October 2019

Warsaw office market

Warsaw never sleeps

The latest boom on the market is in full swing: Warsaw is hot and the pace of change is impressive. The skyline is changing week by week, with companies operating here being the driving force behind that development. This all translates into fantastic demand volumes and decreasing vacancy rates throughout the city.

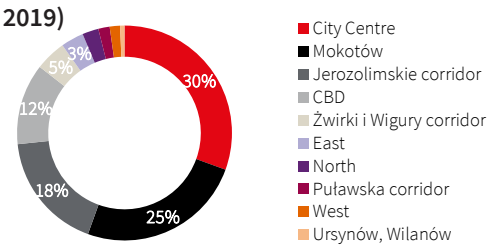
Such commercial success, combined with increasing interest in refurbishment and functional change of some buildings, enhances and changes the structure of the market. One of the most prominent examples of that is Echo Investment's decision to buy part of the Empark complex in Mokotów and redevelop it into a residential area. Such changes result in a city that caters to the needs of a broader spectrum of firms and responds to the requirements of a modern metropolis. Well-connected and multi-functional areas are currently most highly sought after by corporations and residents alike and Warsaw follows that trend.

2019 will most definitely be a year to remember. There are already eleven lease transactions exceeding 10,000 m² and two of those are bigger than 40,000 m². Warsaw is once again confirming its business attractiveness and leading position in the CEE region. The largest deal, and a record-breaking one on the Polish market, was mBank's pre-let for 45,600 m² in Mennica Legacy Tower. The bank will consolidate its Warsaw operations and move into the tower. Another gigantic transaction is a renewal by Orange Polska in Miasteczko Orange for 44,800 m² in Jerozolimskie corridor. The top three is rounded out by T-Mobile's renegotiating of its 27,400 m² lease in Marynarska 12, Mokotów.

Q3 2019 was record-breaking in terms of demand for office space in Warsaw (more than 284,000 m² transacted on), which brought the Q1–Q3 total to an astonishing 689,300 m². What defines this year is the surge in pre-letting activity. The dwindling availability of existing lease options prompted large companies to consider pipeline developments to a greater extent. In Q1–Q3 as much as 184,000 m² came from pre-lets, which is already a 32% increase as compared with the whole of 2018.

In terms of distribution of demand in Warsaw's submarkets, the City Centre leads the pack, with 210,600 m² leased. Mokotów took second place, followed by Jerozolimskie corridor, where performance was boosted by the Orange Polska renewal.

Demand distribution across Warsaw's office districts (Q1–Q3 2019)



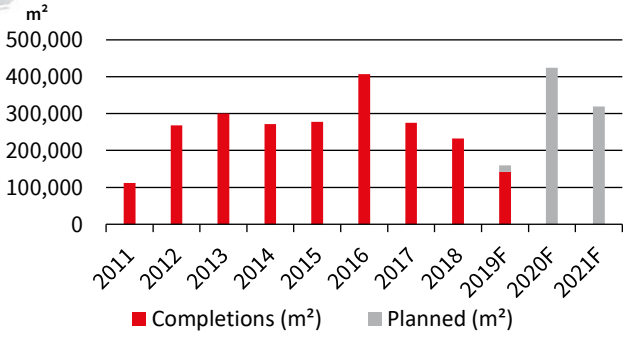
Source: JLL, Q1–Q3 2019

2019 is very busy for flexible spaces operators. 50,000 m² of new flex space already opened or is scheduled for opening by the end of the year. The largest new centre to be opened in 2019 is WeWork in Mennica Legacy. As flex revolution continues it enriches the traditional lease market and creates new opportunities for both corporations as well as start-ups and freelancers.

Robust demand for offices in Warsaw drives the building frenzy in the capital. The new supply in Q1–Q3 2019 reached 142,300 m², in fifteen buildings. The largest new openings include Wola Retro (24,500 m² by Develia, in the West district), Moje Miejsce B1 (18,700 m² by Echo Investment, in Mokotów) and Generation Park Z (17,300 m² by Skanska Property Poland, in City Centre West).

Currently the total under-construction pipeline includes 790,000 m² to be completed by 2022. Notably, approximately 40% of that volume is already pre-leased. Two of the most spectacular on-going projects are the Warsaw Hub (three towers: two office and one hotel, being developed by Ghelamco Poland) and Varso Place (including the tallest building in the EU, being developed by HB Reavis). What's quite distinctive about the market at the moment is that the vast majority of under-construction projects are located in the central parts of the city, which may result in a lack of new products in non-central areas in the mid-term perspective. Moreover, as Warsaw is one of the most absorptive markets in Europe, that extensive volume will not affect the balance between supply and demand.

Office completions, future supply



Source: JLL, Q3 2019

The vacancy rate decreased to 8.2% in Warsaw (5.5% in Central zones and 10.0% in Non-Central zones of the city), which is a fall of 1.8 p.p. y-o-y. Such a vacancy rate translates into scarce large lease option throughout the city, especially in the centre, and encourages pre-letting activity: otherwise it is increasingly difficult to secure desired office space.

Prime headline rents rose in the central areas of Warsaw, due to the high demand, the low vacancy rate and increasing construction costs. Prime rents here are currently quoted at €17.0 to €24.0 / m² / month, while prime assets located in the best non-central areas lease for €11.0 to €15.0 / m² / month.

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JLL

Prime headline rents (€ / m² / month)

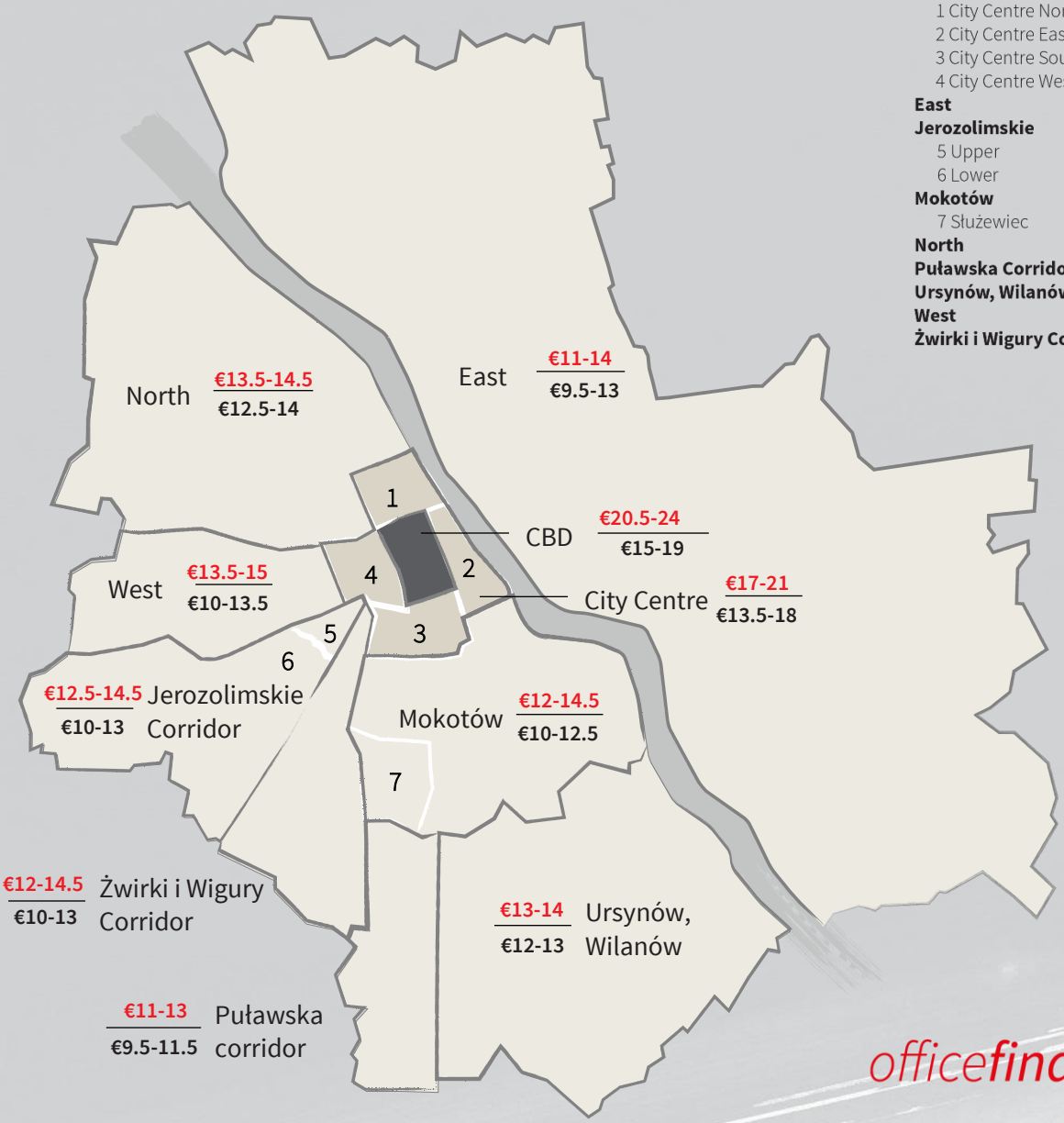
A-class / B-class

CBD
City Centre
- 1 City Centre North
- 2 City Centre East
- 3 City Centre South
- 4 City Centre West

East
Jerozolimskie
- 5 Upper
- 6 Lower

Mokotów
- 7 Służewiec

North
Puławska Corridor
Ursynów, Wilanów
West
Żwirki i Wigury Corridor



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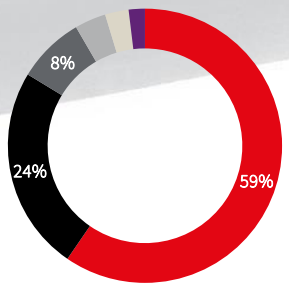
Construction activity in Warsaw's office districts



- City Centre
- CBD
- Mokotów
- East
- Jerozolimskie corridor
- Puławska corridor

Source: JLL, Q3 2019

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