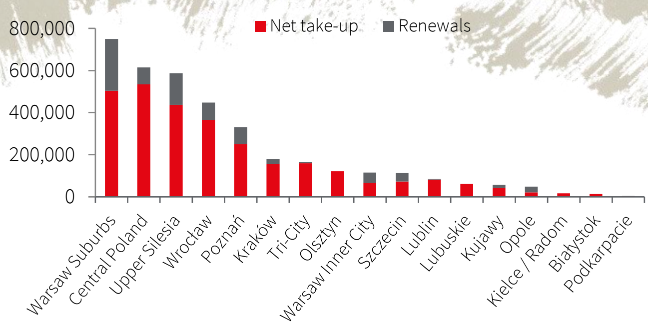
February 2019

Poland's industrial market

Demand

Poland's industrial market once again proved to be strong and buoyant. Total demand of 960,000 m² transacted on in Q4 boosted the annual volume of leased floor-space to 3.7 million m². Results were very close to last year's record figures, making 2018 the second best year in the history of the market. Demand is still mainly driven by new lease agreements and extensions – those accounted together for 78% of total take-up in 2018. This unabated demand reflects the non-stop popularity and attractiveness of Poland's industrial market.

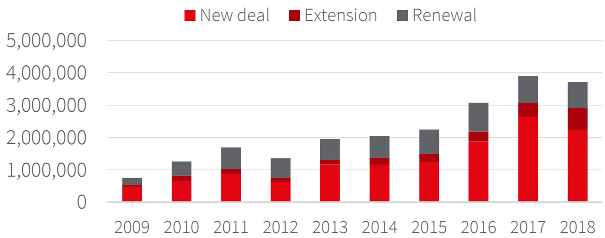
Industrial demand by region in 2018 (m²)



Source: JLL, warehousefinder.pl, Q4 2018

A significant amount of new demand in 2018 was concentrated in the three largest markets (Warsaw, Upper Silesia and Central Poland) and split somewhat equally between them, with a total of over 1.5 million m² of space transacted on there. Tenant activity was noted in all of the analysed markets; however, it is worth pointing out good results of Kraków and the Tri-City, where net take-up reached more than 150,000 m² in each market. Interest in the emerging locations, including Białystok, Kielce/Radom, Kujawy, Lublin, Lubuskie and Podkarpacie, remained high. Driven by a newcomer to this group, Olsztyn and its surroundings, total leased space came to over 340,000 m², which was even higher than year before. What is more, some of these markets have already seen a number of renewals, which suggests that they are, if not quite maturing, at least growing out of the infancy stage.

Gross industrial demand (m²)



Source: JLL, warehousefinder.pl, Q4 2018

Unsurprisingly, the most active sectors were logistics operators, retailers and light manufacturing firms. 3PL players leased more than 1 million m² of new space during 2018 (35% of the total net demand). The share of retailers is not much lower, and stood at 32%. Light manufacturing and the automotive sector together accounted for some 16% of total net take-up. Such balance should remain stable in the following quarters.

Major new leasing transactions in 2018

Tenant	Park	Area (m²)
Leroy Merlin	Panattoni BTS Piątek	124,000
Zalando	Hillwood BTS Olsztynek	121,000
Confidential	Panattoni BTS Krzywe	61,000
Confidential	Panattoni BTS Łódź	45,000
Arvato	Panattoni Park Stryków III	43,000

Source: JLL, warehousefinder.pl, Q4 2018

Supply

The buoyant performance of the leasing market was accompanied by excellent activity on the construction side. The market grew by another 2 million m², with 725,000 m² being delivered in Q4 alone. It all adds up to an existing stock of 15.7 million m² at the end of 2018, which is three times as much as 10 years ago.

This was undoubtedly the year of Central Poland. New completions there surged to 762,000 m², almost 40% of the total new space delivered nationwide. Of course other major markets were also meaningful contributors to the new supply: total space delivered in Warsaw, Upper Silesia, Wrocław and Poznań added up to 822,000 m². The high level of construction activity in Lubuskie seen over the past few quarters led to the notable volume of 172,000 m² being completed there. Developer activity came to a halt in Kujawy, Podkarpacie and Warsaw Inner City, with no space being delivered there; however, that should change in the next few quarters.

The supply pipeline remains at a very healthy level, with 1.9 million m² being under construction in Poland at the end of 2018. Development in Central Poland has slowed slightly and Upper Silesia takes the lead with the pipeline of 418,000 m². High levels of developer activity are also seen in the Tri-City and Kraków (144,000 m² and 122,000 m², respectively). The largest projects to be completed in the next few quarters are warehouses for e-commerce giants in Gliwice and Olsztynek. The share of space being built on speculative basis is 35% and developers are keen to start such projects in the largest markets. Speculatively constructed floor-space of more than 100,000 m² was seen in Warsaw, Upper Silesia and Wrocław.

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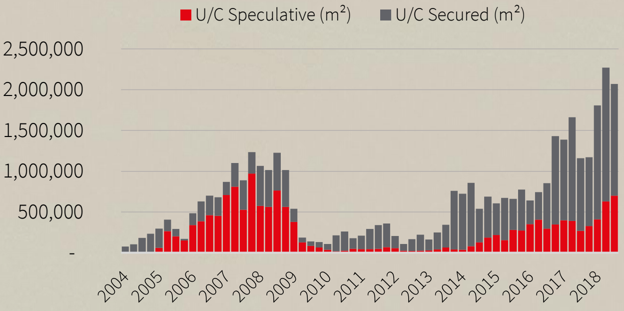
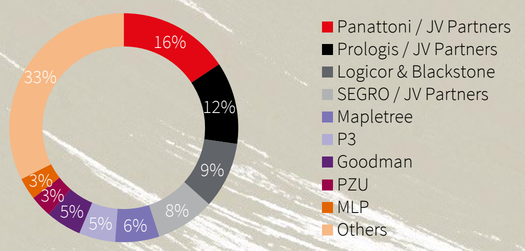
Industrial space under construction (m²)



Source: JLL, warehousefinder.pl, Q4 2018

The relatively high levels of speculative development activity seen during 2018 did not result in changes in vacancy rates. Central Poland, Poznań, Szczecin, Kujawy and Białystok are the markets which pushed the average for Poland to the level of 5.3%. At the end of December 2018 the highest rates were in Warsaw Inner City (12%), Poznań (7%) and Białystok (36%), where the first partially-speculative park was delivered in Q3 2018. There was no available space to lease in Kielce/Radom and Lubuskie.

Ownership structure of the existing industrial space

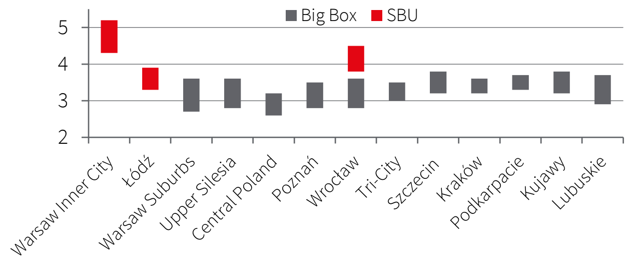


Source: JLL, warehousefinder.pl, Q4 2018

Rents

Rents remain on an upward trend. Warsaw Inner City continued to be the most expensive location, with headline rents ranging from €4.3 to €5.2 / m² / month. The most attractive rents for big-box units are still found in out of town locations across Central Poland (€2.6 to €3.2 / m² / month). Prime locations and the most modern facilities are seeing slight increases, especially in terms of effective rents (i.e. including incentives from landlords), as many major developers are less keen to negotiate lease terms, citing increasing construction costs and land prices.

Headline rents in regions (€ / m² / month)



Source: JLL, warehousefinder.pl, Q4 2018

Investment market

This was a year of excellent, record-breaking investment activity on Poland's industrial market. It was easy to see the dynamically growing appetite of investors for the full range of assets across the entire country.

The investment volume has been growing every year since 2015, when it was a mere €221 million of transactions. The figure for 2016 was almost €770 million and over €900 million in 2017. However, 2017's volume was driven by one large transaction, namely the pan-European acquisition of the Logicor platform, which included some €750 million for the Polish assets.

The historically highest volume transacted on in 2018 doubled that from 2017, setting a new record, with warehouses worth €1.84 billion being bought and sold. Again, the result was mainly driven by large portfolio transactions, all of which came in the second half of the year. The major industrial transactions completed in 2018 included: the Encore (Hillwood) and Prologis portfolios, both acquired by Mapletree for €320 million and €260 million respectively; the Och-Ziff portfolio, bought by a JV between Griffin and Redefine for approximately €195 million; the Azurite (Goodman) and Hines portfolios, acquired by Blackstone for approximately €190 million and €140 million respectively. The average yield across these transactions ranged between 6.5% and 7.5%. Nonetheless, the market has also seen transactions involving some smaller portfolios and a number of single assets. Overall, prime warehouse yields in Poland stood at 6.5%, with exceptional, long-leased assets trading at around the 5.5% mark.

To sum up, during 2018 90 parks with almost 3.2 million m² of total space changed hands. What shows the scale of the investment volume is that the space transacted on constitutes over 20% of total existing stock. Those acquisitions have visibly changed the ownership structure, making it more equal across the top landlords.

We expect logistics to continue at a very strong pace with both portfolios and large single assets assumed to trade well throughout 2019.

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