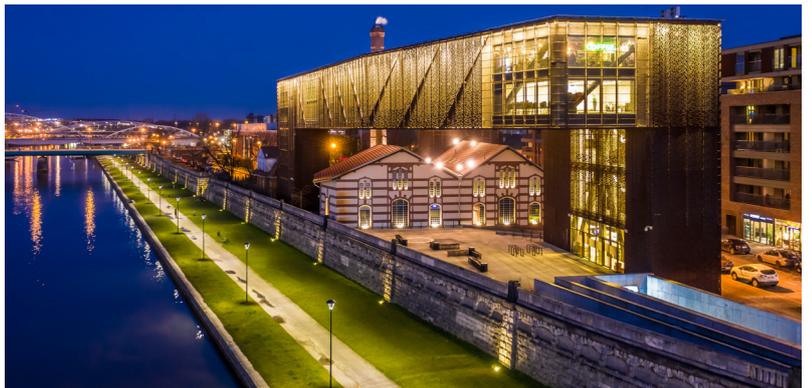
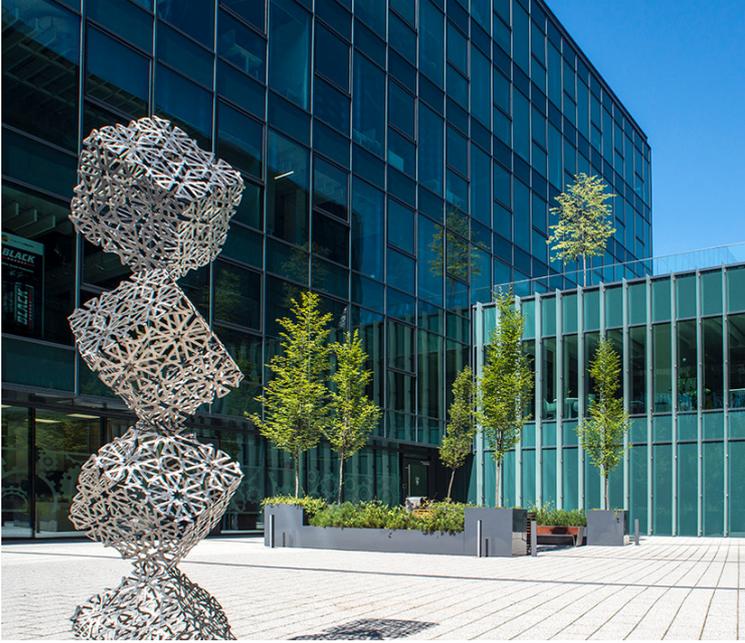


Regional Cities Office Market



Robust demand • Increasing vacancy • Strengthened absorption • Soaring supply

Key office indicators Q1 2022



6.27 million sq m
Total office supply



622,200 sq m
Total under construction space



243,500 sq m
New supply



15.5%
Vacancy rate



153,500 sq m
Total take-up



117,400 sq m
Net absorption

Despite high net absorption, record level of new supply resulted in higher vacancy

Economic background

Apart from Warsaw, the largest office markets in Poland are: Kraków, Wrocław, Tricity, Łódź, Poznań, Katowice, Szczecin and Lublin.

Each of these cities is a thriving academic centre that provides an ideal workforce for the expanding and newly established companies in each city. In the 2020/2021 academic year, the total number of students in the analysed cities was about 631,900, while 150,800 graduates supplied the labour market. One of the evidences of the stable economy and resilient development of the country as a whole is the low level of unemployment in the country, even in smaller cities. Poland currently has one of the lowest unemployment rates in the EU, which is also reflected in high employment in regional cities. The unemployment rate ranges from 1.6% in Poznań to 5.8% in Łódź. Regional cities are excellent hubs for international companies and for supporting their business. Currently, in the analysed cities, there are 1,055 business service centres in total, where about 252,400 people find employment (data for 1Q 2021 according to ABSL). Among the regional cities, Kraków is the largest cluster of business services, with employment of over 82,100 people. The next cities in terms of employment are: Wrocław (52,000 people) and Tricity where 30,200 qualified people work. The pandemic has not disrupted the further expansion of such businesses. Between 2020 and the first quarter of 2021, a further 49 new business service centres were set up in the analysed cities, employing hundreds of people.

Supply

At the end of March 2022, the total stock of modern office space in regional cities totalled 6.27 million sq m (a 4% increase compared to December 2021). The largest city in terms of office stock is Kraków (1.64 million sq m), while the smallest city is Szczecin offering 184,500 sq m.

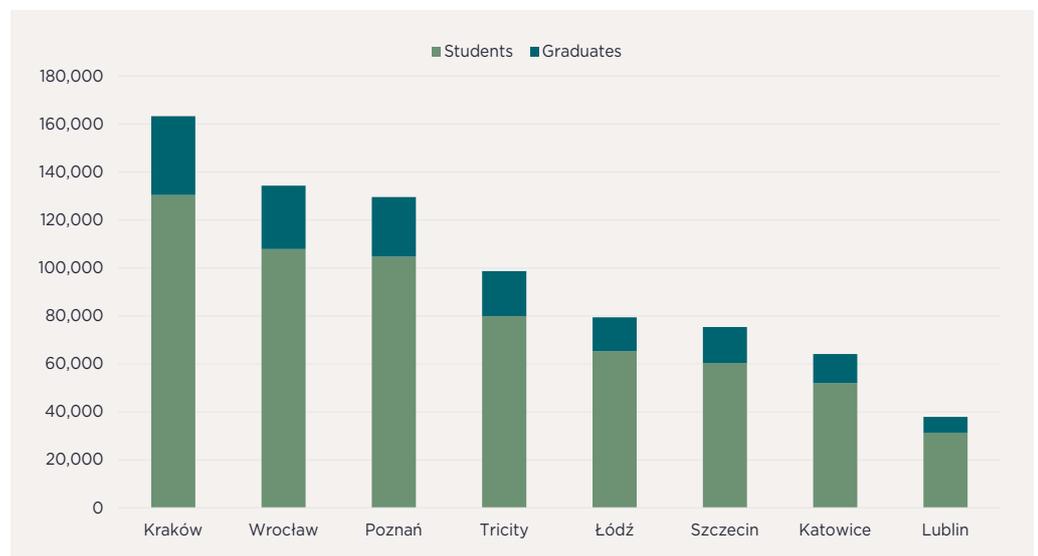
Since the start of the year, sixteen buildings totalling 243,500 sq m have been completed, 8% more than in the whole last year and the highest single quarter office completions in the market's history. The largest increase was recorded in Katowice, where six buildings totalling 116,300 sq m were completed (a 19% increase in total office stock compared to the previous quarter).

The largest buildings delivered in 2022 are: Global Office Park A1 & A2 in Katowice (55,200 sq m by Cavatina), .KTW II also in Katowice (39,900 sq m by TDJ Estate) and Midpoint71 in Wrocław (36,200 sq m by Echo Investments).

There was 622,200 sq m of office space under construction in regional cities at the end of March'22, of which 219,400 sq m is due in 2022, while a total of 413,500 sq m is due in 2023. Most space under construction is in Wrocław (172,000 sq m), Kraków (156,800 sq m) and Tricity (87,600 sq m). The largest schemes under construction include Quorum in Wrocław (over 85,500 sq m) and Andersia Silver in Poznań (37,800 sq m).

👉 **New supply of office space in the first quarter of 2022 was at a record high, surpassing the previous record from Q4'19 by 5% totalling 243,500 sq m.** 👉

Students and graduates in regional cities



Source: Savills, Statistics Poland

Despite the high level of developers' activity in the immediate period, delays in construction and shifting of deadlines for some planned projects are feasible. These difficulties may be caused by the negative impact of the war across the eastern border, which is reflected in an outflow of labourers, difficulties in accessibility and an increase in prices of raw materials for construction.

Leasing activity

The first quarter of 2022 recorded a solid performance in terms of demand for office space. A total of 153,500 sq m was leased in regional cities. This is an increase of 57% year-on-year and a 29% drop quarter-on-quarter, which is a good result considering the traditionally strongest tenant activity at the end of the year. The largest volume of space was leased in Wrocław (38,400 sq m) and Kraków (31,100 sq m), with Lublin at the other end of the range with 5,200 sq m.

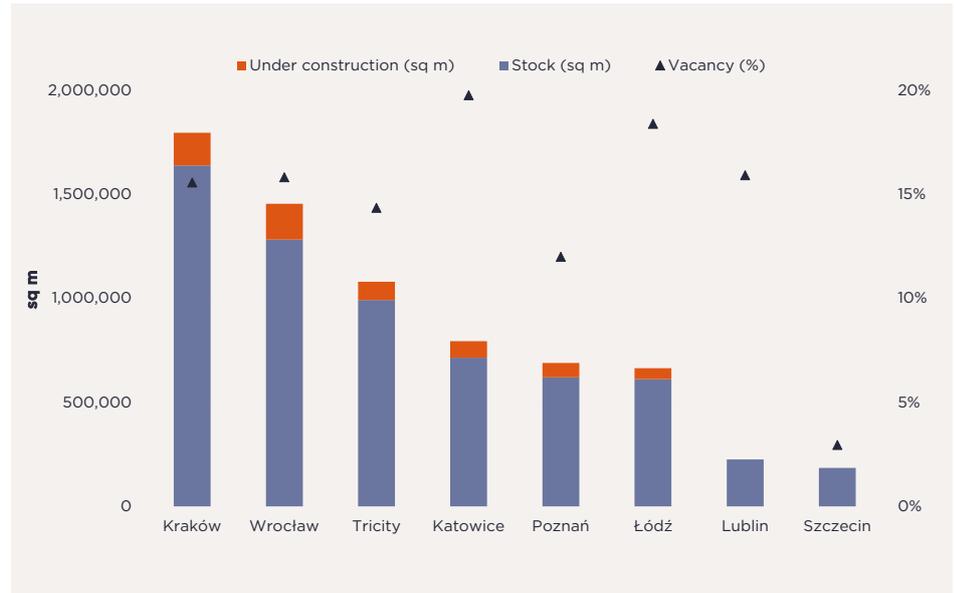
Tenants' need for a physical office after the first "home office revolutions" is strengthening. This is demonstrated by the distribution of the types of leases signed in 2022. In the first quarter of this year in regional cities a significant decrease in the share of renegotiations (only 22% of the total) and a high level of new agreements (65% of the total) and moderate level of pre-lease agreements (8% of the total) and 5% of expansions can be seen. The first quarter 2022 result was a distinguished performance compared to twelve rolling months where renegotiations accounted for more than 37% of the total, while new contracts accounted for only 40%. Pre-lease agreements amounted for 15% of total while expansion for 8% between Q2'21 and Q1'22.

More than half of the take-up in Q1'22 (56% of the total) was generated by tenants from three main sectors: IT sector (21% of the total), business services (20% of the total) and manufacturing (15% of the total). In addition, an important sector of occupiers were operators of serviced offices, who are trying to cope with the constantly growing demand for this type of office space and generated 10% of demand, leasing nearly 15,000 sq m in 9 locations. Four new serviced office locations will be opened in Wrocław and one each in Kraków, Katowice, Poznań, Tricity and Lublin.

👉 **31,600 sq m - the total amount of space leased by IT companies, makes it the largest contributor to demand.**👉

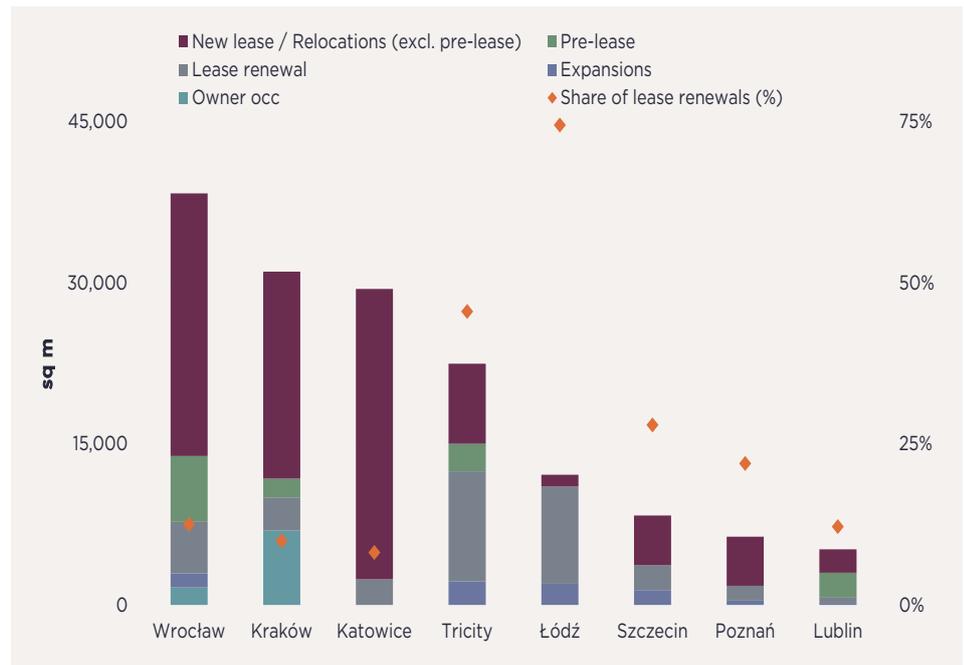
👉 **The high level of supply outweighed the high level of absorption, which resulted in a recurring increase in vacancy in the regional market.**👉

Supply, under construction and vacancy rate in regional cities



Source: Savills

Leasing activity in regional cities by transaction type



Source: Savills



In the first quarter of 2022, five transactions in excess of 5,000 sq m were signed for a total of 42,200 sq m, accounting for nearly 28% of the total demand. 51 leases finalised in Q1'22 were for offices of over 1,000 sq m, of which 16 were between 2,000 sq m and 5,000 sq m. The average deal size in regional cities was 1,250 sq m.

Currently on regional markets a growing interest in serviced offices and subleases is visible (in Q1 2022 nine sublease transactions for 8,200 sq m were signed). An important driver here are companies from Ukraine, which are increasingly relocating their operations to Poland. For these companies the ideal first choice are flexible offices, which are ready to accept tenants for a short period, other companies that need more stability and a more traditional office can use the subleasing offer, and in the future will contribute to the increase in demand, also for traditional office space.

Vacancy rates

Despite high absorption levels of over 117,400 sq m (7% more than the whole of last year), the vacancy rate increased by 1.3 pp compared to the end of the year and by 2.6 pp compared to the same period of 2021. This increase is mainly due to the high level of completions in Q1 2022. The vacancy rate across the analysed cities reached 15.5%, which

translates into 970,100 sq m of vacant space.

The vacancy rate varies across cities, with Katowice at 19.8% (up 9.3 pp, quarter-on-quarter, due to record completions of over 116,300 sq m) and Szczecin at 3.0% with less than 5,500 sq m available. Poznań and Szczecin are the only cities where vacancy rate decreased in comparison to Q1 2021, respectively 0.5 pp and 4.4 pp. However, compared to the end of 2021, the vacancy rate decreased in four cities, which are: Kraków, Wrocław, Poznań and Szczecin. On the other hand, an increase was recorded in the remaining four cities: Katowice, Tricity, Łódź and Lublin.

Commercialization of new buildings is proceeding at a moderate pace. Currently 119,200 sq m is available in the buildings constructed in 2022, which translates into 51% commercialization rate.

Rents

At present, average prime headline rents have remained stable since the outbreak of the pandemic, with the exceptions of Łódź and Katowice, where a slight downward correction has taken place. When analysing rents, we can distinguish three groups of cities. The first, meaning the most expensive ones, are: Kraków (EUR 13.50-15.50/sq m/month), Wrocław (EUR 13.50-15.50/sq m/month) and Poznań (EUR 12.50-15.50/sq m/

month). The second group includes Tricity (EUR 12.50-14.75/sq m/month) and Katowice (EUR 13.00-14.50/sq m/month). In addition, the last group with the lowest rents includes: Łódź (EUR 12.00-13.00/sq m/month), Szczecin (EUR 11.50-14.00/sq m/month) and Lublin (EUR 10.00-12.00/sq m/month). In the near future, as the absorption of office space advances and the potential delays in the completion of projects combined with higher construction costs and inflation threaten, we expect an increase in rents and a shift towards a landlord market.

“The low level of renewals compared to other lease types is encouraging and demonstrates tenants’ understanding an willingness to have physical office.”

Q1 2022 vs Q1 2021, change



Q1 2022 vs Q1 2020, change





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Regional Cities Office Market

Regional Cities key data

| | Katowice | Kraków | Poznań | Tricity | Łódź | Wrocław | Szczecin | Lublin |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Population (VI 2021) | 289,200 | 782,100 | 530,500 | 749,800 | 667,900 | 641,200 | 396,500 | 337,800 |
| Students (2021) | 52,000 | 130,400 | 104,700 | 79,900 | 65,300 | 107,900 | 31,300 | 60,400 |
| Graduates (2021) | 12,100 | 32,900 | 24,900 | 18,800 | 14,100 | 26,400 | 6,600 | 15,000 |
| Number of universities (2021) | 11 | 19 | 22 | 18 | 18 | 24 | 10 | 9 |
| Unemployment rate (III 2022) | 1.90% | 2.80% | 1.50% | 2.6% | 5.80% | 1.80% | 3.30% | 5.40% |
| Average salary in enterprise sector (III 2022, PLN) | 7,448 | 8,875 | 7,941 | 7,192* | 6,100 | 7,064 | 6,588 | 5,514 |
| Stock (sq m) | 715,000 | 1,638,800 | 620,400 | 992,200 | 611,600 | 1,282,500 | 184,500 | 225,900 |
| Completions (sq m) | 116,300 | 21,400 | 0 | 31,800 | 22,800 | 36,200 | 0 | 15,000 |
| Under construction (sq m) | 79,000 | 156,800 | 69,300 | 87,600 | 52,300 | 204,000 | 0 | 0 |
| Vacancy rate (%) | 19.8% | 15.6% | 12.0% | 14.3% | 18.4% | 15.8% | 3.0% | 15.9% |
| Take-up (sq m) | 29,400 | 38,100 | 6,500 | 22,500 | 12,100 | 38,500 | 8,300 | 5,200 |
| Absorption (sq m) | 36,200 | 26,700 | 4,100 | 7,600 | 2,300 | 35,800 | 4,300 | 400 |
| Rents (EUR/sq m/month) | 13.00-14.50 | 13.50-15.50 | 12.50-15.50 | 12.50-14.75 | 12.00-13.00 | 13.50-15.50 | 11.00-14.00 | 10.00-12.00 |

* data for Gdańsk XII 2021