Market in Minutes
Wrocław offices

April 2017

Nobilis Business House - office building served by Savills Wrocław.

SUMMARY

Overview

- Wrocław is the second largest regional office market in Poland. Office stock in the city at the end of 2016 stood at 847,800 sq m with a record high new supply at 139,100 sq m delivered in 2016.
- We expect office stock to exceed million sq m in 2018 with 86,200 sq m in the pipeline for 2017 and another 86,800 sq m in 2018.
- Demand in 2016 was at record high level of 124,500 sq m, 70% above the long term average of 73,300 sq m (2008 - 2016).
- Most of the leasing agreements were in the form of pre-leases (40% of total leasing activity), whereas lease renewals and renegotiations accounted for 14% of the total volume.
- Availability of office space in Wrocław at the end of 2016 stood at 12.5% (106,300 sq m).
- Vacancy rate in the city is expected to remain rather stable.
- Prime headline rents in Wrocław in 2016 were in range of EUR 13.00 - 15.00 per sq m/month and are expected to remain stable over the next 18 months.

"Wrocław is very important location on the office map of Poland. With large and growing supply of modern office space and a well-educated and highly qualified workforce, the city keeps attracting new companies. Wrocław was chosen by global IT companies such as: HP, IBM, Luxoft, Nokia and Opera Software."

Tomasz Buras, Head of Poland, Savills

Wrocław

Wrocław is the fourth largest city in Poland with a population of ca. 635,800 people. The city is a technology driven business hub which attracts both service and manufacturing companies. Wrocław is a knowledge based economy with a high share of R&D centres. According to Forbes (2016), Wrocław is the most business-friendly city in Poland. The city is one of the leading academic centres with 25 higher education institutions including the second best technical university in Poland (according to the Perspektywy 2016 ranking) providing a well-educated workforce. In addition, Wrocław has the highest level of English proficiency in Poland (English Proficiency Index 2016).

The city is located near the German and Czech borders. The A4 motorway provides a quick connection between Ukraine and Germany via Kraków, Silesia and Wrocław. Another important transit road is the express road S8 (Wrocław - Łódź – Warsaw) connecting the city with one the of most important transit roads in Poland - the A1 motorway. There is also an international airport, which according to Business Traveller (2016), is the best regional international airport in Poland. In 2016 the airport serviced almost 2.5 million passengers - 4% more than in 2015.

Stock & supply

Wrocław is the second largest office market outside of Warsaw and just 7% smaller than Kraków, however office space per capita is higher in Wrocław at 1.3 sq m per person in comparison to 1.2 sq m per person in Kraków. Total supply of modern office space amounted to 847,800 sq m at the end of 2016 having increased by record high 139,100 sq m in the past year.

The main office locations in Wrocław are: the city centre, where such projects as Dominikański, New Point Offices, Renaissance Business Centre, Nicolas Business Center, Pegaz and Szewska Centrum are located; a neighbourhood of the junction of Świdnicka St. and Powstańców Śląskich St. where Globis, Sky Tower, Arkady Wrocławskie and Aquarius Business House are situated; a west side of the city at Legnicka St. (West Gate, Quattro Forum and Legnicka Business House) and at Strzegomska St. (Wojdyła Business House, West House, Wrocławski Park Biznesu, Millennium Tower, Green Towers and Silver Forum).

The biggest investors present in the city are: Skanska who constructed ca. 11% of the existing office space; Echo Investment (6%); Devco (6%); Archicom (4%); Vastint (4%) and LC Corp (4%).

In 2016 a record high level of completions was observed (139,100 sq m), 57% above the 2015 level and more than double to amount seen in 2014. We expect the market to remain rather dynamic in the years to come as 86,200 sq m is planned for 2017, another 86,800 sq m for 2018. The market is expected to grow significantly in 2019 when over 219,100 sq m of office space is planned.

Overall there is ca. 160,200 sq m of office space under construction across the city, ca. 10% more than in 2015.

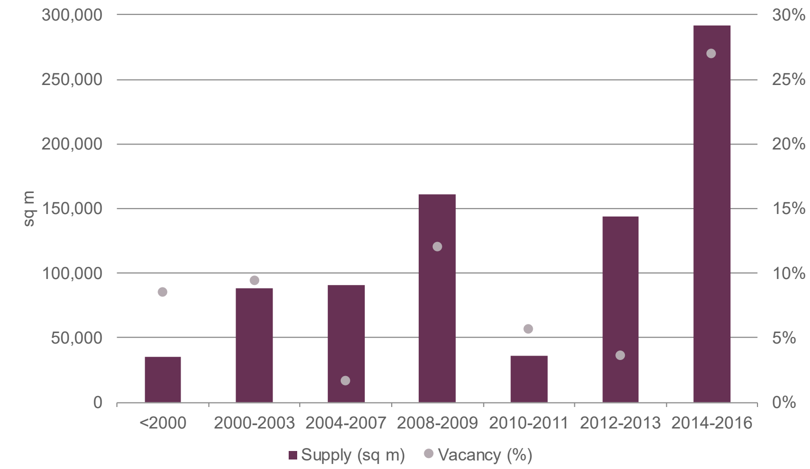
Letting activity & net absorption

The majority of demand in Wrocław is generated by the business services sector. The largest tenants present in the city include: BNY MELLON, Credit Suisse, Dolby, EY, HP, IBM, Luxoft, Nokia, Opera Software and UBS.

During 2016 a record 124,500 sq m of office space was leased, which was 10% more than in 2015 and 64% above the 2014 level. The average deal size was

GRAPH 1

Vacancy by age of building

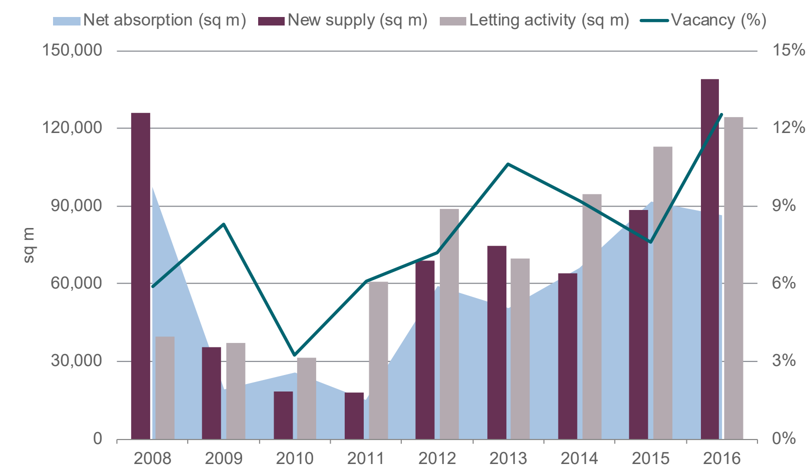


Graph source: Savills, PORF

> “In 2016 we observed a record high level of new supply with projects such as Nobilis Business House which offers nearly 15,000 sq m of high class office space.” Dorota Ejsmont, Head of Landlord Representation, Office Agency, Savills

GRAPH 2

New supply, letting activity, vacancy and net absorption



Graph source: Savills, PORF

1,640 sq m and the most popular were deals between 501 – 1,000 sq m (25% of all transactions) and below 250 sq m (22%).

Ca. 40% of the total letting activity took the form of pre-lease agreements, a further 28% of total take-up was in the form of new lease agreements and relocations. Furthermore, lease renewals and renegotiations accounted for 14% of take-up, whereas expansions accounted for 4% of demand.

In 2016, companies from the banking, insurance and investment sector leased 30% of the total volume of take-up, followed by the IT sector (26%) and companies from the professional services sector (15%). The retail sector accounted for 13% of the total letting activity.

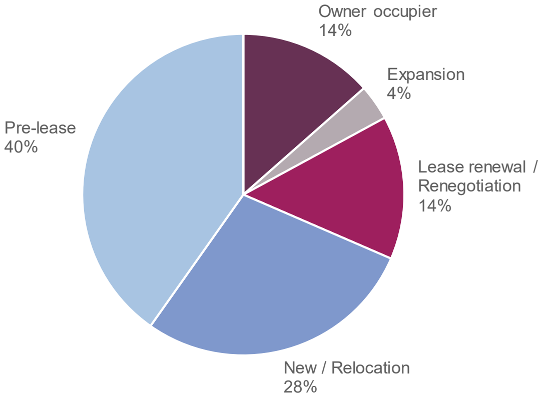
The largest lease agreements in 2016 include: a lease renewal/renegotiation of Credit Suisse in Grunwaldzki Center (10,800 sq m); two pre-lease greements of BNY MELLON (10,500 sq m in Sagittarius Business House and 5,000 sq m in Nobilis Business House); an expansion (also a pre-lease) of Nokia Networks (7,000 sq m) in West Link; a pre-lease of CATLIN Shared Services (5,700 sq m) in Pegaz and a new lease agreement of Dolby (5,000 sq m) in Business Garden Wrocław.

The majority of office space was leased in the newest buildings with 50% of the volume transacted in buildings constructed in 2016, another 17% in buildings developed in 2008 and further 14% in projects scheduled to be completed in 2018.

Net absorption in 2016 stood at 86,500 sq m, 6% less than in 2015, however 31% above the volume seen in 2014. The annual average of net absorption for the period between 2007 and 2016 stands at 54,800 sq m.

GRAPH 3

Letting activity by type



Graph source: Savills, PORF

Vacancy rate

The vacancy rate in Wrocław at the end of 2016 stood at 12.5% (which translates into 106,300 sq m of office space ready to be leased), an increase of 4.9 pp in comparison to 2015.

The vacancy rate is to remain rather stable. Currently over 35% of the 2017 pipeline has already been leased.

The highest vacancy rate was observed in the newest buildings as some time is needed to absorb new space. As development activity is high, leasing process may last longer.

Rents

Prime headline rents are now in the range of EUR 13.00 – 15.00 per sq m/month and decreased slightly in comparison to 2015 when they were in the range of EUR 14.50 - 15.00 per sqm/month.

In addition to the rent, tenants are obliged to a pay service charge which is in most cases quoted in PLN to limit losses from changes in exchange rates. The service charge level varies between PLN 12.00 – 16.00 per sqm/month. The rent level of an underground parking space ranges between EUR 50.00 to EUR 80.00/month.

Landlords are offering incentives such as a rent-free period and a fit-out budget, thus effective rents are ca. 15% - 20% lower than headline rents.

TABLE 1

The largest projects under construction

Building	Developer	Office space (sq m)	Year
Sagittarius Business House	Echo Investment	25,100	2018
Retro Office House	LC Corp	20,700	2018
BZ WBK Robotnicza	BZ WBK	17,000	2017
Green2Day	Skanska	15,000	2017
West Link	Echo Investment	13,900	2018
Diamentum Office	Cativa Group	9,300	2017
Wroclavia Offices	Unibail-Rodamco	7,500	2017
Aurea Business House	Ulltrantet, Futuro	6,400	2018
Krakowska 29	Kontor	5,900	2018
M5	Kernov Properties	5,800	2017

Table source: Savills

Outlook

Looking for a million sq m in 2018

Stock in the city is to exceed one million sq m in 2018 - more than double than just six years ago. New supply in 2017 is expected to reach 86,200 sq m with another 86,600 sq m in the pipeline for 2018.

However, 2019 should be an exceptional year when over 219,100 sq m of office space is planned to be delivered in such projects as: Business Garden Wrocław II (40,000 sq m) by Vastint; Pin Park I&II (35,300 sq m) by Probuild and Cuprum Square (33,400 sq m) by KGHM.

As companies increasingly seek high quality office space and the city attracts new large companies, we expect the gap in vacancy rates between A and B class buildings to widen.

Headline rents should remain stable, however a decrease in rents may be observed in older buildings.

KEY INFORMATION - 2016

SUPPLY

OFFICE STOCK
847,800
SQ M

SHARE OF BUILDINGS COMPLETED BETWEEN 2012 - 2016 IN STOCK
51%

SHARE OF A-CLASS OFFICE BUILDINGS IN TOTAL SUPPLY
62%

DEVELOPMENT ACTIVITY

SPACE UNDER CONSTRUCTION ACROSS THE CITY
160,200
SQ M

AVERAGE SIZE OF PROJECTS UNDER CONSTRUCTION
8,000
SQ M

NUMBER OF PROJECTS UNDER CONSTRUCTION
20

LETTING ACTIVITY

VOLUME OF GROSS TAKE-UP
124,500
SQ M

AVERAGE SIZE OF TRANSACTION
1,640
SQ M

SHARE OF LEASE RENEWALS
14%

AVAILABILITY OF OFFICE SPACE

NET ABSORPTION
86,500
SQ M

OFFICE RELATED EMPLOYMENT GROWTH
8%
2017 -2021 OXFORD ECONOMICS

2016 VACANCY RATE
12.5%

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Savills plc
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