Market Outlook 2022

REPORT

POLAND
REAL ESTATE

CBRE RESEARCH

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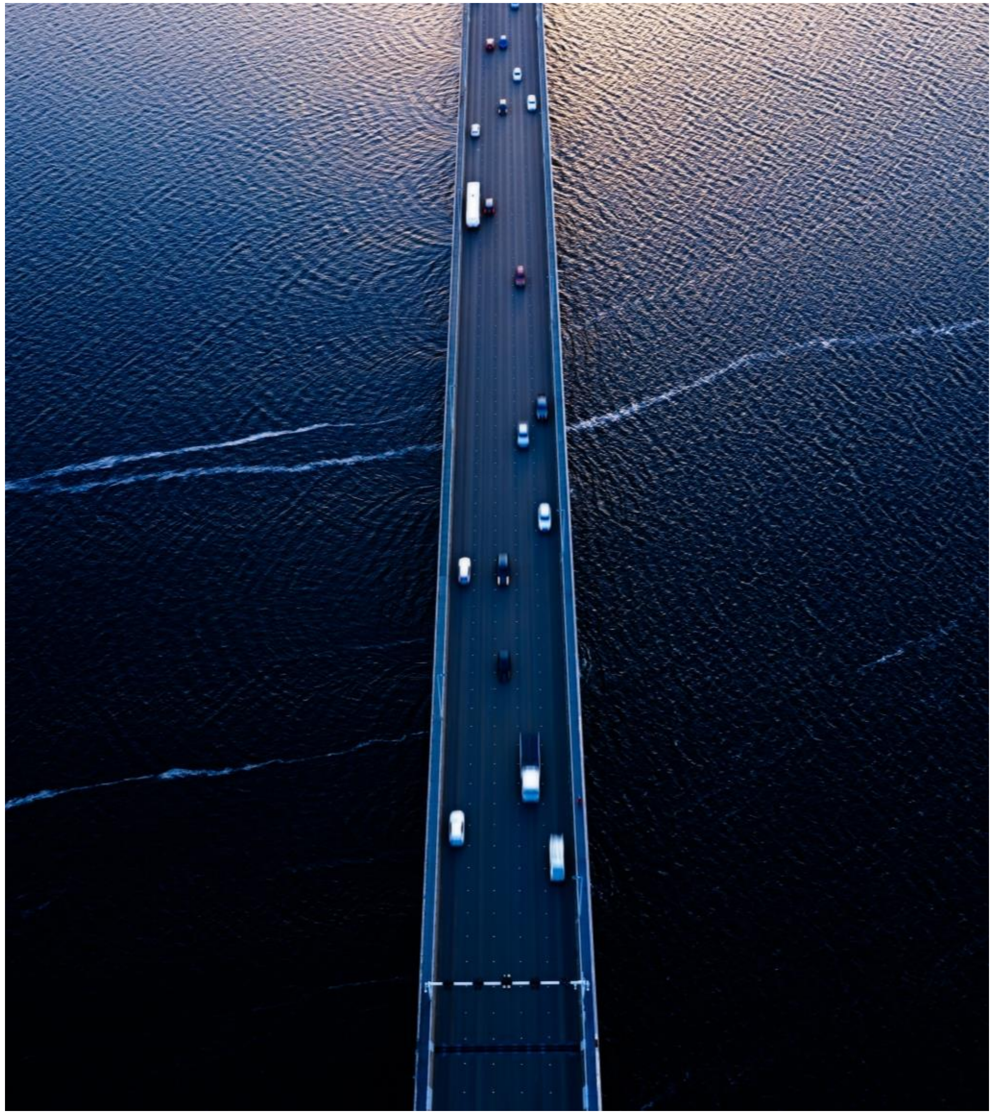


01

Economy

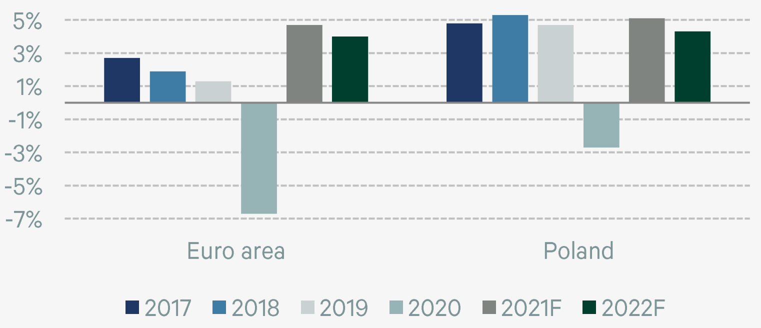
Poland’s economy is characterized by a solid GDP growth and rising inflation.

High GDP upon strong fundamentals

Most countries have already gone back to the pre-pandemic levels of growth. Polish GDP retained strongly positive increases throughout the last few years, and it is likely that the annual GDP in 2021 will exceed 5.0% growth, supported by a dynamic labour market and particularly strong services and industry sectors. The OECD has retained the GDP growth forecast for Poland at the level of 5.3% for 2021 and maintains its high growth forecast throughout 2022 at the level of 5.2%. According to Oxford Economics' forecasts, Poland's economy will grow by 5.1% in 2021 and will continue at a strong pace in 2022 (4.3% y/y). Other major institutions are also positive about the future of the Polish economy, which will be characterized by a high level of GDP growth in the coming years.

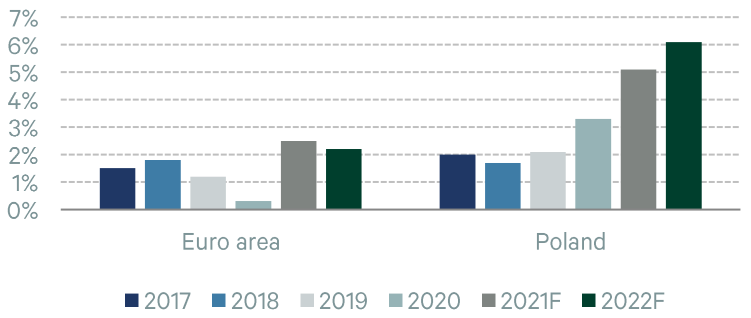
The country's stable pre-pandemic fundamentals, low debt levels and central bank actions helped to get the economy back on track. Among the drivers behind the GDP growth are consumption, a stable labour market and investments. According to PAIH, foreign companies' brownfield investment was at a record level of EUR 3.5 billion in Poland throughout 2021, which is 23% more than in 2020 and 20% more than the previous pre-pandemic record in 2019. The largest investors – South Korea, Germany and the US were responsible for EUR 2.4 billion and the creation of over 7,500 jobs. Moreover, exports and industry have weathered supply chain disruption considerably better than other European countries.

Figure 1: GDP growth in Euro Area and in Poland



Source: CBRE, December 2021

Figure 2: Inflation rate in Euro Area and Poland



Source: CBRE, December 2021

Inflation and fiscal policy

On the other hand, the Polish economy is among the ones with the highest inflation rate, and this sets the tone for a broader narrative. In December inflation growth was registered for the sixth consecutive month and stood at the level of 8.6%. Although the inflation rate is generally high (Euro area annual inflation rose to 5.0% in December), Poland is among the countries with the highest rate. Among the main inflation drivers are growing electricity and gas prices. A further rise is expected in H1 2022, resulting mainly from the soaring food prices and costs of energy.

In response to the inflation increases and along with the sharpening inflation forecast, the Polish Central Bank sharpened the rise in interest rates to the current level of 2.25% for the reference rate (50 bps rise), to mitigate the risk of exceeding the medium-term target. Further increases are probable throughout the year.

Other macroeconomic indicators remain healthy. At the end of December, the unemployment rate in Poland stood at the level of 5.4%, which was the same level as in November, but registered a 0.9 p.p. fall y/y. The annual change in retail sales in H2 2021 was positive and in December was 8% higher y/y. The fiscal deficit is expected to be around 4-5% and should continue to decline in the coming quarters.

The biggest risk to the economy in 2022 is posed by high inflation, even though the Government has introduced a series of actions aiming at mitigating the high inflation ratio.

02

Investment

In 2022, a return to pre-pandemic volumes is expected with continuing domination of the logistics sector.

Investment

The total investment volume on the commercial real estate market in 2021 amounted to EUR 5.71 billion, and the result was made up of 164 transactions. In terms of the number of transactions, 2021 was a record year, the previous year with the largest number of transactions was 2019, in which 153 transactions were finalized. The total volume of transactions in 2021 was 7% higher than the year before.

The forecasts for 2022 are promising. It is estimated that the value of investment transactions could amount to around EUR 6.5-7 billion, which would mark a return to the historically high investment volumes before the pandemic, which were recorded in 2018 and 2019.

The fourth quarter turned out to be the best this year - total volume reached EUR 2.18 billion (representing 38%), while the lowest volume was achieved in the second quarter at EUR 770 million. The first and third quarters were comparable in terms of volume, amounting to EUR 1.23 billion and EUR 1.53 billion, respectively. In each of the quarters, except the first, the industrial and logistics sector was the dominant component, while in the first quarter office transactions accounted for the largest share in the volume.

Largest transactions

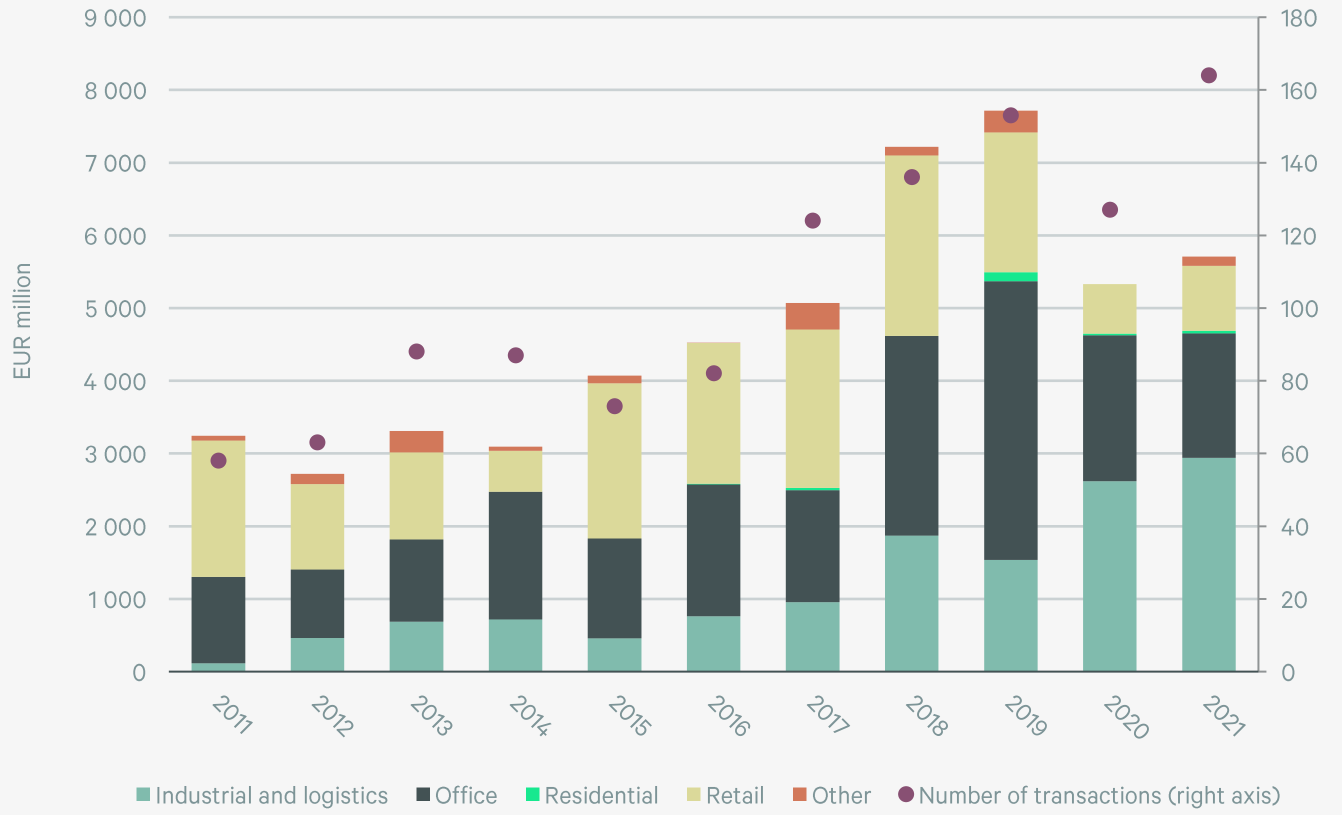
The largest transaction in the investment volume in 2021 was the purchase of the logistics Exeter portfolio by the Asian investor GIC, worth EUR 260 million. The transaction was part of a larger portfolio that included Western and Central European warehouses.

One of the largest transactions in the office sector was the sale of 9 existing and 2 under construction assets of the BUMA group from Krakow, worth EUR 200 million, to Partners Capital funds. As for the largest transactions with single office buildings, the sale of the Metropolitan building was finalized in Warsaw, and from the regional cities it was Neon in Gdańsk.

In the retail sector, the highest value in 2021 was achieved by the purchase of the M1 Marki shopping center by the South African fund Redefine.

In the residential sector, the largest transaction that was not included in the volume due to the nature of the forward-purchase transaction, was the purchase of almost 2.5 thousand Budimex housing apartments by Heimstaden for EUR 310 million.

Figure 1: Investment volume divided by sector



Source: CBRE Research, Q4 2021

> Europe remained the main source of capital on the Polish investment market in 2021, accounting for 47% of the total volume, and additionally 4% is domestic capital. In second place with 23% is capital from North America, 11% from Asia and 4% from Africa.

Segmentation by sector

The industrial and logistics sector accounted for the largest share in the total investment volume, a trend that has continued since last year. In 2021, transactions from this sector set a record, reaching a historically high level of EUR 2.94 billion and accounted for 52% of the total volume, compared to 49% a year earlier.

The share of office investment transactions last year stood at 29%, which is a level lower than the year before, when it amounted to 38%. Their total volume amounted to EUR 1.7 billion. On the other hand, commercial transactions recorded a slight increase in the share in volume - from 13% in 2020 to 16% in 2021, reaching the value of EUR 898 million.

An important element that is not included in the total volume as properties are still in the pipeline, are forward-purchase housing transactions. They amounted to EUR 586 million last year, which together with typical transactions in the residential sector amounted to EUR 621 million. 2021 was the first year when significant interest in this market segment could be observed. We expect it to grow in popularity.

Prime yields

At the end of last year, there was a change in the prime yield in the industrial and logistics sector compared to the previous quarter. The yield has further compressed to 4.35%, much lower than in 2019 before the Covid-19 pandemic when it stood at 5.75%. Thus, the yield for industrial and logistics properties has dropped below the level of the office yield. The prime yields for office and retail properties remained unchanged from the previous quarter and stood at 4.5% and 5.75%, respectively. For both of these sectors, the yield is still higher than in the pre-pandemic period. In the case of other sectors, the yield for the hotel sector remained stable at 6.0%, and for the residential sector it compressed to 4.7% (by 20 bps compared to Q3 2021).

Figure 2: Prime yields

Source: CBRE Research, Q4 2021

What will year 2022 bring?

It is estimated that the investment volume in 2022 will amount to approx. EUR 6.5-7 billion, which would mean an increase of over 20% compared to 2021 in the most optimistic variant.

In terms of sectors, the largest market share will belong to the industrial and logistics segment. Offices will come second, followed by retail.

In 2022, a further compression of yields for the best warehouse and office assets is expected.

03

Warsaw office

Coming supply gap will lead to shrinking leasing opportunities and rental growth.

Warsaw is in the game

The Warsaw office market experienced notable growth in tenants' interest towards the year end - new business lines and the growth of companies began to feed into demand for office space, particularly in the city centre. Nonetheless, although it is almost certain that hybrid working will have an impact on demand in the long run, it is still too early to say to what extent, and we will clearly see sectoral differences in this approach. Due to these uncertainties, the level of demand – although visibly strengthening towards the end of the year – is still below the pre-pandemic record volumes.

Supply

Altogether 324,600 sq m of new office space was delivered to the market across 2021. Although this was the largest annual supply since 2016, this space was on average 69% let at the end of the year. During the last quarter of 2021 three schemes were completed, among which the largest – Central Point by Immobel (17,970 sq m) was delivered in the CBD. A further 330,000 sq m which is under construction will be completed by the end of 2024 with a very uneven accent put on 2022.

The pace of development is distinctively slowing down – the market is facing a supply gap coming in the years 2023-2024, which is already influencing the leasing process.

As ESG will continue to remain high on both tenants and investors' agendas, green certification will become a must, focusing particularly on building operations and management. Warsaw boasts the highest share of certified buildings among 15 of the analysed EMEA markets – over 54% of supply is currently certified, which is partly the reason for the high interest among international investors.

More than ever, the focus will be on the quality, certifications and refurbishments.

Demand

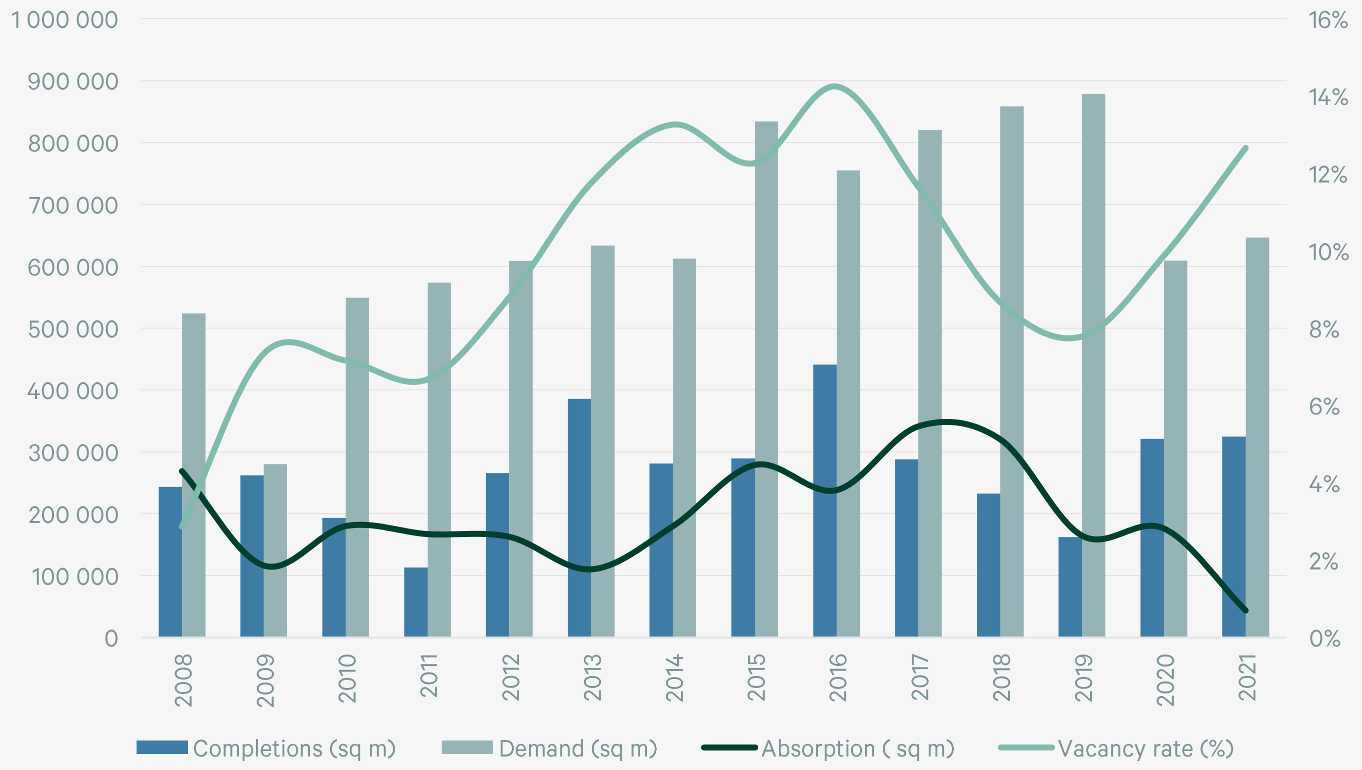
The first signs of demand recovery were visible in tenants' activity throughout the last quarter, resulting in over 250,000 sq m let, surpassing the previous quarter by 20%. This brings the total 2021 demand to the level of 646,500 sq m, a 6% increase y/y. Increased interest among tenants, hitherto only seen due to the growing number of viewings, is now clearly visible in the demand level, which surpassed the previous quarter by nearly 70% and was the highest quarterly value since Q3 2019.

The demand structure remains comparable to that of last year, with a considerably high share of renegotiations (45%). New agreements were signed for 37% of leased space, whereas expansions constituted 7%. Pre-let agreements' share in overall demand was at the level of 12%.

The high share of renegotiations influenced the amount of office space absorption, which was at the level of 43,500 sq m. The relatively low level of absorption can also be attributed to the growing market discrepancies between A and B class assets. While B class offices are characterised with negative absorption, A class office space remains at the centre of tenants' interest resulting in absorption at the level of 175,600 sq m.

Increased interest among tenants, hitherto only seen due to the growing number of viewings is now clearly visible in the demand level.

Figure 1: Main market indicators



Source: CBRE Research, Q4 2021

> “Along with the narrowing leasing options caused by the revival of demand and low construction activity, we will witness further rental increase in the coming quarters.”

Office occupancy

Pandemic-related slowing demand, juxtaposed with the considerable construction pipeline, led to the growing vacancy. Although buildings completed in 2021 were on average 69% let at the end of the year, a 324,000 sq m pipeline was among the reasons behind the growth in vacancy. Altogether 778,400 sq m remained vacant at the end of 2021, translating into a 12.66% vacancy ratio (2.8 p.p. increase y/y and 0.2% p.p. increase q/q). Vacancy is falling in the City Centre Fringe, but also in various Non-Central zones. The highest share of available space is currently located in Mokotow (18%) and the CBD (14.6%), whereas the lowest vacancy ratio is observed in the North and East office zones (1% and 3.9% respectively).

Apart from the new supply still under commercialization, vacant space is concentrated in older buildings, or in a few buildings within the zone, often as a result of the recent relocations. Along with the shortage of new supply and the demand revival, the vacancy ratio is expected to fall noticeably from 2022 onwards. Even now, despite the fact that over 10% of the supply is available for rent, there are limited options for large-scale tenants aiming to rent a space.

Rental values

Due to the shrinking leasing opportunities the upward pressure on rents is already present. Rents are sharpening and we are witnessing more aggressive conditions offered by the developers and funds. Current prime headline rents are at the level of EUR 25.5 sq m/ month, however evidence for growing headline rents can also be observed throughout the Central Warsaw zones, as well as across a few established Non-Central zones with low availability. Incentive packages, so far on the rise, are currently under a downward pressure which is likely to continue, resulting in effective rents' growth.

Along with the narrowing leasing options caused by the revival of demand and low construction activity, we will witness further rental increases in the coming quarters.

12.66%

Vacancy ratio is expected to fall by ca. 4 p.p. within the next 3 years

14.60%

Vacancy in CBD is temporarily high and should fall noticeably by the end of the year.

25.50

EUR/ sq m/ month

is the current prime headline rent, we expect it to grow in the coming quarters

What is ahead of us?

The office market in Warsaw is maturing. From one side, the rapid development has slowed down as the market is saturating. Tenants are increasingly more conscious which results in targeting well-located, certified buildings with ESG high on their agendas. This forces landlords to work on their portfolios through introducing the necessary refurbishment and modernization.

We will see more companies open to the experience of flex space, which will lead to more sectoral differentiation in these facilities, urging the flex operators to answer the needs of the variety of tenants. Traditional business models are being challenged, not only in terms of the flexibility of the lease, but also with regard to the space itself.

The coming supply gap has already resulted in sharper rental conditions, which is hampered by the advanced leasing processes of the constructed towers.

Brownfield development opportunities, particularly in Central Warsaw, are limited and increasingly the focus will be on refurbishments and demolition, which will also result in a slower supply increase and will challenge the net-zero processes in respect of environmental transparency.

More than ever focus will be put on the quality, certifications and refurbishments.

04

Regional office

Good quality, certified buildings, together with various, relatively stable market conditions and qualified employees continue to attract newcomers and retain international players.

Regions attract newcomers

Regional office markets gained momentum in the last quarter of the year. The annual demand – down by only 14% from the record 2019 – creates a solid basis for further market development. Whether local or international, newcomers are looking closely at regional Polish cities, taking their first steps and, in many cases, expanding rapidly.

Supply

Regional office markets grew by 2.4 m sq m (50% growth) between 2016 and 2020, however this high pace of development was not continued in 2021. Last year's completions were very moderate with only 224,800 sq m of new office space delivered by developers. Among the largest schemes completed across the year were 3T Office Park in Gdynia and Nowy Rynek D in Poznan.

Tri-City and Krakow grew the fastest, 73,000 sq m and 60,700 sq m was delivered across these markets, respectively. The new supply was on average 54% let at the end of the year. There remains over 800,000 sq m under construction across the regional cities, with still around 70% awaiting tenants.

As in Warsaw, developers in regional cities are responding well to the growing ESG requirements, resulting in a considerable number of certified buildings.

Demand

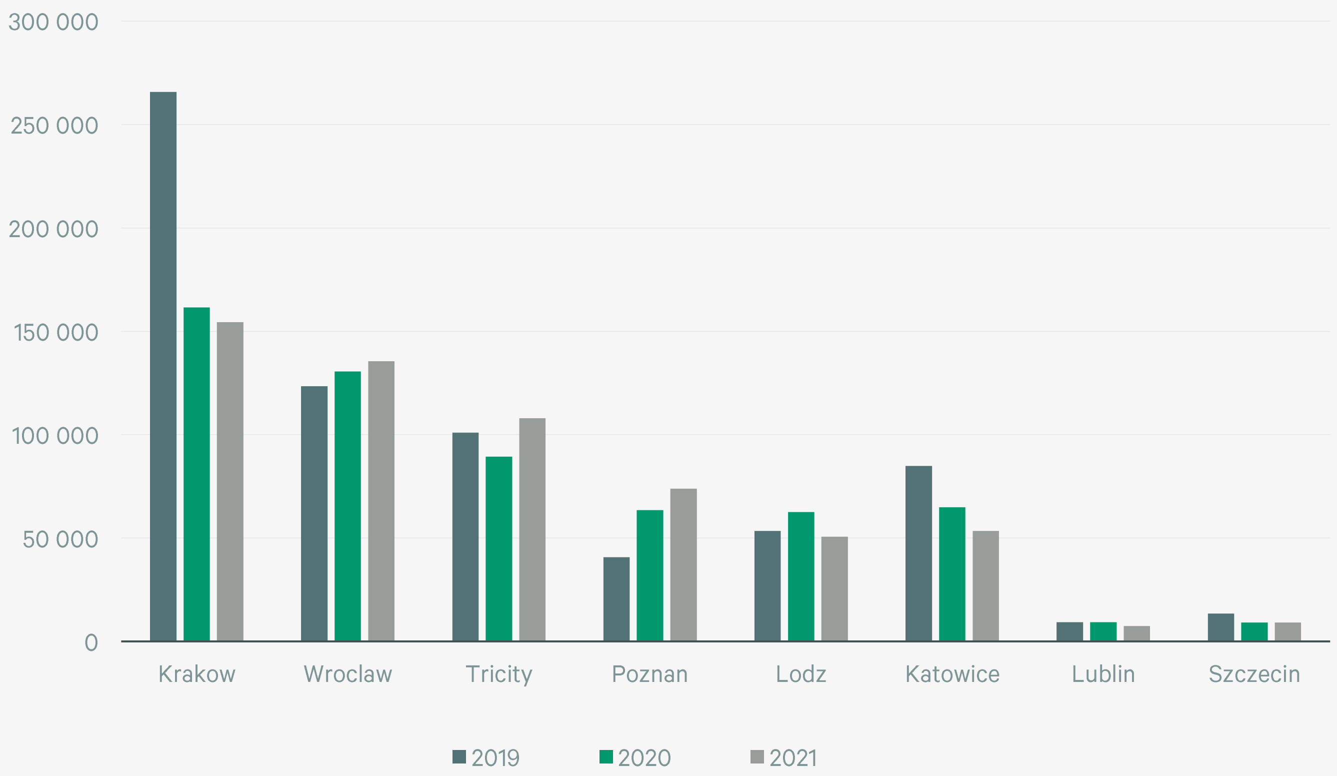
Good quality, certified buildings, together with various, relatively stable market conditions and qualified employees continue to attract newcomers and retain international players.

Although the demand throughout the year was relatively moderate, tenants' activity gained momentum towards the end of the year, when over 214,000 sq m was let, bringing the annual demand to the level of 592,500 sq m (no change y/y). Highest take-up was observed in Tri-City (+21% y/y) and in Poznan (+16% y/y), where 108,000 sq m and 74,000 sq m was let, respectively. Tenants' decisions regarding the type of their leases were similar across the whole country. On average, 43% of the demand was let through renegotiations, whereas pre-let agreements accounted for 14% of the demand.

Regional cities are steadily developing – in Katowice alone there were seven newcomers signing office leases. The highest amount of space was absorbed in Krakow, Lodz and Poznan.

Among the sectors developing intensively despite (or sometimes due to) the pandemic were mainly IT (32% share in overall demand), Business Services (16% share) and Manufacturing & Energy (14%). Additionally, around 4% of the let space came from flex operators, which follows the increasing demand for this kind of accommodation, particularly among newcomers, but also from large players who are differentiating the occupied space to cater for their needs.

Figure 1: Demand level across regional cities



Source: CBRE Research, Q4 2021

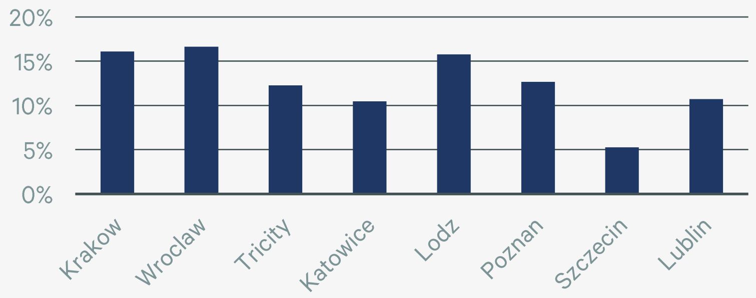
Office occupancy

Despite a relatively low number of completions, we witnessed vacancy growth in 2021, which partially resulted from the already high base, but also – in particular – from the demand slowdown, which did not match the development pace.

The average vacancy ratio across the regional cities was at the level of 14.1%, which represents 1.4 p.p. growth y/y and 0.6 p.p. growth q/q. In various cities vacant space is being gradually absorbed and a fall in vacancy was registered, namely in Poznan, Lodz and Szczecin and Lublin. However, cities like Krakow and Wroclaw, despite being the largest regional markets, grew fast supply-wise with demand not catching up quick enough, resulting in a growing high vacancy ratio (16.1% and 16.7%, respectively).

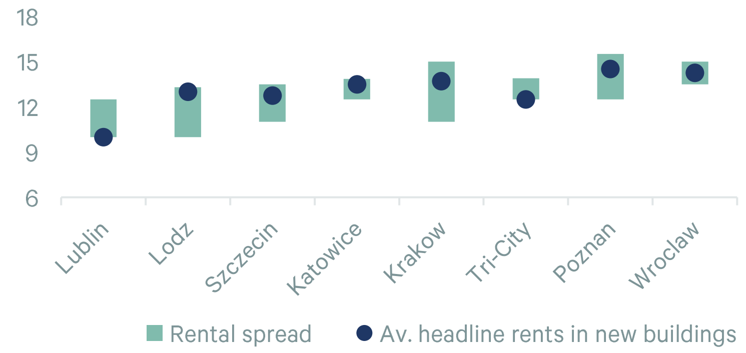
The fact that over 40% of the total available space across the regional cities is located in new buildings (up to 5 years old) also confirms that the pace of development is too fast without the support of demand which has only just started accelerating.

Figure 2: Vacancy ratio across the regional cities (%)



Source: CBRE Research, Q4 2021

Figure 3: Rental conditions



Source: CBRE Research, Q4 2021

Rental levels

The first signs of rental increases are visible across the regional markets, most vividly in Szczecin, where the availability of space is scarce. Prime asking rents in Krakow and Wroclaw in well-located schemes are beginning to sharpen. Nonetheless, rents remain relatively stable. Prime A class buildings are currently subject to rents ranging from EUR 12.50/ sq m in Lublin to EUR 15.50/ sq m in Poznan.

Average headline rents remain stable, at the level of EUR 13.40/ sq m.

Incentive packages, which were rising throughout the beginning of the pandemic, showed signs of stabilising towards the end of the year.

What is ahead of us?

The key to further development may be found in being able to satisfy the boosted demand for digital services and digital infrastructure, both through the potential offered by renowned skilled employees, and through developing high-class, smart office buildings.

We expect to witness more tenant activity taking place throughout 2022, which is already visible in an increased number of viewings. Polish regional cities will strengthen their position as international destinations for SSC, but also for R&D. Although India maintains its position as the top SSC destination, Poland is much more often considered as a third or second choice. Tholons Global Innovation Index ranks Poland 14th on the list of Top 50 Digital Nations (7th when Innovation & Digital criteria are taken into account) and Krakow is rated as the 20th out of 100 Super Cities.

05

Retail market

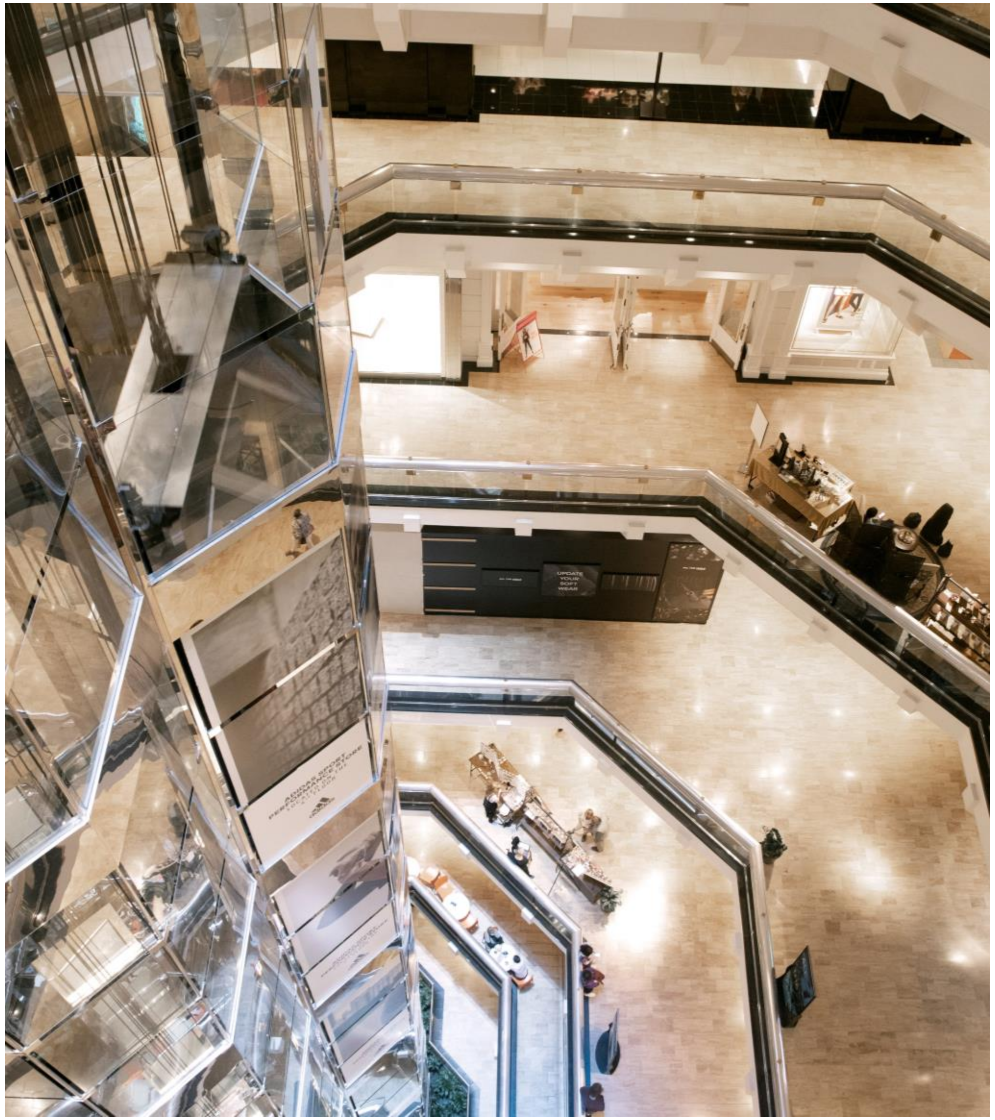
On a recovery path after pandemic restrictions.

Retail is recovering

The supply of retail space will be increasing at a modest pace, evolving from traditional formats towards a complementary function for residential schemes and mixed-use projects. Retail sales will continue to grow, both in “offline” and “online” channels.

Trends to watch

- Clients will enthusiastically visit shopping malls, however the footfall level will be correlated with the number of Covid-19 cases.
- In 2022, approx. 300,000 sq m of new retail space in traditional formats will be delivered to the market, resulting in an outcome similar to 2021.
- Retail parks will dominate among traditional formats. Additionally, retail and services space will be growing dynamically in the ground floors of residential buildings.
- Multi-discipline discount stores and grocery chains, in particular in discount and “convenience” formats will be expanding strongly.
- ”Offline” and ”online” retail sales are estimated to grow. They will create a synergy in an “omnichannel” model.

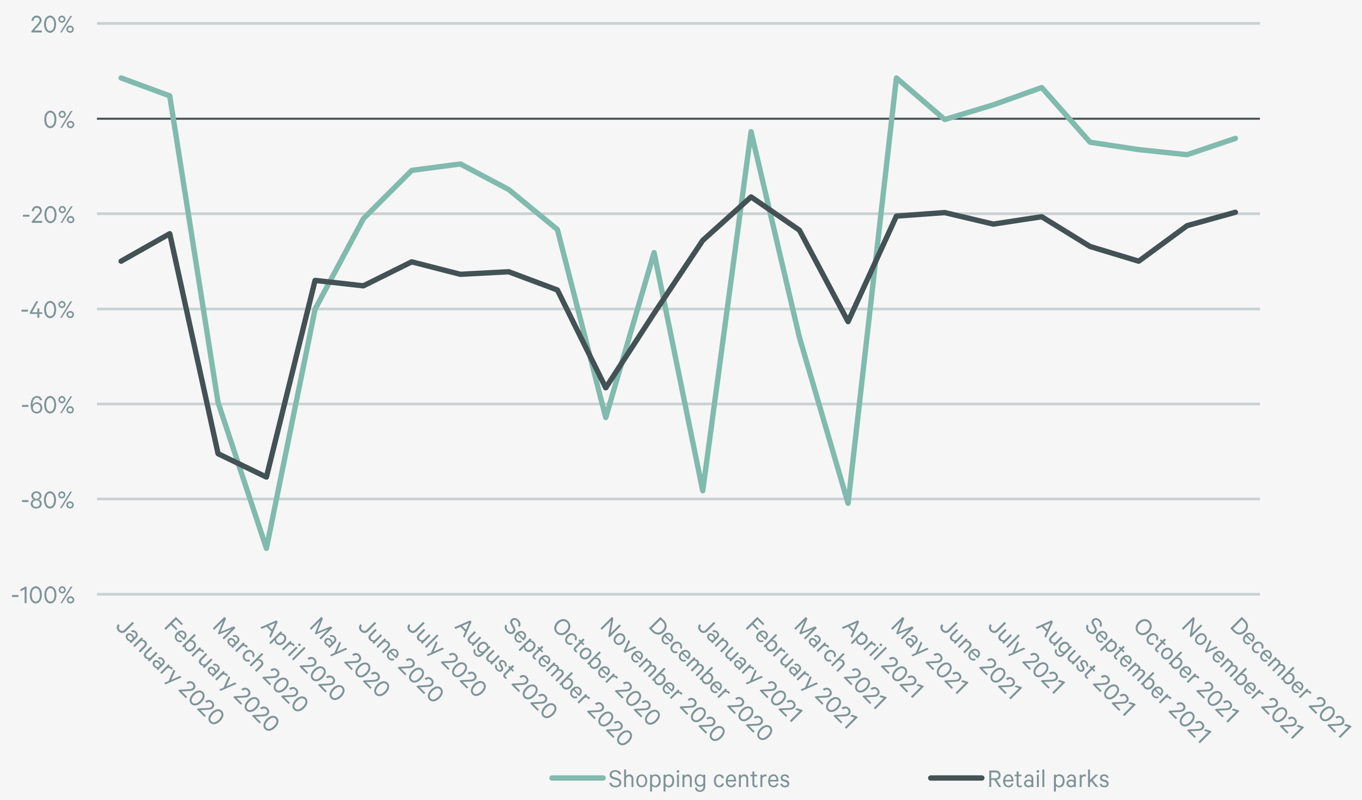


Footfall and turnovers

2021 for the retail sector was another year full of challenges brought by the pandemic. Similarly to 2020, some retail schemes were open to a limited extent during only 2.5 months in total. Nevertheless, the negative impact of trade limitations on footfall was lesser in 2021 than in the first year of the pandemic. It is estimated that the footfall level in retail schemes in 2021 was 29% lower than in 2019, while a decline of 33% was recorded in 2020. In the most favourable month of 2021 (September) footfall in retail schemes was close to the levels observed prior to the pandemic in the corresponding time period. Despite lower footfall results in December 2021 in comparison to 2019 (approx. -13%), footfall from December 2021 was considerably higher than in December 2020, by approx. 37%.

Positive signs were recorded in the last year on the turnover side as well. While the total decrease in turnovers in 2020 in comparison to 2019 amounted to as much as 30%, the volume of 2021 turnovers was only 16% lower compared to results from 2019. In particular, Q3 2021 was a successful time period when turnovers noted growth by approx. 1% when compared to the corresponding quarter before the pandemic. Relatively good outcomes were also registered in December 2021, when turnovers were lower by 5% only when compared to December 2019

Figure 1: Turnover in 2020 & 2021 vs. 2019



Source: CBRE Research, Q4 2021

Supply

In 2021, the market of modern retail space in traditional formats* grew by almost 300,000 sq m of GLA, which means that yearly supply growth took shape from 2019, and furthermore was some 12% higher than in 2020.

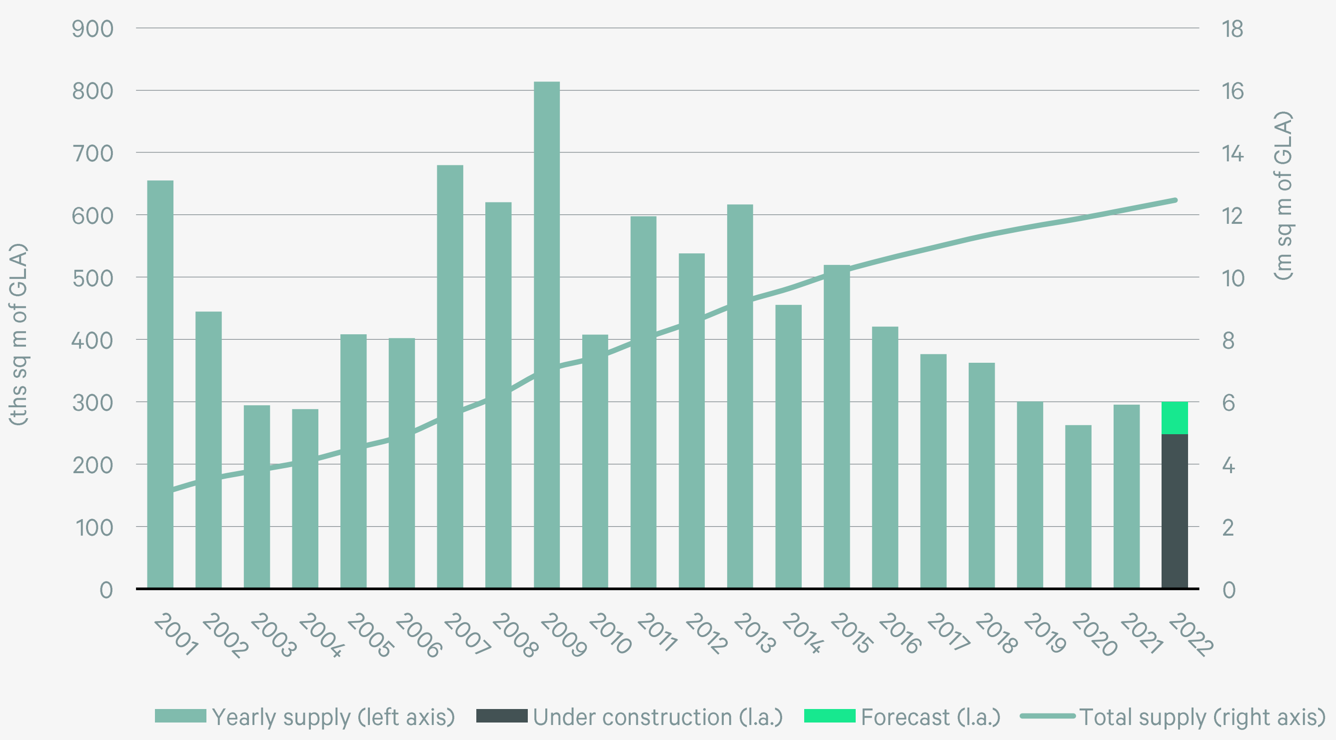
It is estimated that new retail supply in 2022 will reach a similar level, approx. 300,000 sq m of GLA. Currently, there is nearly 280,000 sq m of GLA under construction, out of which 90% is scheduled for 2022.

For 2021, similar to the first year of the pandemic, retail parks proved their resilience to economic fluctuations related to Covid-19 and followed the change in consumer lifestyles. Retail parks are appreciated by investors and willingly built by developers, still searching for market niches. Nowadays, they are leading among traditional schemes under construction both in terms of area (retail parks account for more than a half of newly developed sq m) and in number (nearly 70% of projects). Developer activity is clearly focused on small cities: approx. 60% of newly constructed space in the form of retail parks will enrich cities of below of 100,000 inhabitants in the near future.

The natural evolution of the retail market is resulting in the “convenience” type of retail becoming increasingly popular not only in retail parks, but on the ground floors of residential buildings and mixed-use projects too. This tendency has been escalated by the pandemic, when work from home has become more popular and a number of customers have reduced their mobility, resulting in strengthening the role of retail and services offer in the immediate neighbourhood.

**shopping centres, retail parks and outlets with an area of minimum 5,000 sq m of GLA*

Figure 2: Retail supply



Source: CBRE Research, Q4 2021

Demand

Forecasts for retail sales confirm the growth of volumes in both channels. According to forecasts of Euromonitor International, store-based retail sales will grow by EUR 8.9 billion in the 2025 time perspective, whilst e-commerce will increase by EUR 9.7 billion and achieve a 22% share in total retail sales.

Some brands from fashion or sports categories have already reached the number of brick-and-mortar stores close to optimal level, while multi-discipline discount stores and grocery chains, especially discount and convenience type, are experiencing strong expansion. The Polish Half Price brand, which made a debut in 2021, is also growing intensively and have already opened 50 stores in Poland and abroad.

11 new international brands entered the Polish market in 2021, i.e. exactly the same number decided to make a debut in Poland like a year before. Nevertheless, a comparison of the debut figures with the years prior to the pandemic indicates a downward trend.

Rents and leasing conditions

Headline rents in prime shopping centres remain stable. Currently, they amount to EUR 100-130/ sq m/ month in Warsaw and EUR 40-60 in the other largest Polish cities.**

However, the market situation has given tenants an opportunity to negotiate or renegotiate effective rents. During the negotiations of new lease agreements, tenants are raising relatively new issues, such as shorter lease contracts, rental payments dependent on turnovers or so-called OCR clauses which secure a healthy relationship between the costs and incomes achievable in each store.

In 2022, a pressure to reduce rents may occur in older, poorer performing schemes.

***unit of approx. 100 sq m*

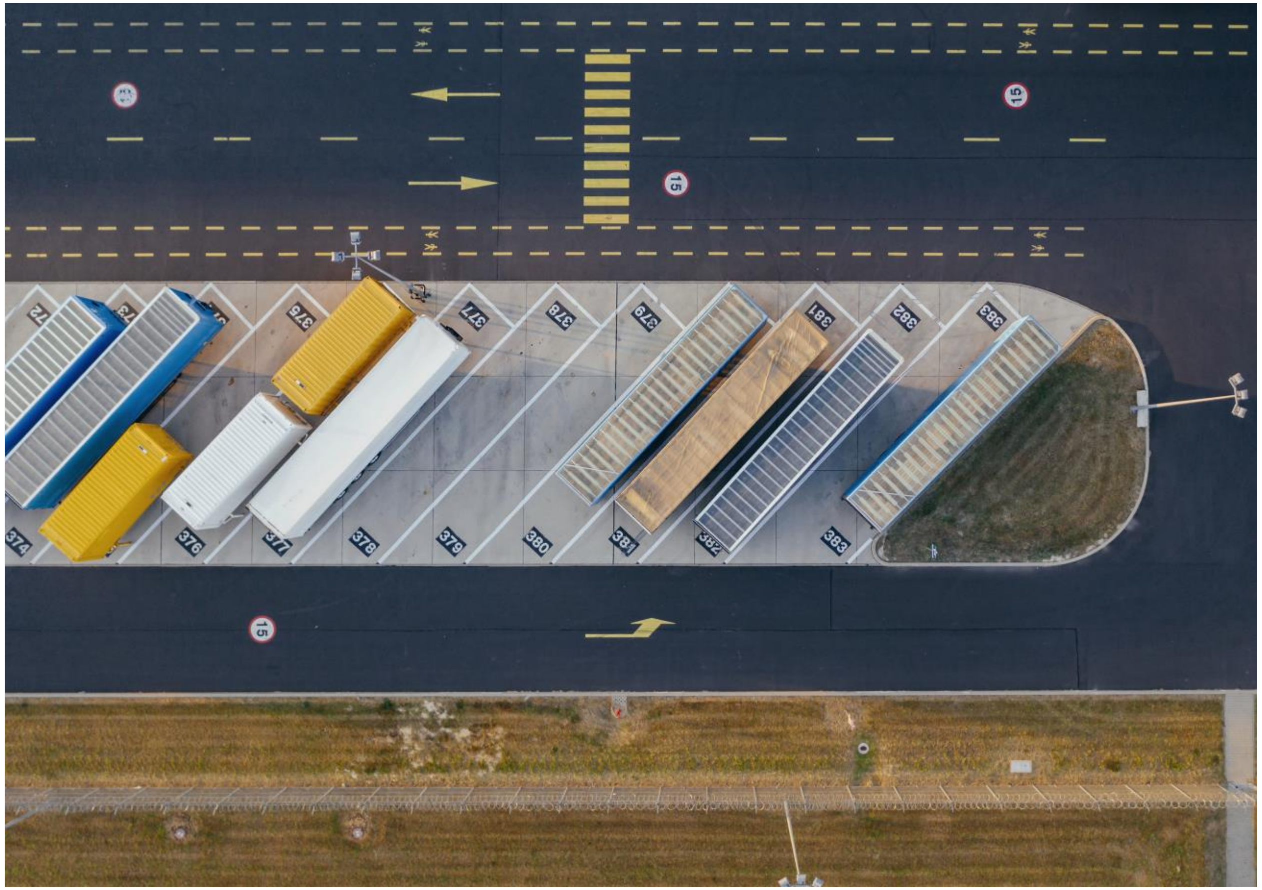
06

Industrial & Logistics

The largest beneficiary of the Covid-19 pandemic with spectacular results last year and further growth forecasts.

Four records in 2021

In 2021, as many as four records were recorded on the lease market in the industrial and logistics sector: record-high total demand, record-low vacancy rate, record-high level of new space delivered and record-high level of space under construction at the end of the year. Moreover, the logistics sector accounted for more than half of the investment volume. These results cannot stand for anything other than that 2021 was definitely the year of warehouses.



Outlook for 2022

Only in 2020 the limit of 20 million sq m of the total stock of modern industrial and logistics space was exceeded, and already in 2022 the barrier of 25 million sq m will be surpassed. This will most likely happen in the middle of the year.

E-commerce is and will continue to be the main driving force of the warehouse market. The largest agreements signed in 2021 represented this sector.

The new warehouse standard will be buildings with a clear height of 12 m and higher, and increasingly more attention will be paid to the aspect of ESG in warehouse buildings and the related certifications.

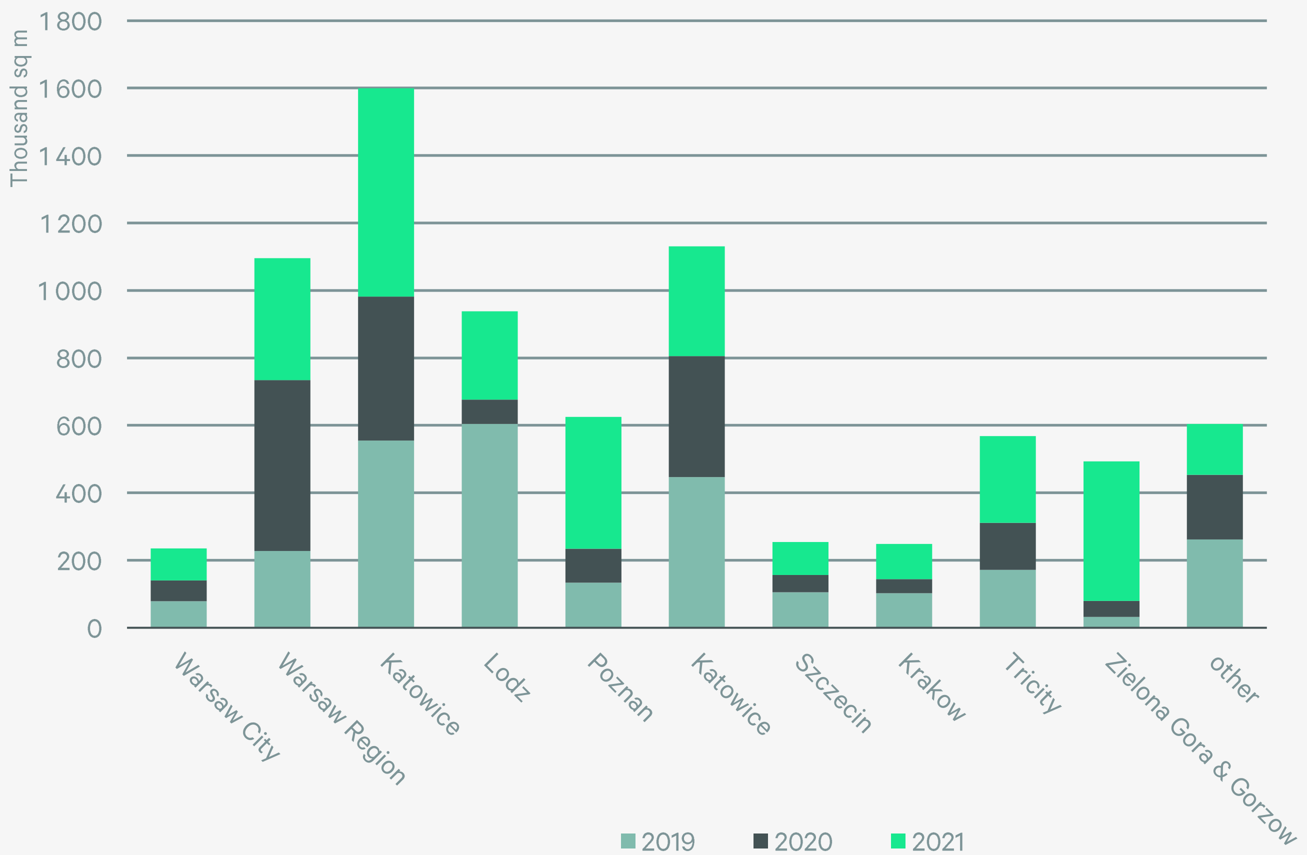
Supply

The stock of modern industrial and logistics space reached the level of 23.8 million sq m at the end of 2021. This is an increase of 16% compared to the previous year. Despite its size, the market continues to grow at a rapid pace - in the last 5 years, since the end of 2016, total supply has more than doubled.

At the end of last year, a record level of space under construction was recorded - 4.6 million sq m. The previous record was noted at the end of 2020, when 2.01 million sq m was under construction, which means that the previous highest level of construction at the end of the year was beaten by 129%. As much as 1.6 million sq m are construction works started only in Q4. Almost half of the space currently under construction remains vacant, but before the space is delivered to the market, a significant part of it will be secured with lease agreements and thus absorbed to the market. The most active markets in terms of construction are: Lodz - 848,000 sq m, Wroclaw– 782,000 sq m and Katowice – 733,000 sq m, constituting half of the space under construction in Poland.

Another record is the newly completed industrial and logistics space in 2021 amounting to 3.08 million sq m. Q3 was responsible for the highest quarterly result of new supply, both this year and historically (1.06 million sq m). The result from 2021 turned out to be 13% higher than the highest level of new supply so far in 2019, while compared to the previous year, it was an increase of 54%. The regions that have grown the most in terms of supply are Katowice (by 618,000 sq m) and West (by 414,000 sq m) and jointly increased the warehouse stock by over a million sq m last year. The largest investment completed in 2021 was Panattoni BTS Swiebodzin for an e-commerce tenant with a size of 203,500 sq m in the Zielona Gora & Gorzow region.

Figure 1: New space completed in the regions in the last three years



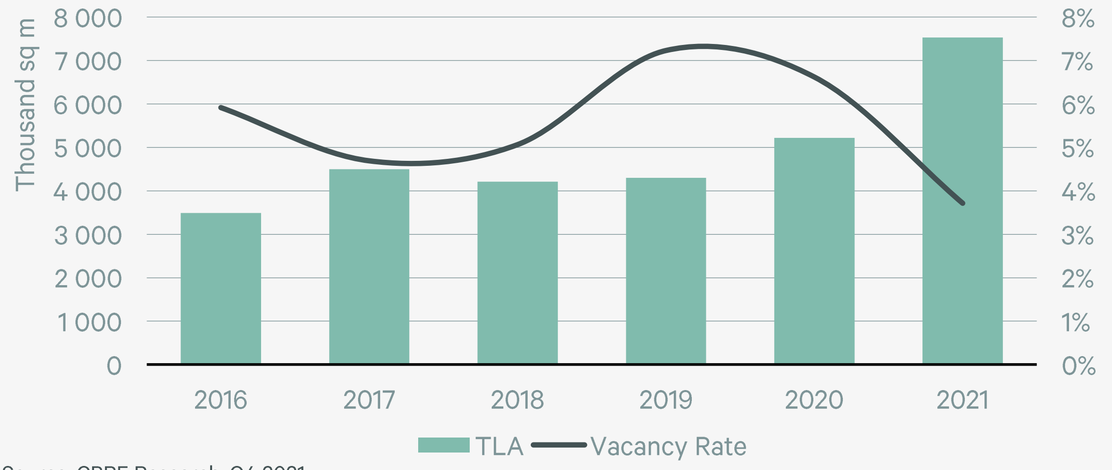
Source: CBRE Research, Q4 2021

> The largest contract recorded in 2021 was Panattoni BTS Bydgoszcz from Zalando for the area of 146,000 sq m.

Vacancy

Another record worth emphasizing is the historically low vacancy rate, which at the end of 2021 was 3.7%. The lowest result recorded so far was the level from the end of 2017, when the vacancy rate was 4.7%. Compared to the end of 2020, the current level is a decrease of 2.9 pp. Such a high level of space under construction is therefore justified - many markets in Poland lack space for immediate lease. The highest vacancy rate was recorded in Katowice - 7.7% and Zielona Gora & Gorzow region - 6.2%, which is still a relatively low vacancy rate.

Figure 2: Demand and vacancy rate



Source: CBRE Research, Q4 2021

Demand

The last, but perhaps the most impressive, of the all-time highs was demand level. For several years, an increased demand for warehouse space has been observed, which was additionally accelerated by the Covid-19 pandemic last year. In 2021, total gross demand amounted to 7.53 million sq m, which is a result incomparable to any previous year. Compared to 2020, when the highest level of demand so far was recorded, this is an increase of 44%.

In line with the trend from previous years, the last quarter of the year turned out to be the strongest, however, for the first time in history, the quarterly result exceeded 2 million sq m, amounting to over 2.6 million sq m. The share of extended contracts in demand was lower in 2021 than in 2020 by approx. 7 pp. BTS contracts accounted for 12% of total demand. Thus, the net demand amounted to 4.8 million sq m.

In as many as four regions of Poland, the total leasing activity amounted to over one million sq m. These were, respectively: Poznan (1.13 million sq m), Katowice (1.11 million sq m), Warsaw Region (1.09 million sq m) and Wroclaw (1.01 million sq m) .

The largest contract last year was signed in a region other than these mentioned above, and it was the Bydgoszcz & Torun region. The transaction of 146,000 sq m in the BTS formula was concluded by Zalando in Panattoni BTS Bydgoszcz. This tenant signed another large contract last year, also in the vicinity of Bydgoszcz.

This proves once again how much impact online sales have on the warehouse market. According to Euromonitor International data, in 2021 the volume of e-commerce in total retail in Poland was 15% and, according to forecasts, it will grow rapidly reaching 18% in 5 years. It should also be remembered that the recipients of goods from warehouses located in Poland are not only Polish consumers.

Further growths

We predict that the warehouse market will continue to grow in the coming years. The very high level of space under construction suggests that in 2022 we will have an even higher level of new supply than last year. Demand is also forecasted at a level similar or higher than in 2021. New players will appear - new tenants, new developers and new investors looking for a product, because Poland is a very attractive market on the European map.

A gradual increase in rental rates for good-quality warehouse space is expected, which currently oscillate between EUR 2.8-4.0/sq m/month. This is influenced by the rising construction costs and the land prices on which the warehouses will be built, which will probably also rise.

07

Residential

The increase in interest rates will affect the demand from individual buyers. Major developers are interested in the sector of flats built for rent.

Residential Market

We are seeing a gradual but clear change in the residential market. Rising prices and increasingly high interest rates are reducing demand for flats from individual buyers.

Meanwhile, the institutional rental sector is growing, with an increasing number of leading residential developers interested in being present in the Build-to-Rent sector.

The dynamic increase in housing prices observed in 2021 was largely due to changes on the cost side of new residential construction: rising prices of construction materials, the effects of broken supply chains, increasing labour costs, and finally rising financing costs.

The price increase took place in the context of relatively high inflation, which was one of the reasons why individual buyers accepted higher prices. Individuals wishing to protect the value of their capital from the effects of inflation by purchasing a home became important market participants.

The reduction in demand from individual buyers was clearly influenced by the series of interest rate increases implemented by the Monetary Policy Council every month since October 2021. In an environment of rising prices, limited supply and uncertain future financing conditions (the vast majority of mortgages in Poland are based on floating interest rates), a reduction in sales was observed towards the end of the year.

In 2022, factors limiting individual demand will continue, but demand from institutional investors (BtR sector) will persist.

Warsaw - the new flats market

Last year, developers in Warsaw failed to rebuild the supply of new flats. At the end of December 2021, 11,928 flats were on offer in Warsaw, 16.8% less than at the end of 2020. In the entire year 2021, 18,881 units were launched for sale (16.0% more than in the previous year). However, significantly more flats were sold, a figure of 21,293 flats (an increase of 20.4% y/y).

In the first half of last year, the number of transactions clearly exceeded the number of units launched to the market, and sales results were very good, even compared to pre-pandemic figures. In the middle of the year, the situation changed - sales clearly declined, returning to a level even lower than in Q3 2020. The decline in demand was influenced by a combination of factors, the most important being the declining offer, rising housing prices and increasing mortgage interest rates..

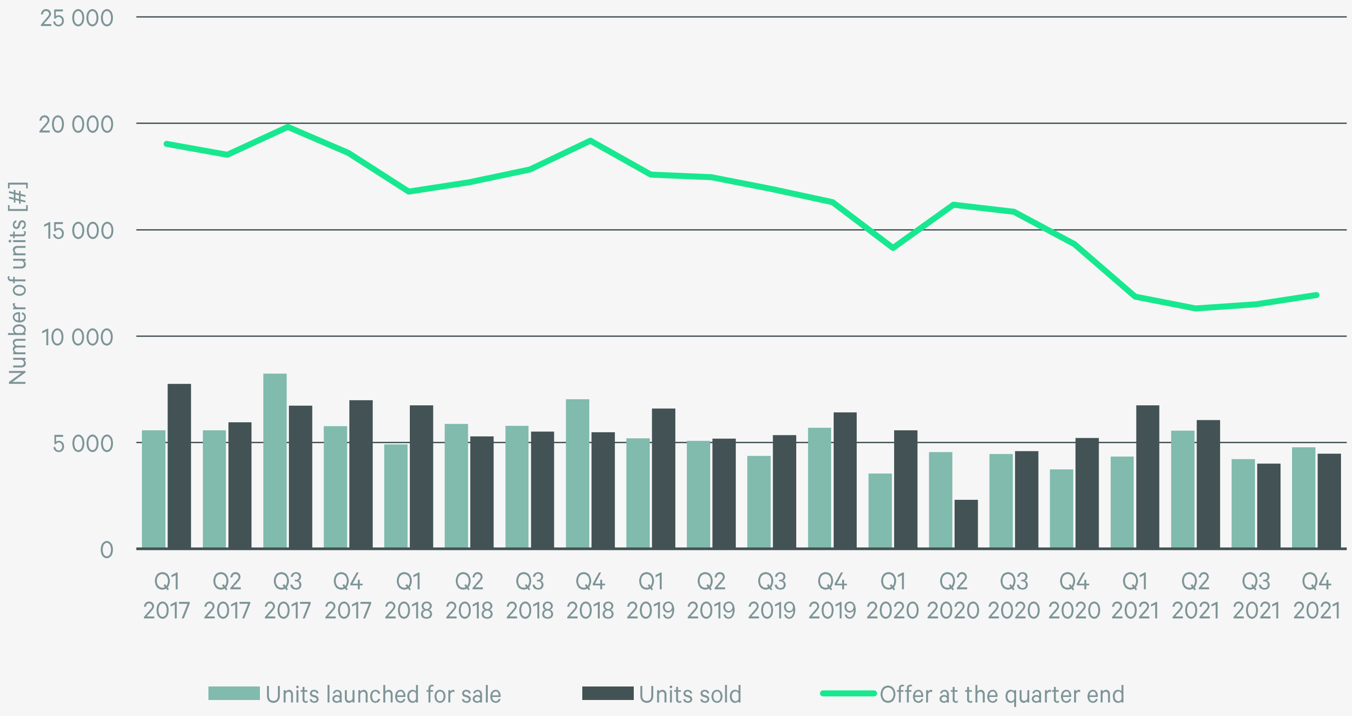
Outlook 2022

Increasing uncertainty in the residential market environment, the high probability of further increases in interest rates (and with it the cost of mortgage loans), and rising housing prices will have a constraining effect on demand. Market performance indicates that developers continue to have problems launching new projects. In this situation, limited sales may support the rebuilding of the offer.

Developers will be willing to consider cooperation with institutional investors.

One of the factors limiting sales is the relatively small supply of flats

Figure 1: Market trends (the build for sale market, Warsaw)



Source: redNet Consulting:

Warsaw - prices of new flats

Prices for new flats in Warsaw have been on an upward trend for several years. The first hit of the pandemic in March 2020 caused a slowdown in their growth. However, throughout in the whole of 2021, the prices of offered flats systematically increased.

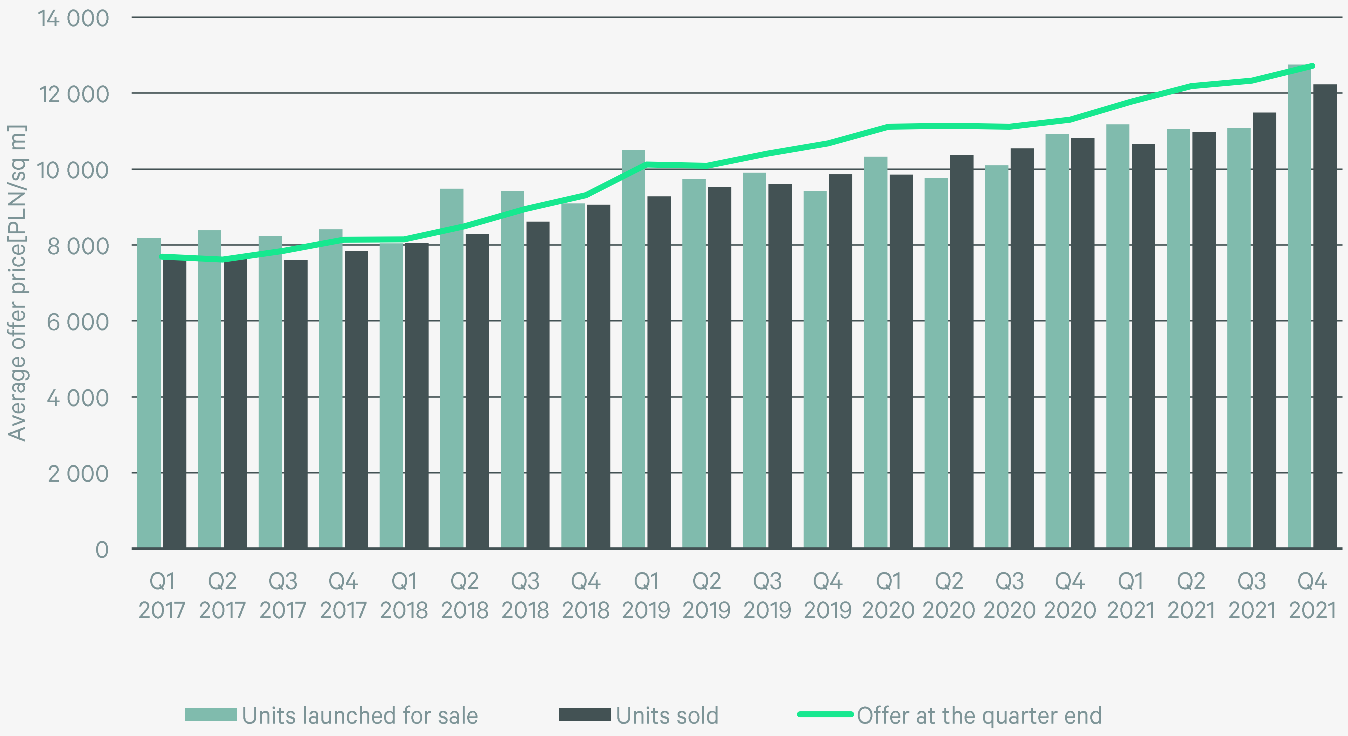
The last quarter of last year was particularly notable. Developers then introduced flats with an average price of PLN 12,757/sq m, 15.1% higher than in the previous quarter. Buyers once again accepted the increasing offer prices. The average offer price of flats sold in Q4 2021 amounted to PLN 12,235/sq m, some 6.5% more than in the previous quarter and up by 13.1% compared to a year ago.

Outlook 2022

Current residential prices' growth is largely dependent on increases in the cost of development projects. As a result, high discounts on new housing units should not be expected in 2022, even though a weakening of demand is highly likely. However, it will mainly result in longer sales times and support for the rebuilding of the offer. In some investments, especially in the area of increased competition, promotional campaigns will start to appear periodically.

In 2021, the increase in residential prices in Warsaw was higher than inflation (CPI)

Figure 2: Flat prices (the build for sale market, Warsaw)



Source: redNet Consulting:

> # 2022 will be a period of significant change in the residential market

The pandemic has strongly affected the situation on the residential market in Poland. Housing preferences have changed. The free-market rental market, dominated by students and young professionals, froze for a while. Changes in the economic environment, including rising inflation, resulted in the birth of a new type of individual investor, hoping primarily to maintain the value of their capital, rather than to profit from renting flats. Rising housing prices have brought flippers back into the market on a large scale.

The market enters 2022 with demand-supply ratios remaining favourable for developers. Most flats are still bought at the construction stage, with only 13.3% of the total offer of new flats in Warsaw being completed units. Buyers rarely decide to withdraw from purchased flats, although in Q4 2021 this ratio increased again (by 0.8 p.p. compared to the previous quarter). In Warsaw, it would take only 2.8 quarters to sell off the existing offer if no new flats were launched to the market, and this is assuming that sales are not very high, at the level of the last six months.

At the same time, it cannot be denied that the situation on the market has changed in the second half of 2021, and especially in recent months. The main h. The main signal of change has been the increase in interest rates, but in fact we are dealing with a combination of factors unfavourable to the decision to buy a flat.

The likely beneficiary of changes in the residential market will be the rental market, because renting a flat allows greater flexibility than purchasing a flat for one's own needs. The development of the rental market, on the other hand, will be linked to the increasing presence of institutional investors offering a modern product. Already in 2021, residential developers related to the capital market and publishing their sales results, reported nearly 6,000 flats sold to institutional investors (out of approximately 35,000 in total).

In 2021, the government programme 'The Polish Deal' was presented, which is supposed to facilitate the recovery of the economy after the pandemic. The programme also included provisions for the residential market, whether in terms of the construction of single-family homes, preferential mortgages or certain tax rules for the rental market. A significant part of the regulations will come into force in 2022, but their actual results can only be assessed from the perspective of 2023

13.3%

Share of completed unsold flats in the total offer on the build for sale market (Warsaw, Q4 2021)

2.2%

Resignation rate of purchased flats (Warsaw, Q4 2021)

2.8

Ratio of the offer to the average quarterly sales in the last six months (Warsaw, Q4 2021)

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