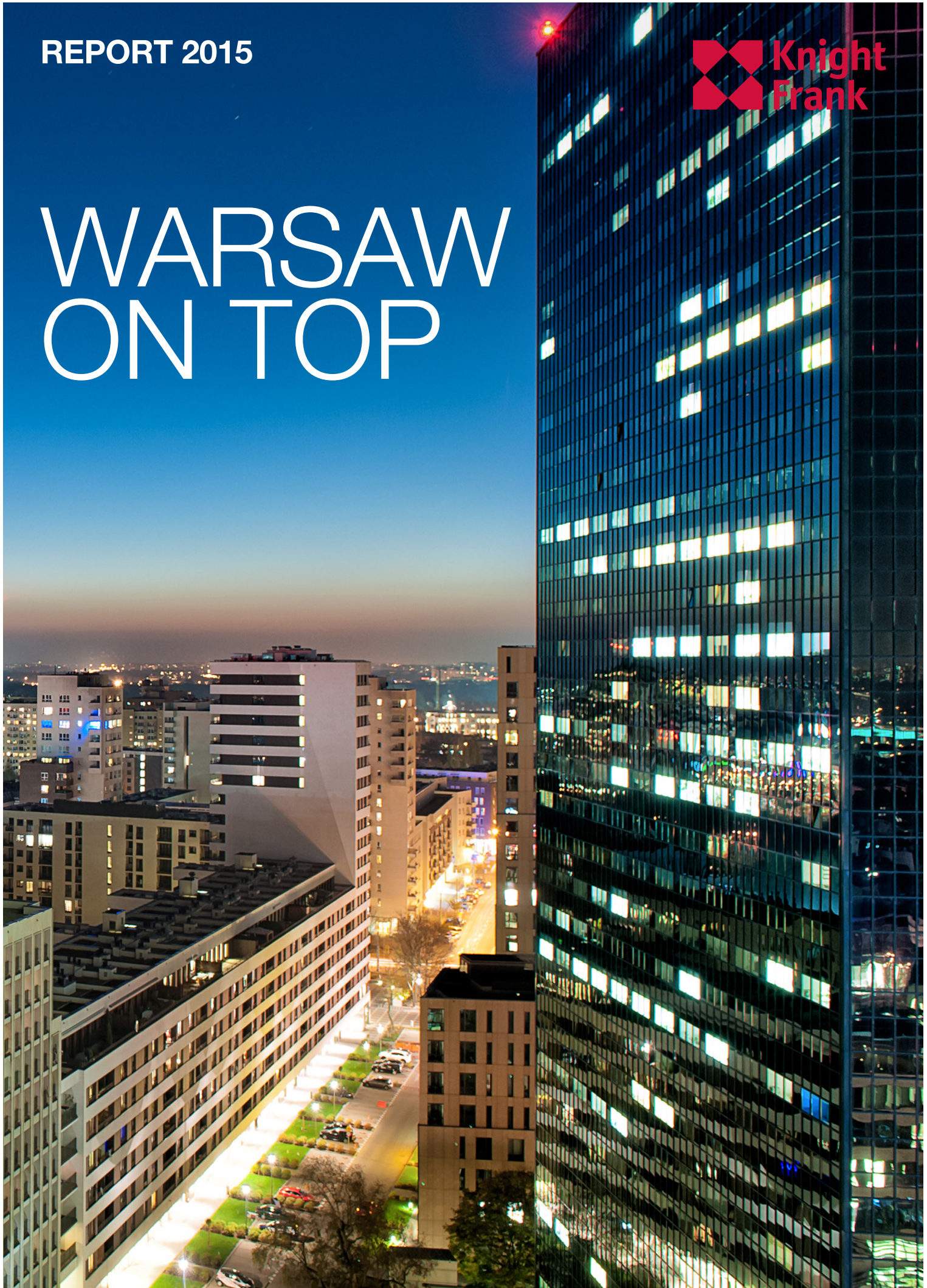


REPORT 2015



WARSAW ON TOP



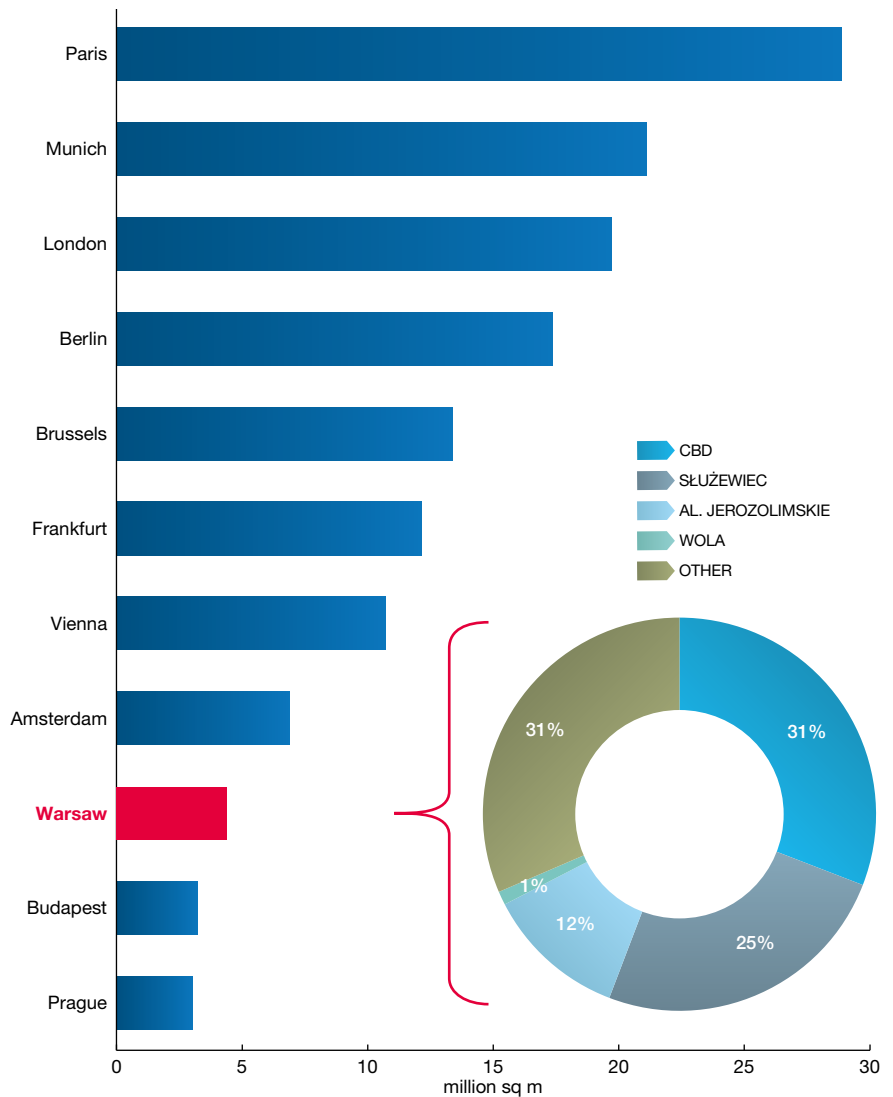
Office Market

With the total office stock estimated at approximately 4.38 million sq m, the modern office market in Warsaw has kept its leading position among the most important markets of Central Europe, ahead of, amongst others, Prague (3.03 million sq m) or Budapest (3.24 million sq m) and has gradually narrowed the gap to the well-developed markets of Western Europe.

Warsaw lies halfway between the Central European markets and the markets of Western Europe. The capital of Poland is definitely a smaller market with a higher vacancy rate than the well-developed markets of Western Europe, though, Warsaw, conversely, compares favourably with capitals in Central and Eastern Europe as a market with greater office stock and annual take-up, higher rents and a lower vacancy rate.

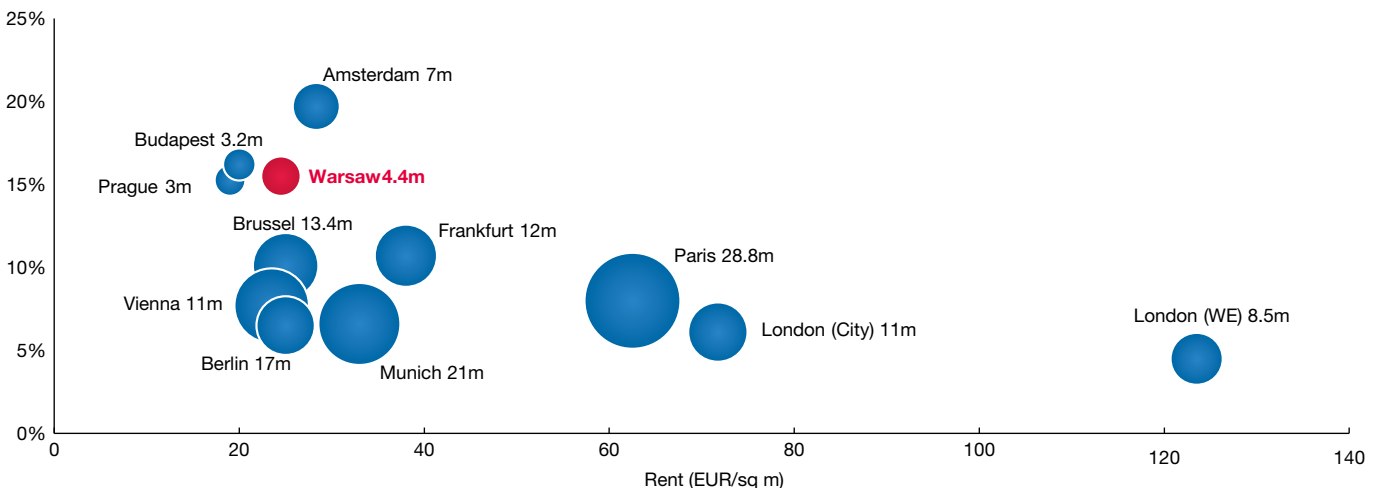
Comparison of Warsaw with selected European capital cities in terms of net take-up and the volume of vacant space indicates the large potential of the Warsaw office market. Against the background of other markets, Warsaw distinguished itself by the net positive take-up in the office sector slightly below the volume of vacant space offered in the market. In Warsaw, net take-up amounting to over 470,000 sq m is comparable to that of the well-developed

CHART 1
Office stock in selected European cities
Q4 2014



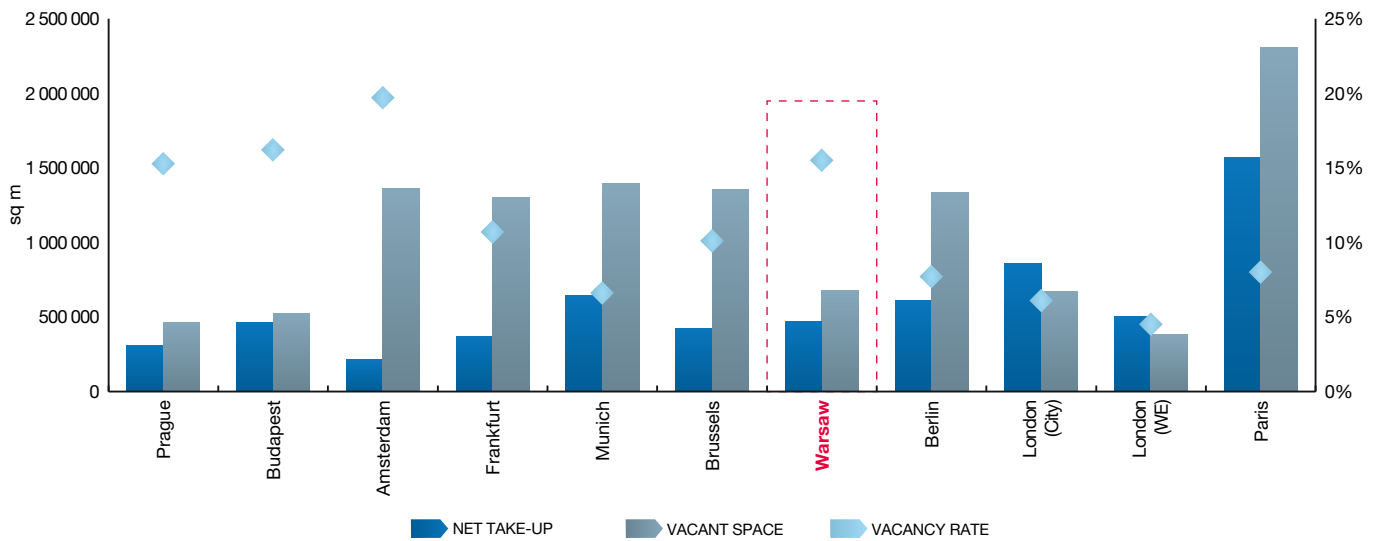
Source: Knight Frank

CHART 2
Supply, vacancy rate and rent for prime office space in selected European cities
Q4 2014



Source: Knight Frank

CHART 3
Net take-up in 2014, vacant space and vacancy rate in Q4 2014
 Q4 2014



Source: Knight Frank



countries of Western Europe such as Berlin or Brussels. However, due to the small scale of the Warsaw market, the amount of vacant space is comparable to the resources available in the relatively smaller markets of Central and Eastern Europe. Such a disparity illustrates that the high pace of office stock growth is a response to a real demand on the market. As a consequence, it is expected that the appetite for growth in the Warsaw office sector should remain in the long-term.

At the end of 2014, an average prime monthly asking rent of EUR 24.5/sq m placed Warsaw at the level of Berlin, Vienna or Brussels. Over the 12 months the level remained stable, yet with some landlords more willing to compete through range of incentives.

Due to increasing vacancy rate in Warsaw, which exceeded 15% of rentable space at the end of 2014, downward pressure on rental level has been observed in the office sector. The trend may lead to price reduction of some properties encouraging opportunistic funds to invest in Poland and raise expectations for the value increase and higher returns at disposal. As a result, it is expected that 2015 should witness an influx of new investors to Poland.

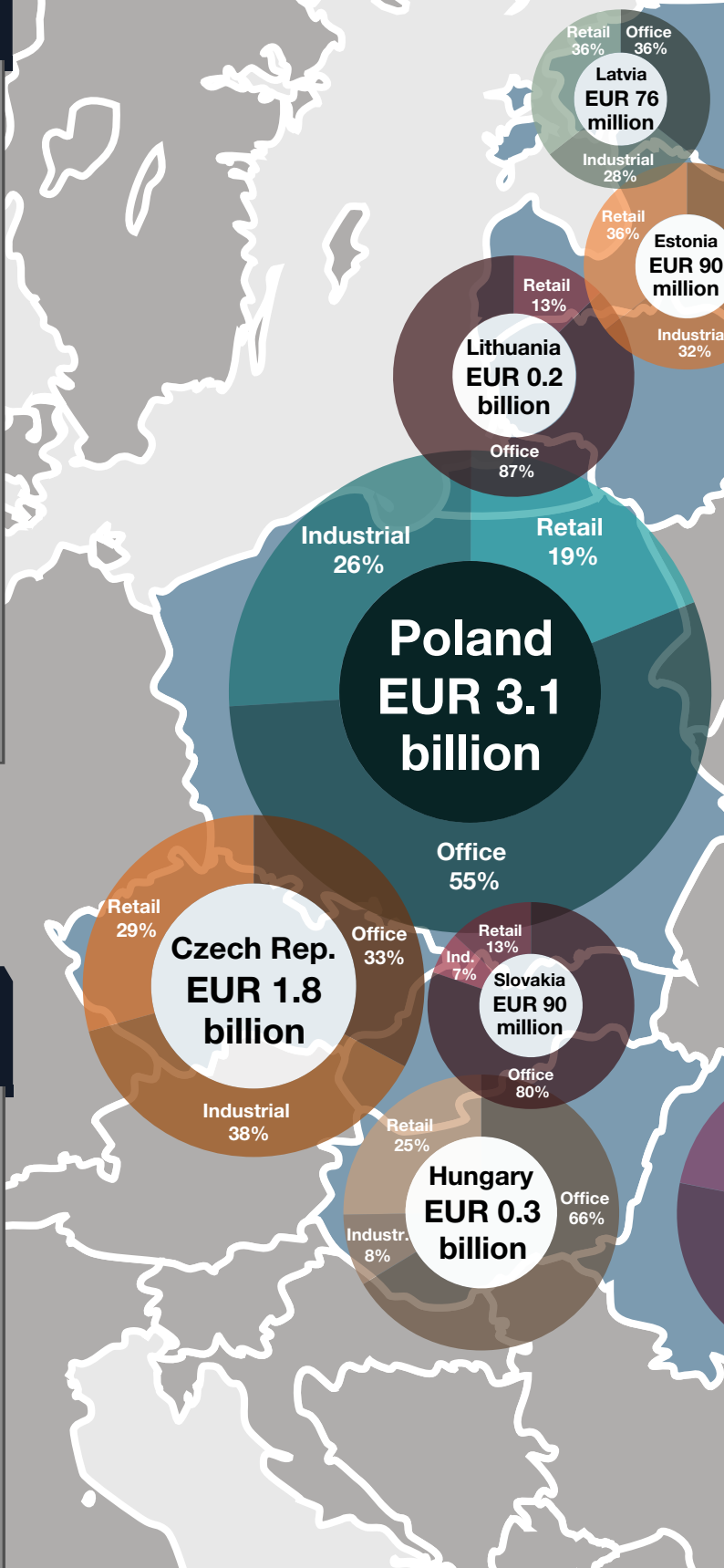
OUTLOOK

- ◆ Forecasted dynamic growth in GDP and increasing domestic demand will influence the **further growth of the office sector** in the largest cities in the short and medium term.
- ◆ Poland has been developing as **one of the most attractive locations in the world for professional services**. In the medium term it can be expected that this trend will continue which should directly translate into the continued development of the office sector in Poland.
- ◆ The dynamic growth of the sector and optimistic attitude towards the economy should be reflected in the investment market because Poland is already perceived as a **stable capital market**.
- ◆ **Dropping financial costs** can drive further **yields compression** what provides an opportunity to increase the asset values in the future.

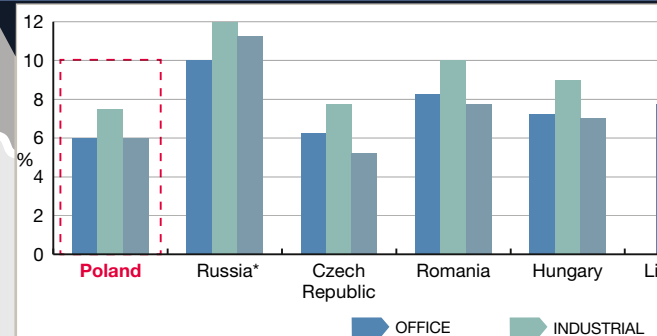
WARSAW'S STRENGTHS

- ◆ Capital city of the 38.5-million-people country
- ◆ The largest Polish city located centrally on the route of the Trans-European transport network corridor
- ◆ Poland's largest academic centre - more than 250,000 students
- ◆ The second largest industrial centre in Poland (after the Upper Silesian industrial region)
- ◆ Ranked 2nd (after Kraków) in terms of employment in the BPO/SSC sector - 22,300 employees
- ◆ The Warsaw Stock Exchange - the most important stock exchange in Central and Eastern Europe
- ◆ The most attractive sub-region for business services, financial and high-tech sectors
- ◆ The largest International Airport in Poland with ability to serve 26 million passengers annually
- ◆ Constantly improving transport infrastructure – ring roads, highways, new metro line, high-speed railways (Pendolino), new airport destinations

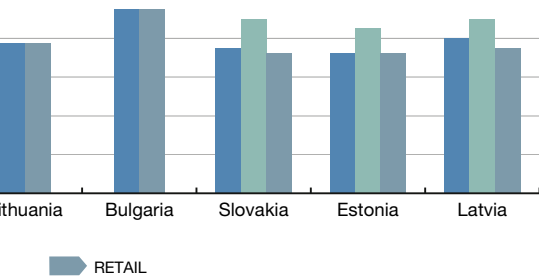
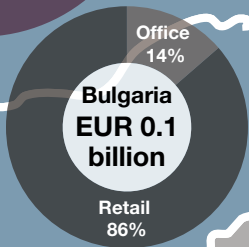
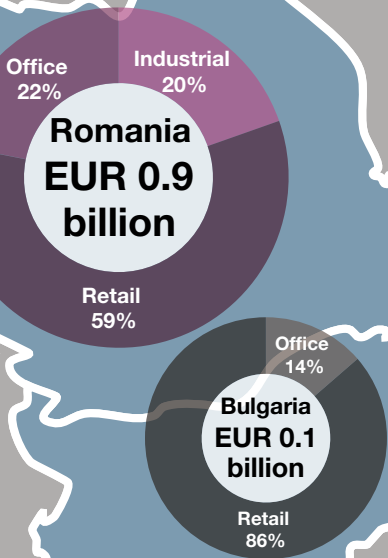
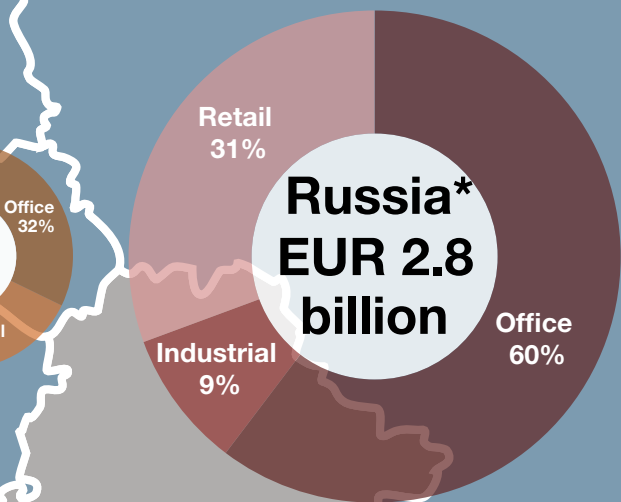
INVESTMENT TRANSACTIONS VOLUME



PRIME YIELDS BY SECTOR IN THE CEE CAPITAL CITIES



*Russia is not included in statistics for the CEE region



POLAND ON TOP

Poland's sustained leadership in CEE:

40% of the investment transactions from the CEE in 2014 was concluded in Poland

Thriving CEE investment market:

22% increase in the annual CEE investment volume

POLAND ECONOMIC OVERVIEW

Stable economy and liquid market:

9th biggest EU economy in terms of GDP

3.3% GDP growth in 2014

3.2% estimated GDP growth in 2015 according to the European Commission forecast

57.3% of GDP - public debt burden, compared to 90% in the EU

-0.3% inflation rate (December 2014)

8.2% unemployment rate at the end of 2014 according to Eurostat

EUR 195.8 bn European Funds 2014-2020 (the largest amount among EU members)

2nd in CEE in terms of business transparency (Corruption Perception Index 2014)

Well-educated young employees

Growing domestic demand

Positive sentiment in economy

Attractive relatively low property prices

Investment Market

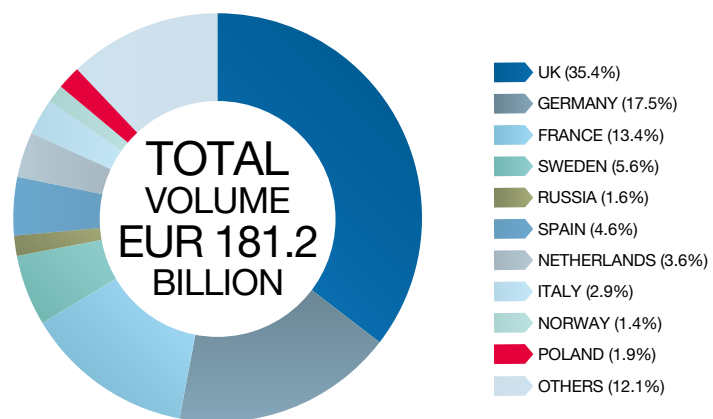
Throughout 2014, levels of investor interest in the Polish commercial market remained high. The total volume of investment transactions reached EUR 3.1 billion - the highest result since 2006. According to Real Capital Analytics, Poland ranked 10th in Europe in terms of investment activity volumes in 2014 and outperformed all other CEE countries.

The highly attractive Polish market has been greatly influenced by low property prices, which for modern office buildings located in the Warsaw's CBD stand at EUR 4,500/sq m, while for example in Madrid, exceed EUR 6,000, and in Dublin – EUR 8,000. In the largest and most attractive European markets, including Paris or London, office prices may even reach EUR 18,000 - 20,000/sq m.

Poland has recently benefited from global investors being more and more courageous when investing in Europe. In 2014, the growth dynamics of the European market significantly exceeded North America and Asia's results. The expected weakening of the Euro will make the European markets in 2015 even more likely to be considered by investors from outside the continent.

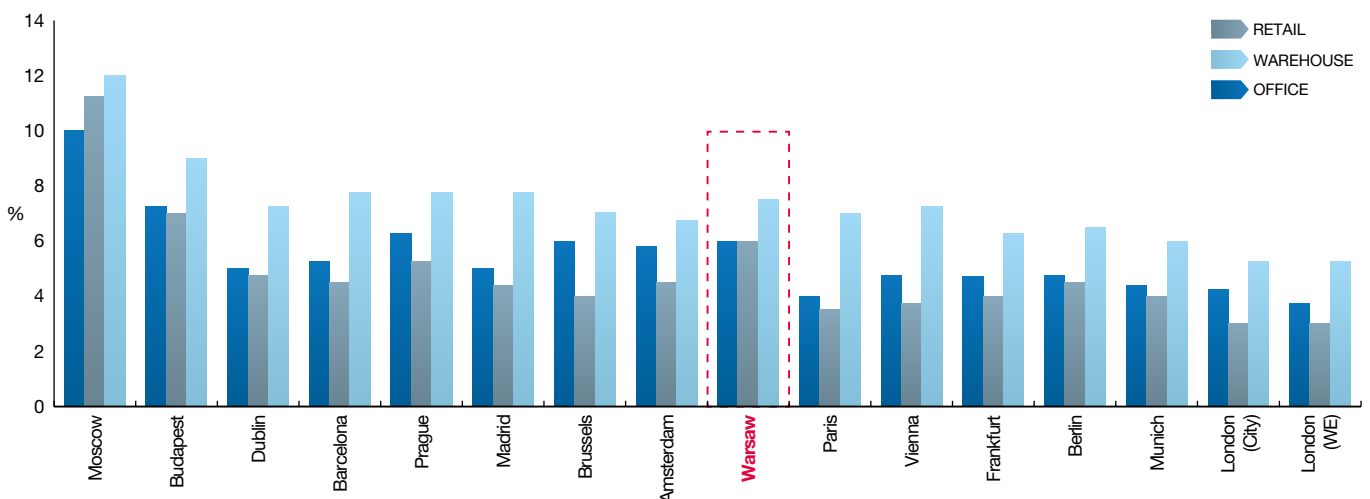


CHART 4
Major investment markets in Europe - investment volume
2014



Source: Knight Frank

CHART 5
Prime yields by sector
Q4 2014



Source: Knight Frank

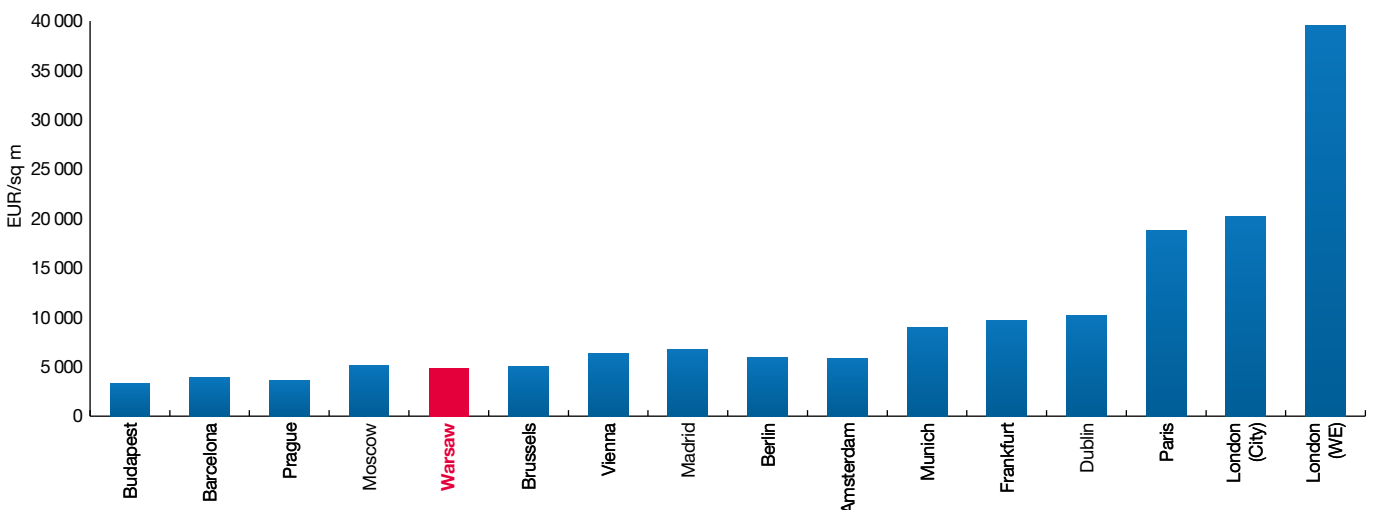


Poland remains the dominant investment market in Central and Eastern Europe with a 40% market share in 2014. The stable economy and liquid market that enables the pursuit of exit strategies have been encouraging investors to allocate funds in Poland.

Numerous transactions within the prime office sector took place in 2014 in Warsaw, with projects such as Rondo I, Metropolitan and Atrium 1 all changing hands. In the above transactions yields varied between 6.00% and 6.25%. Yields for the most attractive office projects outside Warsaw fluctuated around the 7.25% level. Similarly to 2013, prime retail yields stood at 6.00%, and in the logistics sector reached a level of 7.75%.

With a limited supply of assets that meet the requirements of the particular groups of investors, a small compression of yields may be expected, especially for warehouse projects and office products in the regional markets. The scale of investment volume should be influenced by both the economic and political situation in Europe, yet forecasts for the Polish property investment market remain positive.

CHART 6
Office capital value
2014



Source: Knight Frank



As one of the largest and most experienced research teams operating across Polish commercial real estate markets, Knight Frank Poland provides strategic advice, forecasting and consultancy services to a wide range of commercial clients including developers, investment funds, financial and corporate institutions as well as private individuals.

We offer:

- ◆ strategic consulting, independent forecasts and analysis adapted to clients' specific requirements,
- ◆ market reports and analysis available to the public,
- ◆ tailored presentations and market reports for clients.

Reports are produced on a quarterly basis and cover all sectors of commercial market (office, retail, industrial, hotel) in major Polish cities and regions (Warsaw, Kraków, Łódź, Poznań, Silesia, Tricity, Wrocław). Long-term presence in local markets has allowed our research team to build in-depth expertise of socio-economic factors affecting commercial and residential real estate in Poland.

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2014 Poland in a European context



Office market in Wrocław: Q3 2014



Office Market in Warsaw: 2014



Commercial Market in Poland: 2014

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