Poland– January 2024

MARKET IN MINUTES

Savills Research

Warsaw Office Market

savills

Warsaw office market in 2023

Total stock	New supply	Under construction	Take-up	Vacancy rate	Net absorption
6.23 million sq m	**60,900** sq m	**264,900** sq m	**748,800** sq m	**10.4%**	**140,600** sq m
	-74% YoY	+43% YoY	-13% YoY	-120 bps YoY	-51% YoY

Poland – economic indicators

GDP Growth (f)	Inflation	Policy rates	Unemployment rate
0.7% (2023)	**11.4%** (2023)	**5.75%** (NBP)	**2.8%** (ILO, November 2023)
2022: 5.5%	Eurozone: 5.4%	ECB: 4.5%	Eurozone: 6.4%

Office market highlights

New supply of office space in 2023 has reached the lowest level in the history of the market, and vacancy rate dropped to 10.4%

The long-announced shortage of supply is becoming a reality. The new supply of office space in 2023 has reached the lowest level in the history of the market. Last year, developers delivered only 60,900 sq m, of which only 30% were in central zones.

Completions in 2024 also seem to be low (slightly exceeding 100,000 sq m). A noticeable rebound and increase in new supply should occur between 2025 and 2026.

At the end of 2023, the vacancy rate was recorded at its lowest level in eight quarters. It was 10.4%. Vacant space amounted to 646,700 sq m.

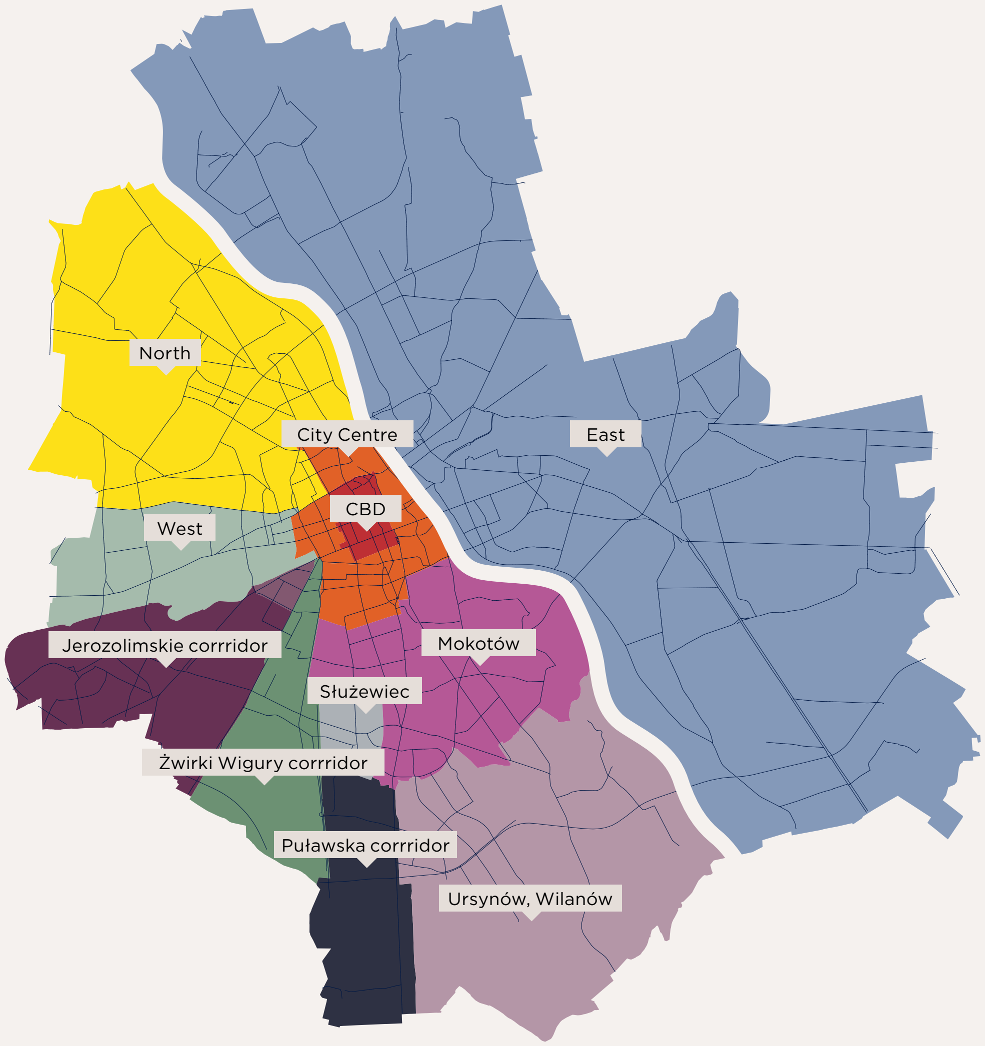
The average share of renegotiations and lease renewals between 2018 and 2022 stood at 35%, with the last three years intensifying this trend even further. In 2023, the share was even higher at ca. 43%, translating into 319,500 sq m of renegotiated space, of which 141,100 sq m was in the central zones and 178,400 sq m in the non-central ones.

High inflation, which is also present in the eurozone, contributed to historically high rental indexations last year (average eurozone inflation in 2022 stood at 8.4%). According to the latest data, tenants can expect further increases for 2023. Average inflation in 2023 in the eurozone was 5.4%, so the higher costs caused by rent indexation will not be as severe as last year.

Five largest projects under construction in Warsaw

Zone	Building	Developer	Office space (sq m)	Date
City Centre (West)	The Bridge	Ghelamco Poland	47,000	2025
CBD	Upper One	Strabag Real Estate	35,500	2026
City Centre (West)	Office House	Echo Investment	31,100	2025
City Centre (West)	Lixa III (D/E)	Yareal Polska	28,100	2024
City Centre (West)	The Form	Lincoln Property Company	28,000	2024

Warsaw office zones



Total stock | Available area | Gross take-up | Net take-up | Under construction

Służewiec
1,073,000 sq m
215,500 sq m / 20.1%
114,200 sq m
50,300 sq m
0 sq m

Mokotów
403,000 sq m
31,500 sq m / 7.8%
51,800 sq m
36,900 sq m
0 sq m

Jerozolimskie corridor
762,100 sq m
70,400 sq m / 9.2%
111,300 sq m
50,500 sq m
8,300 sq m

West
232,300 sq m
21,800 sq m / 9.4%
8,500 sq m
8,500 sq m
15,400 sq m

East
280,700 sq m
21,700 sq m / 7.7%
22,300 sq m
10,700 sq m
10,500 sq m

Central Business District (CBD)
994,700 sq m
95,800 sq m / 9.6%
124,300 sq m
78,500 sq m
50,500 sq m

City Centre
1,781,900 sq m
140,800 sq m / 7.9%
256,900 sq m
161,600 sq m
173,200 sq m

North
120,200 sq m
5,600 sq m / 4.6%
10,300 sq m
4,400 sq m
0 sq m

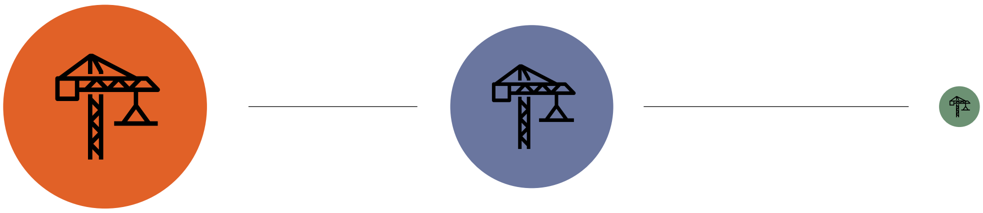
Żwirki Wigury corridor
260,400 sq m
24,300 sq m / 9.3%
29,500 sq m
11,600 sq m
0 sq m

Puławska corridor
198,500 sq m
11,100 sq m / 5.6%
17,400 sq m
14,900 sq m
7,000 sq m

Ursynów, Wilanów
123,100 sq m
8,200 sq m / 6.6%
2,400 sq m
1,300 sq m
0 sq m

2023 review

Office space under construction



264,900 sq m
in Warsaw

223,700 sq m
in central zones

41,200 sq m
in non-central zones

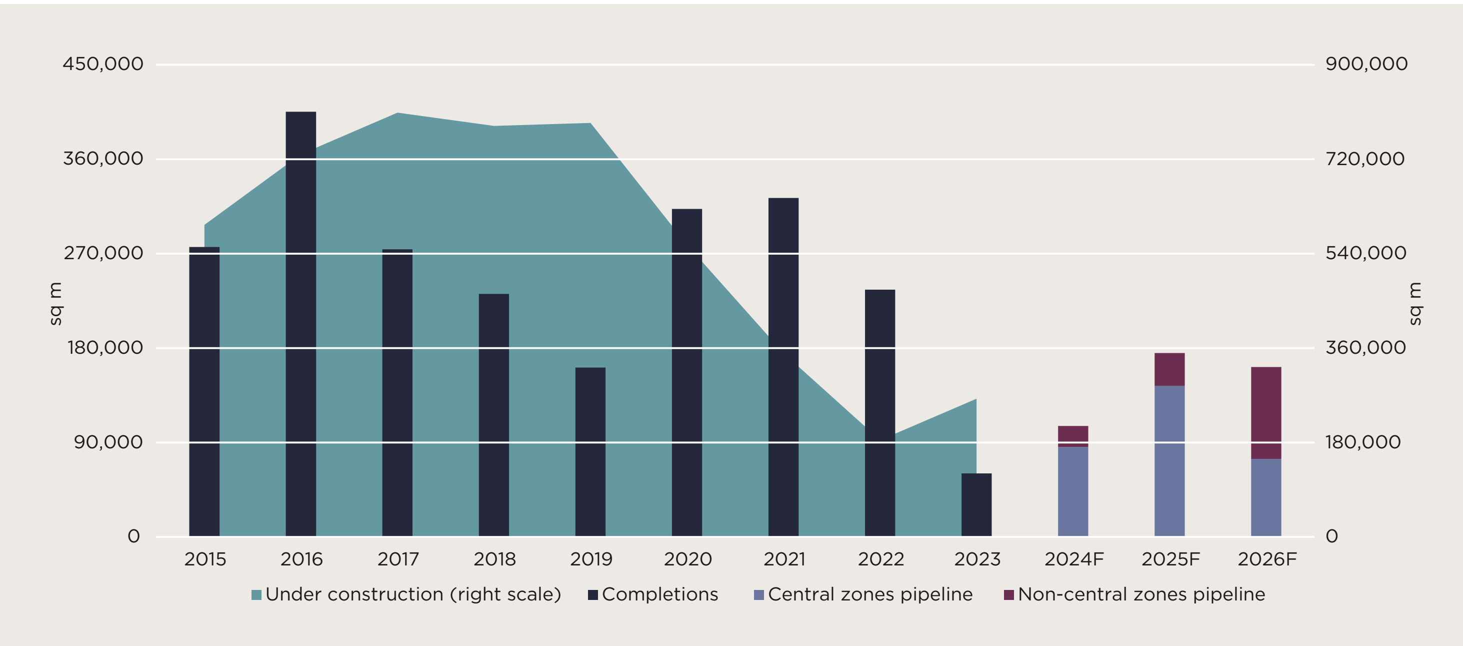
New supply and construction pipeline

- The Warsaw office market had a total supply of 6.23 million sq m of modern office stock at the end of December 2023. 45% of the stock is located in the central zones (64% of stock in central zones is allocated in the City Centre zone), while the remaining 55% is located in non-central zones, of which 53% in the two largest zones - Służewiec and Jerozolimskie corridor corresponds to 31% and 22% respectively.

- New supply in 2023 was the lowest in the history. Only 60,900 sq m was delivered to the Warsaw office market in six projects, of which only one was completed in the central zones. Last year's new supply is characterised by high occupancy levels - at the end of December 2023, around 13% of the space remained vacant, all of which was in non-central zones. The largest projects include: Lakeside in Mokotów zone (22,700 sq m by Atenor Poland), Studio B in City Centre zone (17,900 sq m by Skanska Property Poland) and The Park 9 in Jerozolimskie corridor zone (11,000 sq m by White Star Real Etate).

- In 2023, after a continuing decline in the volumes of office projects under construction since the outbreak of the pandemic, we are seeing a small change, which is a developers response to the supply gap observed in the market. Just under 265,000 sq m is currently under construction, an increase of 43% year-on-year. Last year, developers launched six projects with a total office area of approximately 139,200 sq m, of which all except one (94% in terms of area) was located in the central zones. Invariably, the area around Daszyński Roundabout (City Centre West subzone) is the leader in terms of development activity, with over 173,000 sq m under construction. In addition, over 50,000 sq m is under construction in the CBD, including the largest project Upper One (35,500 sq m by Strabag Real Estate). Between 2024 and 2026, bearing in mind the favourable scenario and the launch of planned developments, a total of up to 445,000 sq m could be delivered to the Warsaw market (including renovations).

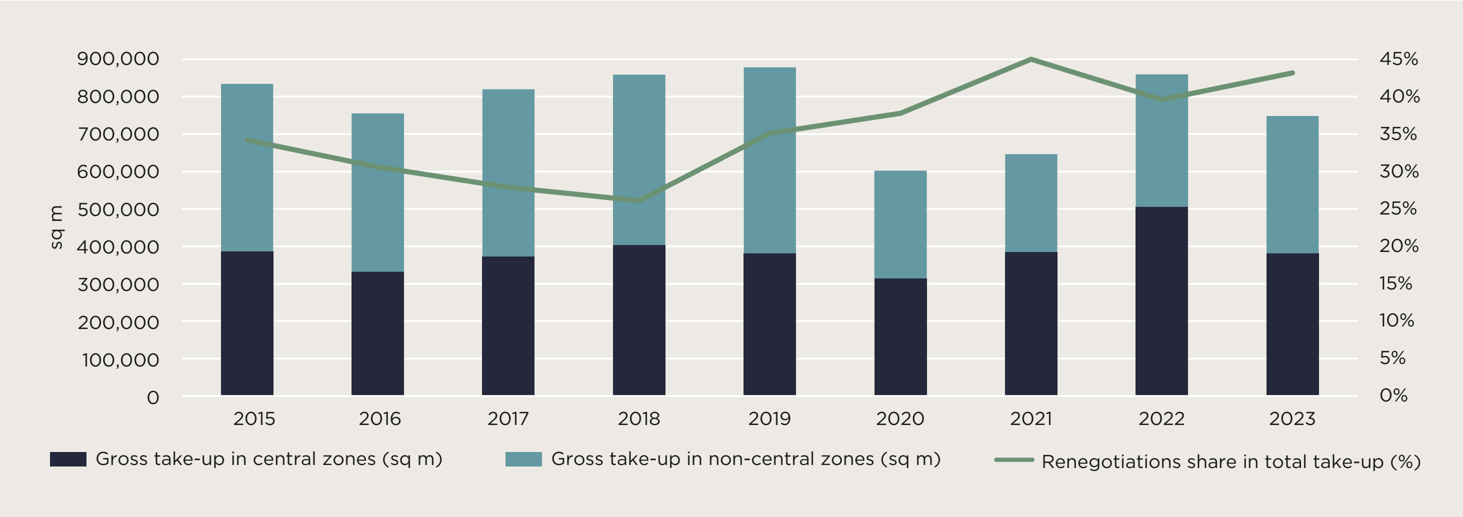
Under construction, completions and pipeline of office projects in years 2015-2026



Leasing activity

- The total leasing activity in 2023 was 748,800 sq m (down 13% y-o-y). Between 2020 and 2022 we saw a change in the trend and a concentration of demand mainly in the central zones (57% on average), while last year's demand was almost equally distributed with 51% or 381,200 sq m in the centre and 49% or 367,600 sq m in non-central zones.
- In 2023, a concentration of demand was observed in the four largest office zones, with more than 100,000 sq m leased in each, which together corresponds to 81% of the total demand volume in the city. These were: City Centre (256,900 sq m), CBD (124,300 sq m), Służewiec (114,200 sq m) and Jerozolimskie corridor (111,300 sq m).
- The renegotiation share last year was high at 43% of total demand. In contrast, new leases accounted for 44%, pre-lets for 9% and expansions for 4%. Comparatively, in 2022, renegotiations accounted for 39% of the total, new leases for 43%, pre-lets for 10% and expansions for 8%.
- The largest volume (45%) of demand was generated by tenants from three sectors. In particular, these are: business services (19% or 143,700 sq m), manufacturing (14% or 107,700 sq m) and IT sector (11% or 81,600 sq m). In addition, tenants from the financial sector (9%) and the public sector (8%) were prominent.

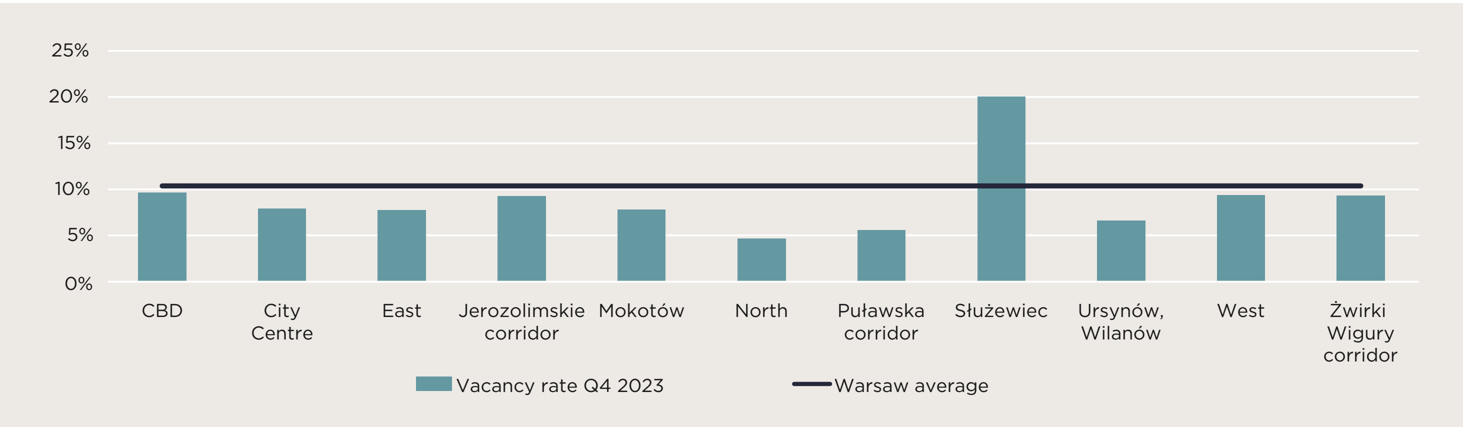
Gross take-up and renegotiations share in years 2015-2023



Vacancy rate

- At the end of Q4 2023, over 646,700 sq m was available in Warsaw, representing a vacancy rate of 10.4% (down 120 bps y-o-y and by 20 bps q-o-q). This is the lowest level since Q4 2020. Vacancy rate in central zones shaped at 8.5% (236,600 sq m), while in non-central zones it is noticeably higher at 11.9% (410,000 sq m).
- Vacancy rates vary widely between zones. The lowest vacancy levels are located in zones: North (4.6%) and Puławska corridor (5.6%). On the opposite side is Służewiec with a vacancy rate of 20.1%, which accounts for 1/3 of the available space in the city.

Average vacancy rate in the city comparing to vacancy rate in office zones



Net absorption

- Net absorption in 2023 amounted to 140,600 sq m (dropped by 51% y-o-y). This is 24% less than average for 2020-2022 (184,700 sq m). Absorption of office space was almost equally distributed – 53% of space was absorbed in central zones, while 47% in non-central zones. CBD and Mokotów zone absorbed the most space during last year – 47,000 sq m and 46,800 sq m respectively.

- On the other hand, there were three zones with negative absorption, such as Ursynów, Wilanów (-4,000 sq m), Żwirki Wigury corridor (-3,200 sq m) and Służewiec (-3,000 sq m).

Rental levels

- In most cases, rental level were stable level in 2023, however in the second half of the year we noted an increase in rental levels in central locations. Average rents in prime locations in the CBD zone range between EUR 22.50-26.00/sq m/month. There are also some premises, that quote even higher rents, due to its unique location and high standard, however those represent a small portion of the market.

- Headline rents at office buildings in non-central zones are characterised by similar level as in previous year. Headline rents for the best premises in the largest non-central zones, namely Służewiec remain unchanged at EUR 13.00-15.00/sq m/month.

- In 2023, we witnessed significant increases in service charges, which, depending on the standard of the property, usually stand at PLN 20.00-36.00/sq m/month. Several buildings quote fees exceeding PLN 40.00. In the coming quarters, we do not predict such drastic fee increases, mainly due to the stabilisation of energy prices on the market, which was one of the key elements of last year's increases.

Flexible offices

At the end of 2023, there were 88 serviced offices operating in Warsaw with a total area of over 196,000 sq m, of which 53 offices or 131,800 sq m were located in central zones. The zone that offers the largest area of flexible space is the City Centre zone, where operators offer their services on over 71,600 sq m of flexible space.

Last year, six new locations (five of them in central zones) were launched with a total area of more than 18,700 sq m. The average area of the new locations is 3,100 sq m. The largest project opened in 2023 was Mindspace in the Skyliner building in the City Centre zone (4,400 sq m).

The operators are planning to launch two locations in the H1 2024 with a total area of more than 4,200 sq m. The plans include the opening of Business Link in Studio B (City Centre zone) and Brain Embassy in Adgar Wave (Służewiec zone).

In 2023, flex providers leased a total of 17,000 sq m in nine deals, of which four were new locations totalling 8,800 sq m. The largest deals included OmniOffice in Warsaw Unit (3,200 sq m) and the aforementioned Business Link in Studio B (3,000 sq m).

2024 trends

Rental levels

The largest tenants are in a privileged position in terms of rental levels. They will be able to count on attractive rents, as both developers in new projects and funds with older buildings will be competing with each other. The low occupancy level of projects under construction will force more attractive rates among developers, at least for key tenants. Once comfortable occupancy levels have been achieved in new office buildings, we can expect a slow tightening of rental rates from developers. Funds that lease existing buildings will want to maintain profitable rental rates and, faced with the higher costs of adapting space to a new tenant, we can expect either higher base rates or longer leases. In many cases it will be a combination of both.

Supply gap as a challenge for large scale tenants

Large tenants who are interested in office space in central locations of a high standard are currently feeling the supply gap most severely. Existing projects developed since 2020 in the central zones include only two buildings with more than 5,000 sq m of space. The same applies to the buildings to be constructed by 2024, where pre-letting levels are around 40% and only three projects have a vacancy of more than 5,000 sq m. Large-scale tenants are likely to be forced to hold out until 2025-2026, when they will have more options to manoeuvre and the lower level of commercialisation of these buildings could potentially allow for the opportunity to obtain preferable lease terms.

Jarosław Pilch
Director
Head of Tenant Representation
Savills Poland

Green leases

An important trend in the market in 2024 should be green leases, which are increasingly being introduced in Western European markets countries . Undoubtedly, both parties will be forced to incur higher costs due to these changes, but the compensation may be a better environment, of which both contractual parties are a part. Tenants will be able to manage the resources in their spaces with greater awareness and it will make it easier for them to move towards corporate climate neutrality. Landlords will be able to obtain better financing terms and potentially higher rents through these clauses, which will be reflected in a more efficient management of the building and its standard, which may attract more conscious and prosperous tenants. The introduction of green clauses in leases is beneficial from both an environmental and a business perspective. This is because it contributes to creating a more sustainable and welcoming place to live and work.

Potential problems with financing investment projects

The economic uncertainty of recent years also tends to inflict on institutions financing investment projects. In addition, there are the requirements related to the green transition and the importance of the aforementioned green contracts, which can temporarily lengthen operational processes. Higher project financing costs, combined with stricter requirements from financing institutions, may partly contribute to the delay or suspension of some projects. There is therefore a potential risk that the rebound in new supply projected for 2025-2026 may be flattened out and that tenants may experience a prolonged shortage of supply in subsequent years.

Daniel Czarnecki
Director
Head of Landlord Representation
Savills Polanda

Savills Research

We provide bespoke services for landowners, developers, occupiers and investors across the life cycle of commercial, residential or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

Daniel Czarnecki
Head of Landlord Representation
+48 519 033 717
dczarnecki@savills.pl

Jarosław Pilch
Head of Tenant Representation
+48 694 497 800
jpilch@savills.pl

Wioleta Wojtczak
Head of Research
+48 600 422 216
wwojtczak@savills.pl

Jarosław Jachura
Senior Consultant
Research Department
+48 507 334 167
jaroslaw.jachura@savills.pl

Savills sp. z o.o., al. Jana Pawła II 22, 00-133 Warszawa, +48 22 222 4000,savills.pl