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## Contents

Supply	2
Demand	2
Vacancy rates	3
Rents	3
Definitions	4
Standard lease terms	4

## Author

**Katarzyna Lipka**  
Associate Director  
Consulting & Research  
+48 22 820 20 64  
katarzyna.lipka@cushwake.com

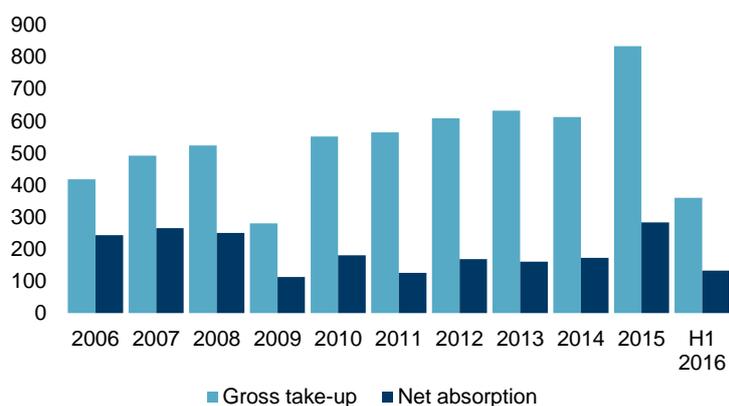
## Contact

**Kamila Wykrota MRICS**  
Director  
Head of Consulting & Research  
+ 48 22 820 20 56  
kamila.wykrota@cushwake.com

- The total office stock in Warsaw stood at nearly 5 million sq m at the end of H1 2016, of which around 3.5 million sq m (70 %) was located in non-central districts (*map with subzones available on page 4*).
- During the first six months of 2016, Warsaw posted a new high in terms of office supply with 16 office projects put into use, providing a total of 350,000 sq m, which represents an almost 30% rise on the value recorded in the whole 2015. Another 100,000 sq m is expected to be delivered by the end of year bringing the annual supply for 2016 at the strong level of 450,000 sq m.
- After the record-breaking 2015, office take-up remained healthy during the first six months of 2016. In this period the leasing volume reached 360,000 sq m, down by just 7% on the figure recorded in H1 2015. Net absorption, which stood at 284,000 sq m during 2015, reached as much as 133,000 sq m in H1 2016. This shows the strong fundamentals of the occupier market in Poland.
- What was already expected, the new record high supply pushed Warsaw's vacancy rate up by 3.1 percentage points to 15.4% at the end of June 2016.
- Prime headline office rents remained relatively stable compared with the last six months at EUR 24 per sq m per month in central locations and at EUR 13-16.5 in non-central subzones.
- Rents are expected to continue at their current levels in the second half of 2016 given the anticipated moderate supply volume of around 100,000 sq m and foreseen stable demand.

Figure 1

### Annual gross take-up and net absorption (thousand sq m)



Source: Cushman & Wakefield, PORF

## Supply

Sixteen office buildings with occupancy permits came onto the Warsaw market in H1 2016, providing a total of 350,000 sq m, which represented a nearly 30% rise on the supply recorded in the whole 2015. If the development pipeline for the last two quarters of 2016 standing at around 100,000 sq m is completed, the annual supply is likely to set a new high of 450,000 sq m, topping the previous record figure of 340,000 sq m noted in year 2000.

At the end of June 2016, Warsaw's total office stock reached nearly 5 million sq m, of which around 3.5 million sq m was in non-central locations. With around 1.33 million sq m of office space (27% of total stock), Upper South, comprising the Służewiec Przemysłowy and Upper Mokotów areas, remains the largest office zone in Warsaw.

Central zones expanded in H1 2016 with the new supply of 180,000 sq m, accounting for more than 50% of the total office space delivered onto the Warsaw market during that period. 60% of this space is located in two major office developments: Warsaw Spire A and Q22. The South West and North zones also posted relatively robust supply volumes at nearly 60,000 sq m and around 50,000 sq m, respectively. This trend is likely to continue in the next few years given the strong pipeline of office buildings, both planned and under construction, in or close to central locations.

## Demand

Office take-up in Warsaw remained healthy in H1 2016 compared with the record high leasing activity in 2015. Lease agreements were signed for 360,000 sq m of modern office space, which was only just 7% less than in H1 2015.

Renegotiations accounted for 30% of the total lease volume and pre-lets – for around 17%, these figures being comparable to the average annual values of recent years.

In H1 2016, tenants' interest focused on the largest office zones with central locations as well as Upper South and South West subzones accounting altogether for 75% of the total lease volume.

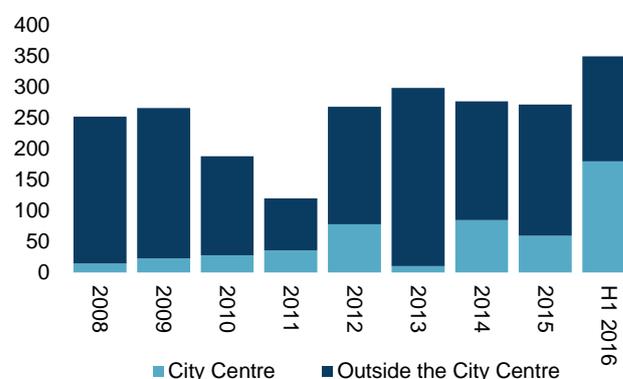
Strong demand is also reflected in net absorption which shows a net change in occupied space on the market. In H1 2016, absorption reached 133,000 sq m, almost half the record-breaking level of 284,000 sq m noted in 2015.

During the first six months of 2016 the largest amount of office space was leased by the tenants from TMT sector (technology, media and telecommunication). This is in line with the trend observed already for the last 4-5 years, and results mainly from dynamic development of IT companies.

This year's gross take-up is expected to be slightly lower than that in 2015 given the leasing volume of H1 2016 and the lease agreements to be concluded in the second half of 2016.

Figure 2

### Annual supply (thousand sq m)



Source: Cushman & Wakefield, PORF

Table 1

### Largest office completions, H1 2016

BUILDING / ZONE	OFFICE SPACE (SQ M)	DEVELOPER
Waraw Spire A (Tower) / Fringe	59,000	Ghelamco
Gdański Business Center 2 – buildings C and D / North	49,000	HB Reavis
Q22 / Core	46,400	Echo Investment
Proximo Phase 1 / West	28,700	Hines
Eurocentrum Office Complex Phase 2 / South West	25,000	Capital Park

Source: Cushman & Wakefield, PORF

Table 2

### Largest lease transactions, H1 2016

TENANT	VOLUME (SQ M)	BUILDING	TYPE
Allegro	7,600	Q22	New agreement
NC+	7,500	Canal +	Renegotiation
Budimex	7,350	Skierniewicka 16-20	Pre-let
UPC	5,300	Atrium Centrum	Renegotiation
Mettler Toledo	4,500	Platan Park	Renegotiation and expansion
Stanley Black&Decker	4,400	Proximo Phase1	New agreement
Grupa Pracuj	4,300	Proximo Phase 1	New agreement

Source: Cushman & Wakefield, PORF

## Vacancy rates

The high levels of supply in H1 2016 pushed the average vacancy rate in Warsaw to 15.4%, representing a rise of 1.3 percentage points on the vacancy rate recorded in Q1 2016 and an increase of 3.1 percentage points on the rate at year-end 2015.

There was a notable rise in vacancies in central locations, which saw the largest volume of new office space coming on stream in H1 2016. The average vacancy rate in the city centre stood at 17.6% (270,000 sq m), up by 3.4 percentage points on Q1's level.

The average vacancy rate for Warsaw's non-central zones rose from 14.1% in Q1 2016 to 14.4% at the end of June 2016, with the highest vacancies recorded in the Upper South zone at 17.5%, which equated to more than 230,000 sq m of vacant office space.

The lowest vacancy of 9.3% (17,300 sq m) was in the Lower South zone, which also has the smallest office stock of all the Warsaw zones.

In H2 2016, due to the lower pipeline supply of around 100,000 sq m, of which approximately 40% has been let, and the healthy demand, we expect the average vacancy rate to remain flat or in the negative scenario rise by 0.5-1 percentage point by the end of 2016.

## Rents

In Q2 2016 headline office rents remained relatively stable compared with the values recorded in the first three months of this year.

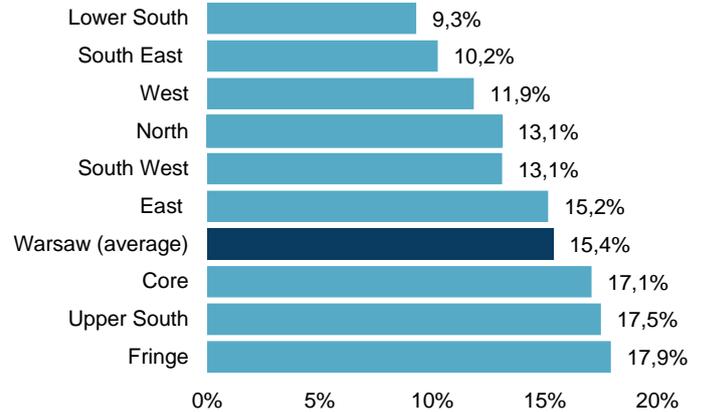
At the end of Q2 prime rents stood at EUR 24 per sq m per month in central locations and at EUR 13–16.5 in non-central subzones, with the best office buildings close to the Fringe commanding in some cases up to EUR 17–18 per sq m per month.

With competition intense, office buildings' owners continue to offer attractive incentive packages that include rent-free periods and fit-out contributions resulting in effective being on average 15-25% lower than headline rents.

Due to the projected supply and take-up levels, prime headline office rents are expected to stay at the same level until the end of 2016.

Figure 3

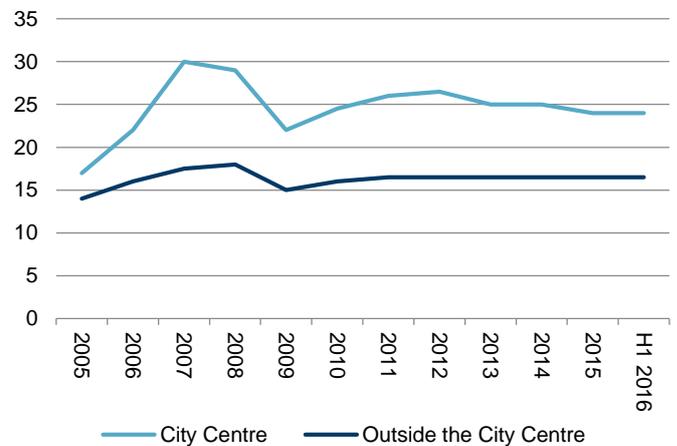
### Vacancy rates by zones, H1 2016



Source: Cushman & Wakefield, PORF

Figure 4

### Prime office rents (EUR/sq m/month)



Source: Cushman & Wakefield, PORF

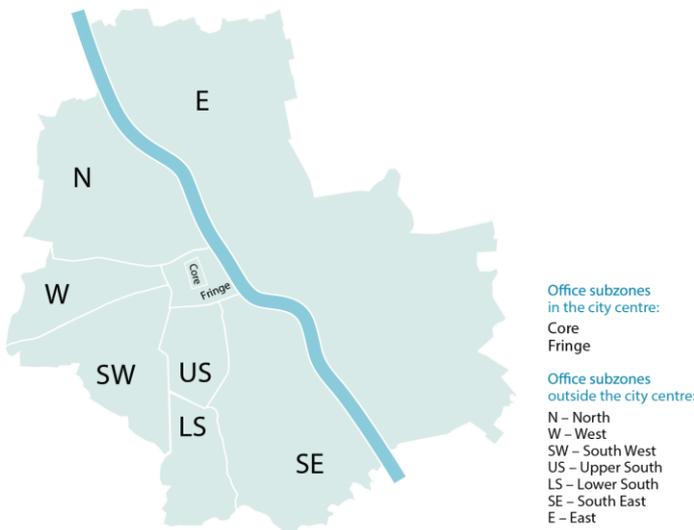
## Definitions

<b>Modern office stock</b>	Units built since 1989 or refurbished to at least B-class.
<b>Take-up (gross)</b>	Total volume of lease transactions completed on the market. This includes new leases, pre-lets, expansion of space, owner occupied deals, as well as lease renewals/renegotiations.
<b>Take-up (net)</b>	Total volume of lease transactions completed on the market, excluding lease renewals/renegotiations.
<b>Net absorption</b>	Net change in physically occupied space between two periods of time, taking into consideration vacated and newly constructed office space in the same area.
<b>Prime rent</b>	Prime headline rent that could be expected for a unit of standard size (500–1,000 sq m) commensurate with demand in each location, highest quality and specification in the best location in a market.
<b>PORF</b>	The Polish Office Research Forum (PORF) comprises six real estate services firms: CBRE, Colliers International, Cushman & Wakefield, JLL, Knight Frank and Savills, whose representatives aim to standardize indices published through collection and comparison of quarterly data.

## Standard lease terms

<b>Rent</b>	Monthly rent, paid in advance, usually quoted in EUR and paid in PLN.
<b>Rent indexation</b>	Usually based on European CPI or HICP.
<b>Service charge</b>	Paid by tenants, connected with the costs and expenses related directly to the maintenance of the common areas on the property (at the level of the factor of the share of the total useable office area of building). Quoted and paid in PLN.
<b>Typical lease length</b>	5 years
<b>Incentives</b>	Rent-free periods Fit-out contributions
<b>Rent guarantee period</b>	3 months' bank guarantee or deposit
<b>Standard space delivery conditions</b>	Landlords cover fit-out cost of the common areas on the property and standard fit-out of the leased area.

## Office space zones



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## EMEA

**John Forrester**  
Chief Executive  
+44 (0)20 3296 3000  
john.forrester@cushwake.com

## Office Agency

**Richard Aboo**  
+48 22 820 20 20  
richard.aboo@cushwake.com

## Consulting & Research

**Kamila Wykrota**  
+48 22 820 20 20  
kamila.wykrota@cushwake.com

## Valuation

**Mark Freeman**  
+48 22 222 30 00  
mark.freeman@cushwake.com

## Poland

**Charles Taylor**  
Head of Poland  
+48 22 820 20 20  
charles.taylor@cushwake.com

## Retail Agency

**Renata Kuszniarska**  
+48 22 820 20 20  
renata.kuszniarska@cushwake.com

## Asset Services

**Christopher Rasiewicz**  
+48 22 222 30 00  
christopher.rasiewicz@cushwake.com

## Occupier Services

**Ian Scattergood**  
+48 22 820 20 20  
ian.scattergood@cushwake.com

## Poland

**Alan Colquhoun**  
Chair  
+48 22 222 30 00  
alan.colquhoun@cushwake.com

## Industrial & Logistics Agency

**Tom Listowski**  
+48 22 820 20 20  
tom.listowski@cushwake.com

## Capital Markets

**James Chapman**  
+48 22 820 20 20  
james.chapman@cushwake.com

## Project Management & Consultancy

**Andrew Frizell**  
+48 22 820 20 20  
andrew.frizell@cushwake.com

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Cushman & Wakefield (Lumen)  
Złota 59  
Warsaw, 00-120  
tel. +48 22 222 30 00  
fax +48 22 222 30 01  
email [info.poland@cushwake.com](mailto:info.poland@cushwake.com)

Cushman & Wakefield (Metropolitan)  
Plac Pilsudskiego 1  
Warsaw , 00-078  
tel. +48 22 820 20 20  
fax +48 22 820 20 21  
email [info.poland@cushwake.com](mailto:info.poland@cushwake.com)

[cushmanwakefield.com](http://cushmanwakefield.com)