

The Occupier's Perspective: Warsaw Banking on Warsaw

May 2017

Key Takeaways

Highest CBD vacancy in Europe at 14.8%

100% rise in co-working requirements in 2017

4,000 jobs reported to go to Warsaw post Brexit

Unemployment rate in Warsaw to fall below 2% in 2017

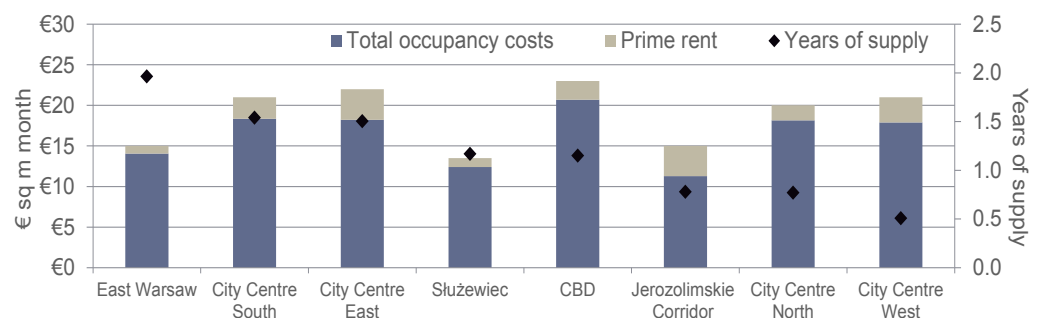
FIGURE 1
Warsaw occupier map



Key Stats: Q1 2017	Prime rent (€/sq m pm)	Total occupancy cost* (€/sq m pm)	Vacancy rate (%)	Immediate supply (sq m)	5-year average take-up (sq m)
Warsaw CBD	23.00	20.7	14.8	121,000	105,000
City Centre North	20.00	18.2	11.7	18,000	23,000
City Centre West	21.00	17.9	8.2	50,000	98,000
City Centre South	21.00	18.4	17.6	49,000	32,000
City Centre East	22.00	18.2	16.1	20,000	14,000
Śluzewiec	13.50	12.4	18.9	200,000	171,000
Jerozolimskie Corridor	15.00	11.3	11.0	72,000	92,000
East Warsaw	15.00	14.1	12.8	27,000	14,000

Savills monthly occupancy costs are calculated by summing up prime rents, service charges, taxes and deducting landlord incentives.

FIGURE 2
Occupancy costs and years of supply



* Savills occupancy costs are calculated by summing up prime rents, service charges, taxes and deducting landlord incentives. Please note that service charges used in the analysis are average values. The actual service charge depends on the amenities provided in the building. Landlord incentives include rent-free period, cash and fit-out contributions

** Years of Supply is calculated by dividing current availability over average annual take-up levels over the last five years

The occupier way is to Warsaw

- Favourable tenant market – occupiers benefit from:
 1. **High availability** of Grade A office space (720,000 sq m of modern space across Warsaw)
 2. **Strong speculative development pipeline – at 92% of total volume under construction** (which translates into 690,000 sq m)
 3. Access to well educated **labour pool – 72%** of Warsaw citizens have higher education
 4. **Low corporate tax at 19%**
 5. Prime rents in Warsaw stand at **€23/sq m pm – 83%** lower than London, **64%** lower than Paris, **44%** below Frankfurt and **21%** below Madrid. Rents are expected to remain stable throughout 2017
 6. Favourable **landlord incentives** – on average up to **25%** off the headline rent
 7. Warsaw is **the most affordable** city in Europe in which to accommodate staff. Total accommodation costs reach **€22,200**, a quarter of the cost of London
 8. Ample future development land

■ However, occupier conditions vary markedly across the main Warsaw zones. For instance, while there is only **0.5 years** of supply left in the City Centre West and **0.75** in Jerozolimskie Corridor, the CBD and Sluzewiec on the other hand offer **120,000 sq m** and **200,000 sq m** which translate into more than **one year** of supply

Tech and co-working on a meteoric rise

■ **Tech sector** is growing rapidly:

1. There are currently **2,700 start-ups** in Poland
2. It currently employs **6%** of the total workforce in Warsaw
3. It accounts for **11%** of Warsaw's total GDP
4. Sector is expected to grow on average 4.1% pa until 2021, above the average growth rate of 3.2% pa for the Polish economy as a whole

■ On the back of the growing Tech start-up community, the **co-working** segment is also starting to expand. While **no transactions** have been recorded so far, there are **20,000 sq m** of requirements for co-working space this year

■ The main providers currently include Business Link (which has just partnered with Skanska to create the largest network of co-working space in CEE), The Heart (in partnership with Ghelamco) and TechHub. We expect a number of new international co-working providers to enter the market in 2017

Case study: Google campus

■ To cater for the vibrant Tech start-up community, Google chose Warsaw as one of the locations for its campus - the first of its kind in the CEE. By partnering with investment fund Innovation Nest and co-working provider TechHub, **Warsaw Campus** provides 1,600 sq m of flexible office space in the Praga district (East of Warsaw). To date, it has welcomed over 9,000 members. In response to a high demand, it was announced that the campus will move to a new larger building in the vicinity, providing 2,400 sq m of office space

■ While the Tech sector is mainly concentrated in the **CBD and Sluzewiec**, Google campus will attract more Tech companies to the Praga District



Google Campus Warsaw:

Google opened Tech campus for start-ups in the Praga District - East of Warsaw. Flexible workspace is provided and operated by TechHub.

Banks on the move

■ Financial and professional services were the most prolific sectors in 2016 and accounted for **40%** of the total leasing volume (in units larger than 2,000 sq m). The dominance of the financial sector will remain intact over the next few years with employment in **Finance & Insurance** expected to grow by 3.1% in 2017 and 2.1% in 2018

■ **Brexit** has raised questions as to which European city will win London's business. The evidence suggests that no single city will take London's primacy as a financial hub with various functions expected to be dispersed across a number of cities. Warsaw is one of the contenders to capture a share of **post-Brexit business**

■ Some banks such as Credit Suisse, Goldman Sachs and UBS already have large **IT and back office** administrative operations in Poland and it is likely that some of these banks will build **greater capacity** into their existing operations. JP Morgan is also looking to set up a new global back office centre in Warsaw, accommodating up to 2,500 employees

Key challenge - war for talent

■ **Cost** of office space is not the only consideration when it comes to corporate real estate decisions. **Access to the right talent and skills is the key challenge in Warsaw.** Fantastic location, superb amenities, good transport links and modern office environment are on top of **corporate agenda** in order to attract and retain employees

■ With domestic companies expanding and new **international occupiers** expected to enter the market in post-Brexit relocation, the competition for **skilled labour** will be intense across all main office zones

– The unemployment rate in Warsaw is set to fall to **2%** in 2017 and to **1.5%** in 2018, according to Oxford Economics. This indicates there will be a severe **shortage** of skilled labour to satisfy demand for new jobs

– However, with Warsaw attracting workforce from the rest of Poland (300,000 people already commute to Warsaw every day) and as skilled workers start moving back home from London, this will fill in part of the labour gap

Agent Q&A (Jaroslaw Pilch)

What do you see as the main occupier trend in 2017-18?

Co-working is starting to take Warsaw by storm backed by a vibrant start-up community. The Google campus is a great example of this. 2017 will be a vital year for the co-working sector as new international providers enter the market.

Which sector is of the most interest to you?

The fastest growing sectors are IT and FinTech with companies moving from the city fringe to the CBD to attract talent. The financial services industry is high on our radar as a result of post-Brexit relocation.

What do you consider the main challenges facing occupiers over the medium-term?

Occupiers will need to adapt to the new market dynamics. Intense competition for skilled labour means that office cost is not the main driver in corporate real estate decisions.

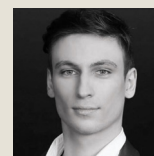
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