Another record year ● Prime yields still sharpening ● New capital ● What’s next?
Investor activity in 2019 exceeded all expectations. The record volume confirmed that Poland remains an attractive haven for investment capital, even in the face of a global slowdown. The strength and stability of the Polish economy, which saved the country a decade ago, is still a major driver of high occupier activity, which in turn drives the construction market, providing good quality products for global investment capital.

2019 was also a year of further yield compression and this will continue in 2020, at least in the office and industrial sectors. It was also a year of growth for alternative asset classes, student housing and apartments for rent in particular. The first significant transactions in these sectors were definitely a foretaste of what we will observe in 2020 and in the following years.

Given the particularly strong prospects for the first quarter of the year, I expect 2020 to be the third consecutive year to close with a EUR 7.0-8.0bn investment volume. 2020 looks like an exciting year under the benchmark of office towers, logistics and further growth of activity in alternative asset segments.

Once again, Poland attracted a record volume of investment capital, thus strengthening its position as a major destination in Central Europe for investment from around the world.99

The third record year in a row

2019 was the third consecutive record year in the real estate investment market in Poland. The transaction volume last year totalised almost €7.8bn, representing an increase of 8% y-o-y.

In 2019 offices were still the number one choice for property investors with over €3.8bn invested in the sector across Poland, reflecting a 37% growth year-on-year. This superior growth, in fact, represented the opposite direction compared to what we observe globally. While offices, in aggregate remain the number one sector in terms of investment volume worldwide, the increased interest in the apartment sector and the industrial market, which have both grown in response to structural changes in how people shop and live, is gradually acquiring part of office (and naturally retail) investment. At the same time the world’s office market suffers from a shortage of suitable stock, which contributes to the decline in deal volumes. While there is strong demand for industrial assets in Poland and dynamic growth in apartment investment (although this one is still an emerging sector growing from a relatively low base), the office market is also fuelled by massive development, responding to continued strong occupier demand, which creates some rental growth opportunities. Investor volume in the retail sector in 2019 amounted to €1.95bn reflecting a 23% fall year-on-year. The decrease in activity was fuelled by the slowdown and additional psychological barrier was significantly broken and the yield of 4.25% was achieved. In the case of multi-let big-boxes prime yields are estimated at approximately 6.00% with the potential to compress further to ca. 5.75%.

High investment demand, fuelled with aggressive capital from Asia and a resonant investment appetite from German buyers, has led to further compression of prime yields, especially in the office and industrial sectors. Tightening of prime yields has led to yield compression for secondary assets, albeit, with the exception of the retail sector, where the market has become more polarised.

Prime office yields

In 2019 prime office yields in Warsaw went down to 4.50%, reflecting continued yield compression for the best assets in Warsaw City Centre. Bearing in mind, there are some ongoing transactions, we anticipate that prime achievable office yields are now at 4.25%, with potential to decrease further to ca. 4.00%. This still remains attractive compared to core markets in Western Europe, especially when taking into account the rental growth prospects. Office yields are also sharpening in Warsaw non-central locations and regional cities, although these markets remain more polarised, with strong demand for high quality assets offering secure, long-term income and more opportunistic approach to second-tier assets.

Prime retail yields

There is limited fresh deal evidence for prime shopping centres, due to shortage of such products offered for sale in 2019. However, we estimate that the prime retail yields for the most successful schemes in Warsaw are now at ca. 4.50%, while in major regional cities they are around 5.00%.

Prime warehouse yields

In 2019 prime yields in the industrial sector were in the range of 5.00-5.25% for single-let assets with long-term leases and strong covenant tenant. However, already at the turn of 2019/2020, the first transaction took place where this psychological barrier was significantly broken and the yield of 4.25% was achieved. In the case of multi-let big-boxes prime yields are estimated at approximately 6.00% with the potential to compress further to ca. 5.75%.

Prime yields in 2020

High investment demand, fuelled with aggressive capital from Asia and a resonant investment appetite from German buyers, has led to further compression of prime yields, especially in the office and industrial sectors. Tightening of prime yields has led to yield compression for secondary assets, albeit, with the exception of the retail sector, where the market has become more polarised.

Prime office yields

In 2019 prime office yields in Warsaw went down to 4.50%, reflecting continued yield compression for the best assets in Warsaw City Centre. Bearing in mind, there are some ongoing transactions, we anticipate that prime achievable office yields are now at 4.25%, with potential to decrease further to ca. 4.00%. This still remains attractive compared to core markets in Western Europe, especially when taking into account the rental growth prospects. Office yields are also sharpening in Warsaw non-central locations and regional cities, although these markets remain more polarised, with strong demand for high quality assets offering secure, long-term income and more opportunistic approach to second-tier assets.

Prime retail yields

There is limited fresh deal evidence for prime shopping centres, due to shortage of such products offered for sale in 2019. However, we estimate that the prime retail yields for the most successful schemes in Warsaw are now at ca. 4.50%, while in major regional cities they are around 5.00%.

Prime warehouse yields

In 2019 prime yields in the industrial sector were in the range of 5.00-5.25% for single-let assets with long-term leases and strong covenant tenant. However, already at the turn of 2019/2020, the first transaction took place where this psychological barrier was significantly broken and the yield of 4.25% was achieved. In the case of multi-let big-boxes prime yields are estimated at approximately 6.00% with the potential to compress further to ca. 5.75%.

Investment market in Poland 2020

In brief

1. 2019 was the third consecutive record year, in the Polish investment market, with an impressive investment volume of nearly €7.8 billion.  
2. Offices were a dominant asset class comprising approximately 49% of the total investment volume, followed by the retail sector with 25%, Industrial with 20% and hotels plus residential with 6%.  
3. Investment activity in the office sector increased in Poland by approximately 37%.  
4. Retail sector is clearly affected by the slowdown and became even more polarised. Investment in the retail sector is limited by negligible supply of prime product.  
5. Prime logistics assets offering secure long-term income are definitely top priority for many investors. Tough competition among buyers is reflected by continued yield compression.  
6. Prime yields have been sharpening further across all commercial sectors (with the exception of retail).  
7. Investment sentiment remains positive and 2020 will be another good year for the investment market in Poland with a new benchmark for prime yields in the office and industrial sectors and the investment volume of ca. €7.0-8.0 billion.
With several European economies having slowed down in 2018, Poland is still on the growth path, thus attracting new sources of both continental and outbound investment capital.

**Capital flows**

In line with the significant growth in the number of transactions (over 40% in 2019 compared to 2018), the spectrum of buyers is also widening with a particular growth in inflow of capital from APAC and Middle East regions.

**Investment in Poland by origin of capital**

2017-2019 comparison

- **Domestic investment in Poland remains low, as the number of buyers able to compete with foreign capital is limited. In 2019 acquisitions by domestic buyers accounted for only 3% of the total investment volume.**
- **European cross-border investment increased significantly in 2019 and accounted for 53% of the total investment volume.**
- **Asian buyers spent over EUR 1.73 billion (approximately 23.5% of the total volume) which was the highest level ever.**
- **South African capital is now less active in the retail sector, searching for opportunities mainly in the office sector.**
- **Middle Eastern investment recorded the highest growth last year, although from a relatively low base.**
- Asian buyers spent over EUR 1.73 billion (approximately 23.5% of the total volume) which was the highest level ever. This group of investors is almost fully focused on office and industrial sectors, although there was also a large portfolio transaction in the retail sector.

**2019 INVESTMENT ACTIVITY GROWTH by origin of capital**

- **-25% Domestic**
- **+54% European cross-border**
- **-75% US**
- **-50% South Africa**
- **+127% Asia / Pacific**
- **+246% Middle East**

**Continued transformation**

The ongoing transformation of the retail sector, resulting from structural changes in demography and urbanization trends, as well as the dynamic growth of e-commerce, is affecting the shape of the investment market within the sector. There is still strong demand for core, dominant assets, however, there is shortage of these assets available for acquisition. There is, however, some room for experienced asset managers such as EPP, ECE or Cromwell, who see opportunities in the changing market and benefit on scale.

**In pursuit of safe haven**

Most investors are currently looking towards the industrial sector, even those who have traditionally specialized in other market segments. The development of e-commerce and the growth in supply chains is providing an extremely strong foundation for the industrial property sector, which attracts capital seeking a safe haven in the face of the economic slowdown.

**Selected top transactions in the office sector in 2019**

<table>
<thead>
<tr>
<th>Property</th>
<th>Location</th>
<th>Buyer</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warsaw Spire A</td>
<td>Warsaw</td>
<td>Immofinanz</td>
<td>EUR 386m</td>
</tr>
<tr>
<td>Warsaw Financial Center</td>
<td>Warsaw</td>
<td>CPI Property Group</td>
<td>EUR 275m</td>
</tr>
<tr>
<td>Eurocentrum Office Complex</td>
<td>Warsaw</td>
<td>CPI Property Group</td>
<td>EUR 255m</td>
</tr>
<tr>
<td>West Station I &amp; II</td>
<td>Warsaw</td>
<td>Mapletree Investments</td>
<td>EUR 190m</td>
</tr>
</tbody>
</table>

**Selected top transactions in the retail sector in 2019**

<table>
<thead>
<tr>
<th>Property</th>
<th>Location</th>
<th>Buyer</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cromwell Portfolio</td>
<td>Portfolio</td>
<td>Cromwell Property Group</td>
<td>EUR 600m</td>
</tr>
<tr>
<td>Atrium Koszalin &amp; Atrium Felicity</td>
<td>Portfolio</td>
<td>ECE European Prime Shopping Centre Fund II</td>
<td>EUR 298m</td>
</tr>
<tr>
<td>Chariot Top Portfolio (3 trancha)</td>
<td>Portfolio</td>
<td>EPP</td>
<td>EUR 222m</td>
</tr>
<tr>
<td>Makeo Portfolio</td>
<td>Portfolio</td>
<td>FLE GmbH</td>
<td>EUR 127m</td>
</tr>
<tr>
<td>Barn Portfolio</td>
<td>Portfolio</td>
<td>GLL</td>
<td>EUR 175m</td>
</tr>
<tr>
<td>Amazon Lodz &amp; Boleslawiec</td>
<td>Portfolio</td>
<td>CGL Investment Holdings Corporation</td>
<td>undisclosed</td>
</tr>
<tr>
<td>Blackstone Portfolio</td>
<td>Portfolio</td>
<td>Miras Asset Management</td>
<td>EUR 129m</td>
</tr>
<tr>
<td>DC Zalando</td>
<td>Dluzyniek</td>
<td>IGIS Asset Management</td>
<td>EUR 85m</td>
</tr>
</tbody>
</table>

**Selected top transactions in the industrial sector in 2019**

<table>
<thead>
<tr>
<th>Property</th>
<th>Location</th>
<th>Buyer</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barn Portfolio</td>
<td>Portfolio</td>
<td>GLL</td>
<td>EUR 175m</td>
</tr>
<tr>
<td>Amazon Lodz &amp; Boleslawiec</td>
<td>Portfolio</td>
<td>CGL Investment Holdings Corporation</td>
<td>undisclosed</td>
</tr>
<tr>
<td>Blackstone Portfolio</td>
<td>Portfolio</td>
<td>Miras Asset Management</td>
<td>EUR 129m</td>
</tr>
<tr>
<td>DC Zalando</td>
<td>Dluzyniek</td>
<td>IGIS Asset Management</td>
<td>EUR 85m</td>
</tr>
</tbody>
</table>

**Fierce competition**

Centrally located, grade A office assets have been attracting lot of interest from buyers from around the globe. With German and Austrian buyers increasing their activity after some slower years, stronger than ever activity from the CEE-based investors and the growing spectrum of buyers from outside of Europe, the race for the best assets is more challenging than ever before.
Solid household consumption and higher than expected exports contributed to strong GDP growth in 2019, estimated at 4.2%, according to Oxford Economics. Relatively weak public investment and a slowdown of external demand will weigh on activity and the growth is expected to decelerate in 2020 and beyond.

Consumption driven economy
Private consumption remains strong, fuelled by buoyant consumer confidence and social programmes. It is expected to remain high in 2020, supported by significant growth in nominal wages. Significant rises in minimum wage are expected in 2020 - 2024 and will boost consumer confidence further, which should extend the consumption boom, that underpins the economic growth.

Muted industrial production and lower public investment
The industrial production slowed down, muted by lower external demand, and is expected to remain low as there are no signs that German industrial sector is going to bottom-out. Uncertainty around lower external demand and lower trade flows has also contributed to a slowdown in public investment.

Exports growth exceeding lacklustre imports
Net trade seems to have a small positive contribution to annual GDP growth in 2019 and probably also in 2020. This again shows how the Polish economy has so far weathered the slowdown in the eurozone much better than some of its neighbours in Central and Eastern Europe.

Interest rates to remain low
Despite rising inflation, main interest rates are expected to remain unchanged in 2020 and probably also in 2021.

While overall repospositioning, repurposing and repricing will be the theme of retail investment activity in 2020, Poland is amongst those countries, in which strong consumer spending should prevent yields from softening.

Fundamentals for the industrial sector remain particularly strong, driven by rising e-commerce and logistics. Industrial assets still offer attractive risk-return profile compared to other asset classes.

Outlook
Strong activity, new benchmarks for prime yields

1. The outlook for the real estate market for 2020 is once again very positive. From today’s perspective, there is nothing to suggest that the cycle will end this year. In fact, with the global trend in interest rates remaining ‘lower for longer’, at least for the foreseeable future, the current cycle could continue for a few more years.

2. Despite uncertainty and disruptions, which have been buzz words globally in recent years, there can be no doubt that investors will turn to real estate, looking for both security and opportunity.

3. The decline in global demand dynamics and the low level of economic growth will encourage the search for stable income from long-term lease agreements.

4. Poland will continue to be a destination of choice, bearing in mind the resilience of the Polish economy in the face of the slowdown and strong occupier demand driving rental growth, as well as pretty attractive pricing levels.

5. Continued growth of both Warsaw and regional office markets will uphold offices in the position of dominant asset class. Activity in major regional markets will grow further, attracted by a yield premium and attractive pricing levels.

6. Warsaw will continue to be a major arena for large-scale investments with several landmark office assets to be transacted and bringing yields to even sharper levels.

7. Retail sector will remain in the shadows of the spectacular transactions in the office and industrial sectors, however, there is still room for investments in both prime and opportunistic segments of the market.

With the global trend in interest rates remaining lower for longer there is nothing to suggest that the cycle will end this year.

EUROPEAN PERSPECTIVE

Low interest rates and low cost of debt are injecting investment capital towards real estate, despite the fact that prime yields are at a record low, in some core European markets even below 3.00%.

Slower economic growth and softening occupier demand for offices around Europe are pushing investors to concentrate on assets that can provide a stable income over a longer period of time.

Warsaw is among the office markets that might still experience yield compression, especially due to relatively attractive capital values compared to other core markets, strong occupier demand and rental growth prospects.

In spite of the slowing European economy, consumer confidence has remained on a broadly flat trajectory. Whilst the retail market is adapting and reshaping itself to meet new consumers’ demand, investors are still restraining their exposure to the sector.

Whilst the overall European retail investment activity is slowing down, the number of retail sale and leaseback (SLB) transactions is growing, mainly driven by supermarket retailers. In the face of the rising tide of e-commerce, sale and leaseback is seen as a financial strategy to take capital out of real estate assets and put it back into the core retail business. From an investor’s perspective, it is an alternative opportunity to source property and to invest large amounts of capital, which in return, will provide long income streams.

While overall repospositioning, repurposing and repricing will be the theme of retail investment activity in 2020, Poland is among those countries, in which strong consumer spending should prevent yields from softening.

Fundamentals for the industrial sector remain particularly strong, driven by rising e-commerce and logistics. Industrial assets still offer attractive risk-return profile compared to other asset classes.

Bearing in mind the fierce competition for prime assets there is still room for further compression of prime yields.
### Investment

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>Contact Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tomasz Buras</td>
<td>CEO Poland, Head of Investment</td>
<td>+48 22 222 4000, <a href="mailto:tburas@savills.pl">tburas@savills.pl</a></td>
</tr>
<tr>
<td>Marek Paczuski</td>
<td>Director, Deputy Head of Investment</td>
<td>+48 666 042 891, <a href="mailto:mpaczuski@savills.pl">mpaczuski@savills.pl</a></td>
</tr>
<tr>
<td>John Palmer</td>
<td>Director, Head of Industrial Investment</td>
<td>+48 501 203 821, <a href="mailto:john.palmer@savills.pl">john.palmer@savills.pl</a></td>
</tr>
<tr>
<td>Daniel Oponowicz</td>
<td>Associate Director, Investment</td>
<td>+48 602 767 868, <a href="mailto:daniel.onowicz@savills.pl">daniel.onowicz@savills.pl</a></td>
</tr>
<tr>
<td>Łukasz Fromiński</td>
<td>Associate Director, Investment</td>
<td>+48 660 438 433, <a href="mailto:lukasz.frominski@savills.pl">lukasz.frominski@savills.pl</a></td>
</tr>
</tbody>
</table>

### Research

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>Contact Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michał Stępień</td>
<td>Associate, Investment</td>
<td>+48 600 228 399, <a href="mailto:mstepien@savills.pl">mstepien@savills.pl</a></td>
</tr>
<tr>
<td>Karolina Wójcik-Wrześniwska</td>
<td>Associate, Investment</td>
<td>+48 666 363 307, <a href="mailto:karolina.wojcik-wrzesniewska@savills.pl">karolina.wojcik-wrzesniewska@savills.pl</a></td>
</tr>
<tr>
<td>Wioleta Wojtczak</td>
<td>Associate Director, Head of Research</td>
<td>+48 600 422 216, <a href="mailto:wwojtczak@savills.pl">wwojtczak@savills.pl</a></td>
</tr>
</tbody>
</table>