At a glance

WARSAW OFFICE MARKET REVIEW

Q4 2013

With vacancy on the rise and a large pipeline supply scheduled for the next 18-24 months, pressure on rents has already been recorded. Taking into consideration the fierce competition among landlords, especially within secondary stock, the timing is right for large occupiers to consider relocating.

SHARP INCREASE IN SUPPLY WITH OVER HALF A MILLION SQM IN THE PIPELINE

The total modern office supply in Warsaw currently stands at over 4.11 million sqm. The volume of new office completions in 2013 reached around 300,000 sqm, which was the largest increase in annual office supply since 2000. It represents an 11.8% y-o-y increase compared to last year and almost a 150% rise vs. 2011.

Four buildings of over 40,000 sqm each were completed, including Miasteczko Orange, Konstruktorska Business Center, Marynarska 12 and Plac Unii.

Similar to previous years, the vast majority of new office space is located in non-central areas: the Mokotów (Upper South) and South West office subzones in particular.

Within the next 18-24 months, the market will increase by a further 550,000 sqm with a much more diverse offer of new projects. These include a couple of schemes in the city centre, as well as developments in the west and east of the core Mokotów cluster.

The largest pipeline schemes due for delivery over the course of 2014-2015 include Atrium One, Eurocentrum, Gdański Business Center, Postępu 14, Q22, Royal Wilanów and Warsaw Spire.

LARGE TRANSACTIONS BOOST TAKE-UP TO A FIVE YEAR HIGH

Take-up in Warsaw rose to over 450,000 sqm in 2013, which was the best result since the record year of 2008 when 460,000 sqm of space was transacted. Pre-letting activity increased, constituting nearly 40% of deals signed. Overall take-up in 2013 rose 2.3% and 11.4% compared to 2012 and 2011 respectively.

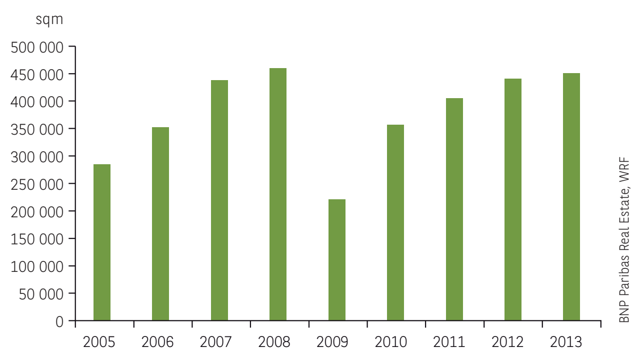
Within the next 12-18 months, letting activity may slightly decline and reach 350,000 sqm in 2014 and 320,000 sqm in 2015 reflecting the cyclical nature of property market.

Renegotiations, which are excluded from the take-up calculations, amounted to around 180,000 sqm. These are likely to maintain a 25-30% market share of all transactions signed on the market.

The major transactions in 2013 included Polkomtel's pre-let of a 22,700 sqm office building in ul. Konstruktorska 4, Urząd Rejestracji Leków taking 13,000 sqm in Ochota Office Park, the letting of 12,200 sqm by Santander in Atrium One and 8,300 sqm preleased by KPMG in Gdański Business Centre.

Annual office supply

Annual office take-up



THE UPWARD TREND IN THE VACANCY RATE CONTINUES

At the end of 2013, there was approximately 480,000 sqm vacant, translating into a vacancy level of 11.7%. Compared with last year, the ratio rose by 290 bp.

More space is available within Non-Central areas, recording a 12.2% vacancy rate, while Central office zones have a vacancy rate of 10.6%.

The trend is likely to continue over the next 18-24 months and the vacancy could reach around 13-15% by 2015. According to the forecasts, most of the space available will be located in older buildings (over 10 years old), constituting over 50% of current stock. These buildings will be vacated by large occupiers that will benefit from early commitment to prelease agreements in pipeline schemes, securing highly efficient space at a competitive price.

However, it should be noted that prime and well-managed schemes within the key submarkets should remain relatively immune to negative sentiment prevailing across the rest of the market.

RENTS UNDER PRESSURE

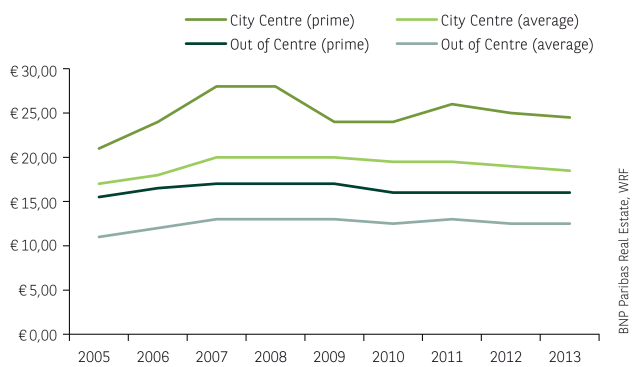
Current headline rents for prime properties within the city centre range from €23-25 per sqm/month, with the Warsaw average of €4-6 per sqm less. Prominent non-central office buildings range from €15-17 per sqm/month, while average headline rates in these areas range from €13-15 per sqm/month.

Anticipating the projected rise in vacancy, landlords have already adopted more competitive marketing strategies and financial offers. The upcoming supply increase has already put pressure on average headline market rates, which have declined by €1-2 per sqm, widening the gap with prime rents that are more immune to decrease.

In particular, the downward trend will certainly prevail in cases of large future pre-lets as well as older buildings fighting to retain their tenants. Depending on location, rent levels are forecast to decrease by a further 10-15% within the next 12 months.

Vacancy rate

Prime and average rents



Major office buildings under construction

Building	Total office area (sqm)	Subzone	Developer	Planned delivery
The Park Warsaw	110,000	South West	AIG Lincoln	2014-15*
Warsaw Spire	105,000	City Centre	Ghelamco	2014-15*
Q22	50,000	City Centre	Echo Investment	2015
Gdański Business Center	47,000	North	HB Reavis	2014
Eurocentrum	38,700	South West	Capital Park	2014
Postępu 14	34,000	Upper South	HB Reavis	2015

* the first phase (s)

Major pipeline office buildings

Building	Total office area (sqm)	Subzone	Developer	Planned delivery
ArtNorblin	40,000	City Centre	Capital Park	2016-17
Business Garden next phases	35,600	South West	SwedeProp	2015-16
Balmoral Office Center I, II	31,000	North	Balmoral Properties	2016
Mokotów One	30,000	Upper South	Apricot Capital	2016
Copernicus Square	26,400	City Centre	Hochtief Development	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	The tenant usually pay the agent's fee however in some cases, landlords do offer to cover the fee
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, +48 22 653 44 49, anna.staniszewska@bnpparibas.com
Erik Drukker Managing Director, Agency & Valuations, +48 22 653 44 00, erik.drukker@bnpparibas.com
Michael Richarson Director, Corporate Solutions Central and Eastern Europe, +48 22 653 44 00, michael.richardson@bnpparibas.com
Małgorzata Fibakiewicz Director, Tenants Representation, Office Agency, +48 22 653 44 00, malgorzata.fibakiewicz@bnpparibas.com
Michał Orłowski Director, Office Agency, +48 22 653 44 00, michal.orlowski@bnpparibas.com

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