

Office market in Warsaw



Big deals and developments are yet to be seen in 2019

After record-breaking 2018 Warsaw office market is catching a breath and getting ready for the new spectacular deals and openings

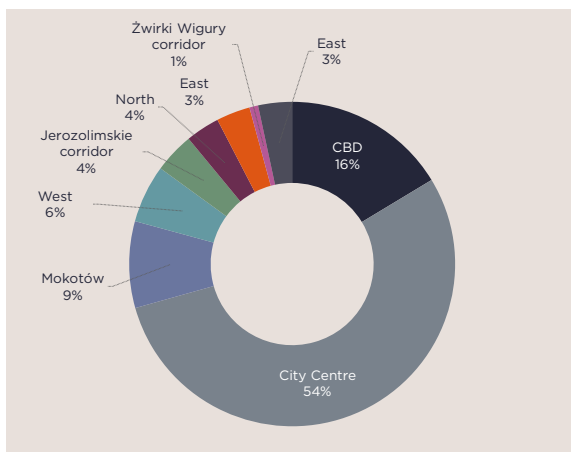
Total Warsaw office supply at the end of March stood at almost 5,5m sq m, rising by 20,200 sq m located in three office buildings: Spark B (City Centre West), Poznańska 37 (CBD) and Kaleńska 5 (East). The city office market is waiting for the 237,000 sq m to be delivered throughout the remaining three quarters of 2019, including Q3 when almost 105,000 sq m will increase the modern office stock in Warsaw. As of Q1 2019, only 34% of the expected new supply in Q2-Q4 2019 was available for the potential tenants.

Developers still keep a high volume of the commenced office space across Warsaw: almost 775,000 sq m, out of which 48% should receive the occupancy permit in 2020. Central locations, especially City Centre West (CCW) office subzone, are currently one of the most actively developing, as almost 73% of the entire developers' activity is concentrated there (56% when analysing CCW). Almost 50% of the commenced office space is currently preleased or secured with the Letter of Intent (LOI).

During the first three months of the year occupiers' activity in Warsaw was rather moderate as 140,100 sq m was transacted. Last quarter, the Warsaw office market did not witness any transaction exceeding 10,000 sq m. The largest concluded deal was the leasing of 7,000 sq m by Wirtualna Polska in Business Garden office complex.

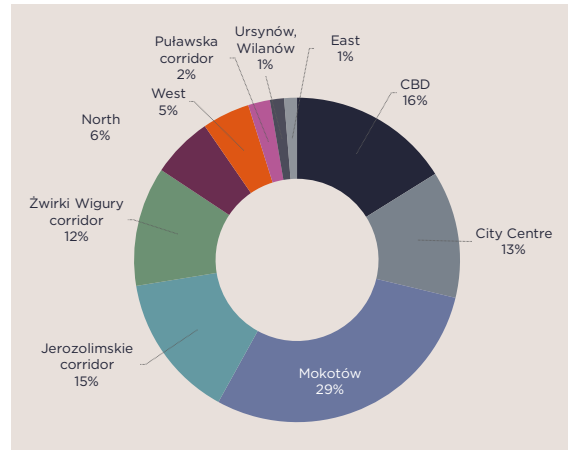
Nevertheless, there is a number of high profile deals expected to be finalised within the next couple months, including the recently announced agreement of 40,000 sq m for mBank in Mennica Legacy Tower building.

Under construction by zone, Q1 2019



Source Savills Research

Take-up by zone, Q1 2019



Source Savills Research

Due to a clear shortage of the immediately available office space in central locations in Warsaw, especially large units above 4,000 sq m, tenants consider other office locations. In Q1 2019 non-central locations have surpassed the Central ones by almost 150% when letting activity is considered; Mokotów being again the most active office zone in Warsaw (almost 41,000 sq m leased).

With current availability of office space in projects due in the remaining part of the year (now 66% pre-let or secured with LOI), in order for 2019 take-up to surpass 2018 level we would need to see more prelease transactions at the speculative developments currently under construction and due to be completed in 2020 or later.

New agreements (including preleases) accounted for 62% of the total volume of take-up whereas the share of lease renewals and renegotiations was close to 28%. Expansions accounted for approximately 9% of the total letting activity in Q1 2019. Pre-leases accounted for ca. 17% of gross take-up.

The most active sector in Warsaw during Q1 2019 was business and consumer services which accounted for 21% of total volume of lettings. Followed by manufacturing and industry which took almost 14% and TMT sector with 13% of city's take-up.



5.48 million sq m
Total supply of office space



775,000 sq m
Total under construction space



9.1%
Vacancy rate
(down 200 bps yoy)

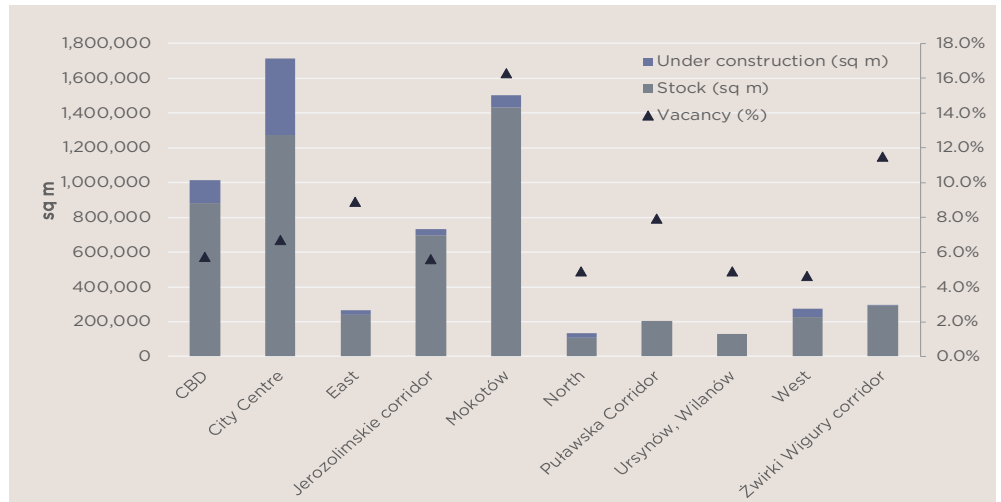


140,100 sq m
Total take-up



66%
Share of secured space due in Q2-Q4 2019

Stock, under construction & vacancy rate, Q1 2019



Source Savills Research

Top 5 under construction projects

Project	Varso Place	The Warsaw Hub	Mennica Legacy Tower	Generation Park Y&Z	Warsaw Unit
Office area (sq m)	102,000	90,300	62,200	59,900	56,300
Zone	CBD	City Centre (West)	City Centre (West)	City Centre (West)	City Centre (West)
Developer	HB Reavis	Ghelamco	Mennica Polska & Golub GetHouse	Skanska Property Poland	Ghelamco

Source Savills Research

Warsaw currently has a vacancy rate of 9.1% (40 bps higher when compared quarter on quarter and 170 bps lower when compared with Q1 2018), and it is clear that in some office zones (e.g. CBD or City Centre) take-up may be impacted by lack of supply until new developments become available. As of March 2019, Mokotów offered the largest choice of the available office space – 233,300 sq m was vacant, which translates into vacancy rate of 16.3%. The lowest vacancy rate was found in West office zone (4.6% or 10,600 sq m vacant), but lowest availability was recorded in North zone (4.9% or 5,200 sq m).

Constricted available new supply across Central locations in Warsaw have caused slight prime headline rent increases in projects located in the CBD and City Centre, where prime rents 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 Mokotów, the largest non-central office zone, rents have remained stable and range between EUR 13.00 and 14.75 per sq m/month.

In the short-term perspective prime headline rents are expected to stabilize along with the further limitation of offered incentive packages from the developers and owners.

The first three months of the year have brought a stabilization of the fit-out costs, which saw double digit growth last year. Furthermore qualified teams for the above-mentioned works became more accessible.



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