

PRESS RELEASE

GOOD SECOND QUARTER FOR WARSAW OFFICES

growing demand, downward adjustment of vacancy rates, increased share of renewals in the structure of contracts signed, and limited supply; these are the primary shapers of the outlook for Warsaw offices in the second quarter of the year. The authors of the report from BNP Paribas Real Estate Poland also draw attention to the already visible consequences of the supply gap and the need for much broader consulting on the search for and lease of office space than before.

At the end of June, Warsaw offices occupied a total area of 6.27 million sqm. In terms of supply, the quarter was dominated by two buildings constructed by PHN, and the market grew by 35,600 sqm of modern space. First, at the turn of March and April, the occupancy permit was received by Intraco Prime, an office building which, according to forecasts, will welcome its first tenants in the third quarter of 2022. Several weeks later, the occupancy permit decision was issued for the taller SkySAWA building, which is a flagship PHN project. At the beginning of the year, the owner finalised a long-term lease agreement for the entire area of the SkySAWA complex at Świętokrzyska street with PKO Bank Polski. As planned, the area will be handed over to the new tenant in the first half of next year.

Successive recovery in demand resulted in more than 212,000 sqm being leased in Warsaw in the second quarter. This is another quarter in which the demand for Warsaw offices has exceeded the level of 200,000 sqm. The result achieved between April and June is over 45 % higher than in the corresponding period of the previous year. Moreover, since the beginning of the year in Warsaw, lease agreements were initialled for nearly 480,000 sqm, which represents 75% of the total demand in 2021. The authors of the report indicate that in the second quarter, a significant increase in the percentage of contract renewals was observed in the demand structure. They accounted for 48% of the total pool of contracts, which translates to 21% more than in the first quarter of the year. BNP Paribas Real Estate Poland experts predict that the share of renegotiation and renewals will increase in the coming quarters in proportion to the decreasing supply and increasing costs of surface finishing.

*The second quarter continued the trend from the beginning of the year. We are talking about high tenant activity and the finalisation of the transactions suspended due to the uncertainty mostly related to the further consequences of the pandemic for the office workspace. However, there is no question of over optimism, as changes on the office market have also been conducted in the shadow of the war in the territory of Ukraine, with runaway inflation and the spectre of a decelerating economy and recession at the threshold. Some tenants chose to stay or relocate, taking into account the consequences of the supply gap, the pressure on rent rises, as well as the expectation of an increase in fit-out costs and possible delays. – states **Dorota Mielke**, Associate Director from the Office Space Leasing Department, BNP Paribas Real Estate Poland.*

The shrinking amount of available space and increased demand resulted in a decrease in the vacancy rate to the level of 11.9% from 12.2% recorded at the end of the first quarter. In the period under review, three office zones — Mokotów, City Centre North and Żwirki & Wigury Corridor — recorded an increase in the vacancy rate. In case of



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City Centre North zone, however, this was due to the commissioning of Intraco Prime which, at the date of the commissioning, held 17% of the unleased area.

In the last quarter, offices were mainly leased by technology and service companies. The list with the largest transactions in terms of leased space opens the extension of Samsung's agreement for 21,000 sqm in the Warsaw Spire. The second place is taken by the lease of nearly 10,000 sqm by the Krajowy Ośrodek Wspierania Rolnictwa in the Karolkowa Business Park complex. The owner of the latter was advised by the consultants of BNP Paribas Real Estate Poland in the leasing process. The three largest agreements also include the extension of the agreement for more than 9,000 sqm in the Warsaw Financial Centre by a company from the IT sector.

Today, we observe the rent rates increasing from one offer to the next, that lease periods are extending, these factors will shape the demand for Warsaw offices in the near future. In order to cover the fit-out costs today, which on average amount to between EUR 800 and 850 per 1 sqm shell and core, companies decide to accept new contracts with a minimum length of 7 years. And all this in the face of the supply gap and the major challenge for developers to plan new projects under conditions of limited time and cost predictability. As a result, the market will witness consolidation processes, the foundations of which will include, for example, the expectation that hybrid work will be redefined and adapted to today's and tomorrow's realities. It is also an important moment for advisors operating on the real estate market, who should boldly go beyond the existing patterns in cooperation with customers. Multilevel consulting and comprehensiveness of the proposed solutions will be invaluable. – **Małgorzata Fibakiewicz**, Head of Business Intelligence Hub & Consultancy, BNP Paribas Real Estate Poland.

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