Warsaw, 10.05.2023

press RELEASe

**INVESTMENT MARKET AS A REFLECTION OF THE ECONOMIC SITUATION - AT A GLANCE Q1 2023**

* **Polski rynek nieruchomości komercyjnych coraz bardziej atrakcyjny dla inwestorów szukających wartości dodanej**
* **Sytuacja na rynkach finansowych i niepewność gospodarcza przekładają się na wzrost stóp kapitalizacji**
* **Wyraźna przewaga kapitału Europejskiego po stronie kupujących**

**As expected, financing constraints and economic uncertainty saw the Polish commercial real estate market underperform in early 2023. However, some investment funds were out hunting and analysing value-add opportunities as the industrial and logistics sector made a strong start to the year.**

In the first quarter of 2023, Poland’s commercial real estate investment volume reached EUR 651m, accounting for close to 40% of the figure for the same time in 2021 and marking a decrease of EUR 763m from the previous quarter.

With a 62% share of the total quarterly transaction volume, industrial and logistics assets were the top-performing sector in the surveyed period. Retail came second with 21%.

- *Rents continue to grow for almost all asset classes, partially offsetting the yield decompression of around 0.25 pp in the first quarter. Global bond markets still offer attractive returns, which has led to the repricing of safe assets such as fully-let commercial properties. In addition, the property market and the office sector in particular are entering a phase of lower supply levels, which is expected to further dampen investment activity for new buildings. Green shoots of investment recovery in Poland are expected in the late third quarter or early fourth quarter of the year*, says **Mateusz Skubiszewski**, Head of Capital Markets, BNP Paribas Real Estate Poland.

Faced with constrained asset availability, investment funds may adopt more aggressive pricing strategies for older properties, putting an end to repricing. Investment volumes are likely to pick up later this year.

**Fewer transactions but investors are seeking opportunities**

Although the commercial property market saw fewer transactions in the past quarter, there is still investor interest. Against the current economic backdrop, value-add funds remain active and continue to look for investment bargains. In today’s economic climate, investors are exhibiting caution in all real estate sectors and expecting yields to move out further.

- *Warehouse rental growth is driving potential buyers to target facilities whose tenants will be able to accept higher costs once their current leases expire. Fundamental to this will be the economic and financial standing of tenants and their ability to pay higher occupancy costs, including service charges. Supply and demand levels and the availability of real office relocation alternatives will also play a key role*, says **Marta Gorońska-Wiercioch**, Associate Director, Capital Markets, BNP Paribas Real Estate Poland.

Hybrid and remote working patterns which have recently been implemented into the Polish Labour Code are also increasing in importance on the office market. Higher sublease availability may encourage some tenants to negotiate more aggressively with landlords, which will in turn impact investors’ rates of return. However, a decrease in new construction starts may prevent this trend.

**The market is becoming more buyer-friendly**

Persistently high inflation in Poland and the world is forcing central banks to tighten their monetary policies. High interest rates and uncertainty about further rate hikes have resulted in asset repricing, with buyers showing more caution and expecting better offers from property owners. This is notable, among other things, for shopping centres whose yields moved out by 0.5 pp over the quarter. For this asset class, investment strategies should take account of moderately favourable forecasts for 2023 with a projected decline in real consumer spending of around 0.7%.

**Offices**

The office sector, which reported an impressive investment performance last year, showed a weaker start to the year. The office investment volume for the first quarter was around 21% lower than in the same period in 2022, excluding last year’s headline deal - Google’s acquisition of The Warsaw Hub for over EUR 585m.

- *Given the tough market environment, 2022’s impressive office investment volume, which was over 24% higher than a year earlier, and the first quarter results, achieving solid full-year turnover growth is likely to be a major challenge*, adds **Mateusz Skubiszewski.**

**Retail, industrial and Logistics**

The retail sector was dominated in the first quarter of the year by low-value transactions, the largest being the sale of Atrium Molo Szczecin by G City Europe for EUR 46.3m. Interestingly enough, the retail investment volume for the first quarter is still above the levels recorded in 2018-2021. Although investment activity is focused on smaller retail formats such as retail parks and convenience shopping centres, investors are also increasingly targeting shopping centres.

The industrial and logistics sector was the top performer for investment activity in the first three months of 2023, with the total transaction volume amounting to EUR 401m, more than double the figure for the same time last year. As in the whole of 2022, the market leader on the sell side in the period January-March 2023 was Panattoni, which closed deals worth a combined EUR 331m plus. The largest transaction of the first quarter was P3’s acquisition of Campus in Wrocław (185,000 sqm) for EUR 138.5m.

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