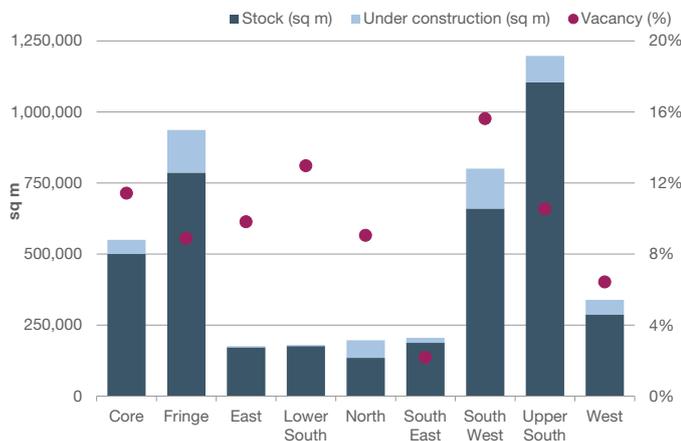


Market in Minutes Warsaw office market

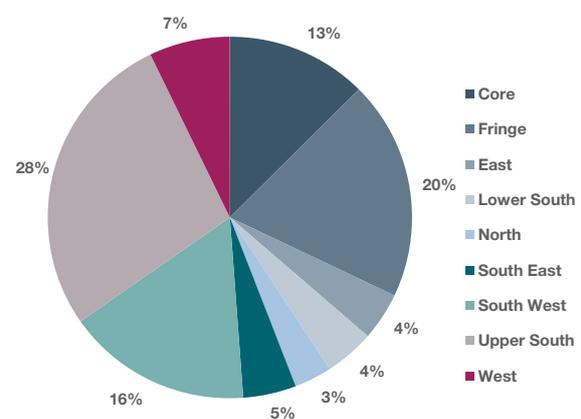
August 2013

GRAPH 1
Stock, developments and vacancy rate



Graph source: Savills

GRAPH 2
Office stock by zone



Graph source: Savills

SUMMARY

Overview

- Total modern office stock in Warsaw exceeded 4 million sq m in Q2 2013.
- Nine office buildings of 152,500 sq m completed in H1 2013.
- Another 13 buildings totalling 154,400 sq m are expected to be completed by the end of the year.
- Over 569,000 sq m of office space is under construction across the city.
- West and South East zone are gaining popularity amongst tenants as development activity increases in those areas.
- Vacancy rate increased by 310 bps to 10.5% year on year across Warsaw.
- Approx. 333,900 sq m of total volume of letting activity was achieved in the first half of 2013 compared to 298,000 sq m in H1 2012.
- Prime headline rents in the City Centre are at €22.00–23.00 per sq m/month and in Mokotów at €14.00–14.75 per sq m/month, ca. 5% lower than a year ago.

“Now is a good time for tenants to relocate or to renegotiate current leases as they can expect lower rents and attractive packages of incentives offered by landlords, especially in buildings under development.”

Tomasz Buras, Savills Office Agency

➔ **Economy**

Last year's GDP growth at 1.9% made Poland one of a few European economies with positive economic growth with averages in the Eurozone and EU-27 in 2012 negative at -0.4% and -0.6% respectively. The second quarter of 2013 ended with a 0.8% growth and it is expected that full-years data will show 0.9-1.2% of growth this year accelerating to 2.5% the following year. Oxford Economics' forecasts for the EU-27 show a negative growth this year at -0.2% followed by a positive growth on 2014 at 1.2% whereas in Eurozone it is -0.7% and 0.9% respectively. A strong financial support from the European Union will remain an important factor for Polish economic growth. At the beginning of 2013 a budget for 2014-2020 was approved in Brussels setting the funds allocation for Poland at EUR 105.8bn compared with almost EUR 68bn granted for 2007-2013.

General Overview

Thanks to approximately 152,500 sq m of new supply total office stock in Warsaw exceeded 4 million sq m. 61% of the stock is located in only three zones: the two central ones (Core and Fringe) and the biggest non-central zone which is Upper South.

Developer activity remains very high with close to 468,000 sq m of new office space to be completed within the next 18 months causing the availability of office space to increase. Some non-central zones (e.g. West, South East and North) are expected to

.....
 "Warsaw office market is changing from a relatively balanced one to a tenants' favoured."

 Tomasz Buras, Savills Office Agency

benefit and gain in popularity amongst office tenants.

Apart from a high volume of new buildings a few of older ones will undergo massive redevelopment and refurbishment in the next 18 months or so (e.g. Spektrum Tower, Holland Park) or even be demolished (e.g. Ilmet).

As availability of office space increases prime rents are decreasing and incentive packages for tenants growing further.

New Supply

As said above total office stock in Warsaw grew by 152,500 sq m located in nine office buildings of which only one, Plac Bankowy 1 (3,700 sq m), is located in the City Centre. Four buildings totalling 107,600 sq m were completed in the Upper South, where total stock is now over 1.1 million sq m or 28% of Warsaw's total.

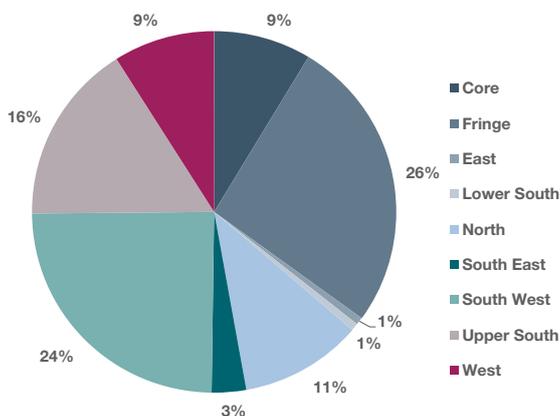
The two biggest buildings completed during the first six months of the year were Konstruktorska Business Center by HB Reavis (48,000 sq m) and Marynarska 12 by Ghelamco (40,000 sq m) both located in Stuzewiec Przemysłowy (Upper South zone).

Another 154,400 sq m of office space is expected to be delivered during the second half of the year.

The majority of space in the largest developments due in H2 2013 is already committed. Bouygues Immobilier and Qatar Holding's 43,700 sq m Miasteczko Orange in the South West sector will be the new headquarters for Orange. BBI Development and Liebrecht&Wood's 41,300 sq m Plac Unii in Mokotów is 50% let to ING Group and Dalkia Also 27,600 sq m Wola Center in the West zone is 90% let to companies from LC Corp Group (also the developer), Wolters Kluwer, TPA Horwath and some smaller tenants.

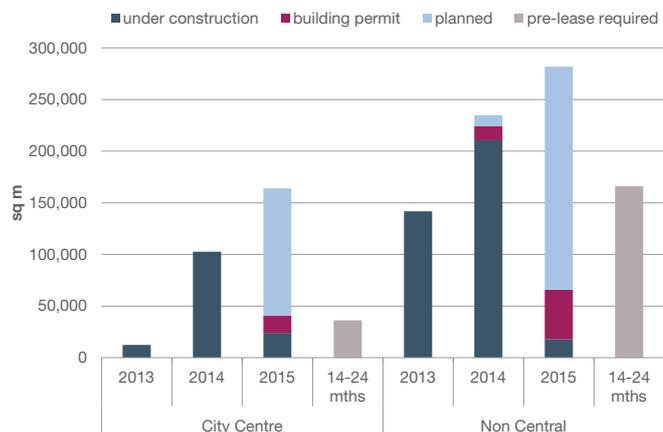
As Orange Group is moving out from Twarda 18 and ING Group from Holland Park both properties will be refurbished and partly rebuilt to increase the effectiveness of the space and re-launched to the market. Another major redevelopment will take place at Ochota Office Park, the former head quarters of T-mobile (relocated to Marynarska 12), which was recently bought by Adgar Development & Investment.

GRAPH 3 **Under construction by zone**



Graph source: Savills

GRAPH 4 **New supply by status**



Graph source: Savills

In 2014 the office stock in the city will decrease as Ilmet at Rondo ONZ will be demolished. UBS, the owner of the building, plans to build an office tower on the site but construction is dependent on prelets. Some 313,000 sq m is under construction for delivery in 2014. A further 200,000 sq m of potential supply is held back pending prelets.

Availability

Availability of office space across Warsaw was 421,000 sq m or 10.5% of total stock at the end of Q2 2013, increase of 3.1pp when compared year-on-year. Ca. 50% of total vacancy

Demand

Letting activity during the first half of 2013 was 333,900 sq m which is 12% higher when compared with the corresponding period last year. Lease renewals accounted for 31% of total letting activity in the city whereas 16% of the volume of take-up was in the form of pre-lets. Again the Upper South zone was one of the most active locations for tenants with 109,200 sq m of office space let during the first half of the year whereas South West was the second busiest location with 83,800 sq m of space let. Gross take-up in the City Centre was 77,400 sq m. Some of the

“Letting activity in H1 2013 amounted to 333,900 sq m and may exceed 600,000 sq m by the end of the year.”

Tomasz Buras, Savills Office Agency

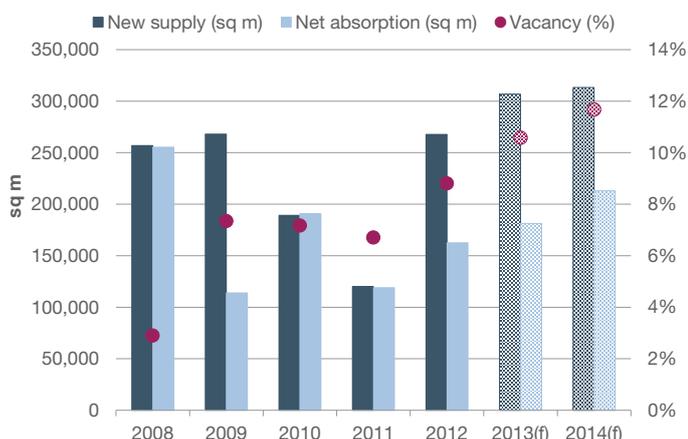
is located in only two zones: Upper South (Mokotów) and South West (Al. Jerozolimskie and ul. Zwirki i Wigury). Within two central zones 127,000 sq m of office space was available representing 9.9% of total stock in those zones. Vacancy across all Non-Central zones was 10.8%.

Approximately 27% of total vacant space in Warsaw was located in buildings completed in 2012 and during the first half of 2013.

biggest transactions were the lease of 13,000 sq m at Ochota Office Park to the Office for Registration of Medicinal Products, Medical Devices and Biocidal Products and BNP Paribas lease renewal of 11,000 sq m at Trinity Park.

Net absorption was, however, much lower than gross take-up during the first half of the year reaching 70,900 sq m.

GRAPH 5 **New supply, net absorption and vacancy**



Graph source: Savills

Development pipeline

Nearly one million sq m of new office floorspace is to be completed in Warsaw by the end of 2015.

■ Over 569,000 sq m of new office space is currently under construction in Warsaw. Additionally, ca. 373,000 sq m of offices remain at the planning stage. If completed, the stock of modern offices in Warsaw would increase by almost one million sq m by the end of 2015.

■ About one quarter of the development pipeline is located within the Fringe City Centre. The largest development is Warsaw Spire, an office complex of three buildings including a 220m high tower with a total office floorspace of ca. 100,000 sq m being developed by Ghelamco, located in the Fringe of City Centre, at Towarowa St.

■ The largest developments outside the City Centre are HB Reavis project at Inflancka St. (49,000 sq m of offices), Orange HQ at Jerozolimskie Ave. (43,700 sq m of offices), BBI Development NFI and Liebrecht & Wood at Puławska St. (41,300 sq m of offices), Capital Park at Jerozolimskie Ave. (40,000 sq m of offices).

■ In addition ca. 200,000 sq m of office space is on hold pending prelets.

■ Development activity is expected to slow down in 2015 and later as vacancy increases.

TABLE 1 **Largest office projects**

Project	Developer	Size (sq m)	Date
Atrium One	Skanska	16,300	Q1 14
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	Q2 14
Plac Małachowskiego	Kulczyk Silverstein Properties	12,500	Q3 14
Prime Corp. Center	Golub GetHouse	21,000	2015
Royal Wilanów	Capital Park	27,900	Q4 15
Spektrum Tower	Europa Capital	28,000	Q2 14
Warsaw Spire (bldg I)	Ghelamco	20,000	Q4 14

Graph source: Savills

→ The annual net absorption average between 2001 and 2012 was 193,700 sq m with a high 266,200 sq m in 2007 and a low of 114,000 sq m in 2009. We expect net absorption to reach ca. 180,000 sq m in 2013, which should cause vacancy to rise slightly more to 10.6%. In the following year vacancy is expected to increase further to 11.7% on the basis of 313,000 sq m of new supply and net absorption at ca 213,000 sq m.

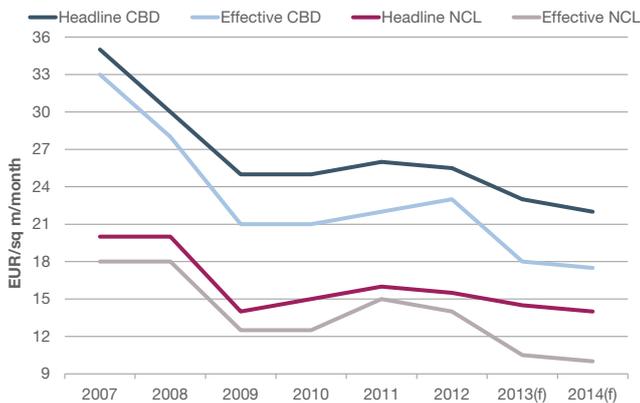
Rents

Prime headline rents range between €22.00–23.00 per sq m/month and €14.00–14.75 per sq m/month in

Mokotów. Prime rents have declined by approximately 5% in the last twelve months but we expect them to stabilize around their current level during the next year. As new supply is high this year, the office market in Warsaw has changed into a tenants one. Developers are accepting tenant requirements, needs and whims and we expect this to continue to be the case next year as well. The gap between headline and effective rents is wider than a year ago and the difference can go even up to 20%. ■

GRAPH 5

Headline and effective rents



Graph source: Savills

OUTLOOK

Development activity rising

■ Total office stock is expected to exceed 4,475,000 sq m by the end of 2014 as a result of an active development market, particularly in non-central locations and the Fringe of City Centre.

■ Up to 1.1m sq m will be completed by 2015 year end according to developers' plans. Ca. 52% of this is under construction, while the remaining is at planning stage or will commence subject to prelet.

■ Tenant activity is expected to be shifted to the West of the City Centre due to cost savings & the construction of the 2nd underground line.

■ Vacancy rate is expected to rise to about 12% at year end, while we forecast availability to further increase the following years as development completions will continue to exceed significantly net absorption levels.

■ Gross annual take-up is expected to reach 600,000 sq m in 2013 similarly to 2012 level. About one third of this is likely to continue to come from lease renewals.

■ Following a slight decline over the last year, prime headline rents are expected to stabilize around current level by year end and during 2014.

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