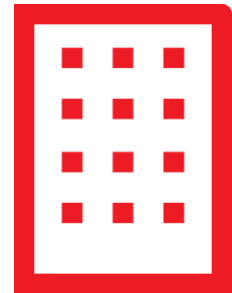


# Office Market



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

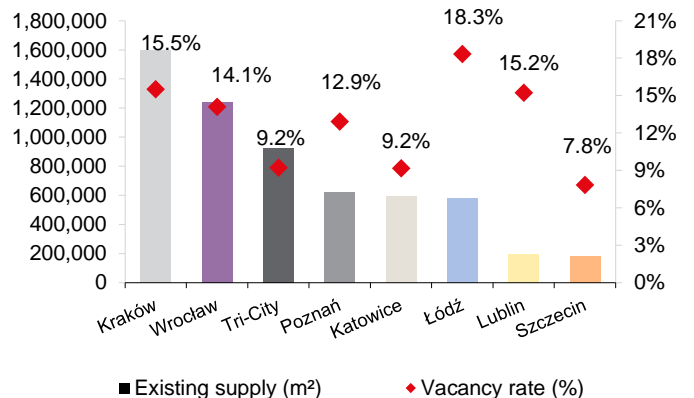
## Cautious optimism returns to the market

After a rather weak start to the year, the further lifting of Covid-19 restrictions combined with a mass vaccination program has given rise to cautious optimism on the leasing market in the second quarter. This is confirmed by the growing activity of tenants in regional markets, who leased nearly 70% more space compared to Q1 2021. Nevertheless, the persistently high share of renegotiations illustrates the hesitancy of most tenants in taking strategic decisions with regards to office portfolio due to the uncertainty related to the pandemic.

Since many companies are now analysing office space requirements in response to the changing working model, we observe a great deal of interest in shorter term contracts of between 12 and 36 months. Tenants are using these solutions as they want to secure their operating activity before they develop an optimal real estate strategy tailored to the requirements of a particular business and their employees' preferences.

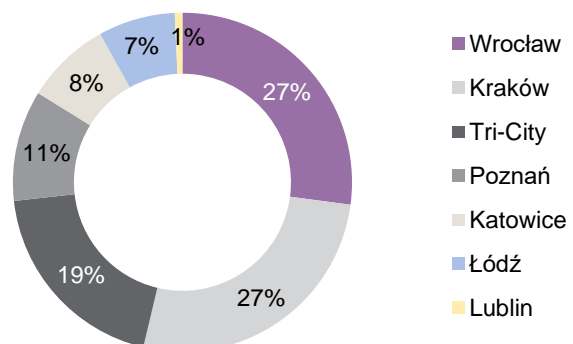
After fairly rapid increases in volume at the end of 2020, the first half of 2021 brought stabilization on the sub-rental market. At the end of Q2, over 168,000 m<sup>2</sup> was available for sublet outside Warsaw, 54% of which was located in Wrocław and Kraków.

Supply vs vacancy rate (the largest office markets in Poland outside Warsaw)



Source: JLL, Q2 2021

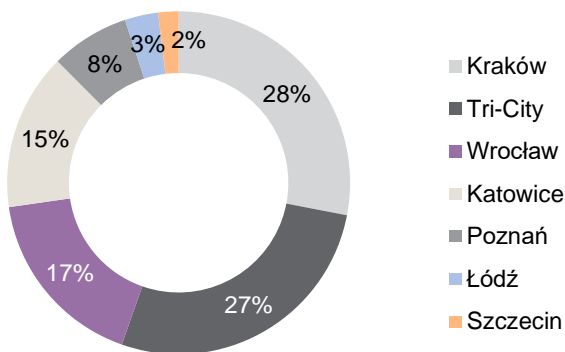
Sublet area (the largest office markets in Poland outside Warsaw)



Source: JLL, Q2 2021

In H1 2021, demand in the eight major office markets in Poland totaled 264,200 m<sup>2</sup> (down 21% y-o-y), of which nearly 70% was transacted in the second quarter. The highest tenant activity in H1 2021 was recorded in Kraków (74,100 m<sup>2</sup>), Tri-City (72,200 m<sup>2</sup>) and Wrocław (45,900 m<sup>2</sup>).

### Demand distribution (the largest office markets in Poland outside Warsaw, H1 2021)

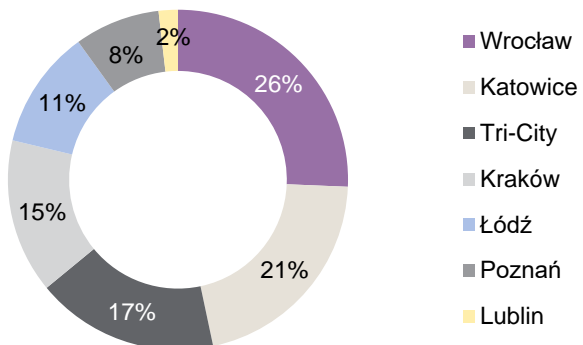


Source: JLL, Q2 2021

The share of renegotiations in total volume was a relatively high 46%, due to several significant transactions above 10,000 m<sup>2</sup>. Furthermore, despite significant developer activity, the share of pre-let contracts in demand was only 10% compared to 26% in H1 2020 and 38% in the first half of 2019.

In the first half of the year, companies from IT (37%), business services (17%), manufacturing (14%) and financial (12%) sectors were the most active on the market. The largest transactions concluded in H1 2021 included the renegotiation and expansion, signed by Rockwell Automation at A4 Business Park in Katowice, for a total area of 19,500 m<sup>2</sup>, 15,600 m<sup>2</sup> renegotiated by a confidential client from the business services sector in the Kapelanka 42 office building in Kraków, 12,300 m<sup>2</sup> leased by 3M in the MidPoint 71 office building in Wrocław and 11,400 m<sup>2</sup> renegotiated by IBM in the Korona complex in Kraków.

### Space under construction (the largest office markets in Poland outside Warsaw)



Source: JLL, Q2 2021

In H1 2021, 11 office buildings with a total area of 126,500 m<sup>2</sup> were delivered to the market. The largest volume of new supply was recorded in Kraków (42,400 m<sup>2</sup>), followed by Poznań (35,900 m<sup>2</sup>) and Tri-City (35,000 m<sup>2</sup>). The largest investments completed in the period included Nowy Rynek D (35,800 m<sup>2</sup>, Poznań), Palio A (16,500 m<sup>2</sup>, Tri-City), Tertium Business Park III B (13,400 m<sup>2</sup>, Kraków), Krakowska 35 (11,800 m<sup>2</sup>, Wrocław) and Equal Business Park D (11,700 m<sup>2</sup>, Kraków).

Currently, there is over 760,000 m<sup>2</sup> of modern office space under construction across the eight major regional markets in Poland, which is planned to come onto the market by the end of 2023. The highest developer activity was seen in Wrocław, Katowice, Tri-City and Kraków. Almost 200,000 m<sup>2</sup> is scheduled for completion in H2 2021, but we should take into account that some projects may be put on hold or pushed back to the following year – especially in the case of markets experiencing a rapid increase in vacancy rates.

Similarly to the Warsaw market, developers in regional markets are cautious about starting new investments. This is partly due to the significant amount of space currently under construction. However, both moderate tenant activity and the uncertainty surrounding the future working model in the medium and long term are not without significance.

At the end of Q2 2021, the vacancy rate for the eight major regional markets stood at 13,4%, an increase of 0.8 p.p. on Q1 2021 and over 3 p.p. up on Q2 2020. Over the last 12 months, most of the regional markets recorded increases in vacancy rates, with Łódź recording the highest (+5.2 p.p.), followed by Lublin (+4.9 p.p.) and Kraków (+4.9 p.p.). Poznań was the exception as the city's vacancy rate decreased by 1.6 p.p. y/y to 12.9%. At the end of Q2, the vacancy rate for investments completed in the first six months of this year stood at ca. 48%.

At the end of Q2 2021, the highest rents among the main regional markets were recorded in Kraków (€ 14-15.5 / m<sup>2</sup> / month), while the lowest was in Lublin (€ 10.5-11.5 / m<sup>2</sup> / month). Tenants can still benefit from favorable incentives packages, especially when it comes to investments that are still in the construction phase. In the upcoming quarters, base rents for prime office spaces will not significantly fluctuate, while increasing competition from newly built properties may translate into rental reductions in older, class B office buildings. Downward pressure on effective rates persists on the market, applicable to new contracts and renegotiations of the existing ones.

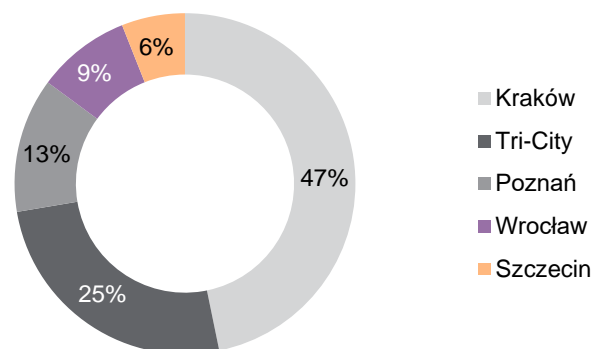
The first quarter proved to be one of the best-ever for Poland's office sector. Turnover in Q1 2021 was boosted by the Buma portfolio transaction as well as a number of transactions in Warsaw . Activity in Q2 was nonetheless muted with total transaction volume for H1 coming in at approx. €799 million, down 40% on H1 2020 but still 4% above the 10-year average.

Transactions concluded in the regional markets accounted for 47% of H1 2021's turnover. Kraków, where the majority of assets from the Buma portfolio is located, saw the greatest activity outside Warsaw in H1. The entire Buma portfolio (which also consisted of assets located in Wrocław) was acquired by Partners Group for over €200 million.

Deals worth almost €96 million were concluded in Tri-City, with a key transaction being Alchemia Neon sold by Torus to DWS for over €80 million. Other significant deals included: Szyperska Office Center in Poznań purchased by Investika, and Brama Portowa in Szczecin disposed by Vastint to FLE.

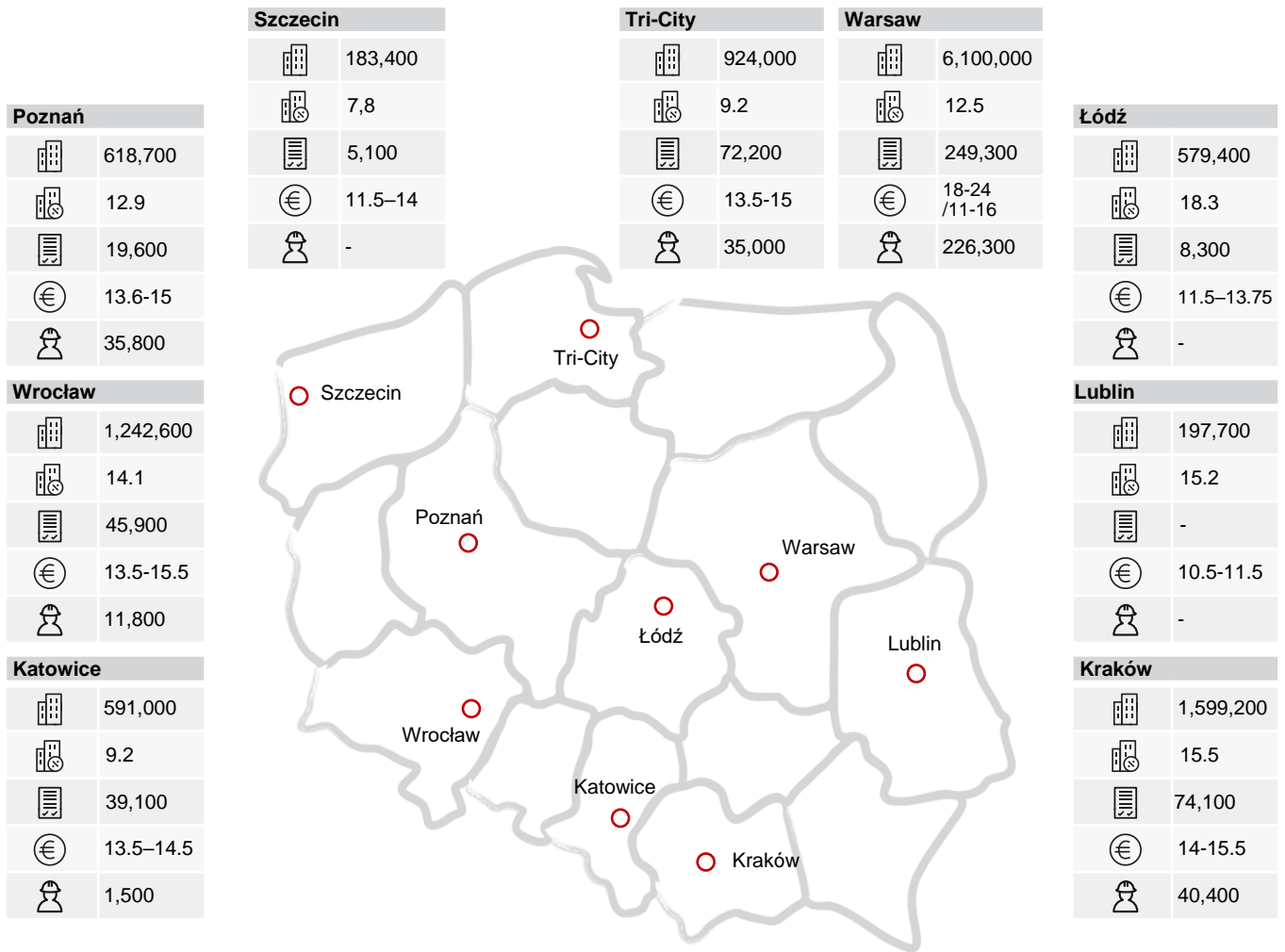
In H1 2021, prime office yields in the core regional cities (Kraków & Wrocław) stood at 5.75%

### Investment volume in the office sector (the largest office markets in Poland outside Warsaw, H1 2021)



Source: JLL, Q2 2021

# 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, Q2 2021

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