April 2019

Warsaw office market

Redesigning Warsaw: the promise of a leading business hub

Change is a key characteristic of Warsaw. The city has entered an extremely dynamic growth period and is going through a dramatic transformation. A long-held ambition to dominate the CEE business world is now a reality and office market is keeping up with the pace. Every week Warsaw's skyline gains a new addition, as a result of office towers growing at an incredible speed.

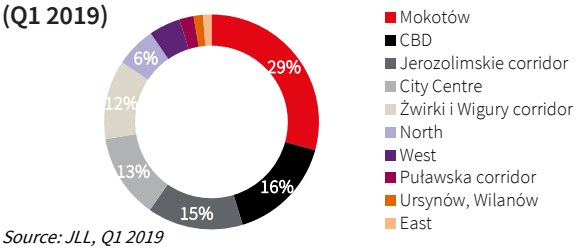
Another piece of the puzzle consists of the improving infrastructure in the city. It enhances existing and growing business hubs, as is shown by the extension of the second metro line and the area near Daszyńskiego roundabout, and also creates new potential business locations, which it may happen due to the construction of a new tram line from Zachodni station to the Wilanów district.

The hottest news that grabbed headlines in the first months of 2019 was mBank's decision to consolidate its Warsaw operations in roughly 40,000 m² office space, which will be one of the most significant transactions for the Polish office market.

The leasing market is gaining momentum and the slightly subdued result for Q1 is expected to be bolstered by high profile deals in the next few months. Total demand for offices in Q1 2019 in Warsaw was 140,100 m², created by companies from a variety of sectors. It's worth noting the increasing interest from public sector entities in leasing space in modern office buildings. One of the largest deals in Q1 2019 was a 7,000 m² pre-let by a company from the public sector in the Vector+ building (to be completed in 2019). Firms from the IT and services sectors were also very active on the leasing market in Q1 2019: together they were responsible for a third of the total demand for office space in Warsaw.

In terms of distribution of demand in Warsaw's submarkets, Mokotów took the lead, with almost 41,000 m² transacted on, followed by the CBD, Jerozolimskie corridor and City Centre (almost 102,000 m² in total, which equates to 72% of the demand in Warsaw). That ranking may change over the course of 2019, although Mokotów's result is very encouraging and bodes well for that district.

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



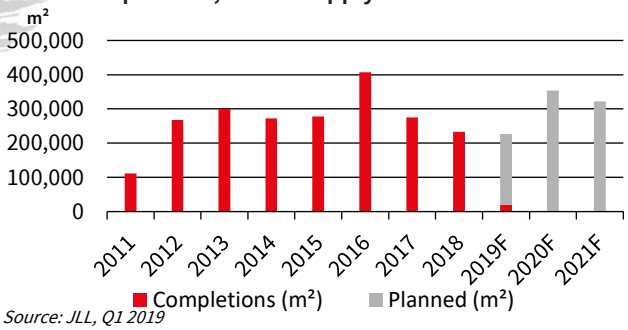
Source: JLL, Q1 2019

This year will once again be quite busy for flexible space providers. Some of them expanded their presence in Warsaw in Q1 2019, such as Spaces in Centrum Marszałkowska and New Work in Wola Retro. Moreover, a number of flex providers that leased space in 2018 have started operating or will start this year, with the largest new centres being WeWork in Mennica Legacy (the entire building) and Europejski, Solutions.Rent in Ethos and Spaces in Platinium Business Park. In terms of newcomers to the market, UMA Workspace may open its first centre this year, assuming the Chmielna 89 project is finished on time. Approximately 50,000 m² of new flexible space is confirmed for opening this year in Warsaw and that volume may increase further.

The new supply in Q1 2019 totalled 20,200 m² in three buildings, the largest being Spark B (15,700 m²; by Skanska Property Poland in the City Centre West district). Some of the most notable projects scheduled for completion in 2019 are Mennica Legacy (by Golub GetHouse) and Chmielna 89 (by Cavatina).

Currently the total under-construction volume amounts to 750,000 m², to be completed by 2021. Two of the most spectacular on-going developments are The Warsaw Hub (three towers – two office and one hotel – 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 volume will not affect the balance between supply and demand.

Office completions, future supply



Source: JLL, Q1 2019

The vacancy rate remains at a low level of 9.1% in Warsaw (6.3% in Central zones and 11.0% in Non-Central zones of the city). This reflects the high levels of demand for offices in the capital and means that large companies looking for new office space have to consider pre-let option in order to secure desired space. The vacancy rate in Warsaw fell by 1.7 p.p. y-o-y, with the biggest drop seen in Żwirki i Wigury corridor (9.6 p.p. y-o-y). This is largely a result of the remarkable absorption of office space in the Business Garden complex, which was completed in 2017. In 2019 the downward trend in the vacancy rate in Warsaw should continue.

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.

Warsaw office market

April 2019

JLL

Prime headline rents (€ / m² / month)

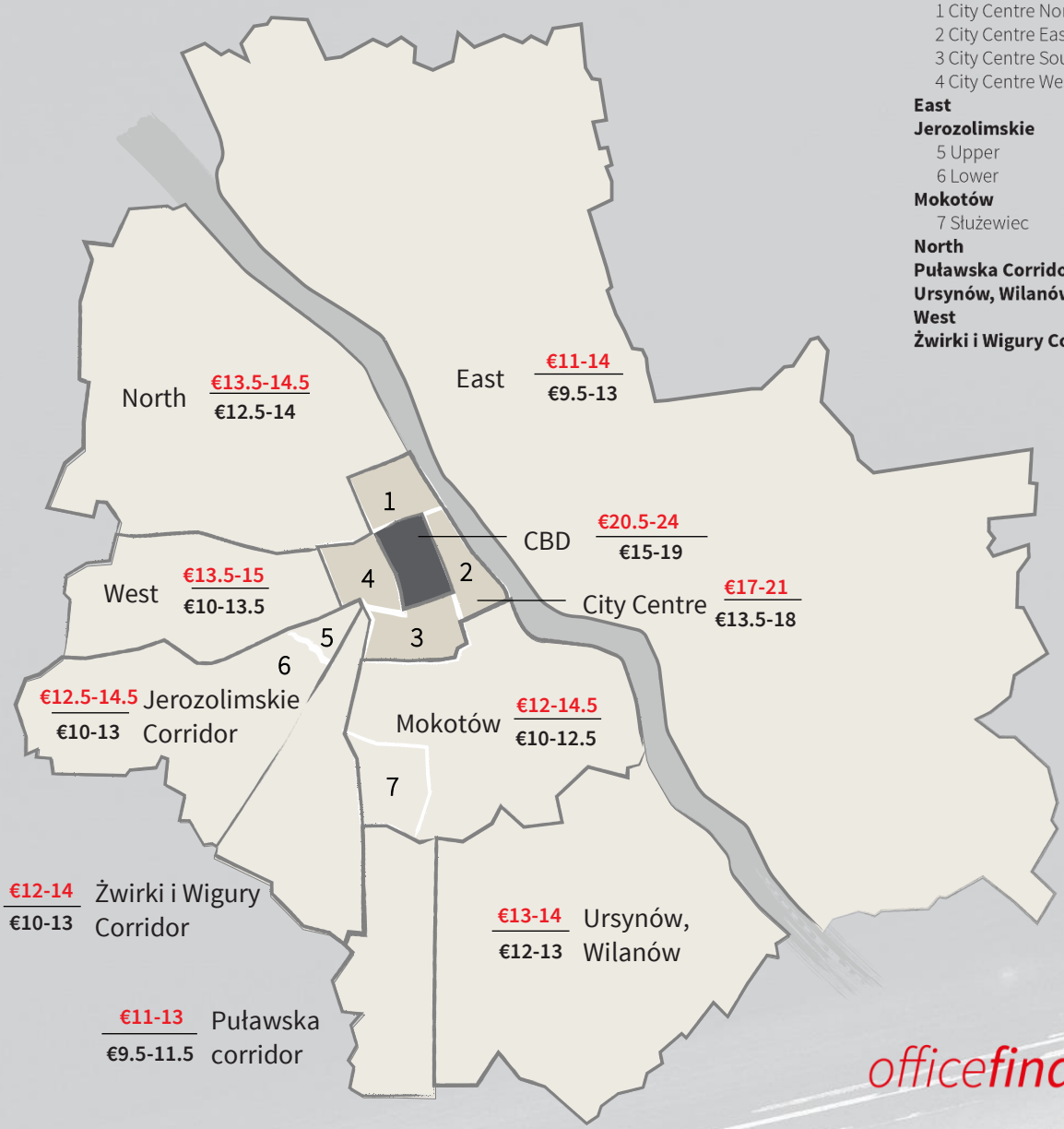
A-class / B-class

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

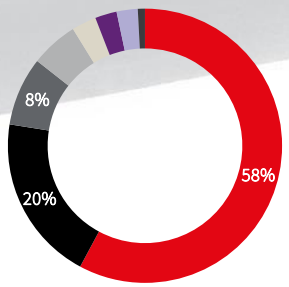
Mokotów
- 7 Służewiec

North
Puławska Corridor
Ursynów, Wilanów
West
Żwirki i Wigury Corridor



officefinder.pl

Construction activity in Warsaw's office districts



- City Centre
- CBD
- Mokotów
- Jerozolimskie corridor
- West
- East
- North
- Żwirki i Wigury corridor

Source: JLL, Q1 2019

Łukasz Dziedzic
Senior Analyst
Research & Consultancy
lukasz.dziedzic@eu.jll.com
+48 22 167 0433

Mateusz Polkowski
Head of Research & Consultancy
mateusz.polkowski@eu.jll.com
+48 22 167 0042