Tenants on the move

Data for Q3 shows that the interest in office space in Warsaw is unflagging. Net take-up between July and September, including new leases and expansions of the space occupied so far, reached nearly 139,000 sq m, and – counting from the beginning of the year, it amounted to nearly 462,000 sqm. Assuming that the current pace is maintained, it is possible that the result for the entire year will come close to or even exceed the record high figure recorded in 2015, when more than 660,000 sq m were leased. In their search for new office space, tenants are focusing on the central areas of the capital. On the other hand, even the Mokotów district, undoubtedly struggling with the problem of vacancy, can boast relatively good results.

NEW SUPPLY

70% OF SPACE IN THE NEW BUILDINGS TO BE DELIVERED TO THE MARKET IS ALREADY LEASED

Supply of modern space in Q3 this year stood at a mere 16,300 sq m, the vast majority of which delivered in Park Avenue located at ul. Wspólna 70 and opened in August. Office buildings with the total leasable area of 190,000 sq m have been delivered to the market since the beginning of the year. 56% of the space completed is located in the central zone, which – in addition to the above-mentioned Park Avenue, saw the completion of schemes such as Proximo II, Spark C, the office component of the CEDET mixed use scheme, Nowogrodzka Square, Centrum Marszałkowska on the site of the former Sezam department store and two buildings within EC Powiśle – an office, residential and commercial complex.

At the end of Q3 2018, the volume of leasable space in Warsaw exceeded 5.4 million sq m. The highest concentration of office space is to be found in the City Centre zone, with 39% of the currently available space. The fastest developing sub-zone is City Centre - West, which is highly popular due to its close proximity to the heart of the city centre and good public transport provided by trams and the currently extended second metro line.

Due to the high demand from tenants, the average occupancy ratio in schemes delivered to the market in Q3 this year stood at nearly 70%, and some of them, such as Proximo II and Cedet, had secured tenants for all the space available before their delivery to the market.

It must be stressed that currently there is a noticeable trend to change the function of older buildings from office space into other commercial purposes, or even to demolish them and modify the manner in which the given area is developed. This means that in the coming years some of the office space is going to disappear and be replaced by modern schemes in more convenient locations.
PIPEDLINE

**ONE GREAT BUILDING SITE IN THE CITY CENTRE - WEST CLUSTER**

At the end of September 2018, approximately 734,000 sq m were under construction, 44% of which will be completed by the end of 2019.

The most development will take place in the City Centre zone, which will see delivery to the market of 78% of the stock currently under construction. Particularly high developer activity can be observed in the vicinity of the Daszyński roundabout in the City Centre - West zone, where currently there are about 290,000 sq m of space under construction, with further schemes in the planning phase.

Developers continue to show interest in the second largest office area of Mokotów with its approx. 26% of Warsaw’s existing office space. The schemes developed there account for 11% of the space currently under construction in the city. However, the absorption capacity as regards new space in this district, particularly in the highly saturated sub-zone of Służewiec, is definitely limited. Schemes currently under construction are usually located outside the sub-zone of Służewiec, which is experiencing a crisis in terms of demand.

The remaining zones hold 11% of the space currently under development. The smallest number of new construction projects is planned for the areas outside of the city centre, which are not developed office districts.

**DEMAND**

**Attractive City Centre**

There is high interest from tenants in the City Centre zone, which is a prestigious location offering a satisfactory choice of options due to the new schemes being constructed both in the Central Business District and at its western border. Between January and September 2018, net demand for space in the central district accounted for 54% of the total net demand registered in the capital, with the Central Business District holding 22% of the space leased.

On the other hand, tenants’ attention is still attracted by Mokotów, with about 17% of net take-up. The Mokotów zone offers the largest selection of space for which the most flexible commercial lease terms can be negotiated. As a result, many tenants are willing to extend their leases and expand the currently occupied space.

The least developed non-central zones are the least popular among tenants (West, North, East, Wilanów and Ursynów, Puławska Corridor), accounting for approx. only 12% of total net take-up.

It is noteworthy that despite the relatively high vacancy rate, finding a space of over 5,000 sq m with parameters meeting all of the tenant’s requirements still represents a considerable challenge.
VACANCY RATE

LOW SUPPLY OF NEW SPACE MEANS QUICK ABSORPTION

The slight increase in new supply and continuous high interest from tenants led to a drop in the volume of vacant space in Q3. Average vacancy rate for Warsaw’s office buildings dropped to 10%, which represents a decrease by 1.3 pp when compared to the situation recorded on the market at the end of 2017.

Lowest vacancy rates are recorded in the less developed zones such as the North (2.4%), Ursynów, Wilanów (3.8%), and the central zones (6.6%). In turn, the most vacant space is located in the Zwirki i Wigury corridor (17.2%) and the Mokotów zone (15.8%). However, it has to be pointed out that the figures recorded for the above-mentioned zones have dropped considerably compared to the end of June, which ultimately translates into an improved result for the entire Warsaw.

Schemes with a total area in excess of 700,000 sqm are to be delivered to the market by the end of 2020. Assuming that the majority thereof is completed on time, a temporary increase in the vacancy rate over the next 2 years is to be expected. This refers mainly to the central zones holding the largest volume of the space currently under construction. However, taking into account the unflagging interest from tenants, the increase will probably be only temporary, and further decreases in the volume of vacant space are expected in the longer term.

RENTS

TABLE FOR PRIME LOCATIONS, CHANGES IN OTHER COST COMPONENTS

Headline rents for top quality assets in the city centre have increased slightly and currently stand between EUR 21.00 and 22.50 per sq m per month.

The drop in vacancy rate and the limited volume of new space expected to be delivered by the end of 2019 will translate into strengthening of the negotiating position of landlords and the market will achieve the tenant - landlord equilibrium once again. However, after a period of tenant supremacy, no sharp increase in headline rents for prime schemes is expected. On the other hand, tenant incentives in the form of rent free periods and fit-out contributions will be gradually optimized. The above is obvious particularly in respect of new buildings whose owners have to balance the recently recorded significant increase in office construction and fit-out costs.
AT A GLANCE - OFFICE MARKET IN WARSAW – Q3 2018

SUBZONES

NORTH
STOCK 106,000 m²
VACANCY RATE 2.4%

WEST
STOCK 227,000 m²
VACANCY RATE 9.3%

JEROZOLIMSKIE CORRIDOR
STOCK 699,000 m²
VACANCY RATE 9.0%

ŻWIRKI & WIGURY CORRIDOR
STOCK 291,000 m²
VACANCY RATE 17.2%

PUŁAWSKA CORRIDOR
STOCK 202,500 m²
VACANCY RATE 7.8%

EAST
STOCK 237,000 m²
VACANCY RATE 9.5%

CITY CENTRE
STOCK 2,121,000 m²
VACANCY RATE 6.6%

MOKOTÓW
STOCK 1,407,000 m²
VACANCY RATE 15.8%

URSYNÓW, WILANÓW
STOCK 128,500 m²
VACANCY RATE 3.8%

CENTRE

CBD
STOCK 878,500 m²
UNDER CONSTRUCTION 172,500 m²
VACANCY RATE 6.5%
NET TAKE-UP % 22%

CITY CENTRE NORTH
STOCK 153,500 m²
UNDER CONSTRUCTION 0 m²
VACANCY RATE 1.3%
NET TAKE-UP % 2%

CITY CENTRE WEST
STOCK 650,000 m²
UNDER CONSTRUCTION 388,000 m²
VACANCY RATE 5.3%
NET TAKE-UP % 18%

CITY CENTRE SOUTH
STOCK 301,000 m²
UNDER CONSTRUCTION 7,800 m²
VACANCY RATE 8.6%
NET TAKE-UP % 10%

CITY CENTRE EAST
STOCK 138,000 m²
UNDER CONSTRUCTION 5,400 m²
VACANCY RATE 15.2%
NET TAKE-UP % 3%
COWORKING

In the first three quarters of 2018, the operators of shared office space (the so-called coworking) generated approximately 10% of net take-up, and the total area of offices of this type in Warsaw is to reach more than 160,000 sq m (including space in yet unfinished schemes). The debuting of successive operators confirms that in this respect the Polish market follows the trends observed in Western Europe and the US.

DOMINATION OF THE CENTRAL ZONE

The interest of both developers and tenants is concentrated on the central part of Warsaw. The areas with the highest activity are the Central Business District and City Centre - West. In the context of traffic problems in the capital and record low unemployment, the availability of public transport is a key decision-making factor.

NEW LEASES AND EXPANSIONS DRIVE DEMAND

Demand for office space is to a great extent generated by new tenants and companies growing their business, which seek locations and expand their existing offices. Their decisions are influenced by the high availability of space and favourable lease conditions.

REGAINING BALANCE?

As a result of the high level of demand and the limited new supply expected for the next 18 months, the market is now regaining the tenant-landlord equilibrium. No dramatic increase in rents is forecast, however, other cost components are being optimized. Additionally, the observed increase in construction costs will have an impact on lease costs.

Existing office space divided into subzones

Centre 39%

Mokotów 26%

Zwirki i Wigury Corridor 6%

Jerozolimske Corridor 13%

Pulawska Corridor 4%

East 4%

West 4%

Ursynów, Wilanów 2%

North 2%

Wronia 31, Warsaw, building under BNP Paribas Real Estate management

Source: BNP Paribas Real Estate photo library
### Major completions, last 12 months

<table>
<thead>
<tr>
<th>Building</th>
<th>Office area (sq m)</th>
<th>Subzone</th>
<th>Open date</th>
<th>Developer</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Station II</td>
<td>35,000</td>
<td>Jerozolimskie Corridor</td>
<td>Q3 2017</td>
<td>HB Reavis</td>
</tr>
<tr>
<td>D48</td>
<td>23,500</td>
<td>Mokotów</td>
<td>Q3 2017</td>
<td>Penta Investments</td>
</tr>
<tr>
<td>Bobrowiecka B</td>
<td>22,000</td>
<td>Mokotów</td>
<td>Q4 2017</td>
<td>Spectra Development</td>
</tr>
<tr>
<td>Proximo II</td>
<td>19,900</td>
<td>City Centre - West</td>
<td>Q2 2018</td>
<td>Hines</td>
</tr>
<tr>
<td>Generation Park X I</td>
<td>19,500</td>
<td>City Centre - West</td>
<td>Q4 2017</td>
<td>Skanska</td>
</tr>
<tr>
<td>Equator IV</td>
<td>19,200</td>
<td>Jerozolimskie Corridor</td>
<td>Q2 2018</td>
<td>Karimpol</td>
</tr>
<tr>
<td>Koneser Centrum Praskie H,O,P</td>
<td>17,300</td>
<td>East</td>
<td>Q2 2018</td>
<td>BBI Development</td>
</tr>
<tr>
<td>Graffit</td>
<td>16,600</td>
<td>Mokotów</td>
<td>Q1 2018</td>
<td>Hines</td>
</tr>
<tr>
<td>Wronia 31</td>
<td>15,100</td>
<td>City Centre - West</td>
<td>Q3 2017</td>
<td>Ghelamco</td>
</tr>
<tr>
<td>Cced</td>
<td>14,300</td>
<td>CBD</td>
<td>Q2 2018</td>
<td>Immobel</td>
</tr>
<tr>
<td>Centrum Marszałkowska</td>
<td>13,100</td>
<td>CBD</td>
<td>Q2 2018</td>
<td>BBI Development</td>
</tr>
<tr>
<td>Park Avenue</td>
<td>12,500</td>
<td>CBD</td>
<td>Q3 2018</td>
<td>Park Projects</td>
</tr>
<tr>
<td>Spark C</td>
<td>11,400</td>
<td>City Centre - West</td>
<td>Q2 2018</td>
<td>Skanska</td>
</tr>
<tr>
<td>The Park S</td>
<td>11,400</td>
<td>Jerozolimskie Corridor</td>
<td>Q2 2018</td>
<td>White Star</td>
</tr>
<tr>
<td>Nowogrodzka Square</td>
<td>10,900</td>
<td>CBD</td>
<td>Q2 2018</td>
<td>Yareal</td>
</tr>
<tr>
<td>EC Powiśle B5</td>
<td>10,000</td>
<td>City Centre - East</td>
<td>Q2 2018</td>
<td>White Star</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

### Major schemes under construction, 2018-2020

<table>
<thead>
<tr>
<th>Building</th>
<th>Office area (sq m)</th>
<th>Subzone</th>
<th>Year planned</th>
<th>Developer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Varso</td>
<td>130,000</td>
<td>CBD</td>
<td>2019-2020</td>
<td>HB Reavis</td>
</tr>
<tr>
<td>The Warsaw Hub</td>
<td>76,000</td>
<td>City Centre - West</td>
<td>2020</td>
<td>Ghelamco</td>
</tr>
<tr>
<td>Menimica Legacy</td>
<td>61,000</td>
<td>City Centre - West</td>
<td>2018-2019</td>
<td>Golub GetHouse</td>
</tr>
<tr>
<td>Skyliner</td>
<td>44,000</td>
<td>City Centre - West</td>
<td>2020</td>
<td>Karimpol</td>
</tr>
<tr>
<td>Spinmaker Tower</td>
<td>40,000</td>
<td>City Centre - West</td>
<td>2020</td>
<td>Ghelamco</td>
</tr>
<tr>
<td>ArtNorblin</td>
<td>40,000</td>
<td>City Centre - West</td>
<td>2020</td>
<td>Capital Park</td>
</tr>
<tr>
<td>Widok Towers</td>
<td>32,000</td>
<td>CBD</td>
<td>2020</td>
<td>S+B / Commerzreal</td>
</tr>
<tr>
<td>DSV HQ</td>
<td>30,000</td>
<td>Służewiec</td>
<td>2020</td>
<td>DSV</td>
</tr>
<tr>
<td>Business Liner</td>
<td>28,000</td>
<td>Mokotów</td>
<td>2020</td>
<td>Universale International</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

### Major office lease transactions, Q1-Q3 2018

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Sector</th>
<th>Building</th>
<th>Subzone</th>
<th>Area leased (sq m)</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deloitte</td>
<td>FIRE</td>
<td>Piękna 2.0</td>
<td>CBD</td>
<td>22,100</td>
<td>renewal + ekspansion</td>
</tr>
<tr>
<td>poufny</td>
<td>n/a</td>
<td>PLL LOT HQ</td>
<td>CBD</td>
<td>14,800</td>
<td>new</td>
</tr>
<tr>
<td>WeWork</td>
<td>Coworking</td>
<td>Menimica Legacy Tower</td>
<td>City Centre - South</td>
<td>14,200</td>
<td>pre-let</td>
</tr>
<tr>
<td>CIC</td>
<td>IT</td>
<td>Varso II</td>
<td>City Centre West</td>
<td>13,500</td>
<td>pre-let</td>
</tr>
<tr>
<td>PLL LOT</td>
<td>Transport</td>
<td>PLL LOT HQ</td>
<td>CBD</td>
<td>11,900</td>
<td>renewal</td>
</tr>
<tr>
<td>Ad Pilot</td>
<td>BS</td>
<td>Wolf Marszałkowska</td>
<td>CBD</td>
<td>10,300</td>
<td>new</td>
</tr>
<tr>
<td>Nestle</td>
<td>FMCG</td>
<td>Nestle House</td>
<td>Mokotów</td>
<td>9,500</td>
<td>renewal</td>
</tr>
</tbody>
</table>

FIRE - finanse, ubezpieczenia, nieruchomości; BS - usługi dla biznesu

Source: BNP Paribas Real Estate