WARSAW BUSINESS JOURNAL Observer

Future office

CEEQA report 2016

More is less?

GREEN, COMFORTABLE AND FUN - OFFICE SPACE IS BECOMING A TALENT MAGNET FOR COMPANIES. BUT AS FIRMS REVAMP THEIR OFFICES, THEIR SPACE REQUIREMENTS ARE SHRINKING. COULD IT SPELL TROUBLE FOR DEVELOPERS?

Musical chairs

Gone are the days of endless corridors with gray walls and even grayer carpets. As companies fight tooth and nail to attract and retain talent, they increasingly find it is office space that can tip the scales in their favor.

Developers are striving to outdo one another in designing their offices of the future. Not only are they making office space fun and entertaining, they are also helping companies to reevaluate their needs and increase office efficiency.

Desk sharing is no longer just for interns, as even CEOs can be seen setting up their workspace each morning at a different desk. Meanwhile, teleworking is making a comeback in a big way as younger generations are beginning to gain leverage in dictating working arrangements, all of which inevitably leads to companies reducing their space requirements.

The trend is already starting to show in Warsaw – the region's biggest market. A wave of companies consolidating their offices is fueling demand for the time being, but whether that will be enough to fill all the space coming out of the pipeline was the subject of a heated debate at the CEEQA Insight Summit, held in Cannes in March at MIPIM – the biggest international trade fair for the real estate industry.

Richard Hallward is the founder and managing director of CEEQA

CEEQA is renowned for making accurate and often staggering predictions for the real estate industry. Founded in 2004, its goal has been to increase transparency in the CEE real estate market by provoking debate, showcasing talent, honoring the best projects and companies, all the while making real estate get-togethers fun and exhilarating events that are talked about long after the music stops. ◆

An office with a view

From open plan offices, to cubicles, back to open space – office space has evolved tremendously over recent decades. The design and multi-functionality of the space is now seen as an important talent magnet in the increasingly fierce competition for gifted employees. Could it spell trouble for office developers, though?

A video game console with a hi-res projector, a comfortable red couch, a basketball hoop, exotic plants on the walls, streams of daylight pouring in through floor-to-ceiling windows. It's not a five-star hotel suite, it's a modern corporate office in the city center. You can see them popping up in all major cities across CEE: Prague, Budapest, Bucharest, Poland's regional cities such as Kraków and Gdańsk, as well as Warsaw. They are all green-certified and armed to the teeth with high-tech building solutions.

"Long gone are the days when tenants were impressed by openable windows, raised floors or BMS systems. The high standard of finishing in common areas, or even the additional infrastructure, such as bicycle stands, showers for cyclists and charging points for electric vehicles no longer create the 'wow' effect, either," said Stanislav Frnka, CEO of HB Reavis Polska.

Work-life blend

The office metamorphosis is largely the product of generational changes in the workplace. While the X generation was all about work-life balance: striving to keep their work separate from their private life and spend their free time in a creative and stimulating way, the younger "Selfie generation," as the Millennials are often referred to, tend to lean more towards a "work-life blend," where they want to feel equally creative, relaxed and fulfilled whether they are in the office, or kicking back on their living room sofa. The "at-home" feel of their offices goes a long way to ensuring that.

"The blurring between work and personal life is happening, and I think these kinds of spaces are designed to meet these expectations," said Pavel Trenka, CEO of HB Reavis, during the annual CEEQA@ Mipim Insight Summit held in March.

Talent magnets

Attracting talent is becoming the no. 1 issue for most employers these days. According to Manpower Group, an HR consulting firm, 41 percent of employers in Poland find it difficult to locate people with the right skill set for the job.

A company car, a social package and private healthcare just don't cut it anymore. For an increasing number of Millennials, or Gen-Y's, the conditions they work in are more important than the salary itself. A third of them would rather have a flexible work environment and access to social media than a bigger paycheck. They are, after all, the most "connected" and sociable of all generations currently in the workforce.

"Last year we did a complete survey of business service companies, asking them what amenities they wanted to have in their office. Fully available wi-fi and bicycle racks took the two top spots [with 75 percent and 78 percent respectively]," explained Tomasz Trzósło, managing director & head of Capital Markets Poland, JLL.

> "THE SHRINKING NUMBER OF WORKING-AGE ADULTS ... WILL ERODE THE DEMAND FOR DESK SPACE WITHIN A TRADITIONAL OFFICE ENVIRONMENT.
>
> **Stanislav Frnka,**
> CEO of HB Reavis Polska

Sharing is everything

The social and co-working needs of the younger generation are fueling another change in the workplace: assigning workers to specific desks is becoming a thing of the past. Some of the largest corporations, such as EY, CBRE and Skanska have already switched to a desk-sharing model.

"We've had hot-desking in our office for the past 12 months. Initially there was a lot of rejection to it. … But we've found that there is an incredible increase in efficiency when people manage to clear what is on their desks in a day," said Sean Doyle, head of Capital Markets Poland at CBRE.

The discomfort some employees, particularly the Gen X and Baby Boomers, might get from giving up their own desk is easily offset by the option of working from home. And even more so by all the extracurricular activities they can indulge in while at work.

"Having been brought up in the information technology era, with easy access to the internet and mobile devices, the representatives of Generation Y don't want to be tied to a desk and work on their own. Instead, they prefer to stay mobile and work in tandem with others, even when at the office. And of course, they expect the physical space and the office technology to facilitate such a work style," concurred Frnka.

The new water cooler

One could ask, what kind of impact providing so many "fun distractions" has on employee productivity. Employees already spend less than half their time at work actually doing their jobs. Wasteful meetings and excessive e-mail communication are the two chief culprits responsible for keeping people away from getting things done, according to a study by software firm AtTask and market researcher Harris Interactive. Is giving your employees games and rec rooms a good idea? Won't that make them even bigger procrastinators?

No, if you consider that one of the best ways of exchanging valuable intel between workers is through informal, ad hoc meetings, as research suggests. So why not combine knowledge dissemination with workers' downtime? In the past, a lot of important decisions were made during cigarette breaks or around the proverbial water cooler. Now, you can hear employees talk shop while playing Ping-Pong or shooting zombies.

Go flexible

Another way of ensuring better productivity is optimizing the way space is used: why have a 50-seat board room if only about 10 people usually come to a meeting? Some meetings have no more than three or four participants, so small meeting rooms or interview rooms are far more suitable. Have you ever been on the phone with a client strolling down the hallway or in the stairwell in search of some privacy? That's where office phone booths come in handy.

(L-R) Daniel Harris, managing director CEE, Tristan Capital Partners; Pavel Trenka, Group CEO, HB Reavis; Hadley Dean, CEO EMEA, (MRICS) Compass Offices; Sean Doyle, head of Capital Markets Poland, CBRE at CEEQA@Mipim Insight Summit in Cannes

All this change and reshaping of the workspace has one more side effect: companies need less space. "When you go from a 'normal' office to an office that is well thought-through and well prepared and where everything is open plan and no one has their own desk, you save about 30 percent in space. Take half of those savings and put it back into fun social areas. So usually, companies take 15 percent less – more people are working from home, flexible working hours are becoming acceptable," explained Hadley Dean, CEO for EMEA of Compass Offices.

And that can have a much bigger impact on the office market than a temporary oversupply, or green certificates might have in the long run.

Fully automatic

Also, in the long term, ever-increasing automation may further limit the need for office space. Already, 45 percent of employees are afraid that automation, intelligent machines and AI will replace people in their jobs, at least those that can be automated, according to a study by ADP, an HR services provider.

Developers are well aware of the long-term consequences. "The shrinking number of working-age adults, combined with the growing trend among Gen Y employees towards remote working, will erode the demand for desk space within a traditional office environment," summarized Frnka.

If the trend continues, the record-high tenant demand seen in some of CEE's major markets, including Warsaw, might turn out to be a momentary blip, while in the long run, landlords may have to face even stiffer competition. ◆

A balancing act

Despite a vast office supply in Warsaw, market forces seem to be working to create an equilibrium

CEE's largest office market, Warsaw, has been on the hot spot for a few years, with a huge pipeline of office space creating market imbalances. Developers seem unfazed by the onslaught of new office space. "In 2016 we expect around 30 new office projects to be completed in Warsaw, and if developers approach their clients properly, by preparing tailor-made offers, they shouldn't have big problems with lease levels," said Stanislav Frnka, CEO of HB Reavis Polska.

Data seems to corroborate developers' optimism. In 2015, a record 830,000 sqm of office space was leased (up by 36 percent year-on-year), with net take-up of 550,000 sqm (a 29 percent increase on 2014), according to JLL data.

In recent years, one of the main demand drivers was companies consolidating their locations, switching to newer office towers with better views, more advanced HVAC systems and more reliable server rooms. One of the biggest deals of 2015 was Samsung moving from three different locations into one – the 100,000-sqm Warsaw Spire, set to be delivered in May 2016. As is the case with other major deals, it means increasing take-up of the new space coming out of the pipeline, but also increased vacancies in older office buildings that may have a hard time competing for tenants with newer and more "digital" buildings. Already, 20 percent of Warsaw's 4.6 million-sqm of office stock is over 15 years old.

Market forces

Growing vacancies, especially in older stock, have put downward pressure on rents in Warsaw, particularly in effective rent rates. "Effective rents are up to 30 percent lower than headline rents in the case of anchor tenants," said Anna Kicińska, partner and head of the Real Estate Advisory Group at EY. Naturally, falling rent rates have had a positive impact on demand. A lot of BPO/SSC firms, whose space requirements are usually quite significant, are now looking at Warsaw, which until recently was simply too expensive, with a more favorable eye.

"We're seeing a lot of companies that have so far, developed primarily in regional cities: Kraków, Wrocław, as well as other CEE capitals, like Budapest, we see more of them shifting towards Warsaw. For instance, Goldman Sachs is locating its global center in Warsaw," said Tomasz Trzósło, managing director & head of Capital Markets Poland, JLL.

Investors' view

Still, there is no denying the fact that the massive pipeline of new office space in Warsaw has created an imbalance in the region's biggest market. "From an investor's point of view, Warsaw is a challenge to invest in. Sometimes the supply-demand balance gets a little out of whack. It is out of whack in Warsaw right now and has been for the past 12 months," said Daniel Harris, managing director for CEE at Tristan Capital Partners. He did, however, admit that the surge in demand was offsetting the excess supply coming online.

Indeed, 2015 saw fewer office deals in Poland's capital compared to previous years: only €477 million, compared to €1.36 billion a year earlier and €913 million a year before that. But market analysts think last year's downturn was a momentary blip.

"Investor appetite remains strong in Warsaw, and following a year of very few opportunities being offered in Warsaw, we expect 2016 to be a strong year, with new, international capital sources coming into the Warsaw market," said Soren Rodian Olsen, partner and head of Office & Industrial Investments at Cushman & Wakefield.

"WARSAW IS A CHALLENGE TO INVEST IN.

Daniel Harris,
managing director for CEE at Tristan Capital Partners

A broader perspective

Indeed, Warsaw continues to top the investment attractiveness rankings among CEE countries. According to CBRE, Poland was named the 6th most attractive EMEA country for real estate purchases in 2016, following Germany, the UK, Spain, the Netherlands and France. Warsaw also took sixth spot among EMEA cities, falling behind London, Madrid, Paris, Berlin and Amsterdam. From other CEE markets, Budapest was ranked the highest (8th overall), closely followed by Prague (9th) and Bucharest (13th).

"Prague remains a focus for international investors, although we still see limited availability of core offices in core locations. Our recent investor meetings have also revealed investor interest returning to Budapest, which is a good sign for the Hungarian market, although we do expect core and core+ investors to be very selective in terms of assets and locations," commented Olsen. ◆

Two heads are better than one

The CEE warehouse market has arguably seen the most change over recent years. It continues to attract a lot of investor interest, with the e-commerce boom in CEE countries fueling and reshaping the logistics landscape. Where is CEE's warehouse market compared to the rest of Europe? We asked two experts in the field, both of whom have emerged from local CEE markets to head the European divisions of their respective firms

How long have you been involved in CEE warehouse markets?

Ben Bannatyne: I joined the Warsaw office of Jones Lang Wooton (now JLL) in 1997, and one of the first projects I worked on was Diamond Business Park Janki developed by AIG/Lincoln. Shortly after, I advised Whirlpool on setting up a rail served distribution center for Poland. We ended up pre-leasing a building at Prologis Park Teresin, the first rail served distribution park in Central Europe.

Robert Dobrzycki: I gained my first experience in the field of industrial real estate in 1999 at Menard Doswell & Co., an industrial estate construction and management company. Whereas, my adventure with CEE warehouse markets began when Panattoni decided to open its office in Europe. In 2005, which is already over a decade ago, we opened the Polish office, in 2007 we launched an office in the Czech Republic, and in 2016 – in Romania – a CEE market we strongly believe in.

How have these markets changed since then?

Ben Bannatyne: Central Europe has matured tremendously over the last 15 years. Today, Poland is considered one of the "big four" European markets alongside the UK, France and Germany. Obviously, improved infrastructure and the growing retail sector, fueled by increasing spending power, have driven a huge amount of development in the warehouse and logistics sector across the region. In addition, Central European countries have attracted significant foreign direct investment, driven by lower labor costs and proximity to Western Europe. A great example of this is the automotive sector in the Czech Republic and Slovakia.

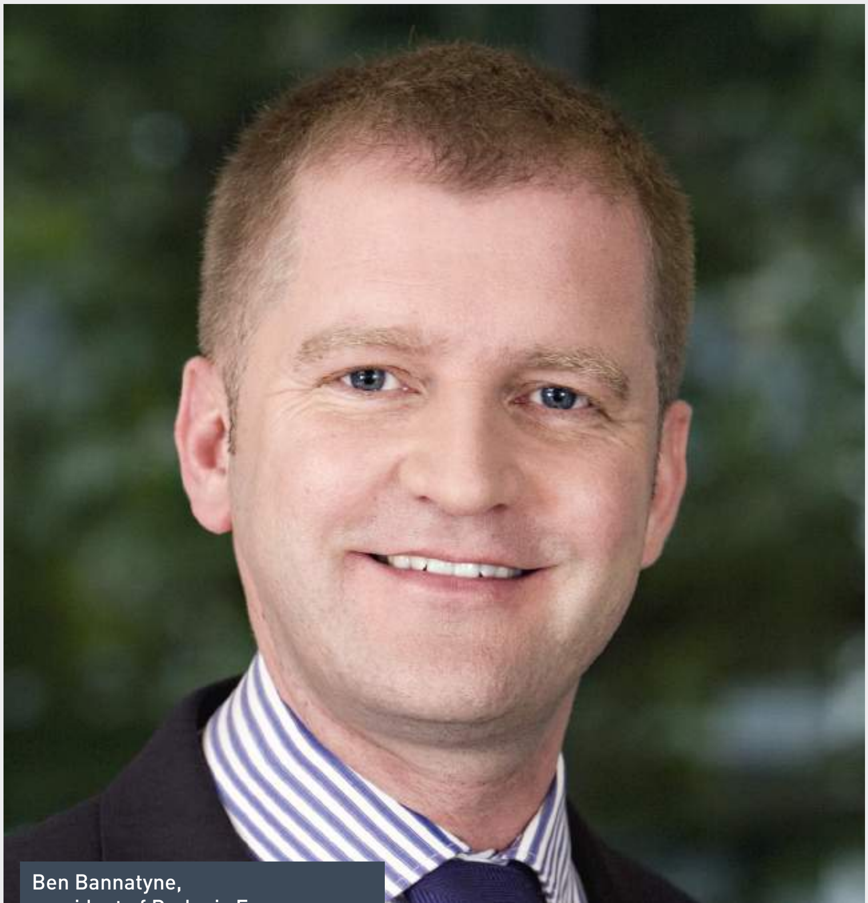
I believe there is still huge opportunity for growth, both in CEE and across the rest of Europe. The UK is the most mature European market and yet we are still able to develop our business there. Ongoing supply chain reconfiguration, the growth of the retail sector and the fast growing e-commerce sector all provide huge opportunity for growth. Prologis will continue to play to our strategy, focusing on core markets close to dense population centers.

Robert Dobrzycki, Chief Executive Officer Europe, Panattoni Europe

Robert Dobrzycki: In Poland, we have witnessed tremendous change over the years in the warehouse industry. Initially, they were influenced by the country's accession to the EU in 2004. That's when road infrastructure started to improve thanks to EU financing, providing strong growth impulse to the entire logistics industry, as well as warehouse and industrial real estate. As a result of all these transformations, the Polish warehouse market became multi-regional.

In 2008, Poland's warehouse space supply reached 5 million sqm and that was when Lehman Brothers declared bankruptcy, followed by a global financial crisis. That slowed the growth of the warehouse sector in Poland somewhat. At the same time, Panattoni created a new company within its structures – the BTS Group. The following years saw a significant increase in built-to-suit facilities, including industrial real estate built in Special Economic Zones.

Today, the warehouse stock in Poland is close to 10 million sqm and in the Czech Republic is over 5 million sqm. That constitutes a majority of the total modern warehouse stock in CEE (Poland, the Czech Republic, Romania and Slovakia) which now stands at nearly 20 million sqm. Developer activity is now driven not only by companies consolidating or relocating, but it is also fueled by the e-commerce sector as well as the manufacturing industry, which is still going strong.


Ben Bannatyne,
president of Prologis Europe

You both started in the Polish market and are now in charge of European operations of your companies. Is such a transition challenging?

Ben Bannatyne: I think that seven years' experience "in the field" is a great benefit when managing an entire European business. Central Europe has grown quickly in a competitive environment and is now very popular with many of our European and Global customers. Numerous initiatives implemented here can be exported across Europe and the rest of the world. With a 16.5 million-sqm portfolio, spanning 13 different countries, I am able to cherry-pick the best practices from each and implement them across the entire European platform.

Robert Dobrzycki: Ever since my appointment, we have been developing our business in Germany, and most recently, we also ventured into Romania. Such expansion brings a lot of challenges, both with respect to company management as well as in implementing business strategies. Each country is different, equally in terms of the legal framework for doing business and in terms of industry development. Poland, the Czech Republic and Germany are similar markets in terms of client portfolio, contractors and investors, but each of them is completely different in terms of the market size. Germany is the European leader and also a far more mature and saturated market. Poland is slowly becoming Germany's support base, whereas the Czech Republic has a more moderate need for warehouse space. ◆

Planning ahead

Monika Rajska-Wolińska is the managing partner at Colliers International

WBJ Observer: How long have you been with Colliers International? How much has the company changed since you joined?
Monika Rajska-Wolińska: I have been with Colliers since 1999. When I started out, the commercial real estate market was in its infancy. We only had a handful of office buildings in Warsaw. Colliers International was a global player but there were only seven people on its Polish team.
Today, the company employs over 250 people and continues to expand. The biggest changes have taken place over the past 5-6 years. We have increased employment by nearly 60 percent and the company's revenue has grown by 35 percent. The range of our services has expanded, as has our geographic scope. We opened four new departments and five offices in regional cities. We've also shifted towards a much more personal approach towards our clients.

You became the managing partner for Poland in 2011. What was it like becoming the head of a top-tier real estate corporation?
The early days of my work as a managing partner weren't easy. I was the first Pole to head the Polish office of Colliers International. Added to that, I was a woman, which was all the more challenging in a male-dominated environment.
The support I got from the other partners and the entire Colliers team proved invaluable. Together we were able to plan, and then implement, a lot of changes in our organization. Naturally, not all ideas met with immediate acceptance, particularly since my growth strategy for the company was significantly different from that of the previous head of Colliers in Poland. It took time and fortitude to get to where we are now.

What do you like most about your job?
People – I love talking to them, exchanging views, listening to their ideas, seeing them advance within the firm. I find my working relations inspiring and invigorating. I also like meeting our clients: listening to what they need, what bothers them and what pleases them, and what they'd rather do differently.
It's fascinating to be at the forefront of change, introducing novel ideas and planning ahead. In business, I always look at least five years ahead.

What aspects of your job do you find the most challenging?
Being in charge of a corporation has its dark sides. Even though you are surrounded by friends at work, being their boss means, at the end of the day, you are on your own with certain problems and dilemmas. This loneliness can be tough. Just as when people fail to see the opportunities they are being offered.

You are not only responsible for Colliers International's Polish operations. Last year you became a member of the Colliers EMEA Board, which means you have a say on the company's strategy in Europe, the Middle East and Africa. Which markets are on investors' radar right now?
The invitation to join the board was an honor and it offers a wider perspective, an overview of the entire region rather than just the Polish market.
Germany, the UK and France are still the top three EMEA markets for investors. However, CEE countries, and Poland in particular, are gaining strength. We have seen an influx of capital from Asian funds (Hong Kong, Singapore, South Korea, China) and from South Africa, and we expect to see more this year.

Which CEE markets, other than Poland, are growing in importance?
Romania is undoubtedly an interesting market for investors looking for new opportunities. The BPO/SSC sector has named Romania as one of the most attractive markets for investment, second only to Poland. The supply of investment product in Poland is shrinking and funds are beginning to look elsewhere. I don't think Romania will overtake Poland, though. These are two very different markets. Investment in Romania is centered around its capital, while Poland is a mature market, where not only Warsaw, but also regional cities attract capital. ◆

Holding out for CEEQA Gala

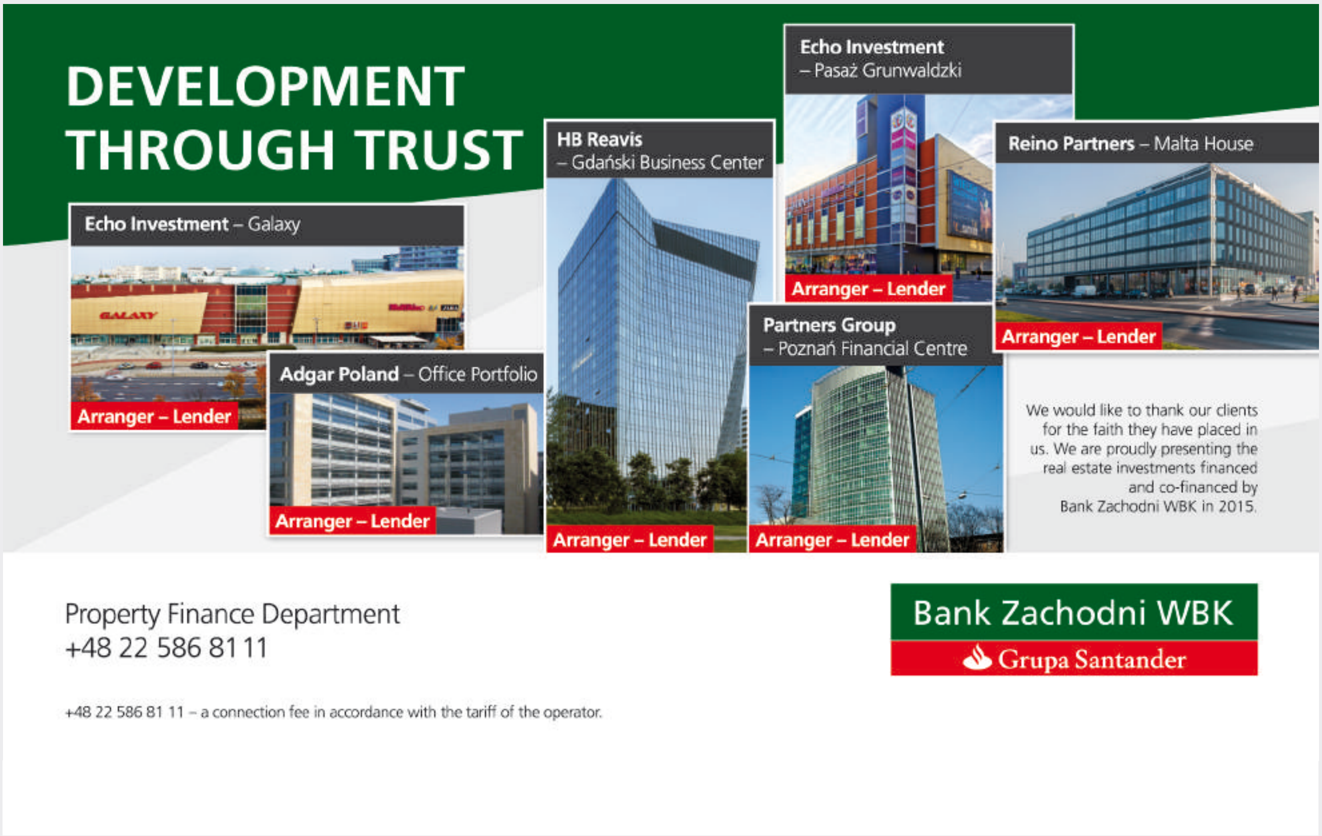
This year's live concert by pop legend Bonnie Tyler on April 12 may well eclipse all the previous performances

It's tradition that CEEQA events, and particularly the Awards Gala, offer not only a lavish spread of gourmet dishes and great company, but also big-league entertainers. This year, Bonnie Tyler will headline the ceremony.

Tyler began her career in the 1970s and gained worldwide recognition with hit singles such as "Lost in France," "More than a Lover," and "It's a Heartache." Her greatest success came in 1983 with "Total Eclipse of the Heart" topping music charts in several countries, including the UK and the Billboard Hot 100. Her list of hit numbers also includes "Holding Out for a Hero" recorded for the soundtrack to the 1984 film "Footloose."

Tyler has joined a long list of music legends who have added splendor to CEEQA events, which includes: Kim Wilde, Hot Chocolate, Boney M, Bananarama, Sister Sledge, and Gloria Gaynor.

The 13th CEEQA Gala is to be held, for the fourth year running, at the Soho Factory, a refurbished industrial building in Warsaw's Praga district.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Cannes reunion

More than 200 guests, who visited this year's CEEQA@ MIPIM event in Cannes on March 12, were also treated to some top-notch entertainment. The event featured a one-off reunion concert by Cock Robin duo Peter Kingsbery and Anna LaCazio, followed by a lounge session by Milan-based DJ/producer and YouTube sensation Gioli Lipari.

Both events are hosted by Monika Zamachowska, the well-known Polish TV reporter, who has been the face of CEEQA for nine years. ◆