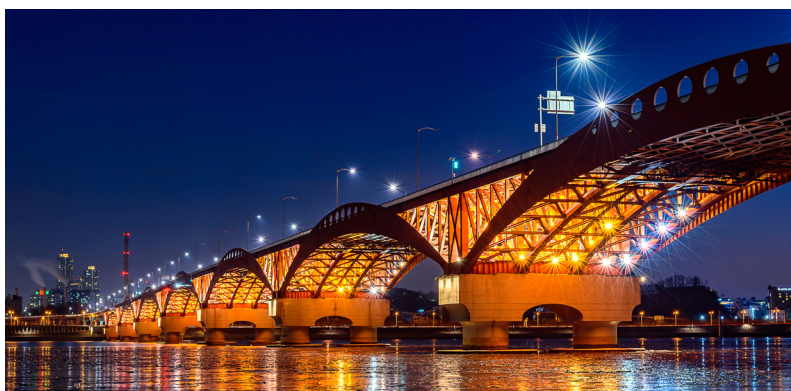


Poland Commercial - January 2022

Q
SPOTLIGHT
Savills Research

Office market in Warsaw

savills



Demand rebound • Increasing vacancy • New developments • Supply gap

🏗️ 324,600 sq m - second largest increase in supply since 2000, just after 2016 where a total of 407,000 sq m was delivered to the market. 🏗️



1.79 million

Population
(VI 2021)



1.8%

Unemployment rate
(XI 2021)



7,249 PLN

Average salary
(XI 2021)



225,200

Students (2020)



48,900

Graduates (2020)



64

Universities
(2020)

A year of anticipated rebound

Economic overview

The year 2021 was significantly affected by Covid-19. However, the emergence of vaccines and work on medicines give a chance to effectively combat further waves and mutations of the virus. The first signs of optimism can be seen among tenants, who increasingly begin to return to the leasing processes, which had stopped in 2020. Despite this, there is still a long way to go before we observe a return to normality known before pandemic.

The pandemic has also influenced the GDP growth in Poland, in 2020 first time since the political transformation it recorded a negative value (-2.5%). However, the Covid-19 negative impact on the Polish economy was less significant than in the EUR (5.9%) and the Euro zone (-6.4%). According to the final estimates from Oxford Economics in 2021 GDP should return on its growth path with predicted results at 5.1%. Not

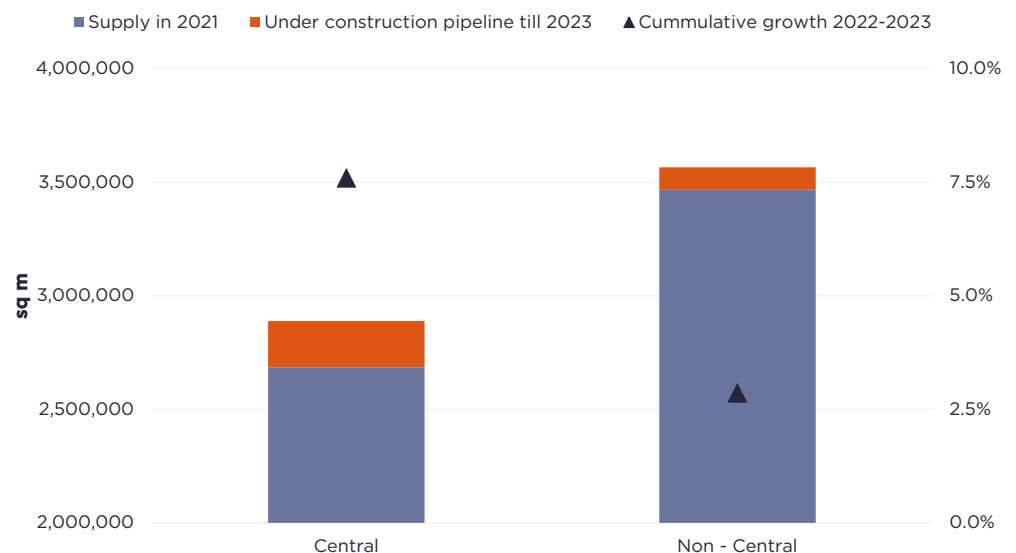
only in Poland but also in EU and USA, the government's biggest challenge in 2021, apart from fighting new virus strains, was undoubtedly inflation, which rose significantly in the final months of the year in Poland, reaching up to 8.6% in December which was the highest level for 20 years. In response to this, the MPC decided to raise interest rates 3 times in row since October, ending 2021 with an 1.75% interest rate, the highest since 2014 year. Interest rates are forecast to rise further in the short term and inflation is expected to remain high.

Warsaw despite being a capital city and the biggest economic hub in Poland suffered in 2020 with GDP growth of -2.9%. Based on Oxford Economics predictions in 2021 city GDP increased by 3.8%, while forecasts for 2022 are much higher - reaching up to 5.6%. Strong numbers for city and the whole country should correspond with the return to the office market's growth trajectory and strengthening.

Supply

In 2021, the total modern office stock in Warsaw exceeded 6 million square meters, strengthening the city's position as a leader in the CEE region. In the last year, 16 buildings were completed with a total area of 324,600 sq m. The largest ones exceeding 40,000 sq m are Warsaw UNIT (56,400 sqm), Skyliner (44,700 sq m) and Generation Park Y (44,200 sq m). This is the second best result since 2000, just after 2016, where a total of 407,000 sq m was delivered. Since 2018, City Centre West remains the most active zone with 184,300 sq m of new space delivered in 2021, representing 57% of total completions. Central zones were responsible for 79% of newly delivered stock, while Non-Central zones accounted for only 21%.

Supply development in Warsaw between 2021-2023



Source: Savills

45%

Renewals

37%

New leases

12%

Pre-leases

7%

Expansions

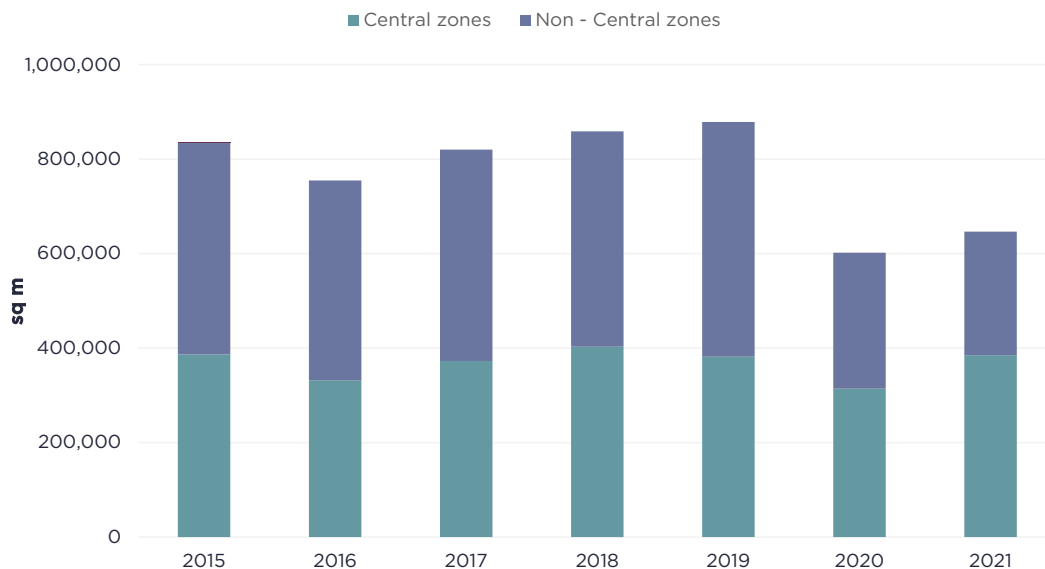
Take-up by type in 2021

Warsaw currently has 353,600 sq m of office space under construction in 21 buildings. The largest projects under construction are: Varso Tower (66,300 sq m, 2022), The Bridge (47,000 sq m, 2024) and Forest (46,400 sq m, 2022). Invariably, central zones are the target of the most developers' activity with 250,800 sq m or 71% of the total. Between 2022-2023 supply in Central zones will growth by 8% while Non-Central zones will increase by 3%. Less than 92,600 sq m of office space is currently under construction with delivery date for 2023-2024 which, along with the projected increase in demand and tenant activity from 2022, could contribute to a supply gap in the market in following years.

Letting activity

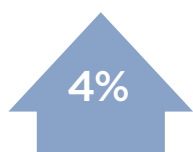
The negative impact of Covid-19 pandemic on demand and its structure is still visible, however we observe demand rebound. The total demand for office space in Warsaw in 2021 was 646,500 sq m. This is 7.4% more than the 2020 figure and only 26.4% less than the record demand in 2019. Together with increase in leasing activity, the first signs of positive tenants' sentiment towards the office market can be seen - renegotiations accounted for 45% of demand, which is a positive trend, even with the low level of pre-leases (12%). New deals accounted for 37% and expansions for 7%. We forecast a rebound and gradual increase in demand for office space in 2022.

Leasing activity in Warsaw between 2015-2021

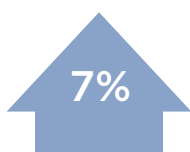


Source: Savills

2021, change over year



New supply



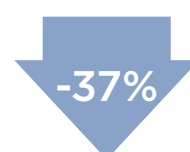
Leasing activity



Vacancy rate



Net absorption



Under construction

Key office Indicators 2021



6.15 million sq m

Total supply of office space



353,600 sq m

Total under construction space



324,600 sq m

New supply 2021



12.7%

Vacancy rate, Q4 2021



646,500 sq m

Total take-up



102,000 sq m

Net absorption

Despite increased vacancy, prime headline rents remain relatively stable during pandemic.

Flexible office

Flexible office is one of the most trending topics in the office sector. In recent years with additional boost due to pandemic, the Warsaw market has experienced significant growth in this type of space.

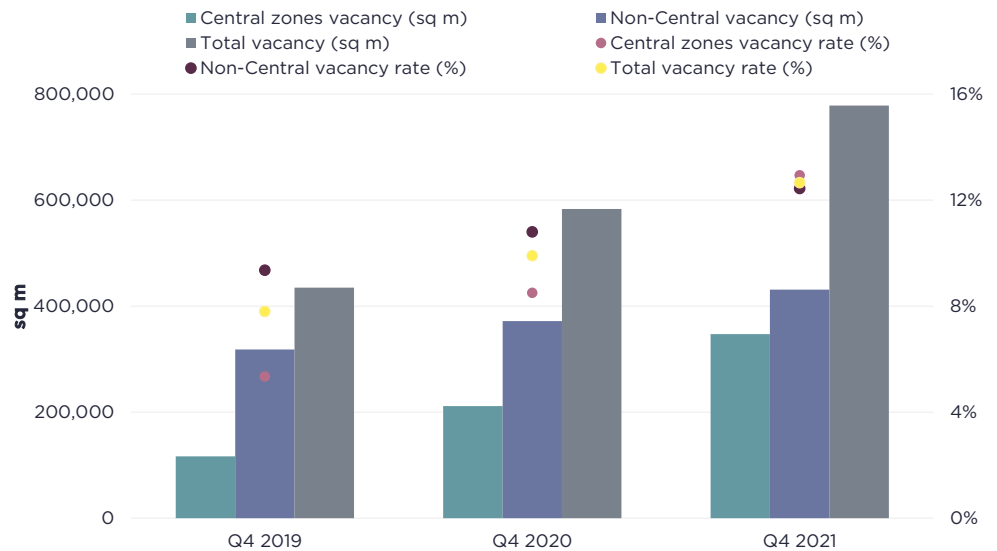
Currently total flexible office stock in Warsaw accounted for 171,000 sq m, which translates into 2.8% flex saturation across the city (the ratio of flexible space to traditional space). Perfect example for booming flexible office market is development of its stock, since 2017 it growth by over 240% only in Warsaw adding over 121,000 sq m of flexible space.

The largest operators currently are: WeWork (31,800 sq m in 8 locations), Regus (16,500 sq m in 11 locations) and New Work (11,900 sq m in 4 locations). In addition to the largest multinational operators, an increasing number of boutique operators offering their services in one or couple locations have recently emerged, competing with more cosy and local character with location in the closest neighbourhood.

Flexible office is something that will surely continue its thriving development in the nearest future, which is confirmed by the interest not only from companies that open new businesses in Poland or start-ups, but also from large corporations that appreciate this type of solutions that help them manage their lease portfolio.



Vacancy (r)evolution in Warsaw between 2019-2021



Source: Savills

Vacancy

At the end of 2021, there was 778,400 sq m of vacant office space available in Warsaw which translates into 12.7% vacancy rate. Space available in central zones summed to 347,300 sq m (12.9%) and in non-central zones it reached 431,100 sq m (12.4%).

Lower demand and economic uncertainty combined with high supply of office space, which started construction before the outbreak of the pandemic, has increased overall vacancy rate from 7.8% to 12.7% over the last two years. This phenomenon is particularly evident in the central zones, which due to the large supply of space in recent years combined with a significant decline in the share of pre-let transactions has increased by 4.9% compared to the end of 2019 (119,100 sq m of vacant space in buildings delivered in 2020-2021). Non-central zones performed more steadily with an increase of 3.1%.

In the near future, the city's vacancy rate is expected to decrease and vacant space should be gradually absorbed by the market, which will be a direct

cause of the current low level of developers activity and an increase in tenants demand.

Rents

Prime headline rents still remain relatively stable. In Central zones they range from EUR 22.50 per sq m/month up to EUR 25.00 per sq m/month in top floors in tower buildings and in 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 future we forecast a stabilisation with a slight increase in rents, especially in central locations where tenants will be ready to pay premium for the prestige of location and building.

During the pandemic, headline rents remained stable, however the market has noted an increase in incentive packages granted to tenants resulting changes in effective rents. Increased rent free periods and higher fit-out contribution, especially in newly

delivered buildings with high vacancy (due to lack of pre-let agreements) is a common theme that helps landlords to attract potential tenants to the building and win the competition against higher vacancy rates.

Outlook

After almost two years of pandemic, the situation in the office market is stabilizing and business has learned to operate in the new reality. Stabilization and forecasted economic growth in the region should have a positive impact on the office market.

We forecast a significant increase in leasing activity in whole Poland, especially the strongest market - Warsaw. A potential supply gap in the coming years and increased tenants activity should contribute to the absorption of existing office space, especially in newly delivered buildings. In short term rental levels are expected to remain relatively stable, with possible slight deviations in the case of iconic buildings. However upcoming supply gap and increasing costs should cause a potential increase in rental levels in long term.

Potential supply gap shall reduce vacancy rates in following quarters.



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