

# Office market in Regional Cities



## Increasing vacancy facing high pipeline

At the end of March 2023, the total stock of modern office space in regional cities amounted to 6.47 million sq m. There are three regional cities exceeding 1 million sq m of modern office stock, the largest one being Kraków with 1.75 million sq m, Wrocław with 1.31 million sq m and Tricity with 1.02 million sq m. Tier two cities are Katowice (725,800 sq m), Łódź (631,900 sq m) and Poznań (623,100 sq m). The two smallest markets are Lublin (223,400 sq m) and Szczecin (186,000 sq m).

During the first quarter of 2023, four office buildings were delivered to the market with total area of 68,100 sq m. Kraków grew by 42,600 sq m in two projects (Ocean Office Park B with 28,600 sq m and Fabryczna Office Park B5 with 14,000 sq m). One building was delivered in Wrocław (Centrum Południe 3 with total office area of 20,800 sq m) and one in Tricity (Officer with total area of 4,700 sq m)

Close to 558,000 sq m of office space was under construction across regional cities at the end of March 2023. Half of this volume is scheduled for 2023 while 182,600 sq m or 33% is planned to be delivered in 2024. Another 93,800 sq m (17%) that is now under construction is due in 2025.

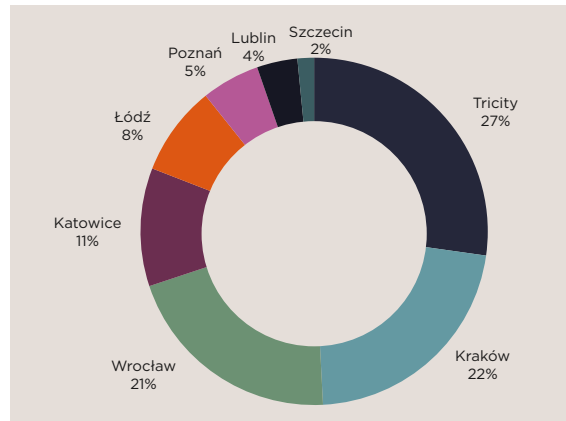
The city with the largest pipeline under construction is Wrocław, where approximately 149,500 sq m is under construction in seven projects, the largest of which is Quorum Office Park B by Cavatina (53,200 sq m). The next city is Katowice with a pipeline of over 129,000 sq m (seven projects) with the largest project Grundmanna Office Park also by Cavatina (48,000 sq m). The podium is sealed by Poznań with 86,200 sq m under construction in five projects, with the largest one named Andersia Silver by Von der Heyden Group (37,800 sq m).

Considering all under construction and planned projects in 2023-2025 as much as 980,000 sq m of new office space may be built (more than 1/4 of the planned projects have building permits, and some of the remaining ones are in the process of obtaining required documents), however the start of construction is subject to the market situation and the commercialisation of projects currently under construction. If the leasing of the under construction space is delayed, some projects will be postponed to later years or even abandoned in favour of other land uses.

Gross take-up in the first quarter of 2023 in regional cities was 175,000 sq m, an increase of 13% y-o-y. The highest volume of space was leased in Tricity - 47,700 sq m, Kraków (38,400 sq m) and Wrocław (36,200 sq m).

Since the pandemic, we have seen an increase in renegotiation, reflected in a decline in net take-up levels, from more than 70% in 2017-2019, to a level of 56% in the first quarter of 2023. Net demand was 98,400 sq m. In terms of net take-up Kraków was a leader with over 25,400 sq m

### Take-up by city, Q1 2023



Source: Savills Research

leased, followed by Wrocław with 19,200 sq m. Being in first place in terms of gross demand, Tricity ranked third in terms of net demand with 15,400 sq m.

Renegotiations in regional cities accounted for 44% of total take-up (in 2022 share of renegotiations stood at 30%), while new agreements accounted for 48% of total volume of leases. Tenant expansions amounted to 7% with Katowice leading in terms of the volume of expansions among regional cities. In the first quarter of 2023, only one pre-let agreement was signed in the Nowy Rynek E building in Poznań for 2,000 sq m, which corresponds to only 1% of demand.

The sectors that generated the highest amount of demand were the IT sector with 44,000 sq m (25% of the total) and the manufacturing sector with 22,700 sq m (13%) of demand. The next sectors to exceed 10,000 of demand were logistics (12,300 sq m or 7%) and health (10,100 sq m or 6%).

Transactions exceeding 1,000 sq m (58 transactions) generated 75% of the total demand. Deals in the 1,000- 2,000 sq m range (32 deals), generated 26% of the demand and deals in the 2,000-5,000 sq m range (24 deals) accounted for almost 40% of the total volume of leasing activity. Last quarter, only two deals signed exceeded 5,000 sq m. These were: Sii at Olivia Prime in Tricity (renegotiation, 10,100 sq m) and Alorica at React in Łódź (new lease, 5,000 sq m).

Net absorption at the end of Q1 2023 amounted to 23,500 sq m. Each city noted positive value, with the exception to Poznań, which had negative level of -5,300 sq m. The largest space absorbed was noted in Kraków, where over 10,800 sq m was absorbed.

At the end of March 2023 there was over 1 million sq m of available office space, which translates into 15.9% vacancy rate. This is an increase of 0.4 pp. y-o-y and 0.6 pp. in comparison to the end of 2022.

### Key office data Q1 2023:



**6.47 million sq m**  
Total office supply



**557,900 sq m**  
Total space under construction



**68,100 sq m**  
New supply



**15.9%**  
Vacancy rate



**175,000 sq m**  
Total take-up



**23,500 sq m**  
Net absorption

At this moment there is only one city with vacancy rate exceeding 20%, which is Łódź with 20.5% level (increased by 2.1 pp. y-o-y, however dropped by 0.5 pp. compared to last quarter). On the other side, there is Szczecin with the lowest vacancy rate among regional cities with a level of 3.1% (or only 5,700 sq m of available space). There were three cities with vacancy rate exceeding 17.0%. Kraków (17.4%), Wrocław (17.3%) and Katowice (17.1%), which, however noted a significant drop in vacancy rate by 2.6 pp. in compare to Q1 2022. Vacancy rate in Poznań amounted to 11.3%, which means an increase by 0.8 pp. in compare to the end of 2022. Vacancy in Lublin stood at 14.4%.

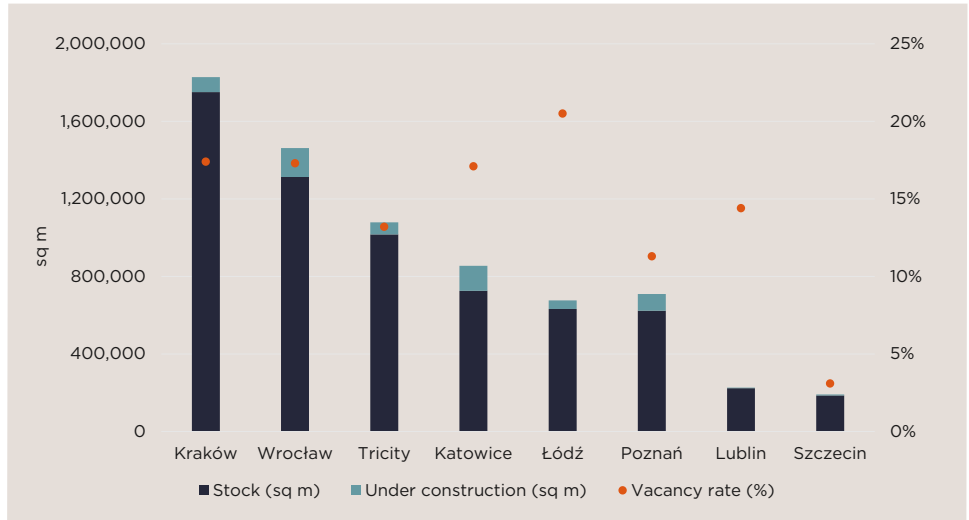
After a period of stable rents in recent quarters, we are now seeing upward rental moves in several cities, which can be explained by persistently high inflation, which makes it challenging to keep fit-out costs as in the past.

Recent months have witnessed an increase in rents in Kraków to EUR 13.90-16.00/sq m/month and at the end of last year a parallel increase happened in Poznań, where rents now stand at EUR 12.50- 16.00/sq m/month. Rents in Wrocław stand at EUR 13.75-15.50/sq m/month and in Katowice at EUR 13.00- 15.00/ sq m/ month. Similar values of EUR 12.00-15.00/ sq m/ month are observed in Łódź. Despite high vacancy levels in Łódź and Katowice, prime headline rents maintain at a high level of up to EUR 15.00/ sq m/month, due to several high-standard developments in prestigious locations that still offer a substantial volume of space. Rents in Tricity are shaping up in the range of EUR 12.50-14.75/sq m/month. The smallest regional market - Szczecin has seen a significant increase in rents in recent quarters, mainly due to very low vacancy rates. At present, rents stand at EUR 11.00-15.00/sq m/month. The lowest rents among regional cities are in Lublin (EUR 10.00- 12.00 / sq m/month).

In the coming year, we expect significant increases in service charges in office buildings. All due to inflation affecting all components of the so-called service charges, as well as drastic increases in the cost of utilities. According to our estimates, the cost of building services (e.g. security, cleaning) may increase by more than 10%, spare parts and repairs by even 20%.

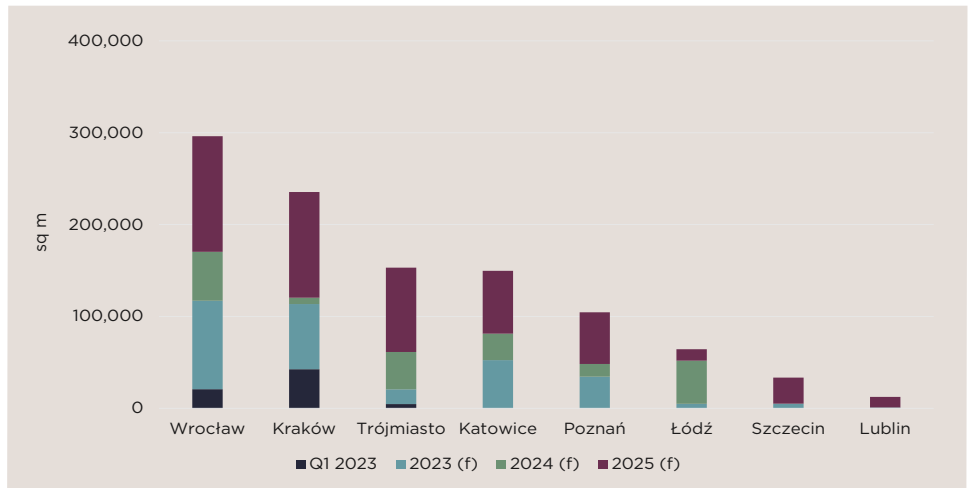
Tenants who use gas to heat their building may be in the worst situation, as the market situation has made the commodity much more expensive than in the previous year. In addition, increases in energy costs are being experienced, and not all tenants will be able to take advantage of the so-called maximum rate, which is regulated by law and is nevertheless around 70 per cent higher than the 2022 contracts.

### Stock, under construction and vacancy rate, Q1 2023



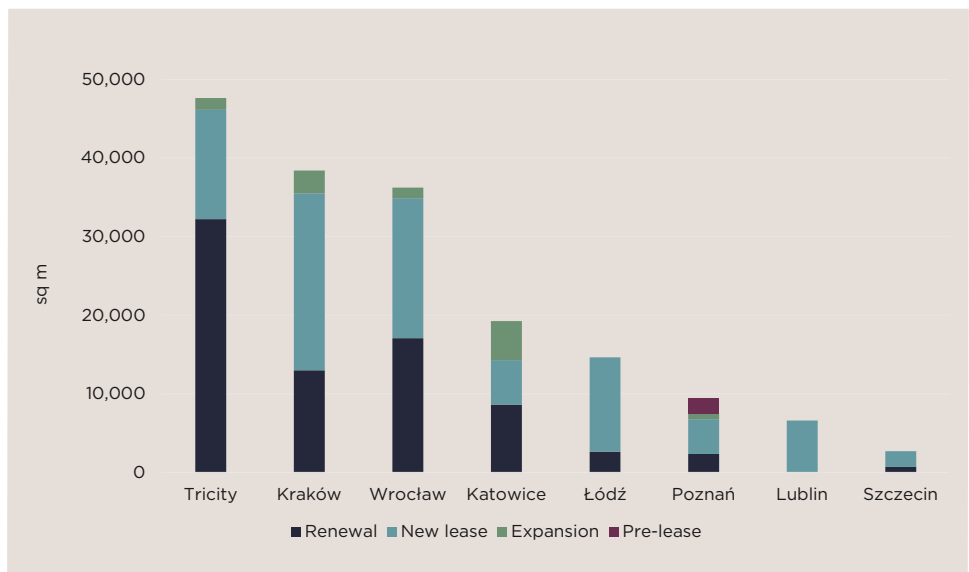
Source: Savills Research

### New supply in 2023-2025 in regional cities



Source: Savills Research

### Take-up structure, Q1 2023



Source: Savills Research



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