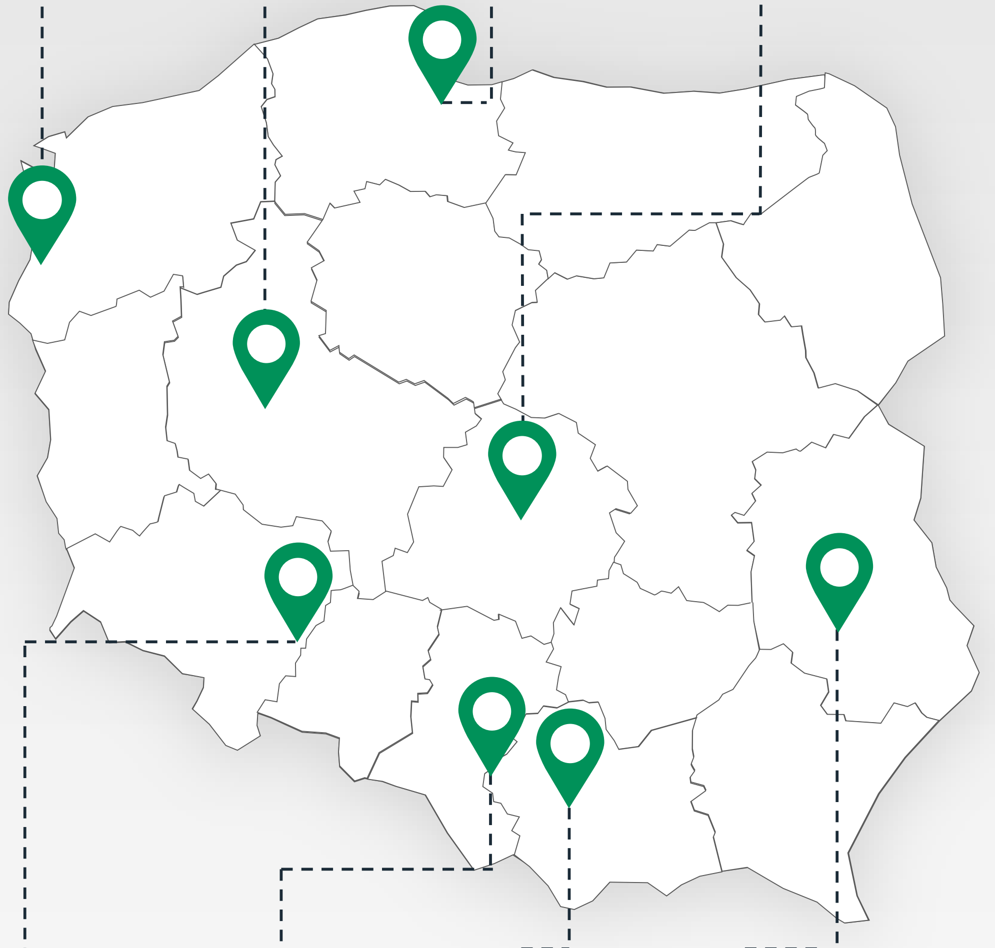
AT A GLANCE Q1 2023

REGIONAL OFFICE MARKETS IN POLAND

Highlights

- High inflation pushes office rents up
- Office tenants hit by rising service charges
- Regional cities look set to suffer a supply gap soon
- Leases are getting longer
- Gross office take-up for Q1 2023 above pre-pandemic levels

At the end of the first quarter of 2023, the combined office stock of Poland's eight core regional cities stood at 6.47 million sqm. The largest office markets, after Warsaw, are Krakow (1.75 million sqm), Wrocław (1.31 million sqm) and Tricity (1.01 million sqm). New regional office supply in the first quarter of 2023 amounted to just 68,000 sqm, down by over 70 pp on the same time in 2022. The strongest development activity was recorded in Krakow, which welcomed two office completions: Cavatina's Ocean Office Park B (28,600 sqm) and Inter-Bud's Fabryczna Office Park B5 (14,000 sqm). Wrocław and Tricity also saw their office stock grow with the delivery of Centrum Południe 3 (21,000 sqm, Skanska) and Officer (4,700 sqm, Panorama/Allcon), respectively. Over 60% of the office development pipeline is expected to come on stream in 2023, followed by 22% next year and just 16% in 2025. This shows that a supply gap is approaching fast in the regional cities.



City	Existing office stock	Office space under construction (2023-2025)
SZCZECIN	186 000	2400
POZNAŃ	623 100	73 300
TRICITY	1 016 800	66 400
ŁÓDŹ	631 900	48 100
WROCŁAW	1 312 900	149 000
KATOWICE	725 800	133 700
KRAKÓW	1 750 500	62 100
LUBLIN	223 400	0

LEGEND: Existing office stock; Office space under construction (2023-2025)

Source: BNP Paribas Real Estate Poland

KEY FIGURES

6.47 M sqm EXISTING OFFICE SPACE

68,100 sqm NEW SUPPLY Q1

535,000 sqm OFFICE SPACE UNDER CONSTRUCTION (2023-2025)

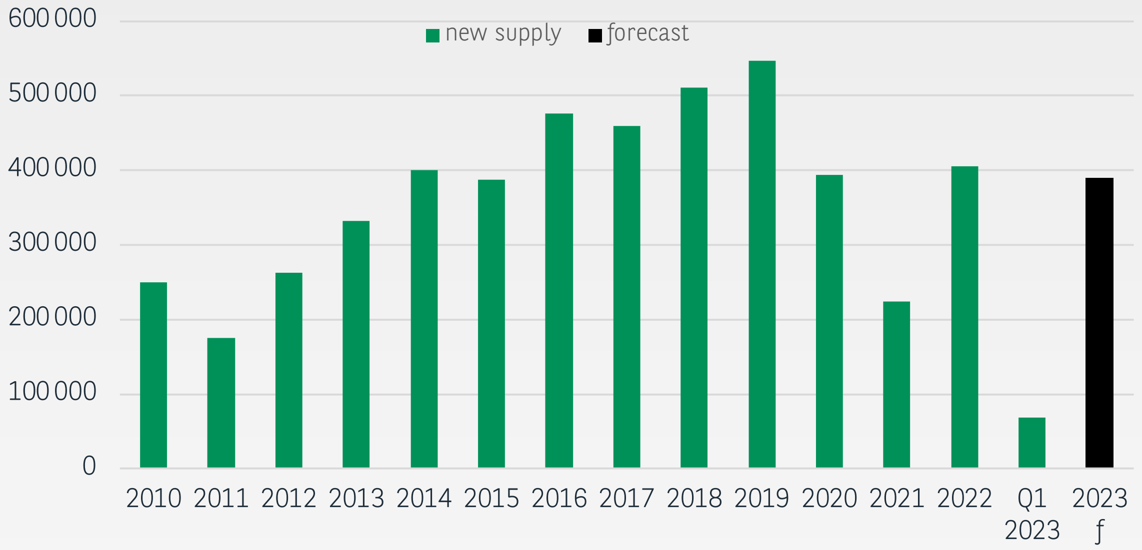
15.9% AVERAGE VACANCY RATE

175,000 sqm GROSS TAKE-UP Q1

140,000 sqm ABSORPTION Y/Y

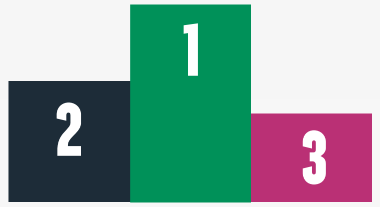
Source: BNP Paribas Real Estate Poland

Annual office supply in the regional markets (sqm)



Source: BNP Paribas Real Estate Poland

Top 3 cities with the highest new supply in Q1 2023



1. Kraków 62%
2. Wrocław 31%
3. Tricity 7%

Source: BNP Paribas Real Estate Poland

> ***At the end of the first quarter of 2023, office space availability on the eight largest regional markets amounted to 1,029,700 sqm, equating to a vacancy rate of 15.9% (up by 0.6 pp q-o-q and 0.4 pp y-o-y).*** *The highest vacancy rate of 20.5% was reported in Łódź, although it had edged down by 0.5 pp over the quarter. The lowest of 3.1% was in Szczecin – the only city with a vacancy rate below 10.0%. Three regional markets posted upward movements in vacancy rates, the largest being in Wrocław (+1.8 pp q-o-q) and in Krakow (+1.4 pp q-o-q). This was due to an increase in office stock which was not fully let upon completion. The largest downward movements of 2.7 pp and 2.2 pp were recorded in Szczecin and Lublin, respectively, the two smallest surveyed office markets in Poland.*

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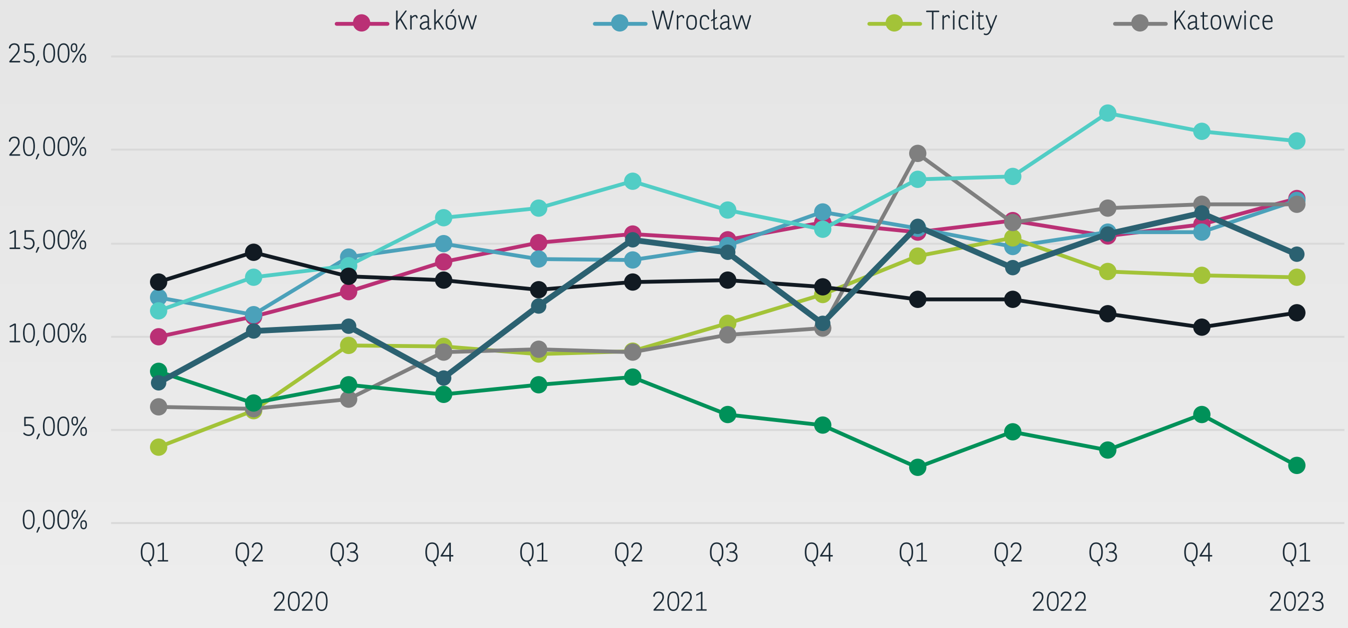
Vacancy rate

15,9% average vacancy rate in the regions in Q1 2023



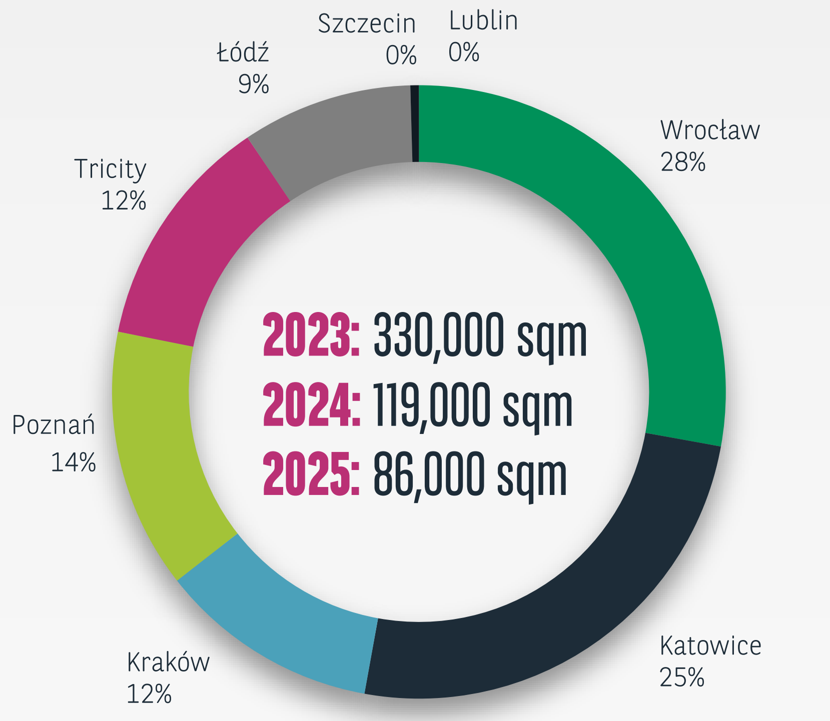
Source: BNP Paribas Real Estate Poland

Office buildings completed in Q1 2023

	PROJECT	CITY	OFFICE AREA (sqm)	DEVELOPER
1	**Ocean Office Park B**	Kraków	28,600	Cavatina Holding
2	**Centrum Południe 3**	Wrocław	20,850	Skanska
3	**Fabryczna Office Park B5**	Kraków	14,000	Inter-Bud
4	**Officer**	Gdynia	4,700	Panorama/Allcon

Source: BNP Paribas Real Estate Poland

Office space under construction 2023-2025



Source: BNP Paribas Real Estate Poland

The largest office schemes under construction with delivery date 2023

	PROJECT	CITY	OFFICE AREA (sqm)	DEVELOPER	PLANNED OPENING
1	**WI-MA**	Łódź	33,800	Cavatina Holding	Q4 2023
2	**Craft**	Katowice	26,700	Ghelamco	Q2 2023
3	**Nowy Rynek E**	Poznań	26,450	Skanska	Q4 2023
4	**KREO**	Kraków	24,100	Ghelamco	Q2 2023
5	**Infinity**	Wrocław	18,700	Avestus	Q3 2023

Source: BNP Paribas Real Estate Poland

Expert comment

Agnieszka Witkowska
Consultant, Landlord Representation, Office Sector
BNP Paribas Real Estate Poland

The past three years saw many changes take place on the office markets, both in regional cities and in Warsaw. Key drivers of office market trends include the COVID-19 pandemic, which led to empty offices and the rise of remote working, the Russian invasion of Ukraine, high inflation and rising energy costs. The office is being reinvented. Benefiting from new Labour Code regulations, tenants are adapting office space to the requirements of remote and hybrid working wherever possible. Home space has become a workplace for many, while the office – due to rare encounters with colleagues – now largely serves as a venue for business meetings. The office in the current working model is competing with employees' homes. It must therefore be equipped with tools and technical solutions which are normally unavailable at home and should also guarantee a great employee experience.

Expert comment

Dorota Fabisiak

Associate Director, Office Agency
BNP Paribas Real Estate Poland

High inflation is one of the key drivers in budgeting for office leasing costs. In addition, the office market in the first quarter of 2023 was also impacted by rent indexation, rising service charges and a rise in the minimum wage. The actual growth in service charges is therefore expected to average around 30%, reaching up to around 50% in some office buildings. In addition to higher occupancy costs, office fit-out costs have also gone up due to the limited availability of building materials in the aftermath of supply chain issues and rapidly rising prices. Faced with the upcoming supply gap and high office fit-out costs, tenants are increasingly opting for longer leases of up to six to seven years rather than the typical lease length of five years. This is substantiated by potential financial savings and the need to secure stable cash flows in the coming years.

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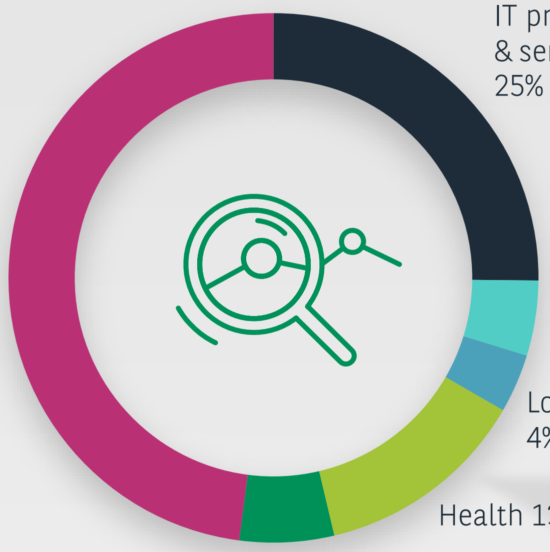
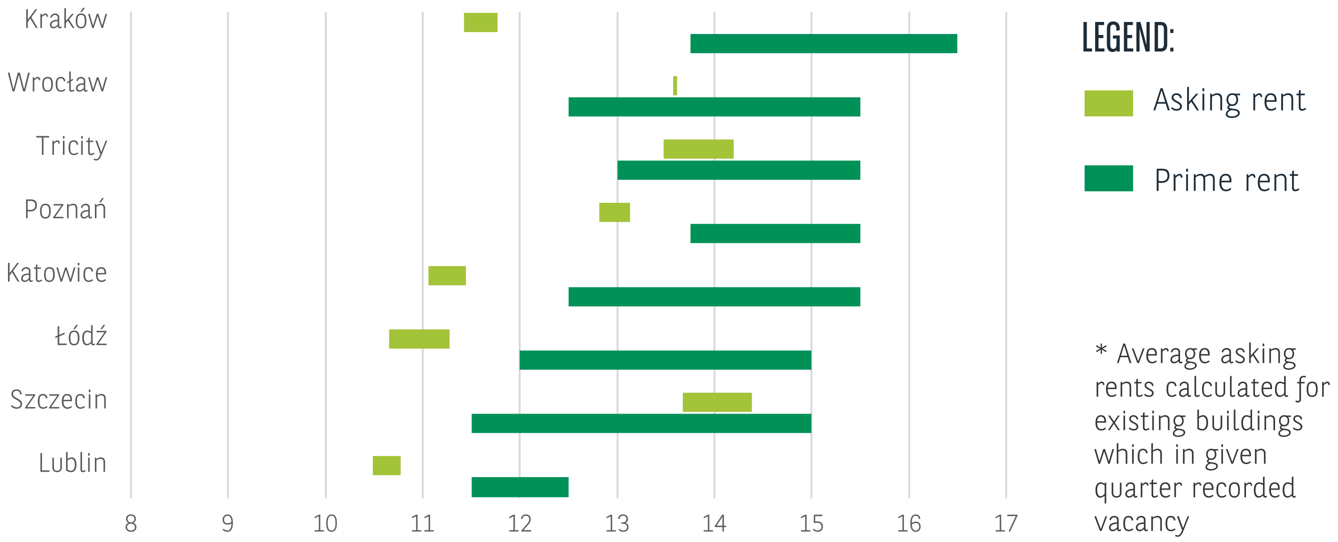
Gross take-up by sectors Q1



Source: BNP Paribas Real Estate Poland

Average* asking rents vs „prime" rent (EUR/sqm/mth)



* Average asking rents calculated for existing buildings which in given quarter recorded vacancy

Source: BNP Paribas Real Estate Poland

Prime office rents rose on most of the core regional city markets in 2022. *With rising service charges and rental rates, some landlords are demanding longer leases so that they are able to secure funds for office fit-out projects. Looking ahead, we are likely to see new leases or renewals signed for at least seven years.*

Annual gross take-up by regions Q1 2023

1. Tricity 27%
2. Kraków 22%
3. Wrocław 21%

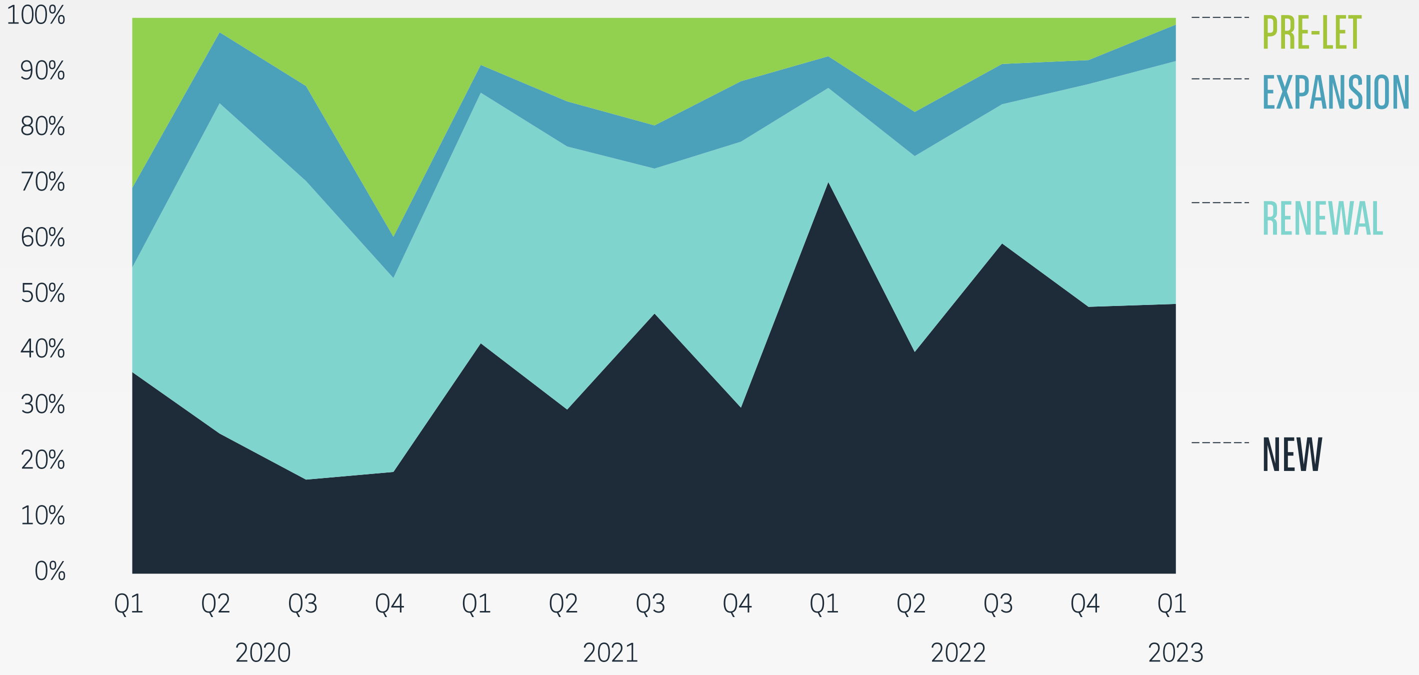
In the first quarter of 2023, gross office take-up in the regional cities totalled almost 175,000 sqm, marking an increase of 13 pp compared to the same time in 2022. *This shows that not only did the regional leasing activity return to pre-pandemic levels, but it also surpassed the figure for the first quarter of 2019 by 35 pp.*

Top 5 lease transactions Q1

	TENANT	PROJECT	CITY	OFFICE AREA (sqm)	TYPE OF LEASE
1	**Sii**	Olivia Prime	Gdańsk	10,100	renewal
2	**Alorica**	React	Łódź	5,000	new
3	**UPS**	Bema Plaza	Wrocław	4,600	renewal
4	**Confidential**	C200	Gdańsk	4,500	renewal
5	**Allcon**	Officer	Gdynia	4,200	building owner's own needs

Source: BNP Paribas Real Estate Poland

Gross take-up structure in the regions Q1



Source: BNP Paribas Real Estate Poland

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