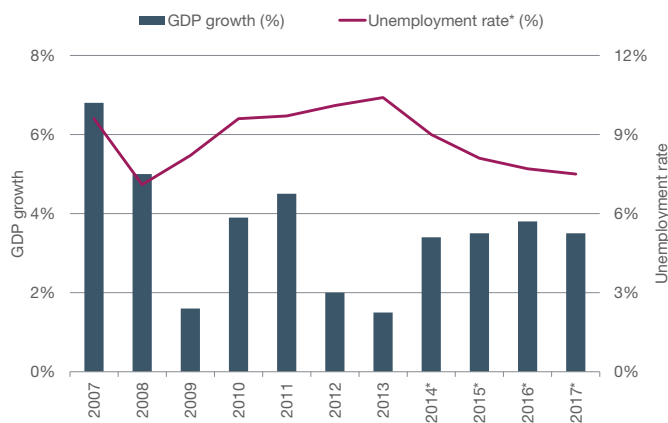


# Market in Minutes Warsaw offices

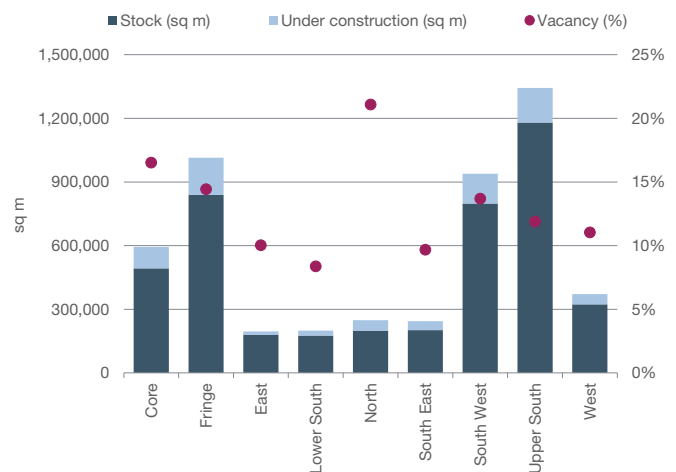
February 2015

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, Warsaw Research Forum

## SUMMARY

### Overview

- At the end of 2014 Warsaw's office stock exceeded 4.4 million sq m located in 450 office buildings of which 25 were completed over the last 12 months.
- Ca. 758,000 sq m of office space is under construction in Warsaw of which 78% remain unlet.
- Warsaw is still an attractive location for developers which was recently proved by Golub GetHouse coming back with a project in the City Centre and Penta Investments entering Polish market with their first developments in Warsaw.
- Average vacancy rate in Warsaw was 13.3% at the end of 2014, reflecting a growth by 160 bps year-on-year.
- There was ca. 0.58 million sq m of available office space at the end of 2014 and it is expected to grow further, to ca. 1 million sq m by the end of 2017.
- Prime headline rents in the City Centre are at ca. €22.00-23.00 per sq m/month whereas in the area of Mokotow at €14.00 - €15.50 per sq m/month. Due to rising vacancy, office rents will be under downward pressure in 2015 - 2017.

.....  
 “Despite a rising vacancy rate in Warsaw development activity remains high with at least 758,000 sq m of office space to be delivered to the market by 2017 year-end.”  
 .....

Dorota Ejsmont, Head of Landlord Representation, Savills Office Agency  
 .....

➔ **Economy**

In accordance with the preliminary data published in November 2014 by the Central Statistical Office, the GDP growth in Q3 2014 reached 0.9% quarter-on-quarter and 3.4% year-on-year. In late December 2014 Oxford Economics estimated full year GDP growth in Poland at 3.4% whereas the European Union and Eurozone averages were expected to reach 1.3% and 0.9% respectively.

Inflation estimated for the period of January - November 2014 was only 0.1% compared to 0.9% in 2013. According to the most recent Oxford Economics forecasts, 2014 inflation was projected at 0.2% whereas in 2015 it is expected to be only slightly higher at 0.5%. From 2016 the consumer price index is forecasted above 2.3%.

The main reference rate was reduced in October 2014 by 50 bps to 2.0%, which is the lowest rate ever recorded. It is expected that the reference rate will be reduced further by 25-50 bps in H1 2015.

In November 2014 the unemployment rate, based on the International Labour Office (ILO) definition, in Poland was 8.2%, lower than that of the European Union's (28 countries) and the Eurozone (19 countries) with averages of 10.0% and 11.5% respectively. The rate in Poland is expected to decrease to 8.1% in 2015 and to 7.7% in 2016.

The average monthly salary in the national economy reached PLN 3,781

“The largest lease agreement on the Warsaw office market last year was the pre-lease of Raiffeisen Polbank in the PRIME Corporate Center, being developed by Golub GetHouse. This is a successful come back of the developer who was not active in Warsaw for a few recent years.”

Tomasz Buras, Head of Poland

in Q3 2014 which reflected growth of 1.1% year-on-year. The National Bank of Poland projects more dynamic growth in salary levels by 4.6% in 2015 and another 5.1% in 2016.

**Development activity**

25 office buildings with a total rentable area of 276,500 sq m were granted occupancy permits in 2014. The total stock of modern office space in Warsaw is now just under 4.4 million sq m, with 75% of the space concentrated in three most popular office hubs: City Centre, Upper South and South West zones.

Almost 758,000 sq m of office space was under construction at the end of 2014 which reflects an annual growth of ca. 16%. Developer activity in the City Centre is now particularly high with Q22, Warsaw Spire, Prime Corporate Center, Atrium 2 and the refurbishment of Spektrum Tower, not to mention some other, smaller projects. The other two office zones with increased development are Upper

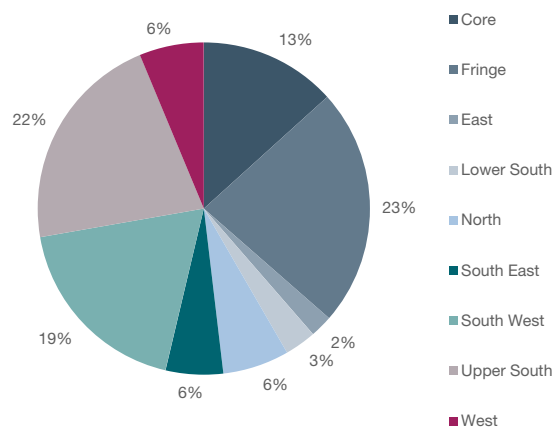
South (Mokotow) and South West zones. The stock of office space is expected to exceed 5 million sq m in 2016 only three years after 4 million sq m was broken, which is another proof the market is accelerating.

Developers have building permits for further 0.5 million sq m of office space but in many cases require pre-lease agreement(s) for at least 50% of the lettable area to secure financing and commence construction. Thus, initially assumed by investors delivery dates may be delayed.

**Letting activity**

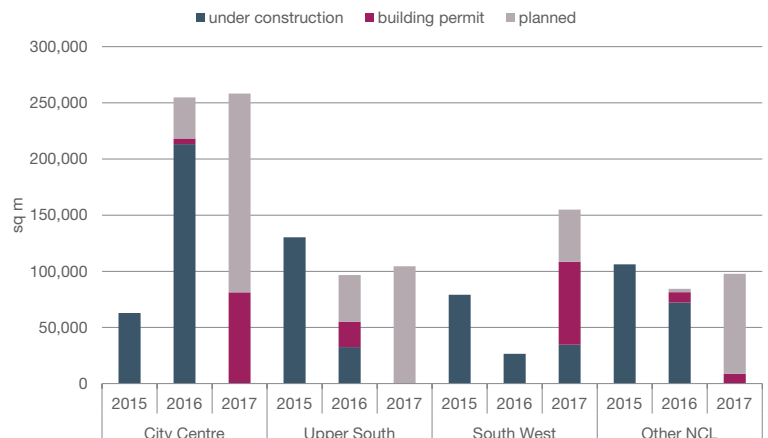
For the third year in a row, letting activity over the course of the year exceeded 0.6 million sq m. In 2014 the total take-up reached 612,400 sq m which is 3% less than the year before. Three biggest office hubs were also the most popular locations among tenants with 28% share in total take-up recorded in Mokotow (Upper South zone), 23% in the City Centre 23% in the area of AI.

GRAPH 3 **Under construction by zone**



Graph source: Savills

GRAPH 4 **New supply by status**



Graph source: Savills

Jerozolimskie and ul. Zwirki i Wigury (South West zone).

It should be noted, that the office take-up within the Central Business District was particularly low last year, having reached only ca. 60,000 sq m. We expect, that in line with the growing supply of offices in the fringe of the City Centre, demand within the CBD will remain low this year.

The sector of business and consumer services created 29% of total take-up whereas the public sector made up 14% of office demand, including some of the largest lettings in Warsaw.

Despite high volume of gross take-up, net absorption of office space was ca. 177,200 sq m, 6% below the long-term annual average of 188,700 sq m. Net absorption in central locations

“Public sector's share in office take-up in Warsaw increased from 6% in 2013 to 14% in 2014. Bearing in mind a number of institutions which still occupy old and inefficient office space, we believe that public sector will soon become one of the major players on the market.”

Tomasz Subocz, Head of Tenant Representation, Office Agency

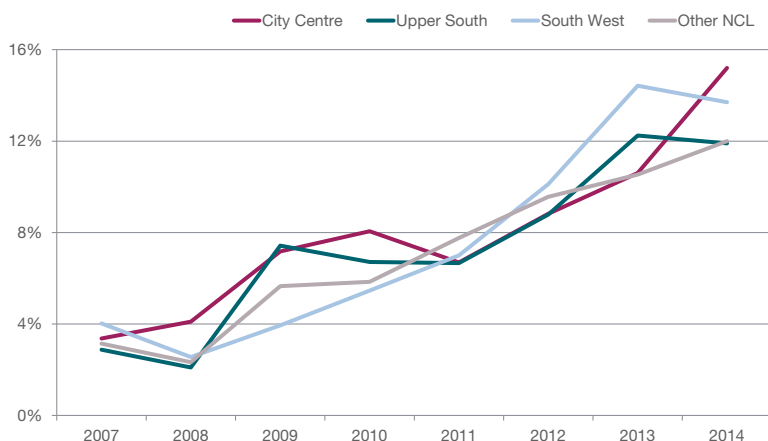
The biggest transactions included the Raiffeisen Polbank pre-lease in Prime Corporate Center (19,500 sq m), renewal of the lease with the Agency for Restructuring and Modernisation of Agriculture in Poleczki Business Park (17,500 sq m) and PKP Group's pre-lease in West Station (15,000 sq m). Lease renewals and renegotiations accounted for 31% of total take-up which is in line with the results recorded over the last few years. The share of pre-lease agreements dropped to only 15% - the lowest level since 2010.

was 69% lower than the annual average (2000-2014) whereas in Non-Central locations it was 12% higher than the average.

### Availability

As a result of the supply surplus, the average vacancy rate in Warsaw increased by 150 bps year on year to 13.3% at the end of 2014. The lowest vacancy rates were recorded in the Lower South (8.4%) and the South East (9.7%) zones, whereas in all other zones were over 10% with the highest level recorded in the North (21.1%) and

GRAPH 5  
**Vacancy rate in major Warsaw office zones**



Graph source: Savills, Warsaw Research Forum

## Meanwhile in Europe

### Shrinking office availability on major European office markets

■ Average vacancy rate across Europe's key markets was ca. 9.5% at the end of the year, a drop from the 10.2% that was recorded one year earlier. Madrid's and Frankfurt's vacancy rates were one of the highest amongst surveyed markets (14.0% and 11.6% respectively), however, they stayed almost unchanged when compared year-on-year.

■ Restrained speculative development across all major office markets together with recovery in office demand were the main reasons why vacancies have been falling in Western Europe.

■ The highest supply of new office space in the next two years will be seen in London (over 1.1 million sq m). Warsaw is on the second place, leaving Paris, Frankfurt and Berlin far behind.

■ The volume of letting activity in Warsaw was the fourth highest amongst surveyed cities with Paris, London and Berlin being the leaders in Western Europe.

■ Falling supply puts some upward pressure of prime rents in Western Europe. Prime CBD rents rose by an average of ca. 4% during the last 12 months and some further small increase is expected over the course of 2015, which is an opposite trend to Warsaw.

TABLE 1  
**Largest office projects in 2015-2016**

Project	Developer	Size (sq m)	Date
Postepu 14	HB Reavis	34,450	2015
Royal Wilanów	Capital Park	27,900	2015
Domaniewska Office Hub	PHN	27,000	2015
Spektrum Tower	Europa Capital	27,400	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

→ the two central zones (Core or CBD at 16.5% and Fringe at 14.4%).

### Rents

Prime headline rents in the City Centre range at ca. €22.00 – 23.00 per sq m/month and are under rising downward pressure, resulting from a demand shift towards the fringe of the City Centre as well as rising vacancy in Warsaw, within the Central Business District in particular.

There are a few prestigious buildings located in the best spots of the City Centre, standing out with an over-the-top standard, offered for €24.00

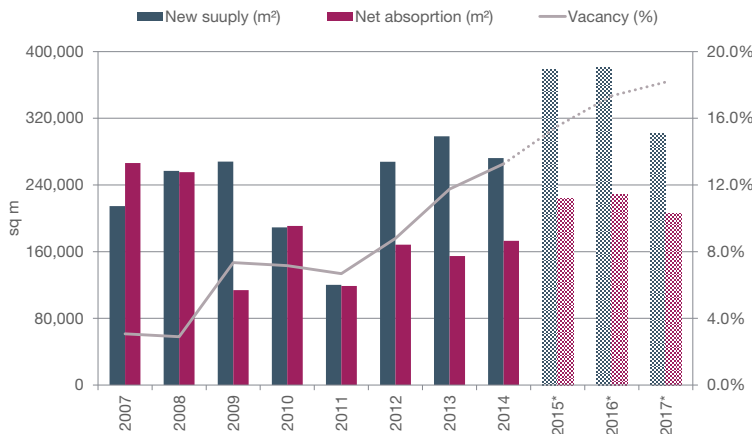
– 25.00 per sq m/month, however, this level of headline rent might be achieved only in case of smaller units.

On the other hand there are well known older office buildings that offer high quality standard and first of all an excellent location, where headline rents are at around €19.50 per sqm/month or below depending on the size of the potential transaction.

Prime rents in the area of Sluzewiec Przemyslowy (part of the Upper South zone) range between €14.00-15.50, whereas in buildings located along Al. Jerozolimskie are up to €14.00 per sq m/month. ■

GRAPH 6

### Net absorption and vacancy forecast



Graph source: Savills, Warsaw Research Forum

TABLE 2

### Key figures

Population	(June 2014)	1,729,119
Unemployment	(Nov. 2014)	4.4%
Average salary	(Nov. 2014)	PLN 5,126
No of students	(2013)	255,257
No of graduates	(2013)	64,624
No of business entities	(Nov 2014)	382,093
Office stock	City Centre	1,332,200 sq m
	Non Central	3,059,600 sq m
New supply	City Centre	84,400 sq m
	Non Central	192,200 sq m
Under construction	City Centre	276,200 sq m
	Non Central	481,900 sq m
Vacant space	City Centre	202,600 sq m
	Non Central	379,700 sq m
Vacancy rate	City Centre	15.2%
	Non Central	12.4%
Letting activity	City Centre	161,900 sq m
	Non Central	450,400 sq m
Prime headline rents	City Centre	€22.00-23.00 per sq m/month
	Non Central	€14.00-15.50 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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