

Warsaw Office Market



Demand and absorption similar to last year

At the end of June 2024 total supply of office space in Warsaw was at 6.25 million sq m. Ca. 45% of total supply is located in central zones with 1.01 million sq m in CBD and 1.81 million sq m in City Centre zone. The remaining 55% is located outside the centre with the Służewiec, which is still the largest non-central office zone, contributing 17% of the city's supply.

During H1 2024, a total of 63,700 sq m was delivered to the market (to compare 60,900 sq m was delivered during the full year 2023). The largest projects finished in H1 2024 include the third phase of Lixa by Yareal (totalling 26,300 sq m), refurbishment of Saski Crescent by CA Immo (15,500 sq m) and Vibe A by Ghelamco (15,000 sq m). 89% of newly delivered supply was allocated within the central zones.

At the end of June 2024, almost 281,000 sq m of modern office space was under construction. 83% or 234,100 sq m of which is located in central zones (198,600 in the City Centre zone and 35,500 sq m in the CBD zone). In 2024 over 92,400 sq m of space was commenced within six buildings. The largest projects started between January and June include renovation of V Tower by Cornerstone (30,700 sq m), Skyliner II by Karimpol (23,000 sq m) and VENA by PHN (15,400 sq m).

In H1 2024 total leasing activity stood at 316,400 sq m, which is only 2% less than in H1 2023. In Q1 tenants leased ca. 138,000 sq m, while in Q2 demand increased to 178,400 sq m. Non-central zones generated 60% of the total (190,100 sq m), while leasing activity in the two central zones stood at 126,300 sq m. Zones with the highest leasing activity were: Służewiec (71,500 sq m), City Centre (64,000 sq m with 32,000 sq m leased in the City Centre West subzone) and CBD (62,200 sq m)

In H1 2024 over half of demand (51%) was generated by renegotiations. New leases added 41% share (including owner occupier), expansions generated 7% of demand. Pre-lets added just 1%.

In H1 2024 the most active sectors in terms of demand included the financial sector (55,100 sq m), the business services sector (38,400 sq m), the IT sector (32,400 sq m) and the retail sector (31,500 sq m).

At the end of June 2024, there was 680,400 sq m of office space available in Warsaw, which translated into a vacancy rate of 10.9% (a decrease by 20 bps

q-o-q and 50 bps y-o-y). The vacancy rate in the central zones was 9.1% (80 bps lower y-o-y) while the vacancy rate in non-central zones was 12.3%, meaning a decrease by 30 bps y-o-y.

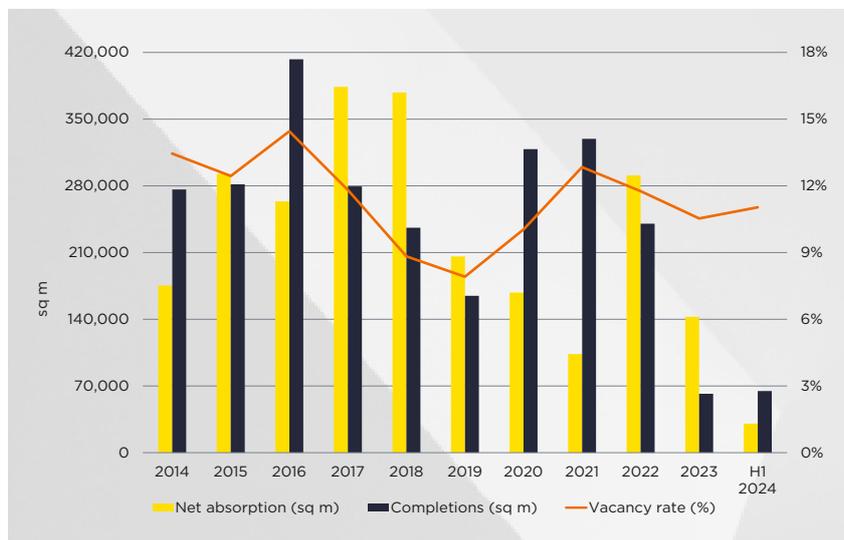
At this moment there are only two office zones exceeding 100,000 sq m of vacant space: Służewiec (207,900 sq m or vacancy rate of 19.6%) and City Centre zone (160,600 sq m or 8.9%). Zone with the lowest vacancy rate was Puławska corridor (5.3%). On the other hand, aforementioned Służewiec noted the highest result.

Net absorption in H1 2024 recorded a level of 30,000 sq m absorbed city-wide, similar to the same period in 2023 (just 1% less y-o-y).

At the end of Q2 2024 headline rents in prime locations in the CBD averaged between EUR 22.50-26.00/sq m/month. In several buildings located in central zones rents can quote higher, exceeding EUR 27.00/sq m/month for the most attractive premises. In Służewiec, the largest non-central zone headline rents for prime premises remain relatively stable (with slight increase by EUR 0.25/sq m/month), resulting in the range of EUR 13.25-15.00/sq m/month.

After last year's service charge increases, tenants can hardly find a building with charges below PLN 20.00/sq m/month. Currently, tenants have to reckon with an additional cost mostly in the range of PLN 25.00-40.00/sq m/month.

Net absorption, completions and vacancy rate, 2011-H1 2024



Source: Savills Research

Key office data H1 2024:



6.25 million sq m
Total office supply



280,900 sq m
Total space under construction
(13% up y-o-y)



63,700 sq m
Completions
(60,900 sq m in 2023)



10.9%
Vacancy rate
(50 bps down y-o-y)



316,400 sq m
Total take-up
(2% down y-o-y)



30,000 sq m
Net absorption
(1% down y-o-y)

H1 2024 market trends



Flexible office as solution for high fit-out cost

Currently, in the market, we often encounter situations where tenants, especially those interested in smaller office spaces, face difficulties in agreeing on lease terms. The main obstacle appears to be high fit-out costs. Occupiers are interested in receiving support in fit-out of a high standard office, while for landlords the financial efficiency of the whole process is the most important. The solution to this problem is to extend lease term. Five-year contracts, which used to be popular, are now being turned into at least seven-year contracts for new projects but not only. Often companies do not want a commitment of this length. In our opinion, the solution to this problem could be flexible office, which allows space to be rented at a high standard for a much shorter period. This is a solution that will become increasingly popular, especially among tenants interested in offices of a few hundred metres or less.



Continuous supply gap

The supply gap that has been mentioned many times and the lower development activity will stay with us for longer. While before the pandemic we were seeing development activity of 700,000- 800,000 sq m, we have seen a steady decline since 2020. At the moment, less than 300,000 sq m is being built. According to our analysis, similar levels will continue over the next few years. Some developers are holding back on projects, waiting for a better market condition and a reduction in vacancy rates. In addition to the change in working patterns and office use, the significant increase in land prices, materials and salaries that has taken place in recent years can be seen among the reasons for the decline in construction activity. Reduced supply will contribute to a decline in vacancy rates, which will encourage developers to launch further investments.



Jarosław Pilch
Director
Head of Tenant Representation
Savills Poland



Green buildings and green leases

In parallel to the obligations arising from European Union guidelines, we see that environmental objectives are important for tenants. In relation to the climate neutrality targets that companies are aiming for, the use of 'green buildings' is essential. Fortunately, in Warsaw around 70% of the space is certified according to BREEAM, LEED or WELL standards, which makes it easier for tenants to choose an office of the highest standard in terms of the environment friendliness. To our knowledge, in H1 2024 at least 85% of the space leased in the city was in certified buildings.



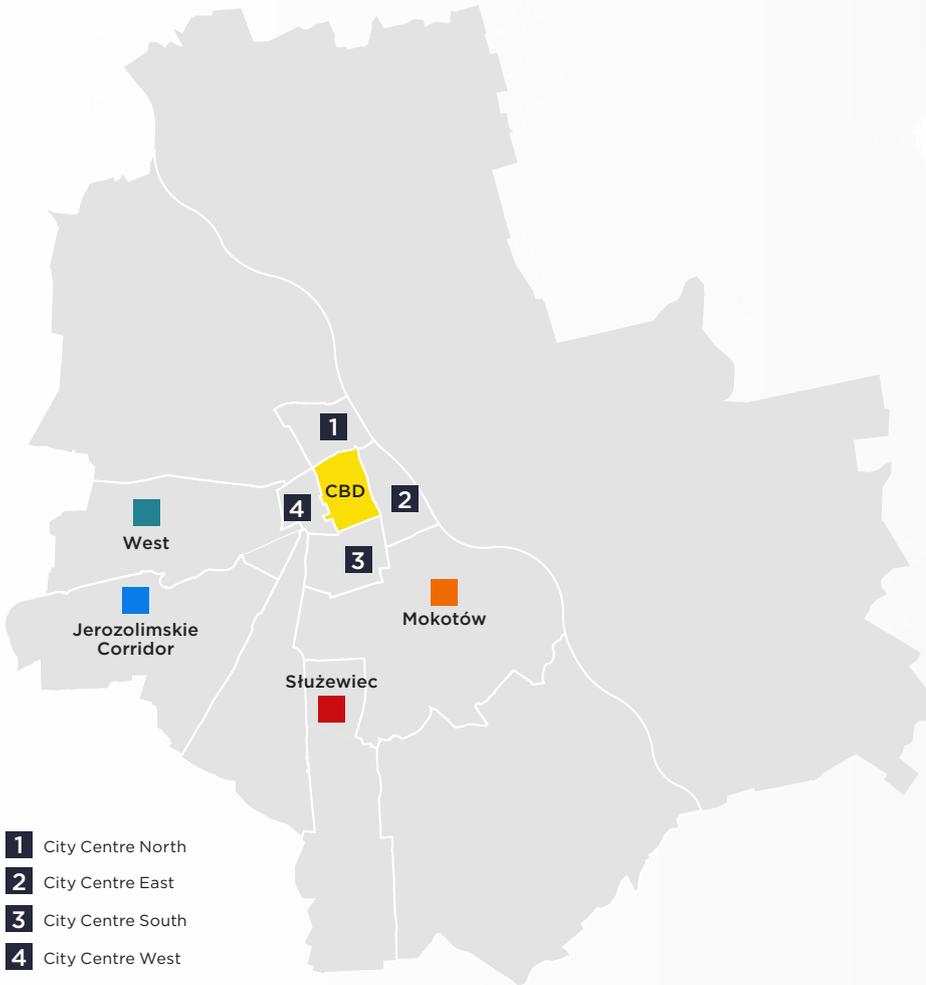
Seeking for funds for rearrangement of office space

More than half of the space leased in H1 2024 was signed as renegotiations. This fits in with our observations that tenants see this as a good solution to renovating their office with as little capital commitment from the company as possible while having a shorter than 7-10 year lease for new space. This is simply too far-reaching a commitment for a vast proportion of tenants.

With budget optimisation and wise planning for the surcharges renegotiated on lease renewal, tenants can refresh their offices and better adapt them to current trends such as hybrid working or advanced technology. In the case of new leases, tenants are often forced to finance the fit-out with a substantial contribution.



Daniel Czarnecki
Director
Head of Landlord Representation
Savills Poland



- 1** City Centre North
- 2** City Centre East
- 3** City Centre South
- 4** City Centre West

City Centre (1,2,3,4)

Total stock: 1,813,000 sq m
Available area: 160,600 sq m / 8.9%
Rent: EUR 17.50-24.00/sq m/month
Space under construction: 198,600 sq m

Central Business District (CBD)

Total stock: 1,010,200 sq m
Available area: 96,000 sq m / 9.5%
Rent: EUR 21.00-26.00/sq m/month

Mokotów

Total stock: 403,000 sq m
Available area: 32,600 sq m / 8.1%
Rent: EUR 15.00-18.50/sq m/month
Space under construction: -

Służewiec

Total stock: 1,058,400 sq m
Available area: 207,900 sq m / 19.6%
Rent: EUR 13.25-15.00/sq m/month
Space under construction: -

Jerozolimskie Corridor

Total stock: 769,100 sq m
Available area: 80,300 sq m / 10.4%
Rent: EUR 12.50-17.50/sq m/month
Space under construction: -

West

Total stock: 223,000 sq m
Available area: 15,400 sq m / 6.9%
Rent: EUR 12.00-16.00/sq m/month
Space under construction: 15,400 sq m



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Daniel Czarnecki
 Head of Landlord Representation
 +48 (0) 519 033 717
 dczarnecki@savills.pl

Jarosław Pilch
 Head of Tenant Representation
 +48 (0) 694 497 800
 jpilch@savills.pl

Wioleta Wojtczak
 Head of Research
 +48 (0) 600 422 216
 wwojtczak@savills.pl

Jarosław Jachura
 Senior Consultant
 Research Department
 +48 (0) 507 334 167
 jaroslaw.jachura@savills.pl