

PRESS RELEASE

Regional office markets work hard to build strength

Office take-up for 2022 as a whole was over 600,000 sqm, of which more than 170,000 sqm was transacted in Q4 alone. Poland's regional cities overtook Warsaw last year in terms of total office stock. 2023 looks set to be a year of rising occupational costs, strong negotiations and taking steps to ease increases, says the report "At A Glance – Regional City Office Markets Q4 2022". Another major factor will be the impact of the hybrid work model on the new office reality.

The office markets in Krakow, Katowice and Wrocław continue to grow

At the end of last year, the combined office stock of Poland's eight largest regional cities stood at 6.43 million sqm. An estimated 74,000 sqm was completed in Q4 2022, bringing overall annual completions in 2022 to just over 405,000 sqm, up by close to 80% on the previous year but down by 25% compared to the peak year 2019. The first quarter of 2022 witnessed the largest volume of new office space come on stream – around 60% of last year's total annual supply, say the report's authors. The top three markets for office supply were Katowice, Krakow and Wrocław, with their respective shares in new completions at 32%, 25% and 16%, respectively. Katowice, the capital of Upper Silesia, is more than ready to embrace large projects, as evidenced by the opening and successful commercialization of the Global Office Park. The complex, built by Cavatina Holding, was last year's largest debut, which added over 55,000 sqm to the Katowice market. Another 40,000 sqm was delivered in Katowice's skyscraper .KTW II. The largest office completions in Q4 2022 were in Krakow: buildings A and B of Echo Investment's Brain Park.

At the end of last year there was close to 620,000 sqm under construction. Of that total, just over 190,000 sqm was underway in Wrocław. Development activity was also strong in Katowice and Krakow, with their stock under construction amounting to 130,000 sqm and 104,000 sqm, respectively. At the other end of the spectrum, Lublin had no office project in the pipeline as at the end of December while Szczecin reported very limited construction activity with just 2,400 sqm underway.

– The relatively strong supply growth, which regional cities have experienced so far, is expected to decelerate in the next three years. This, coupled with falling vacancy rates, high inflation and



*fit-out costs, is bound to lead to an upward pressure on rental rates. And beyond that, another important factor will be being able to choose an office in newer, greener and more energy-efficient buildings – says **Dorota Mielke**, Associate Director, Office Agency.*

Construction slackens

According to BNP Paribas Real Estate Poland, the development pipeline for 2023 comprises a total of close to 390,000 sqm of office space, which will be followed by 144,000 sqm and 86,000 sqm in the next two years, respectively. And as in previous years, Wrocław, Katowice and Krakow will continue to lead the way, with an almost 75% share in the new office completions scheduled for delivery in 2023-2025.

In 2022, gross office take-up in the eight largest markets reached 623,000 sqm; of that total, 70% was transacted in the three core regional cities: Krakow, Tricity and Wrocław. **Małgorzata Fibakiewicz, Head of Office Agency**, says that the regional city office markets are working hard to consistently build their strength over Warsaw, as evidenced, among other things, by their performance returning to pre-pandemic levels.

*– Regional office take-up for 2022 as a whole amounted to over 600,000 sqm, representing a 5% increase year-on-year. Occupier activity was the greatest in Krakow with close to 200,000 sqm of office deals, while take-up in Wrocław and Tricity hit 137,000 sqm and 101,000 sqm, respectively. These figures are evidence of leasing activity in the regional cities gradually returning to pre-pandemic levels. The strongest demand was reported by the IT and business services sectors, which accounted for 26% and 19% of last year's total take-up, respectively, – says **Małgorzata Fibakiewicz**.*

In 2022, new leases and pre-lets accounted for 59% of the total office take-up, while renegotiations and renewals made up 30% and expansions just 6%.

Office rents up amid stable vacancy rates

Office rents in Poland's regional cities were in the range of EUR 10-15 per sqm at the end of December 2022, but the runaway inflation and rising energy prices are expected to impact rent indexation and service charges.

– Cost optimisation will be this year's buzzword across all the office markets, including regional cities. In addition, as office fit-out costs remain persistently high and demand for energy efficient



solutions continues to grow, leases are likely to be signed for longer periods of up to seven or even ten years, replacing the typical lease length of three to five years. This change is due to both landlords' need to recoup higher outlays and tenants' growing awareness of more sustainable office usage, - Agnieszka Witkowska, Consultant, Landlord Representation, Office Sector

At the end of 2022, vacancy rates on the eight largest office markets were sitting at a stable level of around 15.3%, up by 0.1 pp q-o-q and 1.2 pp y-o-y. Office space availability amounted 985,000 sqm. The highest vacancy rate of 21% was reported in Łódź although it edged down by 0.1 pp q-o-q. The lowest was in Szczecin: 5,8% at year-end 2022, up by 1.9 pp over the last quarter. Szczecin was also one of the five regional city office markets to witness an increase in office availability last year.

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