

Warsaw Office MarketView

Q1 2014

CBRE Global Research and Consulting



GENERAL OVERVIEW

Polish economy

	Q1 2014
Population	38 million
GDP growth (2014 forecast)	1.6%
CPI (Jan 2014)	0.7%
Reference interest rate	2.5%
Unemployment rate (Jan 2014)	13.2%

Source: GUS, NBP, Oxford Economics

Warsaw office market

	Q1 2014
Office completions (sq m)	84,400
Office leasing activity (sq m)	136,400
Vacancy rate	12.2%
Office investment volume	EUR 516 m
Total investment volume	EUR 893 m

Warsaw market outlook

	2013 vs. 2014
New supply	↗
Vacancy rate	↗
Take-up	↗
Headline rents	↘
Incentives	↗
Office prime yields	↘

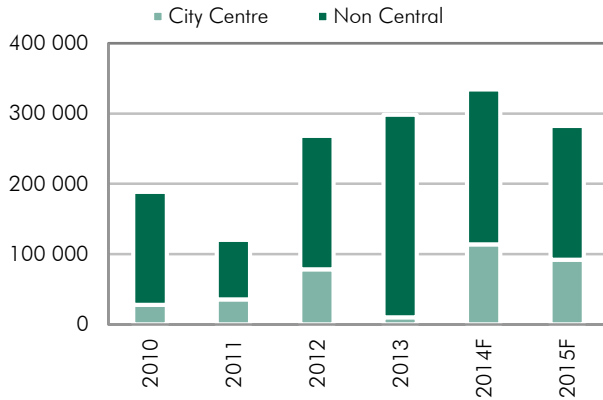
Source: CBRE

Market trends

- The Polish economy remains strongly influenced by a gradual recovery observed across the European region. After reaching its peak in Q2, the Polish GDP growth rallied in the second part of 2013, indicating signs of economic rebound. The GDP is predicted to grow faster in 2014 than in the previous year in line with the improving labour market and increased industrial output.
- In Q1 2014, investment volume in the commercial property sector showed a significant growth of around 40% in comparison to the corresponding period of 2013. Prime assets still remain of major interest, with the office and retail sectors the most popular ones. However, investment focus shifted to some extent to the industrial and logistic sector and continued momentum is expected in 2014.
- Yields remain stable with a gradual compression noted in the industrial sector. Prime office, retail and industrial yields are estimated at 6.00%, 5.90% and 7.25% respectively.
- The upcoming years might bring some new challenges to the office market in Warsaw. In the next three years a relatively large amount of new office space is scheduled for delivery in the City Centre of Warsaw, to a large extent along the constructed metro line. Throughout 2014-2016 as much as 350,000 sq m is expected for completion in central locations, mostly to the west of CBD. Once this space is completed, the amount of office stock in the City Centre will increase by over 25%.
- During 2014 and 2015 a number of refurbished office schemes is scheduled for delivery, including Ethos, Spektrum Tower and Moniuszki 1a. All of the mentioned buildings were quite recently vacated by major occupiers and are currently being renovated in order to meet higher technical standards. The interest of tenants shown towards these schemes might prove if they can successfully compete with the brand new projects.
- The increased new supply is forecasted to create an upward pressure on the vacancy level and a downward pressure on the level of rents with an increasing number of offered incentives lowering the effective rates even by 25% below the level of headline rents. This trend should continue at least until the end of 2015.
- The activity level of office occupiers remains strong. Most tenants use the opportunity to expand the leased area during the renegotiation or relocation process. Nevertheless, cost reduction seems to remain the major demand driver. Occupiers are fully aware of the increased competition among developers. In many cases, they can achieve significantly better financial conditions and improve the technical standard of their offices at the same time by relocating to a newly completed building. Furthermore, companies are tending to move out from the central locations and are looking for flexible, customized offices in business parks located in the fringe of the city centre or in further, non-central locations.

OFFICE MARKET

WARSAW SUPPLY (sq m)



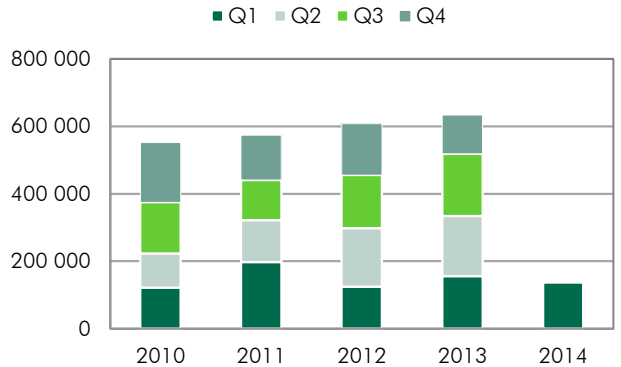
LARGEST LEASE TRANSACTIONS IN WARSAW

Company	Location	Sq m	CBRE advisory
Netia	Marynarska Business Park	13,200	✓
MSG	MSG HQ	6,800	
Citibank	Marynarska 12	4,700	
Altikom	Warsaw Trade Tower	4,300	
Provident	Gdanski BC – 1B	4,100	
DZP	Rondo 1	4,000	✓
K&L Gates	Plac Malachowskiego	3,600	✓

WARSAW RENTS (EUR/sq m/month)

	Q1 2014	2014 Outlook
Central Business District		
Prime Headline	25 – 26	↘
Prime Effective	21 – 23	↘
Non – Central Zones		
Prime Headline	14 – 15	↘
Prime Effective	11 – 12	↘

WARSAW LEASING ACTIVITY (sq m)



LARGEST OFFICES COMPLETED IN Q1 2014



Park Rozwoju I
Konstruktorska 10
Echo Investment
16,000 sq m



Atrium 1
Al. Jana Pawla II 17
Skanska Property Poland
15,700 sq m

LARGEST SCHEMES PLANNED FOR 2014

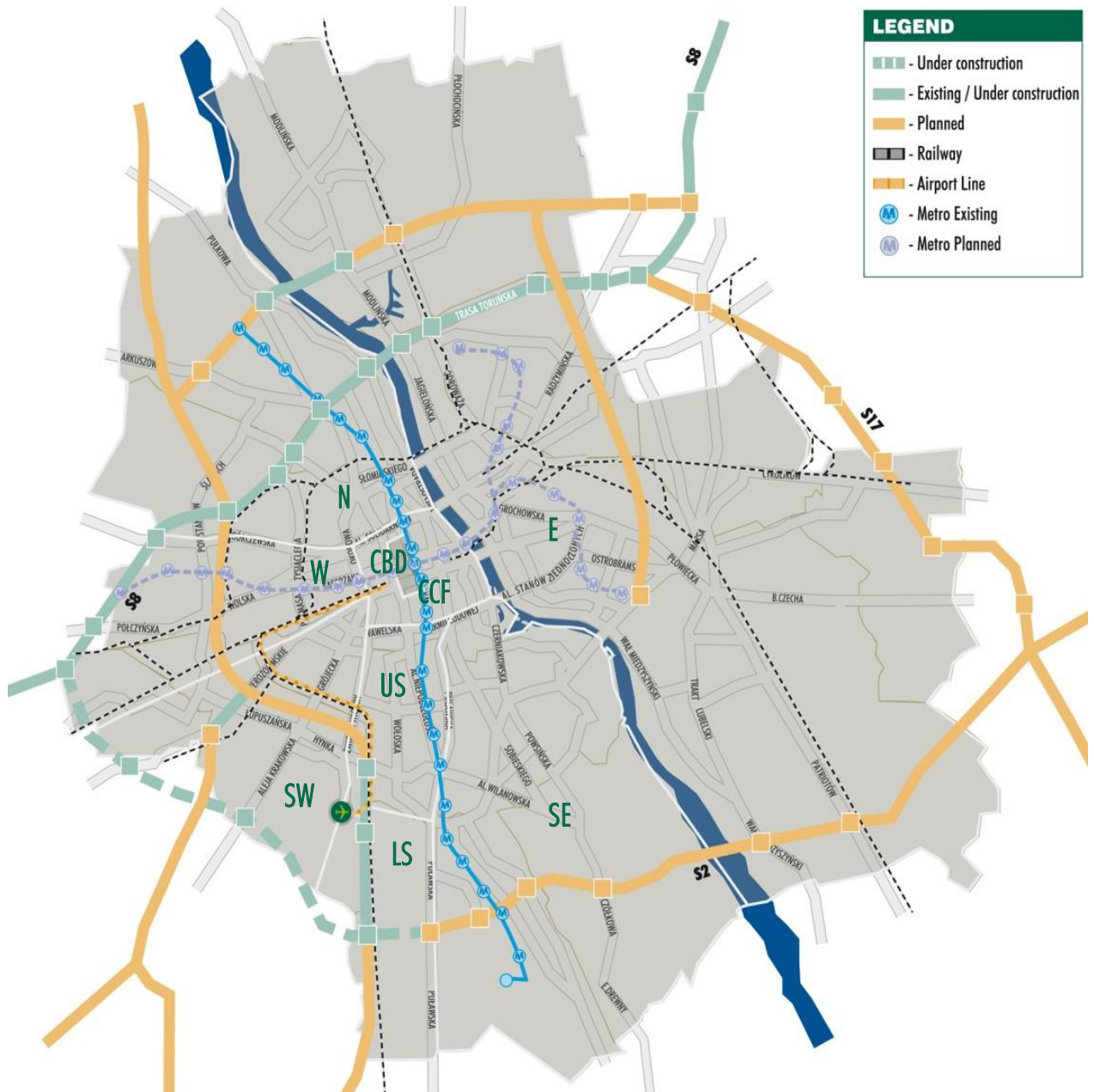


Gdanski Business
Centre IA
Inflancka 3
HB Reavis
32,000 sq m



Eurocentrum Office
Complex I
Al. Jerozolimskie
Capital Park
27,700 sq m

WARSAW OFFICE MAP



LEGEND

- Under construction
- Existing / Under construction
- Planned
- Railway
- Airport Line
- Metro Existing
- Metro Planned

OFFICE ZONES	STOCK (sq m)	VACANCY RATE
CENTRAL LOCATIONS	1,278,000	10.9%
CBD - Central Business District	493,000	13.2%
CCF - City Centre Fringe	785,000	9.5%
NON-CENTRAL LOCATIONS	2,922,000	12.8%
E – East (Praga)	176,000	16.2%
LS – Lower South (Pulawska)	176,000	9.6%
N – North (Zoliborz)	159,000	19.7%
SE – South East (Wilanow & Sadyba)	194,000	3.6%
SW – South West (Jerozolimskie & Okęcie)	732,000	14.2%
US – Upper South (Mokotow)	1,170,000	12.4%
W – West (Wola)	315,000	12.7%
TOTAL	4,200,000	12.2%

RESEARCH DEFINITIONS

Prime Rent – Represents the top open-market tier of rent that could be expected for a unit of standard size (commensurate with demand in each location), of the highest quality and specification and in the best location in a market at the survey date. The Prime Rent should reflect the level at which relevant transactions are being completed in the market at the time, but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, the quoted figure will be more hypothetical, based on an expert opinion of market conditions.

Headline Rent - The headline rent represents the 'gross' rent that is paid by the tenant. That is the rent that they start to pay at the end of any rent free period that they also negotiate as part of the letting and making no deduction to reflect the value of any other incentives that they might have negotiated.

Effective Rent - The net effective rent is the headline rent less an allowance to reflect incentives that have been granted.

Take-up / Total Leasing Activity (TLA) – Represents the total floor space, including renewals, known to have been let or pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period.

Total Modern Stock – Represents the total completed A and B class space (occupied and vacant) in the private and public sector at the survey date. Includes owner occupied (OO) space.

Vacant Space Rate – Represents the percentage ratio of total Vacant Space to Total Modern Stock.

Absorption - Represents the change in occupied stock within a market during the survey period.

Prime Yield – represents the net yield that an investor would receive when acquiring a grade/class A building in a prime location (for offices in the CBD, for example), which is fully let at current market value rents. Prime Yield should reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period a hypothetical yield should be quoted, and is not a calculation based on particular transactions, but it is an expert opinion formed in the light of market conditions, but the same criteria on building location and specification still apply. The net yield does not include any transaction costs.

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