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# WHY INVEST IN POLAND 2023





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# Introduction

Walter Herz presents the latest Report - „Why invest in Poland 2023”.

We are a leading Polish consulting company operating in the commercial real estate sector. Walter Herz provides strategic advice to lessees, investors and property owners on office leasing issues, and investment and hotel projects.

In 2016, Walter Herz won the CIJ EUROPE award in the Rising Star of the Year category. The Company was also awarded the title of the Best Local Agency of the Year 2022 in the CIJ AWARDS competition organized in Poland. At the regional level of Central and Eastern Europe, it was awarded the title of Best of the Best Local Real Estate Agency of the Year in the 8th edition of the HOF Awards.

The Report was prepared by Walter Herz experts and goes deeply into the current situation on the Polish investment market, focusing on the commercial real estate sector.

The year 2022 brought the outbreak of the conflict in Ukraine, which had a significant impact on the development of the market. Among other things, this contributed to record high inflation, rising interest rates and growing investment uncertainty. Despite this, Poland still maintains its attractiveness as an investment location, although investment activity tends to slow down. The office sector records clear decrease in the number of new investments. This can be attributed both to high construction and finishing costs, and the general uncertainty of investors resulting from the micro- and macroeconomic situation and global politics.

Nevertheless, the data contained in the Report presenting the economic potential and foundations of Poland show that an investment interest in the country has not vanished. The Report also shares information on recent transactions in various segments of the commercial real estate market in Poland.

We invite you to read the full report “Why invest in Poland 2023”.



**Watch the video:**  
**About Walter Herz**

# Polish economy

Poland has always been in the heart of Europe. Its central location is ideal for fulfilling the role of a bridge between the west and the east. Poland is the sixth most populous country in the European Union with nearly 37.7 million inhabitants. It is also the largest academic center in the region with the universities located not only in Warsaw, but also in regional towns. In the first half of 2023, the economic performance of the country was mainly hampered by the war in Ukraine, high inflation and interest rates, and further increases in electricity prices. The unemployment rate is currently at a low level of 5%.

## Poland: At a glance

**37 698 000**

population

June 2023

**+0.7%**

GDP growth

Projected growth in 2023

**1 223 629**

students

Academic year 2022/2023

**PLN 7 333,73**

average monthly  
gross salary in  
the enterprise sector

June 2023

**6 512 810**

average number  
of employees in  
the enterprise sector

June 2023

**79%**

of the average GDP  
per capita for Europe

2022

**5%**

registered  
unemployment rate

June 2023

**10.8%**

inflation

July 2023

**364 600**

number of  
graduates

Academic year 2022/2023



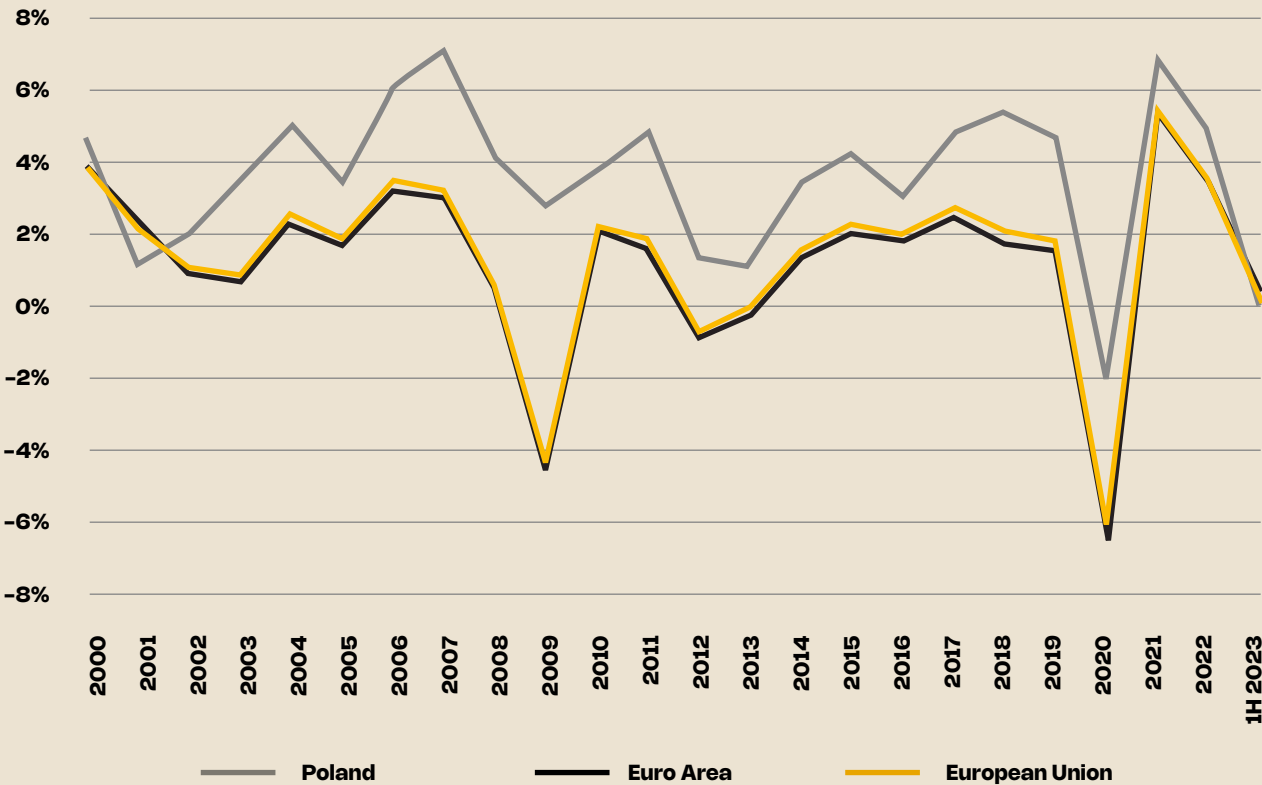




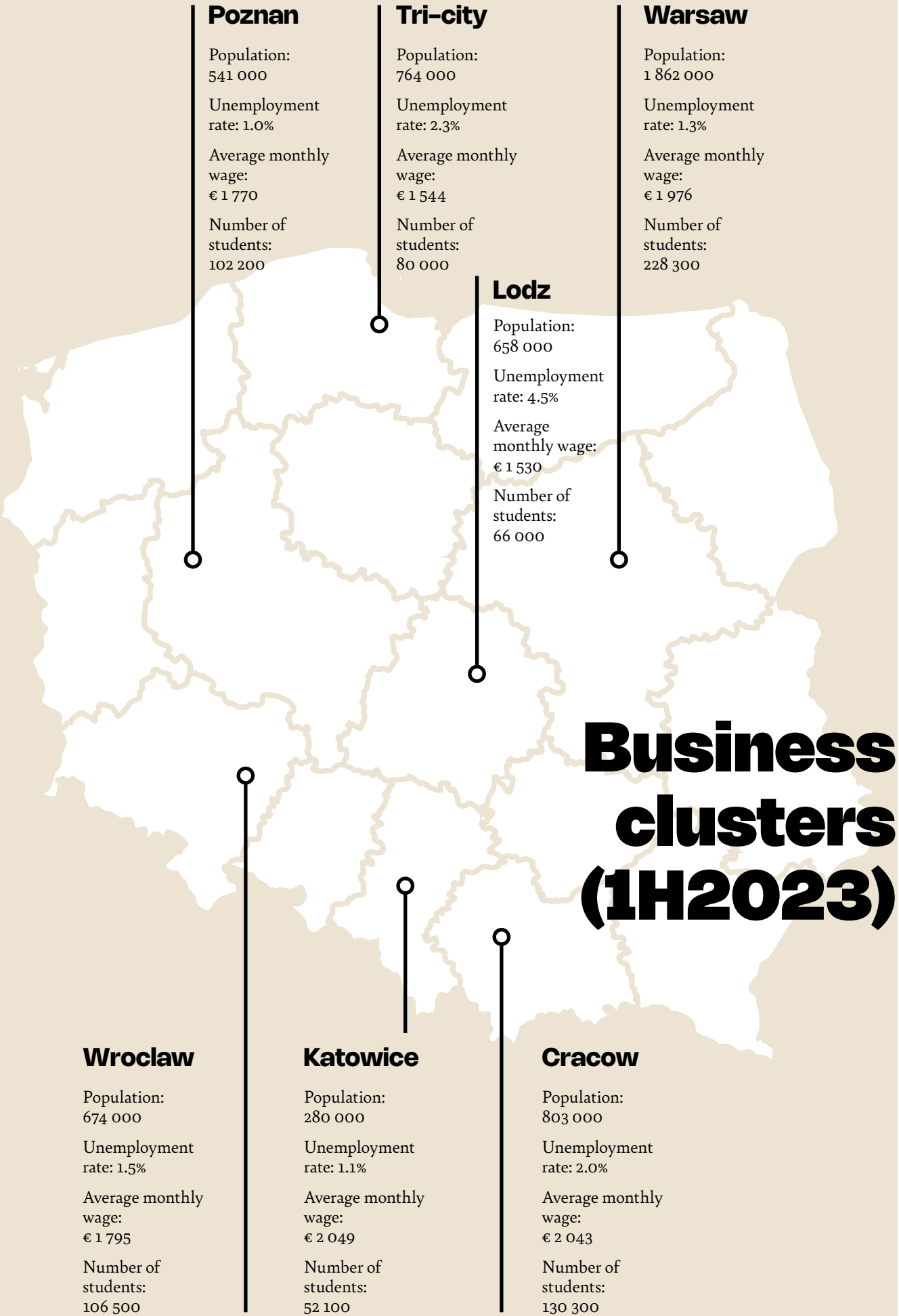
# Annual GDP growth rate

The Polish economy is doing well. Since 1989 it has been subject to continuous modernization and integration with the world economy. Polish companies have been present in European production and supply chains. Economic performance has been growing steadily since the fall of communism. Over the last 20 years, GDP growth has been higher than the average for the entire European Union and the Eurozone each year. Poland is also a perfect example of positive growth during the 2008 crisis, when the rest of Europe recorded significant declines. Throughout 2021, Poland's GDP growth was estimated at 6.8% and was higher than in the Eurozone. In 2022, it amounted to 4.9%, which was influenced by the influx of migrants from war-torn Ukraine.

Gross domestic product change y/y



In the whole EU, 13 countries recorded an increase in GDP in the second quarter of 2023. Unfortunately, Poland recorded the highest quarterly decline in GDP in the entire EU. In comparison to the first quarter, in the second one, the Polish economy shrank by 3.7 percent. Poland fared slightly better in the annual comparison. In the second quarter of 2023, Poland's GDP was 1.3 percent lower than a year ago and it was the fourth worst result in the entire EU.

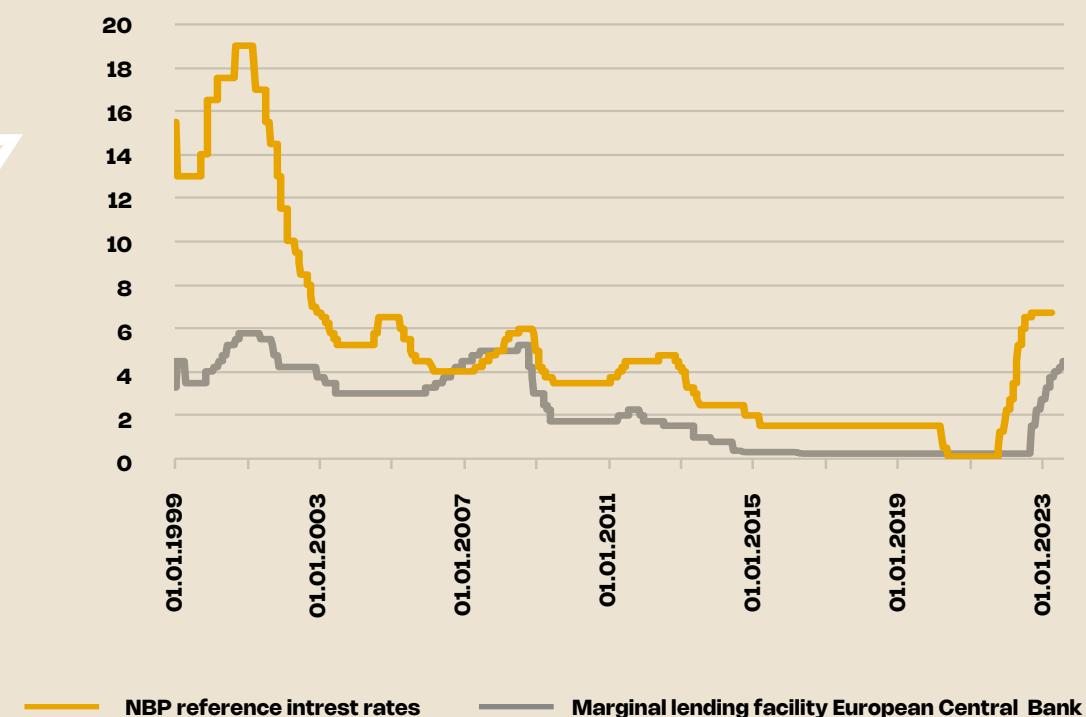






# Interest rates

After a half of a decade of stable monetary situation, in October 2021, the Monetary Policy Council started a series of interest rate increases in response to rising inflation. In November 2021, the inflation rate was 7.7%, which was caused by multiple factors, including: increases in energy prices, supply chains weakened by the COVID-19 pandemic, and cumulative demand postponed during months of the pandemic. After a series of increases, the reference interest rate stabilized at 6.75% and is maintained at this level today. Inflation in the euro zone was delayed, which forced a series of interest rate increases by the European Central Bank.



Increasing interest rates across the European Union will boost investors' interest in opportunistic and value-add products.

Currently, the inflation rate in Poland in the first half of 2023 is above 10%. In the next two years, in line with the expectations of NBP experts, declines in average annual inflation are forecast. For 2024, experts predict inflation between 5.4% and 8.9%, and for 2025 between 2.9% and 6.7%.

▶  
**Watch the video:**  
Investment market H1 2023 summary





# Office market



Besides Warsaw, the largest office markets in Poland are invariably: Cracow (1.75 million sqm), Wroclaw (1.36 million sqm) and the Tri-City (1.02 million sqm).

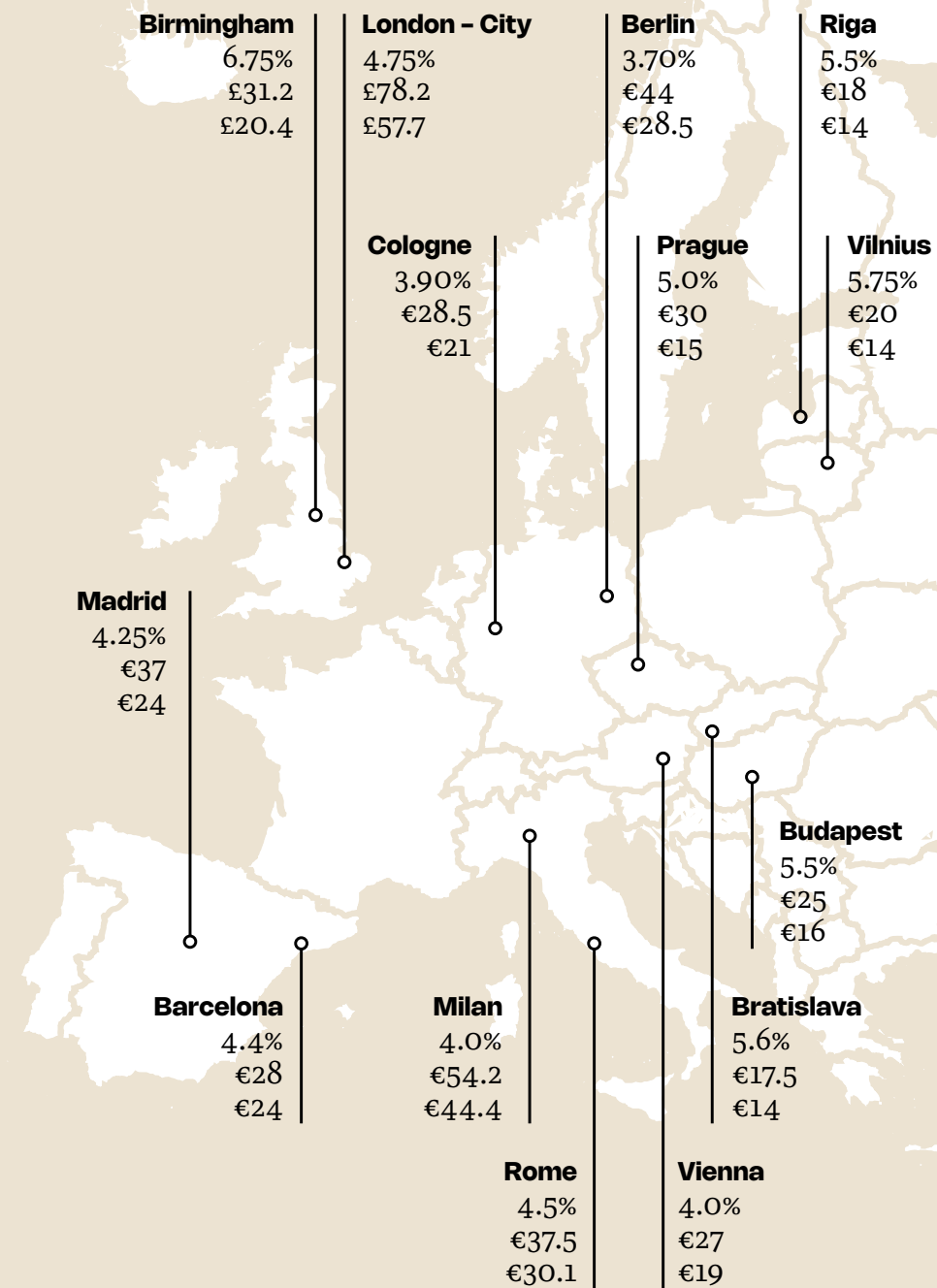
Demand in seven major markets (Warsaw, Cracow, Wroclaw, Tri-City, Poznan, Katowice, Lodz) decreased by 20 pp from 802,000 sqm (H1 2022) to 642,400 sqm (H1 2023). At the end of the first half of 2023, the supply on the main office markets amounted to 12,436,800 sqm. 12 investments with a total area of nearly 135,400 sqm were completed. The largest new supply was recorded in Cracow, Poznan and Wroclaw. The decline in office space supply under construction may result in shortages in some markets in the coming years. At the end of 2022, the average vacancy ratio was 14.2%, while at the end of Q1 2023 it totaled 16.6% (increase by 2.4 pp). The highest vacancy ratio was recorded in Lodz (23.4%) and in Warsaw it was 11.4%.

In addition, the first half of 2023 brought an increase in rental rates and service costs.

## Office market in 7 top cities

	2019	2020	2021	2022	1H 2023
<b>Current supply</b>	10 653 000	11 352 400	11 791 500	12 318 500	12 436 800
<b>New supply</b>	685 800	704 100	534 900	624 000	135 400
<b>Demand</b>	1 547 500	1 166 700	1 224 500	1 438 000	642 400
<b>Vacancy ratio</b>	9.1%	12.4%	13.6%	14.2%	16.6%

## Polish cities in comparison to European cities



### Poland:

<b>Warsaw</b>	<b>Cracow</b>	<b>Wroclaw</b>
5.25%	6.25%	6.2%
€25.2	€17.3	€15.5
€19.8	€15.8	€14.8
<b>Tri-City</b>	<b>Katowice</b>	
7.2%	7.25%	
€16	€15.5	
€14.2	€13.8	

### Legend:

**City**  
Yield  
Rental rates for top buildings (CBD class A)  
Rental rates for top buildings (CBD lower classes)







### Poznan

Supply (sqm):  
654 000

Vacancy ratio:  
12.7%

Supply under  
construction:  
54 300 sqm

Average rent  
(sqm/month):  
7,5-17 EUR

### Tri-city

Supply (sqm):  
1 018 900

Vacancy ratio:  
14.3%

Supply under  
construction:  
66 500 sqm

Average rent  
(sqm/month):  
10-17 EUR

### Warsaw

Supply (sqm):  
6 287 800

Vacancy ratio:  
11.4%

Supply under  
construction:  
247 900 sqm

Average rent  
(sqm/month):  
12-29 EUR

### Lodz

Supply (sqm):  
629 800

Vacancy ratio:  
23.4%

Supply under  
construction:  
46 000 sqm

Average rent  
(sqm/month):  
6-14 EUR

## Polish cities

### Wroclaw

Supply (sqm):  
1 360 600

Vacancy ratio:  
16.1%

Supply under  
construction:  
154 000 sqm

Average rent  
(sqm/month):  
10-18 EUR

### Katowice

Supply (sqm):  
735 500

Vacancy ratio:  
20.1%

Supply under  
construction:  
100 000 sqm

Average rent  
(sqm/month):  
8-14.5 EUR

### Cracow

Supply (sqm):  
1 751 000

Vacancy ratio:  
18.4%

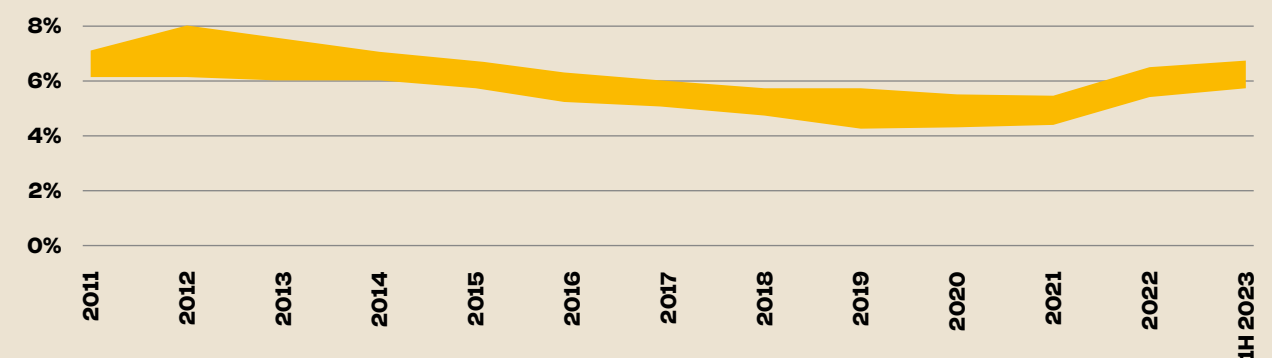
Supply under  
construction:  
98 000 sqm

Average rent  
(sqm/month):  
10-18 EUR

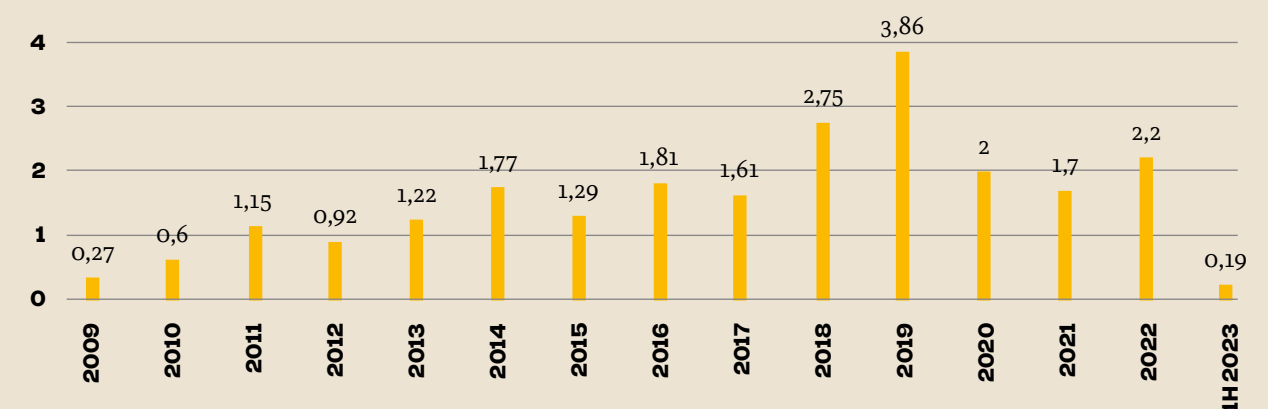
# Selected sales transactions

Office real estate properties have enjoyed unflagging popularity among investors over the last decades. The highest sales volume was recorded in 2019. The years 2020-2021, due to the COVID-19 pandemic, reduced investors' appetite for offices, who shifted to warehouse properties. The year 2022 brought a rebound in the transaction volume on the office market, causing the value of transactions to recover and amount to EUR 2.2 billion. The high cost of capital contributed to the yield decompression in this sector. In the first half of 2023, this sector transactions amounted to approx. EUR 190 million. Investors' interest focused on office buildings in Warsaw. In this period, 7 transactions were recorded.

## Average cap rates



## Volume of office transactions (EUR bil)







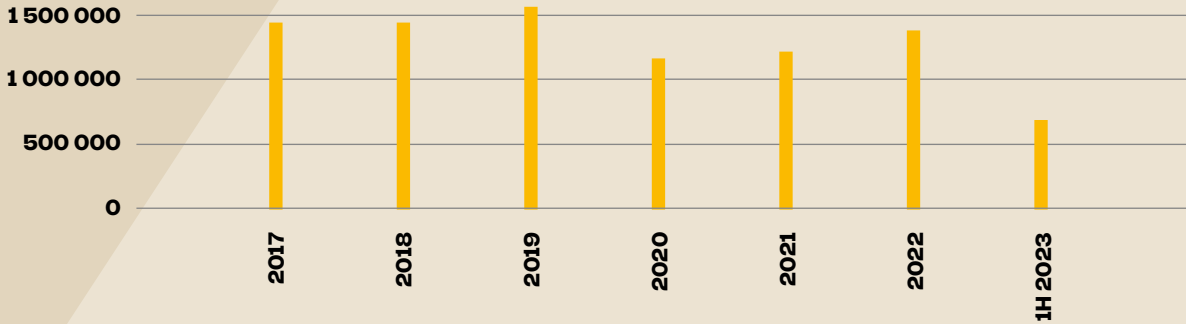
### Office transactions recorded in 2023

Property name	Vendor	Purchaser	Approx. area (sqm)	Transaction value (mln)
Moje Miejsce II	Echo Investment	Trigea Reas Estate Fund	17 200	45 EUR
Celebro	White Stone Development	EIKA Asset Management	7 200	n/d
Warta Tower	Globalworth	Cornerstone Investment Management	25 800	63 EUR (2H 2023)
Wola Retro	Develia	Adventum International	24 500	69,8 EUR
Solar	CPD	Flora Development 22	5 500	28,3 PLN
Bolero Office Point 2	Real Management S.A.	Interpierre Europe Centrale	3 600	n/d
Wiśniowy Business Park C, D, E, F	Cromwell Property Group Poland	Indotek	40 000	n/d

# Selected lease transactions

Demand in seven major markets (Warsaw, Cracow, Wroclaw, Tri-City, Poznan, Katowice, Lodz) decreased by 20 pp. from 802,000 sqm (H1 2022) to 642,400 sqm (H1 2023).

### Demand



In the first half of 2023, the largest transaction on the leasing market concerned 20,300 sqm in the Centrum Poludnie 3 office building in Wroclaw. The high costs of moving and fitting out office space, and the unavailability of large modules right away, make some lessees renegotiate their contracts in anticipation for offices on the market meeting their requirements. Spaces equipped with modern solutions ensuring energy efficiency and cost optimization are particularly desirable due to the rising costs of service charges.

From the point of view of the demand for office space, the market is stable, lessees are looking for better standard and the possibility of optimizing the leased space to changing needs. The highest lease rates are invariably recorded in office buildings offering offices high technical and environmental standards and allow lessees to take care of employees, their needs and well-being.

Project name	City	Lessee	Area (sqm)	Type of transaction
Centrum Poludnie 3	Wroclaw	BNY Mellon	20 300	New contract
Olivia Prime	Gdansk	Sii	10 100	Contract renegotiation
Proximo II	Warsaw	Accenture	8 800	Contract renegotiation
Taifun	Warsaw	Lionbridge	7 100	Contract renegotiation
Warsaw Spire	Warsaw	(professional service company)	6 000	Contract renegotiation
Horizon	Warsaw	(IT company)	5 300	Contract renegotiation
Podium Park	Cracow	(IT company)	5 200	Contract renegotiation
React	Lodz	Alorica	5 000	New contract
CU Office	Wroclaw	UPM-Kymmene	4 700	Contract renegotiation
Bema Plaza	Wroclaw	UPS	4 600	Contract renegotiation





## Summary

The Warsaw office market has been dominated by investors from Central and Eastern Europe.

In the first half of 2023, the total of investments in the office sector in Poland amounted to EUR 190 million, which was the lowest value since the first half of 2004. Investment activity decreased by as much as 86% compared to the first half of 2022, when Google acquired Warsaw HUB setting a new record on the Polish office real estate market. All office transactions completed so far in 2023 concerned Warsaw. The capitalization rates for the best office assets in Warsaw with lease agreements over 5 years, amounted to approximately 5.5%.

The largest office transaction in the first half of 2023 concerned the purchase of the Wola Retro complex by a Hungarian investor - Adventum International - for less than EUR 70 million. Another important event on the market was the sale of Moje Miejsce II by Echo Investment to the Czech investor - Trigea Real Estate Fund. The value of this transaction amounted to EUR 45 million. The acquisition of the Wisniowy Business Park complex (buildings C, D, E and F) by the Hungarian company - Indotek - was also worth noting.

In the office sector, the largest decrease in the number of new investments was recorded, which is due to the high level of construction and finishing costs, and the general investors' uncertainty resulting from the micro- and macro-economic situation and global politics.

A large increase in utility costs and imposed climatic requirements increase the pressure to reduce consumption. Both lessees and investors prefer properties with environmental certificates using modern technologies to monitor and manage utilities consumption, which are also more favored by banks.



**Watch the video:**  
Office sector H1 2023 summary

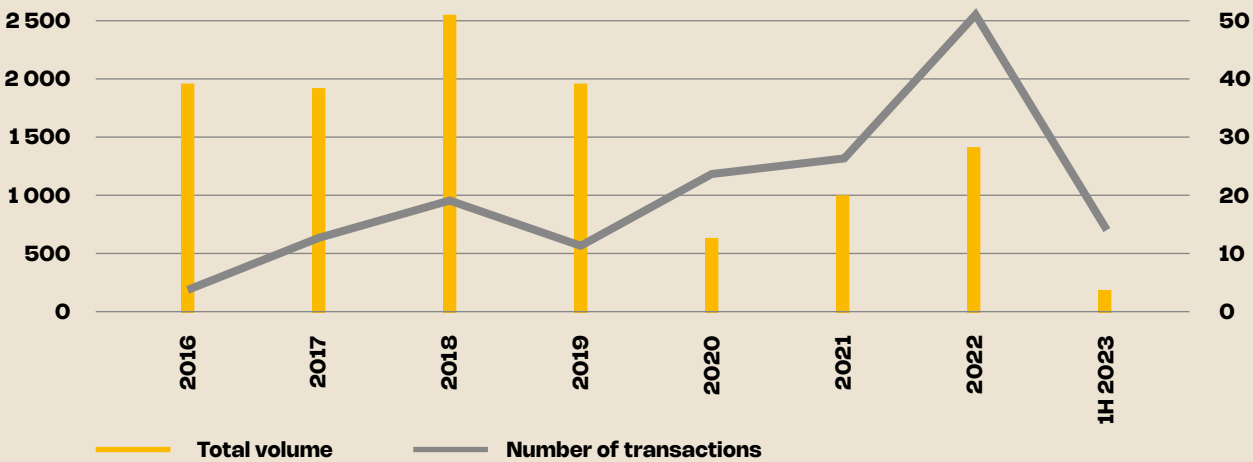




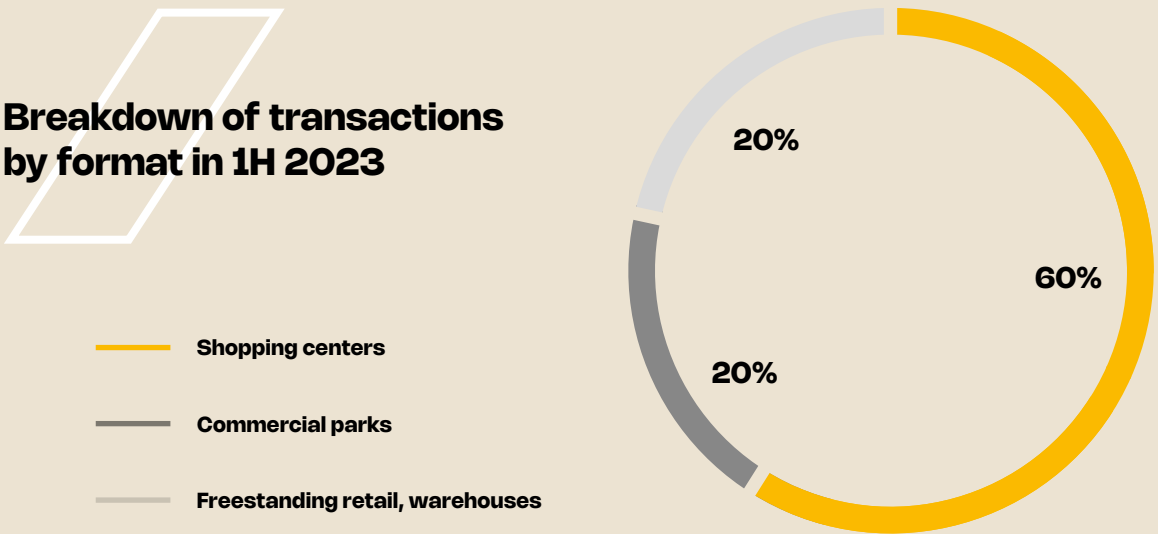
# Retail market

The volume of transactions in the retail real estate sector in the first half of 2023 reached EUR 200 million, which is the lowest half-year result since 2010. There were 12 transactions recorded on the market, covering a total of 17 assets, including 2 convenience facilities. Large sales of portfolios and individual assets are expected in the second half of the year.

Volume of the retail investments in Poland (EUR mln)

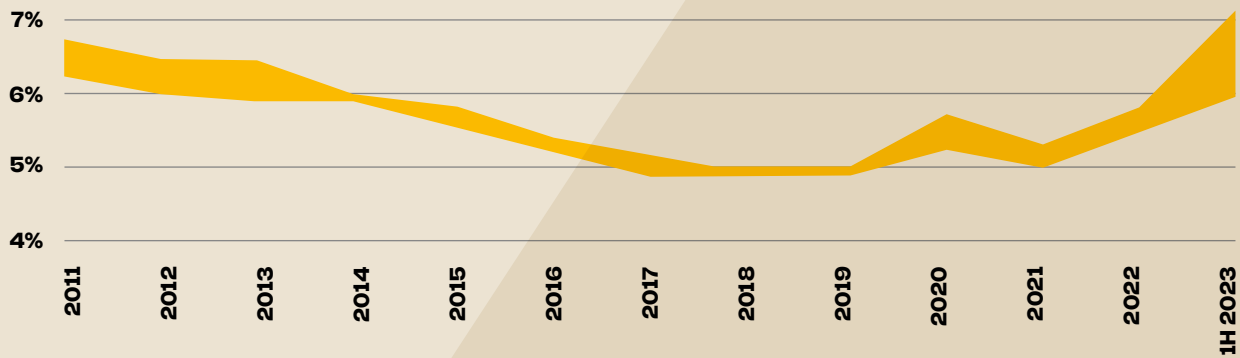


Breakdown of transactions by format in 1H 2023



# Selected sales transactions

Average cap rates



The largest transaction on the retail real estate market in the first half of the year involved the acquisition by Metropol Group - Atrium Molo located in Szczecin. The transaction proves that convenience centers with an established position among customers are in the crosshairs of investors. Prime yields for shopping malls were in the range of 6-7.10%, with an average of 6.5%.

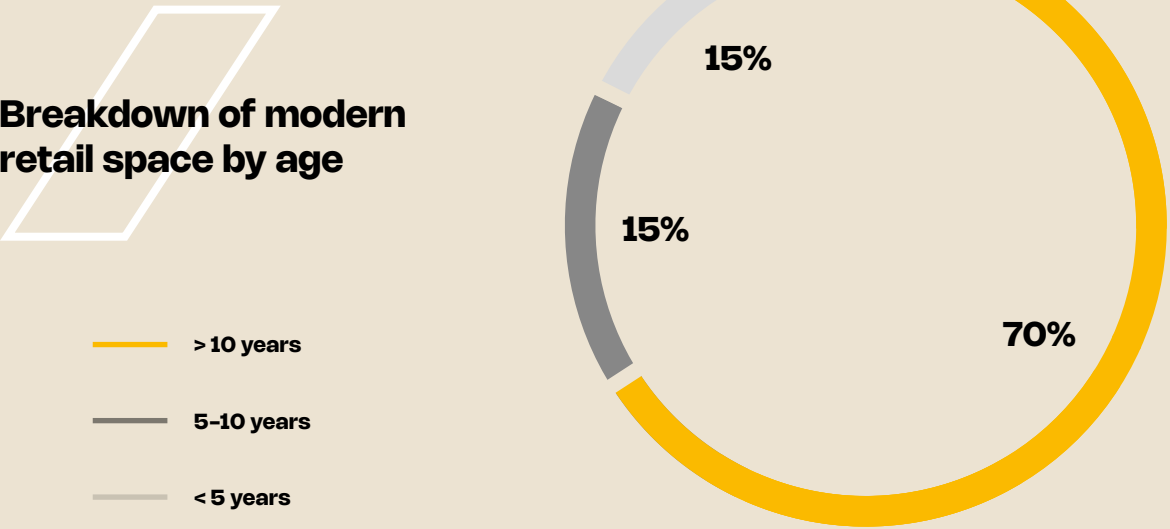
Property name	Vendor	Purchaser	Approx. price (EUR mln)
Atrium Molo	G City Europe	Metropol Group	46
Europa Centralna	Sierra Balmain	Mitiska REIM	n/d
Castorama DYI Plock	P.A.NOVA	New Gate Investment	n/d
3 DYI warehouses	3W	LeadCrest Capital Partners	20
Stara Cegielnia in Szczecin, Galeria Kosmos in Koszalin, OK Centrum in Strzegom, OK Centrum in Walbrzych	Castelake and Invel Real Estate	JWG Invest	10
Ferio	Raiffeisen Bank International	Focus Estate Fund	n/d



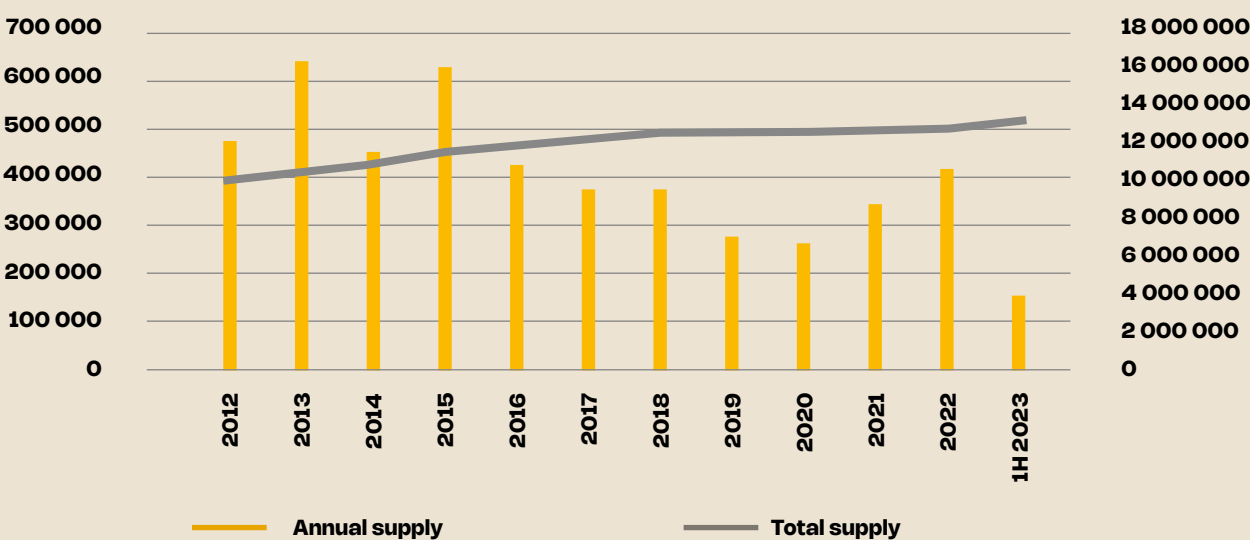
# Selected openings

Retail parks have been of particular interest of the market in recent years and the supply of this type of real estate has been one of the highest ever. In 2023, the market witnessed the opening of several projects, including: Galeria Bawelnianka commercial park in Belchatow with an area of 33 thousand sqm, and the Airpark in Bytow with an area of 12 thousand sqm. New shopping mall projects are still present on the market, although they constitute a significant minority.

Property name	Town	Developer	Total area (sqm)	Format
Galeria Bawelnianka	Belchatow	GBB Invest	33 000	Convenience center
Airpark	Bytow	Sputnik	12 000	Retail park
Weglin	Lublin	Interbud	10 600	Retail park
PH Kłodzko	Kłodzko	P.A. NOVA	10 000	Retail park
Park Glinianka	Lubna	REDKOM Development	10 200	Retail park
M Park	Koszalin	LCP Properties	10 000	Retail park
S1	Dzierżonów	Retail Invest	8 100	Retail park
N-Park	Piotrków Tryb.	Napollo	7 700	Retail park
Ostrzeszów Plaza	Ostrzeszów	K&K Group/ Scallier	6 400	Retail park

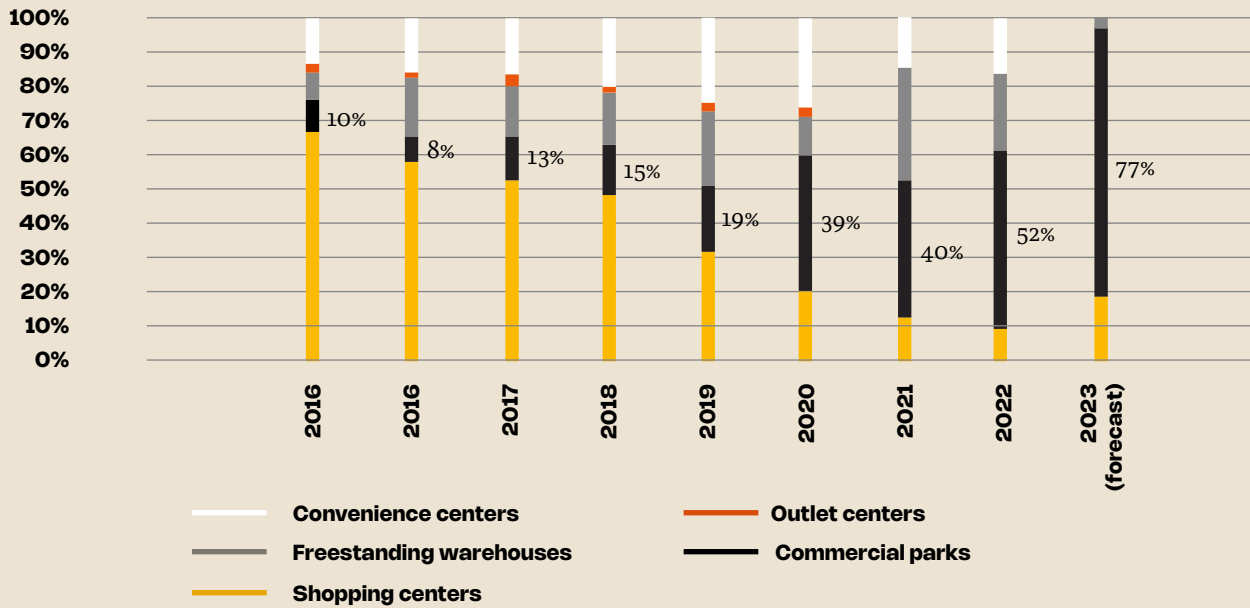


# Supply



The total supply of retail space in Poland has been growing steadily in recent years, with a slight slowdown in 2019-2020. The year 2022 brought a rebound in terms of delivering new retail space to the market, and the market grew by 400,000 sqm of new area at that time. The total retail area in Poland in 2022 exceeded 12.5 million sqm.

## Supply of a new retail space by format







## Summary

Purchasers are looking for investment opportunities, and vendors are holding back their decisions because the prices offered are far from satisfactory from their perspective. As in other sectors, the retail real estate market strives for stabilization of asset valuations, which is why we can expect more investment activity in the coming months.

Investors are more and more often ready to engage in projects at an earlier stage of implementation, in order to increase the profitability of investments even with higher risk. We can see an increasing involvement of private investors in the retail real estate market. The high attractiveness of retail parks and local convenience stores among customers and tenants means that it is currently, besides logistics, the most intensively developing sector in Poland.

Investment in retail parks is encouraged by the lower entry threshold for this type of projects. In contrary to larger complexes, their construction is less time-consuming and maintenance easier. The group of lessees interested in their leasing is growing due to lower rental rates and service charges compared to traditional retail centers.

Investors are still actively looking for land for new retail projects, preferably on the outskirts of the big cities, but also in smaller towns with approx. 10,000 inhabitants lacking such facilities. As for land, land banks are preparing for projects scheduled to be implemented in 18-24 months.



**Watch the video:**  
**Retail sector H1 2023 summary**







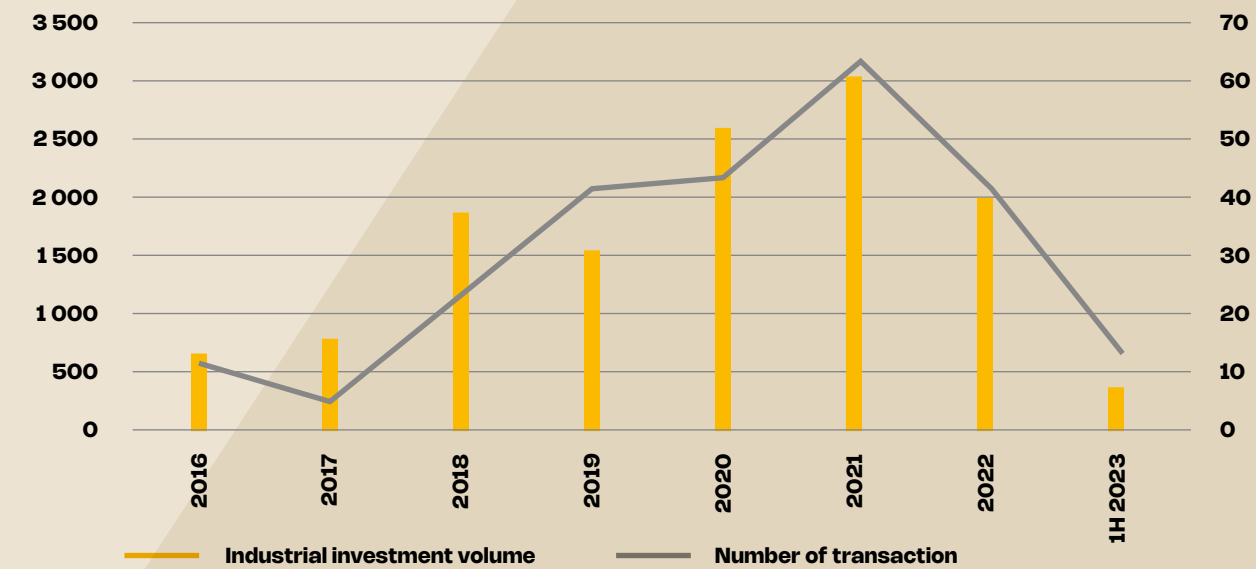
# Warehouse market

The warehouse real estate market is one of the fastest growing sectors of the real estate market in Poland. For years, we have been recording an intensive increase in the current supply. At the beginning of 2015, modern warehouse space resources amounted to 8.5 million sqm. In 2022, the supply of warehouse space more than tripled and currently stands at 28.3 million sqm.

New supply of warehouse space in 2022 recorded a historical record, since as much as 4.4 million sqm were delivered to the market. At the end of 2022, over 3.4 million sqm of modern warehouse and industrial space was under construction, i.e. almost 30% less than at the end of 2021. This shows that developers are more cautious when it comes to starting new investments, especially those not secured by lease agreements. Developers' activity is still quite high and at the end of Q1 2023 there was 2.2 million sqm of warehouse space under construction.

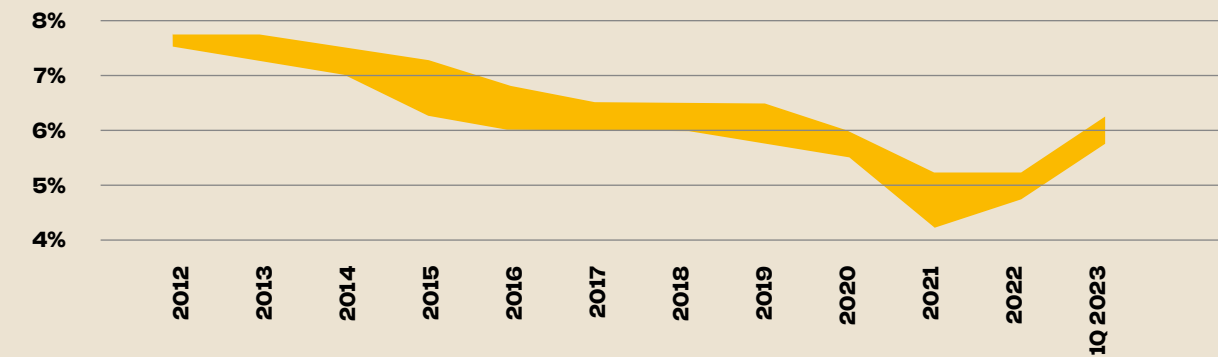
	2019	2020	2021	2022	1H 2023
<b>Current supply</b>	18 500 000	20 700 000	23 800 000	28 300 000	30 620 000
<b>New supply</b>	2 900 000	2 200 000	3 000 000	4 400 000	1 900 000
<b>Supply under construction</b>	1 900 000	2 000 000	4 700 000	3 400 000	2 120 000
<b>Demand</b>	4 000 000	5 200 000	7 400 000	6 700 000	2 240 000
<b>Vacancy ratio</b>	7.5%	6.9%	3.7%	4.1%	6.58%

Industrial investment volume (EUR mln)



The warehouse real estate market in Poland in the first half of this year accounted for more than half of the value of investment transactions. The transaction volume amounted to over EUR 430 million, which is one-third less compared to the previous year.

Industrial Yields – average capitalization rates







# Selected sales transactions

In the first half of 2023, 14 single asset transactions were concluded in the warehouse real estate sector; the unit value of 12 of them did not exceed EUR 50 million. Only the largest transaction - Campus 39 in Wroclaw acquired by P3 - exceeded the threshold of EUR 100 million. Another significant transaction was the purchase of City Logistics Wroclaw II by a Czech investor - Trigea, which is a proof of the increased activity of investors from Central and Eastern Europe. No portfolio transactions took place as investors were focusing on smaller projects. We could observe a lot of private equity activity on the warehouse real estate market.

Prices in this segment quickly optimized to market expectations. Investors were also encouraged to close transactions due to the increase in rental prices, growing fastest in this sector.

Property name	Vendor	Purchaser	Area (sqm)
P3 Wroclaw II (Wroclaw Campus 39)	Panattoni	P3	184 995
7R Park Poznan East II	7R	DWS Group	51 499
Panattoni City Logistics Wroclaw II	Panattoni	Trigea Nemovitostni	38 000
K-Flex BTS in Uniejow	Panattoni	LCN Capital Partners	33 000
Panattoni Park Tczew	Panattoni	LCN Capital Partners	30 000
Park Kalisz TEL RED	TEL Real Estate Developer	MNK Partners and Konveyor	9 940
Czosnow	KGL	LeadCrest Capital Partners	9 500
Gdansk, Budowlanych 15E	n/a	Robs Group Logistic	2 043

# Selected lease transactions

Gross demand in the first quarter of 2023 reached 1.2 million sqm, down by 22% year on year. There is a visible increase in the contribution of renegotiations compared to previous quarters, which accounted for 45% of the total demand. In the regional breakdown, the largest amount of space was leased in the Mazowieckie Voivodeship (200 000 sqm) followed by the Lodzkie (195 000 sqm) and Slaskie (191 000 sqm) Voivodeships.

Property name	Lessee	Sector	Area (sqm)	Contract type
Panattoni Park Szczecin	Tyco Electronics	Manufacturing/ Electronics	56 000	renewal
Panattoni Park Wroclaw Logistics South Hub	Shein	E-commerce	55 000	new
Panattoni Park Tri-City East V	Regesta	Logistics	43 300	new
GLP Cracow Logistics Centre III	MCG EastBridge	Logistics	36 700	new
Panattoni Park Ruda Slaska V	Regesta	Logistics	32 850	new
MDC 2 Park Lodz South	Notino	E-commerce	28 000	new
Panattoni BTS Hags Aneby	Hags Aneby	Other	27000	renewal
Panattoni Park Janki II	DSV Solutions	Logistics	26 000	renewal
Panattoni Park Bielsko-Biala IV	Polmotors	Automotive	22 000	new
Prologis Park Wroclaw III	Bidfood Farutex	Logistics	10 000	new





## Top regions in terms of demand in H1 2023 (in thousands sqm)



## Summary

The warehouse real estate market in the first half of the year accounted for 54% of the transaction volume and closed with the amount of approximately EUR 430 million. There is a visible lack of portfolio and large-volume transactions, unlike in previous years. We can see clear yield decompression, a difference between vendors and purchasers and an increase in rents and service costs. Noteworthy transactions include the acquisition of the KGL warehouse by LeadCrest Capital Partners or the transaction related to the project in Uniejow concluded between LCN Capital Partners and Panattoni.

In terms of land, we see the preparation of land banks for projects to be developed in 18-24 months. The presence of private equity is also dominant, and Walter Herz had the opportunity to complete several transactions of this kind only this year.



**Watch the video:**  
Warehouse sector H1 2023 summary





# Conclusions

Investors' moods are affected by high project financing costs and uncertain prospects in the global economy. The decline in investing activities in Poland is also impacted by rising interest rates in Europe and an increase in the yield on treasury bonds. Nevertheless, talks regarding larger acquisitions are underway. Their completion would significantly improve the results on the investment transactions market in Poland in the second half of the year.

For the time being, the market is dominated by smaller transactions, and no portfolio investments or large individual transactions are recorded. Most of the capital invested in the Polish commercial real estate market this year has originated from the countries of Central and Eastern Europe and the Baltic States. Global players have paused and are monitoring the market.



The limited number of transactions concluded this year is mainly due to the misalignment of purchasers' and vendors' price expectations, although the discrepancies are smaller compared to the previous year. Investors tend to look for opportunities and submit proposals below market prices. Property owners, however, do not succumb to pressure and are waiting for more attractive offers.

There is a high activity of investors looking for opportunities to build real estate value, achieve above-average returns and expand land banks in the long term. Investors are also entering joint ventures and looking for merger and acquisition opportunities on a larger scale.

If interest rates stabilize and financing of investments becomes cheaper next year, the chance of returning to higher transaction volumes will increase. However, a reversal of the economic trend in the retail real estate market should not be expected earlier than at the beginning of next year.

# Contact

**Thank you very much for having read the Walter Herz Report „Why Invest in Poland 2023” and your interest.**

Poland, with a population of nearly 40 million people and its location in Central and Eastern Europe, offers numerous investment opportunities in many sectors and areas. Please feel free to contact directly our consultants to learn more about all the options available and our comprehensive support.

Please feel invited to cooperation with us.



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