)
Q3 2016



Source: Knight Frank, PORF

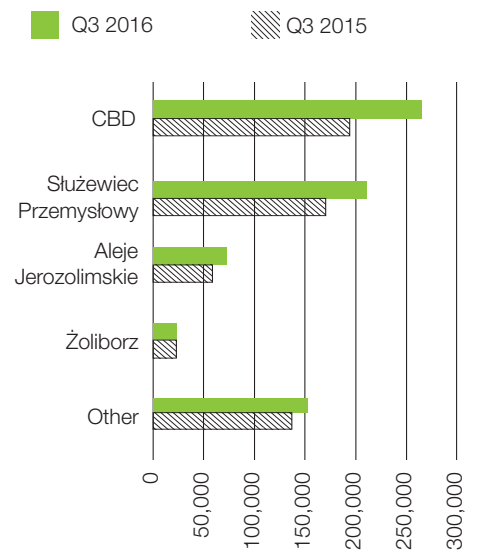
Within the last quarter the largest tenants activity was observed in the Central Business District and Służewiec Przemysłowy area. Additionally, another positive sign was the significant net absorption, estimated at over 209,000 sq m, which exceeds the average annual net absorption from the last 5 years (178,000 sq m).

In the last three months asking rents remained stable in the most office buildings. In the CBD rates ranged between EUR 14-24/sq m/month, while asking rents in buildings outside the city centre were quoted at EUR 10.5-18/sq m/month. Effective rents remain lower than the asking rents by around 15-25%.

Investment market

Between January and September 2016 the total volume of invested capital in Poland amounted to EUR 2.62 bn and it constituted 64% growth y-o-y, out of which nearly 20% was allocated in Warsaw, mainly in the office sector. In the first three quarters of 2016 in Warsaw an investment volume of EUR 457 m was allocated in the Warsaw office sector which accounted for 50% of total office investment volume in Poland. The most significant transactions were as follows: purchase of Konstruktorska Business Centre by Golden Star Group, acquisition of Zaulek Piękna by GLL and purchase of Prime Corporate Centre by Warburg-HIH Invest Real Estate. Prime yields for Warsaw office assets have been shrinking and in Q1-Q3 2016 varied between 6.75%-7.50% outside the CBD and reached level of 5.50% within the CBD.

CHART 3
Vacant space by location (sq m)
Q3 2016 vs. Q3 2015



Source: Knight Frank, PORF



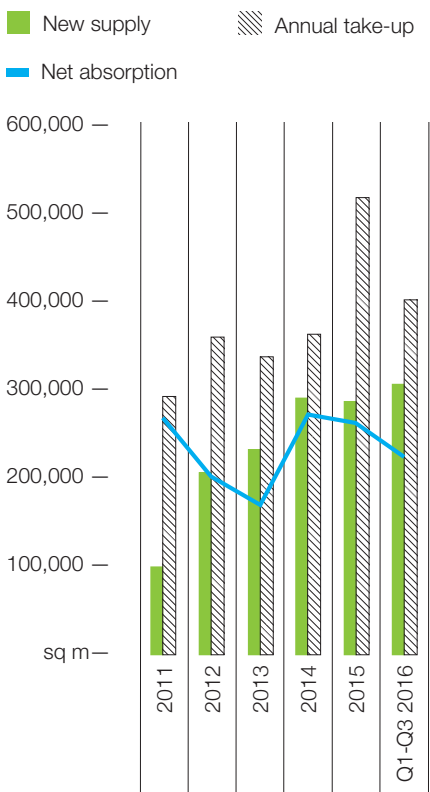
CATALINA OFFICE CENTER, Catalina Investment

OFFICE MARKET IN REGIONAL CITIES

Q3 2016 in the office market in regional cities has been a period of continuation of trends observed in the first half of the year. Currently it is certain, that 2016 will bring subsequent records in regional markets. Strong demand still results in high levels of activity amongst developers. Rapid growth of office stock has caused a systematic increase of vacancy rate in the majority of markets, but rental asking prices remain at a stable level.

CHART 1

New supply, annual take-up and net absorption in major regional markets (2011 - Q3 2016)



Source: Knight Frank, PORF

At the end of September 2016, the total modern office stock in six major regional markets (Kraków, Wrocław, Tricity, Katowice, Poznań, Łódź) amounted to approximately 3.45m sq m, of which some 3m sq m was rentable and nearly 380,000 sq m was owner-occupied space. Almost 300,000 sq m has been delivered to the market since the beginning of the year and thanks to that it is already known, that 2016 will be record-breaking year in terms of annual new supply. To compare, an average annual new supply in 2011-2015 amounted to 220,000 sq m. Approximately 100,000 sq m of space completed in 2016 is located in Kraków, 62,000 sq m is situated in Wrocław and 57,000 sq m was delivered to the market in Tricity.

Due to the fact that after completion of office schemes developers commence new investments, the volume of office space under construction still remains at a very high level. At the end of September 2016, we identified over 780,000 sq m under construction, of which even 250,000 sq m may be completed by the end of 2016. According to developers' schedules, a further 450,000 sq m should be delivered to the market in 2017. Currently, the largest volume of office space is being constructed in Kraków (ca. 265,000 sq m) and Wrocław (225,000 sq m). In third place is Tricity (104,000 sq m) and finally Łódź (97,000

Nearly

300,000 sq m of office space completed within Q1-Q3 2016

780,000 sq m of office space under construction

Increase of vacancy rate:

10.5% of total stock

390,000 sq m leased since the beginning of 2016

sq m), where the office sector has again accelerated after an investment impasse in recent years.

An impulse encouraging developers to commence so many new investments is strong demand. Between January and September 2016, lease agreements accounting to above 390,000 sq m of office space have been concluded, which has exceeded an annual lease volume within last 5 years (363,000 sq m) and the result noted in the analogical period of the previous year (310,000 sq m). It is worth indicating that 40% of agreements signed in the period of Q1-Q3 2016 concerned office space at the construction stage (pre-lease agreements). Also the high net absorption level confirms the positive sentiment in the market. After three quarters of 2016, it amounted to approximately 216,000 sq m, while an average net absorption in recent 5 years is estimated at 228,000 sq m.

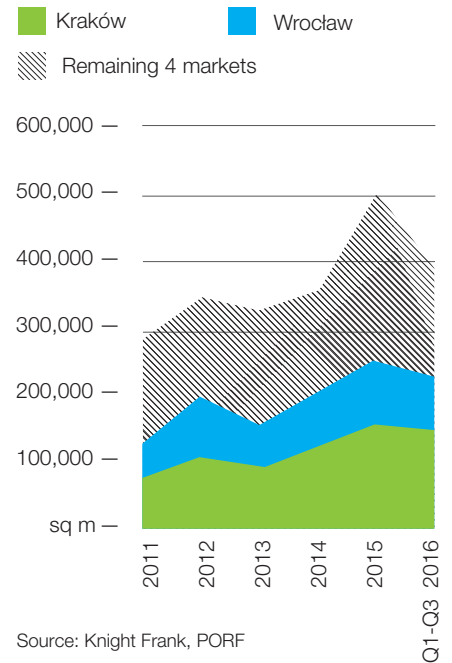
Record dynamics in supply influenced vacancy level. At the end of 2016, approximately 363,000 sq m was available in regional



PORTO OFFICE, Detemo Investments, Kraków



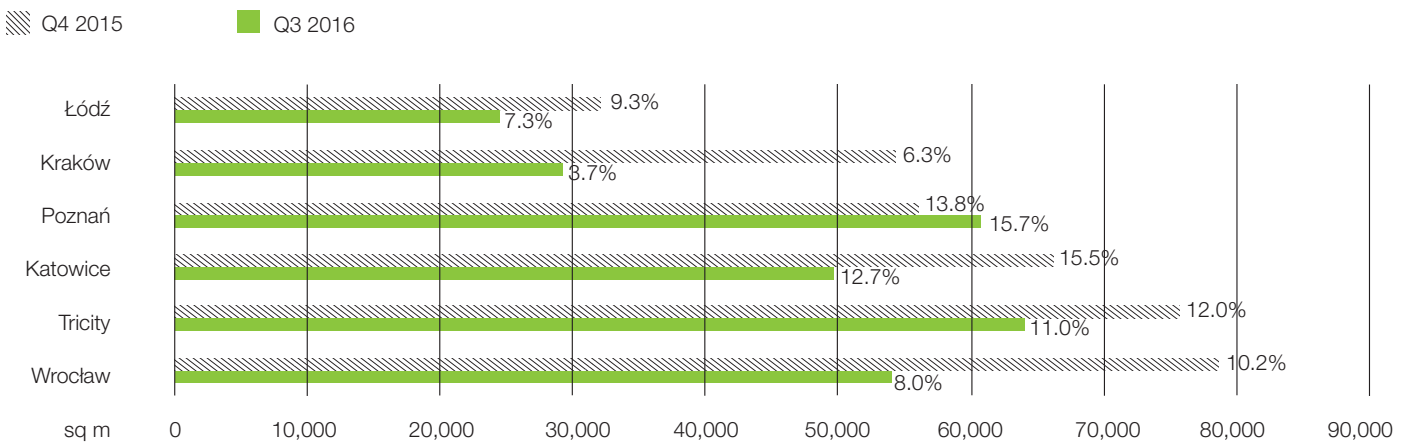
CHART 2
Demand for office space in major regional markets
2011 - Q3 2016



markets in existing buildings, some 81,000 sq m more than at the end of 2015. From the beginning of January to the end of September, vacancy rates have increased in all of the markets except Poznań. At the end of Q3 2016, the highest vacancy rate was noted in Katowice – 15.5%, and the lowest in Kraków – 6.3%. A significant volume of space will be delivered to the market in the forthcoming quarters, so further growth of the indicator is expected in the near future.

Despite the dynamic growth of demand and supply, asking rents remain stable. At the end of September 2016, the lowest asking rates on offer were in Łódź – from EUR 8.5 to 13 per sq m per month and the highest level was noted in Wrocław: EUR 10-15.5 per sq m per month. According to our estimates, effective rents remain approximately 10-15% lower than asking rents.

CHART 3
Vacant space in major regional office markets in Poland
(Q4 2015 vs. Q3 2016)



Source: Knight Frank, PORF

RETAIL MARKET

Activity of developers in the retail sector slowed down and was focused mainly on the major agglomerations. Limited volume of retail space was completed in Q1-Q3 2016, but the trend of extension and modernisation of existing schemes was clearly shown. Rents for prime retail units and vacancy rates remained relatively stable.

An existing retail stock:

11m sq m

Exceptionally low volume of newly completed space in Q1-Q3 2016:

90,500 sq m

(in Q3 only 7,500 sq m)

Retail space under construction:

670,000 sq m

87% in major agglomerations

Vacancy rate in Poland:

3.2%

The total modern retail space in Poland amounted to over 11m sq m at the end of Q3 2016. The stock comprises of three retail formats: traditional shopping centres (9.5m sq m), retail parks (1.3m sq m) and outlet centres (0.2m sq m). In the first three quarters of 2016, the retail sector in Poland has been developing in the slower pace than within the last few years. In this period the exceptionally low retail supply was completed – only 90,500 sq m. In Q3 2016, only one extension of retail project was delivered – Galeria Rynek in Tomaszów Lubelski by additional 7,500 sq m.

Since the beginning of the year, new retail supply has been dominated by extensions of existing retail projects. The total space of extended phases amounted to 51,500 sq m. This was a much higher result than recorded in recent years. The largest extensions were: Galeria Sudecka in Jelenia Góra (15,000 sq m) and Futura Park Wrocław (10,000 sq m). The

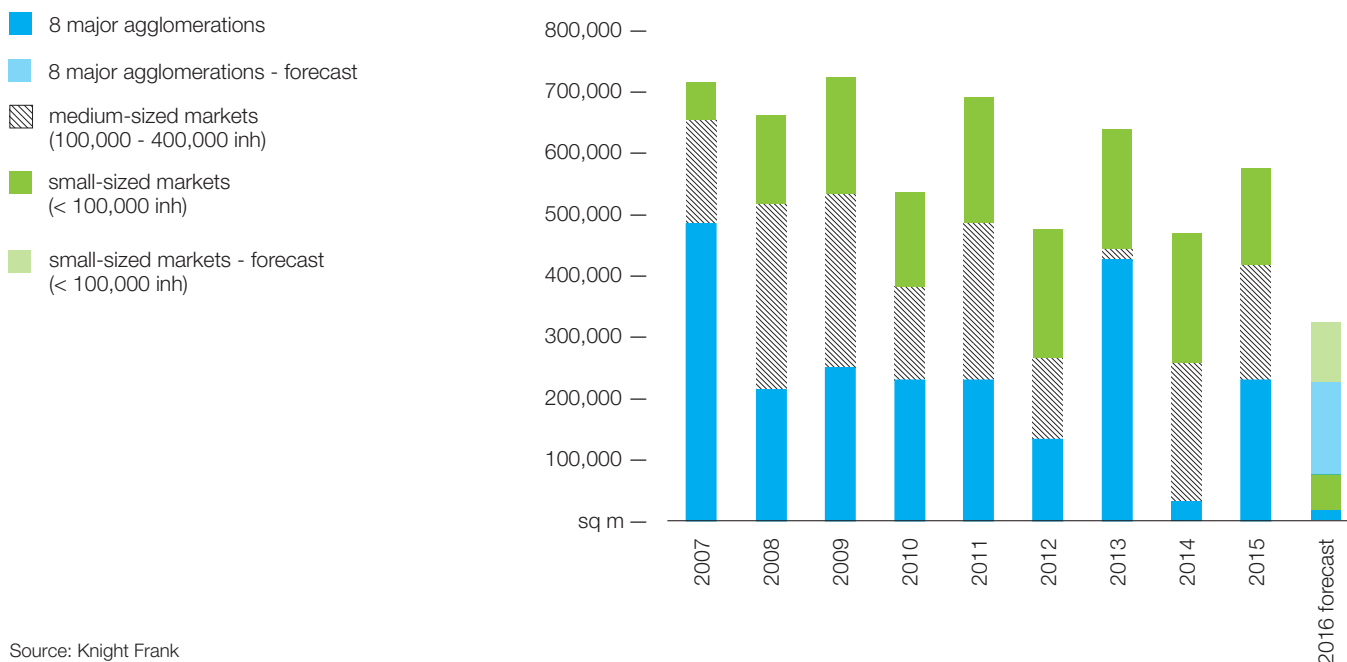
remaining space (39,000 sq m) was represented by three new shopping centres located in the small-sized cities (populated by below 100,000 inhabitants): Galeria Głogovia in Głogów (21,000 sq m), Karuzela Września in Września (12,000 sq m) and Galeria Avangarda in Bartoszyce (6,000 sq m). In spite of the significant volume of retail space due to be completed in Q4 2016 (approximately 250,000 sq m), the volume of new supply in 2016 will not reach the result recorded in previous years.

At the end of Q3 2016, there was approximately 670,000 sq m of retail space under construction in Poland. The vast majority of this volume (87%) was located by the eight major agglomerations, which was a significant change when compared with the previous years. Investors have recorded the development potential of the largest markets again for large-scale schemes with a

CHART 1

Annual retail supply by location (sq m)

2007 - 2016f



Source: Knight Frank

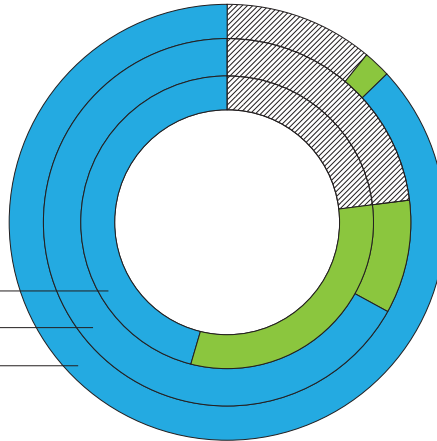
CHART 2

Retail space under construction by location

Q3 2104 vs. Q3 2015 vs. Q3 2016

- 8 major agglomerations
- medium-sized markets (100,000 - 400,000 inh)
- small-sized markets (< 100,000 inh)

Q3 2014
Q3 2015
Q3 2016



Source: Knight Frank

diversified offer. The largest shopping centres under construction in the major markets were: Posnania in Poznań (100,000 sq m, opening in October 2016); two projects in Warsaw: Galeria Młociny (76,000 sq m) and Galeria Północna (64,000 sq m); Wroclavia in Wrocław (64,000 sq m); two projects in Gdańsk: Forum Gdańsk (62,000 sq m) and Galeria Metropolia (34,000 sq m); Serenada in Kraków (42,000 sq m). Moreover, commencement of construction works in Galeria Libero in Katowice (42,000 sq m) is planned for Q4 2016.

The opening of new shopping centres and thus increased saturation in the sector have forced the owners of older schemes to redevelop, rebuild and re-let their projects. Consequently, the schemes are becoming adjusted to market trends and meet the expectations of customers (e.g. Galeria Morena in Gdańsk). Additionally, alternative

formats to traditional shopping centres have been gaining investors' interest. An example of the new approach are the mixed-use schemes in Warsaw, i.a. : Hala Koszyki (opening in October 2016) and Centrum Praskie Koneser.

In Q3 2016, several new brands entered the Polish retail market, including: American brand Steve Madden in Manufaktura in Łódź (shoes) and Italian brand Tezenis in Poznań Plaza (lingerie). Simultaneously, Tallinder, the brand of the Polish fashion group LPP decided to withdraw from the Polish market.

Asking rents for prime retail units (below 100 sq m) in prime shopping centres recorded an upward trend. Warsaw has maintained its leading position in terms of prime rents – up to EUR 150/sq m/month. Lower rates were noted in regional markets and depend on a number of factors, e.g. tenant brand, the size of the unit and its location within a project.



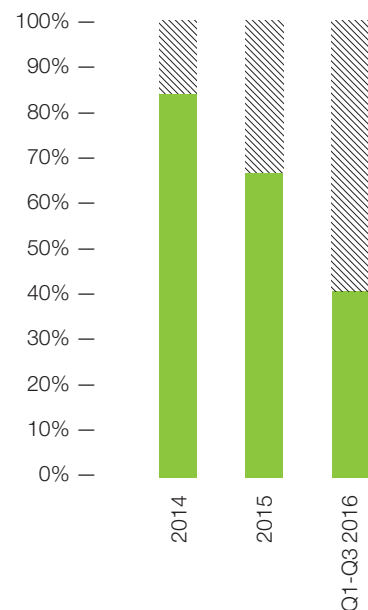
SUPERSAM, Griffin Real Estate, Katowice

CHART 3

New retail supply

2014 - Q3 2016

- New schemes
- Extensions



Source: Knight Frank



ZGORZELEC PLAZA, Plaza Center, Zgorzelec

INVESTMENT MARKET

Q3 2016 brought to the European commercial market a significant slowdown. Since the beginning of the year to the end of September the volume of invested capital on the markets in Europe accounted for ca. EUR 163 bn and constituted 29% fall y-o-y.

Decrease in the investment volume in Europe:

29% y-o-y

Volume of invested capital in Poland in Q1-Q3 2016:

EUR **2.62** bn

Share of retail investments in the total transaction volume:

54%

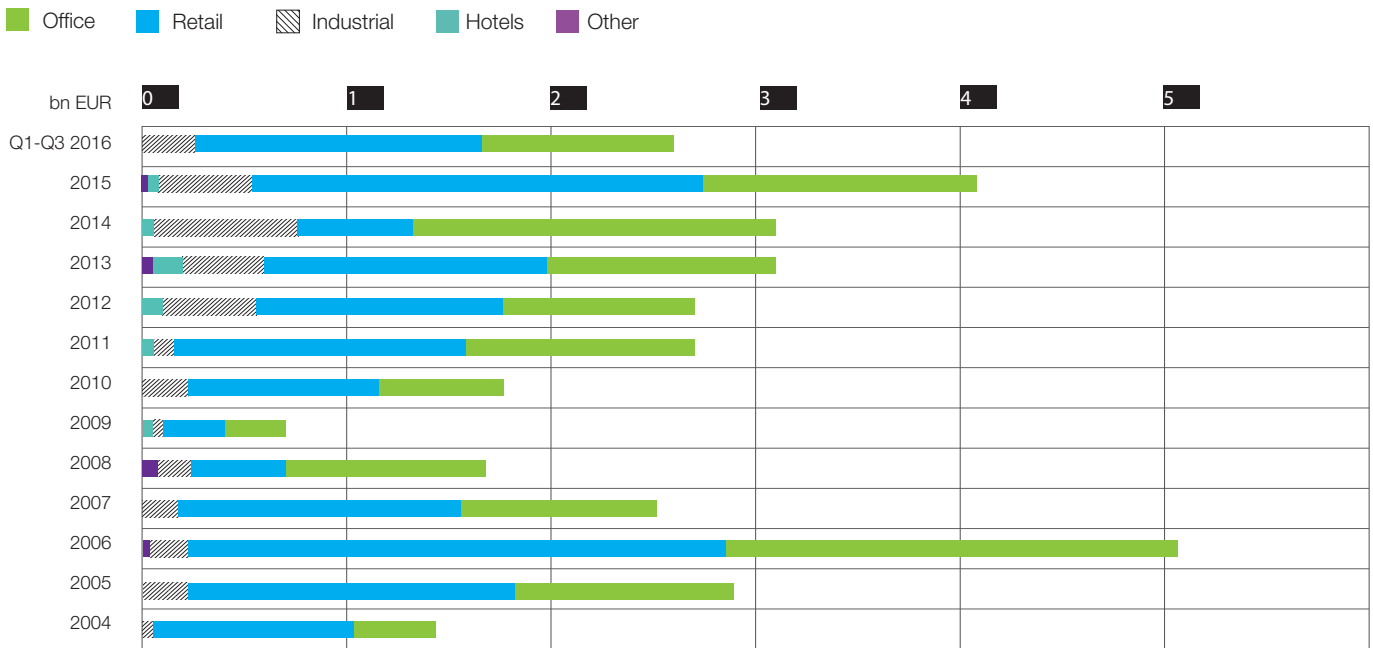
Moreover, the commercial markets have been affected by Brexit which has been reflected in growing investors' cautiousness in the largest markets such as Germany and UK where volume of signed deals in Q1-Q3 2016 fell by 33% and 46% respectively when compared with the same period previous year. At the same time investors are looking for alternative locations which provide them with regular incomes and risk diversification. Despite the slowdown observed in Q3 2016 also in the Polish investment market, since the beginning of 2016 there was nearly EUR 2.62 bn invested in the commercial sector, which was a 64% higher y-o-y. Investors were focused on the retail segment where allocated funds constituted nearly 54% of total investment volume, while acquisitions in the office sector accounted for 36% and in the industrial market over 10% of the investment volume.

Since the beginning of the year, the retail sector has been distinguished by high investors' activity. In the period of Q1-Q3 2016 the total volume of signed contracts in the sector amounted to EUR 1.4 bn and was nearly three times higher than in the same period in 2015. The result was reached mainly by the largest investment transaction in the Polish market history between Echo Prime Properties and South African fund Redefine Properties. Moreover, the significant acquisitions with the highest value were the purchase of Bonarka City Centre in Kraków by Rockcastle, the acquisition of shopping mall Jantar in Słupsk by CBRE Global Investors and CH Krokus in Kraków by Mayland. The transactions of prime retail assets have been finalised with yield at the level of 5.50% with a tendency to compress.

The regional office markets were still boosted by the high investors' activity where the



CHART 1
Investment transaction volume
2004 - Q3 2016



Source: Knight Frank, IRF

volume of signed deals in Q1-Q3 2016 amounted to over EUR 470 m and constituted nearly 50% of total volume of office transactions. The largest concluded deals in the sector were the purchase of Alchemia II by PHN and Allcon Park by Intel Corp in Gdańsk, acquisition of Malta Office Park in Poznań by Redefine Properties and acquisition of Aleja Pokoju 5 in Kraków by Warburg-HIH Invest Real Estate. Investors expect the prime yields

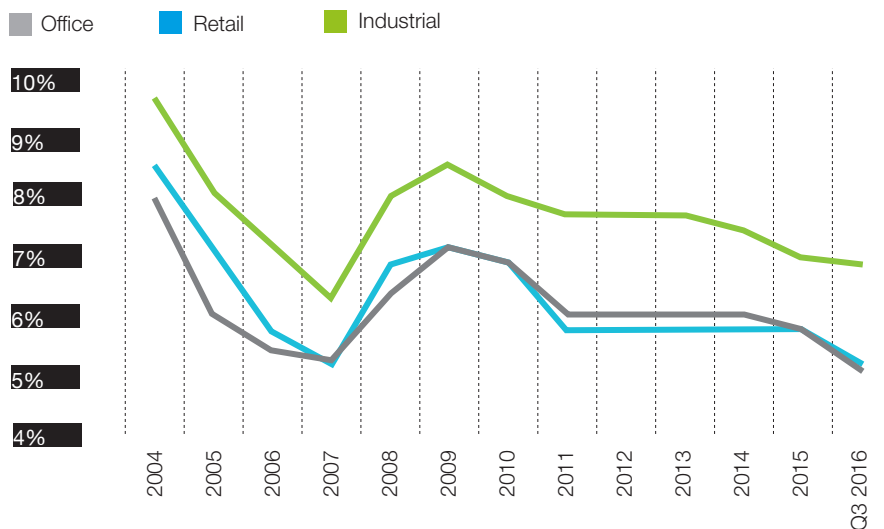
to compress for the most attractive assets in the office regional markets which currently are at the level of 6.25%-6.50%.

On the other hand, investments in the Warsaw office market have not slow down. Within the first three quarters of 2016 deals were finalised totalling a volume of EUR 476 m. Prime yields have been shrinking and the best assets located within the CBD were at the level of 5.50% while outside the CBD

varied between 6.25%-6.50%. The largest contracts in the Warsaw office market concluded in the analysed period were acquisition of Park Rozwoju by Redefine Properties, purchase of Prime Corporate Centre by Warburg-HIH Invest Real Estate, Wiśniowy Business Park by Valad and the acquisition of Konstruktorska Business Park by Golden Star Group.

At the same time, the warehouse market faced a temporary slowdown and Q3 2016 saw a lack of finalised industrial transactions in Poland. Nevertheless, forecasts are optimistic as a few portfolio transactions are expected to be closed by the end of the year. From the beginning of the year the total volume of signed deals in that segment amounted to EUR 255 m, out of which the largest were acquisition of Amazon in Poznań by GLL and NBGI fund portfolio by Hines. The positive sentiment in the market in Poland steadily contributes to the industrial prime yields compression which remains at a level of 7.00%.

CHART 2
Prime yields by sector
2004 - Q3 2016



Source: Knight Frank, IRF



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,
- ◆ tailored presentations and market reports for clients.

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.

Contacts in Poland:

+48 22 596 50 50
www.KnightFrank.com.pl

RESEARCH

Elżbieta Czerpak
elzbieta.czerpak@pl.knightfrank.com

ASSET MANAGEMENT

Monika A. Dębska - Pastakia
monika.debska@pl.knightfrank.com

ASSET MANAGEMENT - OFFICES AND LOGISTICS

Maja Meissner
maja.meissner@pl.knightfrank.com

ASSET MANAGEMENT - RETAIL

Małgorzata Szychuła
malgorzata.szychulda@pl.knightfrank.com

CAPITAL MARKETS

Joseph Borowski
joseph.borowski@pl.knightfrank.com

COMMERCIAL AGENCY - OFFICE

Izabela Potrykus-Czachowicz
izabela.potrykus@pl.knightfrank.com

COMMERCIAL AGENCY - RETAIL

Paweł Materny
pawel.materny@pl.knightfrank.com

PROPERTY MANAGEMENT

Magdalena Oksańska
magdalena.oksanska@pl.knightfrank.com

VALUATIONS

Grzegorz Chmielak
grzegorz.chmielak@pl.knightfrank.com

Contacts in London:

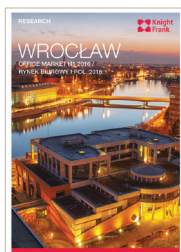
INTERNATIONAL RESEARCH

Matthew Colbourne
matthew.colbourne@knightfrank.com

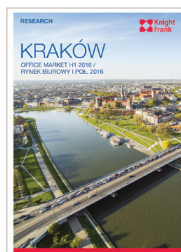
OUR RECENT PUBLICATIONS:



Office Market
in Warsaw: Q3 2016



Office market in
Wrocław: H1 2016



Office market in
Wrocław: H1 2016



Let's meet in Warsaw.
A culinary map: 2016

Knight Frank Research Reports are available at KnightFrank.com.pl/en/research/

© Knight Frank Sp. z o.o. 2016

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank to the form and content within which it appears.

