

Office Market in Regions Q1 2023

During the first three months of 2023, occupier demand on Poland's regional city office markets remained strong amid increasing office availability and further drop of the development activity. The markets continue to adapt to the new normal created by the rise of hybrid working model and the growing focus on flexibility in office layouts and uses.

At the end of the first quarter of 2023, the combined office stock of Poland's eight largest regional city markets was close to 6.5 million sqm. With over 68,000 sqm of office deliveries in the three months to March, the regional cities increased their lead over Warsaw, which has 6.26 million sqm of office space. The first three months of 2023 saw four office completions: two in Krakow (Ocean Office Park B and Fabryczna Office Park B5), one in Tricity (Officer) and one in Wrocław (Centrum Południe 3).

The first quarter of 2023 witnessed a further decrease of the developers activity with around 530,000 sqm under construction, down by over 8% since the fourth quarter of 2022. This trough - despite still relatively strong leasing activity - is due to the substantial share of lease renewals and renegotiations in the total transaction volume and large volumes of ready-to-occupy office space available in buildings completed in the last five years (close to 420,000 sqm, which accounts for almost 41% of the total vacant space in the regional cities).

Total office take-up on the core regional markets in the first quarter of 2023 climbed to nearly 175,000 sqm and was comparable to the leasing volume recorded in the last quarter of 2022 (up by 0.2%), but was over 13% higher than in the first quarter of 2022. In terms of occupier activity, the past quarter lagged behind only the first quarters of 2020 and 2017, which saw 213,700 sqm and 178,500 sqm transacted, respectively. In the period January-March 2023 there was only one lease signed over 10,000 sqm in the regional cities, with all the other deals being agreed for under 5,001 sqm of office space. The sectors that generated most demand were IT and manufacturing, which accounted for 25% and 13% of the total take-up, respectively. Logistics came third with 7%.

Broken down by transaction type, new leases accounted for 45.7% of all deals agreed in the first quarter of 2023, with renegotiations and renewals having a similar share (43.8%). The remaining 10.5% came from expansions (6.5%), owner-occupier transactions (2.8%) and pre-lets (1.1%). Renegotiations and renewals saw their share of the total take-up increase from 40% in the fourth quarter of 2022 while the proportion of pre-lets was down from 7.6% in the fourth quarter of 2022.

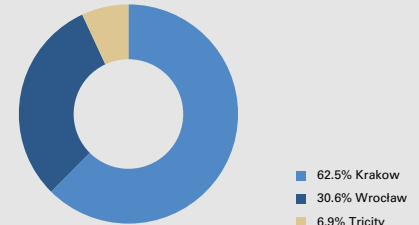
At the end of the first quarter of 2023, the overall vacancy rate on the core regional office markets stood at 15.9%, up by 0.6 pp since the fourth quarter of 2022 and by 0.4 pp compared to the first quarter of 2022. Upward movements in vacancies were reported on five markets (Krakow, Wrocław, Poznań, Szczecin and Lublin). Vacancy rates edged down in Łódź and Tricity while Katowice saw no change in vacancies. The combined office availability on the eight key regional markets rose to a record high of over one million square metres.

With office availability still high in both existing buildings and projects under construction, rental rates hold firm and are expected to remain flat in the coming quarters. That said, landlords of office buildings featuring modern technology and ESG solutions are unlikely to give ground in rent negotiations.

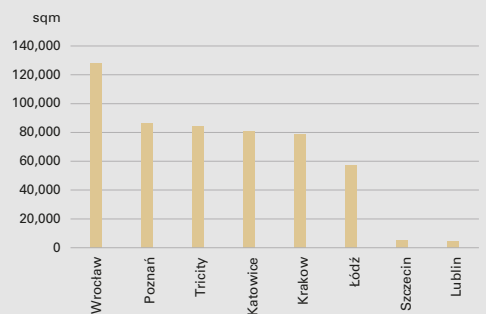
LARGEST OFFICE TRANSACTIONS

QUARTER	BUILDING	TENANT	SIZE (SQM)	LEASE TYPE
Q1	Olivia Prime, Tricity	Sii	10,100	Renewal
Q1	React, Łódź	Alorica	5,000	New deal
Q1	Bema Plaza, Wrocław	UPS	4,600	Renewal
Q1	C200, Tricity	Undisclosed tenant from IT sector	4,500	Renewal

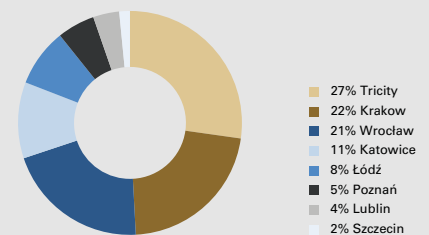
New supply by city, Q1 2023



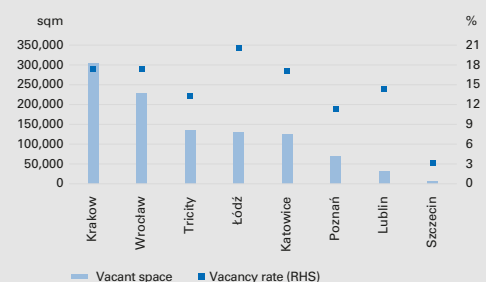
Under construction by city, Q1 2023



Take-up by city, Q1 2023



Vacant space & vacancy rate by city, Q1 2023



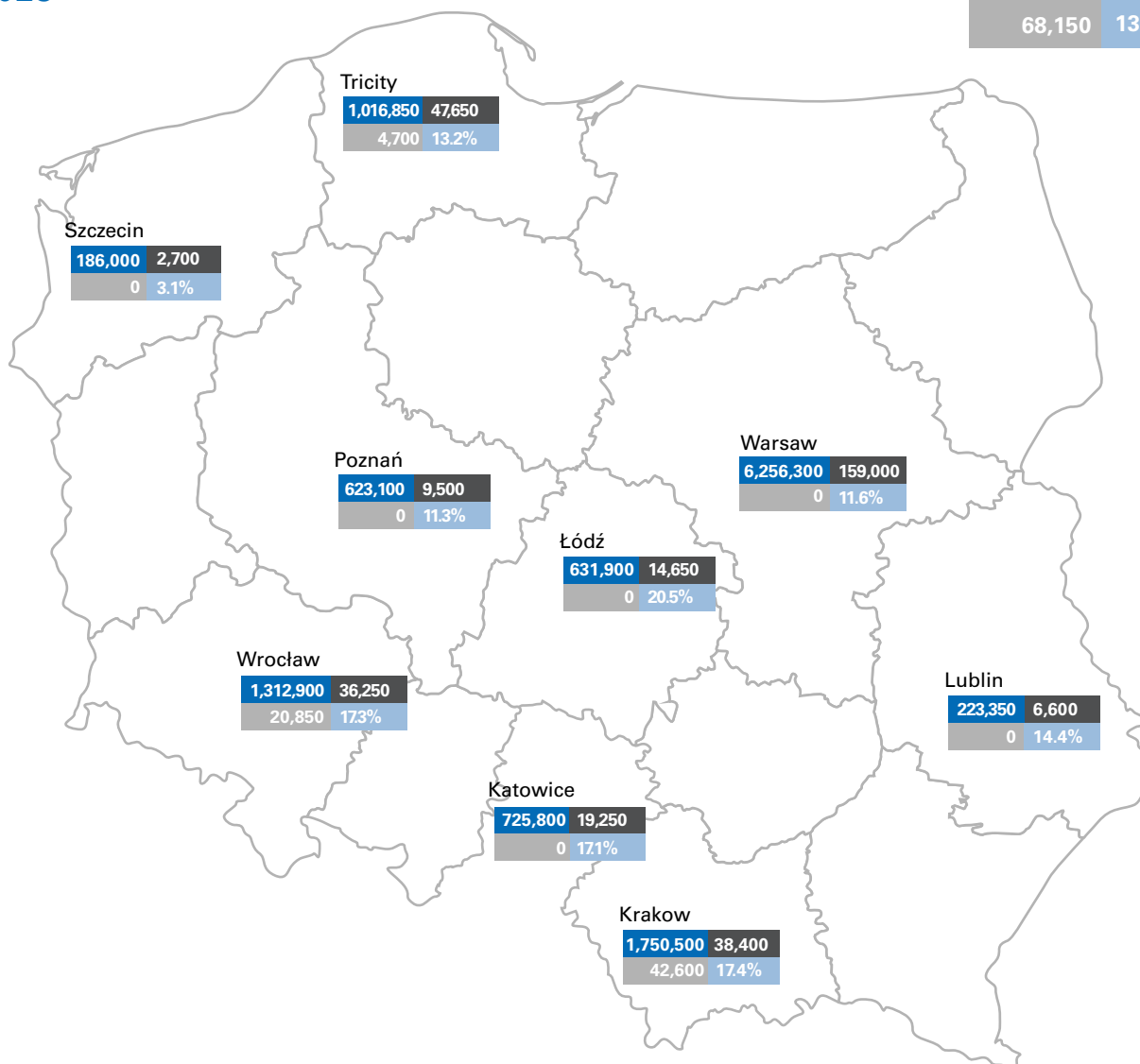
Source: Newmark Polska

Office Market in Regions

Q1 2023

Poland

12,726,700	334,000
68,150	13.8%



6,470,400 sqm

↑ 3.2% y-o-y

Stock

At the end of the first quarter of 2023, Krakow, Wrocław and Tricity accounted for over 63% of the regional city office stock – each had more than a million square metres of office space. At the other end of the spectrum, Lublin and Szczecin offered a combined volume of close to 410,000 sqm. The remaining cities (Poznań, Katowice and Łódź) accounted for nearly 31% of the total regional city office stock.

68,150 sqm

↓ 72% y-o-y

New Supply

Krakow, Tricity and Wrocław were the only cities to see office stock expand in the first quarter of 2023. Of all the regional office markets, Krakow reported the highest volume of new supply of close to 42,600 sqm, followed by Wrocław (20,850 sqm) and Tricity (4,700 sqm). There were no new office completions in other regional cities.

175,000 sqm

↑ 13.1% y-o-y

Take-up

Leasing activity in January-March 2023 hit its highest in Tricity, which saw 47,650 sqm of office transactions. The runner-up was Krakow with over 38,400 sqm transacted while office take-up in Wrocław amounted to almost 36,250 sqm. These three cities accounted for close to 70% of the total leasing activity across the regions in the first quarter of the year.

15.9%

↑ 0.4 pp y-o-y

Vacancy Rate

At the end of the first quarter of 2023 the highest vacancy rates were in Łódź (20.5%), Krakow (17.4%) and Wrocław (17.3%). The largest amounts of vacant space were reported in Krakow (305,300 sqm), Wrocław (227,500 sqm) and Tricity (134,500 sqm), accounting for close to 64.8% of the total volume of unoccupied office space in the regional cities. The lowest vacancy rate of 3.1% was in Szczecin, equating to 5,800 sqm of vacant office space.