CB RICHARD ELLIS | **MARKET VIEW**

WARSAW OFFICE

Market View

SECOND QUARTER 2008

Take-up in the first half of 2008 reached 244,400 sq m, what is only 6% less than in the respective period of 2007.

Supply of new office stock in 2008 amounted to over 141,400 sq m so far.

The vacancy rate for Warsaw office space decreased further to 2.1%.

Prime rents increased to the level of EUR 32 - 35 /sq m/month in the City Centre.

Prime office yields remained at 5.75% - 6.25%.

MARKET OVERVIEW

The demand for modern office space in Warsaw remains relatively high - 244,400 sq m was leased in the first half of 2008. Most of the space was leased in Non-Central locations. A record lease transaction was concluded in Lipowy Office Park, where Bank Pekao SA pre-leased 39,000 sq m.

On the supply side, 141,400 sq m of modern office space was delivered to the market in 2008, bringing total stock to 2.84 million sq m. A majority of the delivered stock was developed in Non-Central locations and only 11,300 sq m appeared in City Centre.

Despite a large number of planned new projects this year (14 in total), we expect the market to absorb the new space. Business conditions in Poland remain favourable, although a slight slowdown of economy can be observed. The growth of the inflation rate (4.6%) is compensated for by gradual increases of interest rates. At the same time, the Polish Zloty (PLN) is growing strongly and reaching historical peaks. Foreign investors still consider Poland to be an opportunity market and are willing to expand their business here. The labour market is experiencing a constant drop in the unemployment rate (10%). The average salary grew by 12% y-o-y in May 2008, to PLN 3,215 (EUR 945).

High level of interest rates, land prices and construction costs disturbed the further development of residential markets. Some projects are being transformed into office buildings.

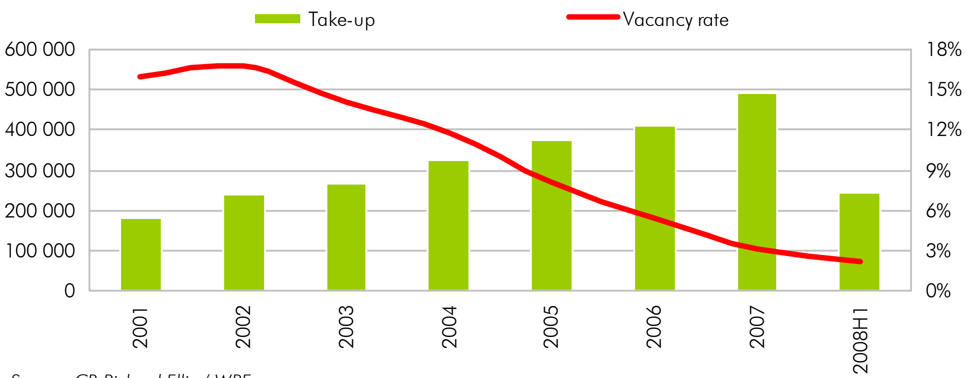
Since UEFA chose Poland to host the EURO Football Cup in 2012, Warsaw has been preparing for a number of infrastructure investments. The city plans to deliver three inner ring-roads, two new bridges, a new metro line and a new stadium. All of these changes, to some extent, create a growing demand for office space, a low vacancy rate and rental increases. Prime office headline rents in Central locations levelled off at EUR 32 - 35/sq m/month. In Non-Central areas the rental levels stabilised at EUR 16–17/sq m/month.

The investment market is still restrained by the global financial crisis and the volume of transactions is lower than in previous years. Warsaw office yields are at 5.75% – 6.25%.

MARKET OUTLOOK 2008

Take-up	⟷
Supply	↑
Vacancy	↑
Rents	⟷
Yields	⟷

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



Source: CB Richard Ellis / WRF

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SUPPLY

Six new buildings with a total space of 72,800 sq m were delivered to the market in the Q2 2008. Two of them – Grzybowska Park (10,300 sq m) and Piekna 24 (900 sq m) – are located in the City Centre, while the others are located in Mokotow (Upper South) - Tulipan House, Marynarska Point I and Nefryt – and on Jerozolimskie St. (South West) - Equator. Only 2% of the space was delivered without signed pre-lease agreements. The largest completion was Tulipan House with total space of 17,900 sq m developed on Domaniewska St. by Segro.

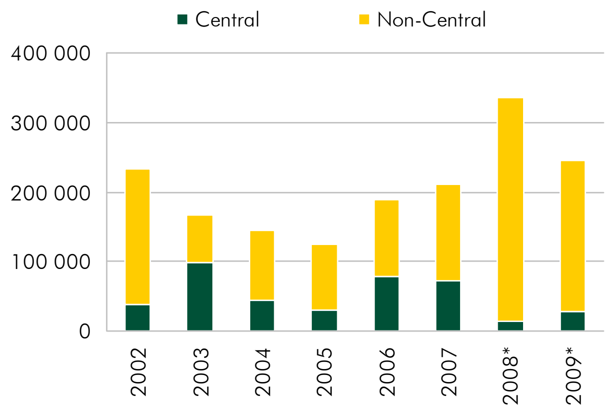
At the same time, intensive construction activity continues in Warsaw – 470,000 sq m is currently under construction and will be delivered between 2008 and 2010. Only 11% of this is being constructed in the City Centre. In 2008, we expect only one small project of 3,200 sq – Nowogrodzka 21 – to be completed in the City Centre. In general, within the next three - four years one million sq m of new office space will appear on the Warsaw market, even with ongoing economic difficulties in European markets.

TAKE-UP

Demand for Warsaw office space has remained quite strong for several quarters. In the second quarter of 2008, it reached the level of 137,800 sq m; however the lease in Lipowy Office Park accounted for 28% of this. The other significant new tenants in the past half-year were: Internet Securities (10,000 sq m built-to-suit by SGI Baltis at Czerniakowska St.), Nokia Siemens Network (9,600 sq m in Horizon Plaza) and Link4 (5,000 sq m). The majority of demand has been generated by financial services – insurance brokers, banks and manufacturing & industry sector: FMCG, electronic and IT companies or the pharmaceutical industry.

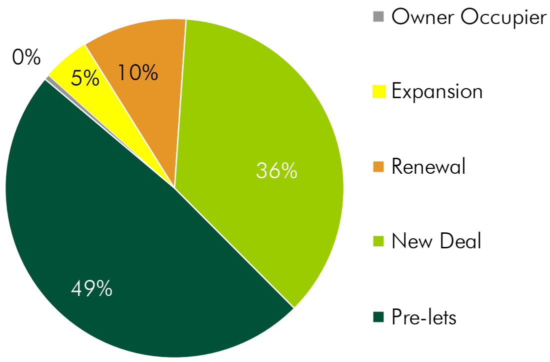
Due to the limited available space in the first half of 2008, the share of pre-let transactions increased and reached 118,500 sq m (49% of all deals). Lease renewals amounted to 10%. Around 36% of the take-up volume was attributable to new deals. Only 28% of leasing transactions was registered for office spaces larger than 1,000 sq m.

WARSAW OFFICE SUPPLY (sq m)



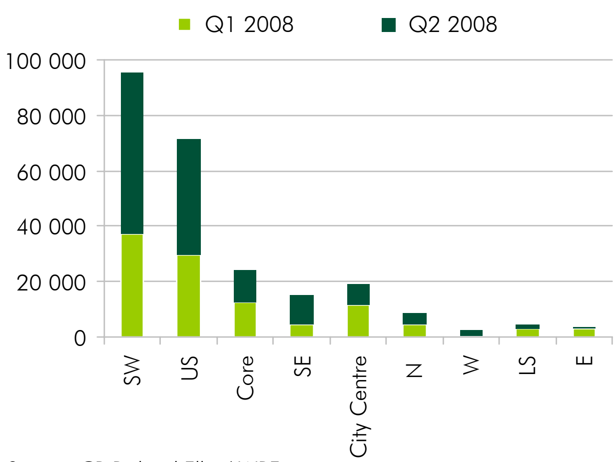
*Source: CB Richard Ellis / WRF, * - Forecast*

WARSAW OFFICE TAKE-UP BY TYPE (%) in H1 2008



Source: CB Richard Ellis / WRF

WARSAW OFFICE TAKE-UP (sq m) BY SUBMARKETS in 1H 2008



Source: CB Richard Ellis / WRF

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VACANCY RATE

The vacancy rate for Warsaw office space decreased from 4% in Q2 2007 to 2.1% in Q2 2008 – 3.5% in City Centre and 1.25% in Non-Central zones. The most significant drop in the past quarter was observed in the South West – almost 100 bps to 1.2%. The highest vacancy rate was recorded in the CBD at almost 5% after a quarterly fall of 60 bps. The vacant space in this zone has been generated since the beginning of 2008 by Skylight Building, which together with Millennium Plaza generate 80% of the vacant space of the whole Central area. We expect the vacancy rate to increase by the end of 2008, once all the speculative buildings are delivered.

RENTS

Prime headline rents in the City Centre increased in recent quarters to the level of EUR 32 – 35 /sq m/month. In Non-Central locations in the best projects such as Marynarska BP or Platinium BP, headline rents remain stable at the level of EUR 16 – 17 /sq m/month. Effective rates are around 20% lower.

In the near future, significant rental growth is not expected. However, in the City Centre, the best buildings will remain expensive, although some tenants may decide to move out.

LAND PRICES

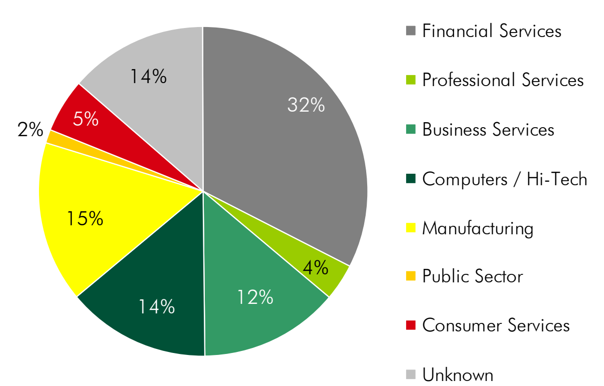
The registered increase of land prices in Warsaw has been restrained until now. A number of plots, purchased at a high price, are now being offered for sale. However, the prices for well-located sites are high – up to even EUR 1,000 per GLA in the City Centre and EUR 400 – 800 per GLA in further locations. The prices are often calculated on the basis of potential gross lettable area (GLA).

OFFICE INVESTMENTS

In 2008, the Warsaw market registered nine office transactions with a total volume of over EUR 462 M. The most significant was the purchase of 50% of Rondo1 stock by MacQuarie Global Property Investors (EUR 145 M) and the re-sale of Millennium Plaza to Akron Group (EUR 93 M). In Q2 2008, the most interesting were two transactions – the sale of Tulipan House to Commerz Real for EUR 60 M, and Salzburg Centre to SEB for EUR 40 M.

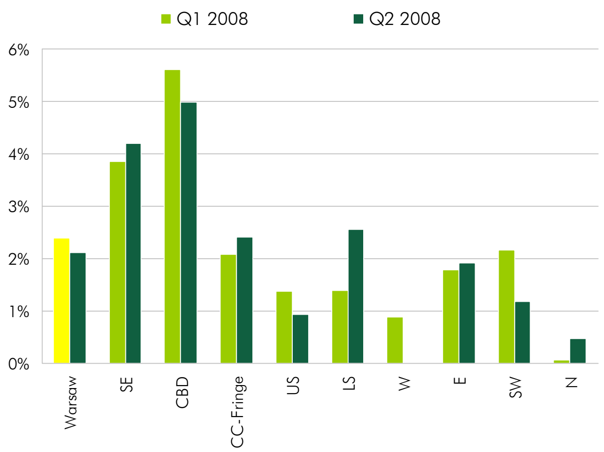
Prime yields are quoted at 5.75 – 6.25% and we expect them to oscillate at around 6% in the near future.

WARSAW TAKE-UP by SECTOR in H1 2008 (%)



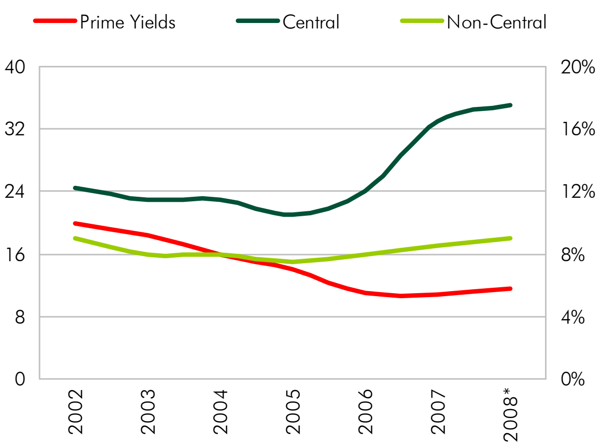
Source: CB Richard Ellis / WRF

WARSAW OFFICE VACANCY RATE (%) BY SUBMARKETS in H1 2008



Source: CB Richard Ellis / WRF

WARSAW PRIME OFFICE RENTS (EUR/sq m/month) & PRIME YIELD (%)



Source: CB Richard Ellis, * forecast

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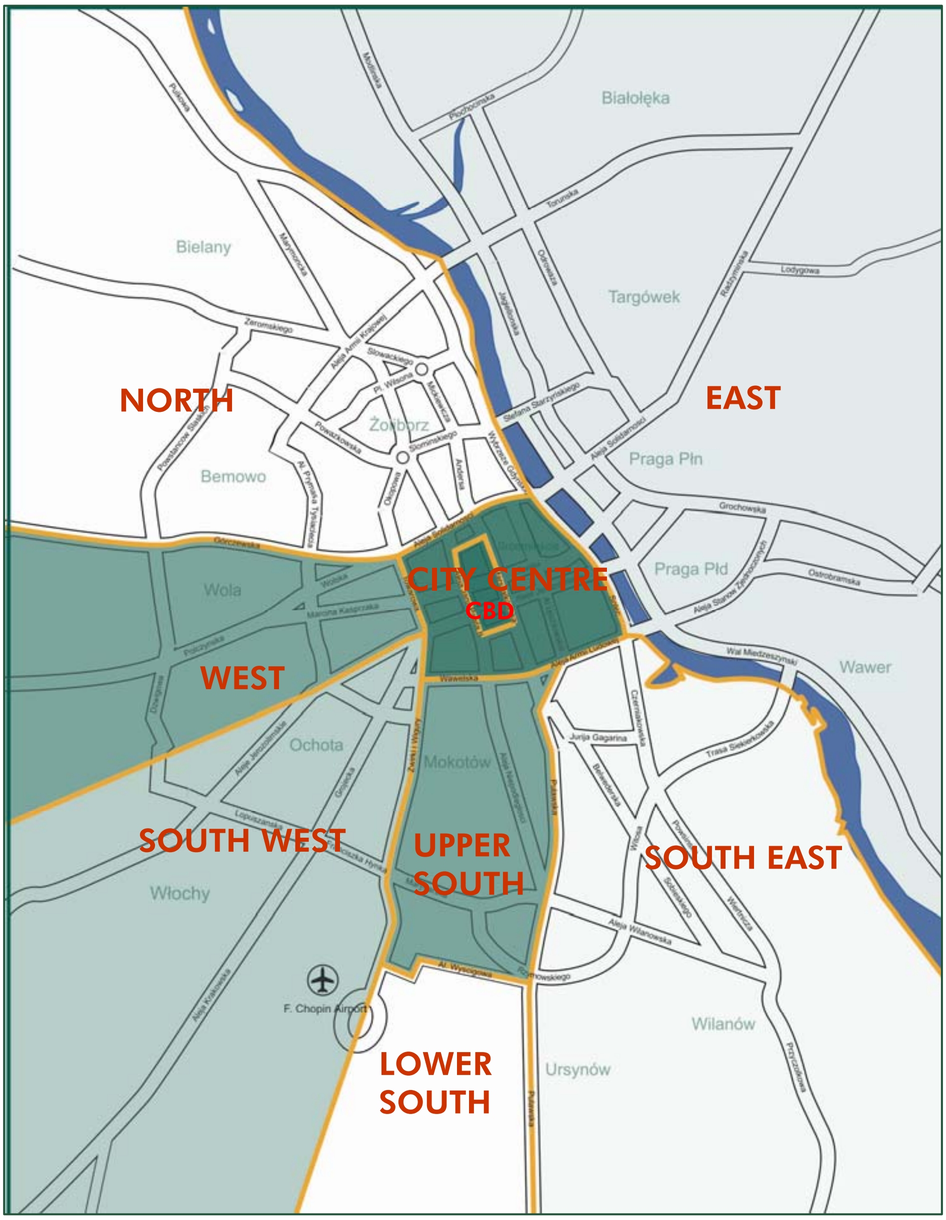
MAP OF WARSAW OFFICE MARKET WITH SUBMARKETS



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