

FLEXIBILITY IS KEY TO WARSAW'S OFFICES. AND NOT ONLY WARSAW

Experts from the consulting company BNP Paribas Real Estate Poland summed up the final quarter of 2021, regarding office space in Warsaw. The market closed the year with 325,000 sqm of new modern space, but vacancy rate are increasing, and an escalation in contract renewals is agitating the situation within the demand structure. Therefore "flexibility" has turned out to be the most important word for all market players. The authors underline that the situation in 2022 will be comparable.

At the end of 2021, Warsaw comprised of over 6.15 million sqm of office space, of which more than half was located in buildings that are already 10 years old. From the 2021 yearly analysis, the capital's office resources increased by nearly 325,000 sqm, which equates to a 3% increase y/y. In the final quarter of 2021 alone, the modern office market grew by 31,500 sqm, the bulk of that was due to the handover of two projects: the Central Point office building, built by the Belgian developer Immobel, located at the junction of Marszałkowska and Świętokrzyska streets (17,975 sqm), and the launch of the first phase of the Fabryka PZO complex (12,122 sqm), the only tenant being ZTM. These launches mean that 57% of totally new supply delivered to market between October and December fell in the CBD zone, and 38% in the East zone. In general, at the close of 2021, not surprisingly the largest Warsaw office district was the Centre again (44% of all resources), followed by Mokotów (24%) and the corridor at Aleje Jerozolimskie (12%).

A supply gap to be expected.

At the end of 2021, construction was underway at variety of investments in Warsaw, which in total will beef-up the modern office space market by over 347,000 sqm. The majority of the construction work was in the CBD (30% of space under construction), as well as in the City-CentreWest (24%) and City-CentreEast (19%) zones. The developer of the two largest projects under construction is HB Reavis, who has announced the opening of an additional part of the Varso complex (66,300 sqm of space) at some point during the fourth quarter of this year, while even earlier, during the second quarter, the opening of the Forest office building (51,700 sqm). Also the office tower called The Bridge at Plac Europejski is currently, being developed by Ghelamco.

The report's authors point out that the freezing of office projects or their postponement, together with amended or revised developers' plans and the switch of some investments into multi-purpose facilities, will significantly reduce new office supply in the coming years. The expected effect will be a significant change in the supply-demand relationship, and compounding that, a change in the overall business relationship between landlords and tenants.

- The supply gap, expected for 2023-2025, will not only leave its mark on the level and the demand structure, but will also be a significant contributor to a hike in rental rates. However, despite the fact that the market is not a bed of roses today, some development companies are not only not suspending their projects, but are also planning their investments, so that they can fulfill the impending supply void as best as possible, and in this way influence the



decisions of lease postponement by companies. From a perspective of catching up, the upcoming quarters will certainly foster a significant increase in processes and negotiations that are protracted and even unfrozen from past - comments **Mikołaj Laskowski**, Head of Office Agency, BNP Paribas Real Estate Poland.

The increase in 2022, for base rental rates and operating costs, will also be influenced by, among others, a rampaging inflation rate that includes all cost categories, an increase in utility costs, escalating tax burdens, as well as a rise in building material costs.

Vacancy rates on the rise, again.

As anticipated – following on from a temporary pause in the third quarter - at the end of the year, the tenantless rate increased yet again, reaching 12.7%. This means that almost 780,000 sqm of office space is waiting to accept tenants. The vast majority is located in the largest zone, i.e. the City Centre, although a significant factor here was the commissioning of the new and large Central Point office building, the lease saturation at the time of delivery being nearly 20%.

- *The vacancy rate was largely influenced by decisions made by tenants, who with increased frequency selected the option of extending their existing contracts with a simultaneous optimization of space, rather than the alternative of changing office addresses. We envision, that in 2022 the litmus test for the office market, will be how the market reacts to a return to office desks and further decisions on methods of working within remote or hybrid models, which ultimately will be dictated by the way the pandemic develops* - says **Małgorzata Fibakiewicz**, Head of Business Intelligence Hub, BNP Paribas Real Estate Poland.

A busy close to the year.

250,000 sqm of lease agreements were concluded in the final quarter of 2021, while the full year closed at 646,500 sqm, which represents a 7% increase to the previous year.

Office buildings in the central zones of Warsaw turned out to be the most popular. As much as 60% of signed contracts involved this city zone, which again confirms the attractiveness and intensive development of this location.

The report indicates that the average share of lease renewals as a part of the total number of contracts increased from 36% in 2020, to a level of almost 45% in the past 12 months. Among the three most significant transactions of 2021, two concerned contract extensions, while one was a pre-let.

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