

Office market in Łódź



Sustainable growth • Strong demand • Refurbishments • New developments

“Łódź is a mid-size regional office market offering almost 0.5 million sq m of modern office space. In recent years significant development of the market has been observed”

The city of opportunities

Łódź is the third largest city in Poland and one of the main office hubs in the country. Central location in the vicinity of the two most important motorways, the A1 motorway (north-south) and the A2 motorway (west-east), is an advantage.

The city of Łódź is known as an investor friendly city. City of Łódź office has been actively supporting new investments in the city. Łódź has been awarded an investor friendly title in the most prestigious industry competitions a few times.

Łódź offers an access to variety of potential well-educated employees. The city is an important academic centre. There are ca. 72,000 students studying at 22 higher education institutions.

As a result Łódź is one of the major business services hubs in Poland. The sector employs over 23,000 people in 85 centres with such well-known companies as: Accenture, Fujitsu, Philips, Sii, UniCredit and Whirlpool.



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Associate Director,
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New supply, leasing activity and vacancy in Łódź



Source: Savills

Sustainable growth

Office market in Łódź has been growing at a healthy pace since 2015. Leasing activity has been strong. Vacancy rate has stood at low levels, whilst headline rents have been stable.

Łódź is a mid-size regional office market with ca. 496,700 sq m of modern office stock at the end of June 2019. The market has been developing at a sustainable pace since 2015. During that period over 40% of total stock was delivered.

The main office hubs are: city centre, alongside Piłsudskiego Av., between Kościuszki Av. and Kilińskiego St., where first modern office projects were developed (e.g. Centrum Biznesu Łódź, Łódź 1, Orion and Red Tower); eastern part of the city in the Widzew district near the crossroad of Śmigłego-Rydza Av., Piłsudskiego Av. and Kopcińskiego St. (e.g. Forum 76, Imagine, Monopolis and Symetris Business Park); and Nowe Centrum Łodzi, an area between Narutowicza St., Kopcińskiego St., Tuwima St. and Sienkiewicza St. which has been developing in the last few years (e.g. Nowa

Fabryczna, Przystanek mBank and Brama Miasta).

City of refurbishments

Łódź used to be one of the largest centres of the textile industry, however as the industry collapsed in the early 1990s a lot of facilities fell to ruin.

Nowadays some of these buildings, after being refurbished, are used as offices. At the end of H1 2019 as much as ca. 20% of modern office space was located in refurbished factories or tenement houses, which are a trademark of the city's office market.

Such projects offer unique and unconventional office space, very often valued by tenants from creative industries.

Sustainable growth

Since 2015, with exception of 2017, similar volumes of new supply were delivered to the

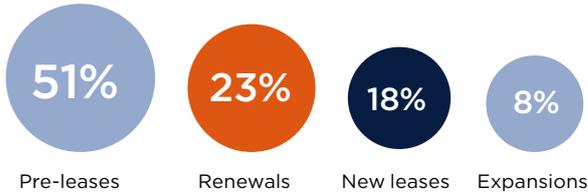
market at ca. 35,000 sq m.

Between 2015 and H1 2019 1/3 of new office space was completed in Nowe Centrum Łodzi. High activity was also observed in the Widzew district where over 1/5 of space was delivered.

In H1 2019 27,800 sq m, in two projects, was added to the market. Development activity remains high with ca. 96,000 sq m under construction, of which 36,600 sq m is due to be completed by the end of 2019, which will result in 64,400 sq m of new supply in 2019 in total, volume second only to the one observed in 2017.

The majority of the space to be delivered in H2 is located in the Widzew district (27,200 sq m), particularly at the crossroad of Śmigłego-Rydza Av., Piłsudskiego Av. and Kopcińskiego St. (21,000 sq m) in such projects as: Imagine by Avestus (14,100 sq m) and Monopolis M1 by Virako (7,000 sq m).

“The Widzew district is one of the main office hubs in the city”



Take-up by type in H1 2019

Next three years of high new supply

Between 2020 and 2022 developers plan to deliver ca. 210,000 sq m, which translates into an average of 70,000 sq m per year. Never before such high volume was observed in three years in a row. A forecasted increase of available high quality office space may attract new companies to the city.

Majority of pipeline for 2020-2022 is located in the three main hubs, of which the Widzew districts is to have the highest new supply (35% of total pipeline). In the city centre 30% of pipeline is situated, whereas 27% is to be built in Nowe Centrum Łodzi.

Targowa 2 by HB Reavis (30,000 sq m), Textorial Park II by St. Paul's Development (26,000 sq m), P22 by jv. of Ghelamco and Budomal (26,000 sq m), the first phase of Fuzja by Echo Investment (20,000 sq m) and the first phase of Nowe Soho by Ghelamco (15,200 sq m) are some of planned projects.

Unabated demand

Demand for office space in Łódź has remained strong since 2015 averaging 61,500 sq m per year, whilst the 10 year average stood at 38,700 sq m. In H1 2019 gross take-up reached the highest level ever observed in the first half of a year at 32,200 sq m, up by 13% y-o-y.

The share of net take-up (excluding lease renewals) in total leasing activity was high at 80% (on average since 2015) and remained high in H1 2019 (77%).

Pre-let agreement has been the most common form of leasing agreements in Łódź since 2015 with an average share of 39% of total take-up. New leases in existing buildings accounted for 24% of the volume, followed by lease renewals generating 21% of demand, whereas 9% was in the form of expansion, with remaining 7% generated by both owner occupier deals and subleases.

In H1 2019 alone structure of gross take-up by lease type changed due to significant increase of pre-leases, up to 51% on the expense of new leases (18%).

Among the largest transactions in H1 2019 were: pre-lease of New Work in Hi Piotrkowska (5,000 sq m), two leases of Nordea Operations Centre: new lease in Red Tower (3,300 sq m) and pre-lease in Cross Point C (3,300 sq m), lease renewal of Flint Group in Łódź 1 (2,600 sq m), pre-lease of Just Gym in Hi Piotrkowska (2,000 sq m) and another pre-lease of New Work (1,900 sq m) in Imagine.

In brief

1 Total stock of 496,700 sq m at the end of June 2019, the sixth largest regional office market in Poland.

2 27,800 sq m of new office space delivered in H1 2019, five times more than in H1 2018.

3 High development activity with 96,000 sq m under construction, 10% down y-o-y.

4 Investors plan to deliver large new supply volume of ca. 250,000 sq m by the end of 2022.

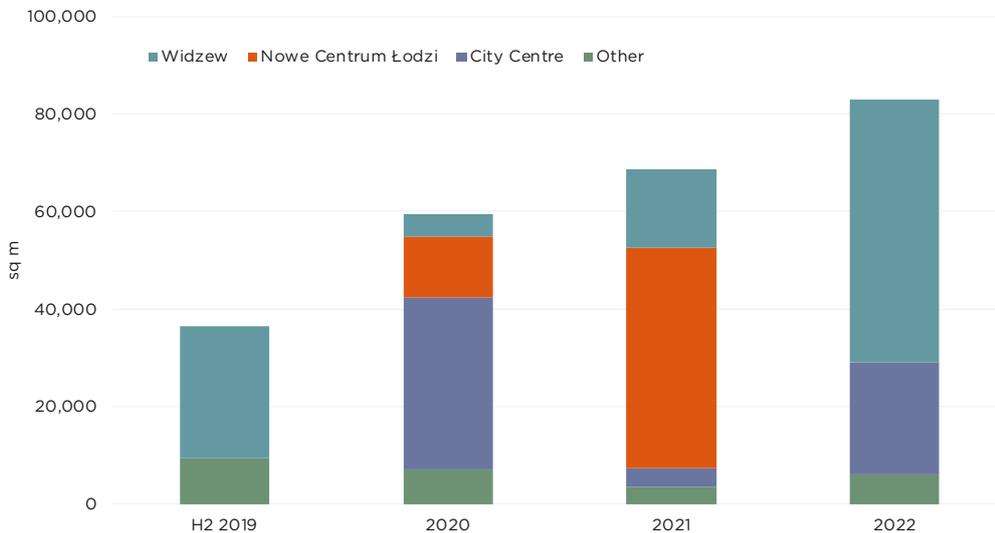
5 High leasing activity of 32,200 sq m leased in H1 2019, the highest level ever observed in the first half of a year.

6 Net absorption in H1 2019 at 8,200 sq m, 12% down y-o-y, and at 34,800 sq m in 2018.

7 Vacancy rate at 12.1%, 3.5 percentage points up y-o-y.

8 Stable prime headline rents in range between EUR 12.00 and EUR 13.50 per sq m/month.

New supply by zone



Source: Savills

H1 2019, change over year



“There are three main office hubs in Łódź: City Centre, Widzew and Nowe Centrum Łodzi. Since 2015 over a half of demand was generated there”

The Widzew district

The Widzew district, located in the east of the city, is one of the largest office hubs in Łódź. In particular, majority of the office projects in the district is situated in the vicinity of the crossroad of Śmigłego-Rydza Av., Piłsudskiego Av. and Kopcińskiego St., which is one of the major crossroads in the city.

The district offers good connection with the centre and other parts of the city and provides fast link to the motorway. At the same time traffic jam can be avoided as the location is a kind of an eastern gate to the city.

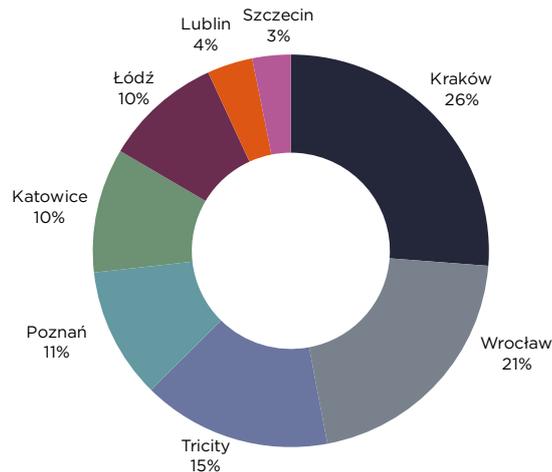
The location provides a lot of green areas such as: Źródlińska I and Źródlińska II parks which are the oldest parks in the city and the Nad Jasieniem park.

Lately we observed high activity of developers in the district. During the next several months interesting projects will be completed. In particular, Monopolis, a mixed used project, will provide variety of amenities, which will be added value for the neighbourhood such as Forum 76.



Daniel Czarnecki
Director,
Head of Landlord
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Office stock by city, H1 2019



Source: Savills

Demand focused in main hubs

Over a half of gross take-up since 2015 have been generated in the three main hubs. The highest leasing activity has been observed in the Widzew district, where 24% of gross take-up occurred, of which 14pp was located at the crossroad of Śmigłego-Rydza Av., Piłsudskiego Av. and Kopcińskiego St. 17% of leasing activity took place in Nowe Centrum Łodzi, whereas 13% was generated in the city centre.

Tenants in the Widzew district and in the city centre are the most willingly to expand in their current location as expansion accounted for 13% of leasing activity in each zone with 9% on average in the city. Pre-lease agreements are predominant in Nowe Centrum Łodzi, the share stood at 94%, whereas an average for the city was at 39%. High share of pre-lease agreement was also observed at 53% in the Widzew district, in particular at the crossroad of Śmigłego-Rydza Av., Piłsudskiego Av. and Kopcińskiego St. (62%).

In H1 2019 spike in gross take-up was observed in the city centre (44% of total volume). Leasing

activity in the Widzew district has been growing steadily for the last five years, reaching 35% in the last six months. Elevated activity was seen especially at the crossroad of Śmigłego-Rydza Av., Piłsudskiego Av. and Kopcińskiego St., where 19% of the volume occurred (and 26% in 2018).

From textiles to IT

Since 2015 the IT sector has been the major tenant in Łódź. The sector accounted for 29% of net take-up. The second most office demanding sector was the financial sector generating 23% of net take-up, followed by manufacturing (20%). Professional services accounted for 8%, whilst the share of the retail sector stood at 6%.

In H1 2019 tenants from the financial sector were the most active having accounted for 30% of net take-up. However, flexible space providers has been on the rise generating 27% of the volume. The IT sector accounted for 16%.

The crossroad of Śmigłego-Rydza Av., Piłsudskiego Av. and Kopcińskiego St. is particularly popular among companies from

the manufacturing sector as they accounted for a half of net take-up there since 2015. The financial sector usually locates in Nowe Centrum Łodzi (56%). The IT sector is most likely to be found outside three main hubs (48%).

Net absorption

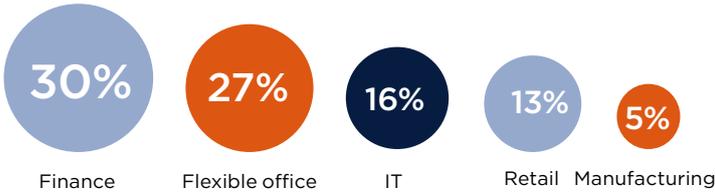
Yearly volumes of net absorption since 2015 have stood at relatively high level at 42,000 sq m on average, whilst the long term average (since 2007) equals 30,700 sq m.

In H1 2019 net absorption reached 8,200 sq m, 12% down y-o-y.

Vacancy rate

From 2015 to 2018 vacancy rate remained low, at below 10%, however in H1 2019 an increase up to 12.1% was observed. The increase was mainly caused by new space delivered in H1 of which 84% remained vacant on completion. Historically vacancy rate on completion (2015-2018) was significantly lower at 23%.

“Companies from the IT sector have been the most active tenants”



Net take-up by sector in H1 2019

As mentioned before the highest vacancy rate was observed in the newest buildings. Vacancy rate in buildings completed in 2018 and H1 2019 stood at 53.1%. The second highest value at 15.0% was noted in buildings delivered in 2008-2010. On the other hand, the lowest availability at 0.8% was seen in projects completed in 2011-2013, followed by buildings from 2004-2007 with vacancy rate at 2.3% and from 2016 and 2017 at 2.8%.

Regarding geographical distribution of availability of office space the highest vacancy rate at the end of June 2019 was observed in Nowe Centrum Łodzi at 32.7%, followed by the city centre (27.9%). Vacancy rate in the Widzew district was significantly lower at 4.5%.

Headline rents

Prime headline rents at the end of June 2019 stood between EUR 12.00 per sq m/month and EUR 13.50 per sq m/month. The rents have been rather stable through time.

In case of the refurbished factories or tenement houses rents are usually lower and range between EUR 8.00 per sq m/month up to EUR 10.00 per sq m/month.

Outlook

The office market in Łódź has been developing at a sustainable pace for the last few years. In the next three years acceleration of development activity is expected. By the end of 2022 stock of office space is projected to significantly exceed 700,000 sq m, an increase of almost 50%.

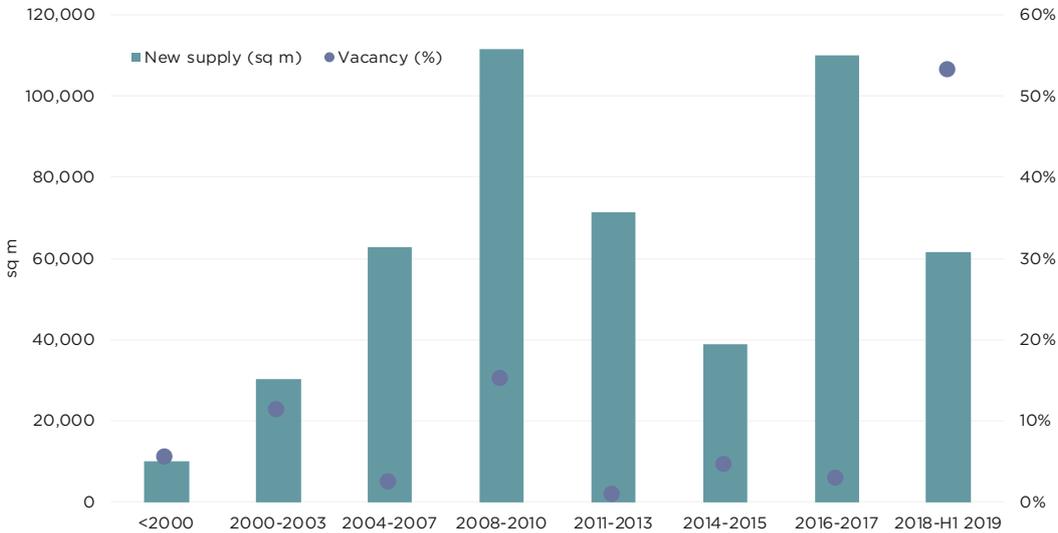
Demand for office space in Łódź is expected to remain strong. Despite forecasted contraction in total employment in Łódź, office demand generating sectors are projected to grow.

The business service sector is to remain a very important factor of demand for office space in Łódź. The sector has been growing 14.1% annually since 2017, 1.0 pp faster than on average in Poland. The sector is expected to grow by 11% by 2020.

Given that developers fulfil their plans and growth of demand is to flatten, some increase of vacancy rate is expected, particularly in older, lower quality buildings.

As the gap between supply and demand is to widen no rental growth is expected.

New supply and vacancy rate by age of a building, H1 2019



Source: Savills



GDP
2018: 4.4%
2019 (f): 3.7%



Unemployment rate
(June 2019)
5.2%



Average monthly salary
(2018)
PLN 4,779



Population (2018)
685,285

Łódź in numbers



4th largest city in Poland regarding area (293 sq km).



5th most sizable business service hub with 23,200 people employed in 85 centres.



6th largest economy in Poland with GDP of over EUR 10 billion and over 90,000 companies.



6th largest academic centre with 72,000 students and 22 higher education institutions delivering 19,000 graduates.





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