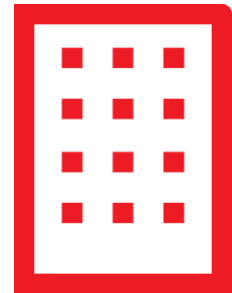


Office Market



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

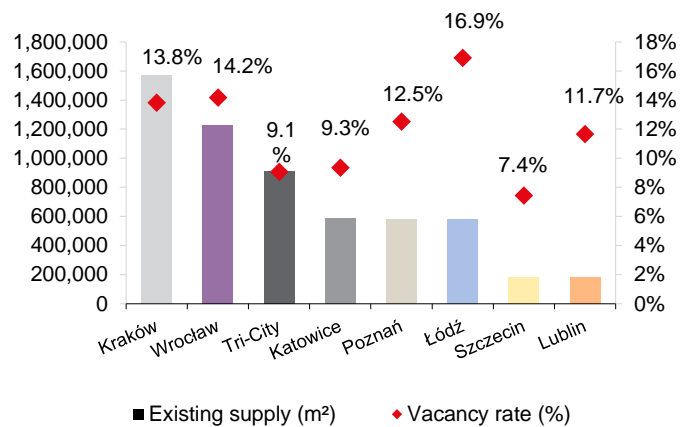
Slow start to 2021 with IT sector driving demand

The regional office markets recorded a slow start to 2021 as the re-introduction of Covid-19 restrictions weighed on corporate planning and decision-making. Due to ongoing uncertainty, tenants continued to opt for renegotiations or short-term lease extensions, especially in the case of close expiry dates.

Similar to 2020, leasing activity in Q1 was driven by companies in the technology sector, accounting for 36% of total transaction volumes. IT firms were involved in the largest deals recorded over the quarter, including 11,400 m² taken up by a confidential client in the Korona office complex, Intel in Gdańsk (9,800 m², Tryton Business House) and Unit4 in Wrocław (4,200 m², Globis).

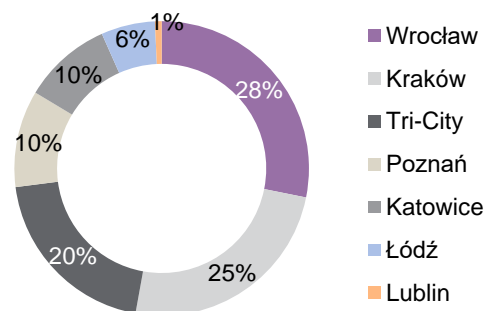
An increase in office sublease space has emerged as a key trend following the outbreak of the Covid-19 pandemic as companies sought to mitigate its effects on their real estate portfolio. Out of the approx. 167,000 m² available for sublease outside of Warsaw, 28% is available in Wrocław, followed by Kraków and Tri-City (with 25% and 20% respectively). Sublease options range from less than 100 m² up to approx. 11,000 m². Therefore, both small and large companies can opt for this solution.

Office stock and vacancy rates across Poland's regional office markets



Source: JLL, Q1 2021

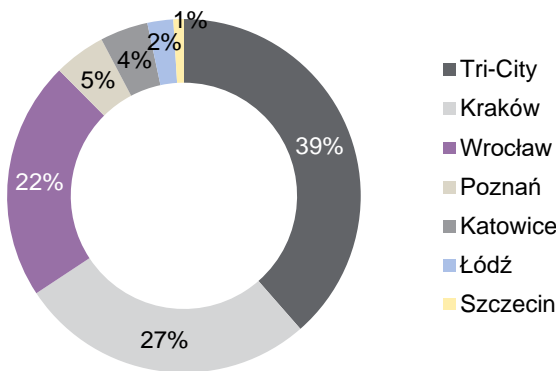
Office space available for sublease by city



Source: JLL, Q1 2021

Demand for office space remained subdued over Q1 2021, with 98,300 m² transacted. During this period, renegotiations made up 45% of total activity, which reflected the ‘wait and see’ approach adopted by many corporates in response to elevated uncertainty over the re-introduction of lockdown measures. As mentioned before, companies in the IT industry made up 36% of total activity, followed by business services (17%) and financial services sectors (11%). The largest deals, outside the IT industry, included 8,500 m² owner-occupied by LPP in LPP Fashion Lab I (Gdańsk), 7,000 m² renegotiated by a confidential client in the business services sector in Baltic Business Centre (Gdynia) and a new deal for 4,600 m² signed by Idea Getin Leasing in Carbon Tower (Wrocław).

Demand distribution in Poland’s regional office markets

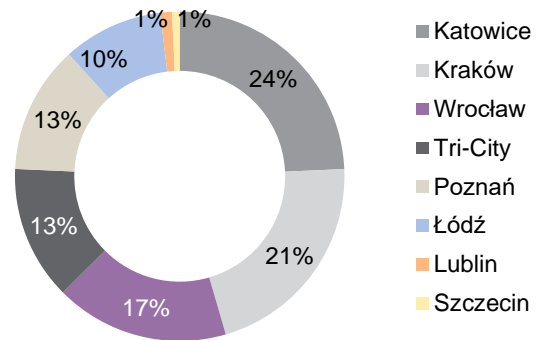


Source: JLL, Q1 2021

Q1 2021 completions levels were considerably lower than those of previous quarters. In total, regional office market stock grew by only 46,000 m². Three office buildings were delivered in Kraków, namely Equal Business Park D (11,700 m²), Ocean Office Park A1 (7,800 m²) and Lubicz I Business Centre (2,000 m²). New supply in the Tri-City agglomeration totalled 25,000 m², delivered in two schemes: Palio A (16,500 m²) and LPP Fashion Lab I (8,500 m²).

At the end of Q1 2021, the level of space under construction stood at 800,000 m². Most of this new supply will be completed over 2021 and 2022.

Space under construction by city



Source: JLL, Q1 2021

The largest office schemes currently under development include Global Office Park by Cavatina and the KTW II tower by TDJ Estate (both in Katowice), MidPoint 71 by Echo Investment (Wrocław), Nowy Rynek D & E (by Skanska Property Poland) and Andersia Silver (by Von der Heyden Group), both located in Poznań, and 3T Office Park by SGPM Sp. z o.o. (Tri-City).

Due to modest new completions levels over the first three months of 2021, the overall vacancy rate for the eight regional markets remained relatively stable q-o-q at 12.6%, compared to 12.7% in Q4 2020. The majority of the analysed office markets recorded only minor changes in overall availability. The exception was Lublin, which registered the largest vacancy increase, rising from 7.8% in Q4 2020 to 11.7% in Q1 2021. The overall national trend is likely to change over the coming quarters with the delivery of over 300,000 m² of new office space across Poland planned for the remainder of 2021.

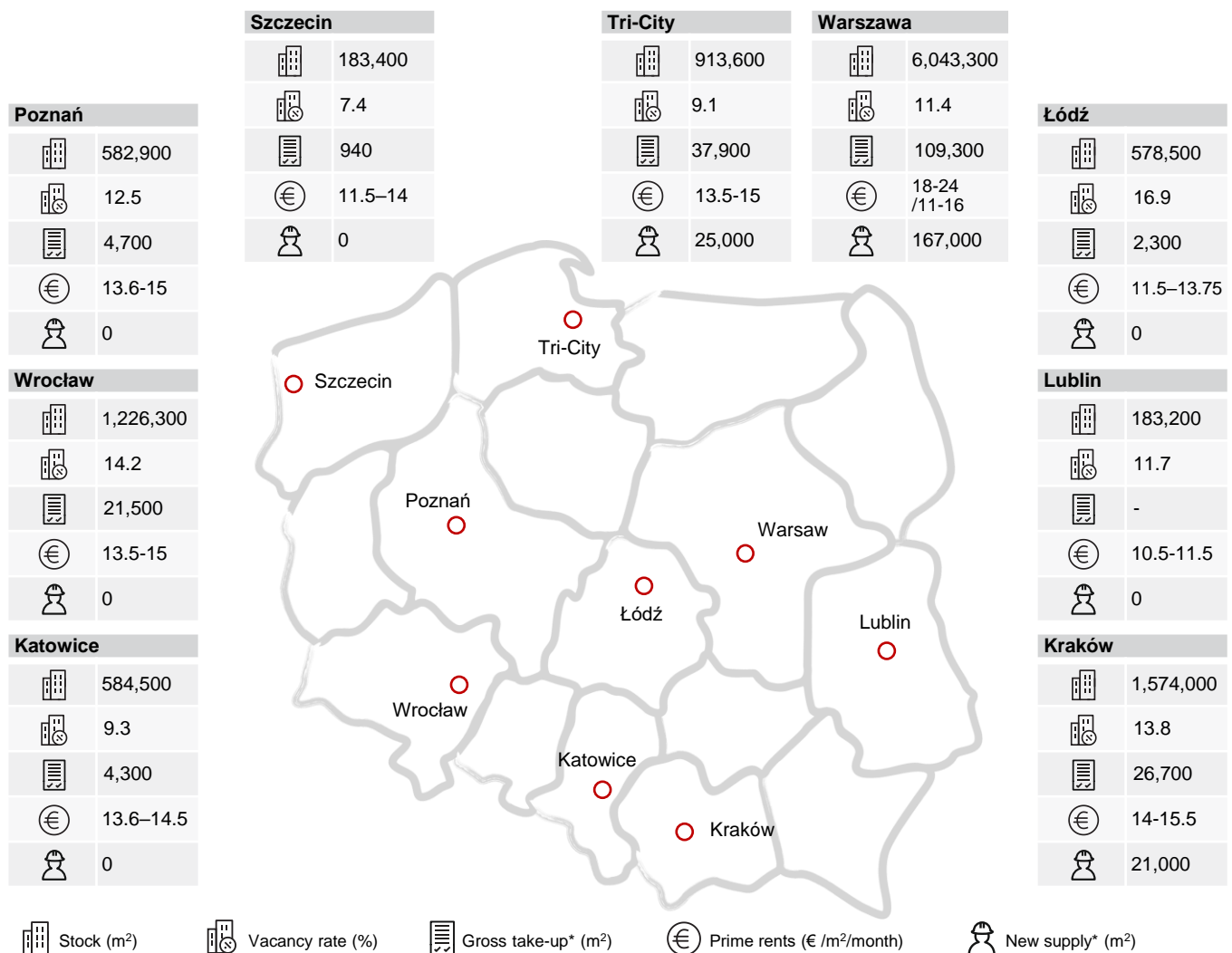
At the end of Q1 2021, the highest rents among Poland’s regional markets were recorded in Kraków (€14 to €15.5 / m² / month), while the lowest were in Lublin (€10.5-€11.5 / m² / month). Going forward, prime office rents are likely to remain stable; however, a strong development pipeline and accelerated flight to quality at the occupiers’ end will put downward pressure on rental rates for grade B office space.

Despite the ubiquity of remote working, investor interest in office buildings remains very high. During Q1 2021, total turnover in the office segment exceeded €605 million.

Regional office markets recorded exceptionally strong investment activity in Q1 2021. Total turnover generated outside Warsaw stood at € 358 million – a record Q1 volume performance for regional cities.

The impressive result was led by the transaction of a large portfolio of Buma office buildings located in Kraków and Wrocław. They were acquired by Partners Group for over €200 million. Other significant deals included Alchemia Neon in Gdańsk, sold by Torus to DWS for over €80 million, and Brama Portowa in Szczecin sold by Vastint to FLE.

Key data on the major office markets in Poland



Source: JLL, Q1 2021

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