

# Warsaw office market

## Big shots and big banks: the tale of an ever-growing city.

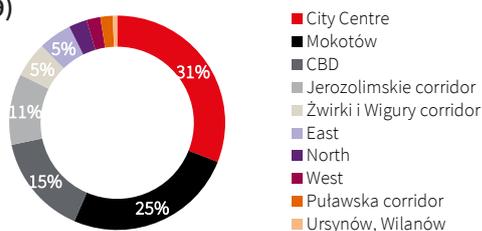
After a relatively slow start to the year, Warsaw's office market saw outstanding activity in Q2 2019. The last few months have been dominated by financial institutions which decided to relocate and sign large leases in central parts of Warsaw. However, the capital is not just banks and insurance companies: there are a number of significant transactions to be signed this year by companies from various industries. The pace of the market's growth is furious and 2019 is looking to be yet another success story for Warsaw.

All five of the biggest leases in H1 2019 were signed by banking and insurance sector firms. The largest was a 18,500 m<sup>2</sup> pre-let by Getin Bank in The Warsaw Hub, followed by a 17,600 m<sup>2</sup> pre-let by Warta in Warsaw Unit, a 13,300 m<sup>2</sup> renewal by a confidential tenant in Marynarska 12, a 12,900 m<sup>2</sup> renewal by AXA in Warsaw Trade Tower and a 12,400 m<sup>2</sup> pre-let by Bank Gospodarstwa Krajowego in Varso. What's more, four of these five deals were signed for space in central parts of Warsaw. There are several reasons for such a sharp focus on these locations: this is where large-scale developments are under construction, this is where commuting is most convenient, and this is where prestige equates to easier recruitment and staff retention. In particular, companies entering the market like to start their operations in the centre of the capital.

Q2 2019 was nothing short of spectacular in terms of demand for offices (almost 266,000 m<sup>2</sup> transacted on), which brought the H1 total to an exceptional 406,000 m<sup>2</sup>. What's quite specific about this year is the substantial growth of pre-letting activity. Dwindling availability of existing lease options prompted large companies to consider pipeline developments to a greater extent. In H1 as much as 108,500 m<sup>2</sup> came from pre-lets.

In terms of distribution of demand in Warsaw's submarkets, the City Centre is the firm leader, with almost 125,700 m<sup>2</sup> leased and that volume will be further boosted by high-profile deals to be signed in the next few months. Mokotów took second place, which is an amazing result and underlines the strength of this changing business hub. It was followed by the Central Business District (CBD), where the demand totalled 61,700 m<sup>2</sup>. These three districts together were responsible for almost three quarters of the total demand for office space in Warsaw.

## Demand distribution across Warsaw's office districts (H1 2019)



Source: JLL, H1 2019

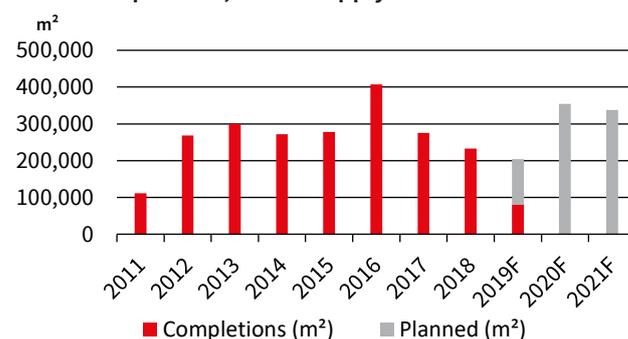
The expansion of flexible spaces providers in Warsaw continues. Unique developments are a significant target for flex operators,

which is shown by leases in ArtN by rent24 and City Office for a total of 5,800 m<sup>2</sup> and in Central Point (by a confidential provider) for 6,000 m<sup>2</sup>. Central locations are still preferred by that industry; however, flexes are also a great opportunity for other buildings to grab business. In Q2 2019 alone Inoffice decided to open in the Business Garden complex, while Regus opens its next location in Witosza Point.

Robust demand for offices in Warsaw drives the building frenzy in the capital. The new supply in H1 2019 was 80,500 m<sup>2</sup>, in ten buildings. The largest new openings include Moje Miejsce B1 (18,700 m<sup>2</sup> by Echo Investment, in Mokotów), Spark B (15,700 m<sup>2</sup> by Skanska Property Poland, in the City Centre West) and Vector+ (13,700 m<sup>2</sup> by City Level, in the North).

Currently the total under-construction pipeline includes 780,000 m<sup>2</sup> to be completed by 2021. 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



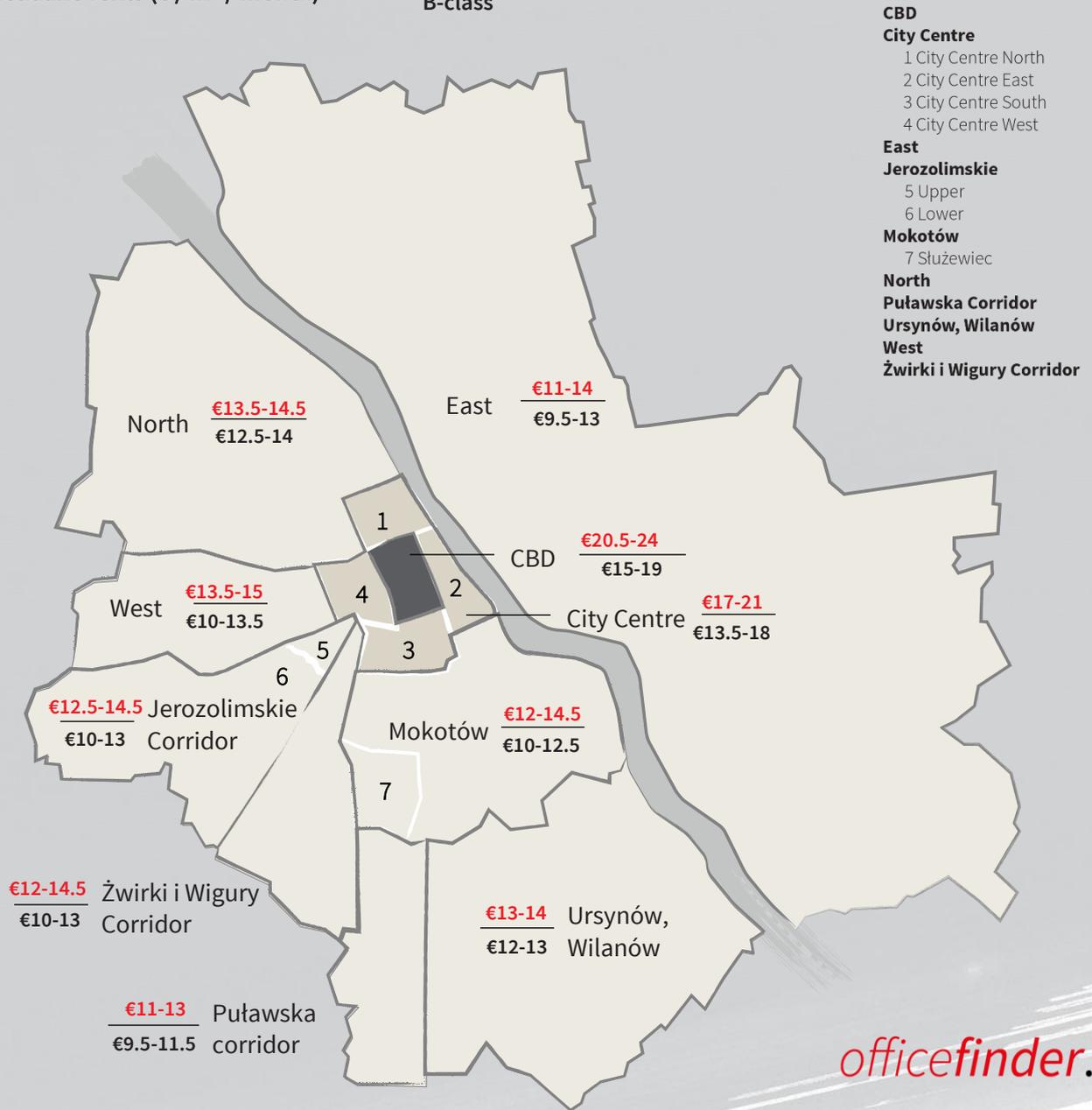
Source: JLL, H1 2019

The vacancy rate decreased to the level of 8.5% in Warsaw (5.6% in Central zones and 10.4% in Non-Central zones of the city), which is a fall of 2.6 p.p. y-o-y. That is the lowest level since 2012 and the rate is forecasted to decrease further at least for the next few quarters. As some developments scheduled for completion at the end of 2019 may be postponed, the drop may be substantial.

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 / m<sup>2</sup> / month, while prime assets located in the best non-central areas lease for €11.0 to €15.0 / m<sup>2</sup> / month.

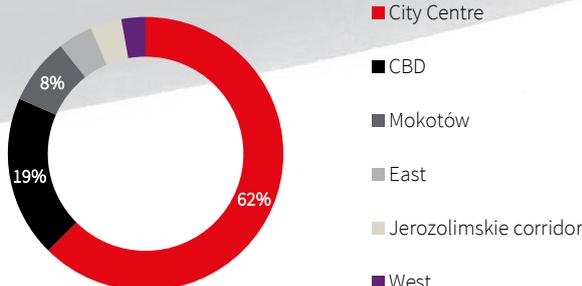
## Prime headline rents (€ / m<sup>2</sup> / month)

A-class  
B-class



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## Construction activity in Warsaw's office districts



Source: JLL, H1 2019



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