

# THINK OUTSIDE THE BIG BOX

INVESTMENT MARKET IN THE INDUSTRIAL SECTOR IN POLAND

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## Elevator pitch



**TOMASZ BURAS**  
Managing Director, Savills Poland  
Head of Investment

It has been an exciting time for the industrial and logistics market, both globally and on domestic ground. Not only are the occupational markets performing at record levels, but we are also experiencing a tremendous evolution of the logistics market, driven mainly by double-digit growths in e-commerce and a race towards faster-than-ever deliveries, that should, at least to some extent, compensate for the traditional shopping experience. There are, however, some concerns too, mostly related to the availability and costs of qualified labour. All of this results in a significant shift towards automation, integrated logistics solutions and distribution networks strongly focused on costs optimization on the one hand and effective last-mile delivery on the other.

The ongoing evolution and rapid growth of the logistics market worldwide has been attracting more and more aggressive investment capital to the sector, both by way of direct investments and through investment platforms. Poland offers very solid fundamentals for the further growth of the market, which is now achieving record results whilst developing in a very disciplined and organic way. This strong foundation, in conjunction with a yield premium that the CEE region offers over the mature western markets, creates almost endless possibilities for successful investment strategies.



## Global perspective



**KEVIN MOFID**  
Director, Research,  
Savills UK

Over the last five years the logistics sector has firmly established itself as a mainstream segment of the global commercial real estate investment universe. No longer the poor relation to offices and retail, the logistics sector accounted for a record GBP 37 billion of capital deployed in commercial real estate in 2017 across Europe, representing a fifth of all investment across Europe, again setting a new record.

The reasons for this are well documented: the sector is clearly benefitting from the huge amounts of warehouse space required to service online shoppers, which in turn is stimulating traditional retailers to optimise their supply chains and therefore take more warehouse space. However, in many countries across the continent the supply of warehouses remains low and the relatively few active developers in the sector are conscious of not over flowing the market with speculative supply, thereby repeating what happened before the Global Financial Crisis.

Combined this has increased the rents tenants are prepared to pay for warehouse space. In certain markets in the UK rents have increased by over 40% in five years, Germany has seen rental growth of 5%, The Netherlands 6%, while Poland noted a drop of approximately 5%.

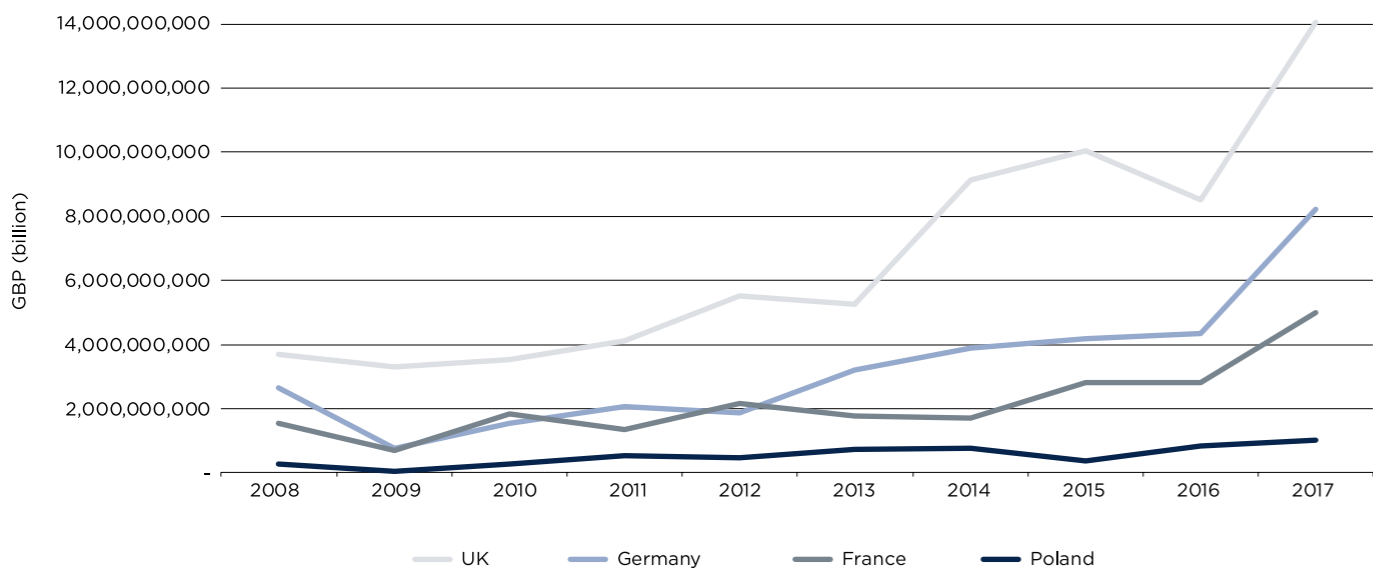
As a result, most European countries saw record investment volumes set in 2017 as demonstrated in graph 1, a trend which has continued into 2018. Poland, for example, is on course to beat its long-term average of GBP 590 million with almost GBP 260 million invested at the half-way point of 2018.

However, in the long term there are many factors which could conspire to ensure even more capital is deployed in regions outside the traditional core areas of Western Europe.

Firstly, taking into account current yields, many investors will start to search for value across the continent, and with continued downward pressure on yields in many countries there is value to be had in a number of peripheral markets. For example, the current spread between UK average industrial yields to CEE average yields is 276bps, approaching the highest level the spread has ever been.

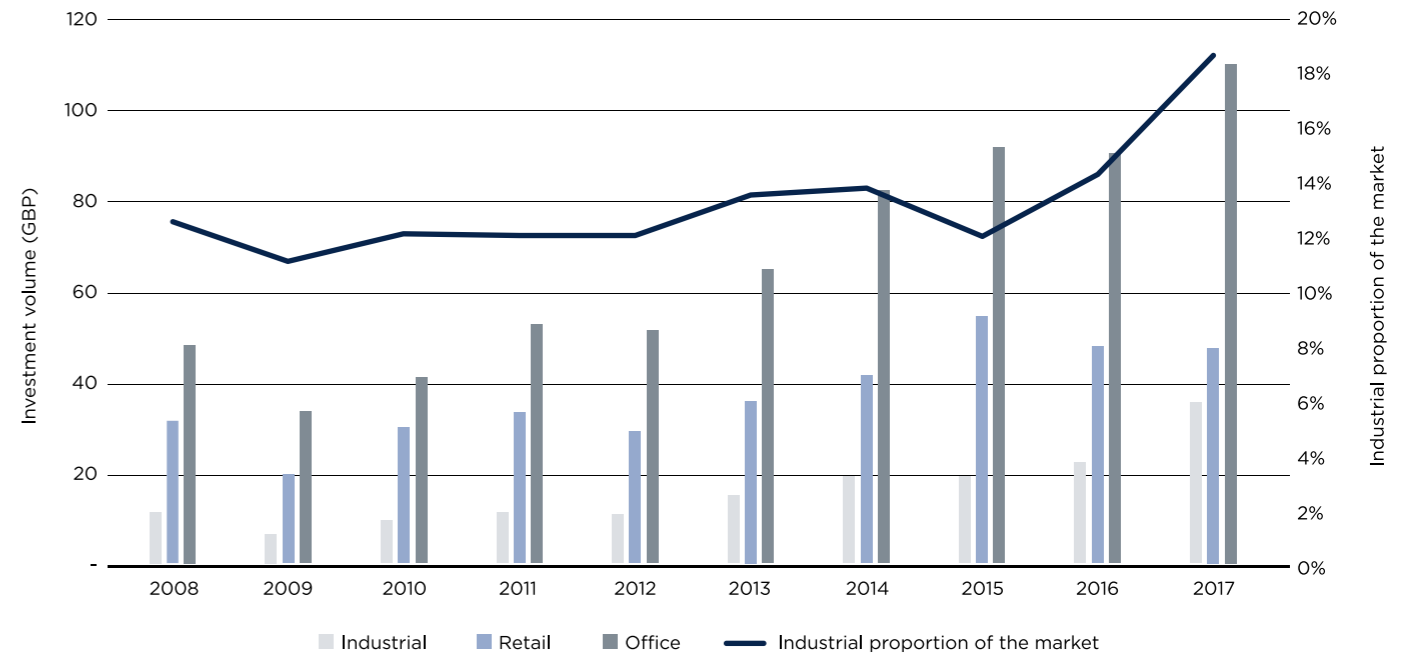
Secondly, many European markets have not yet experienced the inflection point witnessed in the UK that drove logistics occupier demand to surge and therefore create more investment stock, along with demand for what was previously considered secondary. That point was reached in the UK when online retail sales reached 11% of all retail sales and most European markets are yet to reach that. Indeed, the current EU average is 8.8% online sales and Poland stands at just 6.0%. However, that is set to rise dramatically as a business consultancy, Forrester, are forecasting that online retail across Europe will account for 14% of retail by 2022. Coupled with research from Prologis - who estimate that each EUR 1 billion of additional online sales generates around 770,000 sq ft of new logistics - demand this translates to an extra 150 million sq ft in Europe over the next five years.

**GRAPH 1:** Industrial investment volume: Poland is yet to see the investment explosion



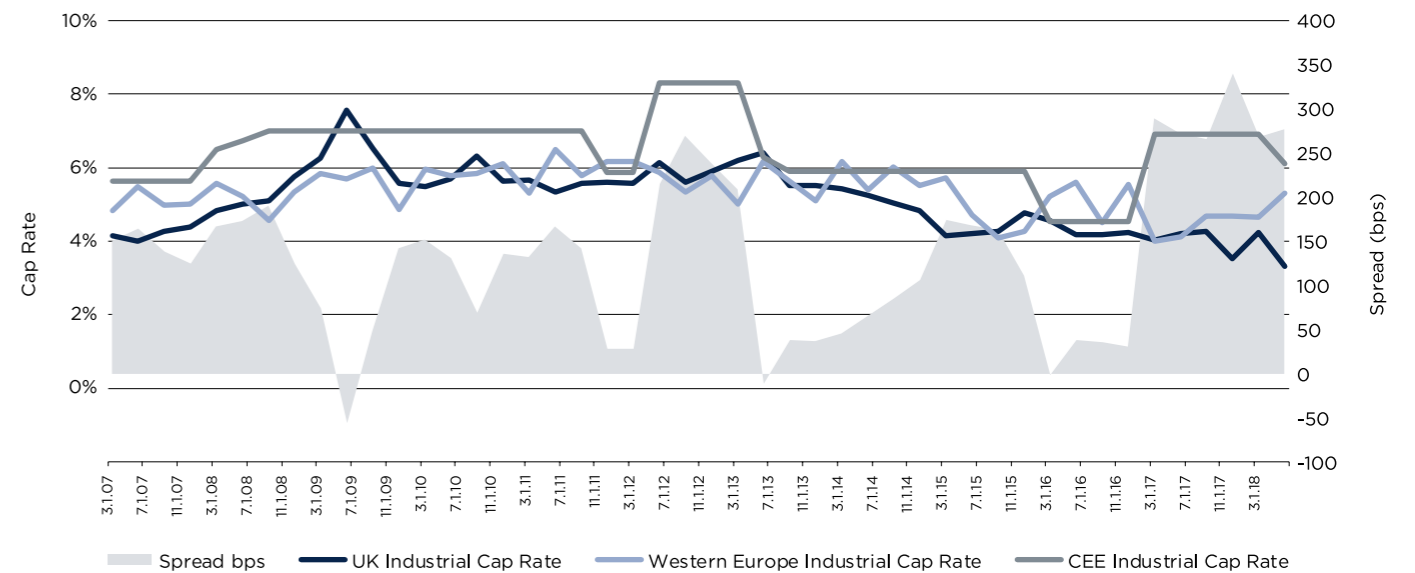
Source: RCA / Savills

**GRAPH 2:** European industrial investment reached the highest proportion of the market



Source: RCA

**GRAPH 3:** Average cap rates in the industrial sector: the spread between the UK and Eastern Europe has widened



Source: RCA

## Focus on Poland: the journey to a developed market



**TOMASZ BURAS**  
Managing Director, Savills Poland  
Head of Investment

Back in September 2017, the global index provider FTSE Russell announced the promotion of Poland to Developed market status. This significant achievement is the first promotion of a country from Advanced Emerging to Developed market status to occur within the Country Classification scheme for nearly a decade. The transition became effective in conjunction with the FTSE Global Equity Index Series semi-annual review in September 2018.

The reclassification of Poland's capital market status to Developed acknowledges the progress of the Polish economy and capital markets and is a major step forward in their development. Poland meets the criteria set for a developed market, including secure trading and post-trade services, as well as an advanced infrastructure. The Warsaw Stock Exchange (GPW), the biggest financial instruments exchange in the Central and Eastern Europe, uses a state-of-the-art trading system and its listed companies meet the highest standards of corporate governance and disclosure requirements.

Following the upgrade, Poland will join the 25 most developed economies of the world including the USA, the UK, Germany, France, Japan, and Australia. Poland is the first Central and Eastern European country reclassified to Developed market status.

### KEY FACTS:

Since the fall of communism in 1989, Poland has pursued major restructuring and a policy of economic liberalization which led to sustainable consumer-led growth, underpinned by major productivity gains and capital accumulation. The country has attracted significant levels of inward investment since its accession to the European Union in 2004, boosted by Poland's accession to the European Single Market. Together with other EU accession countries, total exports from and foreign direct investment into Poland have increased much faster since joining the EU than in the rest of the Organization for Economic Co-operation and Development (OECD) countries over the same period. As a result, the GDP per capita rose from 37.6% of the EU-15 average in 1996 to nearly 70% of the EU-28 average in 2017, the fastest pace of convergence among the CEE economies.

Being the sixth largest country in the EU in terms of population, Poland is less exposed than some of its neighbours, with exports accounting for about 50% of the GDP, compared to 92% in Hungary and 83% in the Czech Republic. Consumption, meanwhile, accounts for 58% of the GDP, compared to only 50% in Hungary. Greater reliance on consumption has made Poland more resilient to external shocks and allowed being the only European country to avoid recession in 2008-2009.

Poland is the eighth largest economy in the European Union (the sixth largest in purchasing power standards) and the largest among the former Soviet bloc members of the EU (eleven countries that joined the EU in three stages in 2004, 2007 and 2013). Poland is classified as high-income

economy by the World Bank and ranked 23<sup>rd</sup> worldwide in terms of GDP as well as 24<sup>th</sup> in the 2017 Ease of Doing Business Index. The largest component of its economy is the service sector (63.7%), followed by industry (33.5%) and agriculture (2.8%).

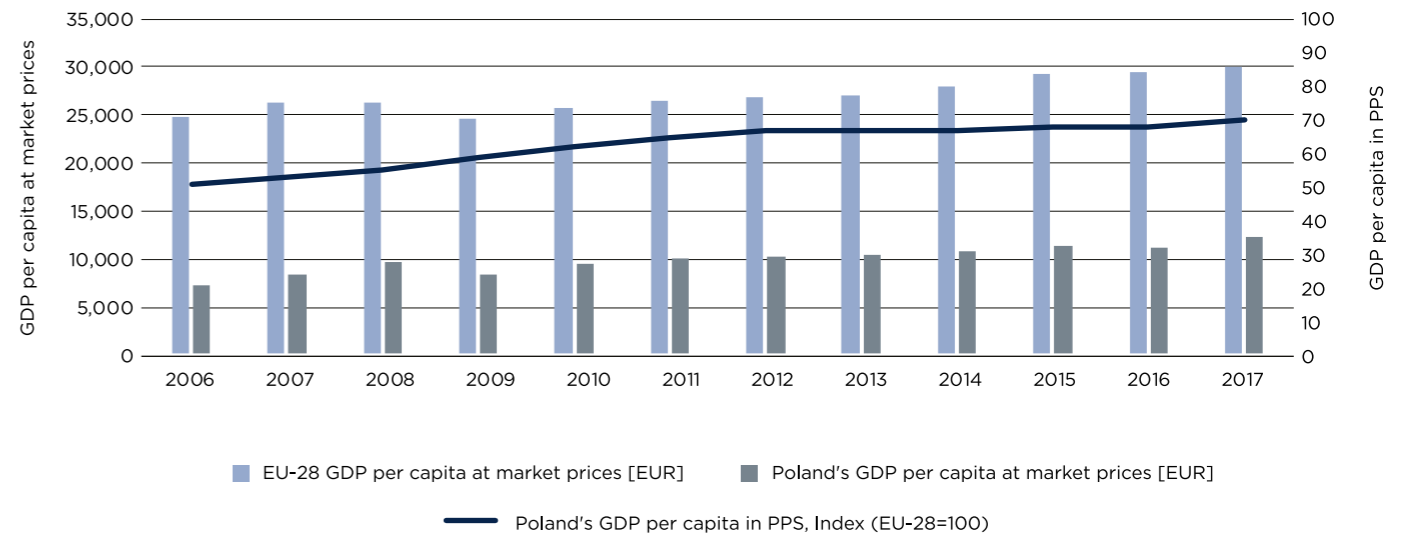
The race to catch up with the West and permanently escape the European periphery is not yet over. Further reforms are needed to maintain convergence, at the same time avoiding increases in regional inequalities. For the convergence to continue, employees and businesses need to have effective tools at hand to raise the standards of their activity. Poland is succeeding in taking over a large part of production from Western Europe, because of lower wages and good education levels matching the type of production transferred here. It is now the time to invest more in human capital in order to prepare the ground for the next development phase, to increase productivity and more advanced production, that will generate higher earnings and thus higher standards of living.

TABLE: Forecast for Poland

	2016	2017	2018	2019	2020	2021
Domestic demand (%)	2.5	4.8	5.6	4.0	3.2	3.4
Private consumption (%)	3.7	4.7	4.0	3.6	3.3	2.9
Fixed investment (%)	-8.0	2.9	7.1	5.0	4.5	4.3
Stockbuilding (% of GDP)	2.6	3.3	4.4	4.5	4.2	4.4
Government consumption (%)	2.5	3.3	3.0	2.9	3.4	3.3
Exports of goods and services (%)	8.7	7.9	2.4	5.2	5.4	5.3
Imports of goods and services (%)	8.2	8.3	4.3	5.7	5.8	5.5
GDP (%)	2.9	4.7	4.6	3.7	3.0	3.3
Industrial production (%)	2.8	6.8	5.6	3.8	4.0	3.0
Consumer prices, average (%)	-0.7	2.0	2.2	2.6	1.7	1.9
Government budget (% of GDP)	-2.4	-1.6	-1.3	-1.5	-1.8	-2.0
Trade balance (USDbn)	3.3	0.8	-1.9	-2.2	-4.8	-6.9
Current account (USDbn)	-1.4	1.5	-1.5	-1.5	-2.6	-2.8
Current balance (% of GDP)	-0.3	0.3	-0.2	-0.2	-0.4	-0.4
Short-term interest rates (%)	1.5	1.53	1.51	1.5	1.54	1.86
Exchange rate (Zloty per Euro), average (%)	4.36	4.26	4.22	4.21	4.17	4.14

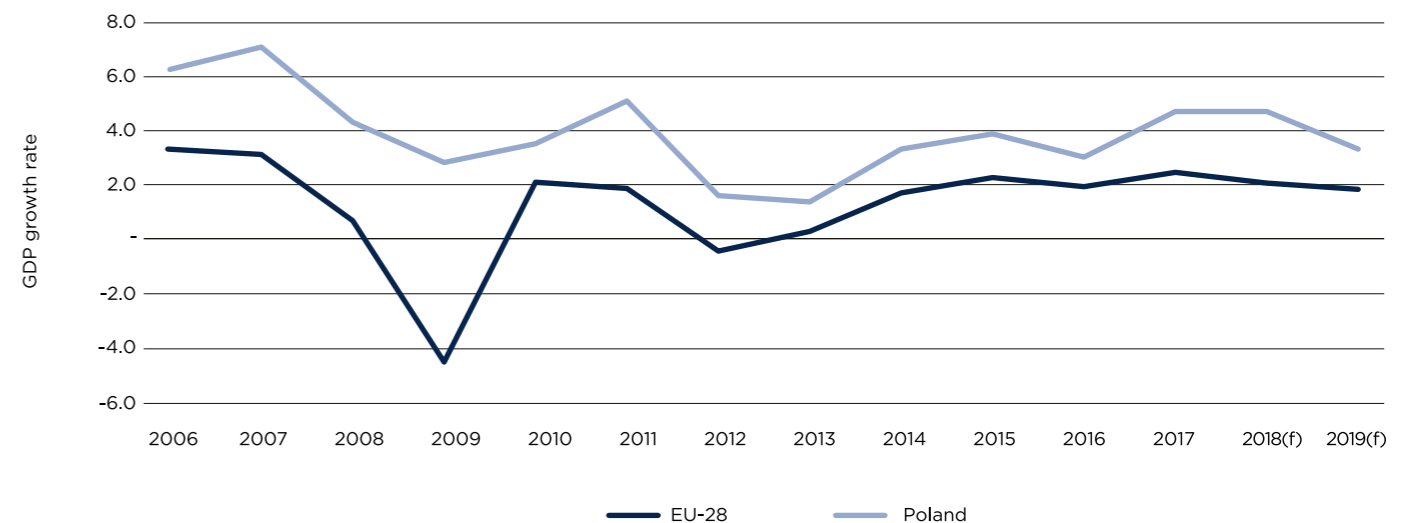
Source: Oxford Economics

GRAPH 4: GDP per capita at market prices and in PPS



Source: Eurostat

GRAPH 5: Real GDP growth rate



Source: Eurostat

## Trade balance in Poland

From the beginning of the last decade, Poland's foreign trade turnover increased almost ten-fold. The increasing trade between Poland and European countries is one of the key factors propelling the logistics market in the country. Export and import of goods contribute a substantial share to the overall revenue of the market.

### TRADE BALANCE IN POLAND

Poland kept a positive trade balance in 2017 with exports growing by a very healthy 11.8% to EUR 206.6 billion, while imports soared 13.9% to EUR 206.1 billion, according to the Polish Central Statistical Office (GUS). In the first half of 2018, total exports amounted to EUR 107.2 million, reflecting a growth of 5.0% year-on-year, while total imports amounted to EUR 108.5 million, a growth of 7.0%. Net exports amounted to EUR -1.2 million, compared to EUR 0.9 million in H1 2017.

### MAIN TRADING PARTNERS

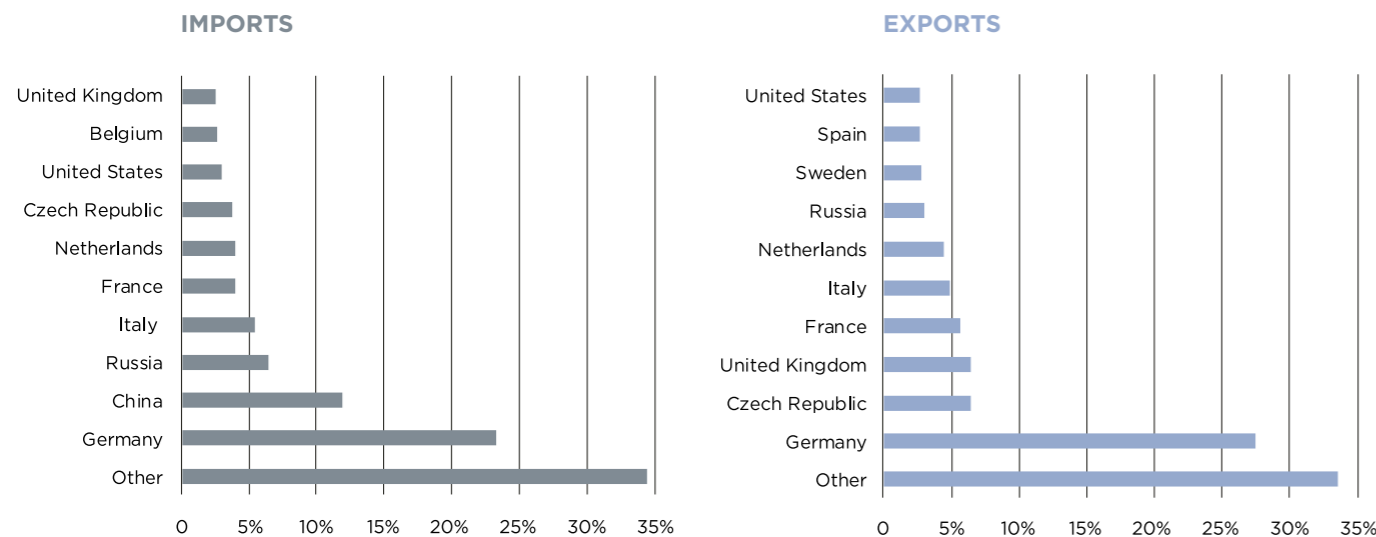
Poland has a positive trade balance with EU countries, but imports more than it exports from other markets like China and Russia, from where Poland's imports rose 0.6 percentage points, mostly on the back of coal deliveries. Poland's exports are aimed primarily at the developed world around 87% goes to OECD countries, with 80% going to the EU. Poland's largest trading partner is Germany with 27.5% of Polish exports and 23.1% of imports. The UK and the Czech Republic are equal second, taking 6.4% of exports. Meanwhile, the US is in 10<sup>th</sup> place as an export market (2.6%) and 8<sup>th</sup> as an importer (2.8%).

### OUTLOOK

The good economic situation in the euro area will support the growth of Polish exports. Nevertheless, due to the forecasted further increase in private consumption, rebirth of investment demand and higher year on year oil prices, one should expect the maintenance, and maybe even acceleration of import growth. As a result, negative net exports may decrease the annual GDP growth rate by around 0.5-0.6 percentage points.

For the industrial market in Poland it is not only net exports, but also the total turnover that fuel the market. A significant part of Poland's industrial production covers low value-added production, as Poland remains an attractive location for assembly centres. High technology exports in Poland is less than half of that in Germany and almost three and a half times lower than in France.

TABLE: Imports/exports by countries in 2017



GRAPH 6: Foreign trade turnover [EUR]

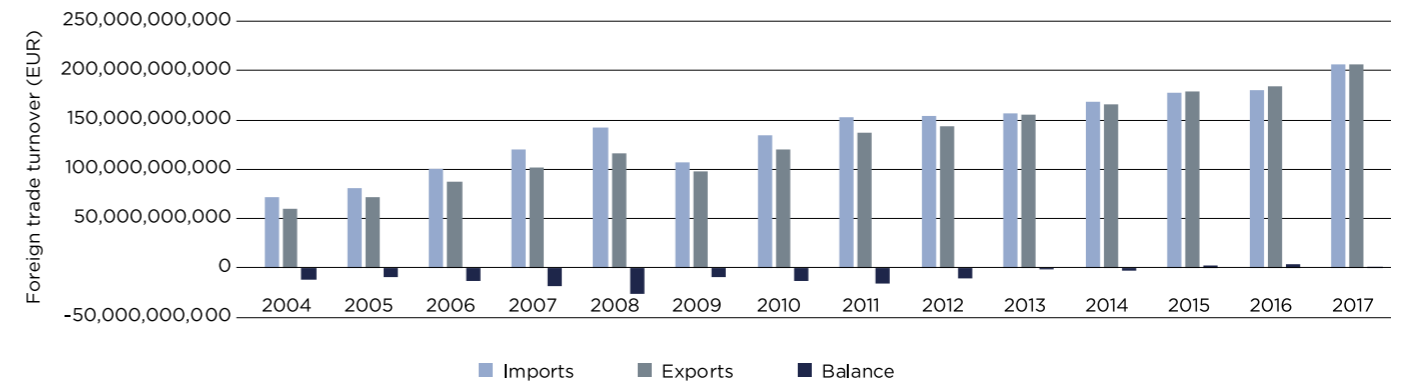
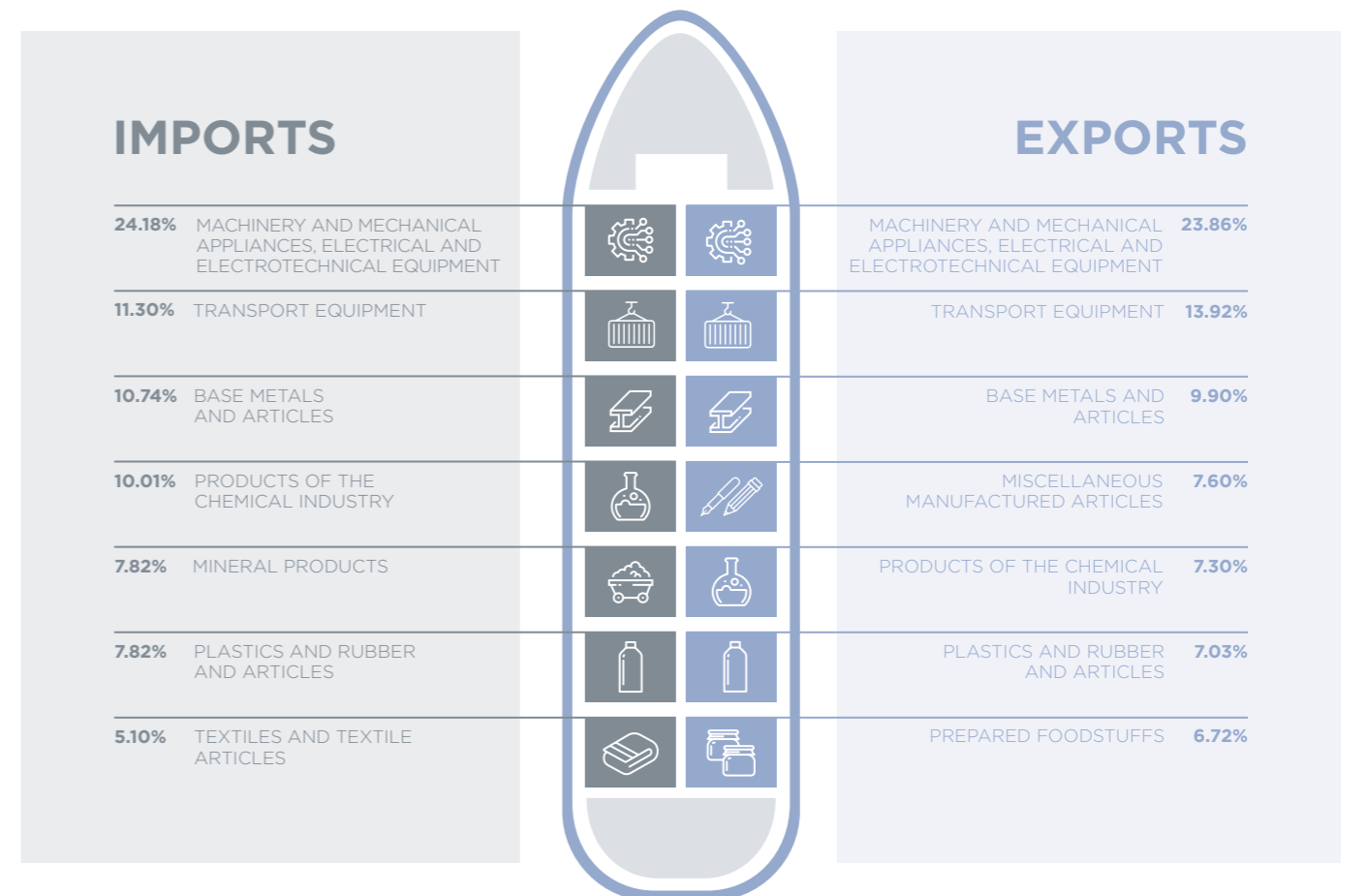


ILLUSTRATION: Imports/exports by section in 2017



## E-commerce growth

Over the last decade, technology has inspired an online retail boom. With the younger generations embracing smartphones and tablets, e-commerce's role has shifted from an untested frontier to a vital pillar of the retail industry.

According to Statista, retail e-commerce sales worldwide are expected to exceed USD 2.8 trillion this year, reflecting a share of 11.9% in total retail sales. The growth dynamics is still above 20% p.a., however, it is expected to slow down gradually.

Since e-commerce business has been growing rapidly and is expected to grow even more, it also became a major factor changing the shape of the global logistics industry. Decisions such as physical locations of warehousing and whether to fulfill e-commerce orders from separate facilities, in-store, from existing warehouses or a combination of all three are among the strategic decisions retailers are facing.

Logistics is already widely regarded as a crucial piece of a successful retailer's business plan and its role will be even greater as an efficient supply chain will allow a high level of service to be provided across all channels. Therefore, numerous retailers opt to partner with 3PL firms that can supply the necessary distribution centres and fulfillment services.

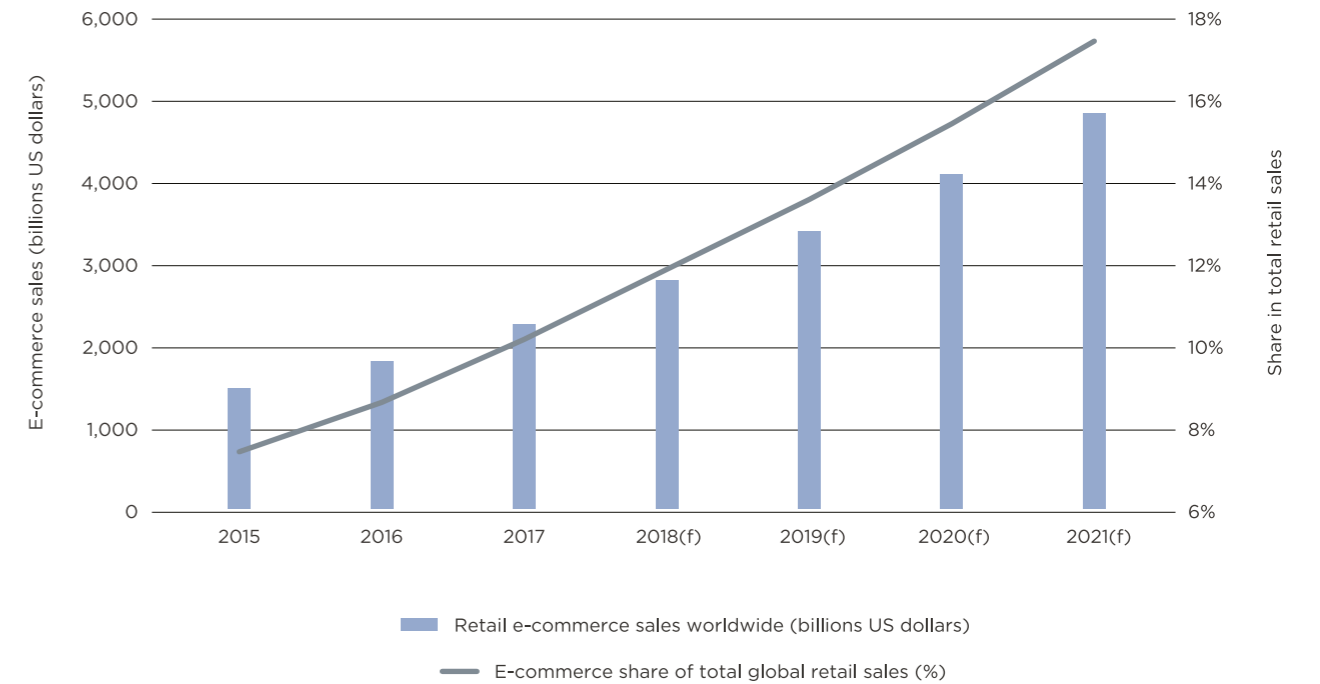
Evolving omnichannel needs have forced retailers to evaluate current transportation network capabilities and adjust accordingly. Focus has been placed on last mile logistics because, in many cases, this is a key differentiator for retailers. Since consumers can easily shop for product alternatives, retailers and their supply chain partners must provide exceptional service to gain a market share and build brand loyalty.

Traditional transportation methods are not sufficient in all regions and retailers are beginning to search for alternatives to satisfy the needs of their customers. To accommodate faster shipping times, retailers and their transportation partners have started to research delivery alternatives including click-to-collect locations, local regional carriers, drones and much more. By focusing on last mile delivery alternatives retailers are able to provide and guarantee exceptional service levels to their customers and adapt to the constantly changing omnichannel retail environment. It's not just about being the fastest rat in the e-commerce delivery race, it is about being able to deliver an order at a time frame and price point that customers want.

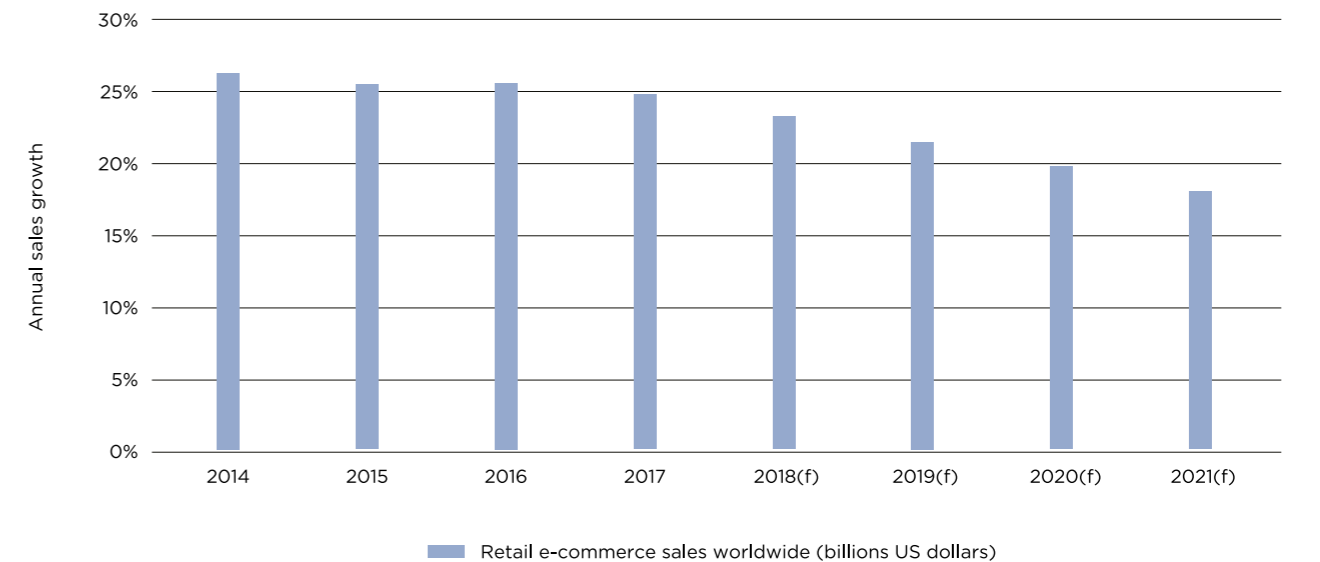
### ILLUSTRATION: E-commerce market in Poland



GRAPH 7: E-commerce sales worldwide and its share in total retail sales



GRAPH 8: Annual retail e-commerce sales growth worldwide



## Evolution of the warehouse and industrial market in Poland

# 1992

### WARSAW INDUSTRIAL CENTER BY MENARD DOSWELL - THE FIRST MODERN WAREHOUSE IN CEE

Menard Doswell & Co.'s first project in Central Europe was the 36,000 sq m Warsaw Industrial Center (WIC), the first warehousing project built to international standards in the region. Located one km from Warsaw's international airport, the WIC housed the corporate offices and distribution centers of some of the world's leading companies including Johnson & Johnson, Novartis, Bayer, Philip Morris and Whirlpool. The design and construction provided a high ratio of truck doors to storage area, high bay stacking, counter-clockwise truck circulation and high energy efficiency. Adding to Warsaw Industrial Center's appeal was its state-of-the-art sprinkler and fire suppression system, sophisticated cutting-edge telecommunications system, and 24h security. In 1997, Menard Doswell & Co. sold the Warsaw Industrial Center to a U.S. REIT marking the first transaction of its kind in Poland.



# 2004

### POLAND BECOMES A MEMBER OF THE EU

Following accession, the economy boomed. Poland's attractiveness to foreign capital has increased significantly which was reflected in FDI growth (from approx. EUR 3.7bn in 2003 to EUR 12.8bn in 2007). Foreign investment has helped Poland become a leader in the production of LCD screens, household goods and a major exporter of car parts, creating 1.2 million jobs in the process. Poland's EU membership had (and still has) a significant impact on the development of transport infrastructure, with partial financing provided through EU cohesion and regional funds.



# 1997

### PROLOGIS IN POLAND

In 1997, Prologis entered the CEE market and acquired their first industrial park in the region - the Warsaw Industrial Center from Menard Doswell. In 1999, Prologis completed their first development in Poland - Prologis Park Blonie (17,200 sq m). Since the beginning of their operation in Poland, Prologis developed approximately 2 million sq m of industrial real estate space spread across 112 buildings in 24 parks.

# 2002

### THE FIRST BTS BY PROLOGIS

In 2002, Prologis entered Poznan with the development of a built-to-suit project for Coca-Cola. One year later Prologis completed another built-to-suit project, a 40,000 sq m facility for Unilever, developed in Piotrków Trybunalski.

# 2005

### PANATTONI EUROPE ENTERS POLAND

As early as 2006, six months after opening its office, Panattoni set an industry record in warehouse space lease - with 52,000 sq m for H&M at Panattoni Park Poznań I. Subsequent years brought new leases and new own parks developed in and around Poznań, Bielsko-Biala, Teresin, as well as Wrocław. Then another record was set - in 2008, Panattoni signed the largest lease yet to build 56,000 sq m for Leroy Merlin at Panattoni Park Stryków. Since establishing a presence in Europe in 2005, Panattoni has developed projects in Poland totalling in excess of 5 million sq m.

# 2007

### THE DEEP WATER CONTAINER TERMINAL GDAŃSK

The Deepwater Container Terminal Gdansk became operational on 1 June 2007 with the arrival of the first commercial container ship. In the first years of operation, the terminal specialised in handling feeder ships. Since January 2010, container ships from the Far East with a capacity of 8,000 TEU have stopped at the Port of Gdansk every week. The direct connection with Asia contributed to the development of the DCT, which became a Baltic hub and one of the fastest developing terminals in the world. In October 2016 a new terminal quay was completed, which increased the annual throughput capacity of the DCT up to 3 million TEU.

# 2012

### EURO 2012 FOOTBALL CHAMPIONSHIP - TRIGGER FOR INFRASTRUCTURE DEVELOPMENT

Infrastructural changes were undoubtedly the most significant value added by Euro 2012. The event was a catalyst for the execution of infrastructural projects worth approx. PLN 110bn, including above all road and rail infrastructure. To some extent, infrastructure spending tied to the European Football Championship helped Poland to maintain positive economic growth after the 2008 crisis.



# 2008

### PANATTONI ESTABLISHES A BTS GROUP

In 2008, Panattoni established a new structure within their ranks, the BTS Group and announced a new 57,000 sq m development for Tesco in 2010. In 2014, Panattoni signed a massive lease to build 246,000 sq m for Amazon in two locations - near Poznań and Wrocław, managing to complete the development in a record time, too. Since then, Panattoni Europe became a market leader in developing tailor-made projects for the logistics and light industrial sector.

### THE COLLAPSE OF LEHMAN BROTHERS

The financial crisis has significantly changed the rules of the game on the warehouse space market in Poland. The market experienced a dramatic decline in demand and it took several years to recover. To this day, speculative developments have been reduced to a minimum and to the safest locations, while most of the new supply is based on built-to-suit projects or significant pre-leases, which allowed major market players to create an environment for a long-awaited rental growth.

# 2013

### AMAZON ANNOUNCED THEIR PLANS TO DEVELOP THREE DISTRIBUTION CENTERS IN POLAND

In October 2013, Amazon announced their plans to open three logistics centres in Poland, approx. 95,000 sq m each.

- Bielany Wrocławskie, Kobierzyce Municipality - opened in H2'14, developed by Goodman
  - Sady near Poznan, Tarnowo Podgórne Municipality - opened in H2'14, developed by Panattoni Europe
  - Bielany Wrocławskie - opened in 2015, developed by Panattoni Europe
- The key reason for the decision of Amazon, in addition to access to an excellent employment base, was the location of Poland in the centre of Europe and close connections between the country and Amazon's key markets.

### THE FIRST REGULAR RAILWAY CONTAINER CONNECTION WITH CHENGDU LAUNCHED

May 2013. The first regular railway container connection Chengdu - Lodz was launched by Hatrans. Only three years ago, the Spedcont terminal in Łódź, belonging to the Pekaes Group, operated one such weekly railway transport. Today, trains to and from Chinese Chengdu are leaving more often than daily - 35 depots per month, of which up to one third are export connections. Chengdu is located on the Chinese Silk Road and the economic belt of the Yangtze River is an essential part of China's free trade area. It is expanding its position as an industrial centre and hub for international trade and logistics. It is estimated that due to the cargo terminal connecting Łódź with Chengdu, trade exchange between countries increased by almost 30%.



2016

**GIC ACQUIRES P3 FROM TPG REAL ESTATE AND IVANHOÉ CAMBRIDGE FOR EUR 2.4 BILLION**

P3 Logistic Parks ("P3" or the "Group"), a leading specialist pan-European owner, developer and manager of logistics properties, announced that GIC, Singapore's sovereign wealth fund, had signed a definitive agreement to acquire P3 from TPG Real Estate and its partner Ivanhoé Cambridge. The transaction valued the business at EUR 2.4 billion, which was the largest European real estate transaction at that time.

**10 MILLION SQ M OF MODERN WAREHOUSE STOCK IN POLAND**

Poland's stock of modern warehouse / logistics space exceeded 10 million sq m, reflecting a 100% growth since 2008.



2017

**AMICA OPENS THE HIGHEST AND MOST AUTOMATED WAREHOUSE IN POLAND**

Amica opened the tallest warehouse in Poland and one of the tallest in Europe. The new facility, located in Wronki near Poznan, is 46.5m high, 136m long and has a surface area of nearly 6,500 sq m. It can store 230,000 large household appliances. The warehouse has an automated steering system capable of processing 1,600 items per hour. It works on a 24/7 basis and is operated by one person. The facility will make deliveries to end-customers by at least one day quicker. The cost of the investment was PLN 57 million.

**THE RECORD YEAR ON WAREHOUSE & LOGISTICS MARKET IN POLAND**

2017 was a record year on the warehouse market in Poland. New supply reached 2.36m sq m while net absorption amounted to 2.26m sq m. Total gross take-up was 4.29m sq m.

**CHINA'S CIC BUYS BLACKSTONE'S LOGICOR FOR EUR 12.25BN**

China Investment Corporation, the Asian country's sovereign wealth fund, has agreed to buy Logicor, a pan-European logistics company, from Blackstone for EUR 12.25bn. This was the second-largest European real estate transaction on record and the fourth-largest international Chinese takeover to date, according to Dealogic. The Polish stake in the portfolio embraced 28 assets with a total GLA of approx. 900,000 sq m.

2018

**ANOTHER RECORD YEAR ON THE WAREHOUSE MARKET IN POLAND**

In line with the semi-annual results, 2018 is going to be another record year on the warehouse market in Poland. Gross take-up in H1 2018 exceeded 2.2 million sq m and the stock under construction was above 2 million sq m for the first time in history, 75% of it having already been pre-leased.



Source: Panattoni Europe



Source: Amica

PHOTO 1: Panattoni BTS Amazon Poznań

PHOTO 2: Amica, Wronki, the highest warehouse in Poland

## Why Poland? Occupier's perspective



**WOJCIECH ZOŃ**  
Head of Industrial  
Savills Poland

Poland has been steadily improving its business environment and economic competitiveness. In times of the global economic crisis Poland strengthened its position in the CEE region and all over the continent. The latest 'Doing Business 2018' report launched by the World Bank Group ranked Poland in 27<sup>th</sup> place out of 190 economies worldwide in terms of doing business and one of the top performers in Europe and Central Asia. Poland was also ranked high in the 2017 Prologis survey of the most desirable logistics locations in Europe, and specifically Central Poland – Łódź region was ranked the 3<sup>rd</sup> most desirable logistics location Europe-wide and the best performing market outside Western Europe.

There are a number of factors to consider when analyzing industrial investment or development opportunities. Chief among these are location factors, availability and costs of workforce, proximity to customers, transportation network as well as the local investment climate and incentives offered by local authorities.

### SUPPORTIVE ECONOMIC ENVIRONMENT

As one of the fastest growing economies in Europe as well as the only in the EU to resist recession in 2008/2009, Poland has strong economic fundamentals, that in conjunction with positive forecasts regarding further growth, as well as large domestic market, provide solid ground for investments.

### LOCATION

The central location of Poland and its importance as a gateway to the EU is a major incentive in attracting companies targeting both Western and Eastern parts of the continent. Thanks to Poland's favourable location, in the centre of Europe, it is one of the most important countries on the map of the Trans-European Transport Network (TEN-T) with four major projects crossing its territory. The international routes crossing Poland are being constantly developed and modernized with substantial help from EU funds and subsidies.

Another strength of the country's geographical position is its access to the Baltic Sea. Poland has four major ports, located in Gdańsk, Gdynia, Świnoujście and Szczecin, as well as several local ports supporting freight reloading processes.

### IMPROVING ROAD INFRASTRUCTURE

The Polish network of highways and express roads is dynamically growing, mainly thanks to EU-funding. The current road map includes 1,660 km of highways and nearly 1,870 km of express roads, with a further 92 km of highways and 1,050 km of express roads under construction. Ultimately, by 2025 the network is expected to grow to 2,000 km of highways and 5,500 km of express roads.

Transport and logistics is a USD 56.9 billion industry in Poland. Not only does this make Poland the biggest market in Central and Eastern Europe,

its transportation sector is the seventh largest in the EU. Poland shows some interesting divisions in its transportation mix. Trucking and road transport claims the lion's share of freight traffic (over 75%), with other modes having much smaller cargo market shares in comparison with other developed nations (railway approx. 14%, sea approx. 4%, pipeline approx. 6%, inland waterway 0.22%, air 0.04%).

### AVAILABILITY AND COSTS OF WORKFORCE

The ready supply of workers, who are young, well-qualified and relatively cheap, used to be one of Poland's strongest assets. This may be changing, though unemployment is at historic lows (3.5% in July 2018, according to Eurostat) and the third lowest among EU countries. Nevertheless, Poland is still competitive in terms of employment costs and has a solid academic base with approx. 390,000 graduates of higher schools entering the labour market every year.

### DEVELOPMENT AND OCCUPANCY COSTS

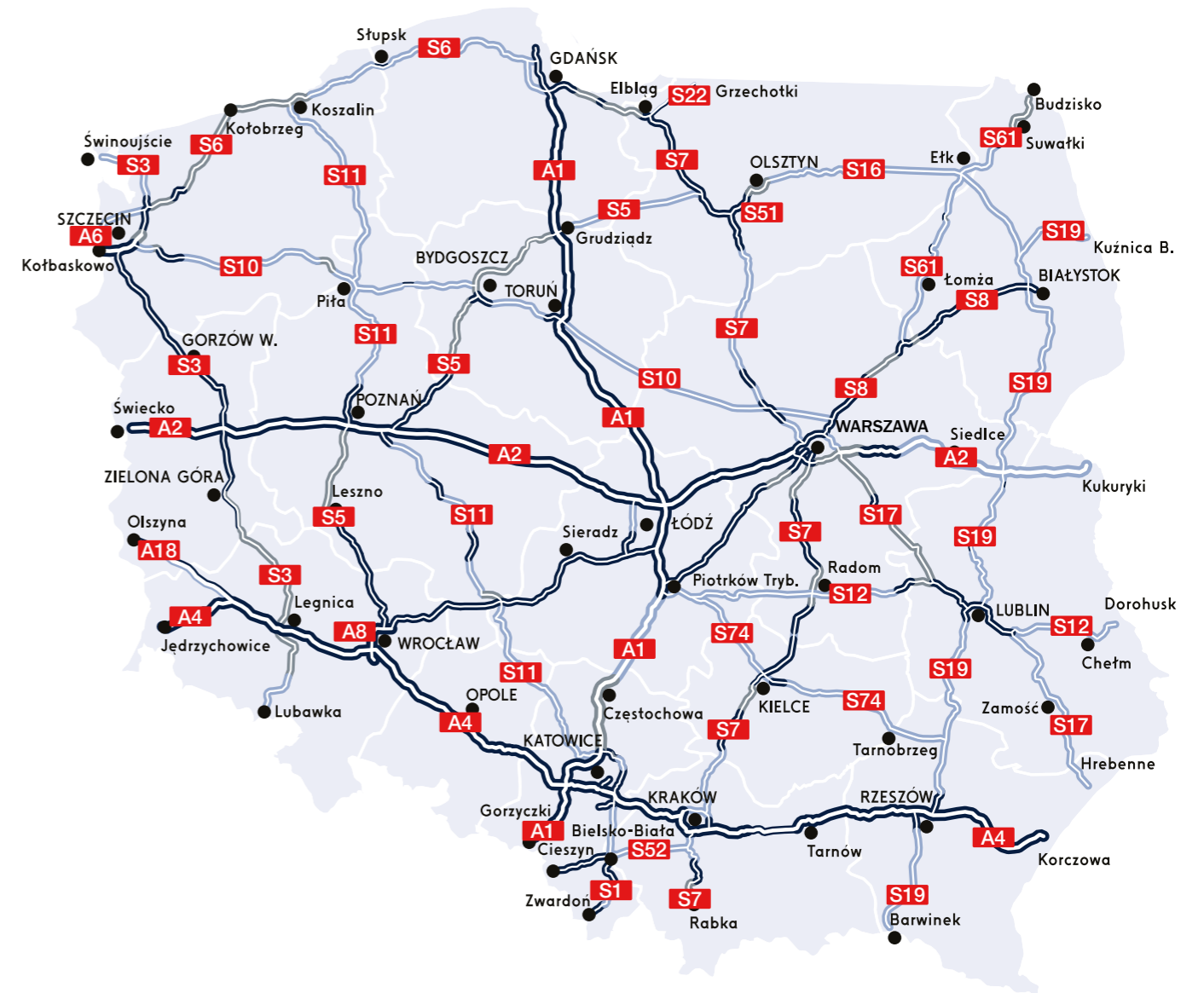
Development costs are still significantly lower in Poland than in western markets, mainly due to much higher availability and thus lower prices of land, especially in both suburban areas and in-town locations.




Despite some upward movements resulting from low speculative development, strong demand and rising construction costs, warehouse rents are highly competitive compared to western markets. Relatively high availability of land plus fierce competition among developers are limiting rental growth.

### NEW INVESTMENT SUPPORT ACT IN POLAND

In accordance with The New Investment Support Act of 10 May 2018, the territory on which investment projects can be located and exempt from income tax has been extended to cover the whole country. The state aid for an investment is a CIT relief granted for a definite period of time ranging from 10 to 15 years. Support is granted for new investments or expansion of existing business and covers production diversification, launching new products or improvement in production process. Receipt of support is conditional upon a favourable evaluation of the nature of the investment in terms of innovativeness, job creation and employment development, job security and cooperation with the academic sector.

ILLUSTRATION: Map of highways and express roads



-  existing highways and express roads
-  highways and express roads under construction
-  planned highways and express roads to be completed by 2025

## Warehouse market in brief



**MICHAŁ STĘPIEŃ**  
Associate, Investment  
Savills Poland

The warehouse and industrial market in Poland is experiencing its best period in history. Whilst new supply is arriving in quick succession, it is still not enough to satisfy demand. The vast majority of new projects are already rented, despite still being under construction and new locations are appearing all over Poland. The current situation in the market can be gauged by the record amount of space under construction and vacancy rates which are as low as they've ever been. As a result, we have an optimistic outlook and expect more records to be broken in the future.

### EXISTING STOCK

At the end of the first half of 2018, total stock of modern warehouse space in Poland was 14.2 million sq m, representing a significant growth of approx. 42% over the last two years. The existing stock is mostly concentrated in six industrial zones located near the largest agglomerations in Poland, with excellent access to major roads and transportation hubs. And thus major locations include Warsaw (incl. sub-Warsaw zones) with 3.8 million sq m, Upper Silesia with approx. 2.5 million sq m, Central Poland with approx. 2.0 million sq m, Poznan and Wrocław with 1.9 and 1.5 million sq m, respectively. The market is dominated by the largest developers, with half of the stock in the hands of four major players: Panattoni, Prologis, Segro and Goodman, and the next six players cover a further 25% of the market.

### NEW SUPPLY

Developers delivered over 740,000 sq m of new supply in the first half of 2018, which represented a small drop compared to H1 2017. However, at the end of June 2017, there was approx. 2.3 million sq m of modern warehouse space under construction. Taking into account the relatively short construction period in the sector, we can expect that a solid share of that will be completed by the end of the year, resulting in a record annual level of new supply. The largest volume of warehouse space under construction is in Central Poland, an area that recently grew to one of the hottest locations for logistics in Europe. Despite massive demand and record low vacancy rates speculative development remains at a reasonable level, well below 30%.

### DEMAND

The consumption-driven economy and continued growth of e-commerce are generating strong demand for modern high-quality logistics properties. Total take-up in the first half of 2018 reached a record-breaking 2.2 million sq m, 16% more than last year. Third-party logistics and retail, both traditional and e-commerce, generated over 60% of demand.

Strong demand in conjunction with record-low unemployment levels across Poland forces developers to further explore new locations, with access to a qualified workforce. This is supported by the improving road infrastructure providing more and more convenient connections between primary and secondary markets. A significant part of the total take-up accounted for new leases and expansions, which resulted in over 900,000 sq m of net absorption, representing a 25% growth year-on-year.

GRAPH 9: Warehouse market in Poland - new supply, take-up, net absorption and average vacancy

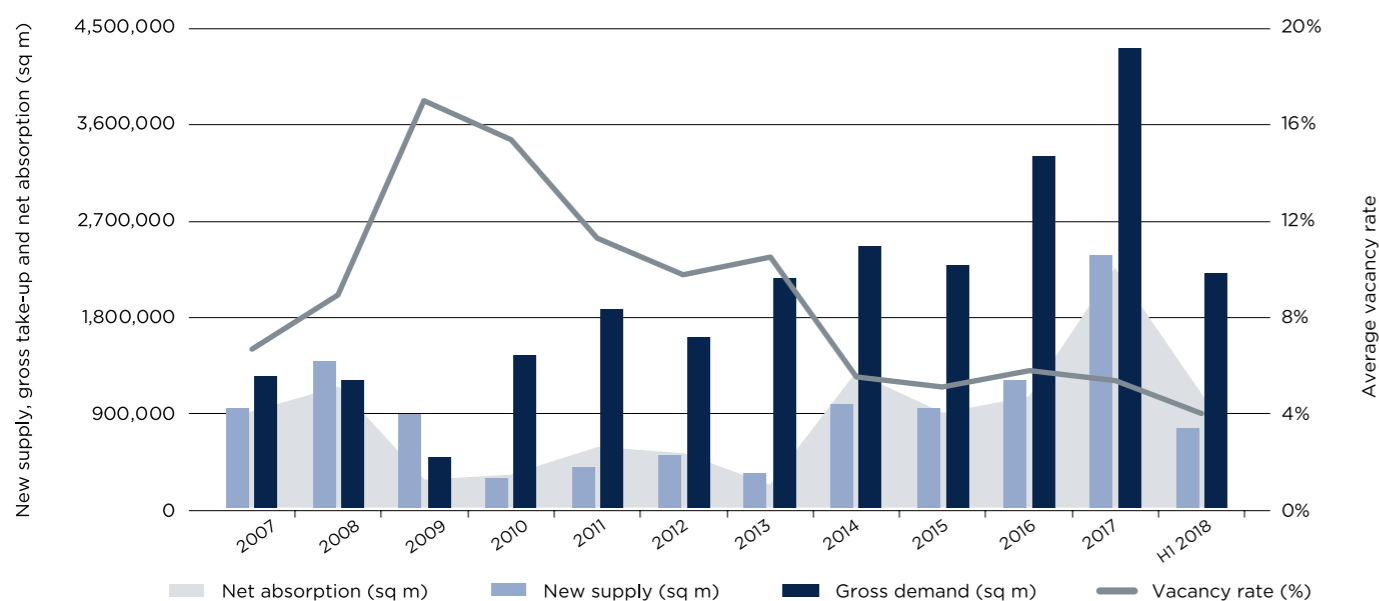
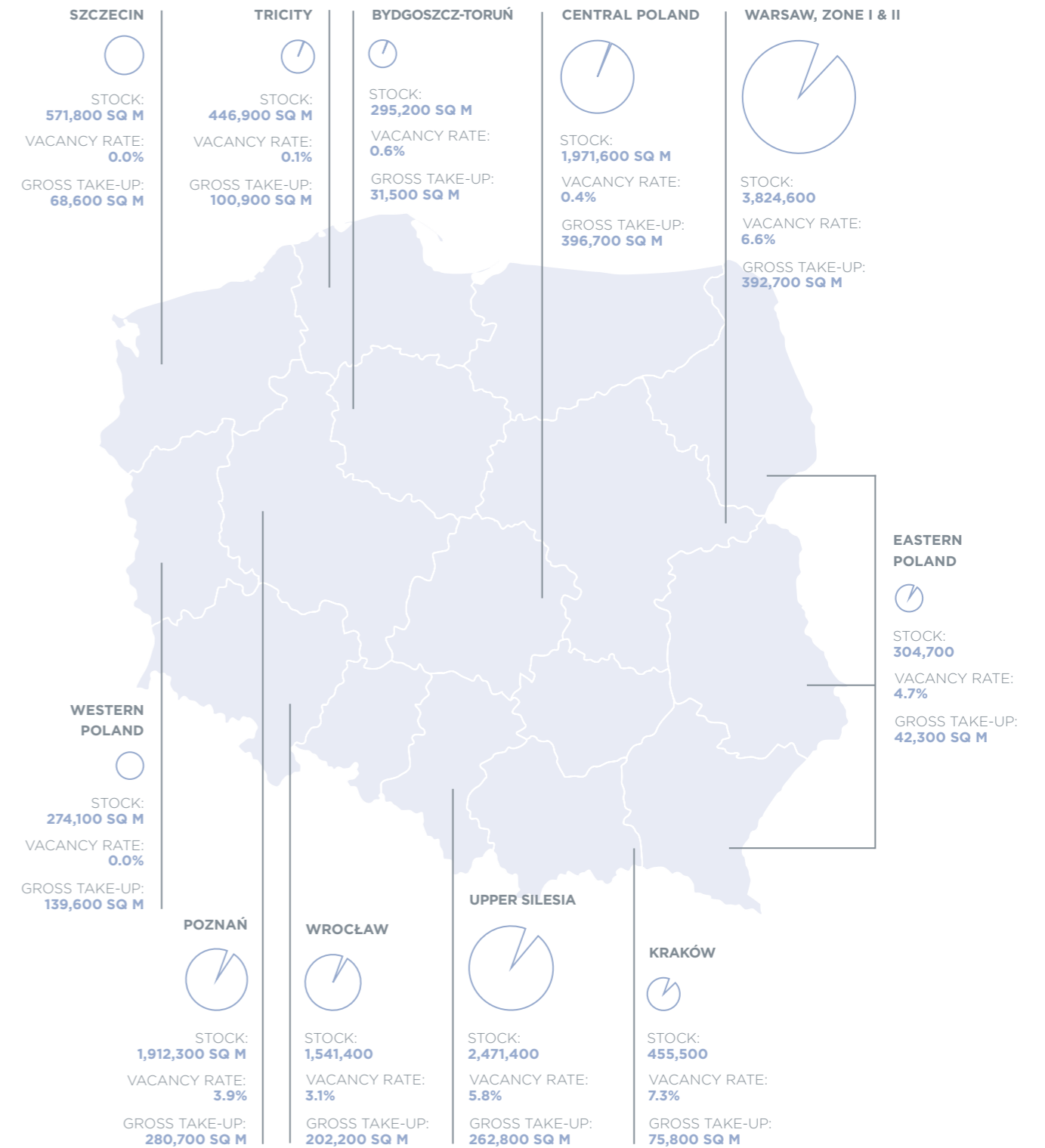


ILLUSTRATION: Map of Poland with major warehouse zones as at H1 2018



**AVAILABILITY**

Strong demand, exceeding the new supply levels, resulted in a record low level of the average vacancy rate across Poland, which at the end of June 2018 amounted to approx. 4.0%. The lowest availability of modern warehouse space among the leading markets was noted in Central Poland (approx. 0.4%) while the highest in Warsaw Zone I (approx. 10.5%). Warehouse space is also scarce in smaller markets and emerging locations (Szczecin, TriCity, Toruń and Bydgoszcz, smaller markets along the western border of Poland).

**RENTS**

Strong demand for logistics space and a diminishing supply of available warehouses created a supportive environment for rental growth, though limited by fierce competition among major developers. Nevertheless, rising land prices and construction costs contributed to a noticeable upward pressure, especially on effective rental levels. Traditionally the highest rents are recorded in Warsaw in-town locations (EUR 4.10 - 5.25 per sq m/month) and in Kraków (EUR 3.30 - 4.00 per sq m/month). The most attractive rents can still be found in Central Poland (EUR 2.60 - 3.80 per sq m/month).

**OUTLOOK**

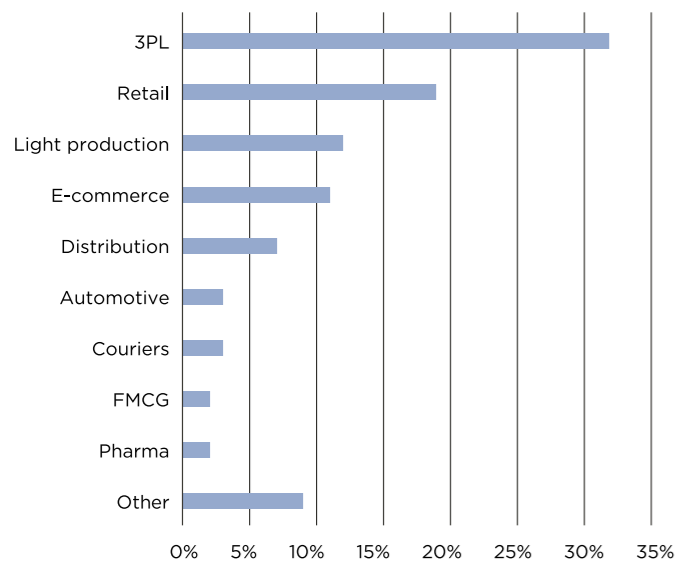
The prospects for the warehouse market in Poland remain positive. The market is growing at a record pace, however, the growth seems to be organic and sustainable with no signs of overheating as speculative development remains under tight control. The total stock of modern warehouse space will exceed 16 million sq m in the first half of 2019. Core locations will remain dominant and will grow further, as location near the largest population centres is on top of the requirements of major logistics operators and in particular direct-to-consumer sector.

Since the availability of qualified workforce is now a major concern for both developers and users, smaller markets will rise and new locations will emerge to satisfy demand for human capital.

Demand is strong, fuelled by a double-digit growth in online sales and the overall consumption growth as well as rising domestic investments and the continued inflow of foreign direct investments.

All of these factors create good conditions for some rental growth, especially that there is still a significant gap between rental levels in the CEE region and western markets. Strong occupational markets and rental growth prospects should be a magnet for investors looking for capital value growth in a highly competitive yield environment.

**GRAPH 10:** Gross demand by sector in H1 2018



**TABLE:** Headline rents by location

	Headline Rents [EUR /sq m/month]	Effective Rents [EUR /sq m/month]
Warsaw Zone I	4.10-5.25	3.30-4.80
Warsaw Zone II	3.00-3.50	2.00-2.80
Upper Silesia	2.80-3.60	2.00-2.80
Central Poland	2.60-3.80	2.20-2.80
Wrocław	2.80-3.50	2.20-3.10
Poznań	2.80-3.40	2.10-3.00
Kraków	3.30-4.00	2.80-3.40
TriCity	3.00-3.50	2.40-2.80
Szczecin	2.90-3.50	2.50-3.30



## Investment market in the logistics sector in Poland



**MAREK PACZUSKI**  
Deputy Head of Investment  
Savills Poland

Warehouses, once the forgotten stepsister of its more popular commercial cousins office and retail, have over the last few years become a firmly established asset class and risen to one of the major components of property investment portfolios. Strong occupier fundamentals, fuelled by e-commerce growth and rising demand for last-mile deliveries provide strong returns and predictable cash-flow.

### INVESTOR ACTIVITY

Following a very active 2017, one of the strongest years on the property investment market in Europe and the strongest in Poland to date, the first half of 2018 showed some slowdown in investments across all commercial sectors Europe-wide, while the flow of money into Poland, the dominant investment market in CEE, remained robust. It is not a big surprise that European investment volumes slowed in H1 2018, after a record year, as apart from political concerns bringing some level of uncertainty, though with limited effect on property markets, there seems to be another often cited issue, which is a shortage of stock. There is a relatively little stock on investors' books, that was bought between five to eight years ago, which is a typical holding period for major institutional investors. To be more precise, shortage of stock refers not to the overall supply of real estate offered for sale, but to the right kind of stock - a combination of asset types, locations and pricing levels that meets the buying criteria of major investor groups. It is nearly 10 years since the collapse of Lehman Brothers and memories of an overheated market have not yet faded, lessons have been learnt and investors do not want to be caught again. So why is it that Poland attracts significant volumes of investment capital and why the industrial sector might still be a safe haven for international buyers?

Since the lack of equity is not a problem and the cost of debt is still low, and while major European markets have already achieved maturity and suffer from shortages of the right product, investors seek markets that still offer some yield premium for similar assets, while benefitting from strong occupational market fundamentals and solid economies. And this is exactly the environment for investing in Poland.

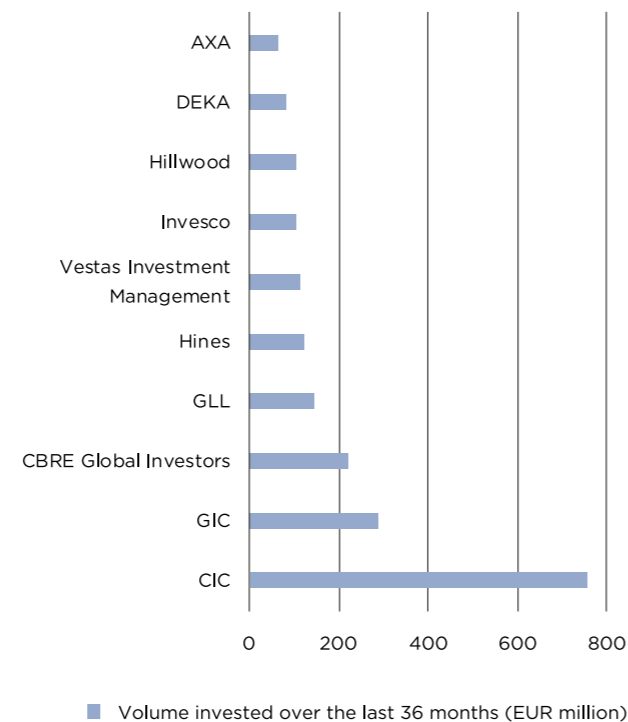
Investment activity in Poland remains at a high level. Last year ended with a record volume of transactions of approx. EUR 5.03 billion, an almost 11% growth year-on-year and nearly 10% more than in the previous record year, 2006. The last year was also the third consecutive year of retail dominance and of systematic growth in volume of transacted industrial properties. 2018 began even better, with over EUR 2.1 billion transacted in Q1 (boosted by a EUR one billion portfolio transaction in the retail sector) and EUR 1.14 billion volume recorded in Q2, resulting in the highest Q1 and H1 volumes ever recorded in Poland. As at the end of H1'18, the volume of industrial transactions amounted to EUR 337.8 million, which by the way, was the best result recorded in the first six months of the year.

### SPECTRUM OF INVESTORS

Spectrum of investors keen to grow their exposure in logistics covers almost all major groups of buyers ranging from sovereign wealth and pension funds through insurance companies to REITs and private equity capital. All of them are looking for a suitable investment product that fits their buying criteria in terms of location, asset type, lot size, risk profile and overall investment strategy (core, core plus, value-add, opportunistic). And the logistics market has something to offer to all of them, as there are several asset sub-classes within the sector: multi-let warehouse and distribution centres, single-let big box warehouses, e-commerce fulfilment centres, last-mile logistics hubs, small business units and tailor-made assembly or production facilities. Each of these has its own specifics and a different investor approach.

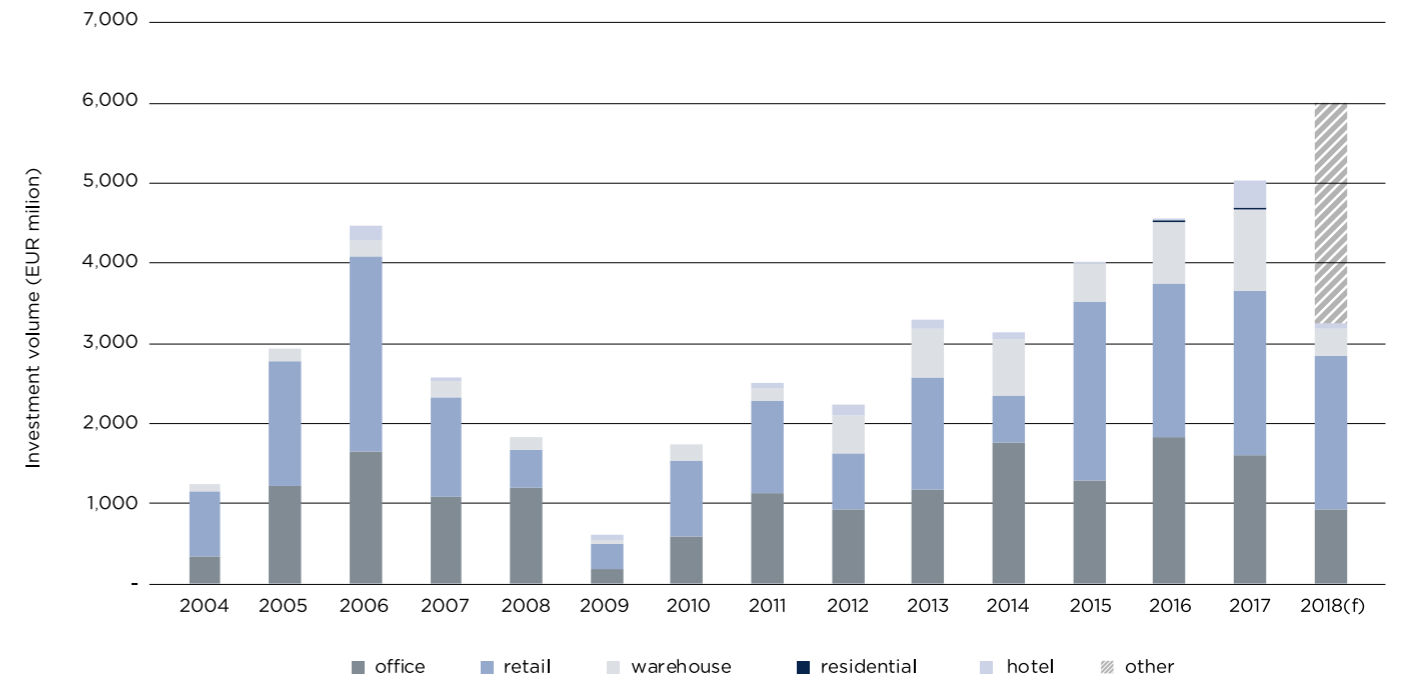
As far as top investors for industrial assets in Poland are concerned, the market has been typically dominated by core German funds (such as DEKA, GLL) and US buyers (Invesco, Hines, Hillwood, CBRE GI). Since 2015 the spectrum of buyers has been widened by Asian sovereign wealth (Chinese CIC, Malaysian EPF, Singaporean GIC), investment management platforms (Korean Vestas Investment Management) and private wealth. More recently, in July'18 we saw the first acquisition in the industrial sector in Poland by South African Redefine (to date active in retail and office sectors) who acquired nine assets from Panattoni for approx. EUR 200 million and announced plans to grow the portfolio by a further EUR 800 million.

GRAPH 11: Major investors in the industrial sector in Poland



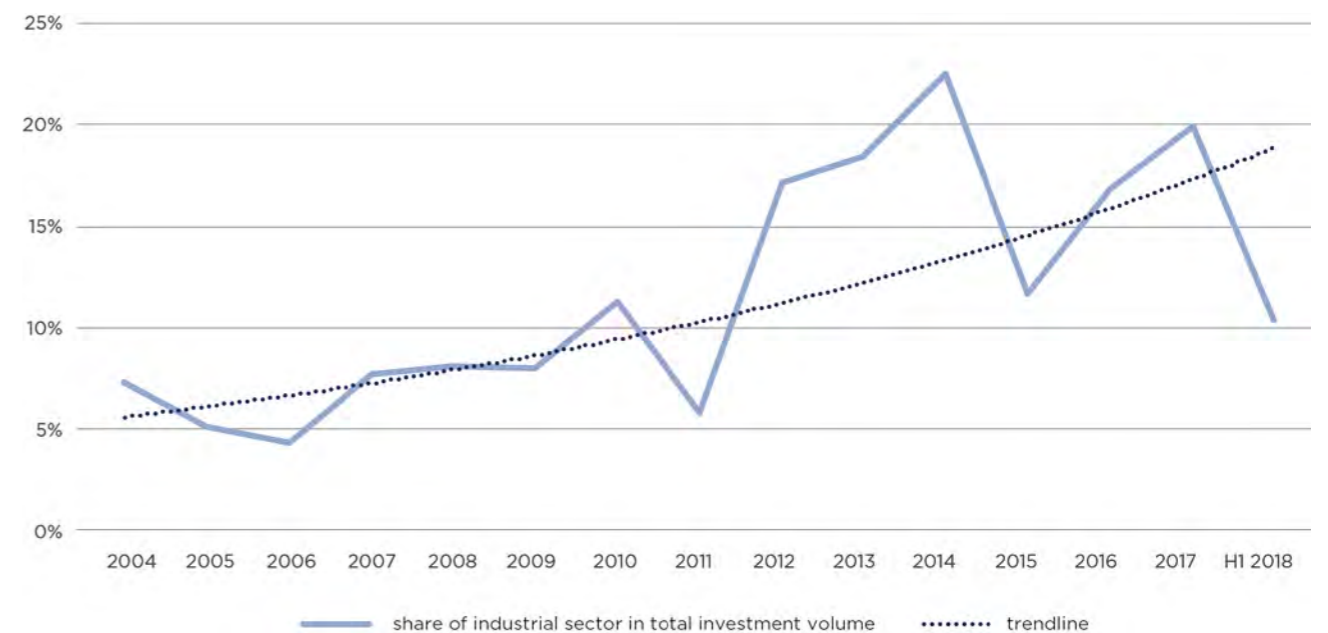
Source: Savills

GRAPH 12: Investment volume in Poland by sector



Source: Savills

GRAPH 13: Share of investments in the industrial sector in a total investment volume in Poland



Source: Savills

### AGGRESSIVE CAPITAL FROM ASIA

The logistics sector is performing well globally, supporting a healthy capital investment environment with ongoing yield compression across most industrial hubs. What is particularly visible, is a growing trend of cross-border investment into the industrial sector from Asia, especially from China. As domestic wealth in China has grown significantly in recent years, Chinese investors seek for geographical diversification and target US and European markets with a significant volume of capital that is under-allocated in the industrial sector and has become increasingly aggressive. Asian money dominated the notable platform deals last year, China Investment Corporation's (CIC) acquisition of the EUR 12.2 billion Logisor Portfolio from Blackstone (EUR 750 million estimated value of assets in Poland) and Global Logistics Properties' (GLP) acquisition of USD 2.8 billion IDI Gazeley, a premier developer, investor and manager of European logistics warehouses and distribution parks. Not only did the purchasers access the market at scale, but by buying an operating platform they also acquired the infrastructure and management expertise to manage the assets and continue to develop the portfolio. Asian buyers are increasingly looking at the industrial sector, not just in Europe, but globally. This may be tied into the policies surrounding the One Belt One Road initiative and we expect more activity in the future, although such large-scale and well prepared platform deals are not easy to repeat.

### FORWARD FUNDING

For those core, core plus and value-add investors, who seek slightly higher returns, developers offer access to product through their development pipeline. That early access is priced differently, reflecting additional risks to be taken in cooperation with the developer, but potential buyers might get the product, not having to take part in competitive bids. In a typical forward funding scenario, the developer takes the development risk, while the investor buys a fully completed and let building for just a slightly better price than by buying a standing and income producing asset. Less risk-averse investors and those who have an established presence and local know-how, may expect even higher returns in exchange for sharing or taking over the leasing risk.

### PRICING

While asset pricing has become a concern for many investors and prime yields across all major property sectors are at low levels Europe-wide, the industrial sector still appears to be more reasonably priced relative to the office and retail sectors, especially since occupier fundamentals in the logistics sector are now stronger than ever.

Prime warehouse yields in Poland have sharpened by approx. 25 bps year-on-year and range from approx. 5.15% for ultra-core single-let assets with long term leases let to such a strong covenant as Amazon, to approx. 6.40-6.75% for modern multi-let logistics parks located in major hubs across Poland.

### OUTLOOK

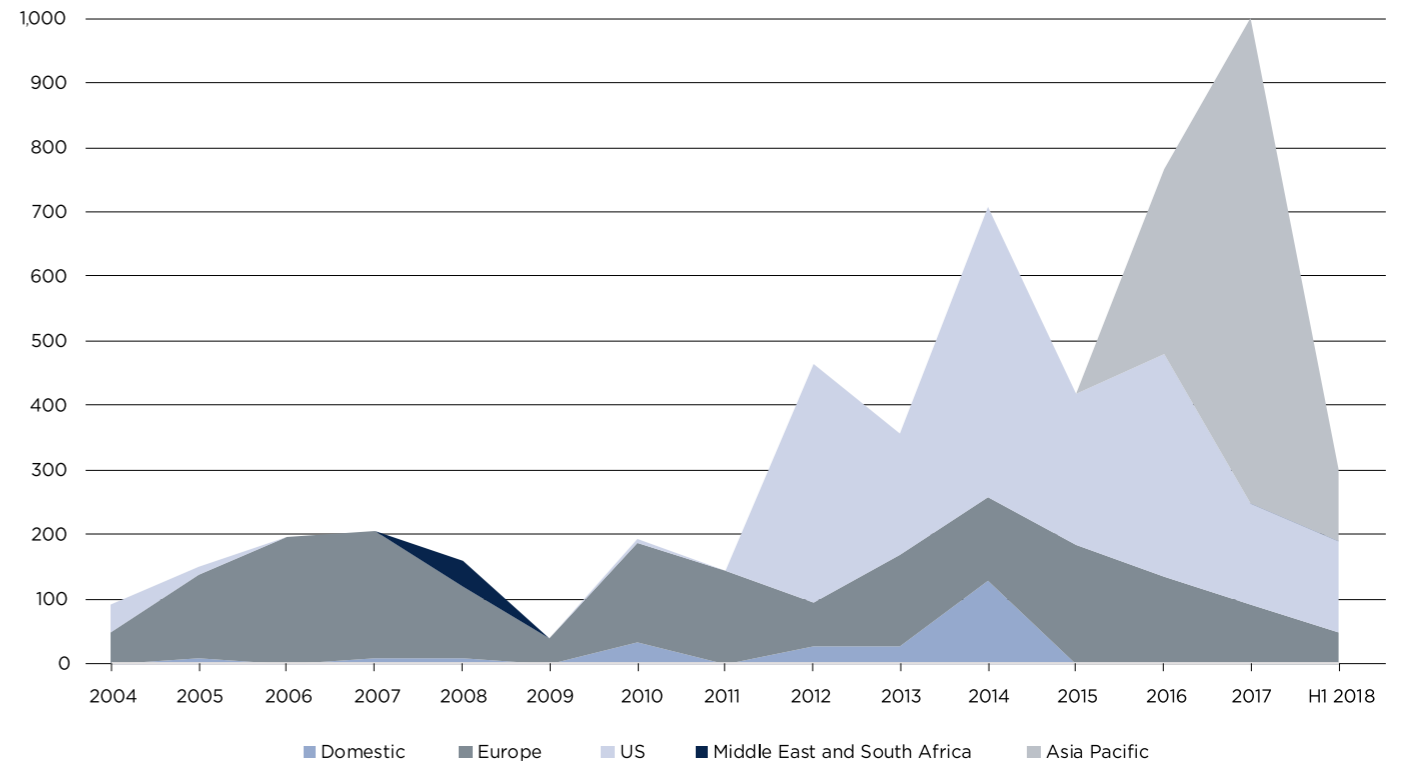
The investment market in Poland benefits from a solid growth in the economy, driven mainly by rising consumption. As the retail investment is gradually slowing down globally (not yet reflected in recent statistics, as large portfolio transactions weigh a lot in total volumes) and the amount of capital to be deployed in real estate is still high, investors interest shifts towards office and industrial assets as well as alternative asset classes, although these are still emerging assets in Poland. Following a record transaction volume closed in the first half of the year, we expect the end-year volume to exceed EUR 6.0 billion, representing a 20%+ growth compared to the last year.

Despite record high investment activity, shortage of the right product is still a major concern for buyers and without a doubt limits the number of transactions. Significant growth in supply on the logistics market in Poland will deliver a solid volume of investment products over the next 12 months. Forward funding will be even more popular providing a kind of win-win scenario for both developers and investors, especially in case of longer-term commitments, such as between Panattoni and Redefine.

Sovereign wealth funds have pulled back from direct acquisitions in 2018. This might be a sign that more capital is being allocated to third party managers, but various political factors are also weighing on the activity of ultra-core buyers. Nevertheless, major players in the industrial sector in Poland will still look for scale, as the Polish logistics market is relatively consolidated with half of the stock in the hands of four major developers.

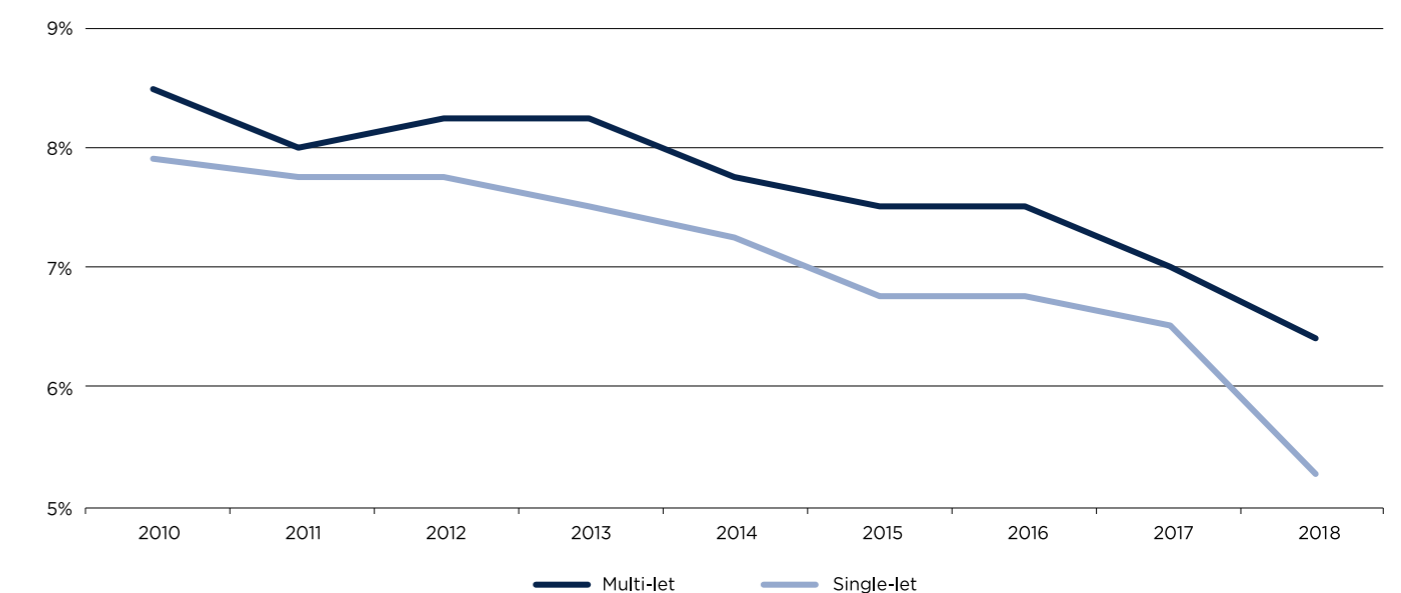
Prime yields have already reached their lows in all major commercial sectors of the property market, nevertheless some further compression may happen in the industrial sector, driven by solid fundamentals of the market, the global growth of e-commerce and a relatively high gap between Poland and mature western markets.

GRAPH 14: Investment volumes in the industrial sector by the origin of capital



Source: Savills

GRAPH 15: Prime yields in the industrial sector in Poland



Source: Savills

## What's next?



### KAMIL KOWA

Head of Corporate Finance & Valuation  
Savills Poland

Although warehouses have been around for many years, they continue to evolve following changes in infrastructure, customer behaviours as well as advancements in technology. Over the next years, warehouses and distribution centres will be affected by a number of trends that will significantly change the way work is accomplished. Those selected below are just a selection of demographic, geographic, technological or regulatory changes that will have a significant impact on the sector.



### WORKFORCE SHORTAGE

Shortage of warehouse workforce is already a concern for both developers and occupiers. This will be even more pronounced, as in the next ten years, Baby Boomers retire and Millennials and Gen Z will make up the warehouse workforce.



### DEMAND FOR TECHNOLOGY

Warehouse workers will have much greater expectations related to overall working conditions and advanced technologies. Significant exposure to hi-tech in everyday life of new generations will make them expect their employers to provide them with leading-edge tools with the latest user experience, similar to what they use in everyday lives.



### SMART WAREHOUSING

Smart warehousing by the likes of Amazon and Ocado – and China's Alibaba, where robots carry out 70% of tasks – is making rapid technology advancements the norm. In turn, this is forcing those companies' competitors to change how they manage their storage and logistics, in order to compete with next-day delivery cycles – and the giants' cheaper, more efficient processes.



### CHANGING SHAPE AND TECHNICAL COMPLEXITY OF WAREHOUSES

E-commerce has been a catalyst for multi-level warehouses of increased technical complexity. Poland now has its first 2 and 3 storey fulfillment centers. Although the shape of these buildings is not of a typical logistic type and shape, institutional investors are now accepting these buildings as suitable investment products as illustrated by record yields achieved on their sale.



### 4PL & 5PL

Growing competition and globalization processes force companies to constantly search for opportunities to reduce costs, increase a market share and streamline deliveries. Outsourcing and building partner relations in the supply chains have become the basic methods of building a competitive advantage. In the area of logistics services, outsourcing led to the emergence of companies called 3PL (Third Party Logistics) on the market. Expanding business to emerging markets leads to increased demand for logistics services and to increased interest in 3PL services. The next stage in the evolution of outsourcing services in the field of logistics is the transition from 3PL to 4PL (Fourth Party Logistics), ie to the integrator of supply chains, including planning, coordination and control of the supply network and even further to 5PL (Fifth Party Logistics) companies planning, designing and implementing complete logistics solutions on behalf of the Shipper or Consignee with an extensive e-business focus across all Logistics Service Providers.



### ON-LINE CROSS-BORDER AND FRESH FOOD SALES

Major e-retailers are continuously expanding the range of goods, exploring more opportunities in cross-border sales and online fresh food sales, which registered a double-digit growth over the past several years and are expected to increase further. Consumption upgrade continues to drive demand for cold storage and bonded warehouses. In addition, major e-retailers are also expanding their consumer finance businesses, which could facilitate and drive online consumption activities further. Therefore, the upward demand for warehouses should remain decent.



### IN-TOWN LOCATIONS

Typical warehouse locations are large sites situated near key transportation hubs, such as highway junctions, rail terminals, airports or seaports. But in line with e-commerce growth and rising demand for last-mile delivery there is a rising demand for an increased number of smaller logistics properties situated closer to densely populated urban areas, where customers live. As the supply of land is more and more limited in urban areas, the next step may be highly automated multi-storey projects in the largest cities.



### ON DEMAND MANUFACTURING

As the demand for customized or personalized products is growing, many companies are being forced to convert their warehouses into manufacturing or assembly centres, that will store mass-produced semi-finished items to be assembled and customized in line with customers' orders before dispatch. This trend will be even more intensified, as new technologies such as 3D printing or additive manufacturing are becoming available giving manufacturers more than ever abilities to truly customize products. These trends will have some serious implications on supply chains. In order to ensure the quickest possible delivery, manufacturers will need a direct contact with end-customers, sometimes even bypassing the retailer. Warehouses will be much more involved in final production, which means there will be more movement and storage of raw materials that feed the production process like 3D printing, while finished goods inventory will be significantly reduced. Warehouse footprints will become smaller, in some markets as there will be less need to store spare parts, as they will not be produced until purchased by the end-customer.



### STRONGER FOCUS ON REGULATORY COMPLIANCE

Laws and regulations designed to govern food and pharmaceutical handling as well as consumer safety need to be continuously adjusted to the dynamically changing landscape of the global supply chain. To ensure compliance and monitor product movements, tracking tools have been increasingly adopted in warehouses. We will continue to see a strong emphasis on the ability to track and trace products, especially in the food and pharmaceutical industries and the regulations will become even more complex. The challenge is to make more intuitive and customized tools adjusted to specific requirements of different businesses in order to help executives ensure compliance with increasingly complex regulations and standards.



### WAREHOUSING ON DEMAND

Sharing-economy platforms, such as Uber, Airbnb and Laundrapp, have disrupted centuries-old sectors, such as personal transport, accommodation and cleaning. But what few people realise is that the model is now being applied to industrial warehousing. Startups such as Flexe in the US and Stowga in the UK have created apps and cloud platforms that transform both the buy and sell sides of the market. They are allowing warehouse owners to lease out spare capacity and clients to rent it on demand over timescales that range from days to months. The idea might seem simple enough, but the implications could be transformative. Organisations will no longer need to think of warehousing in terms of massive regional hubs that require long-distance road haulage (with the expense and environmental impact that entails). Instead, they can now manage it as a national or international grid of smaller facilities that can be expanded or contracted on demand.



### EMERGING LOCATIONS

Shortages of qualified workforce as well as growing distribution chains and the overall trend to be closer to customers and to decrease delivery times force to uncover new locations for logistics and manufacturing. Developers penetrate the market in search for locations that are or will be well-served in terms of road infrastructure and are near to urban centres providing the right labour.



### CHINA'S BELT AND ROAD INITIATIVE

The initiative was unveiled by Xi Jinping in late 2013 and addresses an infrastructure gap with a potential to accelerate economic growth across Asia Pacific and Europe. Expansion of railway routes is associated with the proliferation of online purchases. The new Silk Road is to create opportunities for goods to be delivered from one continent to another within a maximum of two weeks, while currently, most of the transport of goods on the China-Europe route takes place by sea, which takes more than a month. The new Silk Road is not meant to be one route, but an entire railway network as well as a maritime route providing connection between the Far East and the Middle East and Africa. The strategy of creating the New Silk Road involves the construction of new communication and trade routes as well as infrastructural investments in countries along the route. Due to the geographical location, Poland has a chance to become an important point on the Belt and Road railway route, which is a great opportunity for us to develop trade and infrastructure.



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