At a glance

WARSAW OFFICE MARKET REVIEW

Q3 2014

As predicted, the vacancy rate has increased further to reach around 14% at the end of Q3 2014. With a slowdown in letting activity and the high level of new supply delivered, the trend is likely to continue for the upcoming quarters. This will put occupiers in a stronger negotiating position as headline and effective rents will be under pressure.

DEVELOPMENT ACTIVITY IS NOT SLOWING DOWN

With over 256,000 sqm completed between January and September this year, the total supply in Warsaw reached almost 3.4 million sqm.

The majority of new supply was delivered in the Mokotów subzone (i.e.: Park Rozwoju 1, Domaniewska 45, as well as in the South West subzone where some major completions such as Eurocentrum, Nimbus and Green Wings were completed. City Centre saw completions of Warsaw Spire B, Atrium 1 and Plac Małachowskiego to nam a few larger schemes. A notable increase in stock was recorded in the North subzone following the completion of Gdański Business Center by HB Reavis, offering a total of 44,500 sqm.

A total of 600,000 sqm is currently under construction, of which approximately 80% will be delivered by the end of 2015. The bulk (ca. 45%) of the pipeline supply will occur in central locations (Core and City Centre), including some major refurbishments including Spectrum Tower and Ethos.

TAKE-UP REDUCED BY 25%

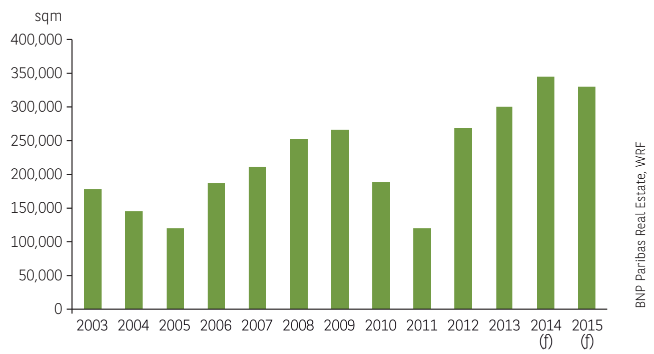
The total letting activity between Q1 and Q3 2014 reached 290,000 sqm, representing a 25% decline compared with the corresponding period of last year. In addition to new leases, pre-lets and expansions, renegotiations added 140,000 sqm to the gross take-up. By the year-end, the volume of transactions could be in the range of 350,000-370,000 sqm.

Considering the number of options available, tenants are taking advantage of the situation and are more selective, which in turn is prolonging decision making and the time it takes to finalise lease negotiations.

The largest transactions closed in the first six months of 2014 include Raiffeisen Bank preletting 19,500 sqm at Prime Corporate Center, Citibank taking 12,500 sqm in Marynarska 12, Moneygram to occupy 7,300 sqm in Konstruktorska Business Center and Główny Inspektorat Transportu Drogowego leasing 7,000 sqm in Equator I.

The major renegotiations were closed with Netia in Marynarska Business Park (13,200 sqm), PwC in IBC I (10,800 sqm), Media Saturn Holding in Blue Office (8,000 sqm) and Nokia Siemens Networks in Horizon Plaza (5,300 sqm).

Annual office supply



Annual office take-up

VACANCY RATE IS ON THE RISE

At the end of September 2014 over 610,000 sqm of office space remained available, translating into a vacancy level of nearly 14%. Compared with the same period last year, the ratio rose by 3 p.p.

Central locations recorded a higher vacancy reaching close to 15%, while non-central areas were closer to 13%. Subzones with the highest availability were North (22%), South West (16%) and City Centre (15.5%), while the lowest vacancy rate was recorded in East and Lower South subzones with 7% and 11% respectively.

The upward trend in vacancy is likely to continue over the next 18-24 months. The vacancy could reach around 14-14.5% by 2014 and 15-16% in 2015. A relatively large share of the vacant space would be located in buildings above 15 years old, which is why many landlords are currently conducting grand refurbishments of older assets in order to compete with the rest of the market.

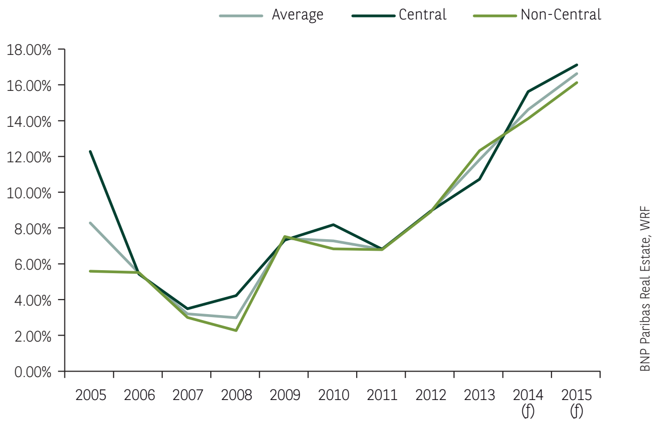
However, prime and well-managed schemes within the key submarkets should remain relatively resistant to negative market sentiment.

TIME FOR OCCUPPIERS TO TAKE ADVANTAGE OF FAVOURABLE CONDITIONS

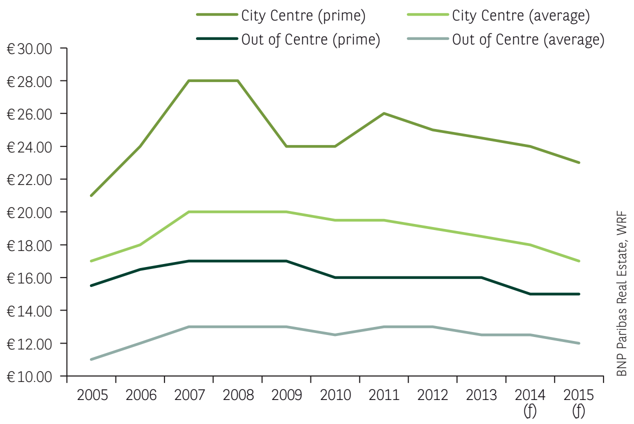
Both headline as well as effective rents are under pressure across all the subzones, down by €1-2 on average over the last quarters. Apart from truly prime properties or boutique office buildings which maintain a level of €22 to €24 per sqm / month, rents in buildings located within the city centre are on average €4-6 less. Prominent non-central office buildings quote from €15-16 per sqm / month, while average headline rates in these areas range from €12-14 per sqm / month.

When analysing supply and vacancy patterns recently observed, it is no surprise that landlords are offering very attractive incentive packages, especially for large pre-lets. The effective rental rates can be up to 25-30% lower than the headline.

Vacancy rate



Prime and average rents



Major office buildings planned for the next 36 months (listed by office area)

Project	Total office area (sqm)	Subzone	Developer	Planned delivery
Warsaw Spire A, C	80,000	City Centre	Ghelamco	2015
Business Garden II	56,000	South West	Vastint	2017
Q22	50 000	Core	Echo Investment	2015
Gdański Business Center, ph. II	50,000	North	HB Reavis	2016
ArtNorblin	40,000	City Centre	Capital Park	2016-2017
Postępu 14	34,000	Upper South	HB Reavis	2015
Mokotów One	30,000	Upper South	Apricot Capital Group	2016
Proximo	28,400	City Centre / West	Hines	2016
Domaniewska Office Hub	27,000	Upper South	PHN	2015
Copernicus Square	26 400	City Centre	Hochtief Development	2016
The Park Warsaw, ph. II	23,300	South West	AIG Lincoln	2015
	21,000	City Centre	Golub Gethouse	2016

WARSAW OFFICE SUBZONES

BNP Paribas Real Estate, WRF

Definitions

Total supply/stock – the total office space completed or renovated after 1990 in the private and public sector. It includes owner occupied space.

Annual supply – office space completed in one year.

Pipeline supply – office space under construction or planned (with the building permit in place).

Take-up – the total floor space, excluding renewals and renegotiations, which was let or pre-let, sold or pre-sold to tenants or owner-occupiers.

Vacancy rate – percentage ratio of total vacant space to total supply.

Prime rent – the top open-market rent that could be expected for a unit of standard size, of the highest quality and specification and in the best location in a market at the survey date.

Average rent – the average rent rate counted based upon rents quoted in a representative sample of buildings.

General office market practice*

GENERAL OCCUPANCY COSTS	
Market rent	Usually quoted in EUR
Frequency	Monthly
VAT on rent	23%
Indexation	Annual Euro CPI or PL CPI
Rent-free period	3–9 months(1)
Fit-out budget	€180-250 – granted by the Landlord. usually includes construction, furniture, wiring, design fees. The Tenant covers any expenses above the budget.
Service charge	€4.50-6.00 per sqm paid in PLN, sometimes in EUR
Items included in the service charge	Water, security, heating, air-conditioning, cleaning of common areas and all other maintenance and operational costs of the building and common areas, property taxes, building insurance and building security
Items covered by the Tenant per meter	Electricity, telecommunications
Items covered by the Landlord	Structural repairs, repairs to common parts, building insurance, local taxes and sewerage charges
Guarantee/deposit	Six months' rental deposit or bank guarantee
Car parking	€80- €250 per parking space depending on location. Paid additionally by the Tenant.

LEASE STRUCTURE	
Lease duration	3-7 years
Renewal	Fixed-term leases can include an automatic renewal clause, requesting a 6–12 months' notice
Expansion option	Negotiable
Termination	Fixed-term leases may include a break option, which allows the Tenant to end the lease with a cancellation penalty
Right to sublet	Subleasing is subject to the Landlord's written consent and sometimes restricted
Delay in premise delivery by Landlord	The Tenant pays no rent for the duration of delay, and can terminate the agreement if agreed in the contract
Late holdover by Tenant	Penalty, negotiated and stipulated in the contract, usually 100–200% of rent for every day of delay
Signage	Signage costs depend on the Landlord's policy
TRANSACTION COSTS	
Agent's fees	New leases/pre-leases: 12–16% of annual rent paid by Landlord or Tenant Renewal: 8.33%–15% paid by Tenant Sublease: 8.33% paid by Tenant or Subtenant
Legal fees	Each party pays their own lawyers. Draft lease agreement prepared by the Landlord.
Notary fees	Optional cost, applies mainly to the acquisition of property

* Exceptions to market practice occur
(1) Depends on lease-length and other incentives offered by the Landlord

CONTACTS

Anna Staniszewska Director, Research & Consultancy CEE, anna.staniszewska@bnpparibas.com
Erik Drukker Managing Director, Agency & Valuations, erik.drukker@bnpparibas.com
Michael Richardson Director, Corporate Solutions CEE, michael.richardson@bnpparibas.com
Małgorzata Fibakiewicz Director, Tenants Representation, Office Agency, malgorzata.fibakiewicz@bnpparibas.com
Michał Orłowski Director, Landlord Representation, Office Agency, michal.orlowski@bnpparibas.com

BNP Paribas Real Estate Advisory and Property Management Poland Sp. z o.o.
Al. Jana Pawła II 25, 00-854 Warsaw
Tel. +48 22 653 44 00
Fax +48 22 653 44 01