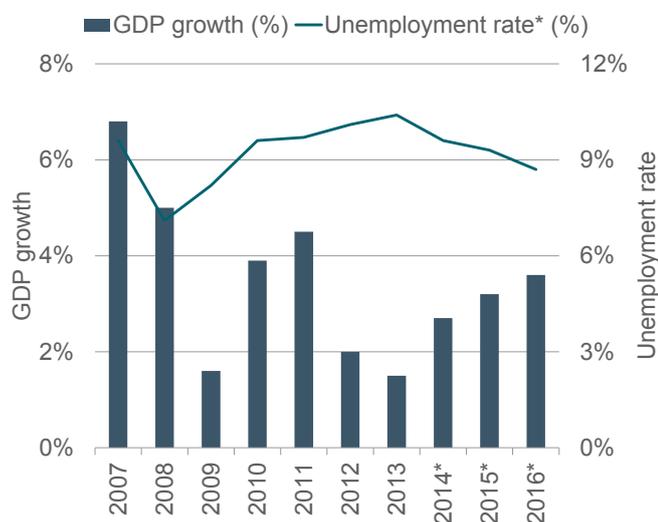


Market in Minutes Warsaw offices

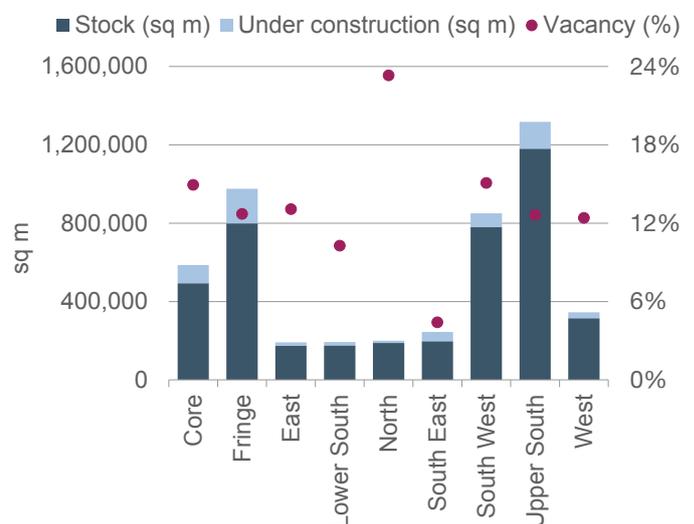
July 2014

GRAPH 1
GDP growth and unemployment in Poland



Graph source: Oxford Economics "ILO unemployment rate"

GRAPH 2
Stock, developments and vacancy rate



Graph source: Savills

SUMMARY

Overview

- Warsaw's office stock exceeded 4.3 million sq m in 440 office buildings at the end of June 2014.
- 17 office buildings of 190,300 sq m were delivered to the market during the first half of the year.
- Over 0.57 million sq m of office space was vacant at the end of June 2014.
- Vacancy rate reached 13.4%, the highest rate recorded in the city in the last ten years.
- Over 602,000 sq m of office space in 41 projects is under construction across Warsaw. 45% of under construction space is located in the City Centre and another 23% in Mokotow (Upper South Zone).
- Prime headline rents in the City Centre stabilised at ca. €22.00 per sq m/month whereas in the area of Mokotow stand at €14.50 - €15.00 per sq m/month.
- Increase in vacancy rate across the city to 15% by 2015 year-end will result in rents reductions.

“Since forecasts of major economic indicators are supportive for Poland, in comparison to European averages, we believe that current pace of office development in Warsaw will be maintained over the next few years.”

Tomasz Buras, Head of Poland

➔ **Economy**

In Q1 2014 GDP growth in Poland reached 1.1% quarter-on-quarter and 3.4% year-on-year. The quarterly growth was the highest result recorded in the European Union and was significantly higher than the EU-28 and the Eurozone averages of 0.3% and 0.2% respectively. The average annual economic growth is expected to reach 2.7% in 2014 and 3.2% in 2015 (Oxford Economics, March 2014). Expected growth for 2014 is 1.4% in the EU-27 and 1.0% in the Eurozone whereas in 2015 it is 1.7% and 1.4% respectively.

Annual inflation in Poland was only 0.9% in 2013 which was the lowest rate recorded since 2003. According to the Oxford Economics' forecast, inflation will grow to 1.6% in 2014 and further to 2.3% - 2.5% in 2015, then it is projected to remain stable.

The main reference rate was maintained at the low level of 2.50% in July 2014 and is expected to remain unchanged until mid-next year as economic growth is forecasted to be strong and inflation to be low.

In May 2014 unemployment rate based on International Labour Office (ILO) definition in Poland was 9.6% and was lower than the European Union's average of 10.3%. The rate shall remain stable at 9.6% by the end of 2014 and decrease further to 9.3% in 2015, according to Oxford Economics.

Average monthly gross salary in the enterprise sector was PLN 3,943 in

“The re-opening of Prosta St. and the opening of the second metro line will increase both tenants' and developers' interest in the area of Daszynskiego Roundabout and Towarowa St.”

Dorota Ejsmont, Savills Office Agency

June 2014 reflecting a growth of 3.5% compared year-on-year. The National Bank of Poland projects an average annual growth in salaries of 5.1% over the next three years.

Development activity

Modern office stock in Warsaw exceeded 4.30 million sq m in June 2014 having increased by 190,300 sq m located in seventeen new buildings completed during the first half of the year, of which six new and one redeveloped office buildings were added to the market in the City Centre and another four projects were completed in the South West zone (the corridor of Jerozolimskie Av. and Zwirki i Wigury St.). The biggest projects added to the stock during the first half of the year were the first phase of Eurocentrum Office Complex by Capital Park in the South West zone (38,700 sq m), the second building at Gdanski Business Center by HB Reavis in the North zone (29,600 sq m) and the first phase of Park Rozwoju by Echo Investment in Sluzewiec (16,000 sq m).

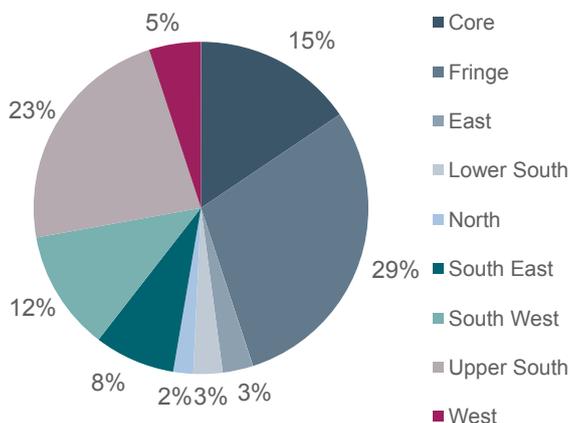
Approximately 41% of the H2 2014 supply will be completed in five

buildings in the City Centre, of which the biggest is Spektrum Tower – a redevelopment of a skyscraper located at Twarda St. (27,400 sq m). Another 19% of the supply planned for the remaining part of the year will be located in the West zone (area from Towarowa St. towards western border of the city) which will soon benefit from the second underground line (the central part of which is to be opened in Q4 2014) and the re-opening of Prosta St. planned for August/September.

Development activity remains high with almost 602,000 sq m in 41 office buildings under construction across the city with delivery dates up to 2017 year-end. Approximately 45% of the office space under construction is located in the City Centre and another 23% in the Upper South zone which proves developers' interest and confidence in the most popular office hubs in the city, however, only 21% of the space under construction has already been pre-leased.

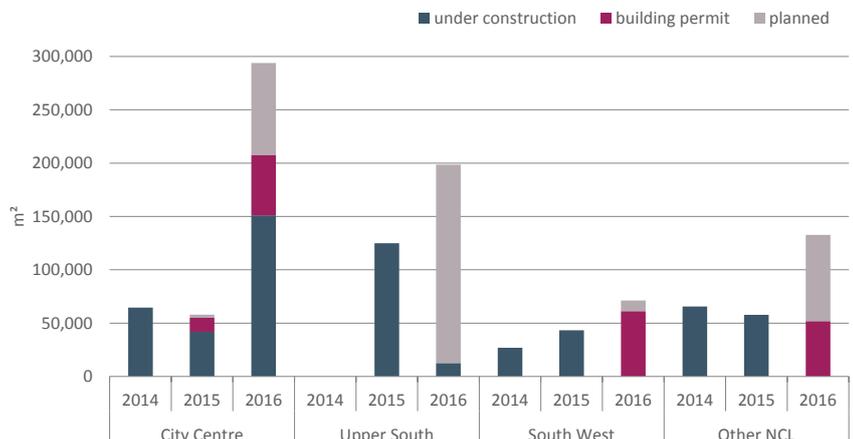
In addition to the above, there are 16 office buildings with a total area of ca. 240,000 sq m, that have building permits granted and construction

GRAPH 3 **Under construction by zone**



Graph source: Savills

GRAPH 4 **New supply by status**



Graph source: Savills

commencements depend only on signing pre-lease agreements.

Letting activity

Letting activity in the first half of the year reached 259,100 sq m which was approximately 22% lower than during the corresponding period last year and accounted for ca. 41% of 2013's annual take-up. Approximately 24% of the gross take-up was recorded in the City Centre reflecting ca. 17% drop compared to the H1 2013.

The most popular destination for office tenants was the Upper South zone with 37% share in the H1 2014

consolidations that should finalize soon, total letting activity in 2014 may reach 600,000 sq m.

Net absorption of office space during the first half of the year reached 99,000 sq m, of which only 2,100 sq m in the City Centre. During the last 12 months net absorption amounted to 169,000 sq m including only 450 sq m in the City Centre.

The low level of net absorption results from a limited number of newcoming tenants. Demand for office space is mostly generated by companies already present in the city.

“As the new supply is expected to outpace annual net absorption, vacancy rate across the city is expected to increase resulting in downward pressure on rents.”

Tomasz Buras, Head of Poland

gross take-up. Further 20% of total take-up accounted for the South West zone.

Lease extensions and renegotiations accounted for 36% of H1 2014 take-up, whereas pre-leases made up only 7%. Despite the low share of pre-lease agreements we expect that by the end of the year it will come closer to its average annual share registered in the last eight years of 23%.

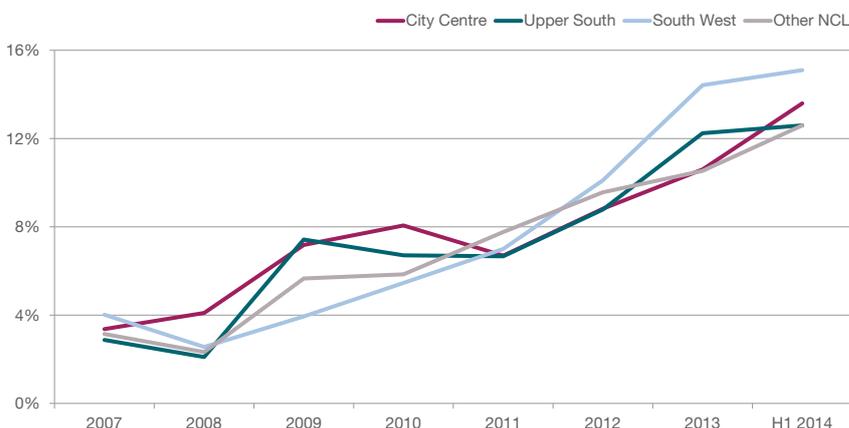
Taking into account the number of ongoing transactions, including some

Availability

Availability of office space in Warsaw exceeded at the end of H1 2014 574,400 sq m which reflects a vacancy rate of 13.4%, a growth of 3.4 pp year-on-year and 1.2 pp quarter-on-quarter. Vacancy rate in the City Centre was 13.6%, an increase of 3.7 pp year-on-year, whereas in all Non-Central locations it increased by 3.2 pp to the level of 13.3%.

Total 2014s net absorption is expected to reach slightly above 207,000 sq m which will cause

GRAPH 5
Vacancy rate in major Warsaw office zones



Graph source: Savills

Outlook

New supply expected to further outpace net absorption

■ Total office stock is expected to reach almost 4.46 million sq m by the end of 2014 and 5 million sq m is expected to be exceeded in 2016 as a result of an active development market.

■ After the re-opening of Prosta St. and the opening of the second metro line in its central part tenants' activity maybe shifted towards the neighbourhood of Daszynskiego Roundabout where they can expect offers with headline rents at a lower level than in the Core City Centre.

■ With new supply outpacing the level of net absorption vacancy rate is expected to increase to even 15% in the next 18 months.

■ At the occupier side we expect 2014 take-up to be slightly lower than in the previous year but still at ca. 600,000 sq m.

■ As an effect of rising vacancy rate prime headline rents are expected to decline slightly by year-end with some further decrease in the following year. Prime rents in the City Centre are forecasted to drop to €20.00-21.00 per sq m/month in 2015 and to €14.00 in Sluzewiec Przemysłowy area (Mokotow District).

TABLE 1
Largest office projects in 2014-2016

Project	Developer	Size (sq m)	Date
Spektrum Tower	Europa Capital	27,400	2014
Postępu 14	HB Reavis	34,450	2015
Royal Wilanów	Capital Park	27,900	2015
Domaniewska Office Hub	PHN	27,000	2015
Warsaw Spire (A)	Ghelamco	60,000	2016
Q22	Echo Investment	52,900	2016
West Station A	HB Reavis	26,500	2016
Proximo	Hines	26,400	2016
Prime Corporate Center	Golub GetHouse	21,000	2016

Graph source: Savills

→ vacancy to increase to nearly 14% (or over 620,000 sq m). Another vacancy rise to ca. 15.0% is forecasted in 2015 assuming annual net absorption of 198,000 sq m outpaced by new supply of 281,000 sq m.

Rents

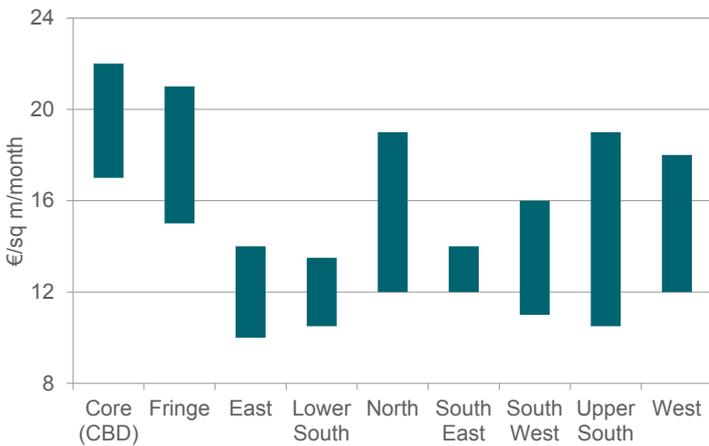
Prime headline office rents remained relatively stable in H1 2014 at ca. € 22.00 per sq m/month in the City Centre and ca. €14.50-15.00 per sq m/month in the Upper South Zone (Mokotow District), but will be under downward pressure due to rising vacancy as well as a growing popularity of locations on the edge of

the City Centre (Unii Square, Dworzec Gdanski, Towarowa St.), offering rents at only slightly higher level than in Mokotow, but much more competitive than in the core City Centre, benefitting at the same time from convenient accessibility and a good almost central location.

Typically tenants are offered with a number of incentives including rent rebates of up to two and a half months for each year of lease and fit-out budget of up to €200 per sq m which can make effective rents ca. 20% lower. ■

GRAPH 5

Headline office rents in Warsaw



Graph source: Savills

TABLE 2

Key figures

Population	(Mar 2014)	1,726,600
Unemployment	(May 2014)	4.6%
Average salary	(May 2014)	PLN 5,142
No of students	(2013)	255,227
No of graduates	(2013)	64,624
No of business entities	(Mar 2014)	374,436
International Airport	Warsaw Chopin Airport	
No. of passangers	2013 (y-o-y change)	10,683,706 (+11.4%)
Office stock	City Centre	1,292,000 sq m
	Non Central	3,010,100 sq m
Under construction	City Centre	270,600 sq m
	Non Central	331,000 sq m
Vacant space	City Centre	175,200 sq m
	Non Central	399,200 sq m
Vacancy rate	City Centre	13.6%
	Non Central	13.3%
Letting activity (H1 2014)	City Centre	63,100 sq m
	Non Central	196,000 sq m
Prime headline rents	City Centre	€21.00-22.00 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

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