Poland Regional Cities Offices, Q4 2016

Regional office markets' growth accelerates due to increasing activity of BPO/SSC sector in Poland

Office stock	Vacancy	Office take-up	Absorption
3.9 M sq m	10.8%	586,600 sq m	385,000 sq m

*Arrows indicate change from the corresponding quarter in the previous year.

Figure 1. Building completed in 2016

O3 Business Campus I (Q1)
Echo Polska Properties

19,200 sq m
4% available

Pegaz (Q2)
UBM

21,000 sq m
16% available

Tryton Business House (Q1)
Echo Polska Properties

21,300 sq m
22% available

Source: CBRE / PORF, Q4 2016

Figure 2. Office market statistics

Summary	
Stock	3,924,900 sq m
2016 completions	490,600 sq m
2017 forecasted completions	632,800 sq m
Space under construction	859,700 sq m
Vacancy rate	10.8%
2016 take-up	586,600 sq m

Source: CBRE / PORF, Q4 2016

Outlook

The strong expansion of the BPO / SSC sector has led to the dynamic growth and polarization of the Polish regional office market. The office stock in the biggest Polish cities (excluding Warsaw) has doubled during the last 5 years. At the end of 2016, regional office markets were active both on the supply and demand sides and the total stock reached 3.9 million sq m of modern office space with yearly completion at the level of 490,600 sq m. Moreover, demand for office space in regional cities is particularly strong with total tenants' activity recorded at 586,600 sq m and net absorption at the level of 385,000 sq m. Prime headline rents are under pressure as a result of the extensive development of new projects across Poland. Nevertheless, prime headline rents for major regional cities have remained unchanged in comparison to 2015.

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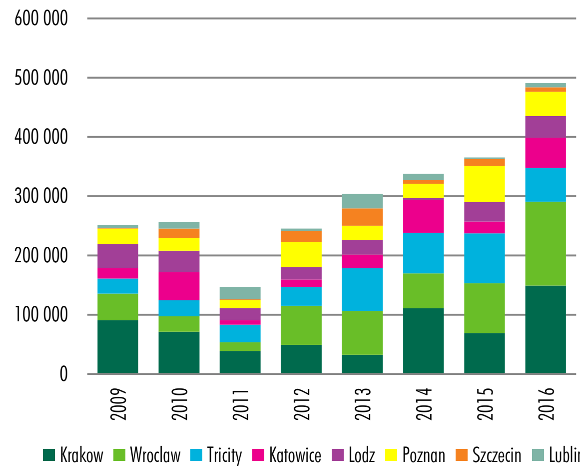
Supply

The total supply of modern office space in Poland amounts to 8.97 million sq m, including 3.92 million sq m in regional cities. Since the beginning of 2016, the total modern office stock in regional cities has increased by around 490,600 sq m in 64 new projects. The largest completed projects were: Business Garden phase I in Wroclaw (36,600 sq m), Maraton Business Center in Poznan (23,700 sq m), Tryton Business House in Tri-City (21,300 sq m), Pegaz in Wroclaw (21,000 sq m), Axis in Krakow (19,300 sq m) and O3 Business Campus I in Krakow (19,200 sq m). At the end of 2016, there were over 75 projects under construction with a total office area of 859,700 sq m, of which 632,800 sq m, i.e. 74% of space, will be completed in 2017.

Figure 3. Completions of office space in the regional markets



Source: CBRE / PORF, Q4 2016

Figure 4. Top 10 largest projects under construction on the regional office markets

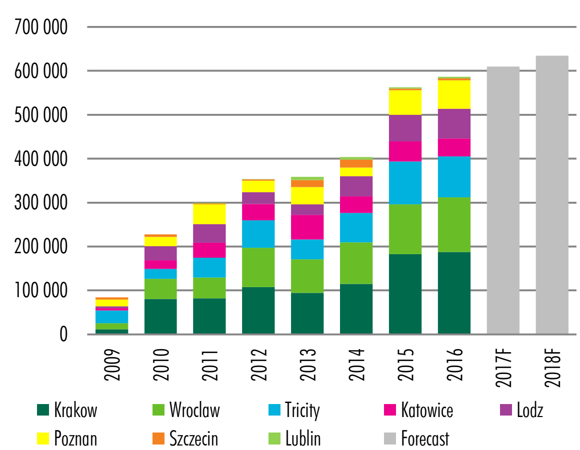
PLANNED COMPLETION	CITY	BUILDING	OWNER	SIZE (SQ M)
Q2 2018	Krakow	Podium Park I-III	Decon Investment	50,700
Q3 2017	Tricity	Alchemia III	Torus	39,000
Q2 2017	Tricity	Olivia Star	Olivia Business Center	39,000
Q1 2018	Lodz	Ogrodowa Office	Warimpex	28,600
Q1 2018	Wroclaw	Sagittarius Business House	Echo Investment	28,200
Q3 2017	Krakow	Comarch SSE 7	Comarch	27,700
Q3 2017	Lodz	Mbank HQ	Ghelamco	24,000
Q4 2017	Krakow	High Five I&II	Skanska	23,500
Q3 2018	Lodz	Hi Piotrkowska	Bacoli Properties	21,000
Q1 2018	Wroclaw	Retro Office House	LC Corp	20,800

Source: CBRE, Q4 2016

Demand

2016 was a year of significant tenant activity. In 2016, the gross demand for office space amounted to 586,600 sq m and represented a growth of 4% in comparison to 2015. Throughout the year the highest take-up levels were recorded in Krakow (187,000 sq m), Wroclaw (124,500 sq m) and Tri-City (93,200 sq m). In terms of the type of transaction, new leases accounted for 69%, out of which pre-leases represented a 55% share in all new transactions. Furthermore, renewals made up 16% of the total take-up and expansion accounted for 8%.

Figure 5. Demand for office space in regional office markets



Source: CBRE / PORF, Q4 2016, F – forecast

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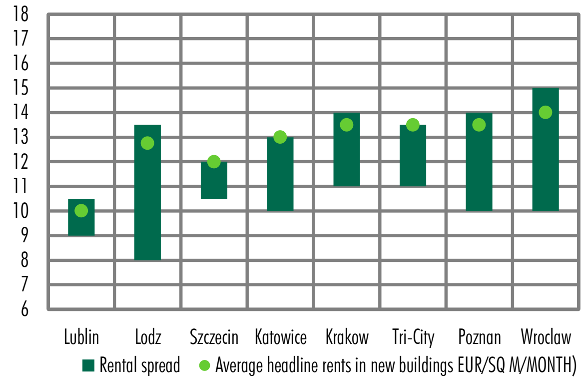
Rents

At the end of 2016 prime headline rents in regional cities varied 10.50 – 15.00 EUR/ sq m/ month, depending on the city. Due to the increasing amount of modern office space under construction, no rental increases should be expected in the nearest future. The highest headline rents were observed in Wroclaw and reached 15.00 EUR / sq m/ month for A-class offices in refurbished tenements in the city centre. Moreover, prime headline rents in Krakow remain unchanged despite relatively high levels of development activity.

Vacancy

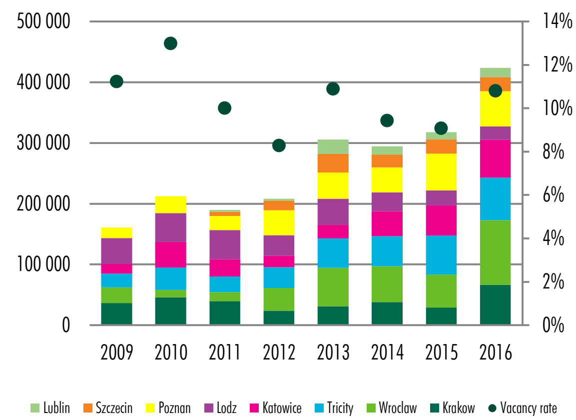
The activity of office tenants in the most dynamic cities remains considerably strong and it is reflected by low vacancy rates. At the end of 2016, the vacancy rate in regional cities reached 10.8%, ranging from 6.2% in Lodz to 14.0% in Katowice. The lowest vacancy rate among regional markets was registered in Lodz, which is mostly caused by the increasing activity of BPO/SSC tenants within the city. Nevertheless, availability in Lodz is likely to increase in the short term due to the extensive development pipeline in years 2017-2019: Ogrodowa Office (28,600 sq m), Hi Piotrkowska (21,000 sq m), Brama Miasta (40,000 sq m), Imagine (14,000 sq m), Cross Point (11,200 sq m).

Figure 6. Rental spread in the regional office markets (%)



Source: CBRE/ PORF, Q4 2016

Figure 7. Vacancy level in the regional office markets



Source: CBRE/ PORF, Q4 2016

Figure 8. Selected office lease transactions on the regional office markets in 2016

Q	CITY	BUILDING	TENANT	SIZE (SQ M)	TYPE
4	Tricity	Tryton Business House	Intel	10,800	New lease
1	Wroclaw	Grunwaldzki Center	Credit Suisse	10,800	Renewal
1	Krakow	Enterprise Park E	Aon	10,700	Pre-let
4	Wroclaw	Sagittarius Business House	BNY Mellon	10,500	Pre-let
2	Krakow	Bonarka for Business G	Euroclear Bank	10,000	Pre-construction
2	Krakow	Axis	ABB	10,000	Pre-construction
1	Katowice	A4 Business Park III	Rockwell Automotion	9,700	Pre-let
4	Lodz	University Business Park	Ericsson	8,400	New lease
2	Krakow	Orange Office Park Den Hague	Brown Brothers Harriman	7,500	Pre-construction
2	Lodz	Primulator HQ	Primulator	7,300	Owner Occupied
3	Wroclaw	West Link	Nokia Networks	7,000	Pre-let
4	Poznan	Skalar	ENEA	6,600	Renewal + Expansion
3	Tricity	Tensor Z	Nordea	6,400	Pre-let
4	Lodz	Nowa Fabryczna	Fujitsu Technology Solutions	6,250	Pre-let
4	Lodz	Nowa Fabryczna	Whirlpool	5,570	Pre-let

Source: CBRE/ PORF, Q4 2016

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Figure 9. Office regional markets – selected data

ZONE	OFFICE STOCK (SQ M)	UNDER CONSTRUCTION (SQ M)	VACANCY RATE	PRIME HEADLINE RENT (EUR/SQ M/MONTH)
SZCZECIN	156,100	30,800	14.7%	EUR 12.00
POZNAN	427,800	22,500	13.6%	EUR 14.00
TRICITY	633,900	141,800	11.1%	EUR 13.50
LODZ	360,000	138,500	6.2%	EUR 13.50
WROCLAW	847,800	146,700	12.5%	EUR 15.00
KATOWICE	443,100	42,000	14.0%	EUR 13.00
KRAKOW	915,800	273,200	7.2%	EUR 14.00
LUBLIN	140,400	56,400	10.9%	EUR 10.50

ZONE • OFFICE STOCK (SQ M) • UNDER CONSTRUCTION (SQ M) • VACANCY RATE • PRIME HEADLINE RENT (EUR/SQ M/MONTH)

Source: CBRE/ PORF, Q4 2016

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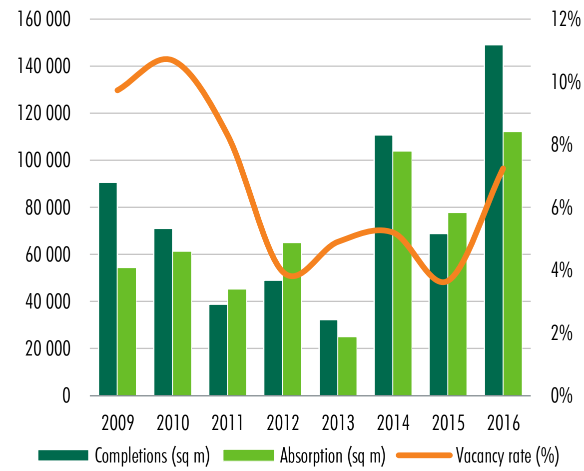
Focus on selected cities

Krakow

Krakow is one of the fastest developing office markets among regional cities in Poland. The market is constantly stimulated by the number of international companies which are opening their BPO/SSC centres within the city. Moreover, based on historical data the relationship between completion and net absorption has been in balance, a factor which has attracted almost all developers active within the Polish market to invest in Krakow. This situation caused a substantial increase of developers activity in the city which was clearly visible in years 2014 – 2016. Nevertheless, with current vacancy levels and relatively high net take-up the Krakow market should absorb additional office space without any obstacles.

Figure 10. Completion (sq m), Absorption (sq m) and Vacancy Rate (%) in Krakow

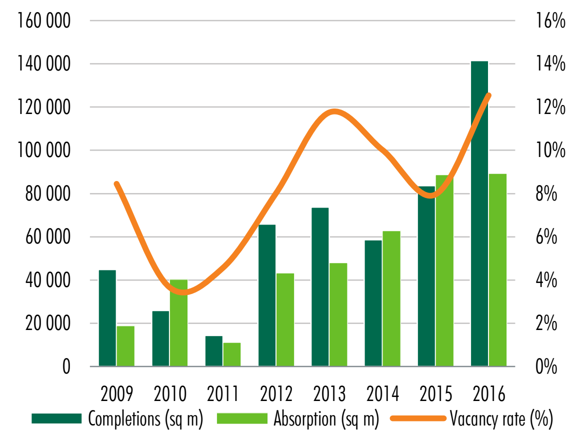


Source: CBRE / PORF, Q4 2016

Wroclaw

Since 2012, Wroclaw office market is on the path of stable growth. In years 2012 – 2015, the net absorption rate increased by almost 30% year-on-year and in 2016 was at a similar level to 2015. The demand for office space is mostly triggered by companies already located in Wroclaw which have decided to expand their business. Moreover, the inflow of new investments also remains on a relatively high level. The strong occupational market in Wroclaw has been reflected in the growing supply of new offices which in the short-term will result in a growth of the vacancy rate.

Figure 11. Completion (sq m), Absorption (sq m) and Vacancy Rate (%) in Wroclaw

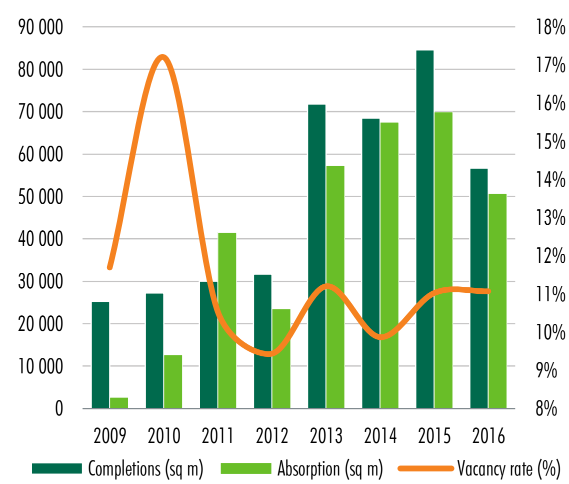


Source: CBRE/ PORF, Q4 2016

Tricity

Tri-City is another tier-one city with a well recognized office market, where tenant demand is also reflected in the high level of absorption. The Tri-City market has recorded a number of large transactions with international companies moving into the market, as well as with several that have been established in the city for many years. Since 2013, the office market in Tri-City has absorbed over 245,000 sq m of office space, reflecting one of the highest results among the regional markets. Along with the relatively high absorption level, developers activity has been on a similar level resulting in a stable vacancy rate with a downward trend in years 2015 – 2016.

Figure 12. Completion (sq m), Absorption (sq m) and Vacancy Rate (%) in Tricity



Source: CBRE / PORF, Q4 2016

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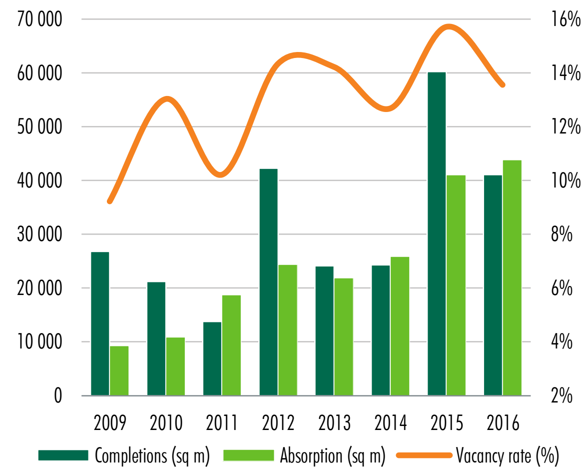
Poznan

Since 2012, Poznan has witnessed a stable growth of tenants activity in office sector which is mainly stimulated by companies which are already active on the Poznan office market as well as from companies from BPO/SSC sector entering the Polish market. In 2015, the net absorption has increased by almost 60% in comparison to 2014. Moreover, in years 2013 – 2016 the relationship between net absorption and completion was at similar level except the 2015 year, where completion was approx. 20,000 sq m higher in comparison to absorption. Developers activity in 2015 was one of the reasons of growing vacancy rates in 2015. Nevertheless, the vacancy rate in 2016 returned on a path of decline.

Figure 13. Completion (sq m), Absorption (sq m) and Vacancy Rate (%) in Poznan

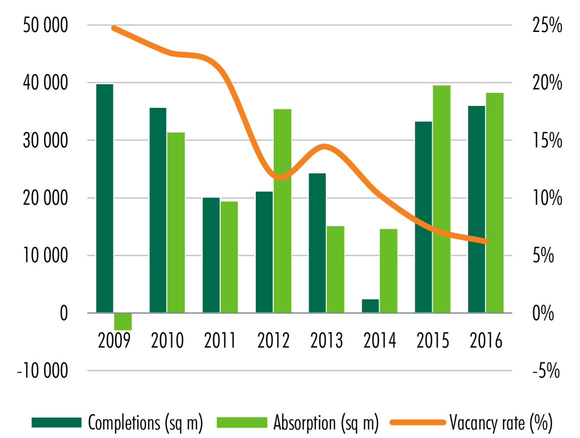


Source: CBRE / PORF, Q4 2016

Lodz

In 2016, the vacancy rate in Lodz was on the lowest level among all cities in Poland. The relatively high absorption level is characterized by falling vacancy level which is on the path of decline since 2013. In terms of demand, the activity of tenants goes along with increasing activity of developers. Since the 2014, the office market in Lodz absorbed almost 92,500 sq m in comparison to 71,900 sq m completed office space during this time. It confirms that Lodz maintains a constant pace of growth, where market is in balance between leasing activity and new supply. Moreover, high infrastructure development and number of new investments, create an optimal environment for further growth of this region.

Figure 14. Completion (sq m), Absorption (sq m) and Vacancy Rate (%) in Lodz

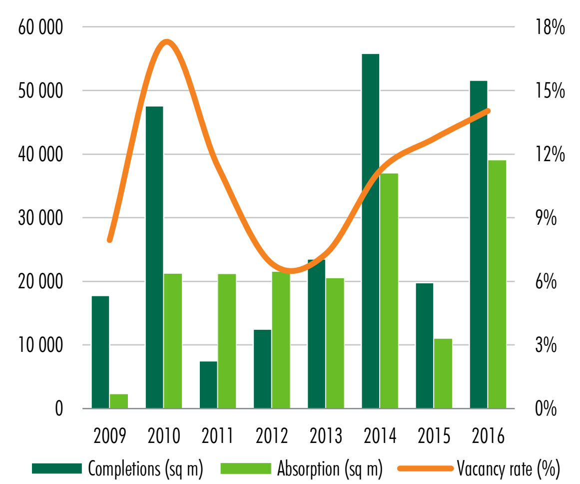


Source: CBRE/ PORF, Q4 2016

Katowice

Katowice is characterized by the availability of qualified human resources, great office space and a developed transportation infrastructure. The Katowice office market is characterized by a steady absorption with a slight decrease in 2015 caused partially by a considerable supply of new office space in 2014. However, the absorption level in 2016 returns to a similar level as in 2015. Moreover, the office market in Katowice has absorbed almost 174,000 sq m of office in years 2009 – 2016. Additionally, due to increasing tenants activity in Katowice, the amount office space delivered to the market increased rapidly in years 2014 and 2016. It affects the vacancy rate which is on the path of increase since 2013.

Figure 15. Completion (sq m), Absorption (sq m) and Vacancy Rate (%) in Katowice



Source: CBRE / PORF, Q4 2016

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