

Regional office markets

The excellent condition of the Polish economy (one of the fastest-growing in Europe) continues. Healthy GDP growth forecasts in 2019 and 2020 (4.3% and 3.2% y-o-y respectively, based on Oxford Economics) encourage international investors to locate their businesses here. What's more, according to the latest U.S. News ranking, Poland is the sixth best country in the world to invest in this year and it's one of the top ten places to start a career.

Such a strong economy drives robust office market growth. Tenant activity is booming, especially in the business services sector. From January until the end of June 2019 companies from that sector accounted for as much as 43% of total take-up in the regional office markets was generated, with the biggest share of the demand coming in Kraków. According to the newest ABSL Report "Business services sector in Poland 2019" the total employment increased by almost 28,000 people (in major regional office markets), which directly leads to office space needs and now stands at 307,000. Today, 46% of the occupied stock in the regional markets is taken by companies from the business services sector. It is especially prominent in Kraków, where that figure stands at 57%, followed by Łódź and Wrocław, with the shares of 53% and 49%, respectively.

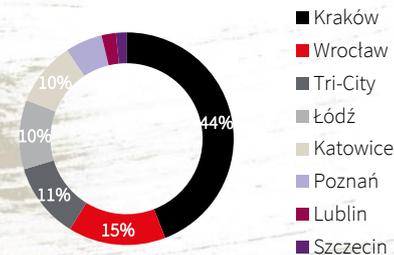
Another expanding sector is flexible office solutions. Flex providers are more and more willing to bring their business to regional markets. In the first half of 2019 alone almost 20,900 m² (of which 12,900 m² in Kraków) of the office space was leased by them in the major cities outside Warsaw, which is 87% of the 2018 volume. Since the beginning of 2019, the most active companies from this sector were: Rise, which signed four lease agreements in Kraków for almost 9,200 m² in total and New Work, which took 6,900 m² in Łódź in two deals.

It's important to underline the changing structure of the demand in regional markets and the increased pre-letting activity. In H1 2019 almost 40% of total take-up (116,500 m²) in regional cities were pre-lets, nearing the result for the whole of 2018. This shows that new companies are entering the market, and firms already operating in Poland are expanding and relocating. For that, they all need new, high quality office space, preferably with options for further expansion. This trend is a result of offices becoming an important marketing tool for HR departments. Preferences of employees are changing, and they now choose to work in high standard, modern office buildings with diverse workplace and convenient public connection.

In total, demand for office in major regional Polish markets outside Warsaw in the first half of 2019 was 305,800 m². More than 60% of that came from new deals, with renewals accounting for less than 30% of the total take-up. The most notable transactions included a pre-let for 16,000 m² by Sabre in Tischnera Office in Kraków, a renewal by Akamai in Vinci Office Building in Kraków for 11,200 m², a renewal and expansion by Nordea in Olivia Star in Gdańsk for 10,800 m², a pre-let for 8,600 m² by Ailleron in Podium Park B in

Kraków and a pre-let by a confidential client for 8,500 m² in DOT Office F2 in Kraków.

Demand distribution in Poland's regional office markets in H1 2019

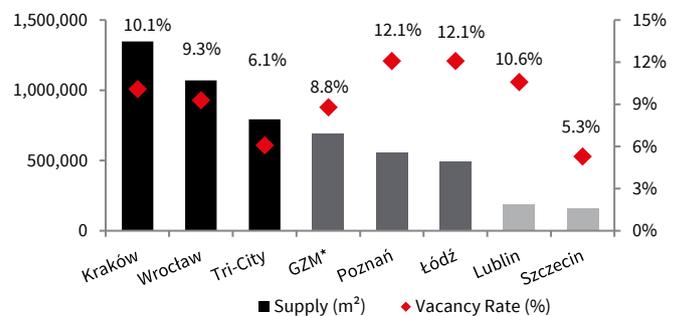


Source: JLL, H1 2019

Strong demand boosts developers' activity. Two cities have already exceeded 1 million m² of modern office stock (Kraków and Wrocław), the Tri-City has reached almost 800,000 m², Katowice and Poznań boast more than 500,000 m² and Łódź is about to cross that threshold too. During first six months of 2019, 32 office developments entered the market outside of Warsaw, offering a total of over 241,300 m², including: the five buildings of Business Garden in Poznań (by Vastint); Brama Miasta B in Łódź (by Skanska Property Poland); Nowy Rynek B in Poznań (by Skanska Property Poland); V.Offices in Kraków (by AFI Europe); Fabryczna Office Park B1 in Kraków and Mogilska Office in Kraków (Warimpex).

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 of space.

Office stock levels and vacancy rates across Poland's regional office markets, H1 2019



Source: JLL, H1 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, with the biggest falls in: Lublin (-9.1 pp y-o-y), Katowice (-3.4 pp y-o-y) and Szczecin (-1.6 pp y-o-y). The largest increases were in Poznań (4.4 pp y-o-y) and Łódź (3.5 pp y-o-y).

* Górnośląsko-Zagłębiowska Metropolia - 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 H1 2019

Szczecin

	161,100
	5.3
	4,900
	11.5-14
	3,500

Tri-City

	792,400
	6.1
	35,200
	13-14
	17,400

Warsaw

	5,543,700
	8.5
	406,000
	20.5-24 / 11-15
	80,500

Poznań

	554,000
	12.1
	17,100
	13.6-15
	77,400

Łódź

	496,700
	12.1
	32,200
	12-14
	27,800

Wrocław

	1,070,800
	9.3
	45,000
	13.5-14.8
	16,500

Lublin

	191,200
	10.6
	6,600
	10.5-11.5
	0

Katowice

	527,100
	7.4
	29,800
	13.6-14.5
	8,400

GZM*

	688,700
	9.8**

Kraków

	1,347,900
	10.1
	134,900
	13.5-15.5
	90,400

Source: JLL, H1 2019

* Górnoląsko-Zagłębiowska Metropolis - cities with more than 100,000 inhabitants: Bytom, Chorzów, Dąbrowa Górnicza, Gliwice, Katowice, Ruda Śląska, Sosnowiec, Tychy and Zabrze;

** data as Q1 2019

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 H1 2019 a number of cities saw an uptick of prime headline rents: Kraków (now leasing at €13.5 to €15.5 / m² / month), the Tri-City (now leasing at €13-€14 / m² / month), Łódź (€12 to €14 / 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 €14.8 / m² / month). Currently the highest rents are quoted in Kraków (€13.5 to €15.5 / m² / month). Some minor changes are expected in the next few quarters.



Hanna Dąbrowska

Mateusz Polkowski

Research Analyst
Research & Consultancy
hanna.dabrowska@eu.jll.com
+48 22 167 0837

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

officefinder.pl

jll.pl