

Market in Minutes Warsaw offices

March 2016



Crzybowska Park
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SUMMARY

Overview

■ Supply of office space across the city stands at 4.66 million sq m of which 27% was developed in the last five years and another 30% is more than 15 years old.

■ Almost 690,000 sq m of office space is currently under construction, of which 468,000 sq m is expected to be delivered in 2016.

■ Total letting activity in 2015 reached a record high level of 832,000 sq m of which ca. 45% was concluded in buildings constructed in the last 7 years.

■ Lease renewals accounted for ca. 32% of total take-up whereas the volume of pre-leases totalled 124,400 sq m, up by 31% year on year.

■ Net absorption of 288,500 sq m reached the highest level ever recorded in Warsaw exceeding the volume of new supply for the first time in five years.

■ The vacancy rate decreased to 12.3%, which is 1 pp lower when compared with the 2014 year-end data.

■ Despite the record level of take-up

and net absorption exceeding new supply, the pressure on rents is still visible. However, as the tower buildings under construction are being successfully pre-let, the pressure on rents is expected to be muted in the next 12-24 months.

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 "Despite the record level of take-up and decrease in overall vacancy rate across the city, the upcoming year will be a challenge as another nearly 470,00 sq m of office space is soon to be delivered to the market"
 Dorota Ejsmont, Director, Savills Office Agency

➔ **Economy**

GDP growth in 2015 reached 3.6% when compared year-on-year. The economic growth is forecast to reach 3.7% in 2016 and speed up to 3.8% in 2017.

2015s annual inflation was negative at -0.9%, however, in 2016 the consumer price index is expected to reach 1.4% and 2.0% in 2017.

According to the International Labour Office definition, the unemployment rate in Poland was 7.1%, lower than the European Union and Eurozone averages of 9.0% and 10.4% respectively. The rate is expected to decrease further to 6.7% in 2016 and 6.5% in 2017.

The average monthly salary in the enterprise sector (excluding public sector) increased by 3.5% to PLN 4,120 gross in 2015.

Warsaw - a non-business angle of the city

In the latest "Social Diagnosis 2015", which is a diagnosis of the conditions and quality of life of the Poles as they report it, Warsaw ranked 6th amongst the most favourable cities to live in. The share of satisfied inhabitants of Warsaw has increased from slightly over 61% in 2013 to almost 68% in 2015.

Warsaw is perceived as a good place to live, not only thanks to its economy (low unemployment, higher level of average monthly salary etc.), but also

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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

thanks to the lifestyle that can be led here. There are over 50 theatres and concert halls and 27 cinemas in Warsaw and the city's cultural offer includes ca. 1,000 events organised every month. With 76 parks, 51 swimming pools, 150 outdoor gyms and 200 running events per year, the city's offer for active lifestyle is also rich.

Current & future supply

Due to a few delays in obtaining occupancy permits, the volume of new supply in 2015 was slightly lower at 277,600 sq m that was anticipated at the beginning of the year. With 23 new office buildings, supply of office space stands at 4.66 million sq m.

The coming year will be a record one in terms of new supply with ca. 468,000 sq m of office space distributed among 33 buildings planned to be delivered to the market.

New supply will be distributed almost 50/50 between the City Centre and Non-Central locations. The South West zone will be the leader in terms of volume of new supply (93,500 sq m) amongst Non-Central hubs leaving Upper South far behind with only 20,000 sq m.

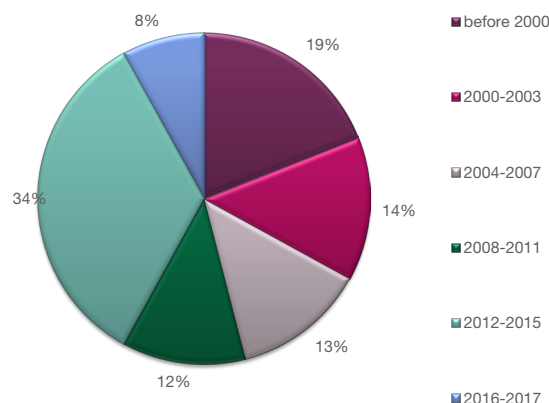
Approximately 690,000 sq m of office space is under construction across the city with focus on the City Centre and part of West zone by the Daszynskiego Roundabout. Over 32% of the space under construction is located in four projects: Warsaw Spire (the tower building), West Station (both buildings) Q22 and Gdansk Business Center II (buildings C and D).

Developers are not slowing down their activity and a number of them, including Ghelamco, Karimpol, Golub GetHouse with Mennica Polska, S+B with Commerz Real, announced plans to commence the construction of their projects: Sienna Towers, Skyliner, Mennica Legacy Tower and J44 with a total combined office area of over 225,000 sq m. Assuming all developers' plans will be achieved, we might see a minimum of one million sq m of office space delivered to the market between 2017 and 2019.

Letting activity

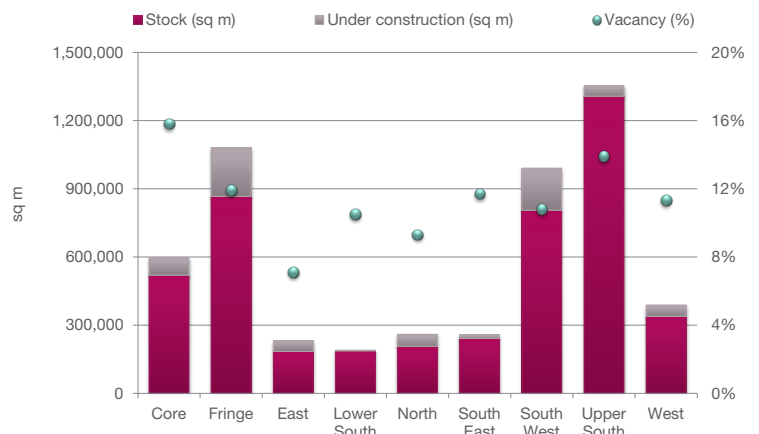
2015 was a record breaking year with over 832,000 sq m of office space let. 32% of the activity were lease renewals and renegotiations. The share of lease renewals is on par with the 2010-2014 average. Pre-leases accounted for almost 15% of total

GRAPH 1 **Take-up by age of building**



Graph source: Savills

GRAPH 2 **Stock, vacancy and space under construction**



Graph source: Savills, Polish Office Research Forum

take-up or 124,400 sq m.

Buildings dated 2012-2015 were the most popular amongst tenants with a share of over a third of the total volume of take-up, whereas the most popular size of transaction were those of up to 300 sq m, followed by those of between 1,000 and 3,000 sq m.

The biggest transactions included Samsung pre-lease in Warsaw Spire (21,100 sq m), PZU relocation to Konstruktorska Business Center (17,500 sq m) and mBank lease renewal in Palac Jablonowskich (17,500 sq m).

Net absorption & vacancy rate

After a few sluggish years, the level of net absorption has outpaced the volume of new supply and reached 288,500 sq m. The volume is not only almost double the average volume of net absorption seen between 2009 and 2014, but also the highest volume

recorded in Warsaw in the last 15 years.

Due to very high volume of both take-up and net absorption, vacancy rate decreased by 1 pp to 12.3% when compared with the 2014 year-end data. The drop was seen in majority of office hubs apart from Upper South and Lower South.

Out of 597,700 sq m of available office space, 43% was located in A-class office buildings, thus the vacancy rate in A-class office buildings was only slightly lower (12.1%) than the B-class (12.4%).

21% of total vacant space was available in the newest buildings build in the last two years, and amongst those 28% is located in the Upper South zone.

Rents

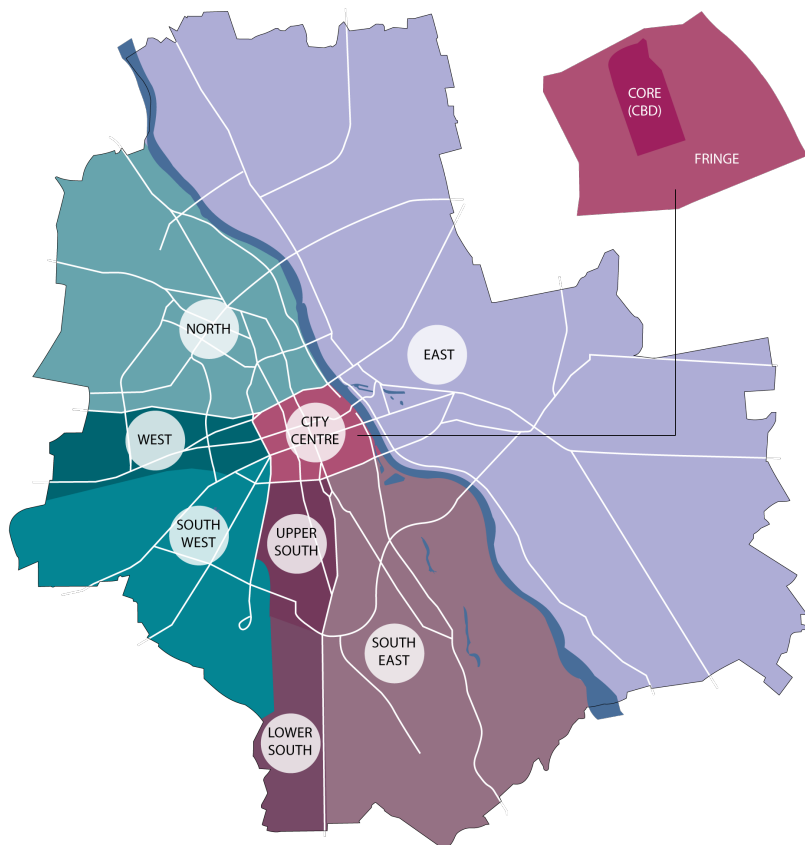
The market remains very competitive, but landlords prefer to play not only with rents but even more so with incentives offered to tenants which include fit-out or cash contribution, fully furnished offices and rent rebates.

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. As the number of high-rise office buildings both under construction and in the pipeline is high, the highest headline rents may reach EUR 25.00 - 26.00 per sq m/month for top floors with the best view of Warsaw. This is a unique offering and deserves a premium in every market.

In the most popular Non-Central locations, headline rents are not exceeding EUR 14.00 per sq m/month, however, in less attractive locations or older buildings, rents can fall below EUR 10.00 per sq m/month. ■

MAP 1

Office zones in Warsaw



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

Outlook

Skyscrapers will dominate Warsaw's skyline

Warsaw Spire, Q22, CBD One, Generation Park, Sienna Towers, Skyliner, J44 and Mennica Legacy Tower are some of the high-rise buildings which will be developed in Warsaw in the next few years.

The newest office tower (excluding redeveloped Spektrum) was built in early 2006 (Rondo 1) and since then, a few smaller projects have been completed, however, their impact on the city's skyline has been limited.

High-rise buildings are becoming the jewel in the crown for developers who are active in Poland.

The area of Daszynskiego Roundabout is attracting most of the developer activity when tower buildings are considered. Only a few buildings are under construction in the City Centre meaning the neighbourhood of the Palace of Culture and Science which is still the highest building in Poland.

In the upcoming years, the interest may be once again shifted towards the centre of Warsaw, as the construction of CBD One, J44, BBI Development project, Griffin Real Estate's Emilka and HB Reavis office development will start.

KEY INFORMATION

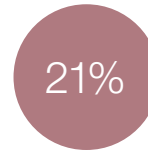
DEMOGRAPHICS



POPULATION IN THE AGGLOMERATION
3.1M
(8% national population)



% WORKING POPULATION
64%



POPULATION AGED BELOW 20 YEARS OLD

FUTURE TALENTS



HIGHER EDUCATION INSTITUTIONS
78



STUDENTS IN HIGHER EDUCATION
236,276



INTERNATIONAL STUDENTS
5.8%

WORKING LIFE



WORKING HOURS PER WEEK
40



NUMBER OF HOLIDAYS PER YEAR
26



AVERAGE MONTHLY SALARY
PLN **5,604**

OFFICE



OFFICE DENSITY
1,500
office sq m/1,000 people



OFFICE AREA PER EMPLOYEE
10 SQ M
(SAVILLS)



SHARE OF NEW OFFICES (LESS THAN FIVE YEARS)
27%
(SAVILLS)

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