May 2018

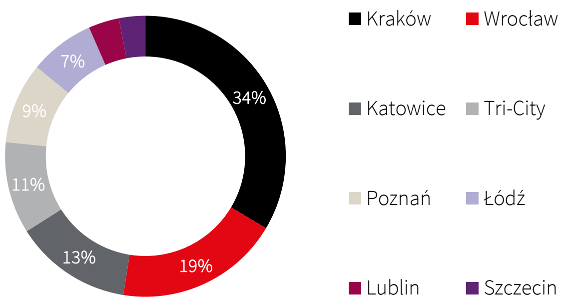
# Regional office markets

After the exceptional 2017, the real estate situation in Poland is currently showing signs of continuing that momentum. In an encouraging show of confidence, companies from the banking and finance sector once again displayed trust in the regional markets and were responsible for the three largest deals signed in Q1. Two significant factors are driving this sound demand: the hunt for new opportunities in order to enhance the working environment and attract the best talent; and the increasing choice of top quality real estate throughout Poland.

Once the domain of tech start-ups and creative agencies, large corporations are increasingly looking for out-of-the-ordinary spaces across the country. Many are finding answers in non-traditional places, such as converted industrial buildings, as has happened in the case of Clariant, which decided to lease space in Monopolis (a former vodka factory) in Łódź. Others are looking for brand new landmark developments, for example Fujitsu Global Delivery Center Poland, which has opened a new business operations centre in the .KTW building in Katowice. Another driver behind the growth of regional markets has been the diversification of the presences of various companies in Poland. Some of the firms, while growing, are looking to expand into new markets or subsequent locations in a city and therefore boost developer activity there. Examples of such moves include the pre-let by State Street in the .big office building in Kraków.

Kraków remains the leader of the pack, with the largest volume of deals signed; however, the largest transaction came from Wrocław. Katowice is showing signs of a surge in demand as compared with the previous year. Also encouraging are the expansions by firms operating in all markets and the constant increase in employment.

### Demand distribution across regional office markets (Q1 2018)




*Source: JLL, PORF, Q1 2018*

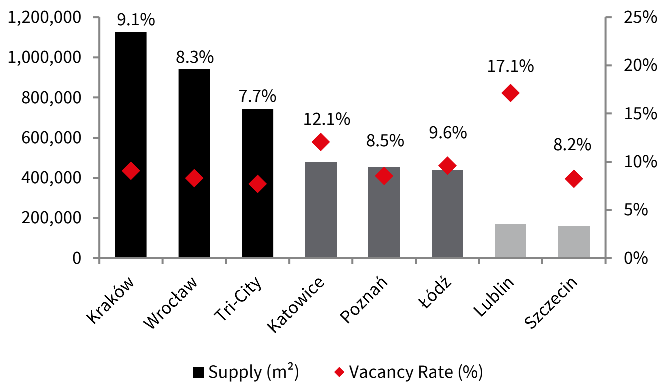
Such positive market sentiment has resulted in sound demand across Poland. Approximately 127,100 m$^2$ was transacted on, of which 36,500 m$^2$ came from pre-lets, and a further 61,000 m$^2$ constituted new deals in existing buildings. Renewals amounted to 16,100 m$^2$, while expansions accounted for 13,500 m$^2$.

The largest deals included a new lease by Santander Consumer Bank for 10,000 m$^2$ in Business Garden in Wrocław, a pre-let by State Street for 9,000 m$^2$ in .big in Kraków, a renewal by BGŻ BNP Paribas for 8,500 m$^2$ in Avatar in Kraków and a pre-let by Fujitsu Global Delivery Center Poland for 6,300 m$^2$ in .KTW in Katowice. This further underlines the demand for brand new developments, especially from large international corporations.

Strong interest from corporates is resulting in increased developer activity in Poland. Q1 saw an increase in new completions, which totalled 129,100 m$^2$, predominantly in large-scale projects. The major new developments were: Olivia Star (by Olivia Business Centre) in the Tri-City, an office tower and the tallest building in northern Poland, which further reflects the dynamism of office markets outside of Warsaw; O3 Business Campus III (by Echo Investment) in Kraków; and .KTW (by TDJ Estate) in Katowice.

Construction activity in the major regional markets amounts to an exceptional 1.1 million m$^2$; however, falling vacancy rates show that there is demand for all that new space. The activity is focused mainly on Kraków, Wrocław and the Tri-City, which together account for 67% of all under-construction space in the eight regional cities; however, all of the markets are characterised by increased activity on the supply side of the market.

### Office stock levels and vacancy rates across the regional office markets

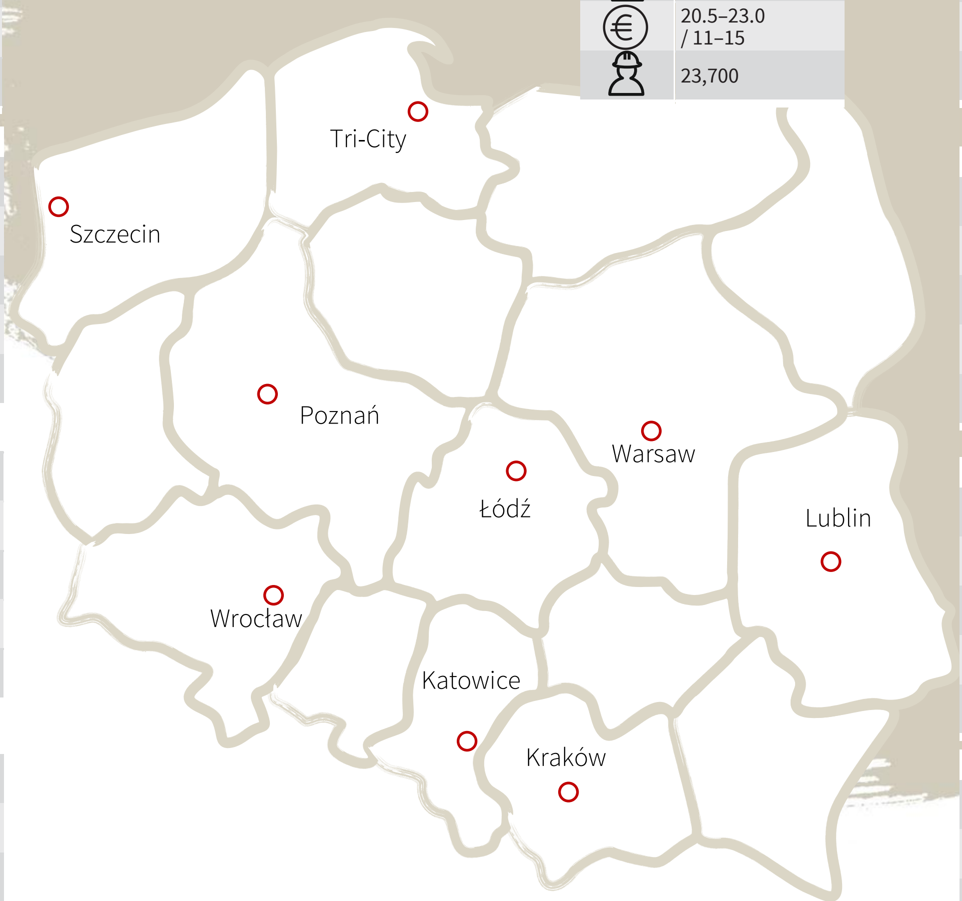



*Source: JLL, PORF, Q1 2018*

The overall vacancy rate for the eight regional cities fell once again in Q1 2018 and now stands at 9.3%. This is in line with constantly improving market fundamentals and robust demand for offices, particularly from the modern business services sector. Six of the eight major regional cities experienced drops in their vacancy rate quarter on quarter, the largest decreases being seen in Lublin (2.5 pp q-o-q), Szczecin (1.8 pp q-o-q), and Wrocław (1.2 pp q-o-q). The rates rose in Łódź and Katowice but those changes were minor.

# General Data on the Office Markets in Poland in Q1 2018

| City | Stock (m²) | Vacancy rate (%) | Demand (m²) | Prime rents (€ /m²/month) | New supply (m²) |
|---|---|---|---|---|---|
| Tri-City | 743,500 | 7.7 | 13,400 | 12.75–14 | 45,700 |
| Szczecin | 157,100 | 8.2 | 3,900 | 11.5–14 | 0 |
| Poznań | 454,900 | 8.5 | 11,800 | 13.6–14.5 | 0 |
| Wrocław | 942,400 | 8.3 | 24,100 | 13.7–14.5 | 36,600 |
| Warsaw | 5,279,100 | 10.8 | 202,100 | 20.5–23.0 / 11–15 | 23,700 |
| Łódź | 437,800 | 9.6 | 9,500 | 11.5–13.2 | 0 |
| Lublin | 170,900 | 17.1 | 4,500 | 10.5–11.5 | 0 |
| Katowice | 477,400 | 12.1 | 17,200 | 12.5–14.5 | 18,200 |
| Kraków | 1,128,100 | 9.1 | 42,600 | 13.5–14.6 | 28,500 |




*Source: JLL, PORF, Q1 2018*

Stock (m²) | Vacancy rate (%) | Demand (m²) | Prime rents (€ /m²/month) | New supply (m²)

In terms of rental conditions in the major office markets in Poland, prices have remained relatively stable; however, there were some increases in Q1 2018. Three cities noted an uptick in the upper band of prime headline rents: Katowice (now leasing for €12.5 to €14.5 / m² / month), Poznań (€13.6 to €14.5 / m² / month) and Szczecin (€11.5 to €14 / m² / month). Currently the highest rents are quoted in Kraków (€13.5 to €14.6 / m² / month) and Wrocław (€13.7 to €14.5 / m² / month), while the lowest are found in Lublin (€10.5 to €11.5 / m² / month). Some minor changes are expected in the next few quarters.

Łukasz Dziedzic
Research Analyst
Research & Consultancy
lukasz.dziedzic@eu.jll.com
+48 22 167 0433

Mateusz Polkowski
Head of Research & Consultancy
Associate Director
mateusz.polkowski@eu.jll.com
+48 22 167 0042

officefinder.pl