Warsaw Office
MarketView

Q4 2012 | CBRE Global Research and Consulting

OFFICE STOCK 3.9 M SQ M | OFFICE VACANCY 8.8% | OFFICE TAKE-UP 608,500 SQ M | COMPLETION 268,000 SQ M | UNDER CONSTRUCTION 0.2% Y-O-Y

GENERAL OVERVIEW

Hot Topics

- Despite a general economic slowdown, the office market in Warsaw has been performing very well.
- Total office leasing activity reached 608,500 sq m in 2012 and exceeded the 2011 level.
- Growing new speculative supply impacts negatively on the vacancy rate. It is expected that in 2013 the office vacancy rate might exceed 10%.
- Non-central office rents are under downward pressure with the prime rates remaining stable.
- The 2012 investment volume level exceeded EUR 2.7 billion with the office share at 34%.
- Prime yields are relatively stable with a growing gap between prime an secondary assets.

Warsaw Economy

	Q4 2012
Population in agglomeration	3,200,000
Warsaw GDP growth*	4.5%
Workplace-based headcount employment*	1,500,000
Average gross salary (EUR)	1,200
Unemployment rate	4.4%
Registered companies	345,000

*Source: GUS, *Oxford Economic, 2012*

POLISH ECONOMY

The most recent economic indicators in Poland confirm the general slowdown as observed across Europe. The level of GDP growth last year decreased to 2% from 4.3% registered in 2011. The forecasts for 2013 remain comparable (2.2%). Nevertheless, this level is one of the highest among the European countries, where the average GDP growth for (EU-27) is forecasted to reach only 0.4% (Eurostat data). This poor GDP performance in Europe is the main concern for the Polish economy, which is heavily dependent on export to the EU countries.

The general uncertainty translates also into a lower household consumption, fuelled by a high unemployment level that reached 13.4% at the end of the year. In order to stimulate the economy, the Polish Monetary Council has decreased the reference rate to 3.75%, even despite a high CPI index, currently estimated at 2.4%.

There are expectations for growth to pick up more meaningfully in the second half of 2013, based on the monetary stimulus and an improvement in global macroeconomic conditions. As Poland remains perceived as one of the most stable and dynamic economies in Europe, the long term prospects remain very sound. This is proved by the number of foreign investors entering Poland, particularly from the outsourcing sector, largely driven by cost optimization in many western corporations.

OFFICE INVESTMENT MARKET

Total investment volume in the commercial property sector reached over EUR 2.7 billion last year. There were 16 office schemes sold, generating 34% (EUR 944m) of the total volume.

The most significant office transactions last year included Warsaw Financial Centre, one of the Warsaw tower buildings, purchased by Allianz Real Estate and Tristan Capital Partners for EUR 210 million. Other important sales concerned Platinium Business Park, Marynarska Business Park and International Business Centre. There was only one office transaction closed outside of the capital city – Arkonska Business Park B 3&4 in Gdansk.

Prime assets are still on the investors' radar screens, although the non-central locations also provide many occasions for more opportunistic investors who generate demand for secondary assets. Some investors have started to show interest in value-added opportunities in prime office locations in order to pro-actively prepare for the anticipated increasing level of vacancy.

Prime office yields are estimated at 6.25%. With prime yields relatively stable in most markets so far, pricing for secondary locations has moved out by at least 75 – 100 basis points to date. Generally the gap between prime and secondary products has increased to at least 150-200 basis points already.

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OFFICE SUPPLY

The office market in Warsaw has been performing very well, particularly in terms of new supply. Total modern stock has reached nearly 3.9 million sq m with 27 new buildings delivered last year. In the fourth quarter alone there was around 120,000 sq m completed in 11 buildings. Last year the stock grew by 268,000 sq m, which was slightly less than expected with a few projects moved to 2013.

The largest schemes in 2012 included Green Corner by Skanska, the first phase of Business Garden by Swede Centre and the first phase of Libra Business Centre by Mermaid Properties. Most of the new developments are located in non-central zones, in Jerozolimskie, Okecie or Mokotow areas. Only 30% of the completions last year were delivered in the City Centre, with only Le Palais (4,900 sq m) located within the Central Business District.

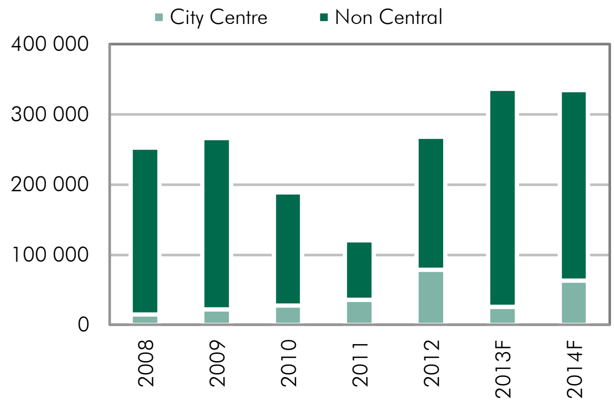
Although credit procedures remain conservative and financing is reserved only for the pre-leased projects, the amount of the office space under construction is high. Developers have noted the increased tenants' activity and some have decided to launch their investments speculatively, securing pre-let agreements during the construction works.

Although the amount of speculative development represented circa 70% of constructed office space at the end of 2012, the best new office schemes are being delivered with a minor percentage of vacant space. This also translates into in a high level of market absorption that reached over 162,000 sq m last year, considerably more than in 2011.

Currently in the capital city there is around 620,000 sq m under construction, comparable to last year's level. In the fourth quarter around 70,000 sq m was started, including such buildings as Park Rozwoju in Mokotow, Nimbus or Eurocentrum at Jerozolimskie Avenue. In total there is over 300,000 sq m scheduled for completion in 2013 and 2014 each year.

Out of this only 13% will be developed within the City Centre in 11 buildings and only two schemes – Atrium One and Cosmopolitan Office are in the Central Business District. In the long term, there are a number of towers planned in the City Centre, mostly in its western part, including the Warsaw Spire which is under construction, to be delivered in 2015.

WARSAW SUPPLY (sq m)



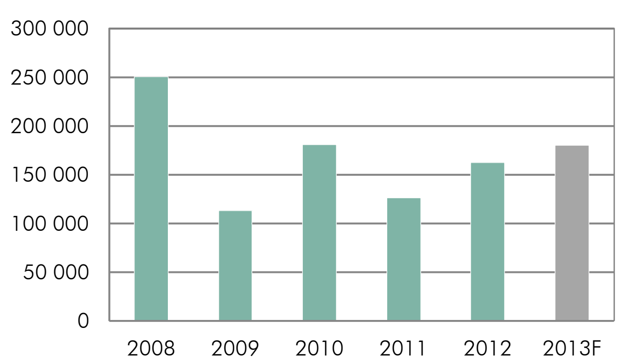
LARGEST OFFICES COMPLETED IN Q4

Green Corner (CC) *Business Garden I (SW)*

LARGEST DELIVERIES IN 2013

Konstruktorska Business Centre (US) *Miasteczko Orange (SW)*

OFFICE ABSORPTION (sq m)



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OFFICE DEMAND & RENTS

The total volume of leasing transactions in 2012 amounted to 608,500 sq m, 6% more than in 2011. Occupiers, being aware of the current market situation, are looking for better offices at a lower price. The new leases, in many cases, are signed for larger office space than previously. The major demand driver, however, is cost reduction. Therefore companies tend to move out from the central locations and look for flexible, customized offices in business parks located in the fringe of the City Centre or in further, non-central locations. There are less large renegotiations observed, as companies find it more profitable to sign a pre-lease agreement. Thus, the largest transactions last year were pre-lets, such as PTC in T-Mobile Office Park (27,000 sq m), followed by Frontex (EU Commission division) in Warsaw Spire (14,500 sq m). As much as 64% of the leased space was newly occupied or pre-leased, indicating a healthy increase in comparison to the level registered throughout 2011. In the future, we may also observe more pre-construction agreements as well as built-to-suit transactions, which are quite common in more mature markets.

The average lease size has been around 1,000 sq m, although majority of the new offices do not exceed 500 sq m, particularly in the central locations.

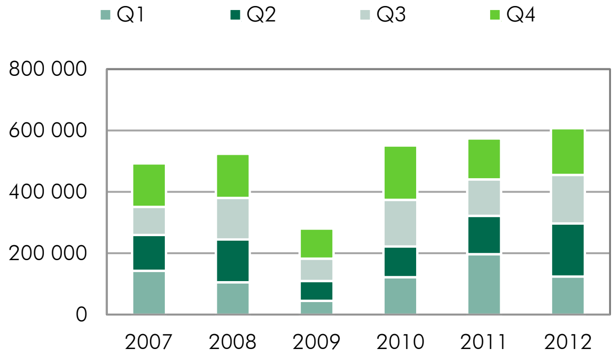
Financial and business services remain the most active groups. While the expansion of business services is quite stable, banks and financial institutions are looking to consolidate, optimize space and reduce costs.

The overall Warsaw office vacancy rate has grown to 8.8%. The majority of available space is located in the US zone (around 72,000 sq m) and in the fringes of the City Centre (around 68,000 sq m). The vacancy rate is expected to rise throughout 2013, as the number of speculative projects being delivered to the market increases.

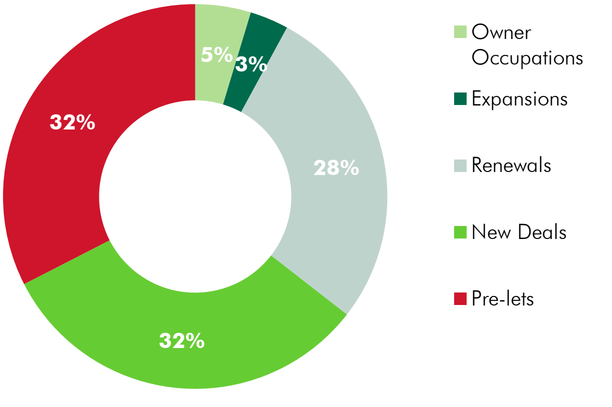
Prime headline rents are estimated at EUR 26 – 27/sq m/month in the CBD and should remain stable. In non-central locations, the headline rents for the best projects amount to EUR 15 – 16 /sq m/month. The overall average rent in Warsaw oscillates around EUR 18 /sq m/month.

With a number of new deliveries and a growing vacancy rate the level of effective rents is currently under downward pressure, particularly in more remote and competing locations. Typical offers include a rent-free period, up to 1.5 months per each year of lease as well as a landlords' contribution to fit-out and other capital costs.

WARSAW TAKE-UP (sq m)



TAKE-UP BY TYPE ('000 sq m) IN 2012



WARSAW RENTS (EUR/sq m/month)

	Q4 2012	2013 Outlook
Central Business District		
Prime Headline	25 - 27	→
Prime Effective	22 - 25	→
Non – Central Zones		
Prime Headline	15 - 16	↘
Prime Effective	12 - 13	↘

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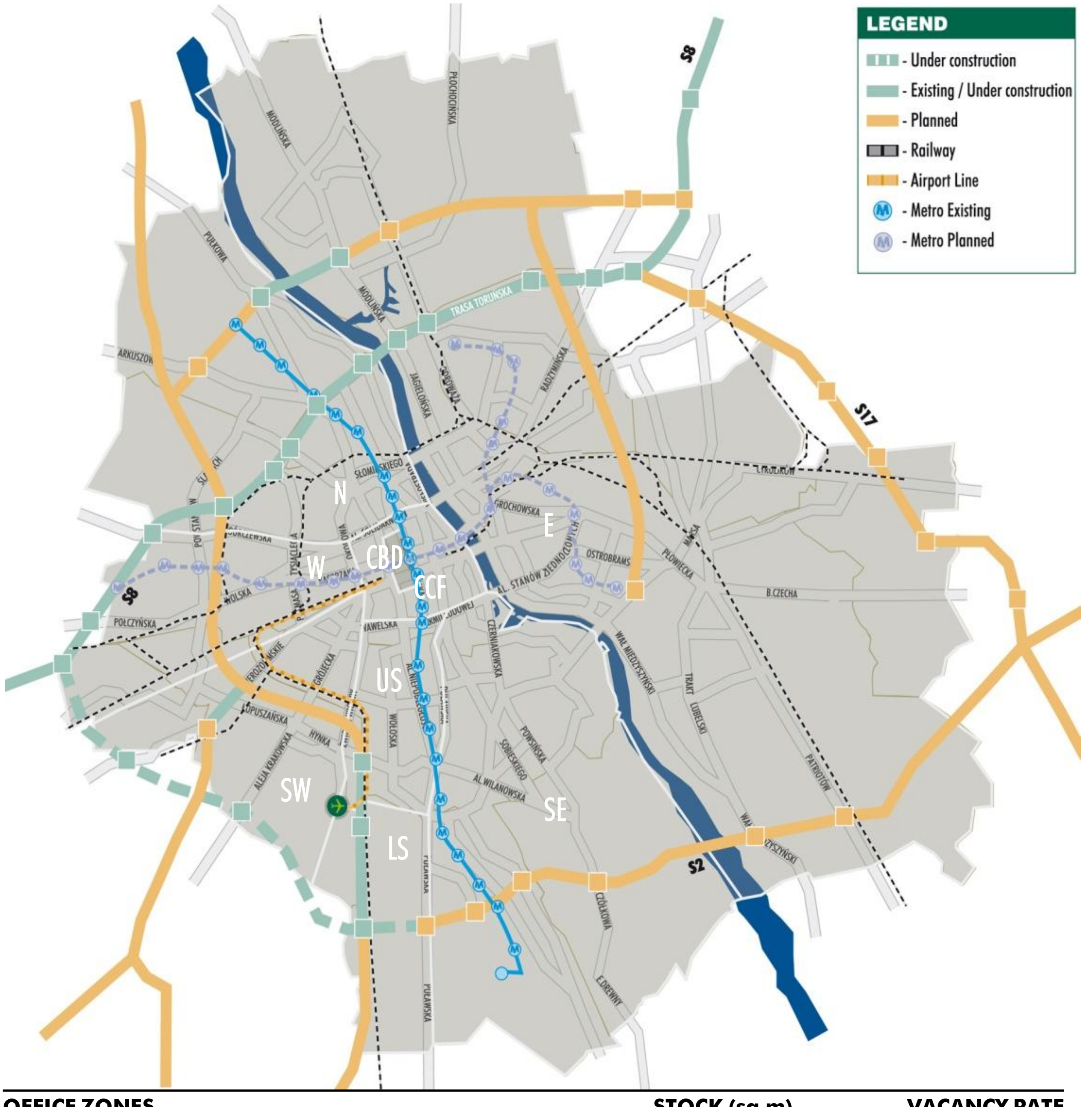
WARSAW OFFICE MAP



OFFICE ZONES	STOCK (sq m)	VACANCY RATE
CENTRAL LOCATIONS	**1,289,344**	**8.8%**
CBD - Central Business District	497,000	9.0%
CCF - City Centre Fringe	786,000	8.7%
NON-CENTRAL LOCATIONS	**2,576,000**	**8.8%**
E – East (Praga)	172,000	11.6%
LS – Lower South (Pulawska)	176,000	14.9%
N – North (Zoliborz)	125,000	7.3%
SE – South East (Wilanow & Sadyba)	188,000	4.7%
SW – South West (Jerozolimskie & Okecie)	625,000	10.1%
US – Upper South (Mokotow)	997,000	7.2%
W – West (Wola)	288,000	9.2%
TOTAL	**3,859,000**	**8.8%**

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RESEARCH DEFINITIONS

Prime Rent – Represents the top open-market tier of rent that could be expected for a unit of standard size (commensurate with demand in each location), of the highest quality and specification and in the best location in a market at the survey date. The Prime Rent should reflect the level at which relevant transactions are being completed in the market at the time, but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, the quoted figure will be more hypothetical, based on an expert opinion of market conditions.

Headline Rent - The headline rent represents the 'gross' rent that is paid by the tenant. That is the rent that they start to pay at the end of any rent free period that they also negotiate as part of the letting and making no deduction to reflect the value of any other incentives that they might have negotiated.

Effective Rent - The net effective rent is the headline rent less an allowance to reflect incentives that have been granted.

Take-up / Total Leasing Activity (TLA) – Represents the total floor space, including renewals, known to have been let or pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period.

Total Modern Stock – Represents the total completed A and B class space (occupied and vacant) in the private and public sector at the survey date. Includes owner occupied (OO) space.

Vacant Space Rate – Represents the percentage ratio of total Vacant Space to Total Modern Stock.

Absorption - Represents the change in occupied stock within a market during the survey period. Net absorption = [St(t) - V (t)] - [St(t-1) - V(t-1)], St= Stock in sq m; V=vacancy in sq m.

Prime Yield – represents the net yield that an investor would receive when acquiring a grade/class A building in a prime location (for offices in the CBD, for example), which is fully let at current market value rents. Prime Yield should reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period a hypothetical yield should be quoted, and is not a calculation based on particular transactions, but it is an expert opinion formed in the light of market conditions, but the same criteria on building location and specification still apply. The net yield does not include any transaction costs.

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Research and Consulting

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