

Quick Stats

	Change from Q4 2008
Take-up	↓
Supply	↓
Vacancy	↑
Rents	↓
Yields	↑

Hot Topics

- Take-up in the first quarter 2009 reached only 45,500 sq m.
- Supply of new office stock in Q1 2009 amounted to 86,700 sq m.
- The vacancy rate for Warsaw office space increased to 4.5%.
- Prime rents decreased to EUR 25 - 28 /sq m/month in the City Centre.
- Prime office yields are at 6.75%.

GENERAL OVERVIEW

The signs of recession on the global markets are evident however Polish economy is perceived as one of the most stable and dynamic economies in the CEE region. The GDP growth for the first quarter of the year is estimated at 1.4% with 0-2% forecasted for the whole year. The slowdown of the economy was visible in the second half of 2008. Banks have introduced tight credit policy, due to the currency fluctuations, many investors withheld their investment projects, revised the strategies and limited the investment outputs and purchases. The economy downturn has strong negative influence on the condition of real estate market.

The demand for modern office space in Warsaw has significantly fallen with total take up in the first quarter amounting to 45,500 sq m. This indicates almost 60% drop in comparison to the respective period of 2008. As in recent years, most of the space (70%) was leased in Non-Central locations. Many companies have already decided to postpone or call off expansion strategies and a number of lease transactions have been suspended. At the same time, about 86,700 sq m of modern office space was delivered to the market, bringing total stock to 3.07 million sq m. All four projects are situated outside the City Centre. Majority of their office space (83%) has been pre-leased.

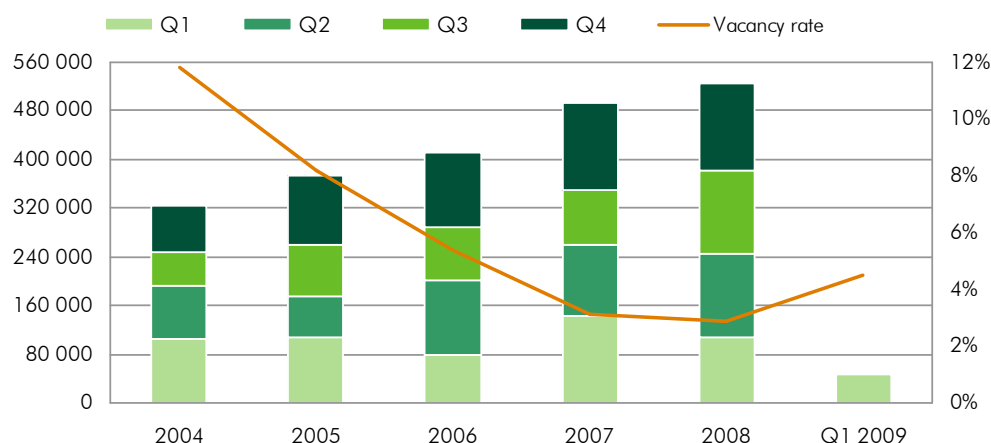
Business conditions in Poland remain attractive in comparison to other European countries. The relatively strong financial situation of companies and banks, lower interest rates and falling inflation should temper the financial crisis. Also massive infrastructure investments, supported by large EU funds, 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 by pre-lease agreements. On the other hand the trend of subleasing the office space becomes more and more common. We estimate that around 40,000 sq m is being offered by their current tenants to sublease.

The total vacancy rate for Warsaw office space increased in the first quarter by 160 p.p. and reached the level of 4.5%. This increase was particularly noticeable in Non - Central locations where vacancy rate stood at 4.0% whereas in the end of Q1 2008 it was 1.7%. In Central locations the vacancy rate increased to 5.3%.

Prime headline rents follow the trend and dropped to EUR 25 - 28 /sq m/month in Central locations and EUR 15 - 16.50 /sq m/month in Non-Central markets. Warsaw prime office yields oscillate around 6.75%.

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



SUPPLY

Four new buildings with a total space of 86,700 sq m were delivered to the market in the first quarter of 2009. All of them are located in Non-Central areas. Only 10% of office space was delivered without signed pre-lease agreements. The largest project was Lipowy Office Park with total space of 38,450 sq m developed in the South West and fully pre-leased to Bank Pekao SA. Another big project completed in last months was Horizon Plaza (31,460 sq m) in the Upper South.

At the same time, construction activity continues in Warsaw. Currently around 360,000 sq m in 27 projects is under construction. Around 33% of this space has already been pre-leased. According to developers' plans another 12 projects offering 90,000 sq m should be delivered to Warsaw market by the end of 2010. Only 20% of this will be located in the City Centre, there are no projects planned in CBD. Because of the turmoil on the world's financial markets, investors are quite cautious with regard to investment decisions and we expect that many planned projects will be reviewed and postponed.

TAKE-UP

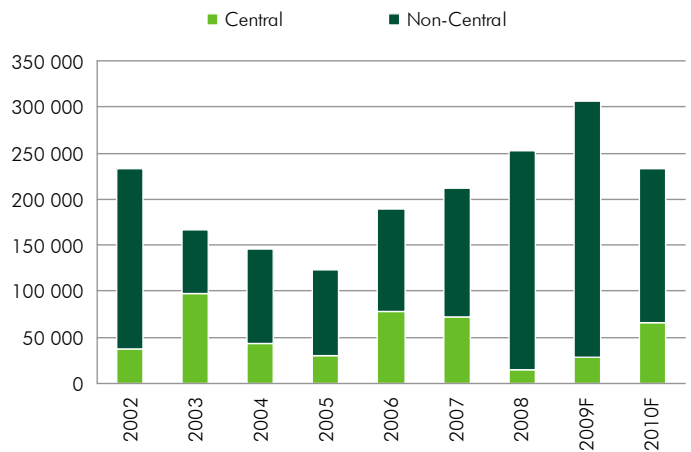
Take-up in Warsaw office market in the first quarter of 2009 amounted to 45,500 sq m. This indicates 58% decrease in comparison to the respective period of 2008. Also the size of leased areas has significantly decreased. The largest deals in Q1 2009 was renegotiation agreement by Astra Zeneca in Empark Neptun (3,230 sq m). The biggest new deals were signed by GDDKiA in Brama Zachodnia (1,880 sq m) and Sitel Polska in Empark (1,790 sq m). The average deal size amounted to 473 sq m while in 2008 it was around 1,167 sq m.

The majority of demand was generated by companies in the business services sector (24%) – construction companies, call centres (Abantia, Budimex, Pol-aqua, Sitel Polska) and manufacturing, industrial and energy sector (15%) – mainly pharmaceutical companies – Astra Zeneca, Polpharma, Sanofi Pasteur.

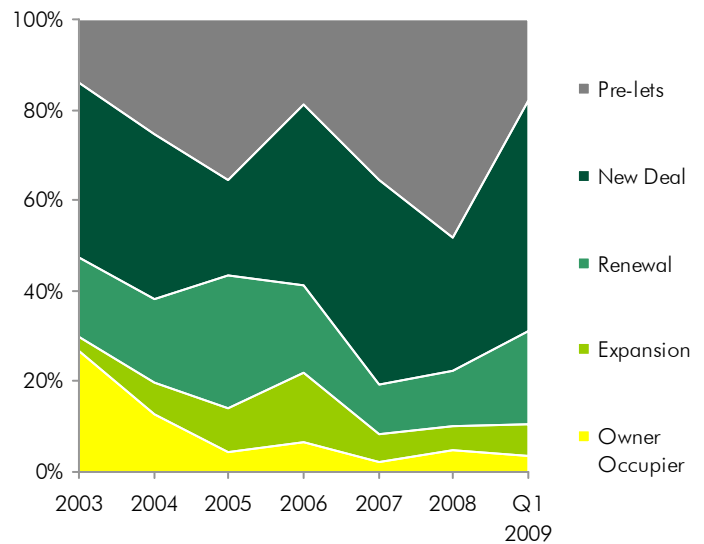
The share of pre-let transactions increasing q-o-q significantly decreased to 18%. Majority of recently completed buildings was pre-leased already in 2008 and construction works of the new projects started in the end of the quarter. Lease renewals amounted to 21%. Around 50% of the take-up volume was attributable to new deals. Only 4% of the space was taken by owner occupiers.

The scale of sublease agreements grows - currently offered space is estimated for 40,000 sq m. Particularly manufacturing, financial and business services companies experience the negative impact of economy downturn. They cut the employment, suspend expansion plans and lower costs of rented office space by offering its part to sublease.

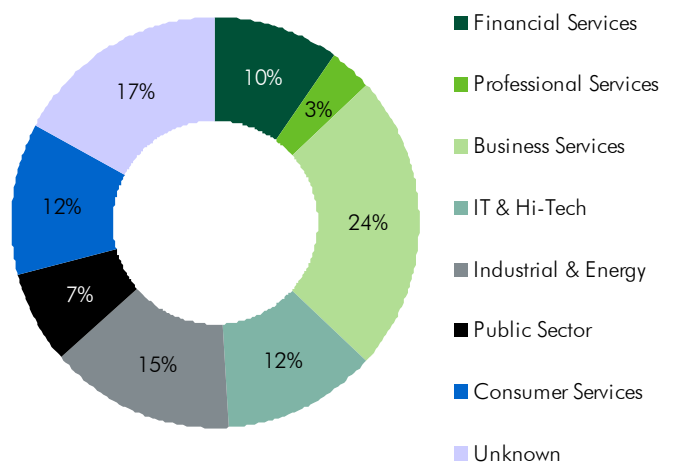
WARSAW OFFICE SUPPLY (sq m)



WARSAW OFFICE TAKE-UP BY TYPE (%)



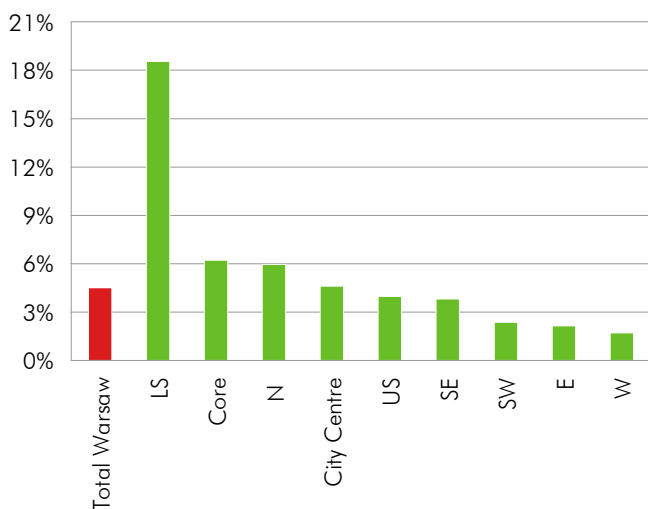
WARSAW OFFICE TAKE-UP BY TENANT SECTOR (%) IN Q1 2009



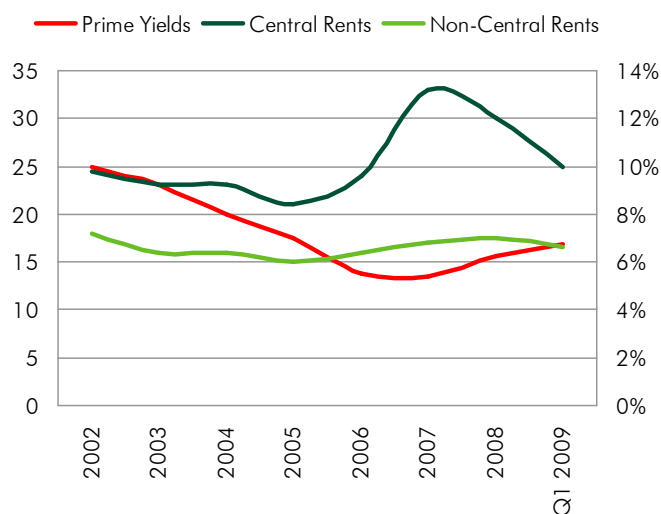
LARGEST BUILDINGS TO BE DELIVERED IN 2009

BUILDING	ZONE	OFFICE Sq m
Mokotow New City	US	34,000
Park Postepu	US	34,000
Trinity Park III	US	32,000
Atrium Centrum	CBD	20,000
Catalina Office Center	US	14,200
Adgar Plaza B	US	11,500
Cristal Park	SW	9,800

OFFICE VACANCY RATE (%) BY SUBMARKETS IN Q1 2009



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



VACANCY

The overall office vacancy rate for Warsaw increased by 160 bps in Q1 2009 to 4.5%. The most significant rise in vacancy rate in the past quarter was observed in the Low South submarket – where vacancy increased by record value of 1,480 bps to 18.5%. This rise was caused by one tenant moving out of its headquarters and releasing 11,000 sq m.

For several quarters the highest vacancy rate has been registered in the CBD, where it stands at 6.2%. In total, around 58,000 sq m in about 35 buildings is vacant in the whole Central zone with Skylight and Millennium Plaza being the buildings generating the most vacant space. The Non-Central vacancy rate is at 4.0% with the lowest rate recorded in Wola district (1.7%). The vacancy rate in Mokotow (US), the most popular Non-Central zone, was at the level of 4.0%, created mainly by Adgar Plaza, Horizon Plaza and Mokotow Plaza.

In Q1 2009 large amount of office space, estimated for about 40,000 sq m, was available for sub-lease. Taking into consideration this number, the real level of available space is higher than the vacancy rate indicates. After including the space offered for sub-lease the vacancy rate rises to 5.7%.

We expect the vacancy rates to remain high this year. There is still around 220,000 sq m 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 25 – 28 /sq m/month. In Non-Central locations for the best projects, headline rents are oscillating at around EUR 15 – 16.50 /sq m/month. Effective rates are around 20% lower.

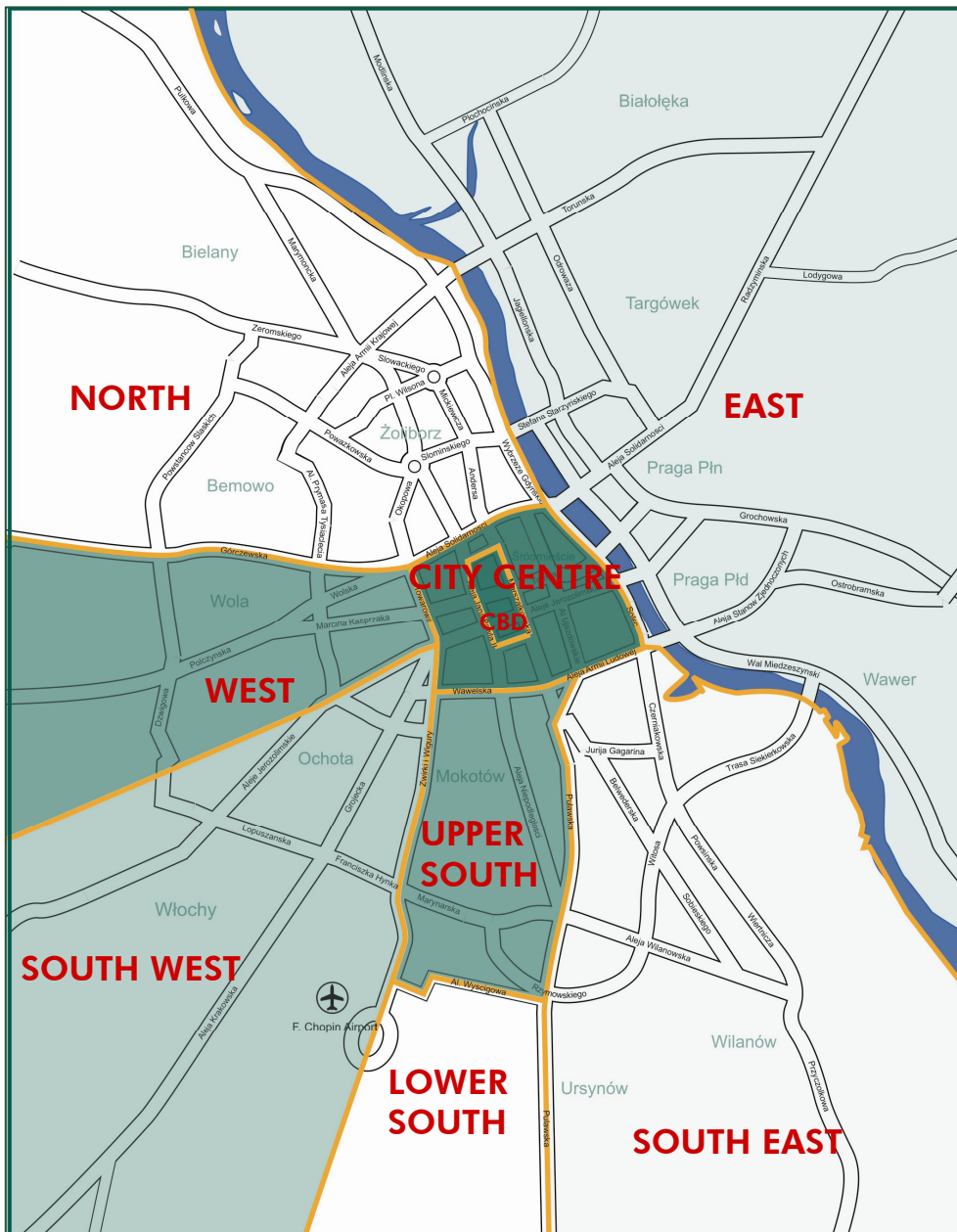
In the near future we may expect a slight decrease in average rents, currently at EUR 14 - 25 /sq m/month. Developers, in light of lower demand, may offer more incentives, particularly in Non-Central locations. However, in the City Centre, the best buildings will remain expensive, although some tenants may decide to move out.

OFFICE INVESTMENTS

In the first quarter of 2009 only one transaction was concluded on the Warsaw office market. Pekao Pirelli Development has sold its headquarter building completed last year to Arka BZWBK for EUR 4 million with 8% yield.

Prime yields oscillate at around 6.75% and we expect to stay around 7.0% for the near future. The global financial crisis resulted in a shortage of money supply and increase in interest rates which are the reasons for the yield decompression and significant transaction volume decrease.

MAP OF WARSAW OFFICE MARKET WITH SUBMARKETS



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