

POLISH INVESTMENT LAND MARKET

2020 REPORT



FOREWORD



EMIL DOMERACKI

Director
Investment Services | Land
Colliers International

Ladies and gentlemen,

It is with great pleasure and satisfaction that I present to you another annual Polish investment land market report. The number of spectacular transactions and dramatic price hikes we saw last year point to another period of prosperity for most market sectors.

At the same time many investors, developers and analysts focus on issues of stability and prospects of the market situation and its dynamics. Many large cities, which are prime regions for residential and commercial real estate, are witnessing actual shortages of available land.

Transaction prices of residential-purpose sites have continued their rise, reaching unprecedented levels of PLN 3k – 3.5k per sqm of residential area in top locations. Such price levels haven't been witnessed on the Polish market since 2007, forcing even commercial-focused real estate entrepreneurs to stay informed on the topic.

Head-spinning prices and low supply of attractive sites push developers to consider increasingly complex and cost-intensive solutions, including post-industrial revitalisation efforts, commercial area zoning and use changes, redevelopment of commercial projects as young as two decades, and investment in institutional rental alternatives, student housing, eldercare facilities, aparthotels etc. This impacted the availability of commercial and industrial sites within large agglomerations, as they have come under new scrutiny of residential developers.

As total transaction volumes on the domestic residential and commercial markets continue to increase, we have noticed a slight slowdown, as well as an increase in transaction periods. The loss of overall liquidity due to bond market troubles is partially to blame, however we estimate the total transaction volume to stand at PLN 5.5 billion. Provided the global and national macroeconomic outlook holds, we expect this to be at least matched this year, January through December.

Colliers International's experts participated in over a dozen key land transactions countrywide, both in the residential and commercial sectors. The total volume of land sale and purchase transactions with Colliers' participation stood at PLN 700 million. The clients appreciated our market know-how, efficient procedures allowing for fast processing of transactions of increasing complexity, and flexibility in finding solutions to optimise the transactions' profitability and we would very much like to thank our clients for the trust they have put in us.

Last year's most challenging tasks of our department included the revitalisation of land near 53 Łopuszańska St. in Warsaw and the repurposing of four out of nine buildings forming the iconic Warsaw-Mokotów Empark office park. The latter will soon be the site of an apartment complex of over 1,500 units, provisionally called "Molto". We also took part in some interesting transactions in regional markets: a new office & student housing project in Kraków, the rezoning of a multi-hectare industrial site for urban mixed-use purposes in Wrocław, and new industrial plots in the Silesia and near-Warsaw regions to name a few.

Particularly mention worthy is Chełmska St. in Warsaw, a new mixed-use office and residential project, formerly a bus terminus and servicing site which sold in excess of PLN 300m in cash – a record-breaking transaction in volume alone. The beginning of 2020 will see our team active in a number of successful revitalisation efforts, including in the Warsaw Praga district, the Wilga district of Poznań and in Gdańsk's Wrzeszcz.

We sincerely hope that the following report will be of interest to all readers, and that our experts' knowledge and experience shared therein will prove to be helpful in the tough decision making environment faced by all of those engaged in such a dynamic market.

SUMMARY OF 2019



RESIDENTIAL SECTOR

Like in the previous year, 2019 saw land investors' interests focused predominantly on the residential market. Over 70% of all transactions took place in this sector, amidst rising prices of both plots and end product. Despite new supply of apartments not exceeding sales levels, developers maintain a considerable offer, which is generally taken as a sign of market stabilisation.

*As predicted, developers have transferred a considerable part of their rising costs, due to steel, energy and land price increases combined with labour shortages, to be borne by the customer. In some cases profit margins had to be reduced, but due to high demand for apartments, especially in large cities, they are still within healthy ranges – says **Emil Domeracki**, Director, Investment Services | Land, Colliers International.*

Investment purchases, along with the need for residential space, remain the two most considerable driving forces behind apartment buyers' motivations. Low interest rates and favourable crediting options allow private individuals to increasingly become investors, as apartment purchases are seen as a safe and available alternative to capital investment schemes, increasing in value and generating rent income.

*As we observe the increasing share of apartment cash purchases and the rising popularity of apartment blocks developed for rental purposes, expressed by rising occupancy ratios, we are not surprised by residential developers' moves towards commercial land purchases. Both the rising mobility of young employees and the growing importance of migrant workers in the service economy opened up a niche in rental apartments that will soon attract institutional investors – says **Krzysztof Chyla**, Transaction Coordinator, Investment Services | Land, Colliers International*

Adaptation to market trends is not the only reason for developers' widening their scope of interest when it comes to land purchases – adds Emil Domeracki. The noticeable lack of supply of available sites in most locations in Warsaw, Kraków and Gdańsk is a pressing issue for those, who didn't manage to build a land bank large enough to develop through a period of record-high prices. There are alternatives to resi-as-service developments, of course, but none of them are much cheaper, including revitalisation projects.

Last year, Colliers' experts took part in a number of such complex and challenging projects. The well-established scenario of industrial activity relocation away from urban areas, followed by environmental remediation and subsequent development now has to be amended with increasing frequency to include zoning changes. Despite the complex bureaucratic and time-consuming nature of such a process, investors are willing to include those factors in their plans for the sake of securing a site close enough to the city centre. Rising residential prices have led to purchases and revitalisation of non-industrial commercial properties, as exemplified by the purchase of parts of the Empark office park, a landmark of early Służewiec Przemysłowy office cluster development, for residential purposes.

A new factor to be considered in zoning alteration processes will undoubtedly be the first applications of the new special purpose law in practice. We are aware of several 2019 purchases made with due consideration given by the buyer to that very administrative path of zoning change, and assumptions of a more manageable schedule than the regular process would have required. First administrative decisions given in December in Warsaw in the Szmulki region seem to fulfil those expectations.

WARSAW CENTRAL	1 600 – 6 000 PLN / m ² PUM
WARSAW NON-CENTRAL	900 – 1 750 PLN / m ² PUM
CITIES OVER 500,000 INHABITANTS	450 – 1 300 PLN / m ² PUM

Most attractive for residential developers, both established and newcomers, were still sites located in Warsaw, Kraków and Wrocław. The record-high supply of new apartments witnessed in Poznań last year seems to contradict previous expectations regarding that city's suburbanisation and stagnation, which bodes well for the investment site market there as well. Some developers noticed the growing number of Warsaw employees commuting daily from Łódź and launched a number of popular and higher quality residential projects in the latter city.

OFFICE SECTOR

Rising demand for office area in Warsaw and most regional cities resulted in dropping vacancy rates in the majority of them. Developers were more active in cities over 500,000 inhabitants than in the capital, however all of those markets are backed by a considerable pipeline of projects already under construction or planned and developed on land banks. As a result, we've witnessed a third year of market stabilisation in this investment site market sector.

The gradual maturation of regional office markets, especially shared service sector magnets with good tertiary education facilities, reduced developers' appetites for investment sites located outside office clusters. For the purchase of such a plot to be considered, some added value must be presented to the market, such as a signed pre-lease agreement with a significant anchor-tenant

– says Emil Domeracki.

We're increasingly tasked with requests by our clients to help them not only to expand their office operations, but to relocate and integrate branches and offices scattered throughout a city in one modern project that would fit the client's needs – adds Krzysztof Chyla. We expect demand for such services to increase, provided the market maintains its positive outlook, and the return of the 'fee-developer' role in office projects. Likewise, proficient property advisors will also be in high demand, as the complexity of such undertakings requires expert knowledge and assistance in numerous aspects.

Central locations and repurposing of historic and existing buildings for boutique offices remain en vogue. Due to the complexity of such endeavours and shrinking availability of potential acquisition targets, transaction prices have risen by 5% to 10%, which has been largely met by the dropping prices of B-class office locations.

According to Colliers' analysts and brokers, 2019 saw the continuation of commercially zoned properties considered prime office sites being purchased and developed as residential services, such as condo- and aparthotels, private rental sector, student housing and traditional hotels. All signs point toward city planners welcoming this trend with open arms in many cities, hoping for a more balanced spread of mixed-use areas which are common in advanced, service- and knowledge-based economies.

WARSAW CENTRAL	1 750 – 5 000 PLN / m ² GLA
WARSAW NON-CENTRAL	500 – 2 250 PLN / m ² GLA
CITIES OVER 500,000 INHABITANTS	350 – 1 350 PLN / m ² GLA



WAREHOUSE AND INDUSTRIAL SECTOR

With unemployment at a 25-year historic low, industrial developers have begun to consider labour availability as a crucial factor, akin to modern transportation availability. Poland's emerging role in the European logistics market, along with the global expansion of e-commerce are clearly reflected in tenant activity and dropping vacancy rates nationwide. However, from the perspective of the investment land market, 2019 brought no revolutionary changes regarding preferred locations, nor pricing.

As expected, Central Poland has overtaken Upper Silesia with regards to total warehouse stock, while the logistics market absorbed the whole of Szczecin's available and newly developed supply. Due to increased interest in sites located close to Warsaw a small price increase was noticeable, resulting from decreasing land supply, however average prices have remained within previous year's ranges.

RETAIL, SERVICE AND HOTEL SECTORS

Retail space density ratio per inhabitant has reached a stable level in large and medium regional Polish cities. Most retail projects developed last year have used sites secured in previous years and land-banked, with the exception of medium-scale discount stores developed in smaller municipalities by a number of investors.

Due to Sunday trade restrictions and the rise of the e-commerce sector, development of classic 'third-generation' shopping malls is increasingly losing ground to modern mixed-use schemes in large cities and retail parks in less urbanised areas

– says Emil Domeracki.

Service-oriented investors also increasingly looking for alternative assets. In 2019 Colliers took part in a historic transaction, the sale of a portfolio of modern student housing projects to an Asian investment fund. We have been observing the rising interest in sites fitting the particular profile of such projects for a while now – criteria include proximity to public transportation, tertiary-education facilities and proper zoning. However, only last year did developers specialising in this market successfully compete with retail & service, and residential investors, despite higher price levels than in prior years. This uptick in modern student housing projects is concentrated in cities like Warsaw, Wrocław, Kraków and Poznań, but also put smaller regional municipalities, such as Toruń or Lublin, on international investment funds' radars.

The increased popularity of student housing as an yielding asset is the result of numerous European and international student exchange programmes. Domestic students are much more likely to rent apartments privately or use the outdated but cheaper housing facilities offered by the universities themselves – says Krzysztof Chyla.

WARSAW CENTRAL	1 750 – 4 500 PLN / m ² GLA
WARSAW NON-CENTRAL	1 250 – 2 000 PLN / m ² GLA
CITIES OVER 500,000 INHABITANTS	350 – 1 150 PLN / m ² GLA

Due to Western Europe's aging society and domestic demand for such services, many analysts point to eldercare facilities as the next alternative asset to become popular in Poland. Higher costs, both in development quality and medical staffing, are still holding investors back, however the search for appropriate sites is already on its way.

2020 PROGNOSIS

According to Colliers International's experts and based on their over 20 years of experience, the Polish commercial and residential real estate land market will witness a measured slowdown in price increases. Due to considerable demand and a favourable macroeconomic situation, the residential sector will continue to dominate the market, while innovative strategies launched in 2019 will become more prevalent in 2020.

- Private rental sector and modern student housing will continue to be popular both in terms of zoning issue avoidance and as an institutional investment product.
- Industrial and post-industrial sites located in large cities, such as Warsaw, Wrocław, Poznań, Kraków and Gdańsk will continue to be redeveloped for residential purposes. A similar fate might befall aging office buildings dating back to the turn of the century.
- Industrial and logistics-oriented developers will continue to follow the development and modernisation of transportation (road, air and water) infrastructure countrywide, as well as labour trends. Areas surrounding the Tricity agglomeration and Warsaw might see a price increase, but the sector-wide trend of price stabilisation will follow us throughout another year.
- Purchases of land for retail purposes will focus on filling in the retail "gaps" in medium and small cities. We do not expect prices to fall, but the number of transactions will remain low due to buyer activity.







EMIL DOMERACKI

Director

Investment Services | Land
Colliers International

Emil Domeracki specialises in advising our clients in the sale or purchase processes of commercial and residential real estate plots. He cooperates with land owners, investors and developers active in the Polish market. As a director of Land department Emil is responsible for the coordination of due diligence analysis, negotiation support, market analysis preparation, financial and best-use analysis. During his eleven years at Colliers he participated in a total of PLN 2.85 billion worth of transactions, selling and buying over 3,300,000 square metres of investment sites all over Poland.

Among the most prestigious projects represented by Emil are: Lotos Petrobaltic in Gdańsku (61,280 sq m), S.R. Nauta Gdynia shipyard (84,497 sq m), Dalkia Poznań (103,912 sq m), MPRO in Warsaw (52,909 sq m portfolio), ArcelorMittal Warsaw (24,136 sq m), Skarbiec TFI – Kapelanka in Kraków (4,698 sq m), Stocznia Gdańsk S.A. shipyard (202,160 sq m), Wilanowska/ Sikorskiego in Warsaw (84,593 sq m), Qualia Development (265,965 sq m residential portfolio), Mieszko S.A. (15,627 sq m), Parzniew Panattoni (24,899 sq m), Sokółów Panattoni (160,000 sq m), Gerda Marynarska (16,584 sq m), Plac Defilad (5,935 sq m), Chełmska (51,708 sq m).



KRZYSZTOF CHYLA

Transaction Coordinator

Investment Services | Land
Colliers International

Krzysztof combines his analytical skills and market knowledge in managing the day to day workings of the department, and assists in the preparation and execution of the sale and purchase processes, due diligence analysis, marketing, negotiations and provides analytical support to clients.

Krzysztof joined Colliers in 2012 as a graduate in International Economics from the Warsaw School of Economics and student of Arabic & Islamic studies at University of Warsaw's Oriental Studies Faculty.

Colliers International
Pl. Piłsudskiego 3
00-078 Warszawa

