workthere

Flexible Office Market in Poland

Workthere Research - Q1-Q3 2022

WeWork, Hotel Europejski, Warsaw

Mindspace, Hala Koszyki, Warsaw

Introduction

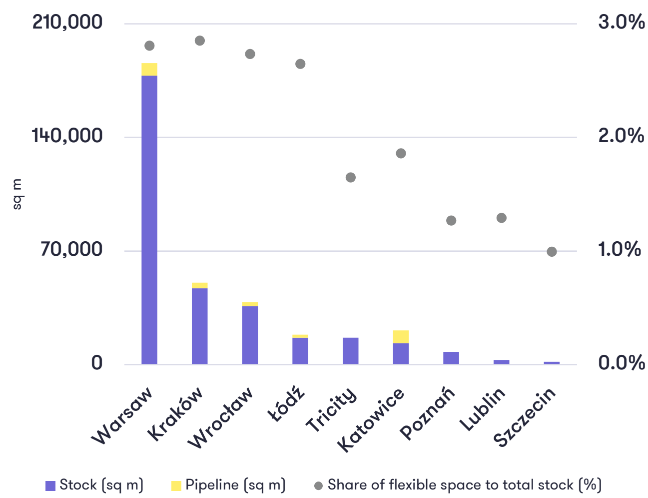
Flexible office space has gained worldwide interest in recent years. Amplified tenant demand has also been noticed in Poland by flexible space operators, which have been growing rapidly over the past five years. Between 2018 and September 2022, flexible space operators in Poland launched more than 239,100 sq m of new space in 114 buildings, equivalent to 75% of the currently operating stock.

The ongoing search for flexibility and cost savings among tenants allows us to be optimistic about the further development of these services. Despite a temporary suspension of further expansion and development in 2020, mainly due to pandemic uncertainties, operators are once again courageously investing in new space, which is in line with the Europe-wide trend.

The increase in demand from flexible space operators is clearly visible in the Q1-Q3 2022 in Warsaw. Demand through the end of September was 280% higher than for the whole of previous year reaching 24,600 sq m. Furthermore, 11 transactions were signed, compared to seven for whole 2021. This level is below 2018's record, although the full-year result could be close to the second-best result of 2019, when total demand was more than 33,400 sq m.

The first nine months of 2022 in the Warsaw office market in terms of total demand for office space was at a high level, with 608,100 sq m leased, and yet the share of flex provider transactions remained high (4.0%), well above the 2020-2021 results, which perfectly reflects the aforementioned demand for flexibility among tenants. Analysing the share of such transactions among more mature European markets, we see that there is still space for further expansion of the flexible office operators in Warsaw.

Stock, pipeline and share of flexible office in supply across Poland

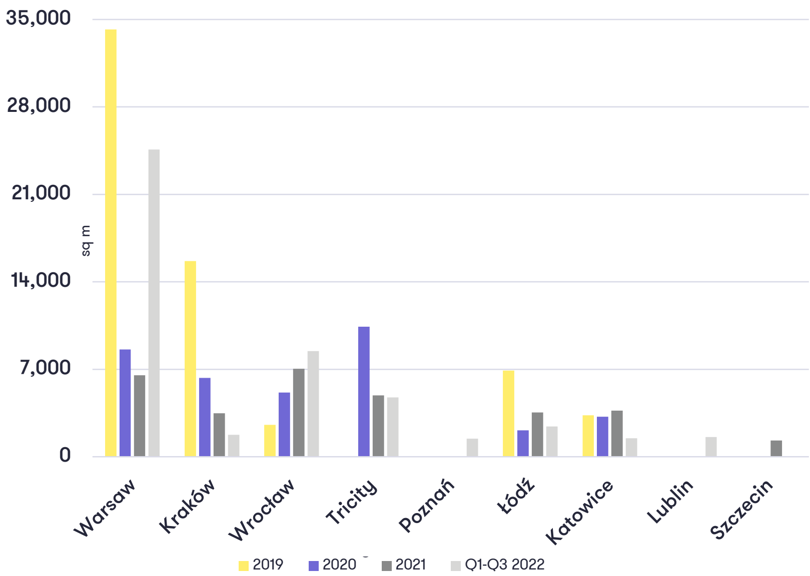


Currently, the total stock of coworking and serviced space in modern office buildings offered by multinational and Polish operators is over 320,500 sq m, of which 56% is in Warsaw. In addition, the country is home to a number of boutique operators and property owners who offer space in more intimate standards and neighbourhoods.

Warsaw, which is the largest market for traditional leasing, also naturally offers the most flexible space (178,000 sq m), which translates into one of the highest shares of flexible space relative to traditional stock (2.8%). A similar ratio is observed in the second largest market, Kraków (47,100 sq m or 2.9%). Another city with a high share of 2.7% is Wrocław, where 36,100 sq m is available to tenants. Also worth mentioning is Łódź, which, despite the size of the office market, has a high stock of flexible offices (16,700 sq m), which translates into a 2.6% share. Tricity and Katowice offer similar area of serviced space, however, with lower provision. The share of coworking space in other cities ranges between 1% and 1.9%.

In recent years, we have seen solid growth in new transactions of flexible office space providers. 2018 was a record year, with more than 122,300 sq m signed, including more than 108,600 sq m in Warsaw. Demand from operators of flexible space in Poland between January and September 2022 is showing a solid growth at 46,500 sq m, which is 52% higher than in all of 2021. A total of 23 leases for new locations were signed (compared to 18 in 2021).

Flexible office provider take-up in years 2019-Q3 2022



42%

share of flex space provided by top 5 largest operators

9 months+

typical lease term in flex operators

173

number of flex centres in Poland

2.6-2.9%

share of flexible space in total office stock (Warsaw, Kraków, Wrocław and Łódź)

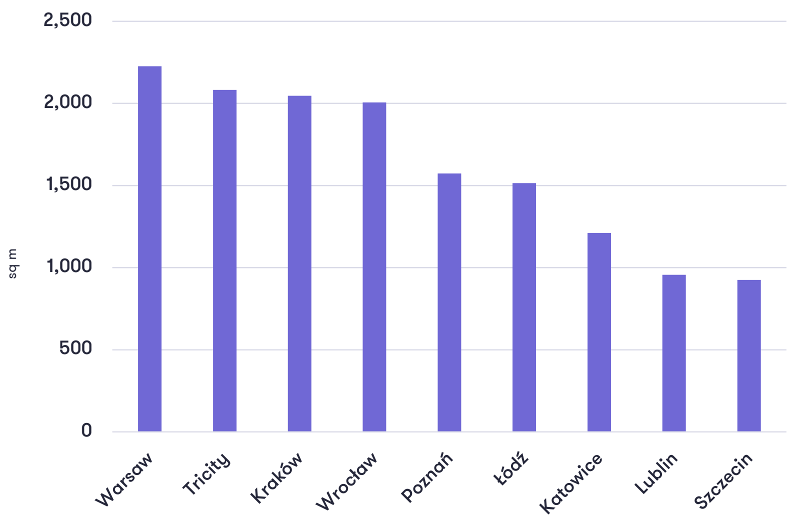
2,000+

average size of flexible space centre in Warsaw, Kraków, Wrocław & Tricity (sq m)

320,500

total stock of flexible office in Poland (sq m)

Average location size of office occupied by flex provider



The size of the traditional office market is reflected in the average size of flexible spaces occupied by operators. In the four largest traditional office markets, i.e. Warsaw, Kraków, Wrocław and the Tricity, the average size of flexible space is the largest at more than 2,000 sq m.

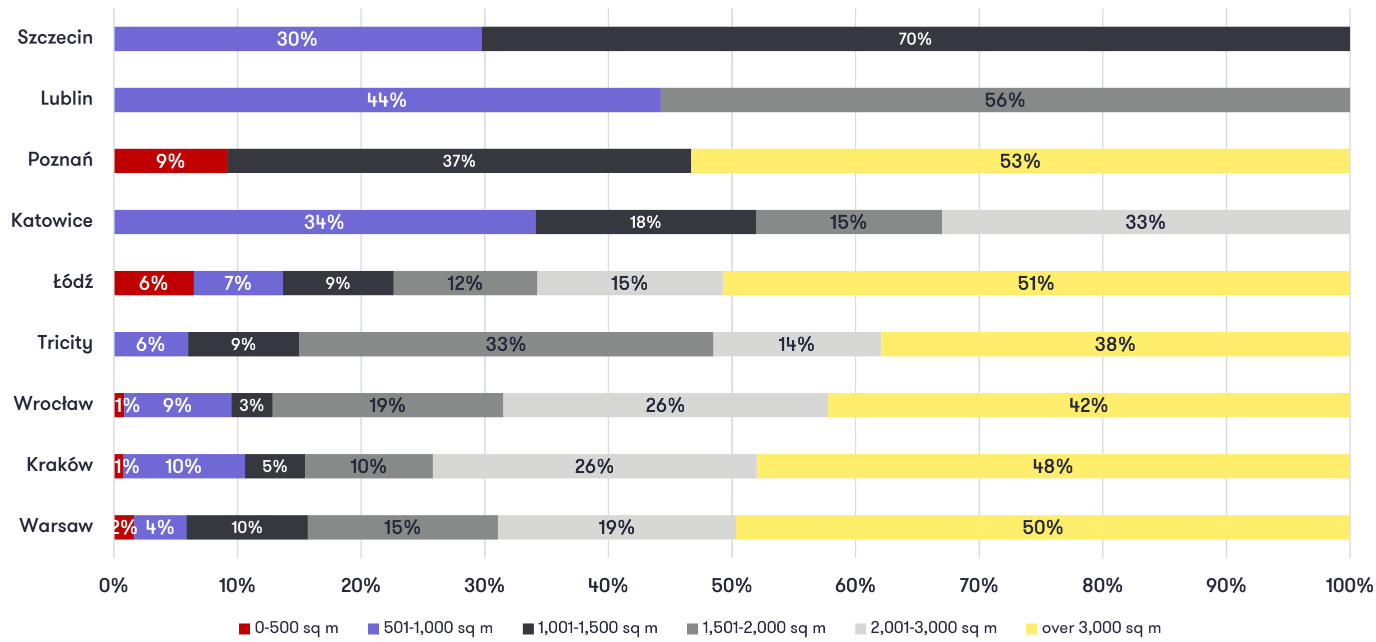
In the structure of the supply of flexible space, the largest locations (over 3,000 sq m) definitely stand out, which together account for just less than half of the total supply of flexible office space in Poland (47%). The smaller the area of the site, the smaller its share in the supply, hence, for example, areas of up to 1,000 sq m account for only 9% of the total. In terms of the number of locations, the most numerous group are again the largest centres, above 3,000 sq m (21%), followed by small locations in the 501 sq m - 1,000 sq m range (20%) and 2,001-3,000 sq m range (15%). The least numerous are those up to 500 sq m (11%).

Analysing the structure of the supply in each city, it is clear that locations with areas up to 1,000 sq m account for a marginal part of the supply, although in the smallest markets such as Szczecin or Lublin their share is high, reaching respectively 30% and 44%.

The larger the market, the more important the larger locations become. For example, in Warsaw, more than 50% of the total stock is in locations exceeding 3,000 sq m, with similar levels also recorded in Poznań (53%) and Łódź (51%).

Modern coworking space in Poland, despite its numerous operators, is mainly concentrated around a few major providers. The five largest operators account for 42% of the total space offered. Going further, the top ten operators account for 66% of the total, and their average portfolio size on which they provide services is 21,200 sq m.

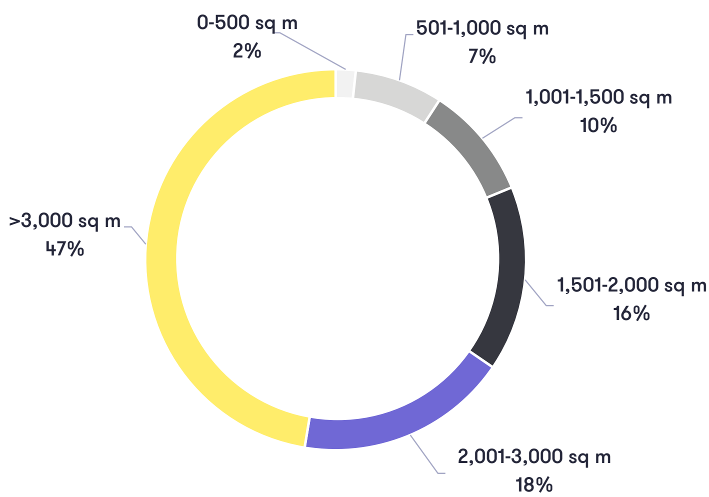
Flexible office stock by location size by city (% share)



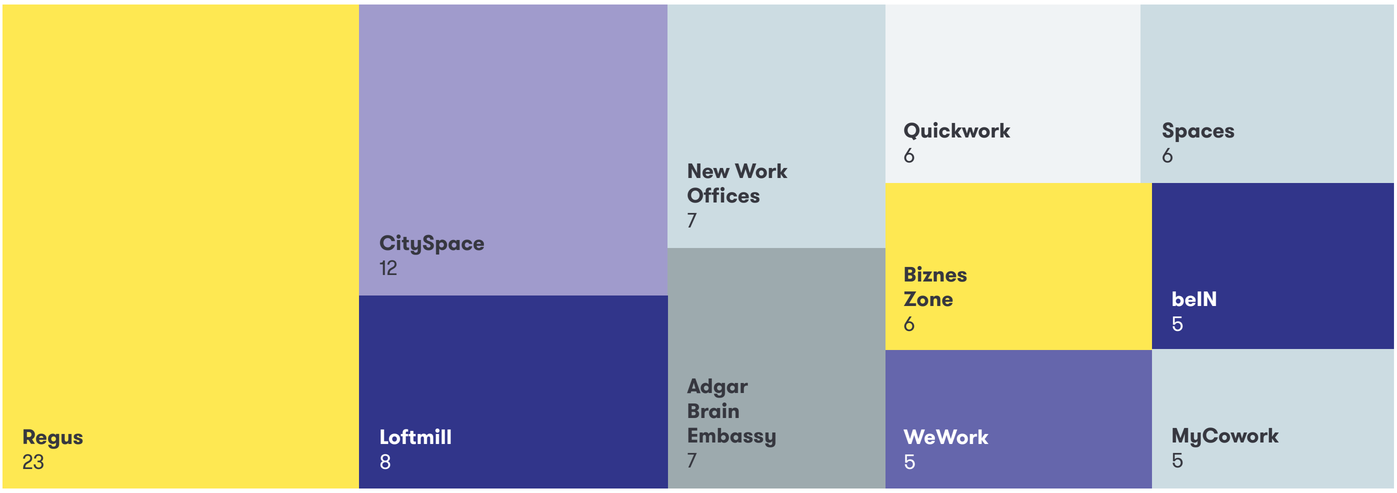
In terms of the number of locations in which serviced offices are provided, the clear leader is Regus, with more than 20 locations in Poland, and CitySpace, which has 12 branches. Another company with the largest number of operating locations is Loftmill, which has so far focused mainly on regional cities (eight branches in total). Further locations of the operator are currently under development, including the first in Warsaw in the Lixa office complex. On the other hand, notable operators focused on Warsaw are Adgar with its Brain Embassy concept - seven locations and over 20,000 sq m, and WeWork, which offers approximately 31,800 sq m in 5 locations.

The cost of leasing a workstation in the most expensive locations in Europe, such as London, Paris or Amsterdam is between EUR 600-900 per month. Rates in Poland are among the most attractive in Europe, with Warsaw rates ranking just after Spain and Lyon.

Flexible office stock by location size in Poland (% share)



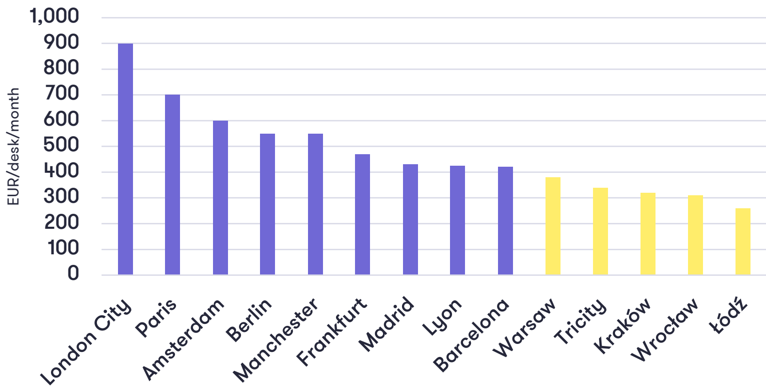
Flexible space operators portfolio with at least 5 localizations



The cost of a workstation in Warsaw averages at EUR 380, while regional cities have even lower rents, in the range of EUR 260-340 per month.

Given the high demand for serviced space combined with the tense economic situation, i.e. continued high inflation, rising energy prices and other factors that have influenced the increase in service charges in recent months, we can assume that operators will not be spared by these increases. In order to maintain the profitability of the business, they will be forced to increase prices for their services.

Coworking costs in selected European cities
(price for desk in a private office)

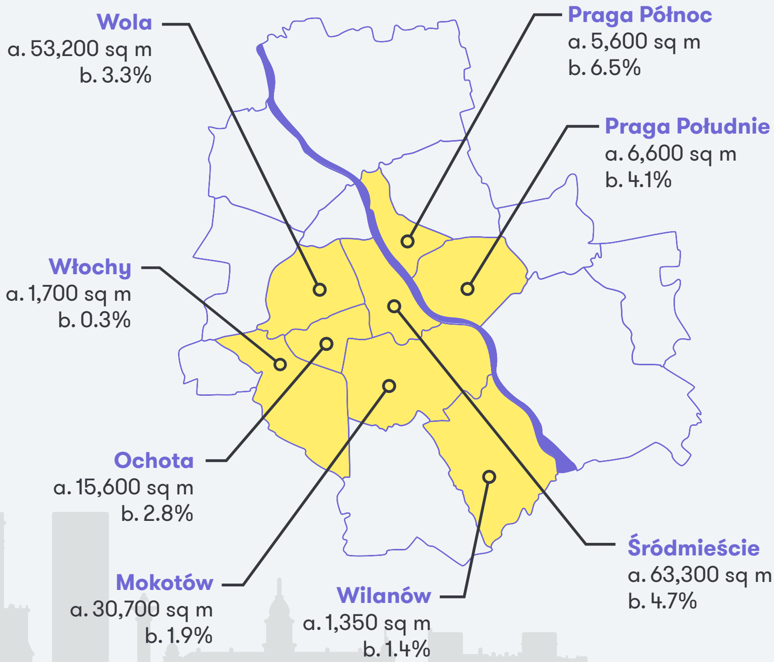


Focus on Warsaw

The vast majority of flexible office space offered in Warsaw is concentrated mainly in Śródmieście and in Wola districts, with a total of over 116,000 sq m (65% of the total flex space) offered by operators in these administrative districts which partly overlap with the central office zones in the city. Outside the central office hubs, the largest stock of flexible space is located in Mokotów (30,700 sq m) and Ochota (15,700 sq m).

In terms of flexible space saturation, the east of the city has the highest share of flex space in office stock, with Praga Północ having a 6.5% share of flexible space and Praga Południe at 4.1%. Śródmieście and Wola are characterised by high levels of flexible space provision, at 4.7% and 3.3% respectively. The share of flexible space in the remaining districts does not exceed 3%.

Flexible office space in Warsaw by district
(**a**-flex stock, **b**-share in total office stock)

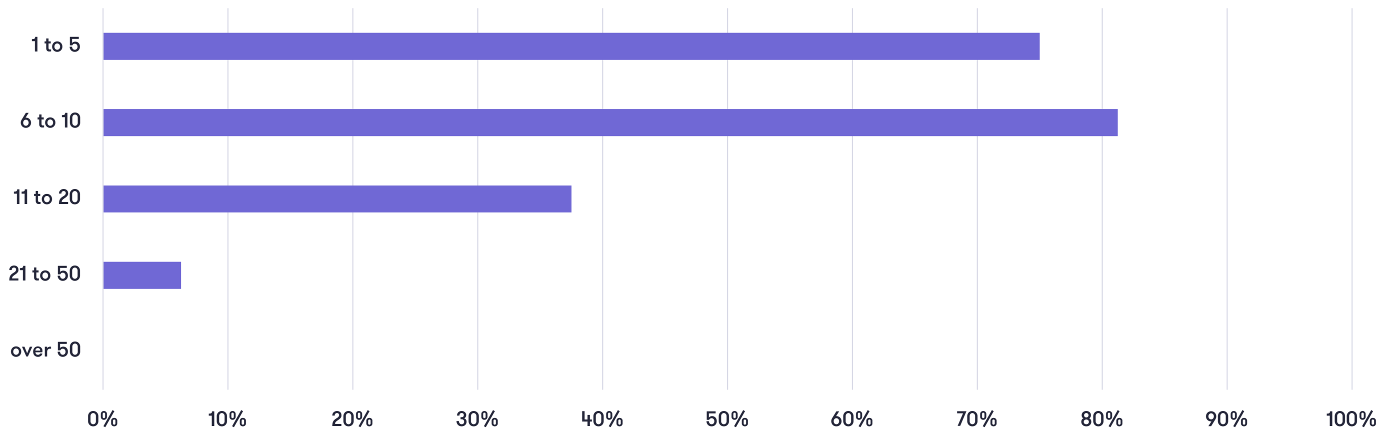


Karimpol Group, Skyliner, Warsaw

Survey

Throughout September and October 2022, Savills conducted a survey amongst leasing managers involved in serviced space in Poland. The sample of respondents covers all the most important markets in Poland, which allows us to deep into current situation on the serviced office market. The survey shows that leasing managers are usually responsible for two locations (38% of those surveyed), three (25%) or one location (19%). Occasionally, more locations are handled.

What transactions do you conclude most frequently (number of desks rented)?
(Max. two answers possible)



According to those surveyed, the most common leases are the smaller ones, up to 10 'desks'. The most numerous group is the range of 6-10 workstations - 81% of respondents, and right next to this, the smallest spaces (1-5 workstations) are in high demand - 75%.

IT companies are the most important tenants, with over 62% of landlords identifying this sector as key client in their locations, according to respondents.

Another important tenant are companies from the business services sector.

Against the widely shared perception that serviced office transactions are short-term, survey shows that the average lease term in their portfolio (over 60% of those surveyed) is over 12 months. Other respondents typically lease their spaces for 9-12 months.

Loftmill, Warsaw

In the recent months due to increasing demand of corporate companies looking for space the +50 desk index increased. In November we noticed more than 20, 50+ desk transactions including some over 100. This trend is mainly seen in Warsaw but also regional cities are seeing an increase in the size of transactions. Most of major tenants are tech companies (Cloud solutions, software house, gaming companies).

Thomas Jodar,
Workthere Project Lead

What was the level of occupancy in your portfolio at the end of August 2022?

91-100%
occupancy rate reported by 25% of respondents

76-90%
occupancy rate reported by 37.5% of respondents

61-75%
occupancy rate reported by 25% of respondents

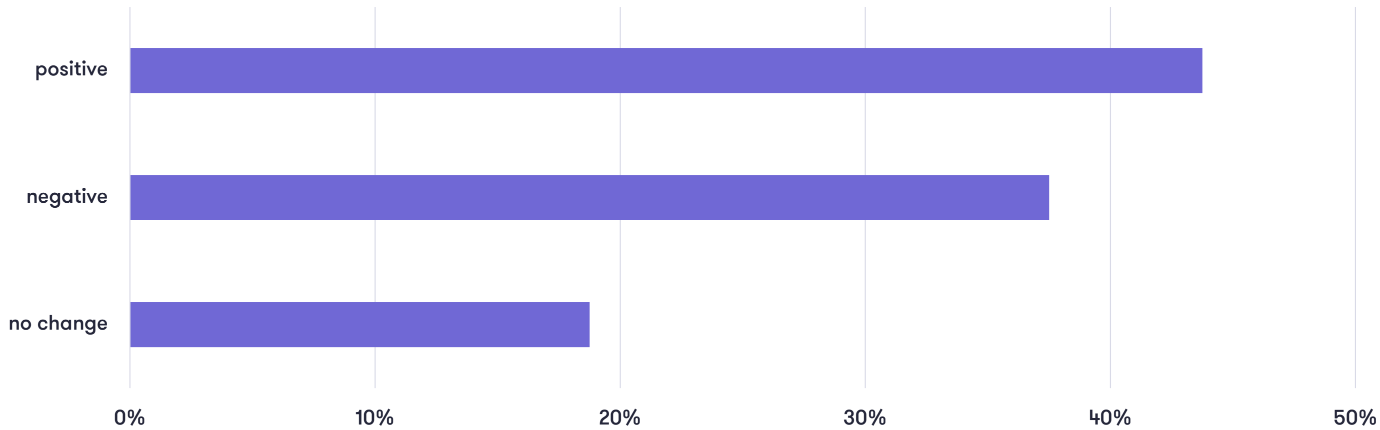
Occupancy levels for the summer period (end of August 2022) of the analysed portfolios were at a high level, with more than 88% of those surveyed boasting occupancy levels above 61%, including 25% above 91%.

Stable rental levels and high tenant interest in this type of facilities make it possible to plan for further business development. To the knowledge of those surveyed, their company is planning to grow and expand its portfolio in the next 2 years (44%). 38% of those surveyed have no information on this, and only in the case of 18% have no such plans.

An important part of the survey was to analyse the impact of significant global events that have affected traditional office space and its transformation in recent years. Starting with the outbreak of the Covid-19 pandemic, the impact on respondents' portfolios has been moderate - on the one hand, remote working has resulted in a decrease in demand for office space, even in flexible form, especially in the short term.

On the other hand, however, a significant proportion of landlords have benefited from the need for a smaller, local office.

What impact has the COVID-19 pandemic had on the occupancy level in your portfolio?



In contrast, the Russian invasion on Ukraine and the associated uncertainty has contributed to an increased interest in short-term commitments, and serviced office leases provide such opportunities. The majority of respondents (63%) reported a positive impact of the outbreak of war on their portfolio's occupancy levels, whereas only 37% saw no significant change in their performance.

What's more, everyone surveyed experienced an increase in interest from companies from across the eastern border trying to move their operations to Poland. Nearly 70% of landlords have concluded lease agreements with companies from the east. Among Polish companies, representatives of the IT sector were the most active. In addition, landlords observed moderate interest in relocating companies from the financial and business services sectors.

Workthere.pl
Workthere is a business by Savills focused solely on helping businesses find flexible office space, whether that's a serviced office, co-working or shared space.

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