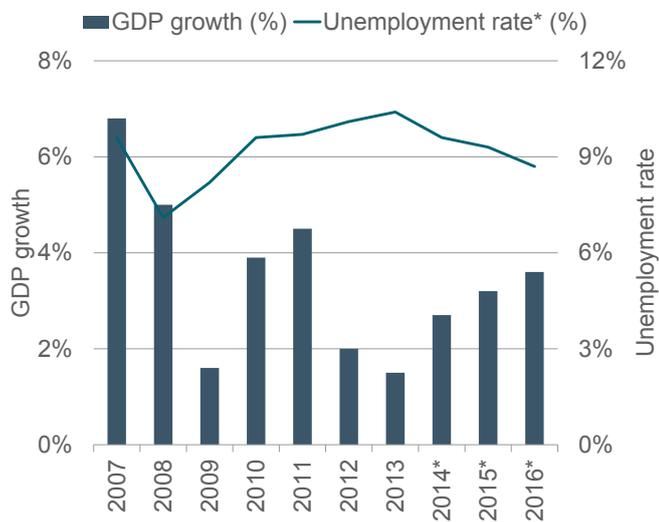


Market in Minutes Warsaw offices

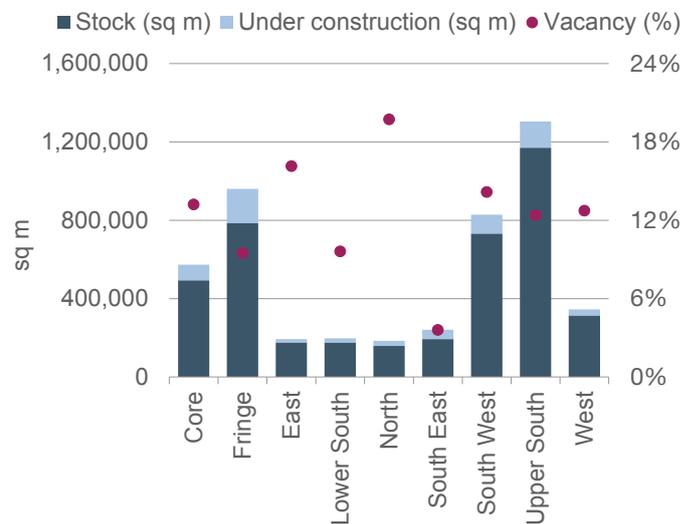
May 2014

GRAPH 1
GDP growth and unemployment in Poland



Graph source: Oxford Economics *ILO unemployment rate

GRAPH 2
New supply, net absorption and vacancy rate



Graph source: Savills

SUMMARY

Overview

- Warsaw's office stock exceeded 4.2 million sq m at the end of March 2014.
- Ten office buildings of 84,300 sq m were delivered to the market during the first three months of the year.
- Over 0.5 million sq m of office space remains vacant.
- Vacancy rate of 12.2% is the highest rate recorded in the city in the last ten years.
- Approximately 627,000 sq m of office space is under construction Warsaw wide.
- Almost 80% of the constructed space is still vacant.
- Prime rents stabilised at €22.00 – 23.00 per sq m/month in the Core City Centre and at €14.50 – €15.00 per sq m/month in Mokotow, but the level of rents is expected to be pushed downwards as vacancy increases across Warsaw.

.....
 “Expected increase in vacancy rate will put downwards pressure on rents, especially in the City Centre”

 Tomasz Buras, Savills Office Agency

→ **Economy**

Last year's results showed that the Polish economy grew by 1.5% which ranked Poland fifth among 28 European Union countries, falling behind Latvia, Lithuania, Malta and United Kingdom. The average GDP growth in the EU-28 was 0.1%, whereas in the Eurozone was negative at -0.4%. Oxford Economics expect GDP growth to pick up gradually this year with full-year growth of 2.9% and above 3% in the three following years.

Annual inflation in Poland was only 0.9% in 2013 which was the lowest rate recorded since 2003. In 2014 the rate is estimated to reach 1.6% and from the next year to stabilise at 2.5%-2.6%.

In April 2014 the Monetary Policy Council maintained the main reference rate at the low level of 2.50% which shall be effective until July 2014 but is expected to be maintained until the end of the year.

In February 2014 unemployment rate based on International Labour Office (ILO) definition in Poland was 9.7% down by 1.0% when compared year-on-year. The rate shall decrease slightly to 9.6% by 2014-year end and again to 9.3% in 2015 according to Oxford Economics. Stabilization at 8.1% - 8.2% from 2017 is expected.

Average monthly salary in the national economy was PLN 3,650 reflecting a growth of 3.6% compared with 2012. The National Bank of Poland projects further growth in salaries at an average

“Penta Investments, Vicar, Wisner Enterprise and Bouygues Immobilier are some of the investors with new speculative office developments in the city which prove Warsaw’s attractiveness”.

Tomasz Buras, Savills Office Agency

pace of 5.1% per annum in the next three years.

Development activity

Total stock of modern office space in Warsaw amounts to ca. 4.2 million sq m in including ten new buildings completed during the first three months of 2014. New supply in the first quarter of the year reached 84,300 sq m, ca. 25% of total new supply expected this year.

Approximately 38% of the first quarter's new supply was completed in five buildings in the City Centre. Another seven buildings with a total office area of 79,500 sq m, including the redevelopment of Spektrum Tower, will be completed in the remaining part of the year.

Unlike in previous years the area of Mokotów (Upper South zone) will experience very limited volume of new supply this year with only 27,700 sq m of new space of which 17,900 sq m has been already completed in the first quarter.

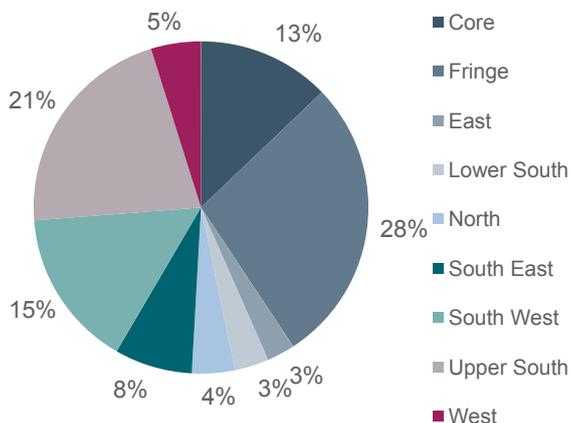
On the other hand the area of Al. Jerozolimskie and Al. Zwirki i Wigury

(South West zone) is gaining its momentum this year with over 96,000 sq m of new supply expected in 2014 (of which 19,700 sq m completed in Q1 2014).

Development activity is high with almost 627,000 sq m of office space under construction across the city and additional 200,000 sq m with building permits in place. New supply in 2014-2016 may exceed 1.2 million sq m if all developers' plans are fulfilled, however, based on the building and letting status we expect that new supply will not surpass 826,000 sq m of office space by 2016.

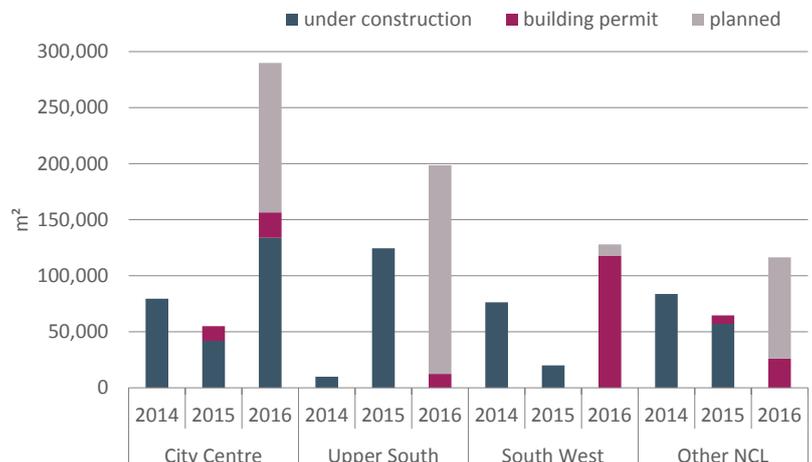
Warsaw is still perceived as an attractive location by new developers. Recently Penta Investment bought a site at 48 Domaniewska St. where a building of ca. 25,000 sq m of office space is planned; Wisner Investments plan to build their first project in Warsaw at 43 Grzybowska St; Vicar is preparing their first speculative development at Bobrowiecka St as well as Bouygues Immobilier plans the first speculative office development at 120 Włodarzewska St (WP 120).

GRAPH 3 **Under construction by zone**



Graph source: Savills

GRAPH 4 **New supply by status**



Graph source: Savills

Letting activity

During the first quarter of 2014 letting activity reached 136,400 sq m which is approximately 12% lower than the result from corresponding period last year and ca. 22% of 2013s take-up.

Over 31% of the activity was recorded in the City Centre whereas Upper South accounted for another 37% of total take-up. The biggest transactions were Netia's lease extension at Marynarska Business Park (13,200 sq m) in Sluzewiec and new head quarter for Polska Spolka Gazownictwa at Powisle Park (6,800 sq m) in the Fringe zone.

Net absorption of office space during the first three months of the year reached 55,100 sq m mostly due to a high volume of new supply. Net absorption across the city was ca. 16% higher than the quarterly average since the beginning of 2005.

Net absorption in the City Centre of 24,200 sq m was approximately double the average quarterly volume of net absorption since Q1 2005 whereas in all Non-Central locations it was almost 13% lower than the average and reached 30,900 sq m.

.....
 "Taking into account the number of ongoing transactions, including some consolidations, total letting activity in 2014 may reach 600,000 sq m. "

Dorota Ejsmont, Savills Office Agency

Lease extensions and renegotiations accounted for 37% of total volume of take-up in Q1 2014 which was higher than the annual average of 24% observed between 2007 and 2013. Pre-leases made up only 9% of total letting activity.

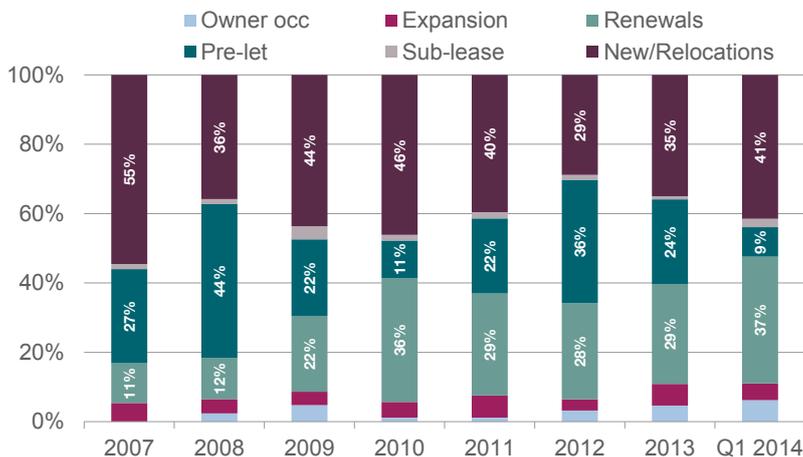
Despite relatively low take-up in Q1 2014 we expect the total volume of letting activity in 2014 to reach 600,000 sq m resulting from a number of consolidations that should finalize by year end.

Availability

Availability of office space exceeded 0.5 million sq m of office space which accounted for 12.2% of office space in Warsaw. Vacancy rate increased by 2.3 pp year-on-year and 0.5 pp quarter-on-quarter and was the highest level recorded in Warsaw in the last ten years.

The rate increased in majority of zones apart from only two: South East (Wilanow and Sadyba) and Lower South (the area of ul. Pulawska) when compared to corresponding period last

GRAPH 5
Letting activity by type



Graph source: Savills

Occupier trends

Warsaw vs. Europe

Unlike in most European countries total office take-up in Warsaw exceeded pre-crisis level already in 2010 and since then has been maintaining a rising trend.

Large requirements have been a characteristic of most of the European markets during the crisis underpinned by corporate consolidation needs. In major European office markets this trend was particularly visible in 2007-2010, when the share of large deals (above 1,000 sq m) in the total take-up increased from 22% to 26%. Although this share was back to pre-crisis level at the end of 2013, it resulted mainly from scarcity of suitable office space, as development activity was strongly stifled.

In Warsaw development activity started to rise in 2010 which allowed the process of consolidations to be continued. Thus in 2011-2013 the share of the largest deals (above 4,000 sq m) increased by over 40%. It is expected that the share of large-scale requirements will be maintained this year.

In a tenant's market occupiers have become more selective as well as more cost conscious in their property choices across all European markets. This trend is also clearly visible in Warsaw, where the take-up is significantly growing in such districts as Wola (West zone) or Zoliborz (North zone), which benefit from a vicinity and good accessibility to the City Centre offering much lower occupancy cost at the same time.

TABLE 1
Largest office projects

Project	Developer	Size (sq m)	Date
Eurocentrum β & γ	Capital Park	40,000	Q2 14
Gdanski Business Center I (bldg A)	HB Reavis	29,700	Q2 14
Karolkowa Business Park	Ablon Group	14,700	Q2 14
Park Rozwoju I	Echo Investment	17,000	Q1 14
Plac Malachowskiego	Kulczyk Silverstein Properties	12,500	Q3 14
Spektrum Tower	Europa Capital	28,000	Q2 14
Warsaw Spire (bldg I)	Ghelamco	20,000	Q4 14
Prime Corp. Center	Golub GetHouse	21,000	Q4 15
Royal Wilanów	Capital Park	27,900	Q4 15

Graph source: Savills

→ year. The highest vacancy of 16.2% was in the East zone (right bank of the Vistula River whereas the lowest in the South East zone (3.6%).

Total 2014s net absorption is expected to reach slightly above 200,000 sq m, which will cause vacancy to increase close to 14%. Another vacancy rise to ca. 14.5% is forecasted in the following year based on net absorption of 194,000 sq m outpaced by new supply of 264,000 sq m.

Rents

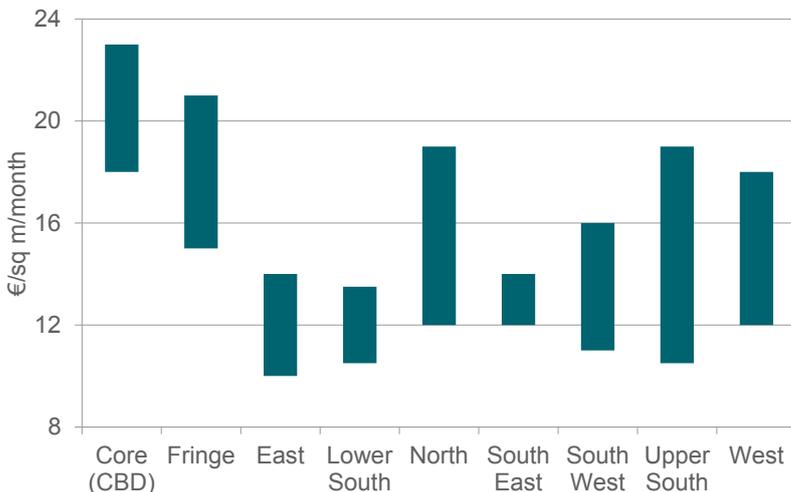
Prime rents have stabilized at €22.00-23.00 per sq m/month in the core

City Centre and at €14.50-15.00 per sq m/month in the area of Służewiec Przemysłowy in the Upper South. Rents in the best buildings located on the borders of City Centre and Mokotów, Zoliborz (North zone) and Wola (West zone) are higher, often at similar level to those located in the City Centre.

Typical rent rebates are between one and two months for each year of lease and in addition tenants are often offered with fit-out budgets of even up to €200 per sq m which results in attractive deals for tenants. ■

GRAPH 5

Headline and effective rents



Graph source: Savills

TABLE 2

Key figures

Population	(Dec 2012)	1,715,517
Unemployment	(Mar 2014)	4.8%
Average salary	(Feb 2014)	PLN 5,081
No of students	(2012)	268,555
No of graduates	(2012)	69,272
No of business entities	(Dec 2013)	371,476
International Airport	Warsaw Chopin Airport	
No. of passangers	2013 (y-o-y change)	10,683,706 (+11.4%)
Office stock	City Centre	1,278,700 sq m
	Non Central	2,921,700 sq m
Under construction	City Centre	255,200 sq m
	Non Central	371,500 sq m
Vacant space	City Centre	139,800 sq m
	Non Central	372,600 sq m
Vacancy rate	City Centre	10.9%
	Non Central	12.8%
Letting activity (Q1 2014)	City Centre	42,500 sq m
	Non Central	94,000 sq m
Prime headline rents	City Centre	€22.00-23.00 per sq m/month
	Non Central	€14.50-15.00 per sq m/month
Service charges	City Centre	PLN 20.00-25.00 per sq m/month
	Non Central	PLN 16.00-20.00 per sq m/month

Graph source: Savills

Savills contacts

Please contact us for further information



Brian Burgess
Managing Director
+48 (0) 22 222 4004
bburgess@savills.pl



Tomasz Buras
Director, Office Agency
+48 (0) 22 222 4020
tburas@savills.pl



Dorota Ejsmont
Associate Director,
Office Agency
+48 (0) 22 222 4056
dejsmont@savills.pl



Wioleta Wojtczak
Senior Consultant,
Research
+48 (0) 22 222 4038
wwojtczak@savills.pl



Michal Stepień
Senior Consultant,
Research
+48 (0) 22 222 4039
mstepien@savills.pl

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.