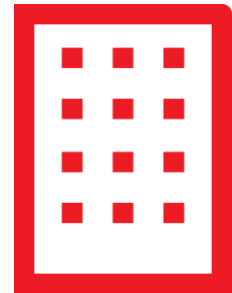


Office Market



Warsaw

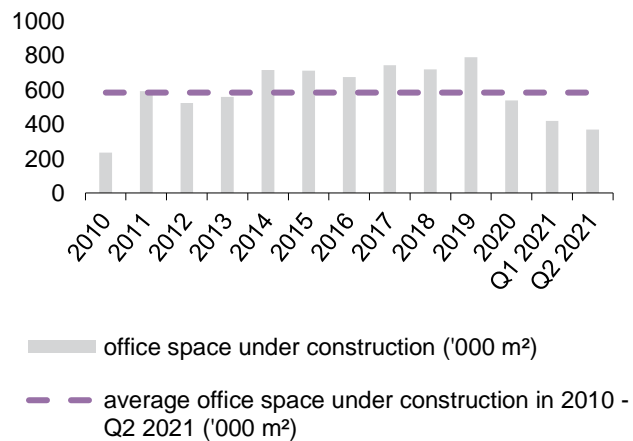
Ten-year low in developer activity

As with most of 2020, H1 2021 was marked by uncertainty. The return of lockdown in March, as well as information about the emergence of a new COVID-19 variant, have prevented many companies from allowing their employees to return to the office. Most tenants continue to use a hybrid working model, combining the possibility of using office space with working from home.

The uncertainty and changes surrounding working modes have directly affected the Warsaw office market. The most notable effect that has recently emerged is the ten-year low in developer activity in the capital city. Currently, there is only 370,000 m² under construction – the lowest level since 2010. This is the consequence of both the current economic situation, as well as the reduced demand for offices. These two factors have resulted in a rise in vacancy rates.

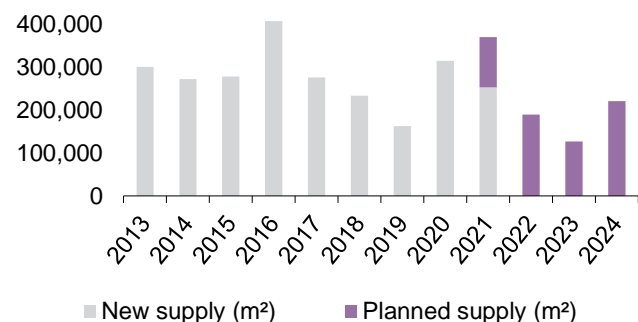
Nevertheless, reduced levels of new supply, delivered to the market over the next few years, may still translate into limited opportunities to lease space in new buildings.

Office space under construction (2010 – Q2 2021)



Source: JLL, Q2 2021

New supply (2013 – 2024)



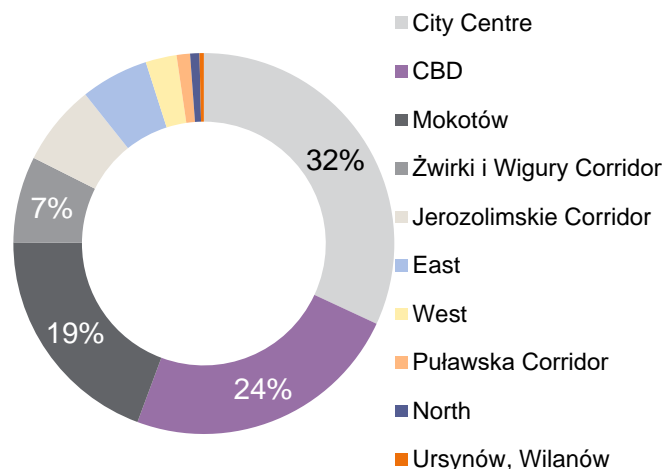
Source: JLL, Q2 2021

Since the beginning of the COVID-19 pandemic, the sub-rental market has seen significant development in both the Warsaw market and most Polish cities. However, there was a slowdown in the number of sublet offers coming onto the market in H1 2021. In Warsaw, over 120,000 m² of such space is currently available. This sub-sector is an interesting alternative to the traditional rental market but there are certain stipulations connected to the subleasing of office space, i.e., in terms of fit-out and lease terms, which may limit its appeal. So it may not be a solution for everyone.

Tenant interest in flexible offices also remains stable. Both small developing companies, as well as large corporations are able to find offers that meet their expectations in serviced offices. The former benefit from flexibility in the choice of space, as well as shorter lease contracts. Therefore, despite uncertain times, they can safely develop their businesses. Corporations are also increasingly likely to choose flex solutions, using flexible spaces as temporary locations for their employees or additional space when ramping up is required for specific projects. In the central districts of Warsaw, some flex operators are seeing an occupancy rate of 80% or higher.

In H1 2021, companies signed traditional lease agreements for a total of 249,300 m², a result that was 26% lower than in the first half of last year. Undoubtedly, companies, as a consequence of the pandemic, are now taking a much more conservative approach to leasing office space. However, ongoing processes together with an increasing interest in the Warsaw market, on the part of companies from the modern business services sector, may have a positive impact on the volume of lease transactions in the upcoming months.

Demand distribution across Warsaw's office districts (H1 2021)



Source: JLL, Q2 2021

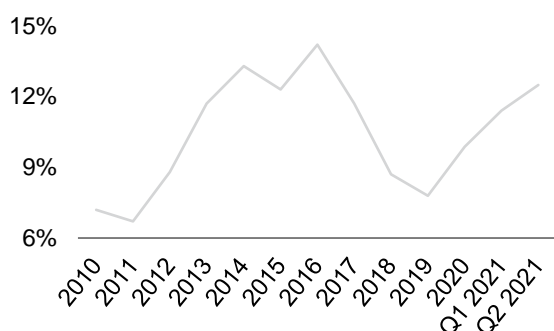
The largest lease transactions in H1 2021 included: renegotiation of a lease agreement signed by a confidential tenant for 20,600 m² in the Senator building, a pre-let for Warsaw City Hall for 11,300 m² in Widok Towers, a pre-let for 9,800 m² by the Public Transport Authority in Fabryka PZO, a renewal for 7,500 m² by Johnson&Johnson in Wiśniowy Business Park and a renegotiation for 7,500 m² by Credit Suisse in Atrium 2. At the moment, tenants more often than not, are now choosing to extend their lease for a shorter period of time, waiting for a return to normality before making any long-term commitments.

In H1 2021, 10 buildings with a total area of 226,300 m² were delivered to the market. The largest new developments included Warsaw Unit (59,300 m², Ghelamco Poland), Skyliner (48,500 m², Karimpol) and Generation Park Y – the tower (44,000 m², Skanska Property Poland).

After several years of a constant increase in developer activity, when between 700,000 m² and 800,000 m² were under construction, this year's total stands at only 370,000 m². Developers are much more cautious about starting new construction projects, and only one new investment, The Bridge (Ghelamco Poland), has been launched in Warsaw in recent months.

The current situation also directly affects the vacancy rate, which is now at its highest level since the end of October 2017. By the end of June 2021, it had increased to 12.5% (13.8% in central zones and 11.4% in the non-central), an increase of 4.6 p.p. y-o-y and 1.1 p.p. q-o-q, respectively. This is due to the cautious approach adopted by tenants when signing contracts in existing buildings, as well as the delivery of new supply to the market. As a consequence, the lease rate stands at only 44%. As a result of the slowdown on the part of developers and a predicted supply gap in 2023, we can expect a decrease in the aforementioned vacancy rate. This will be particularly evident in areas outside the city centres, where companies searching for offices in new buildings will have a very limited choice.

Vacancy rate in Warsaw (2010 – Q2 2021)



Source: JLL, Q2 2021

Currently, the highest transaction rents for prime properties are stable at €18 to €24/ m²/ month in the city centre and €16/ m²/ month outside of the area. In the upcoming months, we can expect the current base rates for prime spaces to be maintained. Although no changes in the rents offered have been observed in the majority of such buildings, there is an increasing range of incentives for tenants, and in particular for fit-out budgets. Some office buildings that are currently under construction, are an exception among prime-type buildings. Their owners, wanting to sign the first agreements, are willing to settle on much more favourable terms regarding rates, incentives and other elements of the contract.

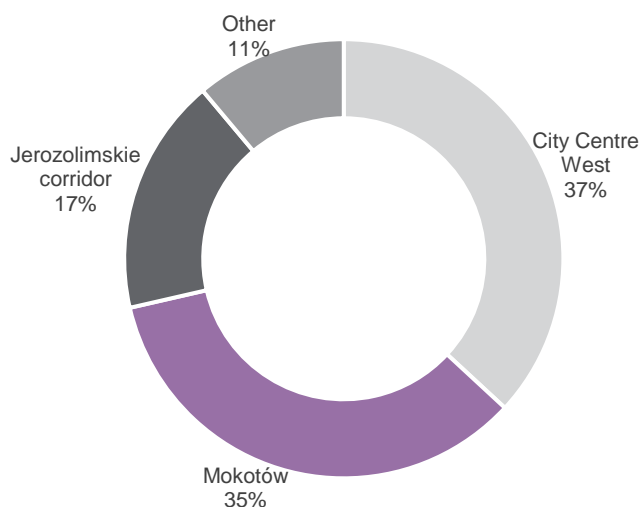
The first quarter proved to be one of the best-ever for Poland's office sector. Turnover in Q1 2021 was boosted by the Buma portfolio transaction as well as a number of transactions in Warsaw. Activity in Q2 was nonetheless muted with total transaction volume for H1 coming in at approx. €799 million, down 40% on H1 2020 but still 4% above the 10-year average.

Transactions concluded in Warsaw accounted for 53% of the turnover. The largest deal in the city was the sale of Biura przy Willi by Echo Investment for €86.7 million. The building, which is part of the Browary Warszawskie complex, was acquired by KGAL Group. Equally significant was the Immofinanz portfolio bought by Indotek for €72.5 million. Rounding out the top three was the acquisition of the Spark B building by Stena Realty for €70 million. The largest transaction in Mokotów was the sale of the Neopark complex by Yareal to Amundi Real Estate.

Finally, Le Palais, sold by Patrizia to Generali Real Estate, was 2021's first prime office transaction in Warsaw's CBD.

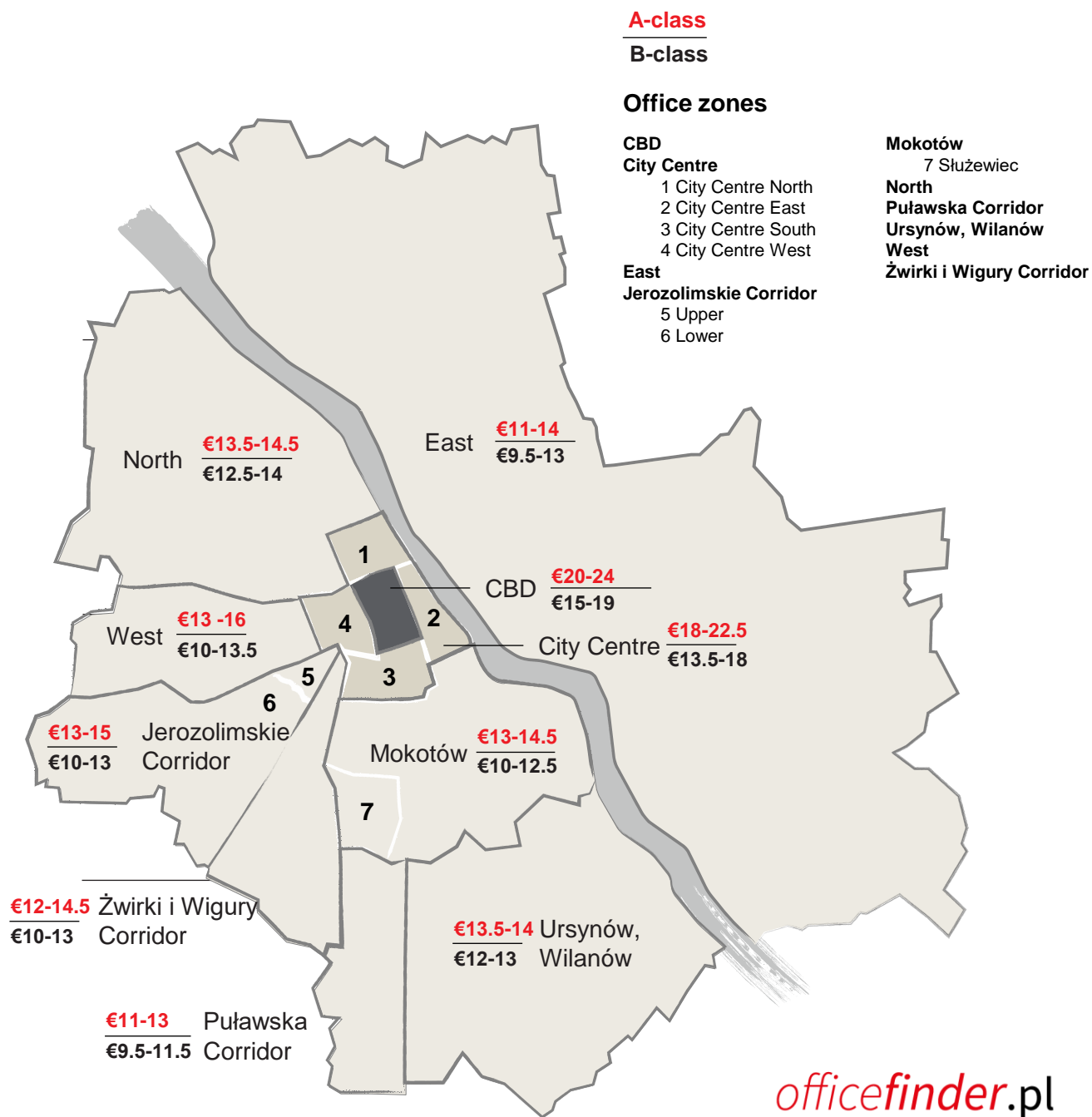
In H1 2021, prime office yields in Warsaw were being discussed at 4.50%.

Investment volume in the office sector in Warsaw (H1 2021)



Source: JLL, Q2 2021

Prime headline rents (€/ m²/ month) in Warsaw by district



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