

Quick Stats

	Change from	
	Q3 2008	2007
Take-up	↑	↑
Supply	↓	↑
Vacancy	↑	↓
Rents	↓	↓
Yields	↑	↑

Hot Topics

- Take-up in 2008 reached 524,000 sq m, which is almost 6% more than in 2007.
- Supply of new office stock in 2008 amounted to over 250,000 sq m.
- The vacancy rate for Warsaw office space increased to 2.9%.
- Prime rents decreased to EUR 28 - 30 /sq m/month in the City Centre.
- Prime office yields are at 6.25%.

OVERVIEW

Despite an expected slowdown, the Polish economy is better positioned than most European countries. GDP growth in 2008 is estimated to be 5.4%, the unemployment rate is below 10% and inflation is about 4.2%. The economy started to slowdown in the second half of the year when many banks tightened loan conditions and many exporters experienced decreased demand from Western European countries. The Polish currency has sharply weakened in recent months. Companies have been scaling back investments in response to falling orders. Many of them have changed their expansion strategies, which has had a negative impact on the Polish real estate market.

Nonetheless the demand for modern office space in Warsaw remained strong and established a record level in 2008, with total take up of 524,000 sq m. As in recent years, most of the space (85%) was leased in Non-Central locations.

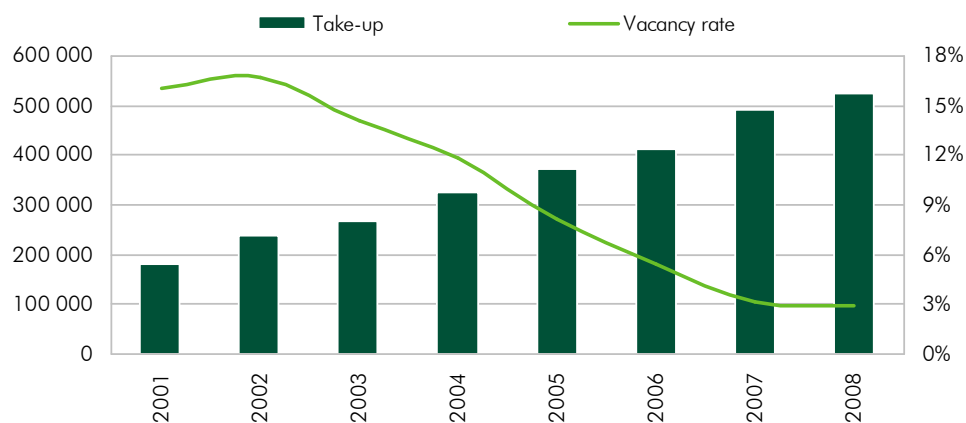
At the same time, over 252,000 sq m of modern office space was delivered to the market, bringing total stock to 2.97 million sq m. A majority of the delivered stock (94%) was developed outside of the City Centre. The new projects were quickly occupied. Net absorption in 2008 amounted to 264,000 sq m, which

means that the market absorbed over 10% more new office space more than in 2007.

Business conditions in Poland still remain favourable and we do not expect a recession (negative GDP growth) in Poland. The relatively strong financial situation of companies and banks, lower interest rates and falling inflation should temper the financial crisis. This means that Poland experience only a moderate slowdown of economic growth. According to various forecasts GDP should rise by 2-3% in 2009 and 3-4% in 2010. Massive infrastructure investments, supported by large EU funds, should lessen the consequences of global economic slowdown.

Further development of the office market in Warsaw to a large extent will depend on demand, which may be lower this year. The construction of many pipeline projects are conditioned on pre-lease agreements. With a low vacancy rate and limited supply the market is threatened by a stagnation which would be the worst scenario. The situation should clarify itself in Spring 2009, when construction should be begun on many buildings and a number of tenants should make decisions about their development plans.

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



SUPPLY

There were 23 new office buildings delivered in Warsaw in 2008 with a total space of 252,500 sq m. Only two small ones are located in the City Centre – Piekna 24 and Nowogrodzka 21. The majority of the new space was developed in Non-Central locations. The largest developments include Marynarska Business Park (43,000 sq m), North Gate (30,000 sq m), Tulipan House (18,000 sq m) and Equator (17,000 sq m). Over 60% (158,000 sq m) of the space is located in the Upper South submarket, mostly in Sluzewiec Przemyslowy.

At the same time, intensive construction activity continues in Warsaw. According to developers' plans around 750,000 sq m should be delivered to Warsaw by the end of 2010. More than half - 444,000 sq m - is currently under construction. Only 14% of this will be located in the City Centre. Around 44% has already been pre-leased. Because of the turmoil on the world's financial markets, investors are quite cautious with regard to investment decisions and we expect that numerous planned projects will be reviewed and postponed.

TAKE-UP

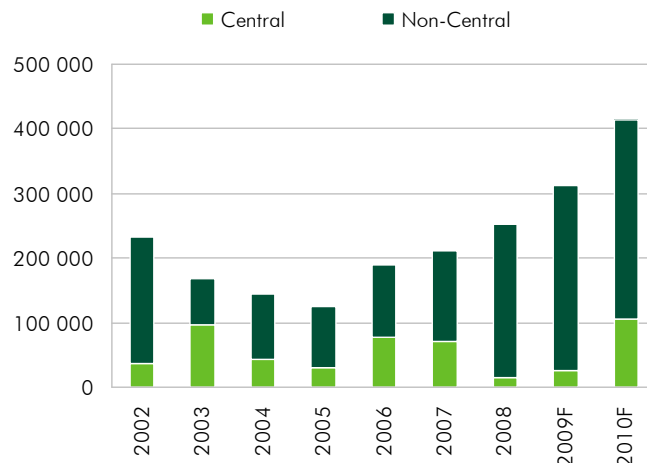
2008 was a record year in terms of Warsaw take-up, amounting to 524,000 sq m. This constitutes 6% growth in comparison to 2007's take-up in total.

The largest deals in Q4 2008 were two renegotiations agreements by KPMG in Warsaw Trade Tower for 9,600 sq m and by Microsoft in Company House for 7,500 sq m. For the whole year the average deal size did was about 1,170 sq m, while the median deal size amounted to 560 sq m.

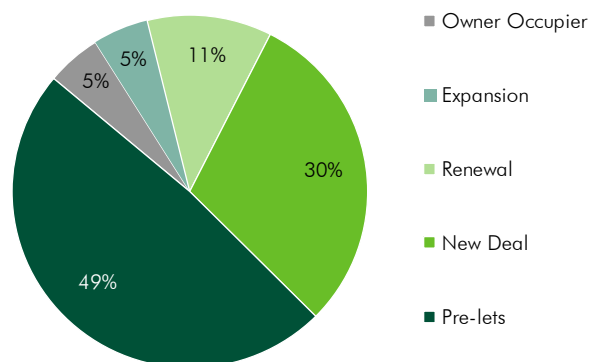
The majority of demand was generated by companies in the financial services (24%) – consolidating banks, insurance brokers, financial advisors (ex. Bank Pekao SA, Alior, BZ WBK, Millennium Bank) and business services sectors (20%) – advertisers, TV & Media, consultants (McKinsey, TVP, KPMG, Regus).

The share of pre-let transactions increased y-o-y and reached 48% of all deals signed in 2008. Lease renewals amounted only to 12%. Around 29% of the take-up volume was attributable to new deals. Companies only rarely build their own headquarters. Only 5% of the space was taken by owner occupiers.

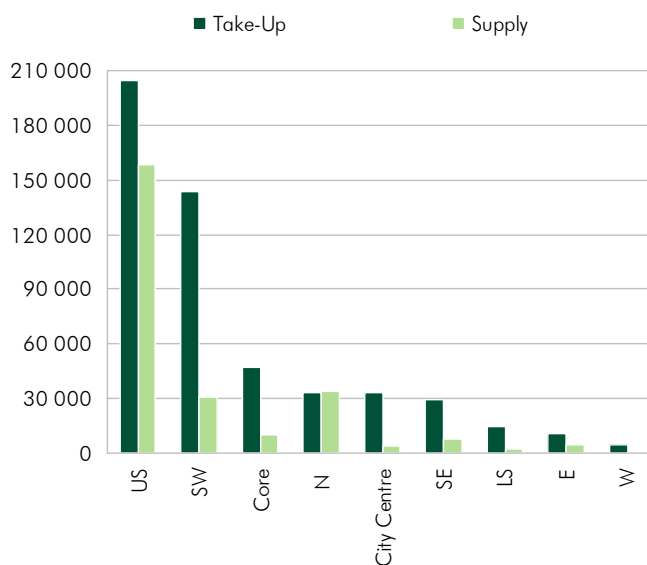
WARSAW OFFICE SUPPLY (sq m)



WARSAW OFFICE TAKE-UP BY TYPE (%) IN 2008



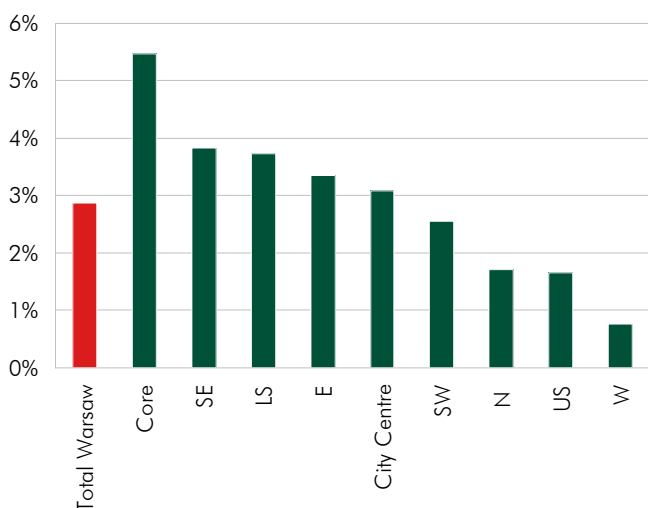
WARSAW OFFICE TAKE-UP AND SUPPLY (sq m) BY SUBMARKETS IN 2008



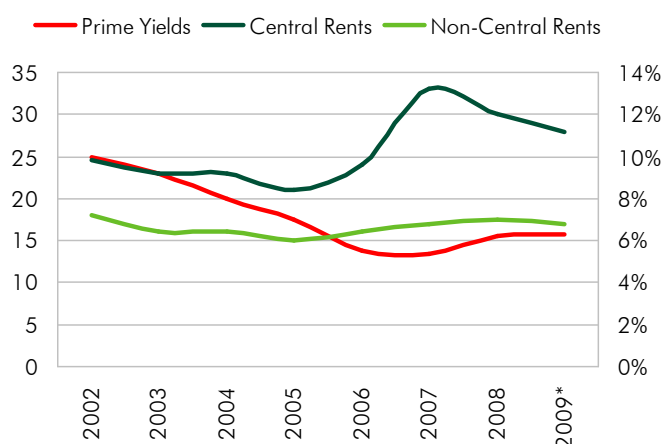
LARGEST BUILDINGS TO BE DELIVERED IN 2009

BUILDING	ZONE	OFFICE Sq m
Lipowy Office Park	SW	39,000
Poleczki Business Park I	LS	38,000
Horizon Plaza	US	35,000
Mokotow New City	US	34,000
Park Postepu	US	34,000
Trinity Park III	US	32,000
Atrium Centrum	CBD	20,000

OFFICE VACANCY RATE (%) BY SUBMARKETS IN Q4 2008



PRIME OFFICE RENTS (EUR/Sq m/month) and YIELDS (%)



VACANCY

The overall office vacancy rate for Warsaw increased by 20 bps in Q4 2008 to 2.9% at the end of the year. However this is still lower than at the end of 2007. In 2008 a large amount of office space was delivered onto the market in Non-Central locations. The most significant rise in vacancy rate in the past quarter was observed in the East submarket – where vacancy increased by 175 bps to 3.4%. For several quarters the highest vacancy rate has been registered in the CBD, where it now stands at 5.5%. Only nine buildings generate almost 90% of the total vacancy in the City Centre with Skylight and Millennium Plaza being the buildings with the most vacant space. The Non-Central vacancy rate is at 2.2% with the lowest rate recorded in Wola district (0.8%). The vacancy rate in Mokotow (US), the most popular Non-Central zone, was at the level of 1.65%, created mostly by Adgar Plaza.

We expect the overall vacancy rate to increase this year. There is around 300,000 sq m of new office space planned in 2009 with about half of this space to be delivered speculatively. This, along with expected weaker demand may significantly influence availability levels.

RENTS

Prime headline rents in the City Centre decreased to the level of EUR 28 – 30 /sq m/month. In Non-Central locations for the best projects, headline rents are oscillating at around EUR 16 – 17.50 /sq m/month. Effective rates are around 20% lower.

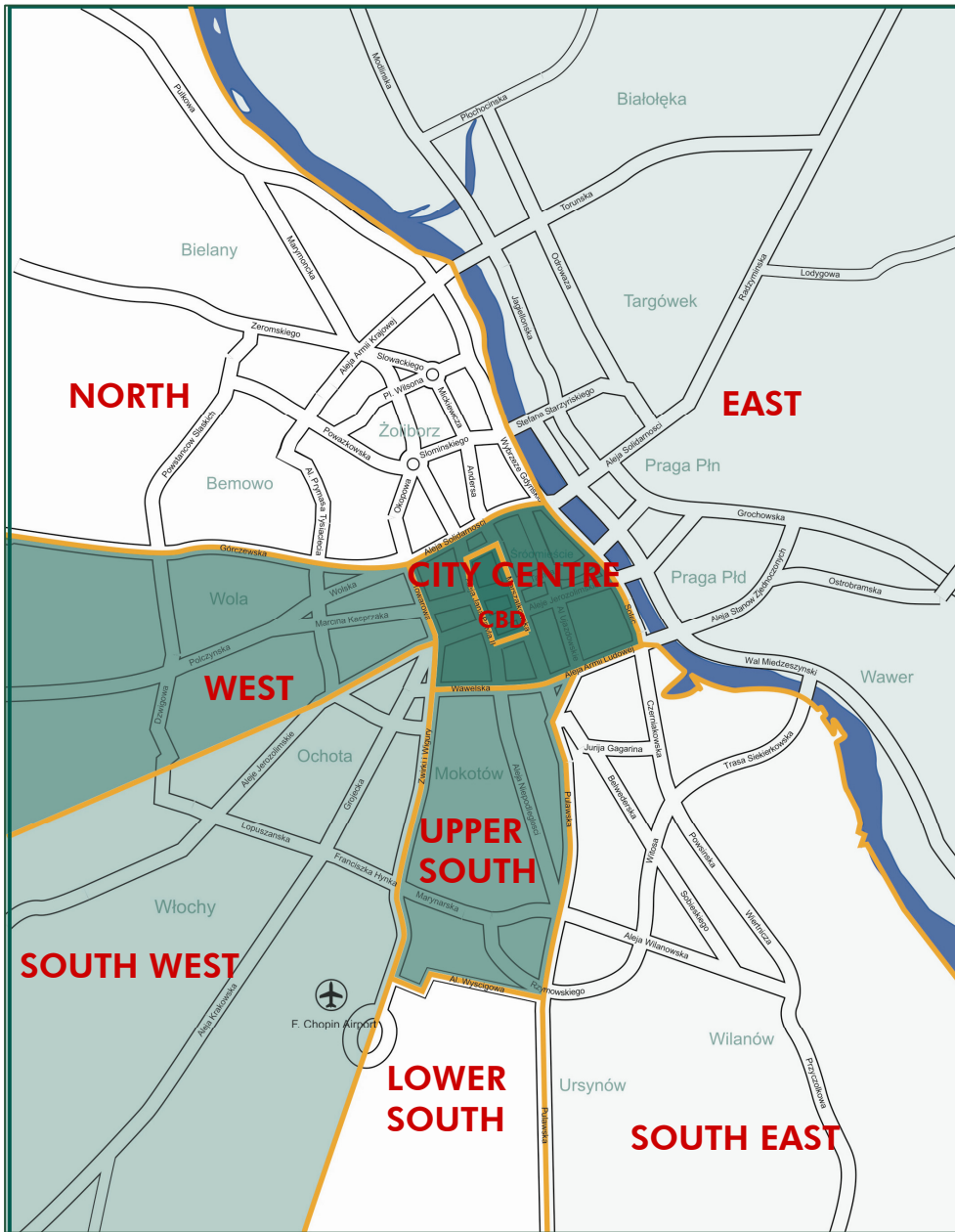
In the near future we may expect a slight decrease in average rents, currently at EUR 15 - 26 /sq m/month. Developers, in light of lower demand, may offer more incentives, particularly in Non-Central locations. However, in the City Centre, the best buildings will remain expensive, although some tenants may decide to move out.

OFFICE INVESTMENTS

In 2008, the Warsaw market registered 15 office transactions with a total volume of over EUR 912 M, which means a 6% increase in comparison to 2007. The most significant transactions included the sale and lease back of the TPSA property portfolio by Baltic Property Trust for EUR 168 M and the purchase of Marynarska Business Park by DEGI for EUR 167 M with a yield at 5.75%, a value rarely achieved in current market conditions.

Prime yields are now quoted at 6.25% and we expect them to oscillate at around 6-7% for the near future.

MAP OF WARSAW OFFICE MARKET WITH SUBMARKETS



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