High development activity • Strong demand • Low vacancy • Increasing rents
The regional office market has noted another successful year breaking records. The Polish market reflected very positive macroeconomic data with the fastest growth of GDP after the crisis at 5.1%. Polish regional cities are leading in the business service sector. In ‘Tholons services globalization index’ Kraków is the most valued city in Europe, ranked 6th globally, improving its position by two y-o-y. 26 positions were gained by Wrocław (ranked 52nd). Gdańsk entered the index ranked 97th.

According to Association of Business Service Leaders (ABSL) almost 200,000 of total 279,000 people employed in the business services sector were employed in one of the eight regional cities. The sector is expected to grow at a fast pace providing strong demand for office space. Developers have noticed the potential of regional cities for quite some time. Not only local companies invest in this market, but large, global players are also present.

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Regional office market in Poland

2018 - a year of records

Both, new supply of office space and net absorption exceeded 500,000 sq m for the first time, whilst vacancy rate was the lowest since 2008.

The office market in regional cities continues dynamic development. In the last five years over 2.2 million sq m or 45% of current office stock has been delivered. In 2018 alone over half a million sq m were completed. Despite record high volume of completion vacancy rate has decreased to the lowest rate since 2008 to 8.4% backed by continuing strong demand.

Total stock at the end of 2018 stood at 4.9 million sq m.

Among eight regional markets Kraków and Wrocław remain the largest with over one million sq m of office stock each. The third largest market is Tricity with 775,000 sq m. There are three mid-size markets of Katowice, Poznań and Łódź, of ca. 500,000 sq m each. The two remaining are Lublin and Szczecin with office stock below 200,000 sq m each.

Record high new supply
In 2018 new supply exceeded half a million sq m for the first time, reaching 512,600 sq m.

Almost 60% of newly developed space was delivered in Kraków and Wrocław. The volume in other cities was significantly lower.

15% of new supply was completed in Tricity, followed by Katowice (10%) and Łódź (7%) with 5% in Lublin and 4% in Poznań, and below 1% in Szczecin.

Pipeline remains abundant
Development activity remains very high at almost 920,000 sq m of office space under construction. Kraków and Wrocław are leading with 27% and 22% share, respectively. Another 15% is located in Tricity followed by Poznań (12%), Łódź (11%) and Katowice (9%). Remaining 4% is situated in Szczecin.

New supply forecast for 2019 is even higher than the record high volume noted in 2018 and is expected to reach 593,000 sq m.

In another two years new supply is projected to stabilise at a high level of 458,000 sq m in 2020 and 525,000 sq m in 2021. In total, in the next three years over 1.5 million sq m of new space is expected. If developers keep their schedules, in 2021 office stock in eight regional cities will equal that in Warsaw, totalling ca. 6.5 million sq m.

Demand second only to 2017...

Total take-up in 2018 reached second highest value at 644,800 sq m, only 4% down in comparison to record high volume observed in 2017 but 67% above long-term average (since 2008).

As in previous years the highest volume was seen in Kraków with 32% of countrywide demand. Second most active city was Wrocław with 25%.

Record high new supply in 2019 of 593,000 sq m is expected.

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Leasing activity in other cities was significantly lower with 13% observed in Tricity, followed by Poznań (11%), Łódź (9%) and Katowice (6%). Lublin and Szczecin generated 2% of total take-up each.

Regarding type of transaction, new leases and relocations accounted for 33% of total take-up, followed by lease renewals and renegotiations (29%) and pre-leases (20%). Expansions generated 12% of the volume with owner occupiers generating 5% and remaining 1% taking form of a sublease.

As per sector, IT leased the most office space with 34% share in total take-up. The financial sector accounted for 20% of total volume, followed by professional services (14%), manufacturing (10%) and retail (6%).

...and record breaking net absorption
In 2018 net absorption for the first time exceeded half a million sq m reaching 535,400 sq m, up by 18% y-o-y.

Over half of the volume was generated in Kraków (39%) and Wrocław (25%). Tricity accounted for further 16%, followed by Katowice (11%). Łódź generated 7% of total volume with Poznań and Lublin shares at 5% each, and 2% share in Szczecin.

The lowest vacancy rate since 2008
Despite record-breaking new supply demand has stayed in line causing a decrease of vacancy rate of 1.5 percentage points down y-o-y to 8.4%, a level not seen since 2008.

The lowest value was recorded in Szczecin at 5.1% and in Tricity at 6.1%, whilst the highest rate was noted in Lublin at 15.4% and in Wrocław at 9.1%.

Some rental surge
For a relatively long time headline rents in regional markets have been rather stable. However, mainly due to rising costs of construction, some upward trend has been observed.

In particular rental surge in the best buildings with the most convenient location is expected.

At the end of 2018 headline rents ranged between EUR 10.00 and EUR 15.00 sq m/month. The highest rent were observed in Kraków and Wrocław ranging from EUR 13.50 to EUR 15.00 sq m/month. In Tricity rents were between EUR 12.50 and EUR 14.75 sq m/month. In Poznań and Katowice rents stood between EUR 12.50/13.00 and EUR 14.50 sq m/month. In Łódź’s rents were lower at between EUR 12.00 and EUR 13.00 sq m/month.

In brief

1. Total stock of 4.9 million sq m at the end 2018, with two cities: Kraków and Wrocław with stock of over a million sq m.
2. Record high new supply of 512,600 sq m, 11% up y-o-y.
3. Maintained high demand with 644,800 sq m leased, second only to previous year.
4. Record high net absorption at 535,400 sq m, 18% up y-o-y, and 88% above long-term average.
5. Lowest vacancy rate since 2008 at 8.4%, 1.5 percentage points down y-o-y.
6. Headline rents in range between EUR 10.00 and EUR 15.00 sq m/month with some upward trend observed.

Source Savills

### Change over year

- **New supply**: 11%
- **Letting activity**: -4%
- **Vacancy rate**: -1.5pp
- **Net absorption**: 18%
- **Under construction**: -16%
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