Research | February 2024

Industrial Market Poland

Q1-Q4 2023

SEE A BRIGHTER WAY

European Market Snapshot

Market performance improving in H2

The second half of the year witnessed an improvement in the European take-up rate, helping 2023 to almost match the strong pre-pandemic year of 2020. Throughout 2023, occupiers leased 24.5 million m² on European markets, still some 26% below the robust 2022, but now only 12% below the five-year average (2018-2022).

While logistics players displayed a relatively steady pace, manufacturing companies, with 21% share in total take-up, have been at the forefront of the European leasing activity. E-commerce retailers faced a temporary pause, however their expansion is expected to resume along anticipated movements towards improvement in the last mile delivery efficiency.

Although the new supply figures have already reflected the falling pipeline levels, with new completions down by 4% year on year, aggregated European vacancy rate have reached 4.9%, with selected markets being well above 5%.

Bringing a sense of tranquillity to a turbulent outlook

Despite remaining tight, there has been an upward revision in GDP projections throughout the year, indicating some positive trends for 2024.
While some European locations may experience weak expansion, all are expected to see growth and the gradual rebound. According to the Oxford Economics, the Eurozone is projected to grow by 6.1% from 2024 to 2027, Poland potentially outperforming that pace with a 10.8% GDP growth over the same period.

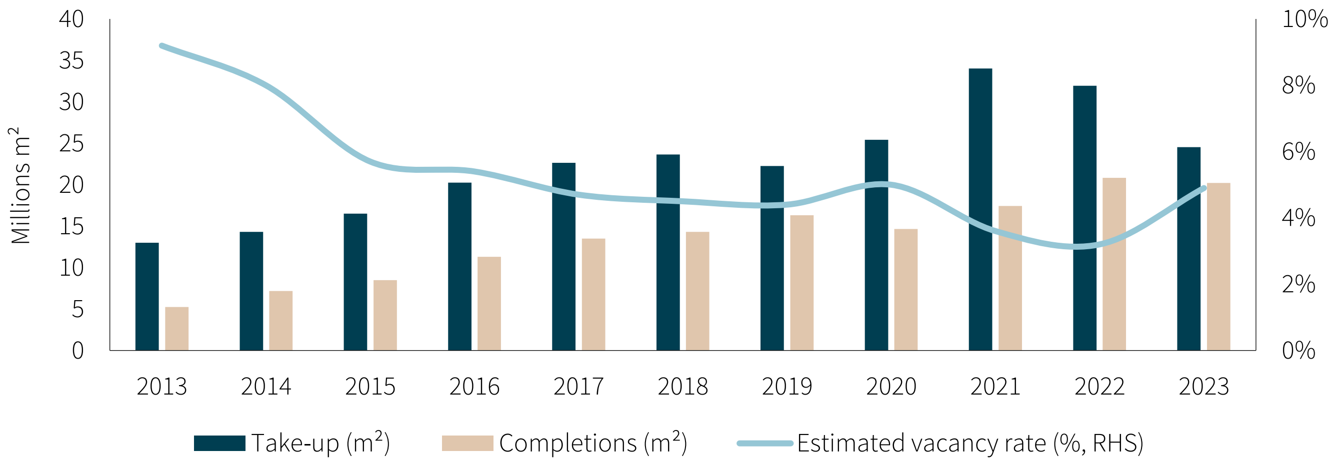
Although there has been observed an anticipated decrease in inflation, it remains high, suggesting a cautious approach towards risk. Consequently, prices remain elevated. The next movements in interest rates are likely to be downward, but the timing and extent of these changes are uncertain and continuously evolving.

The enhanced stability and predictability anticipated in 2024 will play a significant role in rejuvenating the markets and stimulating transaction activity in the upcoming quarters.

24.5 million m² (-26% y/y)
Total net take-up in Europe

20.2 million m² (-4% y/y)
European new supply

Logistics demand and new supply in Europe (netto)



Source: JLL, Q4 2023

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Going beyond expectations, but with a caveat to bear in mind

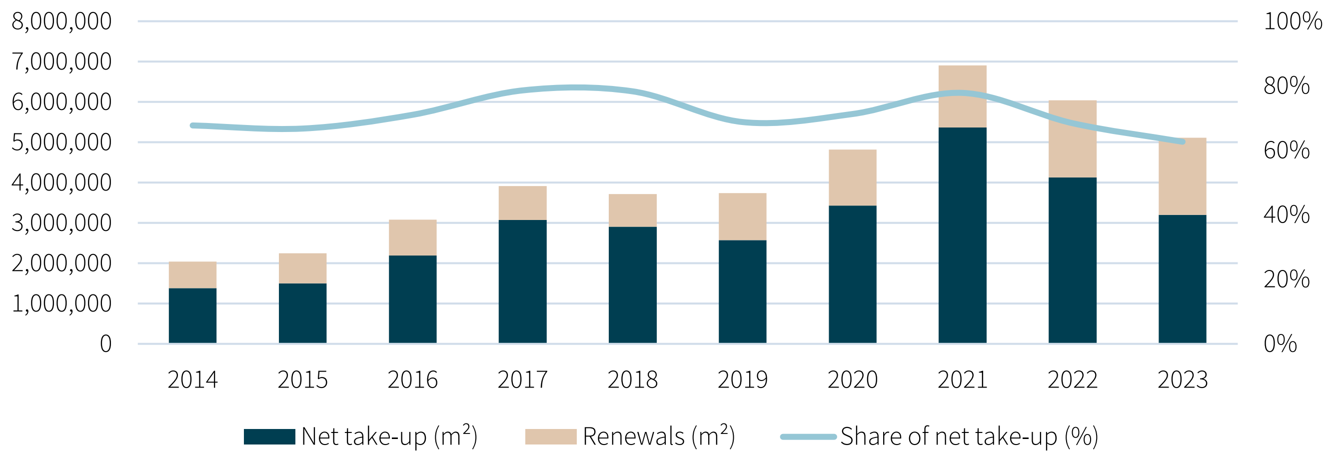
Strong overall activity observed in Poland in the second half of the year allowed the market to surpass the historic results from 2020, with a total gross take-up reaching 5.1 million m² in 2023 and exceeding the five-year average by 1.4%.

Importantly however, this result was primarily driven by lease renewals, setting a new absolute historic record of 1.85 million m². While this indicates market maturity, it also highlights a still subdued motivation for long-term expansion and growth, with new demand itself remaining 13% below the five-year average.

The leasing landscape in Poland remained dominated by logistics operators and retail chains, who claimed 38.4% and 37.7% share in net take-up, respectively. Noteworthily, in contrary to the European picture, retail expansion in Poland was strongly driven by the e-commerce segment, which generated almost 600,000 m² of net take-up throughout the year. On top of that, some 500,000 m² was attributable to only one player experiencing extremely dynamic expansion in the region of Wrocław.

On the other hand, record-high renewal activity noted in 2023 was primarily led by logistics (46%) and production (29%), together rolling over some 1.4 million m².

Demand in Poland (m²)



Source: JLL, Q4 2023

Industrial market in Poland – key figures 2023

32.87 M m²	3.2 M m²	5.1 M m²	7.7%
+13% y/y	-22% y/y	-11% y/y	+2.7 pp y/y
Stock	**Net demand**	**Gross demand**	**Vacancy rate**

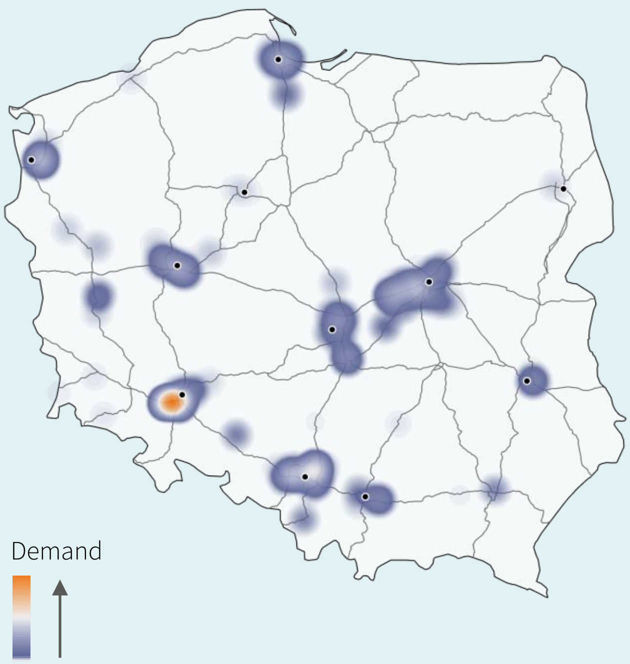
Industrial market in Poland

The Big Five markets again demonstrated their resilience with 2.4 million m² leased - almost 76% share in total new demand. Wrocław stood out as the leading destination, experiencing an exceptional acceleration due to the contracts secured by a prominent e-commerce player mentioned earlier.

Tri-City, Szczecin and Kraków collectively surpassed the 500,000 m² mark in leased space in 2023. Furthermore, all of these witnessed deals for above 35,000 m². On the other hand, smaller markets noted a slight deceleration - a combined total of 170,000 m² (net) was leased in Lublin, Rzeszów, Opole, Kujawy, Białystok and Kielce.

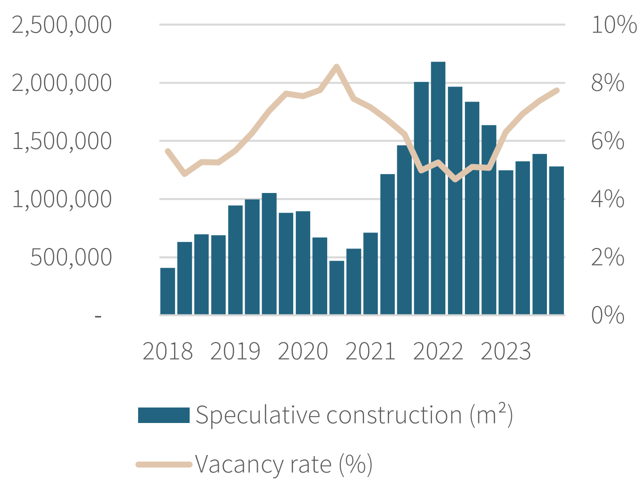
This was even strongly emphasised in terms of lease renewals. Almost 1.6 million m² was leased in the Big Five markets, accounting for some 85% of total. What is more, almost 40% of all roll-overs was attributable to Warsaw only.

Net take-up heatmap (m²)



Vacancy

Aggregated vacancy rate in Poland



Source: JLL, Q4 2023

Despite the upward movement observed throughout 2023, the vacancy rate in Poland remained below 8% (7.8%).

Taking the whole-year perspective, the most significant increases were observed in the top destinations, where the majority of speculative space was being developed. As of end of 2023, over 2 million m² (80% of total vacant space) were attributable to the Big Five markets. However, these are also the most popular logistics hubs, which should contribute to the gradual absorption of the vacant space.

Combined with squeezed speculative construction and rebounding take-up, there is still a room for cautious optimism regarding the further development of vacancy rates in Poland.

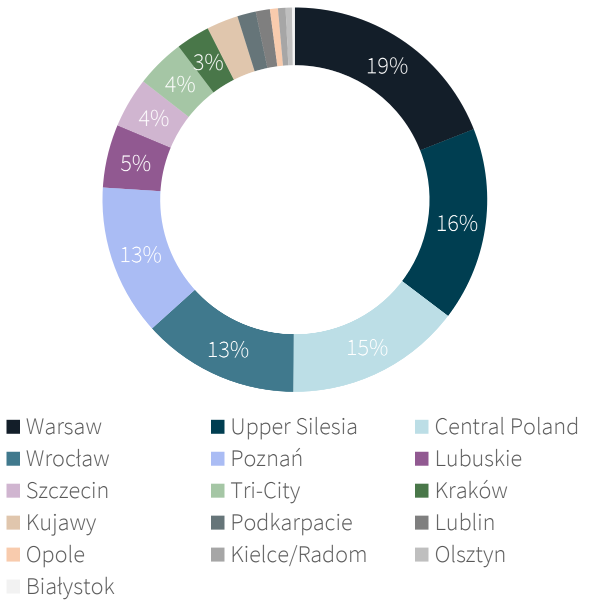
Industrial market in Poland

Supply

Results observed in 2023 supported the cooling down of the markets, albeit at a relatively low pace. New supply delivered during the year amounted to 3.95 million m^2 and was only some 13% below results of the record-breaking 2022. In December 2023, total existing stock in Poland exceeded 32.8 million m^2, with 76% of it concentrated within the five largest regions.

Unsurprisingly, most of the space delivered in 2023 boosted the stock of the Big Five markets, reaching nearly 2.5 million m^2. Furthermore, exceptionally strong performance was observed in Lubuskie, where due to the accelerated speculative activity, developers completed almost 670,000 m^2.

Industrial stock (m^2)



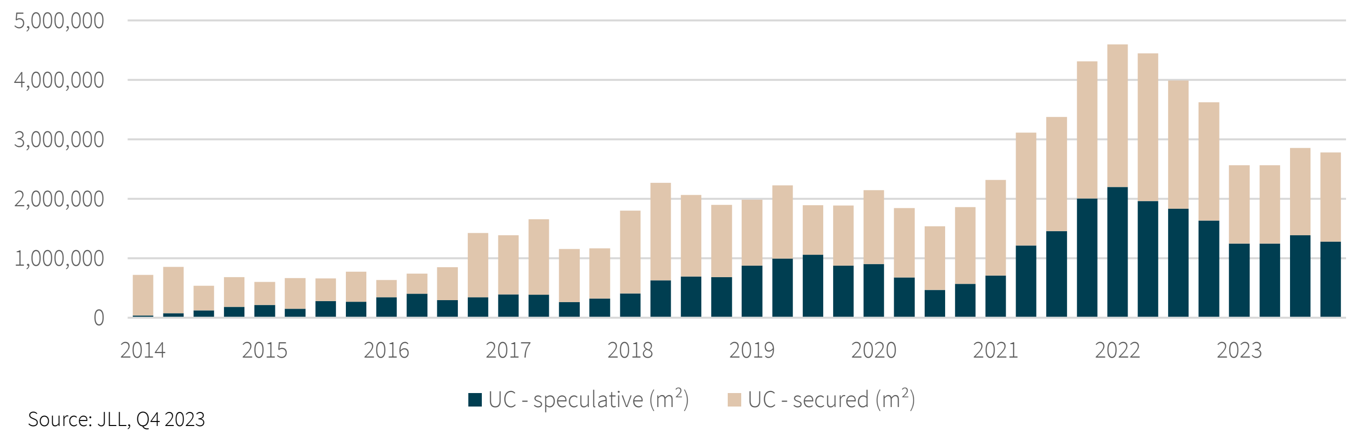
Source: JLL, Q4 2023

Development activity

As of December 2023, the under-construction pipeline remained close to the 3 million m^2 threshold (2.78 million m^2). This means, that in Q4 developers initiated new projects with a combined area close to 700,000 m^2. Amount of space being constructed on speculative basis fell by some 100,000 m^2, now accounting for some 46% of total pipeline.

New warehousing space will be largely attributable to the top markets, particularly Wrocław region. A meaningful pipeline was also observed in the Tri-City and Kraków – 310,000 m^2 and 165,000 m^2, respectively. Worth to mention is also Warsaw Inner City, which is set to expand by over 140,000 m^2 in coming months.

Space under construction (m^2)



Source: JLL, Q4 2023

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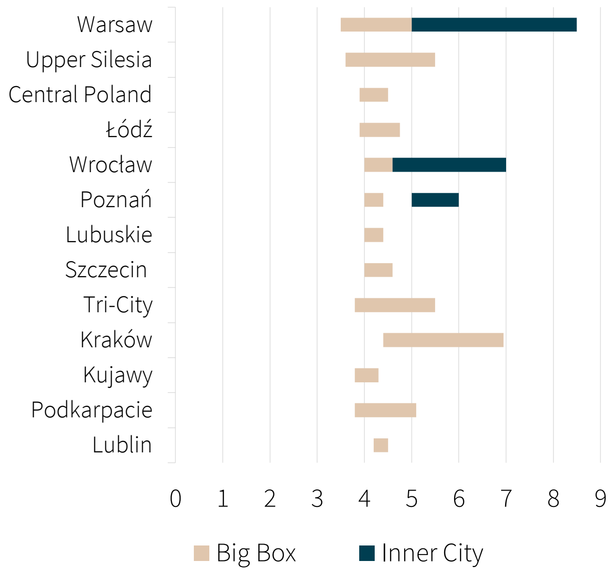
Rents

While the average rental rate growth in Poland was at some 20% during 2022, the 2023 displayed a more stable environment with an average annual growth rate below 5%. Upward adjustments were primarily seen in the new sustainable developments of higher quality. Undoubtedly, the growing focus on ESG compliance will put non-prime space under pressure.

In December 2023 rental rates for suburban logistics parks within the Big Five markets ranged from 3.5 to 5.5 euro/ m²/ month. City locations maintained higher rates, with maximum values reaching 8.5 euro/ m²/ month in the Warsaw Inner City area.

Prime headline rents (euro/ m²/ month)



Source: JLL, Q4 2023

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Investment market

During 2023 the total of €967 million was transacted across 27 deals. The true landmark transaction was the acquisition of an 80% stake in 7R by NREP. This Scandinavian investor put approx. €200 million into 7R, strengthening it as one of the sector's major developers in Poland.

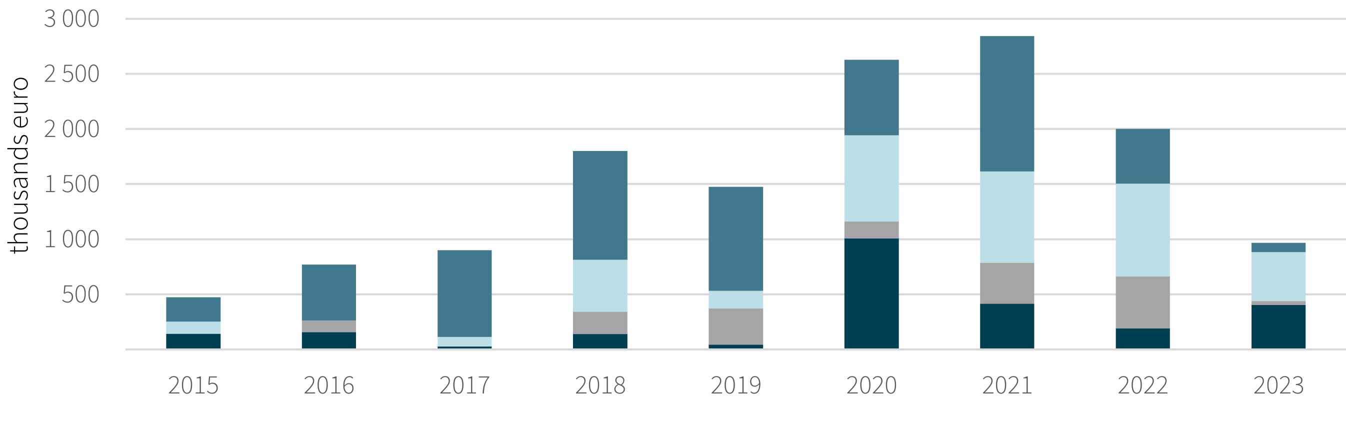
The largest single-asset transaction in 2023 was the acquisition of Campus 39 by P3 for nearly €140 million. The same investor also purchased 7R Park Łódź West II and 7R Park Szczecin. In terms of schemes with long-term agreements, one of the most noteworthy was the logistics property in Swarzędz near Poznan bought by Palmira from Akron Group.

There is observed an increased activity displayed by players coming from the CEE. Czech investors Accolade and Trigea bought facilities in the area of Bydgoszcz and Wrocław respectively. In addition, Slovakian IAD Investments purchased a warehouse located in Wrocław. Finally, domestic market capital invested in a warehouse complex located in Urzut next to the S8 expressway.

Cap rates have continued their upward movement, which is expected to decelerate during first months of 2024 as a result of lower interest rate volatility and a narrowing bid-ask spread.

At the end of December 2023, prime warehouse yields for multi-tenant schemes with five-year lease agreements were estimated to be at 6.50% - 6.75%. Warsaw prime projects were expected to be at 6.25% - 6.50%.

Investment volumes in the industrial sector



Source: JLL, Q4 2023

Prime Industrial Yields	**6.50% - 6.75%** Multi-tenant 5Y WAULT	**6.25% - 6.50%** Warsaw projects

Contacts

We can support you with expert advice
that reflects your business needs and priorities.

Tomasz Mika
Head of Industrial Agency
tomasz.mika@jll.com

Sławomir Jędrzejewski
Head of Industrial Investment
slawomir.jedrzejewski@jll.com

Mateusz Polkowski
Head of Research & Consultancy
mateusz.Polkowski@jll.com

Maciej Kotowski
Director
maciej.kotowski@jll.com

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