

CEE  
Commercial  
Real Estate Market:  
Study & Overview

Annual Report  
2023

February, 2024



**BLACK WHALE**  
REAL ESTATE

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## ECONOMY & DEMOGRAPHY

Warsaw, Poland  
Author: Jacek Jablonski

### *Many difficulties, strong fundamentals, optimistic forecasts*

The year 2023 left an indelible mark on the global investment market as borrowing expenses surged dramatically amid the specter of a looming recession in major economies. This surge resulted in sellers' price expectations exceeding buyers' offers, resulting in subdued transaction volumes throughout the year.

However, amidst these challenges, Central and Eastern Europe (CEE) emerged as a region with promising prospects and resilience, showcased notable strengths across various sectors.

One of the pivotal shifts observed was the decline in the average annual inflation rate, which, despite starting the year in double digits, saw a significant drop to 5.5% by December 2023. This trend signaled a potential stabilization of economic conditions, paving the way for cautious optimism in the coming years.

Looking forward, 2024 and 2025 are anticipated to witness a resurgence in CEE's economic growth, propelled by a rebound in private consumption, continued investment expansion, and robust export performance. Moreover, the macroeconomic landscape is gradually stabilizing, fostering an environment conducive to growth and investment.

Central to the region's economic trajectory is its geographic positioning, which holds significant implications for evolving international dynamics, potentially yielding long-term benefits. Infrastructure development has been a cornerstone of the region's progress since the early 2000s, particularly in transportation networks. This investment has

facilitated efficient goods flow within the region and with Western Europe, offering substantial economic benefits. Moreover, the expansion of catchment areas has enhanced access to large consumer bases, further bolstering economic prospects for central locations and border markets.

The human factor emerges as a critical determinant of success for CEE countries, with competitive wage rates, a strong work ethic, and a skilled, international workforce driving economic development. This is exemplified by the region's robust manufacturing sector and its attractiveness to young professionals, reflected in the phenomenon known as „reverse brain drain.“

Innovation is becoming increasingly pervasive throughout the region, with countries continuously improving their economic complexity and export capabilities. This, coupled with a strong manufacturing base and proximity to Western markets, fuels the trend of nearshoring, positioning CEE as an attractive destination for businesses seeking operational efficiency and agility.

A noteworthy trend in the region is the increasing integration of Environmental, Social, and Governance (ESG) criteria across various segments of the real estate market. This shift underscores a broader commitment to sustainability and responsible practices, reflecting evolving investor preferences and regulatory frameworks.

In conclusion, Central and Eastern Europe's economic landscape presents a compelling narrative of resilience, growth, and opportunity. With favorable macroeconomic indicators, ongoing infrastructure development, and a commitment to sustainability, the region is poised to unlock its full potential, offering investors and businesses a promising frontier for growth and development.

	POPULATION	GDP 2023 (EUR BN)	INFLATION RATE (JAN 2024)	AVERAGE WAGES (EUR/MO)	FDI 2022 (EUR BN)
BALTICS *	6.1M	182	1.0-4.7%	1987-2121	3.1
POLAND	38M	688	3.9%	1644	25.1
CZECH	10.7M	291	2.9%	1865	9.8
SLOVAKIA	5.5M	115	2.7%	1562	5.5
HUNGARY	9.7M	177	5.5%	1537	8.5
ROMANIA	19.1M	301	5.8%	1563	11.2
BULGARIA	6.8M	90	4.0%	1045	2.5

\* LITHUANIA, LATVIA, ESTONIA



Warsaw, Poland  
Author: Adam Berkowski

## Low supply, constant demand, growing trends

Central and Eastern Europe (CEE) has been witnessing significant shifts in the dynamics of its office space market, driven by a combination of factors including evolving workplace trends, technological advancements, and economic conditions.

One of the prominent trends observed across most CEE countries is the limited addition to office space inventory. Despite sustained demand, particularly for Grade A office spaces, the pace of new developments is constrained by elevated construction costs and the prevailing economic challenges in Europe. This scarcity in the office space supply is expected to persist into 2024, shaping the dynamics of the market.

However, amidst these constraints, there's a notable emphasis on enhancing workplace quality and embracing hybrid work models. Employers are increasingly recognizing the importance of providing conducive work environments that foster productivity and well-being. This shift in mindset is driving the demand for Smart Office Solutions, reflecting evolving preferences and technological advancements aimed at creating more efficient and adaptable workspaces.

Grade A office spaces continue to attract large occupiers, indicating sustained demand in the market. Moreover, office demand appear relatively healthy despite the challenges, reflecting the resilience of these sectors in the face of economic headwinds.

Furthermore, investors are placing greater emphasis on Environmental, Social, and Governance (ESG) credentials across all sectors. This growing demand for sustainability is expected to drive more asset conversions from brown to green, aligning with the broader global trend towards responsible investing.

Looking ahead to 2024, most countries in the region are likely to experience a significant slowdown in the supply of new offices. Cities like the capitals of Slovakia and Romania are expected to see minimal new office projects. However, this slowdown in supply could help alleviate vacancy rates, particularly in modern offices compliant with ESG requirements, potentially shifting the market towards a more neutral balance by the end of 2024.

In conclusion, the office space market in CEE is navigating through a period of transformation characterized by limited supply, evolving workplace dynamics, and a growing focus on sustainability. As stakeholders adapt to these changes, opportunities emerge for innovative solutions and strategic investments that can drive long-term growth and resilience in the region's office space sector.

	POPULATION	TOTAL MODERN OFFICE SPACE (M SQM)	OFFICE SPACE UNDER CONSTRUCTION (M SQM)	OFFICE SPACE VACANCY (%)	OFFICE SPACE PRICES (EUR/SQM)
VILNIUS, RIGA, TALLINN (BALTICS)	0.45-0.62M	0.678-1.367	0.336	5-11.2%	14-20
WARSAW (POLAND)	1.79M	6.256	0.298	10.4%	12-27
PRAGUE (CZECH)	1.32M	3.853	0.085	7.5%	17-29
BRATISLAVA (SLOVAKIA)	0.44M	2.192	0.045	11.6%	10-16
BUDAPEST (HUNGARY)	1.77M	3.571	0.205	13.2%	10-16.5
BUCHAREST (ROMANIA)	1.78M	3.322	0.067	15.5%	9-15
SOFIA (BULGARIA)	1.28M	2.120	0.056	18.4%	11-15.5



RETAIL  
REAL ESTATE  
MARKET

Photo: Jimmy Chang

## *Higher costs, increase of saturation, diversity of formats and renovations*

The retail landscape in Central and Eastern Europe (CEE) continues to evolve, presenting a dynamic and diverse picture of growth trajectories across the region. From the establishment of large shopping complexes to the emergence of smaller retail hubs in secondary urban areas, noteworthy developments are shaping the retail sector's landscape.

However, challenges persist, particularly concerning higher inflation, which results in high rent indexation and rising energy costs. Despite these challenges, the retail sector remains resilient, driven by factors such as increasing consumer purchasing power and the ongoing development of discount retail formats.

Compared to Western Europe, the availability of modern retail facilities in the CEE region is relatively lower, prompting questions not of „if“ but „when“ this disparity will be bridged.

Retail parks continue to drive the CEE retail market forward, leveraging cost-effective construction methods and their ability to cater to smaller cities. Additionally, the anticipated decline in inflation is expected to favor consumers, further

stimulating growth in discount retail segments.

One notable trend is the emergence of smaller retail hubs in secondary urban areas, particularly evident in Poland. These hubs cater to local consumer needs, enhancing accessibility and fostering community engagement. In contrast, Slovakia showcases the establishment of large shopping complexes, serving as focal points for commercial activities and contributing to the region's retail diversity.

Moreover, within the retail landscape, there's a discernible trend towards renovations, upgrades, and mergers and acquisitions. These strategic moves reflect efforts to adapt to changing consumer preferences, enhance competitiveness, and capitalize on emerging opportunities in the market.

Key sectors driving demand for retail space include grocery and non-grocery discount stores, budget fashion, groceries, home furnishings, and electronics. These sectors reflect the evolving consumer preferences and the demand for diverse retail offerings in the CEE region.

In conclusion, the retail sector in Central and Eastern Europe presents a dynamic landscape characterized by growth, adaptation, and strategic developments. As stakeholders navigate through challenges and capitalize on opportunities, the retail sector is poised to further evolve, catering to the diverse needs and preferences of consumers across the region.

	BALTICS	POLAND	CZECH	SLOVAKIA	HUNGARY	ROMANIA
SHOPPING CENTRES STOCK (SQM)	2.8M	10.6M	2.5M	1.6M	1.5M	2.5M
NUMBER OF SHOPPING CENTRES	139	466	108	90	57	77
SHOPPING CENTRES DENSITY (SQM/1000 CAP.)	453	275	234	286	146	135
RETAIL PARKS STOCK (SQM)	0.32M	1.5M	1.38M	0.55M	0.76M	1.66M
NUMBER OF RETAIL PARKS	10	172	120	64	77	116
RETAILS PARK DENSITY (SQM/1000 CAP.)	53	26	127	96	79	76



INDUSTRY  
REAL ESTATE  
MARKET

Photo: Marcin Józwiak

## Strong fundamentals, constant growth, stable demand

Central and Eastern Europe (CEE) is experiencing a notable resurgence in the demand for warehouse facilities, marking a significant rebound towards pre-pandemic levels of activity.

One of the key pillars supporting this resurgence is the stability in occupier demand observed among logistics operators. Both large-scale operators and smaller-sized businesses are actively seeking warehouse space, reflecting the underlying strength of the logistics sector in the CEE region. Furthermore, the scarcity of land in certain areas is expected to contribute to maintaining stable prices, despite the prevailing market challenges.

From the perspective of Western economies, Central and Eastern Europe remains an attractive destination for reshoring and nearshoring activities. The region boasts a significant productivity-cost differential, making it a compelling choice for companies looking to optimize their manufacturing and supply chain operations. This trend is exemplified by the substantial level of investment inflows recorded in 2023, which surpassed previous cycles, underlining the

region's enduring appeal to investors.

As the market dynamics evolve, experts anticipate a stabilization or slower growth in rental rates across CEE. The normalization of construction costs and an uptick in vacancy rates are likely to temper the unprecedented rental growth witnessed in recent years. Nevertheless, CEE continues to present a favorable outlook compared to its Western European counterparts, owing to the productivity-wage gap and other competitive advantages inherent in the region.

The changing landscape of the warehouse market is prompting stakeholders to consider the modernization of older buildings. Through renovation and upgrades, these structures can regain attractiveness to tenants, meeting evolving demands for modern and efficient warehouse facilities. However, the timing of these changes coincides with a challenging phase in the economic cycle, characterized by high interest rates and other uncertainties.

The CEE warehouse market is poised for continued growth, fueled by resilient demand and strategic investments. As stakeholders navigate through evolving dynamics and seize emerging opportunities, the region remains well-positioned to capitalize on its competitive advantages and drive sustainable growth in the logistics sector.

	BALTICS	POLAND	CZECH	SLOVAKIA	HUNGARY	ROMANIA
MODERN LOGISTICS SPACES STOCK (SQM)	4.5M	24M	9.9M	3.3M	4.1M	5.6M
LOGISTICS SPACES NEW SUPPLY 2023 (SQM)	0.12M	3.7M	0.271M	0.24M	0.364M	0.492M
UNDER CONSTRUCTION (4Q 2023)	0.45M	2.49M	0.982M	0.309M	0.137M	0.476M
DEMAND 2023 (SQM)	0.26M	5.7M	1.5M	0.55M	0.5M	0.6M
VACANCY (%)	3.5%	4%	1.8%	5%	3%	4%
RENTAL PRICES (EUR/SQM)	5.5	3.9	5.5	3.9	4.7	3.6





## INVESTMENT SCENE

### *Drastically reduced demand and waiting*

As the curtain fell on 2023, the European real estate market found itself at a crossroads, with limited transactional activity characterizing the year's end. However, amidst this subdued market sentiment, there are inklings of optimism as both buyers and sellers cautiously align their views on current pricing, hinting at a potential uptick in investment activity in the coming year.

The broader economic landscape, however, remains shrouded in uncertainty, exacerbated by higher interest rates that have acted as a deterrent to investment in certain regions. Despite these challenges, CEE continues to hold its position as an attractive destination for global cross-border capital, thanks to its diverse markets and resilient economic fundamentals.

Investors have adopted a wait-and-see attitude, wary of

external market uncertainties. As a result, surpassing the investment volumes recorded in 2021-2022 may pose a challenge over the course of 2024.

Looking ahead, there are signs of cautious optimism among private equity funds operating in Central and Eastern Europe (CEE). According to the „Deloitte Central European (CE) Private Equity (PE) Confidence Survey,” 49% of respondents anticipate an increase in the number of transactions in the region this year. This forecast underscores the potential for renewed investor confidence and activity in the CEE real estate market, despite prevailing uncertainties.

In conclusion, the European real estate investment landscape in 2024 presents a nuanced picture, characterized by cautious optimism amid economic uncertainties and higher interest rates. While challenges persist, there are indications of a gradual thawing of market sentiment, signaling potential opportunities for investors willing to navigate the evolving landscape with prudence and foresight.

INVESTMENT VALUE  
2021-2023

BALTICS	POLAND	CZECH REPUBLIC
2023	2023	2023
0.62B	2.1B	1.2B
2022	2022	2022
1.17B	5.8B	1.9B
2021	2021	2021
1.9B	5.7B	1.67B
SLOVAKIA	ROMANIA	HUNGARY
2023	2023	2023
0.6B	0.52B	0.61B
2022	2022	2022
1.1B	1.29B	0.92B
2021	2021	2021
0.76B	0.92B	0.91B

TOP DEALS

PROPERTY NAME	LOCATION	SALE PRICE (EUR, APPROX.)	VENDOR	PURCHASER
CAMPUS 39	Wroclaw, PL	139M	Panattoni	P3
TREI RETAIL PORTFOLIO	CZK, SK	200M	Trei Real Estate	Star Capital Finance
PALÁC PARDUBICE	Pardubice, CZ	120M	G City Europe	Redstone
H2O	Budapest, HUN	100M	Skanska	ERSTE RE Fund
MITISKA RETAIL PARKS PORTFOLIO	Various, RO	219M	Mitiska REIM	M Core
LANDEREROVA 12	Bratislava, SK	80M	JTRE	ZFP Investments
PRIBINOVA 19	Bratislava, SK	80M	JTRE	IAD Investments
FM LOGISTIC'S INDUSTRIAL PORTFOLIO	Various, RO	60M	FM Logistic	CTP
WOLA RETRO	Warsaw, PL	70M	Develia	Adventum International
PANATTONI PARK URZUT	Warsaw, PL	42M	Panattoni	PZU
POSTĘPU 5A	Warsaw, PL	45M	Eiffage Immobilier Polska	Murapol, ARES, Griffin



THE LARGEST  
ECONOMY:  
POLAND

Warsaw, Poland  
Author: Iwona Caswellio d'Antonio

### *High yields, low supply and limited deals*

In 2023, the Polish investment market underwent significant shifts, characterized by unprecedented changes in borrowing costs and the resulting impact on commercial real estate activity. The surge in borrowing expenses substantially dampened investor enthusiasm, leading to a moderation in market activity across various sectors.

The uncertainty surrounding the size and duration of price adjustments further exacerbated the reluctance of market players to engage actively. This hesitancy stemmed from the exceptional difficulties in formulating viable exit strategies, hindering bidding activity in most sectors. Additionally, the absence of prime transaction evidence disrupted the valuation process, posing challenges for both landlords and prospective investors. Consequently, sellers' price expectations often exceeded what most buyers were willing to offer, creating a significant bid-ask spread.

The moderation of bidding intensity, coupled with the persistent high cost of debt, led to a further upward movement in office yields. By the end of December, the yield for prime assets in Warsaw, with lease agreements exceeding five years, was estimated at approximately 6.00%. Similarly, prime cap rates in Kraków, the core regional city, hovered around 7.00%.

In the warehouse segment, prime yields for multi-tenant schemes with five-year lease agreements were estimated to be between 6.50% - 6.75% by the end of December 2023. In Warsaw, prime projects recorded yields ranging from 6.25% - 6.50%.

The office investment market in Warsaw remained subdued throughout 2023, with investors committing approximately €427 million. This figure represents the lowest recorded since 2009, reflecting the cautious sentiment prevailing in the market.

Most of the office acquisitions in 2023 were concentrated in Warsaw, with minimal activity observed in regional cities. Notable transactions included the purchase of Mokrów Nova by M&A Capital from Tristan Capital Partners for approximately €75 million. Equally significant was the sale of Wola Retro to Hungarian investor Adventum International for around €70 million. Other noteworthy transactions included the sale of Warta Tower by Globalworth to Cornerstone for €63.4 million and the acquisition of My Place II from Echo Investment by Czech investor Trigea, valued at almost €45 million.

Despite the challenges and uncertainties faced in 2023, the Polish investment market continued to attract interest, with investors cautiously navigating through the evolving landscape in pursuit of viable opportunities.

POLAND

STOCK | NEW SUPPLY |  
UNDER CONSTRUCTION

OFFICE

STOCK 2023 (SQM)

11.6M

NEW SUPPLY 2023 (SQM)

0.386M

UNDER CONSTRUCTION  
IN Q4 2023 (SQM)

0.614M

RETAIL

STOCK 2023 (SQM)

12.1M

NEW SUPPLY 2023 (SQM)

0.402M

UNDER CONSTRUCTION  
IN Q4 2023 (SQM)

0.381M

LOGISTICS

STOCK 2023 (SQM)

24M

NEW SUPPLY 2023 (SQM)

3.7M

UNDER CONSTRUCTION  
IN Q4 2023 (SQM)

2.49M

PRS

STOCK 2023 (UNITS)

15 900

NEW SUPPLY 2023 (UNITS)

5 700

UNDER CONSTRUCTION  
IN Q4 2023 (UNITS)

11 600





CEE REAL  
ESTATE MARKET  
OUTLOOK

Bratislava, Slovakia  
Author: Martin Katler

## Conclusions to shape the strategy for the coming years

As we look towards the investment landscape in Europe for the year 2025, it's essential to draw insights from the trends and challenges observed in various sectors over the past years.

### *Economic Resurgence*

CEE is witnessing an economic resurgence, with sectors like manufacturing and technology driving growth. Investors can capitalize on this momentum by identifying opportunities in emerging markets and leveraging the region's evolving economic landscape to their advantage.

### *Potential in Sustainable Investing*

Sustainable investing is gaining traction across Europe, with Environmental, Social, and Governance (ESG) criteria becoming integral to investment decisions. By aligning with sustainable practices and embracing green solutions, investors can not only generate financial returns but also contribute to positive environmental and social impacts.

### *Innovation in Real Estate Technology*

The real estate sector is undergoing a technological revolution, with innovations such as Proptech and Smart Office Solutions reshaping the industry. Investors who embrace these advancements and leverage technology to enhance

property management and tenant experiences stand to gain a competitive edge in the market.

### *Continued Growth in CEE's Warehouse Sector*

The resurgence of demand for warehouse facilities in CEE is expected to continue, driven by factors such as the recovery of the automotive sector and the region's strategic geographical location. Investors should anticipate sustained activity in this sector, with opportunities for expansion and diversification of portfolios.

### *Charting a Course Through Market Uncertainties*

Market uncertainties, including fluctuating interest rates and geopolitical tensions, pose challenges for investors navigating the European market. By adopting a diversified investment strategy, conducting thorough market research, and maintaining flexibility, investors can mitigate risks and capitalize on opportunities amidst uncertain conditions.

### *Looking Forward*

As we move into 2025, the European investment landscape presents a mix of challenges and opportunities for investors across different sectors. By leveraging insights from past trends and adopting a proactive approach to investment decision-making, investors can position themselves to capitalize on emerging opportunities and navigate through uncertainties, ensuring sustainable growth and success in the dynamic European investment market.

February, 2024

