April 2018

Warsaw office market

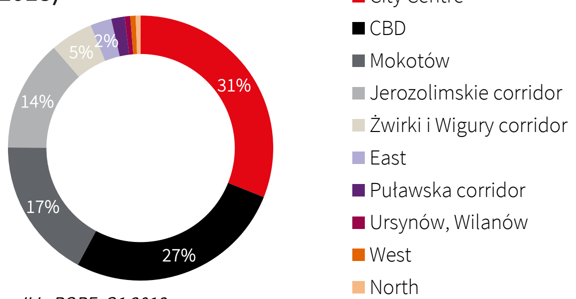
Warsaw's stellar 2017 performance was further boosted by strong market fundamentals in Q1 2018. As a result, Warsaw is cementing its place as the centre for business and office activity in CEE region. This acts as a powerful lure for both investors and occupiers and has resulted on optimistic forecasts for the next few quarters. Warsaw's star shines bright and 2018 is set for fantastic results.

Sustained interest in Warsaw's core markets, as well as developing locations, has created a diverse market that caters for the needs of the full spectrum of firms looking for office premises. Established companies are continuing to expand their footprint in the capital and will carry on driving even more demand for office space. This, coupled with a wide range of newcomers to the market, further enhances growth forecasts for Warsaw.

Currently two major trends are attracting the attention of both landlords and occupiers: the increasing role of property technology (PropTech) and the rise of the flexible working environment. Booming innovations in PropTech are giving technology leaders a competitive edge. Just a few examples of this include integrating virtual or augmented reality services, which helps to draw in new tenants, and heat mapping employee movements, which allows for optimising floor space and adapting to changing workforce. Innovations are also key to the increasing importance of flexible working environments. This is underlined by the recent decision of Cambridge Innovation Center (CIC) to start operations in Warsaw and to focus on start-ups, corporate innovation initiatives and building an 'innovation community'.

Such excellent market sentiment has resulted in increased occupier activity, which totalled 202,100 m² in Q1 2018. The sustained interest in Warsaw is driven by companies from a range of sectors and various locations across Warsaw. The City Centre leads the way in terms of total demand, with 62,700 m² leased, of which the vast majority was taken up in the West and South subzones of the district. The CBD followed closely, with 54,200 m² transacted on, and third place was taken by Mokotów. Together they account for 75% of the total demand for offices in the capital.

Demand distribution across Warsaw's office districts (Q1 2018)



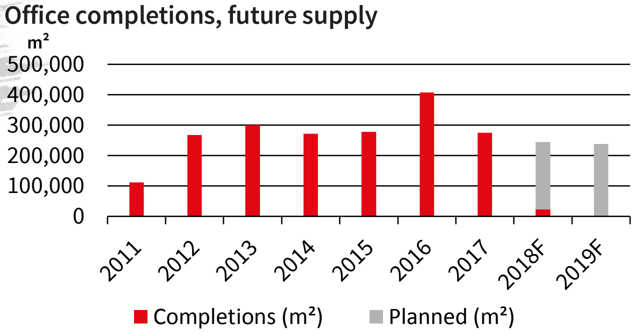
Source: JLL, PORF, Q1 2018

Approximately 110,300 m² of the total demand came from new deals in existing buildings, with a further 32,700 m² being pre-lets. Renewals amounted to 41,600 m² and expansions accounted for 17,500 m². The most notable deals were a new deal by a confidential company from the public sector for 14,800 m² in Piekna 2.0, a pre-let by CIC for 13,500 m² in Varso II and a new deal by Ad Pilot for 10,300 m² in Wolf Marszałkowska.

The amount of new supply coming to the market in Q1 2018 was rather moderate: only two buildings were completed (Graffit in Mokotów and Europejski in the CBD), totalling 23,700 m² of office space. This is in line with the expected contraction of pipeline in 2018 and the progressing balance between supply and demand. The volume of new completions may pick up again in 2020 with the scheduled completion of some large-scale projects.

The under-construction volume amounts to 770,000 m², large part of which is due for completion in 2020, as mentioned above. A strong pipeline doesn't necessarily translate into oversupply every time. On the contrary, Warsaw proves, year after year, that its booming demand and absorption of new space is more than enough to balance the supply side of the market. That is further confirmed by decreasing vacancy rates throughout Warsaw.

Office completions, future supply



Source: JLL, PORF, Q1 2018

The lower completions volume and the robust demand during the first quarter resulted in a drop in the vacancy rate in Warsaw to the level of 10.8%. That decrease is most evident in central Warsaw, where 7.3% of space is empty (1.8 pp drop q-o-q, mainly driven by the leasing of two fully vacant developments, by single tenants in both cases). The vacancy rate in non-central Warsaw remained stable and stood at 13.1% at the end of Q1. The rate is forecasted to continue decreasing at least until the end of 2019.

Prime headline rents remained stable in Q1 2018. In central Warsaw rents are currently quoted at €17.0 to €23.0 / m² / month, while prime assets located in the best non-central areas lease for €11.0 to €15.0 / m² / month. The rental forecast is stable in the mid-term perspective. However, Warsaw has reached the bottom of the rental cycle and some rental pressures may arise along with increasing labour and constructions costs.

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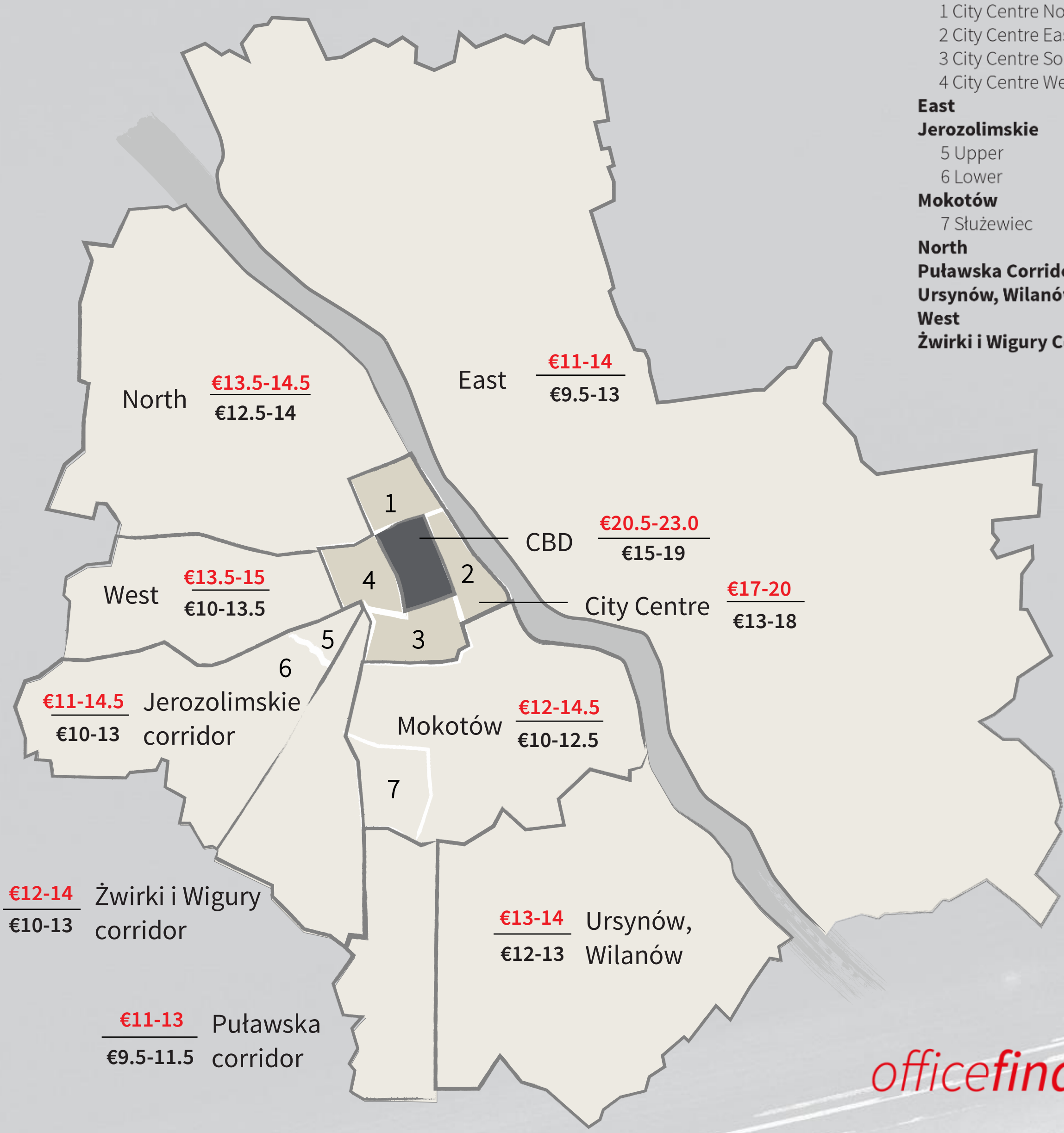
Prime headline rents (€ / m² / month)

A-class
B-class

CBD
City Centre
1 City Centre North
2 City Centre East
3 City Centre South
4 City Centre West
East
Jerozolimskie
5 Upper
6 Lower
Mokotów
7 Służewiec
North
Puławska Corridor
Ursynów, Wilanów
West
Żwirki i Wigury Corridor



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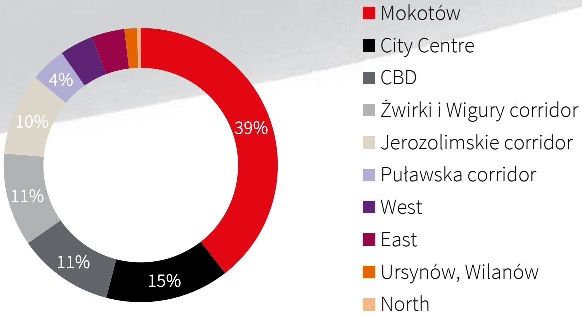
Vacant space in Warsaw's office districts



Source: JLL, PORF, Q1 2018

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