Warsaw Property MarketView

Q3 2012 | CBRE Global Research and Consulting

OFFICE STOCK 3.7 M SQ M | OFFICE VACANCY 8.1% | RETAIL STOCK 1.3 M SQ M | WAREHOUSE STOCK 2.7 M SQ M | WAREHOUSE VACANCY 17%

GENERAL OVERVIEW

Hot Topics

- The level of 2012 total investment volume should reach at least EUR 2 billion.
- The total office leasing activity for the first three quarters has exceeded the last year's level for that same period.
- It is expected that in 2013 the office vacancy rate might well exceed 10%, which might have a significant impact on average rental rates in the most competitive locations.
- This year's retail supply will be extremely scarce with only two new projects coming on stream in Warsaw.
- The improvement in the warehouse leasing market has been confirmed by decreasing vacancy rates.

Warsaw Economy

	Q3 2012
Population in agglomeration	3,200,000
GDP growth*	4.5%
Workplace-based headcount employment*	1,500,000
Average gross salary (EUR)	1,200
Unemployment rate	4.1%
Registered companies	345,000

*Source: GUS, *Oxford Economic, 2012*

POLISH ECONOMY

The recent economic indicators in Poland confirm the general slowdown as observed across Europe. GDP growth in Q2 decreased to 2.4% from 3.5% in the first quarter. This, along with weakening production and investment levels, creates challenges to the country's economy. Nevertheless, the unemployment rate has been relatively steady and, despite the current uncertainty, the Polish economy is perceived as one of the most stable in Europe.

According to Oxford Economics' estimates, GDP growth should reach 2.4% in 2012 and 2.2% in 2013. 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.

Another important issue that could cast a shadow on Poland's economy is the relatively high level of inflation. According to the official statement of the Polish Monetary Council, the reference rate, currently at the level of 4.5%, should be decreased in Q4 2012.

At the same time positive information is coming from the Investment Agency (PAIiIZ), which forecasts that the level of Foreign Direct Investments in Poland will remain high, particularly from the outsourcing sector driven by cost optimization in many western corporations.

INVESTMENT MARKET

Total investment volume in the commercial property sector has reached over EUR 1.5 billion since the beginning of the year. The most popular assets are still prime office buildings which attract core investors. There were 10 office transactions generating 30% of the total investment. The most significant office purchases last quarter included Twarda Tower by Europa Capital and the portfolio of two office buildings to be refurbished in Warsaw by Kulczyk Silverstein Properties. There was only one office transaction closed outside the capital city – Arkonska Business Park B 3&4 in Gdansk. Industrial volume has also significantly increased with a couple of portfolios being transacted.

Based on the number of large, ongoing deals such as Manufaktura, Warsaw Financial Centre or International Business Centre, the level of 2012 total investment volume should ultimately reach at least EUR 2 billion. As the number of prime assets remains limited, we expect more opportunistic investors to enter the market and generate demand for secondary assets.

Prime yields remain stable – 6.00% for retail, 6.25% for office and 7.50% for logistic assets. In the regional cities prime assets are valued around 100 b.p. higher, although the prime retail yields remain at the same level as in Warsaw.

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OFFICE MARKET

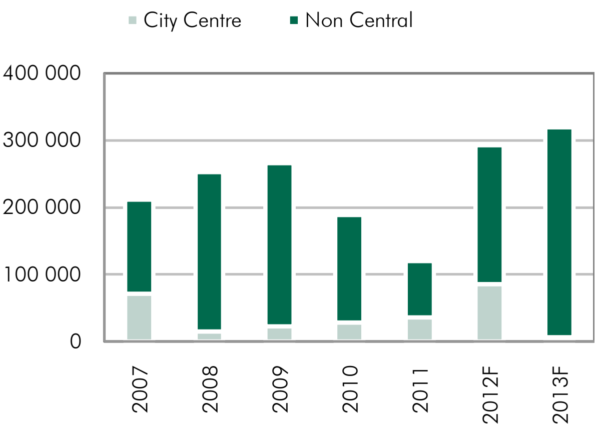
The office market in Warsaw has been performing relatively well. However, cost reductions still seem to be a major demand driver. A number of companies are seeking to consolidate and are searching the market for new, more flexible headquarters at a lower rent. Again, non-central locations attract more tenants. Furthermore the fringe of the city centre has gained on popularity due to a more diversified offer but also affordable rental conditions. The total take-up in the last quarter reached 157,700 sq m. The total leasing activity for the first three quarters has exceeded the last year's level for that same period. Surprisingly, only 22% was attributable to renewals, while 41% was represented by pre-lets. The largest leases registered in the third quarter include Assecco's own occupation of their new headquarters in Wilanow Office Park (20,400 sq m), a pre-lease of 12,400 sq m by Poczta Polska in a newly planned building at 37c Domaniewska St. and of 11,400 sq m by GDDKiA in Green Corner.

At the same time, supply has been rapidly increasing. The office stock level in Warsaw increased by 56,000 sq m in Q3 2012 and reached over 3.7 million sq m. The most recent deliveries included Senator and two phases of Wilanow Office Park. Currently, there is around 680,000 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 eight large projects only, indicating the high concentration of the construction activity. Around 27% of the developed office space in Warsaw has already been pre-leased.

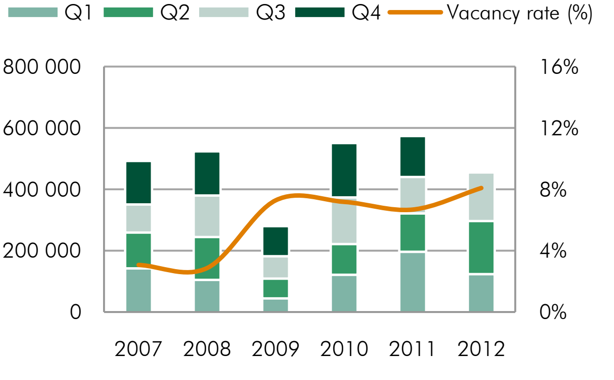
The vacancy rate went up in the last quarter to the level of 8.1% on average, with non-central locations registering 7.8% and central zones indicating 8.7%. The increase is associated with a substantial number of speculative completions. However, the market has absorbed over 84,000 sq m this year, which 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 in 2013 the vacancy rate might well exceed 10%, which might have a significant impact on average rental rates in the most competitive locations.

So far, prime headline rents have remained stable. The best buildings in Warsaw 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 offered by developers seem to have increased in importance within the negotiation process, a factor which translates into effective rates being as much as 30% below the headline rates.

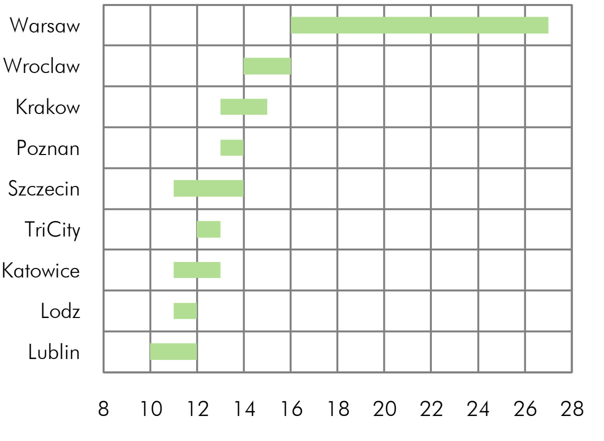
WARSAW SUPPLY (sq m)



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



PRIME HEADLINE RENTS (EUR/sq m/month)



RETAIL MARKET

With 1.33 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 1.6% of total stock of units, available mainly in the oldest and poorly performing centres. In particular, this year's supply will be extremely scarce with only two new projects coming on stream, both located in the suburbs. The first one – Galeria Brwinowska (10,000 sq m of GLA) developed by Wlodarzewska SA was opened in Q1 in Brwinow. The second one will be Auchan Gallery's first phase in Lomianki (33,600 sq m of GLA in total) to be delivered by the end of the year.

In 2013 two new schemes will be opened in Warsaw:

- 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, to be ready in 2013.
- Neinver's Factory Annopol, a new outlet centre in Bialoleka district.

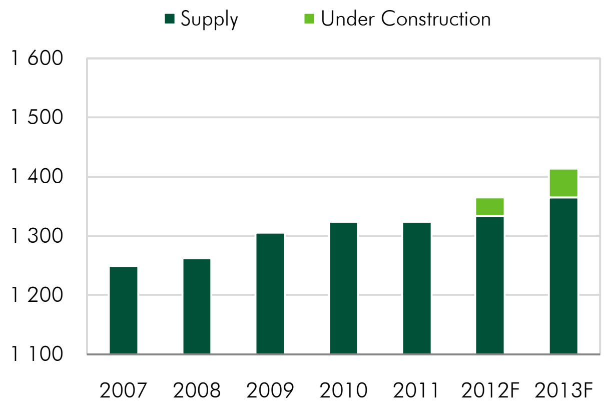
Although shopping centre development in Warsaw has become more difficult as a large variety of formats can be found in the city, there are still niches to be filled. These are mostly new locations such as Wilanow, Bielany or Bialoleka where large schemes are planned, however, none of them have yet been started. The smaller developers are taking advantage of the development slowdown and are investing in a number of convenient shops and galleries in newly established residential neighbourhoods, including such operators and developers as Czerwona Torebka, Marcpol, Lidl or Biedronka.

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 spreads not only along Royal Route and Marszalkowska St., but also along the parallel corridor of Bracka and Mokotowska Streets.

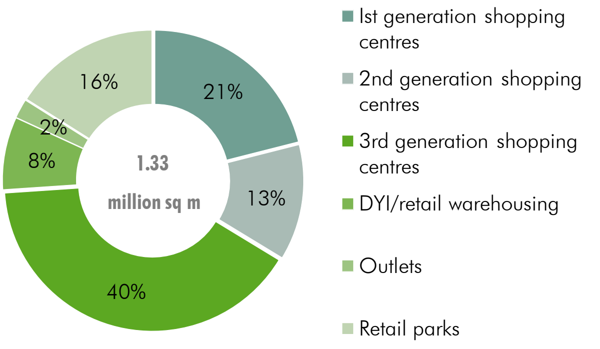
At the same time new chain retailers have entered the market. We have registered over 30 new shops that have opened this year, including such brands as Hollister, Lego, Bath&Body Works or Vibram Five Fingers all of which opened in the last quarter.

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.

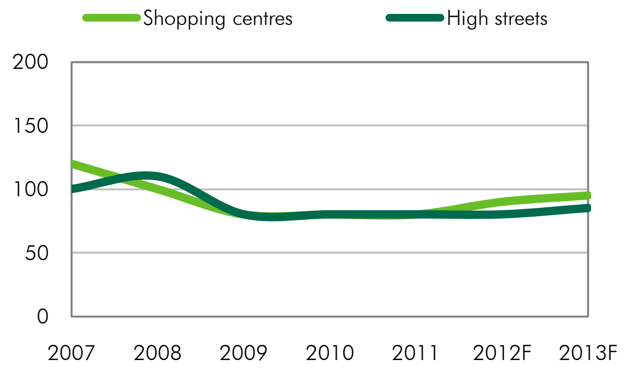
SHOPPING CENTRE SUPPLY ('000 sq m of GLA)



RETAIL FORMATS IN WARSAW



RENTS IN WARSAW



WAREHOUSE MARKET

The Warsaw warehouse market is composed of two sectors – Warsaw city (Sector I) within its boundaries as well as Warsaw surroundings (Sector II). The first one (offering 630,000 sq m) includes mainly smaller, business and warehouse schemes. The logistic parks are located mostly in the suburbs, along the main exit roads. In total, there is over 2.7 million sq m of modern warehouse space in both areas.

So far the warehouse market's performance in 2012 has been quite positive, although the development of the Warsaw market is much slower than in other Polish hubs. There were no completions in both of the sectors last quarter, however, two projects were started – the next phases of Idea Ideal in Warsaw Wlochy district and Prologis Park Janki. Currently, there is around 50,000 sq m under construction in Warsaw – 19% of the space being constructed across the country. The new supply might reach nearly 120,000 sq m this year, all being speculative developments.

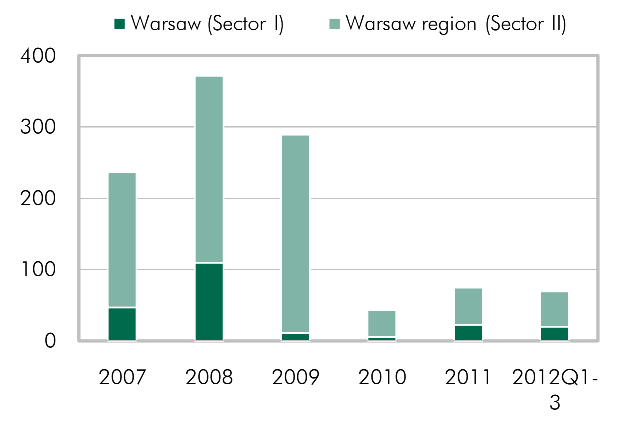
The total leasing activity in Warsaw amounted to 380,000 sq m, accounting for 30% of the total countrywide demand. The largest new agreements were signed by Rohlig SUUS in Prologis Park Janki and by Tradis in Prologis Park Blonie II. The majority of the take-up in Q3 was comprised of new leases, with 10% being represented by renewals.

The tenant profile of warehouse occupiers shows a predominance of high value consumer goods, producers and distributors, as well as local market suppliers, particularly within the city. Sector II includes large scale distribution centres targeted at logistics operators.

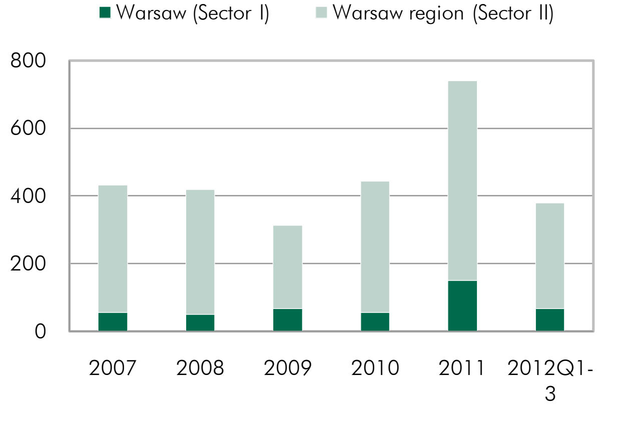
The improvement in the warehouse leasing market has been confirmed by decreasing vacancy rates, which also dropped in Warsaw, particularly in the suburbs - from 19% to 17%. Nevertheless, there is still around 450,000 sq m of vacant space to be absorbed in both zones.

There is quite a significant discrepancy between headline and effective warehouse rents, particularly between Warsaw and its surroundings. The headline rents in projects located in Sector I are between EUR 4.50 - 5.00/sq m/month, while rents in Sector II range from EUR 2.60 to 4.00 /sq m/month. Due to incentives offered by landlords, the effective rates can be almost 30% lower in the zones with the highest vacancies. The rents in Warsaw should remain stable within the next few quarters.

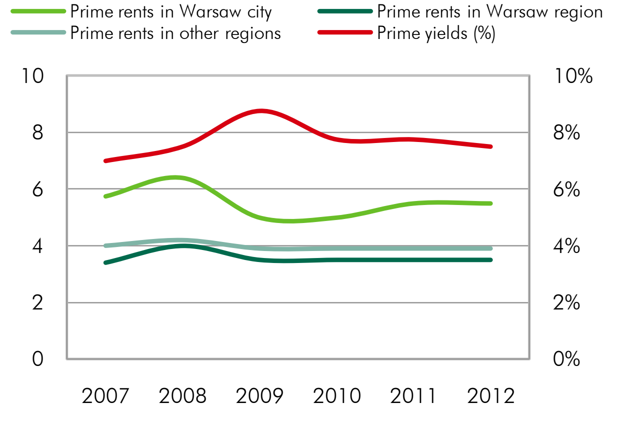
WAREHOUSE NEW COMPLETIONS ('000 sq m)



WAREHOUSE LEASING ACTIVITY ('000 sq m)



PRIME RENTS (EUR/sq m/mth) & YIELDS (%)



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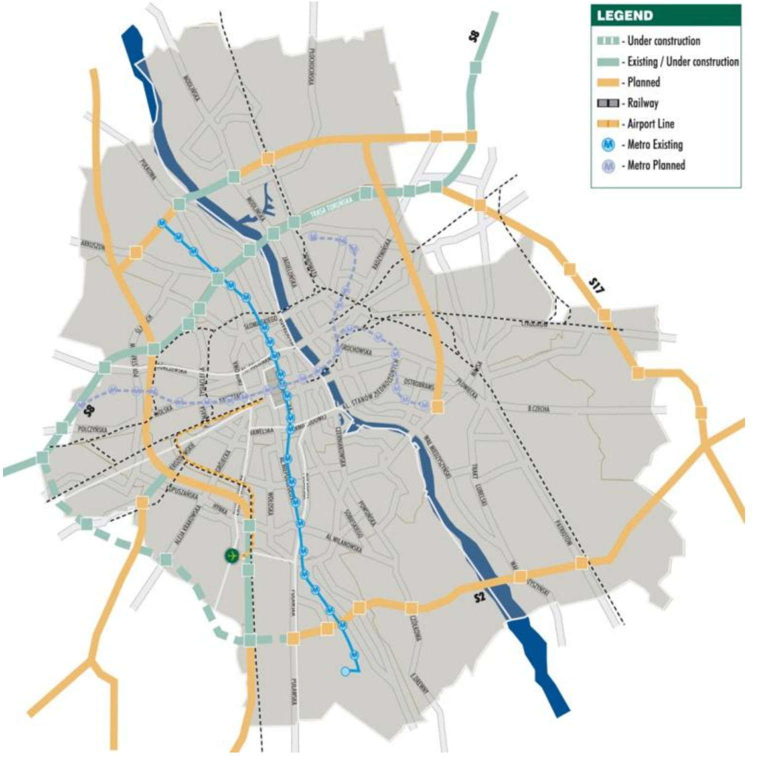
Warsaw Q3 Summary			q-o-q
Office	Stock	3.7 m sq m	↑
	Vacancy	8.1%	↑
	Take-up	158,000 sq m	↘
	Prime Rents	EUR 25 - 27	↔
Retail	Stock	1.3 m sq m	↔
	SC Density	536 sq m	↔
	Vacancy	1.6%	↔
	Rents	EUR 75 - 90	↔
Warehouse (Sector I & II)	Stock	2.7 m sq m	↔
	Vacancy	16.6%	↓
	Take-up	114,000 sq m	↓
	Prime Rents	EUR 2.60 – 5.00	↔



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Research and Consulting

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