MARKET IN MINUTES

Savills Research

Kraków Office Market

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Strong demand reflected in high absorption

The current economic and geopolitical situation in the region is undoubtedly challenging. High inflation, rising interest rates and the ongoing war in Ukraine are negatively affecting the economic outlook, not only for Poland, but for the entire region. According to newest forecasts by Oxford Economics, Kraków will maintain a high level of GDP growth. In 2022, the economy of the city should grow by 5.8% while the national economy will grow by 5.7%. The following year the city's advantage over the national economy will be even more pronounced, as in 2023 GDP will increase by 2.4% (vs. 1.8% for Poland). The outlook for the labour market is also positive, the unemployment rate (ILO) for the coming years will decline, reaching 1.4% by the end of 2022, and workforce will see steady growth, which should be with one of the impulses generating demand for office space.

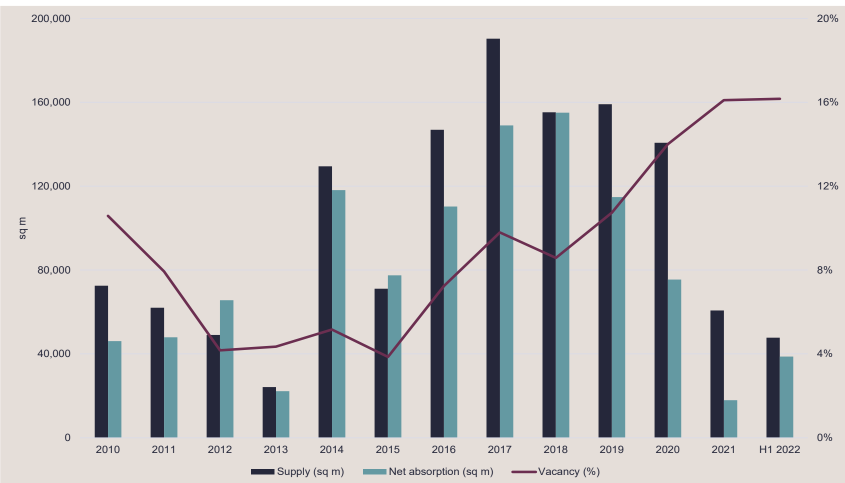
At the end of June 2022, the total supply of office space in Kraków reached 1.66 million sq m, an increase in total supply of almost 4% year-on-year. Kraków consists of five roughly equal office zones, namely: City Centre (340,200 sq m), the largest North East (350,800 sq m), South East (339,600 sq m), South West (349,300 sq m) and the smallest North West (286,300 sq m). Five buildings with a total area of 47,700 sq m were completed in the first half of 2022. Supply in the City Centre enlarged with High 5ive 3 (11,000 sq m, delivered by Skanska). Aquarius by ABP Investments increased the office stock of the Northeast zone by another 10,400 sq m. In addition, White Star Real Estate completed the first part of The Park Kraków complex (10,400 sq m) located in the Southeast zone. In the South West zone, two office projects: MK29 (11,000 sq m. by Caishen Capital Group) and Rondo 1 Business Offices (3,500 sq m by Howell Estates) were developed. At the end of June 2022 the commercialization rate in buildings completed in 2022 stood at 75% and 11,800 sq m remains vacant.

Currently, Kraków is the second regional market, after Wrocław, in terms of development activity. The city has 156,800 sq m under construction in nine projects. Most is concentrated in the City Centre zone, where six buildings are under construction for a total of 95,600 sq m. In the South East zone, two buildings are under construction for a total of 38,200 sq m, while in the South West one building is under construction (Kreo, 23,000 sq m by Ghelamco). The largest buildings currently under construction include Ocean Office Park B (26,500 sq m by Cavatina) in the Southeast zone, the aforementioned Kreo and two buildings in the Brain Park complex (I - 23,000 sq m and II - 21,900 sq m) by Echo Investment in the City Centre zone.

Being the largest regional office market, Kraków was also the city with highest share of gross take-up at 32% in H1'22. Between January and June 2022 demand reached 109,000 sq m, which is 70% of the full-year 2021 demand and 44% higher compared to the same period last year. The most active zones were City Centre and South East, where take-up was respectively 44,500 sq m and 34,300 sq m. In the North East zone, tenants signed transactions for a total of 13,300 sq m, while 9,200 sq m was leased in South West. The least amount of space was leased in the North West zone 7,700 sq m.

Demand in the first half of 2022 was dominated by three sectors, which together represented 69% of total demand. These were respectively: IT sector (30%), business services sector (27%), and manufacturing sector (12%). The largest transactions exceeding 10,000 sq m included a new lease by Capgemini (business services sector) for 13,800 sq m at Fabryczna Office Park B5 in the City Centre zone, and the renegotiation of Cisco Systems Poland (IT sector) at Enterprise Park C for 12,500 sq m in the Southeast zone.

New supply, absorption and vacancy rate, 2010-H1 2022



Source: Savills Research

"Demand for office space in Kraków continues to be the highest among regional cities. And in H1 2022 accounted for almost 1/3 of the demand among the analyzed cities."

Key office data H1 2022:

1.66 million sq m
Total office supply

156,800 sq m
Total space under construction (3% up y-o-y)

47,700 sq m
New supply (13% up y-o-y)

16.2%
Vacancy rate, (70 bps up y-o-y)

109,000 sq m
Total take-up (44% up y-o-y)

38,700 sq m
Net absorption (214% up y-o-y)

In addition to high demand for space, the demand structure was favourable for the market. The share of renewal agreements in the first half of 2022 was only 30% (compared to 34% in all total 2021). New agreements generated 43% of total demand. Pre-leases accounted for 26% of total demand, resulting in over 28,600 sq m, which is already 16% more than in total 2021. Expansions were responsible for only 1% of transactions.

Despite a relatively low level of new supply of office space in 2022 combined with a high level of demand and a low share of renegotiations directly translated into a high level of absorption, which amounted to 38,700 sq m in the first half of 2022. For comparison, net absorption for the whole of 2021 was at 17,900 sq m, while 75,400 sq m was absorbed in 2020. However, this numbers are still far away from pre-pandemic levels, where average net absorption for 2015-2019 was at 121,300 sq m.

The rather moderate level of net absorption resulted in increase of availability of office space. At the end of June 2022 vacancy rate in Kraków grew slightly to level of 16.2% (10 bps up q-o-q and 60 bps up in comparison to the end of 2021) which directly translates into 269,500 sq m of vacant office space. The vacancy rate in the city is evenly distributed across all zones but with different result on vacancy rate in each of them:

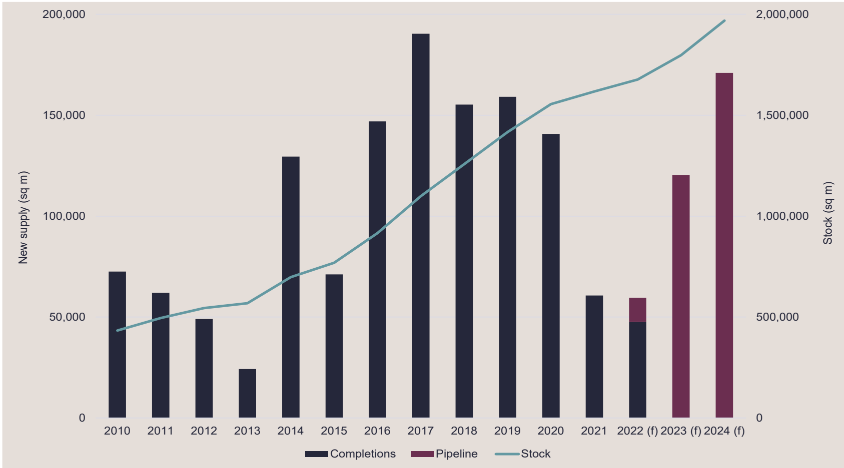
- City Centre – 15.5% (or 52,900 sq m),
- North East – 14.9% (52,400 sq m),
- South East – 10.6% (35.900 sq m),
- South West – 15.6% (54,400 sq m),
- North West – 25.8% (73,900 sq m).

The commercialization of buildings constructed since 2020 is proceeding at a relatively good pace, between 2020 and H1'22, projects with a total area of 264,500 sq m were completed, of which 72,300 sq m is still available, i.e. the commercialization rate is at 73%.

Average headline rents are now in the range of EUR 13.50-15.50/sq m/month and are rather stable. However, some upward pressure is expected, mainly due to increasing costs of construction and rising inflation rate.

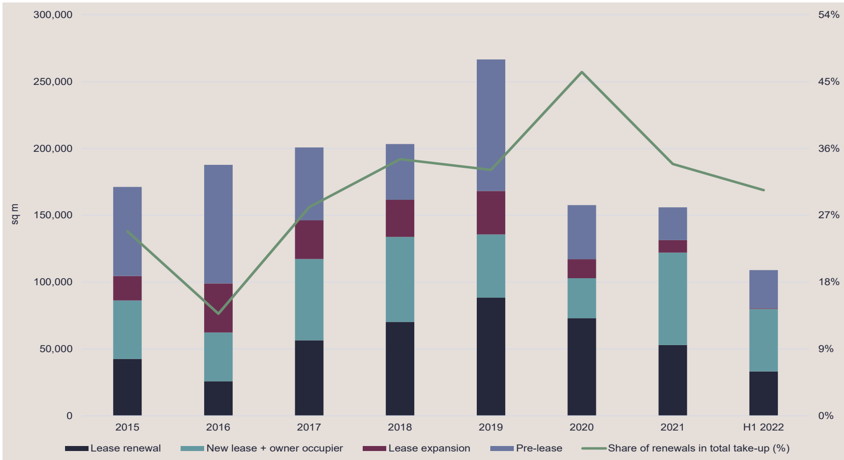
> **"New agreements generated 43% of total demand. Pre-leases accounted for 26% of total demand, resulting in over 28,600 sq m, which is already 16% more than in total 2021."**

Kraków office supply and pipeline, 2010-2024 forecast



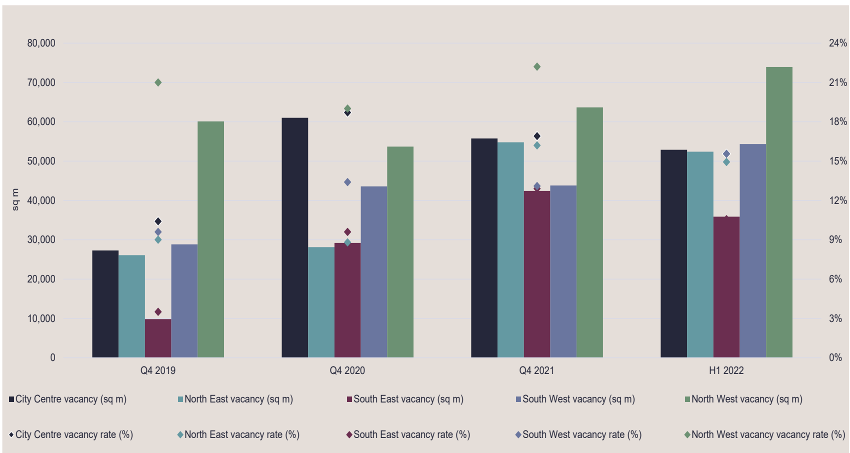
Source: Savills Research

Take-up evolution, 2015-H1 2022



Source: Savills Research

Vacancy rate by office zone, 2019-H1 2022



Source: Savills Research

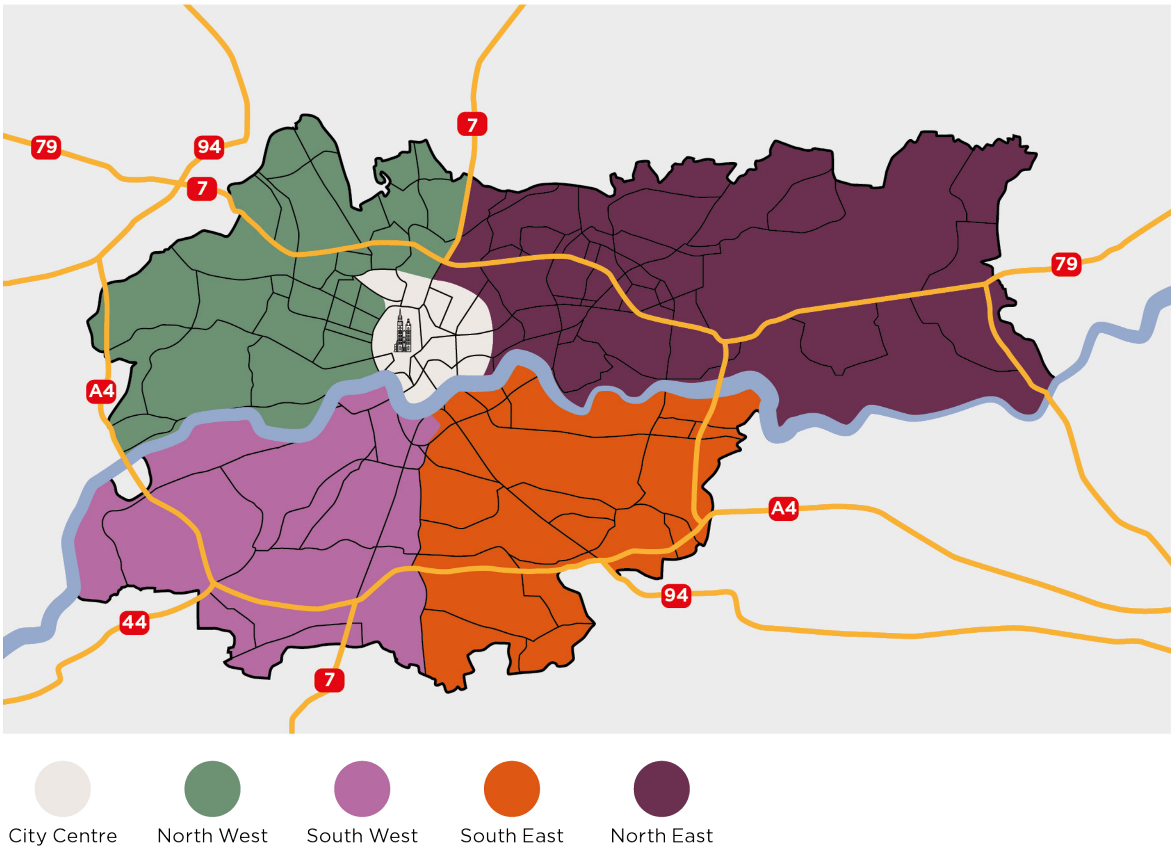
261
Number of BSS centres (2022)

92,700
BSS sector employment (2022)

2.6%
Unemployment rate (V 2022)

PLN 8,115
Average monthly salary (V 2022)

Kraków office market zones



Savills Research
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