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## EXPERT:

CRESA'S Piotr Kaszyński and Bolesław Kołodziejczyk write about threats and opportunities for investors in commercial real estate.

EVER SINCE ITS INCEPTION 30 YEARS AGO, ONE OF THE MOST FUNDAMENTAL FUNCTIONS OF AMCHAM HAS BEEN TO MAINTAIN PLATFORMS FOR SHARING PROFESSIONAL KNOWLEDGE AND EXPERIENCE BETWEEN ITS MEMBERS. THERE ARE SEVERAL SUCH PLATFORMS, INCLUDING AMCHAM MONTHLY MEETINGS, THE AMCHAM COMMITTEES, AND THE EXPERT SECTION OF THE CHAMBER'S MAGAZINE. IN THIS DISPATCH, WE PRESENT THE OPINIONS OF **PIOTR KASZYŃSKI, MANAGING PARTNER AT CRESA POLAND, AND BOLESŁAW KOŁODZIEJCZYK, HEAD OF RESEARCH & ADVISORY AT CRESA POLAND**, ON HOW INVESTORS IN COMMERCIAL REAL ESTATE MAY VIEW THE THREATS AND OPPORTUNITIES IN THE MARKET IN THE MONTHS TO COME.

## EXPERT Commercial real estate

# A MARKET OF OPPORTUNITIES

## The crisis spurs strong and agile investors

With the ongoing pandemic affecting global markets, it is interesting to look at how the new economic situation may change the commercial real estate market situation. After a spell of optimism and return to relative normalcy, the market was dimmed by fears of a second wave of the pandemic. However, despite the continued uncertainty, investors with access to a large pool of liquid capital are likely to take advantage of many new opportunities in Poland. Commercial real estate is among the few asset classes that remain a long-term safe haven in times of crisis. Naturally, financially agile investors and developers who maintain ample cash reserves and other liquid financial instruments will enjoy the upper hand. Lower interest rates will support merger and acquisition deals. There will be acquisitions of properties that have a weaker capacity to generate long-term income and are unable to deliver to payback for their acquisition or construction.

When the situation stabilizes, a realignment of vendors' expectations will become a fact, which may result in more investment deals. Also, many development projects will require a new strategic approach with repositioning or even repurposing.

### OFFICE

The office market was at a historical high before the pandemic. After a brief period of turmoil, "normalcy" is returning to offices as well. As the experiment of remote work has failed in many sectors and companies, these organizations are the first

to return to the workplace. Some clients have put the search for office space on hold and are waiting to see how the situation will unfold. Others, including IT and e-commerce, are upsizing their offices. Office landlords now have an opportunity to retain their current tenants through lease negotiations with an option to extend lease terms. Some new office projects may attract tenants from rapidly growing sectors, particularly IT and e-commerce. Developers will have to step up their efforts to gain new tenants and come forward with more attractive rental rates or additional discounts if construction costs permit. Whether smaller tenants will revert to using co-working spaces more and help co-working providers maintain an appropriate profitability level remains in question. There is no doubt that co-working spaces are still the best option for tenants looking for a prestigious address.

### WAREHOUSE AND LOGISTICS

E-commerce has been growing rapidly for several years, and the pandemic only reinforced this process. Lockdown measures pushed many people to try online shopping, and most were satisfied.

Flexible responses to customer needs and short delivery time are critical in e-retailing. This, in turn, affects warehouse space—there is a new demand for more warehousing from e-commerce, something that will accelerate considerably now. In addition to the most sought-after big-box warehouses, there



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is a growing demand for formats such as small business units or last-mile logistics facilities close to large city centers. The growing demand for warehouses is benefiting logistics operators, along with courier and delivery companies. Food and pharmaceutical companies remain very active. Many retailers are already planning to diversify their business risk in case another wave of the epidemic blocks their stores' business and are moving some of their operations online. The current situation is a learning experience for consumers who are adapting to online shopping, which will boost demand for modern warehouse space in the long term. In turn, this will further accelerate the transformation of existing retail schemes so that they can best respond to consumer needs. Supply chain diversification and bringing manufacturing closer to consumer markets by international corporations can be a big opportunity for the warehouse and industrial market. Poland is in the top tier in the race to attract such investors.

### HOTELS

Unlike, for instance, in Germany, where domestic demand plays a major role, hotel occupancy in Poland is largely generated by international travelers: tourists, businesspeople, and foreign nationals attending conferences. As long as foreign tourists avoid Poland, this sector will find it difficult to return to pre-pandemic profitability levels. Opportunities will be plentiful in the hospitality sector, where rebuilding high occupancy rates and income levels will be a slow but steady process. Investors know that there is no escape from globalization and that people want to travel both on business and for leisure and will do

so even more after the pandemic is over. Unfortunately, many facilities may be closed down or will have changed hands by then. Individual hotels will continue to transform into chain-branded hotels, as non-chain hotels currently account for nearly 70 percent of the Polish hospitality market. International brands with strong capital positions and structures will hate to miss out on such opportunities.

### CONCLUSIONS

Investment funds are watching the market and will certainly not miss out on any opportunity. Despite brief spells of turmoil, capital values of the most stable products in central locations will hold firm. Discounts are unlikely in Warsaw, in particular. Capital values are likely to experience a sharper fall in smaller cities, and pricing will have to be adjusted to buyers' possibilities and appetite for risk. Some investment funds that have historically targeted retail and offices may change tack and focus on warehouse and industrial facilities. Leading investors think long-term rather than short-term, and the current situation is an opportunity for the most agile market players. If there is a temporary dip in property prices, investors seeking long-term profits will have the chance to earn high rates of return in the future.

Solid economic fundamentals will be instrumental in the fast rebuilding of asset values in Poland. If they are not weakened by the country's over-regulation and fiscal policy and the government temporarily helps entrepreneurs maintain liquidity, investor confidence in most commercial real estate sectors should fully recover by the end of this year.