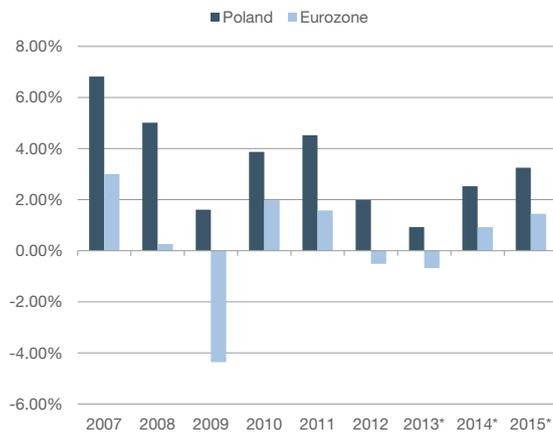


Market in Minutes Warsaw office market

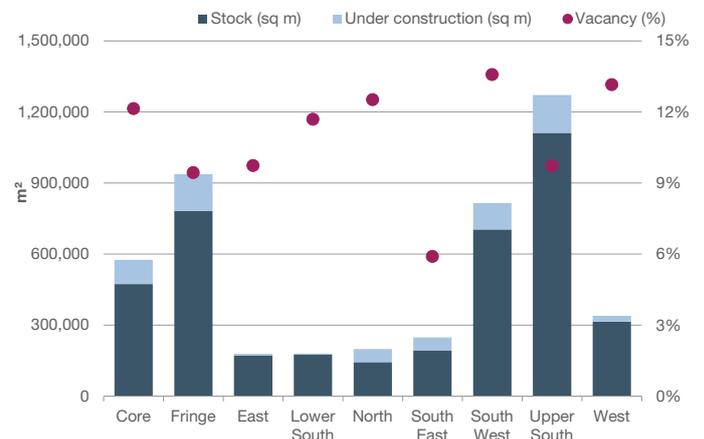
October 2013

GRAPH 1
GDP growth in Poland and Eurozone



Graph source: Savills

GRAPH 2
Stock, developments and vacancy rate



Graph source: Savills

SUMMARY

Overview

■ Total office space in Warsaw is 4,071,500 sq m.

■ Five buildings adding 94,300 sq m were completed in Q3 2013, whereas the total annual new supply in 2013 is expected to exceed 300,000 sq m.

■ Over 672,000 sq m of office space in more than 47 office buildings is under construction in Warsaw.

■ More development activity is seen in the City Centre with almost 190,000 sq m of office space due in 2015.

■ The boundaries of City Centre will be pushed west as the area of ul.

Towarowa and Rondo Daszynskiego are gaining on popularity amongst developers.

■ Letting activity in Q3 2013 was 184,600 sq m totalling to 518,500 sq m from January 2013.

■ Vacancy rate across Warsaw is 10.9% and slightly higher in Non-Central locations at 11.1% than in the City Centre (10.5%).

■ Prime headline rents in the City Centre are at € 22.00 – 23.00 per sq m/month and in Mokotów at EUR 13.00 – 14.00 per sq m/month.

“The pace of development is accelerating. The office market will grow to over five million sq m by 2016, growth of one million sq m in only three years”

Tomasz Buras, Savills Office Agency

➔ **Economy**

According to the Central Statistical Office GDP growth during the first half of the year was 0.7% and is expected to reach 0.9% by year end as shown in Oxford Economics' analysis. Economic growth is expected to accelerate to 2.5% and 3.3% in 2014 and 2015 respectively.

To encourage economic growth the Monetary Policy Council decided in July 2013 to decrease the reference rate to a record low level of 2.50%. That level is expected to be maintained at least to the end of the year and according to some experts even to mid-2014.

The average salary at PLN 3,612 at the end of Q2 2013 was 3.4% lower when compared with previous quarter and by 2% when 2012-year end data are considered. The National Bank of Poland's forecasts show average salary growth of 2.8% in 2013 and 2.9% and 3.6% in the next two years.

New Supply

Over 94,300 sq m of office space in six buildings was completed during Q3 2013. Over ¾ of supply is accounted for by two buildings: Miasteczko Orange by Bouygues Immobilier and Quatar Holding (43,700 sq m) in the Jeruzolimskie corridor and Wola Center by LC Corp (27,600 sq m) in Wola. Only one building, LHI's Chmielna 25 of 4,300 sq m, was completed in the City Centre. Other developments were: Zoliborz One by Apricot Group (8,700 sq m; North zone), the first phase of Robyg Business Centre by Robyg

.....
 "We expect net absorption of 180,000 sqm this year and forecast over 220,000 sqm in 2014."

Mark Freeman, Savills Valuation and Consultancy

(5,700 sq m; South East zone) and Sky Office Center by 5th Avenue Holding (4,250 sq m; Upper South zone). Total supply completed by the end of September 2013 was 246,400 sq m and is expected to reach over 303,900 sq m by year end as seven new projects are planned for completion in the last quarter.

Two office buildings that were occupied by Orange Group (Twarda Tower and Moniuszki Tower) are now temporarily excluded from the stock due to major works to improve spatial efficiency. Both buildings will be re-named and re-launched in mid-2014. These two re-developments and 26 other projects will be responsible for record new supply of over 342,400 sq m next year. Supply for 2015 is harder to estimate we believe it will be again higher than 295,000 sq m of which 160,000 sq m is already under construction and another 135,000 sq m has building permits.

Despite growing vacancy developer activity remains very high with almost 672,000 sq m of office space being under construction across Warsaw. Out of 47 buildings 29 are built speculatively so with no tenants

secured yet. 514,000 sq m of space was vacant as of the end of Q3 2013. These statistics indicate that the construction process of many projects started with developers' own equity.

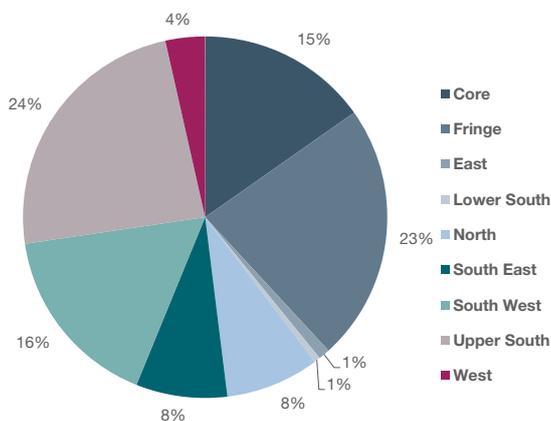
It needs to be remembered that developers are also securing sites for future developments: eg. Hines bought a site from BPH Bank at ul. Hrubieszowska and Przyokopowa and Ghelamco secured sites at ul. Wołoska. In the next few weeks the name of a company which will invest in the area of Dworzec Gdanski will be known as one of three offers, from Ghelamco, Immoel and the consortium of Ymma Holding and Penta Investments will be chosen.

In early 2013 the size of office market in Warsaw exceeded 4 million sq m and it took five years to grow from 3 million sq m and even more to grow from 2 million sq m to 3 million sq m. We believe it will take only three years to exceed five million sq m of office space across the city.

Availability

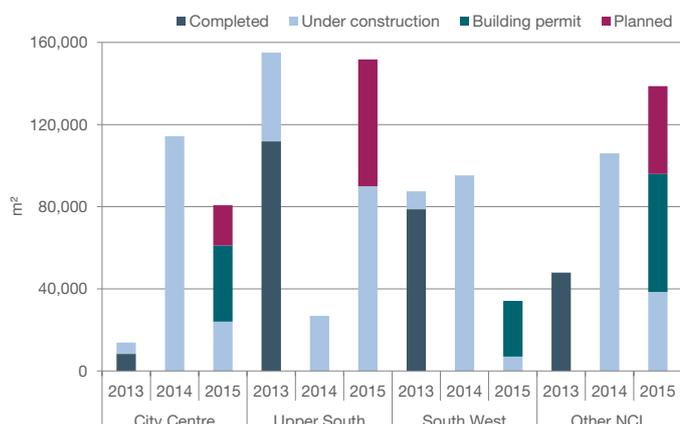
Over 442,800 sq m of office space was ready to be let across Warsaw at the end of September 2013, which

GRAPH 3 **Under construction by zone**



Graph source: Savills

GRAPH 4 **New supply by status**



Graph source: Savills

represents 10.9% of total office stock. In comparison to last year vacancy grew by 2.80 percentage points. 75,100 sq m of office space is available for lease in buildings completed this year.

Vacancy across the City Centre was 10.5% whereas in Non-Central it was higher at 11.1%. The highest vacancy rates were recorded in the South West (13.6%), North (12.5%) and Lower South (11.7%) zones.

South zone of which over 22,700 sq m was let in one transaction: Polkomtel pre-lease at Konstruktorska 4.

Total take-up in the City Centre was 31,700 sq m of which 11,800 sq m was let by Santander Bank (BZ WBK) at Skanska's Atrium 1 – the biggest letting in the City Centre.

Demand for office space is now created mostly in-house as the number of new companies that open their first office in Warsaw is now lower than several years ago.

“As there is growing activity from large occupiers (above 10,000 sq m) we should see longer lease contracts of 10 years and more in the buildings they choose.”

Dorota Ejsmont, Savills Office Agency

Demand

Letting activity during Q3 2013 reached 184,600 sq m and was the second highest quarterly volume since 2005. Gross take-up between January and September amounted to 518,600 sq m and full year data are expected to break another record of even 650,000 sq m space transacted.

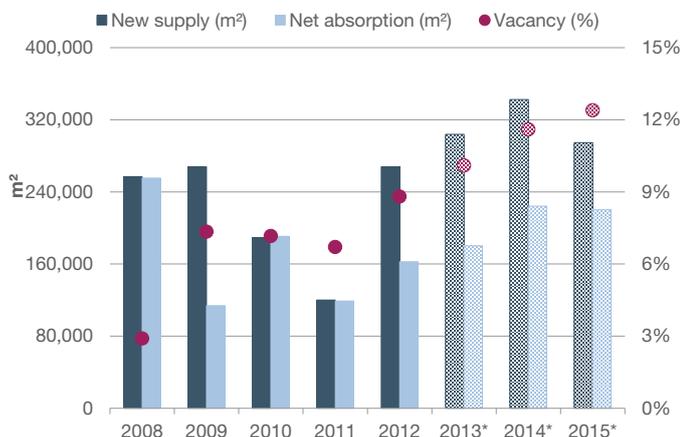
Lease renewals contributed for ca. 26% of total letting activity during the third quarter but when January – September data are considered their share increases to 30%.

Companies present in the city are now expanding due to organic growth hence many of them need to relocate. Other sources of demand are consolidations often connected with expansions (eg. BZ WBK). One cannot forget about companies relocating from old C-class offices and tenement houses, residential buildings and instant offices. We expect to see some more consolidations, expansions and relocations from ineffective offices in the next few years.

Over 74,100 sq m was let in the Upper

Over 52,500 sq m of office space was absorbed by tenants in

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



Graph source: Savills

Expanding City Centre

Second metro line expected to boost activity in locations to the West from the City centre

■ As construction of the city centre section of second metro line approaches completion bringing the re-opening of ul. Prosta the area of ul. Towarowa and Rondo Daszynskiego is gaining popularity amongst developers.

■ New office developments in the area are planned by Golub GetHouse (Prime Corporate Center); Ghelamco (Warsaw Spire, Spinnaker Tower, Sobieski Tower and Sienna Towers); Skanska (Rondo Daszynskiego), Karimpol and Hines which will push the borders of the City Centre to the West.

■ It is expected that, as the second underground line will start its operations in 2014, it will significantly boost tenant interest in locations situated along the line.

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
Prime Corp. Center	Golub GetHouse	21,000	Q4 15
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

→ Warsaw during Q3 2013. In total net absorption was 143,100 sq m. We expect it to reach approx. 180,000 sq m, which means the vacancy may decrease slightly by year-end to 10.1%. Our analysis indicates net absorption to grow to almost 224,000 sq m in 2014 and to 220,000 sq m in 2015, which translates into vacancy of 11.6% and 12.4% respectively.

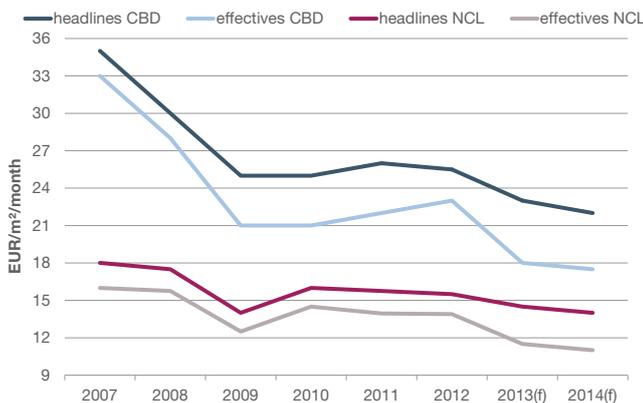
As market practice is to offer rent rebates at 1-2 month rent free period per each year of lease plus fit-out budget at a level of €150 – 200 per sq m the level of effective rent is often lower by 15 – 30% than headline level.

Rents

Prime rents are now €22.00 – 23.00 per sq m/month in the strict centre of Warsaw and €14.00 – 14.75 per sq m/month in the best Non-Central locations.

GRAPH 5

Headline and effective rents



Graph source: Savills

LEASE TERMS

Leasing Practice

Lease length: Generally 5 year term (3 year term occasionally), normally not longer than ten years, but we may see more of them soon.

Rentable area: Net area of office space plus proportionate share of common areas ('add-on').

Lease security: rental deposit or bank guarantee equivalent to minimum of 3 months rent, service charge and VAT.

Rent: Paid monthly in advance and denominated in EUR but paid in PLN or EUR. Rarely used USD or PLN.

Indexation: EUR-HICP index or GUS CPI in case of rent denominated in PLN.

Service charge: Fully recoverable costs, most in PLN. Advance monthly payment with cost reconciliation after year-end.

Incentives/concessions: Rent free periods are common practice, generally 1-2 month(s) per year of the lease term, more in case of pre-lets, additional budget for above standard fit-out (usually up to €150-200 per sq m) and cash contribution.

Extension/expansion: Extension rules should be specified in the lease agreement, expansion options are generally granted only to larger tenants on leases longer than 5 years.

Break clauses: Not a standard practice but possible after 3/5 years in case of 5/7 years leases.

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