

# STRONG FUNDAMENTALS FOR COMMERCIAL REAL ESTATE

The Polish commercial property market has reconfirmed its status as an investment hotspot despite the one-year-long war in Ukraine, the runaway inflation and the global economic turmoil. In 2022, total investment transactions reached over EUR 5.8 bn, an increase of EUR 100 m on the previous year's volume. Offices reclaimed the position as the top-performing sector after two years. Report authors from BNP Paribas Real Estate Poland anticipate investment volumes for 2023 to remain on a par with last year and the long-term transactional activity to be driven by the billions of euros that Poland is likely to receive from the EU's budget.

According to "At a Glance Investment Q4 2022", a report from BNP Paribas Real Estate Poland presenting a detailed summary of the last quarter on the Polish commercial property market, last year's total investment volume in Poland surpassed EUR 5.8 bn. This result illustrates not only the Polish market's strength and relative resilience to shocks, but also investors' confidence in the stability of Poland's economic fundamentals. Investors appreciate rental growth across the market while also focusing on reducing many risks highlighted in financial forecasts, say the report authors.

*"Many buyers remain very cautious. As a result, prime yields for almost all asset classes moved out by around 0.25 pp at the end of last year. This suggests that investors are taking account of the possibility that pessimistic scenarios might materialize. At the same time, the yield growth trend, especially for office and industrial assets, appears to be strongly constrained by falling supply levels and high construction costs,"* says **Mateusz Skubiszewski**, Head of Capital Markets, BNP Paribas Real Estate Poland. In 2022, the strongest outward yield movement of 0.5 pp was for big-box warehouses sized over 5,000 sqm and shopping centres.

Mateusz Skubiszewski adds that the market is expected to bounce back in late 2023, with a consequent increase in commercial property investment volumes. Investment activity is likely to be fuelled by funds in the region of close EUR 86 bn to be received by Poland as part of the EU's long-term budget for 2021-2027.

In their search for assets and acquisition opportunities, buyers now require thorough analyses like never before – not only of economic indicators but also of ESG credentials. Investors view



this approach as an opportunity to increase the resilience of their portfolios, add value or to secure better financing conditions.

*“In estimating the investment values of many asset classes, especially of office and industrial properties, buyers strongly focus on tenant quality and stability. Another important factor is the average unexpired lease term. An in-depth analysis of these factors will help reduce risks to cash flow stability. But even despite the uncertainty at play, Poland continues to be targeted by investment funds, particularly from the United States, Germany and South Africa. It was capital from these regions that dominated the Polish market in 2022. Another notable trend was the growing inflow of capital from other CEE countries,”* says **Marta Gorońska-Wiercioch**, Associate Director, Capital Markets, BNP Paribas Real Estate Poland.

### **Appetite for offices**

Investors continue to see offices as investment-worthy assets. In 2022 they spent a total of EUR 2.1 bn on this asset class, marking an increase of 24% on 2021. Last year's headline deal was the sale of The Warsaw Hub to Google for over EUR 585 m. The last quarter also witnessed a major transaction take place – the EUR 113 m acquisition of Echo Investment's Face2Face office complex in Katowice by Czech-based Investika & Bud Holdings.

### **Confidence in retail and strong logistics**

The return to the new post-pandemic normal was favourable for retail assets which attracted EUR 1.45 bn of investment, the best result since 2018. Investor demand continued to focus on smaller retail formats, but - more importantly - after many months two shopping centres changed hands: Forum Gdańsk and Atrium Copernicus. NEPI Rockcastle paid a total of EUR 377 M for both.

In 2022, the logistics, warehouse and industrial sector turned over EUR 2 bn. Although it accounted for 34% of the total transaction volume, it slipped into second place just behind offices after two years. The market leader on the sell side was Panattoni, which in 2022 delivered to investors assets for a combined value of over EUR 569 m. The largest single-asset transaction was German-based Garbe Group Union Investment's acquisition of the vidaXL distribution centre in Września, for around EUR 120 m.



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