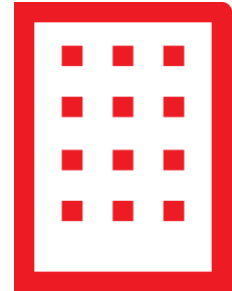


# Office market



Kraków | Wrocław | Tri-City | Katowice | Łódź |  
Poznań | Lublin | Szczecin

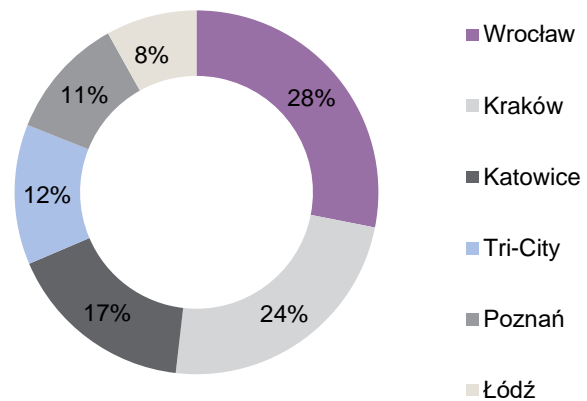
## A flight to quality

2022 was another challenging year for both the economy and the office market in Poland. In the aftermath of the COVID-19 pandemic, most companies continue to adopt a hybrid work model. While some employers note a waning "bond" with the corporation among their employees, mandating a complete return to the office may prove challenging. The lion's share of companies (primarily in the shared services and IT sectors) have made hybrid work policies permanent, which may be an attractive and competitive proposition for those who see such an option as an important element in choosing a job offer.

In addition, due to rising interest rates, energy and material prices as well as labour costs, developers are more cautious in starting new projects. For a significant proportion of planned projects, the start of construction is dependent on securing a key tenant. At the end of Q4 2022, about 600,000 m<sup>2</sup> were under construction, which, compared to, for example, 2018 when more than one million m<sup>2</sup> was under construction, confirms a significant slowdown on the part of investors. As a result of this level of developer filings and the current situation, a gap in new supply in Poland's largest office markets outside of Warsaw is expected from 2024.

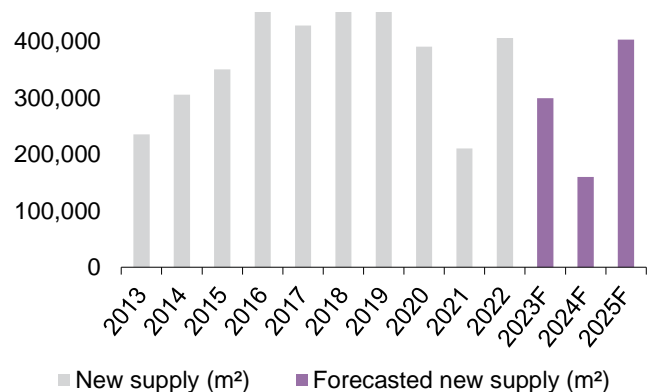
It is worth remembering, however, that the alternative to new developments will be the renovation of older, lower-quality buildings.

Space under construction (the largest regional office markets in Poland, Q4 2022)



Source: JLL, Q4 2022

New supply (Poland's largest regional markets, 2013 – 2025F)

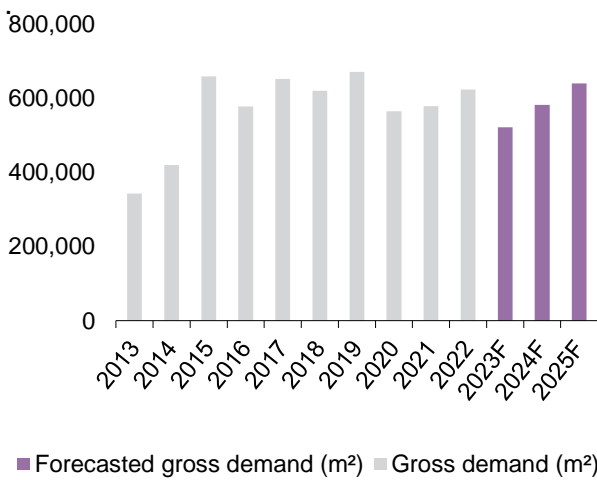


Source: JLL, Q4 2022

As a result of such changes, the offer will not only include more high-quality space, but with the use of modern solutions, it will be possible to generate savings in a number of areas including energy consumption.

In Q4 2022, 73,800 m<sup>2</sup> were added to the modern office stock in Poland's largest regional markets in the shape of 12 developments. The largest of these market additions were Brain Park A and B (31,100 m<sup>2</sup>) and Fabryczna Office Park B4 and H1 (21,800 m<sup>2</sup>) - both projects are located in Kraków. In total, developers completed nearly 405,300 m<sup>2</sup> of new offices in 2022, with the most space being delivered in Katowice (127,300 m<sup>2</sup>) and Krakow (100,500 m<sup>2</sup>).

### Demand (the largest regional office markets in Poland, 2013 – 2025F)



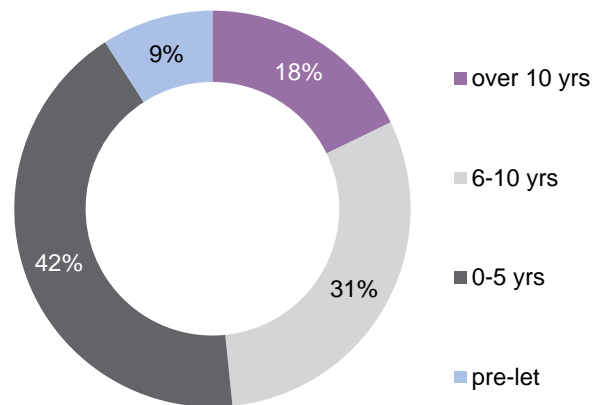
Source: JLL, Q4 2022

After a gentle slowdown in tenant activity in Q3, the last three months of 2022 again saw a recovery on the corporate side. As a result, the volume of demand on an annual basis amounted to more than 623,200 m<sup>2</sup> (+5% y-o-y). This shows that there can be no talk yet of a year-on-year decline in office interest. The projected total tenant activity for the next few years may remain at similar levels to those of the last three years. The largest deals concluded in 2022 were the renegotiation of a confidential tenant agreement at Green Day in Wrocław for 14,800 m<sup>2</sup>, the relocation of Capgemini in Krakow (pre-let, 13,800 m<sup>2</sup>, Fabryczna Office Park) and a new agreement signed by PWC in Katowice for 12,900 m<sup>2</sup> in the .KTW II building.

The so-called "flight to quality" is evident in both the capital and regional office markets. Demand for offices remains largely generated by tenant relocations to better quality office buildings.

In 2022, more than 50% of the volume of tenant activity was signed in buildings up to five years old, of which 10% was pre-leasing, i.e. signed for space in buildings that have not yet been completed.

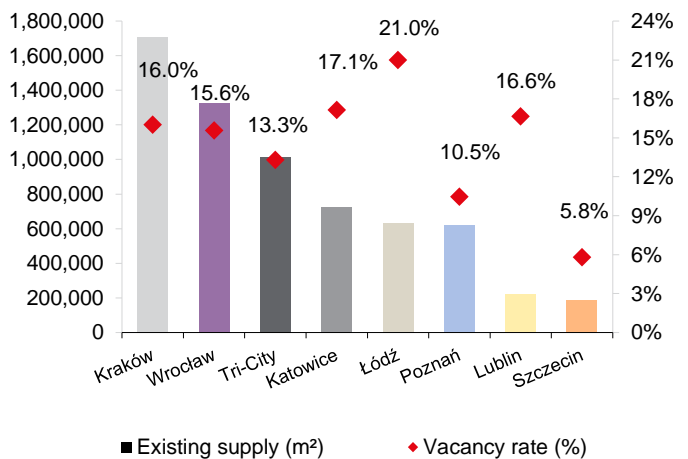
### Office demand by building age (Poland's largest regional markets, 2022)



Source: JLL, Q4 2022

Due to the aforementioned trend of tenants relocating to higher-standard office buildings, we are seeing an increasing amount of space for lease in older office buildings, with the effect of a gradual change in the vacancy structure.

### Supply vs vacancy rate (the largest regional office markets in Poland, Q4 2022)



Source: JLL, Q4 2022

At the end of 2022, the vacancy rate for the eight major regional markets was 15.3%. The index remained at a comparable level to the previous quarter, but was still 1.2 p.p. higher than in 2021. With the delivery of new office projects to market, the vacancy rate will show an upward trend over the course of 2023, while a gradual decline may come with the emergence of a gap in new supply estimated for 2024.

2022 brought an increase of €0.25-0.50 / m<sup>2</sup> / month in rental rates for prime properties in most major office markets. At the end of December 2022, the highest rents were recorded in Krakow (€14.00-16.00 / m<sup>2</sup> / month), Wroclaw (€14.00-15.50 / m<sup>2</sup> / month) and the Tri-City (€13.50-15.50 / m<sup>2</sup> / month).

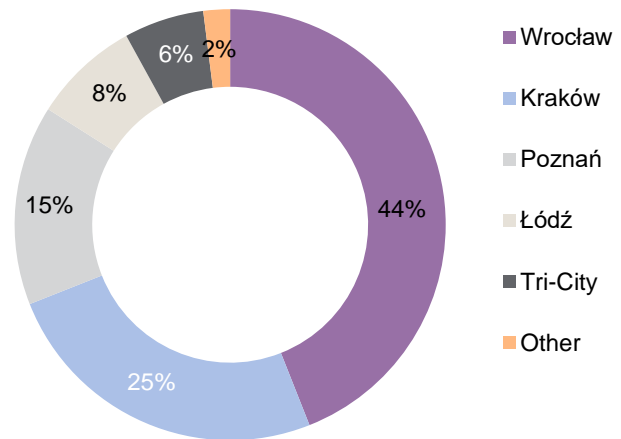
The market continues to see upward pressure on prime office rents. This is a result of both increasing tenant interest in this type of space and high costs associated with interior design or construction in the case of new buildings.

Lower-quality buildings, in an effort to become competitive with A-class properties, are offering lower rental rates. It is worth bearing in mind, however, that in most of these older office buildings the technological solutions are not as modern as in newly renovated developments. In the absence of energy-efficient installations, one should expect higher costs for utilities, and consequently higher rates for service charges.

Although this trend has already emerged in the capital, recently in the largest office markets outside Warsaw, contracts signed for seven or even 10 years are becoming more common. From the perspective of landlords, shorter contracts cannot cover the costs necessary for preparing the space for the tenant. As a result of making deals for a longer period, property owners are in a position to offer a correspondingly higher fit-out budget as an incentive.

In 2022, the total office investments in Poland reached €2.2 billion, exceeding the full-year volume of the previous year by 26%. The impressive amount of capital allocated in the office segment was generated by core Warsaw transactions on an unprecedented

### Investment volume in the office sector (the largest regional office markets in Poland, 2022)



Source: JLL, Q4 2022

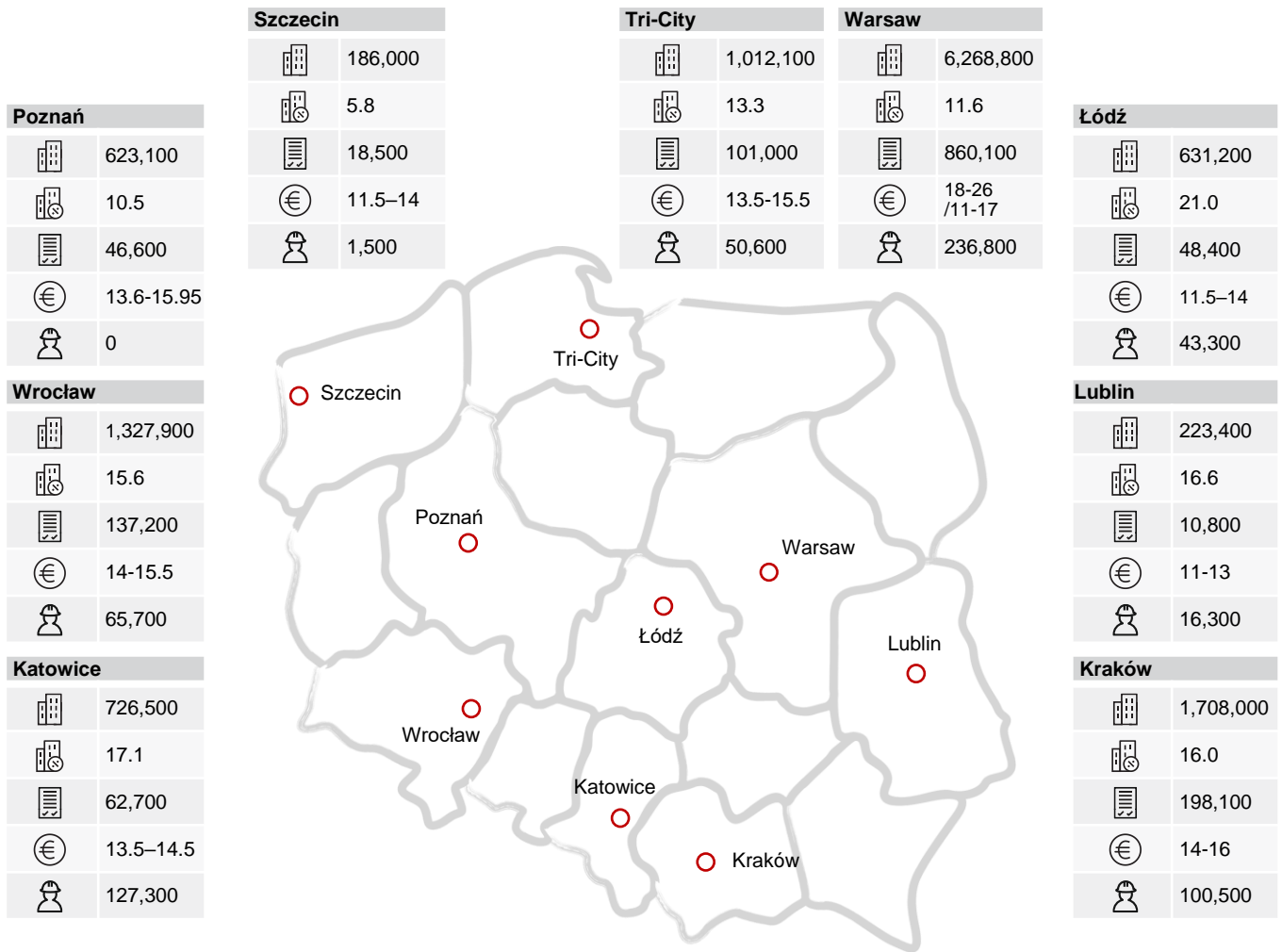
scale as well as a number of core and core+ deals concluded in the regional markets.

Transactions finalised in the regional markets accounted for over 50% of 2022's turnover with the lion's share claimed by two portfolio transactions in Kraków & Wrocław.

Cavatina sold Tishnera Office (Kraków), Ocean Office Park (Kraków) and Carbon Tower (Wrocław) to Lone Star. The total value of this portfolio exceeded €139 million. Equally noteworthy was the disposal of Centrum Południe (Wrocław) and High Five's Building 3 (Kraków). Stena bought both assets from Skanska for approx. €127 million. The true milestone deal outside Warsaw, however, was Eastnine's acquisition of Nowy Rynek D in Poznań. This was the Swedish investor's first transaction in Poland. Skanska disposed of this state-of-the-art asset for approx. €121 million, making it the largest ever transaction for a single office building sold outside Warsaw. The largest deal of Q4 was the acquisition of the Face2Face complex developed by Echo Investment and bought by Investika & Bud Holdings for €113 million.

The prime cap rates in Kraków and Wrocław, which remain the core regional cities, are currently at approx. 6.00%.

# Key data on the major office markets in Poland



Stock (m<sup>2</sup>)  
 Vacancy rate (%)  
 Gross take-up (m<sup>2</sup>)  
 Prime rents (€/m<sup>2</sup> month)  
 New supply (m<sup>2</sup>)

Source: JLL, Q4 2022

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