

Office Market Pulse

Warsaw Office Market

2023

Introduction

Everything indicates that 2024 will be a challenging year for the commercial real estate market, as investors await signals of recovery. High financing and construction costs effectively restrained activity in the capital market in 2023, and there are indications that this situation will persist in 2024. Developers continue to refrain from initiating new office projects.

Being closely connected to the office space leasing market, we observe relatively high tenant activity and a persistent trend over the past few years of tenants relocating to the most attractive office buildings in prime locations.

Aforementioned office spaces quickly attract tenants who are also keen on finishing their spaces to a high standard and creating a friendly environment for group work, socializing, and relationship building – elements that were seldom a priority before the Covid pandemic.

Jakub Sarzyński
Brookfield Partners



About Brookfield Partners



**We are part of
Exis Global**

**We represent
Tenants
only**

**We help create
productive
work environments**

WARSAW

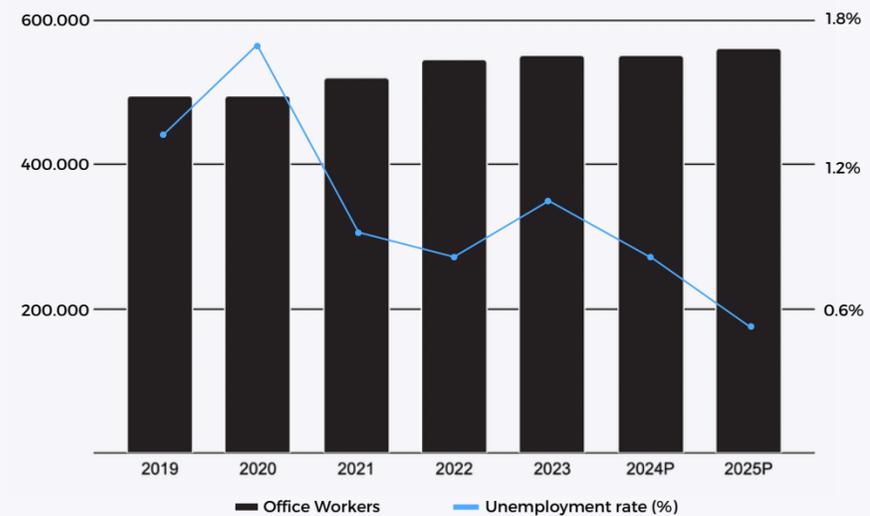
The office real estate market in Poland is recognized as one of the most dynamic and innovative environments in Central and Eastern Europe. Despite numerous challenges such as the post-pandemic reality, the emergence of the "new normal," and the indirect effects of the Russian invasion of Ukraine, the Polish market maintains a robust condition.

Warsaw, being the largest business hub, attracts the attention of both domestic and international companies. The share of demand generated by Business Process Outsourcing (BPO) and Shared Services Centers (SSC) in Warsaw stands at 11.0%, while combined with other metropolitan regions, it reaches 19.0%.

The unemployment rate in Warsaw remained low in 2023, indicating labor market stability and a favorable environment for investments. Additionally, infrastructure investments and development projects contributed to the creation of new jobs and employment growth across various sectors.

Despite global challenges, Warsaw maintained economic stability in 2023, fostering investments and entrepreneurial growth, solidifying the city's position as an attractive business environment.

NUMBER OF OFFICE WORKERS AND UNEMPLOYMENT RATE IN WARSAW



Source: GUS



WARSAW IN NUMBERS



POPULATION
1,795,569



AREA (HEKTARS)
51,724



AV. SALARY (PLN)
9242.72



UNEMPLOYMENT
1,4%

Warsaw stands as one of the foremost business hubs in Poland, ranking consistently for over two decades among cities fostering the development of the modern business services sector.

The city's excellent university and logistical infrastructure further to its unwavering appeal for both new ventures and the expansion of existing enterprises.

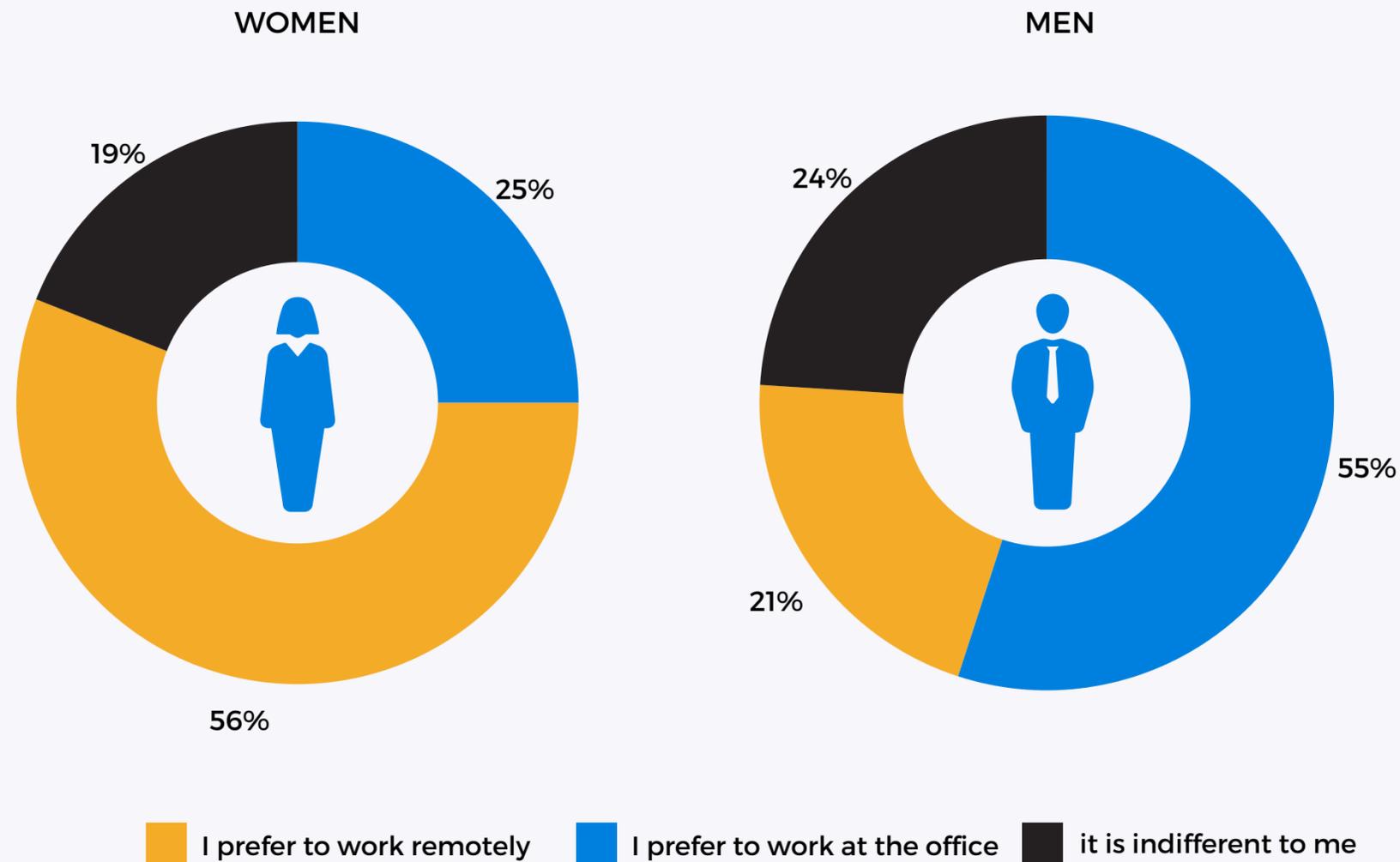
Will the pace of investment growth be sustained in the upcoming years? The year 2023 indicated a slight slowdown in this momentum. While not necessarily negative, it reflects a stabilization in the well-established investments. Is there room for more business? Certainly, as this trend is expected to unfold over the next two years.



Wiktor Doktor
CEO, Pro Progressio

REMOTE OR IN-OFFICE?

WOULD YOU PREFER TO WORK REMOTELY OR AT THE OFFICE?



Source: Dailyfruits, Office or home office - which work environment do Polish employees prefer.

The most significant black swan event of recent years, the pandemic that reached Poland in 2020, has irreversibly transformed our approach to offices and the work environment as a whole. Subsequent studies indicate that operating in a remote or even hybrid system contributes to the breaking down of team integration and the erosion of professional relationships. Employees are increasingly less connected to the companies they work for, but don't physically see on a daily basis.

Simultaneously, the effects of professional burnout and a sense of meaninglessness in performing work tasks intensify. Interpersonal relationships, teamwork, and a sense of professional identity emerge as missing elements, which are essential for balance and comfortable psychological functioning in the professional sphere.

Currently, no one questions the principles of a "hybrid" work environment, finding the optimal distribution of tasks between the office and home. The pertinent question, however, is where the optimum lies. Knowledge about generational differences also proves incredibly useful, as the office serves a different purpose for Generation Y born in the 80s, while the expectations towards it differ for the influx of Generation Z flooding the job market.



Łukasz Polikowski
Network Office

OFFICE MARKET

SUPPLY

As of the end of December 2023, the total office space inventory in Warsaw amounted to 7.94 million sq m, comprising 4.99 million sq m of Class A buildings (modern offices with high standards and amenities), 2.64 million sq m of Class B buildings (less modern offices but still providing a good standard), and 318,000 sq m of Class C buildings (offices with a lower standard or adapted facilities). The major office clusters are situated in the Central Business District (2.38 million sq m), Mokotów (1.67 million sq m), and Wola (1.33 million sq m).

In 2023, a total of approximately 67,000 sq m of office space was delivered. This marks the lowest new office supply in years. Among the newly introduced spaces are Studio B, with an area of around 16,400 sq m, located in Wola, and Lakeside (approximately 22,700 sq m) situated in Mokotów.

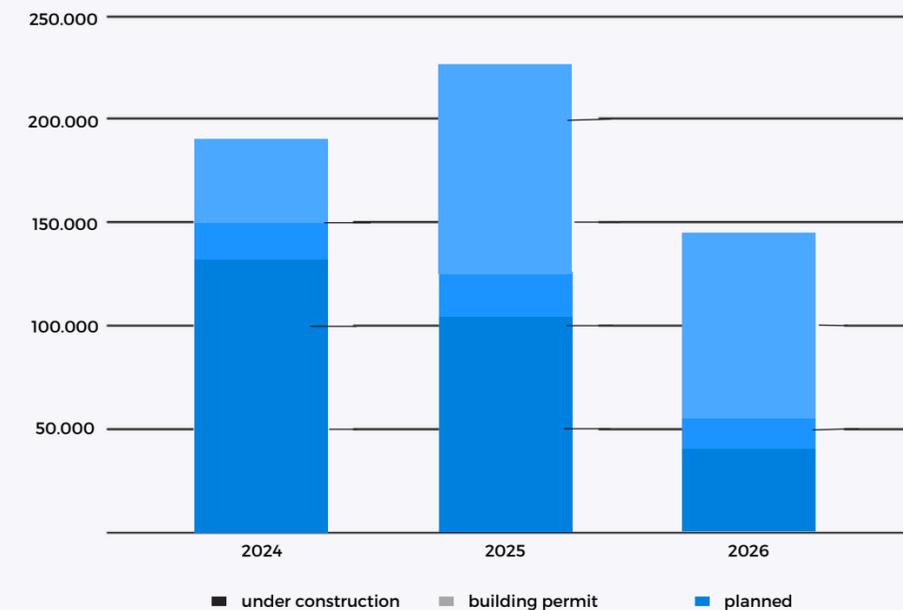
Since the onset of the pandemic in 2020, there has been a gradual decline in the area under construction. In the years 2017-2019, construction volumes ranged from 700,000 to 800,000 sq m. However, by the end of 2023, there were 12 buildings under construction with a combined area of approximately 245,000 sq m, scheduled for completion between 2024 and 2025.

The construction of several projects scheduled for completion in 2024 has yet to commence. However, if developers follow through with their announcements, the new supply stemming from planned projects in the years 2024-2025 could reach approximately 160,000 sq m. In the event of economic stabilization and developers opting to proceed with projects currently in preparation until the end of 2026, an estimated 350,000 sq m of new office space could be generated.

While recent years witnessed a concentration of development activities in the city center (with over 82% of new supply introduced to the market between 2020-2022), the current construction of new buildings is more evenly distributed between central and non-central office hubs.

Key projects under construction in Warsaw include The Bridge (47,000 sq m, developed by Ghelamco), Drucianka B1 (25,000 sq m, Liebrecht & Wood), Upper One (35,900 sq m, Strabag), Studio (26,600 sq m, Skanska), Towarowa 22 - Office House (31,000 sq m, Echo Investment), and The Form (21,000 sq m, Lincoln Property Company).

OFFICE PIPELINE IN WARSAW FOR 2024-2026 (sq m)



Source: Officelist.pl

WARSAW OFFICE MARKET IN NUMBERS



TOTAL OFFICE SUPPLY
7 940 000 sq m



TOTAL SPACE UNDER CONSTRUCTION
266 000 sq m



VACANCY RATE IN CLASS A
12%



RENTS IN CENTRAL ZONES IN CLASS A
19-26 EURO/sq m



AV. RENTAL RATES IN CLASS A - WOLA DISTRICT
18 EURO/sq m



AV. RENTAL RATES IN CLASS A - OTHER DISTRICTS
15 EURO/sq m

DEMAND

The initial months of 2023 witnessed low tenant activity in the capital's office market. Ultimately, in 2023, the demand for modern office spaces reached a level of 748,800 sq m, with approximately 250,000 sq m attributed to the fourth quarter.

Throughout the entire year of 2023, approximately 800 lease agreements were concluded in Warsaw.

In terms of location, the highest tenant interest in 2023 was centered around Centrum, Służewiec, and the Central Business District, with agreements signed in these areas accounting for approximately 55% of the leased volume in the Warsaw office market. This trend was notably influenced by the commercialization of the Varso complex owned by HB Reavis.

The vicinity of Rondo Daszyńskiego also attracted significant attention, where the most substantial amount of office space is currently under development. Key projects in this area include The Bridge, Office Building B as part of the multifunctional Towarowa 22 project, and The Form. These projects are scheduled for completion between 2024 and 2025.

During the period from October to the end of December 2023, the highest share in the demand structure was attributed to lease renegotiations, accounting for 49.3%, and new leases (including pre-leases), representing 43.2%. Expansions and self-use leases constituted 4.2% and 3.3%, respectively, of the registered demand.

The size of the office market in Warsaw, combined with a substantial pool of qualified workforce, has positioned the city as a prime destination for locating business service centers.

According to the ABSL 2023 report on the modern business services sector in Poland in 2023, Warsaw stands as the largest hub in terms of the number of active business service centers. By the end of the first quarter of 2023, the city hosted 356 centers employing approximately 90,000 individuals.

Source: Modern Business Services Sector in Poland 2023, ABSL

In 2023, the majority of agreements in Warsaw were related to relocations, involving the transfer of offices to new office buildings. However, it should be noted that the level of lease agreement renegotiations approached the level of newly concluded agreements. This is a trend that may persist for the next few years.

In 2024, we anticipate a scenario where more agreements will be concluded through renegotiations, especially in the city center, where a supply gap is evident.



Filip Sarzyński
Brookfield Partners

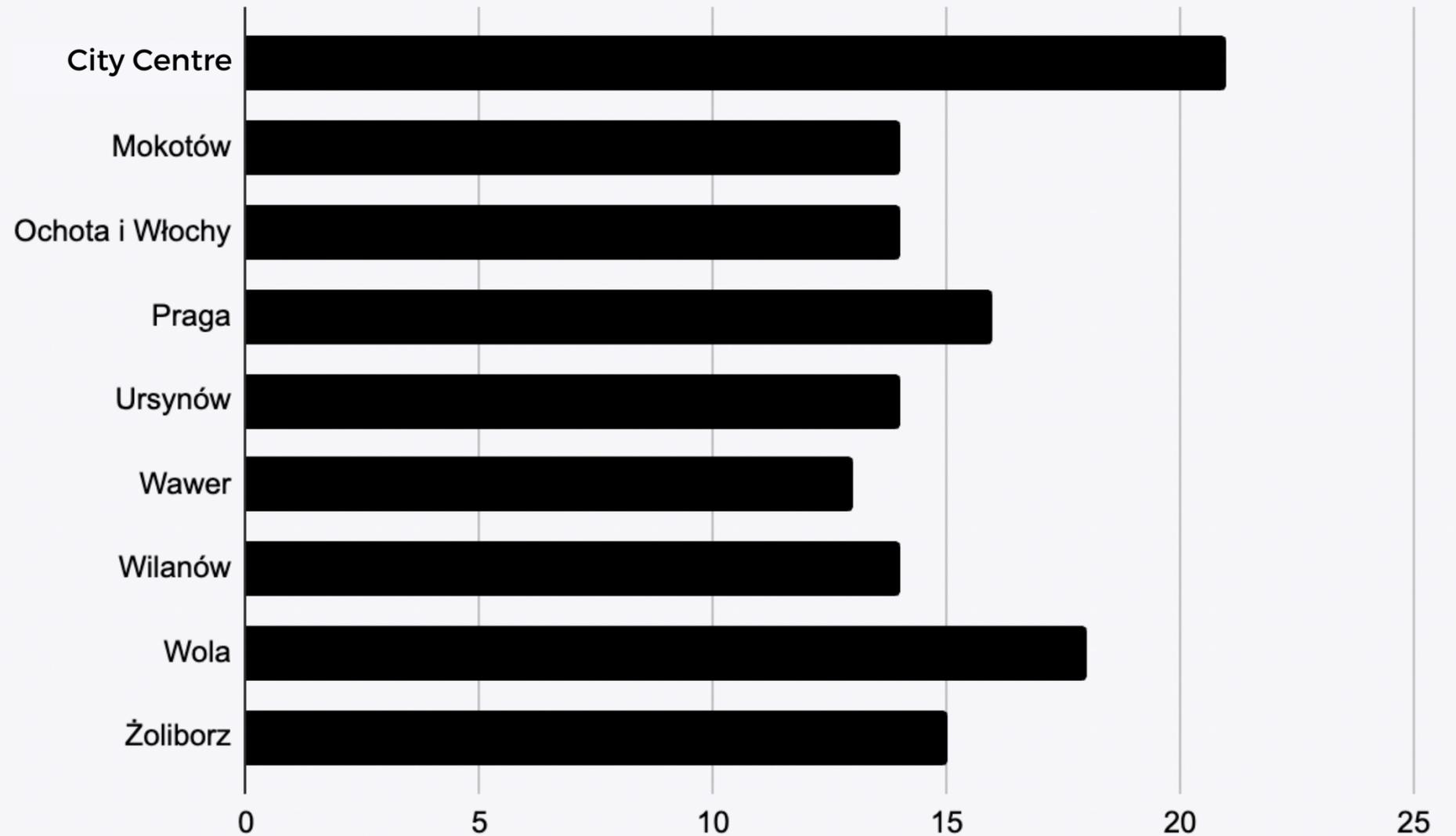
RENTS

The asking rents for office space in Warsaw remained stable in 2023. In prime office buildings located in central zones, monthly rates ranged between 21.0-25.5 EUR/m².

Tenants seeking modern offices with high standards and amenities should anticipate an upward trend in rental rates. In Mokotów, the largest office zone outside the city center, rents for the most attractive modules hover around 13.0-15.0 EUR/m² monthly.

One of the widely discussed elements in recent months has undoubtedly been the increases in operating costs that tenants have had to contend with. The sustained high inflation in Poland and the Eurozone, combined with the growth of the minimum wage and other fees, will impact the level of charges for services. In the coming months, tenants will need to confront significant indexation of rents and further increases in operating costs, the initial changes of which were observed last year.

AVERAGE RENTAL RATES IN CLASS A AT THE END OF 2023.



Source: Officelist.pl

SERVICE CHARGE

Over the past 3 years, service charge have experienced a significant increase. The high inflation resulting from the pandemic and Russia's aggression in Ukraine has led to a substantial rise in all costs associated with building maintenance.

Service charge constitute a key component of the actual office lease cost. They are expressed in the form of advances, which may result in unexpectedly high invoices from the landlord at the end of the calendar year if the advances do not accurately reflect the actual operational costs.

Therefore, it is crucial to carefully verify whether the amount of advances for operational fees covers the actual operational costs. Landlords, in turn, must reassess their property management budgets, relying on numerous uncertainties such as changes in utility prices. Many tenants validate the level of operational fees through audits conducted by external, professional entities.

RENT-FREE PERIOD

In the contemporary commercial real estate market, owners of office buildings employ various strategies to attract tenants to their properties. One commonly used practice is the implementation of rent-free periods, which serve as an enticing incentive for companies seeking office space. During these periods, tenants may benefit from a temporary exemption from paying rent, typically at the initial stage of the lease agreement.

Increasingly, rent-free periods are being reduced and converted into an augmented budget for fit-out works.

BUDGET FOR FIT-OUT

The fit-out budget is a predetermined amount allocated by the landlord for adapting office space to the specific needs and requirements of the tenant. Over the past 10 years, the fit-out budget, in most cases, allowed for the completion of the office in a standard acceptable to the majority of tenants. However, a more than 30% increase in construction costs over the last 4 years necessitates tenant participation in fit-out expenses. The generation of higher budgets for fit-out work results in the extension of lease terms from 5 to 7 years and the reduction of rent-free periods.

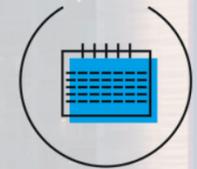
The fit-out budget is becoming an increasingly important component of the total lease cost and should be taken into account when formulating leasing strategies - whether deciding to renegotiate the current lease agreement or relocate.

LEASE CONDITIONS FOR AGREEMENTS OVER A 5-YEAR TERM



Service charge
EUR/sq m/month

25,00-35,00



Rent-free period

7-12 months



Budget for fit-out
EURO/sq m

500-800

shell&core

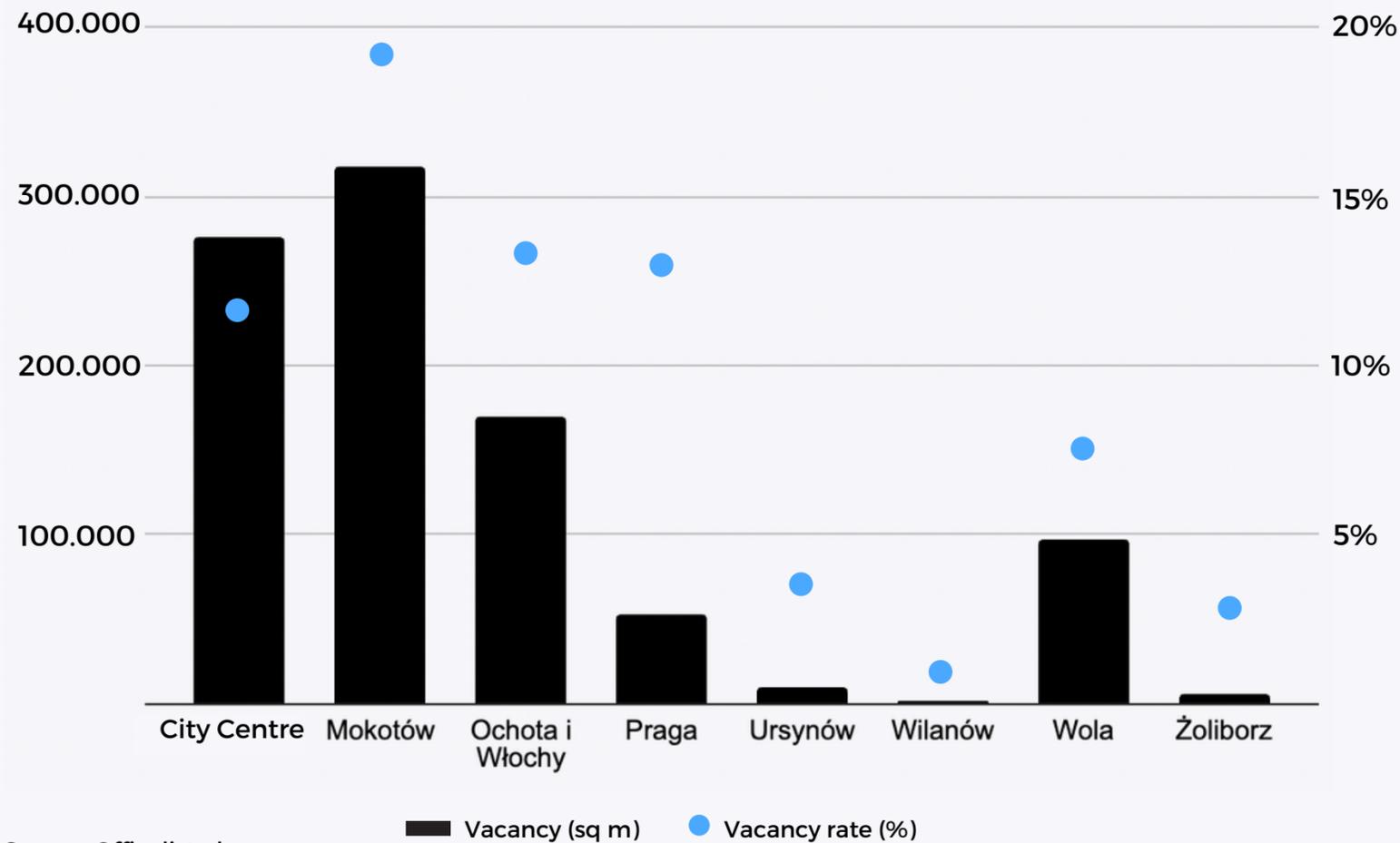
200-300

**adaptation following
the previous tenant**

VACANCY

At the end of December 2023, the amount of vacant space offered for lease in Warsaw was approximately 897 780 sq m, which translates into a vacancy rate of 11%. The available office space in Class A buildings was approximately 600,000 sq m, with a vacancy rate of 12% in Class A properties.

OFFICE VACANCY IN WARSAW IN 2023



Source: Officelist.pl

Currently, tenants have access to approximately 276,000 sq m (11.6%) of modern office space in the City Center. Despite the high rental rates, tenant interest is most prominent in this area. The most challenging locations for tenant acquisition are Służew and southern Mokotów. Despite relatively low rental rates, the vacant office space in this district amounts to a substantial 317,000 sq m (19% vacancy rate). It is evident that the once predominant business hub of Warsaw has shifted to Wola, which currently offers around 100,000 sq m of available space with a vacancy rate below 10%.

It appears that the situation in Mokotów may further deteriorate, particularly among older office buildings. However, this does not signify the end of this office district. New investments, such as Lakeside, demonstrate that exceptional projects will attract new tenants.

Key office investments under construction

The Bridge

 47 000 sq m

 Q4 2024

 Ghelamco



The Form

 21 000 sq m

 Q4 2024

 Lincoln Property Company



Towarowa 22

 31 000 sq m

 Q1 2025

 Echo Investment



Drucianka B1

 25 000 sq m

 Q1 2025

 Liebrecht & Wood



LIXA D

 9 500 sq m

 Q4 2024

 Yareal



Studio A

 26 600 sq m

 Q4 2025

 Skanska



Upper One

 35 900 sq m

 Q2 2026

 Strabag



Vena

 14 000 sq m

 Q1 2026

 Polski Holding Nieruchomości



Despite a decline in the number of new office investments, there is no shortage of remarkable and spectacular projects under construction. The most intriguing of which is undeniably The Bridge office building. Ghelamco, the developer behind Warsaw Spire, is now undertaking a new landmark just a hundred meters away. The 40-story office building is set to encompass 47,000 sq m of office space. The anticipated completion date is in the Q4 2024, but it has already reached its intended height in early January.

In addition to The Bridge, the Warsaw market will also boast Towarowa 22, whose project was unveiled by Echo Investment in the Q4 2023. Said developer has accustomed us to a conceptual approach not only in regards to the office buildings themselves but also to the transformation of the entire surrounding area, as exemplified by the service and office complex Browary Warszawskie.

The key office buildings completed in 2023



Lakeside



Lakeside was inaugurated in November 2023. The building is owned by Atenor Poland Sp. z.o.o., and designed by Grupa 5 Architekci who are currently working on the Studio A skyscraper.

What distinguishes Lakeside is its distinctive appearance. The entire office building is glazed and designed to resemble a stack of irregularly arranged, rectangular boxes. This architectural choice imparts a more contemporary style to the structure.

The project stands out as unique within the expansive local office space market. We anticipate that it will set a new trend for future projects in transforming the landscape of southern Warsaw's office buildings.



Studio B



Studio B is a building realized by Skanska and delivered for use in August of the previous year. This skyscraper is part of the larger "Studio" complex, strategically located in the immediate vicinity of Rondo ONZ and Rondo Daszyńskiego metro stations, with plans for two office buildings in total. Studio B stands as the inaugural structure, while the second, Studio A, is still in the construction phase.

The building offers attractive office spaces with a splendid view of Warsaw's skyline and a commercial-service passage. The high standard of finishing, implementation of eco-friendly solutions validated by LEED and WELL certifications, flexibility in space arrangement, as well as glazed facades ensuring optimal access to natural light, collectively contribute to a comfortable working environment.

In 2023, a notable trend observed in the commercial real estate sector was a distinct decline in development activity within the office market. This decline can be attributed to several factors, including the increase of interest rates and the sustained adoption of hybrid work models during the pandemic, which diminished the demand for office space.

In response to this situation, Warsaw experienced its lowest level of new office supply in years, totaling approximately 67,000 sq m. Despite the challenging conditions in the capital, noteworthy and innovative office buildings were still brought into operation during the past year.

CITY CENTRE

	1 620 000
	2 380 000
	21,00
	245 465 / 8,3%
	35 940

OCHOTA I WŁOCHY

	776 000
	1 300 000
	14,00
	177 682 / 14,9%
	13 152

URSUS

	315
	5 820
	13,00
	500 / 4,6%

WOLA

	1 070 000
	1 330 000
	18,00
	96 092 / 5,3%
	213 748

URSYNÓW

	103 000
	300 000
	14,00
	20 864 / 4,3%

BIAŁOŁĘKA

	3 000
	126 000
	13,00
	9 197 / 3,2%

ŻOLIBORZ

	121 000
	221 000
	15,00
	9 593 / 8,3%

PRAGA

	125 000
	417 000
	16,00
	37 864 / 11,3%
	28 000

WAWER

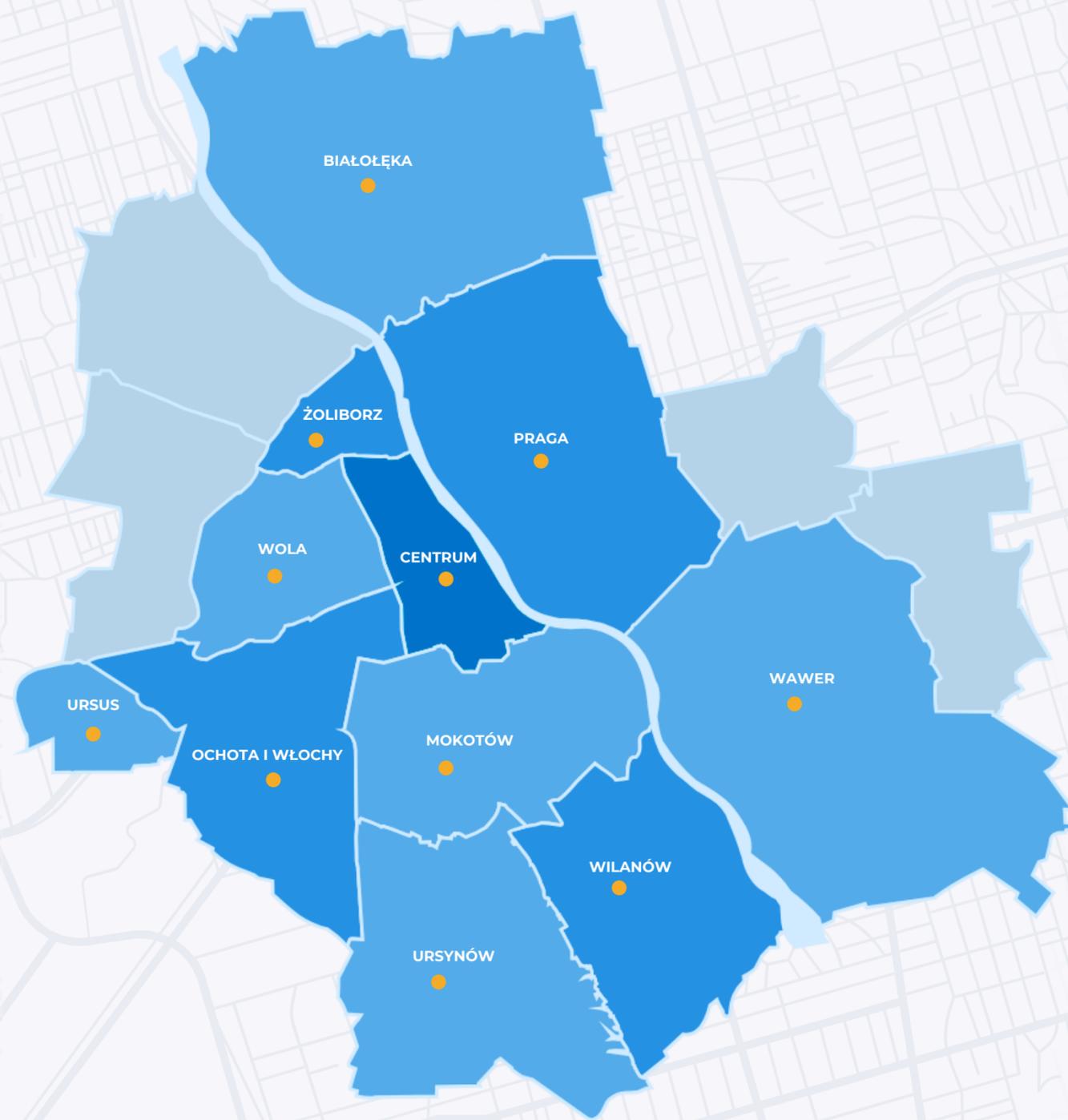
	10 200
	50 000
	13,00
	7 082 / 6,1%

WILANÓW

	37 900
	144 000
	14,00
	7 929 / 8,0%

MOKOTÓW

	1 110 000
	1 670 000
	14,00
	281 673 / 16,6%



Legend



TOTAL STOCK IN CLASS A (sq m)



TOTAL STOCK (sq m)



OFFICE RENT (EUR/sq m/month)



VACANCY RATE (sq m / %)



SUPPLY UNDER CONSTRUCTION (sq m)

THE MOST INTERESTING NEWS FROM THE COMMERCIAL REAL ESTATE MARKET



BLIK is expanding its office by X20



Tchibo Coffee Service remains at Kopernik Office Buildings



Marynarska Business Park is transforming into Diuna



Upper One - construction of a new skyscraper begins



The Studio B office building in Wola has been completed



Glovo has leased over 2,000 sq m in Q22



Kampus Forest among the most beautiful gardens of Warsaw



SKYSAWA with BREEAM Outstanding certification



The Lux Med Group has leased more than half of the Lakeside office building



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