Regional markets continue to maintain their growth dynamics. Despite the completion of several significant schemes, the total area under construction remains at a very high level at around 800,000 sqm. The large amount of new supply has not resulted in a hike in the vacancy rate, which has actually decreased in some markets.

**Headlines**

**ONE**

Cracow, Wroclaw and Tri-City increase their advantage over the rest of the regional markets.

There are three main groups among the eight regional office markets. The podium is consistently occupied by Cracow, Wroclaw and Tri-City. Their market share will increase further in the coming years due to the high volume of pipeline supply under construction. The second group consists of Katowice, Poznań and Łódź, which have a very similar volume of stock as well as supply to be delivered within the next 24 months. The smallest markets are Szczecin and Lublin, which are competitive in terms of rental level.

**TWO**

The high share of pre-lets confirms there is continuous demand for office space in regional markets.

The high occupancy rate in buildings under construction was a consequence of intense occupier activity on the regional markets. The average pre-let rate in schemes under construction amounted to 43.7%. The best results have been recorded in Poznań (65.7%) and Cracow (57.7%). Szczecin in turn scored the worst with only 22.4% of pipeline space leased. It should be noted that Lublin, the smallest office market across the analysed cities, has a relatively large volume of pipeline supply, reaching over 80,000 sqm, of which more than 30% has been already leased.
THREE

Low vacancies apparent in newly built-schemes with some older buildings facing issues.

Despite the fast increase of office supply, the commercialisation of newly constructed schemes progress relatively quickly. Excluding the smallest markets, where the absorption time is much longer, the average vacancy rate of new investments (1-3 years) amounted 5.0%. The reason is a better standard and higher office space efficiency. These factors have become more and more important in the process of choosing a suitable location. The lack of tenant interest concerns mostly older buildings that have not been renovated and do not meet current standards.

FOUR

The large growth of new space puts pressure on rental levels in mature offices.

The significant volume of new office space under construction to be delivered in the next few years will have an impact on the effective rents. It should mostly affect older buildings, which will be forced to offer more attractive rental rates and extensive incentive packages to retain occupiers. The trend will not concern the most prestigious schemes which we expect to maintain current rental levels.
At the end of H1 2016 Cracow maintained its leading position among the regional cities with a total supply of approximately 894,300 sqm. It will be further strengthened over the coming years due to an extensive pipeline volume, estimated at 209,000 sqm. Moreover, almost 60% of this space has been pre-let.

The reason for such interest from developers is the marginal vacancy rate which amounted 3.7%. The result is even more impressive when considering the significant levels of new completions in H1 2016 such as O3 Business Campus A, Bonarka for Business F and Quattro Business Park Five, all of which have increased the total supply by 40,000 sqm.

The rent range in most office buildings in Cracow varies from €13 to €15 sqm/month. Despite the high tenant interest, rents remained flat, a result of strong competition among schemes under construction. According to BNP Paribas Real Estate, the pace of market growth in Cracow is unlikely to slow down until at least the end of 2018.

### KEY INDICATORS AND TRENDS*

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population*</td>
<td>761,100</td>
</tr>
<tr>
<td>Unemployment rate – Cracow / Matopolskie*</td>
<td>4.3% / 7.7%</td>
</tr>
<tr>
<td>Number of students in the city*</td>
<td>160,800</td>
</tr>
<tr>
<td>Average monthly salary (PLN)*</td>
<td>4,637</td>
</tr>
</tbody>
</table>

*for the next 6 months

<table>
<thead>
<tr>
<th>Office Stock</th>
<th>Office supply under construction</th>
<th>Rent range (m²/month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>894,300 sqm</td>
<td>209,000 sqm</td>
<td>13-15 EUR</td>
</tr>
</tbody>
</table>

Source: GUS, BNP Paribas Real Estate, 1. As of Dec. 2015, 2. As of May 2016, 3. As of June 2016, 4. By the end of 2018
WROCŁAW

Wrocław holds second position among the regional office markets. The total stock in the city reached over 736,000 sqm at the end of H1 2016. The capital of Lower Silesia is one of the fastest growing markets in terms of supply and there is over 183,000 sqm under construction to be delivered before H1 2018. A similar amount of office space is in the planning phase.

The large supply growth had an impact on the vacancy rate, demonstrated by an increase from 6.7% at the end of 2015 to 9% in H1 2016.

The majority of modern office space is offered for €12 – €15.5 sqm/month across the market and due to a large volume of pipeline space, we expect Wrocław to strengthen its position among the regional cities. However, due to the high number of new deliveries, it may cause a further increase in the vacancy rate.

**Key Indicators and Trends***

- **Population**: 635,800
- **Unemployment rate – Wrocław / Dolnośląskie**: 3.3% / 8.2%
- **Number of students in the city**: 120,000
- **Average monthly salary (PLN)**: 4,604

**Office stock**: 736,600 m²

**Vacancy rate**: 9.0%

**Office supply under construction**: 183,100 m²

**Rent range (m²/mth)**: 12-15.5 EUR

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*For the next 6 months
Source: GUS, BNP Paribas Real Estate, 1. As of Dec 2016., 2. As of May 2016., 3. As of June 2016, 4. By the end of 2018
**TRI-CITY**

Delivery of 50,000 sqm of office space in H1 2016 increased the total supply to 611,600 sqm, reinforcing its place as a major regional centre. The biggest schemes that received an occupancy permit were Tryton Business House, C-200 Office, Tensor X and Tensor Y. According to BNP Paribas Real Estate forecasts, such a considerable growth of supply caused a hike in the vacancy rate from 11.8% at the end of 2015 to 14.7% in H1 2016. As a consequence, rents have fallen by 5% - 15% and the rental differentiation between office space is €12 – €14 sqm/month.

The delivery of several schemes diminished the volume of space under construction which has now fallen below 100,000 sqm. Almost a half of the pipeline supply (48.2%) has already been pre-let.

**KEY INDICATORS AND TRENDS***

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>747,000</td>
</tr>
<tr>
<td>Unemployment rate – Tri-City / Pomorskie</td>
<td>4.1% / 8.3%</td>
</tr>
<tr>
<td>Number of students in the city</td>
<td>90,200</td>
</tr>
<tr>
<td>Average monthly salary (PLN)</td>
<td>5,120</td>
</tr>
</tbody>
</table>

*for the next 6 months

Source: GUS, BNP Paribas Real Estate, 1. As of Dec 2016, 2. As of May 2016, 3. As of June 2016, 4. By the end of 2018
In the first half of 2016, Katowice has slightly overtaken Poznań in terms of the total office stock with 415,000 sqm delivered to date. Over the course of 2014-2015, over 100,000 sqm of office space was completed. Currently, the market is gradually absorbing the vacant space, explaining why the availability of space in H1 2016 dropped by 3.1 p.p. to reach 12%.

The city continues the strategic implementation to create a business-friendly environment and underlines the opportunities of the whole conurbation, now the second largest urban zone in Poland. One result of this is the current commencement of the KTW scheme comprising two buildings. The first phase is currently under construction, and its size constitutes over 27% of the total pipeline supply. Completion of both phases shall result in a hike in the supply by 60,000 sqm, representing 15% of the current stock.

The rent range in the majority of office buildings in the city oscillated between €11 - €14.5 sqm/month.

**AT A GLANCE - OFFICE MARKET REVIEW, POLAND - H1 2016**

**KEY INDICATORS AND TRENDS**

- **Population**
  - 304,400 / 1,706,200**
- **Unemployment rate - Katowice / Śląskie**
  - 3.4% / 7.6%
- **Number of students in the city**
  - 59,700 / 98,000**
- **Average monthly salary (PLN)**
  - 4,735

**Office Stock**

- 415,100 m²

**Vacancy rate**

- 12.0%

**Office supply under construction**

- 67,500 m²

**Rent range (m²/mth)**

- 11-14.5 EUR

*For the next 6 months, **data for the agglomeration

POZNAŃ

The Poznań office market, with a total stock amounting to 405,200 sqm, has noted very positive trends over the course of the last quarters including a drop in the vacancy rate by over 5 p.p. from 17.9% to 12.8%.

Moreover, about 66% of the total area under construction (83,000 sqm) has already been preleased. The acceleration in absorption is caused by strong demand and a relatively small inflow of new supply in H1 2016. Asking rents are in the range of €13.5 – €15 sqm/month.

The office market in Poznań has been facing the difficulty of high vacancy rates over the past few years. It is hoped that the demand increase recorded in the first half of 2016 will help encourage developers’ activity in forthcoming quarters.

KEY INDICATORS AND TRENDS*

- Population: 542,300
- Unemployment rate – Poznań / Wielkopolskie: 2.3% / 5.7%
- Number of students in the city: 116,500
- Average monthly salary (PLN): 4,631

405,200 m² Office stock

12.8% → Vacancy rate

83,200 m² Office supply under construction

13.5-15 EUR → Rent range (m²/mth)

*for the next 6 months

Source: GUS, BNP Paribas Real Estate, 1. As of Dec 2016, 2. As of May 2016, 3. As of June 2016, 4. By the end of 2018
Łódź, with a total stock estimated at over 362,000 sqm, is a comparable market to Katowice and Poznań in terms of size. Currently, there are 53,000 sqm under construction and another 108,000 sqm planned. In terms of planned supply, it is the third largest market after Cracow and Wrocław, a result of a structured city development plan. The significant amount of space under preparation is caused predominantly by the ‘Nowe Centrum Łodzi’ project. The aim is to create a multi-functional area acting as a major office centre within the city. The first building of this project is Nowa Fabryczna with construction planned to begin in March 2016.

The vacancy rate in Łódź is estimated at a similar level to Katowice and Poznań and amounts to 12.5%.

The renovated tenement houses, which represent a different quality of office space, consume a large proportion of the total stock in the city. This disparity in office type has generated a wide span of rent quotes, which for both A-class and B-class range from €11 to €14 sqm/month.

**KEY INDICATORS AND TRENDS***

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>711,300</td>
</tr>
<tr>
<td>Unemployment rate – Łódź / Łódzkie</td>
<td>9.2% / 9.7%</td>
</tr>
<tr>
<td>Number of students in the city</td>
<td>76,400</td>
</tr>
<tr>
<td>Average monthly salary (PLN)</td>
<td>4,048</td>
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</table>

*for the next 6 months

Source: GUS, BNP Paribas Real Estate, 1. As of Dec 2016, 2. As of May 2016, 3. As of June 2016, 4. By the end of 2018
SZCZECIN

The volume of office space in Szczecin totalled 161,200 sqm at the end of H1 2016. It is still a very shallow market by comparison. Every large transaction or delivery of a new scheme exerts a significant impact on market indicators.

In the H1 2016 the unleased area has been gradually absorbed. The vacancy rate has fallen down during the last six months from 17.1% to 12.7%, which is comparable to most of the regional cities.

Currently, there are 22,000 sqm under construction, of which 22.4% is already leased. This marks Szczecin as one of the lowest development cities in Poland with regard to office space. Most of the new pipeline supply originates from local investors.

The average rents in the majority of schemes vary from €11 – €14 sqm/month.

LUBLIN

At the end of H1 2016, the existing office accommodation in Lublin reached 133,900 sqm, which makes Lublin the smallest regional market. However, due to the large pipeline of schemes under construction, amounting to 81,400 sqm, the city will soon overtake Szczecin in terms of total supply.

According to forecasts, the growth of total stock by the end of 2017 should amount to 36%. In addition, there are further office investments in the planning stage totalling 46,000 sqm. The significant growth on such a small market is likely to cause a rapid jump in the vacancy rate, which currently amounts to 11.5%.

Despite the large volume of pipeline schemes, almost 32% of the area under construction has already been preleased showing that there is local appetite for new quality office space.

The key advantage of Lublin which is attracting occupiers to the city are the availability of highly skilled human capital and competitive rent rates, which for most of the buildings range from €10 to €13 sqm/month.

KEY INDICATORS AND TRENDS*

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Szczecin</th>
<th>Lublin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office stock</td>
<td>161,200 m²</td>
<td>133,900 m²</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>12.7%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Office supply under construction</td>
<td>22,000 m²</td>
<td>81,400 m²</td>
</tr>
<tr>
<td>Rent range (m²/mth)</td>
<td>11-14 EUR</td>
<td>10-13 EUR</td>
</tr>
<tr>
<td>Population¹</td>
<td>405,700</td>
<td>340,700</td>
</tr>
<tr>
<td>Unemployment rate – Szczecin / Zachodniopomorskie²</td>
<td>6.0% / 11.9%</td>
<td>7.8% / 10.9%</td>
</tr>
<tr>
<td>Number of students in the city¹</td>
<td>39,400</td>
<td>67,300</td>
</tr>
<tr>
<td>Average monthly salary (PLN)¹</td>
<td>4,509</td>
<td>3,974</td>
</tr>
</tbody>
</table>

*for the next 6 months

Source: GUS, BNP Paribas Real Estate, 1. As of Dec 2016, 2. As of May 2016, 3. By the end of 2018
About BNP Paribas Real Estate

BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management.

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