

Wrocław

Research, H1 2020

A long-exposure photograph of a city street at sunset. The sky is a mix of orange, yellow, and blue. In the foreground, there are light trails from cars and a tram, creating a sense of motion. The buildings are illuminated with warm lights, and a prominent church spire is visible in the background.

**THE OFFICE
SECTOR
IN THE POST-
COVID ERA**

OFFICE MARKET IN REGIONAL CITIES H1 2020

WROCLAW FACTS AND FIGURES

EXISTING STOCK	SUPPLY UNDER CONSTRUCTION	VACANCY RATE	NEW SUPPLY	TAKE-UP
1.2m sq m	170,000 sq m	11.2%	8,250 sq m	62,600 sq m

5.6m sq m office stock

175,000 sq m new supply

333,000 sq m take-up

1m sq m under construction

572,000 sq m available space

During the first six months of 2020, only one project was delivered to the local market - an owner-occupied building of 8,250 sq m. Despite its lack of new supply in the second quarter of 2020, Wrocław, with 1.2m sq m of total existing modern office space, remained the second largest regional office market in Poland in terms of total stock. H2 will witness a more positive trend - 170,000 sq m is currently under construction, of which 40% is to be delivered by the end of the year. The largest office scheme in the pipeline is MidPoint 71 (37,000 sq m).

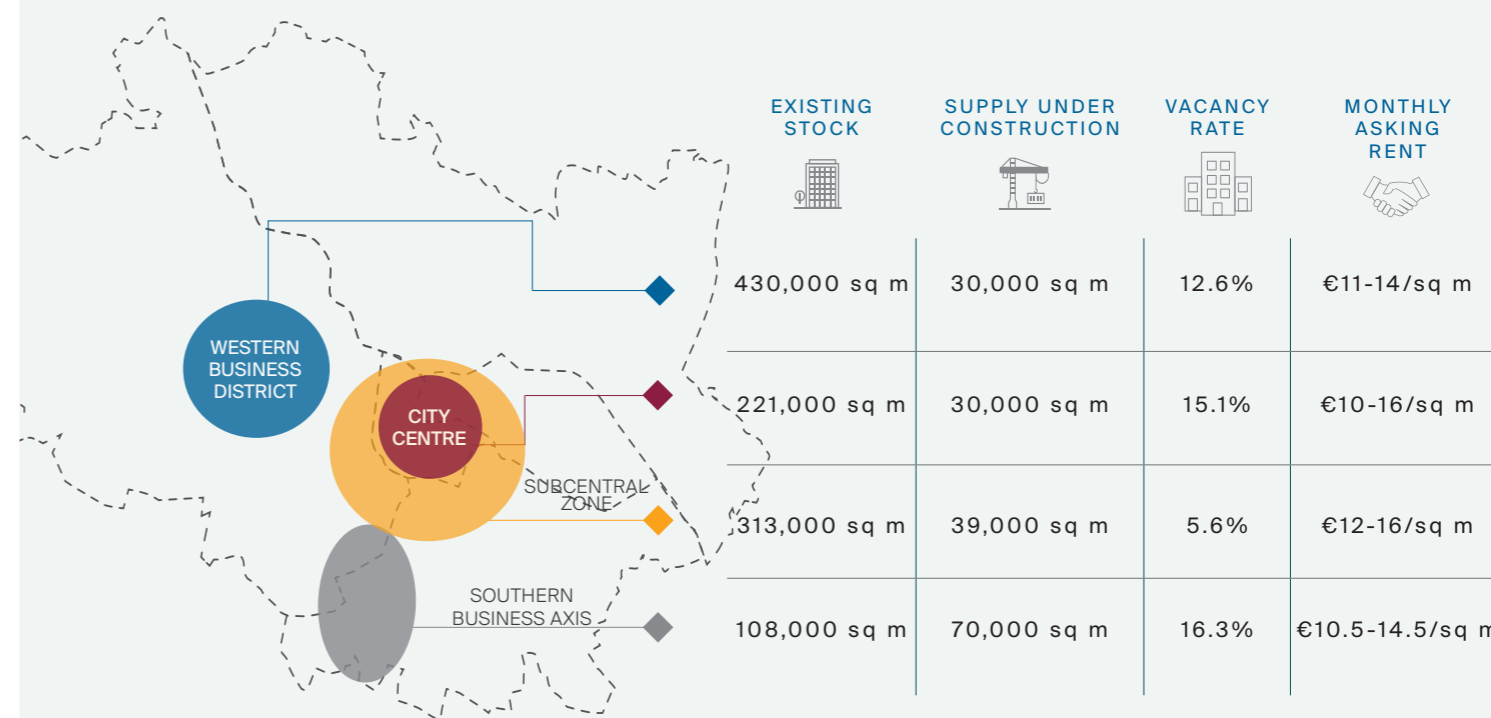
At the end of June 2020, the vacancy rate had decreased by 0.9 pp. q-o-q and stood at 11.2% (132,700 sq m of available space). The lower vacancy rate was the result of the limited new supply which, additionally, was fully pre-leased before completion date. After the first six months of 2020, take-up volume reached 62,600 sq m. The demand for office space weakened in Q2 2020, although cumulative demand in the first half of the 2020 was approx. 40% higher than in the corresponding period of 2019.

SELECTED SCHEMES UNDER CONSTRUCTION

MIDPOINT 71	CENTRUM POŁUDNIE I	INFINITY
37,000 sq m Q3 2021 Echo Investment	23,600 sq m Q3 2020 Skanska Property Poland	22,000 sq m Q3 2022 Avestus Real Estate; Tristan Capital Partners
KRAKOWSKIE TARASY	CITY FORUM - CITY 2	KRAKOWSKA 35
15,400 sq m Q4 2021 IMS Budownictwo	12,300 sq m Q3 2020 Archicom	12,000 sq m Q1 2021 Atal

Total office space
 Completion date
 Developer/Owner

MAJOR OFFICE CONCENTRATION AREAS



CITY STRENGTHS

8th place in the overall ranking fDi Polish Cities of the Future 2020/2021 and 5th as a business-friendly city

The third most business-friendly city in Poland according to the Forbes 2018 ranking

92nd place in the world among the 100 Best Cities Most Attractive for Investing in the BPO Sector according to Tholons Services Globalization Index 2019

The third largest BPO service centre in Poland - the BPO sector offers over 52,000 jobs in Wrocław (end of Q1 2020)

According to the ABSL Business Services Sector in Poland 2020 report the compound annual growth rate in the sector in 2016-2020 amounted to 10.5%

Over 50% of the city is covered by green areas

Tarnobrzeg Special Economic Zone, subzone Wrocław-Kobierzyce

Wrocław-Strachowice Airport

POPULATION XII 2019 642,900	NUMBER OF STUDENTS 2019/2020 106,800
UNEMPLOYMENT RATE VI 2020 2.2%	NUMBER OF GRADUATES 2019/2020 28,200
GROSS AVERAGE SALARY VI 2020 PLN 5,724	NUMBER OF UNIVERSITIES 2019/2020 25

THE OFFICE SECTOR IN THE POST-COVID ERA

Despite the easing of the COVID-19 pandemic situation in Poland, and the government's lifting (or loosening) of many of the restrictions initially imposed on the population, along with the conditions for the operation of the economy, the Polish market is still influenced by the world situation, especially that in Europe. The measures taken to combat the coronavirus pandemic have severely affected the functioning of the global economy. As a result, the latest forecasts from the IMF, OECD and European Central Bank foresee a 2020 European GDP decline of between 5%-12%, with the European Commission expecting GDP to shrink by almost 8% in 2020. A rebound in the economy is expected in 2021 although, in light of the current situation, this forecast remains subject to considerable uncertainty.

It is difficult to identify a real estate market sector that has not been touched by the effects of COVID-19, even to a minimal extent. The office sector is no different although, as shown by the data for H1 2020, the impact of the pandemic is not as negative as, for example, in the retail or hotel sectors. In Q2 2020, most of the office projects were completed in line with developer schedules. Vacancy rates increased slightly and there was a visible increase in sublet space. Asking rents have remained stable, despite building owners showing more flexibility in negotiating lease terms than before the COVID-19 pandemic arrived.

There are several groups of closely related, interconnected participants in the office sector facing the impacts of the pandemic, however challenges for each of them are different. Knight Frank has reviewed the groups on an individual basis and identified the potential effects on each of them.

TENANTS

After the initial shock caused by the sudden switch from 'normal' to remote operating, many tenants are beginning to develop survival strategies to cope with the difficult times. Cost optimisation has become a significant issue, resulting from the additional costs and obstacles generated by reorganised remote activity, as well as the decrease in income due to reduced order volumes. One of the highest costs is office lease cost. Forecasts envisage tenants revising their needs for office space if their survival strategy results in workforce reduction. A part of affected enterprises may decide to sublet office space in the short term, or renegotiate previously signed pre-let agreements (in terms of both area and financial terms).

In the long run, flexible lease conditions will attract a larger share of the companies. It is possible that tenants will seek to adjust lease agreements in terms of their duration, so as to properly manage risks and costs; for example, part of the office space to be maintained in a traditional arrangement, with the rest in flexible offices, adjustable to changing needs. In the case of some companies we may well see, for example, strategies of workspace dispersion (i.e. the opposite of the gathering of employees in single locations). The current epidemic may induce some companies to consider utilising "spare" office space to give the possibility of separating work teams to ensure continuity of operations.

Restrictions implemented by the government, among others concerning social distancing, may convince employers to introduce changes to office arrangement in the short term. Some of the alterations may be implemented to physically separate employees; for example the use of bigger desks, or the installation of taller separators between workstations. In the long term, especially in new office buildings, we may witness a new fit-out trend offering

office spaces easily transformed into 'activity-based workplaces' (office spaces divided into several areas, of which employees choose the one which best matches their needs; e.g. team work, individual tasks, tele- or videoconferencing), or into agile workplaces (workspaces with infrastructure enabling work from any place, including from home).

The need to switch to remote working on a daily basis has proved to companies that a share of their business can be successfully carried out remotely. As a result, some tenants may realise that, when the situation normalises, outsourcing parts of their businesses will enable a reduction in occupied office space.

From the point of view of the employees, the current shift towards home working may present the opportunity for implementing this kind of regime on a frequent basis. It seems that the option of remote working will be one of the desirable factors/conditions of new employment contracts. Such a situation does not necessarily entail negative effects for employers. Companies, after careful assessment of the costs and benefits related to the efficiency of staff working remotely, may decide to implement more remote working, or related solutions such as hot desking.

A further aspect of cost optimisation concerns tenants' rental obligations. Tenant requests to landlords for temporary reductions or agreed delays in rent payments are becoming more frequent.

OWNERS

The negative effects of the pandemic will affect office building owners in the short term. Many tenants are already approaching landlords asking about rent liability reductions or the granting of rent-free periods due to their reduced activity as a result of the pandemic.

In this group, apart from office tenants, there are also tenants of retail and service premises, of which the vast majority have had to suspend their businesses.



Building owners will therefore have to attempt to maintain their own liquidity, whilst also keeping tenants in their buildings. It is to be expected that the current market situation will force landlords to be more flexible in their approach to the duration of contracts, fit-out budgets, and rent-free periods for both new agreements and renegotiations. In addition to this, it is vital to conduct negotiations in a more precise manner, e.g. paying particular attention to cases of force majeure, or aspects related to possible sudden interruptions in company operation resulting from random events (insurance issues and conditions) – i.e. conditions previously often considered to be of a largely hypothetical nature.

Even before the epidemic, there was an ever-growing awareness among building owners regarding office space arrangements which promote employee well-being. The introduction of such ideas to office buildings by

landlords was due in large part to the fact that they helped in obtaining and keeping tenants who care about valuable employees. It is to be expected that the current pandemic situation will reinforce landlords' approaches to such solutions. It is very possible, for example, that the continuity of the company's operations may well depend on the implementation of ideas that positively influence employee well-being (currently, this may include, for example, access to one-off face masks, thermometers, and hand disinfectants). A case in point is that furniture made from materials with antibacterial coatings may become increasingly popular in the medium or even long term.

Moreover, implementing a workplace culture that limits, and ultimately eliminates, employee presenteeism (presence at work despite illness, stemming from a fear of negative consequences from the employer) may prove very important in the near future. The introduction of improvements and changes in office buildings, together with office space rearrangement by single tenants, may gain importance in the medium- and long-term. It is possible that landlords will be forced to have, for example, 'health' or 'cleanliness' certificates in the future. This will take on even greater importance if the idea of flexible offices (where each desk will be used by more than one person) becomes widespread. Special emphasis may also be placed on the air quality in office buildings. It is possible that owners will have to bear the additional costs of improving the efficiency of their ventilation and air conditioning systems.

DEVELOPERS

There are no regulations in Poland that would impose any restrictions on the construction sector in connection with the COVID-19 pandemic, therefore most of the construction sites are continuing as before. That said, due to a slowdown in authorization processes, deliveries of some office projects in the coming something also adversely affected by the current situation.

Furthermore, developers are facing problems with sufficient numbers of employees - problems which have recently begun to deepen. Fears of restrictions caused by border closures in connection with the epidemic have meant that some Ukrainian workers have returned home, while others have been unable to enter Poland. Additionally, the absence of employees has become more prevalent due to school closures related childcare issues.

The condition of the construction sector will depend to some extent on the duration of the pandemic, but also on government policies and assistance directly affecting the financial liquidity of companies. Months will be delayed. At the same time, the planned commencement of most of the construction sites due before the end Q1 2020 have been delayed. Both the commencement and the completion of new development projects (including office buildings) will further depend on the availability of building materials -



CONTACTS IN POLAND:

+48 22 596 50 50
www.KnightFrank.com.pl

WROCLAW

Anna Patrzyk-Sperzyńska
anna.patrzyk-sperzynska@pl.knightfrank.com
Maciej Moralewicz
maciej.moralewicz@pl.knightfrank.com

RESEARCH

Elżbieta Czerpak
elzbieta.czerpak@pl.knightfrank.com

COMMERCIAL AGENCY - OFFICE

L-REP Izabela Potrykus-Czachowicz
izabela.potrykus@pl.knightfrank.com
T-REP Karol Grejbus
karol.grejbus@pl.knightfrank.com

ASSET MANAGEMENT

Monika A. Dębska-Pastakia
monika.debska@pl.knightfrank.com

CAPITAL MARKETS

Krzysztof Cipiur
krzysztof.cipiur@pl.knightfrank.com

LAND ADVISORY

Piotr Litwin
piotr.litwin@pl.knightfrank.com

PROPERTY MANAGEMENT

Izabela Miazgowska
izabela.miazgowska@pl.knightfrank.com

PROPERTY MANAGEMENT COMPLIANCE

Magdalena Oksańska
magdalena.oksanska@pl.knightfrank.com

PROJECT MANAGEMENT

Urszula Łuszczyńska
urszula.luszczyńska@pl.knightfrank.com

VALUATION & ADVISORY

Grzegorz Chmielak
grzegorz.chmielak@pl.knightfrank.com

STRATEGIC CONSULTING EMEA

Marta Badura
marta.badura@pl.knightfrank.com

MANAGING PARTNER

Daniel Puchalski
daniel.puchalski@pl.knightfrank.com

CHAIRMAN OF THE BOARD

Monika A. Dębska-Pastakia
monika.debska@pl.knightfrank.com

As one of the largest and most experienced research teams operating across Polish commercial real estate markets, Knight Frank Poland provides strategic advice, forecasting and consultancy services to a wide range of commercial clients including developers, investment funds, financial and corporate institutions as well as private individuals. We offer:

- ◆ strategic consulting, independent forecasts and analysis adapted to clients' specific requirements,
- ◆ market reports and analysis available to the public,
- ◆ tailored presentations and market reports for clients.

Reports are produced on a quarterly basis and cover all sectors of commercial market (office, retail, industrial, hotel) in major Polish cities and regions (Warsaw, Kraków, Łódź, Poznań, Silesia, Tricity, Wrocław). Long-term presence in local markets has allowed our research team to build in-depth expertise of socio-economic factors affecting commercial and residential real estate in Poland.

OUR RECENT PUBLICATIONS:



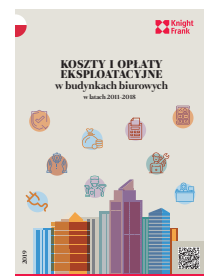
2019 Review & 2020 Outlook. Commercial Assets and Investment Land



Future of Cities Sustainable Investing 2020



Scenarios for Older Office Buildings 2019



Operating Costs and Service Charges in Office Properties: 2011-2018

Knight Frank Research reports are available at knightfrank.com.pl/en/research



© Knight Frank Sp. z o.o. 2020

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank to the form and content within which it appears.



The brochure was printed on Cocoon Eco paper, which is made of 100% recycled paper in environmentally friendly technology.