MARKET IN MINUTES
Savills Research

Warsaw Office Market

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Eagerly awaited return of pre-lets

At the end of September 2024 the total supply of office space in Warsaw was at 6.26 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 (with 63% of that space located in the City Centre West subzone). Służewiec, where over 1 million sq m is located, is still one one of the largest office hubs in Warsaw, and the largest amongst non-central zones.

Between Q1-Q3 2024, a total of 75,000 sq m was delivered to the market (to compare almost 61,000 sq m was delivered during the full year 2023). The largest projects finished between January and September 2024 include the third phase of Lixa by Yareal (26,300 sq m), Saski Crescent by Ca Immo (15,500 sq m) and Vibe A by Ghelamco (15,000 sq m). Almost 3/4 of newly delivered space was located in central zones. 26% of space delivered in 2024 remains vacant.

At the end of September 2024, 277,100 sq m of modern office space was under construction. 86% or 239,100 sq m of which is located in central zones (203,600 in the City Centre zone and 35,500 sq m in the CBD zone). One more project, The Form by Lincoln Property Company (28,000 sq m), is scheduled to be delivered by the end of 2024. In turn, more than 300,000 sq m in total is scheduled for 2025-2026, of which 250,000 sq m is already under construction and based on developers' plans, it is possible that an additional 50,000 sq m could be added in 2026.

Demand for office space in Q1-Q3 2024 totalled 492,200 sq m (in Q1 - 138,000 sq m, in Q2 - 178,100 sq m and in Q3 - 176,100 sq m). This represents almost the same result for the same period y-o-y (492,900 sq m). Ca. 57% of total demand was concentrated in non-central zones (278,900 sq m), while in central zones take-up stood at level of 213,00 sq m. Zones with the highest leasing activity include City Centre with 130,100 sq m of leased space (83,000 sq m in City Centre West subzone), Służewiec with 103,200 sq m and CBD with 83,200 sq m.

In Q1-Q3 2024 renegotiations were responsible for ca. 42% of total demand (to compare in the same period of 2023 it was 38%). New leases added 42% (including owner occupier transactions), while expansions stood at a 7% share. Thanks to a solid Q3 in terms of pre-lets (over 38,600 sq m) its share stood at 9%.

True leader in terms of leased space was the financial sector with ca. 86,100 sq m (17% share), mainly due to the pre-let transaction with Santander at The Bridge (24,500 sq m). Other significant occupiers were from the IT sector (58,400 sq m), the business services sector (56,900 sq m) and the manufacturing sector (56,200 sq m). Noteworthy is the strong demand in the flexible offices sector, where operators leased a total of 22,400 sq m.

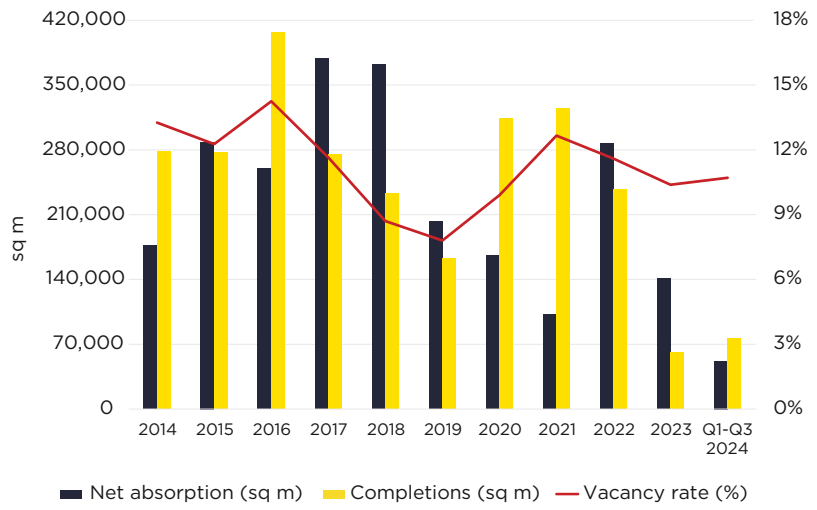
At the end of September 2024, there were 670,700 sq m of office space available in Warsaw, which translated into a vacancy rate of 10.7% (a decrease by 20 bps q-o-q). The vacancy rate in the central zones was 8.9% (20 bps lower y-o-y), while the vacancy rate in non-central zones was 12.2%, meaning a increase by 40 bps y-o-y.

Służewiec and City Centre zones are the only office zones with vacant space exceeding 100,00 sq m each (208,500 sq m with 19.7% vacancy rate and 152,800 sq m with 8.4% respectively). In addition ca. 98,000 sq m (9.7% vacancy rate) is available for immediate lease in CBD zone. On the other hand, the zone with the lowest vacant space is North (5,800 sq m or 4.6% vacancy rate) and Ursynów, Wilanów (7,600 sq m or 6.2%).

Net absorption in Q1-Q3 2024 recorded a level of 51,000 sq m absorbed city-wide, much less than in the same period in 2023 (43% less y-o-y).

At the end of Q3 2024 headline rents in prime locations in the CBD averaged between EUR 22.50-26.00/sq m/month and to compare with H1 remained stable. The most attractive premises can quote higher, exceeding EUR 27.00/sq m/ month. In Służewiec, headline rents for prime premises quote EUR 13.25- 15.00/sq m/month and remained unchained after an increase in the last quarter. Additionally to rents tenant have to pay service charge, which can be up to PLN 40.00/sq m/month.

Net absorption, completions and vacancy rate, 2014-Q3 2024



Source: Savills Research

Key office data Q1-Q3 2024:

6.26 million sq m
Total office supply

277,100 sq m
Total space under construction
(5% up y-o-y)

75,000 sq m
Completions
(270% up y-o-y)

10.7%
Vacancy rate
(10 bps up y-o-y)

492,200 sq m
Total take-up
(10 bps down y-o-y)

51,000 sq m
Net absorption
(43% down y-o-y)

Q3 2024 market trends

Return of the pre-lets

In recent quarters we have witnessed a recovery of developers erecting large-scale projects in central locations (despite low share of pre-lets). In the last quarter only, ca. 38,600 sq m was signed in projects under construction and negotiations for further space are at an advanced stage. In current circumstances, with the main lease secured, developers will be able to comfortably negotiate more aggressively, keeping rents high and even increasing it for the remaining space.

Pressure on rental levels

While we have seen an increase in space under construction in recent quarters, the current large-scale pre-lets may influence the supply gap in 2025-2026, especially for tenants interested in larger space in new developments. This phenomenon may be reflected in further upward pressure on rents in central locations, while outside the centre, where competition will be higher, rents should remain stable at levels that will provide an attractive alternative for tenants.

Reactivating old projects

When it comes to new office projects, we are seeing two extreme cases. On the one hand, developers aware of the lower supply that has accompanied us since the outbreak of the pandemic decide to recommence work on projects that have long been in the early planning stages or have been put on hold in anticipation of a better market condition. This is the case of the cooperation between Ghelamco and PKP, who are returning to the office project at Dworzec Gdański railway station, which will aim to create another recognisable project in this part of the city. On the other hand, there is no shortage of opinions as to whether it is worth abandoning, some office projects (especially less well located ones), in favour of another, more profitable function (in many cases a residential function).

Jarosław Pilch
Director
Head of Tenant Representation
Savills Poland

Proactive approach

Based on our experience, owners of older properties are not necessarily condemned to a prolonged search for tenants, but need to do significantly more work on their buildings. Tenants appreciate 'active asset management', which seeks to improve working conditions and includes ESG aspects in its investments, which do not always translate directly into profit. We know some cases where good practices in this area have brought tenants much closer to a positive decision, despite competition of newer projects.

Flexible solutions

We are seeing an intensification of the trend to popularise the implementation of flexible space in buildings. While professional operators are now mainly interested in central locations, we are observing that building owners are trying to add flexible solutions to their offer, resulting in the launch of this type of service in some areas. This can be a solution to the problem of vacant space and is certainly positively perceived by tenants, who know that they have the option to grow and expand their teams at any time, according to demand, without being tied into a long and expensive traditional lease. In our opinion, the popularisation of flexible space in office buildings will only increase.

Longer commitments

Whereas some time ago, when talking about the lengthening of leases, we spoke about 7-year leases as something that was emerging more and more frequently, we can now state, based on our observations of the market, that 7-year new leases can be considered as the new standard that is systematically replacing the previous typical 5-year leases. What's more, initially resistant tenants have realised that, with current office fit-out prices, this is one of the best ways to obtain the satisfactory funds necessary to prepare the premises for work. Furthermore, we are seeing an extended period for renegotiations, with tenants in some cases even opting for 5-year renegotiations due to the limited room for manoeuvre (especially in the central zones).

Daniel Czarnecki
Director
Head of Landlord Representation
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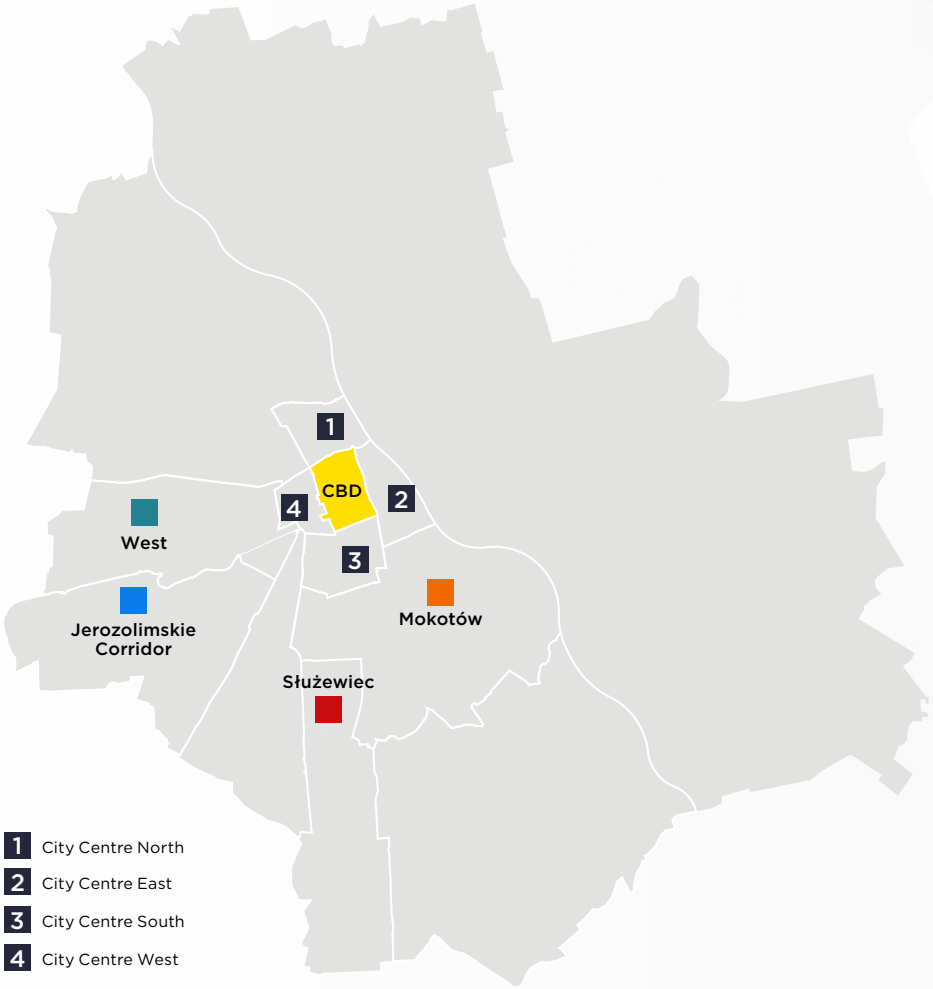

City Centre (1,2,3,4)
Total stock: 1,813,400 sq m
Available area: 152,800 sq m / 8.4%
Asking rent: EUR 16.50-25.50/sq m/month
Space under construction: 203,600 sq m

Central Business District (CBD)
Total stock: 1,010,200 sq m
Available area: 98,000 sq m / 9.7%
Asking rent: EUR 19.50-26.00/sq m/month
Space under construction: 35,500 sq m

Mokotów
Total stock: 403,000 sq m
Available area: 30,100 sq m / 7.5%
Asking rent: EUR 15.00-19.50/sq m/month
Space under construction: -

Służewiec
Total stock: 1,058,000 sq m
Available area: 208,500 sq m / 19.7%
Asking rent: EUR 12.00-15.50/sq m/month
Space under construction: -

Jerozolimskie Corridor
Total stock: 768,900 sq m
Available area: 75,600 sq m / 9.8%
Asking rent: EUR 12.50-17.50/sq m/month
Space under construction: -

West
Total stock: 214,500 sq m
Available area: 14,500 sq m / 6.8%
Asking rent: EUR 12.00-17.00/sq m/month
Space under construction: 15,400 sq m

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.

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