At a glance H2 2016

Office Market Review

2016 was marked by a rapid growth of the office sector throughout Poland. Over the last twelve months nearly half a million square meters of office space was delivered in regional cities. Considering the volume of schemes currently under construction it is evident that the sector will maintain its pace of growth throughout 2017.

Headlines

ONE

There is only one king

Cracow remains the undisputed leader amongst all the regional cities both in terms of stock and the number of schemes under construction. It will soon break a million square meters threshold. The remaining places on the podium are invariably occupied by Wrocław and the Tri-City.

Over the coming years Łódź will be joining Katowice and Poznań in the battle for the fourth position due to the commencement of numerous new projects. Szczecin and Lublin with their high growth potential complete the list of Poland’s key office hubs.

TWO

Łódź is on the way

Due to commencement of construction projects in 2016, Łódź took the third position amongst the regional cities in terms of pipeline volume.

The first and second positions are occupied by Cracow and Wrocław respectively. Tri-City comes the fourth.

The total volume of office space under construction at the end of 2016 stood at a level of 874,000 sqm, out of which 34.7% has already found a future tenant. Delivery to the market of all pipeline projects will increase the office market in regional cities by approximately 22%. 

Total existing stock and supply under construction (m²)

Pre-lets level (m²)
THREE

Large volume of new projects affects vacancy rate

The total vacancy rate in regional cities at the end of 2016 reached 11.3%. This means an increase by approximately 1.3 percentage points compared to the situation at the end of June. The reason behind this was delivery of projects totalling nearly 300,000 sqm in the second half of 2016.

The lowest vacancy rates were recorded in Cracow (6.2%) and Łódź (7.3%). Katowice and Szczecin face the highest availability, reaching approximately 17% of existing office stock in both of the cities.

FOUR

High level of demand sustains rents

The high level of occupier interest in office space resulted in stable rental levels in the majority of regional cities. It was only the rents in buildings with a high structural vacancy rate that dropped.

The highest asking rents applied to office space in Cracow (€12.5-€15.0/sqm/mth) and Wrocław (€12.0-€15.0/sqm/mth), while the lowest rents were recorded in Lublin (€10.0-€13.0/sqm/mth).
PRIMARY REGIONAL MARKETS

CRACOW

Cracow remains the largest regional office market. The total existing stock in the city at the end of 2016 reached 955,100 sqm, out of which 6.2% remains vacant. This means an increase by 2.5 percentage points as compared to the end of June, stemming from delivery of approximately 79,000 sqm of office space. The largest projects completed in the second half of 2016 were Axis (20,000 sqm), buildings C and D within the DOT Office complex (14,000 sqm) and CH2M Center (14,000 sqm).

On average rents oscillate between €12.5 per sqm/mth and €15.0 per sqm/mth.

The reason behind Cracow’s leading position and rapid growth is “modern business services industry”. Companies representing the BPO, SSC, ICT and R&D sectors drive the majority of the current demand for office space in the city.

KEY INDICATORS

FUTURE TRENDS* (m²)

| Population² | 762,400 |
| Unemployment rate – Cracow / Małopolskie³ | 3.6% / 6.7% |
| Number of students in the city⁴ | 160,800 |
| Average monthly salary (PLN)⁴ | 4,606 |

Source: BNP Paribas Real Estate


*for the next 6 months

CRACOW

Office supply under construction³

1. DOT Office D, E ul. Czerwone Maki
2. Enterprise Park E, F ul. Powstanców Wielkopolskich
3. High Five ul. Powstanców Wielkopolskich
4. 03 Business Campus B ul. Powstanców Wielkopolskich
5. podium Tower ul. Wschodnia 22

EXISTING

1. Al. Pokoju 5 ul. Pokoju 5
2. Avatar ul. Lea 210
3. Avia ul. M. Życzkowskiego 20
4. Axis ul. Przy Rondzie 4
5. Bonarka for Business (B4B) ul. Puszkarska 7
7. Centrum Biurowe Lubicz ul. Lubicz 23
8. CH2M Center ul. M. Konopnickiej 31
9. DOT Office A, B, C ul. Czerwone Maki 5a
10. Enterprise Park AB, C, D ul. Powstanców Wielkopolskich 13e
11. equal Business Park ul. Wielicka 30
13. KAPelaanka 42 ul. Kapelanka 42
15. Korna Office Complex ul. Armii Krajowej 18
16. 03 Business Campus A ul. Opolska 114
17. Pilot Tower (former. Alma Tower) ul. Pilotów 6
18. Quattro Business Park ul. T. Bora Komorowskiego 25d
19. Rondo Business Park ul. Lublańska 34
20. Vinci Office Center ul. Opolska 100

Vacancy rate

6.2%

Rent range (m²/mth)

955,100 m²

205,700 m²

12.5-15 EUR

Office stock

For the next 6 months
**WROCŁAW**

Wrocław with existing office stock at a level of 846,300 sqm consolidated its second position amongst regional cities. Furthermore, in terms of projects currently under construction, the capital city of Lower Silesia is only bettered by Cracow. The volume of space under construction at the end of 2016 reached 179,000 sqm, where pre-let agreements have already been signed for approximately 25% of the pipeline supply.

At the end of 2016, 12.2% of Wrocław’s existing office stock remained vacant (compared to 9% mid-year). The increase in the vacancy rate, similarly to the case with Cracow, was caused by new supply, which included projects such as Business Garden Wrocław with the total area of office space of 32,200 sqm and Nobilis Business House (14,900 sqm).

Rents in Wrocław are amongst the highest in Poland and stand at between €12/sqm/mth and €15/sqm/mth.

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**KEY INDICATORS**

**FUTURE TRENDS* (P)**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
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<tbody>
<tr>
<td>Population</td>
<td>637,100</td>
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<tr>
<td>Unemployment rate - Wrocław / Dolnośląskie</td>
<td>2.8% / 7.3%</td>
</tr>
<tr>
<td>Number of students in the city</td>
<td>120,000</td>
</tr>
<tr>
<td>Average monthly salary (PLN)**</td>
<td>4,551</td>
</tr>
<tr>
<td>Office stock</td>
<td>846,300 m²</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>12.2%</td>
</tr>
<tr>
<td>Office supply under construction</td>
<td>179,100 m²</td>
</tr>
<tr>
<td>Rent range (m²/mth)</td>
<td>12-15 EUR</td>
</tr>
</tbody>
</table>

*for the next 6 months


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**EXISTING**

2. Arkady Wrocławskie ul. Powstańców Śląskich 2-4
5. Dominikański ul. Oławska 33
6. Globis Wrocław ul. Powstańców Śląskich 7a
7. Green Day ul. Szczytnicka 9
10. Leknica Business House ul. Leknica 56
11. Nicolas Business Center ul. św. Mikołaja 18-20
13. Promenady Wrocławskie - Zlota ul. Storimskiego 1A

**UNDER CONSTRUCTION**

1. Bielany Business Point ul. Irysowa 1
2. Green 2 Day ul. Szczytnicka 9
3. Retro Office House ul. Pilsudskiego
4. Sagittarius ul. Borowska 2
5. Wielka 27 ul. Wielka 27
The Tri-City office market concluded 2016 with stock at a level of 620,600 sqm, which gives it third position amongst the regional cities. 11.9% of existing stock remains unoccupied, which means a drop by 2.8 percentage points compared to the first half of 2016. The small volume of new supply contributed to absorption of some of the vacant space. The largest project delivered to the market over the past 6 months was Pomerania Office Park’s Zefir building (4,000 sqm).

Currently there are approximately 125,900 sqm of offices under construction, half of which has already found tenants.

Rents remained unchanged. Typically, depending on location and the property’s standard, landlords offer space to tenants between €11.5/sqm/mth and €14.5/sqm/mth.
KATOWICE

The total existing office stock in Katowice in December 2016 stood at 454,700 sqm. The increase in supply resulted mainly from delivery of 3 projects: A4 Business Park III (12,100 sqm), the second phase of the Silesia Star project (11,500 sqm) and Silesia Business Park C (10,700 sqm). There are currently 32,200 sqm remaining under construction, the majority of which comes from the first building of the KTW complex (18,250 sqm).

Delivery to the market of considerable new supply contributed to an increase in the vacancy rates, which in December stood at 16.8% (as compared to 12% mid-year).

Asking rents for office space oscillated between €11.0/sqm/mth and €14.0/sqm/mth.

KEY INDICATORS

FUTURE TRENDS* (P)

|----------------|-----------------------------------------------|-------------------------------|----------------------------|

| 15. Silesia Star I, II al. W. Rodzińskiego 10 |

| UNDER CONSTRUCTION | 1. KTW Al. Rodzińskiego 1 |
| 2. BREMA al. Rodzińskiego |
| 3. GPP Business Park IV ul. Konduktorska 39 |
| 4. Tayama Office Center al. Korfanta 110 |

Population1 299,000 / 2,192,700**
Unemployment rate – Katowice / Śląskie2 2.8% / 6.6%
Number of students in the city3 59,700 / 98,000**
Average monthly salary (PLN)4 5,268

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

The total volume of office supply in Poznań at the end of 2016 stood at 421,500 sqm. The largest project delivered to the market in the second half of 2016 was Maraton Business Garden comprising two buildings with the total area of approximately 21,000 sqm.

As at December 2016, 15% of the existing office stock remained vacant, which means an increase by 2.2 percentage points as compared to the previous six months. The vacancy rates remaining for the last several years at a level exceeding 10% exerts pressure on asking rents, and currently the rental price for one square meter oscillates between €12.0 and €14.5 per month, which means a drop by approximately €0.5-1.0 since the last survey.

KEY INDICATORS

<table>
<thead>
<tr>
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<th>Value</th>
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<tbody>
<tr>
<td>Population</td>
<td>541,600</td>
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<tr>
<td>Unemployment rate - Poznań / Wielkopolskie</td>
<td>1.9% / 5.0%</td>
</tr>
<tr>
<td>Number of students in the city</td>
<td>116,500</td>
</tr>
<tr>
<td>Average monthly salary (PLN)*</td>
<td>4,818</td>
</tr>
</tbody>
</table>

POZNAŃ - EXISTING

1. Andersia Business Center pl. W. Andersa 7
2. Andersia Tower pl. W. Andersa 3
4. Centrum Biurowe Podwale ul. S. Małachowskiego 10
5. Delta ul. Twarda 35
6. Globis ul. F. Roosevelta 18
7. Kupiec Poznański pl. Wiosny Ludów 2
8. Malta Office Park A-D ul. abp A. Baraniaka 88
11. Nowe Jeżyce ul. J. Kraszewskiego 30
13. P-2 ul. Polwięska 2
14. Pixel (Klaster Grunwaldzka) ul. Grunwaldzka 182
15. PGK Centrum I, II ul. Marcielita 90
17. Skalar Office Center ul. Górecka 1
18. Stary Browar ul. Polwięska 32
19. Szyperska Office ul. Szyperska 14
20. YouNick ul. Krzemowa 1

POZNAŃ - UNDER CONSTRUCTION

1. Bałtyk ul. F. Roosevelta 22
2. Beyond Office ul. Dzidzosańska 10

POZNAŃ - FUTURE TRENDS* (P)

*For the next 6 months

Source: BNP Paribas Real Estate
At the moment total office supply in Łódź stands at 390,600 sqm. However, the market’s pace of growth should accelerate considerably over the next two years due to new projects currently under construction, the total area of which at the end of 2016 amounted to 126,800 sqm. The largest pipeline projects include Ogrodowa Office (25,000 sqm), Nowa Fabryczna (22,000 sqm) and Piotrkowska 155 (21,000 sqm). Delivery to the market of space under construction will mean that Łódź will have a chance of outstripping Poznań and Katowice in terms of stock.

The fact that the market is gaining in popularity is further confirmed by a considerable drop in vacancy rate, which dropped from 12.5% recorded in June to a 7.3% recorded in December 2016 and is one of the lowest vacancy rates amongst all the regional cities.

At the moment the majority of space is offered at between €10.0/sqm/mth and €14.0/sqm/mth. The range of rents may expand following delivery to the market of pipeline projects. Less attractive projects will try and entice tenants with lower rents, while newly delivered modern office space will result in an increase in the upper price threshold.

**ŁÓDŹ**

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**SZCZECIN**

The Szczecin office market concluded 2016 with supply at a level of 165,000 sqm, out of which 16.8% remained vacant. The office market in the capital city of Zachodniopomorskie voivodship can still be described as shallow, thus the vacancy rates is highly volatile as a result of each larger transaction taking place there. However, we are now seeing an increase in tenant interest in newly constructed projects, the total area of which amounts to approximately 50,000 sqm, out of which 42% has already found a future occupier. Rents for office space in Szczecin have not changed over the past six months and for the majority of space they oscillate between €11.0/sqm/mth and €14.0/sqm/mth.

<table>
<thead>
<tr>
<th>KEY INDICATORS</th>
<th>FUTURE TRENDS* (P)</th>
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<tbody>
<tr>
<td><strong>Population</strong> 1</td>
<td>405,400</td>
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<tr>
<td><strong>Vacancy rate</strong></td>
<td>16.8%</td>
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<tr>
<td><strong>Office stock</strong></td>
<td>165,000 m²</td>
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<tr>
<td><strong>Rent range (m²/mth)</strong></td>
<td>11-14 EUR</td>
</tr>
<tr>
<td><strong>Office supply under construction</strong> 3</td>
<td>50,000 m²</td>
</tr>
</tbody>
</table>

*for the next 6 months

**LUBLIN**

Over the second half of 2016 the office market in Lublin grew by approximately 16,000 sqm, reaching a total level of 148,900 sqm. The largest projects delivered to the market were two buildings within the Technic Office Park complex with a total area of 6,600 sqm and Kamienica pod 7 (5,000 sqm). Delivery to the market of a relatively high volume of new space to the smallest of Poland’s key office markets contributed to an increase in the vacancy rate, which currently stands at 14.9%.

The market’s growth could accelerate considerably due to the more than 90,000 sqm currently under construction, delivery of which to the market would increase the stock by nearly 61%.

Rents in Lublin are the lowest rents amongst regional cities and oscillate between €10.0/sqm/mth and €13.0/sqm/mth.

<table>
<thead>
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<tbody>
<tr>
<td><strong>Population</strong> 1</td>
<td>340,700</td>
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<tr>
<td><strong>Vacancy rate</strong></td>
<td>14.9%</td>
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<tr>
<td><strong>Office Stock</strong></td>
<td>148,900 m²</td>
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<tr>
<td><strong>Rent range (m²/mies.)</strong></td>
<td>10-13 EUR</td>
</tr>
<tr>
<td><strong>Office supply under construction</strong></td>
<td>90,400 m²</td>
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</tbody>
</table>

*for the next 6 months

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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