

1

*Continuing decrease  
in vacancy rate*

2

*Numerous delays  
in new completions*

3

*One of lowest quarterly  
lease transaction volumes*



# Warsaw Office Market

Research, Q1 2020

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THE OFFICE  
SECTOR  
IN THE POST-  
COVID ERA



# OFFICE MARKET IN WARSAW

**5.6m** sq m **804,000** sq m **7.5%**

total office stock

supply under construction

vacancy rate

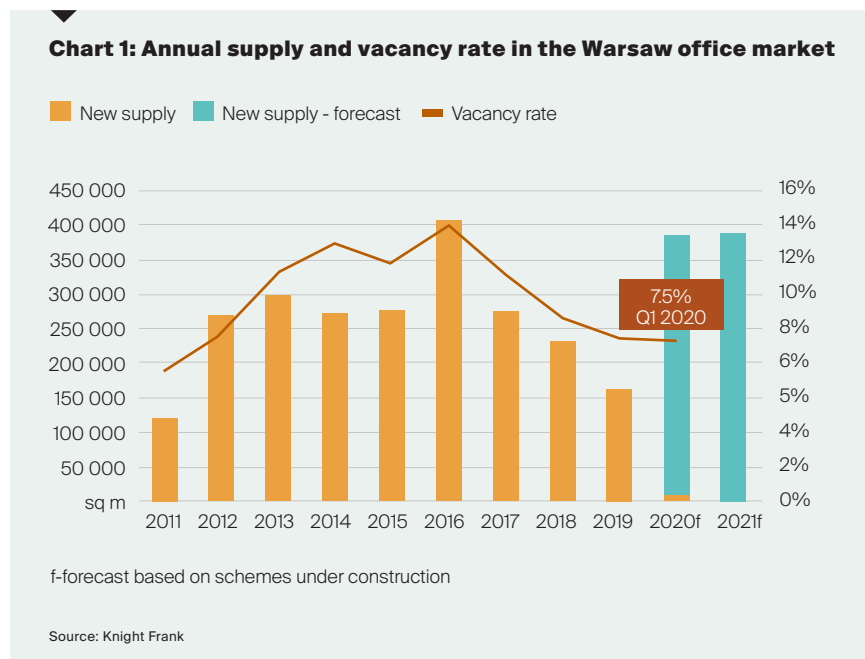
**6,700** sq m **139,000** sq m

new supply (Q1 2020) in one scheme

take-up volume (Q1 2020)

At the end of Q1 2020, the total Warsaw office stock, at 5.6m sq m, remained almost unchanged compared to the end of 2019. In the first three months of 2020 only one office project was delivered to the market: the first stage of HB Reavis' Varso Place. Varso I offers 6,700 sq m of office area, with most of the space being occupied by a hotel. Due to the construction delays observed in Q1 2020, only one of nine office projects was completed. However, if developers meet future deadlines, they will deliver more than 380,000 sq m to the market in 2020, more than twice the figure recorded in 2019. The largest office projects planned for completion in 2020 are, among others: Mennica Legacy Tower (66,000 sq m, Golub GetHouse), Chmielna 89 (26,000 sq m, Globalworth Poland), and the next phases of The Warsaw HUB, B&C (61,000 sq m in total, Ghelamco Poland).

Currently, there are approximately 800,000 sq m of office space under construction in Warsaw, of which the largest areas are in the two phases of Varso Place (109,000 sq m in total, HB Reavis) located next to the Central



Railway Station, and Ghelamco Poland's two projects situated in the Rondo Daszyńskiego area – the aforementioned Warsaw HUB B&C (61,000 sq m) and Warsaw UNIT (57,000 sq m).

Between January and March 2020, almost 140,000 sq m of office space was subject to lease agreements in Warsaw. Due to the COVID-19 pandemic market

slowdown observed in Q1 2020, the take-up volume recorded in the first quarter of 2020 was almost 20% lower than the average demand recorded in the first quarters of the previous five years, and one of the lowest quarterly result in the history of the Warsaw market. That said, it was comparable to the corresponding period of 2019. New agreements signed both in existing buildings (including

space for the owner’s use) and projects under construction constituted 36% and 19% respectively of take-up; renegotiations accounted for 31%; the remaining share, 14%, came from expansions. The strongest leasing activity was recorded in the City Centre and Mokotów districts.

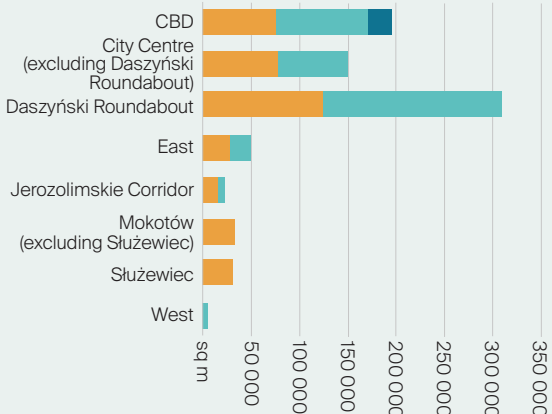
Despite the limited volume of leases signed in Q1 2020, an exceptionally low new supply contributed to a further decrease in Warsaw’s vacancy rate. At the end of March 2020, it stood at 7.5%

- i.e. 418,000 sq m of available office space for lease. The vacancy rate was 0.3 pp. lower than that at the end of Q4 2019, and 1.6 pp. lower than the result in the corresponding period of 2019. Moreover, it remains the lowest figure since 2012. The vacancy rate in central locations stood at 4.9%, reaching its lowest level in 10 years. The biggest vacancy rate decrease was recorded in non-central zones. Despite this, however, the largest amount of office space was offered in the Służewiec area - 182,000 sq m.

At the end of March 2020, asking rents remained stable. Monthly asking rents in prime office buildings in the Central Business District stood at EUR 20-25 per sq m, while asking rents in other central locations varied from EUR 15 to EUR 22 per sq m. Asking rents in buildings located outside the city centre were quoted at EUR 10-15 per sq m per month. Due to the wide range of incentives on offer to tenants, effective rents remained lower than asking rents by some 15-20%.

**Chart 2: Supply under construction by location and completion date**

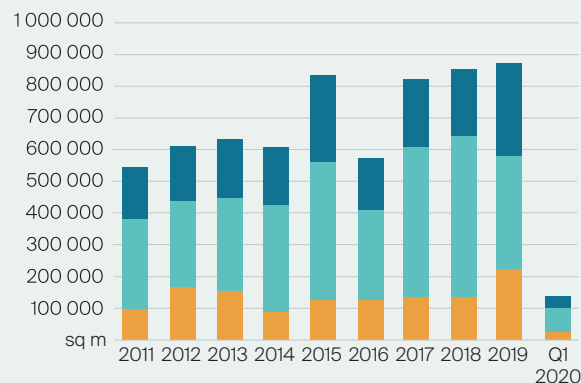
2020 2021 2022



Source: Knight Frank

**Chart 3: Office take-up in Warsaw**

Pre-let agreements New lease agreements and expansion Renegotiations



Source: Knight Frank

## INVESTMENT MARKET - OFFICE SECTOR IN WARSAW

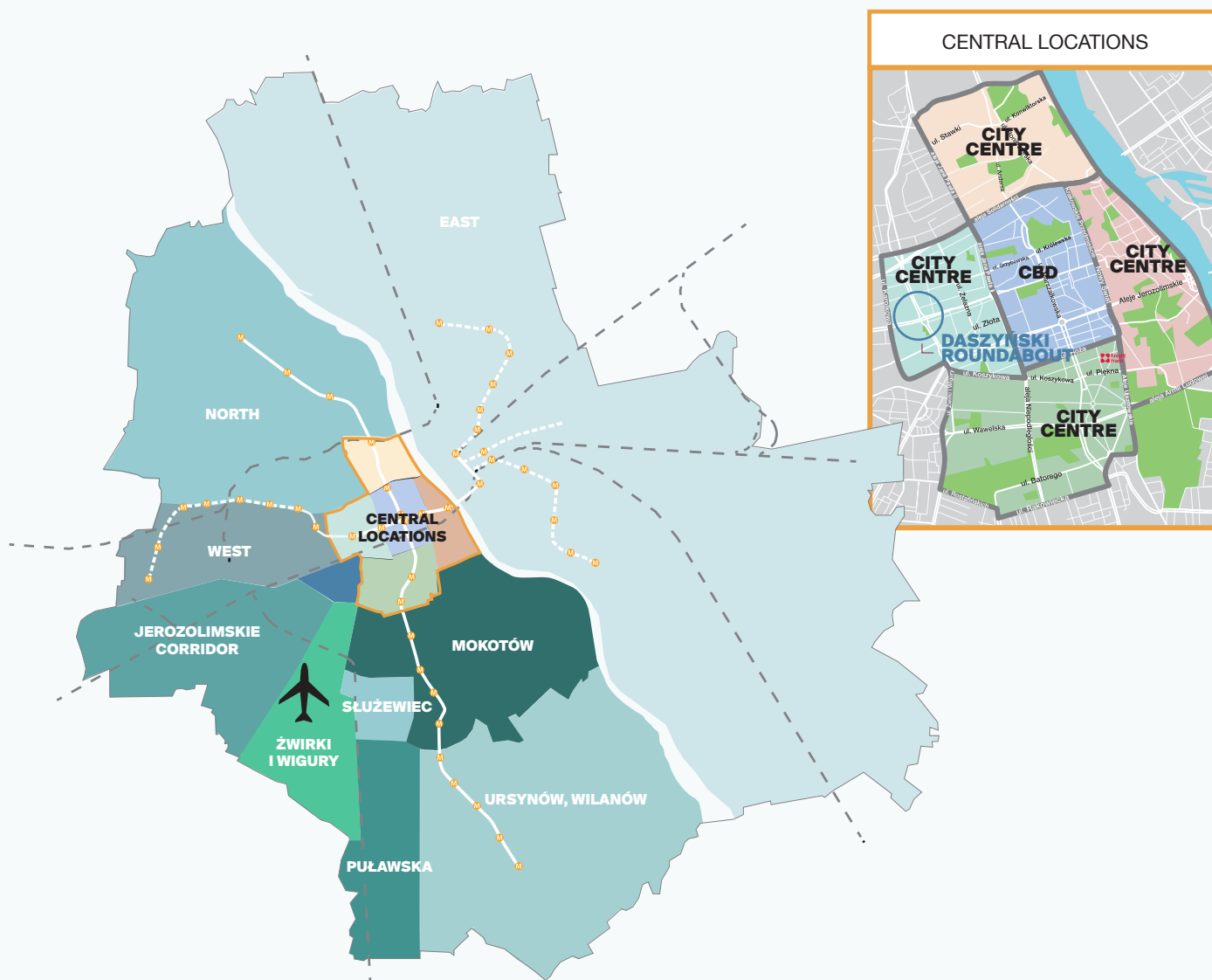
The beginning of 2020 is a continuation of good results achieved on the investment market in Poland. Investors’ activity and the volume of purchases in the first quarter did not slow down, and the total volume of acquisition amounted to EUR 1.7bn. The decline in the economy caused by the COVID 19 pandemic can be seen on the real estate market within next months which means limited investors’ activity, the time shifting for transaction closing

or even investors’ withdrawing from certain deals.

Office investment volume in Q1 2020 amounted to 618m euro, of which the greatest investors’ interest was attracted by Warsaw where total value of acquisitions reached 443 m euro, constituting 25% of investment volume in the country. The key investment highlights for new market players are great location and good investment

products. In Q1 2020 there were finalized 8 office transactions and the most significant are the purchase of Wola Center by American fund Hines, the acquisition of Marynarska Business Point by Benson Elliott, the purchase of three office buildings by CPI Property Group (Equator I, Equator II and Green Corner) or the purchase of Prosta Office Center by KGAL.

# MAJOR OFFICE CONCENTRATION AREAS



Central Business District (CBD)	
Total stock (sq m)	888 000
Vacant space (sq m)	51 900
Take up (sq m)	13 000
Asking rents (EUR/sq m/month)	20-25
Offices under construction (sq m)	196 000

Selected projects under construction		
Property name	Rentable office space (sq m)	Owner / Developer
Varso (II&Tower)	109 000	HB Reavis
Skysawa	34 000	Polski Holding Nieruchomości
Widok Towers	31 000	Commerz Real AG S + B Gruppe

### CITY CENTRE (excluding Daszyński roundabout)

Total stock (sq m)	931 000
Vacant space (sq m)	48 800
Take up (sq m)	18 800
Asking rents (EUR/sq m/month)	15-22
Offices under construction (sq m)	150 000

### DASZYŃSKI ROUNDABOUT

Total stock (sq m)	370 000
Vacant space (sq m)	7 300
Take up (sq m)	30 600
Asking rents (EUR/sq m/month)	16-22
Offices under construction (sq m)	308 000

### MOKOTÓW (excluding Służewiec)

Total stock (sq m)	336 000
Vacant space (sq m)	8 000
Take up (sq m)	7 500
Asking rents (EUR/sq m/month)	12-15
Offices under construction (sq m)	32 000

### SŁUŻEWIEC

Total stock (sq m)	1.1m
Vacant space (sq m)	183 000
Take up (sq m)	37 000
Asking rents (EUR/sq m/month)	10.5-14.5
Offices under construction (sq m)	30 000

### JEROZOLIMSKIE CORRIDOR

Total stock (sq m)	735 000
Vacant space (sq m)	41 000
Take up (sq m)	9 700
Asking rents (EUR/sq m/month)	12.5-15
Offices under construction (sq m)	22 000

### EAST

Total stock (sq m)	235 000
Vacant space (sq m)	15 000
Take up (sq m)	6 000
Asking rents (EUR/sq m/month)	12-15
Offices under construction (sq m)	50 000

### Selected projects under construction

Property name	Rentable office space (sq m)	Owner / Developer
Forest	72 000	HB Reavis
Mennica Legacy Tower I	51 000	Golub Gethouse
Chmielna 89	27 000	Globalworth Poland
The Warsaw HUB B,C	61 000	Ghelamco Poland
Warsaw UNIT	57 000	Ghelamco Poland
Skyliner	45 000	Karimpol
Browary: Biura przy Willi & Warzelni	35 000	Echo Investment
Moje Miejsce B2	17 000	Echo Investment
X20	12 000	White Star Real Estate
Kolonia Office Centre	2 500	OMIG
Biurowiec DSV	30 000	DSV International Shared Services
Bolero Office Point II	14 000	Real Management
The Park Warsaw 7	8 000	White Star Real Estate
Koneser Centrum Praskie M,N	17 500	BBI Development & Liebrecht & wood
Bohema	7 000	Okam Capital
V Invest	3 400	V Invest



# THE OFFICE SECTOR IN THE POST-COVID ERA

While the Polish government is in the process of easing restrictions for the population and improving economic conditions, commercial real estate investors are wondering how the COVID-19 pandemic will impact their business. In uncertain times, one thing is sure - the scale of the impact will depend on the length of the period the economy is under restrictions, and the amount of time it takes for the economy to shake free of recession. An optimistic scenario for EMEA assumes GDP growth close to zero in the second half of the year, following the decline recorded in Q2 and Q3 2020. A moderately optimistic scenario assumes real signs of economic recovery in the first quarter of 2021 at the earliest. However, conclusions concerning the market situation and the pandemic's impact on the various real estate sectors can be better drawn after Q2 2020 - the first full quarter to feel the effects of the economy's "freezing". It is difficult to identify a real estate sector that has not been pandemic-affected, even marginally. The office sector is a case in point. Apart from some delay in the bringing of office buildings to the market, the pandemic's effects were not visible in the first quarter of 2020. Asking rents remained stable and vacancy rates in major Polish cities did not increase. This market outlook will likely become clearer in the coming months. Many companies are struggling with the pandemic's effects in terms of reduced revenues, thereby significantly weakening their willingness and ability to pay high rents. The coming quarters may see both reduced interest in leasing activity and, consequently, a reduction in rents. Moreover, in these uncertain times, tenants may opt for shorter leases, which in turn may affect the owner's ability to pay liabilities in the longer term. There are several groups of closely related, interconnected participants in the office sector facing the impacts of the pandemic, however challenges for each of them are different. Knight Frank has reviewed the groups on an individual basis and identified the potential effects on each of them.

# TENANTS

After the initial shock caused by the sudden switch from 'normal' to remote operating, many tenants are beginning to develop survival strategies to cope with the difficult times. Cost optimisation has become a significant issue, resulting from the additional costs and obstacles generated by reorganised remote activity, as well as the decrease in income due to reduced order volumes. One of the highest costs is office lease cost. Forecasts envisage tenants revising their needs for office space if their survival strategy results in workforce reduction. A part of affected enterprises may decide to sublet office space in the short term, or renegotiate previously signed pre-let agreements (in terms of both area and financial terms).

In the long run, flexible lease conditions will attract a larger share of the companies. It is possible that tenants will seek to adjust lease agreements in terms of their duration, so as to properly manage risks and costs; for example, part of the office space to be maintained in a traditional arrangement, with the rest in flexible offices, adjustable to changing needs. In the case of some companies we may well see, for example, strategies of workspace dispersion (i.e. the opposite of the gathering of employees in single locations). The current epidemic may induce some companies to consider utilising "spare" office space to give the possibility of separating work teams to ensure continuity of operations.

Restrictions implemented by the government, among others concerning social distancing, may convince employers to introduce changes to office arrangement in the short term. Some of the alterations may be implemented to physically separate employees; for example the use of bigger desks, or the installation of taller separators between workstations. In the long term, especially in new office buildings, we may witness a new fit-out trend offering office spaces easily transformed into 'activity-based workplaces' (office spaces divided into several areas, of which employees choose the one which best matches their needs; e.g. team work, individual tasks, tele- or videoconferencing), or into agile workplaces (workspaces with infrastructure enabling work from any place, including from home).

The need to switch to remote working on a daily basis has proved to companies

that a share of their business can be successfully carried out remotely. As a result, some tenants may realise that, when the situation normalises, outsourcing parts of their businesses will enable a reduction in occupied office space. From the point of view of the employees, the current shift towards home working may present the opportunity for implementing this kind of regime on a frequent basis. It seems that the option of remote working will be one of the desirable factors/conditions of new employment contracts. Such a situation does not necessarily entail negative effects for employers. Companies, after careful assessment of the costs and benefits related to the efficiency of staff working remotely, may decide to implement more remote working, or related solutions such as hot desking.

A further aspect of cost optimisation concerns tenants' rental obligations. Tenant requests to landlords for temporary reductions or agreed delays in rent payments are becoming more frequent.

# OWNERS

The negative effects of the pandemic will affect office building owners in the short term. Many tenants are already approaching landlords asking about rent liability reductions or the granting of rent-free periods due to their reduced activity as a result of the pandemic. In this group, apart from office tenants, there are also tenants of retail and service premises, of which the vast majority have had

to suspend their businesses. Building owners will therefore have to attempt to maintain their own liquidity, whilst also keeping tenants in their buildings. It is to be expected that the current market situation will force landlords to be more flexible in their approach to the duration of contracts, fit-out budgets, and rent-free periods for both new agreements and renegotiations. In addition to this, it is vital to conduct

negotiations in a more precise manner, e.g. paying particular attention to cases of force majeure, or aspects related to possible sudden interruptions in company operation resulting from random events (insurance issues and conditions) – i.e. conditions previously often considered to be of a largely hypothetical nature.

Even before the epidemic, there was an ever-growing awareness among building owners regarding office space arrangements which promote employee well-being. The introduction of such ideas to office buildings by landlords was due in large part to the fact that they helped in obtaining and keeping tenants who care about valuable employees. It is to be expected that the current pandemic situation will reinforce landlords' approaches to such solutions. It is very possible, for example, that the continuity of the company's operations may well depend on the implementation of ideas

that positively influence employee well-being (currently, this may include, for example, access to one-off face masks, thermometers, and hand disinfectants). A case in point is that furniture made from materials with antibacterial coatings may become increasingly popular in the medium or even long term. Moreover, implementing a workplace culture that limits, and ultimately eliminates, employee presenteeism (presence at work despite illness, stemming from a fear of negative

consequences from the employer) may prove very important in the near future. The introduction of improvements and changes in office buildings, together with office space rearrangement by single tenants, may gain importance in the medium- and long-term. It is possible that landlords will be forced to have, for example, 'health' or 'cleanliness' certificates in the future. This will take on even greater importance if the idea of flexible offices (where each desk will be used by more than one person) becomes widespread. Special emphasis may also be placed on the air quality in office buildings. It is possible that owners will have to bear the additional costs of improving the efficiency of their ventilation and air conditioning systems.



## DEVELOPERS

There are no regulations in Poland that would impose any restrictions on the construction sector in connection with the COVID-19 pandemic, therefore most of the construction sites are continuing as before. That said, due to a slowdown in authorization processes, deliveries of some office projects in the coming

months will be delayed. At the same time, the planned commencement of most of the construction sites due before the end Q1 2020 have been delayed. Both the commencement and the completion of new development projects (including office buildings) will further depend on the availability of building materials -

something also adversely affected by the current situation. Furthermore, developers are facing problems with sufficient numbers of employees - problems which have recently begun to deepen. Fears of restrictions caused by border closures in connection with the epidemic have meant that some Ukrainian workers have returned home, while others have been unable to enter Poland. Additionally, the absence of employees has become more prevalent due to school closures related childcare issues. The condition of the construction sector will depend to some extent on the duration of the pandemic, but also on government policies and assistance directly affecting the financial liquidity of companies.



## CONTACTS IN POLAND:

+22 596 50 50  
www.KnightFrank.com.pl

### RESEARCH

Elżbieta Czerpak  
elzbieta.czerpak@pl.knightfrank.com

### COMMERCIAL AGENCY - OFFICE

L-REP Izabela Potrykus-Czachowicz  
izabela.potrykus@pl.knightfrank.com  
T-REP Karol Grejbus  
karol.grejbus@pl.knightfrank.com

### COMMERCIAL AGENCY - RETAIL

Marta Keszowska  
marta.keszkowska@pl.knightfrank.com

### ASSET MANAGEMENT

Maja Meissner  
maja.meissner@pl.knightfrank.com

### CAPITAL MARKETS

Krzysztof Cipiur  
krzysztof.cipiur@pl.knightfrank.com

### LAND ADVISORY

Piotr Litwin  
piotr.litwin@pl.knightfrank.com

### PROPERTY MANAGEMENT

Izabela Miazgowska  
izabela.miazgowska@pl.knightfrank.com

### PROPERTY MANAGEMENT COMPLIANCE

Magdalena Oksańska  
magdalena.oksanska@pl.knightfrank.com

### PROJECT MANAGEMENT

Urszula Łuszczyńska  
urszula.luszczyńska@pl.knightfrank.com

### VALUATION & ADVISORY

Grzegorz Chmielak  
grzegorz.chmielak@pl.knightfrank.com

### STRATEGIC CONSULTING EMEA

Marta Badura  
marta.badura@pl.knightfrank.com

### MANAGING PARTNER

Daniel Puchalski  
daniel.puchalski@pl.knightfrank.com

### CHAIRMAN OF THE BOARD

Monika A. Dębska-Pastakia  
monika.debska@pl.knightfrank.com

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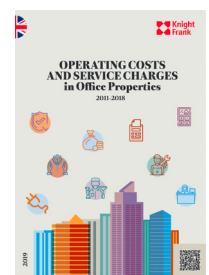
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