At a glance

WARSAW OFFICE MARKET REVIEW
Q2 2014

As projected, the last six months saw the vacancy rate in Warsaw increase by 2.9 p.p. from 10.5% recorded at the end of 2013 to 13.4% by end of June 2014, which was a result of arrival of new buildings as well as a decrease in letting activity to 165,000 sqm. With continuous strong construction activity, the market conditions favour occupiers.

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

With over 192,000 sqm completed from January till June 2014, the total supply in Warsaw exceeded 4.3 million sqm.

New deliveries were noted mainly in Mokotów (Upper South) with Park Rozwoju 1 (16,000 sqm), Domaniewska 45 (10,000 sqm) and South West with some major completions like Eurocentrum Phase 1 (38,700 sqm) and Green Wings (10,800 sqm). Notably the North zone supply has increased substantially with the development of Gdański Business Center (44,500 sqm) by HB Reavis. Atrium South I by Skanska offering 15,700 sqm was one of the major completions in the Core subzone.

Within the next 1.5 years, the level of new supply could range from 420,000-430,000 sqm, with 200,000 sqm more under construction due for delivery after 2015. The bulk (~45%) of pipeline supply will be delivered in central locations (Core and City Centre), including some major refurbishments like Spectrum Tower, Pałac Małachowskiego and Ethos.

MID-TERM DECLINE IN TAKE-UP IN ANTICIPATION OF LOWER RENTS

In H1 2014 take-up in Warsaw was recorded at around 165,000 sqm, which is 30% lower than last year. The letting market was very active in terms of renegotiations, accounting for an additional 90,000 sqm of transactions.

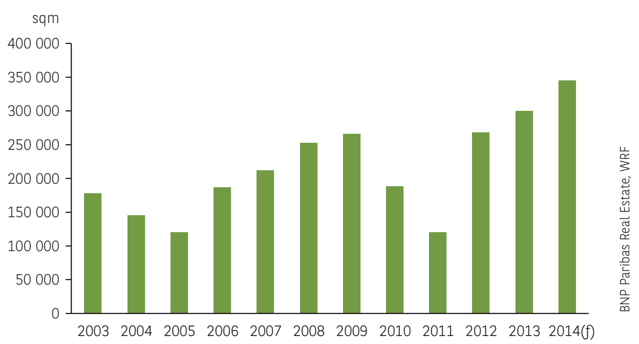
BNP Paribas Real Estate forecasts the annual take-up for 2014 to be approximately 340,000-350,000 sqm with a similar result in 2015.

Due to the large number of office options available, tenants are becoming increasingly more demanding in seeking their preferred option extending the time required for the selection process.

The most prominent transactions closed in the first six months of 2014 include: Citibank taking 12,500 sqm in Marynarska 12, Sąd Okręgowy preletting 6,000 sqm in Płocka 9/11 and Polska Spółka Gazownictwa preleasing 5,000 sqm in Bolero Office Point.

Major renegotiations were also closed with Netia in Marynarska Business Park (13,200 sqm), PwC in IBC I (10,800 sqm) and Nokia Siemens Networks in Horizon Plaza (5,300 sqm).

Annual office supply



Annual office take-up

THE UPWARD TREND IN THE VACANCY RATE CONTINUES

At the end of June 2014, 580,000 sqm of office space remained vacant, reflecting a vacancy level of 13.4%, representing a 2.9 p.p. increase compared to last year.

Central locations recorded a slightly higher vacancy of some 14%, with non-central areas closer to 13%. Due to the largest completions being delivered within these districts, the South West subzone saw a vacancy rate of 23%, with the Core and North subzones recording 15%. These subzones experienced the highest vacancy rates in the City in H1 2014, whereas the South East zones recorded the lowest.

The upward trend in vacancy is likely to continue over the next 18-24 months. Vacancy could reach around 14-15% by 2014 and 16-17% in 2015. A large portion of this vacancy will be situated in buildings which are 15 years or older. This is why many landlords conduct substantial refurbishment and upgrade to these assets to better compete with the rest of the market.

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

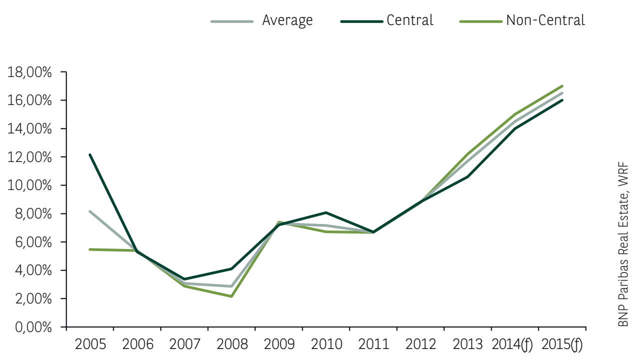
RENTS UNDER PRESSURE

The headline rent levels for prime properties within the city centre range from €22 to 24 per sqm/month, with the Warsaw average being €4-6 less. Prominent non-central office buildings located close to the centre with good transport accessibility and visibility are quoted from €15 to 17 per sqm/month, while average headline rents in these areas range from €13-15 per sqm/month.

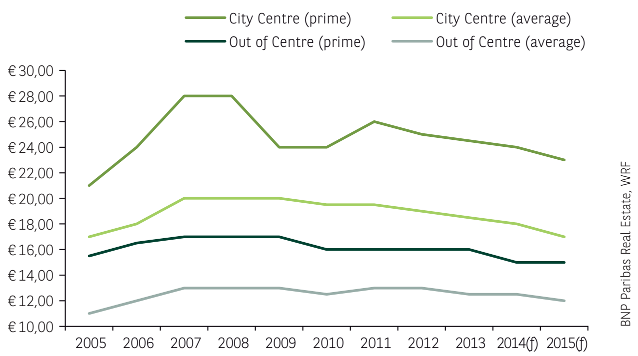
Taking into consideration the projected rise in vacancy, landlords have already adopted more competitive letting strategies. For pre-lets, they increasingly offer incentives lowering headline rents by as much as 20-30%. Additionally, in case of an older stock in the city centre, effective rates are now comparable to those offered by new schemes being delivered in the Upper South subzone (Mokotów).

The upcoming supply has already put pressure on average headline market rates which have declined by €1-2 per sqm, widening the gap between them and prime rents, which tend to be more stable.

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
Postępu 14	34,000	Upper South	HB Reavis	2015

*Second phase

Major pipeline office buildings

Building	Total office area (sqm)	Subzone	Developer	Planned delivery
ArtNorblin	40,000	City Centre	Capital Park	2016-17
Business Garden	35,600	South West	SwedeProp	2015-16
Mokotów One	30,000	Upper South	Apricot Capital Group	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	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

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