Limited new supply this year

New office supply in Q1 2019 reached a mere 20,200 sq m. It is expected that over the next three quarters the volume of space delivered to the market will not exceed 175,000 sq m, which – along with high tenant interest – is undoubtedly going to result in a decrease in vacancy rate. The central zones and Mokotów will attract most demand due to the relatively decent availability of attractive options there.

Developer activity is mostly concentrated in the City Centre - West sub-zone with more than half of all office space currently under construction located there (approx. 425,000 sq m).

NEW SUPPLY

CITY CENTRE-WEST SUB-ZONE IN DEVELOPERS’ SIGHTS

A mere 20,200 sq m of new office space in three buildings was delivered to the market in Q1 2019. The largest office scheme completed was another phase of the Spark complex, i.e. the B building with the area of 15 700 sqm. The Spark complex currently comprising of two office buildings is located on the outskirts of the City Centre-West sub-zone – an attractive location from the point of view of available transport links – at the junction of Solidarności Avenue and Towarowa street. The next phase of the project is an office tower (Spark A) to be completed within the next three years.

Warsaw city centre saw delivery to the market of the boutique Poznańska 37 scheme (3,000 sq m) a renovated tenement house located near Jerozolimskie avenue. Furthermore, the small Kaleńska 5 building (1,500 sq m) was completed in the East zone in Praga Południe.

At the end of Q1 2019 Warsaw’s office stock stood at nearly 5.5 million sq m. The highest concentration of office space is to be found in the Central Zone with more than 39% of the current volume located there. In turn, City Centre-West is the fastest developing sub-zone with the office stock having increased nearly by half since the beginning of 2016. The area is becoming increasingly attractive due to its close proximity to the heart of the city centre and convenient public transport links provided by trams and the currently extended second metro line.

It is worth mentioning that we are currently observing the beginning of a 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.

Annual office supply in Warsaw

![Annual office supply in Warsaw chart]

Source: BNP Paribas Real Estate, f - forecast

*excl. boutique offices
PLANNED SUPPLY
BLOOMING OFFICE TOWERS, RONDO DASZYŃSKIEGO AREA LIKE MANHATTAN

Approx. 780,000 sq m were under construction at the end of Q1 2019, of which approx. 22% will be completed by the end of the year. Most development will take place in the City Centre zone, which will see delivery to the market of approx. 75% of the space currently under construction. There are approx. 425,000 sq m of space under construction at the moment in only the City Centre-West sub-zone, with the area around Rondo Daszyńskiego set to become the capital city’s main office hub. High-rise office towers such as Warsaw Unit, Skyliner, The Warsaw Hub and Generation Park Y will be delivered to the market there by the end of 2021. –

Developers continue to show interest in Warsaw’s second largest office zone, i.e. Mokotów. The schemes developed there account for 8% of the space currently under construction in the city. However, the absorption capacity as regards new space in this area – particularly in the highly saturated Służewiec sub-zone – is definitely limited. Two buildings currently under construction in Mokotów are located outside of this particular area, which is experiencing a crisis in terms of demand, while another one scheme is being developed there for the investor’s own purposes (DSV). The smallest number of new construction projects is planned for the areas outside of the city centre, which are not well established office districts.

TAKE-UP
CITY CENTRE CAPTURES DEMAND

Total office take-up in Q1 2019 stood at approx. 140,100 sq m, of which more than 70% was generated by net demand comprising of new leases, expansions of the space occupied so far and space developed for the property owner’s own purposes.

Tenants show highest interest in the City Centre and Mokotów zones, which together account for nearly 60% of demand recorded. In the City Centre zone, net take-up accounted for approx. 75% of total demand. This is due to the high volume of office space currently developed in schemes located in the Central Business District and the City Centre-West sub-zone.

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 renew their contracts or expand the currently occupied space. Renewals accounted for nearly 50% of gross take-up in the Mokotów zone.

The least developed non-central zones are the least popular among tenants (West, East, Wilanów and Ursynów, Puławska Corridor), accounting for approx. only 10% of total take-up.

The highest share of total take-up was generated by tenants from the business services industry, IT companies and services providers, who generated approx. 13% of demand each.

The largest transaction concluded in Q1 this year was the lease signed by Wirtualna Polska for 7,000 sq m in the Business Garden complex.

The high level of demand for office space combined with the limited new supply in the short-term means that currently there is a very limited availability of space over 5,000 sq m and with parameters meeting all of the tenant’s requirements.
### VACANCY RATE

**TEMPORARY INCREASE, HOWEVER A DOWNWARD TRENDS IN THE MID-TERM HORIZON**

Average vacancy rate for Warsaw’s office buildings increased slightly by the end of Q1 this year up to 9.1%, which is a result only marginally different from the 8.7% recorded at the end of 2018. Compared to the corresponding period last year, vacancy rate dropped by 1.7 pp, which confirms the mid-term downward trend for vacant space.

Compared to the end of March last year, the city centre (inclusive of the Central Business District) saw a 1 pp drop in vacancy rate to 6.3%. Lowest vacancy rates for Warsaw are recorded in the less developed zones such as the West (4.6%), the North (4.9%), as well as Ursynów and Wilanów (4.9%). In turn, the most vacant space is located in the Mokotów zone (16.3%), where the vacancy rate recorded stood at a level comparable to the corresponding period last year, and the Zwirki i Wigury corridor (11.5%), where a considerable drop in vacancy rate (by nearly 10 pp) was recorded compared to the end of March 2018. The high vacancy rate recorded in Mokotów undoubtedly results from the situation in the Służewiec sub-zone where a vacancy rate oscillating around 19% has been recorded for the past four quarters.

It is expected that the space delivered to the market over the next three quarters of this year will not exceed 175,000 sq m, which means that the volume of new office supply in the entire 2019 will be noticeably lower than the average for the past five years standing at nearly 300,000 sq m. The moderate increase in new space and high level of interest from tenants, that is expected to continue, may result in a decrease in the volume of vacant space by the end of this year.

New supply planned for 2020–2021 might exceed 600,000 sq m, which is expected to translate into a temporary increase in vacancy rate over that period. 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.

### RENTS

**STABLE HEADLINE RENTS, INCREASE IN EFFECTIVE RENTS**

Headline rents for prime assets in the city centre have increased slightly over the course of 2018 and at the end of Q1 2019 stood between EUR 21.50 and 22.50 per sq m per month.

The expected drop in vacancy rate over the coming quarters of this year and the limited volume of new space 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 fundamental 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 reduced. The above will be particularly obvious in respect of new buildings whose owners have to balance the recently recorded significant increase in construction and fit-out costs.
**COWORKING**

In 2018, the operators of shared and serviced office space (the so-called flex office) generated approx. 10% of net demand, and the total area of offices of this type in Warsaw stands at more than 160,000 sq m (including space in yet unfinished schemes). The interest shown in the Polish market by successive operators confirms that in this respect our country follows the trends observed in Western Europe and the USA.

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**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.

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**NEW LEASES AND EXPANSIONS**

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

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**REGAINING BALANCE**

As a result of the high level of demand and the limited new supply expected for the coming quarters of this year, the market is now regaining the tenant – landlord equilibrium. No dramatic increase in rents is forecast, however, other cost components are being modified. Additionally, the observed increase in construction costs will have an impact on effective lease costs.

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Existing office space divided into subzones:

- **Centre** 39%
- **Mokotów** 26%
- **Ursynów, Wilanów** 2%
- **Pulawska Corridor** 4%
- **Jerozolimskie Corridor** 13%
- **Żwirki i Wigury Corridor** 6%
- **West** 4%
- **East** 4%
- **North** 2%
- **Ursynów, Wilanów** 2%
- **Zachód** 4%
- **Wschód** 4%
- **Korytarz Puławska** 4%
- **Korytarz Żwirki i Wigury** 6%
- **Ursynów, Wilanów** 2%
- **Północ** 2%

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*Source: BNP Paribas Real Estate photo library* 

*Wronia 31, Warsaw, building under BNP Paribas Real Estate management*
### Major completions in the 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>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>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>Spark B</td>
<td>15,700</td>
<td>City Centre – West</td>
<td>Q1 2019</td>
<td>Skanska</td>
</tr>
<tr>
<td>Browary Warszawskie: Gatehouse Offices</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>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>Neopark B</td>
<td>12,100</td>
<td>Mokotów - Służewiec</td>
<td>Q4 2018</td>
<td>Yareal</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>
</tbody>
</table>

Source: BNP Paribas Real Estate

### Major schemes under construction, 2019 - 2021

<table>
<thead>
<tr>
<th>Building</th>
<th>Office area (sq m)</th>
<th>Subzone</th>
<th>Developer</th>
<th>Year planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Varso Place</td>
<td>122,000</td>
<td>CBD</td>
<td>HB Reavis</td>
<td>2019 - 2020</td>
</tr>
<tr>
<td>The Warsaw Hub</td>
<td>76,000</td>
<td>City Centre – West</td>
<td>Ghelamco</td>
<td>2020</td>
</tr>
<tr>
<td>Generation Park Z, Y</td>
<td>65,000</td>
<td>City Centre – West</td>
<td>Skanska</td>
<td>2019 - 2021</td>
</tr>
<tr>
<td>Mennica Legacy</td>
<td>61,000</td>
<td>City Centre – West</td>
<td>Golub GetHouse</td>
<td>2018 - 2020</td>
</tr>
<tr>
<td>Warsaw Unit</td>
<td>57,000</td>
<td>City Centre – West</td>
<td>Ghelamco</td>
<td>2021</td>
</tr>
<tr>
<td>Skyliner</td>
<td>44,000</td>
<td>City Centre – West</td>
<td>Karimpol</td>
<td>2020</td>
</tr>
<tr>
<td>ArtNorblin</td>
<td>40,000</td>
<td>City Centre – West</td>
<td>Capital Park</td>
<td>2021</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

### Major office lease transactions, Q1 2019

<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>Wirtualna Polska</td>
<td>Media</td>
<td>Business Garden 6</td>
<td>Zwicki i Wigury Corridor</td>
<td>7,000</td>
<td>new</td>
</tr>
<tr>
<td>confidential</td>
<td>Public service</td>
<td>Vector +</td>
<td>North</td>
<td>6,950</td>
<td>pre-let</td>
</tr>
<tr>
<td>confidential</td>
<td>IT</td>
<td>The Park 6</td>
<td>Jerozolimskie Corridor</td>
<td>5,800</td>
<td>pre-let</td>
</tr>
<tr>
<td>Parexel</td>
<td>Pharma</td>
<td>Business Garden 2</td>
<td>Zwicki i Wigury Corridor</td>
<td>3,800</td>
<td>renewal</td>
</tr>
<tr>
<td>Henkel</td>
<td>Manufacturing</td>
<td>Empark Saturn</td>
<td>Mokotów</td>
<td>3,600</td>
<td>renewal</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate