

Report

Polish Warehouse Market in Q1 2020



18.95 m sqm
Total stock



956 k sqm
Gross demand



440 k sqm
New supply



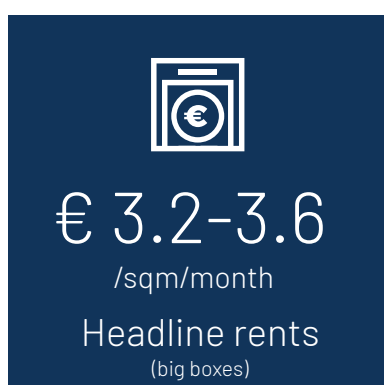
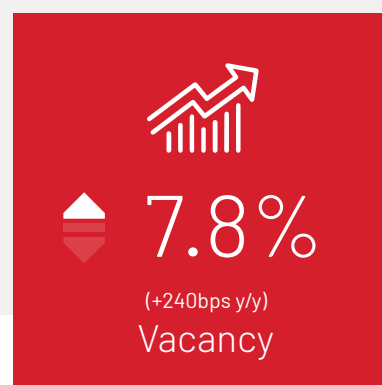
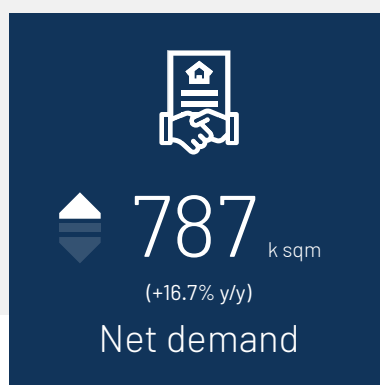
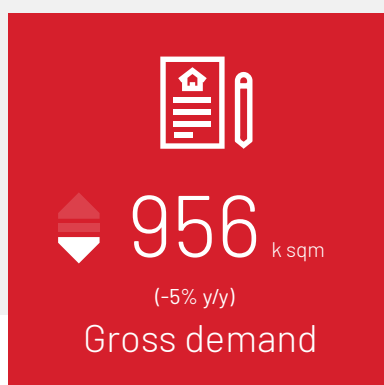
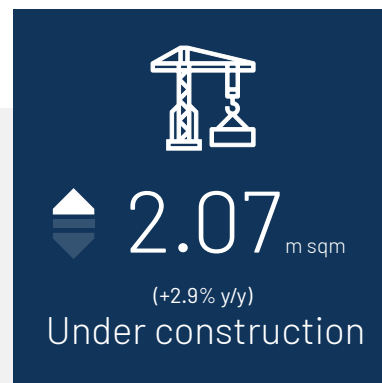
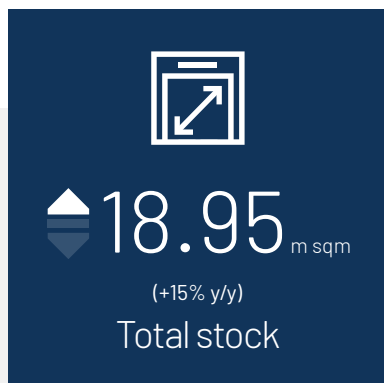
2.07 m sqm
Under construction



7.8%
Vacancy

Polish Warehouse Market in Q1 2020

Key Figures



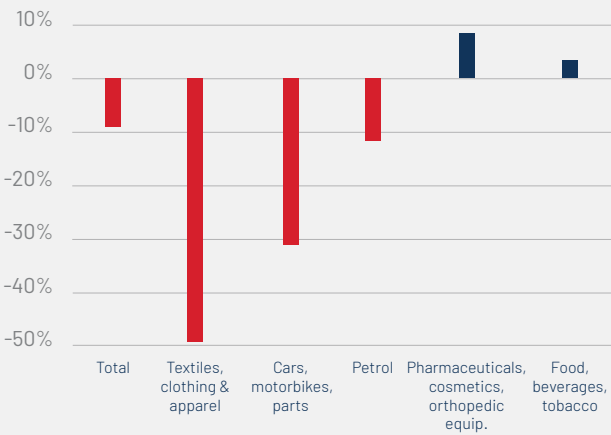
Source: AXI IMMO, Q1 2020
*Q1 2019, compared to Q1 2020

Market overview

First quarter results for Polish logistics demonstrated that the sector is more resilient to the Covid-19 crisis than the rest of the commercial real estate market. Parts of the sector have in fact fared well in the new market reality. Indeed, food retail and pharmaceuticals are enjoying high consumer demand while e-commerce companies and couriers continue to receive a high volume of orders as Poles take to online shopping during the pandemic. The share of e-commerce in total retail sales jumped from 5.6% in February to 8.1% in March.¹

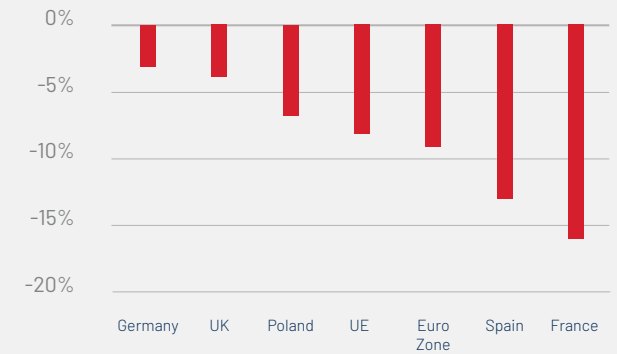
However, the warehouse sector is not immune to the pandemic. Production companies are tackling disrupted supply chains, closed factories and a collapse in consumer demand for some goods. Industrial production declined by 2.4% year on year in March². Producers and distributors of clothing & textiles and automobiles have seen particularly sharp drops in revenues. Retail chains with no online presence have also found themselves in financial difficulty.

Retail sales in March - Poland
(year on year change)



*Constant prices, not seasonally adjusted. Source: GUS

Retail sales in March: Poland vs selected countries
(year on year change)



*Constant prices, calendar adjusted data, not seasonally adjusted data
Source: Eurostat

Although economic slowdown in Poland was rapid and surprising, its scale was moderate compared to Western Europe. The pandemic arrived in Poland late and the government responded with stricter restrictions on movement compared to most other European countries. As a result, infection and death levels remain relatively low and successive parts of the economy are already being gradually re-opened.

In Spain and France, retail sales shrank in March by 13.1% and 16% year on year respectively. The corresponding decline in Poland was 6.8%.

¹ Central Statistics Office

² Central Statistics Office

The investment market

Logistics transactions dominated investment activity in the Polish commercial real estate market in Q1 2020. Overall, EUR1.46bn worth of assets changed hands – almost the same amount as in the entire 2019 when the total volume equalled EUR1.48bn. Portfolio transactions accounted for a lion's share of the market, led by the takeover of all of Goodman's CEE assets by GLP Group.

Anticipated price corrections as well as restrictions on travel and asset inspections are likely to lead to a slowdown in

investment activity in due course, although the warehouse sector will be less affected than other parts of the market. Valuations were broadly unchanged at the end of the first quarter due to the lack of market evidence, with merely a clause about high market risk inserted by valuers. Nervousness on the market is likely to result in declines in capital values in the short term, albeit mainly for non-prime product. We expect pricing corrections to be more limited for logistics compared to other sectors; pricing is also expected to stabilise earlier.

Largest investment transactions in Q1 2020

Asset/portfolio	Vendor	Buyer	Area (sqm)
Goodman CEE portfolio	Goodman	GLP Group	Approx. 880,000 sqm (Polish part of the portfolio, 66% of the total)
Panattoni Polish portfolio	Panattoni	Savills Investment Management	Approx. 250,000 sqm
Maximus pan-European portfolio	Apollo Global Management	P3 (part of GIC)	Approx. 150,000 sqm across 6 parks in Poland (out of 28 in the portfolio)
Hines Polish portfolio	Hines	CGL Investment Holdings Corporation Ltd	170,000 sqm
A 40% stake in Ares pan-European portfolio	Ares Management	Investec	Approx. 160,000 sqm across Polish assets (a total of 40 parks in the portfolio)

Source: AXI IMMO, Q1 2020

Demand

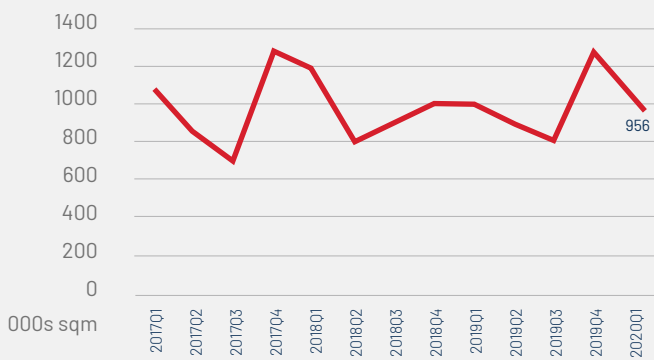
Total demand in Q1 remained at a high level. Gross take-up declined by just 5% year on year, to 950,000 sqm while net take-up (excluding extensions) climbed by 16.7% year on year to 787,000 sqm. New leases and expansions accounted for 82% of overall demand.

Once again the main markets enjoyed the strongest occupier demand, led by Warsaw with 292,000 sqm leased, followed by Upper Silesia and Lower Silesia. Interestingly, the largest amount of space compared to the size of the market was let in Tri-city – 7.4% of total stock. On this measure, Warsaw was

second with an equivalent of 7% of total stock leased in Q1 and Eastern Poland was third with 5%.

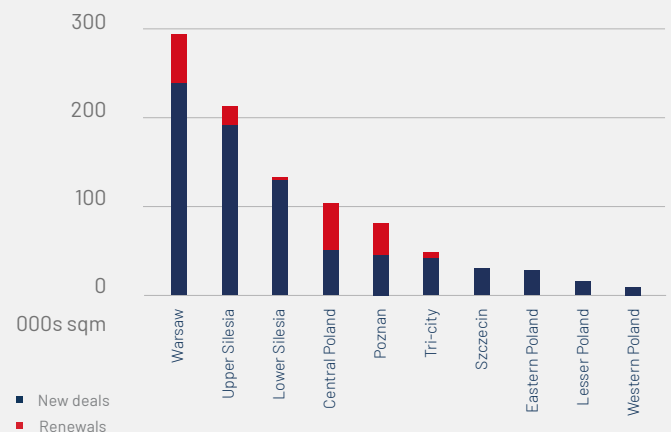
Leasing transactions that were at an advanced stage were finalised at the end of Q1 despite the pandemic and the vast majority of ongoing negotiations are continuing. However there has been a decrease in new inquiries, with most relating to short-term tenancies. Occupiers adopt a 'wait and see' stance and are temporarily suspending decisions.

Gross take-up in Q1 2020



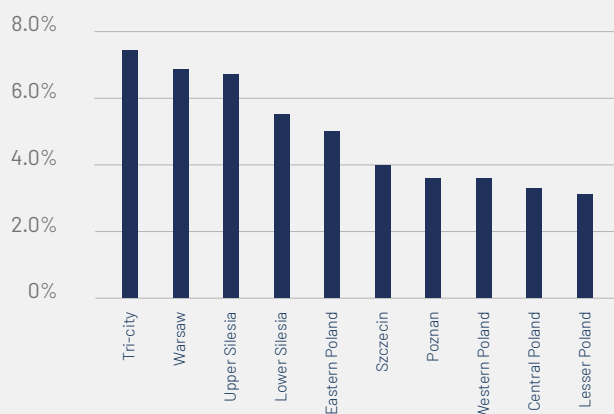
Source: AXI IMMO, Q1 2020

Gross take-up in Q1 by region: new leases and renewals



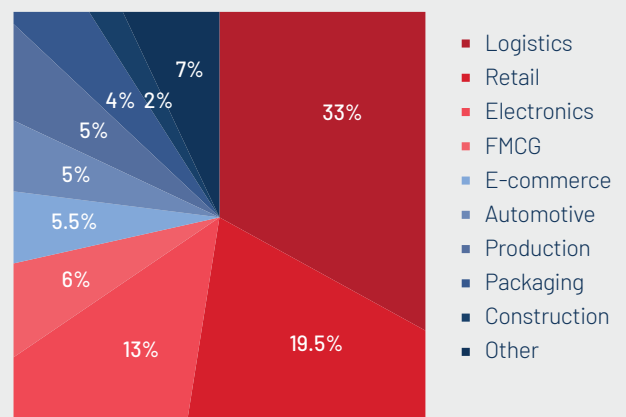
Source: AXI IMMO, Q1 2020

Gross take-up in Q1 2020 by region : % of stock



Source: AXI IMMO, Q1 2020

Take-up in Q1 2020: break down according to industry



Source: AXI IMMO, Q1 2020

Supply

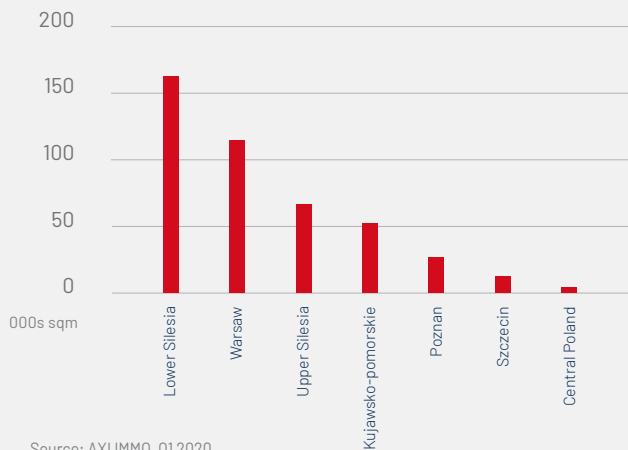
Total logistics real estate stock reached 18.95m sqm in Q1 2020, marking a 15% increase on Q1 2019. A high number of development projects commenced at the end of 2019 and are due for completion later this year. Meanwhile Q1 2020 saw a pause in development, with 440,000 sqm of space delivered to the market – 27.2% less than a year ago. The largest amount of space was delivered in Lower Silesia (over 160,000 sqm), Warsaw area (115,000 sqm) and Upper Silesia (66,000 sqm).

There is currently a total of 2.07m sqm of space under construction – 2.6% more than at the end of Q1 2019. The share

of space developed speculatively stands at 45.2% - down from 49.7% at the end of 2019.

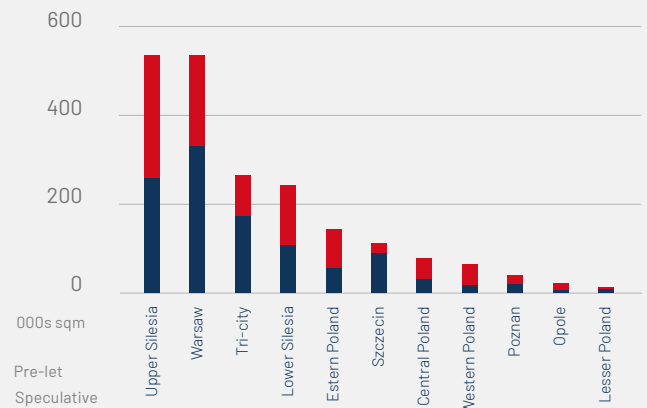
Warsaw, Upper Silesia and **Tri-city** are experiencing the highest development activity. In relation to total stock, Tri-city is ahead of the other regions by some stretch. 268,000 sqm of space that is under construction as at the end of Q1 in Poland's main sea port conurbation is an equivalent of 42% of its total stock. On this measure Eastern Poland has the second highest development pipeline and Western Poland - third.

New supply in Q1 2020



Source: AXI IMMO, Q1 2020

Under construction at end-Q1 2020



Source: AXI IMMO, Q1 2020

Selected projects completed in Q1 2020

Project	Region	GLA in sqm
BTS P3 PepsiCo	Warsaw suburbs	58,500
Hillwood Wrocław Wschód II	Wrocław	52,400
Panattoni Park Bydgoszcz II	Bydgoszcz	36,600
Panattoni Park Żory	Upper Silesia	36,500

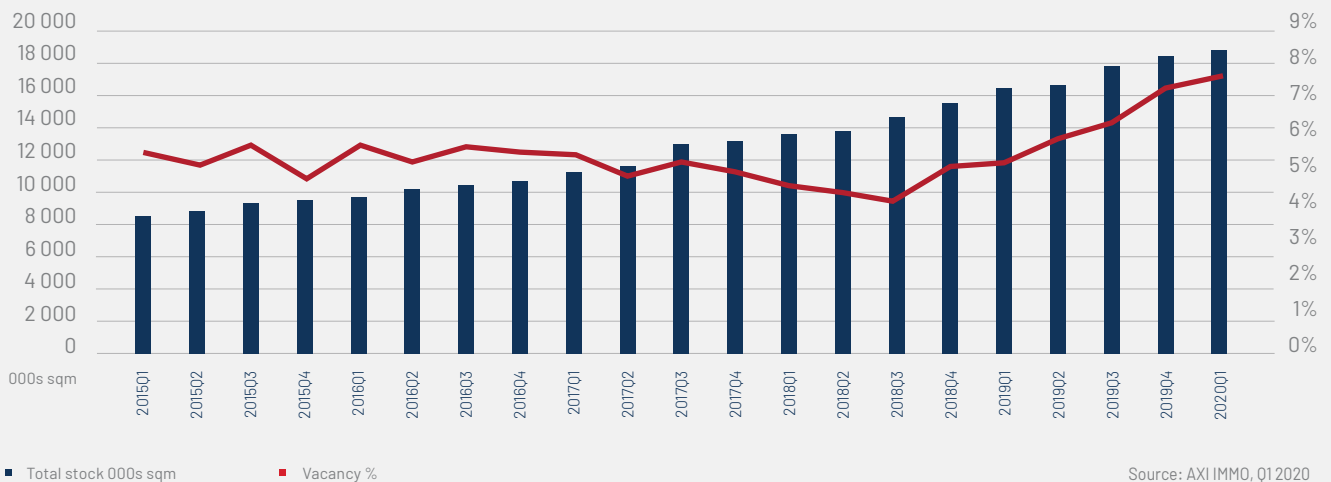
Source: AXI IMMO, Q1 2020

Vacancy

The vacancy level for Polish logistics real estate stood at 7.8% as at the end of Q1 2020, up from 5.4% in Q1 2019. In percentage terms, the highest level of available space was recorded in Kielce (35.6%) and the lowest - in Western Poland and Eastern Poland. In absolute terms, **Central Poland** has the largest amount of space immediately available for occupation - over 370,000 sqm. This equates to 11.8% of total stock in this region.

We expect further increases in availability in Q2 due to a high amount of speculative space in the pipeline combined with tenant relocations to newly built premises.

Vacancy and total stock



Rental level

Rents were stable throughout the first quarter in the majority of locations. Average headline rates for logistics assets are in the range of EUR3.2 – EUR3.6 per sqm while effective rents are 15% to 25% lower, depending on the number and quality

of competing schemes in a given location. On average, urban projects are 10% more expensive than big boxes with the exception of Warsaw where last mile logistics premises fetch as much as EUR4.8 per sqm.

Rental values in Q1 2020

Region	Headline rent (EUR/sqm/month)
Warsaw city	4.80 – 5.25
Warsaw suburbs	3.20 – 3.80
Upper Silesia	3.20 – 3.50
Central Poland	2.90 – 3.60
Poznan	3.20 – 3.60
Wroclaw	3.30 – 3.70

Region	Headline rent (EUR/sqm/month)
Tri-city	3.40 – 3.70
Krakow	3.40 – 3.60
Szczecin	3.50 – 3.60
Bydgoszcz & Torun	3.50 – 3.60
Eastern Poland	3.50 – 3.70
Western Poland	3.40 – 3.50

Source: AXI IMMO, Q1 2020

Outlook

The Polish logistics real estate sector is facing multiple challenges in the coming months, similarly to other countries in Europe and beyond. However, the structure of the Polish economy is relatively advantageous in the face of the current crisis due its diversity, a large internal market, small tourism industry, a net energy importer status, flexible exchange rate and low public debt which leaves room for a fiscal stimulus. According to the European Commission's forecasts, Polish GDP should decline by 4.3% in 2020. It is the smallest projected decline of all EU countries and is well below the 7.4% fall expected for the EU as a whole.

The first weeks of the Covid-19 pandemic demonstrated that warehouses were less affected by the lockdown measures than other parts of the real estate market. In Q2 we expect limited new demand, with short-term leases and extensions likely to dominate the leasing market. On the supply side, those

development projects that started before the pandemic are expected to be delivered but fewer new schemes will enter the pipeline. Developers are likely to limit speculative construction due to stricter financing conditions.

On the other hand, a number of companies will be under pressure to modify their supply chains to the new reality, notably to develop e-commerce channels in response to rapid growth of online sales. As a result, last mile logistics assets are likely to see increased demand.

In the longer term, deglobalisation of supply chains is an opportunity for the Polish logistics market. Poland is already an important near-shoring location within Europe; it is well integrated with the European supply chains and the continent's transportation network. It also has a large and mature commercial real estate market and competitive labour costs.

Definitions

Gross demand – total leased space including extensions but excluding short-term leases

Net demand – total leased space excluding both extensions and short-term leases

Open to change on the commercial real estate market

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