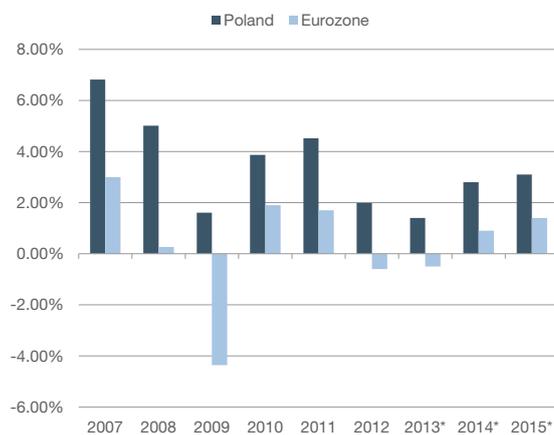


Market in Minutes Warsaw office market

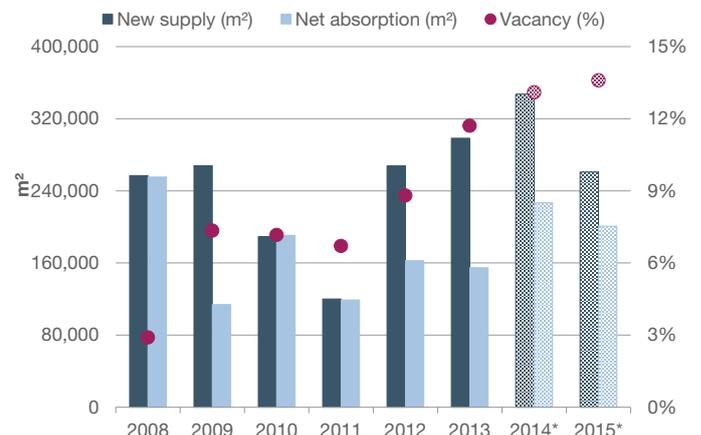
February 2014

GRAPH 1
GDP growth in Poland and Eurozone



Graph source: Savills

GRAPH 2
New supply, net absorption and vacancy rate



Graph source: Savills

SUMMARY

Overview

- Warsaw's office stock passed 4.1 million sq m at the end of 2013 and may reach 5.0 million sq m by the end of 2016.
- 18 office buildings were completed in 2013 adding 298,400 sq m.
- This year new supply is expected to reach 350,000 sq m from 33 office projects.
- City Centre development will account for over 120,000 sq m.
- Almost 643,000 sq m of new office space is under construction.
- Letting activity in 2013 was at record high level of 632,500 sq m (ca. 5% growth year-on-year) representing 15% of the total stock.
- Net absorption, however, was only 155,000 sq m with a negative figure of -9,000 sq m in the City Centre.
- City wide vacancy is 11.7%, reflecting a growth of 300 bps compared to the year before.
- Prime headline rents in the City Centre are € 22.00 – 23.00 per sq m/month and EUR 14.00 – 14.75 per sq m/month in Mokotów.

.....
 “Development activity is rising, in the City Centre in particular. New supply will continue to outpace absorption, resulting in a further increase in vacancy rate in Warsaw.”

 Tomasz Buras, Savills Office Agency

➔ **Economy**

During the third quarter of 2013 the Polish economy grew by 1.9% y-o-y, according to the Central Statistical Office. Oxford Economics estimates the full year growth at 1.4% and expects acceleration to 2.8% in 2014 and 3.1% in 2015.

Strong financial support from the European Union will remain an important factor of economic growth. In late 2013 a budget for 2014-2020 was approved in Brussels allocating EUR 105.8 billion to Poland making it the main beneficiary of European funds.

In January 2014 the Monetary Policy Council maintained the main reference rate at the record low level of 2.50%, agreed in mid-2013. Economists expect this level to remain unchanged for the next six months.

In December 2013 the average salary in the enterprise sector was PLN 4,221 reflecting approximately 3% growth year-on-year. The National Bank of Poland projects further growth in salaries of 3.9% and 4.6% in 2014 and 2015 respectively. Unemployment decreased slightly in November 2013 to 13.2% compared to 13.4% in December 2012.

Supply

The end-year results show that in 2013 office stock increased by 298,400 sq m, as a result of completion of 18 office buildings, four of which accounted for over 58% of the new supply. In the City

“Taking into account developers plans, the office stock may exceed five million sq m by the end of 2016.”

Dorota Ejsmont, Savills Office Agency

Centre new office supply was below 10,000 sq m from three buildings: Chmielna 25 by LHI (4,300 m²); Plac Bankowy 1 by a private investor (3,700 m²) and Mała Pasta/Piekna 19 (1,900 sq m). New supply in the City Centre was the lowest for the last 13 years, however, in 2014 new supply in the centre of Warsaw will be 120,200 sq m from 13 buildings. This includes Spektrum Tower and Moniuszki 1A which are both undergoing significant refurbishment and will be re-launched to the market mid-year.

Almost 51% of total 2013 supply (six buildings) was delivered in the area of Mokotów and Służewiec (Upper South zone). Over 126,600 sq m of new space in Mokotów was delivered within three projects: Konstruktorska Business Center by HB Reavis (48,300 sq m); Plac Unii by Liebrecht&Wood and BBI Development and Marynarska 12 by Ghelamco (40,000 sq m). In 2014 new supply in the Upper South will be only 28,700 sq m – the lowest since 2004.

Development activity is also high in the South West zone, where over 95,000 sq m of office space is due in 2014 increasing the zone's share in

Warsaw's stock to 18%.

Almost 643,000 sq m of space is under construction across Warsaw with an additional 242,800 sq m with building permits in place and due by the end 2016. A further 400,000 m² of office space scheduled for completion by the end of 2016 is still at the planning stage.

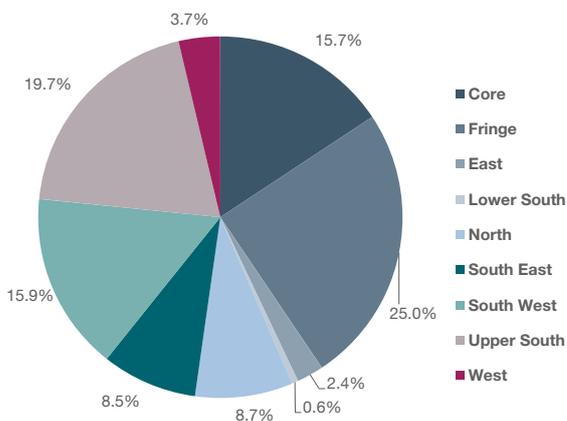
Ghelamco with Warsaw Spire, Echo Investment with Park Rozwoju and Q22, HB Reavis with Gdanski Business Center and Postepu 4 and Capital Park with Royal Wilanów and Eurocentrum account for over 53% of office space under construction in Warsaw.

Taking into account all the new supply planned to be completed in the next few years Warsaw's office stock may exceed five million sq m by the end of 2016.

Demand

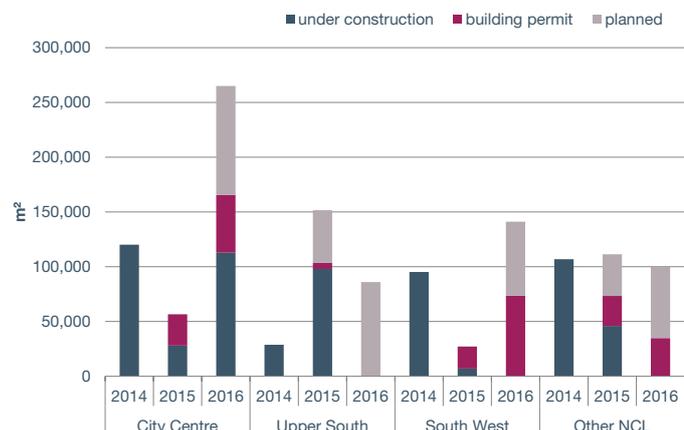
2013 letting activity reached 632,500 sq m which is 5% higher than in 2012. Approximately 34% of letting activity took place in the Upper South zone whereas the volume in Core and Fringe zones accounted for 21% of

GRAPH 3 **Under construction by zone**



Graph source: Savills

GRAPH 4 **New supply by status**



Graph source: Savills

total take-up.

The share of renewals and renegotiations was 29% of total letting activity which is almost the same as during the previous 24 months. New lettings and relocations made up 35% of total take-up and pre-lets 24%.

Office units of up to 500 sq m were most in demand in 2013, the same as in 2011 and 2012 accounting for approximately 50% of analysed lettings (1,400 lettings concluded between 2011 and 2013 totalling to 1.6 million sq m).

rate is a consequence of new supply highly outpacing tenants' needs despite positive economic growth.

Vacancy grew by 3 percentage points over the period of 12 months which, despite the period of economic slowdown in 2009, was the highest increase recorded in Warsaw since 2000.

Approximately 1/5 of vacant space was located in buildings completed in 2013, reflecting an average vacancy rate in these buildings of 33%.

Vacancy across the City Centre at

“Despite a record high total take-up, net absorption was low last year at only 155,000 sq m, nearly 20% below its long term average.”

Mark Freeman, Savills Valuation & Consultancy

17% of total letting activity in 2013 was related to buildings due in 2014 and 2015, whereas take-up in the oldest office buildings (more than 12 years old) accounted for 29%, which shows tenants confidence and satisfaction in being in older, often not so high quality buildings.

Availability

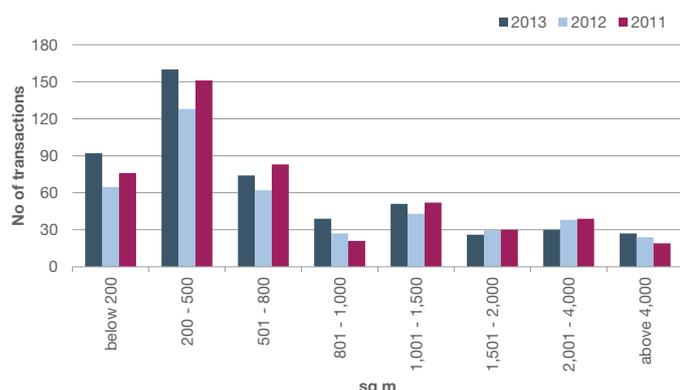
Availability of office space reached 483,200 sq m, which represents 11.7% of total stock. It was the highest vacancy rate recorded in Warsaw since 2004 when end-year data are considered. The increased vacancy

10.6% was slightly lower than the 12.2% in Non-Central locations. The rate increased in the majority of zones apart from only two: East (right bank of Vistula River) and Lower South (the area of ul. Pulawska). The highest vacancy recorded in the South West zone (14.4%) and North or Zoliborz (13.8%) whereas the lowest in the South East zone (5.0%).

Rents

Despite high vacancy rates across the city prime headline rents remained almost unchanged, both in the City

GRAPH 5 Letting activity by size of the unit



Graph source: Savills

Outlook

Supply exceed long term average absorption leading to growth in vacancy.

■ Developers' plans assume delivery of 1.3 million sq m of office space across Warsaw over the next three years. Projects are at different stages of development but taking all that into consideration we may see over 1 million sq m of office space delivered by year-end 2016.

■ **What does it mean for vacancy?** Long term (2001-2013) average annual net absorption was 189,500 sq m ranging from as little as 114,000 sq m in 2009 to as much as 266,000 sq m in 2007. Assuming average absorption during the next 24 months vacancy across the city will grow to 14% in 2014 and again to just below 15% in 2015.

■ **What will happen in the City Centre and in Non-Central locations?** The same analysis taken for those two shows vacancy at ca.15% both in 2014 and 2015 in the City Centre whereas in all Non-Central locations vacancy is expected to increase to over 14% by the end of December 2014 and 15% in the following year. The area of Mokotow and Sluzewiec which is the biggest Non-Central office concentration may, however, benefit from low development activity during 2014 with vacancy down from over 12% in 2013 to 8% by year end 2014 and a small increase to 9% by December 2015.

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	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

→ Centre and Non-Central locations, when compared to previous quarter. They are now at € 22.00 – 23.00 per sq m/month in CBD and € 14.00 – 14.75 per sq m/month outside of the strict City Centre. However, the decline in rental level is obvious when year-on-year comparison is concerned. Prime headline rents decreased by 14% in the City Centre whereas in Non-Central locations the drop was 6%.

As vacancy is expected to increase in the next 24 months rents will be pushed down. In addition to rent rebates of even 2 months rent free period per each year of lease plus

fit-out budgets of up to € 200 per sq m, may see effective rents 15 – 30% below headline levels.

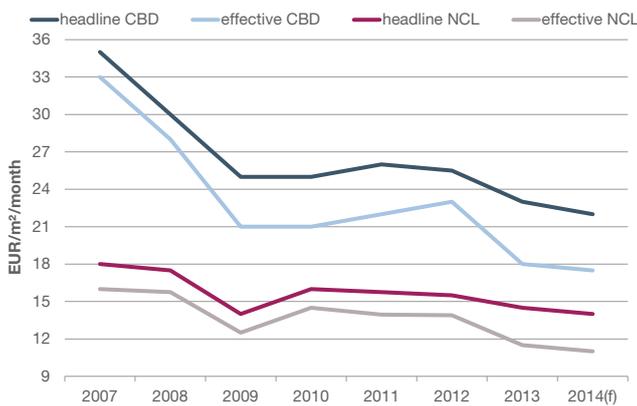
Rents for underground parking spaces are in the range of € 200.00 – 250.00 per parking space/month in the City Centre and € 60.00 – 100.00 per sq m/month in Non-Central locations.

Service charges range between PLN 20.00-25.00 per sq m/month in the City Centre and PLN 16.00-20.00 per sq m/month in Non-Central locations.

TABLE 2
Key figures

Population	(Dec 2012)	1,715,517
Unemployment	(Nov 2013)	4.8%
Average salary	(2012)	PLN 5,078
No of students	(2012)	268,555
No of graduates	(2012)	69,272
No of higher education institutions	(2012)	81
International Airport	Warsaw Chopin Airport	
Office stock	City Centre	1,246,900 sq m
	Non Central	2,866,200 sq m
Under construction	City Centre	261,100 sq m
	Non Central	381,800 sq m
Vacant space	City Centre	132,300 sq m
	Non Central	351,000 sq m
Vacancy rate	City Centre	10.6%
	Non Central	12.2%
Letting activity	City Centre	135,900 sq m
	Non Central	496,000 sq m
Net absorption	City Centre	155,000 sq m
	Non Central	-9,000 sq m
Prime headline rents	City Centre	€22.00-23.00 per sq m/month
	Non Central	€14.00-14.75 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 sa m /month

GRAPH 5
Headline and effective rents



Graph source: Savills

Graph source: Savills

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