

Warsaw Office Market



The long-awaited rebound has finally occurred

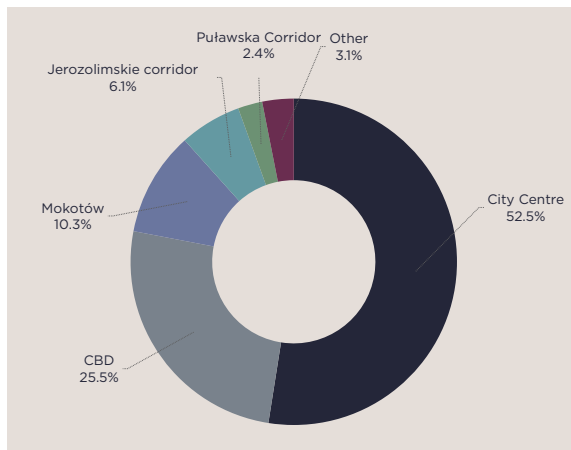
The office market has learned to coexist with the pandemic, which is weakening significantly and the situation is returning to the new normality. Signs of the office market recovery were already seen at the end of 2021. The war in Ukraine brings on the one hand threats (prolongation of the conflict) and on the other opportunities (influx of people companies into the country), thanks to which Poland should gain significantly in the long run.

At the end of first quarter of the year, total supply of office space in Warsaw was at 6.23 million sq m, with 2.77 million sq m located in central areas and 3.46 million sq m in non-central areas. Since the beginning of the year, six office projects totalling 93,400 sq m have been delivered, five of which are in central zones. The largest projects delivered in the city centre were: Forest Tower (51,500 sq m, by HB Reavis) and Lixa C (19,400 sq m, by Yareal). Outside the centre one building was delivered - Fabryka PZO II (5,000 sq m by White Star Real Estate).

As the result of the pandemic and also due to the geopolitical situation, a supply gap is expected in the market in the next few years. The war is affecting all sectors of the economy, including the real estate market via the outflow of skilled labourers from across the eastern border, disruptions in the supply of raw materials, and a temporary freeze in decision-making processes. Some of the buildings initially dedicated to being demolished or refurbished have been temporarily transformed into accommodation for refugees.

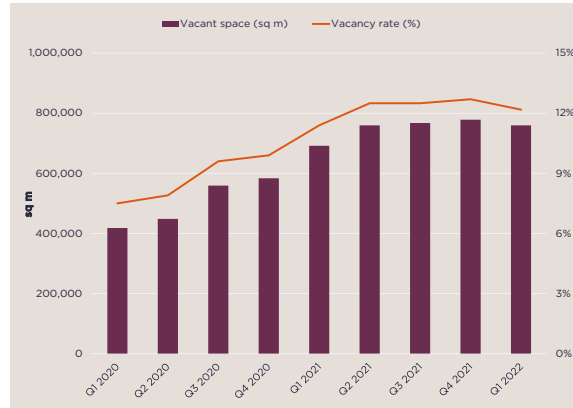
Over 323,800 sq m of space is currently under construction in Warsaw of which, 201,800 sq m is located in central zones and 121,900 sq m is in non-central hubs. The largest projects under construction include Varso Tower (66,300 sq m, due 2022), The Bridge (47,000 sq m, due 2025) and Skyliner II (38,000 sq m, due 2024).

Take-up by zone, Q1 2022



Source: Savills Research

Vacancy rate evolution



Source: Savills Research

Total leasing activity in Q1 2022 reached 273,200 sq m, one of the highest results recorded in the market's history. Demand was focused in central zones, which accounted for 213,100 sq m, while non-central zones accounted for 60,100 sq m.

Despite high demand, the share of renegotiations accounted for only 27% of demand, while new contracts (including owner-occupiers) accounted for 36% of demand. Pre-lets amounted to over 24%. Noteworthy is the high level of expansions (13% of the total), confirming the growing confidence among tenants.

Three sectors dominated take-up during the first quarter of the year. The Financial sector was responsible for close to half of the gross take-up (48%), mainly due to three large scale deals. Companies from the IT sector let ca. 46,500 sq m, which translates into 17% of total demand, while business services accounted for 7% of the gross letting activity.

As several companies are fleeing away from the war around the Polish eastern border, we are seeing an increasing number of inquiries for flexible space. Some of those companies are likely to be interested in traditional leasing in the future, which may contribute to higher demand for office space in the city.

Net absorption in Q1 2022 has already exceeded last year's volume by 10%. More than 112,100 sq m was absorbed, which directly contributed to a significant drop in vacancy. At the end of March 2022 vacancy rate across the city stood at 12.2%.

The zone with the highest vacancy rate is currently Mokotów (17.3% and 251,300 sq m), whilst on the opposite side, Ursynów & Wilanów has less than 5,000 sq m of office space available (3.9%).

Due to relatively high level of commercialisation of new projects delivered to the market in 2021 and early 2022,

Key office data Q1 2022:



6.23 million sq m
Total office supply



323,800 sq m
Total space under construction



93,400 sq m
New supply



12.2%
Vacancy rate,
(80 bps up y-o-y)



273,200 sq m
Total take-up



112,100 sq m
Net absorption

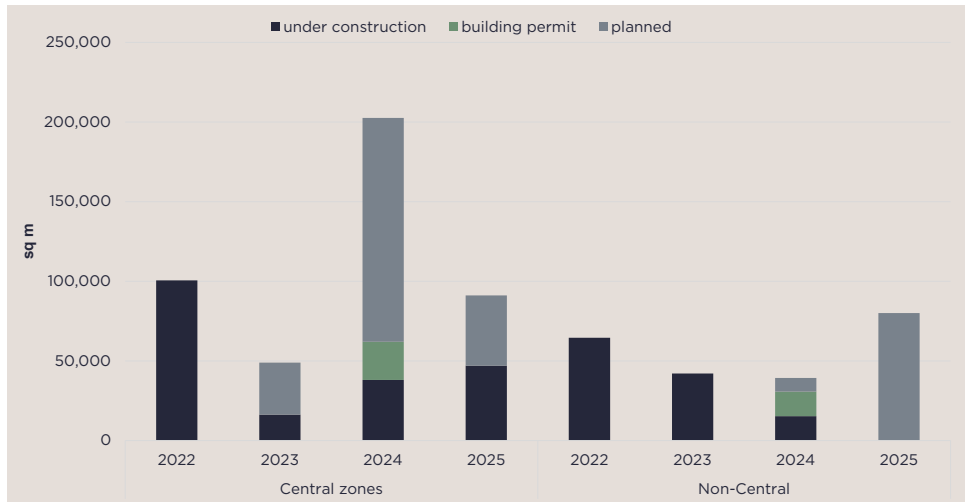
availability of space stabilised. In compare to end of 2021, a decline in vacancy rate (by 50 bps) was observed at the end of March 2022. This trend, combined with the supply gap in the coming years, will result in a significant drop in vacancy rates in the city.

The commercialisation process has prolonged since the beginning of the pandemic, however projects completed across the city during 2021 and Q1 2022 were 77% let at the end of March '22. Those located in non-central office hubs were let in 87%, whereas centrally located buildings were 75% let. Buildings with the highest availability of space at the end of Q1 22 were: Skyliner (23,200 sq m, delivered in Q1 2021), Widok Towers (16,700 sq m, delivered in Q3 2021) and Central Point (13,600 sq m, delivered in Q4 2021).

Prime headline rents have held steady since the outbreak of the pandemic. In Central zones they range from EUR 21.00 per sq m/month up to EUR 25.50 per sq m/month in top floors in tower buildings and in the most iconic buildings in CBD. In Służewiec – the largest non-central office zone prime headline rents range between EUR 13.00 and 15.00 per sq m/month, except for buildings in the immediate metro area, which quote higher rental levels.

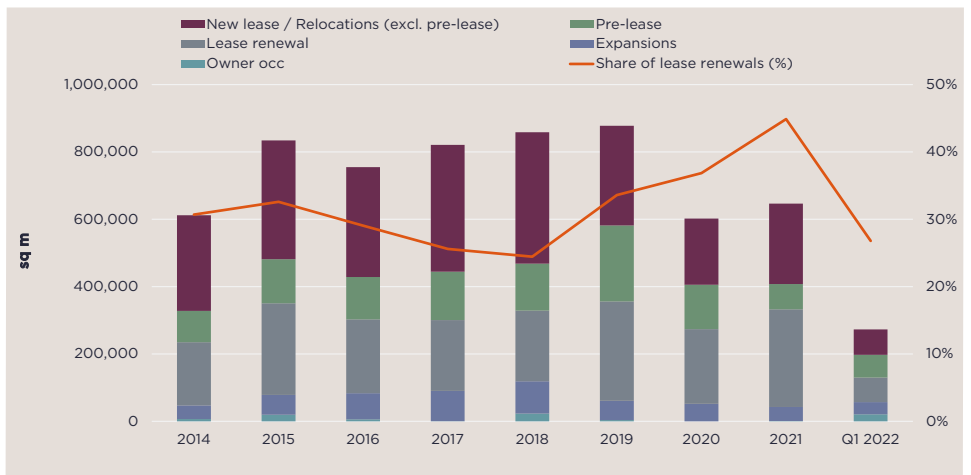
In the near term, we forecast slight increase in headline rents, with room for negotiation in incentives packages to encourage tenants to choose a particular location. Next year, we forecast a robust increase in rents due to construction disruptions and a supply gap, which will directly translate into a decrease in vacancy in the city.

Warsaw office pipeline, Q2 2022-2025



Source: Savills Research

Take-up evolution, 2014-Q1 2022



Source: Savills Research



Savills Research

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