January 2019

Warsaw office market

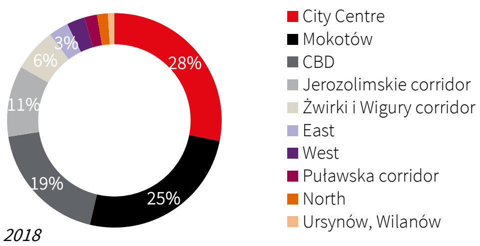
2018 was a roaring success for Warsaw and it certainly seems that the sky's the limit. Demand is soaring, the vacancy rate is at its lowest since 2012, and forecasted to fall further, new supply is being fully absorbed and rents are rising. The city has entered a sustained growth path, which is evidenced by a variety of factors.

The defining trend of 2018 was, without a trace of any doubt, the extraordinary activity of flexible space operators. Last year they leased an astonishing 112,000 m², which accounts for 13% of the total demand in Warsaw (and an incredible 22% in the central areas of the city). Interestingly, despite the large number of such operators active on the market, 52% demand for office space came from just two: WeWork and IWG (Regus & Spaces). What stands out about those entities is the unique mix of clients they work to attract: freelancers, start-ups, small companies and large corporations. That concept brings a new model of work and interesting design ideas to the Warsaw office market, which also benefit more traditional office solutions. Naturally Warsaw is spearheading this change, but the trend is also becoming more and more influential in regional cities.

The second widely discussed feature of Warsaw office market is the growth in supply, especially in central areas of the capital. Decreasing vacancy rates and skyrocketing demand for these locations has prompted developers to shift their attention to the CBD and the City Centre. The majority of construction activity is focused here, and with good reason. Major buildings that entered the market in 2018 in central zones, such as Proximo II, Browary Warszawskie – Biura przy Bramie and CEDET, were fully let upon completion (for the whole city the average was at 70% let on completion). By the year's end, the lease-out status of all offices that entered the market in 2018 had jumped to 85%. This, combined with the rising pre-lease levels of large-scale on-going projects (as The Warsaw Hub, Varso Place, Mennica Legacy, and Generation Park) shows the incredible absorptiveness of the market here. In 2018 net absorption of office space in Warsaw was 50% higher than new supply volume, which means that all the new space was absorbed by the market and then some.

Another show of confidence and an excellent sign for the future of office market in Warsaw is the expansion of companies already operating in the city. Significant and frequent transactions for additional office space by firms such as Alior Bank, AstraZeneca, Deloitte and Samsung, to name but a few, very much underline the attractiveness of Warsaw as a business destination.

Demand distribution across Warsaw's office districts (2018)



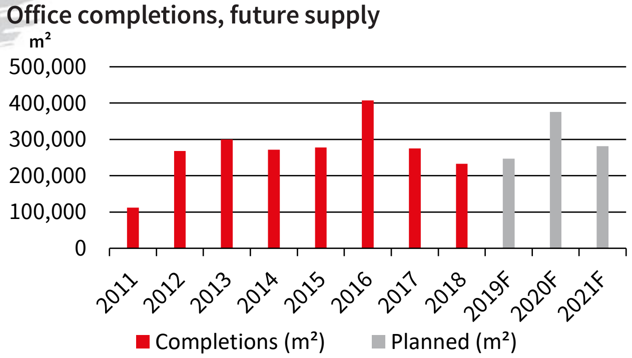
Source: JLL, 2018

Looking closely at the distribution of demand for office space in Warsaw's submarkets, the City Centre leads the way, with 241,100 m² transacted on last year, followed by Mokotów, with 219,700 m² leased, and third place taken by the CBD, where deals for a total of 162,000 m² were signed. Particularly encouraging is the increased occupier activity in Mokotów, close to the all-time high results from 2012 and including a number of large deals. However, more than just the major business hubs performed extremely well in 2018. For example, demand for offices in the Żwirki i Wigury corridor saw a 90% increase y-o-y, in large part thanks to the popularity of the Business Garden complex.

As a result of such an excellent year across the whole of Warsaw, activity by occupiers in 2018 reached a record-breaking 858,400 m², which was 4% higher than in 2017. Among the most notable transactions were a renewal and expansion by Deloitte for 22,100 m² in Q22, a new deal by the Polish Financial Supervision Authority for 14,800 m² in Piekna 2.0 and a 14,200 m² pre-let by Wework in Mennica Legacy.

The new supply in 2018 totalled 232,700 m², with the largest projects being Koneser C&H&O&P (21,100 m², East), Proximo II (20,000 m², City Centre West) and Equator IV (19,200 m², Jerozolimskie corridor). Currently the total under-construction volume amounts to 720,000 m². However, as Warsaw is one of the most absorptive markets in Europe, that volume will not affect the balance between supply and demand.

Office completions, future supply



Source: JLL, Q4 2018

The vacancy rate in Warsaw has continued to fall and by the end of 2018 it had dropped to the level of 8.7%, best result since 2012. The vacancy rate in Central zones now stands at 5.4%, which is the lowest since 2009 and means that availability of lease options in existing developments here is extremely limited. Therefore firms need to consider pre-lets to secure office space in central areas. The rate in non-central zones is 10.8%. In 2019 the downward trend in the vacancy rate in Warsaw will continue.

Prime headline rents rose in the central areas of Warsaw, due to the high demand, the low vacancy rate and increasing construction costs. Prime rents here are currently quoted at €17.0 to €23.5 / m² / month, while prime assets located in the best non-central areas lease for €11.0 to €15.0 / m² / month.

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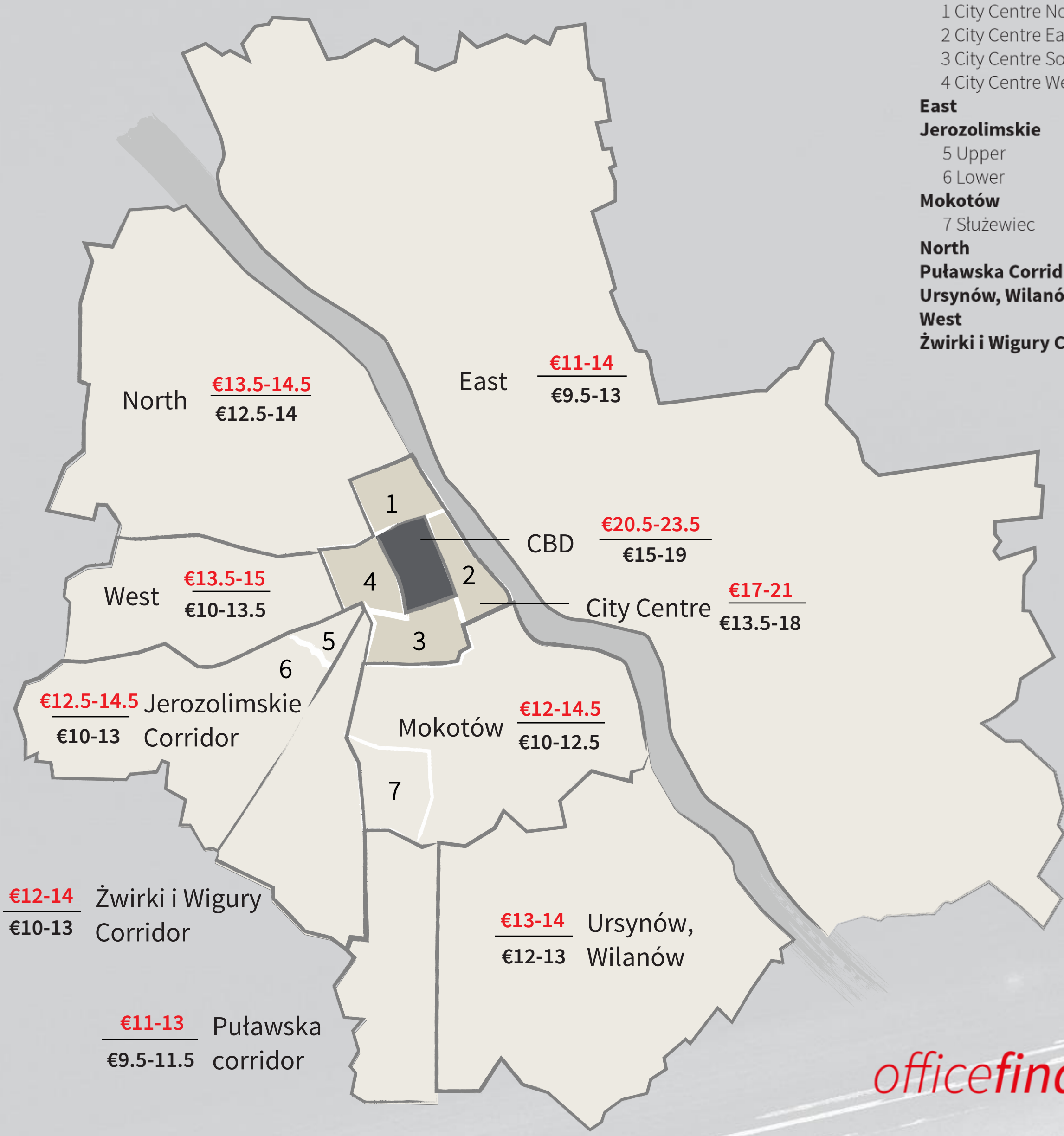
Prime headline rents (€ / m² / month)

A-class
B-class

CBD
City Centre
1 City Centre North
2 City Centre East
3 City Centre South
4 City Centre West
East
Jerozolimskie
5 Upper
6 Lower
Mokotów
7 Służewiec
North
Puławska Corridor
Ursynów, Wilanów
West
Żwirki i Wigury Corridor



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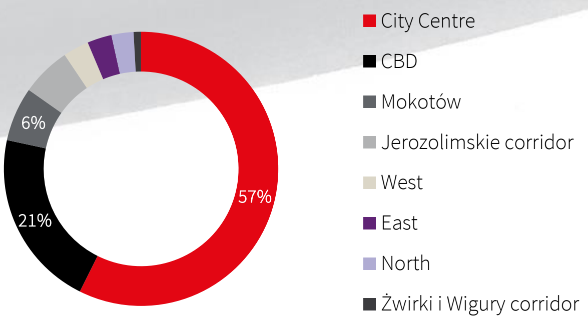
Construction activity in Warsaw's office districts



Source: JLL, January 2019

Łukasz Dziedzic
Research Analyst
Research & Consultancy
lukasz.dziedzic@eu.jll.com
+48 22 167 0433

Mateusz Polkowski
Head of Research & Consultancy
Associate Director
mateusz.polkowski@eu.jll.com
+48 22 167 0042