

April 2023

SPOTLIGHT
Savills Research

Office market in Warsaw



Looking for savings

The current year may prove to be one of the more challenging in recent times, for both tenants and landlords. The worsening economic climate may force individual companies to rethink their strategy. It may be possible to increasingly optimise the space used in order to seek savings and cut costs. In addition, some tenants may look for a solution in subletting their office or relocating based on serviced offices, which are increasingly being considered by tenants as well as landlords who feel the need to have such a concept in their portfolio.

The rising cost of fit-outs can be a challenge for landlords, especially of older schemes, who may find it difficult to raise the capital for the necessary capital outlay or achieve a satisfactory yield, which can lead to the commercialisation process being prolonged, or even postponed, resulting in many empty schemes with a ready-made plan waiting for tenants.

The wave of modernisation of older projects, which has been noticeable for some time, is bound to intensify in the near future. The reason for refurbishment will not just be the target of climate neutrality, but the increasingly higher operating charges, which will be a significant burden on tenants, forcing investment in modern and economical technologies. In addition, older projects not adapted to the latest requirements may have problems with refinancing due to failure to meet EU Taxonomy requirements.

After the projected supply gap over the next two years, there could be a significant increase in activity from developers, who have prepared a large pipeline for 2025-2026 in an attempt to catch up with the last downturn. There may be a risk of a transition from under supply to over supply, especially if the economy does not gain sufficient momentum and the trends of space optimisation and use of flexible space will continue.



Daniel Czarnecki
Head of Landlord Representation

A tough year on the horizon

Stock and new supply

The total stock of modern office space in Warsaw at the end of March 2023 amounted to 6,256,300 sq m. Currently, 44% of office space is located in the central zones (an increase of 5 p.p. compared to the end of 2018), while the remaining 66% is located outside the city centre.

In the next few years, the trend of concentrated development activity in the centre will continue and by the end of 2025, supply in the central zones will account for 46% of the total. No office project was completed in the first quarter of 2023.

On the other hand, last quarter saw the first increase in space under construction since the outbreak of the pandemic (up by 23% q-o-q) to 228,600 sq m, which still significantly departs from pre-2020 levels (700,000-800,000 sq m). Pipeline is dominated by projects located in central zones (65%). By the end of 2023, there should be just under 68,000 sq m of office space

completed, of which more than 42% is already pre-let.

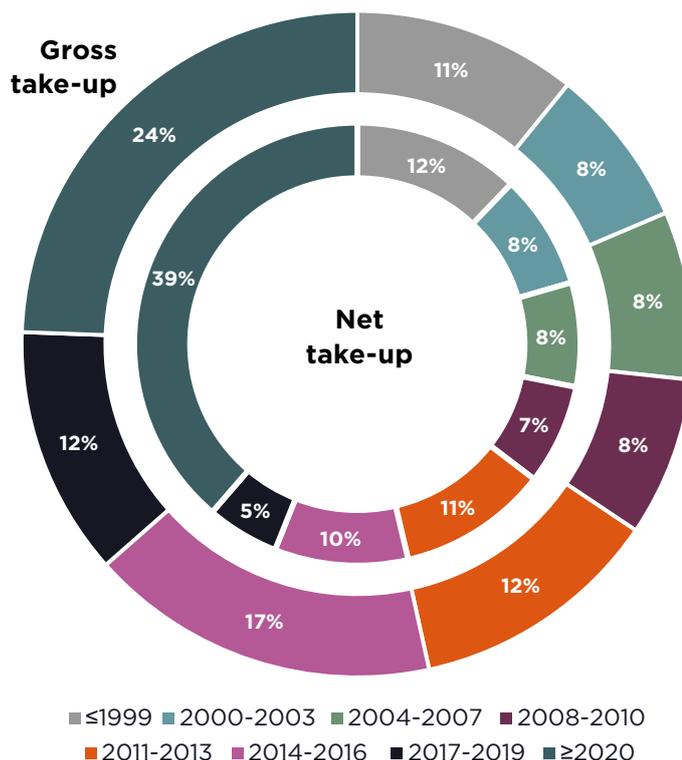
On the other hand, in 2024, once the planned projects are taken into account, the total new supply could be as high as 143,200 sq m, and in 2025, in the most optimistic scenario, the stock will increase by 290,000 sq m.

The projected economic slowdown and high inflation, which is posing challenges for companies, may contribute to prolonging the commercialisation process of pipeline projects, which may also translate into the delay of various other investments.

Leasing activity

Gross take-up generated by tenants between January and March 2023 amounted to 158,900 sq m, a decrease of around 40% compared to the same period last year. Moreover, a similar decrease (38%) was recorded in net take-up, i.e. after deducting lease renewals.

Gross and net take-up between 2022-Q1 2023 by building age



KEY DATA Q1 2023



6.25 million sq m
Stock of modern office space in Warsaw



0 sq m
New supply



158,900 sq m
Gross take-up (down by 40% y-o-y)



228,600 sq m
Under construction (up by 29% y-o-y)



11.6%
Vacancy rate (down by 0.6 pp y-o-y)



119,600 sq m
Net take-up (down by 38% y-o-y)

In months to come ...

#1

Incoming stagnation and uncertainty

High inflation, projected economic stagnation and geopolitical tensions will continue to hold back some corporate investment processes, which will be reflected in lower demand this year than in 2022 and pre-pandemic.

#2

To let or to sublet...

The economic downturn and uncertainty is forcing tenants to be more prudent about their premises. Indexation of rents and increase of the maintenance cost, combined with possible lower incomes, are forcing a re-assessment of real estate strategy. For some companies, awaiting a difficult period by renegotiating or subletting space from others may prove to be an effective remedy.

#3

... or to flex

Serviced offices can be another way of waiting out a difficult period or completely reorganising one's working model, and are increasingly being considered, not only by start-ups, but also by established companies from the IT sector to the banking sector, which is increasingly relying on this solution.

#4

Surge of modernisation and renovation

More and more often, older projects, even when competing with lower rents, have problems with commercialising space that does not meet the requirements of new tenants. The solution to the problem may be the modernisation of entire buildings, which has been on the upswing for some years, and their adaptation to environmental and energy-saving requirements. For some projects, a change of use may be the only solution.

Share of leasing activity across Warsaw in selected office zones



The first quarter of this year saw a relatively low share of renegotiated transactions, which accounted for around 25% (compared to a figure of 39% for the whole of 2022). New contracts accounted for almost 68%, whereas the economic uncertainty and very limited volume of under construction space is reflected in the low pre-let level, which stood at 2%. A further 5% decided to enlarge their current office.

In the face of increasing costs related with office space but also ESG associated factors tenants are increasingly opting for newer buildings that make it easier for them to face the latest challenges. Confirmation of this can be seen in the leasing activity data. Demand for the last 15 months shows a significant share of demand for buildings completed after 2010, where 66% of gross take-up and 65% of net take-up was generated. Moreover, the newest buildings, built as from 2020, are the most popular, generating a total of 39% of net take-up (in 2022 as well as in Q1 2023).

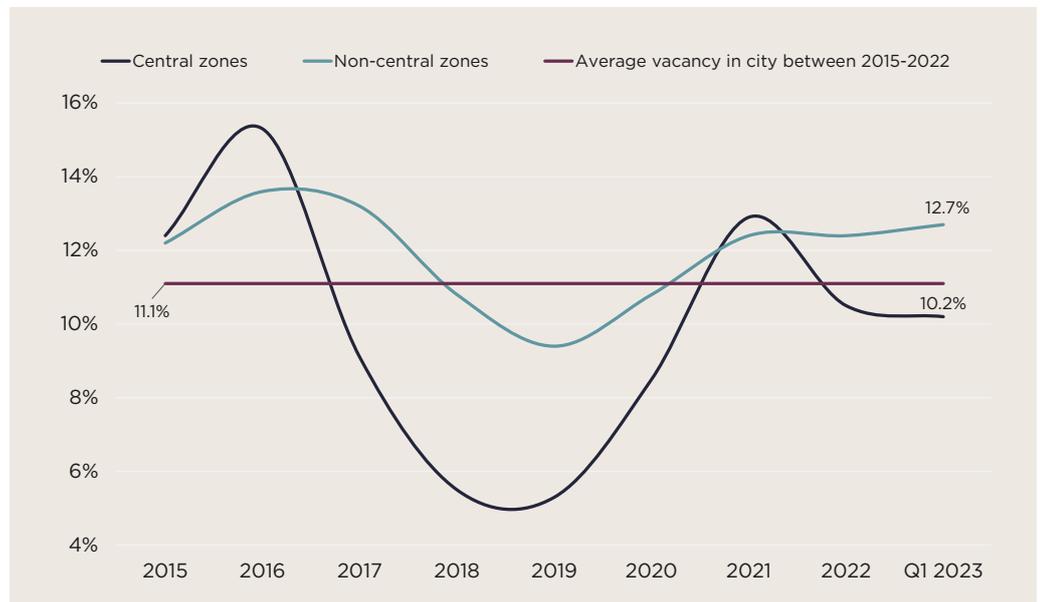
In the first quarter of 2023, demand was distributed fairly evenly between tenants from different sectors of the economy. The business services sector was the clear leader (20%). In addition, tenants from the financial sector were responsible for 9%, which nevertheless saw a significant decline (from first place last year with the share of 22%) compared to the whole of 2022, when several large-scale contracts were signed in the banking sector. The logistics sector generated just under 9% and public sector institutional occupiers almost 8%, as did life sciences companies. The IT sector appeared to be the sector of currently low impact, generating 6% of demand, which is one of the lower results ever (in recent years it has fluctuated around 15%).

Transactions over 1,000 sq m generated a total of 70% of take-up (111,500 sq m), while those over 2,000 sq m, just under 48% of the total. In addition, five transactions exceeding 5,000 sq m were signed for a total of over 36,200 sq m, or 23% of gross take-up.

Compared to 2022, in Q1 2023, there has been a gentle decrease in the share of demand in central zones (from 59% to 55%). The lower activity in central zones is due to limited new supply (which in recent years has been mainly concentrated around the city centre) and to some extent a search for savings among tenants who opt for non-central locations as evidenced by the 74% net demand among these zones (over 53,100 sq m in new contracts or expansions).

The zones with the highest gross take-up in the first quarter were City Centre (61,900 sq m), CBD (25,500 sq m) and Służewiec, where leases were signed for a total of 25,300 sq m. Outside the central zones, the majority of demand was generated in the aforementioned Służewiec and Jerozolimskie corridor (a total of 63%, or 44,800 sq m). Net absorption in the first quarter of 2023 recorded a low level, with 1,800 sq m absorbed city-wide.

Vacancy rate in Warsaw



Source Savills Research

Dive into service charges

The year 2023 will be a year of significant increases in operating costs in both office buildings and other commercial properties. All due to inflation affecting all components of the so-called service charges, as well as drastic increases in utility costs.

It is estimated that the cost of building services such as security, cleaning, etc. will increase by around 13%, and spare parts, consumables and repairs by up to 20%. Some hygiene materials have recently become 100% more expensive. Tenants of gas-heated buildings will be most affected by the increase. Until recently, they were in a privileged position and their heating costs were lower than those of those taking municipal heating.

The situation on the gas supply market has resulted in having to pay up to several hundred per cent more for gas fuel than in the previous year. Another element of operating costs that accounts for their significant increase is electricity. Not all landlords/tenants will be able to take advantage of the so-called maximum rate (regulated by law), which is still about 70% higher than contracted for 2022. The prices of municipal heating and water have also increased.

It is estimated that the increase in operating costs in Warsaw office buildings will be between 30% and 60%, depending on the type and specifics of the building, heating method, etc.



Magdalena Oksańska
Head of Property Management Compliance

Availability of space

At the end of March 2023, there were 724,600 sq m of office space available in Warsaw, which translated into a vacancy rate of 11.6%. In comparison, these values are almost identical to the end of 2022, where vacancy was ca. 2,000 sq m higher.

The vacancy rate in the central zones was 10.2%, which is below the 2015-2022 city average of 11.1%. On the other hand, the vacancy rate in non-central zones was 12.7%. At the moment, tenants opting for space in the central zones have more than 282,600 sq m at their disposal and 442,000 sq m in non-central zones. Half of the available non-central space is located in the Służewiec zone (over 222,000 sq m). In both central zones, the available space for lease exceeds 100,000 sq m - 133,200 sq m in the CBD and over 149,300 sq m in the City Centre, the vast majority of which, 81,700 sq m in the City Centre West subzone. In turn, the zones with the lowest vacancy levels, not exceeding 7%, can include Ursynów and Wilanów, Puławska corridor and North.

High maintenance costs, higher tenant awareness and the desire for climate neutrality are leading tenants to more frequently

choose new offices that allow them to better optimize their side costs, abstracting from the higher standard of space offered to employees.

The lowest vacancy rates are observed in buildings built between 2012 and 2022, where the average vacancy rate for this period is 7.2%. When a more narrow breakdown is considered, in buildings built in 2018-2019, the vacancy rate is 3.1%, which corresponds to approximately 12,400 sq m of vacant space, and in buildings from 2016-2017, the vacancy rate is 5.1% or 34,400 sq m. Office buildings built since the outbreak of pandemic also maintain a low vacancy rate (10.3%), which is expected to decrease further in the coming quarters in the face of less new supply.

Rental levels

Despite pressure from high costs and continuing global inflation, rents in Warsaw remain stable. Headline rents in prime locations in CBD average between EUR 22.50- 25.50/ sq m/ month. There is a similar situation in the largest non-central zone, Służewiec, where rents have maintained a level of EUR 13.00- 15.00/sq m/month for a long time. Of course, in the case of central and non-central

zones, there are examples of higher rents on the market, which occasionally occur in the most attractive buildings, in the last available modules, for which tenants are prepared to pay a premium.

An important and hot topic recently has been service charges, which tenants are required to pay in addition to the office rent. The high inflation and economic uncertainty of recent quarters has been reflected here. Tenants have been experiencing maintenance fee increases for some time now, which we predict are not definitive, and meeting them may be one of the biggest challenges in the current climate.

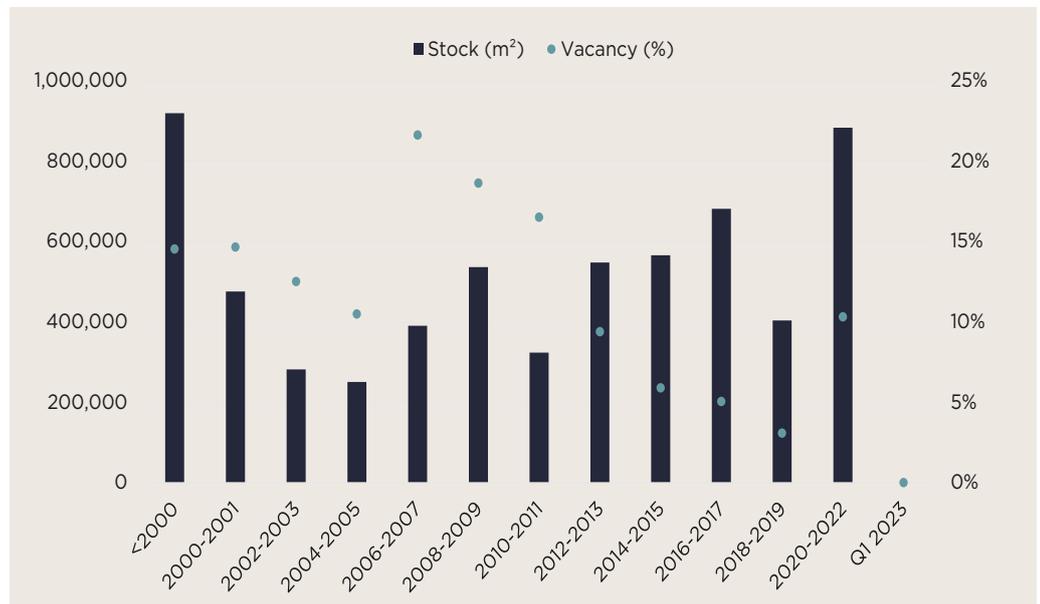
30%-60%

Potential increase in operating costs in Warsaw in following quarters

14.4%

CPI in 2022 in Poland

Vacancy rate in Warsaw by age of building



Source Savills Research

Flexible specific

Over the years, Warsaw has become an attractive location for foreign businesses due to its strategic location in Central Europe, highly skilled workforce, and relatively low operational costs compared to other European cities. Warsaw's economic growth and stability have been reflected in its property market, with many businesses opting for serviced office spaces to accommodate their needs which is reflected with the recent transaction over 100+ desks.

Serviced offices are fully-furnished, fully-equipped office spaces that are managed by a third-party operator. They provide businesses with a flexible, cost-effective solution for office space, as they offer short-term lease agreements, access to high-end facilities, and often include additional services such as receptionists, IT support, and meeting rooms. This type of office space is ideal for businesses that require a professional working environment, but don't want to commit to long-term leases or invest in costly infrastructure.

The growing trend towards flexible office spaces in Warsaw's business hub, as businesses look for more cost-effective and efficient ways to operate. The tech industry has played a significant role in driving demand for these types of spaces, with serviced offices becoming an increasingly popular option for businesses of all sizes. Many tech companies, especially those involved in cloud-based solutions, software, and game development, have established a presence in Warsaw due to its highly skilled workforce and supportive business environment. These companies often require flexible office space to accommodate their changing team sizes, depending on project demands or subcontracts.

Additionally, the demand for flexible office space has grown due to the COVID-19 pandemic, as many businesses have shifted to remote work and are now looking for ways to downsize their physical office space while maintaining a professional image.



Thomas Jodar
Workthere Project Lead
Office Agency
Tenant's representation

Focus on FLEX



180,200 sq m
Flexible office supply



3.0%
Flex saturation



2,200 sq m
Average location size



14,500 sq m
Pipeline in 2023/2024



4,700 sq m
Take-up for Q1 2023



EUR 380/month
Average cost of working desk

There are currently 85 locations with flexible office services available in Warsaw, with a total of over 180,000 sq m. This result translates into approximately 3.0% saturation of flexible space.

The vast majority of space available on lease, around 66%, is located in central zones (56,700 sq m in CBD and 64,200 sq m in City centre zone). In non-central zones, the largest supply of flexible space is located in Służewiec (25,100 sq m) and East (12,200 sq m) zones.

The average area of an operating centre is approximately more than 2,200 sq m, with eight locations offering more than 5,000 sq m to tenants.

There are currently four new locations and one expansion in the operators' pipeline for opening later this year, with a total of more than 14,500 sq m. The largest of these are located in the city centre in the Skyliner building by Mindspace (4,400 sq m), in the Lixa building by Loftmill (3,300 sq m), in the Warsaw UNIT by OmniOffice (3,200 sq m) and Regus in Wilanów Office Park (3,100 sq m) outside city centre.

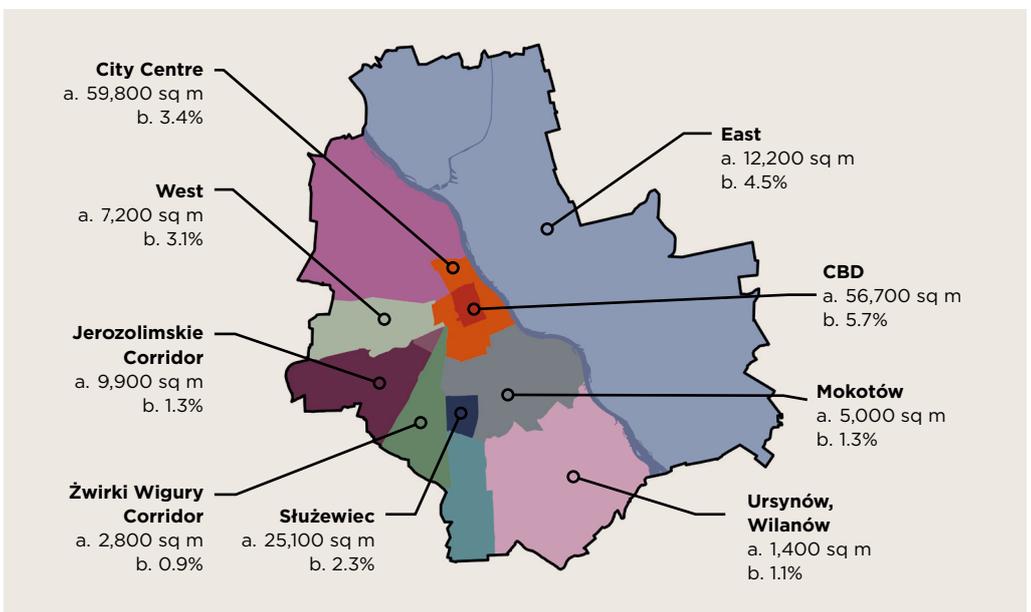
In addition, further locations, especially in the city centre, are in advanced negotiations between operators and landlords. Demand for flexible space in Warsaw remains high, as reflected

in further expansions by operators. In Q1 2023, operators of flexible space have signed new deals for a total of 4,700 sq m. Compared to the last year, the result seems low (29,600 sq m in total), but in terms of total 2021 and 2020, this is a solid first quarter (6,500 and 8,400 sq m respectively).

Currently, the average rate for a workstation in Warsaw is around EUR 380 per month, although with the increasing cost of operations and inflation, we expect operators to raise their rates in the near future.

Flexible office space in Warsaw by zone

(a-flex stock, b-share in total office stock)



For further information please contact:



Daniel Czarnecki
Head of Landlord
Representation
Office Agency
+48 519 033 717
dczarnecki@savills.pl



Jarosław Pilch
Head of Tenant
Representation
Office Agency
+48 694 497 800
jpilch@savills.pl



Thomas Jodar
Workthere Project Lead
+48 602 300 262
thomas.jodar@workthere.pl



Magdalena Oksańska
Head of Property Management
Compliance
+48 605 203 102
magdalena.oksanska@savills.pl



Wioleta Wojtczak
Head of Research
+48 600 422 216
wwojtczak@savills.pl

Savills sp. z o.o. is a daughter company of Savills plc. Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of over 700 offices and associates and over 40,000 staff throughout the Americas, Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

All rights reserved to Savills sp. z o.o. The material was prepared by Savills sp. z o.o. This publication is for general informative purposes only. Our company accepts no liability for the content of this publication, nor for the consequences of any actions taken on the basis of the information provided, unless that information is subsequently confirmed in writing. It shall not be copied, modified or used in part or in whole, nor shall it be used as a basis for any contract, prospectus, agreement or other document without prior consent from Savills sp. z o.o. Whilst every effort has been made to ensure its accuracy, Savills sp. z o.o. accepts no liability whatsoever for any loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills sp. z o.o.



Savills sp. z o.o., al. Jana Pawła II 22, 00-133 Warszawa
+48 22 222 4000, savills.pl

