

Office market in Warsaw



Awaiting for “new” normal

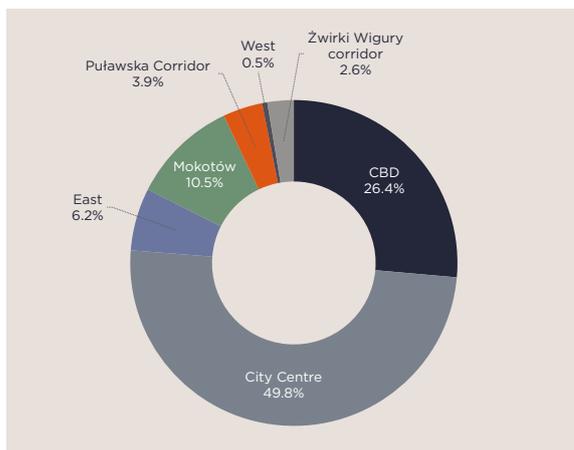
No office market, including the one in Warsaw, has been left unaffected by the Covid-19 pandemic. Business had to adapt quickly to many changes, especially the implemented work from home model, which have raised the main question: “will traditional offices be needed for such a large scale in the future?”. Nevertheless Q4 data showed clearly that despite increasing vacant space, both tenants and developers are still active on the capital’s office market but less than in previous years. We expect that as vaccines will be more available the market will gradually adapt to the “new” normal.

Total office supply at the end of December reached more than 5.9m sq m, rising by 314,000 sq m located in 15 office buildings during the 12-month period. Nine buildings have exceeded 10,000 sq m. In Q4 2020 75,800 sq m was delivered in three buildings. City Centre West subzone was the main area of interest in 2020, as almost 73% (228,900 sq m) of the entire new supply was delivered there. The largest new additions to the market in 2020 were: The Warsaw HUB B&C (88,900 sq m, City Centre West), Mennica Legacy Tower (tower, 47,900 sq m, City Centre West), Varso 1 & 2 (46,600 sq m, CBD), LIXA A&B (27,900 sq m, City Centre West) and Chmielna 89 (25,200 sq m, City Centre West).

In 2021, along with the 339,700 sq m of new supply, the 6m sq m threshold of the modern office space is expected to be crossed in Warsaw. However, the construction of the more than 90% of that space have started before the pandemic. This clearly indicates that developers and financial institutions are still very cautious about starting new constructions, and as long as the pandemic restrictions will be kept the announcements of new constructions will be rather rare.

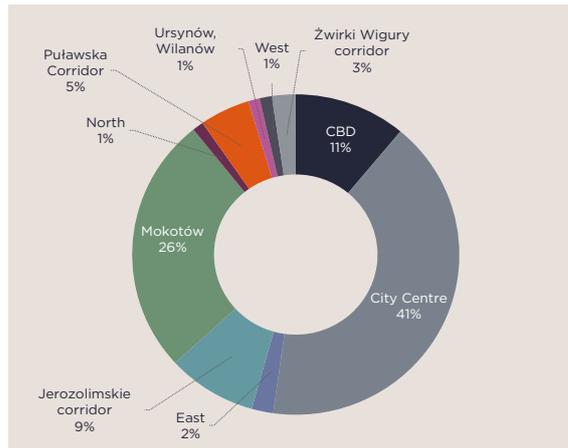
The construction activity, as it was last quarter, have decreased further and stand at the level of 559,100 sq m (including

Under construction by zones, Q4 2020



Source Savills Research

Take-up by zone, Q1-Q4 2020



Source Savills Research

42,200 sq m in Skyliner completed in January 2021). The current under construction volume is 29% lower compared to the volume recorded in 2019 and the lowest one recorded since 2011. At the same time the market is still witnessing a decent level of the under construction space pre-leased or secured with the Letter of Intent (LOI), which is 45%. Central zones are still the largest construction sites, being home to 76% of the developed space, with a clear concentration in the City Centre West subzone (200,700 sq m).

Compared to the last five years, demand was rather subdued. Take-up volumes reached little over 602,000 sq m, which was 31% below the Q1-Q4 2019 figures and the lowest figure since 2011. During the fourth quarter the occupier activity has picked up substantially (160,400 sq m), compared to the previous quarter (110,000 sq m), as both developers and tenants tend to close as many processes as possible before the year end. City Centre West and Służewiec subzone were continuously the best performing subzones throughout the 2020 year (169,700 sq m and 132,400 sq m respectively).

During Q4 2020 two transactions exceeding 10,000 sq m were signed, so it makes seven such transactions concluded in the entire 2020. The largest transactions signed in Q4 2020 were lease renewal of KPMG for 12,400 sq m in Gdański Business Center I A and the first deal signed in the Forest office complex, namely 12,300 sq m pre-lease by Leroy Merlin.

A large share of lease renewals and renegotiations recorded in Q3 and in Q4 (49% and 43% respectively) resulted in almost 37% of such type of deals during the entire 2020, the largest share among all transaction types in the last year. New agreements took 33% of the total volume of take-up,



5.9 million sq m
Total supply of office space



559,100 sq m
Total under construction space



314,000 sq m
New supply Q1-Q4 2020



9.9%
Vacancy rate, Q4 2020
(210 bps up yoy)



602,000 sq m
Total take-up
Q1-Q4 2020



165,600 sq m
Net absorption
Q1-Q4 2020

followed by pre-lease, which accounted for 22%. Expansions represented 8% of the total letting activity in 2020.

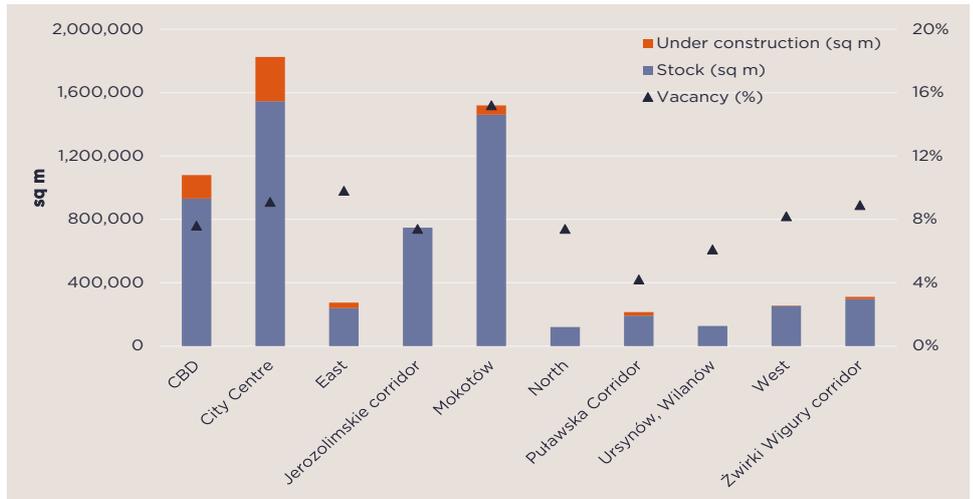
In addition to the “traditional” take-up, along with the growing space available for sublease also number and volume of sublease transactions is increasing. During the last year, tenants decided to conclude 17 such deals for more than 15,400 sq m. In overall sublease options available in Warsaw amount to ca. 110,000 sq m.

The overall market sentiment, as it was expected, had an influence on the vacancy rate in Q4 2020. During last quarter of the 2020, Warsaw’s vacancy rate increased again to 9.9%, which is 210 bps higher compared to Q4 2019 and 30 bps higher when compared quarter to quarter. The “youngest” buildings (completed between 2016-2020) are characterized with the lowest vacancy rate - 7.2%, whereas office space delivered between 2006-2010 had vacancy at the level of 14.3% (the highest one).

The contraction of the construction activity expected in the mid-term along with the moderate increase of the occupier activity will result in gradual absorption of the vacant space in the city.

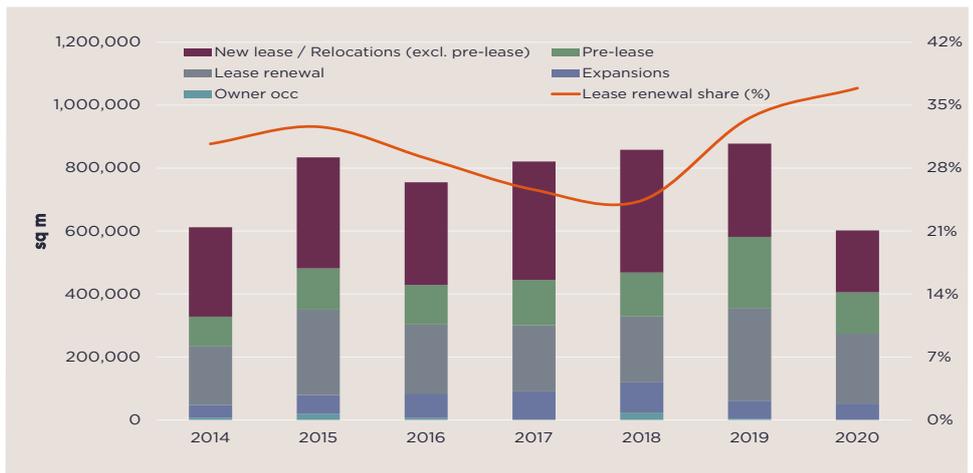
Despite tenants’ strengthening position, prime headline rents remained generally stable throughout the entire 2020 and in CBD and City Centre they range from EUR 22.50 per sq m/month up to EUR 25.50 per sq m/month in top floors in tower buildings. In Służewiec, the largest non-central office zone, rents range between EUR 13.00 and 15.00 per sq m/month. However, the incentive packages offered by landlords in some cases are extraordinary generous.

Stock, under construction & vacancy rate, Q4 2020



Source Savills Research

Take-up evolution 2014-2020



Source Savills Research



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