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Poland Industrial Market Report

2014

warehousefinder.pl

Contents

Introduction

Demand and supply balanced in 2013. The decrease of availability was effectively limited by vacated floor space returning to the market. Will the forecasted economic recovery strengthen the demand side in 2014?

The second wave of the economic slowdown, which arrived in Poland at the turn of 2012 and 2013, did not affect the results of the industrial sector, which was an abberration from the norm that has been seen since the beginning of this market. In 2013, GDP increased by 1.6%, which was the same as the figure from 2009, when Poland was first hit by the effects of the global crisis.

However, demand showed an upward trend. During 2013, a total of 1.87 million m^2 was leased, of which 1.26 million m^2 was attributable to new leases and lease expansions, representing an increase on 2012 of 39% for gross take-up and 66% for net take-up. The demand accelerated quarter on quarter along with GDP growth dynamics and reached the level of 784,000 m^2 (gross) and 602,000 m^2 (net) in the last quarter. This impressive figure was largely due to Amazon, which leased a total of 324,000 m^2 at the end of the year.

Despite this considerable surge in demand, the vacancy rate recorded an uptick of 120 bp. y-o-y, reaching 11.4% in the last quarter. This figure translates into 844,000 m^2 of immediately available floor space. However, there are large discrepancies between particular regions, which will be further described later in this report.

The slight increase in vacancy was the effect of high tenant churn. A number of industrial tenants vacated commercial warehouses to relocate into owner-occupier buildings. The market also saw a few bankruptcies which resulted in the abandonment of ongoing leases. Moreover, new tenants most often chose to work with developers and construct new premises (pre-let and BTS).

During 2013, new floorspace delivered to the market totaled 305,000 m^2, which was quite a modest result when compared to the last few years. However, the prospects for 2014 are good. High demand for industrial space is influencing the development pipeline. At the end of Q4 2013, floor space totaling 714,000 m^2 was in the construction stage, which is significantly more than in the same period of last year, when it was just 222,000 m^2.

However, only 5.8% of the stock under construction, i.e. 42,000 m^2, is being constructed without being secured by a binding lease agreement. This indicates a further decrease in speculative developments.

At the end of the year, the total supply of commercial warehouse and production space in Poland totaled 7.45 million m^2. When the the projects which are currently being constructed are completed this figure is expected to reach 8.16 million m^2.

Rents in the majority of the regions saw only slight fluctuations, which reflected the current balance between demand and supply prevailing on the market. Only in the Poznań region did a supply gap, which has been growing for the last couple of quarters, cause an upward pressure on rents.

Investment volume, which concerned industrial properties, exceeded the record-breaking results from 2012 and set a new benchmark of €648 million. Yields were subject to further compression and currently the achievable level for the best assets ranges between 7.5% and 7.75%.

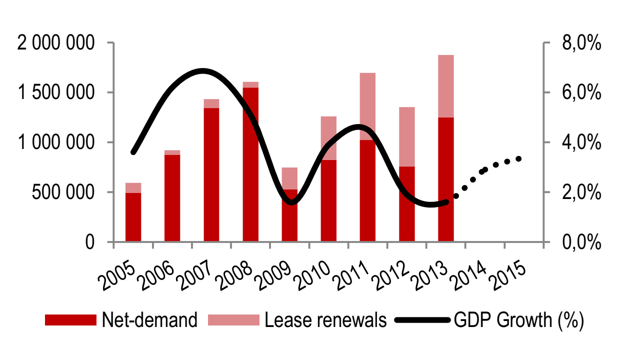
Tenant Activity

The general improvement of the economy, good future prospects, and the entry of Amazon to Poland contributed to a historically high demand for industrial space in 2013.

During the past year, the trends seen at the end of 2012 have continued, and to some extent even strengthened. The good economic prospects were confirmed by both firms seeking new warehouse units and those deciding to renew existing leases.

The industrial market landscape was stongly influenced by the transactions concluded by Amazon, which involved total floorspace of 324,000 m². They accounted for 26% of all the net take-up, which stood at 1.26 million m² in 2013. However, even if one excludes the Amazon deals, last year's demand was 926,000 m², which is well above the 755,000 m² seen in 2012.

Chart 1: Demand for warehouse space in 2005-2013 (m²)



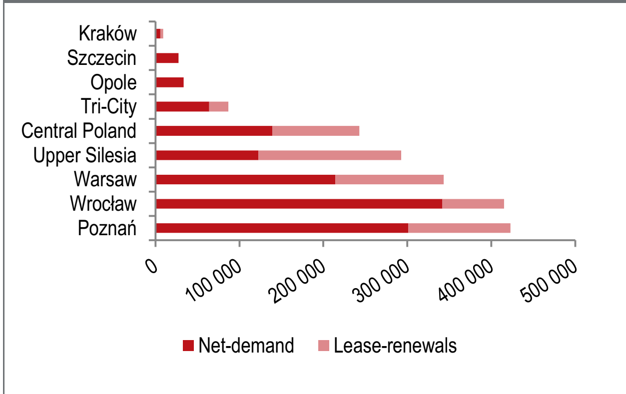
Source: Jones Lang LaSalle, warehousefinder.pl, Q4 2013

During the last year, gross demand, which includes new take-up and lease renewals, reached a historical maximum. It stood at 1.87 million m², some 38% larger than in 2012 and 11% more than in the previous record result in 2011.

In addition to the aforementioned transactions by Amazon, the most notable deals included one by ITM (which leased more than 82,000 m² in the Poznań Logistics Center), and one by Castorama (for which Panattoni is developing a BTS project of 50,000 m² in Stryków).

The great importance of deals signed by the American e-commerce giant has also been reflected in the regional structure of demand. They have largely contributed to the top positions of the Poznań and Wrocław regions, where gross take-up stood at 423,000 m² and 415,000 m² respectively. In the case of Poznań, this translated into a 2.5-fold increase in demand compared to 2012 and rising from fifth to first place on the list of the most popular industrial regions.

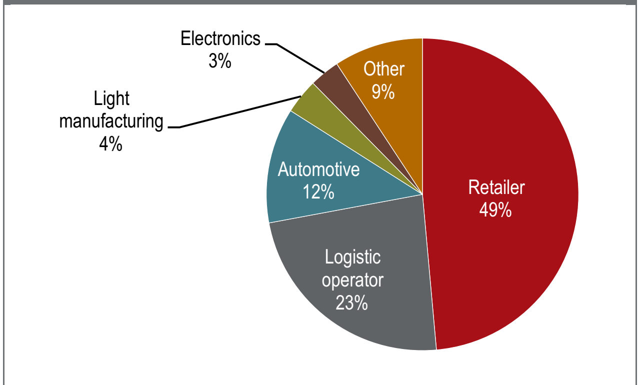
Chart 2: Take-up in regions in 2013 (m²)



Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

The highest demand for industrial floor space came from retailers, whose share (largerly due to the Amazon deals) amounted to 49%. Demand from logistic operators, although slipping to second place and accounting for 23% of take-up, was down only slightly, standing at at 295,000 m² as compared to the 320,000 m² recorded a year ago.

Chart 3: Net take-up by sectors in 2013



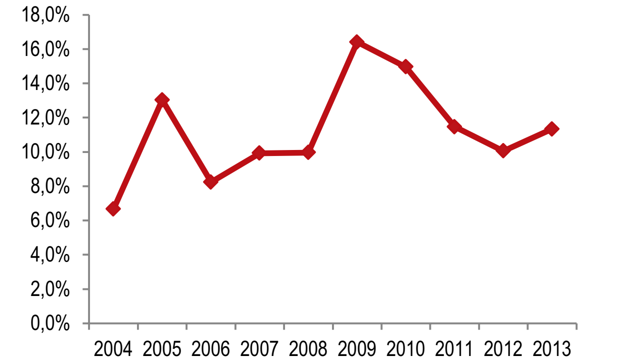
Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013.

Availability of Warehouse Space

The slight increase in availability was largely due to high levels of tenant churn and not to an increase in supply.

At the end of Q4 2013, a total of 850,000 m^2 was unoccupied, equal to 11.4% of existing market stock. The vacancy rate was stable throughout 2013 and osciliated around the level of 10% which was recorded in Q4 2012. Only in the last quarter of 2013 did availability go up on a few of the main markets, which influenced the national figure.

Chart 4: Vacancy rate for Poland in 2005-2013 (%)



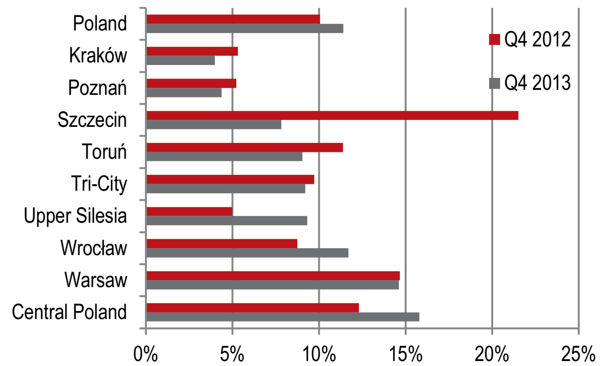
Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

The highest amounts of vacant space are found in the markets of Central Poland (15.8%), Warsaw (14.6%) and Wrocław (11.7%). In the case of Wrocław, the growth of available space is mainly due to bankruptcy being announced by Fagor, which resulted in a 46,000 m^2 unit in Distribution Park Wrocław being vacated. The Upper Silesia region also saw a considerable increase in vacant space over the year, which now accounts for 9.3% of the stock.

In the case of Warsaw, there are differences between the suburbs and the inner city zone. Within the capital's borders the vacancy rate is 22.3%, while outside Warsaw it stands at 12.5%. A notable fall in availability was seen in the Błonie area, which offers relatively low rents. Currently, there is 108,000 m^2 of immediately available space compared to the 148,000 m^2 seen in Q4 2012.

Amongst the main industrial regions, the lowest vacancy rate is found in Poznań. Current availability on that market is a mere 45,000 m^2, just 4.4% of space in the region.

Chart 5: Vacancy rate by region in Q4 2012 and Q4 2013 (%)



Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

In spite of the low share of speculative construction in the pipeline underway (5.8%), developers look set to start this type of projects. The largest market players have secured titles to large amounts of industrial land (be it ownership or purchase options) and are ready and able to swiftly deliver buildings. A number of developers were close to launching speculative projects in 2013, but each time their plans were hindered by an unexpected influx of vacated existing space. One can assume with a significant amount of certainty, however, that the market will not to be returning to the pre-crisis times, which were characterised by a high level of speculative projects.

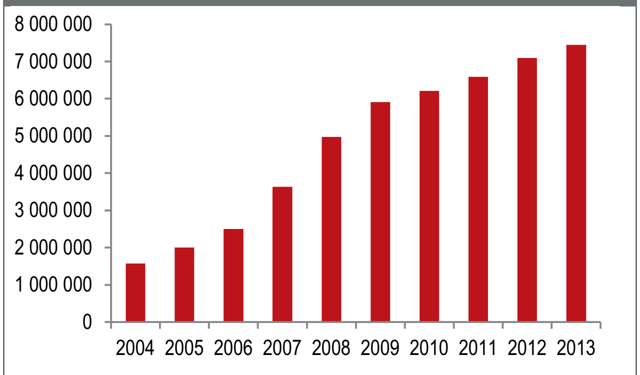
Developer Activity

A less busy 2013 for developers is now compensated by the large pipeline of properties under construction.

At the end of Q4 2013, the total stock on the Polish industrial market was 7.45 million m2. During 2013, the market expanded by 305,000 m2, which was the second lowest figure in the history of the market: only in 2010 was delivered supply lower. In comparison to 2012, the 2013 result was a fall of 41%.

The low number of completions was due to a number of factors. Most of all, tenants were attracted by lower rents offered in already existing projects. The high churn of tenants who were often looking to opitimise their leased space meant that vacancy rates did not decrease. In addition, the long winter, which lasted until April, caused many projects to be started late and with their completion rescheduled for 2014. That is partially reflected in the under construction volume as of the end of the year.

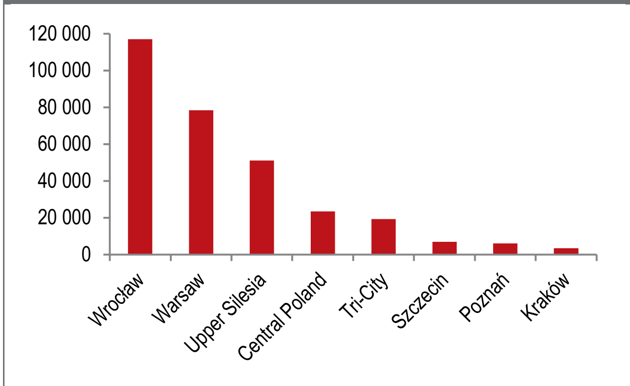
Chart 6: Poland's warehouse space in 2005-2013 (m²)



Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

The regions which saw the highest volume being completed included Wrocław (space up by 117,000 m²), Warsaw (which expanded by 78,000 m²) and Upper Silesia (which saw the construction of 51,000 m²). The lowest level of completions were in Poznań (where the supply increased by a modest 6,000 m²), and Central Poland (which grew by 23,000 m²). In the remaining regions 30,000 m² of stock was delivered.

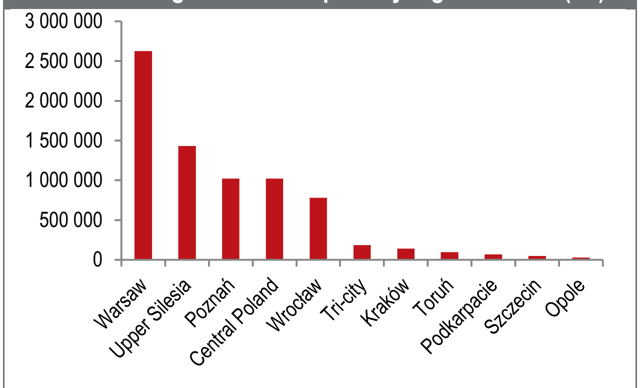
Chart 7: Industrial space delivered in 2013 by region (m²)



Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

With industrial stock totaling 2.63 million m², Warsaw remains by far the largest market in the country. The second largest region, Upper Silesia, offers 1.43 million m², and is followed by Poznań and Central Poland, each of which offer floor space of 1.02 million m². However, we expect a major reshuffling in the ranking this year. When the projects now underway are completed, Poznań will markedly outstrip Central Poland, and the latter region will be competing with Wrocław for the fourth position.

Chart 8: Existing warehouse spaec by region in 2013 (m²)

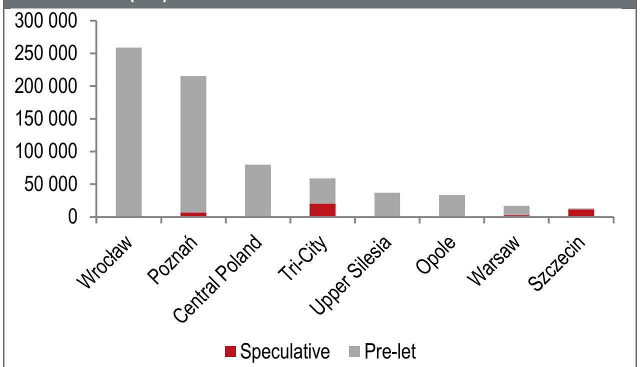


Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

In terms of development activity by the major market players, Panattoni was the most active, delivering 90,000 m² of new space. The majority of this volume (56,000 m²), was completed as built-to-suit projects. SEGRO completed 85,000 m², the majority of which was in extensions to already existing parks and brand new projects built in Wrocław and the Tri-City. The following developers included Prologis (who completed 42,000 m²), Goodman (25,000 m²) and MLP Group (20,000 m²).

As of December 2013, 714,000 m² of industrial space was in the construction stage, which was the largest amount since 2008. Almost a half of that volume was attributable to the transactions concluded by Amazon, which leased 324,000 m² in three projects in Wrocław and Poznań in the last quarter of 2013.

Chart 9: Warehouse space under construction by region as of Q4 2013 (m²)



Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

The regional structure of the projects in the pipeline is also significantly influenced by the three deals signed by Amazon: the largest amounts are now under construction in Wrocław and Poznań. However, while it is correct to say that the space under contruction for the Wrocław market is mainly attributable to the aforementioned e-commerce giant, in the case of Poznań the share of Amazon 'only' accounts for less than half of the constructed volume. Moreover, having excluded these three deals from the statistics, the Poznań region becomes the largest construction site in Poland. Taking into account the low vacancy rate on this market, we may assume that after a relatively quiet period, growth in this region is again gathering pace.

In terms of the ratio between existing volume and that under construction, the Tri-City area should be mentioned: 19,000 m² is now at the construction stage, which, along with the stock of 36,000 m² completed during 2013, indicates a sharp increase (33%) in supply in this region as compared to Q4 2012.

The share of speculation on the market is still insignificant. Today, units which have not been secured with lease agreements are typically constructed as an addition to pre-let schemes within a single construction project. The largest speculative volumes are currently being constructed on markets with limited supply, such as the Tri-City or Szczecin, and their total floor space stands at a mere 42,000 m².

BTS Projects

Five BTS projects, with a joint floor space of 82,000 m², were completed in 2013. These were buildings constructed for Lear in Legnica (32,000 m²), Dayco in Tychy (18,000 m²), Faurecia in Legnica (14,000 m²), Syncreon in Żary (11,000 m²) and Dachser in Pruszków (7,000 m²).

One can see notable increase of interest in Poland as a location for production facilities. Although companies representing this sector predominantly choose to handle operations in owner-occupier buildings, some may consider more flexible leases. This is potentially an additional factor which may add to future demand.

A border can now be drawn roughly along the A1 motorway which splits the production projects according to the assumed investment criteria. The area to the east of that border is often chosen as a location for firms which are encouraged by the scope of public aid and lower labour costs. Western Poland, on the other hand, is most often preferred by producers which export goods to the European Union.

Largest completions in 2013

Tenant	Location	Developer	Area (m²)
Tradis / Neonet	Wrocław	Prologis	36,000
Lear	Legnica	Panattoni	32,000
Żabka	Nadarzyn	SEGRO	24,000
Dayco	Tychy	SEGRO	18,000
Valeo / Geodis	Stryków	SEGRO	15,000

Largest projects under construction in 2013

Tenant	Location	Developer	Area (m²)
Amazon	Wrocław	Goodman	123,000
Amazon	Poznań	Panattoni	100,600
Amazon	Wrocław	Panattoni	100,600
Castorama	Stryków	Panattoni	50,000
Eko Holding	Wrocław	Prologis	35,000

Source of both tables: Jones Lang LaSalle, warehousefinder.pl, Q4 2013

Rents

Minor fluctuations of rents in 2013. Status quo maintained by developers, who competed for the largest projects.

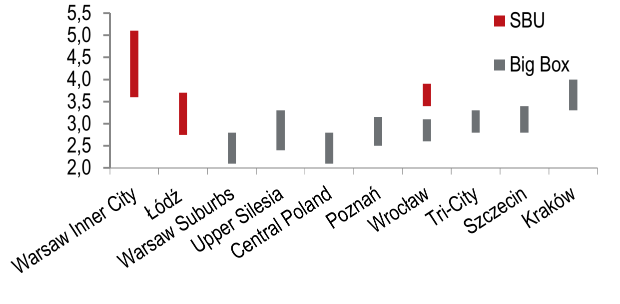
The high level of tenant activity during 2013 did not influence the rents found on the market. Although some regions saw temporary fluctuations in availability, this has not led to changes in rents.

However, one must note that today it is increasingly difficult to set a single universal market rent. In fact, rents are determined by a number of factors, which are not necessarily easy to compare. Rents are largely influenced by location, type of project, length of lease, size, and technical improvements needed for the client's requirements. Finally, rent is also affected by the given tenant's credibility and its long-term ability to handle the rental burden.

Depending on the type of the scheme, we can distinguish i.e. 'Small Business Units', which are most often located within cities, include an office component and are assumed to handle urban logistics. Rents for this type of property are markedly higher, which results from their location in urban areas, small floor plate, and higher costs of land and construction. Large distribution warehouses, on the other hand, are predominantly located on the outskirts of cities, and are characterised by lower rents.

The main factor influencing rents is the vacancy rate on a particular region. Owing to the relative stability thereof seen on most markets during 2013, no major fluctuations in rents were recorded. Only in the Poznań region was a slight upward pressure observed. A year ago, effective rents ranged from €2.3 to €2.8 / m² / month, today it is between €2.5 and €3.15 / m² / month. Slight upticks in effective rents were also recorded in Central Poland (excluding Łódź), Warsaw Suburbs and the Wrocław region.

Chart 10: Effective rents in regions (€/ m²/ month)

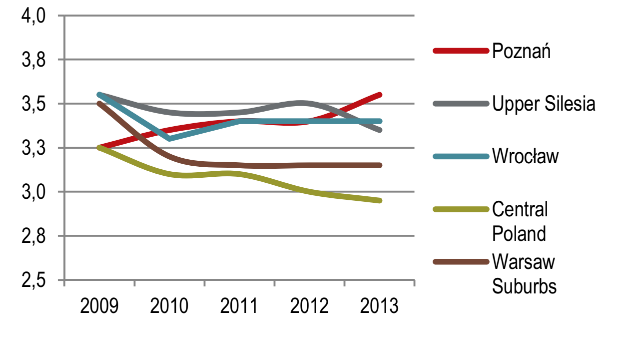


Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

At the end of 2013, highest rents were typically found in the urban regions, such as Warsaw Inner City (€3.6 to €5.1 / m² / month), Wrocław (€3.4 to 3.9 / m² / month) and in Łódź (€2.75 to €3.7 / m² / month). High rents are also a feature of the markets with scarce supply, such as Kraków (€3.3 to €4.0 / m² / month) and Szczecin (€2.8 to €3.4 / m² / month). Lower rents are found in the Warsaw Suburbs (€2.1 to €2.8 / m² / month), Poznań (€2.5 to €3.15 / m² / month) and in Upper Silesia (€2.4 to €3.3 / m² / month).

The gap between effective and headline rents did not change during 2013. We expect that in the current year the difference between them will remain stable.

Chart 11: The average of headline rental bands in regions (€/ m²/ month)



Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

Industrial Land

Land prices fell in most regions. Increasingly higher interest in the Special Economic Zones.

Supply

In 2013, buyers were again the stronger side of the market, with higher expectations regarding quality and site preparation. Due to the large supply, prices of industrial land fell across Poland, which could also indicate that vendors were increasingly adjusting their offers to the prices achievable on the market.

The large new supply is attributable to local authorities. Many boroughs include industrial zoning in master plans, hoping to attract large investments. However, these plans are often not a high enough quality and do not comply with real estate market expectations. The most common mistakes include earmarking one site for too many different functions, which often results in inaccuracies regarding, for example the number of parking spaces needed. In addition, these regulations often encourage unrealistic expectations from vendors, who are then likely to set prices for industrial land as if it was to be sold to house a retail centre. This causes a mismatch between owners and purchasers which often results in property remaining undeveloped for years.

Although the pace of new roads openings has been slightly hampered as compared to 2013, it is still one of the main factors fueling the growth of the industrial land market. Important sections in the pipeline include the S8 express road between Wrocław and Łódź and the S11 section of Poznań's western by-pass. New roads are also raising the attractiveness of Eastern Poland. In 2013, the accessibility of Rzeszów was markedly raised, and soon Lublin will gain a brand new ring road along with an expressway towards Warsaw.

Demand

The investments made by Amazon have caused quite a lot of turmoil on the industrial land market. One of the effects was a significant decrease in the offered supply in the Wrocław region.

At the end of the year increased interest was seen in the Special Economic Zones. That is one of the results of the changes announced in 2013 with regard to maximum extents of public and regional aid, which now favour the eastern regions of Poland. It was reflected in the excellent results recorded by the Warmińsko-Mazurska, Tarnobrzeska and Suwalska Special Economic Zones. According to the relevant government regulations, the lifespans of the zones have been extended until 2026.

The main market players still have large land portfolios and are reluctant to make further acquisitions. Options for purchase are still a popular method of securing an interesting site and preparing it for investment without having to tie up funds. Some developers are also using the opportunity to expand their land holidings while realizing a project for another tenant. A good example would be Goodman, who secured a plot in Sosnowiec much larger than would have resulted from their transaction with Intercars, for whom it will develop a building there.

Prices

The decrease of demand resulted in readjustment of pricing of the industrial land. A relatively small reduction of prices was seen in largest cities, where the supply of good plots is the lowest and the prices are the highest. The cheapest land is now found in the Warsaw Suburbs and Central Poland.

Region	Price (PLN/ m^2)
Warsaw Inner City	200 - 550
Warsaw Suburbs	50 - 200
Central Poland	65 - 140
Poznań	140 - 200
Wrocław	120 - 240
Upper Silesia	90 - 200
Kraków	80 - 300
Tri-City	100-170

Investment Market

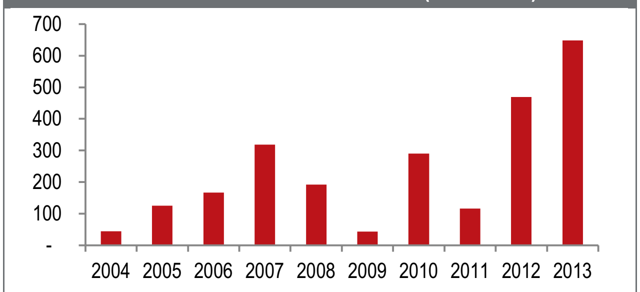
2013 investment volumes notably exceeded 2012's record-breaking figure and set a new benchmark.

The demand side in the relatively small industrial real estate market is dominated mainly by established industrial investors and investment funds which are either required to locate a specific portion of their resources within a given industrial sector or invest exclusively in this sector of commercial real estate. However, recently the industrial sector has caught the eye of significant capital from private equity companies and pension investment managers, enlarging the pool of active investors. Prime assets are still being prioritised by potential purchasers, with the supply side remaining scarce.

In 2013, the amount of industrial investment in Poland reached a historical peak of €648 million and had its highest ever share in overall investment volume.

Property owners were encouraged by the positive results of transactions made in 2010 and 2011 and celebrated the positive trend of yield compression. This resulted in the bringing of both core and core+ products to the market in 2012 and 2013. As a consequence, there were big ticket portfolio transactions, new capital buying into well-functioning and prosperous industrial platforms and German funds investing in prime products awaited for a long time to be placed for sale. Because of the inflow of new and core capital from companies which wanted to expand their presence in Poland, the country found itself, for a second year in a row, at the forefront of the CEE region in terms of investment attractiveness and traded volumes.

Chart 12: Industrial Investment Volume (€ millions)



Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

In 2013, the industrial sector saw thirteen investment deals, including three particularly significant deals: Norges Bank buying 50% of Prologis' portfolio; PSP Investments forming a 50/50 JV with Segro for its Continental-Europe industrial vehicle; and TPG teaming up with Ivanhoé Cambridge to acquire P3's warehousing business from Arcapita.

With the increased interest from investors in the Polish market, investment yields for prime industrial assets have shifted noticeably, from the 8.50% seen a year ago to 7.75% now. As the large portfolio deals have narrowed the market and core product is expected to be scarce in 2014, we believe that the market shows signs of potential for further compression of yields in the next six to twelve months, subject to investor demand.

Current prime yields of 7.75% would apply to well-located, newly-developed assets leased for up to ten years to good covenant tenants. The best-in-class, long-lease (in excess of ten years) industrial assets can trade at even a 7.25% yield. For properties with shorter lease expiry profiles or of poorer quality, the achievable price must be discounted respectively. The yield gap between prime and secondary products is currently between 50 and 250 bps. That spread is expected to remain unchanged until investor interest with regards to secondary assets increases.

The investment market sentiment for the next few years will depend on availability of product and access to financing. In recent years, the availability of commercial real estate financing was limited, with banks introducing a stricter approach to pre-letting levels for investment projects. However, build-to-suit projects allow for a reduced risk with regard to financing. Moreover, the availability of new product is heavily dependent on the letting market, which recently showed stable demand from prospective tenants, driving overall vacancy rates down. The supply gap caused recently by the lack of speculative projects and slowdown in built-to-suit opportunities will keep rental levels under control. This trend is expected to trigger increases in the delivery of new speculative projects in the next 12 to 24 months.

Regional Analysis

Traditional split into five main regions may soon be subject to change. A successful year for Wrocław and Poznań.

At the end of 2013, the total industrial warehouse and production stock totalled 7.45 million m2, of which 6.88 million m2 (i.e. 92%) is the stock of the five largest markets: Warsaw, Upper Silesia, Poznań, Central Poland and Wrocław. The remainder can be characterised as subsidiary markets of importance on the local level.

Increasingly larger specialisation differences can be seen between the particular regions. Upper Silesia, is attracting numerous automotive and production companies as well as logistics operators.

Poznań and Wrocław are to a larger degree becoming nearshoring locations for western European logistics and export-bound production. The Warsaw region is predominantly focused on catering to the logistics needs of the capital city and the premises of many retail chains. Finally, Central Poland, which is increasingly integrating with the Warsaw region, is the main distribution centre for companies operating across the country.

Map of industrial regions

Warsaw

The largest market in the CEE region. New road investments around the capital will create new development opportunities.

Due to its size and internal diversity, the Warsaw region is usually divided into zones. This can be seen in the distinct features of warehouses located within the city of Warsaw and those located as far as 50 km from its city limits. The low supply of industrial land in the inner city is reflected by the higher prices there, which then lead to the higher rents found there.

The opening of the A2 motorway between Łódź and Warsaw in 2012 has influenced the differentiation of rents in the Warsaw Suburbs zone. Locations close to motorway junctions feature higher demand, so tenants face higher prices for leasing space. However, we are seeing the signs of saturation in some areas: for instance Pruszków, which is a prime location appreciated by the market, is becoming increasingly overloaded with truck traffic.

An alternative location may be generated by the further development of modern roads, especially the Southern By-pass of Warsaw (the S2) and the new road between Opacz and Wolica (the S8). These new corridors are likely to open new areas which are so far underdeveloped in terms of industrial schemes. Michałowice and Wypędy in particular are areas drawing attention from developers. New roads will also prove beneficial for the Janki and Nadarzyn areas, which will both gain convenient access to the Warsaw ring-road.

In 2013, new leases and space expansions amounted to 215,000 m^2, of which 90% was leased in the Warsaw Suburbs. This showed a drop of demand compared to 2012, when new demand was 264,000 m^2. Furthermore, tenants renewed leases totaling 129,000 m^2, which was again less than in 2012, when renewals totaled 184,000 m^2.

The above means that gross demand shrank by 23% y-o-y, which was the largest fall among all regions. This can be put down to the cautiousness of tenants, who are not making hasty decisions regarding their demand and are not securing space in advance.

Interestingly, the fall in demand did not cause an increase in the vacancy rate: the percentage of immediately available units has actually decreased slightly, from 14.7% in December 2012 to 14.6% at present.

The Warsaw market saw the completion of an additional 78,000 m^2 of industrial space, with the largest projects including the extension to Tulipan Park Warszawa (24,000 m^2) and Good Point Puławska II (15,000 m^2).

In the end of 2013, 17,000 m^2 was in the construction stage, of which MLP Pruszków II will deliver 13,000 m^2 (3,000 m^2 of which is speculative) and SEGRO Business Park Warsaw Ożarów 4,000 m^2.

	Inner City	Suburbs
Existing stock (m^2)	563,000	2,063,000
Gross demand in 2013 (m^2)	51,000	293,000
Net demand in 2013 (m^2)	22,000	193,000
Vacancy Rate	22.3%	12.5%
Headline rent (€/ m^2/ month)	4.1 – 5.5	2.7 – 3.6
Effective rent (€/ m^2/ month)	3.6 – 5.1	2.1 – 2.8
Main leasing transactions	**Viskase** – 3,000 m^2 Diamond Business Park Ursus	**3PL** – 20,000 m^2 AB Logistyka **Forlogix** –18,000 m^2 Metropol Park Błonie

Upper Silesia

The second largest industrial region, with an established position on the Polish market. Strong demand from logistics companies and tenants from the production sector.

At the end of 2013, Upper Silesia's warehouse and production stock totaled 1.43 million m². This densely urbanised region has a long production heritage and is today the largest industrial centre in Poland.

The development of warehousing in this area was a natural consequence of the functioning of industry, yet a key driver which must also be included is the well-developed modern road network. The abundance of highly skilled labour and the existence of the robust Katowicka Special Economic Zone are both additional factors influencing location decisions taken by developers of industrial space. Finally, over five million people living within a 100 km radius of Katowice are a natural driver for logistics and retail companies.

In addition to the existing warehouse locations, of which the largest are Gliwice, Chorzów, Mysłowice and Tychy, we are also seeing increasing developer interest in locations along the new stretch of the A1 motorway between Gliwice and Pyrzowice.

As compared to the relatively weak demand in 2012, 2013 saw a notable rebound in take-up. Gross demand was near 293,000 m², up by 46% y-o-y. Lease renewals were the main driver of this demand, which indicates that tenants who are already present in Upper Silesia are convinced about the good prospects of this region. New leases totaled 123,000 m², which was a fall of 13% compared to the figure for 2012.

Despite the positive results regarding demand, there was an increase in the vacancy rate. At the end of 2013, a total of 134,000 m² in the region, i.e. 9.3% of the existing stock, was unoccupied. This was a significant increase on Q4 2012, when immediately available floor space accounted for just 5% of totat stock. The increase was largely due to the number of tenants who decided to reassess their leasing strategies, which resulted in some of them abandoning commercial buildings and moving into their own premises.

In 2013, the Upper Silesia market expanded by 51,000 m²; however, that did not affect the vacancy rate, as all of that new supply had already been pre-leased. The largest delivered spaces were a new building within SEGRO Industrial Park Tychy (18,000 m²) which was constructed for Dayco and the extensions of the Panattoni Parks in Czeladź (12,000 m²) and Mysłowice (10,000 m²).

As of the end of Q4 2013, space of 37,000 m² was in the construction stage in Upper Silesia, of which the largest project was MLP Bieruń park, where a new building of 23,000 m² is being constructed for Autopartner and Flexider.

Upper Silesia	
Existing stock (m²)	1,431,000
Gross demand in 2013 (m²)	293,000
Net demand in 2013 (m²)	123,000
Vacancy Rate	9.3%
Headline rent (€/ m²/ month)	3.0 – 3.7
Effective rent (€/ m²/ month)	2.4 – 3.3
Main leasing transactions	**Inter Cars** – 25,000 m² Goodman Sosnowiec Logistic Center **Autopartner** – 15,000 m² MLP Bieruń

Poznań

After a few calm years, the Poznań region recorded a strong rebound in take-up. Amazon's investment crowned a superb year.

The total floor space of the industrial market in the Poznań region currently amounts to 1.02 million m², which equates to 14% of the national stock and ranks the region as (together with Central Poland) the third largest in terms of stock.

The key development driver of the industrial sector in this region is the A2 motorway, the first sections of which were completed in near Poznań. The proximity to the German border, the large and relatively affluent urban agglomeration of Poznań itself and the presence of the Volkswagen plant were all key attractions for companies from the automotive, logistics and retail sectors.

Along with the eastward extension of the A2 motorway, strong competition has emerged from the Central Poland region, which features more advantageous locations for some logistics firms. Furthermore, south of Poznań, the Wrocław region has begun to gather pace, and is now Poznań's main rival. Both regions are now striving to attract companies which are operating in western markets and want to transfer their logistics operations to Poland as part of cost-cutting drives.

In 2013, the Poznań region registered a record take-up figure: a total of 423,000 m² was leased, of which 301,000 m² was attributable to new leases and expansions. The largest transaction was signed by Amazon, for which Panattoni is now constructing a 101,000 m² building in Sady. However, even excluding that deal, Poznań would still rank first among the most popular regions in 2013 demand-wise. Other noteworthy transactions concluded in 2013 involved ITM, which leased 82,000 m² in Poznań Logistics Centre II and the two deals by Volkswagen: one in SEGRO Logistics Park Poznań (32,000 m²) and one in Prologis Park Poznań II (17,000 m²).

The region still suffers from a low availability of existing space. Currently, the vacancy rate here stands at 4.4%, which equates to 45,000 m² of immediately available space. However, this space is highly fragmented, which forces tenants who are seeking units in excess of 10,000 m² to look for opportunities to co-operate with developers on new projects, rather than hoping to find an appropriate unit in an existing scheme.

A mere 7,000 m² (in SEGRO Logistic park Poznań) was delivered to the Poznań market during 2013. This level of completions was the lowest among all industrial regions in Poland, and looks even lower when compared to the 76,000 m² of stock which was delivered in Poznań in 2012.

However, the total floor space of projects in the pipeline for 2014 looks impressive: 215,000 m² is now in the construction stage, with half of that space being attributable to Amazon (101,000 m²). When all the projects now underway have been completed, the supply of the Poznań region will be some 1.24 million m², which further strengthens the region's position as the third largest industrial market in Poland.

Poznań	
Existing stock (m²)	1,023,000
Gross demand in 2013 (m²)	423,000
Net demand in 2013 (m²)	301,000
Vacancy Rate	4.4%
Headline rent (€ / m² / month)	3.3 – 3.8
Effective rent (€ / m² / month)	2.5 – 3.15
Main leasing transactions	**Amazon** – 101,000 m² BTS Panattoni Sady **ITM** – 82,000 m² Poznań Logistics Center II

Central Poland

The growing differences between certain locations in this region is leading to them being perceived as de facto separate markets.

In terms of industrial stock, for a number of years Central Poland has been one of the main regional markets. At the end of 2013, the total supply stood at 1.02 million m², i.e. on a par with the stock of the Poznań region. The sectorial structure of industrial tenants in this region is extremely diversified. The region's location in the heart of Poland facilitates the optimisation of logistics services. Therefore, Central Poland is a location for numerous central distribution warehouses for companies from many sectors, particularly retail, food, production and electronics.

A distinct feature of this market is its geographical segmentation, which is unparalleled in comparison to any other region. The largest subregions include Łódź, Piotrków Trybunalski and Stryków; however, industrial floor space is also found in Rawa Mazowiecka, Radomsko, and, soon, Kutno.

As with other regions, the development of the industrial market in Central Poland was conditioned by the construction of the modern road network. When the region was first appearing, the Piotrków area featured the most dynamic growth, which was due to its proximity of what was then Poland's largest road junction (the intersection of roads No. 1,8 and 12), which made that area the most sought-after location for logistics companies. Over time, the Stryków area, which is home to the intersection of the A1 and A2 motorways, has gained momentum. At the same time, the market has been developing in the city of Łódź, which offered cheaper land than in other major Polish cities and attractive labour costs. Further growth of the Łódź market is expected following the completion of the missing stretch of the A1 between Stryków and Tuszyn, the opening of which is scheduled for 2015 (at the earliest). The existing connections with Warsaw via the A2 and the S8 expressway contribute to the increasingly stronger perception of both regions as one large industrial area.

The Piotrków Trybunalski area was hardest hit by the negative effects of the 2008 economic slowdown. This was due to the large speculative space that were under construction there when the crisis hit. Since then, this area has been suffering from a high vacancy rate: 35% of the local stock now stands empty. Quite the opposite situation is found in Stryków, where a mere 5% (i.e. 16,000 m²) of the stock is currently unoccupied. In Łódź the vacancy rate is 8.3%.

The gross demand registered in Central Poland in 2013 was 243,000 m², i.e. down by 27,000 m² on 2012. Net demand, which includes new leases and lease expansions, was up by 46% y-o-y, at a total of 139,000 m².

In 2013, the market in Central Poland was increased by the 23,000 m² of new floor space which was delivered in SEGRO Logistics Park Stryków (15,000 m²) and Panattoni Park Łódź East (8,000 m²). At the end of Q4 2013, an additional 80,000 m² was under construction, of which 50,000 m² is the Castorama BTS project being constructed by Panattoni in Stryków.

	Łódź	Region
Existing stock (m²)	300,000	721,000
Gross demand in 2013 (m²)	103,000	140,000
Net demand in 2013 (m²)	44,000	95,000
Vacancy Rate	8.3%	18.9%
Headline rent (€/ m²/ month)	3.4 – 4.3	2.75 – 3.7
Effective rent (€/ m²/ month)	2.6 – 3.3	2.1 – 2.8
Main leasing transactions	**Media Expert -** 11,000 m² Panattoni Park Łódź East	**Castorama –** 50,000 m² Stryków **Dino** – 22,000 m² Logistic City

Wrocław

The market featuring the highest growth rates, benefitting from new modern roads and a favourable location, has just joined the group of key regions.

At the end of 2013, there was 780,000 m² of modern warehouse stock in the Wrocław region, enough to rank this market as the fifth largest in Poland. Following the completion of the projects which are currently under construction (some 259,000 m² of new space), the supply in the Wrocław area will cross the 1 million m² threshold, meaning that the existing stock has doubled in a five-year period.

Its location in the heart of Central Europe, in proximity to the borders of Germany and the Czech Republic, makes Wrocław an increasingly popular warehouse location for companies providing cross-border logistics services. This has been fostered by the gradual development of modern road network. Today, the capital of Lower Silesia enjoys convenient motorway connections with Germany and Upper Silesia. The S8 express road, which will connect Wrocław with Łódź and Warsaw, is scheduled for completion in 2014. Another road of great importance is the S5 towards Poznań, the construction of which is planned for the next few years. Both the aforementioned projects are already influencing the market in the northern parts of Wrocław, which may soon witness the construction of new warehouse and production facilities. In the longer run, the S3 express way between Legnica and the Czech border will additionally increase the international accessibility of the region.

The selection of Wrocław as the location for two of Amazon's buildings with a joint floor space of 224,000 m² confirms the attractiveness of the region and its logistics nearshoring potential for companies from Western Europe. This will result in a sharp increase of supply on the market, and is already resulting in a record-high demand, which stood at 415,000 m² in 2013.

Taking into account only new transactions and lease expansions, take-up was 342,000 m². However, one should bear in mind that a large portion of this demand is attributable to Amazon. Against this backdrop, even assuming there are good economic prospects, the 2013 demand level will be difficult to sustain in the next few years.

For most of 2013, the vacancy rate was stable in the Wrocław market, osciliating between 5 and 6%. However, the last quarter brough a sharp increase in availability, which was due to the bankruptcy of Fagor, which vacated units it had leased, driving the vacancy rate up to 11.7%.

Some 117,000 m² of space was delivered to the market during 2013, of which 36,000 m² was completed in Prologis Park Wrocław V, and another 32,000 m² was built by Panattoni as a BTS project for Lear in Legnica.

Wrocław	
Existing stock (m²)	780,000
Gross demand in 2013 (m²)	415,000
Net demand in 2013 (m²)	342,000
Vacancy Rate	11.7%
Headline rent (€/ m²/ month)	3.0 – 3.8
Effective rent (€/ m²/ month)	2.6 – 3.1
Main leasing transactions	**Amazon** – 123,000 m² Goodman **Amazon** – 101,000 m² Panattoni

Northern Poland

Despite their modest sizes, the markets in Szczecin and the Tri-City are taking advantage of their niches. Their growth can be potentially driven by growing ports.

The industrial market in Northern Poland can only be considered in terms of the Tri-City and Szczecin. The current industrial stock in the entire region is 232,000 m^2, with the Tri-City offering almost 184,000 m^2 and Szczecin a little more than 48,000 m^2.

Their peripheral locations and, until recently, insufficient access to the hinterland have both contributed to the growth of both agglomerations on the outside of the core of the market. Currently, both the Tri-City and Szczecin have good road connections to the national network and, due to that, they have appeared on the radars of firms investing in industrial real estate.

The main demand drivers are different in the cases of the Tri-City and Szczecin. Gdańsk, Gdynia and Sopot, along with their neighbouring boroughs, make up a large agglomeration by Polish standards, inhabited by more than a million residents and requiring logistics operations from production and retail companies. An additional driver, which is likely to gain more significance over time, is the dynamic development of container ports, including DCT Gdańsk, which in 2013 entered the group of 100 largest seaports in the world. Increasing throughputs and the redirecting of the container stream from the ports of northern European to the Tri-City in a few years will generate a larger demand for warehouse space near the ports. The first port-centric warehouses have already been completed in the port of Gdańsk, while one project in Gdynia is currently in the construction stage.

In the case of Szczecin, its location close to Germany and Scandinavia is of a larger significance than its port. Lower labour costs and rents for industrial units are both key factors driving the demand for space on this small market.

2013 was a successful year for both of the above-mentioned submarkets. In the Tri-City area, net demand hit the record-high of 64,000 m^2, with an additional 23,000 m^2 of lease renewals. In Szczecin, new leases and expansions amounted to 27,000 m^2, with no recorded lease renewals.

Supply also went up. In the Tri-City, the first phase of the Pomeranian Logistics Center was completed, delivering some 14,000 m^2, followed by the first phase of SEGRO Logistics Park Gdańsk (5,000 m^2). In Szczecin, North-West Logistic Park delivered 7,000 m^2 of new floor space.

The volume of the pipeline is also impressive. Currently three projects are being constructed, with a joint space of 59,000 m^2, i.e. about a third of the existing supply. The three are SEGRO Logistics Park Gdańsk (24,500 m^2), 7R Logistics Park Gdańsk (18,000 m^2) and a building in the port of Gdynia (16,500 m^2). In Szczecin, an extension of North-West Logistic Park which will deliver 13,000 m^2 is now underway.

	Tri-City	Szczecin
Existing stock (m^2)	184,000	48,000
Gross demand in 2013 (m^2)	87,000	27,000
Net demand in 2013 (m^2)	64,000	27,000
Vacancy Rate	9.2%	7.8%
Headline rent (€/ m^2/ month)	3.2 – 3.7	3.1 – 3.75
Effective rent (€/ m^2/ month)	2.8 – 3.3	2.8 – 3.4
Main leasing transactions	**Schenker** – 8,000 m^2 Prologis Park Szczecin	**Żabka** – 24,500 m^2 SEGRO Logistics Park Gdańsk

Kraków

A local market staying in the shade of Upper Silesia. Low tenant and developer activity.

The industrial market in the Kraków area is one of the least developed in all of Poland. At the end of 2013, a total supply in this region stood at 141,000 m^2, and comprised six projects.

One can find it surprising that the second largest city in Poland has not yet developed a robust industrial sector. However, it can be put down to a number of reasons why the interest of the main market players is so limited in the case of Kraków.

The key factor influencing the low supply of warehouse space is the low availability of sufficient land, which is suitable for industrial developments. It is mostly due to the hilly shape of the terrain around the city, agrarian fragmentation and the high land prices, which is why investment in industrial real estate is less profitable than in other regions. High prices also translate into relatively higher rents.

One should also bear in mind that 60 km west of the city borders is the Katowice Agglomeration, which is conveniently connected to Kraków via the A4 motorway. The supply in Upper Silesia (where Katowice is located) total 1.4 million m^2, and the rents offered on this market are markedly lower than in Kraków. This is why numerous companies operating in Kraków chose Upper Silesia as the location for their warehouses.

In 2013 tenant activity on the Kraków industrial market was limited to literally three transactions, of which the largest was the one concluded by Rohlig, who renewed their lease of 3,500 m^2, and expanded by additional 3,400 m^2 in Panattoni Park Kraków. Altogether, the demand in Kraków during 2013 totaled 9,300 m^2, which was only a little less than in 2012, when it stood at 11,300 m^2. The small average size of leased units in the Kraków area becomes a typical feature of this market, which makes it increasingly similar to the urban markets of Warsaw and Łódź.

In the past year the market expanded by the already aforementioned 3,400 m^2, which was constructed for Rohlig in Panattoni Park Kraków. This was aslo the only completion recorded in Kraków. Currently no construction works are carried out in the region. However, according to the announcements by Goodman, in March a new project will be launched within Kraków Airport Logistics Center, which will deliver 11,000 m^2. This new space will be built entirely on speculative basis, which is quite interesting as it can draw tenants' attention to this so far calm market and create new demand.

We are also observing a increasing interest in the areas located to the east of the city, close to Niepołomice town. These areas appeared on the radars of market players, due to completion of the new sections of the A4 motorway.

Kraków	
Existing stock (m^2)	141,000
Gross demand in 2013 (m^2)	9,000
Net demand in 2013 (m^2)	6,000
Vacancy Rate	4.0%
Headline rent (€/ m^2/ month)	4.0 – 4.8
Effective rent (€/ m^2/ month)	3.3 – 4.0

Main leasing transactions	**Rohlig** – 3,500 m^2 & 3,400 m^2 Panattoni Park Kraków

Summary and 2014 Outlook

Excellent results recorded in 2013 will be difficult to maintain in 2014, despite the good economic prospects.

According to numerous economic forecasts, Poland is expected to experience a period of an accelarating GDP growth. Because of the strong correlation between the overall shape of economy and the trends observed on the industrial market, we may be expecting that it will translate to a higher demand for warehouse space. However, in 2014 it will be extremely difficult to reach the 2013 benchmarks, which is due to the unlikely event of the repetition of an investment of the scale of Amazon. In an optimistic scenario, net demand for industrial space will reach 1 million m² in 2014. We also expect that increasingly more space will be developed as built-to-suit-projects. Speculative investments will be appearing in few of the regions, however their share among all realized projects will be kept low. 2014 will also be a year, when new stock of 714,000 m², which is currently under construction, will be delivered to the market. Yet, its completion is not expected to influence the vacancy rate. Still, the four main developer companies will be at the forefront of the market.

The market is now remaining in a relative balance between the demand and supply. Having taken into accound all the forecasts, it is reasonable to assume, that the demand for warehouse space will be increasing in the pace, which will lead to a drop of availability and maintaining or a slight growth of rents in the main regions.

Q4 2013	Warsaw	Upper Silesia	Poznań	Central Poland	Wrocław	Northern Poland	Kraków	Poland
Total Stock (m²)	2,626,000	1,431,000	1,023,000	1,021,000	780,000	232,000	141,000	**7,445,000**
Total Stock (y-o-y change)	+2.1%	+1.2%	+0.0%	+0.0%	+0.8%	+0.0%	+0.0%	**+0.7%**
Net Take-up (m²) 2013	220,000	123,000	301,000	139,000	342,000	91,000	6,000	**1,256,000**
Net Take-up (y-o-y change)	-16.6%	-13.0%	+618.8%	+45.5%	+123.4%	+78.3%	-34.1%	**+66.3**
Vacancy Rate Q4 2013	14.6%	9.3%	4.4%	15.2%	11.7%	8.9%	4.0%	**11.3%**
Vacancy Rate (y-o-y change)	+0bps	+90bps	+100bps	+30bps	+660bps	-280bps	+0bps	**+120bps**
Completions (m²) 2013	78,000	51,000	6,000	23,000	117,000	26,000	3,000	**305,000**
Completions (y-o-y change)	-14.1%	-46.6%	-92.1%	-71.0%	+107.6%	-28.1%	-83.1%	**-41.0%**
Under Construction Q4 2013 (m²)	17,000	37,000	215,000	80,000	259,000	72,000	0	**714,000**
Headline Rents (EUR/m²/month)	4.10-5.50 (*) 2.70-3.60	3.00-3.70	3.30-3.80	3.40-4.30 (*) 2.60-3.40	3.70-4.00(*) 3.00-3.80	3.20-3.95(**) 3.0-3.60(***)	4.00-4.80	
Headline Rents (y-o-y-change rental band)	0% (*) 0%	-4.3%	-1.4%	0% (*) -0%	0%	-3.5%(**) +3.8%	0%	

(*) Innercity rents or Small Business Units ;(**) rents Tri-city (***) rents Szczecin

Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

Transactions

The largest new leasing deals in 2013

Quarter	Region	Park	Area (m²)	Tenant
Q4	Wrocław	Amazon BTS	123,000	Amazon
Q4	Poznań	Amazon BTS	101,000	Amazon
Q4	Wrocław	Amazon BTS	101,000	Amazon
Q4	Poznań	Poznań Logistics Centre II	82,000	ITM
Q2	Polska Centralna	BTS Castorama Stryków	50,000	Castorama
Q2	Wrocław	Prologis Park Wrocław V	35,000	Eko holding
Q2	Opole	BTS Polaris Opole	34,000	Polaris
Q4	Poznań	Segro Logistics Park Poznań	32,000	Volkswagen

Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

The largest lease renewals in 2013

Quarter	Region	Park	Area (m²)	Tenant
Q3	Poznań	Segro Logistics Park Poznań	26,200	Żabka
Q4	Poznań	Point Park Poznań	23,000	PF Concept
Q4	Polska Centralna	Panattoni Park Łódź East	21,600	Flextronics International
Q2	Polska Centralna	Panattoni Park Łódź South	20,000	Recticel
Q1	Górny Śląsk	SEGRO Industrial Park Tychy	19,000	Źabka
Q3	Trójmiasto	Prologis Park Gdańsk	17,800	Tradis
Q2	Warszawa	Panattoni Park Pruszków	17,300	TP. S.A.
Q1	Polska Centralna	Panattoni Park Stryków	17,000	Spedimex

Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

The largest investment transactions in 2013

Quarter	Location	Project	Area(m²)	Estimated price (€ millions)	Vendor	Purchaser
Q1	Krapkowice	Metsa Tissue	26,200	Above 12,2	Goodman	Bergold
Q1	Numerous locations	Prologis CEE Portfolio	596,000	ca. 130,0	Prologis	Norges
Q2	Warszawa	Żeran Park II	50,000	Above 43,2	AREA	SEGRO
Q3	Poznań	H&M distribution Centre	83,000	64,0	Invesco	WP Carey
Q3	Piaseczno	Diamond Business Park	60,000	32,9	GLL	Blackstone
Q3	Grodzisk / Gądki	Raben Portfolio	71,000	ca. 23,0	Pramerica	Hines
Q3	Łódź	Diamond Business Park	61,000	ca. 30,0	Peakside	Blackstone
Q3	Numerous locations	SEGRO portfolio	b.d.	ca. 190,0	SEGRO	PSP Investment
Q3	Stryków	Castorama (forward funding)	50,000	ca. 19,0	Panattoni	Invesco
Q4	Poznań / Mszczonów	P3 Portfolio	162,000	ca. 65,0	Arcapita	TPG / Simon Ivanhoe
Q4	Warszawa	Manthattan Distribution Center	40,500	30,2	Akron	CBRE GI

Source: Jones Lang LaSalle, warehousefinder.pl Q4 2013

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