

# Warsaw Office Market



## Record mid-year in terms of leasing activity

After nearly five months of war in Ukraine, one can clearly see its impact on the global economy, which is currently in a challenging situation. Rising prices of key raw materials, inflation and interest rate hikes are revising countries' growth forecasts for the coming years downward, including Poland. On the other hand, forecasts by economists from Oxford Economics for Warsaw are relatively favourable. The city is expected to grow faster than the national economy in the coming years, with GDP expected to increase by 6.3% in 2022 (5.7% growth in Poland), and by more than 3.1% a year later (vs. 1.8% for the national economy). In addition the unemployment (ILO) is projected to continue its decline, reaching 1.4% in 2022. In addition to the fall in unemployment, the city will experience continued growth in the workforce, most of which will be office-based employment, which should translate into even more activity in the office sector.

At the end of June 2022 total supply of office space in Warsaw was at 6.27 million sq m which means an increase in total supply of almost 3% y-o-y. The distribution of office zones is slowly equalizing - currently 45% of the city's modern office space is located in the central zones, while 55% is located outside the centre with Mokotów, which is still the largest non-central office zone, contributing 23% of the city's supply. In the first half of 2022 eight buildings were delivered, with a total area of 129,000 sq m. The new supply was concentrated in the central zones, with only one building, namely Fabryka PZO II (5,000 sq m by White Star Real Estate in East zone) delivered outside the center. The largest buildings delivered this year were Forest (51,500 sq m by HB Reavis in City Center North zone) and Skysawa (complex of two buildings totalling 31,300 sq m, by PHN in CBD zone).

Currently, more than 303,100 sq m remains under construction, which is one of the lowest results ever. Developer activity is mainly concentrated in central ones (65%).

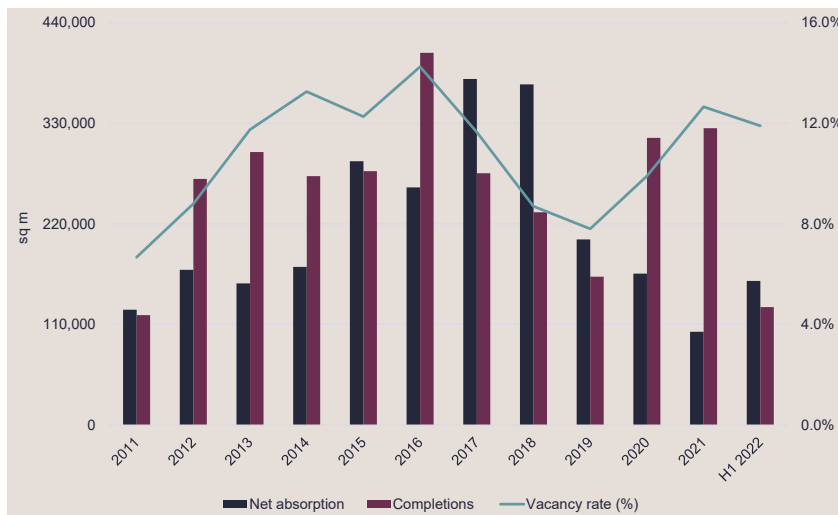
During the second half of the year, another 122,500 sq m is scheduled for delivery, which will result in a total new supply of 251,500 sq m in 2022. The next two years will be characterized by very low levels of completions. More than 91,000 sq m is scheduled for 2023, while another 160,600 sq m is due in 2024. The largest projects under construction include Varso Tower (66,300 sq m, due in 2022), The Bridge (47,000 sq m, due in 2025) and Skyliner II (38,000 sq m, due in 2024). The largest projects that started construction in 2022 are the aforementioned Skyliner II, the third phase of Lixa (28,100 sq m) and Lakeside (24,000 sq m).

Development activity across the city has been declining since first quarter of 2020. This is mainly due to the temporary freeze of projects following the outbreak of the pandemic and any setbacks related to the war in Ukraine, which translated into increases in the price of materials and raw materials, an outflow of some Ukrainian construction workers to the homeland and the postponement of some projects. As a result, for 2023-2024 we predict the delivery of projects totalling 251,600 sq m, which will translate into a supply gap in the coming years, making it difficult for tenants to secure new locations. With the normalization of the geopolitical and economic situation and the unfreezing of office projects, the situation should improve from 2025.

The first half of 2022 saw record demand for office space leasing a total of over 479,400 sq m, which is 94% better y-o-y and only 26% worse than for the whole of last year. The vast majority of demand was generated in the central zones, where a total of 343,700 sq m was leased, while non-central zones contributed to 135,600 sq m of leased space. In the central zones, the City Centre was the most active zone with 66% of total demand, while Mokotów generated 46% of demand in non-central zones.

In addition to record demand for space, the demand structure was favourable for the market. The share of renewal agreements in the first half of 2022 was only 37% (compared to 45% in all of 2021). Between the first and second quarters, renewal agreements increased from 27% to 47%. Due to the upcoming supply gap, we expect an increase in renegotiations in the coming quarters. New agreements accounted for 38%, pre-leases 15% and 50,900 sq m of expansions were signed, surpassing the 2021 result. The share of expansions was 10%.

**New supply, absorption and vacancy rate, 2011-H1 2022**



Source: Savills Research

### Key office data H1 2022:



**6.27 million sq m**  
Total office supply



**303,100 sq m**  
Total space under construction  
(25% down y-o-y)



**129,000 sq m**  
New supply  
(42% down y-o-y)



**11.9%**  
Vacancy rate,  
(70 bps down y-o-y)



**479,400 sq m**  
Total take-up  
(94% up y-o-y)



**157,600 sq m**  
Net absorption  
(528% up y-o-y)

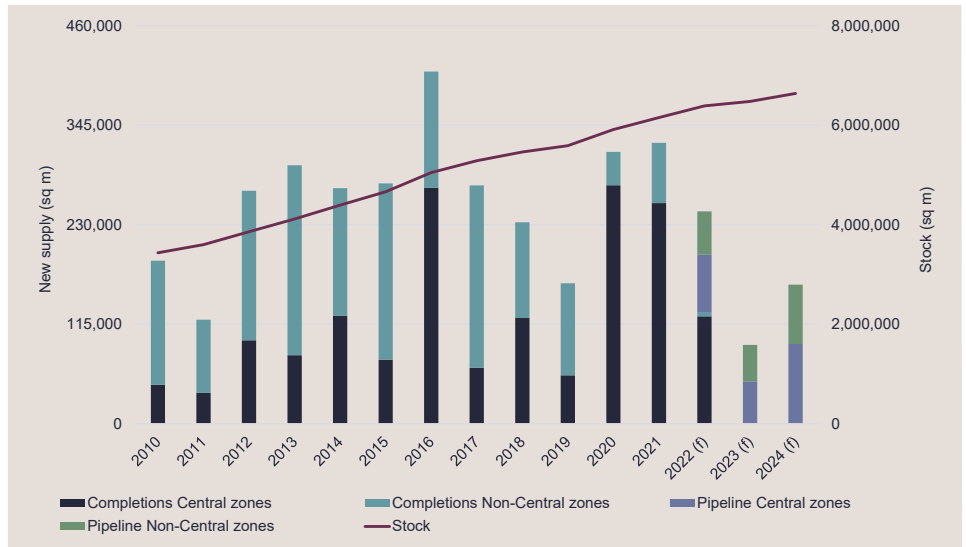
Warsaw office supply and pipeline, 2010 - 2024 forecast

Thanks to a relatively low share of renewal transactions combined with high demand and moderate new supply, net absorption of office space in the first half of the year amounted to 157,600 sq m (55% more than in entire 2021), 93% of which was absorbed in central zones.

Demand in the first half of 2022 was dominated mainly by three sectors, which generated less than two-thirds of demand (59%). These were: the financial sector (31%), the IT sector (18%), and the business services sector with 10% share. The two largest transactions were from the financial sector, namely PKO BP in Skysawa (38,500 sq m) and ING in Plac Unii (23,500 sq m).

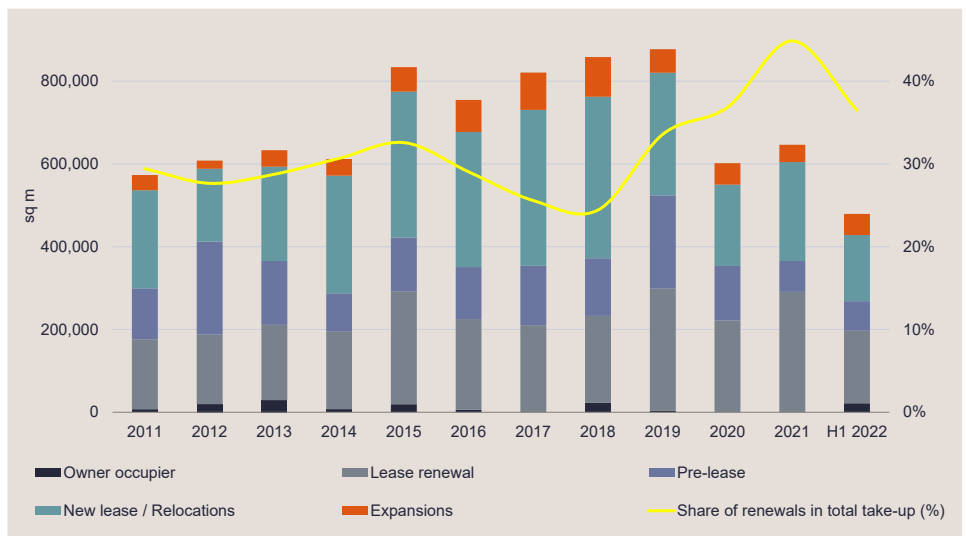
Currently, vacant space in Warsaw stands at 747,700 sq m, of which 324,600 sq m is available in central zones, while the remaining 423,100 sq m is in non-central zones. This translates into an 11.9% vacancy rate in the city and 11.6% in central zones vs. 12.2% in non-central zones. The vacancy rate in the city dropped by 70 bps compared to the end of 2021. The zone with the highest vacancy rate is invariably Mokotów (17.9%), where the Służewiec subzone is responsible for most of the available space, with 222,200 sq m offered. On the other hand, in the Ursynów & Wilanów zone, the vacancy rate was 3.9% which translates into 4,900 sq m of leasable space. City Centre North is the subzone that significantly increased its space across the city in 2022, which contributed to the largest increase in vacancy rate by 470 bps compared to the end of 2021.

Prime headline rents remained stable, however some upward trend has been noticed in several buildings. In central zones they range from EUR 21.00 per sq m/month up to EUR 25.50 per sq m/month. In Służewiec – the largest non-central office zone prime headline rents range between EUR 13.00 and 15.00 per sq m/month. In the face of a growing supply gap, we forecast rising rents due to reduced space availability and significant increases in construction and facility management costs, indicating a shift toward a landlord’s market in the near future.



Source: Savills Research

Take-up evolution, 2011-H1 2022



Source: Savills Research



Savills Research

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