Industrial & warehouse market in Poland

2018 Occupier Insight

cresa

Summary

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In 2018, Poland joined the group of 25 most developed economies in the world according to the FTSE Russell index. In this context, last year's data from the industrial and warehouse market confirm that Poland fully deserved its upgrade. The development of the industrial real estate market whose total supply rose at an annual rate of nearly 18% in the last three years follows the positive domestic economic situation (Poland's GDP hit 5.1% in 2018, the highest rate for eleven years).

Additionally, the Polish market's growth is further driven by investor demand for income producing warehouse and industrial properties which in 2018 amounted to EUR 1.85 billion, accounting for nearly 26% of Poland's total investment volume which hit a record high of EUR 7.2 billion.

Occupier demand remained robust in 2018. Last year's leasing volume amounted to 4 million sqm. E-commerce, logistics, light manufacturing and retailers continued to account for the largest share of total take-up. The market's growth is fuelled by technological and structural changes in retailing with retailers increasingly going online, leading to stronger demand for warehouse space required for efficient supply chains. The expansion of e-commerce is also bolstered by high consumption, which is also expected to grow in 2019. At the same time, the overall vacancy rate has stood at around 5% for over a year, which is confirmation of a healthy demand and supply balance.

Poland's outstanding performance, however, should overshadow challenges stemming from the risk of a downturn in the global economy, with which Poland is relatively strongly linked. China's economic slowdown from 6.6% in 2018 to the forecasted 5.8% in 2022 and the apparent decline in industrial production in Germany may be the first signs of a potential downturn. Despite this, with strong domestic demand and structural changes, the Polish economy should prove more resilient to external shocks, including tariff wars, than other CEE countries.

Meanwhile, as the official Brexit date nears, some UK-based companies are planning to transfer production to other countries. As a result, thanks to Poland's strategic location in Europe, the Polish warehouse and industrial market is likely to benefit from these changes. Locally, rising construction costs and the tight labour market with rising wages could be challenges for the market in upcoming quarters.

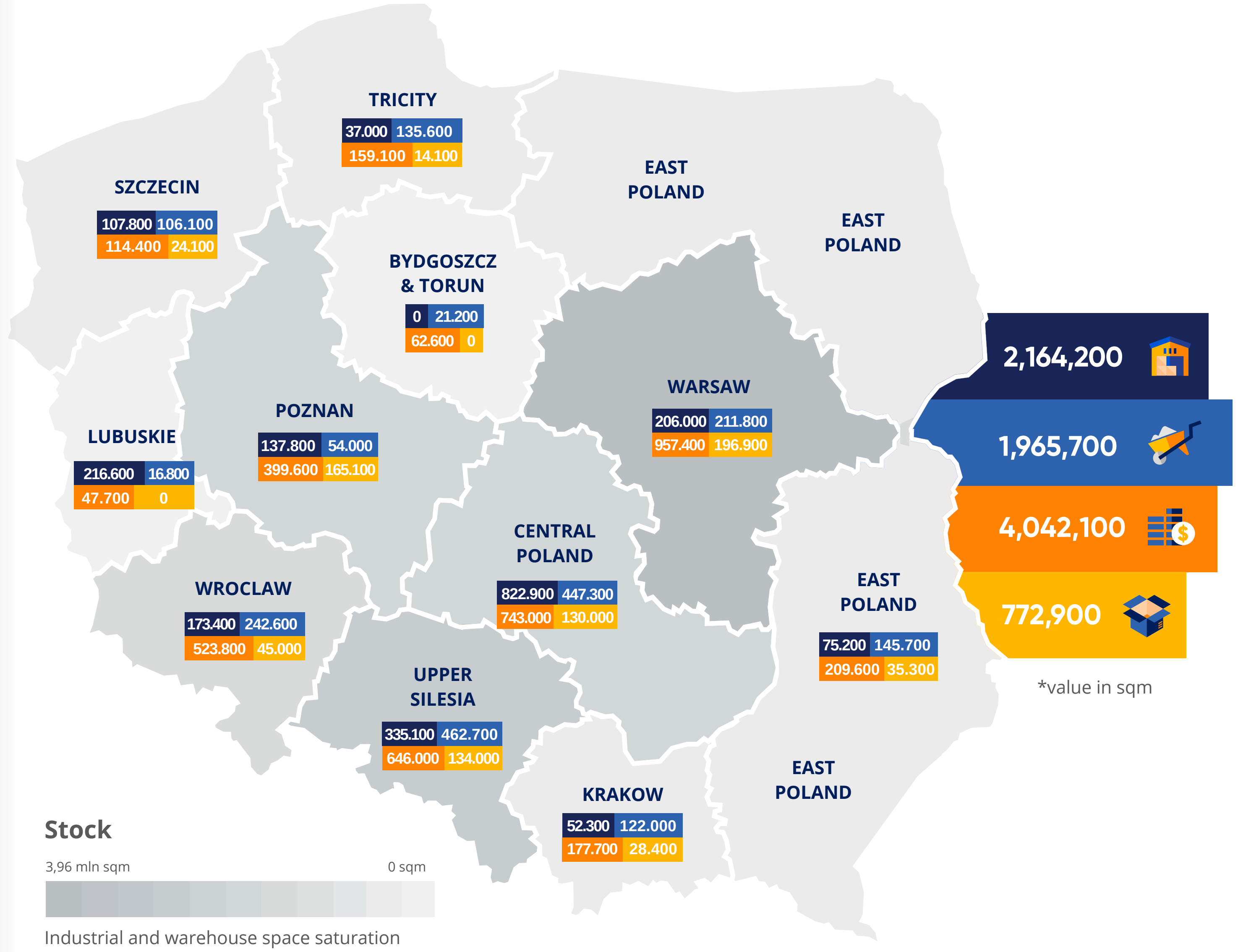
In this context, it is important that Poland effects internal structural changes required to maintain stability. There are many signs that the situation is going in the right direction and the Polish warehouse and industrial market will maintain its strong momentum at least in the next two years.

Poland

Industrial and warehouse market in 2018

15,909,700 sqm

Industrial and warehouse stock



Supply

In 2018, warehouse supply amounted to 2.2 million sqm, a slightly lower volume compared with 2017.

Under construction

The development pipeline hit a record-high of nearly two million sqm at the end of 2018.

Take-up

Despite 2018's warehouse take-up being lower than that recorded in 2017, occupier activity remained strong throughout the year with more than 4 million sqm transacted.

Vacancy rate

The overall vacancy rate is currently at its lowest. It edged up compared with Q3 2018, but remains below 5%.

Poland

Economy

38,419,000
Population (November 2018)

64%
Working age population (2018)

36%
Non-working age population (2018)

434
Tertiary education institutions in Poland (2018)

5.8%
Registered unemployment rate according to the CSO (December 2018)

3.8%
Harmonised unemployment rate (HICP) according to Eurostat (December 2018)

1.6%
Inflation rate (consumer price index in 2018, according to the CSO)

1.2%
Harmonised inflation rate (12-month moving average, according to Eurostat)

PLN 5,275
Average monthly gross nominal salary in the enterprise sector

PLN 5,438
Average monthly gross nominal salary in manufacturing

Economic outlook

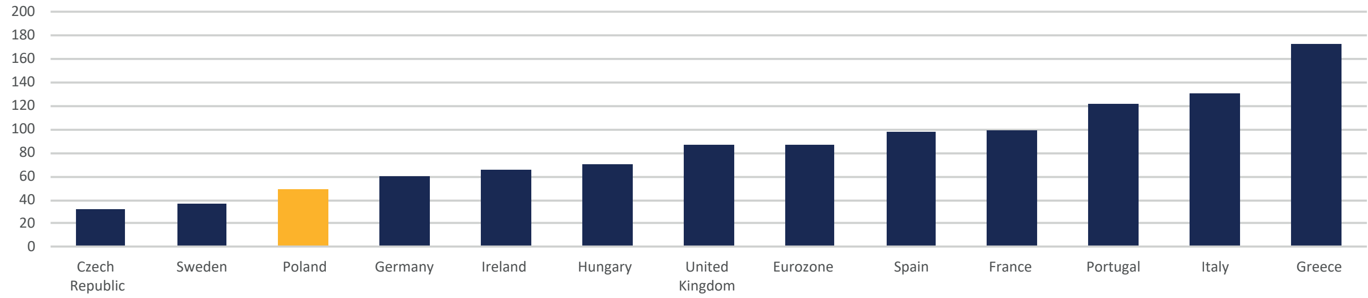
	2012	2013	2014	2015	2016	2017	2018	2019
GDP growth (%)	1,6	1,4	3,3	3,8	3,1	4,8	5,1	4,0
GDP per capita	22.193	22.521	23.279	24.191	24.950	26.152	27.513	28.616
Public debt (% of GDP)	53,7	55,7	50,4	51,3	54,2	50,6	49,2	47,6
Treasury bond rates	5,0	4,0	3,5	2,7	3,0	3,4	3,2	3,6
Unemployment rate	10,1	10,3	9,0	7,5	6,1	4,9	3,7	3,2
Export of goods and services (USD bn)	222,79	242,93	259,70	236,32	246,33	286,57	317,04	329,93

Source: Trading Economics / Cresa Poland
f - forecast
ILO - International Labour Organisation

Poland's ratings

Moody's	A2 Stable
Standard & Poor's	A- Stable
Fitch Ratings	A- Stable
DBRS	A Stable

Public debt (% of GDP)



Source: Trading Economics / Cresa Poland

Poland

Economy

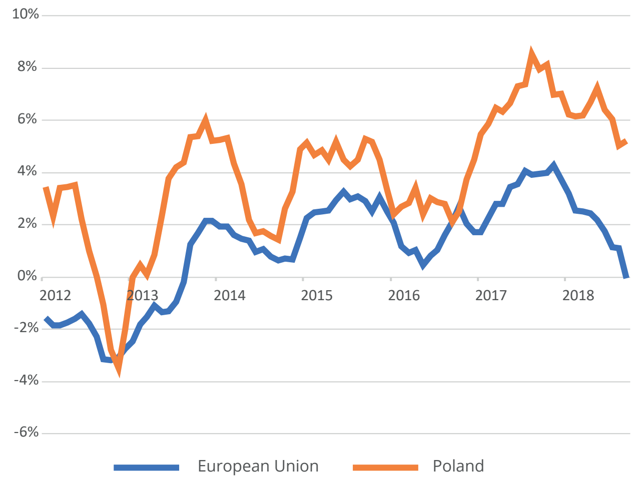
- In 2018, Poland posted a higher real GDP growth rate than a year earlier (5.1% vs 4.8% in 2017), confirming the Polish economy's strong growth dynamics, driven mainly by domestic demand with net export remaining neutral. Public investments financed by the EU accelerated, which mitigated the effects of the global economic downturn and played a role in Poland's outstanding performance.
- Industrial production continued on its strong growth path and in November 2018 hit 5.3% year-on-year, up by 3.1 pp on the EU average. In January 2019, the PMI was 48.2 points (down by 1.3 points compared to November 2018). According to preliminary estimates, construction industry posted an approximately 14% growth in Poland in 2018 compared to 10.9% in 2017.

PMI readings (2018)

	Nov. 2018	Dec. 2018	Jan. 2019
Czech Republic	51,8	49,7	49,0
Eurozone	51,8	51,4	50,5
France	50,8	49,7	51,2
Germany	51,8	51,5	49,7
Hungary	53,5	54,2	54,0
Ireland	55,4	54,5	52,6
Italy	48,6	49,2	47,8
Poland	**49,5**	**47,6**	**48,2**
Spain	52,6	51,1	52,4
UK	53,1	54,2	52,8

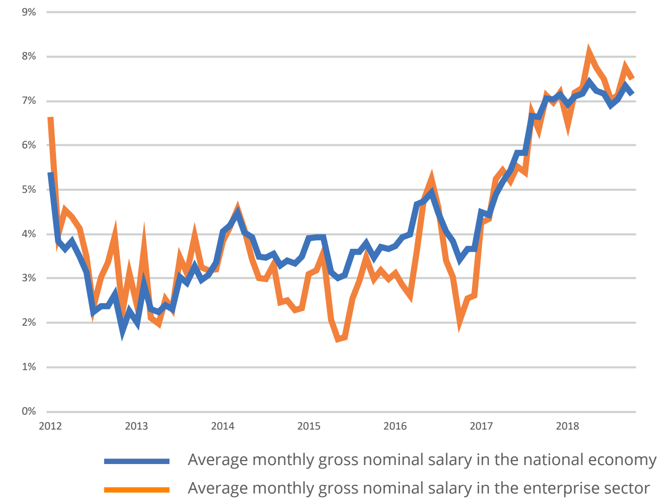
- Total consumption was up by 4.3% compared to the 4.5% growth in 2017 while household consumption rose by 4.5%. Domestic demand will remain the key driver for Poland's economic growth in the medium term, underpinned by the low unemployment rate standing at 3.7% in December (as defined by the ILO), rising salaries and a series of elections in the country.
- In 2018, Poland's consumer price index amounted to 1.6% year-on-year, down by 0.4 p. on the previous year's level. According to the Harmonised Index of Consumer Prices (HICP) computed on the basis of a moving average for January-December 2018 compared to the same period in 2017, prices rose 1.2% compared with the 1.6% growth in 2017. The EU's HICP amounted to 1.9% in 2018.
- Monthly gross nominal and real salaries in the enterprise sector posted the strongest growth in the last ten years. In 2018, the monthly gross salary in the enterprise sector averaged PLN 4,852.29, nominally up by 7.1% on 2017's level (compared to the 5.9% growth in 2017).

Industrial output (% year-on-year)



Source: Eurostat

Salary growth (% year-on-year)



Source: CSO

The Economic Sentiment Indicator

Poland:
103 (Jan. 2019)
-7,1 points y/y

Eurozone:
106,2 (Jan. 2019)
-7,8 points y/y

The Economic Sentiment Indicator (ESI) is a composite indicator made up of five sectoral confidence indicators with different weights: Industrial confidence indicator, Services confidence indicator, Consumer confidence indicator, Construction confidence indicator and Retail trade confidence indicator. Values above 100 indicate above-average economic sentiment.

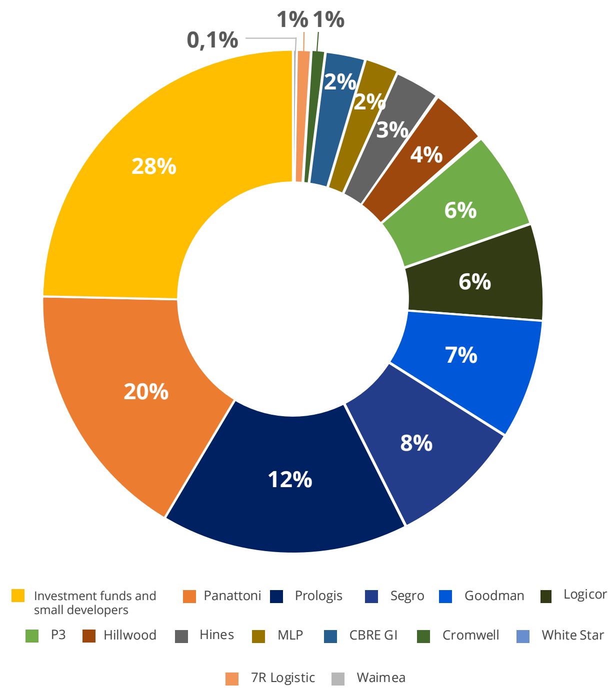
Poland

Market trends

Stock	Take-up	Vacancy rate	Absorption
16.1%	-9.7%	-0.5 pp	-7.0%
year-on-year	year-on-year	year-on-year	year-on-year

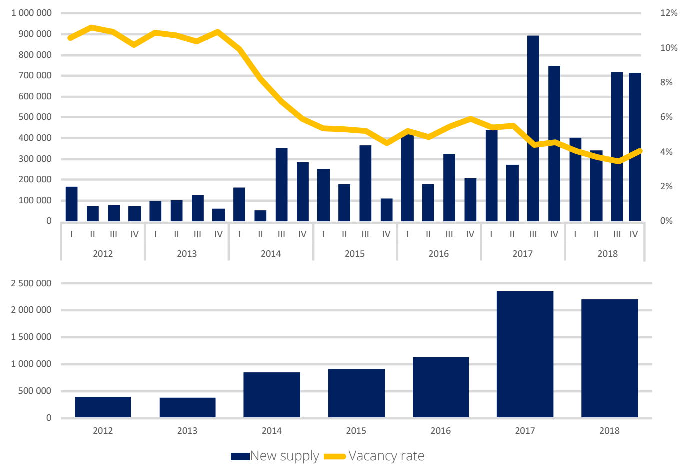
- Poland's total warehouse and industrial stock stands at nearly 16 million sqm.
- Of all regions, Central Poland has recently attracted the strongest developer and occupier interest.
- The warehouse development pipeline hit a record volume.

Leading warehouse owners – existing stock

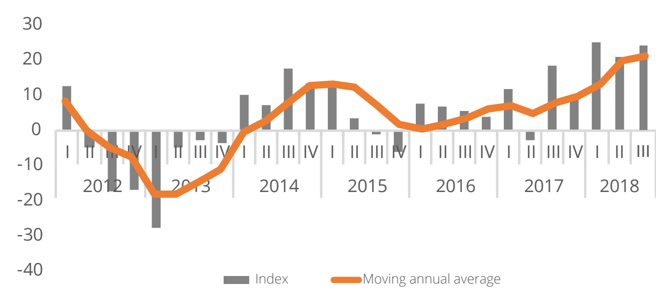


Source: Cresa Poland

Supply and vacancy rate



Occupier Sentiment Index**



**The Occupier Sentiment Index based on RICS quarterly commercial survey is a composite measure of overall market momentum, encompassing variables on supply, demand and expectations. A higher value would be indicative of tighter market conditions for tenants and therefore more upward pressure on rents.

Source: Cresa Poland, RICS

20%

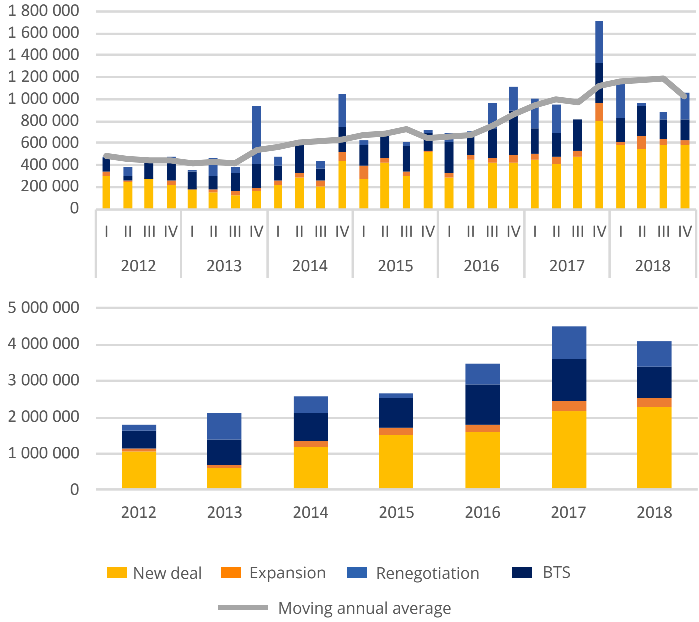
Panattoni's share of total stock

Poland

Market trends

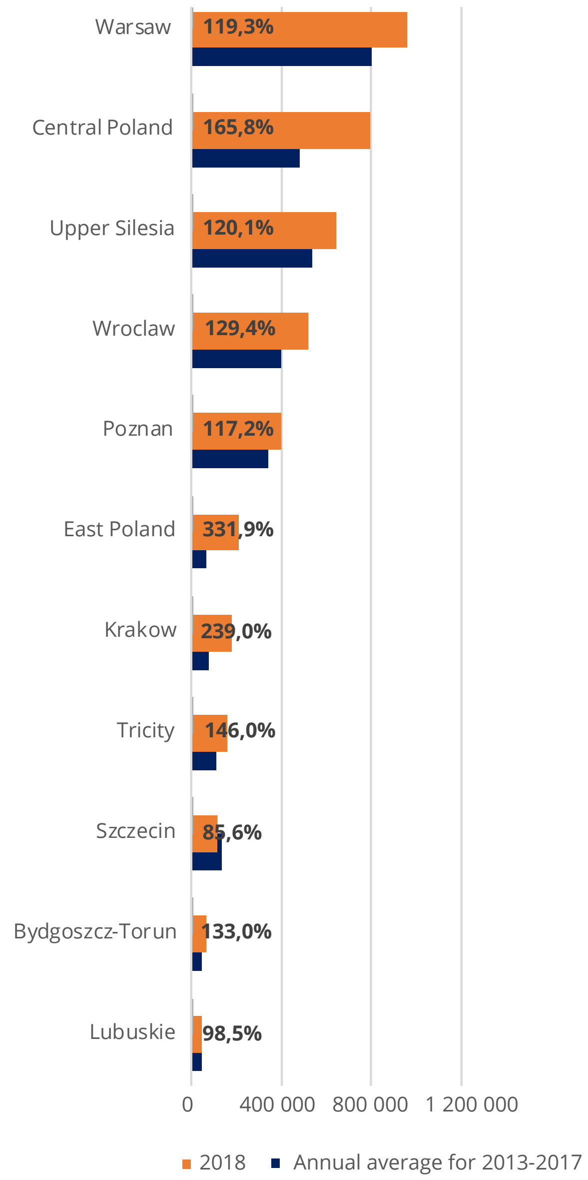
- Occupier activity remained very robust in 2018. Leasing activity exceeded 4 million sqm for the second year in a row and was considerably higher than the average for recent years.
- In 2018, most regions saw higher transaction volumes than the average for 2013-2017. Only Szczecin and Lubuskie reported leasing volumes below the average: 85.6% and 98.5%, respectively. The strongest increases were recorded in Eastern Poland (331.9%) and Krakow (239%).
- New lease agreements accounted for 56.6% of the total take-up. Leases signed for BTS schemes and renegotiations made up 16.1% and 21.2%, respectively. The remaining space was leased through expansions.

Take-up



Source: Cresa Poland

Take-up by region



Source: Cresa Poland

Key lease transactions in 2018

Tenant	Lease type	Property	Area
Leroy Merlin	BTS	Panattoni BTS Leroy Merlin	124,000 sqm
Zalando	BTS	Hillwood Zalando II	121,000 sqm
Confidential	BTS	Panattoni BTS Bolesławiec	60,600 sqm
BSH	BTS	Panattoni Central European Logistics Hub	58,000 sqm
Smyk	Expansion	Panattoni Central European Logistics Hub	45,000 sqm

Poland

Market outlook

Key market drivers:

- The expected high economic growth, including growing private consumption.
- Strong and sustained demand from institutional investors for assets producing stable streams of income.
- Further improvements to Poland's road and transportation infrastructure.
- Technological and structural changes in retailing: expansion of e-commerce.
- Demand coming from logistics and manufacturing.
- Easier access to corporate income tax exemptions across Poland.
- Further inflow of foreign direct investments and increased involvement of Chinese capital.
- Public investments funded by the EU in the 2014-2020 period.
- Further cooperation in gas energy, transport (Via Carpatia), digital communication and economy as part of the Three Seas Initiative.

Risk factors:

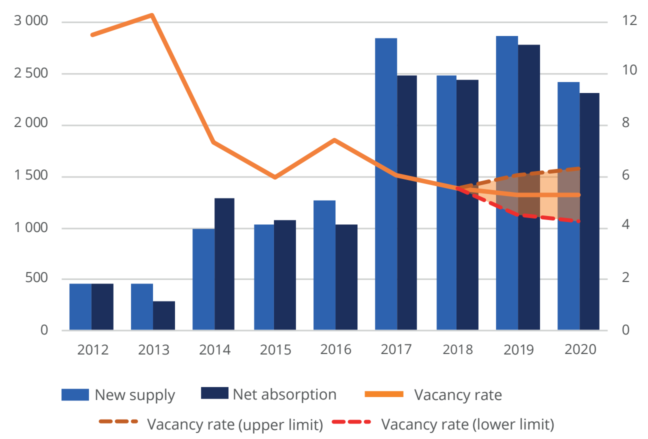
- Rising project development costs, including costs of construction materials and labour.
- Low unemployment and thereby limited access to skilled labour and an upward pressure on salaries.
- Weaker investment dynamics in the enterprise sector compared to other countries of the region.
- A substantial increase in coal and carbon emissions prices which pushed wholesale electricity prices up by approximately 80% in 2018.
- China's economic slowdown from 6.6% in 2018 to the forecasted 5.8% in 2022 and the apparent decline in industrial production in Germany.
- Geopolitical and geo-economic tensions among key superpowers leading to more trade and investment barriers.
- Risk to the stability of financial markets due to the rising global debt which has hit a pre-GFC level and amounts to 225% of the world's GDP.

Warehouse and industrial market outlook for 2019 and 2020

Occupier demand for warehouse and industrial space is expected to remain healthy in Poland in 2019-2020.

More than 2.5 million sqm is likely to be delivered to the market this year (up by around 16% on last year's supply and nearly 1.7 times the annual average for the last five years). In 2020, new supply is expected to hit slightly more than 2 million sqm.

By the end of 2019, Poland's vacancy rate will edge down further to 4.5% as most of the warehouse and industrial space under construction has already been pre-let. Due to a substantial base effect, stable demand and a high supply volume, the share of unoccupied space in the nation's total stock is likely to remain in 2020 at its current level.

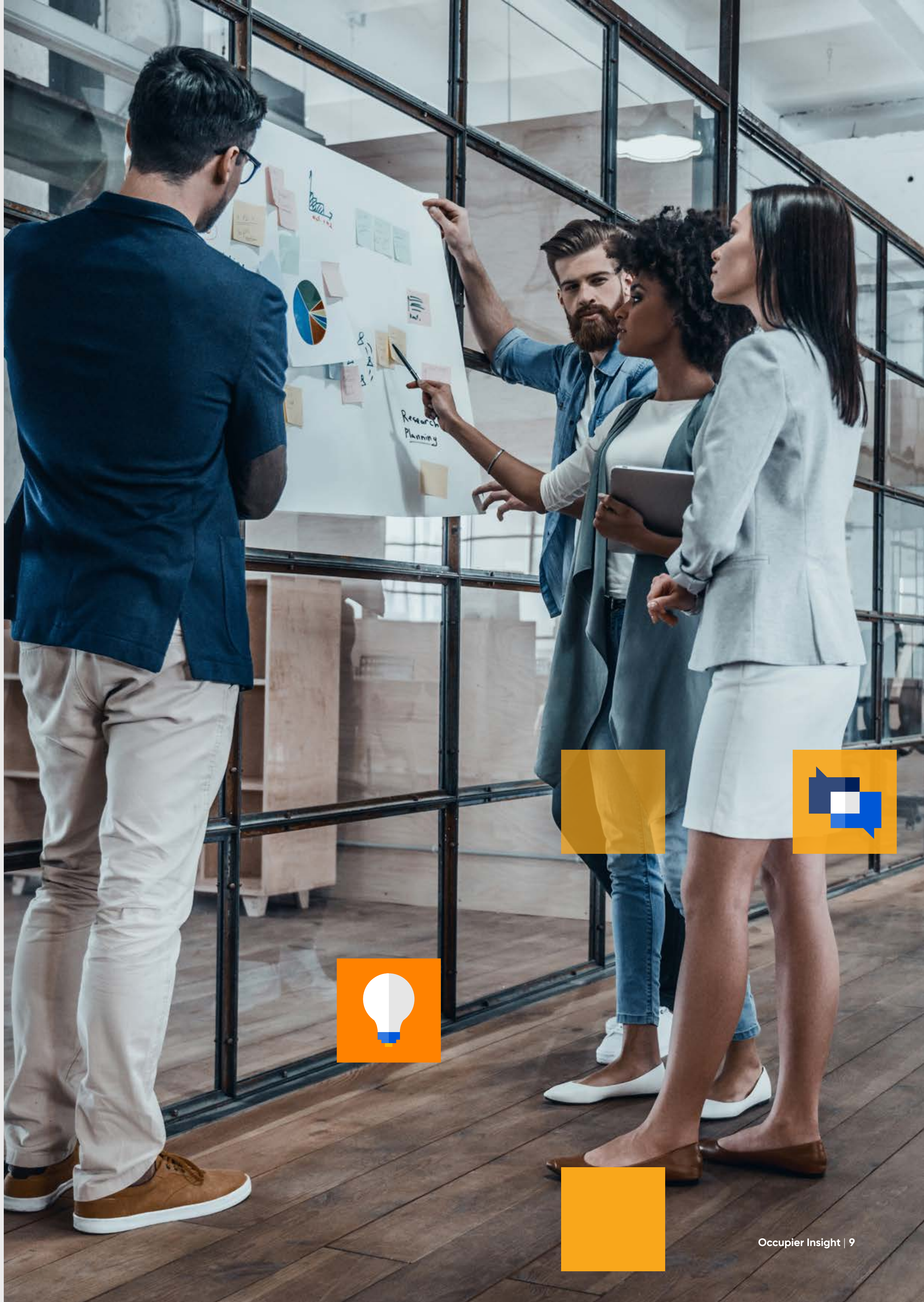


Source: Cresa Poland

Expert opinion

Bolesław Kołodziejczyk, PhD, MBA, MRICS
Head of Research & Advisory

Despite economic, social and demographic challenges, the Polish warehouse and industrial market is showing no sign of abating. Poland remains resilient to the economic slowdown in Germany and vacant spaces relatively quickly find occupiers across the country. Weaker GDP growth forecasts appear to be no point of concern to investors, and banks are willing to finance acquisitions and projects in this segment of the commercial real estate market.



Warsaw

Industrial and warehouse market in 2018

3,961,800 sqm

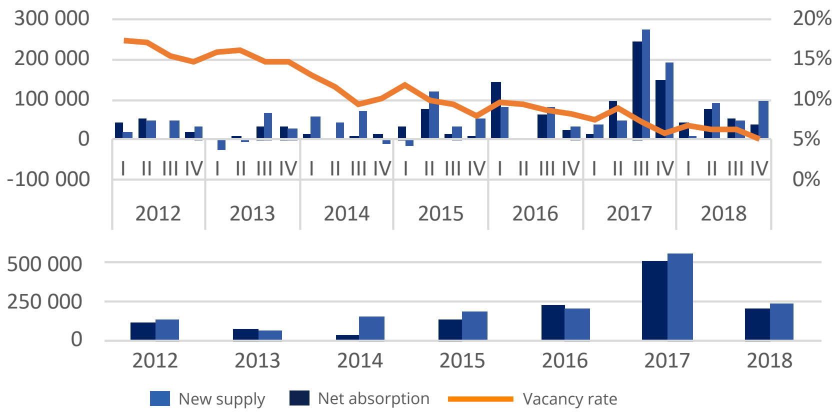
Industrial and warehouse stock

Expert opinion

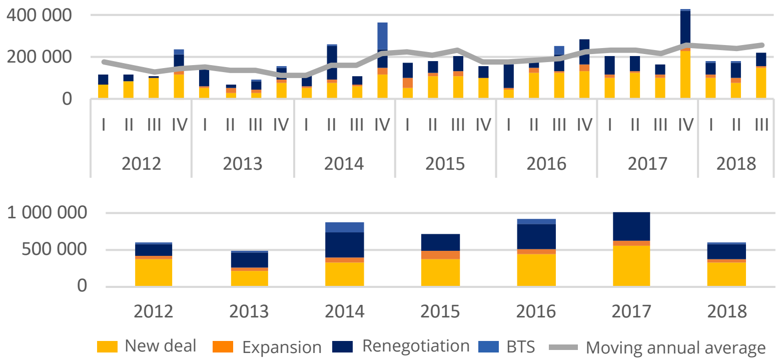
Katarzyna Bojanowicz
Business Development Director

In 2018, the strongest demand for modern warehouse space in the Warsaw region came from logistics operators, courier companies and SMEs. Zone 1 (Warsaw Inner City) recorded an approximately 50% growth in its leasing volume compared with the previous year's level. This is a confirmation of the growing occupier interest in more central locations, in the vicinity of the public transport network and main thoroughfares. Approximately 57,000 sqm of SBUs is expected to be developed in the Inner City in 2019 in response to occupier demand.

New supply, absorption and vacancies



Take-up



Rents
(EUR/sqm/month)

3.90-5.25 EUR
Warsaw Zone 1

2.50-3.70 EUR
Warsaw Zone 2

206,000 sqm
Supply

211,800 sqm
Under construction

957,400 sqm
Take-up

8.4 %
Vacancy rate
Warsaw Zone 1

4.1 %
Vacancy rate
Warsaw Zone 2

Key lease transactions in 2018

Tenant	Lease type	Property	Sqm
Rohlig Suus	New deal	Panattoni Park Janki III	42,000 sqm
Rhenus Logistics	New deal	Mapletree Park Błonie II	41,600 sqm
DSV	New deal	P3 Błonie	33,100 sqm

Upper Silesia

Industrial and warehouse market in 2018

2,749,000 sqm

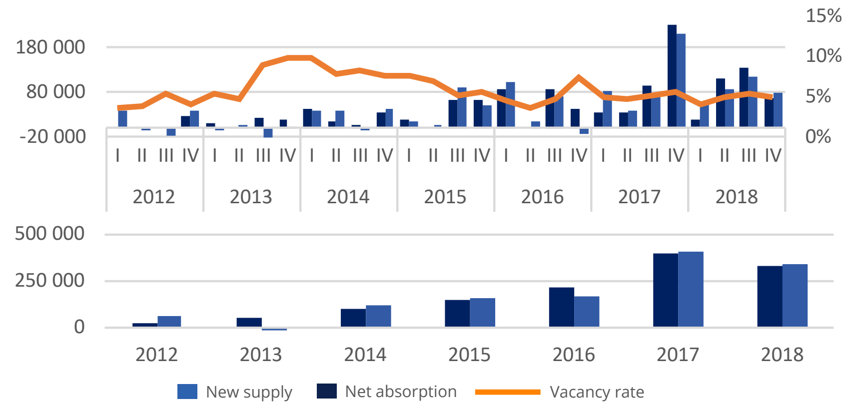
Industrial and warehouse stock

Expert opinion

Michał Kozar
Advisor

2018 was another strong year for Upper Silesia, which remained one of Poland's fastest-growing warehouse markets. The current development pipeline stands at nearly 500,000 sqm, the largest volume in the country. Compared to other markets, the region's key strengths include its well-developed transport infrastructure and a relatively stable labour market. Rising construction and labour costs have recently led to a gradual increase in rental rates.

New supply, absorption and vacancies



Rents
(EUR/sqm/month)

2.80-3.50 EUR

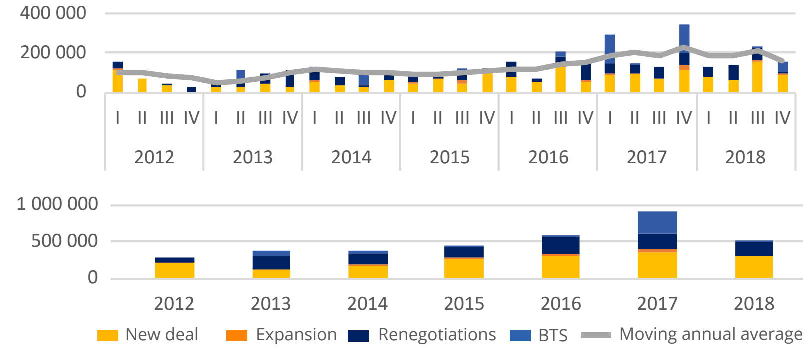
335,100 sqm
Supply

462,700 sqm
Under construction

646,000 sqm
Take-up

4.9 %
Vacancy rate

Take-up



Key lease transactions in 2018

Tenant	Lease type	Property	Sqm
Confidential	Expansion	Panattoni BTS Gliwice	61,700 sqm
Pepco	New deal	Hillwood Zagłębie	40,700 sqm
Intermarche	Renegotiations	Distribution Park Mysłowice	27,300 sqm

Central Poland

Industrial and warehouse market in 2018

2,584,400 sqm

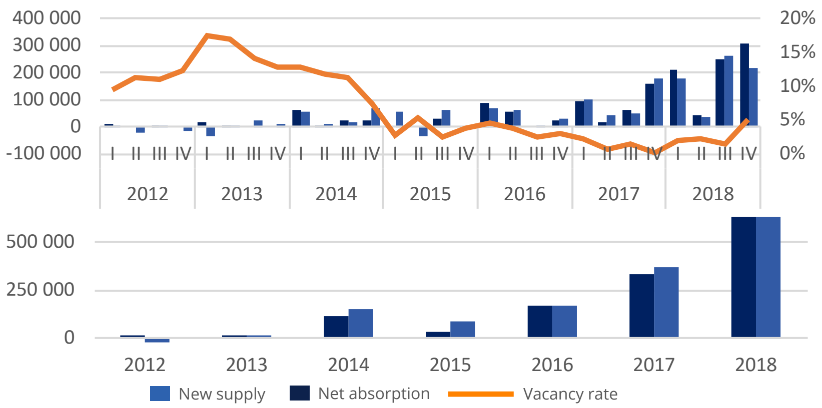
Industrial and warehouse stock

Expert opinion

Jowita Spiżarska
Advisor

The rapid growth in Central Poland's warehouse stock is largely being fuelled by the expansion of e-commerce. The highest concentration of warehouse space is in the vicinity of the interchange of the A1 and A2 motorways – Poland's key transportation routes. In 2018, warehouse supply exceeded 800,000 sqm, which represented more than a twofold increase on 2017's level and was driven by modern online platform operators and retailers. At year-end 2018, warehouse rents held firm at EUR 2.90–3.60 per sqm.

New supply, absorption and vacancies



Rents
(EUR/sqm/month)

2.90-3.60 EUR

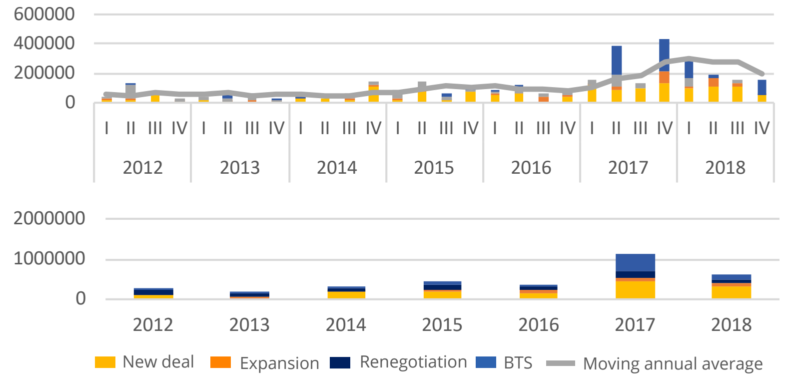
822,900 sqm
Supply

447,300 sqm
Under construction

743,000 sqm
Take-up

5 %
Vacancy rate

Take-up



Key lease transactions in 2018

Tenant	Lease type	Property	Sqm
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BSH	BTS	Panattoni Central European Logistics Hub	58,000 sqm
Smyk	Expansion	Panattoni Central European Logistics Hub	45,000 sqm

Poznan

Industrial and warehouse market in 2018

2,016,500 sqm

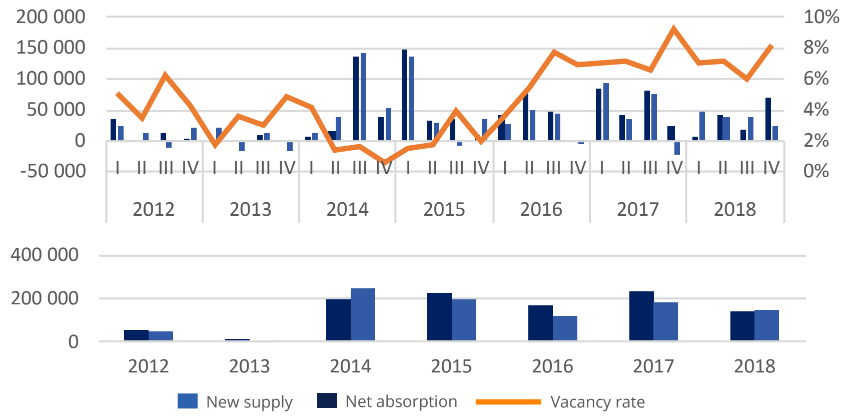
Industrial and warehouse stock

Expert opinion

Jakub Dudkiewicz
Advisor

Poznan continues to attract new warehouse investors who appreciate its potential. The vicinity of Gądki, Jaryszki and Robakowo is the biggest warehouse hub in the Poznań region, but developers are also planning further projects along the western section of the S11 expressway. Occupier activity picked up in the second half of 2018 with take-up generated largely by relocations and expansions.

New supply, absorption and vacancies



Rents
(EUR/sqm/month)

2.90-3.50 EUR

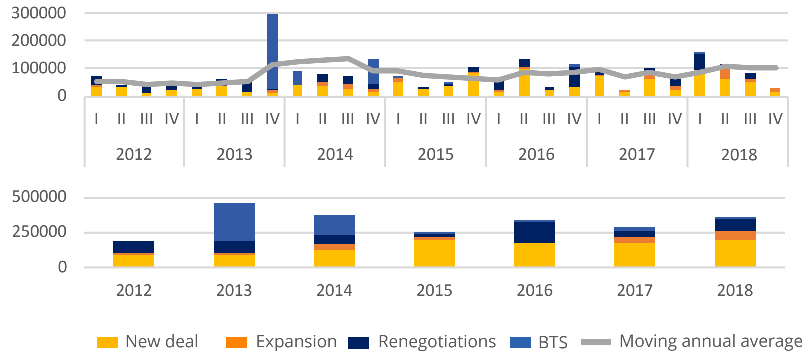
137,800 sqm
Supply

54,000 sqm
Under construction

399,500 sqm
Take-up

8.2 %
Vacancy rate

Take-up



Key lease transactions in 2018

Tenant	Lease type	Property	Sqm
Clipper	Expansion	P3 Poznań	34,500 sqm
Arvato	Renegotiations	Logicor Poznań I	15,700 sqm
Eurocash	New deal	Panattoni Park Poznań VIII	14,800 sqm

Wroclaw

Industrial and warehouse market in 2018

1,871,100 sqm

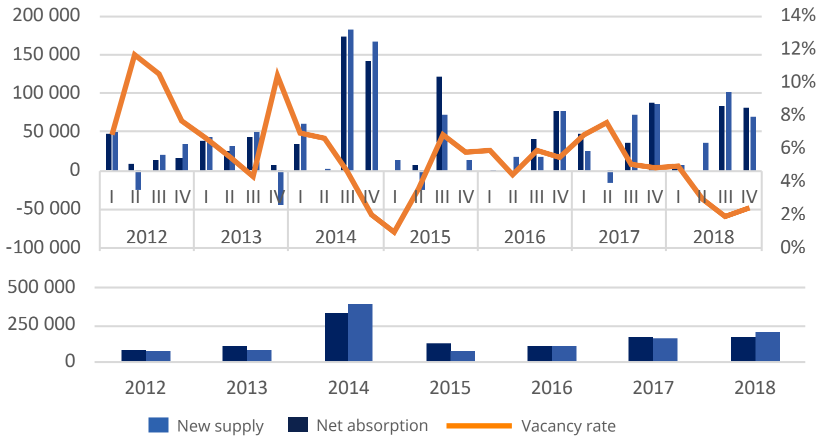
Industrial and warehouse stock

Expert opinion

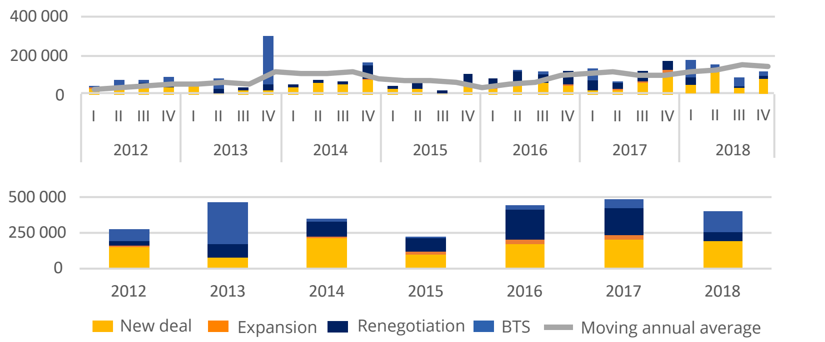
Miłosz Borkowski
Senior Advisor

Warehouse stock in Lower Silesia is rising by the year. At the end of 2018, the regional development pipeline was more than twice the previous year's volume. Despite a considerable number of investors and healthy supply, the region's Class A vacancy rate stood at just under 2.5% at the end of 2018, the lowest for five years. Benefiting from labour availability, companies are increasingly targeting areas further away Wrocław and Bielany Wrocławskie. Despite the robust activity of large-scale tenants, SBUs in urban locations and close to the city attract a significantly stronger occupier interest.

New supply, absorption and vacancies



Take-up



Rents
(EUR/sqm/month)

2.90-3.60 EUR

173,443 sqm
Supply

242,600 sqm
Under construction

523,800 sqm
Take-up

2.4 %
Vacancy rate

Key lease transactions in 2018

Tenant	Lease type	Property	Sqm
Confidential	BTS	Panattoni BTS Bolesławiec	60,600 sqm
Logwin	New deal	Hillwood Wrocław II	34,000 sqm
Ideal Automotive	BTS	Panattoni BTS Świdnica	27,400 sqm

Szczecin

Industrial and warehouse market in 2018

611,700 sqm

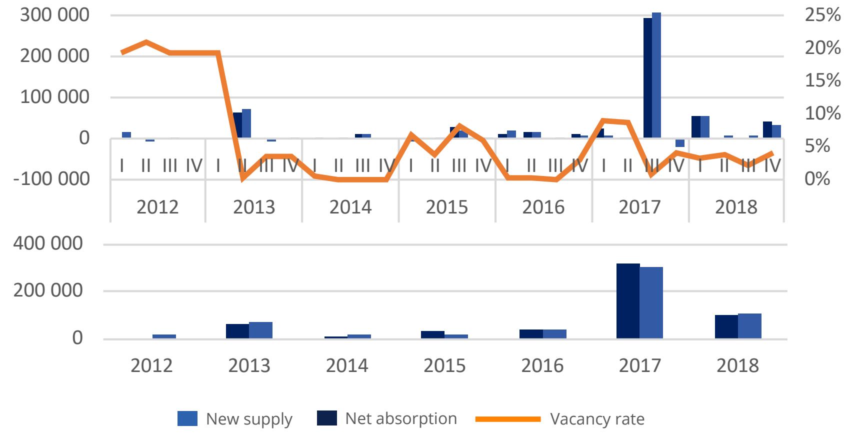
Industrial and warehouse stock

Expert opinion

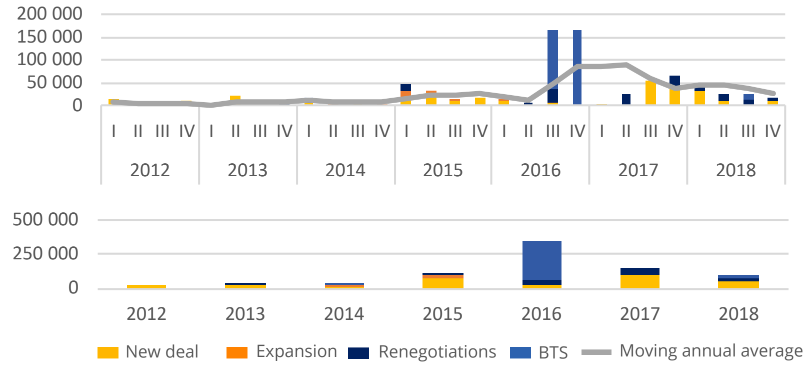
Jakub Dudkiewicz
Advisor

At the end of 2018, there was nearly twice as much warehouse space under construction as in 2017. Despite healthy supply, the region's vacancy rate was down at the end of the fourth quarter compared with the same period a year earlier. This is a clear evidence of strong interest in the region and robust occupier activity. Demand encourages investors to plan more logistics parks or to enter this market through acquisitions of existing and largely commercialised properties. As on other Polish industrial markets, rents edged up in 2018.

New supply, absorption and vacancies



Take-up



Rents
(EUR/sqm/month)

3.20-3.50 EUR

107,800 sqm
Supply

106,100 sqm
Under construction

114,400 sqm
Take-up

4 %
Vacancy rate

Key lease transactions in 2018

Tenant	Lease type	Property	Sqm
DHL	New deal	Panattoni Park Szczecin I	27,100 sqm
Schenker	Renegotiations	Prologis Park Szczecin	14,500 sqm
Confidential	BTS	Panattoni BTS Stargard	13,000 sqm

East Poland

Industrial and warehouse market in 2018

532,100 sqm

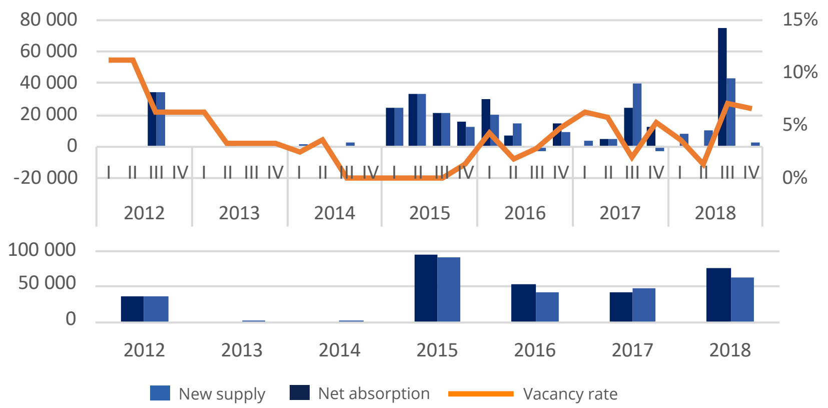
Industrial and warehouse stock

Expert opinion

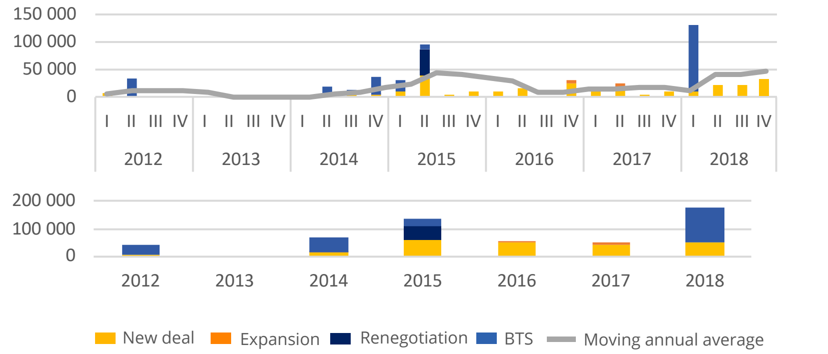
Agnieszka Marczak
Advisor

The region of Eastern Poland remains on a strong growth path. It increasingly attracts tenants benefiting from further infrastructure improvements and easy access to a large labour pool. Of all its locations, Lublin and its suburbs stand out thanks to a growing supply of Class A warehouse space, including the facility under construction in Niemce near Lublin.

New supply, absorption and vacancies



Take-up



Rents
(EUR/sqm/month)

3.00-3.50 EUR

75,200 sqm
Supply

145,700 sqm
Under construction

209,600 sqm
Take-up

6.6 %
Vacancy rate

Key lease transactions in 2018

Tenant	Lease type	Property	Sqm
Zalando	BTS	Hillwood Zalando II	121,000 sqm
Varroc Lightning Systems	New deal	Panattoni Park Lublin II	25,300 sqm
Confidential	New deal	Panattoni Park Lublin I	16,300 sqm

Tricity

Industrial and warehouse market in 2018

491,900 sqm

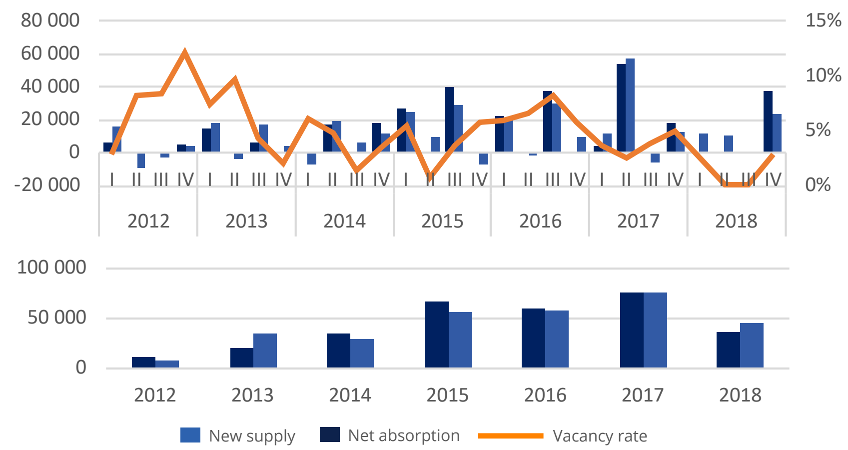
Industrial and warehouse stock

Expert opinion

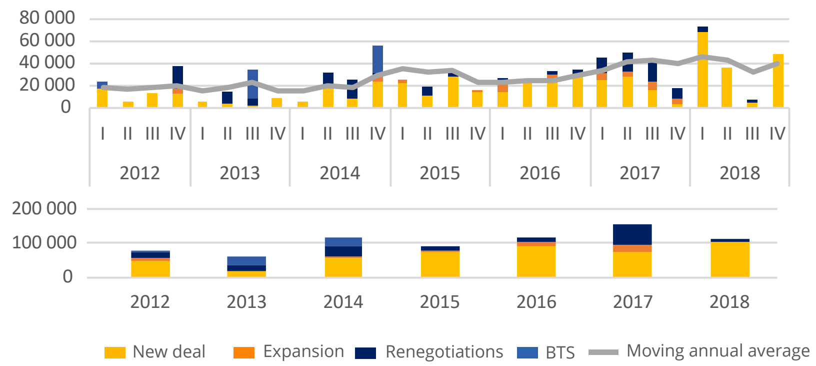
Michał Rafałowicz
Head of Pomeranian Region

The warehouse market is being driven by a substantial growth in freight traffic passing through Tricity's seaports. Logistics operators remain the largest group of tenants. To cater for specific requirements of firms handling freight traffic in Tricity's ports, developers are offering non-standard solutions tailored to occupiers' needs. Gdynia and its immediate neighbourhood are beginning to attract investor interest thanks to its growing stock of Class A warehouse space.

New supply, absorption and vacancies



Take-up



Rents
(EUR/sqm/month)

2.90-3.50 EUR

37,000 sqm
Supply

135,600 sqm
Under construction

159,100 sqm
Take-up

2.9 %
Vacancy rate

Key lease transactions in 2018

Tenant	Lease type	Property	Sqm
Dovista	New deal	7R Tczew	26,200 sqm
LPP	New deal	Panattoni Park Gdańsk III	16,000 sqm
Confidential	New deal	Prologis Park Gdańsk-Airport	16,000 sqm

Krakow

Industrial and warehouse market in 2018

482,900 sqm

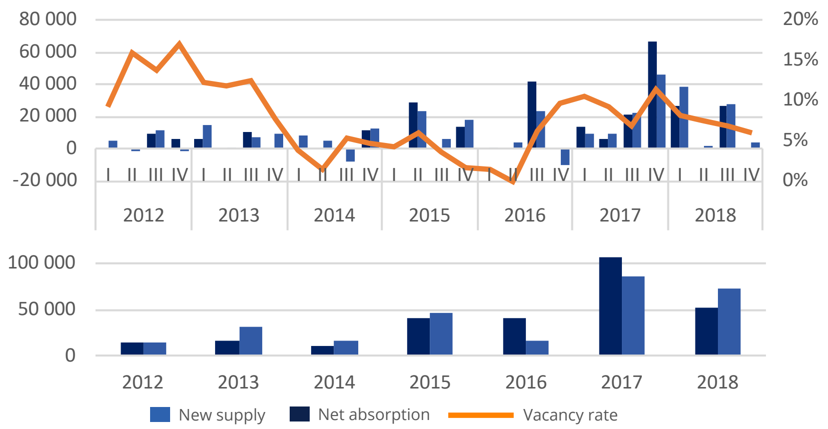
Industrial and warehouse stock

Expert opinion

Jakub Kurek
Associate Director

"The Krakow warehouse market offers large-scale logistics facilities in multiple locations. Investor interest continues to focus on suburban areas with easy access to transportation routes and close proximity to Krakow's existing ring-road. The strongest development activity is in such locations as Skawina, Kokotów, Modlniczka and Targowisko. Rents remain flat at EUR 3.40–3.70 per sqm."

New supply, absorption and vacancies



Rents (EUR/sqm/month)

3.40–3.70 EUR

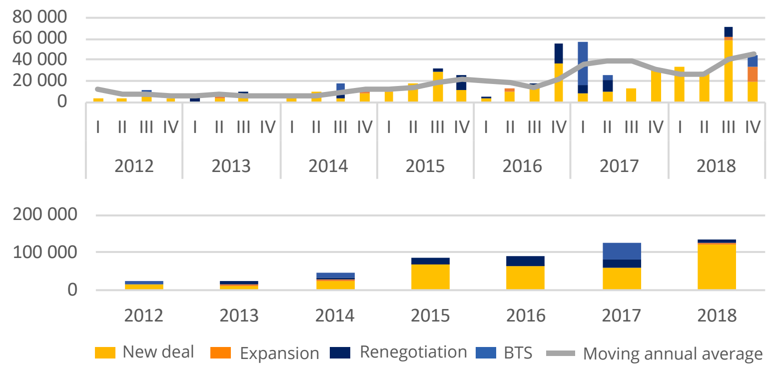
52,300 sqm Supply

122,000 sqm Under construction

177,700 sqm Take-up

5.9 % Vacancy rate

Take-up



Key lease transactions in 2018

Tenant	Lease type	Property	Sqm
Confidential	New deal	7R Kraków Kokotów VIII	28,300 sqm
Eurocash	New deal	Goodman Kraków Airport Logistics	21,700 sqm
SMA Poland	New deal	Goodman Kraków Airport Logistics	14,000 sqm

Lubuskie

Industrial and warehouse market in 2018

329,700 sqm

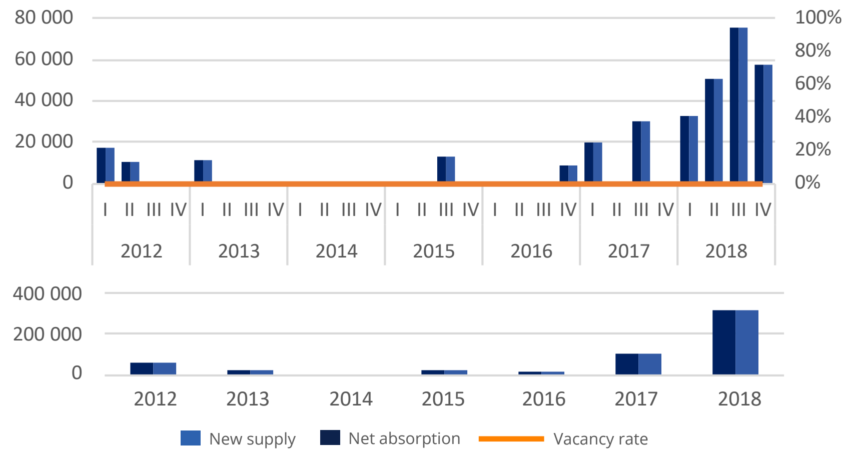
Industrial and warehouse stock

Expert opinion

Jakub Kurek
Associate Director

"Warehouse supply surpassed the 200,000 sqm mark in western Poland in 2018. By way of comparison, 2017's new supply was four times lower. In addition to the expanding new logistics locations in the Lubuskie region such as Zielona Góra, Świecko, Gorzów Wielkopolski and Rzepin, another concentration of development activity is along the A4 motorway, from the German border to Legnica, where developers' focus is on Zgorzelec, Wałbrzych and Bolesławiec.

New supply, absorption and vacancies



Rents (EUR/sqm/month)

3.20–3.50 EUR

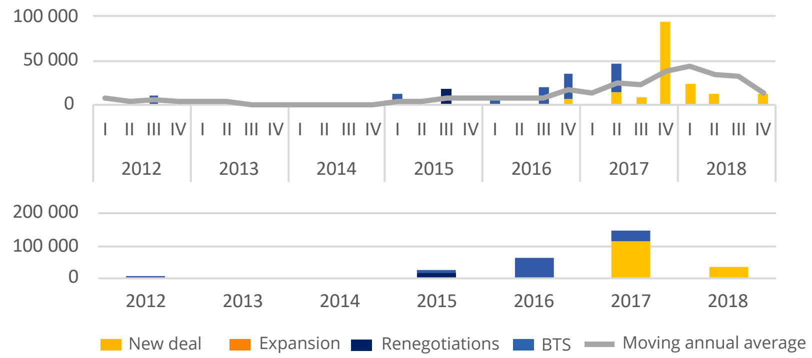
216,600 sqm Supply

16,800 sqm Under construction

47,700 sqm Take-up

0 % Vacancy rate

Take-up



Key lease transactions in 2018

Tenant	Lease type	Property	Sqm
CTL Logistics	New deal	Hillwood Świecko	14,500 sqm
Confidential	New deal	Panattoni Park Zielona Góra	9,700 sqm
Confidential	New deal	Panattoni Park Zielona Góra	6,900 sqm

Bydgoszcz & Torun

Industrial and warehouse market in 2018

278,600 sqm

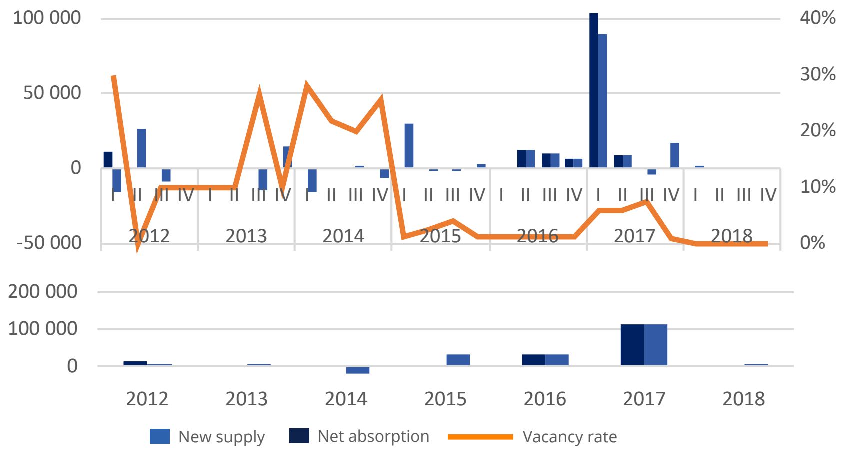
Industrial and warehouse stock

Expert opinion

Jakub Dudkiewicz
Advisor

Despite its industrial potential, the Bydgoszcz and Toruń region is seeing slower growth compared to other warehouse and industrial markets in Poland. Due a relatively small number of warehouse investors and limited supply, its Class A vacancy rate stood at 0% at the end of 2018. The development pipeline amounts to more than 20,000 sqm, approximately half of which has been pre-let. The logistics market's growth is expected to be driven by the S5 expressway (under construction), which will connect this region and Poznań, and the planned S10 expressway, linking Warsaw, Bydgoszcz and Szczecin.

New supply, absorption and vacancies



Rents
(EUR/sqm/month)

3.20–3.70 EUR

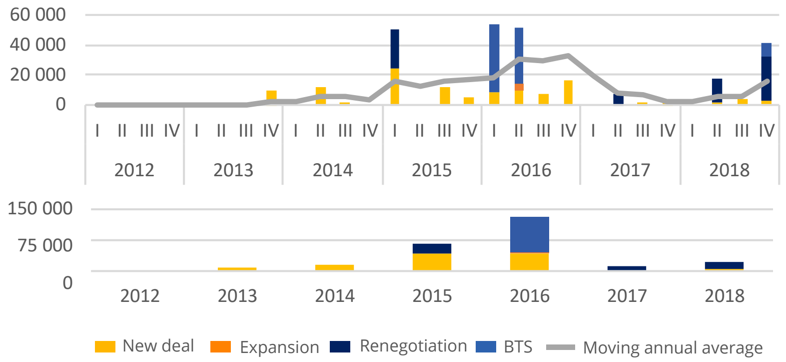
0 sqm
Supply

21,200 sqm
Under construction

62,600 sqm
Take-up

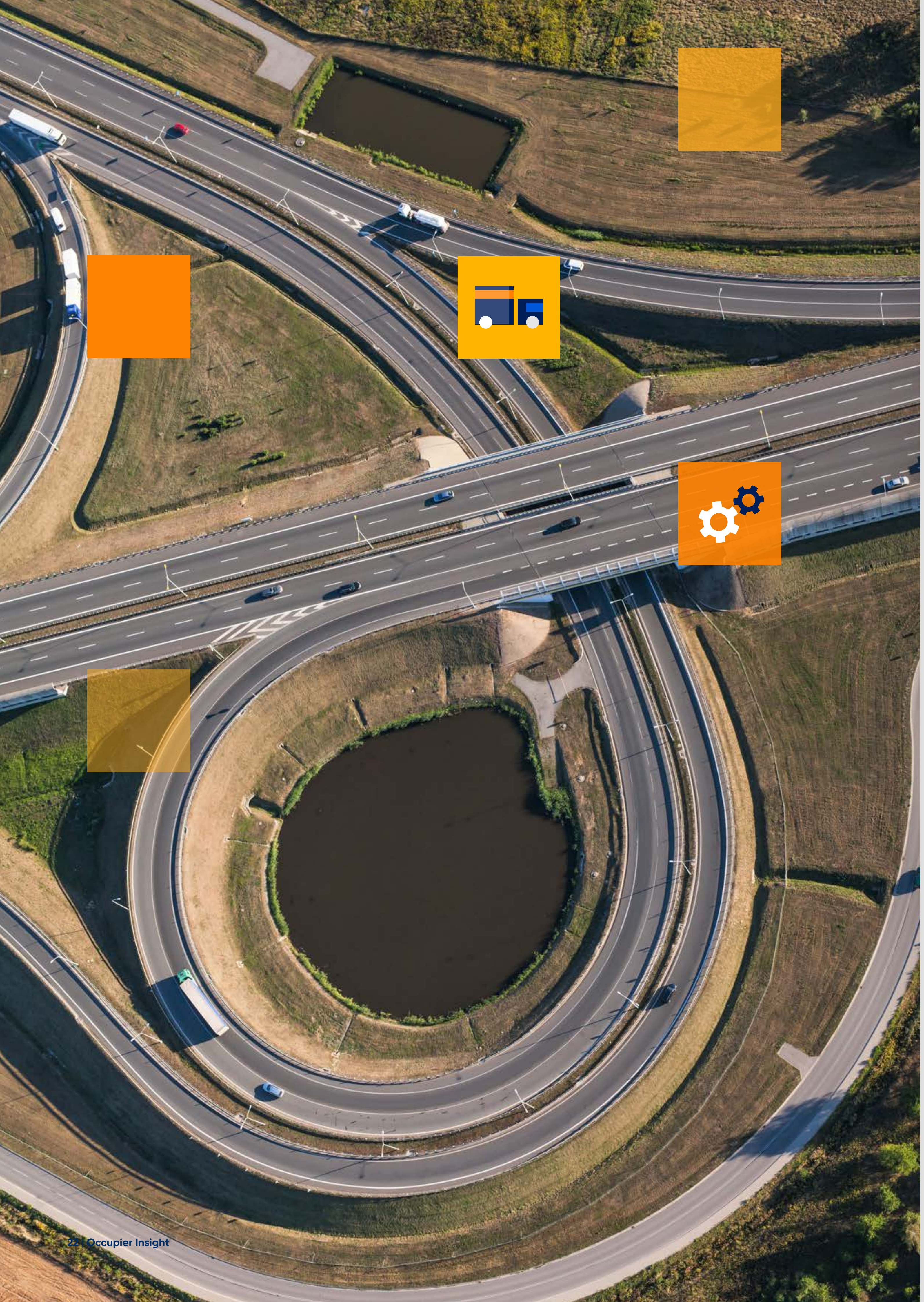
0 %
Vacancy rate

Take-up



Key lease transactions in 2018

Tenant	Lease type	Property	Sqm
Careal Partners Poland	Renegotiations	Distribution Park Toruń	30,300 sqm
Yusen Logistics	Renegotiations	Goodman Toruń Logistics Centre	15,000 sqm
Pekaes	New deal	Waimea Logistic Park Bydgoszcz	4,200 sqm



Poland

Expressway and motorway network

320 km of new roads were constructed in 2018. The longest completion was the S3 expressway, which connected areas along Poland's western border.

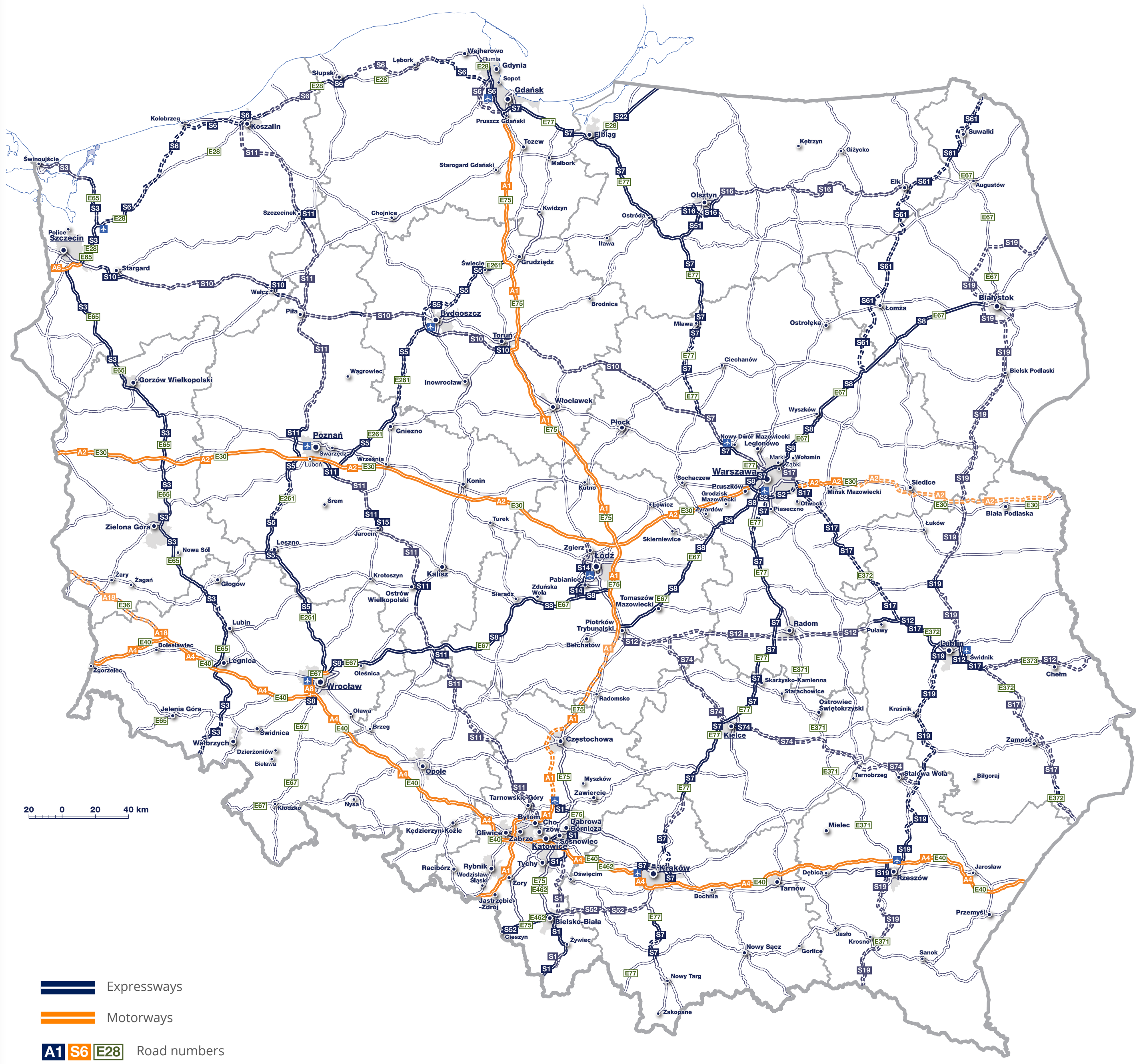
2019 is expected to see completion of 390 km of new expressways and the A1 motorway with three new sections between Częstochowa and Katowice (Blachownia – Zawodzie, Woźniki – Pyrzowice and Zawodzie – Woźniki). The 2014-2023 National Roads Construction Programme (with projections until 2025) foresees construction of 3,262.7 km of roads. More than 725 km of new roads have already been completed and another 1,396.4 km is under construction in 113 projects. The Polish government's top priority is to construct Via Carpatia, an international route running from Lithuania, via Białystok, Lublin and Rzeszów in Poland, Košice in Slovakia, Debrecen in Hungary, to Romania, Bulgaria and Greece. The route, which will connect the north and south of Europe, is planned to open in 2025.

Polish road network as at 24 January 2019

1,639 km Motorways

2,092 km Expressways

3,300 km Under construction



Source: Cresa Poland / GDDKiA 24.01.2019

Poland

Seaports

Expert opinion

Michał Rafałowicz
Head of Pomeranian Region

PLN 170 million was spent on the upgrade of the Gdansk seaport in 2018. In upcoming years, nearly PLN 700 million is expected to be expended on further improvements, substantially subsidized by the European Union. Meanwhile, the seaport in Gdynia is under extension and so is the road infrastructure of the Baltic-Adriatic Corridor. In 2018, 49 million tonnes of goods were handled in Gdansk and another 23,5 million went through the port in Gdynia. The strong performance of the Tricity ports was fuelled by the rapid development of the freight transport, warehouse and handling infrastructure. They are, however, the key driver of the region's economy and the warehouse market is responding to the growing occupier demand.

Cargo handling in Port Gdańsk
49,0 mn tons

Liquid fuels	15 500
General cargo and timber	21 900
Coal	7 200
Other bulk	4 000
Grain	559

(ths tons)

Cargo handling in Port Szczecin-Świnoujście
28,6 mn tons

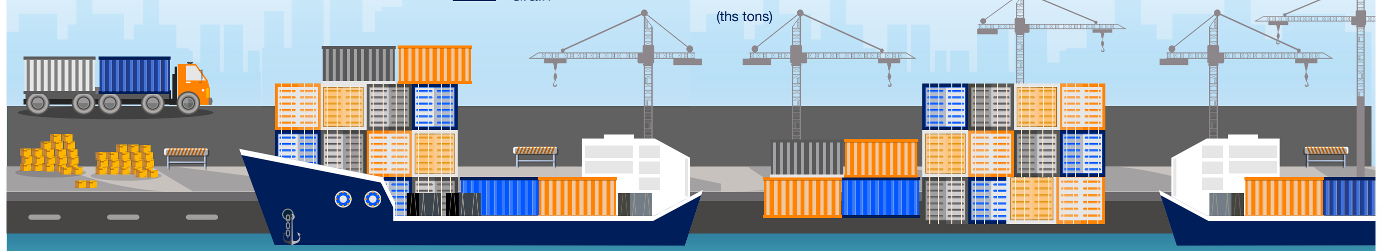
Liquid fuels	4 000
General cargo and timber	13 500
Coal	3 400
Ore	3 200
Other bulk	3 400
Grain	1 100

(ths tons)

Cargo handling in Port Gdynia
23,5 mn tons

Liquid fuels	1 800
General cargo and timber	14 800
Coal	2 600
Other bulk	1 300
Grain	3 000

(ths tons)



20.8% yoy

12.5% yoy

10.7% yoy

Expert opinion

Jakub Dudkiewicz
Advisor

The seaports of Szczecin and Świnoujście, similarly to the ports in Pomerania, are seeing impressive increases in freight traffic and breaking new records. In 2018, the freight tonnage handled by the two ports rose by 12.5% on the previous year's level. Benefiting from its location, Szczecin attracts Scandinavian and Western European investors to open offices in the city. E-retailers and Scandinavia-based companies know beyond any doubt that it's worth investing in Western Pomerania. This option could also be considered by managers of Polish firms targeting northern and western Europe for export.

Polish Investment Zone

The Act on Supporting New Investments took effect on 30 June 2018.

Under the new Act, tax exemptions are no longer territorially restricted. Companies will have an opportunity to apply for state aid in the form of CIT and PIT exemptions for new investments across Poland.

	Special Economic Zones (before 30 June 2018)	Polish Investment Zone
Maximum level of support	Up to 50% of the value of capital expenditures or two-year employment costs (up to 60% for medium-sized companies and up to 70% for small companies).	
Location	Area covered by an SEZ status.	Any location in Poland.
Duration of the tax exemption	Until the end of 2026, only 9 years left.	From 10 up to 15 years of a CIT exemption depending on investment location. The higher the state aid in a region permitted by the European Union, the longer the exemption period. For areas covered by an SEZ status, decisions on state aid will be issued for a period of 15 years.
Evaluation criteria for granting a CIT exemption	Quantitative criteria are limited to capital expenditures and newly-created jobs. Formal requirement to spend more than EUR 100,000.	Quantitative (capital expenditures) and qualitative criteria (e.g. R&D activities, creating highly-paid jobs, investments in people) will have to be met. Lower quantitative criteria (capital expenditures) will apply to regions with higher unemployment (the higher the unemployment rate, the lower the required capital expenditures). Additional scoring for investments undertaken by micro, small and medium-sized enterprises.
Other issues		Investor services in each region to be provided by management companies in close cooperation with local units and supported by the Ministry of Development and the Polish Investment and Trade Agency (PAIH). Investments will be subject to zoning plans.

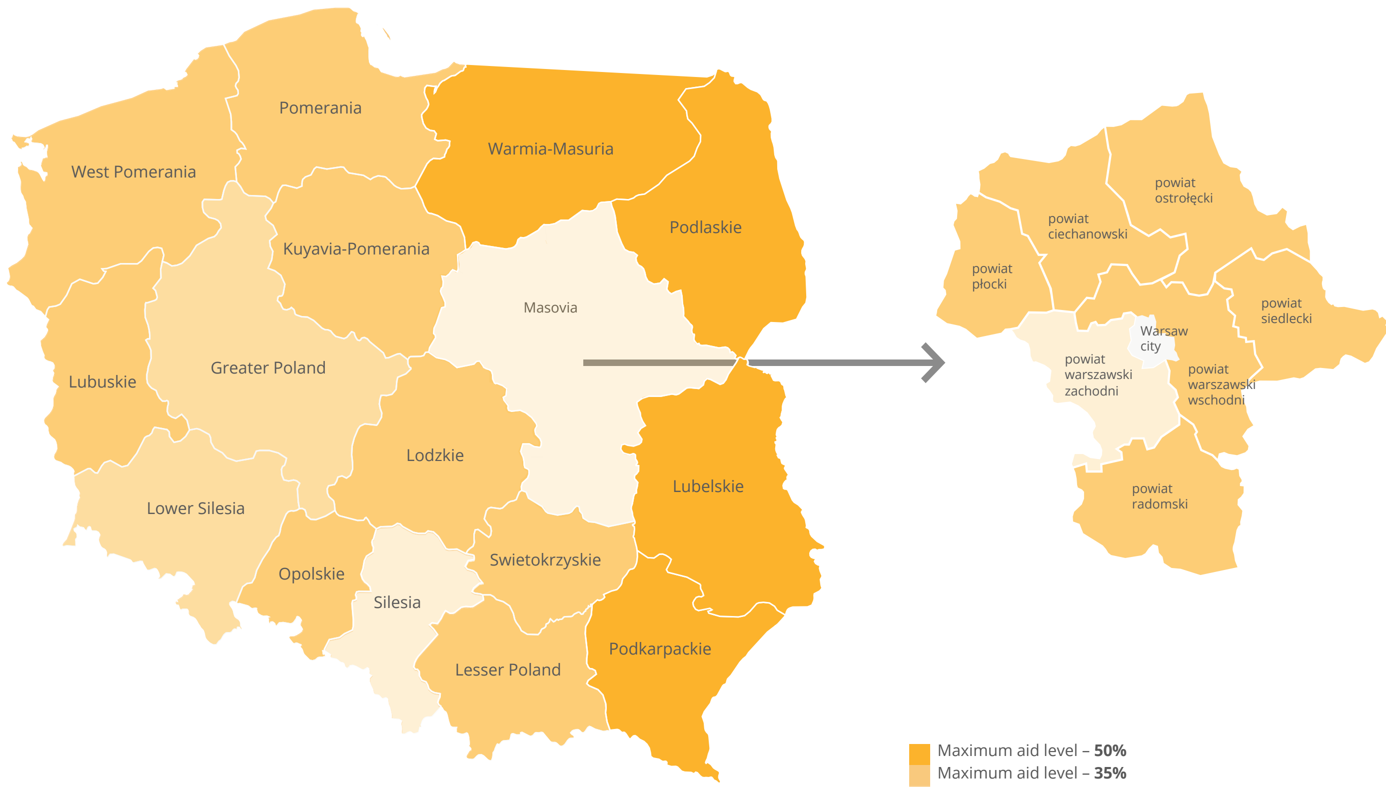
15 years
the longest potential duration of a tax exemption

PLN 100 million
will have to be invested by a large company applying for a tax exemption in the lowest unemployment areas

PLN 200,000
will have to be invested by a micro company applying for a tax exemption in the highest unemployment areas

Polish Investment Zone

Map of public aid intensity

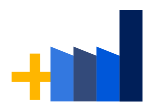


Maximum aid level – **50%**
Maximum aid level – **35%**
Maximum aid level – **25%**
Maximum aid level – **20%**
Maximum aid level in Warsaw – **10%**

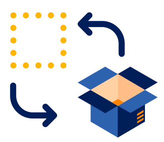
Source: Cresa Poland

How to obtain a tax exemption?

A tax exemption may be obtained for new investments defined as:

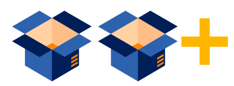


Setting up a new company



A substantial change to the overall manufacturing process of an existing company

Increasing the manufacturing capacity



Adding new products to a company's product portfolio

Expert opinion

Michał Rafałowicz
Head of Pomeranian Region

"The scrapping of territorial restrictions on PIT/CIT exemptions, which is at the heart of the Act on Supporting New Investments, will certainly boost investment activity in areas previously excluded from special economic zones. This will benefit, among other things, areas along the new sections of expressways and motorways which by providing easier access to workforce will become more attractive to both investors and tenants.

US GAAP and IFRS Changes

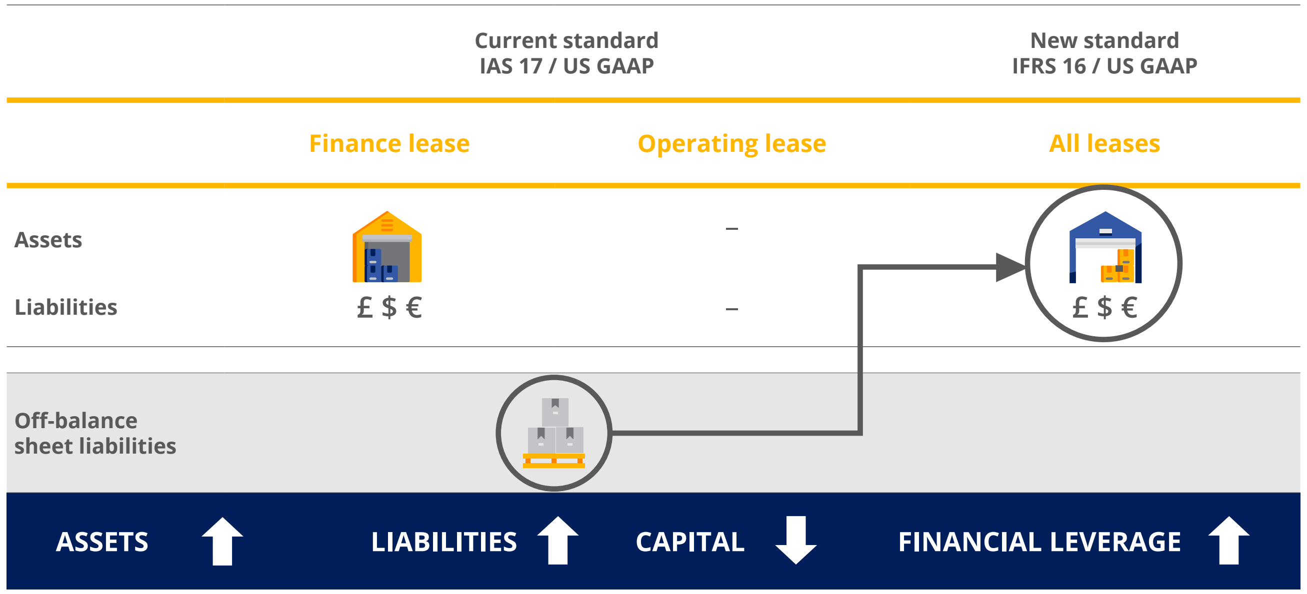
- ready to build

In 2016, the Financial Accounting Standards Board (FASB) and the International Accounting Standard Board (IASB) both released new lease accounting standards – the standard is effective for fiscal years beginning after December 15, 2018.

New rules for posting finance and operating leases

INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)



Impact

- Financial reporting
- Lease structure and inventory
- IT systems
- Bank covenants
- Bonus systems
- Real estate strategy - leasehold vs freehold

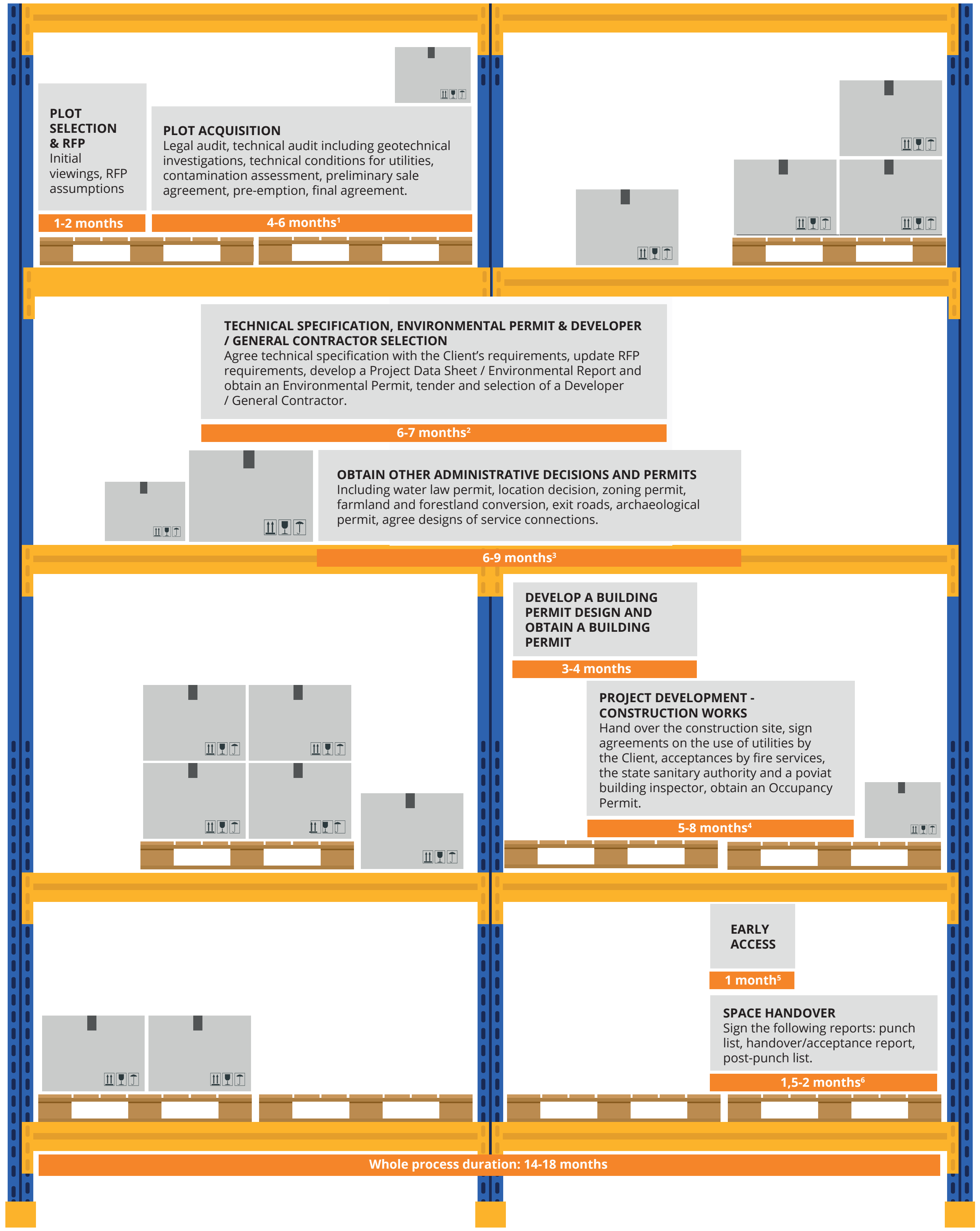
Source: Cresa Poland

Why is freehold or construction of buildings for owner-occupation likely to become more popular?

- Large and long-term leases are common in the industrial and warehouse sector.
- Relatively little investment spending is required to purchase land and to construct warehouse and industrial space compared to other commercial real estate segments or investments in manufacturing machinery and equipment.
- A new system of granting corporate tax exemptions under the "Act on Rules for Supporting New Investments" will result in easier access to suitable development sites.
- With land ownership it is possible to secure prime and well-connected locations long-term.
- Financial savings at the development stage thanks to land acquisition and construction of a building for owner-occupation.
- No experience in development and construction activity is required of an entrepreneur. The whole process can be commissioned with a third-party project manager.
- Improved long-term financial performance indicators thanks to a successful development process in conjunction with efficient financial management.

How Cresa can help

The new standard is likely to have a substantial impact on corporate financial and operational efficiency. Cresa experts can help you gain a full understanding of upcoming changes and, if required, recommend a strategy of a project development whilst ensuring its implementation.



[1] The term depends on the seller's entity: private or public.
[2] The term depends on the procedure of obtaining an environmental decision: the Project Information Card or the Environmental Report.
[3] The term, depends on the type of additional decisions and other arrangements that should be obtained. In cases where land is not governed by a valid Local Master Plan, it will be necessary to obtain Development Conditions which is usually a longer process and can push out the timing of obtaining Building Permit decision by several months.
[4] The term depends on the technical complexity of the development, among others: relocation of existing infrastructure, trees cutting, archeology, demolition works, earthworks and special foundation techniques, size of the development, weather conditions - the possibility of earlier commencement of earthworks prior obtaining Building permit decision.
[5] Early Access date depends on the arrangements with the Client and the contractural provisions, mostly Early Access occurs one month before handover date to the occupier.
[6] The date depends on the arrangements with the Client and contractual provisions.

Source: Cresa Poland

Definitions and methodology

Industrial stock	Total modern industrial and warehouse space available on a market and delivered after 2000.
New supply	Volume of industrial and warehouse space delivered to a market in a specified period.
Net absorption	Net change in physically occupied space between two periods of time, taking into consideration vacated and newly constructed warehouse and industrial space in the same area.
Vacancy rate	Proportion of vacant space to the total industrial stock at the end of a specified period.
Gross take-up Synonym: leasing activity	Total volume of space leasing in a specified period, regardless of the actual occupancy, comprising new leases, expansions, renewals (renegotiations). Leasing activity also includes new pre-lets signed for schemes under construction, planned or undergoing refurbishment.
Net take-up	Total volume of space leasing, excluding renegotiated renewals.
Asking rent	Monthly rent per square metre of leasable space expected by the owner at an early stage.
Base rent	Monthly rent per square metre of leasable space based on the actual lease terms and conditions.
Effective rent	Base rent less various financial incentives being the subject of negotiations between the tenant and the landlord. Effective Rent = (total rent – free rent – cash allowances) / lease term / rentable space.
Build-to-Suit (BTS) scheme	Industrial or warehouse scheme developed to meet specific tenant requirements such as location, area, technical and use specifications, usually agreed before construction begins.
Pre-let	Pre-let agreement signed prior to construction or during development (before an occupancy permit is obtained).

This report was prepared by the Research and Advisory team of Cresa Poland.

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