

# WARSAW OFFICE MARKET

The boom continues

Q1 2017

# OFFICE ZONES – AN IMPORTANT CHANGE

Following the rapid growth of the Warsaw office market, the Polish Office Research Forum (PORF) has redrawn the map of the capital city's office zones. Cushman & Wakefield, a PORF member, was actively involved in the development of the new standard.

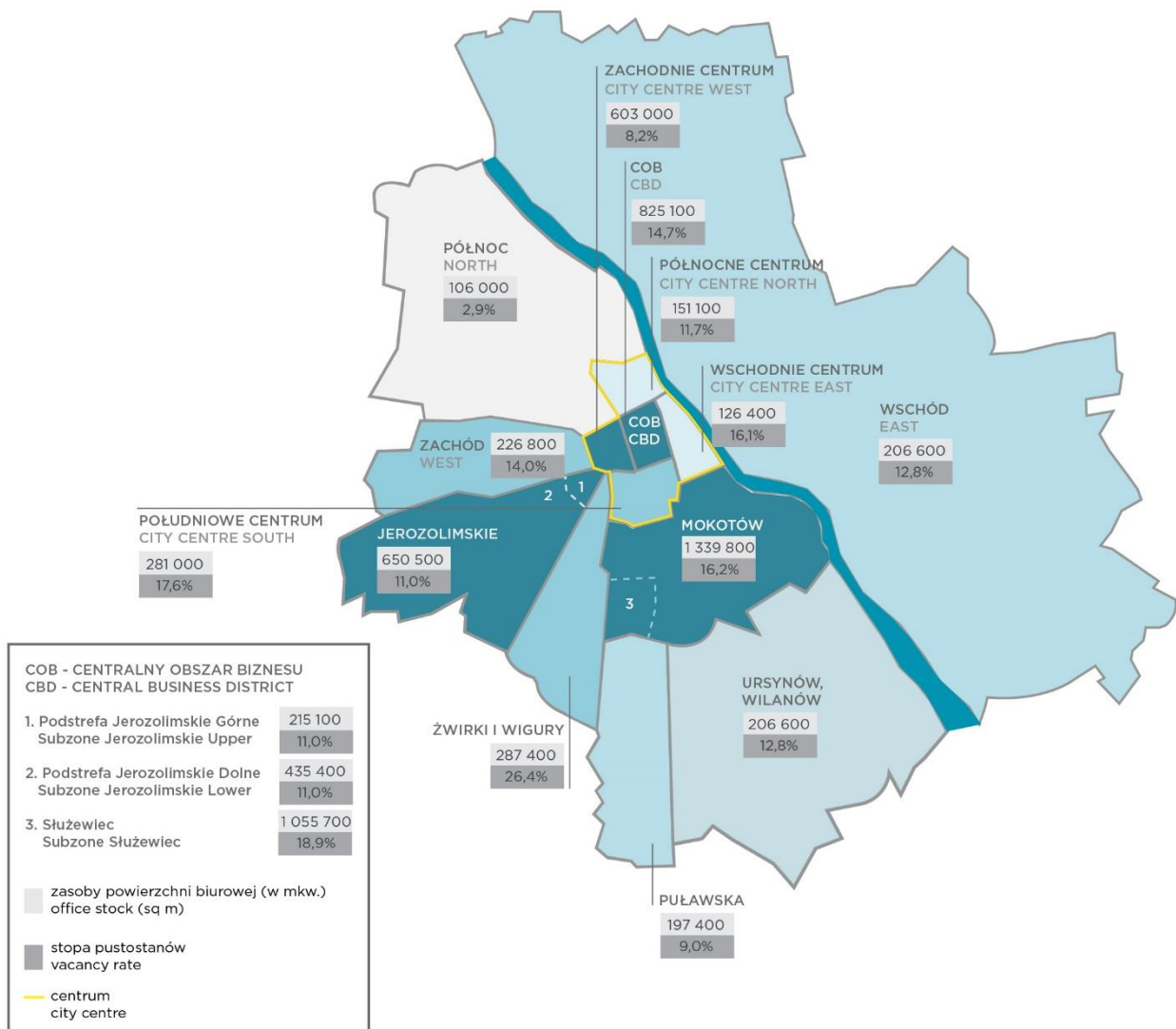
The new division takes account of both office market changes and requirements of market players regarding the methodology of statistical data analysis.

New zone boundaries also reflect the improving transport infrastructure in Warsaw, including the opening of the second metro line, setting out new directions for potential office projects.

Warsaw's former Fringe has been renamed City Centre and expanded to include several office buildings in the vicinity of Towarowa Street and Gdański Railway Station.

A new subzone Służewiec Przemysłowy has been delineated within the Mokotów zone (formerly US zone) as the main area of office space concentration in this part of Warsaw.

## Modern office zones in Warsaw – new division



Source: PORF, Cushman & Wakefield

# SUPPLY

84,200 sq m of modern office space was delivered to the Warsaw market in Q1 2017, up by more than 28,800 sq m on the volume noted in Q1 2016. This brought the capital city's total office stock to nearly 5.12 million sq m at the end of March 2017.

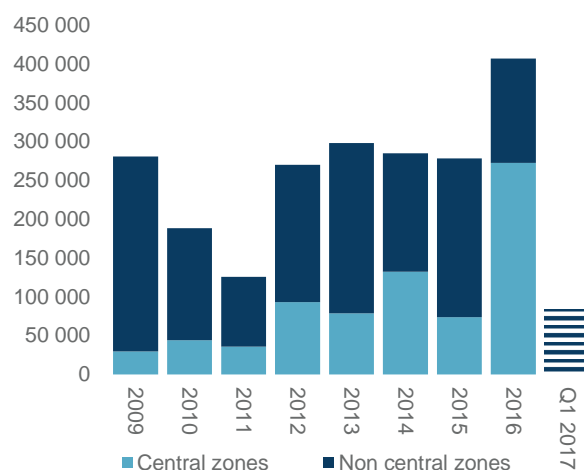
Ten office buildings with occupancy permits came onto the Warsaw market in Q1 2017 compared with last year's 21 office projects providing a total of 407,000 sq m.

New office supply, dominated by the completion of buildings 3–7 of Vastint's Business Garden (54,800 sq m), concentrated in Warsaw's non-central locations. The largest volumes of new office space were delivered in Żwirki i Wigury and West zones (a total of 76,700 sq m).

Office projects to be put into use in upcoming quarters include HB Reavis' West Station II (31,450 sq m), Penta Investments' D48 (24,500 sq m) and Spectra Development's building at 8 Bobrowiecka Street (22,500 sq m).

This year's total supply is expected to top 300,000 sq m, of which 30% will be delivered in central locations. This is in line with the trend of 2012–2015.

Annual supply (sq m)



Source: PORF, Cushman & Wakefield

Given projects under construction and planned, annual office supply levels are expected to average 300,000 sq m in 2017–2019. Approximately half of the development pipeline will be delivered in the city centre.

## Largest office completions, Q1 2017

Building	Zone	Office space (sq m)	Developer
<b>Business Garden (buildings 3–7)</b>	Żwirki i Wigury	59,000	Vastint
<b>Eqilibrium</b>	West	9,930	HB Reavis
<b>Airtech Business Park III</b>	West	6,740	Echo Investment
<b>Warsaw West Office</b>	West	28,700	Hines

Source: PORF, Cushman & Wakefield

\*Map of office zones on page 1

# TAKE-UP

Gross take-up totalled 194,000 sq m in Q1 2017, up by 37% on the figure for the corresponding period in 2016. The volume of total leased office space rose by more than 84,300 sq m, the best Q1 performance since 2008.

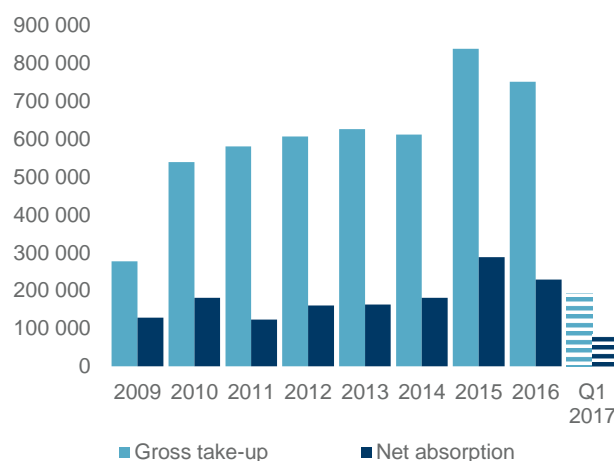
In Q1 2017, the leasing volume amounted to approximately one-fourth of 2016's total take-up (752,000 sq m). Nearly 52% of this was recorded in non-central zones, with the strongest leasing activity in Mokotów (38,600 sq m) and Jerozolimskie (33,300 sq m).

New leases accounted for 53% of the total lease volume, down by nearly 8 percentage points on the average for 2010–2016. Renegotiations and expansions totalled 72,200 sq m (up by 34% on the quarterly average for 2016) and 18,100 sq m (down by 4% on the quarterly average for 2016) respectively. Q1 2017 saw no owner-occupied deals.

The strong demand for office space in Warsaw was driven largely by the IT sector (10%), media companies (10%) and professional services (9%).

The buoyant rental market benefits from positive economic forecasts and dynamic growth of the BPO /SSC sector. Lower business operating costs, compared to Western European countries, are the key factor attracting tenants to Warsaw. However, the low unemployment rate and the shrinking pool of available high skilled labour are likely to become a barrier to further expansion.

Annual gross take-up and net absorption (sq m)



Source: PORF, Cushman & Wakefield

In 2017, absorption of new office space is expected to remain at a level comparable to the annual volume of 200,000–280,000 sq m for the last three years, subject to stable GDP growth and further rapid growth of the modern business services sector. The annual leasing volume is likely to exceed 750,000 sq m.

## Largest lease transactions in Warsaw, Q1 2017

Tenant	Building	Zone	Volume (sq m)	Type
AstraZeneca	Postępu 14	Mokotów	13,200	Renegotiation and expansion
Wincor Nixdorf	West Station II	Jerozolimskie	9,800	New lease
Public Transport Authority of the Capital City of Warsaw	JM Tower	City Centre West	7,300	Renegotiation
Roche Polska	Topaz	Mokotów	5,700	Renegotiation
Wolters Kluwer	Wola Center	City Centre West	4,300	Renegotiation

Source: PORF, Cushman & Wakefield

# VACANCIES AND RENTS

## Vacancies

In Q1 2017, Warsaw's vacancy rate averaged 14.0%, down by 0.2 percentage points on December 2016 (14.2%), the lowest level since 2015.

The volume of vacant space totalled 720,000 sq m, the same figure as in the previous quarter, of which nearly 36% was in central locations. Strong occupier interest in office buildings in central zones brought the city centre's vacancy rate down by almost 2.3 percentage points to 13%. By contrast, the vacancy rate rose from 13.6% to 14.6% in non-central locations.

The highest vacancy rates were in Żwirki i Wigury (26.4%) and Mokotów (16.2%), the latter's subzone Służewiec seeing its vacancy rate rise to 18.9%. The lowest were noted in the North zone (2.9%) and in Puławska Street (9%). The largest volume of vacant space is in the Mokotów zone: 217,000 sq m, most of which is available in Służewiec (199,800 sq m).

Given the supply and take-up forecasts, Warsaw's vacancy rate is likely to edge up by 0.5–1 pp in 2017.

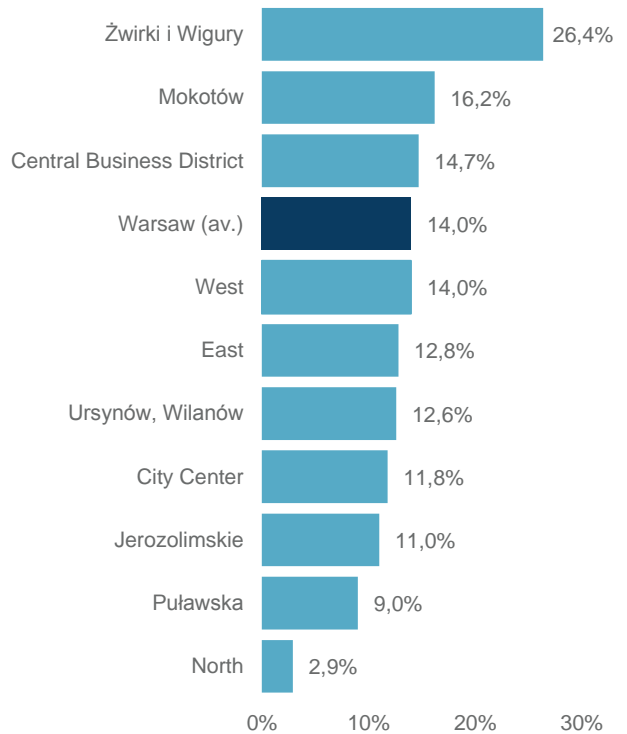
## Rents

Prime headline rents remained flat in Q1 2017, standing at EUR 23.5–24 per sq m per month in central locations and at EUR 13–16.5 per sq m per month in non-central locations.

Tenants continue to have the upper hand in the market and are frequently able to lower total lease costs considerably either through lease renegotiations or a relocation to another office building. Both developers and owners of office buildings continue to offer attractive incentive packages, depending on the strength and negotiation strategy of a tenant. As a result, effective rents tend to be approximately 25% lower than headline rents.

Rents are expected to remain flat in spite of high supply levels expected in upcoming quarters due to strong demand for office space.

Vacancy rates by zones, year-end 2016



Source: PORF, Cushman & Wakefield



# DEFINITIONS

Standard lease terms	
<b>Rent</b>	Monthly rent, paid in advance, usually quoted in EUR and paid in PLN.
<b>Rent indexation</b>	Usually based on European CPI or HICP
<b>Service charge</b>	Paid by tenants towards the costs and expenses related directly to the maintenance of common areas on the property (at the level of the tenant's share of the total useable office area of a building). Quoted and paid in PLN.
<b>Typical lease length</b>	5 years
<b>Incentives</b>	Rent-free periods Fit-out contributions
<b>Rent guarantee</b>	3 months' bank guarantee or deposit
<b>Standard space delivery conditions</b>	Landlords cover fit-out costs of the common areas such as an entrance hall and corridors on the property and standard fit-out of the leased area.

Definitions	
<b>Modern office stock</b>	Office units built since 1989 or refurbished to at least B-class.
<b>Gross take-up</b>	Total volume of lease transactions completed on the market. This includes new leases, pre-lets, expansions, owner occupied deals, as well as lease renewals/re negotiations.
<b>Net take-up</b>	Total volume of lease transactions completed on the market, excluding lease renewals/re negotiations.
<b>Net absorption</b>	Net change in physically occupied space between two periods of time, taking into consideration vacated and newly constructed office space in the same area.
<b>Prime rent</b>	Prime headline rent that could be expected for a unit of standard size (500–1,000 sq m) commensurate with demand in each location, highest quality and specification in the best location in a market.
<b>PORF</b>	The Polish Office Research Forum (PORF) comprises six real estate services firms: CBRE, Colliers International, Cushman & Wakefield, JLL, Knight Frank and Savills, whose representatives aim to standardize indices published through collection and comparison of quarterly data.

## CONTACT DETAILS

### AUTHOR

#### **Bolesław Kołodziejczyk**

**Senior Consultant  
Consulting and Research Department**

+48 22 820 20 20  
boleslaw.kolodziejczyk@cushwake.com

### CONTACTS

#### **Kamila Wykrota**

**Partner  
Head of Consulting and Research**

+48 22 820 20 20  
kamila.wykrota@cushwake.com

#### **Richard Aboo**

**International Partner  
Head of Office Agency CEE**

+48 22 820 20 20  
richard.aboo@cushwake.com

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