Warsaw Office & Retail
MarketView

Q1 2013

CBRE Global Research and Consulting

OFFICE STOCK 3.9 M SQ M | OFFICE VACANCY 9.9% | OFFICE TAKE-UP (1Q13) 155,000 SQ M | RETAIL VACANCY 2.6% | RETAIL STOCK 1.4 M SQ M

GENERAL OVERVIEW

Hot Topics

- Despite the general economic slowdown, office and retail sectors in Warsaw have been performing relatively well.
- The Q1 2013 investment volume reached nearly EUR 600 million, with a large share of office transactions.
- The office gross take-up in Q1 2013 totalled 155,000 sq m, attesting a sound activity of tenants.
- It is expected that in 2013 the office vacancy rate might well exceed 10%, which may have a significant impact on average rental rates in the most competitive locations.
- This year's retail supply will be enlarged by three new projects and two expansions coming on in Warsaw agglomeration.
- Over 30 new shops were established last year, while 10 new brands have already announced the opening only this quarter.
- Low vacancy rate in shopping centers at the level of 2.6%.
- Stable prime rents in both sectors.

POLISH ECONOMY

The recent economic indicators in Poland confirm the general slowdown as observed across Europe. As a result, weakening production and lower investment levels create a challenge to the country's economy. Nevertheless, despite the persistent uncertainty, the Polish economy is perceived as one of the most stable in Europe.

The main concerns for the Polish economy relate to the Eurozone's ongoing fiscal problems and decreasing external demand, together with household consumption that has now stabilized after years of continuous growth.

As a reaction to the decreasing inflation, which fell well below the target value in the second half of 2012, Monetary Policy Council cut the interest rates to the level of 3.25% at the end of Q1 2013, achieving its historical low.

In the medium term, thanks to sound economic fundamentals, the overall situation in the Polish economy should rally in the second half of 2013 with an estimated GDP growth for the whole year at the level of 1.5%. The fiscal deficit has fallen sharply over the past two years, while government debt remains manageable. Foreign investors, including the BPO and shared service centre sector remains very active in Poland.

INVESTMENT MARKET

Total investment volume in the commercial property sector in the first quarter of 2013 reached almost EUR 600 million. There were 9 office transactions generating over 70% of the total volume. The most significant office transactions last quarter included the purchase of Mokotow New City by Hines and the transfer of 50% stake of Trinity Park I to Pramerica fund. Only one office transaction closed outside the capital city – Green Towers in Wroclaw bought by PZU AM.

There was only one significant retail investment transaction registered last quarter - the purchase of Galeria Leszno, bought by Blackstone. It is expected that a number of assets should be transacted in the second half of the year.

As the number of prime assets remain limited, we expect more opportunistic investors to enter the market and generate demand for secondary assets. Another visible trend is a growing activity of domestic investors, both in terms of purchases and disposals.

Estimations for prime office yield remains stable at 6.25% with a slight compression of retail yields to 5.90% for the best products not only in Warsaw but also in the largest regional cities such as Krakow or Wroclaw.

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OFFICE MARKET

The total leasing activity in Q1 2013 exceeded 155,000 sq m, attesting a sound activity of tenants. 37% was attributable to renewals, while 19% was represented by pre-lets. The largest leases registered in the first quarter include the renewal of BNP Paribas in Trinity Park I (11,000 sq m), renewal and expansion of P4 (Play) in Marynarska Business Park (9,600 sq m) and a build-to-suit agreement signed by Konsalnet in Wola district (8,200 sq m).

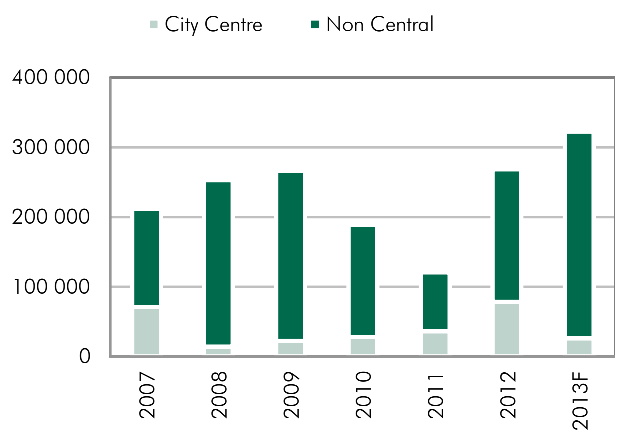
Cost reductions still seem to be a major demand driver. A number of companies are seeking to consolidate and are searching the market for new, more flexible headquarters at a lower rent. Therefore the fringe of the city centre has gained on popularity due to a more diversified offer and affordable rental conditions. Still, non-central locations attract more tenants.

At the same time, supply has been rapidly increasing. The office stock level in Warsaw increased by 76,200 sq m in Q1 2013 and reached over 3.9 million sq m. The most recent deliveries include Konstruktorska Business Centre (48,000 sq m) and Ambassador (15,600 sq m), both in Mokotow. Currently, there is around 590,000 sq m of office space under construction, translating into one of the largest pipelines in Europe. 50% of the currently constructed space is located in seven largest projects only, indicating a high concentration of the construction activity. Around 32% of the developed office space in Warsaw has already been pre-leased.

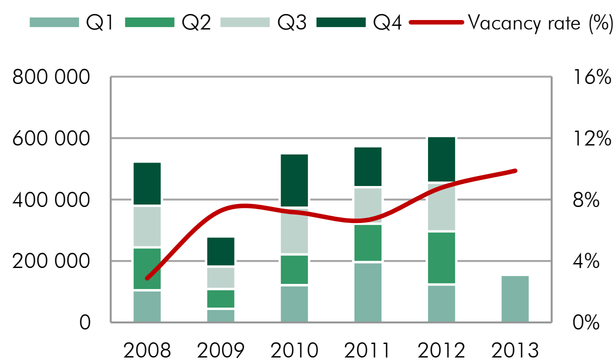
The vacancy rate went up in the last quarter to the level of 9.9% on average, with non-central locations registering 10% and central zones indicating 9.6%. The increase is associated with a substantial number of speculative completions. However, the market has absorbed over 170,000 sq m in 2012, which proves that tenants are still intensively expanding. The best schemes, located in the established office zones are usually delivered with a relatively small level of vacancy. It is expected that by the end of 2013 the vacancy rate might well exceed 10%, which might have a significant impact on average rental rates in the most competitive locations.

Prime headline rents remain stable. The best buildings in CBD are quoted at EUR 25 – 27 /sq m/month, while in non-central locations rents are at EUR 14 – 16 /sq m/month. In the light of a growing market competitiveness, the incentives have increased in importance, which translates into effective rates being even 30% below the headline rates.

WARSAW OFFICE COMPLETIONS (sq m)



WARSAW TAKE-UP (sq m) & VACANCY RATE (%)



PRIME HEADLINE RENTS (EUR/sq m/month)

Office Zone	Central Business District	City Centre Fringe	Non-Central
Prime headline rent (EUR/sq m/month)	27.00	21.00	16.00
Prime effective rent (EUR/sq m/month)	24.50	19.00	13.00
Average asking rent (EUR/sq m/month)	22.00	17.00	14.50
Average tenant incentives	5 months	5 months	7.5 months
Typical lease length	5 years	5 years	5 years

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RETAIL MARKET

With 1.37 million sq m the Warsaw retail market remains one of the least saturated amongst Polish agglomerations. This is confirmed also by the low vacancy rate at 2.6% of the total stock of units, available mainly in the oldest and poorly performing centres. However, this year three new projects will enlarge the retail supply:

- Factory Annopol, an outlet centre of 19,700 sq m developed by Neinver in Bialoleka district, opened in March.
- Galeria Miejska Plac Unii, a mixed-use structure with 15,300 sq m of retail GLA. It is a joint project of BBI Development and Liebrecht&wooD with such tenants as Zara, Liu Jo, Samuel Fashion Concept or Hebe, scheduled for October;
- Galeria Podkowa located in Podkowa Lesna, will offer nearly 8,000 sq m of GLA leased by Marcpol supermarket, CCC, H&M, Rossmann and others. The opening is scheduled for May 2013.

Additonally there are two expansions - a second phase of Auchan Lomianki (10,000 sq m of GLA in May) and a new expansion of Galeria Mokotow (5,000 sq m).

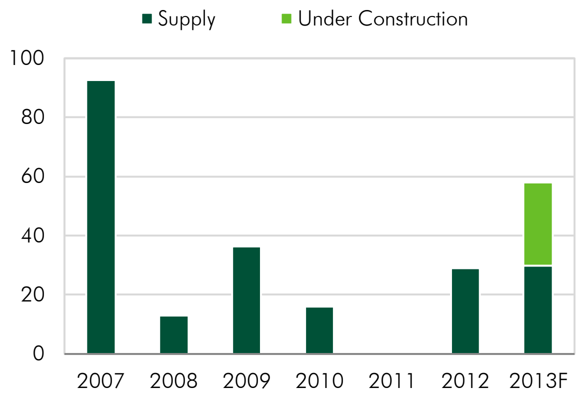
Moreover, several retail projects are in the planning stage. The most significant include GTC's projects in Wilanow and Bialoleka, Galeria Nova in Piaseczno or Galeria Kabaty. In addition, smaller developers are also active and are investing in a number of convenient shops and galleries in residential neighbourhoods.

Furthermore the Warsaw high street sector is clearly benefiting from the lack of retail space in shopping centres. The area between Swietokrzyska St. and Zbawiciela Pl. is being gradually established as Warsaw's prime retail zone which now visibly expands not only along Royal Route and Marszalkowska St., but also along the parallel corridor of Bracka and Mokotowska Streets.

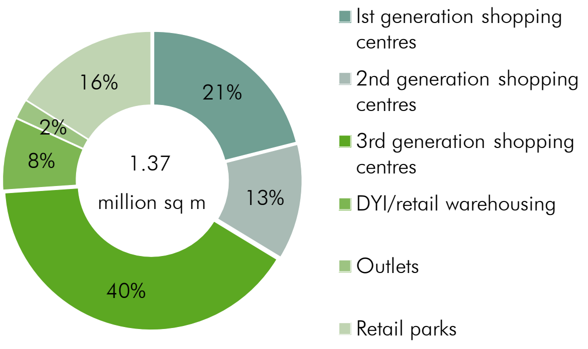
At the same time new chain retailers have entered the market. We have registered over 30 new shops last year, while 10 new brands announced the opening only last quarter. Hollister, Boomerang and Charley's have already started their activity in Poland.

Warsaw is the most expensive retail location in Poland with prime rents at about EUR 75 – 90 /sq m/month (for the best units of approximately 100 sq m in a prime shopping centre) and average rents at EUR 30 – 45 /sq m/month. High street rents for the best units reach EUR 70 - 90 /sq m/month. Lack of available retail space increases the upward pressure on rents in the best schemes and locations.

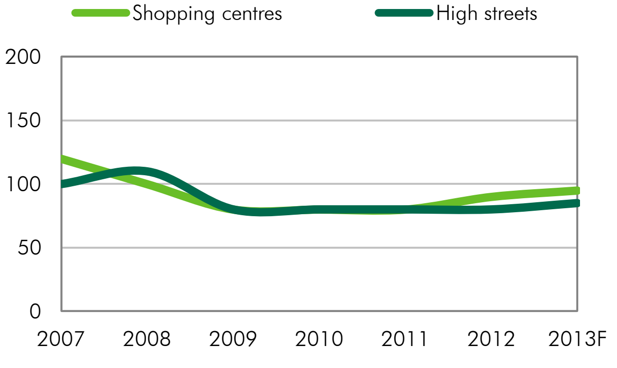
SHOPPING CENTRE SUPPLY ('000 sq m of GLA)



RETAIL FORMATS IN WARSAW



PRIME RENTS IN WARSAW (EUR/sq m/mth)



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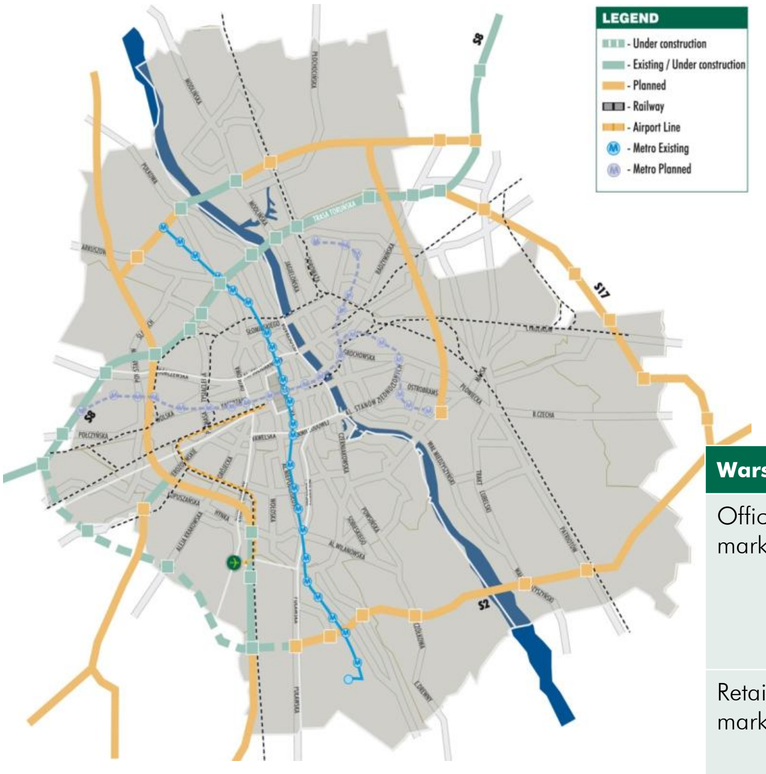
WARSAW MAP



Warsaw economy	Q1 2013
Population in agglomeration	3,200,000
GDP growth in 2013*	4.2%
Workplace-based headcount employment*	1,275,000
Average monthly gross salary	EUR 1,200
Unemployment rate	4.4%
Registered companies	355,000

*Source: UMP, GUS, *Oxford Economic, 2013*

Warsaw Q1 2013 summary			q-o-q
Office market	Stock	3.9 m sq m	↑
	Vacancy	9.9%	↑
	Take-up	155,000 sq m	↑
	Prime rents	EUR 25 – 27	↔
Retail market	Stock	1.4 m sq m	↔
	SC density	428 sq m	↔
	Vacancy	2.6%	↔
	Prime rents	EUR 75 - 90	↔

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