Record-breaking tenant demand for office space

Warsaw’s office market has experienced an extremely high level of tenant activity right throughout 2018. Net take-up in the 12-month period, comprising new leases and expansions of the space occupied so far, reached nearly 648,000 sq m, which is a record-breaking result. Significant interest in office space coupled with a relatively low level of new supply led to a considerable drop in vacancy rate down to 8.7% at the end of 2018. Mokotów and the City Centre zone attracted the most tenant interest. The highest developer activity is observed in the City Centre – West sub-zone with nearly half of the volume of office space currently under construction located there.

Due to the high demand from tenants, the average occupancy ratio for schemes delivered to the market in 2018 stood at approx. 68%, and some of them, such as Proximo II, Koneser and Cedet, had secured tenants for all the space available before their completion.

It should be pointed out that we are currently observing the beginning of a trend to change the function of older buildings from office space into other commercial uses, 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.

NEW SUPPLY

68% OF SPACE IN BUILDINGS TO BE OPENED IS ALREADY LEASED

New supply of modern space in Q4 2018 reached 42,700 sq m, where the largest schemes included the first office building within the Browary Warszawskie complex – Blura przy Bramie (15,000 sq m) and Neopark B (12,100 sq m) located in Mokotów’s Służewiec sub-zone. A total of 232,700 sq m of space has been delivered to Warsaw’s office market through the past year, which is a result 17% lower than the figure achieved in 2017 and as much as 43% lower than the record-breaking supply of 2016. In addition to the two schemes mentioned above, the following buildings were also completed: Park Avenue, 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 retail complex.

At the end of 2018, the volume of leasable space in Warsaw exceeded 5.4 million sqm. The highest concentration of office space is to be found in the City Centre zone with 39% of the current volume. 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 currently extended second metro line.

At a glance Q4 2018

OFFICE MARKET IN WARSAW

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Office Stock</td>
<td>5.46 mln m²</td>
</tr>
<tr>
<td>New Office Supply in 2018</td>
<td>232,700 m²</td>
</tr>
<tr>
<td>Net Take-up in 2018</td>
<td>647,600 m²</td>
</tr>
<tr>
<td>Average Vacancy Rate</td>
<td>8.70%</td>
</tr>
<tr>
<td>Prime Rents (€/m²/month)*</td>
<td>21.5 – 22.5</td>
</tr>
<tr>
<td>Average Rented Space</td>
<td>ca. 1,200 m²</td>
</tr>
<tr>
<td>Office Space Under Construction</td>
<td>740,000 m²</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate, f – forecast

Annual office supply in Warsaw

*excl. boutique offices
### PLANNED SUPPLY

**WAITING FOR GRAND PROJECTS**

At the end of 2018, approx. 740,000 sq m were under construction, 34% 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 81% of the stock currently under construction. Particularly high developer activity can be seen in the vicinity of Rondo Daszyńskiego in the City Centre – West sub-zone, where about 370,000 sq m of space is currently under construction. The majority of the space there will be located in high-rise office towers such as: Warsaw Unit, Skyliner, The Warsaw Hub and Generation Park, the completion of which is planned for 2020– 2021.

Developers continue to show interest in Warsaw’s second largest office zone, i.e. Mokotów. The projects developed in that area account for 6% 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 Służewiec sub-zone, is definitely limited. Schemes currently under construction are usually located outside of this particular area, which is experiencing a crisis in terms of demand.

The remaining zones hold 13% 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

**CITY CENTRE CAPTURES INTEREST**

The high level of demand for office space combined with the modest new supply means that the options available to businesses expanding their operations are extremely limited. At the moment, finding a space of over 5,000 sq m with parameters meeting all of the tenant’s requirements is challenging.

There is high interest from tenants in the City Centre zone, which is a prestigious location offering a satisfactory choice of options thanks to the new schemes being constructed both in the Central Business District and at its western boundary. In 2018, net take-up of space in the central district accounted for 49% of the total net demand registered in the capital, with CBD alone holding nearly 19% of the space leased.

On the other hand, tenants’ attention is still attracted by Mokotów, with about 22% of net take-up. The Mokotów zone offers the widest 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 demand.

It is noteworthy that operators of shared office space (the so-called coworking) generated approximately 10% of net demand, and the total area of offices of this type in the capital is to reach more than 160,000 sq m (including space in yet unfinished schemes).
AT A GLANCE – OFFICE MARKET IN WARSAW – Q4 2018

VACANCY RATE

QUICK ABDORPTION OF NEW SPACE
The relatively small increase in new supply and steady high interest from tenants in 2018 resulted in a substantial drop in the volume of vacant space. Average vacancy rate for Warsaw’s office buildings declined to 8.7%, which represents a decrease by 2.6 pp when compared to the situation recorded on the market at the end of 2017. Despite the relatively fast pace of development of the central zones, in particular the CBD and City Centre – West, the vacancy rate there also dropped considerably and at the end of the year stood at merely 5.4%.

Lowest vacancy rates for Warsaw are recorded in the less developed zones such as the North (2.0%) and Ursynów & Wilanów (4.2%). In turn, the most vacant space is located in the Mokotów zone (15.4%) and the Żwirki & Wigury Corridor (11.6%). However, it has to be pointed out that the figures recorded for the abovementioned zones have dropped considerably when compared to the same period in 2017.

Schemes with a total area in excess of 740,000 sq m are to be delivered to the market by the end of 2021. 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 momentary, and further decreases in the volume of vacant space are expected in the longer term.

RENTS

SLIGHT INCREASE IN LEASE COSTS IN CITY CENTRE
Headline rents for prime assets in the city centre have increased slightly and in Q4 2018 stood between EUR 21.50 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 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 serious 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 will be particularly obvious 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 – Q4 2018

SUBZONES

NORTH
STOCK 106,000 m²
VACANCY RATE 2.3%

WEST
STOCK 226,800 m²
VACANCY RATE 5.6%

JEROZOLIMSKIE CORRIDOR
STOCK 699,200 m²
VACANCY RATE 6.7%

ŻWIRKI & WIGURY CORRIDOR
STOCK 291,200 m²
VACANCY RATE 11.6%

PUŁAWSKA CORRIDOR
STOCK 202,400 m²
VACANCY RATE 7.5%

MOKOTÓW
STOCK 1,431,600 m²
VACANCY RATE 15.4%

URSYNÓW, WILANÓW
STOCK 128,600 m²
VACANCY RATE 4.2%

CITY CENTRE

CBD
STOCK 878,500 m²
UNDER CONSTRUCTION 175,000 m²
VACANCY RATE 5.2%
NET TAKE-UP % 19%

CITY CENTRE NORTH
STOCK 155,000 m²
UNDER CONSTRUCTION 72,000 m²
VACANCY RATE 1.1%
NET TAKE-UP % 2%

CITY CENTRE WEST
STOCK 665,000 m²
UNDER CONSTRUCTION 390,000 m²
VACANCY RATE 4.9%
NET TAKE-UP % 17%

CITY CENTRE SOUTH
STOCK 301,000 m²
UNDER CONSTRUCTION 5,700 m²
VACANCY RATE 7.3%
NET TAKE-UP % 7%

CITY CENTRE EAST
STOCK 138,000 m²
UNDER CONSTRUCTION 5,500 m²
VACANCY RATE 9.8%
NET TAKE-UP % 4%
COWORKING
In 2018, the operators of shared office space (the so-called coworking) generated approximately 10% of net demand, and the total area of offices of this type in Warsaw is to reach more than 160,000 sqm (including space in yet unfinished schemes). The debutting of successive operators confirms that in this respect the Polish market follows the trends observed in Western Europe and the USA.

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 Centre – West. In the context of traffic problems in the capital and record-breaking 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 relatively 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%
- Puławska Corridor 4%
- Ursynów, Wilanów 2%
- Jerozolimskie Corridor 13%
- Żwirki i Wigury Corridor 6%
- West 4%
- Puławska Corridor 4%
- North 2%
**Major completions delivered in 2018**

<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>Koneser Centrum Praskie C, H, O, P</td>
<td>21,100</td>
<td>East</td>
<td>Q2, Q3 2018</td>
<td>BBI 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>Equator IV</td>
<td>19,200</td>
<td>Jerozolimskie Corridor</td>
<td>Q2 2018</td>
<td>Karimpol</td>
</tr>
<tr>
<td>Graffit</td>
<td>16,600</td>
<td>Mokotów</td>
<td>Q1 2018</td>
<td>Hines</td>
</tr>
<tr>
<td>EC Powiśle B4, B5</td>
<td>16,200</td>
<td>City Centre - East</td>
<td>Q2 2018</td>
<td>White Star</td>
</tr>
<tr>
<td>Browary Warszawskie: Biura przy Bramie</td>
<td>15,000</td>
<td>City Centre - West</td>
<td>Q4 2018</td>
<td>Echo Investment</td>
</tr>
<tr>
<td>Cedet</td>
<td>14,300</td>
<td>CBD</td>
<td>Q2 2018</td>
<td>Immobil</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>Neopark B</td>
<td>12,100</td>
<td>Mokotów – Służewiec</td>
<td>Q4 2018</td>
<td>Yareal</td>
</tr>
<tr>
<td>Spark 1</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>
</tbody>
</table>

Source: BNP Paribas Real Estate

**Major schemes under construction**

<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>Forest</td>
<td>71,000</td>
<td>City Centre - North</td>
<td>2020–2021</td>
<td>HB Reavis</td>
</tr>
<tr>
<td>Menica 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>Warsaw Unit</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, 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>Q22</td>
<td>CBD</td>
<td>22,100</td>
<td>renewal + expansion</td>
</tr>
<tr>
<td>confidential</td>
<td>n/a</td>
<td>Piękna 2.0</td>
<td>City Centre</td>
<td>14,800</td>
<td>new</td>
</tr>
<tr>
<td>WeWork</td>
<td>Coworking</td>
<td>BPPM City Centre</td>
<td>City Centre - West</td>
<td>14,200</td>
<td>pre-let</td>
</tr>
<tr>
<td>CIC</td>
<td>IT</td>
<td>Varso II</td>
<td>CBD</td>
<td>13,500</td>
<td>pre-let</td>
</tr>
<tr>
<td>PLL LOT</td>
<td>Transport</td>
<td>PLL LOT HQ</td>
<td>Zwirki &amp; Wigury Corridor</td>
<td>11,900</td>
<td>renewal</td>
</tr>
<tr>
<td>Ringier Axel Springer</td>
<td>Media</td>
<td>Trinity Park III</td>
<td>Mokotów – Służewiec</td>
<td>11,700</td>
<td>new</td>
</tr>
<tr>
<td>WeWork</td>
<td>Coworking</td>
<td>Browary Warszawskie</td>
<td>City Centre - West</td>
<td>10,500</td>
<td>pre-let</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>
</tbody>
</table>

FIRE – Finance, Insurance, Real Estate, BS – Business Solutions
Source: BNP Paribas Real Estate