At a glance H1 2019
OFFICE MARKET IN WARSAW

First half of the year with big lease agreements

After a relatively calm first quarter, the period April–June 2019 saw considerable recovery on the Warsaw office market. A high level of interest in office space was recorded, resulting in spectacular lease transactions by companies from the banking and insurance sector. The limited new supply coupled with high demand has resulted in a major reduction of vacancy rates, both in the City Center area and in non-central zones. Demand greatly outstrips supply and thus stimulates rental growth for prime properties. Older assets, on the other hand, will increasingly often face the challenge of keeping current tenants.

NEW SUPPLY

THE SIZE OF THE WARSAW OFFICE MARKET HAS EXCEEDED 5.5 MILLION SQM

Throughout the first half of 2019, ten schemes offering a total of 80,500 sqm of modern office space were delivered, bringing Warsaw’s total stock to over 5.5 million sqm. However, compared to the volume delivered to the market in the first half of 2018, this year’s result was lower by 54%.

The largest of the completed projects was the first phase of the Moje Miejsce complex, located in the central part of the Mokotów district, offering 18,700 sqm of office space. Other major buildings delivered to the market included the next phase of the Spark complex - building B (15,700 sqm), Vector+ (13,700 sqm) located right next to Al. Prymasa Tysiąclecia and the sixth building of The Park complex (11,200 sqm), located in the vicinity of Warsaw airport.

The largest office zone in terms of floor space is the City Centre, which accommodates 39% of the existing stock. It covers the CBD and four subzones: City Centre - North, City Centre-East, City Centre-South and City Centre-West. The latter one is definitely the fastest developing area in Warsaw. Since the beginning of 2016, the size of the office stock here has nearly doubled, with more large projects still in construction. 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 extended second metro line.

The second largest zone by stock is Mokotów which includes more than 26% of the office stock in Warsaw, the majority of which is located in the Stużewiec subzone. The area is facing a difficult challenge of retaining current tenants and attracting new ones. We expect that the number of transportation improvements and a shift away from offices dominating this area will help highlight this zone as a new destination for companies in the foreseeable future.

It is worth noting that we are currently witnessing the beginning of a trend to change the use of older buildings from purely office use into other commercial uses, or in some cases, demolition of aging developments in order to refocus the way in which a location is perceived. As a result, some existing older office stock will soon be excluded from the office stock figures and replaced with modern projects in more convenient locations.

Annual office supply in Warsaw

Source: BNP Paribas Real Estate, f - forecast

*excl. boutique offices
PLANNED SUPPLY
RONDO DASZYŃSKIEGO IS EXPANDING SKYWARDS

At the end of H1 2019, there was around 767,000 sqm under construction in Warsaw. The largest development will take place in the City Centre zone where 84% of space currently under construction will be delivered. In the City Centre–West subzone alone, there is nearly 427,000 sqm under development, while the area of Daszyńskiego roundabout is growing to become the key office hub in Warsaw. By the end of 2021, high office towers such as Warsaw Unit, Skyliner, the Warsaw Hub, and Generation Park Y will be delivered on the roundabout, while in the vicinity other projects of considerable size are being constructed including Spark A, Browary Warszawskie, Art Norblin, Menница Legacy Tower, Lixa, and Chmielna 89. In addition, Varso Place which is being developed next to the Central Railway Station will have a tower component which will be the tallest in the European Union. It will also include two side buildings making the complex one of the largest office developments in Poland.

Despite the domination of the City Centre zone, there are a few major projects in other areas of Warsaw as well. In the Służewiec subzone, there is under development an office building with an area of 30,000 sqm for the investor’s own needs, while a bit further to the west from the above-mentioned Daszyńskiego roundabout, are coming to an end works on the Wola Retro project, which is to be delivered very soon. The right bank of the Vistula river can boast next phases of the Praga Koneser Centre.

An accumulated influx of large new office space volume is scheduled for the years 2020-2021, but given the current situation in the construction sector, one should take into account a potential extension of the construction time of facilities and, consequently, the postponement of the completion of some projects.

VACANCY RATE
LESS AND LESS SPACE AVAILABLE

At the end of the first half of 2019, the vacancy rate for office buildings in Warsaw averaged 8.5% indicating a 2.6 p.p. drop y-o-y. Moreover, the reduction in the volume of available space was reported in almost all office zones. Only smaller clusters such as the North subzone and Ursynów/Wilanów recorded slight growths.

The City Centre area is characterized by a much lower rate than the rest of Warsaw. As of the end of June, the vacancy rate in the central zones amounted to 5.6% on average, while in the remaining zones it averaged 10.4%. The largest amount of vacant space is currently located in the Mokotów zone where almost twice as many square meters are vacant as in the much larger City Centre zone. The most challenging situation is being faced in the Służewiec subzone where lease agreements fail to cover 18.3% of existing space. However, it must be noted that this is still 1.2 p.p. less than a year ago.

In 2019, the expected size of new supply will be much lower than the average for the past five years which was nearly 800,000 sqm a year. The continuing moderate increase in new space and high level of interest from tenants may result in a decrease in the volume of vacant space by the end of this year. On the other hand, new supply scheduled for 2020-2021 might exceed 600,000 sqm, which is expected to translate into a temporary increase in the vacancy rate over this period. This refers mainly to the central zones holding the largest volume of space currently under development. However, given the tenacious interest from tenants, we expect this increase to be temporary.
RENTS

STABLE HEADLINE RENTS, INCREASE IN EFFECTIVE RENTS

Headline rents for prime assets in the city centre have increased slightly over the course of H1 2019 and at the end of June stood between EUR 22.00 and 24.00 per sqm per month. The situation applies in particular in respect of new buildings whose owners have to balance the recently recorded significant increase in construction and fit-out costs.

The expected drop in vacancy rate over the coming quarters of this year and the limited volume of new space will strengthen the negotiating position of landlords and allow the market to return to the tenant / landlord equilibrium.
COWORKING
Operators of shared and serviced office space (the so-called flex office) generated approx. 10% of net take-up in 2018, while in H1 2019 it was around 7%. These kind of tenants usually choose the most prestigious destinations, as proved by the opening of a WeWork location in the refurbished Europejski Hotel. The interest of new operators in the Polish market confirms that in this respect the Warsaw market follows key European locations such as London or Paris.

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-breaking low unemployment, the accessibility of public transport is a key decision-making factor.

NEW LEASES AND EXTENSIONS DRIVE DEMAND
In order to keep current tenants and attract new ones, landlords of older assets choose to refresh the image of their properties. The norm includes refurbishment and redevelopment of representative common areas, such as the entrance halls and elevator lobbies. Rearrangement of office space and the introduction of solutions associated with coworking spaces are other visible trends.

RETURN TO BALANCE
As a result of the high demand and limited new supply expected for the second half of the year, the market is returning to a landlord / tenant equilibrium. Market polarisation can also be observed. Older assets, willing to retain their tenants, may reduce their financial expectations. On the other hand, the observed increase in the construction costs affects the headline rents for space in new buildings.

Existing office space divided into subzones

North 2%
Ursynów, Wilanów 2%
Puławska Corridor 4%
East 4%
West 4%
Żwirki i Wigury Corridor 6%
Jerozolimskie Corridor 13%
Mokotów 26%
Centre 39%
## Major completions in the last 12 months

<table>
<thead>
<tr>
<th>Building</th>
<th>Office area (sqm)</th>
<th>Subzone</th>
<th>Open date</th>
<th>Developer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moje Miejsce B1</td>
<td>18,700</td>
<td>Mokotów</td>
<td>Q2 2019</td>
<td>Echo Investment</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>Vector+</td>
<td>13,700</td>
<td>North</td>
<td>Q2 2019</td>
<td>Profbud</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>The Park 6</td>
<td>11,200</td>
<td>Jerozolimskie Corridor</td>
<td>Q2 2019</td>
<td>White Star Real Estate</td>
</tr>
<tr>
<td>Celebro</td>
<td>7,150</td>
<td>Zwraki i Wigury Corridor</td>
<td>Q2 2019</td>
<td>White Stone Development</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

## Major schemes under construction, 2019 – 2021

<table>
<thead>
<tr>
<th>Building</th>
<th>Office area (sqm)</th>
<th>Subzone</th>
<th>Developer</th>
<th>Year planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Varso Place</td>
<td>116,000</td>
<td>CBD</td>
<td>HB Reavis</td>
<td>2020 - 2021</td>
</tr>
<tr>
<td>The Warsaw Hub B, C</td>
<td>78,000</td>
<td>City Centre – West</td>
<td>Ghelamco</td>
<td>2020</td>
</tr>
<tr>
<td>Mennica Legacy</td>
<td>61,000</td>
<td>City Centre – West</td>
<td>Golub GetHouse</td>
<td>2019 - 2020</td>
</tr>
<tr>
<td>Generation Park Z, Y</td>
<td>59,000</td>
<td>City Centre – West</td>
<td>Skanska</td>
<td>2019 - 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>ArtN</td>
<td>39,000</td>
<td>City Centre – West</td>
<td>Capital Park</td>
<td>2021</td>
</tr>
<tr>
<td>Skyliner</td>
<td>39,000</td>
<td>City Centre – West</td>
<td>Karimpol</td>
<td>2020</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

## Major office lease transactions, H1 2019

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Sector</th>
<th>Building</th>
<th>Subzone</th>
<th>Area leased (sqm)</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getin Noble Bank</td>
<td>FIRE</td>
<td>The Warsaw Hub C</td>
<td>City Centre – West</td>
<td>18,500</td>
<td>pre-let</td>
</tr>
<tr>
<td>Warta</td>
<td>FIRE</td>
<td>The Warsaw Unit</td>
<td>City Centre – West</td>
<td>17,800</td>
<td>pre-let</td>
</tr>
<tr>
<td>confidential</td>
<td>FIRE</td>
<td>confidential</td>
<td>Mokotów – Służewiec</td>
<td>13,250</td>
<td>renewal</td>
</tr>
<tr>
<td>AXA</td>
<td>FIRE</td>
<td>Warsaw Trade Tower</td>
<td>City Centre – West</td>
<td>12,900</td>
<td>renewal</td>
</tr>
<tr>
<td>Bank Gospodarstwa Krajowego</td>
<td>FIRE</td>
<td>Varso 2</td>
<td>CBD</td>
<td>12,400</td>
<td>pre-let</td>
</tr>
</tbody>
</table>

FIRE – finance, insurance, real estate
Source: BNP Paribas Real Estate
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