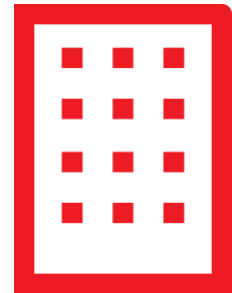


# Office market



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

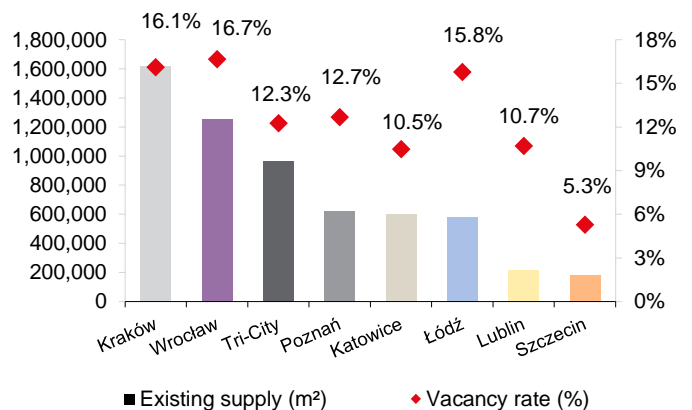
## Another year, the same challenges

The second year of the Covid-19 pandemic did not see any major breakthrough on the office real estate market. Despite the extensive roll-out of the vaccine programme, new Covid-19 variants stopped the expected large-scale return to the office. Many companies continued to recommend remote work; however, due to the negative effects of long-term working from home (WFH), the hybrid model has now become the new market standard.

The pandemic has had an enormous impact on employee preferences, which has shifted in favour of solutions that combine WFH and going into the office. Due to a lack of experience and no clear vision regarding the most effective arrangements, many companies have put strategic decisions related to their office portfolio on hold. As a result, the market recorded a significant share of lease renewals in total take-up.

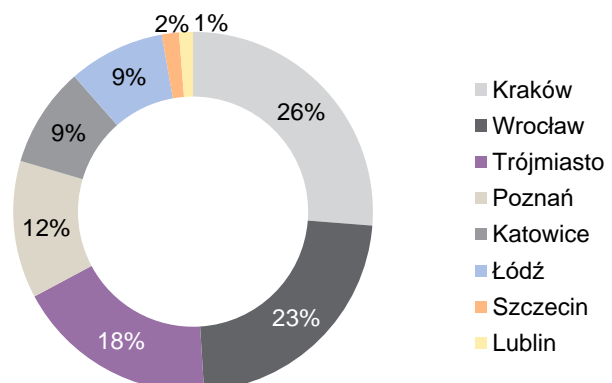
In the current market conditions, a key aspect of the leasing process – applicable to both new contracts and renewals – is securing flexibility in terms of office space expansion or reduction as tenants are still refining new workplace strategies and cannot clearly assess space requirements for the next 2-3 years.

**Supply vs vacancy rate (the largest regional office markets in Poland, Q4 2021)**



Source: JLL, Q4 2021

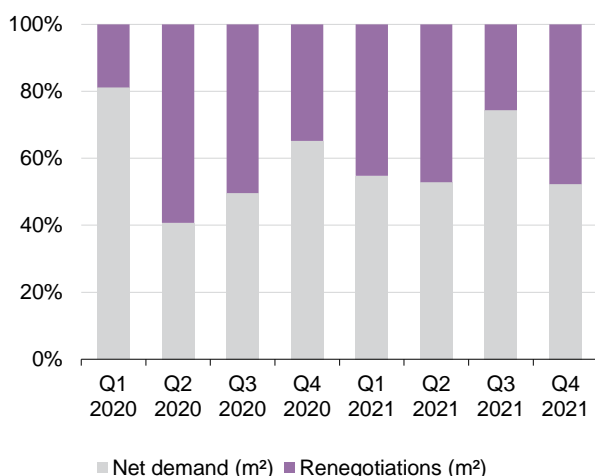
**Demand distribution (the largest regional office markets in Poland, 2021)**



Source: JLL, Q4 2021

After relatively weak take-up results in Q1-Q3, Poland's major regional office markets recorded a strong end to 2021 with 214,600 m<sup>2</sup> leased in the last quarter. As a result, gross demand in FY2021 totalled nearly 595,000 m<sup>2</sup> and was on a par with 2020's levels. As in the previous year, regional cities recorded a high share of renegotiations of current lease contracts, standing at 43% of total volume in 2021. It was the contract extensions that constituted the largest transactions concluded in the last 12 months, including 24,000 m<sup>2</sup> for a tenant from the IT sector in Green Horizon in Łódź, 17,400 m<sup>2</sup> for a company from the financial sector in the Business Garden complex in Poznań and a total of over 23,000 m<sup>2</sup> renegotiated by an IT company in Kraków and Wrocław.

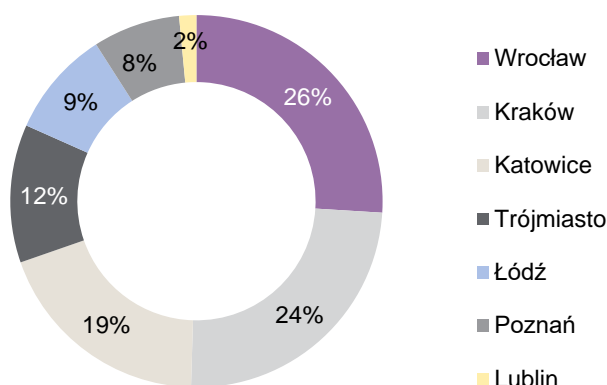
### Share (%) of renegotiation of lease agreements in demand (the largest regional office markets in Poland)



Source: JLL, Q4 2021

The second half of the year was characterised by increasing activity from companies in the modern business services sector. Although the scale of the newly emerging centers is smaller – typically 30-50 people – we are noticing a strong trend due to the expansion of structures and the inclusion of new functions. Among the contracts concluded by BPO/SSC companies in 2021, was 12,300 m<sup>2</sup> secured by 3M in MidPoint71 in Wrocław, 4,600 m<sup>2</sup> leased by Dyson in Unity Square One in Kraków, 2,800 m<sup>2</sup> for Boehringer Ingelheim in Centrum Południe in Wrocław and 1,600 m<sup>2</sup> for Wella in Brama Miasta in Łódź.

### Space under construction (the largest regional office markets in Poland, Q4 2021)



Source: JLL, Q4 2021

The new supply delivered in 2021 was 226,000 m<sup>2</sup>, which was more than a 40% drop on 2020's total. As expected, not all projects planned for the Q4 2021 were completed on time (no key tenant, delays related to administrative procedures or building processes). However, those projects that have been subject to delay will be delivered to the market at the beginning of this year. Throughout 2021, the largest new supply volume was recorded in Tri-City (73,200 m<sup>2</sup>), Kraków (60,700 m<sup>2</sup>) and Poznań (37,500 m<sup>2</sup>). Currently, 870,000 m<sup>2</sup> of office space is under construction across the major regional office markets in Poland, of which approx. 400,000 m<sup>2</sup> is planned for completion in 2022.

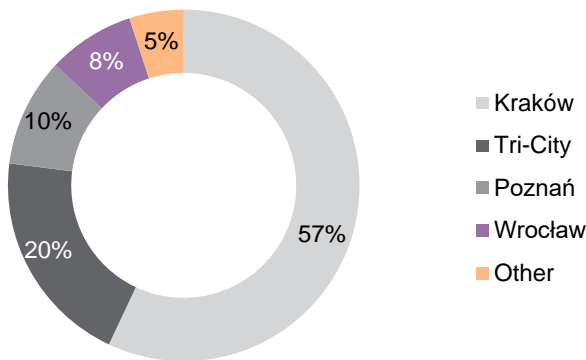
At the end of Q4 2021, the vacancy rate for the eight main regional markets was 14.1%, an increase of 1.4 p.p. on the same period in 2020. In the coming quarters, the vacancy rate will continue its upward trend due to the high level of new supply and recovering demand. In addition to traditional rental space, companies may also profit from options available in the sublease market. At the end of Q4, the offer included over 154,000 m<sup>2</sup>, a level similar to Q3.

During 2021, rental rates for the best office space remained stable in most office locations. The highest rents among the main regional markets were recorded in Kraków (€ 14-15,5 / m<sup>2</sup> / month), Wrocław (€ 13,5-15,5 / m<sup>2</sup> / month) with the lowest to be found in Lublin (€ 10.5-11.5 / m<sup>2</sup> / month).

Due to inflationary pressure, we expect an increase in bid rents for the best office space, but a high level of new supply scheduled for 2022 and the higher vacancy rate that will follow, may delay the pace of rental growth in some locations.

The office sector remains one of the key drivers of Poland’s investment market. Office investments totalled €438 million during the final quarter of 2021. This meant the year closed with a total of €1.7 billion. Currently, well-located, low risk, grade A buildings with secure long-term income, and strong covenants continue to attract a great deal of interest. As a consequence, investors were mostly looking at the major office markets – Warsaw and Kraków.

**Investment volume in the office sector (the largest regional office markets in Poland, 2021)**



Source: JLL, Q4 2021

Transactions concluded in the regional markets accounted for 28% of 2021’s turnover. Kraków, where the majority of assets from the Buma portfolio is located, has seen the greatest activity outside Warsaw. The entire Buma portfolio (which also consisted of assets located in Wrocław) was acquired by Partners Group for over €200 million. The Kraków market also saw the second-largest office transaction of 2021 –CORUM AM’s purchase of Axis and Kapelanka 42A from NIAM for approx. €96 million.

Deals worth around €96 million as well were concluded in Tri-City, with a key transaction being DWS’ purchase of Alchemia Neon from Torus for over €80 million.

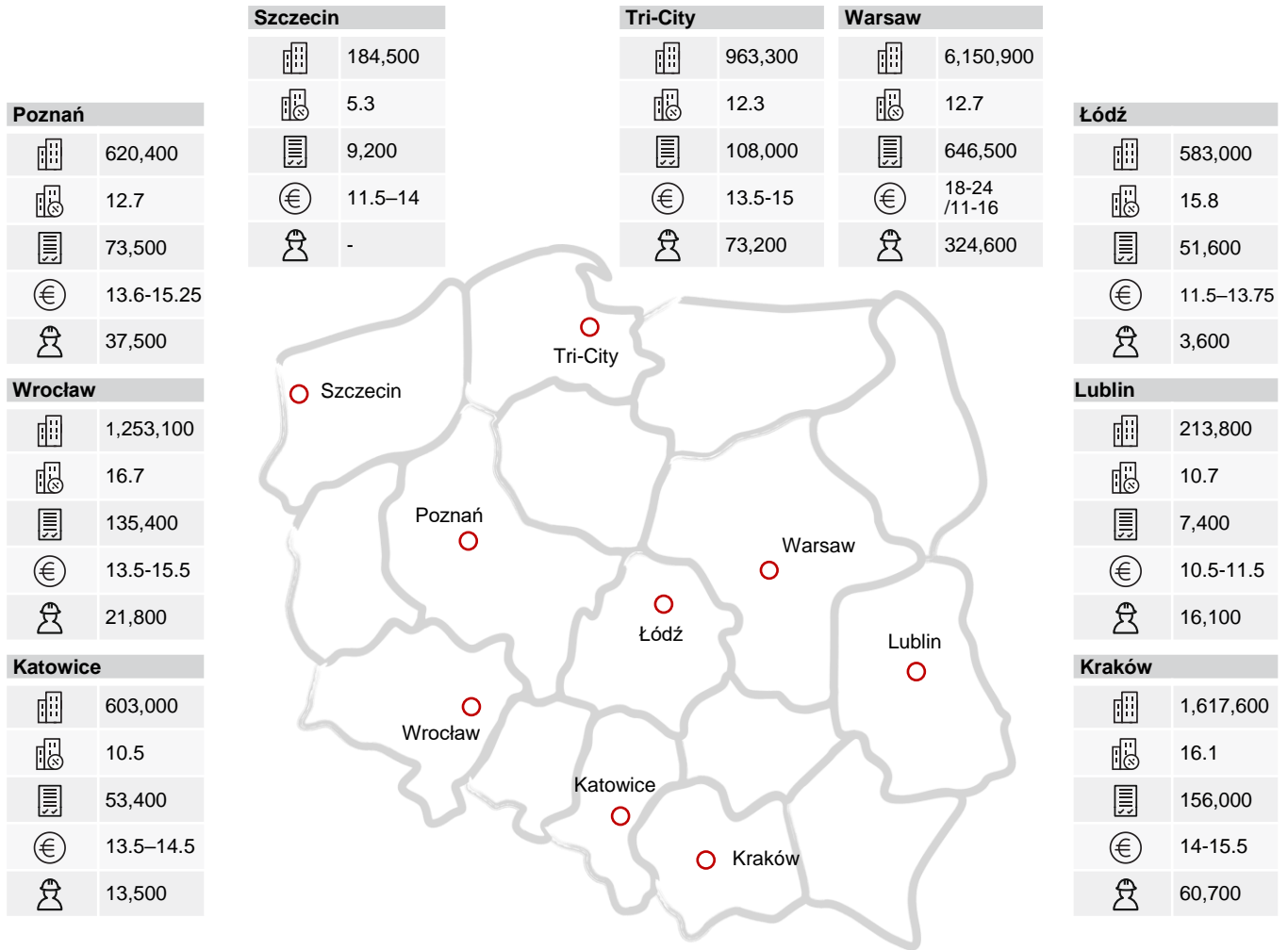
Other significant acquisitions included: Szyperka Office Center in Poznań purchased by Investika, and Vastint’s sale of Brama Portowa in Szczecin to FLE.

In Q4 2021, yields in the core regional cities (Kraków & Wrocław) stood at 5.75%.

The office market, on the back of marquee transactions announced at the end of 2021, is going to start off 2022 in very good shape: Generation Park Y is set to be purchased by Hansainvest and Google is close to acquiring The Warsaw Hub. Regional markets should also witness another impressive deal – the disposal of a portfolio of High5ive 3 and Centrum Południe by Skanska to Stena Group for €128 million.

As a result, 2022 is likely to be one of the busiest ever years for office investments in the Polish office segment.

# 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, Q1-Q4 2021

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