

**PROPERTY TIMES**

# Dynamic development of regional office markets

**Poland Office, 2015**

February 2016

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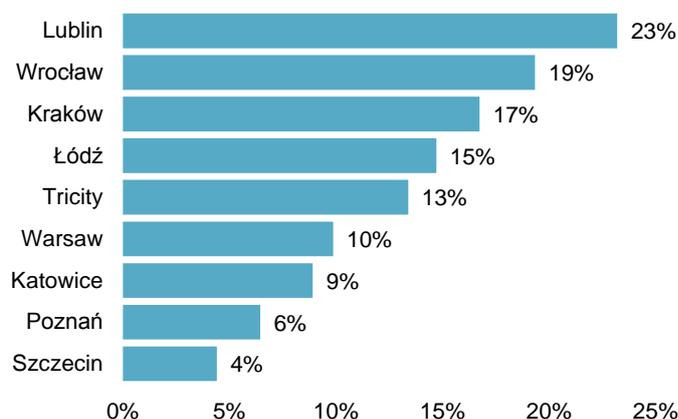
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- The total office stock in Warsaw and eight major regional markets amounts to 8.2 million sq m as of the end of 2015.
- Warsaw still holds a dominant market position with an office stock of 4.66 million sq m (57% share in a total supply), followed by Kraków (10%), Wrocław (8%) and Tricity (7%).
- In 2015, as much as almost 650,000 sq m of modern office space was completed, which is the highest value ever recorded on the Polish market. Taking into consideration the volume of space under construction and developers' plans, we can expect new record levels of supply in 2016 and 2017.
- Demand for modern office space was strong in 2015. The total volume of lease transactions exceeded 1.4 million sq m, out of which 834,000 sq m in Warsaw, which represents a 36% growth in comparison to the previous year. The strongest leasing activity among the regional markets was traditionally recorded in Kraków (184,000 sq m) and Wrocław (113,000 sq m).
- Due to a strong demand, vacancy rates in the majority of the analysed cities dropped or remained relatively stable throughout 2015. The lowest availability ratio was recorded in Kraków (3.7%) and the highest in Poznań (15.7%).
- Prime asking rents in Warsaw city centre were at the level of EUR 22-24 per sq m per month. Rental levels ranged between EUR 11-15.5 per sq m per month in regional cities as well as in non-central districts of Warsaw.
- Due to a growing competition between landlords, further downward pressure on effective rents is expected over the next two years.

Figure 1

**Forecast stock growth until the end of 2016 in major regional cities**


Source: Cushman &amp; Wakefield

## Macroeconomic background

### Economic growth and inflation

According to the National Bank of Poland (NBP), Polish economy in 2015 developed at the pace of 3.4%, growing further as compared to the previous year (3.2%). GDP growth was driven mainly by strong domestic demand, bolstered by the increase in private consumption levels by 3.1% and a dynamic surge in investment (by 6.9%). The Consumer Confidence Index also grew in the analysed period, reaching -3.9 in November, which was the best result since September 2008.

Another factor that significantly influenced economic growth in Poland was the ongoing recovery in EU member states, which continue to be the biggest recipients of goods and services produced in Poland.

In the years 2016 and 2017, our economy is expected to continue its growth; according to NBP's latest prognoses, Polish GDP will reach 3.3% and 3.5%, respectively.

NBP reports the 2015 level of deflation in Poland as 0.8%, mainly due to the decrease in the prices of food and fuels. In March 2015, the Polish Monetary Council (RPP) decided to further decrease interest rates in order to stimulate new loans and private consumption. Between January 2012 and March 2015, the reference rate fell from 4.5% to 1.5%. No changes were made later in the year. In January 2016, RPP decided again to keep the interest rates at the same level.

### Foreign direct investment (FDI)

Positive economic outlook and a relative political stability encourage foreign investment in the Polish market, which is reflected in the growing FDI inflow. In 2014 the FDI flow into Poland amounted to nearly EUR 9 bn, exceeding by over four times the result for the previous year (EUR 2.059 bn). The majority of foreign capital invested in Poland (nearly 90%) came from the European Union.

### Exchange rates

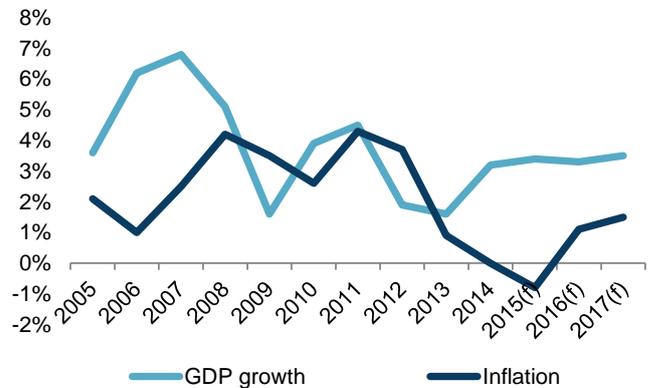
At the end of 2015 the Polish zloty depreciated against both the Euro and the US dollar, achieving the level of 4.26 PLN/EUR and 3.94 PLN/USD as of the end of the year (average rates for 2015 amounted to 4,18 PLN/EUR and 3,77 PLN/USD). The weakening of the Polish currency resulted both from internal (political situation) and external factors (including the raising of interest rates by the FED and the quantitative easing program introduced by the ECB).

### Labour market

In 2015 the situation on the Polish labour market improved, which is reflected by the decrease in unemployment rates to 9.6% in November, down from 11.5% at the end of 2014. At the same time, the average gross salary increased by nearly 5% (from PLN 3,980 to PLN 4,164).

Figure 2

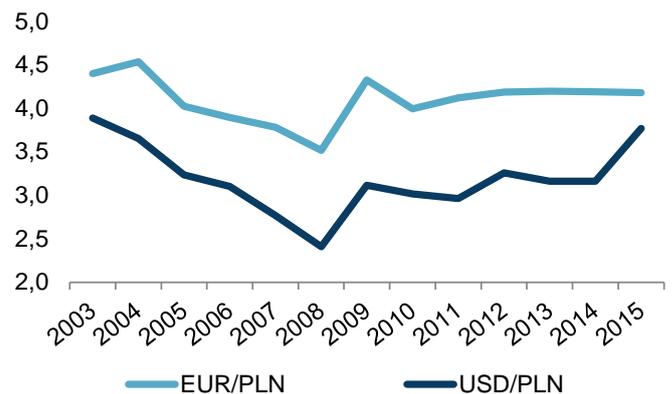
#### GDP growth and inflation



Source: National Bank of Poland, (f) – forecast

Figure 3

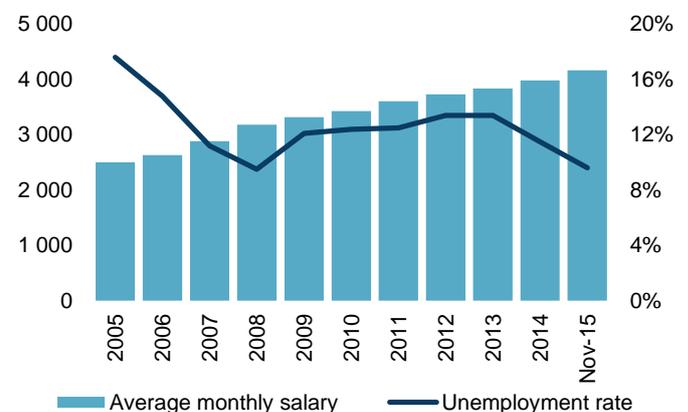
#### Exchange rates (annual average)



Source: National Bank of Poland

Figure 4

#### Unemployment rate and average monthly salary (PLN)



Source: Central Statistical Office

## Development activity

### Major Polish office markets

Total modern office stock in Poland (Warsaw, Kraków, Wrocław, Tricity, Katowice, Poznań, Łódź, Szczecin and Lublin) amounts to 8.2 million sq m as of the end of 2015.

Warsaw still holds a dominant position with an office stock of 4.66 million sq m, followed by Kraków (800,000 sq m), Wrocław (676,000 sq m) and Tricity (596,000 sq m), which are the most developed regional markets.

Year 2015 was a record-breaking one in terms of new supply delivered to the office market in Poland. The total volume of completions amounted to 643,000 sq m, out of which 366,000 sq m (56%) was located in regional cities and 278,000 sq m (44%) in Warsaw. Major projects, which received an occupancy permit last year include: Poznań Business Garden in Poznań (42,000 sq m, Vastint), Dominikański in Wrocław (35,000 sq m, Skanska Property Poland), Postępu 14 in Warsaw (34,300 sq m, HB Reavis), Alchemia II in Gdańsk (21,000 sq m, Torus).

Excluding Warsaw, the largest amount of new completions in 2015 was recorded in Tricity (84,000 sq m) and Wrocław (81,600 sq m). The largest increase of developers' activity compared to the previous year completions was noted in Łódź (36,500 sq m) and Poznań (60,000 sq m). The lowest level of completions last year was recorded in Lublin, where the total office stock grew by 3,000 sq m.

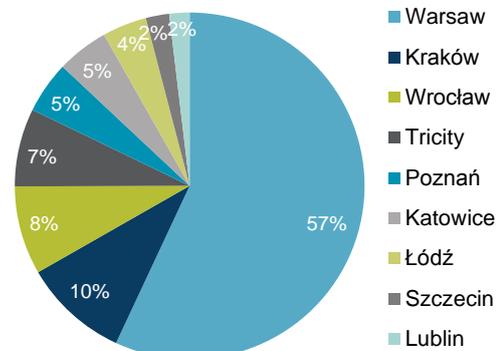
In response to the growing demand, the developers increased their activity in the majority of the analysed cities. Given the amount of space under construction (over 1.4 million sq m, of which approx. 655,000 sq m in Warsaw and 765,000 sq m in other markets), can we expect new record levels of annual supply in 2016 and 2017.

Over the next two years, the office stock in Warsaw is likely to grow by approx. 700,000 sq m, and the annual supply volumes may be record-breaking. Taking into consideration regional cities, the highest level of new supply over the coming two years is expected in the most mature markets i.e. Kraków (180,000 sq m), Wrocław (165,000 sq m), and Tricity (140,000 sq m).

When analysing the dynamics of stock increase in the coming year, the highest values will be recorded in Lublin, where the stock is likely to grow by 23%, Wrocław (19% increase) and Kraków (17%).

Figure 5

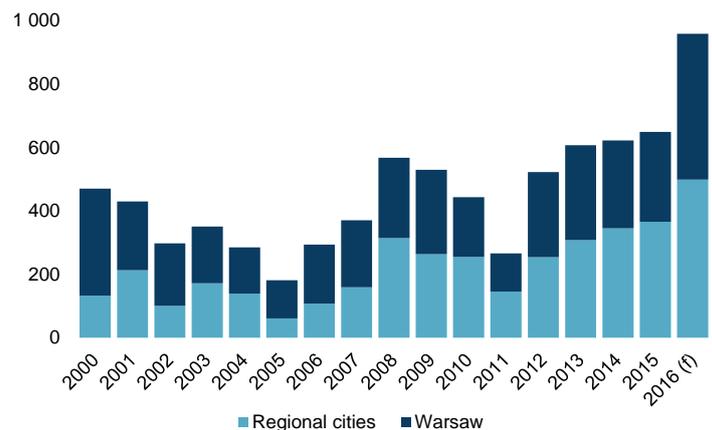
### Office stock in major Polish markets



Source: Cushman & Wakefield

Figure 6

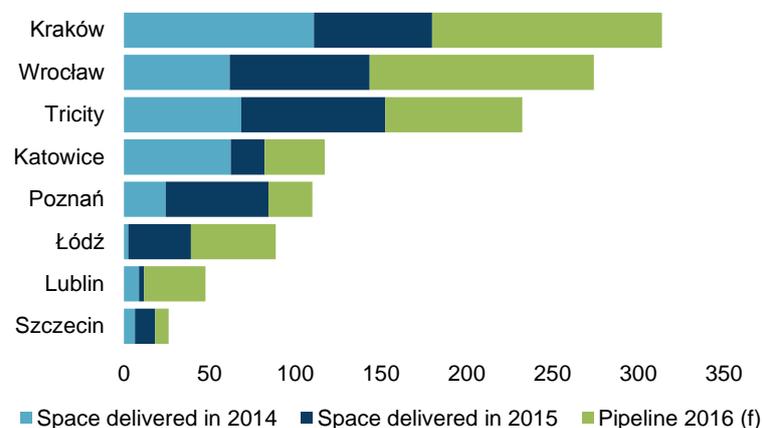
### Annual level of new supply in Warsaw and regional cities ('000 sq m)



Source: Cushman & Wakefield, (f) – forecast

Figure 7

### Development activity in regional markets ('000 sq m)



Source: Cushman & Wakefield, (f) – forecast

## Demand and vacancy

Demand for modern office space in major Polish markets was strong in 2015, which is reflected in the record volume of leasing transactions concluded on the market during this year. In comparison to the previous year, it grew by 40% and reached almost 1.4 million sq m.

The total take-up in Warsaw reached 834,000 sq m and was by 36% higher than the value recorded last year. The real change in the amount of the office space occupied by tenants is reflected in net absorption. Net absorption in 2015 reached almost 290,000 sq m, which is, similarly to take-up, historically the highest value.

Similarly to the previous five years (2010-2014), also during 2015 tenants often decided to stay in their current locations; as a result, renewals and renegotiations in Warsaw accounted for a relatively large part of the volume of leasing transactions (32%). Pre-lets were not as common as during 2011-2013, which is due to the increasing availability of office space within the existing properties.

The total volume of lease transactions in the regional cities exceeded 580,000 sq m in 2015 representing the 44% increase y-o-y. The strongest demand was recorded in Kraków (184,000 sq m) and Wrocław (113,000 sq m). As in previous years, demand for office space in the regional cities was to a large extent driven by BPO/SSC sector.

The highest increase in tenants' activity since last year was recorded in Poznań (55,800 sq m) and Lublin (16,700 sq m), where the volume of leased space almost doubled (180% growth).

Due to a strong demand, vacancy rates in the analysed cities remained relatively stable throughout 2015 and the change remained within the range of +/- 3 pp. Given regional markets, the availability ratio grew significantly only in Poznań (from 12.4% to 15.7%) due to a record-breaking volume of supply recorded on this market.

The vacancy rate in Warsaw increased by 1 p.p. compared to the ratio recorded at the end of 2014 and reached 12.3%, which exceeded the average level on all analysed markets (10.9%). Out of all analysed cities Kraków, Wrocław, Łódź and Lublin are characterised by the vacancy rates lower than average.

## Rents

Rental levels remained relatively stable throughout 2015 in most of the analysed locations.

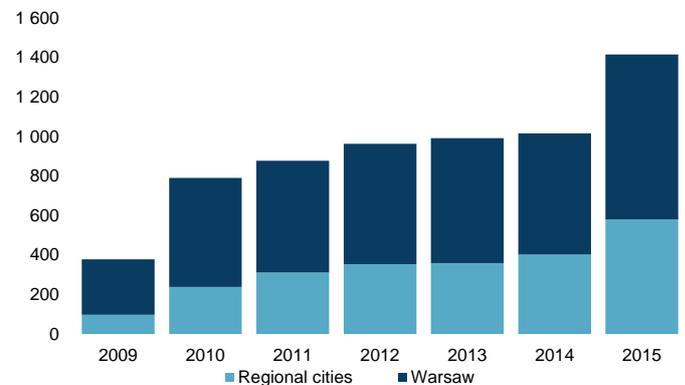
As a result of strong supply and growing vacancy rates in Warsaw city centre, prime asking rents dropped slightly on average by EUR 0.5-1 per sq m per month, and at the end of 2015 ranged from EUR 22-24 per sq m per month.

In regional cities as well as non-central districts of Warsaw, prime rents were in the range of EUR 10-15.5 per sq m per month.

Given the strong pipeline supply this decreasing trend is likely to continue over the next two years, which will exert a downward pressure on effective rents.

Figure 8

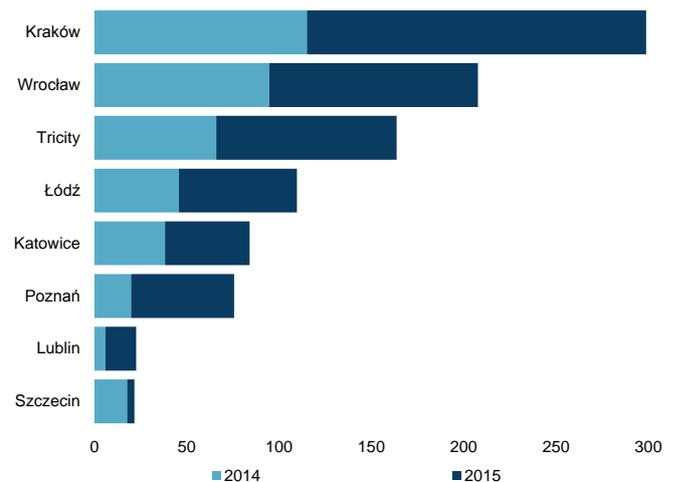
### Annual gross take-up in major Polish office markets ('000 sq m)



Source: Cushman & Wakefield

Figure 9

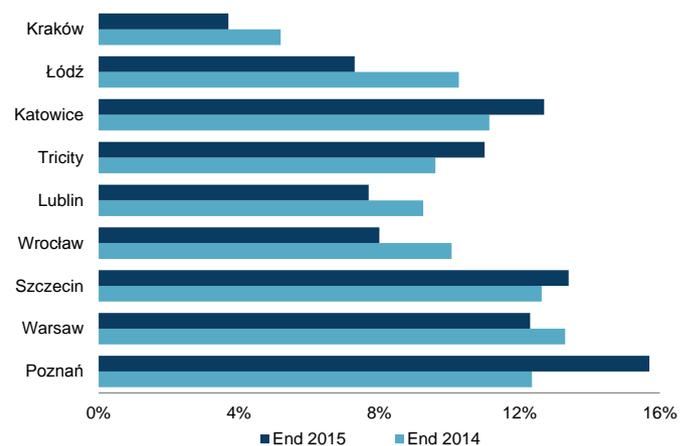
### Gross take-up in the regional markets in 2014 and 2015 ('000 sq m)



Source: Cushman & Wakefield

Figure 10

### Vacancy rates in major Polish cities



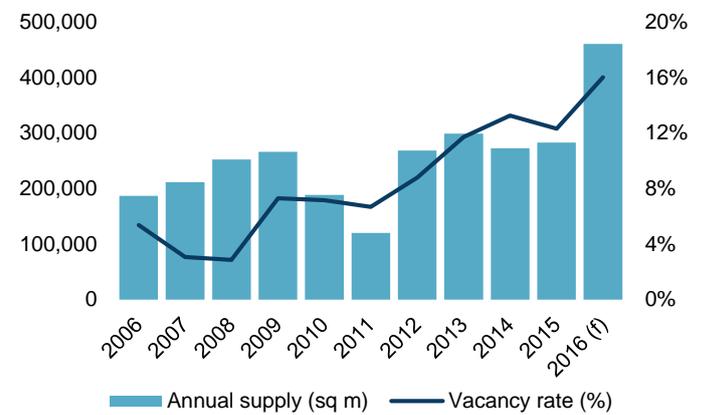
Source: Cushman & Wakefield

## Warsaw

Modern office stock	4,663,000 sq m
Number of modern office buildings	465
New supply in 2015	277,600 sq m
Vacancy rate	12.3%
Supply scheduled for 2016	460,000 sq m
Major projects completed in 2015 (Project / Developer)	<ul style="list-style-type: none"> <li>• Postępu 14 / HB Reavis</li> <li>• Royal Wilanów / Capital Park</li> <li>• Domaniewska Office Hub / PHN</li> </ul>
Major pipeline office projects scheduled for 2016 (Project / Developer)	<ul style="list-style-type: none"> <li>• Warsaw Spire II A / Ghelamco</li> <li>• Q22 / Echo Investment</li> <li>• West Station I / HB Reavis</li> </ul>
Prime asking rents (per sq m per month)	EUR 22 - 24 / Central; EUR 16 – 18 / Non Central

Figure 11

Annual office supply (sq m) and vacancy rate in Warsaw



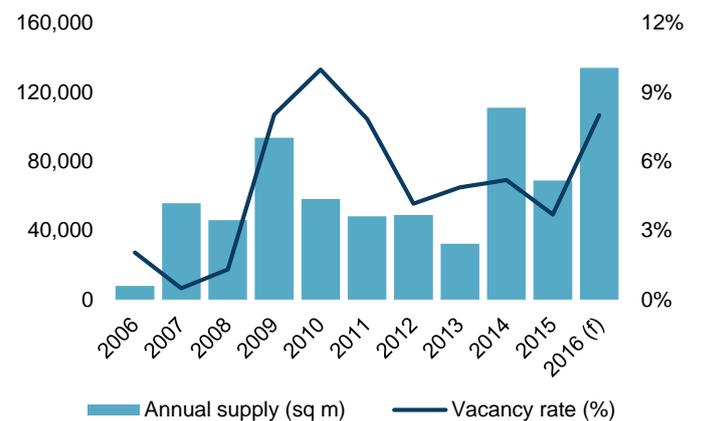
Source: Cushman & Wakefield, (f) – forecast

## Kraków

Modern office stock	800,000 sq m
Number of modern office buildings	120
New supply in 2015	68,900 sq m
Vacancy rate	3.7%
Supply scheduled for 2016	134,100 sq m
Major projects completed in 2015 (Project / Developer)	<ul style="list-style-type: none"> <li>• Aleja Pokoju 5 / Buma Group</li> <li>• K1 / Pramerica Real Estate Investors &amp; WX Management</li> <li>• Comarch HQ 3 / Comarch</li> </ul>
Major pipeline office projects scheduled for 2016 (Project / Developer)	<ul style="list-style-type: none"> <li>• Axis / Skanska Property Poland</li> <li>• Opolska Business Park I / Echo investment</li> <li>• Vistula Business Garden / private investor</li> </ul>
Prime asking rents (per sq m per month)	EUR 13.5 – 15.5

Figure 12

Annual office supply (sq m) and vacancy rate in Kraków



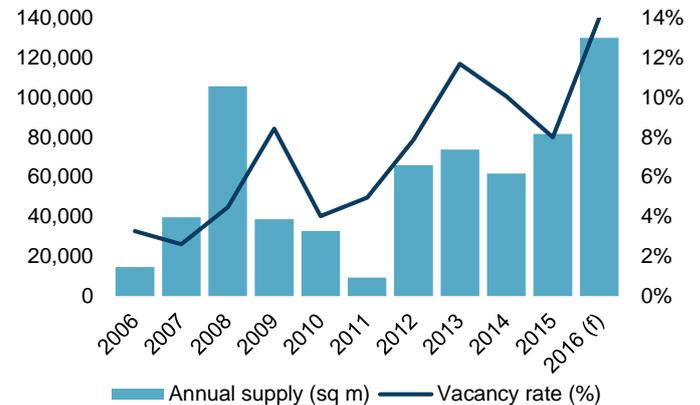
Source: Cushman & Wakefield, (f) – forecast

## Wrocław

Modern office stock	676,000 sq m
Number of modern office buildings	116
New supply in 2015	81,600 sq m
Vacancy rate	8.0%
Supply scheduled for 2016	131,000 sq m
Major projects completed in 2015 (Project / Developer)	<ul style="list-style-type: none"> <li>• Dominikański A&amp;B / Skanska Property Poland</li> <li>• West Gate / Echo Investment</li> </ul>
Major pipeline office projects scheduled for 2016 (Project / Developer)	<ul style="list-style-type: none"> <li>• Business Garden Wrocław I / Vastint</li> <li>• Times II / UBM</li> <li>• Kaufland HQ</li> </ul>
Prime asking rents (per sq m per month)	EUR 13 - 15

Figure 13

### Annual office supply (sq m) and vacancy rate in Wrocław



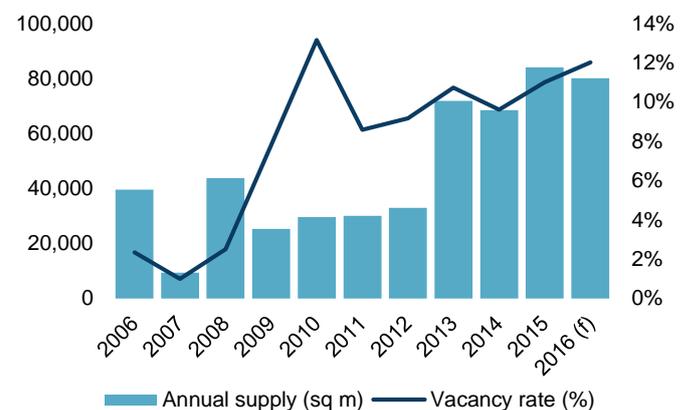
Source: Cushman & Wakefield, (f) – forecast

## Tricity

Modern office stock	596,000 sq m
Number of modern office buildings	102
New supply in 2015	84,100 sq m
Vacancy rate	11%
Supply scheduled for 2016	140,000 sq m
Major projects completed in 2015 (Project / Developer)	<ul style="list-style-type: none"> <li>• Alchemia II / Torus</li> <li>• Olivia Business Centre: Olivia Six / Olivia Business Centre</li> <li>• Gdynia Waterfront / Vastint</li> </ul>
Major pipeline office projects scheduled for 2016 (Project / Developer)	<ul style="list-style-type: none"> <li>• Olivia Star / Olivia Business Centre</li> <li>• Tryton Business House / Echo Investment</li> <li>• C200 Office / Euro Styl</li> </ul>
Prime asking rents (per sq m per month)	EUR 13 - 15

Figure 14

### Annual office supply (sq m) and vacancy rate in Tricity



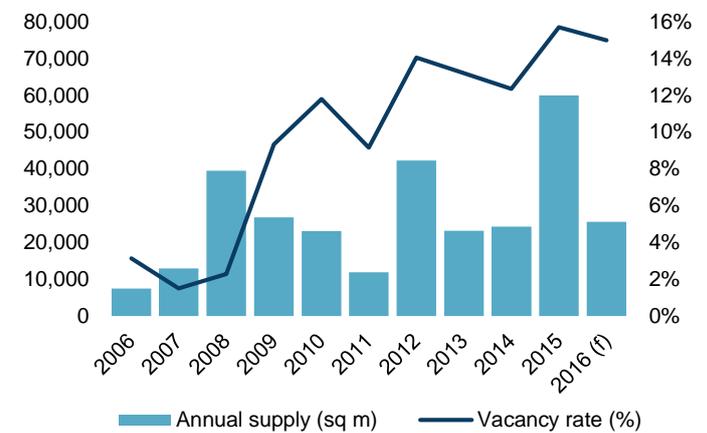
Source: Cushman & Wakefield, (f) – forecast

## Poznań

Modern office stock	397,000 sq m
Number of modern office buildings	73
New supply in 2015	60,000 sq m
Vacancy rate	15.7%
Supply scheduled for 2016	25,600 sq m
Major projects completed in 2015 (Project / Developer)	<ul style="list-style-type: none"> <li>Poznań Business Garden IA &amp; IB / Vastint</li> </ul>
Major pipeline office projects scheduled for 2016 (Project / Developer)	<ul style="list-style-type: none"> <li>Maraton I / Skanska Property Poland</li> </ul>
Prime asking rents (per sq m per month)	EUR 14 – 15.5

Figure 15

### Annual office supply (sq m) and vacancy rate in Poznań



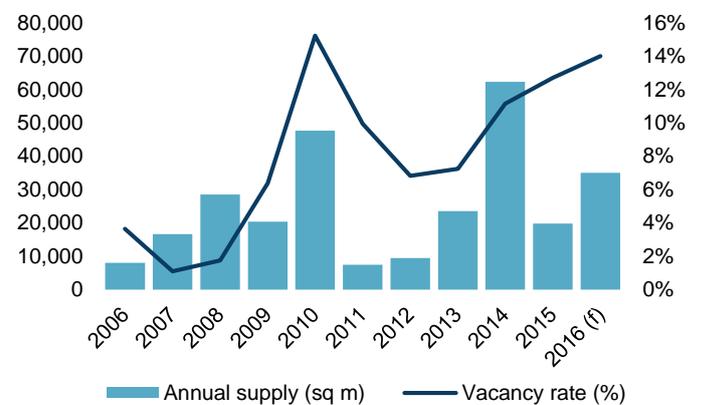
Source: Cushman & Wakefield, (f) – forecast

## Katowice

Modern office stock	393,000 sq m
Number of modern office buildings	59
New supply in 2015	19,800 sq m
Vacancy rate	12.7%
Supply scheduled for 2016	35,000 sq m
Major projects completed in 2015 (Project / Developer)	<ul style="list-style-type: none"> <li>Silesia Business Park II / Skanska Property Poland</li> <li>A4 Business Park II / Echo Investment</li> </ul>
Major pipeline office projects scheduled for 2016 (Project / Developer)	<ul style="list-style-type: none"> <li>Silesia Star II / LC Corp</li> <li>Silesia Business Park III (building C) / Skanska Property Poland</li> </ul>
Prime asking rents (per sq m per month)	EUR 12 - 14

Figure 16

### Annual office supply (sq m) and vacancy rate in Katowice



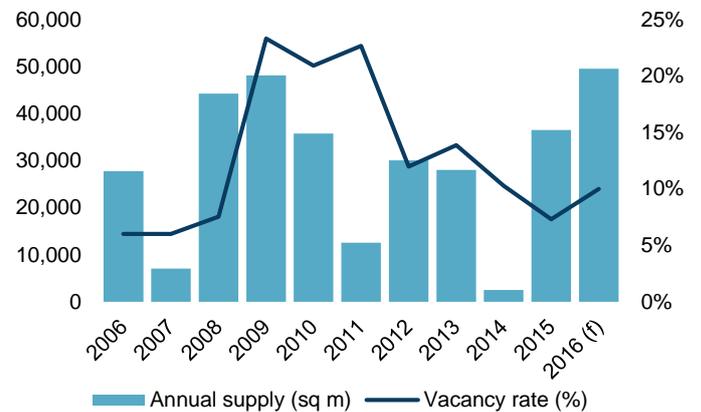
Source: Cushman & Wakefield, (f) – forecast

## Łódź

Modern office stock	337,000 sq m
Number of modern office buildings	65
New supply in 2015	36,500 sq m
Vacancy rate	7.3%
Supply scheduled for 2016	49,500 sq m
Major projects completed in 2015 (Project / Developer)	<ul style="list-style-type: none"> <li>• Olimpia Software Pool / Ericpol</li> <li>• Targowa 35 - faza II / Domena</li> <li>• Primulator HQ / private investor</li> </ul>
Major pipeline office projects scheduled for 2016 (Project / Developer)	<ul style="list-style-type: none"> <li>• University Business Park II / GTC</li> <li>• Centrum Biurowo-Konferencyjne Comarch / Comarch</li> <li>• Symetris Business Park I / Echo Investment</li> </ul>
Prime asking rents (per sq m per month)	EUR 12 – 13.5

Figure 17

### Annual office supply (sq m) and vacancy rate in Łódź



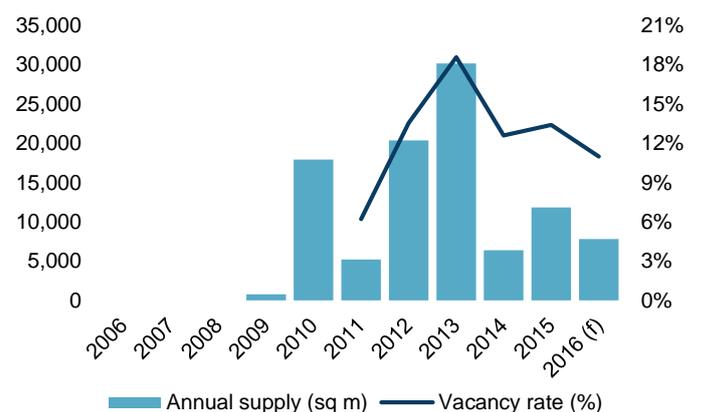
Source: Cushman & Wakefield, (f) – forecast

## Szczecin

Modern office stock	177,000 sq m
Number of modern office buildings	41
New supply in 2015	11,800 sq m
Vacancy rate	13.4%
Supply scheduled for 2016	7,800 sq m
Major projects completed in 2015 (Project / Developer)	<ul style="list-style-type: none"> <li>• Piastów Office Center C / RealKapital Partners</li> </ul>
Major pipeline office projects scheduled for 2016 (Project / Developer)	<ul style="list-style-type: none"> <li>• Storrady Park Offices / Gryf Development</li> </ul>
Prime asking rents (per sq m per month)	EUR 12 – 14

Figure 18

### Annual office supply (sq m) and vacancy rate in Szczecin

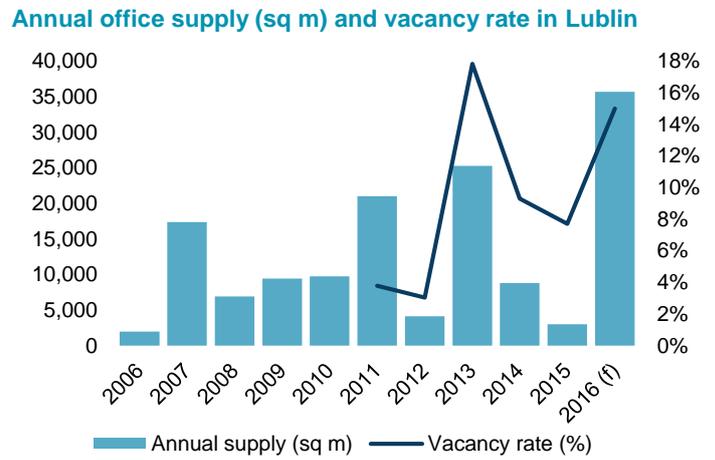


Source: Cushman & Wakefield, (f) – forecast

## Lublin

Modern office stock	154,000 sq m
Number of modern office buildings	42
New supply in 2015	3,000 sq m
Vacancy rate	7.7%
Supply scheduled for 2016	35,700 sq m
Major projects completed in 2015 (Project / Developer)	<ul style="list-style-type: none"> <li>Centrum Park Offices / private investor</li> </ul>
Major pipeline office projects scheduled for 2016 (Project / Developer)	<ul style="list-style-type: none"> <li>Centrum Zana Office Park A / Centrum Zana</li> </ul>
Prime asking rents (per sq m per month)	EUR 11 – 12.5

Figure 19



Source: Cushman & Wakefield, (f) – forecast

## Definitions

Modern office stock	Units built since 1989 or refurbished to at least B class.
Take-up (gross)	Total volume of lease transactions concluded on the market. This includes new leases, pre-lets, expansion of space, owner occupied deals, as well as lease renewals/renegotiations.
Take-up (net)	Total volume of lease transactions concluded on the market, excluding lease renewals/renegotiations.
Net absorption	Net change in physically occupied space between two periods of time, taking into consideration vacated and newly constructed office space in the same area.
Prime rent	Prime headline rent that could be expected for a unit of standard size – 500 – 1,000 sq m – commensurate with demand in each location, highest quality and specification in the best location in a market.

## Standard lease terms

Rent	Monthly rent, paid in advance, quoted in EUR, paid in PLN
Frequency and basis of indexation of rent	Annual, based on European CPI or HICP index
Service charge	Paid by tenants, connected with the costs and expenses related directly to the maintenance of the common areas on the property (at the level of the factor of the share of the total useable office area of building). Quoted and paid in PLN
Typical lease length	5 years
Incentives	Rent free periods Fit out contributions
Rent guarantee period	3 months bank guarantee or deposit
Standard space delivery conditions	Landlords cover fit-out cost of the common areas on the property and standard fit-out of the leased area.

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