

PROPERTY TIMES

Office market in a growth phase

Poland, Offices, H1 2016

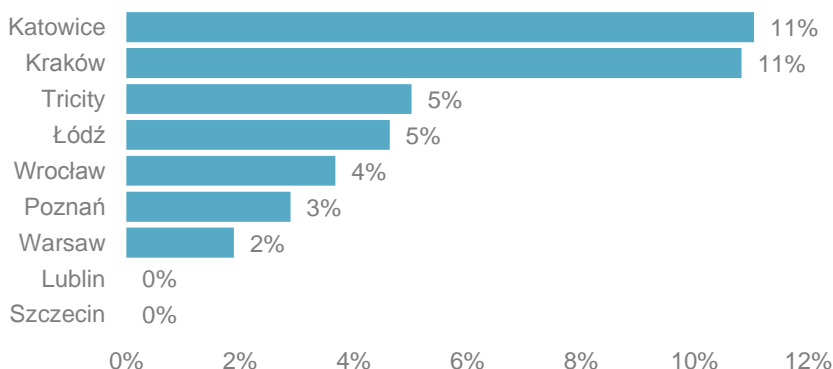
September 2016

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- At the end of June 2016, the total office stock in Poland (Warsaw and eight largest regional markets) stood at 8.7 million sq m.
- With 4.99 million sq m or a 58% share in Poland's total stock, Warsaw remains the largest office market, followed by Kraków (9.8%), Wrocław (8.7%) and Tricity (7.3%). By year-end 2016, the largest volumes of new supply are expected to be delivered in Katowice and Kraków (+11%).
- Nearly 572,000 sq m of modern office space was completed in H1 2016, the highest ever half-yearly supply on the Polish market. Given projects under construction and developers' plans, office supply levels are expected to remain high in the forthcoming years too.
- Office take-up remained healthy throughout H1 2016. The leasing volume exceeded 620,000 sq m, of which 372,000 sq m was in Warsaw, up by just over 2% on the figure noted in the corresponding period of 2015. The strongest leasing activity in regional markets was traditionally in Kraków (112,000 sq m) and Wrocław (36,500 sq m).
- High supply levels in most of the office markets pushed vacancy rates up, the lowest being in Kraków (6%) and the highest in Szczecin (17.7%).
- Prime office rents stood at EUR 22–24 per sq m per month in Warsaw's city centre and at EUR 11–15.5 per sq m per month in the capital city's non-central locations and in regional markets.
- The growing competition between office building owners is expected to lead to further downward pressure on effective rents over the next two years.

Figure 1

Forecast stock supply growth in Warsaw and major regional cities by year-end 2016


Source: Cushman & Wakefield

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Polish office market

At the end of H1 2016, Poland's total modern office stock in Warsaw and eight largest regional markets (Kraków, Wrocław, Tricity, Katowice, Poznań, Łódź, Szczecin and Lublin) stood at 8.7 million sq m.

With 4.99 million sq m of office stock, Warsaw remains the largest office market in Poland, followed by Kraków (833,000 sq m), Wrocław (757,000 sq m) and Tricity (629,000 sq m), the three strongest regional office markets.

Supply

In H1 2016, the Polish market posted a new high in terms of office supply, which totalled 572,000 sq m, of which 350,000 sq m (58%) was delivered in Warsaw and the remaining 222,000 sq m (42%) in regional markets.

The largest completions were in Warsaw, including Ghelamco's Warsaw Spire Tower (59,100 sq m), HB Reavis' Gdański Business Center II (buildings C and D totalling 49,000 sq m) and Echo Investment's Q22 (46,400 sq m).

Major office schemes which received occupancy permits in regional cities included Echo Investment's Tryton Business House in Gdańsk (21,300 sq m), Echo Investment's O3 Business Campus I in Kraków (19,200 sq m), GTC's University Business Park in Łódź (18,700 sq m) and UBM Polska's Pegaz in Wrocław (18,500 sq m).

In H1 2016, the lowest volumes of new supply were recorded in Lublin and Szczecin, the latter seeing only 7,200 sq m of office space added to its stock, whilst the former saw no new modern office project coming on stream.

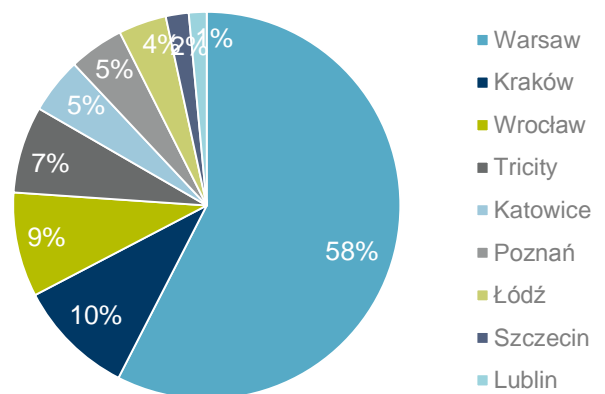
Development activity has stepped up in the majority of Polish office markets in response to strong occupier interest.

Another 310,000 sq m is expected to be added to Poland's office stock by year-end 2016, which is likely to push the annual supply to a new record high. Of the regional cities, the highest levels of new supply coming onto the market by the end of this year are expected in Kraków (87,800 sq m), Tricity (46,800 sq m) and Katowice (44,700 sq m).

Given the development pipeline for 2017–2018, if all the currently planned projects (more than 1.5 million sq m, of which around 771,000 sq m is to be delivered in Warsaw and 751,000 sq m in regional cities) come to fruition on time, supply levels are likely to remain high over the next two years.

Figure 2

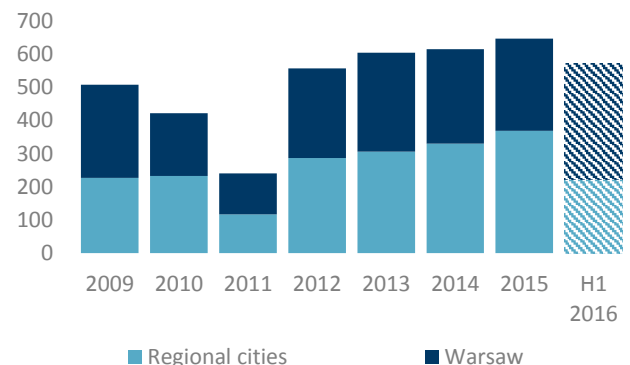
Office stock in Poland



Source: Cushman & Wakefield

Figure 3

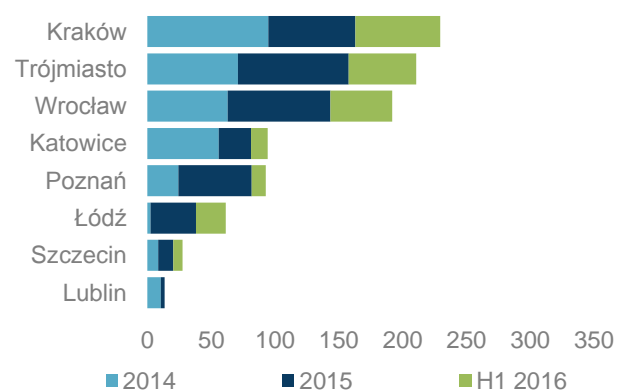
Annual supply in Warsaw and regional cities (thousand sq m)



Source: Cushman & Wakefield

Figure 4

Development activity in regional markets (thousand sq m)



Source: Cushman & Wakefield

Take-up

In H1 2016, office take-up in Poland totalled 620,000 sq m, up by nearly 12,000 sq m on the corresponding period in 2015. Despite the last two quarters being weaker, the strongest leasing activity was once again in Warsaw, which accounted for 60% of the total take-up. Poland's regional markets also attracted strong occupier interest. Leasing transactions in its major agglomerations totalled 248,000 sq m, representing a 12% year-on-year growth. The highest take-up volumes were posted in Kraków (112,000 sq m) and Wrocław (36,500 sq m), whilst in the smallest markets of Szczecin and Lublin only 3,600 sq m was transacted. Compared to H1 2015, the highest increases in leasing activity were recorded in Kraków (45,600 sq m) and Poznań (7,000 sq m), while leasing activity slowed down considerably in Warsaw (-34,000 sq m) and Tricity (-19,400 sq m). As in previous years, demand for office space in regional cities was driven largely by BPO/SSC companies with the largest take-up coming from the IT, insurance and banking sectors.

Absorption

The average volume of occupied space rose across Poland in H1 2016. Net absorption was positive and totalled 280,000 sq m, down by just 2.8% on H1 2015. The largest hikes in occupied space were in Warsaw (133,400 sq m), Kraków (48,000 sq m) and Tricity (31,500 sq m), whilst absorption levels dived in Katowice (-68%) and Szczecin (-78%) compared to the first two quarters of 2015. The absorption rate remains very high, keeping vacancy rates in most markets healthy despite high supply levels.

Vacancy

With office supply outstripping occupiers' capacity to absorb office space, Poland's vacancy rate averaged 13.4%, up by nearly 1.2 percentage points compared to June 2015 and up by almost 0.8 percentage points compared to the end of Q1 2016. The average vacancy rate stood at 10.8% in regional cities and the largest volumes of vacant space were in Tricity (84,900 sq m) and Wrocław (76,800 sq m). Compared to the end of H1 2015, the strongest rise in vacancies was in Katowice (up by nearly 6.5 percentage points), whilst Poznań saw the largest decrease in the volume of vacant office space.

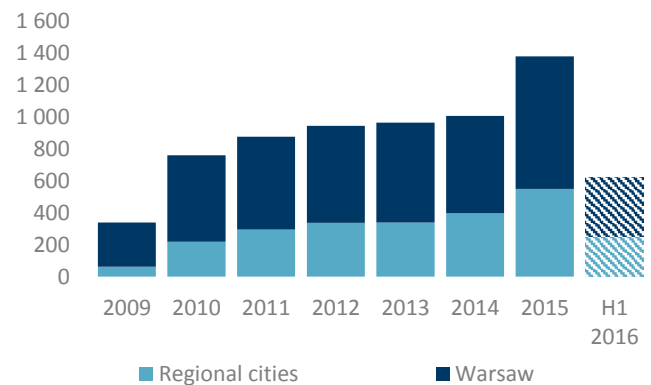
Rents

Rents remained relatively stable in most office locations in H1 2016. Headline rents stood at EUR 24 per sq m per month in Warsaw's city centre and at EUR 13–16.5 per sq m per month in non-central locations. Compared to December 2015, the largest dip in prime rents (EUR 0.5 per sq m per month) was noted in Warsaw's central locations and the Służewiec district. Regional cities saw their rents at EUR 10–14.5 per sq m per month.

Given the large number of office projects in the pipeline in most markets, both developers and owners are likely to see growing tenant expectations and further downward pressure on effective rents.

Figure 5

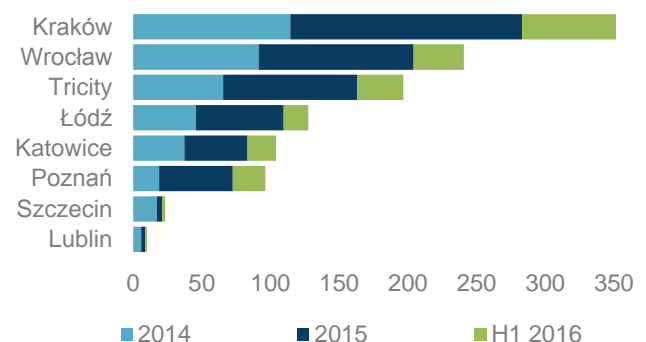
Annual gross take-up in major Polish office markets (thousand sq m)



Source: Cushman & Wakefield

Figure 6

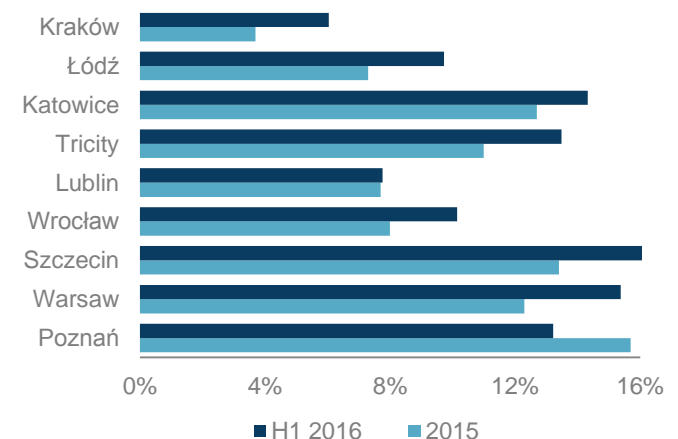
Gross take-up in regional markets in 2014, 2015 and H1 2016 (thousand sq m)



Source: Cushman & Wakefield

Figure 7

Vacancy rates in major Polish cities



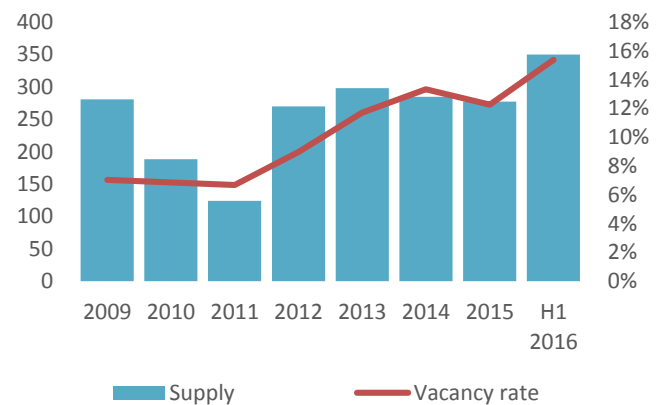
Source: Cushman & Wakefield

Warsaw

Modern office stock	4,988,000 sq m
Number of modern office buildings	478
H1 2016 supply	440,000 sq m
Vacancy rate	15.4%
Supply scheduled for 2016	460,000 sq m
Major projects completed in H1 2016 (project / developer)	<ul style="list-style-type: none"> • Warsaw Spire Tower / Ghelamco • Gdański Business Center II (buildings C and D) / HB Reavis • Q22 / Echo Investment
Major pipeline projects scheduled for H2 2016 (project / developer)	<ul style="list-style-type: none"> • West Station I / HB Reavis • Hala Koszyki / Griffin Real Estate • The Tides / The Tides Property Group
Prime rents (per sq m per month)	EUR 22–24 in the City Centre; EUR 13–16.5 in Non-Central Locations

Figure 8

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



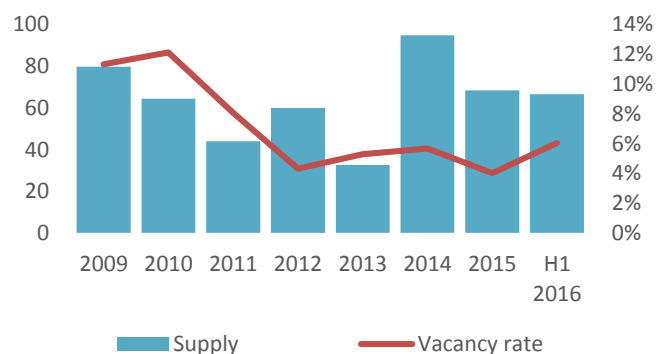
Source: Cushman & Wakefield

Kraków

Modern office stock	833,000 sq m
Number of modern office buildings	126
H1 2016 supply	66,500 sq m
Vacancy rate	6.0%
Supply scheduled for 2016	154,200 sq m
Major projects completed in H1 2016 (project / developer)	<ul style="list-style-type: none"> • O3 Business Campus I / Echo investment • Bonarka 4 Business F / TriGranit
Major pipeline projects scheduled for H2 2016 (project / developer)	<ul style="list-style-type: none"> • Axis / Skanska Property Poland • Vistula Business Garden / private investor
Prime rents (per sq m per month)	EUR 12.5–14.5

Figure 9

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



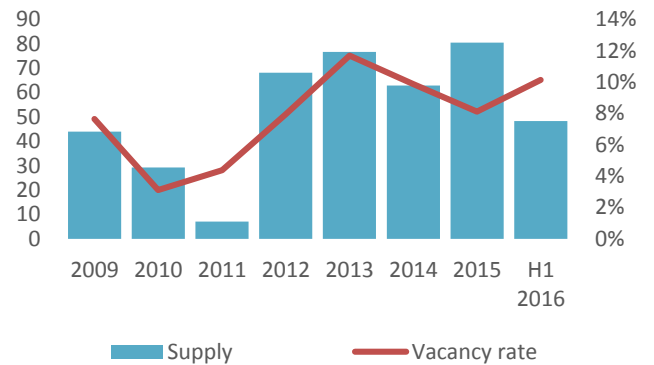
Source: Cushman & Wakefield

Wrocław

Modern office stock	757,000 sq m
Number of modern office buildings	119
H1 2016 supply	48,300 sq m
Vacancy rate	10.1%
Supply scheduled for 2016	76,200 sq m
Major projects completed in H1 2016 (project / developer)	<ul style="list-style-type: none"> • Pegaz / UBM Polska • Kaufland HQ
Major pipeline projects scheduled for H2 2016 (project / developer)	<ul style="list-style-type: none"> • Nobilis Business House / Echo Investment
Prime rents (per sq m per month)	EUR 12.5–14.5

Figure 10

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



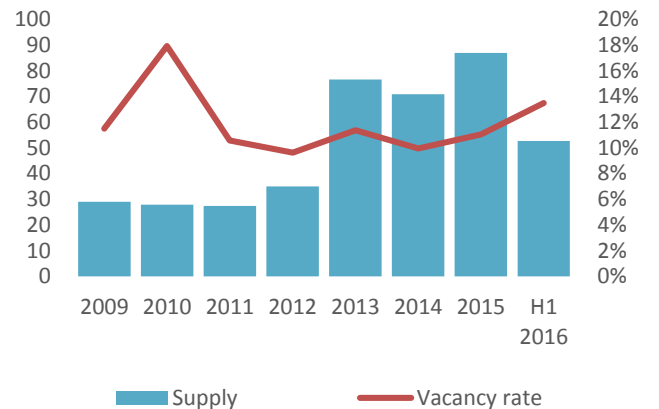
Source: Cushman & Wakefield

Tricity

Modern office stock	629,000 sq m
Number of modern office buildings	100
H1 2016 supply	84,300 sq m
Vacancy rate	13.5%
Supply scheduled for 2016	140,000 sq m
Major projects completed in H1 2016 (project / developer)	<ul style="list-style-type: none"> • Tryton Business House / Echo Investment • C200 Office / Euro Styl
Major pipeline projects scheduled for H2 2016 (project / developer)	<ul style="list-style-type: none"> • Olivia Star / Olivia Business Centre
Prime rents (per sq m per month)	EUR 12–13.5

Figure 11

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



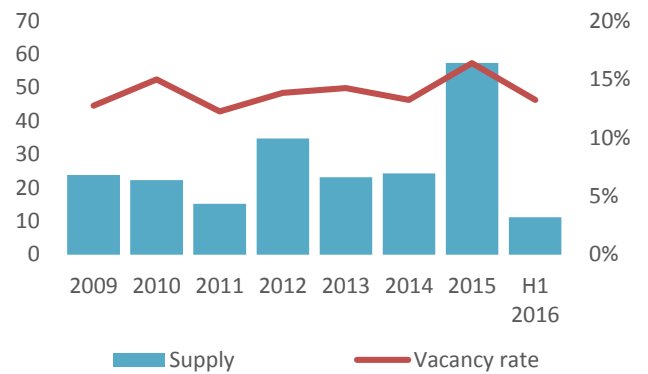
Source: Cushman & Wakefield

Poznań

Modern office stock	404,000 sq m
Number of modern office buildings	75
H1 2016 supply	12,900 sq m
Vacancy rate	13.2%
Supply scheduled for 2016	22,700 sq m
Major projects completed in H1 2016 (project / developer)	<ul style="list-style-type: none"> Młyńska 12 / private investor
Major pipeline projects scheduled for H2 2016 (project / developer)	<ul style="list-style-type: none"> Maraton I / Skanska Property Poland
Prime rents (per sq m per month)	EUR 12.5–14

Figure 12

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



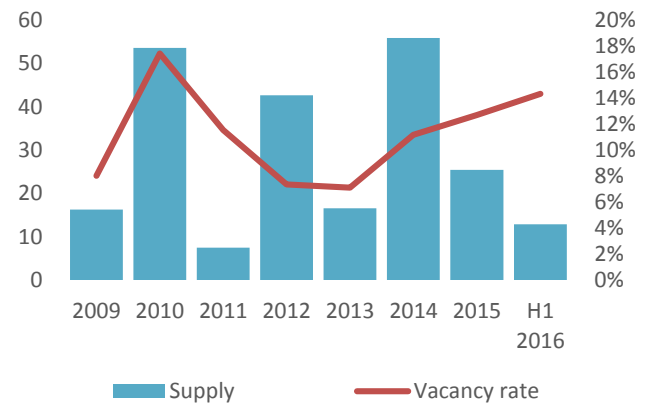
Source: Cushman & Wakefield

Katowice

Modern office stock	398,000 sq m
Number of modern office buildings	67
H1 2016 supply	11,200 sq m
Vacancy rate	14.3%
Supply scheduled for 2016	57,500 sq m
Major projects completed in H1 2016 (project / developer)	<ul style="list-style-type: none"> Supersam / Griffin Real Estate Metro Office / GTB Metropolis
Major pipeline projects scheduled for H2 2016 (project / developer)	<ul style="list-style-type: none"> Silesia Star II / LC Corp A4 Business Park III / Echo Investment
Prime rents (per sq m per month)	EUR 12–13.75

Figure 13

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



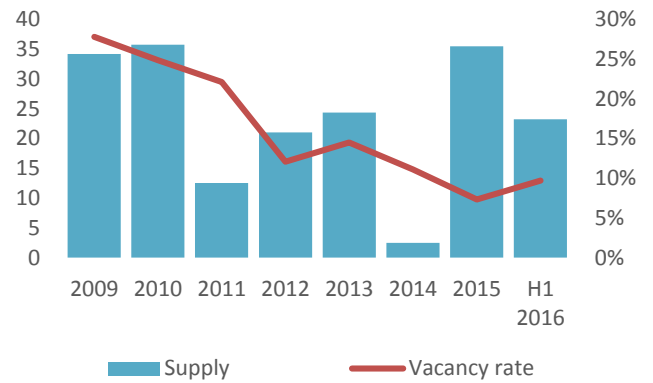
Source: Cushman & Wakefield

Łódź

Modern office stock	347,000 sq m
Number of modern office buildings	67
H1 2016 supply	23,300 sq m
Vacancy rate	9.7%
Supply scheduled for 2016	39,400 sq m
Major projects completed in H1 2016 (project / developer)	<ul style="list-style-type: none"> University Business Park B / GTC
Major pipeline projects scheduled for H2 2016 (project / developer)	<ul style="list-style-type: none"> Comarch Office and Conference Centre / Comarch
Prime rents (per sq m per month)	EUR 12–13.5

Figure 14

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



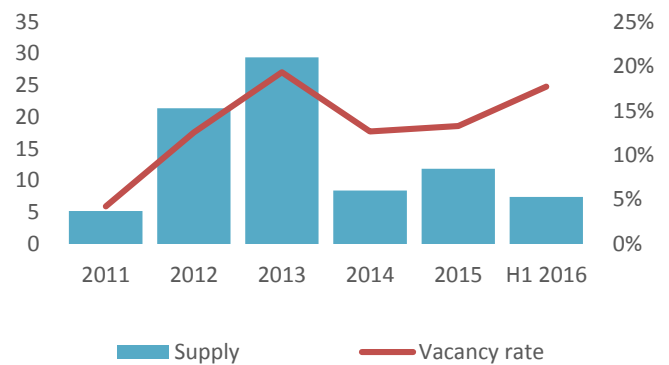
Source: Cushman & Wakefield

Szczecin

Modern office stock	166,000 sq m
Number of modern office buildings	35
H1 2016 supply	7,400 sq m
Vacancy rate	17.7%
Supply scheduled for 2016	7,400 sq m
Major projects completed in H1 2016 (project / developer)	<ul style="list-style-type: none"> Storrady Park Offices / Gryf Development
Major pipeline projects scheduled for H2 2016 (project / developer)	-
Prime rents (per sq m per month)	EUR 12–13.5

Figure 15

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



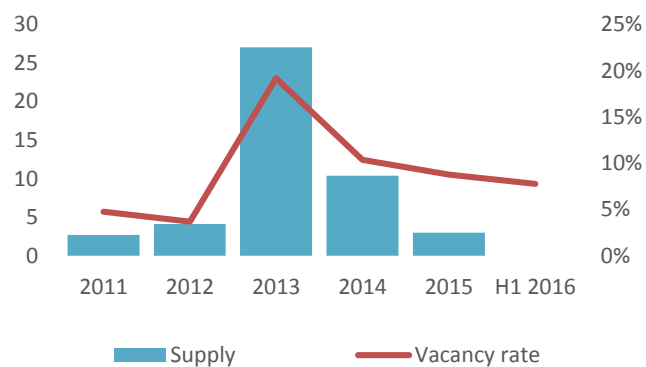
Source: Cushman & Wakefield

Lublin

Modern office stock	129,000 sq m
Number of modern office buildings	39
H1 2016 supply	0 sq m
Vacancy rate	7.7%
Supply scheduled for 2016	0 sq m
Major projects completed in H1 2016 (project / developer)	<ul style="list-style-type: none"> Centrum Park Offices / private investor
Major pipeline projects scheduled for H2 2016 (project / developer)	-
Prime rents (per sq m per month)	EUR 11–12.5

Figure 16

Annual office supply (thousand sq m) and vacancy rate in Lublin



Source: Cushman & Wakefield

Definitions

Modern office stock	Office units built since 1989 or refurbished to at least B-class.
Take-up (gross)	Total volume of lease transactions completed 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 completed 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, usually quoted in EUR and paid in PLN.
Rent indexation	Usually based on European CPI or HICP
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	3 months' bank guarantee or deposit
Standard space delivery conditions	Landlords cover fit-out costs of the common areas such as an entrance hall and corridors on the property and standard fit-out of the leased area.

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