

# Warsaw Office Market

Research, Q1 2021

DO WE NEED  
OFFICES?



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# OFFICE MARKET IN WARSAW

**6m** sq m **167,000** sq m **420,000** sq m

**total office stock**

**new supply (Q1 2021) in 8 buildings**

**supply under construction**

**109,000** sq m **11.4%**

**take-up volume (Q1 2020)**

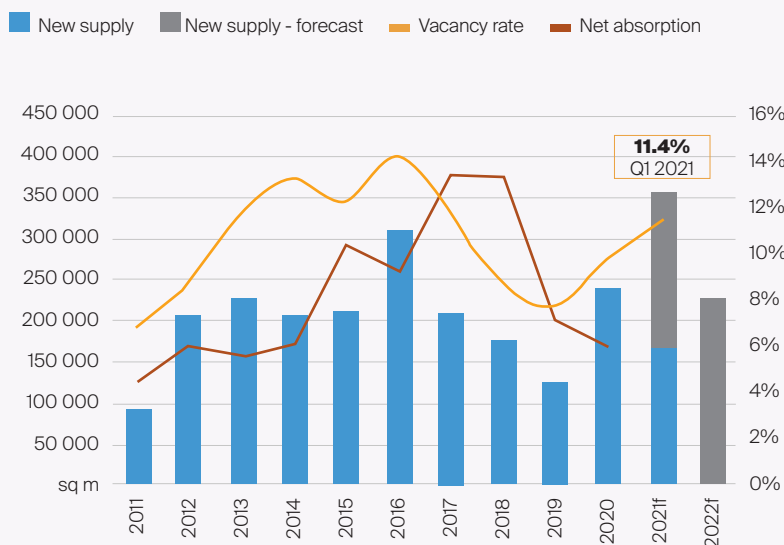
**vacancy rate**

**D**ue to the exceptionally high volume of new supply delivered in Q1 to the Warsaw market, there was a significant increase in the city's office stock to over 6m sq m by the end of March. Q1 saw eight developments, totalling 167,000 sq m, receiving

occupancy permits. More than half of this area was in two large-scale projects: Skyliner (48,500 sq m, Karimpol Polska) and the final phase of the Generation Park complex – Y building (44,200 sq m, Skanska Property Poland). Both developments are located

adjacent to Rondo Daszyńskiego. The completion of the two new buildings brings the area's office stock to nearly 620,000 sq m. The volume of new supply delivered in Q1 2021 is the second highest quarterly result in the history of the Warsaw office market (following Q2 2016).

**Chart 1: Annual supply, net absorption and vacancy rate in the Warsaw office market**



f-forecast based on schemes under construction

Source: Knight Frank

It is important to note, however, that the level of new supply no longer indicates an increase in activity from developers. Projects commenced before the onset of the COVID-19 pandemic are proceeding without delays, yet many decisions regarding the starting of new investments remain on hold until the pandemic ends and tenant activity returns to desired levels. Currently, the volume of office space under construction is at its lowest level for a decade, standing at 420,000 sq m. Almost half of this volume is expected to be completed by the end of 2021. Moreover, 75% of the office space under construction in Warsaw will add to the stock of the central business areas. Some exceptionally large projects are currently under development in this area - in particular tower buildings; Varso Tower, the highest building

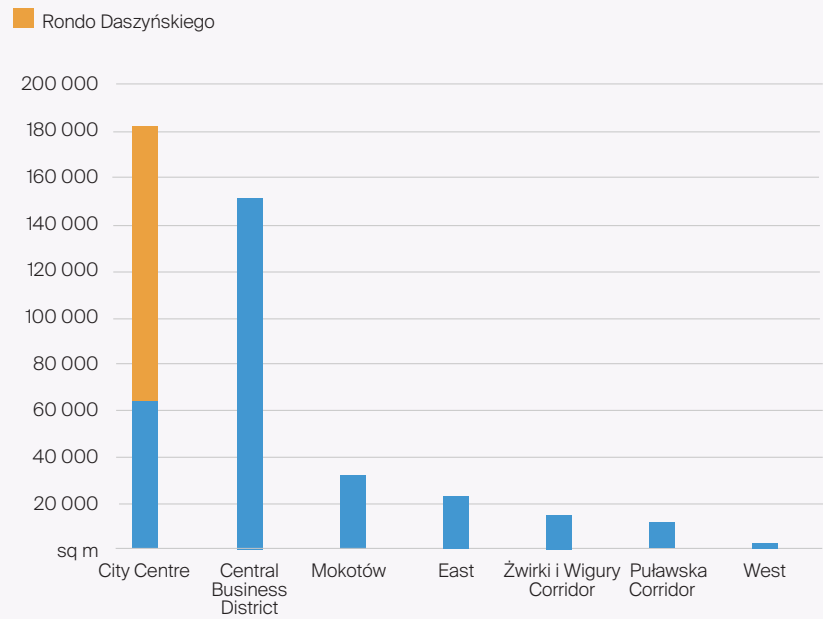
in the EU (68,600 sq m, HB Reavis), and Skysawa, with its direct access to a Metro station (34,200 sq m, Polski Holding Nieruchomości).

Q1 2021 in the Warsaw market saw a continuation of the decline in tenant activity. Only 109,000 sq m of offices was leased in this period - the lowest quarterly take-up volume in over 10 years. Once again, a high number of renegotiations was registered - some 31% of the demand volume in Q1 2021. Furthermore, tenant interest in projects under construction declined sharply - the share of pre-let agreements in the total Warsaw take-up amounted to barely 10%. For comparison, the average quarterly result in the last 2 pre-pandemic years was 20%. It is further worth noting that the 10% figure was due to only two pre-let contracts. The Mokotów zone and City Centre zone were the most popular among tenants in Q1 2021, with 33,000 sq m and 22,000 sq m leased respectively.

The visible decline in tenant activity and the high volume of new supply, which was only 50% pre-leased before delivery date, translated into a further increase in the vacancy rate. The rate had remained below 10% over the previous two years, but reached 11.4% at the end of Q1 2021. This equates to approximately 700,000 sq m of office space available for immediate lease, of which almost 86,000 sq m are located in the buildings completed in Q1 2021. The actual volume of available office space is even higher due to the wide range of office space available for sublet. The vacancy rate in Warsaw has increased by 1.5pp. q-o-q and 3.9pp. y-o-y during the pandemic period to date. The highest increase was recorded in central zones (by 4.7pp. q-o-q), attributable directly to the high volume of new supply delivered to these areas in Q1 2021.

Despite the unstable market situation, asking rents in the Warsaw market have remained stable so far. The beginning of 2021, however, has seen slight corrections, in the region of EUR 0.5. These changes can be observed mainly in buildings located in central locations. In the Central Business District, with its

**Chart 2: Supply under construction in Warsaw by business zone**

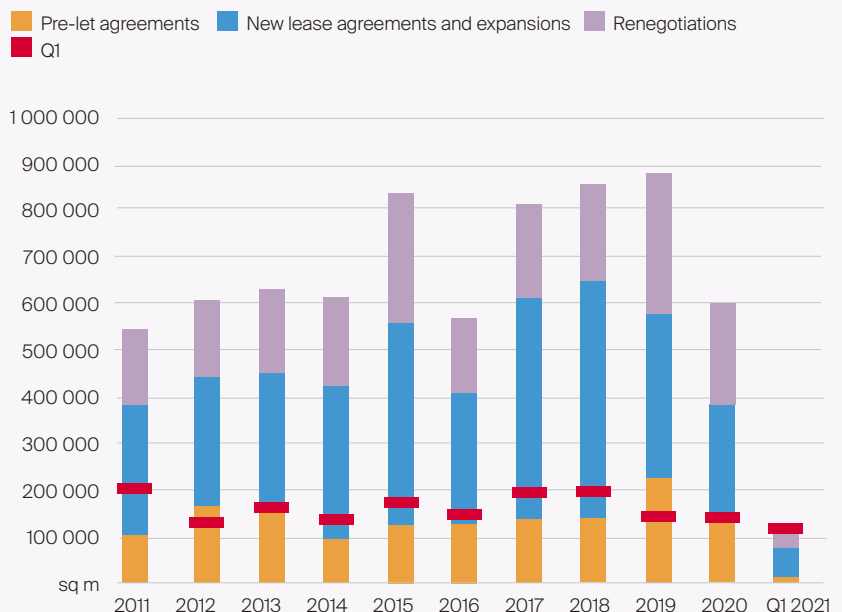


Source: Knight Frank

new, prestigious projects, asking rents fall within the range of EUR 20-25/sq m/month, although some prime office space on the top floors of towers may command rents as high as EUR 27-28. In other central locations, rates ranged from EUR 15 to EUR 22/sq m/month. Asking rents in

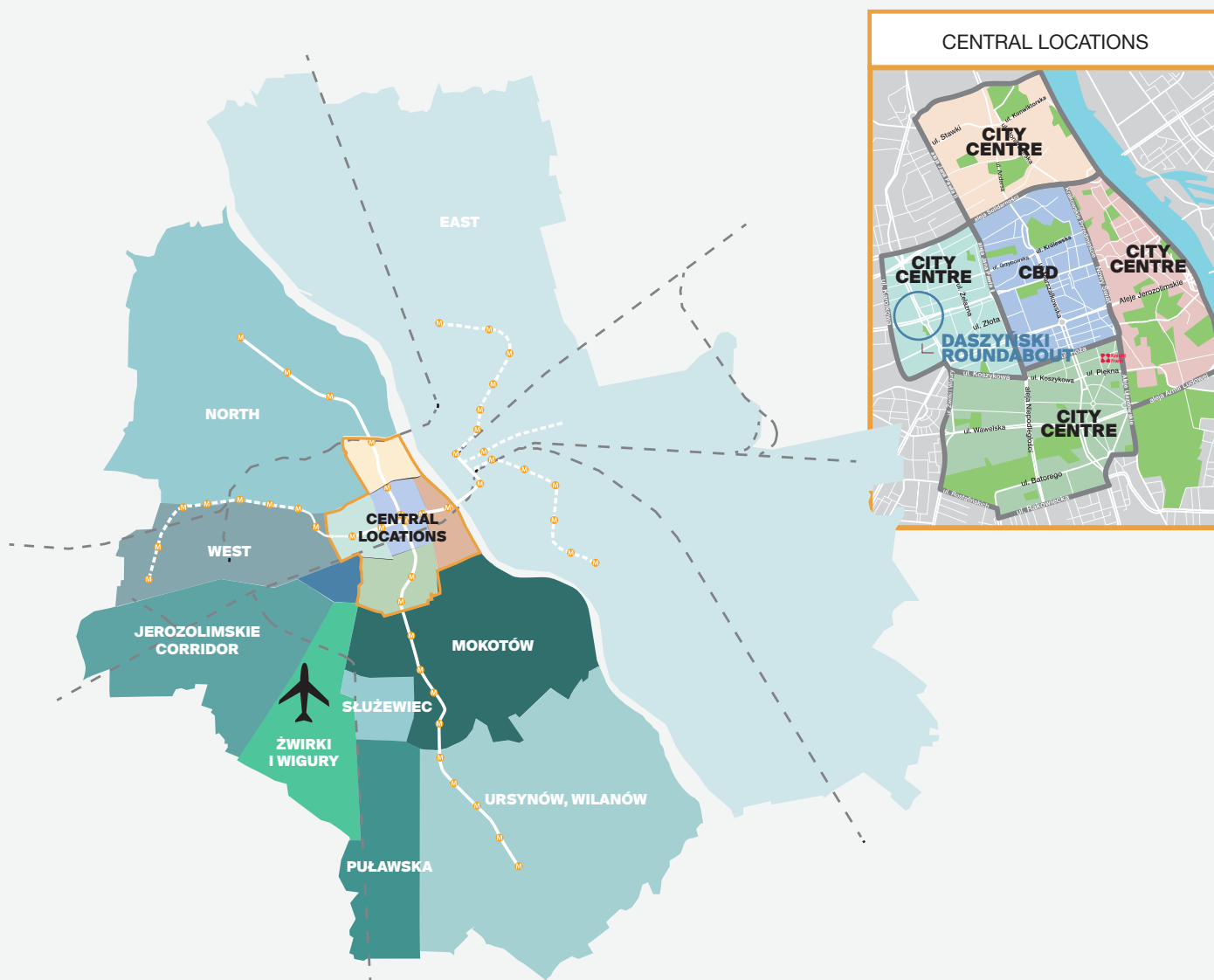
non-central locations ranged from EUR 10 to 15/sq m/month. Due to the wide package of incentives on offer from landlords to potential tenants, even more so during the COVID-19 pandemic, effective rates remain some 20% lower than asking levels.

**Chart 3: Office take-up**



Source: Knight Frank

# MAJOR OFFICE CONCENTRATION AREAS



Central Business District (CBD)	
Total stock (sq m)	931 000
Vacant space (sq m)	88 000
Take up (sq m)	18 000
Asking rents (EUR/sq m/month)	20-25
Offices under construction (sq m)	152 000

Selected projects under construction		
Property name	Rentable office space (sq m)	Owner / Developer
Varso Tower	69 000	HB Reavis
Skysawa	34 000	Polski Holding Nieruchomości
Widok Towers	31 000	Commerz Real AG S + B Gruppe
Central Point	18 000	Immobel Poland

**CITY CENTRE**

(excluding Daszyński roundabout)

Total stock (sq m)	1.04m
Vacant space (sq m)	107 500
Take up (sq m)	9 500
Asking rents (EUR/sq m/month)	15-22
Offices under construction (sq m)	63 500

**DASZYŃSKI ROUNDABOUT**

Total stock (sq m)	618 000
Vacant space (sq m)	121 000
Take up (sq m)	12 900
Asking rents (EUR/sq m/month)	16-25
Offices under construction (sq m)	119 000

**MOKOTÓW**

(excluding Służewiec)

Zasoby całkowite (m <sup>2</sup> )	365 000
Dostępna powierzchnia (m <sup>2</sup> )	25 000
Popyt (m <sup>2</sup> )	9 600
Czynsze wywoławcze (EUR/m <sup>2</sup> /miesiąc)	12-16
Podaż w budowie (m <sup>2</sup> )	-

**SŁUŻEWIEC**

Total stock (sq m)	1.1m
Vacant space (sq m)	184 000
Take up (sq m)	23 400
Asking rents (EUR/sq m/month)	10.5-15
Offices under construction (sq m)	32 000

**JEROZOLIMSKIE CORRIDOR**

Total stock (sq m)	747 000
Vacant space (sq m)	64 000
Take up (sq m)	7 200
Asking rents (EUR/sq m/month)	12-15
Offices under construction (sq m)	-

**EAST**

Total stock (sq m)	257 000
Vacant space (sq m)	32 600
Take up (sq m)	14 000
Asking rents (EUR/sq m/month)	11-15
Offices under construction (sq m)	23 300

## Selected projects under construction

Property name	Rentable office space (sq m)	Owner / Developer
Forest II	52 000	HB Reavis
Intraco Prime	11 500	Polski Holding Nieruchomości
Warsaw UNIT	57 000	Ghelamco Poland
Fabryka Norblina	39 000	Capital Park
P180	32 000	Skanska Property Poland
Fabryka PZO	16 000	White Star Real Estate
Bohema	7 000	Okam Capital



## DO WE NEED OFFICES?

**T**he COVID-19 pandemic has become a key driver of change in the office sector. Although the situation is still keeping us at home, changes in the office world are gathering pace.

The lockdown introduced in spring obliged us to work from home. Initially, the lack of commuting and a seemingly better work-life balance led many employees to question the need for working in an office. Additionally, tenants also questioned whether the office was really necessary, or whether it was little more than a cost generator.

Technology giants have made newspaper headlines, with “strategies of working from home permanently” seemingly foretelling the end of the office sector. One such case was Twitter, who declared that their employees could already make use of remote working on a permanent basis. Most companies, however, didn't go so far - opting to keep their offices for the long term.

Following several months of remote working, employees' delight at the makeshift offices set up in their homes began to wane, slowly giving way to Zoom and Teams fatigue. There was a renewed hunger for face-to-face contact, and release from the tiresome monotony of everyday life. The enthusiasm generated by working from home evolved into a feeling of 'living at work'. As the lockdown was eased, a certain balance returned.

Employees were given the possibility to return to the office, and in many cases grabbed it with both hands. A number of opinion polls suggested that around 80% of employees missed interacting with colleagues, and many so-called experts were minded to backtrack on speculation about the 'death of the office market'. Models of work based solely on remote working eliminate social

relations established in the office. Employees are not only deprived of a “meeting place”, but also experience a decrease in their willingness to contact people, be creative and open to innovation; their ideas on punctuality change and they are less engaged in team-working culture.

Thus, it can safely be assumed that the current crisis will not do away with the need for office space - rather it is likely to help us re-assess and appreciate its social value. That said, the success of remote working during lockdown and the changing preferences of employees may lead some companies to reduce the amount of office space they occupy. Nevertheless, the need for a physical meeting place for employees will remain, as the office plays a key role in creating and maintaining a company's culture. It is essential if a company is committed to innovation and creativity, as offices are places where employees learn from each other; where they develop and inspire each other; where the social relationships formed often determine the direction of future collaboration.

“We can be creative anywhere, but physically being together is much more effective at stimulating thinking

- Tracy Brower, Forbes.

## WHERE WOULD EMPLOYEES LIKE TO WORK?

**8%**

**of respondents would prefer to work from home**

**80%**

**of employees prefer a flexible model that allows them to combine working in an office with remote working**

To identify the expected directions of change in the office sector, we started with an analysis of new employee needs. Knight Frank carried out a survey on

LinkedIn with 2,134 respondents. The results of the survey aimed at office workers clearly indicate that the pandemic will accelerate the spread of the flexible-work model, while at the same time confirming that offices will remain an essential part of the work model. Almost 80% of respondents believe that after the COVID-19 pandemic they would like to make use of a work model which combines remote working with work in an office. Only 8% of respondents would choose to work solely from home, and 12% would like to stay with the traditional model and work in the office.

When analysing employee preferences and the social aspects of work, the remote-working model is not a sustainable solution for long-term business goals related to company culture, or objectives related to training, development and innovation. As a result, many companies, even if they decide to reduce their rented office space, are looking at new working models with the proviso that they maintain office space to give employees the option of using an office.

## WHY DO WE NEED OFFICES?

- **Offices provide us with social relationships**

By enabling us to have face-to-face contact with colleagues, even while maintaining social distance, the office helps to satisfy this need.

- **Offices inspire us to be creative**

We can be creative anywhere, but physically being together is much more effective at stimulating thinking. This doesn't mean that creativity only happens in groups, but companies need to provide both environments to get the full effect.

- **Offices make us more innovative**

The office is full of stimuli where, often by accident, we come up with new ideas. These unplanned encounters don't happen when we work from home.

- **Offices create and maintain company culture**

Company culture is an important element that binds, attracts and retains teams. When employees work remotely, creating a company culture that extends beyond the office can be a challenge.

- **Offices can increase our productivity and accountability**

Some of us are motivated by having other people around us. An office environment full of colleagues will be much more inspiring to such people than an empty kitchen.

- **Offices help us feel noticed and valued**

Feeling 'unheard' can undermine motivation for some employees.

*Undoubtedly, the COVID-19 pandemic has brought us to a turning point for the office sector and labour market. On the one hand it has accelerated the popularity of the flexible working model, whilst on the other it has helped to redefine the function of the office - emphasising the power of face-to-face meetings and the importance of wellbeing in the office. Certainly, offices will evolve into primarily collaborative spaces, used for face-to-face meetings, the discussion of new ideas and the solving of problems together.*

*As a result of changing expectations and the ongoing changes, office space is no longer merely a product - it is becoming a SERVICE. This evolution will be strongly influenced by flexibility, focus on user experience, and the assumption that the space we offer for work can attract and retain the most valuable employees.*

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