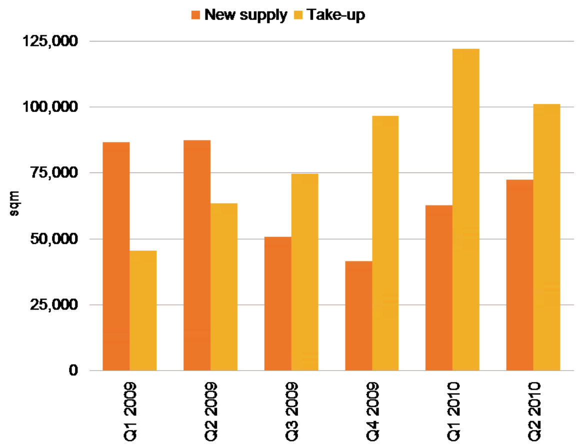
Warsaw office market

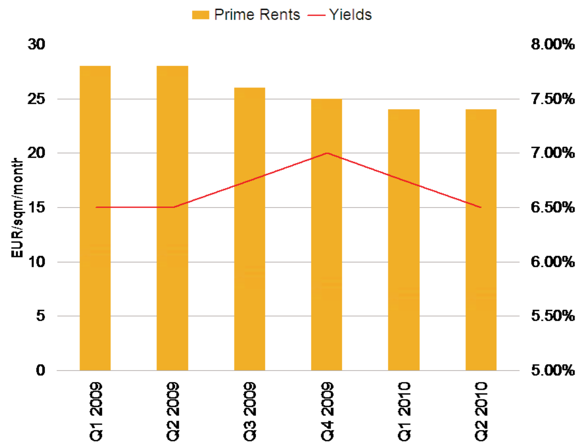
Summer 2010

New supply and take-up in 2009 and H1 2010



Source: SAVILLS Research

Prime office rents and yields (Warsaw CBD)



Source: SAVILLS Research

“Renegotiations still constitute a significant part of ‘take-up’, however, net take-up is already in line with the level of new supply. We expect the market to remain stable in the second half of 2010 and for the first signs of effective rental growth to start later in 2011 once the vacancy rates decrease.”

Brian Burgess - Managing Director

- Total modern office stock increased in H1 2010 by almost 135,000 m² to over 3,380,000 m². Most of the new supply was delivered in non-central locations (NCL).
- Development activity decreased significantly due to lack of equity, limited bank financing and the low volume of pre-leasing.
- The average vacancy rate is now at around 8.0% and does not differ significantly between the city centre and suburban office areas.
- The demand for modern office floorspace is now stable with a quarterly level of take-up of over 100,000 m². Nearly 40% of this is accounted for by renegotiations of existing leases, whereas only 2% are pre-let deals.
- The highest take-up has been noted in Mokotów district, however, increased demand is also observed in the CBD.
- The average deal size is relatively modest at 800 m² and a typical lease is usually signed for a period of 5 years.
- Prime headline rents are also stable at EUR 25.00 / m² / month within the CBD and EUR 14.50 / m² / month in NCL. Rents for underground parking spaces are EUR 200 / parking space / month (CBD) and EUR 60 - 90 / parking space / month (NCL).
- We expect that the market will remain stable in H2 2010 with the potential for rental growth to occur in 2011 once the available floorspace reduces.

Savills Research

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Economy and supply

Economy

Whereas in the first quarter of 2009 all major European economies showed a downturn or were at the level close to zero, the Polish economy recorded an increase of 0.7% and in the following quarters of 1.1% and 1.8% to achieve the growth of 3.3% in the last quarter of 2009. Thus annual GDP in 2009 was 1.7%. The first quarter of 2010 recorded 3.0% and the second at 3.1%. Forecasts of the annual GDP growth in 2010 vary between 3.2% (NBP), 3.0% (World Bank), 3.1% (OECD) up to 3% (Ministry of Finance).

Annual inflation decreased in 2009 to the level of 3.5%. Forecasts relating to annual inflation in 2010 vary between 1.8% (NBP, OECD) and 2.6% (IMF).

Unemployment is now 11.4% after a 1.0% increase between December 2009 and January 2010 followed by a fall starting from February 2010. Official forecast (NBP) is for 10.2% by the end of the year.

The average growth in salaries over the last 10 years was usually significantly higher than the inflation rate, which supported by the decrease in unemployment, confirms growing purchasing power of the population. The financial crisies have hindered this fast growth however the positive economy managed to sustain the slight increase.

Existing stock and new supply

Existing office stock in Warsaw reached 3,382,000 m² at the end of H1 2010. About one third of the stock is located within the CBD with two-thirds in the major non-central locations of Mokotów and Wola districts as well as Al. Jerozolimskie and Żwirki i Wigury streets.

New supply of office floorpsace in H1 2010 was 134,800 m². The largest schemes delivered were Mokotow New City (35,000 m²) and Poleczki Business Park (45,000 m²). Wolf Marszałkowska (11,050 m²) was the only office project completed within the city centre.

Around 70,000 m² of modern office floorspace is to be completed by the end of the year, and further 150,000 m² is to be completed by the end of 2011.

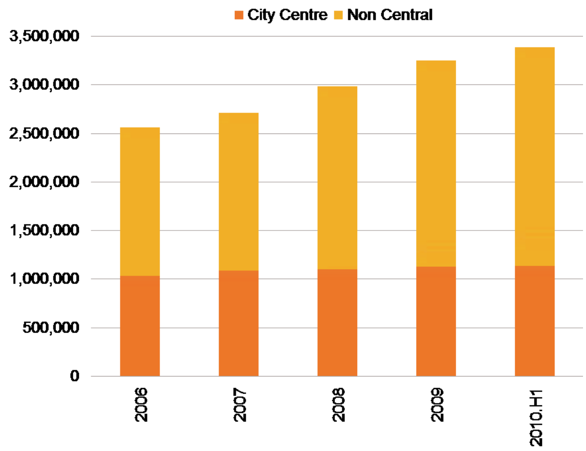
The average vacancy rate is 8.0% and does not differ significantly between the CBD and non-central locations. The average vacancy rate for Warsaw has not changed significantly over Q2 2010 since the net take-up is almost in line with the level of new supply.

It should be noted that vacancy rates have grown significantly over the last 18 months from a low at the end of 2008 of 3%.

GDP and inflation

Source: NBP

Evolution of modern office stock in Warsaw



Source: SAVILLS Research

Major developments in 2010 and 2011

PROJECT	DEVELOPER	SIZE (m²)	COMPLETION
CITY CENTRE			
JM Tower	JM Invest	23,500	2010.Q4
Zebra Tower	S+B Gruppe	17,000	2011.Q1
Mokotowska Square	Yareal	8,500	2011.Q2
Hortus	Nieruchomosci Powisle	10,200	2011.Q3
NON CENTRAL LOCATIONS			
Mokotów Nova	Ghelamco	40,000	2011.Q3
Equator II	Zenith Real	20,500	2011.Q4
Libra B	Mermaid Properties	15,155	2011.Q4
Plac Unii	Nowy Plac Unii	41,000	2012.Q3

Source: SAVILLS Research

Demand and rents

Take-up

Despite a lower take-up in Q2 2010 in contrast to the previous quarter, Savills anticipates that the demand for modern offices in Warsaw has stabilized at the level exceeding 100,000 m² per quarter.

Total take-up in Q2 2010 amounted to 101,000 m², 17% lower than in the previous quarter, however significantly more (40%) than in Q2 2009.

The average deal size is relatively modest at 800 m². Most leases are signed for the period of 5 years.

About 40% of the total 'take-up' accounts for renegotiations and extensions of the existing leases. This trend is expected to be maintained, as most leases signed in 2006 - 2008 were agreed at headline rents higher than the current market rent.

The share of pre-let deals decreased further from the level of 8% in Q1 2010 to only 2% in Q2 2010.

Once again the highest take-up has been recorded in Mokotów district. However, due to significant rental decrease in the CBD over the last 24 months, the demand for offices in central locations is constant.

The largest deals in H1 2010 were renegotiations of leases of Deutsche Bank (Focus), Orange (Renaissance Tower), HP (UBC) and G-Tech (Brama Zachodnia) as well as the lease of PZU (Empark Sirius).

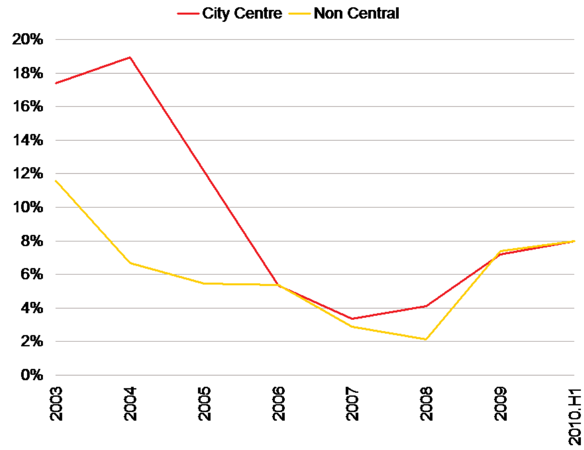
Rents and service charges

Prime headline rents stabilized over Q2 2010 at the level of EUR 25.00 / m² / month within the CBD and EUR 14.50 / m² / month in non central locations. Effective rents are closer to EUR 22.50 / m² / month in the CBD and EUR 13.00 / m² / in non-central locations.

Rents for underground parking spaces range between EUR 200 - 250 / parking space / month within the CBD and EUR 60 - 90 / parking space / outside the city centre.

Average service charges amount to PLN 24.00 / m² / month in the city centre and PLN 16.00 / m² / month in non central locations.

Average vacancy rates



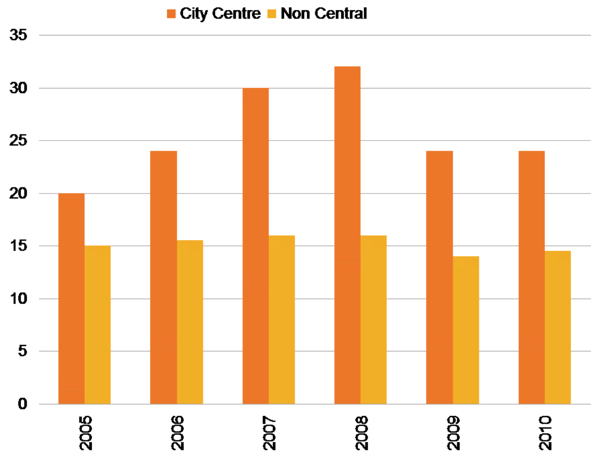
Source: SAVILLS Research

Selected deals (incl. renegotiations)

TENANT	PROJECT	AREA (m²)	DATE
CITY CENTRE			
Deutsche Bank	Focus	10,000	2010.Q2
HSBC	Wolf Marszałkowska	3,000	2010.Q2
GE	WFC	1,500	2010.Q2
IDN	Skylight	1,193	2010.Q2
NON CENTRAL LOCATIONS			
G-Tech	Brama Zachodnia	4,700	2010.Q2
Orange	Renaissance Tower	17,400	2010.Q1
PZU	Empark Sirius	12,500	2010.Q1
HP	UBC	10,300	2010.Q1

Source: SAVILLS Research

Prime headline office rents in Warsaw



Source: SAVILLS Research

Investment market and forecasts

Investment market

The office sector still dominates investment activity on the Polish property market. Since 1998 the total volume of investment deals including Warsaw office buildings has amounted to over EUR 6.3 bln, nearly 40% of the total investment activity.

In H1 2010 there were 6 investment transactions on the Warsaw office market for a total volume of EUR 300 mln. The largest deals were the acquisitions of Trinity III (EUR 93 mln), Horizon Plaza (EUR 102 mln) and Harmony Office Center (EUR 54 mln) by German funds (SEB, Union Investment and CommerzReal).

Based on the recent deal flow we are able to fix more readily the prime yield in Warsaw suburban (NCL) office market with the most recent deals pushing the initial yield closer to 7.0%. There have been no significant deals in the CBD but our opinion is that for a market-rented modern office building the initial yield should be 6.50 - 6.75%.

Outlook

Despite the rapid growth of regional office markets in Poland, Warsaw will remain the leading market with the highest level of both new supply and take-up.

New supply is projected to be slightly lower over the next 12 months due to lack of equity and / or difficulties in fulfilling banking conditions requiring pre-leasing of part of the office floorspace. As a consequence, the average vacancy rate for Warsaw should decrease slightly by mid 2011.

Savills anticipates that take-up will remain stable at current level in H2 2010. Renegotiations will continue to constitute a significant part of total take-up. More pre-let deals should occur in H1 2011.

We expect prime rents to remain stable in H2 2010 in both city centre and non-central locations due to moderate level of vacancy rates. More significant signs of rental growth may be seen in 2011.

The demand for office investments in Warsaw will continue, however, there will be a lower availability of these over the next 12 months.

For further information please contact




Brian Burgess
Managing Director
+48 22 330 06 34
bburgess@savills.pl

Monika Rogucka
Office Agency
+48 22 330 06 57
mrogucka@savills.pl

Michal Stepien
Research Poland
+48 22 330 06 41
mstepien@savills.pl

Eri Mitsostergiou
Research Europe
+30 210 699 63 11
emitso@savills.com

Savills Research

savills.com/research

savills