

Market in Minutes Warsaw offices

Q3 2015



International Business Centre
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SUMMARY

Overview

- Supply of new space added to the market between January and September 2015 was 238,300 sq m
- Office stock in Warsaw now stands at 4.6 million sq m and over the next 15 months is expected to reach 5 million sq m.
- Gross take-up across city was high at the level of 606,200 sq m, of which 36% was realised in the City Centre and 42% in the two largest Non-Central zones (Upper South and South West).
- The vacancy rate across the city stands at 12.9%; down 90 bps year-on-year.
- Although prime headline CBD rents are still at the level of EUR 21.00 - 23.00 per sq m/month the level of effective rents is even 30% lower.
- The difference between headline and effective rent in Non-Central locations is even greater resulting in effective rents below EUR 10.00 per sq m/month.

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 “Owners of existing, older buildings have been adjusting their offers and approach to the market conditions in order to increase the occupancy levels. The most crucial issue for the current occupier market is to maintain existing tenants and to renew contracts” Dorota Ejsmont, Head of Landlord Representation, Savills

➔ **Economy**

In 2014 GDP growth in Poland reached 3.4% year-on-year whereas in 2015 and 2016 the pace of economic growth is forecasted at 3.6% and 3.5% respectively (acc. to Oxford Economics). This is significantly higher than the European average, which recorded a growth of 1.4% in 2014 and is expected to reach 1.9% in 2015 and 2.1% in 2016.

Inflation in Poland was 0.0% in 2014, which was the lowest annual rate recorded since 2003. Oxford Economics forecasts inflation rate to decrease further to -0.5% in 2015, but an increase to 1.3% is projected in 2016 and further to 1.8% in 2017.

In March 2015, the main reference rate was reduced by 0.5pp to 1.50% - the lowest rate ever recorded. In October the rates remained unchanged and further reduction is currently expected.

In August 2015, the unemployment rate in Poland based on the International Labour Office (ILO) definition was 7.2% and was lower than the European Union's and Eurozone's average of 9.5% and 11.0% respectively. The unemployment rate in Poland is expected to decrease to 7.7% in 2015 and further to 6.9% in 2016.

The average monthly salary in the national economy was PLN 4,004 in 2014, and according to The National Bank of Poland, this will grow by 4.0% in 2015 and by 5.2% in 2016.

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 "The volume of both letting activity and net absorption proves the occupier market is accelerating" Tomasz Buras, Managing Director, Head of Office Agency, Savills

Warsaw

Being the capital of the country, and with over 1.7 million inhabitants, Warsaw is the most populated city in Poland. Including the greater metropolitan area, the population exceeds 3 million people.

There are over 392,500 business entities registered in Warsaw including some of the largest (by revenue) companies in Poland: PGNiG, Jeronimo Martins, PGE and PZU.

In 78 higher education institutions, including some of the best in Poland such as University of Warsaw, Warsaw University of Technology, Wasaw School of Economics and Kozminski University, there are over 225,257 students and almost 63,900 graduates.

In August 2015, the unemployment rate in Warsaw stood at 3.8%, one of the lowest rates in Poland, which makes the city very attractive or unemployed people willing to migrate to the capital city.

The average monthly salary in Warsaw in 2014 was PLN 5,386, which is a growth of 3% year-on-year.

Development activity

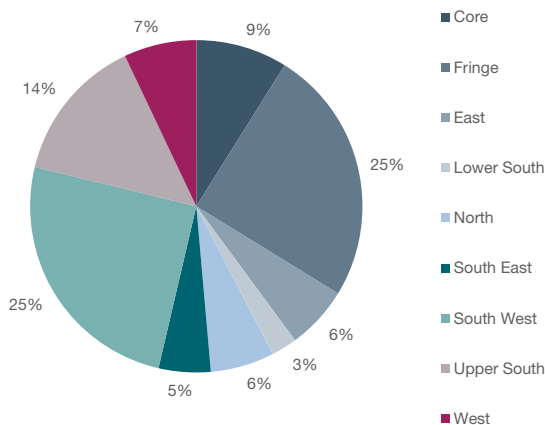
With 18 new office buildings completed between January and September 2015, the supply of office space across Warsaw stands at 4.54 million sq m; of which 70% is located outside of the City Centre.

Approximately 591,000 sq m of office space located in 47 buildings is under construction in the city, which is 28% lower than in December last year and, since 2011, the lowest volume of space under development.

Thanks to Q22 and Warsaw Spire which are the two largest buildings currently under development over 44% of development activity takes place in the two central zones: Core and Fringe. Other projects include Atrium 2 by Skanska and Prime Corporate Center by Golub GetHouse, which is being developed for Raiffeisen Polbank

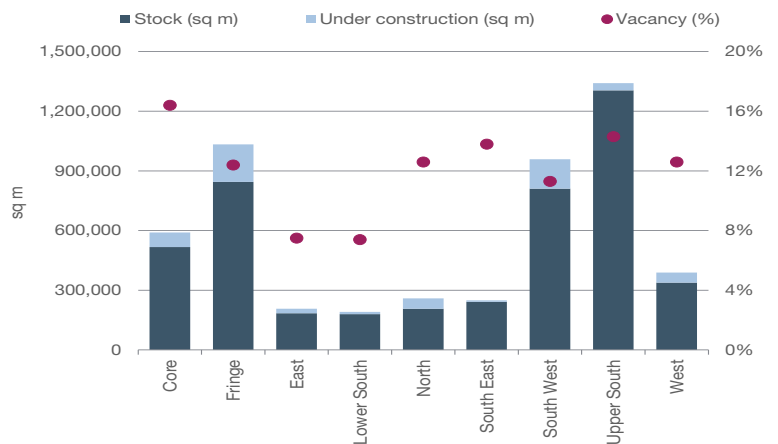
Out of non-central locations, the Al. Jerozolimskie and Zwirki i Wigury corridors are currently the most popular with over 45% share in non-central development activity. Development projects include the second phase of Business Garden, the first building in West Station and the

GRAPH 3 **Office space due in 2017 by zone**



Graph source: Savills

GRAPH 4 **Stock, vacancy and space under construction**



Graph source: Savills, Polish Office Research Forum

second phase in Eurocentrum Office Complex.

Letting activity

The volume of gross take-up recorded during the first three quarters of the year was at a record high level of 606,200 sq m; almost the same level as the full year's data in each of 2012, 2013 and 2014.

The volume of gross take-up which includes lease renewals and renegotiations (ca. 28% of total volume of let space in Q1-Q3 2015) is not the only indicator the occupier market is accelerating. The other is the net absorption of office space which is the measure of change in occupied space, which is expected to exceed its long term annual average of 188,700 sq m. Net absorption recorded in 2014 amounted to 177,100 sq m.

The expected increase in the level of absorption of office space is a result of tenants' expansions often linked with relocations, greater activity from the public sector, which is slowly but surely becoming an important player on the market, and a few newcomers who decided to open their first offices in Warsaw.

Vacancy rate

The vacancy rate in Warsaw, despite the volume of new supply, decreased by 90 bps year-on-year to 12.9%. Availability of office space was slightly below 600,000 sq m.

Rents

Despite the high volume of letting activity, net absorption of office space is still below its record levels observed in 2006-2008. The number of newcomers is limited and tenants seem to relocate from older buildings to new ones often located in a close distance. The above combined with developers activity both in terms of buildings under construction, with building permits, and on earlier stage of development, create a very competitive market.

The impact on headline rents is still, suprisingly, rather limited. However with all the incentives given to tenants during the negotiations process, effective rents are still 30% lower than headline.

Rents in the strict centre of the city (Core zone) range from EUR 16.00 per sq m/month in older buildings to 23.00 per sq m/month for the best landmark buildings.

In the most popular Non-Central locations, headline rents are up to EUR 14.00 per sq m/month.

Typical incentives include two month rent free for every year of the lease, and office fit-out, or, cash contribution. However, large office occupiers signing a pre-lease agreement or occupying space in a vacated building may be offered even greater incentives by the landlord such as a fully furnished office space.

Outlook

Office supply to exceed 6 million sq m in 2018

Over 591,000 sq m of office space is currently under construction Warsaw-wide. Additionally almost 320,000 sq m have building permits and 410,000 sq m are in the early stage of development but with date of completion planned no later than 2018.

Where the construction process started it is (almost) certain the building will be completed but what with all of the projects that are in earlier stage of development? Will developers wait for pre-lease agreements to be signed or build speculatively?

The number of agreements signed prior to the construction commencement is low - since the beginning of 2013 there were only 10 transactions of that type in the city. Office tenants seems to have more confidence in leasing the space in buildings that are actually under construction than in projects with building permits. With that in mind some developers start the construction process purely on a speculative basis, or with LOIs signed, and then negotiate the leases all the way to the occupancy permit.

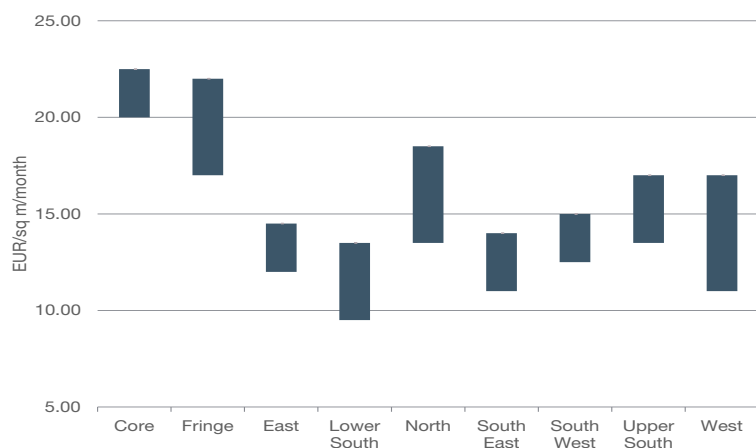
Developer's enthusiasm is supported by tenants activity at the high level of tenant activity, which stands at 600,000 sq m since 2012. We expect the total volume of gross take-up to reach 750,000 sq m in 2015.

The annual average net absorption of office space is almost 189,000 sq m for the period between 2000 and 2014 and this year's result is expected to exceed that. Despite the small decline in vacancy rates across the city, some projects will probably be postponed till 2018 or later.

The competition between developers and landlords is high, office tenants are now more demanding than they have even been before. It is a good time to either move to a new building as the offers are now very attractive, or renegotiate the current lease as landlords, being aware of the current market conditions, might be more keen to offer leasing terms at a very competitive level.

GRAPH 5

Prime headline rents by zone



Graph source: Savills

MAP 1 **Office zones in Warsaw**

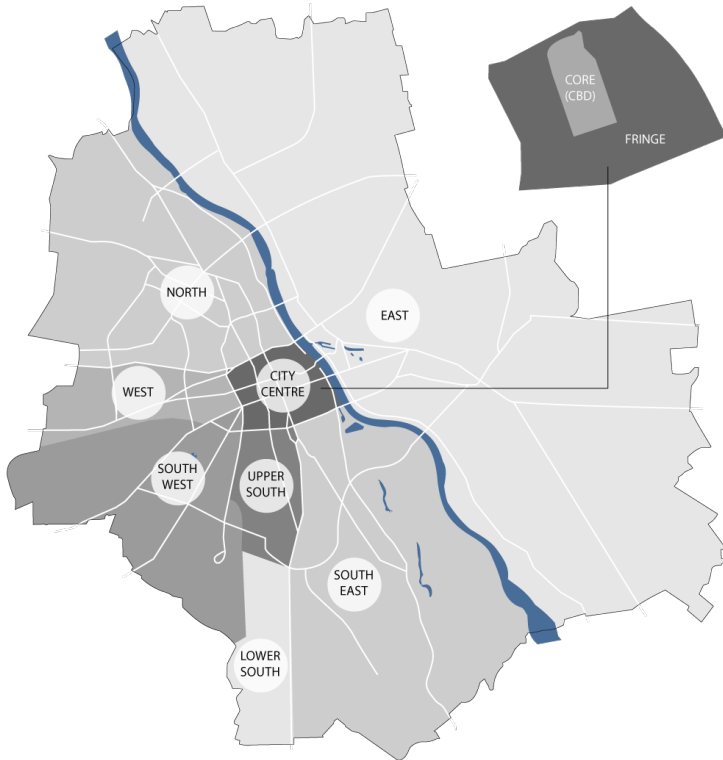


TABLE 2 **Key figures**

Population	(Dec 2014)	1,735,442
Unemployment	(Sept 2014)	3.8%
Average monthly salary	(Dec 2014)	PLN 5,386
No of students	(2014)	225,257
No of graduates	(2014)	63,884
No of business entities	(June 2015)	392,562
Office stock (Q3 2015)	City Centre	1,361,200 sq m
	Non Central	3,266,400 sq m
New supply (Q1-Q3 2015)	City Centre	32,000 sq m
	Non Central	206,400 sq m
Under construction (Q3 2015)	City Centre	262,500 sq m
	Non Central	328,600 sq m
Vacancy rate (Q3 2015)	City Centre	13.9%
	Non Central	12.5%
Letting activity (Q1-Q3 2015)	City Centre	161,900 sq m
	Non Central	450,400 sq m
Prime headline rents (Q3 2015)	City Centre	EUR 21.00-23.00 per sq m/month
	Non Central	EUR 13.50-14.00 per sq m/month

Office zones in Warsaw according to Polish Office Research Forum definition.

Table source: Savills, Central Statistical Office, Polish Office Research Forum

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