



Warsaw

City Report

Q3 2020



Economy & Investment

-3.6%



GDP Growth,
2020* y-o-y

3.3%



Inflation, 2020*
y-o-y

1.8%



Unemployment rate,
September 2020,
Warsaw

PLN 6,556



Average gross salary,
September 2020,
Warsaw

2.5%



Retail sales,
September 2020 y-o-y,
Poland

5.9%



Industrial production,
September 2020 y-o-y,
Poland

Source: Consensus Forecasts, October 2020; Central Statistical Office, September 2020, *forecast

Investment market overview

General

With €7.8 billion of total transacted volumes, 2019 was a record-breaking year for the Polish investment market, outpacing the previous best-ever market result of 2018 by over €600 million. With this exceptional score, the Polish investment market grew in 2019 for the 5th consecutive year.

At the end of September 2020, overall investment volumes in Poland reached ca. €4.2 billion, the third-best result for the investigation period. However, most of the closed deals were initiated in 2019 and the restrictions in travel and viewings are limiting new transactions to some extent.

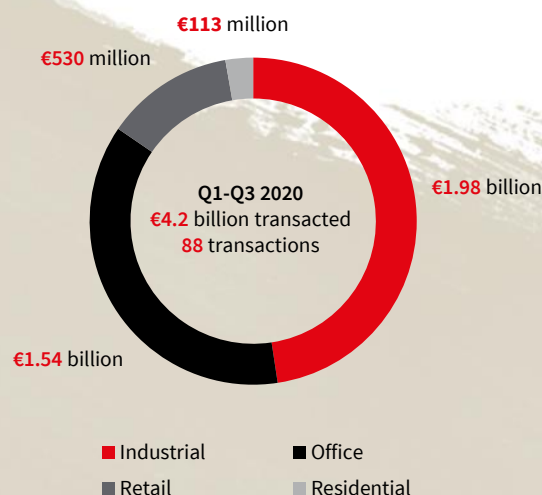
Following the strong H1, investment turnover volumes have kept the pace during the third quarter, committing above €1.1 billion across all sectors.

The 2020 outcome was led by the industrial sector. €1.98 billion spent on warehouses represented almost half of the turnover. The increased importance of warehouses is a continuation of trends that have been observed on the market for some time now. The second most traded products were office assets with €1.54 billion transacted in the sector (37% of the total investments). Warsaw raised the vast majority of this outcome. The retail segment, which is one of the industries most touched by the restrictions, accounted for only 13% of total turnover. The remaining 3% belonged to the residential sector.

The largest deal recorded in 2020 remained the acquisition of a majority stake (61.49%) in GTC by the Hungarian Optimum Ventures Private Equity Fund, which has a portfolio of both office buildings and shopping centres and projects in Poland.

Next year the office and (potentially) logistics investment market may be facing the challenge of lack of a core product available for trade. Such scarcity of product combined with low interest rate environment and availability of equity can lead to stabilisation or even compression of yields.

Investment volume, by sectors



Source: JLL, Q3 2020

Industrial sector

While other sectors encounter certain difficulties, the industrial sector has leapt to the top of the leader board for investment volume, committing over €1.98 billion in Q1-Q3. In addition, the value of transactions in the market in 2020 has been higher than any year-round result before.

The market has been driven by large portfolio transactions, which often exceeds €100 million per deal. The most meaningful was an acquisition of a huge CEE Goodman portfolio by GLP. The total value of the transaction reached €1 billion and the assets located in Poland accounted for more than a half of that volume. The sector also witnessed other large-scale deals, namely: the portfolio sale of five Panattoni properties to Savills Investment Management, the acquisition of Hines distribution parks by CGL and the purchase by GIC Private Ltd of a portfolio of six logistics properties from funds managed by the Apollo Global Management group.

Moreover, the fourth quarter has witnessed two transactions of Amazon Fulfillment Centers (Amazon Poznań, Amazon Wrocław). The assets, with area exceeding 120,000 sqm each, were acquired by €190 million in total.

Asian investors have substantially increased their footprint in the industrial sector. Purchasers with Asian capital sources represented more than 60% of the transacted market volumes in this sector. The most substantial capital inflows came from Singapore, Malaysia and China. Among non-Asian investors, the market witnessed high activity of US and British purchasers.

Despite impressive results and a still increasing investor interest, the industrial sector's further growth may be limited by product availability. In consequence, the appetite for products is ever-growing and investors are bidding more aggressively. Therefore, the market expects a continuation of the yield compression trend in this sector in the coming months.

Prime warehouse yields in Poland stand at 6.25% with exceptional long leased assets trading at sub 5.00% and Warsaw inner city projects at around 5.50%. The mentioned 6.25% is evidenced by recent transactions, although we do observe a pressure to further compress the yields to 6.00% or sub 6.00% in case of exceptional opportunities. However, this trend is yet to manifest itself in transactional evidence.

Office sector

A total of 26 office transactions worth over €1.54 billion were finalized between January and September in the office sector. It was the third highest volume recorded in the sector throughout the first nine months of the year, surpassed only by the record-breaking results of 2018 and 2019. 61% of office investments closed on the Warsaw market. Kraków claimed the lion's share of the remaining 39% with Katowice and Wrocław completing the top three regional cities.

The impressive result was led by a very dynamic first half of the year when a number of deals initiated in 2019 was concluded. The Q3 performance shows a slowdown caused by a limited number of new transactions, which is linked to travel restrictions and an increased uncertainty. The trend is especially evident in the regional cities. In H1, the regional markets have witnessed quite a few notable transactions while only one deal was closed outside Warsaw between July and September.

Noteworthy, all office schemes acquired in Warsaw between July and September (Generation Park Z, Chmielna 89 (65%), Concept Tower) are located in City Centre West. However, the first office deal in Q4 2020 has been the acquisition of Postępu 14 in Mokotów Business District for €87 million by CA Immo.

Prime office yields in Warsaw are discussed at 4.50%, whereas the core regional cities (Kraków & Wrocław) yields stand at 5.75%. The cases of discounts, observed in some ongoing processes, has ranged 25-50 bps compared to pre-Covid expectations for 2020. As a result, transactions are traded at cap rates at the same level as seen in 2019. The discounts reflect also a 30-80 bps outward shift in the cost of debt, which is impacting pricing. The postponed transactions are expected to carry on over Q4 and the next year which should be seen in the 2021 results.

Retail sector

The appetite for retail assets across Europe has been decreasing for some time. Now, as a result of implemented restrictions, the sector has been put under additional pressure. The retail investment volume amounted to €530 million in Q1-Q3. This is 40% down on the total for the corresponding period of 2019, reflecting the severity of the COVID-19 implications. Investors, however, were still eager to find opportunities in specific asset groups, such as convenience centres, food stores, DIY stores, retail parks or schemes with conversion potential.

The 2020 retail investment volume has been dominated by a single share deal - the purchase of 61.49% stake in GTC, whose portfolio includes 2 shopping centres: Galeria Jurajska in Częstochowa and Galeria Północna in Warsaw. Besides the GTC share deal, the following notable transactions included the sale of two Tesco schemes (Tesco Wrocław, Tesco Lublin) to Origami, the disposal of five convenience-type retail schemes located across Poland by Atrium European Real Estate and an acquisition of two MMG Centres, located in Szczecin and Ciechanów, by DRFG.

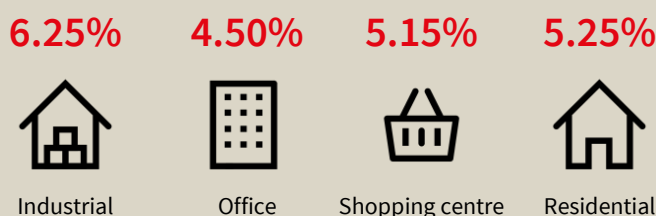
Despite the lack of transactional evidence, prime shopping centre yields have moved out slightly driven by sentiment and are estimated at 5.15% with prime retail park yields remaining stable at 6.80%.

Living sector

Investment volumes in living assets have grown considerably across EMEA in the first three quarters of 2020 compared with last year (multifamily by 32% and student housing by 275%). This increased interest in the living sector can be observed in Poland as well, though it has not yet materialized much into transactional evidence. The year started strong with one multifamily deal in Warsaw and two student housing transaction closed in Kraków and Gdańsk. Aurec Capital purchased the Puławska 186 multifamily asset in Warsaw via forward deal from Matexi Polska. Since then Aurec Capital has revealed two other asset deals for its LivUP portfolio in Warsaw. In the student housing field, Corestate and Bain Capital Credit announced the acquisition of two projects operated under the Youniq and Joyn brands. After the takeover of Wrocław-based developer Vantage finalized in Q1 2020, TAG Immobilien secured a pipeline of 30 build-to-hold projects containing around 8,800 flats for their rental operations in Wrocław, Poznań and Łódź years. This pipeline includes assets to be developed on land plots bought by Vantage and projects purchased in forward deals by TAG Immobilien. The first three projects are currently on the market for rent under the Vantage Rent label. As there are a couple of deals under negotiation these days, we expect some transactions to materialize in Q4 2020 or beginning of the next year.

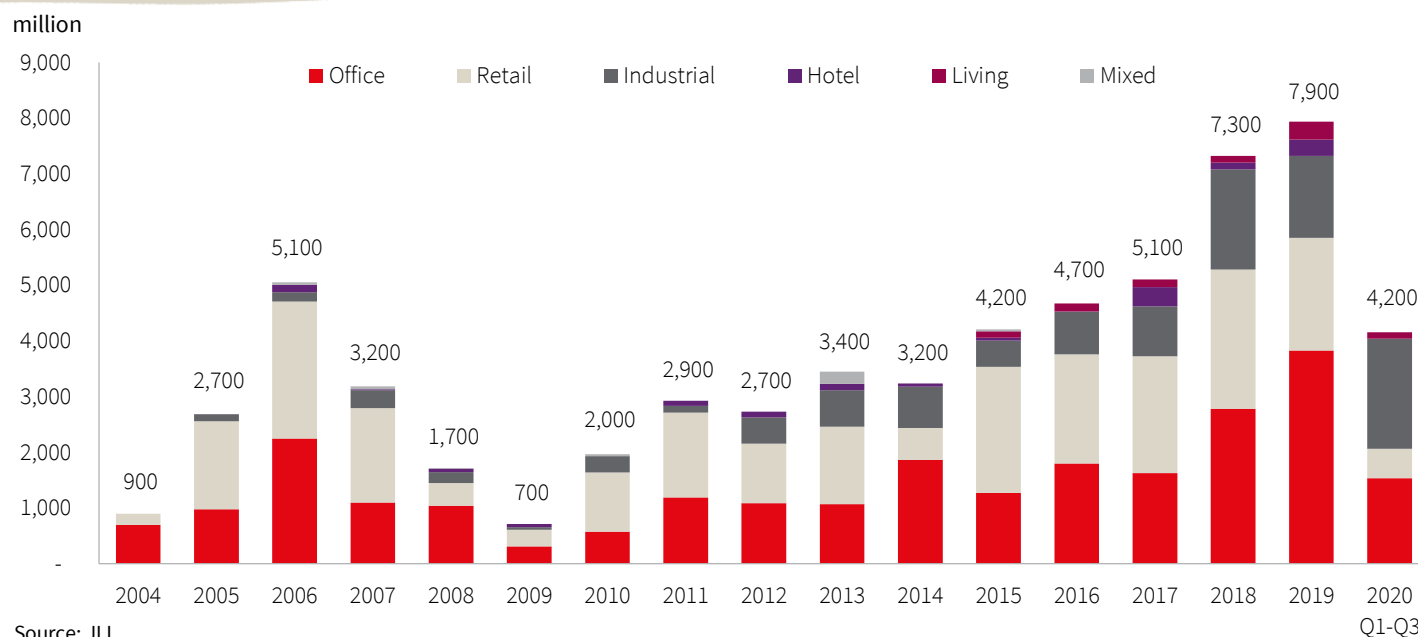
Prime multifamily yields stand at 5.25% for single assets in forward funding deals in central Warsaw, while sub-central Warsaw and the strongest regional markets are discussed around 5.5%. Since the residential BTS sector remained strong despite the crisis, there has not been a big pressure on pricing. Nevertheless, the uncertainty of the market lets a growing number of developers consider switching a part of their projects from BTS to BTR. Forward deals in the student housing field start with net yields of around 6%. Due to the emerging stage of the living sector there is virtually no evidence for yields of standing assets and portfolios. Yet, it is certain that such yields would be negotiated at a lower level than the ones for development projects.

Prime Yields, across sectors



Source: JLL, Q3 2020

Poland Investment Volumes



The total investment volume in Poland in Q1-Q3 2020 amounted to €4.2 billion out of which almost 28% have been closed with JLL involvement.

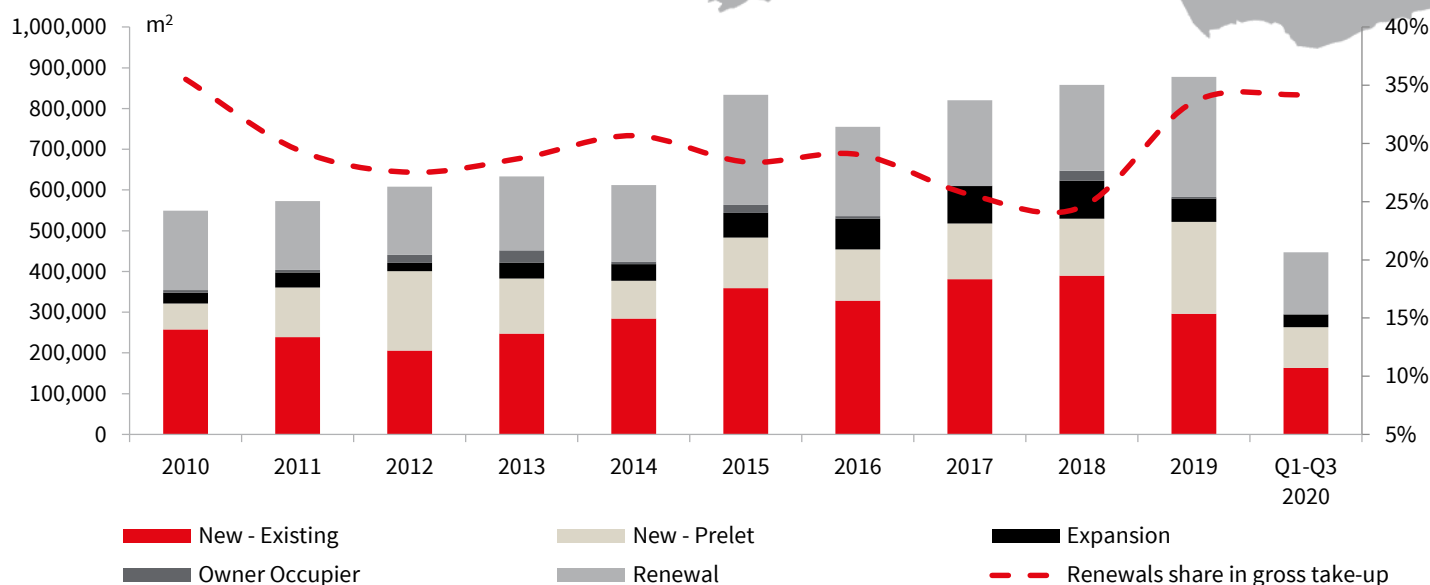
Top investment deals in Poland, Q1-Q3 2020

Sector	Property name	Location	Quarter	Vendor	Purchaser
Industrial	Goodman Portfolio	Various	Q3	Goodman	GLP
Office, Retail	GTC (61.49% stake)	Various	Q2	Lonestar	Optima
Industrial	Panattoni/SIM portfolio	various	Q1	Panattoni	Savills Investment Management
Industrial	DP Portfolio	various	Q1	Hines LLC	CGL Investment Holdings Corporation
Office	High Five II	Kraków	Q1	Skanska Property AB (SWE)	Credit Suisse Real Estate Asset Management
Industrial	Maximus portfolio	various	Q1	Apollo Global Management LLC	GIC Private
Industrial	ELI portfolio (46.5%)	various	Q1	Redefine (93%)/Griffin (7%)	Madison International Realty
Office	Wola Center	Warsaw	Q1	Develia	Hines
Office	Equal Business Park (A, B, C)	Kraków	Q2	Cavatina	Apollo Rida / JV
Office	Generation Park Z	Warsaw	Q3	Skanska	DEKA
Industrial	PEL portfolio	various	Q1	Ares Real Estate Group	Investec Property
Industrial	P3 Mszczonów	Mszczonów	Q1	P3	Elite Partners Capital

Source: JLL, September 2020; Note: JLL advised the party highlighted in bold

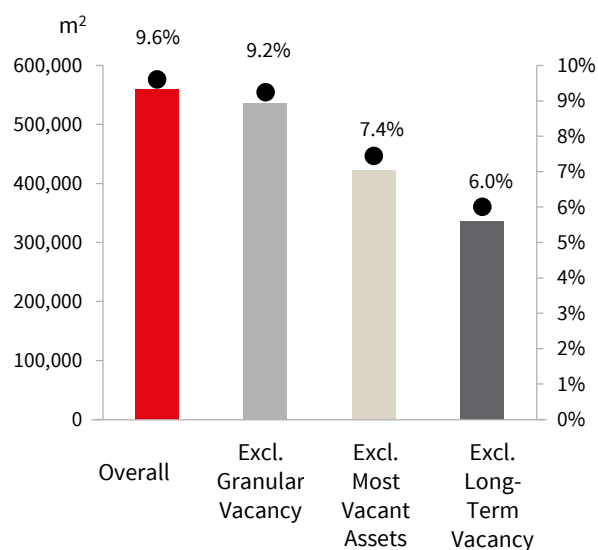
Office Market

Evolution of Gross Take-up, 2010 – Q3 2020



Source: JLL, Q3 2020

Adjusted Vacancy*, Q3 2020



Source: JLL, Q3 2020

- 2020 is characterised by change and uncertainty. Markets across the globe have to constantly adapt to new challenges and circumstance. Offices and businesses can only learn from those experiences in the long-term, even though it's difficult now.
- Demand for office space in Q1–Q3 totalled 447,000 m² and was 35% lower than in Q1–Q3 2019. The two leading districts, sources of 71% of the total demand, are the City Centre and Mokotów.
- The new supply side of the market is gaining momentum as we progress into 2020. As much as 238,000 m² entered the market in Q1–Q3 2020, with the largest new development being The Warsaw Hub (City Centre; developed by Ghelamco Poland).
- As many as 18 office investment transactions for assets located in Warsaw (worth €939 million) were concluded in Q1–Q3 2020. That is the third best result over the past decade for the first nine months of a year.
- Current market sentiment influences the vacancy rate. In Q3 2020 it increased to 9.6% in Warsaw, which is a 1.8 pp increase compared with the end of 2019 and 1.7 pp q-o-q.
- Prime rents in Warsaw range between €18.0 and €24.0 / m² / month in the centre and up to €16.0 / m² / month outside of it.

* **Adjusted Vacancy Rate** represents completed floorspace offered on the market for leasing, vacant for immediate occupation on the survey date within the market, excluding the floorspace that can be regarded as unattractive given the current market conditions.

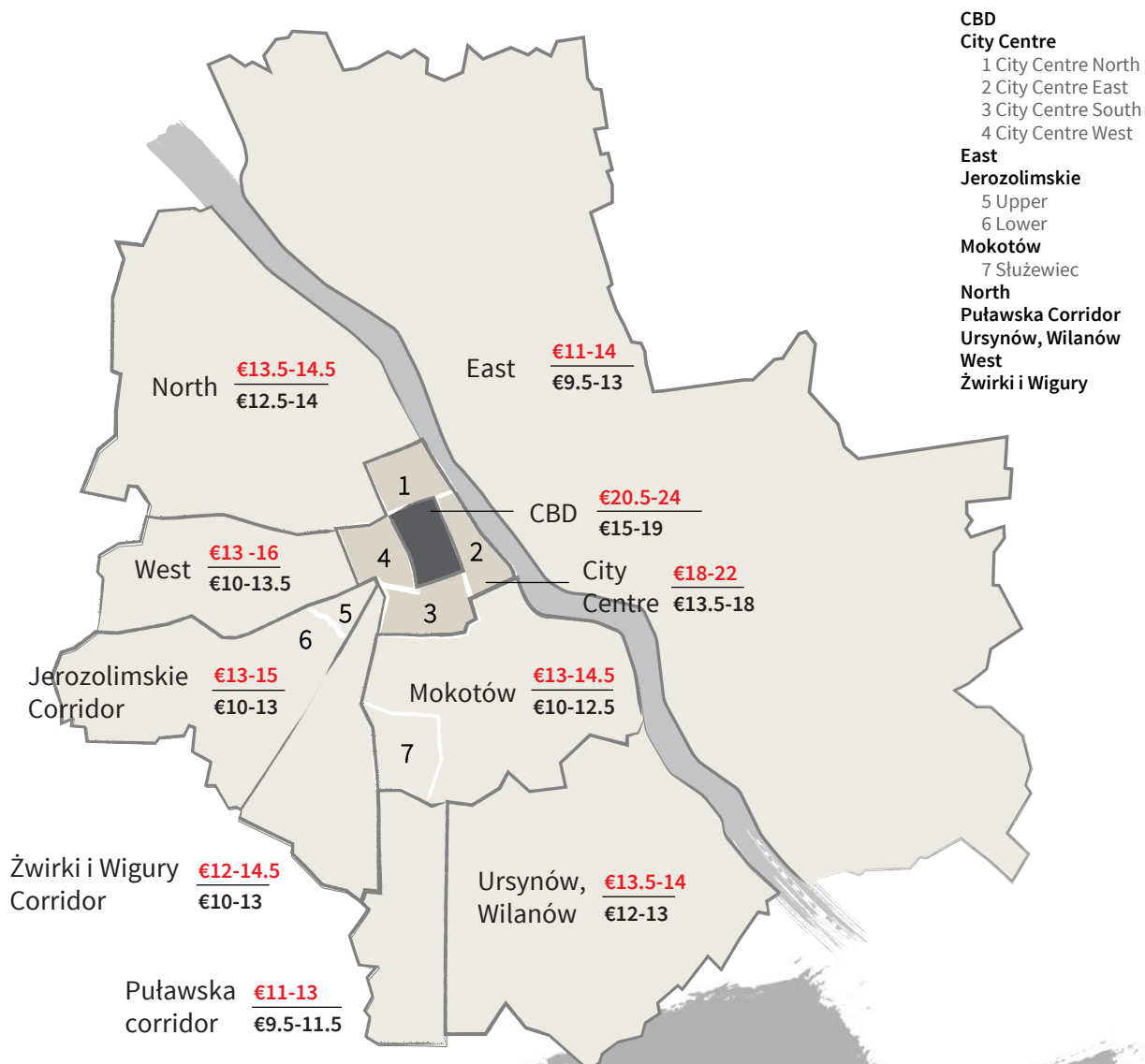
The rate was calculated using three different approaches i.e. either:

- by subtracting from the overall vacancy the „granular vacancy” (i.e. units smaller than 500 m²), or
- by subtracting from the overall vacancy the most vacant assets, or
- by subtracting from the overall vacancy the long term vacancy (i.e. units vacant for more than two years).

Prime headline rents (€/ m² / month)

A-class

B-class



Source: JLL, Q3 2020

Key completions in Q1-Q3 2020

Qtr	Property	Submarket	Size (m ²)
Q3	The Warsaw HUB B&C	City Centre	89,000
Q1/Q2	Varso I & II	CBD	46,600
Q2/Q3	Browary Warszawskie (Biura przy Willi / Warzelni)	City Centre	38,900
Q2	Chmielna 89	City Centre	25,200

Source: JLL, Q3 2020

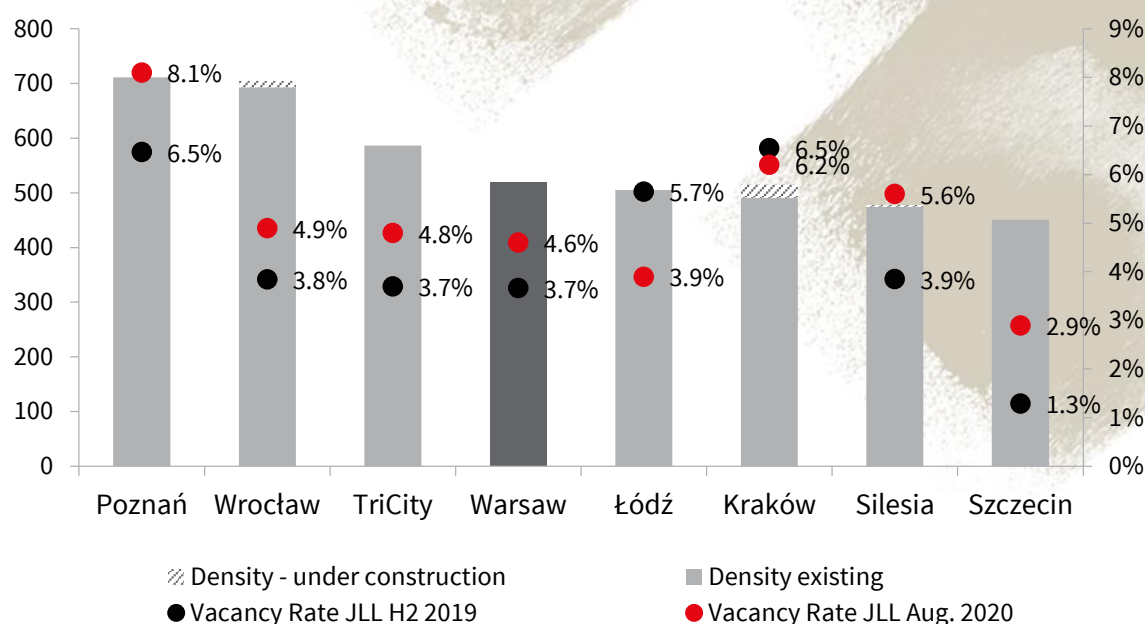
Key Leasing Transactions in Q1-Q3 2020

Qtr	Property	Occupier	Contract type	Deal size (m ²)
Q2	Generation Park Y	PZU	Pre-let	46,500
Q2	DSV HQ	DSV	New deal	20,000
Q1/Q2	Domaniewska Office Hub	Poczta Polska	Renewal & expansion	19,800
Q1	Konstruktorska Business Center	Confidential (insurance sector)	Renewal	17,500

Retail Market

Average vacancy rate in major Polish agglomerations

Density (m²/ 1,000 inhabitants)



Source: JLL, November 2020; shopping centre format only; vacancy as of August 2020 (units temporarily closed not included in statistics)

- As expected, the pandemic had an impact on vacancy rates all across Poland. In eight major metropolitan areas, the rate increased from 4.4% in H2 2019 to 5.3% in August 2020.
- Vacancy rate in Warsaw Agglomeration stood at 4.6% in August 2020 (compared to 3.7% by the end of 2019), what is on the moderate level among major Polish metropolitan areas.
- The shopping centre stock in the Warsaw Agglomeration slightly decreased to 518 m² of shopping centre space per 1,000 residents. This is due to the withdrawal of the one floor in Plac Unii City Shopping form the stock, as it will be converted to offices.
- Two out of four international brands which entered Polish retail market in Q3 2020 chose Warsaw as a bridgehead for further expansion. The most anticipated Primark trades in Galeria Młociny and Italian Falconeri in Galeria Mokotów.
- Moreover, first Action store in Warsaw Agglomeration was opened in Łopuszańska 22. In addition, Modivo, the Polish premium fashion multi-brand of CCC Group, decided to open its first stationary shop in Galeria Młociny in July. The phygital store with tablet self-service sets an essential example of the brand's presence in all available distribution channels.

Prime rents (€/ m²/ month)

115-125



Shopping centres

9.5-12



Retail Parks

70-75



High street

* Prime rents relate to a well located 100 m² unit shop from the fashion and accessories category in leading retail assets in capital city (for retail parks – 2,000 m² units)

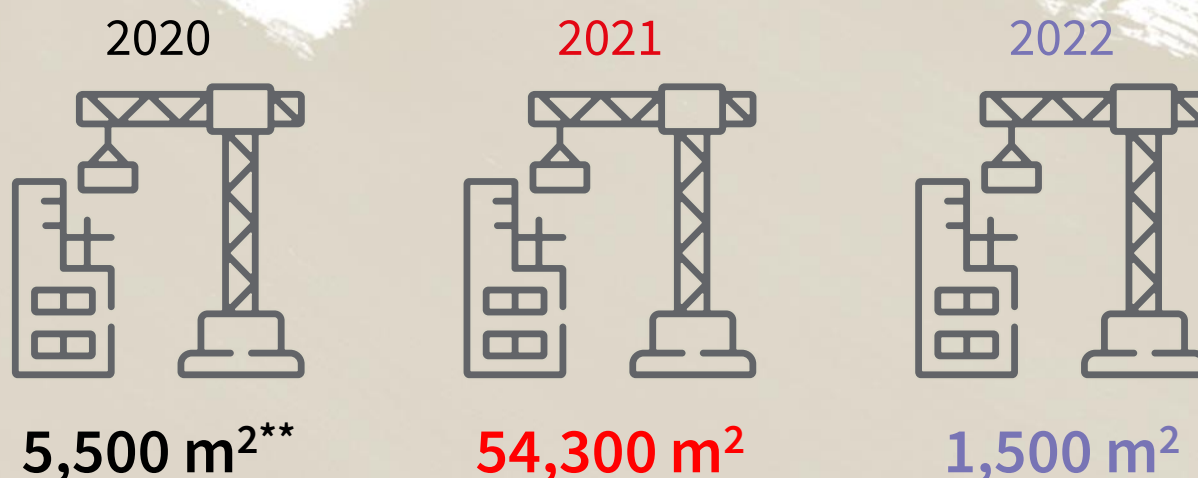
Schemes under construction in the Warsaw Agglomeration

Property	Format	Developer	Retail GLA (m ²)
Fabryka Norblina	Mixed-Use Development	Capital Park	24,000
Bohema	Mixed-Use Development	Okam Capital	14,500
Varso ph.1	Mixed-Use Development	HB Reavis	8,800
Browary Warszawskie	Mixed-Use Development	Echo Investment	7,000
Designer Outlet extension	Outlet Centre	DWS	+ 5,500
Varso ph.2	Mixed-Use Development	HB Reavis	1,500

Source: JLL, November 2020

- Total retail stock in Warsaw Agglomeration amounted to nearly 2 million m² of retail space, of which 70% is located in 43 shopping centres. In addition, mixed-use projects are marking their position on the Warsaw retail map. In Q3 2020, The Warsaw HUB by Ghelamco was opened, offering 4,800 m² of retail space. The project has a total usable area of 113,000 m² with a dominant office component and will soon welcome the first guests to its two hotels.
- Approximately 61,300 m² of retail GLA was under construction in the Warsaw Agglomeration by the end of Q3 2020, with openings initially scheduled for 2020 & 2021. New retail space will be delivered in four mixed-use projects and one extension of the outlet centre set on Q4 2020. Due to governmental restrictions regarding Covid-19 pandemic this opening, however, may be postponed.
- The second wave of COVID-19 has already begun to accelerate and some precautions have been taken, i.e. trading hours for seniors or limits of clients. From Saturday, November 7, all retail facilities of above 2,000 m² of GLA have been closed again. Only grocery stores, drugstores, pharmacies, service points, but also DIY stores and bookstores can continue to operate in strict sanitary conditions.
- Above mentioned restrictions will hit the retail industry again. The shopping centres' recovery process (ongoing since May 4) after first spring lockdown was put on-hold. Customers had been successively returning to shopping centres: in September, the average footfall in Poland was at the level of around 80% comparing to 2019. In the face of the escalating pandemic, the share of e-commerce in total retail sales grew slightly in September, reaching 6.8% of total retail sales (compared to 6.1% in August and 5.6% at the beginning of the year; source: Statistics Poland).

Quantum of space under construction with completion scheduled for the following years*

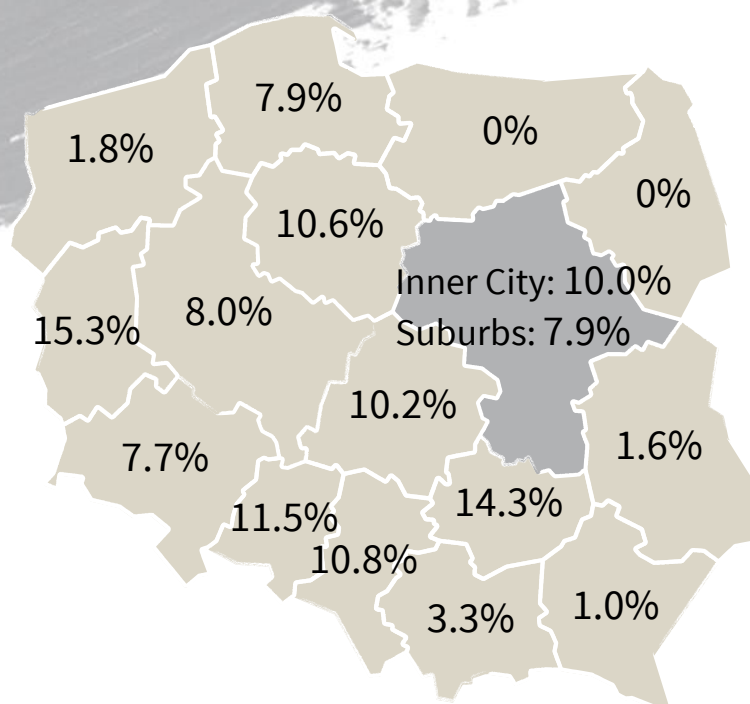


* Including all retail formats, status as of November 2020

** May be postponed due to pandemic restrictions

Industrial Market

Vacancy Rate in Poland: 8.6%

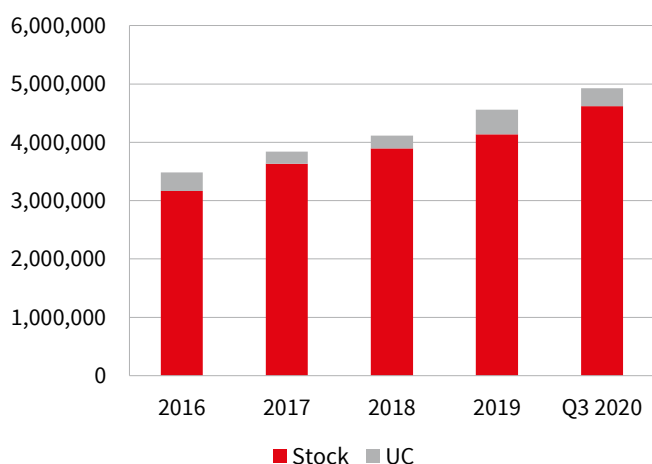


- Warsaw with total existing stock of over 4.6 million m² remains the largest industrial market in Poland (23% of total supply).
- The stock is mostly concentrated in the suburbs, 85% of space is located there.
- New completions seen during Q1-Q3 2020 summed up to 482,000 m².
- At the end of September 2020, Warsaw construction pipeline stood at 310,000 m², which translated into over 20% of total industrial space being constructed in Poland.
- Strong gross take-up of 690,000 m², noted during Q1-Q3 2020 period, placed Warsaw on the second place among Poland's markets with 20% share.
- Prime headline rents remained stable, noting only a minor increase in selected prime assets.
- The road connectivity is rapidly improving with the construction of the southern ring road (S2) and new exit roads S7 and S17.

Source: JLL, Q3 2020

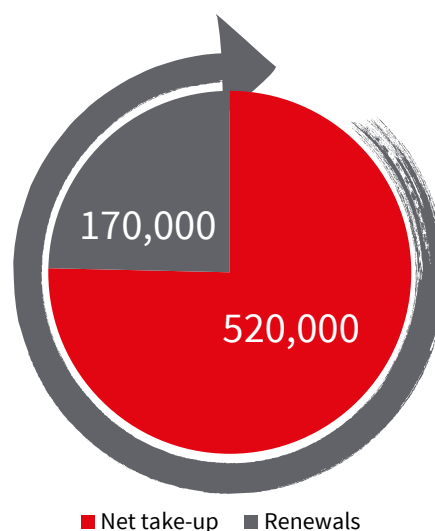
Supply (m²)

Warsaw Inner City & Warsaw Suburbs zones combined



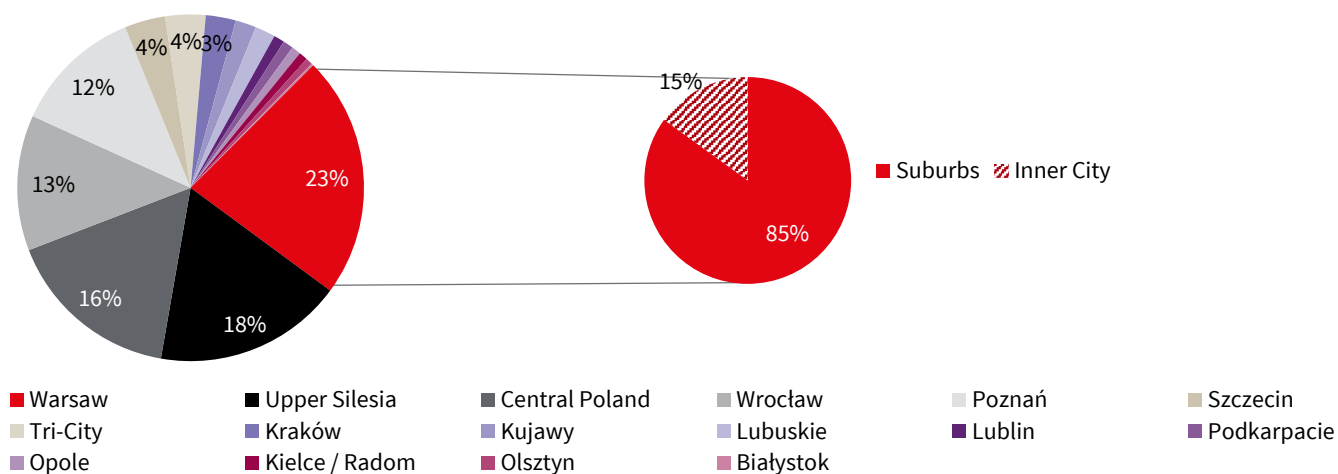
Source: JLL, Q3 2020

Demand in Warsaw, Q1-Q3 2020 (m²)



Source: JLL, Q3 2020

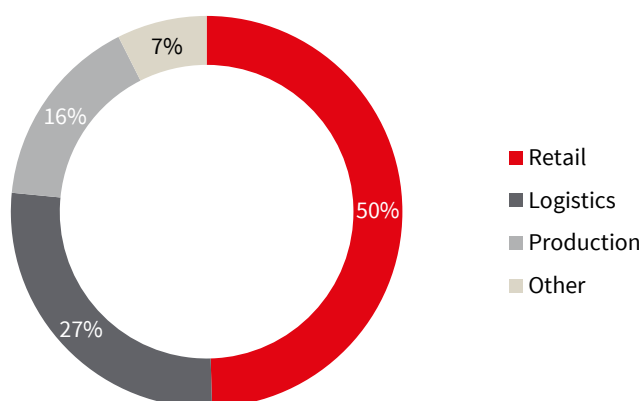
Industrial stock in Poland (m²)



Source: JLL, Q3 2020

Net take-up by business profile, Q1-Q3 2020 (m²)

Warsaw Inner City & Warsaw Suburbs zones combined



Source: JLL, Q3 2020

Key transactions, Q1-Q3 2020

Tenant	Property	Size (m ²)	Deal Type	Sector
RTV Euro AGD	Prologis Park Janki	73,400 (Q1) + 24,200 (Q3)	Expansion	Retailer
Confidential	7R BTS Radzymin	67,500	New deal	Retailer
Orbico Supply	Panattoni BTS Teresin	25,000	New deal	Logistics operator
Edgeconnex	Gate Two	21,100	New deal	Other
Zing	Panattoni Park Konotopa III	20,800	New deal	Retailer
Inpost	P3 Mszczonów	17,300	New deal	Logistics operator

Source: JLL, Q3 2020

Prime rents* (€/ m²/ month)

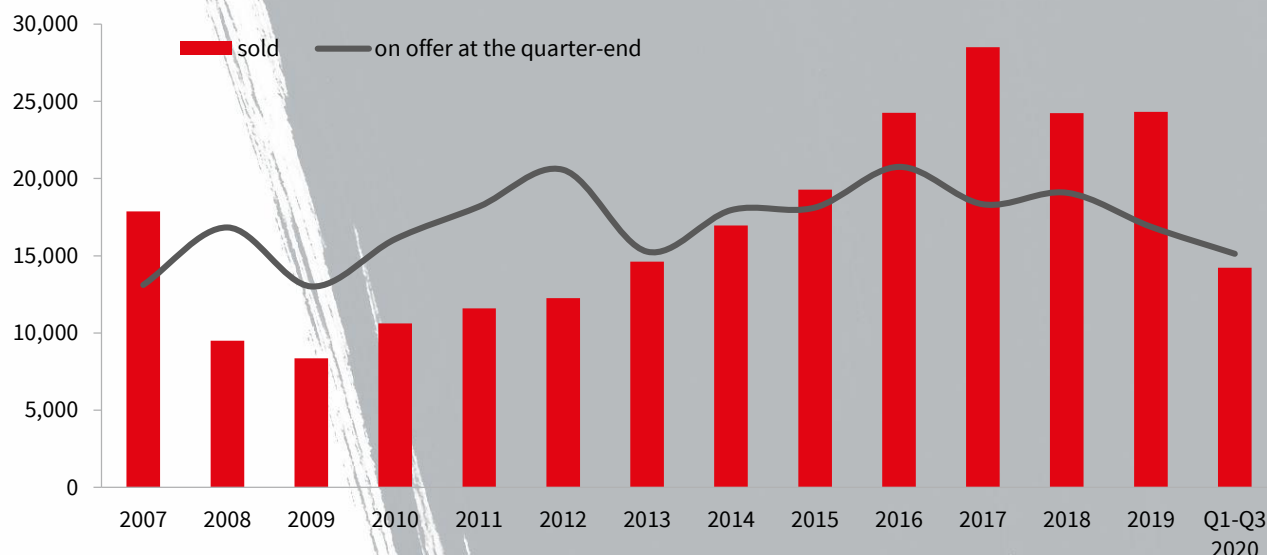
Zone	Headline Rents	Effective Rent
Warsaw Inner City	4.30 – 5.25	3.50 – 4.60
Warsaw Suburbs	2.70 – 3.80	2.00** – 2.80

*as of end Q3 2020

** including Błonie subzone

Residential Market

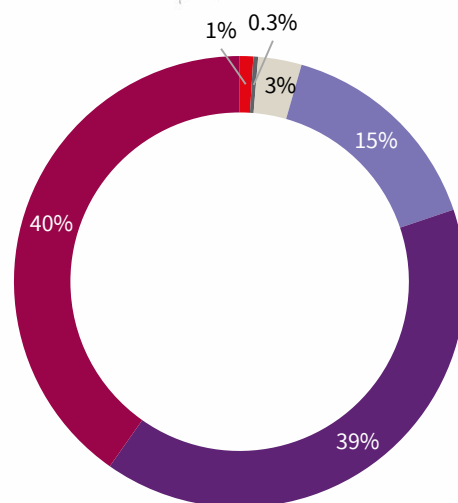
Flats sold annually vs. offer at the quarter-end



Source: JLL, Q3 2020

- The number of units launched for sale in Q3 was similar to the results achieved in the first two quarters of 2020 and amounted to slightly over 4,000 units. Compared to several previous years, the number of new units was reduced, which was directly related to the restrictions introduced in response to the COVID-19 pandemic.
- The sales results were definitely better than in the previous quarter. In the last three months, 63% more units were sold than in Q2 2020. A similar quarterly sales volume of 4,500 units was registered in 2015.
- The offer volume in Warsaw remained at a relatively low level of approx. 15,000 units, which translated into an offer that was 25% smaller than in the boom period.
- A significant quarter-to-quarter price increase was registered for units launched for sale and units sold, 7% and 6% respectively. The average price of units on offer at quarter-end remained nearly unchanged compared to the end of June 2020. However, it was 5% higher than in the corresponding period of the previous year.
- The leader in terms of the offer volume was Białoleka district, followed by Mokotów and Praga Południe.
- Units in the most expensive price range above PLN 15,000/m² became a large portion of the total number of units on offer (9.9%)
- The share of ready units on offer increased in the previous quarter, up to 11%, but has remained virtually unchanged over the last three months.
- Increased interest in the living sector can be observed in Poland. Prime multifamily yields stand at 5.25% for single assets in forward funding deals in central Warsaw, while sub-central Warsaw are discussed around 5.5%.

Structure of the current market offer according to the projects' delivery date declared by the developer



■ until 2017 ■ 2018 ■ 2019 ■ 2020 ■ 2021 ■ 2022

Source: JLL, Q3 2020

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