High levels of occupier and developer activity were the main features of the regional office markets in Poland outside Warsaw in Q1 2017. Wroclaw have outrun Krakow in terms of the recorded take-up volumes and Lodz has kept its position as the city with the lowest index of available space for potential tenants (5.8%), with 21,700 m² vacant in existing buildings. Overall 2017 looks set to be another spectacular year in terms of the expected volumes of new supply, demand and construction activity by developers in the eight major office markets in Poland (excluding Warsaw).

The first three months of 2017 saw a significant surge in leasing activity in the regional office markets. Demand reached 177,700 m², with two undisputed leaders: Wroclaw, with a 58,900 m² leased; and Krakow, with 52,500 m² transacted on. Those two together accounted for 63% of the total take-up. Thirty-five percent of all signed transactions (52,400 m²) were renewals, followed by pre-lets (28.5%, i.e. 50,700 m²) and new deals in existing building (23.7%, i.e. 41,900 m²). Expansions accounted for 22,700 m².

Four recorded in the last quarter transactions were for more than 10,000 m²: Energo Group renewal for 15,100 m² in Olivia Business Centre; Point and Tower in the Tri-City; Brown Brothers Harriman also renewal for 14,700 m² in Orange Office Park; Amsterdam, Rotterdam and Den Hague in Krakow; Capgemini’s new deal for 13,100 m² in Business Garden I and the 10,500 m² pre-let by EY in Sagittarius Business House, both of which were signed in Wroclaw.

Companies from the business services sector continue to be very significant occupiers in the major office markets in Poland: approximately 57% of demand came from that sector in Q1 2017. Two cities saw remarkably high shares of the BPO/SSC sector in gross take-up volumes: in Wroclaw the sector accounted for almost 74% of gross take-up and Krakow more than 69%.

Q1 2017 saw a decline in the amount of new office space entering the market (compared to the quarterly volumes recorded in 2016), a total of 67,200 m², of which 42% was delivered in Krakow in four office buildings: Bonarka for Business G (10,000 m²), Orange Office Park II in Den Hague (9,600 m²), Lobos Office (5,600 m²) and Sawig Office (3,000 m²). Other Q1 major openings included: Bielany Business Point (12,000 m²) and Komandorska 12 (3,950 m²) in Wroclaw; Comarch HQ Jaracz (7,600 m²) and Cross Point D (3,300 m²) in Lodz; and Baildona 66 phase I (4,000 m²) in Katowice.

However, in Q2–Q4 2017 the amount of modern stock is expected to increase by further 469,000 m², which will add up to the more than 536,000 m² which will enter the market in the whole of 2017 (a record-breaking figure for the regional cities). Interestingly, 36% of that space will be in Krakow, followed by the Tri-City (22%) and Lodz (15%).

Under construction in Q1 2017 (m²)

Source: JLL, Q1 2017

Development activity remains exceptionally strong in Poland’s major cities: currently almost 965,000 m² of office space is under active construction (including Warsaw 1.66 million m²). As of Q1 30% of that space had already been secured with pre-let agreements. Krakow, Wroclaw and the Tri-City together account for almost 65% of all that space. Strong demand, especially from international corporates and BPO/SSC companies constantly expanding their operations in Poland, is the main driver of the increasing construction activity in Poland.

With the exception of Katowice, in Q1 2017 all major cities saw decreases in vacancy rates compared to Q4 2016 (from –0.4 pp in Krakow and –1 pp in Poznań to –3 pp in Wroclaw). In total, the eight major office markets outside Warsaw offer approximately 386,000 m² of vacant space. In the remainder of 2017 the vacancy rate is expected to fluctuate; in Krakow and the Tri-City it may increase – due to the extensive new supply planned for the 2017 – while in other cities rates it should stabilize or decrease.
Prime headline rents during Q1 2017 saw some minor corrections, primarily in the upper rental bands (in four of the eight major office markets in Poland outside Warsaw). In the Tri-City the band increased from €13.5 to €14 / m²/month and in Łódź it went from €12.9 to €13.2 / m²/month. Poznań saw a fall in rents, from €14.2 to €14.1 / m²/month. The other city where there was a drop in prime headline rents was Wrocław: the lower band there decreased from €14 to €13.9 / m²/month. The other cities had rents at unchanged levels. The increasing competition among new office projects has contributed to the potential pressure on the effective rents, as developers are more willing to provide generous incentive packages (rent-free periods, fit-out budget or cash contribution) for tenants which sign pre-let agreements.