

Regional office markets

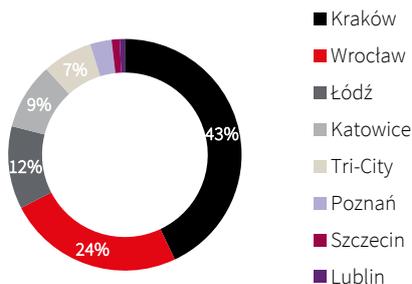
After the fantastic 2018, when Poland scored well in a number of different rankings (i.e. CEOWORLD Magazine listed Poland as the second-best place to invest or do business), the first quarter of 2019 also showed potential for this to be an excellent year. fDi Magazine (by The Financial Times) published a report titled “Polish cities of the future 2019/20”, which covered the economic potential of Poland. It placed Kraków, Poznań, Wrocław and Gdańsk in the top five locations in terms of the best human capital and lifestyle. These factors are crucial for firms looking to open new offices and such rankings encourage them to choose Poland.

The labour market reflects structural changes to the business map of Poland. Not only the largest cities are significant business hubs: smaller locations around major agglomerations are also increasingly gaining in importance. This is particularly visible in the Silesia region, which is what prompted a change of the reporting of office market statistics. Instead of taking into consideration only Katowice, we are now report it along with all of the cities with more than 100,000 inhabitants from the metropolis, known as the Górnośląsko-Zagłębiowska Metropolis*.

Demand in the first quarter of 2019 was 130,500 m², with 67% of that volume created by tenants which leased office space in Kraków (43%) and Wrocław (24%). More than a half of tenant activity in the biggest Polish cities came from new deals, with renewals accounting for almost 40% of total take-up. The most notable transactions included a 11,200 m² renewal by Akamai in Vinci Office Building in Kraków, a pre-let by Perform Group (Perform Content & Perform Media) for 6,400 m² in Face2Face Business Campus in Katowice and a renewal & expansion totalling 6,300 m² by GlobalLogic in Bonarka for Business H in Kraków.

Companies from the business services sector continue to be very significant occupiers in the major office markets in Poland: almost 40% of demand in Q1 2019 came from that sector. The biggest shares of the BPO/SSC sector of gross take-up volumes were in Katowice (almost 74%) and the Tri-City (more than 45%).

Demand distribution in Poland’s regional office markets in Q1 2019



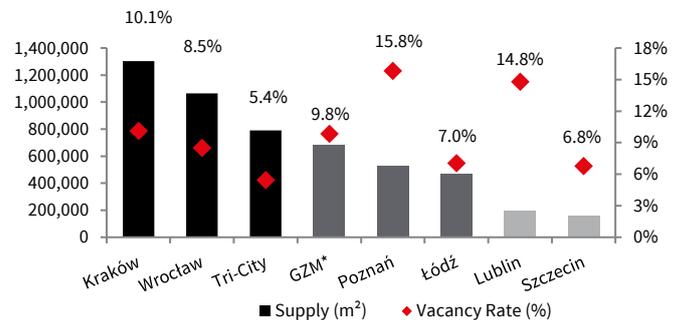
Source: JLL, Q1 2019

Despite the demand from modern business services, the flexible office sector is an important part of the office market in Poland. Last year saw a flexible office boom in Warsaw, and one can note that providers have started to expand their businesses in other Polish cities. In the first three months approximately 6,800 m² were leased in the biggest regional markets, which is 28% of total take-up volume created by flexible providers in the whole of 2018. These statistics provides data on the major flexible office providers, but what is worth noting is that in cities outside Warsaw, smaller, local operators, which mostly open their centres in tenement houses or private apartments, are very popular.

The strength of the office market in the country is underlined by the growing modern office stock: in two cities it has exceeded 1 million m² (Kraków and Wrocław), in the Tri-City it has reached almost 800,000 m², in each of Katowice and Poznań it is more than 500,000 m² (Poznań reached this level in Q1 2019) and Łódź is about to cross that threshold too. During first three months of 2019, 16 office developments entered the market outside of Warsaw, offering a total of almost 122,200 m², including: the five buildings of Business Garden in Poznań (by Vastint); V.Offices in Kraków (by AFI Europe); City Forum: City One in Wrocław (by Archicom); and Heweliusza 18 in the Tri-City (by Hossa).

Under-construction space in the major regional markets amounts to 800,000 m² and is mainly concentrated in Kraków, Wrocław and the Tri-City. The biggest, and already very well-let, development at the moment is located in Wrocław: Business Garden (phase II), with 70,000 m².

Office stock levels and vacancy rates across Poland’s regional office markets, Q1 2019



Source: JLL, Q1 2019

The overall vacancy rate for the eight regional cities remained relatively stable and now stands at 9.4%. Five of major regional cities saw their vacancy levels fall year-on-year: Katowice (-3.3 pp y-o-y), Łódź (-2.6 pp y-o-y), Lublin (-2.4 pp y-o-y), the Tri-City (-2.3 pp y-o-y) and Szczecin (-1.5 pp y-o-y). The biggest increase was in Poznań (7.3 pp y-o-y). Additionally, the vacancy rate was analysed for the first time in the Górnośląsko-Zagłębiowska Metropolis*: at the end of Q1 2019 it stood at the level of 9.8%.

* Górnośląsko-Zagłębiowska Metropolis - cities with over 100,000 inhabitants: Bytom, Chorzów, Dąbrowa Górnicza, Gliwice, Katowice, Ruda Śląska, Sosnowiec, Tychy and Zabrze.

Key Data on the Major Office Markets in Poland in Q1 2019

Szczecin	
	160,900
	6.8
	1,500
	11.5-14
	1,500

Tri-City	
	790,000
	5.4
	9,100
	12.75-14
	15,000

Warsaw	
	5,483,300
	9.1
	140,100
	20.5-24 / 11-15
	20,200

Poznań	
	525,200
	15.8
	3,900
	13.6-15
	46,100

Łódź	
	471,200
	7.0
	15,100
	11.5-13.5
	2,300

Wrocław	
	1,065,500
	8.5
	31,900
	13.5-14.7
	11,200

Lublin	
	194,200
	14.8
	900
	10.5-11.5
	0

Katowice	
	519,300
	8.8
	12,100
	13.6-14.5
	0

GZM*	
	680,800
	9.8

Kraków	
	1,303,600
	10.1
	56,100
	13.5-15
	46,100

Source: JLL, Q1 2019

* Górnośląsko-Zagłębiowska Metropolia - cities with over 100,000 inhabitants: Bytom, Chorzów, Dąbrowa Górnicza, Gliwice, Katowice, Ruda Śląska, Sosnowiec, Tychy and Zabrze.

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

Due to increasing construction costs (both labour and materials), growth in rents was noted in a few of Poland's major office markets. In Q1 2019 a few cities saw an uptick of prime headline rents: Kraków (now leasing at €13.5 to €15 / m² / month), Katowice (now leasing at €13.6 to €14.5 / m² / month), Poznań (€13.6 to €15 / m² / month) and Wrocław (€13.5 to €14.7 / m² / month). Currently the highest rents are quoted in Kraków (€13.5 to €15 / m² / month). Some minor changes are expected in the next few quarters.



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