SUMMARY

Overview

- Kraków is the largest regional office market in Poland. Office stock in the city at the end of 2016 stood at 915,800 sq m with a record high new supply at 146,900 sq m delivered in 2016.
- We expect office stock to exceed million sq m in 2017 with record high pipeline for 2017 at 194,700 sq m.
- Demand side of the market was very strong during 2016 with 187,800 sq m of office space leased - the highest level ever recorded in Kraków.
- Most of the leasing agreements was concluded in the form of pre-leases (47% of total leasing activity), whereas lease renewals and renegotiations accounted for 14% of the total volume.
- Availability of office space in Kraków is the second lowest among regional markets and accounts to 7.2% (66,200 sq m).
- Despite record high developer activity, the vacancy rate should remain low as over 40% of the 2017 pipeline is already leased.
- Prime headline rents in Kraków in 2016 were in range of EUR 13.00 - 14.50 per sq m/month.
- We expect headline rents to remain rather stable, however as developer activity is at a record high, incentives may play a more important role in the future.

“Kraków is not only the largest regional office market in Poland but also leading business services hub in Europe with great potential. In the years to come, the office market in the city will grow even more.”

Tomasz Buras, Head of Poland, Savills

Galileo, Newton, Edison, Pascal - office buildings served by Savills Kraków.

Galileo, Newton, Edison, Pascal - office buildings served by Savills Kraków.

Tomasz Buras, Head of Poland, Savills
Kraków

Kraków is the second largest city in Poland with a population of over 752,000 people. The city is the leading European business services hub ranked the 9th place in the “Tholons 2016 Top 100 Outsourcing Destinations”. Kraków is also the leading academic centre with 23 higher education institutions, two of which are ranked in the Center for World University Rankings 2016, providing a highly qualified and educated workforce.

The city is located in the vicinity of the Upper Silesian conurbation. The A4 motorway provides a quick connection to Silesia, Germany and Ukraine. Another important transit road is express road S7 (Gdańsk-Warszawa – Kraków - southern border of Poland). There is also an international airport in Balice, which is the second largest airport in Poland servicing almost 5 million passengers in 2016 - 18% more than in 2015.

Stock & supply

Kraków is the largest office market outside of Warsaw. The total modern office stock was 915,800 sq m at the end of 2016 having increased by over 146,900 sq m during 2016 – the highest result among regional markets.

Office supply in the city centre is rather limited due to its historic nature and low availability of undeveloped land. There are some refurbished tenement houses and a few office buildings, including Lubicz Business Park, Lubicz Brewery and K1 located in that part of the city.

The areas of office concentrations are thus main roads: Armii Krajowej St. in the north-western part of Kraków; Jana Pawła II Av. and Lublańska St. north-east of the city centre and Puszkarska St., Kamieńskiego St. and Dekerta St. to the south from the centre and Bobrzyńskiego St. (south-western part of the city).

The biggest investors present in the city are: Buma – a developer who constructed ca. 20% of the existing office space, TPG (Trigranit, 6%), GTC (6%), Skanska (5%) and Mix Nieruchomości (5%).

In 2016 record high new supply was observed (146,900 sq m) – double than in 2015 and 13% more than in 2014. We expect the market to remain dynamic in the years to come as 194,700 sq m is planned for 2017, another 129,000 sq m for 2018 and 169,500 sq m for 2019. Currently there is over 262,600 sq m under construction across the city, ca. 10% more than in 2015.

Letting activity & net absorption

Kraków is the leading business services hub in Poland employing over 50,000 people in 161 centres (Aspire Headcount Tracker data 2016).

Banking and finance, professional services and law firms tend to locate in the city centre, also in refurbished tenements. IT and production companies usually occupy buildings within non-central locations.

The largest office occupiers in the city include: ABB, AON Hewitt, Capgemini, Delphi, Euroclear Bank, HSBC, Motorola Solutions, Shell Business Operations and State Street.

During 2016 a record high 187,800 sq m of office space was leased, which was 10% more than in 2015 and 64% above the 2014 level. The average deal size was 1,380 sq m and the most popular were deals of size below 250 sq m (23% of all transactions), between 501 – 1,000 sq m (23%) and between 251 sq m - 500 sq m (21%).

Ca. 47% of total letting activity was in the form of pre-lease agreements, a further 25% of total take-up was in the form of new lease agreements and 28% in the form of sub-leasing agreements.

“Kraków offers world-class offices, well-educated employees and high living standard.” Dorota Ejsmont, Head of Landlord Representation, Office Agency, Savills
relocations. Furthermore lease renewals and renegotiations accounted for 14% of take-up, whereas expansions accounted for 6% of demand.

In 2016 companies from the IT sector leased the most office space (23% of total take-up), followed by professional services (17%) and companies from the banking, insurance and investment sector (16%), whereas the manufacturing sector accounted for 15% of total leasing activity.

The largest lease agreements in 2016 include: a pre-lease of AON Hewitt in Enterprise Park E (10,700 sq m); a pre-lease of Euroclear Bank in Bonarka for Business G (10,000 sq m); an expansion (also pre-lease) of ABB in Axis (10,000 sq m); and a pre-lease of Ericsson in DOT Office E (8,000 sq m).

The majority of office space was leased in the newest buildings with 38% of the volume transacted in buildings constructed in 2016 and another 22% in buildings scheduled to be completed in 2017. Projects from 2014 accounted for 13% of the volume.

Net absorption in 2016 stood at 110,300 sq m, 42% more than in 2015, however 7% below the volume seen in 2014. The annual average of net absorption for the period between 2007 and 2016 stands at 63,600 sq m.

Vacancy rate
Availability of office space was the second lowest in Kraków compared with other regional cities. Only 66,200 sq m or 7.2% of stock was ready to be let at the end of 2016. Despite record high development activity, we expect the vacancy rate to remain rather low as over 40% of the 2017 pipeline is already pre-let.

The highest vacancy rate in Kraków is observed in the newest buildings as some time is needed to absorb new space. As development activity is at a record high, commercialisation process may last longer, however some buildings are fully pre-let prior to completion.

Rents
Prime headline rents are now in the range of EUR 13.00 – 14.50 per sq m/month. Landlords offer incentives such as rent-free periods of between six and eight months in the case of 5-year agreements, additionally a fit-out budget between EUR 100 – 170 per sq m are offered, thus effective rents are 20% lower than headline rents. Final condition depends however on various factors such as lease length and office size among other.

We expect headline rents to remain rather stable, however incentives offered by landlords may increase as developer activity is very high.

In addition to rent, tenants are obliged to pay service charge which in most cases is quoted in PLN to limit losses from fluctuations in exchange rates. Service charge levels vary between PLN 12.00 – 16.50 per sq m/month. The rent level of underground parking space ranges between EUR 50 and EUR 80 per month.

**Graph 3**
Letting activity by type

<table>
<thead>
<tr>
<th>Pre-lease</th>
<th>Expansion</th>
<th>Lease renewal / Renegotiation</th>
<th>Sublease</th>
<th>Owner occupier</th>
</tr>
</thead>
<tbody>
<tr>
<td>47%</td>
<td>6%</td>
<td>14%</td>
<td>2%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Graph source: Savills, PORF

**Table 1**
The largest projects under construction

<table>
<thead>
<tr>
<th>Building</th>
<th>Developer</th>
<th>Office space (sq m)</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>O3 Business Campus II&amp;III</td>
<td>Echo Investment</td>
<td>38,200</td>
<td>2017 / 2018</td>
</tr>
<tr>
<td>Enterprise Park E&amp;F</td>
<td>Avestus</td>
<td>26,400</td>
<td>2017</td>
</tr>
<tr>
<td>High Sive E&amp;D</td>
<td>Skanska</td>
<td>20,600</td>
<td>2017</td>
</tr>
<tr>
<td>Equal Business Park II</td>
<td>Midwest</td>
<td>18,300</td>
<td>2017</td>
</tr>
<tr>
<td>Podium Park I</td>
<td>Decon Investment</td>
<td>15,700</td>
<td>2018</td>
</tr>
<tr>
<td>Tertium Business Park I</td>
<td>Buma</td>
<td>12,500</td>
<td>2018</td>
</tr>
<tr>
<td>Astris</td>
<td>Piarists</td>
<td>12,100</td>
<td>2017</td>
</tr>
<tr>
<td>Kolarska 11</td>
<td>UBM</td>
<td>11,000</td>
<td>2017</td>
</tr>
<tr>
<td>Principio</td>
<td>Eko Park</td>
<td>10,600</td>
<td>2018</td>
</tr>
<tr>
<td>Żablocie Business Park I</td>
<td>IMS Budownictwo</td>
<td>10,400</td>
<td>2017</td>
</tr>
<tr>
<td>Wadowicka 3 I</td>
<td>Buma</td>
<td>10,000</td>
<td>2018</td>
</tr>
<tr>
<td>DOT Office E</td>
<td>Buma</td>
<td>7,600</td>
<td>2017</td>
</tr>
</tbody>
</table>

Table source: Savills

**Outlook**
Looking ahead to the next 18 months

Stock in the city is to exceed million sq m in 2017 - more than double than five years ago. New supply in 2017 is expected to reach a record high level of 194,700 sq m with another 129,000 sq m in the pipeline for 2018.

Despite record high developer activity, the vacancy rate should remain low as over 40% of the 2017 pipeline is already pre-let. In addition, a number of buildings are occupied by a single tenant (e.g.: Axis leased to ABB; Bonarka for Business G leased to Euroclear Bank; DOT Office A – C leased to Shell Business Operations; DOT Office E leased to Ericsson and CH2M Center leased to CH2M).

During the last three years demand was at a record high. We expect take-up to remain high in the years to come as the city is developing and becoming a leading business services hub in Europe.

Headline rents should remain stable, however as a large volume of new supply is to be delivered to the market, landlords are expected to increase incentives for tenants widening the gap between headline and effective rents. In addition landlords may attract tenants by additional solutions and amenities to help companies retain employees.
KEY INFORMATION - 2016

**SUPPLY**

- **OFFICE STOCK**
  - 915,800 SQ M

- **NEW OFFICE STOCK**
  - 46%

- **SHARE OF A-CLASS OFFICE BUILDINGS IN TOTAL SUPPLY**
  - 56%

**DEVELOPMENT ACTIVITY**

- **SPACE UNDER CONSTRUCTION ACROSS THE CITY**
  - 262,600 SQ M

- **AVERAGE SIZE OF PROJECTS UNDER CONSTRUCTION**
  - 10,100 SQ M

- **NUMBER OF PROJECTS UNDER CONSTRUCTION**
  - 26

**LETTING ACTIVITY**

- **VOLUME OF GROSS TAKE-UP**
  - 187,800 SQ M

- **AVERAGE SIZE OF TRANSACTION**
  - 1,380 SQ M

- **SHARE OF LEASE RENEWALS**
  - 14%

**AVAILABILITY OF OFFICE SPACE**

- **NET ABSORPTION**
  - 110,300 SQ M

- **OFFICE RELATED EMPLOYMENT GROWTH**
  - 6%

- **2016 VACANCY RATE**
  - 7.2%

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