

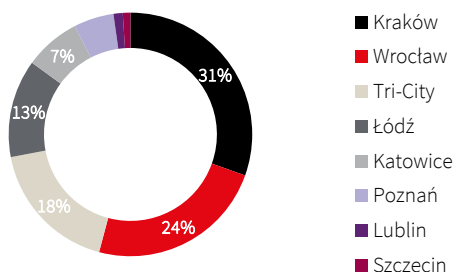
Regional office markets

2020 has been a year of disruptive changes that is challenging entire industries, businesses worldwide, and office markets. During the summer, some companies returned to their offices in various configurations. Some firms had their employees working in shifts, while some allowed only part of their staff to return to the office. Now, with the sharp increase in new COVID-19 cases, many firms are switching back to remote work. They have made such a decision in order to ensure the safety of their employees while maintaining business continuity. Moreover, for financial reasons, necessary to sustain business performance, some companies have decided to sublease part of their offices.

An increasing volume of office space that is being offered for sublease is currently one of the most visible trends on Poland's office market. Out of the approx. 116,000 m² of such supply on the major office markets outside Warsaw, 30% is located in Wrocław, followed by the Tri-City and Kraków (with 23% and 22% respectively). Such offers vary from less than 100 m² up to approx. 5,000 m². This gives various companies (from small to large corporations) the opportunity to rent a traditional office for a shorter period of time and more favourable rent than that of a normal lease agreement. However, limited possibilities of changing the fitout, or often a strictly enforced atypical lease length may result in companies not choosing this option.

After many months of remote work, some companies and individuals are struggling to maintain maximum efficiency. We need spontaneous meetings and daily interaction with other people to boost our creativity and that is why some form of office will always be a focal point for any company. So, for companies looking for flexible options of lease length, the possibility of changing the number of workstations, and hosting face-to-face meetings, flexible offices are a great option.

Demand distribution in Poland's regional office markets in Q1-Q3 2020



Source: JLL, Q3 2020

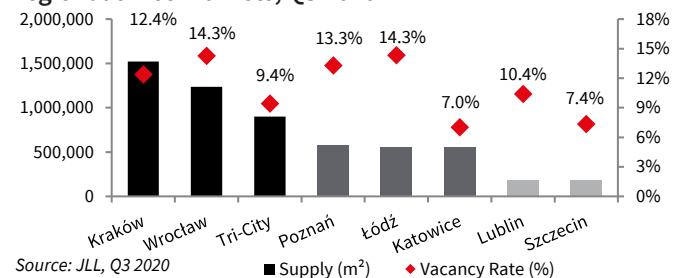
Due to such challenging times, total take-up volume in Q3 was approx. 40% lower y-o-y. However, demand for offices from January to September 2020 saw a decrease of only 11% y-o-y with 459,400 m² being transacted. Such a result can be partially put down to Wrocław, Łódź and the Tri-City markets, where respectively, tenant activity in the first three quarters of 2020 was 66%, 46% and 11% higher when compared to the same period last year. Demand in Q1-Q3 2020 was driven primarily by the renewals of lease agreements, which in Q3 2020 alone represented 52% of

tenant activity. Currently companies often decide to extend their lease rather than relocate. Examples of the largest renewal agreements signed in Q1-Q3 2020 were deals signed by Nokia in Wrocław (in two buildings totalling over 28,500 m²) and by ABB in Kraków (20,000 m²). In addition, the activity of tenants in the IT sector is also worth mentioning. 43% of the total take-up volume and 11 out of the 15 largest transactions in the period were contracts signed by IT tenants, including a pre-let for 16,300 m² by Fujitsu Technology Solutions in Fuzja in Łódź, and a pre-let for 14,500 m² by a confidential tenant in Tertium Business Park C in Kraków.

In Q1-Q3 2020, 29 new buildings offering a total of 305,100 m² (of which 42% was delivered in Q3 alone) came onto the regional markets. The largest included: Olivia Prime B (25,000 m², by Olivia Business Centre), and three buildings developed by Skanska Property Poland: Centrum Południe in Wrocław (23,700 m²), Wave A in the Tri-City (26,600 m²) and building 4 of the High5ive complex in Kraków (23,500 m²).

Under-construction space in the eight major regional markets now totals ca. 700,000 m². It is less than pre-COVID-19 levels when the supply under construction ranged from 800,000 m² up to 900,000 m². This is mainly due to the fact that developers continue active construction works but have not started new projects. Currently, developer activity is mainly concentrated in Katowice, Kraków and the Tri-City (where office stock is set to hit the one million m² mark once all current constructions are completed). The largest investments outside Warsaw include: Global Office Park by Cavatina and the .KTW II tower by TDJ Estate (both in Katowice), MidPoint 71 by Echo Investment (in Wrocław) and 3T Office Park by Allcon Investment (in the Tri-City). Although developer activity in Poland continues, some completion dates may be postponed. Furthermore, some developments have been temporarily halted but are expected to resume in the next few months.

Office stock levels and vacancy rates across Poland's regional office markets, Q3 2020



Source: JLL, Q3 2020

The overall vacancy rate for the eight regional markets now stands at 11.9%, which is a 2.8 pp increase y-o-y, and 1.7 pp growth q-o-q. Such an increase is due, among other things, to the completion in Q3 2020 of developments which were 52% vacant (overall). Katowice boasts the lowest vacancy rates (7.0%), while the highest rates are currently in Łódź and Wrocław (both standing at 14.3%).

Currently, the highest rents are quoted in Kraków (€14 to €15.5 / m² / month), while the lowest are in Lublin (€10.5-€11.5 / m² / month).

Key Data on the Major Office Markets in Poland in Q3 2020

Szczecin

	184,200
	7.4
	4,600
	11.5-14
	3,400

Tri-City

	898,800
	9.4
	82,100
	13.8-15
	60,300

Warsaw

	5,822,400
	9.6
	447,400
	18-24 / 11-16
	238,300

Poznań

	579,900
	13.3
	24,500
	13.6-15
	15,300

Łódź

	560,000
	14.3
	59,700
	12.5-14
	30,500

Wrocław

	1,235,000
	14.3
	108,800
	13.5-15
	57,200

Lublin

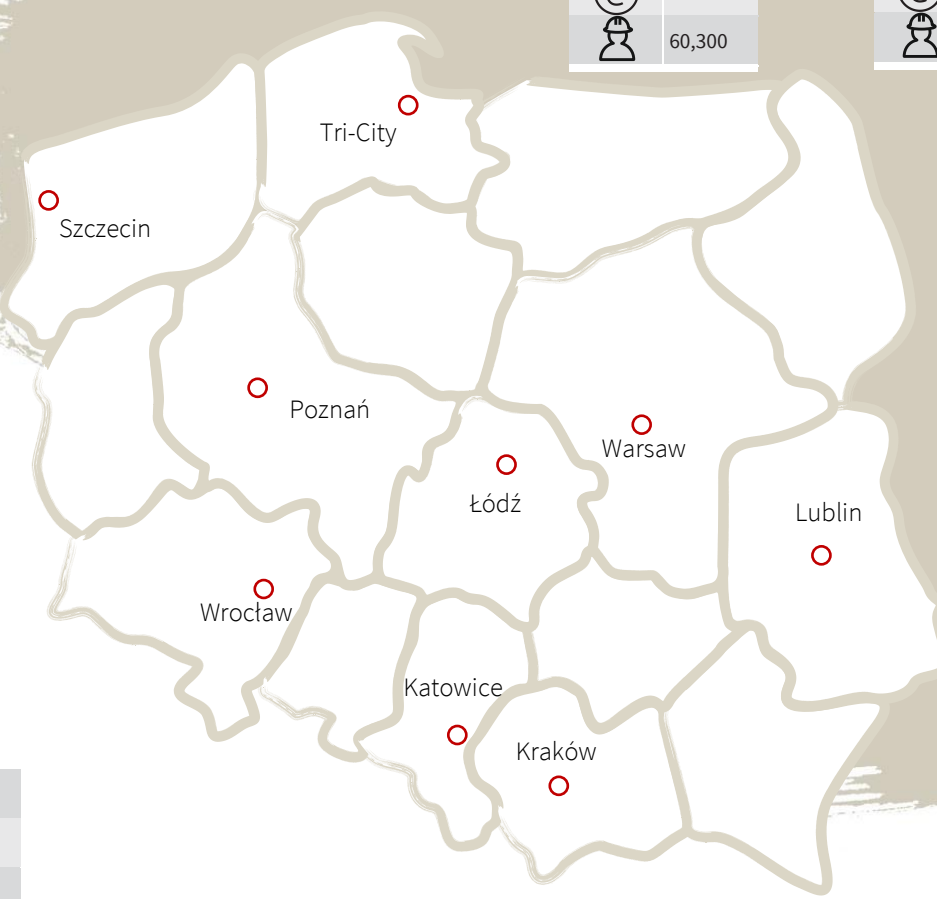
	185,800
	10.4
	5,600
	10.5-11.5
	0

Katowice

	559,500
	7.0
	34,000
	13.6-14.5
	31,100

Kraków

	1,521,400
	12.4
	140,000
	14-15.5
	107,300



Source: JLL, Q3 2020
*in Q1-Q3 2020

Stock (m²) Vacancy rate (%) Gross take-up* (m²) Prime rents (€/m²/month) New supply* (m²)

Investor activity in the office sector has remained robust. 26 office transactions worth over €1.54 billion were finalized between January and September. It was the third highest-ever volume recorded in the sector throughout the first nine months of the year, surpassed only by the record-breaking results of 2018 and 2019. 61% of office investments were made on the Warsaw market. Kraków claimed the lion's share of the remaining 39% with Katowice and Wrocław completing the top three regional cities. The impressive result has been led by a very dynamic first half of the year, when a number of deals, initiated in 2019, was concluded. The Q3 performance shows a slight slowdown caused by limiting new transactions to some extent, which is linked to the restrictions in travel and an increased uncertainty. The trend is especially evident in the regional cities. In H1, the regional markets have witnessed a few notable transactions, including the acquisition of High Five II (bldg. 4&5) and the purchase of Equal Business Park (A, B, C), while only one deal was closed outside Warsaw between July and September. The postponed transactions are expected to carry on over the Q4 and the next year, which should be seen in the 2021 results.



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