Poland's Industrial Market in H1 2014

August 2014

JLL

20 years in Poland

Summary of the industrial market in 2014

	Warsaw Inner City	Warsaw Suburbs	Upper Silesia	Poznań	Central Poland	Wrocław	Tri-City	Szczecin	Kraków
Supply (m^2) Q2 2014	587,000	2,064,500	1,452,500	1,086,000	1,180,500	815,000	205,000	61,500	99,000
Completions H1 2014 (m^2)	0	17,500	22,000	82,500	78,000	35,000	16,500	13,000	0
Net take-up H1 2014 (m^2)	54,500	89,000	49,000	103,000	65,500	88,500	27,000	24,000	11,500
Gross take-up H1 2014 (m^2)	59,500	245,000	168,000	141,500	80,000	124,000	43,500	24,000	11,500
Vacancy Rate Q2 2014	15.6%	11.6%	9.4%	4.7%	17.2%	6.2%	9.5%	3.2%	0%
Effective rent – Big Box (€ / m^2 / month)	-	2.10 – 2.80	2.40 – 3.30	2.25 – 3.15	2.10 – 2.80	2.50 – 3.10	2.50 – 2.90	2.70 – 3.40	3.30 – 4.00
Effective rent- Small Business Units (€ / m^2 / month)	3.50 – 5.00	-	-	-	2.75 – 3.70	3.40 – 3.90	-	-	-

Source: JLL, warehousefinder.pl, H1 2014

The largest lease transactions in H1 2014

Tenant	Sector	Park	Lease type	Zone	Area
Carrefour	Retailer	Distribution Park Będzin	Renewal	Upper Silesia	45,800
Najemca poufny	Retailer	Goodman BTS	New deal	Poznań	39,600
P&G	FMCG	Prologis Park Sochaczew	Renewal	Warsaw Suburbs	38,000
Viva Group	Light production	Prologis Park Teresin	Renewal	Warsaw Suburbs	33,000
Geodis	Logistics operator	Distribution Park Wrocław	New deal	Wrocław	22,200
Hi Logistics	Logistics operator	Prologis Park Wrocław V	New deal	Wrocław	20,600
Eurocash	Retailer	Prologis Park Błonie II	Renewal	Warsaw Suburbs	18,400
ArchiDoc	Archives	ProLogis Park Chorzów	Renewal	Upper Silesia	16,500
K-Flex	Construction	Panattoni BTS K-Flex	New deal	Central Poland	16,000
Najemca poufny	Logistics operator	CLIP Poznań	New deal	Poznań	15,000
Najemca poufny	Logistics operator	Good Point Puławska III	Expansion	Warsaw Suburbs	14,500
Rhenus	Logistics operator	ProLogis Park Błonie	Renewal	Warsaw Suburbs	13,500
CEVA Logistics	Logistics operator	Point Park Poznań	New deal	Poznań	13,500
Merlin.pl	Retailer	Good Point Puławska	New deal	Warsaw Suburbs	13,000
Id Logistics	Logistics operator	Prologis Park Piotrków	New deal	Central Poland	13,000
DHL	Logistics operator	Panattoni Park Mysłowice	New deal	Upper Silesia	12,700
Nexteer	Automotive	Diamond Business Park Gliwice	Renewal	Upper Silesia	12,600
Bertelsmann	Paper and books	ProLogis Park Błonie I	Renewal	Warsaw Suburbs	12,500
VTS	Other	Prologis Park Nadarzyn	Renewal	Warsaw Suburbs	12,000
Magna Automotive	Other	Poznań Distribution Centre	Renewal	Poznań	12,000

Source: JLL, warehousefinder.pl, H1 2014

Optimism prevails in the industrial market. Strong demand affects developer activity. More than 800,000 m^2 of new stock now under way.

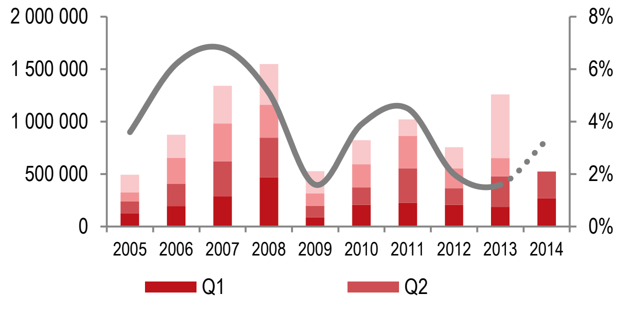
After a successful 2013, when the gross demand for industrial facilities across Poland totaled 1.89 million m^2, the market has not displayed any symptoms of deceleration in 2014. In the first half of 2014, gross take-up stood at 912,000 m^2. The strong demand side is now translating into a large development pipeline: more than 811,000 m^2 is now in the construction stage across Poland, which indicates that this year the market supply will reach 8.6 million m^2. Once again the market has been primarily driven by logistics operators. In addition, we also see an increasing share of space being designated for fulfillment of the growing e-commerce sector.

The number of speculative projects showed an increase; their share in the total stock being constructed fell as compared to H1 2014, but that can be explained by the large development pipeline. Almost 80,000 m^2 is now being delivered without any binding lease agreement, the highest volume since the end of 2009.

Tenant activity

The symptoms of the economic recovery have positively impacted demand for industrial space. New demand totaled 526,000 m^2 in H1, which was slightly above the result from the same period of 2013. In addition to new deals, tenants renewed leases for 386,000 m^2, resulting in the gross industrial demand exceeding 912,000 m^2 at the end of H1 2014. Assuming that the next two quarters will not experience a major slowdown, a total of 1 million m^2 leased to new tenants (net demand) during the whole of 2014 seems realistic.

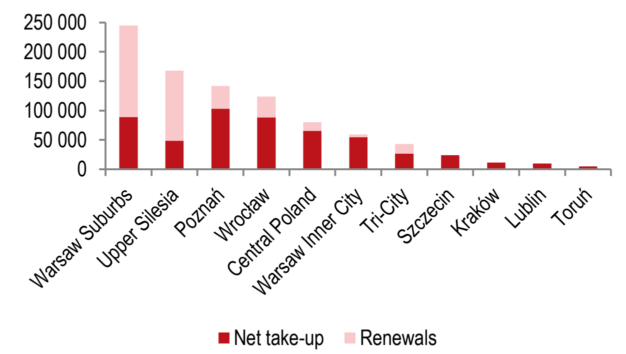
Net take-up (m^2) 2005 to H1 2014 vs GDP growth



Source: JLL, warehousefinder.pl, CSO, H1 2014

With 245,000 m^2 of leased space, the Warsaw Suburbs accounted for 28% of gross demand. A further 18% was attributable to the Upper Silesia region. It is noteworthy, however, that the aforementioned regions are in fact driven largely by lease renewals, which are a feature of mature markets. In terms of new demand, the most sought-after regions included Poznań (new leases of 103,000 m^2) and Wrocław (87,000 m^2). Also, the smallest markets, such as Kraków, Toruń and Lublin, experienced some tenant demand.

Net and Gross take-up by region – H1 2014



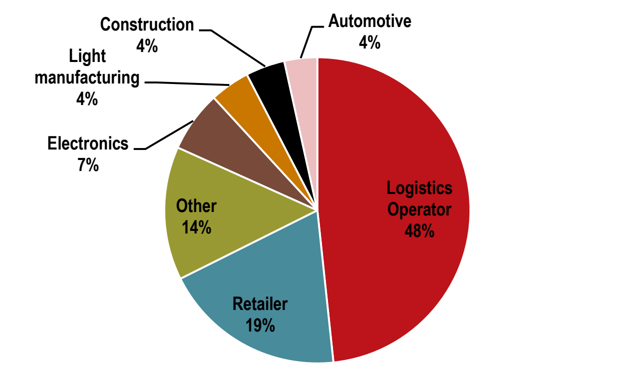
Source: JLL, warehousefinder.pl, H1 2014

Relatively high demand, over 60,000 m2, was registered within the Warsaw Inner City, which saw the best six months since the second half of 2011. Moreover, 55,000 m2 of that volume was attributable to new leases, which may be a green shoot of a stronger rebound on this peculiar urban market.

Once again, the highest demand came from logistics operators, whose new leases totaled more than 254,000 m2, which is 48% of the entire net demand. However, the largest single transaction involved a retail chain for which Goodman will deliver a 40,000 m2 project near Konin. Other notable deals involved Geodis, who secured 22,000 m2 in Distribution Park Wrocław, and Hi Logistics, for whom Prologis is extending its Prologis Park V in Wrocław.

Interestingly, demand from the automotive sector decreased significantly as compared to H1 2013. New leases from companies representing this sector totaled 18,000 m2 in H1 2014, well below the 111,000 m2 transacted in H1 2013.

Net take-up by sector in H1 2014



Source: JLL, warehousefinder.pl, H1 2014

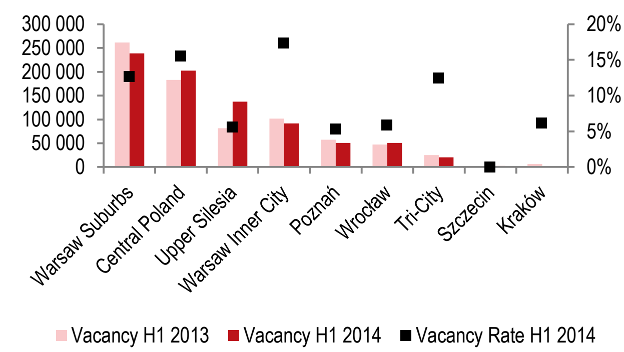
The average transaction in H1 2014 was for 4,700 m2. Large deals (those of over 10,000 m2), accounted for 46% of the net demand volume, but only 14% of the signed transactions.

Availability

Since the end of 2011, the vacancy rate registered on the Polish market has ranged between 10% and 12%. At the end of H1 2014, it stood at 10.5%, which was 80 b.p. less than in December 2013. However, regional analysis shows some considerable differences in availability of space on particular sub-markets. Currently, the overall vacant space on the market totals 817,000 m2. Among the five largest markets, the highest vacancy rate is (as traditionally) found in Central Poland (17.2%), where the available floor space totals almost 203,000 m2. In just the Piotrków Trybunalski area alone tenants can choose from 102,000 m2 of empty industrial space.

High vacancy is also a feature of both the Warsaw zones. The current availability in the Warsaw Suburbs zone is 238,000 m2, which equates to 11.6% of the stock in this area. In Inner City Warsaw 92,000 m2, so 15.6% of the existing floor space, stands unleased.

Available space (m2) vs vacancy rate (%) in H1 2014



Source: JLL, warehousefinder.pl, H1 2014

The lowest availability of warehouse space is found in Western Poland. Both in Poznań and Wrocław vacancies total slightly over 50,000 m2, which translates into vacancy rates of 4.7% and 6.2%, respectively. Moreover, the fact that this floor space is scattered among numerous parks causes difficulties for tenants seeking larger areas. Those tenants often need to consider working with a developer on the delivery of a brand new scheme.

More importantly, whereas in Wrocław, due to the considerable speculative pipeline, tenants can count on a slight improvement in this regard, in Poznań, this type of project will deliver only 15,000 m² of new stock. Against this backdrop, the situation in the latter market is unfavourable from a tenant point of view.

The vacancy rate on the second largest submarket in Poland, Upper Silesia, remains stable and currently amounts to 9.4%, equating to 137,000 m² of unleased space.

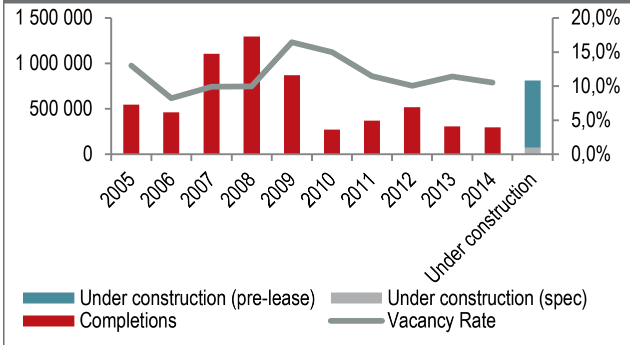
The vacancy rate edged up in the Tri-City, where tenants can now choose from 20,000 m² (9.5%). In Kraków, all industrial stock is now leased; however, as a result of Goodman's new development, the market will soon offer an additional 11,000 m² of, purely speculative, space. Finally, the Szczecin market offers a modest 2,000 m², which equates to approximately 3.2% of the existing supply.

Developer activity

During the first half of 2014, developers delivered 298,000 m² of new supply. This figure was 85% larger than the amount completed in H1 2013, when the market expanded by only 161,000 m². The largest completions involved a BTS for Castorama in Stryków (50,000 m²), the extension of Prologis Park Wrocław V (35,000 m²), and a BTS project for Polaris completed in Opole.

More importantly, during the last 12 months, construction activity has increased rapidly. At the end of H1 2013, nearly 250,000 m² was under construction, whereas today developers are in the process of delivering as much as 811,000 m² of new market stock. This is the largest amount seen on the market since the beginning of the financial crisis in 2008. The vast majority of the space under development will be delivered this year, which means that the entire supply onto Poland's industrial market is expected to be more than 8.6 million m².

Completions & stock under construction (m²) vs vacancy rate (%)

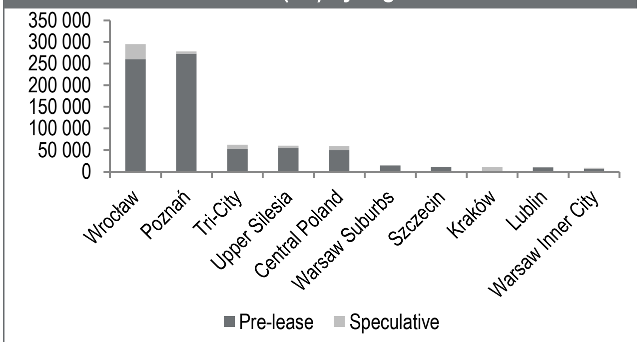


Source: JLL, warehousefinder.pl, H1 2014

This large amount of construction activity is the response of developers to increasing demand. It seems that construction companies are still not eager to deliver speculative projects, as the vast majority (90.4%) of the projects in the pipeline have already been leased. However, the remaining 9.6% equates to nearly 80,000 m², which is the largest amount of speculative space under construction since 2009.

Developers are still concentrating their efforts on BTS and pre-let projects. The former usually involve lease terms in excess of seven years, and feature a higher rent, as these buildings usually require numerous above-standard tenant-specific improvements. However, the strict requirements of institutions financing industrial projects, which would limit the scale of developers' investments, now seem to be somewhat loosened, leveraging the attractiveness of banks' offers. Therefore, the amount of room for speculative investments is now larger, although this type of project is still carried out mostly as an addition to pre-leased space.

Stock under construction (m²) by region in Q2 2014



Source: JLL, warehousefinder.pl, H1 2014

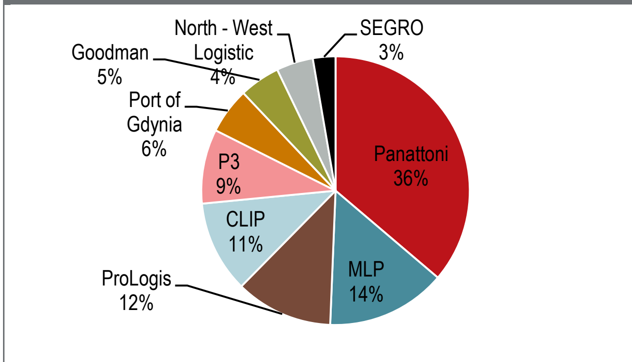
The highest number of projects delivered without a binding lease agreement is now found in the Wrocław area, where four new buildings will offer more than 35,000 m^2 of new space. Similar developments are also in Kraków (11,000 m^2), Poznań (15,000 m^2), Central Poland (10,000 m^2) and the Tri-City (10,000 m^2).

Currently, among all projects under way across the country, the largest are for Amazon, with three buildings with a total floor space of 324,000 m^2 being constructed in Wrocław and Poznań. Other noteworthy projects include an 82,000 m^2 warehouse for ITM by Goodman near Poznań and the already mentioned building near Konin, which is being developed by Goodman for a tenant from the retail sector.

Interestingly, the first commercial facilities are now being built in Lublin, a region which to date has remained on the margins of the industrial real estate market. The pioneering project is by MLP, which has started the construction of a 10,000 m^2 building, entirely leased to an automotive firm, ABM Greiffenberger.

Panattoni was the most active of all developers in the first half of 2014, delivering 108,000 m^2 of space, which was a 36% share of total completed stock. MLP ranked second with 43,000 m^2 (14%), followed by Prologis, which delivered 35,000 m^2 of new space (12%).

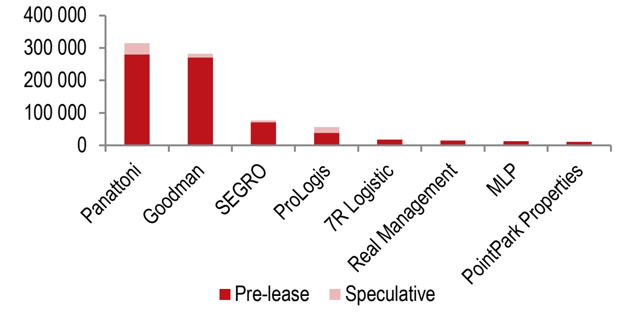
Completions (m^2) by developer in H1 2014



Source: JLL, warehousefinder.pl, H1 2014

Currently, due mostly to the large developments being developed for Amazon, Panattoni and Goodman have the largest amounts of construction activity among all developers (315,000 m^2 and 282,000 m^2, respectively). SEGRO is ranked third, with almost 77,000 m^2 now at the development stage.

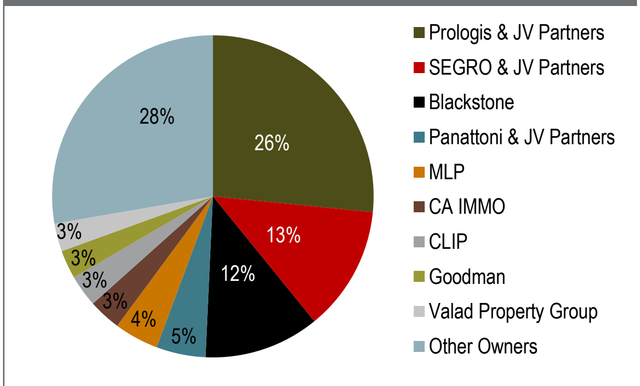
Stock under construction (m^2) by developer in Q2 2014



Source: JLL, warehousefinder.pl, H1 2014

In terms of the ownership structure of the Polish industrial market, more than half of existing floor space is in the hands of the three largest market players and their partners. The largest share of the stock is still owned by Prologis (26%), followed by SEGRO (13%) and Blackstone (12%). The largest amount of growth was registered by Blackstone: its share has increased from 10% to 12% since the end of Q1 2014. The fourth spot amongst the largest owners was taken by Panattoni, which is in fact the most active developer but the share of which in existing stock accounts for barely 5%, a situation stemming from the company's strategy, which features the disposal of completed projects.

Ownership structure of the Polish market – Q2 2014



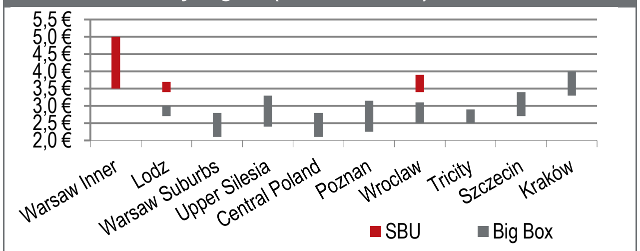
Source: JLL, warehousefinder.pl, H1 2014

Rents

Rents for industrial facilities (warehouses & production) depend on numerous factors and reach different levels, subject to particular region or even sub-region, the quality of a given scheme and availability of floor space on the given market.

The highest rents are typically a feature of the urban markets. At present, there are three such markets in Poland: Warsaw Inner City, Łódź and Wrocław. The most characteristic industrial format to be found in these locations are what are referred to as SBUs (*Small Business Units*): projects which combine an office function with a small industrial (warehouse or production) component (2,000 m² on average). Effective rents in these locations reach €5 / m² / month in Warsaw, €3.9 in Wrocław and €3.7 in Łódź.

Effective rents by region (€ / m² / month)



Source: JLL, warehousefinder.pl, H1 2014

Big box projects are usually located out of town; therefore due to the lower land purchase costs, they feature considerably lower rents. The most expensive locations are the smallest industrial markets, such as Kraków, where rents may reach €4 / m² / month and Szczecin, where rental cost can be up to €3.4 / m²/ month.

The first half of 2014 did not bring any major changes in effective rents. Interestingly, even on the most mature markets, such as Poznań, developers and landlords did not demand increases in rents, as that could negatively impact their efforts to secure some key tenants. Current effective rents in Poznań range between €2.25 and €3.3 / m² / month. The Warsaw Suburbs market offers space from €2.1 to €2.8 / m² / month, and the second largest industrial region – Upper Silesia – from €2.4 to €3.3 / m² / month. In Central Poland tenants must be ready to pay from €2.1 to €2.8 / m² / month and in Wrocław from €2.5 to €3.1 / m² / month.

Industrial Land

The main factor affecting demand for industrial land in the first half of 2014 was the announced change in the granting of regional aid in Special Economic Zones. New regulations, effective from 1 July, reward investments in the eastern part of the country. This is why many companies who still intended to take advantage of the old rules approached the SEZs in order to gain valid permits, resulting in a record high demand in H1 2014.

The development of the modern road network remains a key driver determining the geography of demand for industrial land. The delayed construction of the A1 section east of Łódź affected developers' decisions, who also postponed the securing of plots in that area. On the other hand, on the Warsaw market, developer interest is gradually shifting to the area of S8 express way (currently under construction), which after completion will become the new main exit from Warsaw to the south.

Region	Price (PLN/ m²)
Warsaw Inner City	350 – 550
Warsaw Suburbs	50 – 300
Central Poland	60 – 140
Poznań	140 – 200
Wrocław	120 – 240
Upper Silesia	90 – 200
Kraków	80 – 300
Tri-City	100 – 200

Source: JLL, warehousefinder.pl, H1 2014.

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