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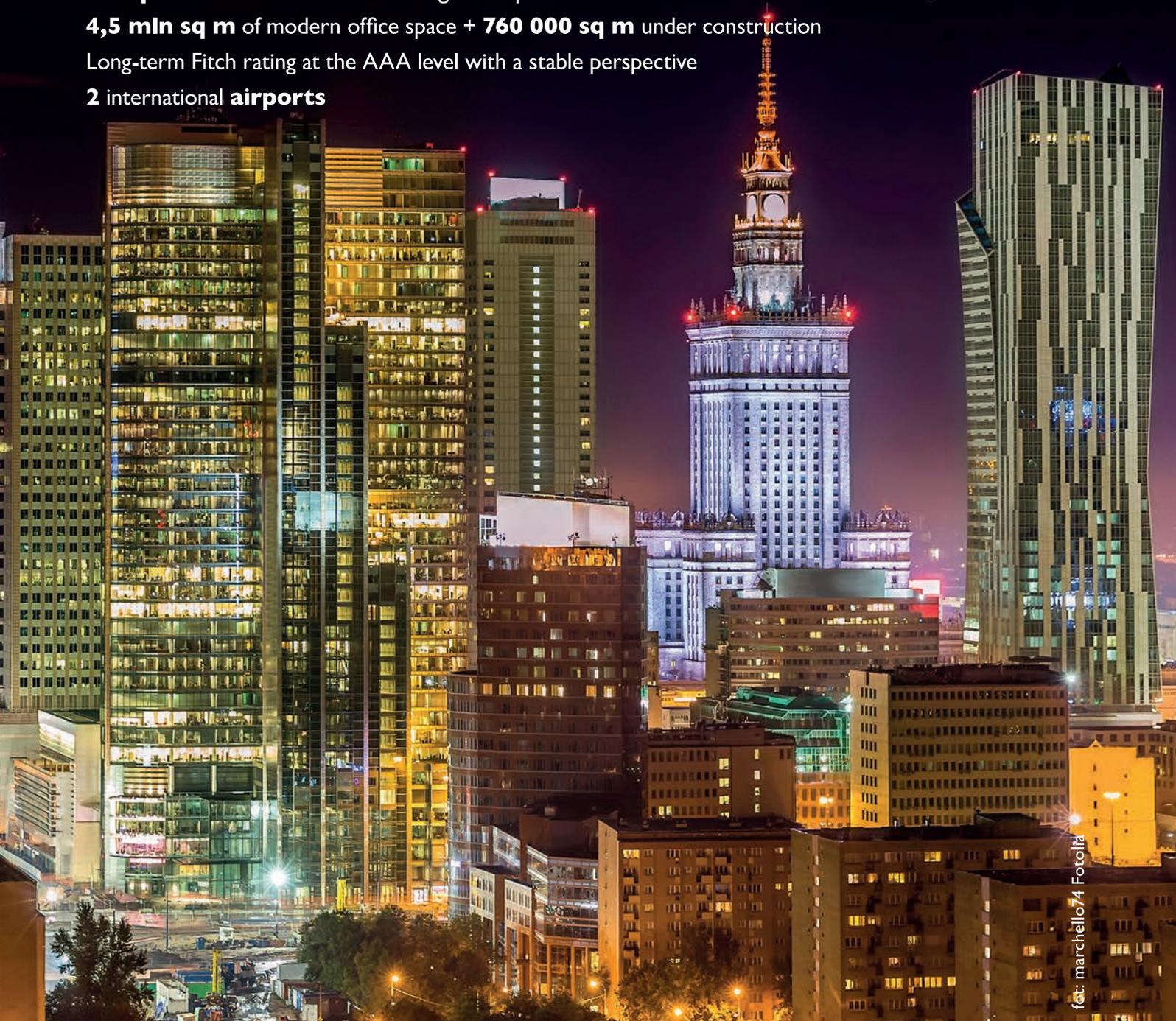
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INTRODUCTION

02 Companies such as Citibank, Goldman Sachs and Procter & Gamble have all relocated major operations to the Polish capital of Warsaw, drawn by its human capital, large local market, easy access to regional customers and improving infrastructure. And with steady national growth forecast, more are likely to follow. Jacopo Dettoni reports.

INTERVIEW

05 Warsaw hosts many of Poland's best universities, a central district with plenty of development potential, boasts a quality of life that matches some of Europe's most prestigious cities, and possesses abundant levels of office space, the city's deputy mayor, Michał Olszewski, tells Jacopo Dettoni.

INNOVATION

06 A start-up scene is beginning to emerge in the Polish capital of Warsaw, writes Michal Kaczmarski, that is not only attracting involvement from big names such as Google and Samsung, but is also persuading many of the country's young expatriates to relocate to the city.

REAL ESTATE

08 With completions approaching record levels, rents for office space in Warsaw are falling and vacancy rates are expected to rise. However, prestigious developments in the city are capable of attracting blue-chip tenants, such as Samsung and Goldman Sachs.

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Poland's engine for growth

COMPANIES SUCH AS CITIBANK, GOLDMAN SACHS AND PROCTER & GAMBLE HAVE ALL RELOCATED MAJOR OPERATIONS TO THE POLISH CAPITAL OF WARSAW, DRAWN BY ITS HUMAN CAPITAL, LARGE LOCAL MARKET, EASY ACCESS TO REGIONAL CUSTOMERS AND IMPROVING INFRASTRUCTURE. AND WITH STEADY NATIONAL GROWTH FORECAST, MORE ARE LIKELY TO FOLLOW.
JACOPO DETTONI REPORTS

Beyond the iron gates of the Koneser Vodka Factory, a one-time icon of Warsaw's industrial past, dozens of young Polish entrepreneurs gather around their laptops and steaming cups of coffee inside a redbrick building that used to host the distillery's administration offices. Nurtured by Google Campus, a business accelerator launched by the US tech giant in 2015 and the first of its kind in central and eastern Europe (CEE), they replaced the scores of bureaucrats that ran the factory during Poland's communist era, thus breathing fresh life into Praga, the blue-collar neighbourhood where the distillery is

located. Now, Praga is a sign of Warsaw's post-industrial transition, which began when the communist regime was dissolved in 1989, producing profound changes across the city.

"I have lived in five different Warsaws over the past 20 years, the pace of change has been so quick," says Tony Housh, chairman of the American Chamber of Commerce (AmCham) in Poland and long-time expat in Warsaw. "None of these buildings were here," he adds, pointing at the tower blocks surrounding the imposing Palace of Culture and Science, a 'gift' from Joseph Stalin to Poland designed by Soviet architect Lev Rudnev as a copy of one of Moscow's 'Seven Sisters' high-rise buildings

and one of the most iconic and controversial remnants of the country's communist past.

With traces of its tumultuous history scattered everywhere – some city centre buildings still bear signs of German bullets dating from the Second World War – Warsaw is being born yet again, reasserting its reputation as the 'Phoenix City'. Yet this time the city is not emerging from the ashes of some bloody war, but from the ruins of the communist rule over the country that lasted for more than four decades.

Eastern foothold

As Poland opened up its economy, Warsaw quickly became the natural base camp for foreign companies lured by the country's transition to a market economy and its vast consumer numbers – with 38.5 million citizens, the country is by far the most populous in eastern Europe (excepting Russia). As the pace of development intensified and the country joined the EU in 2004, Warsaw even managed to shrug off its long-standing reputation for being an uneventful, unattractive city and turn itself into a lively eastern European capital with a growing business sector, wide cultural and leisure opportunities and improving infrastructure.

Foreign investors soon tapped into this resurgence, with large multinationals scaling up existing operations or establishing a first footprint in the city to serve the domestic mar-



WARSAW IS BEING BORN
YET AGAIN, REASSERTING ITS
REPUTATION AS THE 'PHOENIX CITY'





Streets ahead: Warsaw (pictured) has emerged as a hub for companies tapping into the central and eastern European market

ket or the CEE region as a whole. Warsaw's vast pool of skilled workers, whose average wages are low when compared with those in western Europe, is also a magnet for the business services industry, which is relocating increasingly sophisticated functions to Warsaw.

Since joining the EU in 2004, Poland has emerged as one of the most acclaimed success stories of the union's enlargement programme. The country posted an average economic growth of 4.4% in the 15-year period to 2011, according to Eurostat figures. It even managed to cope with the global financial crisis of 2008-09, when economic growth did slow, but did not turn into recession – the only EU country to manage this. After slowing further between 2012 and 2013, Poland's economic growth regained vigour and bounced back to 3.3% and 3.6% in 2014 and 2015, respectively.

“Economic growth in Poland is expected to remain robust and stable, driven by domestic demand,” the European Commission wrote in its 2015 autumn forecasts, estimating that this growth will be stable at 3.5% in both 2016 and 2017.

An FDI giant

This growth has been fuelled by steady inflows of FDI. The cumulative value of FDI in Poland amounted to €219bn at the end of 2014, accord-

ing to Unctad figures, by far the largest investment stock accumulated in CEE countries. FDI made a large contribution to upgrading the country's real estate provision, establishing successful export-oriented industries such as automotive or business services, and also to developing locally produced goods and services.

The country's investment climate took a hit in January as credit rating agency Standard & Poor's (S&P) downgraded the country's sovereign rating to BBB+ (from A-) and rang an alarm bell over the possible consequences of the apparent attempt by the new government, elected in 2015, to weaken the independence of key institutions such as the constitutional court and public broadcasting. Despite this decision, S&P's forecasts for Poland's economic growth remain well above 3% for 2016 to 2019, which is in line with other international observers.

National champion

Warsaw lies at the heart of the Mazovian Voivodeship (province), which has been one of the engines of Poland's economic growth since the 1990s. Home to 5 million inhabitants, 2 million of whom live in the Warsaw metropolitan area, the Mazovian economy grew by 4.1% in 2014, versus the 3.8% reported at a national level, according to figures by ►

the city's statistical office. Its contribution to the country's GDP thus reached 22.2%, almost twice as much as the second largest contributor, Silesian Voivodeship.

The city is Poland's largest academic centre, with 77 tertiary education institutions enrolling some 244,466 students, according to KPMG estimates. Its unemployment rate is only 3.4% and employers have to compete to attract and retain talent. Today, the average earning for Varsovians is 5604 zlotys (€1270) a month, almost 25% above the national average, and this growing spending power is reflected by the dozens of international retailers and restaurants that crowd Warsaw's city centre, alongside emerging Polish brands and a few names coming straight from communist times, such as the *mleczny* bars, literally 'milky bars' or local cafeterias.

Foreign investors first showed up in Warsaw in the early 1990s, looking for opportunities from the ongoing privatisation of state assets and betting on the development of the largest market in the CEE region. That bet bore fruit. Companies that served the local market largely increased their operations as the Polish and CEE economy as a whole developed and started to build up manufacturing capacity across the country. Meanwhile, foreign real estate developers triggered massive redevelopments of industrial sites into office and commercial space in Mokotow and Wola. As Polish economic growth continued, Warsaw's business proposition evolved.

"Today it's more of a mixed picture," says Mr Housh of AmCham. "One of the key elements that is still driving foreign investment is simply the size of the domestic market, where companies feel they can reach critical mass. And indeed today quite a few US investors such as General Electric, Procter & Gamble and International Paper use Warsaw as the headquarters for their CEE operations, and part of that comes out of the scale and scope of operations they can achieve here. But today the city has also become an extremely dynamic market for business outsourcing and internal support services."

Outsourcing strength

The availability of a large, young, tech-savvy, multilingual workforce whose wage demands are low saw Poland play a leading role in the global business services market, with dozens of business process outsourcing centres and shared service centres (SSC) springing up across the country in cities such as Krakow and Wroclaw from the early 2000s onwards. Warsaw initially missed out as its higher costs made it less attractive than other Polish cities. Things are changing as the sector improves the quality of services it offers.

"Companies were originally relocating simple functions such as finance and accounting or human resources," says Jacek Levernes, president of Poland's Association of Business

Service Leaders (ABSL). "As initial investment exceeded expectations, they started looking at more sophisticated functions, to the extent that today they are establishing core operational centres as opposed to simple support centres. For those operations you need to find the right talent with the right experience, and this is where Warsaw comes back in the game."

Today some global names run major operations in their SSCs in Warsaw. Among others, Citibank runs worldwide anti-money laundering checks there and Procter & Gamble engineers its supply chain logistics for the whole of Europe. Overall, the city's business services sector has 105 active service centres, which are owned by 73 foreign investors, according to ABSL figures. It currently employs about 31,000 people, up from 18,800 at the beginning of 2013. The sector is also contributing to demand for new office space. Samsung is about to consolidate its research and development functions – currently scattered across the city – in a 21,000-square-metre lease in the Warsaw Spire, a new glass tower in Wola. Goldman Sachs is also relocating its technology and operations units to the Warsaw Spire (see article on Warsaw's property market, page 8).

Start-up success

Meanwhile, for those aiming to develop their own business, the city's emerging start-up scene offers a natural ecosystem for turning new ideas into start-ups.

"We initially worked for international corporations, but dropped out after a few years. If you have an appetite for change, a big corporation is not for you," says Anna Walkowska, an important figure in the local start-up scene who launched start-up community co-working centre Reaktor out of her living room. "So I just dropped everything and launched my start-up."

The potential of Warsaw's abundant human capital was augmented by generous flows of European funds targeting start-ups and innovation. "Money was never an issue in Poland. However, smart money was an issue," adds Ms Walkowska. "I cannot say how many of the projects that have been funded are still alive." (See article on innovation in Warsaw, page 6.)

In just another sign of Warsaw's attractiveness, there have been rumours that Samsung is even ready to move its European headquarters to the city from the UK, should the UK leave the EU, and Credit Suisse is believed to be willing to move functions to Warsaw that are currently based in London as part of its restructuring plans. Just a few years ago, the tale of the migrating Polish plumber became a symbol of eastern Europe's cheap, mobile workforce. The tide has quickly turned and, today, the Polish plumber, or perhaps his sons and daughters, are back in Warsaw and turning it into a modern capital vying for a place among top European cities. ■

Q&A: MICHAŁ OLSZEWSKI

Capital gains

WARSAW HOSTS MANY OF POLAND'S BEST UNIVERSITIES, A CENTRAL DISTRICT WITH PLENTY OF DEVELOPMENT POTENTIAL, BOASTS A QUALITY OF LIFE THAT MATCHES SOME OF EUROPE'S MOST PRESTIGIOUS CITIES, AND POSSESSES ABUNDANT LEVELS OF OFFICE SPACE, THE CITY'S DEPUTY MAYOR, MICHAŁ OLSZEWSKI, TELLS **JACOPO DETTONI**

Q What is Warsaw's business proposition?

A We have become a very serious market for foreign investment. We had lower GDP than other eastern European cities such as Prague and Budapest and a worse job market, but now we are treated as part of the Polish success story because Warsaw has emerged as the strongest and fastest developing economy in Poland. We were always attractive as a city for companies that wanted to enter the Polish market, now we have become appealing also for those companies looking to set up a regional headquarters due to good connections and a stable economic cycle.

Q Only few years ago Warsaw seemed to be struggling to appeal to foreign investors...

A We experienced very chaotic development until 2005 because we lacked a coherent strategy to attract big companies. Then we launched our investment strategy in 2006. Back then our main disadvantage was that we didn't have enough office space with a stock of 2.6 million square metres. Today we are at 4.6 million square metres and we are aiming to reach 6 million square metres in the next few years. The overall office stock in Kraków, the country's second largest city, does not go beyond 700,000 square metres. Further south, Prague's office stock is 3.1 million square metres, Budapest's is about 3 million square metres.

Q What is driving demand for the new office space?

A There are two main types of companies interested in setting up operations in Warsaw. There are companies looking for a country or regional headquarters, mostly belonging to the financial, insurance and consulting sectors, which

are still growing on the back of the expanding local market. Then we have R&D companies, outsourcing centres, but not typical business services. We are too expensive to be attractive for back-office operations. These companies come here to install their middle-office operations, which are partly responsible for the development of the same companies – Samsung, for example, relocated its R&D functions here, which had previously been dispersed around the country.

Q What would you say is Warsaw's competitive advantage compared with other Polish cities?

A Our workforce is better than in other cities because the best universities are here. A second thing is the city's quality of life. During the transformation period in the 1990s, we always struggled to match the quality of life of other European cities. However, in the past 10 years we doubled the number of restaurants and the range of leisure activities has greatly increased. Also, from a real estate perspective, there is much space in Warsaw's downtown for redevelopment as that area is quite new – it was entirely rebuilt after the Second World War. This is pretty unique because European cities tend to have old downtown areas where redevelopments are more difficult.

Q Some investors faced legal troubles in redeveloping some areas though, such as Irish Global Partners Investment Fund, whose rights to redevelop the Robotniczy Klub Sportowy [Skra] stadium were scrapped with little notice. What is the municipality's position on that?

A Those conflicts originated in the 1990s, when nobody cared about urban planning. The current administration came into office in 2006 and decided that some of the areas ought



to be protected. The Skra lies close to one of the city's largest green areas, and we decided to keep the green area protected according to new urban plan. This happens when the interests of urban planning clashes with the interests of investors.

Q What is the profile of the foreign investors you want to attract in years to come?

A Warsaw will remain a big market for financial, insurance and administration services, which is the natural market for capital cities, and we expect those functions to develop. We also want more companies to come here for the quality of local workforce, such as R&D in sectors such as biotech and technology. We want investors to be choosing Warsaw on the basis of our stable, long-term vision rather than simple price convenience. ■

A starting point

A START-UP SCENE IS BEGINNING TO EMERGE IN THE POLISH CAPITAL OF WARSAW, WRITES MICHAL KACZMARSKI, THAT IS NOT ONLY ATTRACTING INVOLVEMENT FROM BIG NAMES SUCH AS GOOGLE AND SAMSUNG, BUT IS ALSO PERSUADING MANY OF THE COUNTRY'S YOUNG EXPATRIATES TO RELOCATE TO THE CITY

Educated both in Poland and the UK, in 2007 Borys Musielak secured a job as a consultant at the London-based office of Deutsche Bank. "I really enjoyed working there, it was a good experience that gave me a taste of how to operate in the corporate world," says Mr Musielak. "But after three years with Deutsche Bank, I wanted to start my own company."

He could have done this in London, or with his software engineering degree, virtually any other city in the world. But he chose Warsaw, which is where, in 2010, he founded Filmaster, an analytics platform for the entertainment industry, which in 2015 was sold to Samba TV, a San Francisco-headquartered smart TV apps publisher. He also founded Reaktor, a co-working space that holds monthly meetings for budding entrepreneurs.

Gaining momentum

Mr Musielak's is not an isolated case. Young professionals have been returning to Warsaw in their droves, intent on tapping into the city's innovation landscape. Take Lukasz Alwast: he studied at the University of Sussex and University College London, and then worked at the London-based Future Cities Catapult, a think-tank linked with the government's Innovate UK initiative. But he recently left the UK to move back to the Polish capital. "As a Warsaw native, I have seen this city evolve over the past decade and I can confidently say it has made a massive, positive leap," says Mr Alwast.

What is making young professionals, such as Mr Alwast and Mr Musielak, move back to Warsaw?

"Momentum," says Eliza Kruczkowska, CEO of Start-up Poland, a non-government organisation focusing on promoting the country's tech ecosystem. "The start-up scene here has grown exponentially, and is increasingly getting attention from abroad. I believe that Warsaw is becoming a regional start-up and innovation hub, and that is why young people are coming back." Indeed, Ms Kruczkowska moved back to the city after spending several years abroad, studying and working in London, Madrid and Munich.

Mr Alwast describes the growth of the start-up scene and the emergence of interesting employment opportunities that came with it, as a deal-clincher for him. "I knew that Warsaw had a lot to offer in terms of livability and quality of life, so the key factor for me was whether I could continue working on exciting projects with world-class exposure. It turns out that I can," he says. Mr Alwast currently works for Platige Image, a computer graphics and 3D animation firm that includes among its clients theatres in Amsterdam and St Petersburg.

Funding push

Employment opportunities in both Poland and Warsaw would be far more limited if it were not for the injection of funds granted by the EU. Between 2007 and 2013, Poland received €101.5bn from the EU and, between 2014 and 2020, it is projected to receive a further €106bn, of which €12.5bn is allocated to R&D projects. As with all of the country's EU funding, capital allocated to innovation is awarded to the whole country, but Warsaw, by virtue of its sheer size, receives a large proportion.

The EU capital is used to fund projects such as Mr Musielak's, whose start-up received €101,000 in 2010, but also to co-fund institu-



YOUNG PROFESSIONALS HAVE BEEN RETURNING TO WARSAW IN THEIR DROVES





Wall-to-wall opportunities: the recently inaugurated Campus Warsaw (pictured), a Google-backed start-up centre, is one of several new meeting spaces opening up across Warsaw to cater for the city's growing number of entrepreneurs

tions such as Warsaw University's Centre of New Technologies (CeNT). Opened in March 2013, CeNT focuses on multidisciplinary research in the fields of biology, chemistry, physics and IT. "It is one of the most modern bio-chemical centres in Europe, which allows scientists to conduct world-class level research," Marcin Palys, Warsaw University's rector, said on the day of CeNT's launch.

In November 2015, the city gained another innovation hub when the Warsaw University of Technology opened the Centre for Innovation and Technology Transfer Management, an initiative that includes the likes of Google, Microsoft and Samsung among its corporate partners. In the same month, Campus Warsaw, a Google-backed initiative aimed at creating a meeting place for entrepreneurs from across central and eastern Europe, opened its doors.

On top of that, entrepreneurs in Warsaw can also take advantage of resources offered by the city's many business incubators, such as the Smolna Entrepreneurship Center and Business Link. Another recent addition to the city is the Warsaw branch of TechHub, a start-up community that is also active in seven other cities, including London, Bangalore and Boston.

Additionally, the city is home to the National Centre for Research and Development, a governmental agency in charge of supporting R&D in Poland, the Polish Agency for Entrepreneurship Development, which supports SMEs in Poland, and the Agency for Industry Development, which supports medium-sized and large companies.

Work in progress

The number of initiatives and education centres focusing on new technologies shows that something is brewing in Warsaw, but many in the city believe that it is still a work in progress. "Most of those initiatives were launched in the past 24 months," says Pawel Bochniarz, who was until recently the director of innovation advisory at PwC Poland, the Polish branch of the consulting firm. In November 2015, he launched a technology accelerator in Warsaw, which is part of the Massachusetts Institute of Technology's (MIT) Enterprise Forum network.

The accelerator, affiliated with one of the most prestigious technology schools in the world, will teach its students how to improve their pitching skills and business concepts. Switching into entrepreneurial thinking and learning how to present concepts to investors is something that Polish innovators still struggle with, according to Mr Bochniarz. "One in 10 MIT students start their own company. In Poland, it is less than half of that," he says. "MIT alone produces 1000 start-ups annually. The whole of Poland [produces just] 2500. Clearly, there is still a lot we have to do to catch up with developed countries."

Yet, a 2015 report published by analytics firm Compass shows that Warsaw already counts among Europe's leading start-up hubs, next to cities such as London or Madrid. This is in no small part down to individuals such as Ms Kruczkowska, Mr Alwast and Mr Musielak, who have brought with them expertise gained on their travels as they have returned to Warsaw. ■

Making room

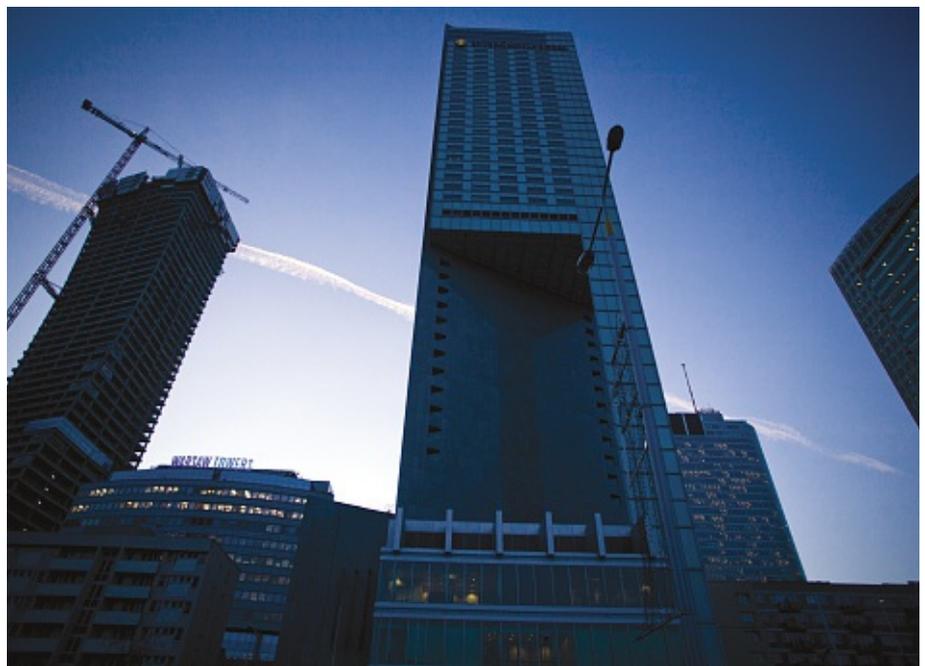
WITH COMPLETIONS APPROACHING RECORD LEVELS, RENTS FOR OFFICE SPACE IN WARSAW ARE FALLING AND VACANCY RATES ARE EXPECTED TO RISE. HOWEVER, WRITES JACOPO DETTONI, PRESTIGIOUS DEVELOPMENTS IN THE CITY ARE CAPABLE OF ATTRACTING BLUE-CHIP TENANTS, SUCH AS SAMSUNG AND GOLDMAN SACHS

Take-up volumes in Warsaw's office market reached record levels in 2015, thanks to strong demand from the financial, ICT and business services sectors. Nonetheless, the massive pipeline of space due to come onto the market in the next few years is putting pressure on developers. With completions set to break records in 2016, developers are facing the prospect of finding themselves sitting at the weaker side of the negotiation table as occupiers try to push for increasingly favourable leases and rental agreements.

"The city's real estate market boomed after the country joined the EU and prices spiked," says Jerzy Kalinowski, a partner at consulting firm KPMG Poland. "Then the financial crisis hit, forcing out some of the old investors as new investors came in, renegotiated existing contracts and gave a fresh dynamism to the market."

Record levels

Gross office take-up in Warsaw reached a record level of 833,200 square metres in 2015, up by 36% year on year, according to real estate services firm CBRE, as a sizeable number of tenants extended their existing leases and international companies expanded their footprint across the city. Vacancy rates fell to a record low of 12.3%, with firms belonging to the business services and financial services sectors, alongside IT and telecommunications, making up about two-thirds of the total take-up. Among others, Samsung and Goldman Sachs contributed to boost



Sky's the limit: a glut of office developments in Warsaw (pictured) is pushing down rental prices in the city and contributing to rising vacancy rates

pre-let leases in Warsaw Spire, a 57,000-square-metre tower developed by Belgian firm Ghelamco that is due to open in 2016.

"Warsaw is unique because there is still downtown space available for development, which is not very common in European cities," says Mr Kalinowski.

The surge of office developments coming onto the market has gained Warsaw a place among the top five European cities with the highest office development activity, after Paris, London and Moscow. Some 400,000 square metres of new office space will be completed in 2016 alone, at least 60% more than the average of the past five years, the reason why "2016 is forecast to be a year of challenges for our market", real estate company CBRE wrote in its latest Warsaw Office report.

"We expect vacancy rates to go up and reach between 16% and 19% in 2016-17," says Daniel Bienias, the managing director of CBRE Poland.

Yields in decline

Average headline rents in Warsaw continued the declining trend observed in the past few years and fell to about €19 per square metre

in the city centre and €14 per square metre in non-central areas in 2015, according to CBRE figures.

"Rents are hitting a bottom," says Tomasz Trzósło, the managing director of real estate services firm JLL Poland. "If we take into account all development costs, we are at a stage where developers' margins are quite squeezed, at about 5% to 5.5% for prime, long leases in good locations." However, in other eastern European countries (Bulgaria, Hungary, Romania) or in the Balkans (Croatia, Serbia, Slovenia) developers can still achieve 7% to 8% investment yields, according to figures from consulting firm PwC.

The market in Warsaw may suffer from oversupply, but also from the weakening take-up of financial sector firms, which had contributed significantly to office space demand in recent years.

"We presume that due to changes in the legal and tax environment, the expansion of the banking and insurance sector may slow in coming years," says Kinga Barchon, a partner at PwC, referring to the proposed taxes on the financial sector that the Polish government is trying to push through. ■

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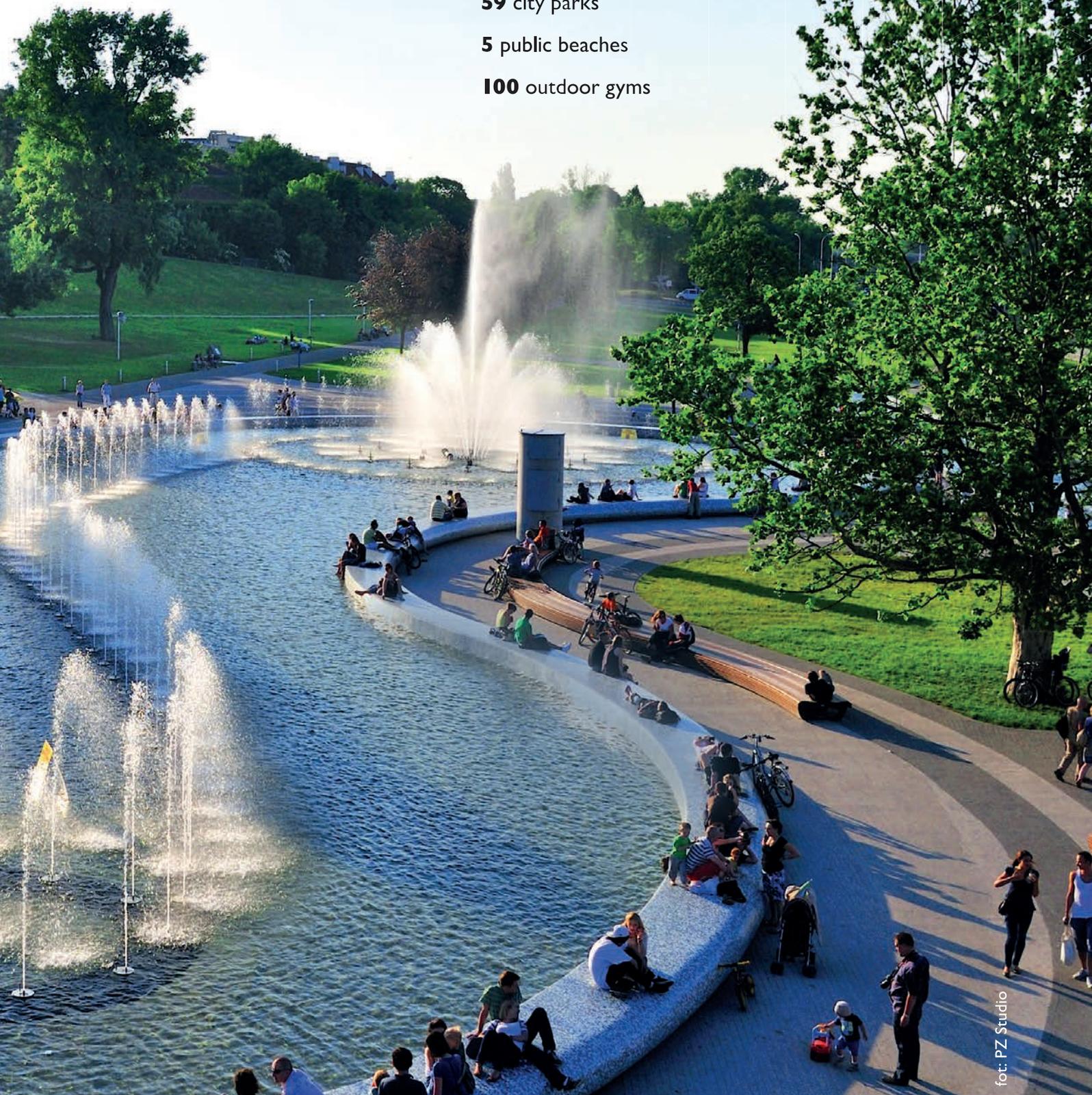
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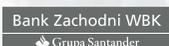
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