

## Closing the gap

Last year and this year changed our way of looking at the office space market in Poland for good. Until now, the only area that mattered was Warsaw. This view was absolutely correct – all you need to do is compare the amount of office space that exists in the capital, which is about 2,700,000 sqm, to the 900,000 sqm in the remaining six office centres in the country (Kraków, TriCity, Katowice, Wrocław, Łódź and Poznań). This situation, however, is slowly becoming a thing of the past. If we compare the investments planned for completion in 2008 – about 340,000 sqm for Warsaw and about 410,000 sqm for regional centres – it is clear that the smaller cities are starting to catch up.

There are a few reasons for this situation. The most important one seems to be the growing interest of users of office space in regional centres. The largest group in terms of need for space in cities such as Kraków or Wrocław are companies in the BPO and IT sectors. Their interest in such centres mainly comes from the ease in finding well-educated specialists with a good command of foreign languages – after all, these cities are dynamic academic centres. The cost of labour is substantially lower than that of Warsaw – on average by about 1000 zlotys.

Another group of companies is also creating demand for office space in regional cities – these are smaller companies that are relocating to newer office buildings after years of operating in old structures erected in the days of communism.

The increasing demand and the limited supply of new office space in regional centres have led to the creation of an unusually enticing situation for developers on the office space market. This manifests itself on a nation-wide scale in three main ways:

- a clear drop in the vacancy co-efficient;
- an increase in the number of planned office investments;
- a large increase in investors interested in purchasing functioning office buildings as well as those co-investing in new office projects.

A good illustration of this phenomenon is the co-factor of unrented space in class A buildings, which in 2007 dropped to a mere 1.5 pct in Kraków, 1 pct in Wrocław and 2.5 pct in Katowice.

One clear effect of the rapid growth in demand for office space in 2007 has been the increase of rents. For class A buildings, these have reached the following levels: around € 15-20 per sqm in Kraków, € 16-18 in Wrocław, € 14-16 in Katowice, € 15-18 in Poznań, € 16-18 in the Tricity and € 13-15 in Łódź. This signifies an average increase in rents per sqm compared to 2006 of approximately € 4 (in Wrocław), € 3.5 and € 2.75 (in the TriCity and Kraków, respectively).

For the owners of office buildings, the effects of such a quick correction of economic conditions resulted in developers' increasing interest in regional cities. Local developers were quickly joined by the big players already present in Warsaw, as well as by completely new foreign investors.

It seems that among regional centres, Kraków is the most appealing. It is the largest and also currently the most attractive city due to its financial office investment parameters (the highest rents and low capitalization rates). Such advantages as having excellent connections with the rest of the country and Europe for Polish conditions (the second airport in the country, good rail connections and also its location on the A4 motorway corridor), being the second largest academic centre in the country, and the fact that it enjoys wide recognition abroad thanks to its role as the largest tourist centre in the country, all combine to give Krakow positive long-term prospects.



PICTURE:  
M65 Mogilska  
office building  
in Kraków



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office space, which in turn could result in a curbing of the positive conditions for project financing.

The one city that did not fare too well compared to the others was Katowice. However, it seems that the economic and population potential of the conurbation – the largest metropolitan area in Poland – will soon allow it to break this unlucky streak.

The increase of the roles of regional centres in the office sector has become one of the most significant phenomena of the industry in the past two years. In a certain sense, this is a reflection of European-wide tendencies, where there are a few business centres in countries of a comparable or slightly greater population potential – one leading centre (usually the capital of a given country) and a few cities that are smaller, but are nevertheless in a strong position.