OFFICE MARKET IN REGIONAL CITIES

Poland was one of Europe’s fastest growing economies in 2018. The majority of businesses on the Polish market declare that new jobs are created on an ongoing basis, thus generating high demand for office space. The BPO/SSC sector, i.e. the so-called business services sector, continues to grow dynamically and has shown a particular interest in Poland’s regional cities as it values the high quality of the workforce available there and the still competitive – despite the continued upward movement – employment costs.

SUPPLY

Kraków and Wrocław take the lead in market growth

A total of more than 511,000 sq m of modern office space was completed and delivered on the eight key regional markets in 2018, which is a volume exceeding the total stock to be found on Poznań’s market. Unquestionably, Kraków and Wrocław grew at the fastest pace, with 155,200 sq m 146,600 sq m delivered on those markets respectively. Thus, the two cities together hold 59% of the newly completed supply. In turn, the largest offices schemes were delivered in the Tricity, where 2018 saw the delivery of two new buildings within Olivia Business Center: Olivia Star (45,700 sq m) and Olivia Prime A (28,000 sq m).

Smaller markets can also boast of the presence of new large-format schemes with the delivery in 2018 of schemes such as Ogrodowa 8 (24,700 sq m) in Łódź, Spokojna 2 (18,500 sq m) in Lublin and .KTW I (18,200 sq m) in Katowice.

Vacancy

Drop in vacancy rate

All regional markets experienced an improvement in the average vacancy rate in 2018, which at the end of the year dropped to 8.4%.

In Kraków, despite the high volume of new supply, strong interest from tenants led to a drop in the vacancy rate by approx. 1.2 p.p. – down to 8.6%. Additionally, high net demand in Wrocław meant that the vacancy rate was retained at just above 9% despite the delivery to the market of more than 146,000 sq m of new office space. More than 77,000 sq m of new space was delivered over the 12 months in the Tri-city and then very quickly absorbed by the market. This led to a considerable drop in the vacancy rate down to 6.1%.

Katowice, despite the delivery of the large .KTW I scheme, experienced a significant drop in the vacancy rate. At the end of December it stood at 8.8%, which is 2.5 p.p. less than in the corresponding period in 2017. In turn, in Łódź and Poznań the relatively low volume of new supply enabled the remaining vacant space to be absorbed, and thus the vacancy rate on those markets stood at 8.7% and 7.3% respectively.

The highest drops in the vacancy rate were recorded on the least developed markets included in the analysis. In Szczecin, where 2018 saw the delivery of only one scheme offering modern office space, the vacancy rate dropped over the 12 months from 10% down to a mere 5.1%. In turn, 15.4% of the existing office stock in Lublin is still available, which is 4.3% less than a year ago.

DEMAND

The regions are becoming an interesting alternative for the Capital

Over the 12 months of 2018 net demand for office space on the regional markets reached 451,000 sq m, with Kraków and Wrocław attracting the most interest from tenants. The two markets generated more than half of the net demand, approx. 29% and 24% respectively, which to a large extent resulted from significant interest on the part of businesses from the banking and investment as well as IT sectors.

As much as 28% of the net demand recorded was generated by space leased in buildings still under construction (the so-called pre-let agreements). The highest share of this type of leases was recorded in Katowice, where they accounted for as much as 39% of the total net space leased (exclusive of lease renewals). A similarly high share was recorded in the Tri-city, Kraków and Łódź, where it stood at between 32% and 35%.

Regional cities are increasingly often chosen by operators from the BPO / SSC / IT / R&D sectors as an attractive alternative for the more expensive Warsaw market. There is also a growing trend to open a second – after Warsaw – location in the regions to place those operations there that do not have to be run in the capital. Headline rents are of considerable significance here, where they oscillate around EUR 11-13 / sq m / month for prime buildings in Lublin and EUR 13.5-15.00 in Kraków and Poznań.

**AT A GLANCE – OFFICE MARKET IN REGIONAL CITIES – H2 2018**

**Vacancy rate in regional cities**

<table>
<thead>
<tr>
<th>City</th>
<th>Vacancy Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kraków</td>
<td>25.6%</td>
</tr>
<tr>
<td>Wrocław</td>
<td>21.5%</td>
</tr>
<tr>
<td>Tricity</td>
<td>15.8%</td>
</tr>
<tr>
<td>Szczecin</td>
<td>3.2%</td>
</tr>
<tr>
<td>Lublin</td>
<td>4.0%</td>
</tr>
<tr>
<td>Łódź</td>
<td>9.6%</td>
</tr>
<tr>
<td>Poznań</td>
<td>9.8%</td>
</tr>
<tr>
<td>Katowice</td>
<td>10.6%</td>
</tr>
<tr>
<td>Tricity</td>
<td>15.8%</td>
</tr>
</tbody>
</table>

**Asking prime rents in regional cities (€/m²/month)**

- **Kraków**: 14€/m²
- **Wrocław**: 12€/m²
- **Tricity**: 13€/m²
- **Szczecin**: 11€/m²
- **Lublin**: 10€/m²
- **Łódź**: 9€/m²
- **Poznań**: 9€/m²
- **Katowice**: 8€/m²

**Office gross take-up**

- **Katowice**: 84,400 sq m
- **Tricity**: 10,900 sq m
- **Szczecin**: 10,900 sq m
- **Łódź**: 56,700 sq m
- **Poznań**: 70,400 sq m
- **Wrocław**: 161,600 sq m
- **Kraków**: 208,800 sq m

**Total modern office stock in regional cities**

- **Kraków**: 208,800 sq m
- **Wrocław**: 161,600 sq m
- **Tricity**: 84,400 sq m
- **Szczecin**: 10,900 sq m
- **Łódź**: 56,700 sq m
- **Poznań**: 70,400 sq m
- **Katowice**: 84,400 sq m

Source: BNP Paribas Real Estate

**Office gross take-up**

- **Katowice**: 38,000 sq m
- **Poznań**: 70,400 sq m
- **Łódź**: 56,700 sq m
- **Szczecin**: 10,900 sq m
- **Tricity**: 84,400 sq m
- **Wrocław**: 161,600 sq m
- **Kraków**: 208,800 sq m

Source: BNP Paribas Real Estate

**Vacancy rate in regional cities**

- **Kraków**: 25.6%
- **Wrocław**: 21.5%
- **Tricity**: 15.8%
- **Szczecin**: 3.2%
- **Lublin**: 4.0%
- **Łódź**: 9.6%
- **Poznań**: 9.8%
- **Katowice**: 10.6%
- **Tricity**: 15.8%

Source: BNP Paribas Real Estate

**Asking prime rents in regional cities (€/m²/month)**

- **Kraków**: 14€/m²
- **Wrocław**: 12€/m²
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- **Szczecin**: 11€/m²
- **Lublin**: 10€/m²
- **Łódź**: 9€/m²
- **Poznań**: 9€/m²
- **Katowice**: 8€/m²

Source: BNP Paribas Real Estate

Avatar, Kraków
### Selected office buildings delivered in 2018

<table>
<thead>
<tr>
<th>BUILDING</th>
<th>CITY</th>
<th>DEVELOPER</th>
<th>GLA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivia Star</td>
<td>Tricity</td>
<td>Olivia Business Centre</td>
<td>45,700</td>
</tr>
<tr>
<td>Olivia Prime A</td>
<td>Tricity</td>
<td>Olivia Business Centre</td>
<td>28,000</td>
</tr>
<tr>
<td>Sagittarius</td>
<td>Wrocław</td>
<td>Echo Investment</td>
<td>24,900</td>
</tr>
<tr>
<td>Ogrodowa B</td>
<td>Łódź</td>
<td>Warimpex</td>
<td>24,700</td>
</tr>
<tr>
<td>Equal Business Park C</td>
<td>Kraków</td>
<td>Cavatina Holding</td>
<td>23,500</td>
</tr>
<tr>
<td>O3 Business Campus III</td>
<td>Kraków</td>
<td>Echo Investment</td>
<td>19,200</td>
</tr>
<tr>
<td>Spokojna 2</td>
<td>Lublin</td>
<td>Orion</td>
<td>18,500</td>
</tr>
<tr>
<td>KTW I</td>
<td>Katowice</td>
<td>TDI Estate</td>
<td>18,200</td>
</tr>
<tr>
<td>Retro Office House</td>
<td>Wrocław</td>
<td>LC Corp</td>
<td>18,150</td>
</tr>
<tr>
<td>Building BZ WBK / Santander</td>
<td>Wrocław</td>
<td>BZ WBK / Santander</td>
<td>17,000</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

### Major schemes under construction at the end of 2018

<table>
<thead>
<tr>
<th>BUILDING</th>
<th>CITY</th>
<th>DEVELOPER</th>
<th>GLA (SQ M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Face 2 Face</td>
<td>Katowice</td>
<td>Echo Investment</td>
<td>46,000</td>
</tr>
<tr>
<td>Alchemia IV: Neon</td>
<td>Tricity</td>
<td>Torus</td>
<td>33,700</td>
</tr>
<tr>
<td>Tischnera Office</td>
<td>Kraków</td>
<td>Cavatina Holding</td>
<td>32,000</td>
</tr>
<tr>
<td>Business Garden Wrocław II, C–D</td>
<td>Wrocław</td>
<td>Vastint</td>
<td>25,200</td>
</tr>
<tr>
<td>Garnizon Gato</td>
<td>Tricity</td>
<td>Apollo-Rida</td>
<td>25,000</td>
</tr>
<tr>
<td>Olivia Business Centre: Olivia Prime B</td>
<td>Tricity</td>
<td>Olivia Business Centre</td>
<td>25,000</td>
</tr>
<tr>
<td>Brama Miasta B</td>
<td>Łódź</td>
<td>Skanska</td>
<td>24,000</td>
</tr>
<tr>
<td>Wave</td>
<td>Tricity</td>
<td>Skanska</td>
<td>23,700</td>
</tr>
<tr>
<td>Centrum Południe</td>
<td>Wrocław</td>
<td>Skanska</td>
<td>23,000</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

### Major selected lease contracts, 2018

<table>
<thead>
<tr>
<th>BUILDING</th>
<th>CITY</th>
<th>TENANT</th>
<th>GLA (SQ M)</th>
<th>TYPE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building BZ WBK / Santander</td>
<td>Wrocław</td>
<td>BZ WBK / Santander</td>
<td>17,000</td>
<td>new</td>
</tr>
<tr>
<td>Poznań Business Garden B1</td>
<td>Poznań</td>
<td>BZ WBK / Santander</td>
<td>14,750</td>
<td>renegotiation + expansion</td>
</tr>
<tr>
<td>West Gate</td>
<td>Wrocław</td>
<td>Nokia Solutions and Networks</td>
<td>14,100</td>
<td>renegotiation</td>
</tr>
<tr>
<td>Tertium Business Park I</td>
<td>Kraków</td>
<td>confidential</td>
<td>14,000</td>
<td>new</td>
</tr>
<tr>
<td>Rondo Business Park 1 &amp; 2</td>
<td>Kraków</td>
<td>Capgemini</td>
<td>11,850</td>
<td>renegotiation</td>
</tr>
<tr>
<td>Eximius Park 800</td>
<td>Kraków</td>
<td>UBS</td>
<td>11,000</td>
<td>renegotiation + expansion</td>
</tr>
<tr>
<td>Enterprise Park A i B</td>
<td>Kraków</td>
<td>Cisco</td>
<td>10,800</td>
<td>renegotiation</td>
</tr>
<tr>
<td>Enterprise Park A, B, D</td>
<td>Kraków</td>
<td>Aptiv</td>
<td>10,500</td>
<td>renegotiation</td>
</tr>
<tr>
<td>Nowy Rynek A</td>
<td>Poznań</td>
<td>confidential</td>
<td>10,300</td>
<td>new</td>
</tr>
<tr>
<td>Olivia Prime A</td>
<td>Tricity</td>
<td>Sii</td>
<td>10,100</td>
<td>new</td>
</tr>
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Source: BNP Paribas Real Estate
### AT A GLANCE – OFFICE MARKET IN REGIONAL CITIES – H2 2018

#### MAIN FACTORS

**POZNAŃ**
- Total Stock: 479,100
- Gross Take-Up: 70,400
- Vacancy Rate: 7.3%
- Rental Band (SQ M/MTH): 13.5 – 15.0 €

**LÓDŹ**
- Total Stock: 468,900
- Gross Take-Up: 56,700
- Vacancy Rate: 8.7%
- Rental Band (SQ M/MTH): 11.5 – 14.5 €

**WROCŁAW**
- Total Stock: 1,054,200
- Gross Take-Up: 161,600
- Vacancy Rate: 9.1%
- Rental Band (SQ M/MTH): 13.0 – 15.0 €

**TRICITY**
- Total Stock: 775,000
- Gross Take-Up: 84,400
- Vacancy Rate: 6.1%
- Rental Band (SQ M/MTH): 12.0 – 15.0 €

**SZCZECIN**
- Total Stock: 159,400
- Gross Take-Up: 10,900
- Vacancy Rate: 5.1%
- Rental Band (SQ M/MTH): 11.5 – 13.5 €

**KATOWICE**
- Total Stock: 519,300
- Gross Take-Up: 38,000
- Vacancy Rate: 8.8%
- Rental Band (SQ M/MTH): 12.5 – 14.5 €

**KRAKÓW**
- Total Stock: 1,257,500
- Gross Take-Up: 208,800
- Vacancy Rate: 8.6%
- Rental Band (SQ M/MTH): 13.5 – 15.0 €

**LUBLIN**
- Total Stock: 194,200
- Gross Take-Up: 14,100
- Vacancy Rate: 15.4%
- Rental Band (SQ M/MTH): 11.0 – 13.0 €

**WARSZAWA**
- Total Stock: 1,054,200
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