March 2023

SPOTLIGHT
Savills Research

Warehouse and industrial market in Poland

savills

European industrial perspective

European industrial and logistics take-up reached 8.3 m sq m in the final quarter of the year, and, despite the uncertainty in the market, remains in line with the quarterly average over the last five years. Strongly driven by a record-breaking H1, year-end demand totalled 37.5 m sq m, second only to 2021's series high of 40.2 m sq m. This equates to a fall of just 6% year-on-year in 2022. In annual terms, declines in take-up have been only mild and relatively even across the board with the exception of large year-on-year increases in smaller markets. Digging further into individual markets, most locations outperformed their five-year averages. Despite this, many markets now look adversely impacted by economic headwinds in the context of their year-on-year growth. That said it must be kept in mind that overall take-up in 2022 was 18% higher than the five-year average.

Strong take-up in 2022 continued to put downward pressure on vacancy rates last year. The overall vacancy rate fell from 3.6% at the end of 2021 to 3.1%, its lowest point in the series. We are now seeing vacancy rates begin to rise in some markets, although crucially from record lows.

Competition for this limited stock has intensified among occupiers as the vacancy rate has declined in recent years. This gave landlords the opportunity to command higher rents for their properties, particularly for modern stock which has been in critically short supply. Across Europe, prime rents grew by 11% in 2022. Slowing leasing activity will probably be offset by the historically low levels of available space, which are likely to continue to drive rental growth in the short term.

Katarzyna Pyś-Fabiańczyk
Head of Industrial Services Hub

Key data 2022

28.3 million sq m
Stock of modern warehouse & industrial space in Poland

3.4 million sq m
Under construction (down by 27% y-o-y)

6.7 million sq m
Gross take-up (down by 9% y-o-y)

4.4 million sq m
New supply (up by 42% y-o-y)

4%
Vacancy rate (up by 0.33 pp y-o-y)

4.48 million sq m
Net take-up (down by 20% y-o-y)

2022 – a year of two speeds

The outstanding first half of the year, tapered last months

Economic brief

Economic growth in Poland has been decelerating over the last 12 months having been influenced strongly by Russia's war in Ukraine, monetary policy tightening, deteriorating economic sentiment, inflation diluting household income and a much weaker external environment. However, growth rates have and are predicted to be higher in Poland than in the euro area.

According to a preliminary estimate, annual real GDP growth reached 4.9% y-o-y in 2022, higher than the average growth in the EU (3.6%) and in the euro area (3.5%), as stated in a flash estimate published by Eurostat. Oxford Economics, in their forecast from December 2022, predicted that Poland's GDP growth will remain stagnant in 2023 before an increase of 2.9% in 2024, while GDP both in the EU and the euro area is projected to shrink by 0.1% in 2023, and then increase by 2% in 2024.

Annual average industrial production in 2022, compared to 2021, increased by 0.9% in the euro area and by 1.9% in the EU, while in Poland it soared by 11%.

In 2022, retail sales grew by 5% y-o-y. The highest increase in retail sales in that period was recorded in two categories of products being textiles, clothing and footwear (up by 21.7% y-o-y) and pharmaceuticals, cosmetics and orthopaedic equipment (+12%), while motor vehicles, motorcycles, etc. plummeted by 9.6%, and solid, liquid and gas related fuels dwindled by 7%.

The volume of online sales has significantly increased during the pandemic therefore the share of online sales climbed from approx. 5%-6% in early 2020 to above 11.9% in November 2022. In the course of the past year, online sales oscillated between 8.4% and 11.9% depending on the month.

Stock and new supply

With an all-time record of 4.4 million sq m of new supply added to the market in the course of 2022, modern warehouse and industrial stock across Poland amounted to 28.3 million sq m which corresponds to an annual increase of 18% compared to the end of 2021. Interestingly, the size of the market more than doubled in the last five years in Poland.

Five regional markets exceeded the threshold of 0.5 million sq m of annual new supply. The largest volume of new space was recorded in Central Poland (643,600 sq m), Upper Silesia (539,600 sq m) and Western Poland (532,500 sq m) with the latter posting the fastest pace of development in the past year (+55%).

The largest projects completed in 2022 were Hillwood Bydgoszcz - Zalando Lounge BTS (104,400 sq m), EQT Exeter Park Świebodzin – OBI BTS (100,000 sq m), P3 Poznań II (82,300 sq m) and Panattoni Park Sosnowiec III (82,000 sq m).

One-fifth of the operating stock is concentrated in Warsaw and its agglomeration and a further 54% are located in the following four major markets (Upper Silesia, Central Poland, Poznań and Wrocław). Among secondary markets, three warehouse hubs have crossed the 1 million sq m threshold being the Tricity, Western Poland and Szczecin.

Developers' activity

After record-high developer activity in H1 2022, new project construction has contracted towards the end of 2022, hence approx. 3.4 million sq m of new space (-7% y-o-y) was at the construction stage in December 2022. Hubs with the highest volumes of space under construction are Warsaw (658,000 sq m with a vast majority being developed in the surroundings of the city), Upper Silesia (575,300 sq m), and Western Poland (491,400 sq m). The pool of largest projects being constructed includes a BTS for Zalando in Bydgoszcz by Panattoni (146,000 sq m), Panattoni Park Wrocław Logistics South Hub (125,000 sq m), and CTPark Iłowa (131,200 sq m).

Out of 118 new projects under

In months to come ...

#1

Subdued new supply

High financial costs blended with economic headwinds and the general uncertainty in the market are expected to curb construction activity, in particular, in the sub-sector of speculatively developed space. In 2023, new supply is expected to reach around 2.6-3 million sq m.

#2

Shortage of space and an uptick in rents

The average vacancy rate is projected to oscillate around 4% during the year, with a downward trend in industrial hubs and acute shortfalls in available space. Some regions and cities are now experiencing vacancy rates below 2%. Consequently, rental levels are expected to increase further, in particular, for space in prime locations.

#3

Nearshoring, reshoring and friendshoring sustain take-up

Poland's market accounts for approx. 16% of the European logistics & industrial take-up, and has been ranked in the Top 3 for almost a decade. Due to strong market fundamentals and favourable conditions, the demand for industrial & logistics space in Poland is expected to sustain, in particular, fuelled by the accelerating trends of nearshoring, reshoring and friendshoring.

#4

Limited land availability pushing redevelopment trend

Due to limited availability of land in the leading industrial hubs, emerging regions are gaining momentum and attracting developers. In major markets, redevelopment of older warehouse facilities within city locations are expected to intensify, especially for last-mile logistics developments.

#5

Green energy on the agenda

In light of strong inflationary pressure and tightening climate-neutral policy, the crucial question in 2024 and beyond will be on how to reduce energy use and costs and ensure climate sustainability of industrial & logistics developments.

construction, 47 have been already let. In general, the pre-let ratio was stable in the course of 2022, and oscillated between 52% in Q1 and 54% at the end of Q4.

Demand

Despite a notable slowdown in the last quarter of 2022, the annual demand for industrial space of 6.7 million sq m was the second-highest in the history of the warehouse market in Poland, although lower by 9% compared to 2021, but well above the five-year average of 5 million sq m. Due to a large volume of lease renewals, net take-up accounted for 66% of the total leasing activity, visibly below 76% reported a year ago. The annual level of net absorption summed to 4.15 million sq m, which is 16% higher than in the record-breaking 2021.

The top five markets attracted 76% of gross take-up , with Warsaw and Upper Silesia being the most sought-after regions attracting take-up of above 1 million sq m each. Among secondary hubs, Western Poland captured the highest tenants' interest of nearly 0.5 million sq m of space leased in 2022.

Availability of space

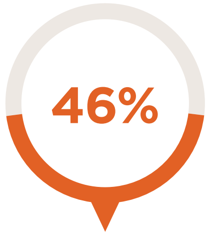
As a result of the largest ever new supply, an uptick in the vacancy rate to approx. 4% was recorded at the end of 2022. This rate means that 1.12 million sq m was available at the end of December. The highest vacancy rates were observed in Western Poland (10.2%), Szczecin (6.4%), Eastern Poland (5.4%) and Central Poland (5.3%). The lowest rates of around 1% were observed in Tricity (0.8%) and Krakow (1.3%).

Rents

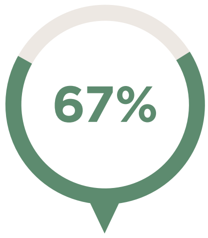
For the past 12 months, rental levels have been under strong inflationary pressure, hence upswings by approx. 15%-30%, depending on the region, status of the property and the quality of space were recorded. At the end of 2022, headline rents ranged between €3.40 /sq m/ month and €6.50 /sq m/month for large units, while small business units (SBU) were traded at higher rents. Effective rents range between €2.60 per sq m/month and €5.50 per sq m/ month for multi-tenant and big box type units and even higher for SBU.

It is worth noting that the gap between headline and effective rents has compressed, as developers offer lower tenants' incentives e.g. shorter rent-free periods and reduced cash contributions. This delta has narrowed by around 10-15%.

Rents for high technical specification assets (e.g. production facilities) or BTS schemes have achieved significantly higher levels



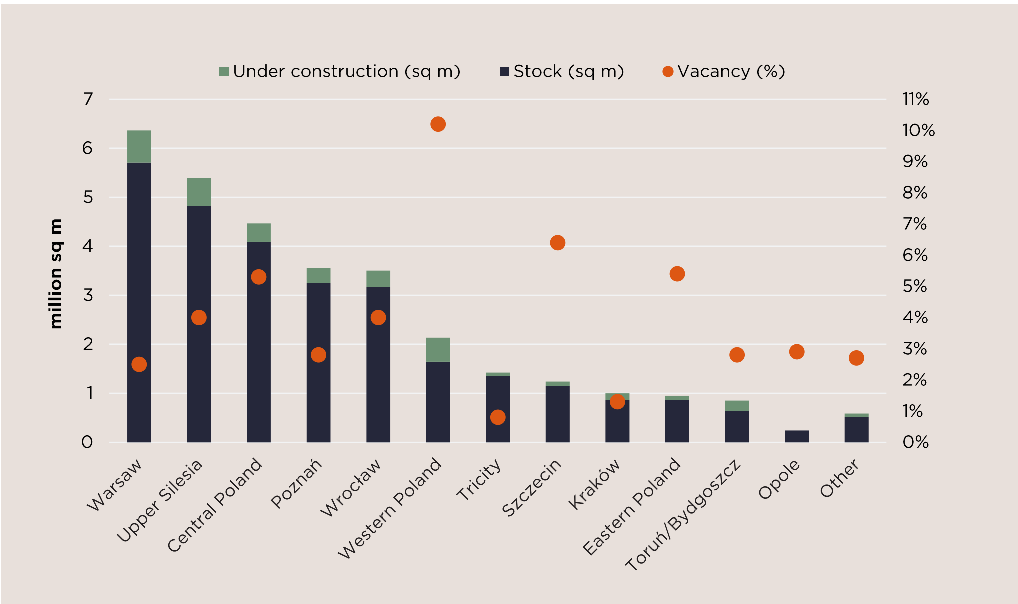
Vacancy rate in under construction projects



Share of net take-up

but dependent on the level of improvements applied. There is no upper limit on rents for production facilities, as it is directly dependent on the level of specification for the individual scheme. Rental rates for highly specialized distribution hubs for large logistic operators, cross-dock facilities comprising additional parking and manoeuvring areas, and additional entrance gates, may achieve significantly higher rents than generic space.

Stock, under construction and vacancy, 2022



Source Savills Research

For further information please contact:

Katarzyna Pyś-Fabiańczyk
Head of Industrial Services Hub
+48 604 169 569
katarzyna.pys-fabianczyk@savills.pl

John Palmer
Head of Industrial Investment
Industrial Services Hub
+48 501 203 821
john.palmer@savills.pl

Rafał Bochenek
Land Acquisition Manager
+48 667 817 322
rafal.bochenek@savills.pl

Wioleta Wojtczak
Head of Research
+48 600 422 216
wwojtczak@savills.pl

Patrycja Dzikowska
Associate Director
+48 602 452 549
patrycja.dzikowska@savills.pl

Savills sp. z o.o., al. Jana Pawła II 22, 00-133 Warszawa
+48 22 222 4000, savills.pl

savills