

# Big Box Poland

## Industrial Market View

### Quick Stats q-o-q

	Sector		
	1	2	3
New Space	↓	↑	↓
Demand	↑	↑	↑
Vacancy Rate	↓	↑	↑

### Hot Topics

- In H1 2009 total take-up exceeded 450,000 sq m – 40% less when comparing with H1 2008.
- Total modern stock amounts to over 6 million sq m with 18% vacancy rate in the whole country.
- The number of new projects handed over remained high, however the amount of space under construction has been decreasing.
- Developers, expecting lower demand in the next few quarters, have limited the number of buildings planned speculatively and are looking only to build-to-suit projects

### GENERAL OVERVIEW

The total stock of modern warehouse space, as of the end of H1 2009, amounted to 6 million sq m. The number of newly delivered projects still remained high, although the amount of warehouse space currently under construction has been constantly diminishing. In the first half of the year, developers delivered over 800,000 sq m of new warehouse space with only 170,000 sq m still under construction in eight projects across the country.

The largest developers such as ProLogis, Panattoni, Segro concentrate on management of existing projects. Others, new entrants like Pinnacle and Valad or local ones like MLP Group or BIK are competing for a market share.

The supply of new space had a significant impact on the vacancy rate, which increased this quarter from 16% to 19%.

There are many signs of overall improvements of the Polish economy. Low level of Polish currency exchange rate was a great help to the national exporters and manufacturers. The GDP growth for the second quarter of the year is forecasted to 0% with 1.4% forecasted for the whole year, which is much higher than in the most European countries. Moreover, the forecasts have been already revised up by a number of specialists.

The warehouse demand in Q2 2009 increased in the comparison to the previous quarter. It reached over 240,000 sq m and in the whole half of the year it exceeded 450,000 sq m. This is still less than in the same period last year (by 40%), however the increasing number of leasing transactions is a good sign of improving market.

An analysis of occupiers shows that the demand for warehouse space is now generated by companies operating in the sectors less vulnerable to the market conjuncture (FMGC, pharmaceuticals, food, etc.). The average deal size however, decreased and oscillated around 5,000 sq m. The largest deals included a build-to-suit agreement signed by Torfarm with Panattoni to deliver two projects in Warsaw I (23,000 sq m) and near Wroclaw (17,000 sq m). Also in Wroclaw, ProLogis closed a pre-lease transaction with Fagor Mastercook for a 22,000 sq m logistic scheme.

For the time being, rents remain stable, although the effective rates have already been significantly lowered. In some regions, with a large quantity of vacant space developers offer rent free periods and the effective rents even 30% lower than the headline ones. In many cases, instead of rent free periods, landlords quote the asking rents straight at the level of the effective ones.

Q2 2009	Sector I	Sector II	Sector III
Total Stock (sq m)	560,000	1,910,000	3,545,000
Projects under construction (sq m)	0	58,200	112,400
Completion (sq m)	2,400	118,100	172,300
Take-up (sq m)	44,200	60,300	140,000
Vacancy Rate	7%	20%	19%
Prime Rents (EUR/sq m/month)	4.80 – 6.00	3.30 – 4.00	3.25 – 4.00

*The above sector segmentation is of CB Richard Ellis' authorship and detailed overleaf*

## SECTOR I – WAREHOUSES IN WARSAW

These warehouses and warehouse type business parks (A and B Class only speculative) are located within a radius of 15 km from the centre of Warsaw (within the city borders).

Total warehousing stock in this sector currently amounts to 560,000 sq m. In the first half of the year only 11,200 sq m of modern warehouse space were delivered on the market. Currently there is nothing under construction in the Warsaw area.

Since the beginning of the year, 57,000 sq m of warehouse space has been leased. Despite increased competition from logistic centres located in Sector II, demand for warehouse space in Warsaw is still significant. Majority of tenants from this area operate in the FMGC sector. Average deal size here usually is around 2,000 sq m, however this quarter it was increased by a large, built-to-suit transaction signed by Torfarm with Panattoni (23,000 sq m), which is unusual for this sector.

The vacancy rate in Q2 decreased to 7% (from 10% q-o-q). Rents are quoted from EUR 4.80 in the fringe of the city, up to EUR 6.00 /sq m/month in the prime warehouse locations for small units and are the highest in comparison to other Sectors.

## SECTOR II – LOGISTICS PARKS AROUND WARSAW

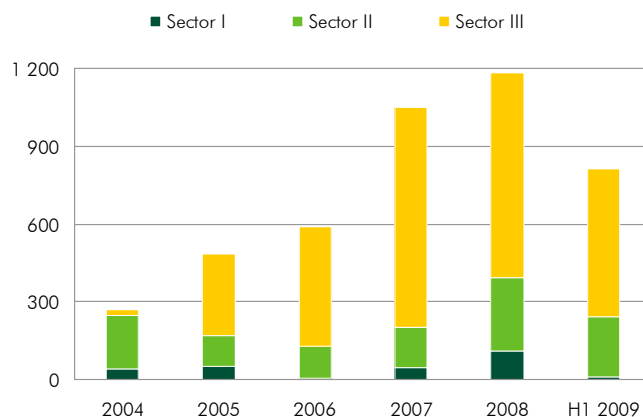
These logistic parks are located within the area from 15 to 80 km from the centre of Warsaw along main exit roads. The most popular locations are Pruszkow, Blonie, Nadarzyn, Mszczonow, Teresin. As at the end of H1, the total amount of warehouse space in logistics parks in Sector II reached 1,910,000 sq m including 231,000 sq m delivered in the first half of 2009.

For developers, this sector is attractive due to its close proximity to the Warsaw agglomeration and availability of large green field sites with expansion potential of warehouse parks. Currently there is around 58,000 sq m under construction in Blonie, Plonsk and Pecice.

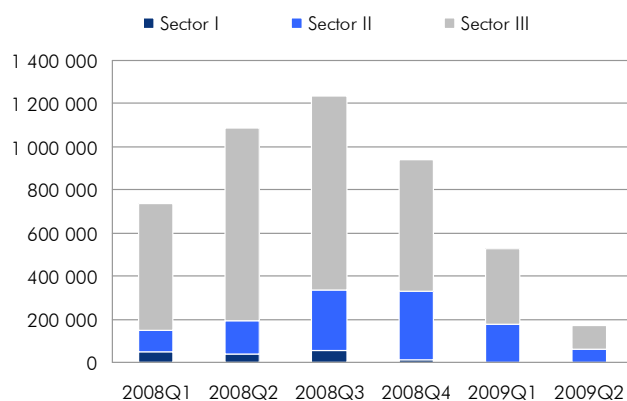
In this Sector, take up of modern space is relatively constant, although this year we expect less leasing transactions. In the first half of the year it amounted to 117,000 sq m, while in the whole 2008 around 370,000 sq m of warehouse space was leased in 49 lease transactions. Around 20% of all the deals signed in 2009 were renegotiations. One of the largest transactions to date in Poland, (51,000 sq m) took place last year in ProLogis Park Blonie by Antalis.

The vacancy rate in Q2 2009 increased slightly to 20% and is generated by newly delivered buildings. Rental levels have remained relatively stable and currently are quoted at EUR 3.50 - 4.00 /sq m /month.

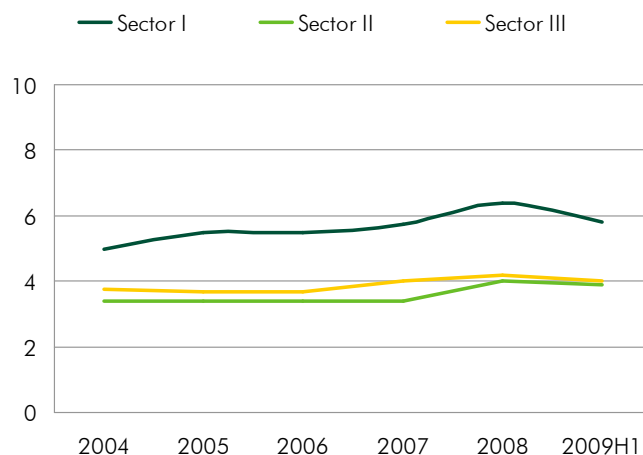
## WAREHOUSE NEW COMPLETIONS ('000 sq m)



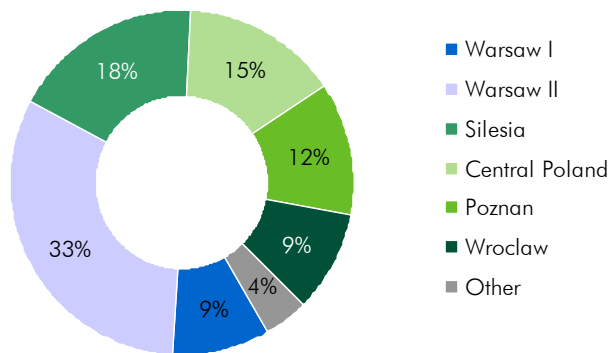
## WAREHOUSES UNDER CONSTRUCTION BY SECTOR (sq m)



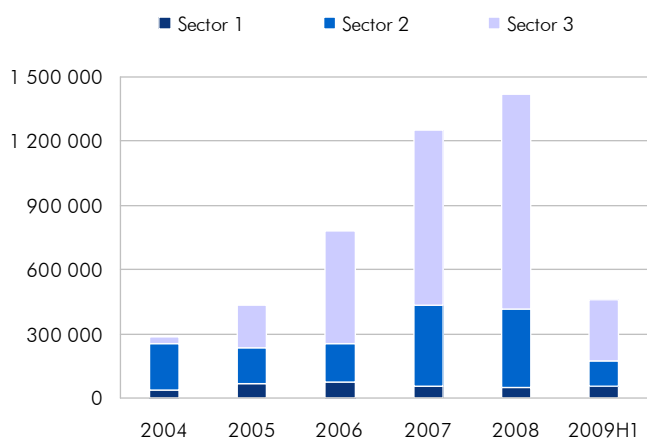
## WAREHOUSE PRIME RENTS (EUR/sq m/month)



**WAREHOUSE STOCK BY LOCATION**



**WAREHOUSE TAKE UP BY SECTORS**



**KEY INDICATORS BY REGIONS IN Q2 2009 ('000 sq m)**



**SECTOR III - LOGISTICS PARKS IN POLAND**

These logistic parks are located in the regions and major cities of Poland excluding the Warsaw region. Sector III is the most active and dynamically expanding warehouse and logistic market in Poland. It is currently incorporating six key regions with new locations already emerged on the Polish warehouse map. At the end of the quarter, total stock amounted to 3.5 million sq m. Currently, the warehouse construction activity plunged, with only 112,000 sq m under construction.

In H1 2009, take up amounted to 283,000 sq m with almost 1 million sq m leased in the whole 2008. That means a decrease of over 50% in comparison to H1 2008. Many logistic operators look for cost savings, offering their space for sub-lease. The vacancy rate witnessed a sharp increase compared to last quarter and currently stands at 19%. Rental levels record a decreasing trend and currently stand at EUR 3.25 – 4.00 /sq m/month.

**Silesia Region** (Katowice Conurbation) is the largest regional warehouse market with 1,082,000 sq m of modern space and a further 38,000 sq m currently under construction. In H1 2009 approximately 89,000 sq m of modern stock has been leased. The vacancy rate currently stands at a level of 22%.

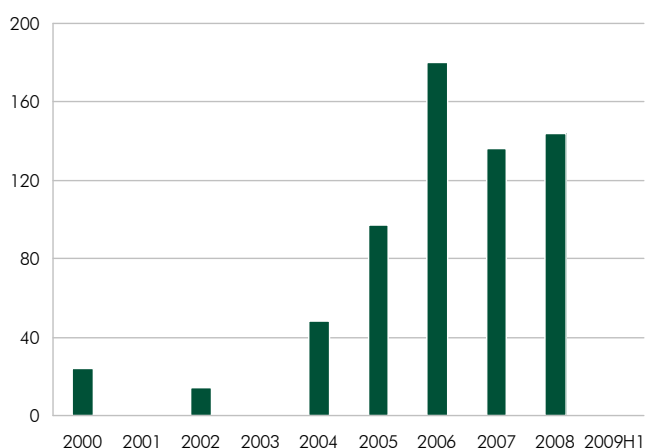
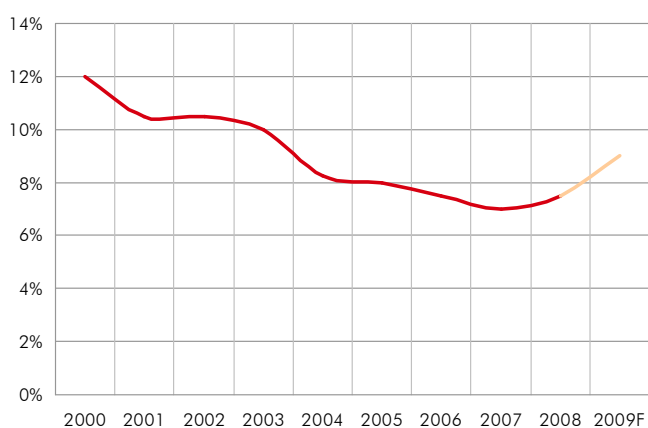
**Central Poland Region**, conveniently located at the planned A1 and A2 crossroad, has 897,000 sq m of existing modern stock with no space under construction. Over the course of H1 2009, a total of 31,000 sq m of warehouse space has been leased here. The vacancy rate currently stands at 20%.

**Poznan Region** houses 751,000 sq m of modern warehouse space with no space currently under construction. The region, due to its excellent transportation system and well developed retail and trade market, has always been a popular logistic destination. Over the H1 2009, 37,000 sq m of warehouse space has been leased. The vacancy rate currently stands at 11%.

**Wroclaw Region** was the most active last quarter. It houses 571,000 sq m of warehouse space with 41,000 sq m currently under construction. Leasing activity in 2009 totalled 104,000 sq m. The vacancy rate in the Wroclaw region currently stands at 20%.

**Tri-City Region** (Gdansk and Gdynia) is one of the newest markets in the Sector III with a great potential once the A1 highway is finished. There are only two existing parks for lease offering 148,000 sq m with 4% vacant. There are over 100,000 sq m planned.

**Krakow Region** is a local market in the Sector III, serving mostly to the Krakow city, due to the proximity of Silesian hub. Total stock amounts to 53,000 sq m and 32,000 sq m is under construction in a new warehouse project.

**WAREHOUSE INVESTMENT VOLUME (EUR MILLION)****WAREHOUSE PRIME YIELDS (%)****SELECTED INDUSTRIAL TRANSACTIONS IN 2008 IN POLAND**

Project	Location	Purchaser	Vendor	Estimated Yield	Value (million)
Point Park Mszczonow	Mszczonow	Pinnacle Real Estate	EDC	n/a	EUR 41
Raben Logistic Centres	Poznan & Grodzisk Maz.	TMW	Raben Group	c. 7.0 – 7.5%	EUR 40
Good Point Pulawska	Warsaw II	IXIS	Real Management	7.0%	EUR 27.5
Pruszcz Gd. Logistics Center	TriCity	Guardian AM	BIK	7.5%	EUR 7.2
Ideal Idea Park	Warsaw	Tritax	n/a	c. 7.0%	n/a

**INDUSTRIAL INVESTMENT MARKET**

Industrial investment market in Poland is in a very early stage of development. In comparison to other sectors, the number of warehouse transactions taking place is low, mostly due to the lack of quality products offered for sale. There are investors looking for products in the warehouse market, however the majority of new stock is owned by ProLogis, Panattoni and Segro, the leading developers. So far they were rarely interested in sale. This may change, however, as some developers in a light of global economic downturn, may decide to improve their financial status by disposing some of their assets. We also expect more sale and lease transactions as many logistic operators own their own premises and currently look for cash injections.

Nevertheless, between 2004 and 2008 we registered a certain number transactions with total value of EUR 144 million in 2008. This meant an 8% increase in comparison to 2007. The largest ever registered transaction was a ProLogis take-over of the Parkridge portfolio in 2007 (not included in the official investment volume). The largest transaction that took place last year, was the sale of Europa Distribution Park located in Mszczonow, near Warsaw to Pinnacle Real Estate company for around EUR 41 million. So far in 2009 there was no warehouse transaction registered.

In general, industrial property sector is considered by investment funds as an attractive option to diversify their portfolio, although the current economic climate is unfavourable for all investments.

Until 2007 logistic yields were decompressing. Along with the financial turmoil, the trend changed and in the last year yields increased. They are estimated to reach around 8.75 – 9.00% at the moment for prime products. The key factors for investors are location, technical specification and lease length of the valid lease agreements. There is not much difference in yields between best schemes in the secondary cities and Warsaw. Majority of top class logistic parks are currently being developed in the regions, rarely in Warsaw.

SECTOR III in Q2 2009

	Silesia	Poznan	Central	Wroclaw	Tri-City	Krakow
Total Stock (sq m)	1,082,000	751,400	897,000	571,500	148,000	53,000
Under Construction (sq m)	38,000	0	0	41,000	0	32,000
Take Up (sq m)	26,000	19,000	10,000	76,000	0	8,000
Completion (sq m)	125,000	0	38,000	10,000	0	0
Vacancy Rate	22%	11%	20%	20%	4%	18%

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