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PRESS RELEASE

WARSAW SETTLES INTO A NEW OFFICE REALITY

In Q4 2022, gross office take-up was close to 2019's record performance, leasing strategies took account of flexible office space and of the rapidly growing flex market as interesting projects broke ground to tap again into the potential of existing locations. Meanwhile, development activity remained subdued amid persistently high construction and fit-out costs, as well as an upward pressure on rents. This is a snapshot of the Warsaw office market revealed by BNP Paribas Real Estate Poland in its quarterly report "At A Glance – Warsaw Office Market Q4 2022".

Office supply and an almost record high take-up

Last year closed in Warsaw with the city's total office stock standing at 6.26 million sqm, around half of which is 10 years old or older. New office supply was limited in the fourth quarter of 2022, with only one office building - the DPD HQ with an area of close to 9,000 sqm - delivered in the Jerozolimskie Corridor. Development activity was noticeably more sluggish throughout 2022. The strong wave of new office supply, which began three years ago, subsided, with no new building permits being issued and few projects breaking ground. This is expected to result in a supply gap in 2023-2024.

2022's gross office take-up hit 860,000 sqm, only 2 pp shy of the record performance in 2019. Of that total, 253,300 sqm was transacted in the fourth quarter alone. As in the year earlier, occupier activity focused on office buildings in the City Centre, the CBD and Mokotów.

New leases, including pre-lets, accounted for most of the leasing volume in October-December 2022, reveal the report authors. They made up 52% of all deals, and were followed by renegotiations with a 41% share. Another notable trend in 2022 was the growing focus on owner-occupancy. The proportion of owner-occupier transactions rose from 0.1% at year-end 2021 to 3% at the end of December 2022.

The challenging new reality

According to experts of BNP Paribas Real Estate Poland, virtually the whole of 2022 was marked by mitigating the consequences of the war in Ukraine and the global recession, as well as the knock-on effects of the pandemic still lingering in the background. The market growth dynamics was largely impacted by rising office construction and fit-out costs, surging service charges and the increasing importance of the hybrid working model. High project financing costs also played a role.

- The Warsaw market will face fairly limited office availability in the coming quarters, leading to an upward pressure on both headline and effective rents. The hybrid working model, which is being increasingly embraced across Poland, will also be an important factor. As a result, hybrid leases with traditional deals supplemented by co-working offices

will gain attraction in response to tenants' expectations, - comments **Małgorzata Fibakiewicz**, Head of Office Agency, BNP Paribas Real Estate Poland.

The growing demand for flexible offices has pushed flex occupancy rates to high levels in Warsaw, whose flexible office stock currently comprises 180,000 sqm. **Dorota Fabisiak, Associate Director, Office Agency,** says that some flexible workspace operators report occupancy rates in the range of 80-90% amid growing numbers of those keen to work in co-working or serviced offices. - *Short-term leases are today the best solution to the demand for office flexibility. Such offices proved very successful during the pandemic and are now competing hard for a fair share of the market. Tenants like and appreciate them for several reasons; such offices are in prime locations, provide space for those who want to work in-office and are a powerful tool in optimizing rising overheads,* adds **Dorota Fabisiak**.

Strong appetite for plots of land, but office construction is slowing

According to the report authors, at the end of December, Warsaw's office stock under construction and scheduled for completion in the next three years amounted to just over 185,000 sqm. Of that total, 38% is expected to come on stream this and next year each, and 25% is to be added to the market in 2025. Most, or 58%, or the development pipeline is in the City Centre and the City Centre West.

- *The competition for parcels of land is in full swing in Warsaw, especially in its central zones. Office developers are finding it increasingly difficult to compete not only with residential, hotel or retail investors, but also with those specializing in logistics construction. They are also targeting plots occupied by older buildings that do not meet modern standards or are costly to maintain. Interestingly enough, office developers are now more willing to revise their plans and consider other formats such as PRS or mixed-use projects*, - says **Klaudia Okoń**, Consultant, Business Intelligence HUB and Consultancy.

Most notably, Strabag Real Estate wants to unlock the new potential of the location near the junction of Grzybowska Street and Jana Pawła II Avenue by replacing Atrium with an office and hotel complex Upper One, while Liebrecht & wooD intends to put the site of the former Warsaw Wire, Pin and Nail Factory (Drucianka) to new uses. The latter has already started preparations for its Drucianka Campus, a mixed-use complex which will comprise 42,000 sqm of office space and 7,500 sqm of retail, services and event space.

Rents up

Rising rental and service charges, as well as longer leases with annual rent indexation have been and will remain a major factor. -*The growth in asking rents has been modest so far, but growing utility costs are feeding through to service charges which surged by around 20-30% over the past year*, - says **Dorota Fabisiak**.

At the end of December, prime office rents were EUR 26-28 per sqm per month. The report also shows average asking rents by age, with the highest (EUR 17.9-18.95) commanded by the youngest office buildings aged 0-5 years. Rents in buildings aged between six and ten years are in the range of EUR 17-17.5, while the oldest office buildings, delivered over a decade ago, fetch rents of EUR 14.9-15.3/sqm/month.

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