2024

INVESTING IN POLAND

MAGNET FOR INVESTORS

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RESEARCH

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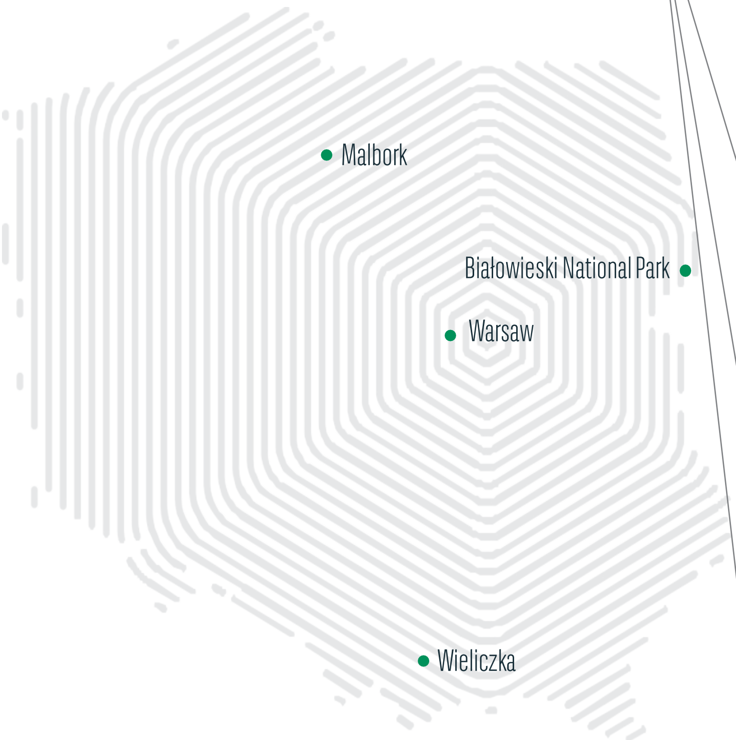
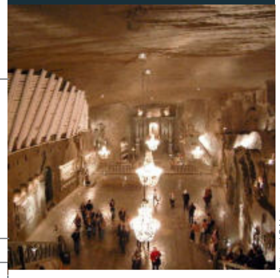
FEW TIPS ABOUT POLAND YOU MAY HAVE NOT KNOWN

01 TIPS



POLAND IS HOME TO THE WORLD'S BIGGEST CASTLE

The Castle of the Teutonic Order in Malbork is the largest Gothic castle complex in the world by land area (approx. 21 hectares). Originally built in the 13th century as a Teutonic castle and fortress, it's also a UNESCO World Heritage Site.

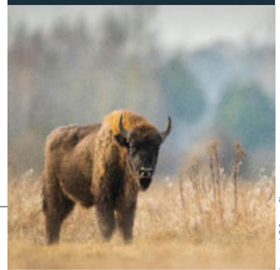


POLAND HAS ONE OF THE WORLD'S OLDEST SALT MINES

The 800-year-old Wieliczka Salt Mine, one of the oldest in the world, is located close to Kraków. It's famed as an "Underground Salt Cathedral" with chambers, sculptures, salt chandeliers and an entire chapel carved from rock salt – all 135 meters (440 feet) below the ground. The mines have been producing salt continuously since the 13th century until 2007.

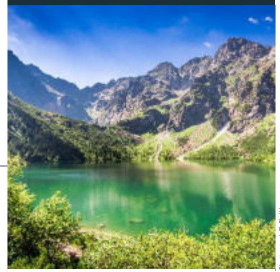
VODKA ORIGINATED IN POLAND

This fact about Poland is hotly contested by Russians, however, it is believed that vodka was invented in Poland. The first written mention of the spirit can be found in Polish court documents from 1405, with vodka being originally used as medicine. Poland has been producing the famous drink since the Middle Ages and today the country still makes some of the best vodkas in the world, producing around 260 million litres each year.



EUROPE'S HEAVIEST ANIMALS LIVE IN POLAND

The endangered European bison, or the wisent, is the heaviest land animal in Europe, weighing over 600 kg on average. They can be found roaming on the 150,000 hectares of the Białowieża Primeval Forest in Poland – the last primaeval forest in Europe, part of the forest that once sprawled across the continent, thousands of years ago.



POLAND HAS ONE OF THE MOST DIVERSE NATURAL ENVIRONMENTS IN EUROPE

Poland has almost 800 km of sandy coastline, including sand dunes in the Pomerania region, wetlands in the Biebrzański National Park, and the only Central European desert, Pustynia Błędowska. Besides that, Poland contains segments of mountain ranges such as the Tatras and the Carpathians, and the Land of a Thousand Lakes.

02 FOREWORD

INTRODUCTION

The Polish economy started 2024 in better shape than expected. Most importantly, inflation is falling and the central bank (the NBP), though more cautiously than the ECB, has indicated the possibility of interest rate cuts in 2024. In order for Polish and European CRE to regain momentum more will be required as the geopolitical and macroeconomic environment has created an abundance of opportunities for problems to emerge. The war in Ukraine, the Middle East conflict or the US elections are just a few examples of the hotspots that could alter the broad picture.

Erik
DRUKKER
CEO BNP Paribas
Real Estate Poland

Last year's European market results (including Poland) for many asset classes may have seemed disappointing. However, given the pace and scale of economic commercial real estate asset repricing in late 2022 and early 2023, the worst seems to be behind us. Still the gap between buyers' and sellers' expectations remains wide. Along with other European economies, Poland will require more time to activate billions of CRE private equity dry powder. We are at a turning point that will require both innovation and adaption to shape a resilient commercial real estate landscape for the future.

The starting point is to understand that the era of ultra-low interest rates is over and despite anticipated change in trends, investors will have to adapt to an environment where money is no longer "basically free". This will pose a challenge for most European markets.

The debt financing gap for the European property market in 2024-2026 is estimated at over EUR 90bn, of which over 45% will be from the office sector. In Poland, where the leasing market remains stable and relatively less repricing has taken place compared to other European countries, most investors and the banking system are unlikely to experience difficulties with refinancing CRE loans. Countries facing the biggest challenges in this respect include Germany, the Nordics and France. In this area, Poland seems to be sailing on relatively calm waters.

For decades the prevailing wisdom about the commercial real estate market has been that it is subject mostly to changes resulting from economic cycles, with demand factors remaining relatively intact through these changes. This, however, is likely to change with an increased use of hybrid work and "work from anywhere" patterns, the evolution of the ESG (Environmental, Social, and Corporate Governance) concept, and technological advances including AI (artificial intelligence).

Furthermore, geopolitical shifts mean that nearshoring is now playing a more significant role as a driving force behind the fast-paced development of industrial floorspace – both for the manufacturing and logistics sectors in Poland and Europe. Poland is on track to take full advantage of this trend but the demand for sustainable energy sourcing and the modernization of electricity transmission networks still remains.

Rising energy and labour costs as well as general inflationary pressure have heavily impacted the operational costs of many facilities, affecting margins for both owners and tenants. This should provide a further stimulus to adopt more wide-spread employment of new technologies, such as AI, for optimizing various components of service charges including energy consumption. This optimisation can already be witnessed in many new constructions, with systems far more superior to the ones developed only two or three decades ago.

Despite these challenges and evolution of new trends, 2024 should prove to be a better year both for Central and Eastern European economies and the CRE market. A sustainable economy is made up of hard working, ambitious people and Poland has no shortage of those, with the vast number of fresh graduates coming to the market with a strong will to achieve value-bringing success across all sectors of the economy, including CRE. We analyse data and follow trends on an ongoing basis but aside from purely rational premises guiding our actions, we need this driving-power of optimism to keep us and the market going.

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03 POLAND ECONOMY

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Michał DYBUŁA
Chief Economist,
BNP Paribas Bank

Following growth stagnation last year, we expect the economy to expand by a more eye-catching 4% in 2024. GDP dynamics should be primarily boosted by quickly rising consumer spending. We estimate that household's consumption will increase this year by 4.5%. Consumer spending will be supported by a robust situation on the job market, a higher minimum wage, salary hikes in the public sector and fiscal transfers, as well as lower inflation.

We expect that after a very solid growth in capex last year reaching 8% - mostly due to corporate investment activity, the momentum in capital outlays will somewhat decelerate, noting a 2.5% increase in 2024. We see spending by the public sector to be key for investments this year, including projects co-financed from EU funds.

We envisage inflation to reach a bottom close to the 2.5% target in March. But further out, consumer price growth will pick up again due to higher VAT rate on foodstuffs and more expensive energy. The timing and scale of administrative decisions on taxes and regulated prices remain uncertain at the time of writing, but we assume CPI inflation averaging 5% this year.

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In light of uncertainty regarding the actual CPI path as well as the persistence of domestic wage and demand pressures, we think that the Polish central bank will be in no rush to resume interest rate cuts. We see the scope for limited monetary easing only from late 2024 onwards, also once the global major central banks start their rate-cutting cycles. For year-end we envisage the main policy rate falling by 50 bps to 5.25%.

Given the prospects for a robust economic expansion this year we see room for further appreciation of the zloty in the coming months. The Polish currency should be also underpinned by relatively hawkish approach of the NBP as well as inflow of EU funds and foreign capital onto the Polish debt market. We forecast the EUR/PLN rate at 4.25 by the summer.

KEY ECONOMIC INDICATORS	2022	2023	2024[1]	2025[1]
GDP	5.3	0.2	4.0	3.5
Private consumption	5.2	-1.0	4.5	3.5
Gross fixed investments	4.9	8.0	2.5	4.0
CPI inflation	14.3	11.6	5.0	4.3
Core inflation	9.1	10.2	5.3	4.3
Average wage in the national economy	12.9	12.5	11.0	7.5
Unemployment rate, registered (% sa)	5.4	5.2	5.3	5.2
Current account balance (% of GDP)	-3.7	-5.5	-6.0	-4.5
General govt balance (% of GDP)	-3.0	1.5	-0.5	-1.0
NBP main policy rate (%, end of period)	6.75	5.75	5.25	4.00
EURPLN (end of period)	4.69	4.34	4.25	4.30
USDPL (end of period)	4.38	3.94	3.70	3.74

[1] forecast

Source: Statistics Poland (GUS), NBP, Eurostat, BNP Paribas; quarterly average (%, y/y), unless indicated otherwise; sa – seasonnaly adjusted

04 TOP FIVE REASONS TO INVEST IN POLAND

> You don't need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beats the guy with a 130 IQ. Rationality is essential."
>
> Warren Buffett

1. A STABLE AND PREDICTABLE REGULATORY ENVIRONMENT

Poland is a country with a stable and predictable political and economic situation, providing investors with the security and confidence, they need to make their investments. A stable and predictable regulatory environment is also important to investors. In such an environment, investors are assured that government and regulation will not change unpredictably, which could adversely affect their investments.

2. A LARGE AND QUALIFIED LABOUR MARKET

Poland has one of the largest labour markets in Europe, as well as a high-quality skilled workforce. This makes the country an attractive place for investment, especially in sectors like manufacturing and services. In recent years, an educated and motivated labour market has grown in Poland, so investors can count on high-quality workforce to carry out their projects.

3. AVAILABILITY OF RAW MATERIALS

Poland has significant natural resources and energy resources, making it attractive to investors in sectors such as the chemical and metallurgical industries. Poland is one of the most important hard coal producers in Europe, so there is a large availability of coal for use in the energy and other sectors. There are also significant deposits of metal ores in Poland - iron, copper and aluminium - allowing for a growing metallurgical industry.

4. DEVELOPING INFRASTRUCTURE

In recent years, significant infrastructure investments have been made in Poland: roads, railways, ports and airports. This makes it easier and more effective to do business in the country.

5. GEOGRAPHICAL LOCATION

Poland's geographical location in Europe is crucial for its attractiveness as a place to invest. Poland is centrally located on the continent, which allows easy access to European markets. This is especially important for companies from the production and trade sectors, needing access to a wide range of sales markets. There are modern and well-developed seaports, airports and railway lines in Poland, allowing companies to efficiently deliver their products to other countries.

05 INVESTMENT MARKET

Mateusz SKUBISZEWSKI
Senior Director, Head of Capital Markets,
BNP Paribas Real Estate Poland

Total transaction volume in 2023 reached over €2.09 billion

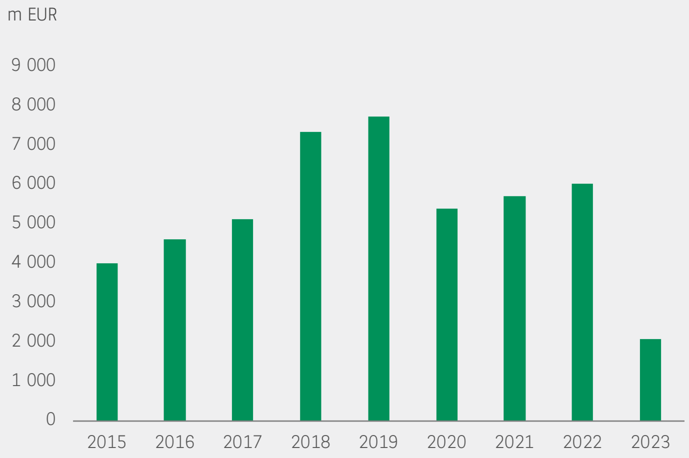
2023 saw a marked fall in liquidity for the commercial real estate investment market in Poland.

The transaction volume reached EUR 2.09bn – a level last seen in 2010. This was the result of the tightening of monetary policies and strong yield decompression across Europe. Consequently, some investment funds froze allocations to commercial real estate and managers decided to rebalance portfolios to include alternative assets. In addition, with property prices falling in Poland relatively less sharply than in some Western European markets, the Polish market became less price competitive. Poland appears to have fallen victim to its own success, as a result of which Polish assets remain more resilient to external shocks compared to those in other countries and are therefore less attractive to investors during an economic downturn.

"By the end of 2023 most European bond yields were on a downward trend, but the outbreak of the conflict in the Middle East, which is a major oil supplier, and the fear of rising energy prices and renewed inflation worries were unfavourable for the market. Consequently, the European economic outlook remains uncertain, and the spectre of interest rate hikes is still looming. However, 2024 economic forecasts for Poland look promising, with the country's average annual inflation rate expected to fall to 5% (down by 6.6 pp relative to last year)." says ***Mateusz Skubiszewski***, *Senior Director, Head of Capital Market.*

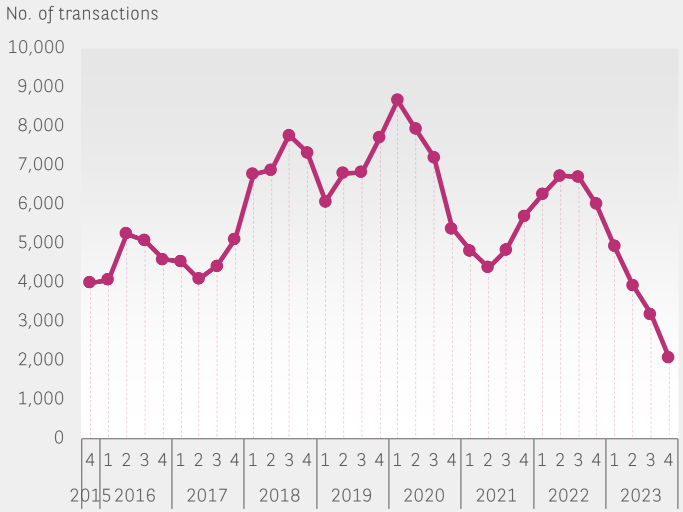
Given the pace and scale of real estate asset repricing in late 2022 and early 2023, it appears the worst is behind us. However, the delta between buyers' and sellers' expectations remains wide, which was clearly reflected in last year's office investment that accounted for only 21% of the total transaction volume compared to the 2020-2022 average of nearly 35%. In contrast to previous years, there were no prime

Investment transactions value, annually 2015-2023 (m EUR)



Source: BNP Paribas Real Estate Poland, as of the end of Q4 2023

Number of investment transactions, annual rolling total 2015-2023



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

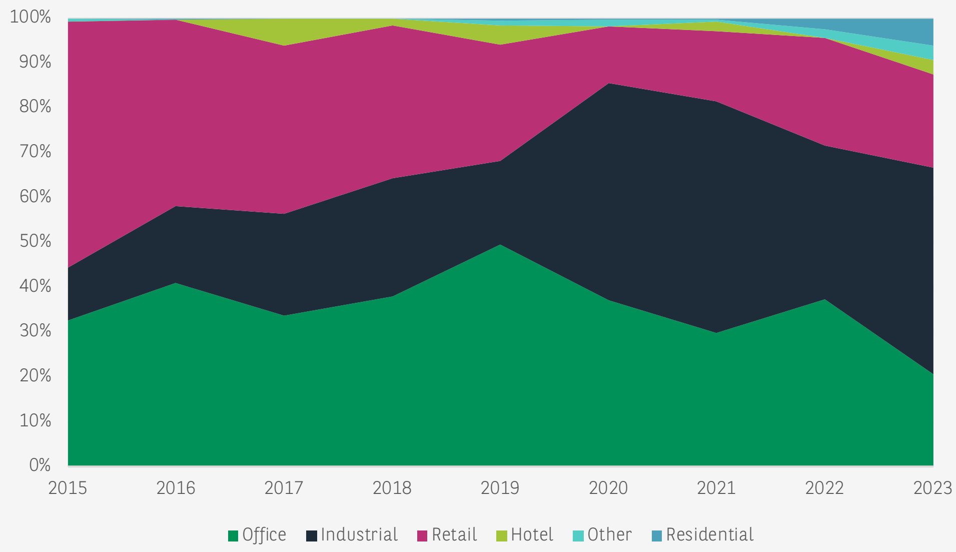
% PRIME YELD	OFFICE	RETAIL (SHOPPING CENTERS)	INDUSTRIAL & LOGISTICS
	6.00%	6.25%	6.00%
	+125 BPS YoY	+75 BPS YoY	+75 BPS YoY

Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

office deals, with opportunistic purchases of older buildings dominating investment activity. Looking ahead, CRE loans maturing in the next three years are likely to be a major challenge facing the European market. The debt financing gap for the European property market in 2024-2026 is estimated at over EUR 90bn, of which over 45% will be for the office sector. In Poland, where the leasing market remains stable and relatively less repricing has taken place compared to other European countries, most investors and the banking system are unlikely to experience difficulties with refinancing CRE loans. A significant fall in interest rate swap costs in late 2023 bodes well for a recovery in investment activity. Eurozone interest rates are expected to be gradually lowered throughout 2024, which should stimulate investor interest in commercial real estate.

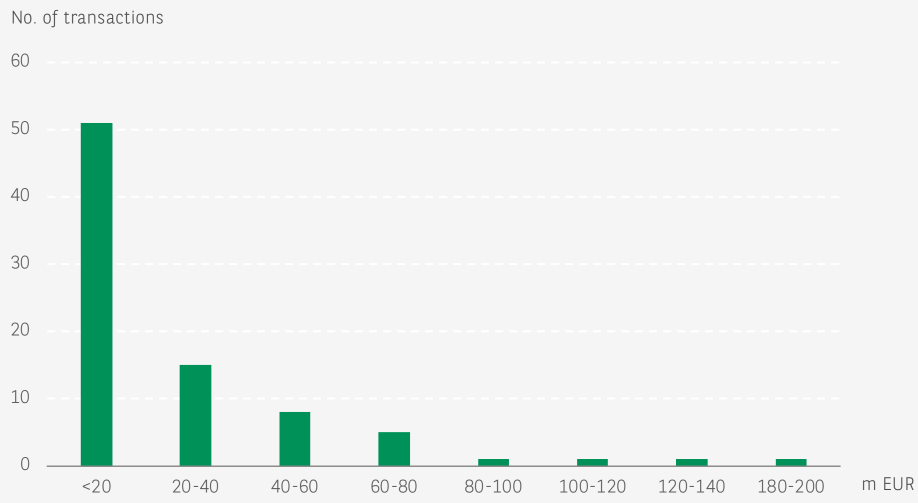
In 2023, prime net yields in Poland moved out by 1 pp on average. The strongest decompression of 1.25 pp was reported for prime offices, while shopping centers proved most resilient to the changing economic environment, with yields softening by 0.75 pp to 6.25%. The expectation on global financial markets is for a clear change in monetary policy trends. At its recent meeting the Governing Council of the European Central Bank kept its interest rate on refinancing operations unchanged at 4.5%.

Share of transaction value by asset class 2015-2023



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

No. of investment transactions by size 2023



Source: BNP Paribas Real Estate Poland, as of the end of Q4 2023

06 OFFICE MARKET OVERVIEW

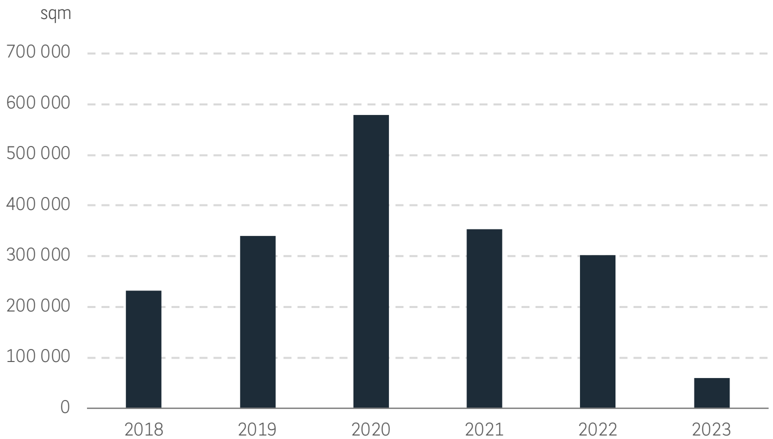
Małgorzata FIBAKIEWICZ

Senior Director, Head of Office Agency, BNP Paribas Real Estate Poland

At the end of last year, Warsaw's total office stock stood at 6.2 million sqm, of which just 61,000 sqm was delivered in 2023 – the lowest annual figure for new supply in the last five years and well below the five-year average of around 220,000 sqm.

Warsaw annual supply 2018-2023

2023-2025
185 000



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

WARSAW STATS

POPULATION (June 2023)	1.86m
UNEMPLOYMENT RATE (December 2023)	1.4%
AVERAGE SALARY (PLN gross, December 2023)	9,519
NUMBER OF STUDENTS (academic year 2022/2023)	250,100
NUMBER OF UNIVERSITIES (academic year 2022/2023)	64

Source: BNP Paribas Real Estate Poland, as of the end of Q4 2023

This shows that Warsaw is experiencing supply constraints. The fourth quarter of 2023 saw 40,600 sqm of new office space delivered through two projects only: Lakeside in Mokotów and Studio B in City Centre West.

2024 is shaping up to be another year with significantly lower new supply levels not only in the capital, but also in regional cities. Due to economic slowdown, protracted decision-making processes, tenants' focus on cost cutting, and high development costs, many developers have revised their investment plans for 2024-2025." *says* ***Małgorzata Fibakiewicz,*** *Senior Director, Head of Office Agency.*

As of the end of Q4 2023, there was 238,000 sqm of office development underway. While only one new project (Studio A) was announced in the last quarter of 2023, the first quarter of 2024 will, in turn, see construction works

6.2m sqm
EXISTING STOCK

60,900 sqm
NEW SUPPLY 2023

238,000 sqm
SPACE UNDER CONSTRUCTION

10.4% (down 1.2 pp YoY)
AVERAGE VACANCY RATE

748,800 sqm
GROSS TAKE-UP 2023

Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

begin in two more office buildings: Vena and the second phase of Skyliner. As a result, office availability in Warsaw is shrinking, especially in central locations, which is also reflected in office vacancy levels. At the end of Q4, unoccupied office space accounted for 10.4% of Warsaw's total office stock, down by 0.2 pp over the quarter and 1.2 pp year-on-year. The office vacancy rate in the capital is expected to continue to trend downwards.

> *Although development activity has recently picked up, new supply is still failing to keep pace with demand for office space in Warsaw. This is due to several factors. Firstly, the constrained new supply in 2023, which was caused by economic uncertainty, and secondly – last year's relatively strong occupier activity. Another factor is the maturity of the market as older office buildings are being gradually put out of use."* says ***Małgorzata Fibakiewicz,*** *Senior Director, Head of Office Agency.*

Demand for office space improved in 2023 and last year's office gross take-up reached nearly 750,000 sqm. However the registered volume was lower than in the peak year of 2022, but well above the pre-pandemic level seen in 2020-2021. Of that total, more than 255,600 sqm was leased in the period October-December 2023. In that period occupiers' interest focused mostly on the City Centre, the Central Business District and Służewiec.

The structure of gross demand on Warsaw's office market in 2023 was dominated by new contracts, which accounted for 51% of all transactions, while contract renewals accounted for 43%. In contrast, expansions of existing space involved only 4% of the signed contracts, with the remaining 3% involving leasing space for the building owners' own use. However, in Q4 alone, lease renewals accounted for the largest share of take-up at 49.3% of the total, as tenants would rather avoid having to spend much on relocations and adaptation space to their needs. New office leases made up 43.2% of the leasing volume recorded in Warsaw during the fourth quarter.

The office landlords are likely to come under growing pressure to raise rental rates in 2024, particularly in the case of projects under construction. In 2023, prime office rents remained largely unchanged from the end of 2022 - they stood at EUR 22-26/sqm/month in the Centre and at EUR 13.50-16.50/sqm/month in non-central locations.

The Polish commercial property market will soon be swept by a wave of refurbishments as approximately 70% of buildings in Poland are energy inefficient. There is also a growing focus among tenants on sustainable offices. In Warsaw, there are already three office buildings undergoing refurbishment: Warta Tower, Saski Crescent and University Business Center II.

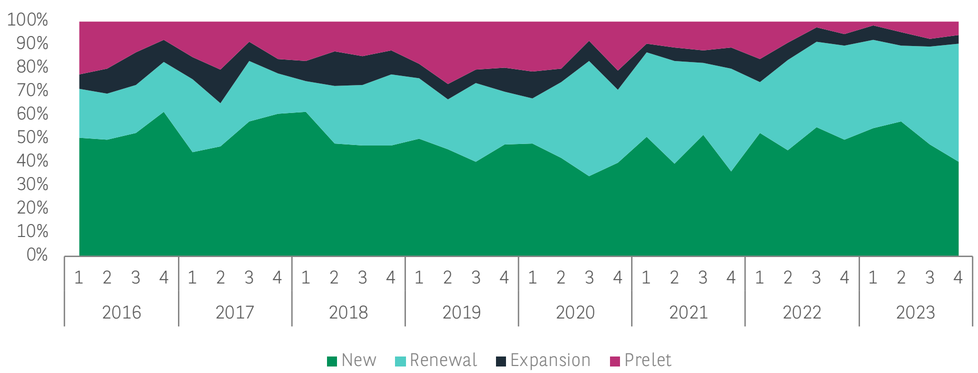
Refurbishment and repurposing works are now required to adapt buildings to ever-rising ESG standards. This trend can be seen in Poland and beyond as more than three quarters of office stock may be at risk of obsolescence by 2030. Gradual improvement of energy efficiency is one of the biggest challenges facing the commercial real estate sector, which has been mandated by the EU to reduce energy consumption and greenhouse gas emissions as part of its efforts to achieve net zero by 2050.

The top 5 buildings under construction in Warsaw:

	ZONE	OFFICE SPACE (SQM)	DEVELOPER	OPEN IN
The Bridge	City Centre – West	47,400	Ghelamco	Q1 2025
Upper One	CBD	35,500	Strabag	Q4 2026
Office House	City Centre – West	31,100	Echo Inv.	Q2 2025
Warta Tower (modernisation)	City Centre – West	30,800	Cornerstone	Q1 2025
The Form	City Centre – West	28,500	Lincoln Property	Q4 2024

Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

Take-up structure 2016-2023



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

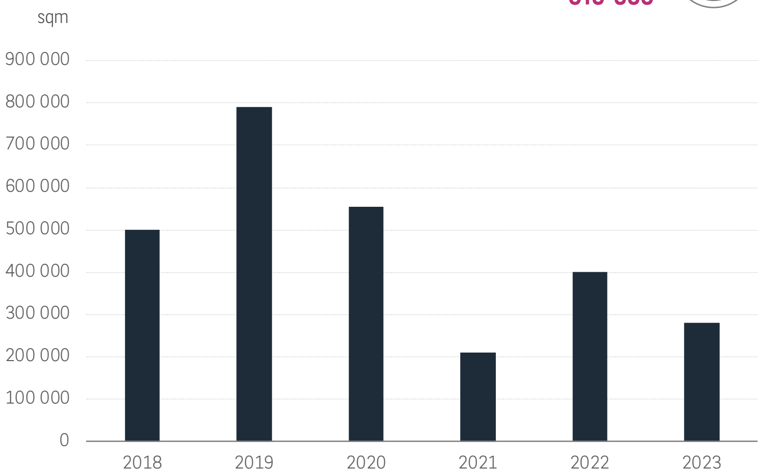
Regional office market comprises of 8 key cities located across Poland, among which are: Kraków, Wrocław, the Tricity, Poznań, Katowice, Łódź, Lublin and Szczecin.

Although regional cities are expected to surpass the Polish capital in terms of new office supply in the coming quarters, the regional development pipeline at the end of December 2023 was 40% lower year-on-year. Approx. 367,000 sqm of new office space is scheduled for completion in Poland's eight key regional cities in 2024-2026, compared to only 238,000 sqm in Warsaw.

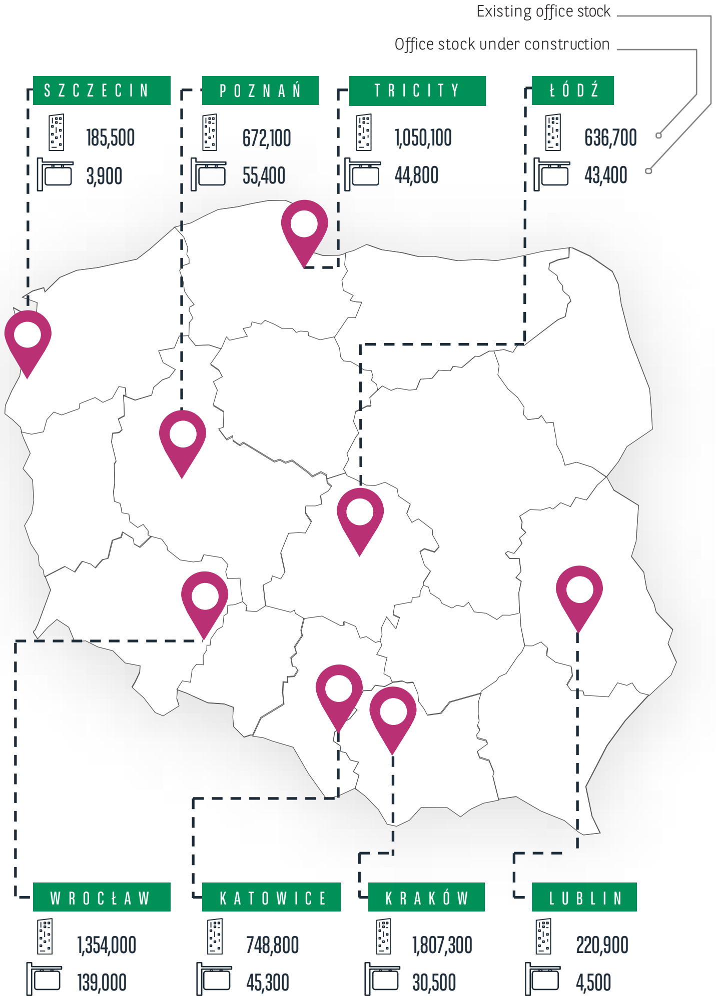
At the end of the last quarter of 2023, the combined office stock of Poland's eight largest regional markets outside Warsaw (Kraków, Wrocław, Tricity, Katowice, Poznań, Łódź, Lublin, and Szczecin) stood at nearly 6.67 million sqm. Almost 280,000 sqm of new office space was delivered in the regions last year through 21 completions. The largest office projects completed in 2023 included Ocean Park B and Kreo in Kraków, Craft in Katowice and Nowy Rynek E in Poznań. The fourth quarter saw the biggest projects delivered in Kraków (Mogilska 35 Office and The Park Kraków II) and in Poznań (the new headquarters of Tetos).

Regional annual supply 2018-2023

2023-2025
619 000



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

6.43m sqm
EXISTING STOCK

280,000 sqm
NEW SUPPLY

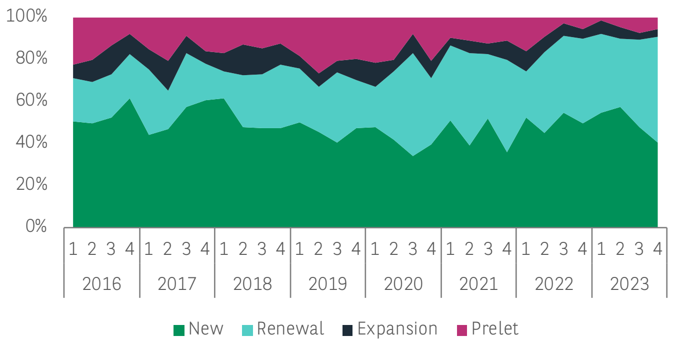
366,800 sqm
SPACE UNDER CONSTRUCTION

17.5% (up 2.2 pp YoY)
AVERAGE VACANCY RATE

751,100 sqm
GROSS TAKE-UP (2023)

Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

Regional cities take-up 2016-2023



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

The market situation is dynamic, and the falling supply of office space is likely to accelerate the launch of new projects. Nevertheless, shrinking development pipelines were among key themes shaping regional city office markets throughout 2023.

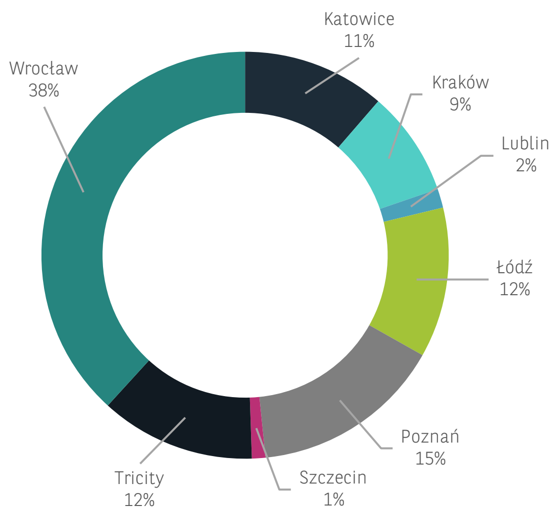
Large number of companies have downsized their offices by around 20-30% over the last two to three years compared to pre-pandemic office lease sizes as many have embraced hybrid working patterns.

Meanwhile, vacancy rates in existing office buildings in the eight key regional markets hit all-time highs by the end of 2023. Space available for immediate occupancy accounted for approximately 17.5% of total office stock, up by 0.2 pp quarter-on-quarter and up by as much as 2.2 pp year-on-year. The highest vacancy rate of 21.5% was recorded in Katowice, with the lowest of 4.8% in Szczecin.

In the fourth quarter of 2023, tenants in major regional markets leased nearly 210,300 sqm, up more than 6% from the previous quarter and the best quarterly performance since the beginning of the year. In contrast, total demand in 2023 amounted to more than 741,300 sqm, up nearly 19% from 2022 and 7% from the record year of 2019 (before the pandemic). Despite the increase in interest in office leasing, tenants continue to focus on optimizing the space they occupy and rely on buildings with high energy efficiency and environmental friendliness.

The trend towards leasing extra space just in case is over. Office optimization has also resulted in the decline in the average lease size, which was 938 sqm at the end of 2023, down from 996 sqm in the previous year. Occupier activity in 2024 will depend on the overall macroeconomic situation and corporate expansion plans. In addition, many companies are expected to focus on ensuring ESG compliance.” *says* ***Małgorzata Fibakiewicz,*** *Senior Director, Head of Office Agency, BNP Paribas Real Estate Poland.*

Under construction per regional cities



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

In 2023, tenants leased the most office space, 201,300 sqm, in Kraków. The second position was occupied by Wrocław with 165,550 sqm of signed contracts. Meanwhile, in the Tricity, tenant activity amounted to more than 143,900 sqm. These three cities accounted for almost 69% of the total demand registered in the regions in 2023.

Throughout 2023, new contracts were signed the most (45%), followed by renegotiations and contract renewals with 41% of the lease volume. Meanwhile, the remaining 14% was accounted for renting for the building owner's own needs (6%), expansions (5%) and pre-lets (3%). In contrast, the fourth quarter was dominated by renegotiations, which share of total demand exceeded 55%. In subsequent quarters, tenant renegotiation activity may remain relatively high due to the desire to avoid the costs of relocating and finishing new space.

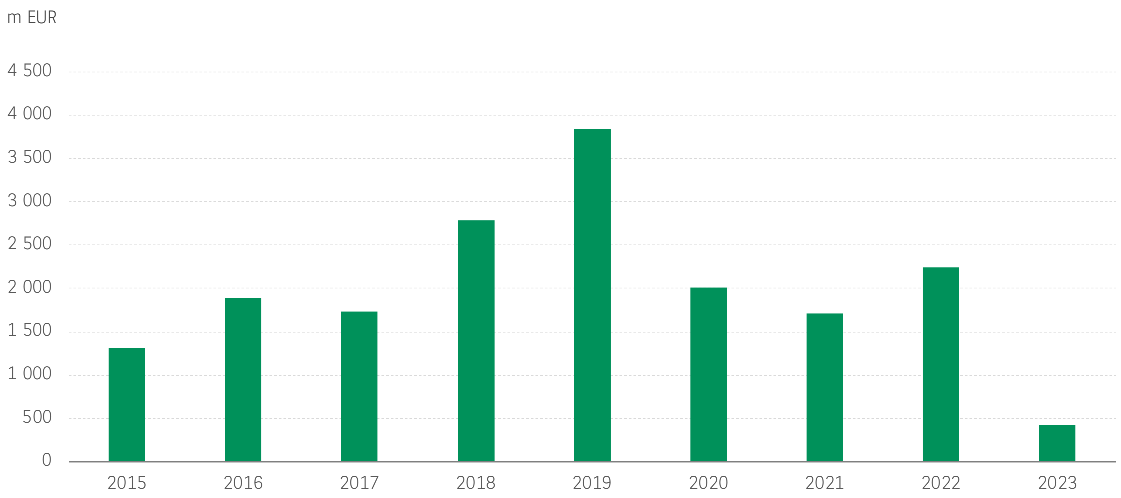
Rents for prime office space in major regional markets remain at €16.00-17.00/sqm/month. This is especially true for office buildings equipped with modern technologies and meeting environmental and social criteria (ESG), as their owners are generally less willing to negotiate rents. In the case of newly constructed office buildings, we can observe upward pressure on rents.

INVESTMENT SUMMARY

Of all asset classes, offices which have been one of the strongest market drivers, proved least resilient to rapidly softening yields. In 2023, only 18 office buildings changed hands (either partially or fully), with the total investment volume of nearly EUR 430m, more than a fivefold decrease year-on-year.

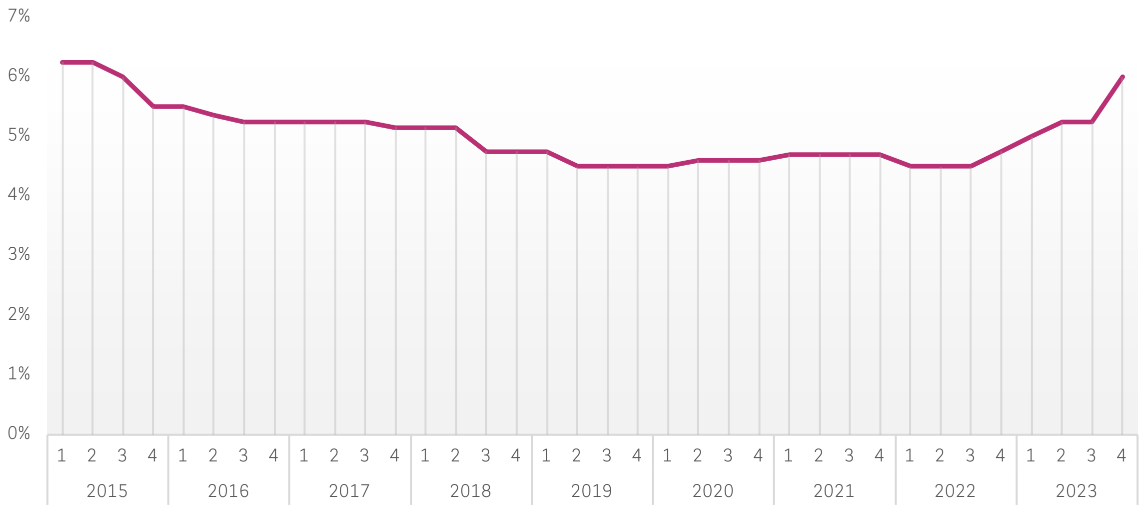
The largest transaction of the fourth quarter and of 2023 as a whole, was the acquisition of Mokotów Nova by M&A Capital for approximately EUR 75m from the UK-based Tristan Capital.

Office Investment Transaction Value 2015-2023 (m EUR)



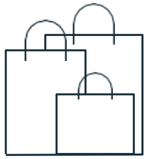
Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

Office Prime Yields 2015-2023



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

07 RETAIL MARKET OVERVIEW



Fabrice PAUMELLE

Head of Retail, BNP Paribas
Real Estate Poland

In 2023, the Polish retail market saw robust development activity. Although it is already mature and highly saturated, its total retail stock expanded by nearly 440,000 sqm delivered through both new projects and redevelopments. 230,000 sqm was added to the market in the period October-December 2023 - last year's strongest quarterly result.

The largest new openings in Q4 included E.Leclerc in Jelenia Góra (24,500 sqm), Ozimska Park Opole (17,000 sqm) and N-Park Olkusz (15,800 sqm). The predicted outlook for 2024 year is positive and new supply is expected to match or even exceed last year's volume.

The Polish retail market has in recent years been dominated by retail park openings, which in 2023 accounted for over 80% of last year's new supply. This trend is expected to continue throughout 2024. The remaining 2023 supply comprised shopping centres – largely redevelopments and re-openings (e.g. Fort Wola), and retail reinvention projects (the conversion of stores vacated by Tesco). The last regional shopping centre with more than 50,000 sqm of leasable area to open in Poland was Galeria Młociny in Warsaw, which was launched in 2019.

ECONOMIC FORECAST FOR 2023

		TREND	CHANGE Y/Y
GDP	4.0%	↓	↓
UNEMPLOYMENT RATE	5.5%	↑	↑
PRIVATE CONSUMPTION	4.5%	↓	↓
WAGES IN ENTERPRISE SECTOR	9.5%	↓	↓
INFLATION (CPI)	5.0%	↓	↓

Source: Statistics Office, NBP, Eurostat, BNP Paribas, as of December 2023, average in the qarter (%, y/y)

"The shopping centre development pipeline comprises only three retail schemes scheduled for delivery in 2024: the redeveloped Nowa Sukcesja shopping centre in Łódź, Brama Jury in Częstochowa and the extension of Galeria Hosso in Police. They account for just under 20% of the the retail stock under construction. The remaining 80% is in retail parks and convenience centres." says **Fabrice Paumelle,** *Head of Retail BNP Paribas Poland.*

MARKET STATS / 2023

about 16.0m sqm
RETAIL MODERN STOCK

440,000 sqm
NEW SUPPLY 2023

320,000 sqm
NEW SPACE UNDER CONSTRUCTION
(to be delivered to the market by the end of 2025)

+2.0%
AVERAGE SHOPPING CENTRE FOOTFALL
(PRCH: October 2022 / October 2023)

9.4%
SHARE OF ONLINE SALES IN TOTAL RETAIL SALES
(Statistics Poland: December 2023)

130,000 sqm
CHANGES OF FORMAT & EXTENSION
(to be delivered to the market by the end of 2025)

Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

2023 also saw a host of new F&B openings and transformations, including the opening of such food halls as Montownia in Gdańsk, as part of the mixed-use project Doki, as well as the Pedet zone in Wrocław's Renoma. The food hall concept combines F&B space with an opportunity to socialize, relax and enjoy entertainment.

This concept is being increasingly embraced by customers and has experienced a steady rise for several years in spite of the challenging pandemic period in 2020-2021. Consumer needs are evolving. Customers would like not only to shop in a shopping centre or other urban facilities but also to meet friends, spend time with family or to taste new dishes. This follows the social eating trend – meeting new people and enjoying food together." says ***Fabrice Paumelle,*** *Head of Retail BNP Paribas Poland.*

Shopping centre turnover for October 2023 was up by 5% year-on-year, which was broadly in line with retail sales in current prices published by Statistics Poland (GUS), showing an increase of 4.8%. Fashion was the stand-out category, with spend in shopping centres up by nearly 9%. Another positive was the improvement in the average shopping centre footfall, a metric tracked by the Polish Council of Shopping Centres, representing a 2% increase year-on-year in October.

Offline and online retail experiences are intertwining. The share of online sales in total retail sales reached 9.4% in December 2023 – a level seen prior to the Covid-19 pandemic.

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The top 3 openings of Q4 2023

	OFFICE SPACE (sqm)	DEVELOPER
S.C. E.Leclerc Jelenia Góra	24,500	E.Leclerc
Ozimska Park pole	17,000	Redkom Development
N-Park Olkusz	15,800	Napollo

The top 3 under construction

	OFFICE SPACE (sqm)	DEVELOPER	OPENING
Nowa Sukcesja - reconstruction	24,500	Amush Investment Group	Q2 2024
OTO Park Koszalin	17,000	Acteeum	Q1 2024
Turawa Park Opole - modernisation and extension	15,800	Focus EstateFund	2024

Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

Although the online penetration rate is expected to increase in the coming years, it is unlikely to rise as sharply as it did during the pandemic. Oxford Economics' forecast puts it in Poland at 14% in 2024-2027, which will not, however, mean any slowdown in brick-and-mortar retailing. Omnichannel is and will be a retail market standard in the coming years as it marries the convenience of online shopping and the personal experience of physical stores.

Multichannel retailing will also be a challenge for retailers, as retail stores will have to meet the expectations of Gen Z, who expect a wide and personalised offer. The importance of digital shopping is also underscored by the performance of the InPost Group, which in 2023 delivered 598.5 million parcels in Poland, an increase of 16% year-on-year.

2023 was a year of many debuts on the Polish retail market, with 29 new brands entering Poland in the last 12 months - the highest number since 2017. In addition, brands with an established presence in Poland chose to open new format stores. These included DIY retailers which launched smaller concepts such as Castorama Smart and Express, Pszczółka Express, and Ikea with its Planning Studios. At the same time, Decathlon opened its first City format store appropriate to its downtown location.

The closing months of last year also saw new expansions take place. For example, Primavera Furniture, a reputable Polish producer of furniture, opened its store in Warsaw's Domoteka complex, while Medicover launched Stellar - a new brand of premium fitness clubs.

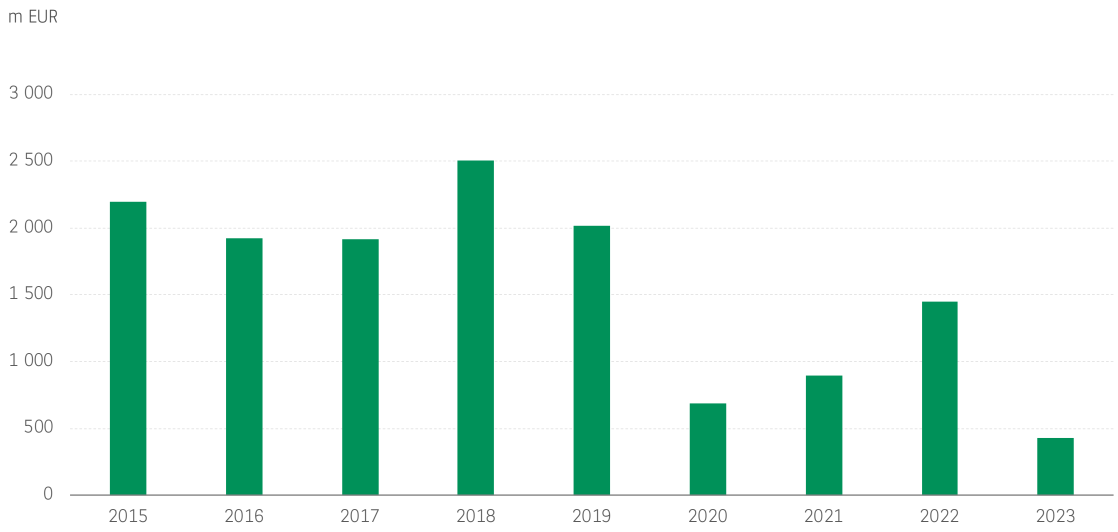
INVESTMENT SUMMARY

2023's retail investment volume surpassed EUR 430m. The average scheme size was 14,500 sqm, down by 7,500 sqm over the year.

Over 74% of all transactions were for assets under EUR 20m, an indication of investors' focus on smaller retail formats in regional cities.

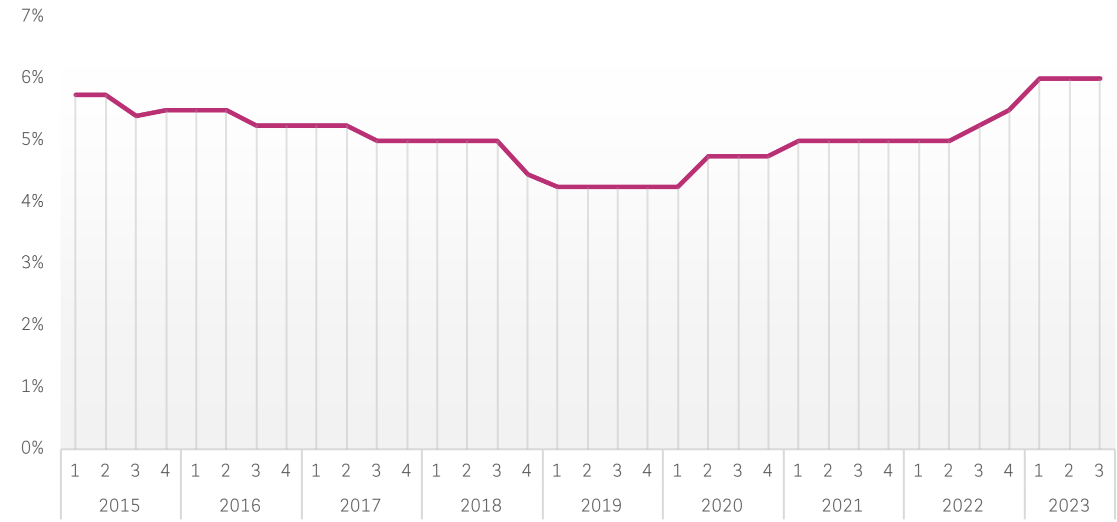
The biggest deal of 2023 was French-based Frey's acquisition of the Matarnia Retail Park in Gdansk for almost EUR 103m from Sweden's Ingka Centers. The fourth quarter of 2023 proved relatively weak for the retail sector, with the largest transaction being the sale of Galeria Tarnovia for EUR 12.5m.

Retail Investment Transaction Value 2015-2023 (m EUR)



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

Retail Prime Yields 2015-2023



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

08 INDUSTRIAL MARKET OVERVIEW

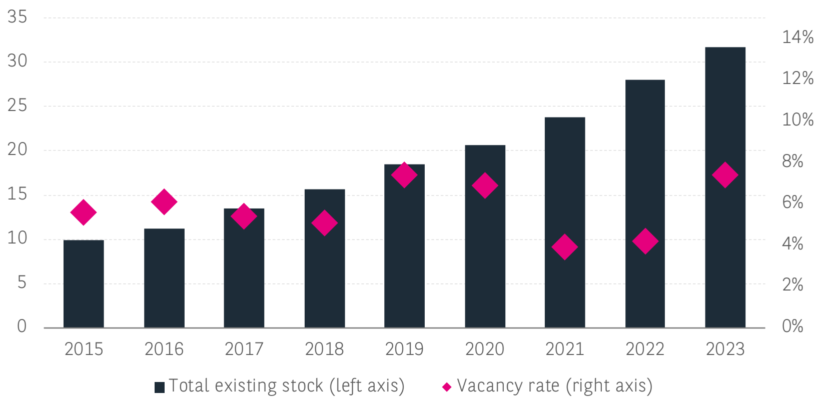
The industrial and logistics leasing market in Poland experienced a slowdown in 2023, but there are signs it will bounce back in 2024.

Martyna KAJKA, MRICS

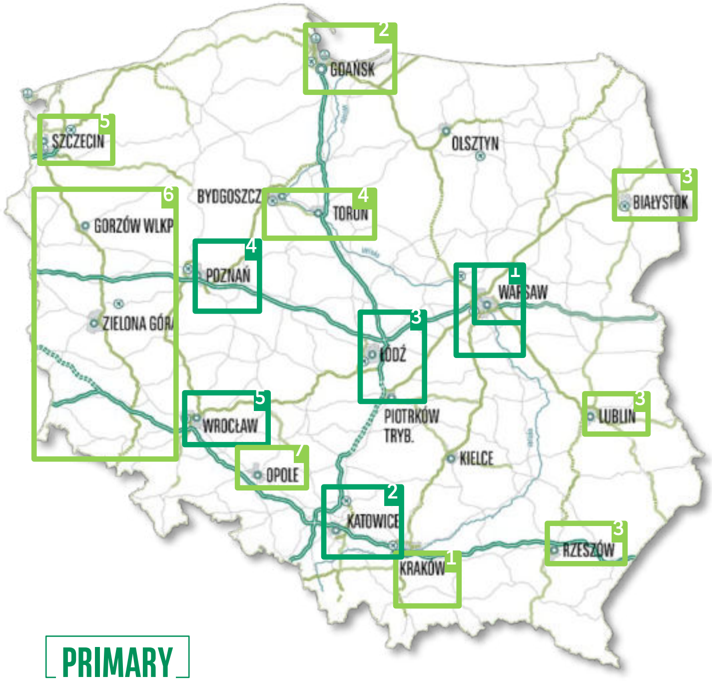
Director, Industrial & Logistics Department, BNP Paribas Real Estate Poland

At the end of December 2023 gross warehouse take-up reached 5.6 million sqm, a decrease of 15% year-on-year. The decline in leasing activity is attributed to a high base effect as 2021–2022 were the peak years for demand for industrial and logistics space. By contrast, the last quarter of 2023 alone saw 1.9 million sqm transacted. As regards new completions, nearly 0.58 million sqm of warehouse space came on stream in the fourth quarter of 2023, bringing last year's total supply to more than 3.7 million sqm.

Existing stock & vacancy rate 2015-2023 (m sqm)



Source: BNP Paribas, as the end of December 2022 as of the end of Q4 2023



PRIMARY HUBS:

1. Warsaw I & II
2. Upper Silesia
3. Central Poland
4. Poznań
5. Lower Silesia

SECONDARY HUBS:

1. Kraków
2. Tricity
3. East
4. Bydgoszcz / Toruń
5. Szczecin
6. West
7. Opole

Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

MARKET STATS / Q4 2023

31.7m sqm
EXISTING INDUSTRIAL AND LOGISTICS SPACE

3.7m sqm
NEW SUPPLY 2023

2.29m sqm
VACANT STOCK

4.1%
AVERAGE VACANCY RATE

2.8m sqm
SPACE UNDER CONSTUCTION

1.38m sqm
VACANT SPACE UNDER CONSTUCTION

4.30 EUR/sqm/mth
PRIME RENT (Logistics & distribution)

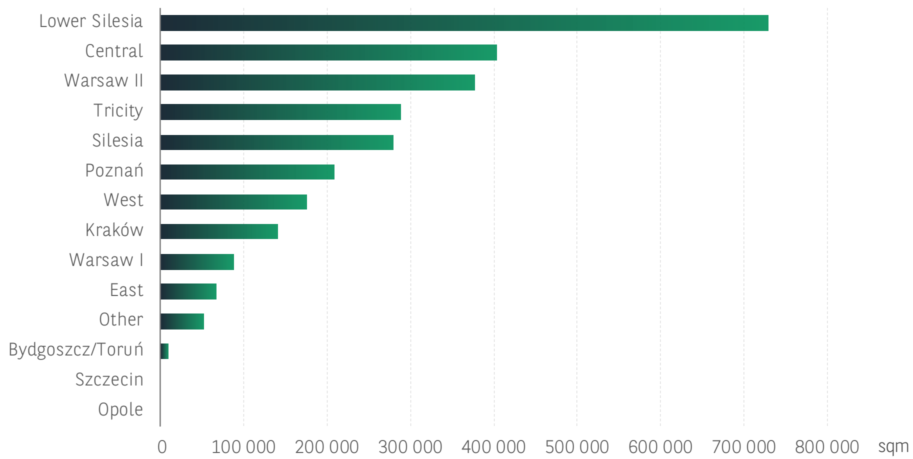
7.00 EUR/sqm/mth
PRIME RENT (City logistics)

1.5m sqm
GROSS DEMAND

Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

The highest concentration of development activity in the three months to December 2023 was in Lower Silesia (729,400 sqm), Central Poland (402,900 sqm) and Warsaw II (376,800 sqm). Meanwhile, the largest volumes of new warehouse space added to the market in Q4 2023 were recorded in Upper Silesia (127,500 sqm), Warsaw II (125,900 sqm) and Central Poland (86,800 sqm). The largest projects underway in the surveyed period included the extension of P3 Wrocław, which will see more than 200,000 sqm delivered in buildings 1 and 3, and Panattoni Park Wrocław Logistics South Hub - a new 90,000 sqm scheme. It is also worth noting that projects in the pipeline had an average pre-let rate of around 51%, indicating an upward trend over the last two quarters of 2023.

Under construction Q4 2023 (sqm)



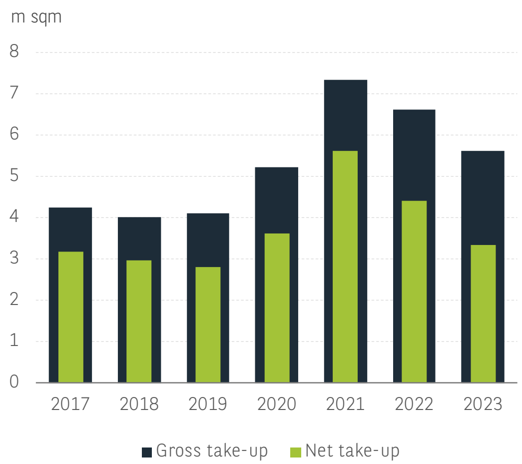
Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

The overall vacancy rate was on an upward trajectory last year. Although it edged down by 0.4 pp quarter-to-quarter to 7.4% in Q4 2023, it rose by 3.2 pp year-on-year. The upward trend in vacancy rates is, however, expected to slow in the coming quarters. On the other hand, with the vacancy rate being where it is, there is clearly stronger competition on the industrial and warehouse market and tenants are finding it easier to secure the right space.

During the last 12 months the Polish industrial and logistics market saw an uplift in renewals, which accounted for 40% of all transactions and a marked tendency towards protracted lease decision-making. The largest lettings of the last quarter of 2023 included two transactions for a combined area of more than 220,000 sqm leased by an e-commerce company in P3 Wrocław and the renewal of the Musketeer Group's lease of more than 80,000 sqm of warehouse space in GLP Poznań II Logistics Centre.

Both headline and effective industrial and logistics rents increased since the beginning of 2023, with rental growth driven by the rising prices of fuel and building materials, elevated project financing costs and weaker investor sentiment. The relatively high availability of space in existing industrial and logistics facilities is likely to see rents come under slight pressure in 2024, with the upward trend.

Industrial & Logistic take-up 2017-2023 (m sqm)



Source: BNP Paribas Real Estate Poland as of the end of Q4 2022

> *The Polish industrial and logistics market experienced a slowdown in 2023 but there are signs that it will bounce back in 2024. Last year's figures for take-up, supply and new project starts remained very high despite challenging macroeconomic conditions. Also on the positive side, the volume of industrial and logistics space under construction increased to 2.8 million sqm by the end of the year. In 2024, Poland's total stock is expected to surpass the 34 million sqm mark, while the Warsaw market (Warsaw I & II) will strengthen its leading position with nearly 7 million sqm."*
> *says* ***Martyna Kajka,*** *Director, Industrial and Logistics Department, BNP Paribas Real Estate Poland.*

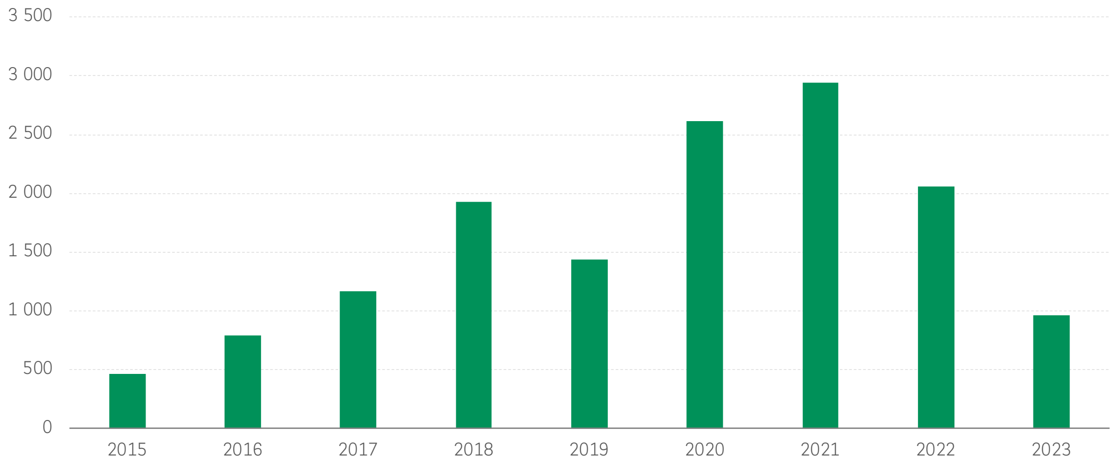
INVESTMENT SUMMARY

In 2023, transactional activity was dominated by industrial and logistics properties, with this sector's investment volume amounting to almost EUR 966m, constituting around 46% of last year's total.

The fourth quarter saw seven transactions take place, the largest being the acquisition of Panattoni Park Janki II in Pęcice by GLP for approximately EUR 31m.

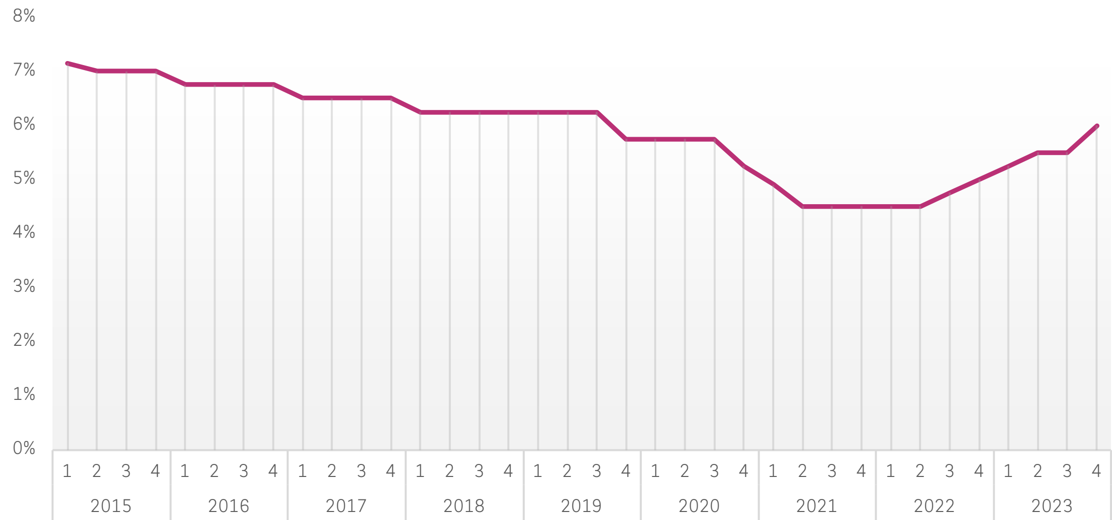
However, last year's headline deal was NREP's acquisition of an 80% stake in the Polish real estate developer 7R for around EUR 200m. In 2023, the most active market player on the sell side was Panattoni, which accounted for over 54% of the total investment volume, followed by 7R in second place.

Industrial Investment Transaction Value 2015-2023 (m EUR)



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

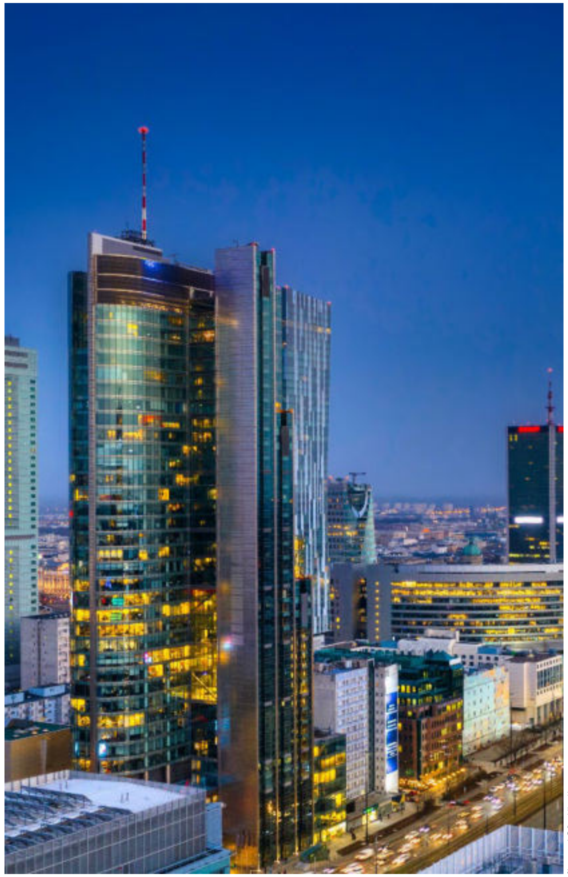
Industrial Prime Yields 2015-2023



Source: BNP Paribas Real Estate Poland as of the end of Q4 2023

09 PROSPECTS 2024

Poland's investment real estate market is poised for a big rebound in 2024, after total transaction volume fell last year to €2.1 billion from €5.8 billion a year earlier.



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The decline in inflation observed for several months and the lack of an increase in interest rates have influenced the lower cost of financing new transactions. We can expect a big rebound this year, especially since the period of high inflation has passed, and economists are forecasting noticeable GDP growth. BNP Paribas Analysis Team forecasts that it will be 4.0% in 2024 and 3.5% the following year. Poland has been a leader in economic growth for several years, which is a strong asset in the eyes of foreign businesses.

Last year, investors held back on investment decisions, primarily due to the high cost of financing and the unstable geopolitical situation. The war in Ukraine, geopolitical challenges in other regions of the world, did not encourage investment and the finalization of deals. In addition, sellers' price expectations often did not coincide with buyers' proposed transaction terms. This year, we expect a rebound, especially since interest rates in the US and Western Europe are scheduled to fall, which will bring improved financing conditions for new investments.

In 2024, the commercial real estate market in Poland will be shaped largely by increased regulatory pressure related to ESG. The entry into force of EU reporting standards or the new version of the EPBD will mean that investors will have to place increasing emphasis on implementing practical solutions to support sustainability in their real estate portfolios.

The growing importance of social and environmental aspects, is today a key challenge for investors and companies operating in the commercial real estate market.

KEY FIGURES

BNP PARIBAS
REAL ESTATE

€9.3BN
IN COMMERCIAL real estate investment transacted

3,494
TRANSACTIONS during the year

€518BN WORTH
of assets valued

11 ALIANCE PARTNERS | **14** COUNTRIES

5,000
EMPLOYEES

48M sqm
OF ASSETS under management in Europe

BNP PARIBAS REAL ESTATE

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