CB RICHARD ELLIS

# Market View

# Warsaw & Poland Property

www.cbre.eu/research

Q1 2011

## 2011 Warsaw Outlook

| | Office | Retail | Warehouse |
|---|---|---|---|
| Take-up | ↑ | ↑ | ↑ |
| Completions | ↓ | ↓ | ↓ |
| Vacancy | ↘ | ↘ | ↘ |
| Under Construction | ↗ | ↗ | ↗ |
| Rents | ↗ | → | → |
| Yields | → | → | → |

## Hot Topics

- All commercial property sectors register growing demand.
- Total office leasing activity in Warsaw reached an impressive level of nearly 200,000 sq m last quarter.
- Regional markets again attract a number of investors, both tenants and developers.
- Warehouse market recovering in terms of demand and vacancy rates.
- 2011 Warsaw stock pipeline limited in all sectors, particularly in retail.
- Falling vacancy rates.
- Upward rental pressure.
- Growing interest of investors, but stabilization of prime yields.

## GENERAL OVERVIEW

The results of the first quarter of 2011 confirmed the improvement of the property market conditions. The GDP growth for Q1 2011 is forecasted at 4.3% and should exceed 4% in the whole year. The strength of economic conditions is reflected in growing industrial output and export as well as outstanding levels of retail sales.

The major concern is the high unemployment rate at over 13%, despite the new employment accelerating. Other important issues include global high prices of oil and commodities as this directly impacts the inflation and consumption. In April the Monetary Policy Council decided to increase the reference rate up to 4%. By the end of the year it is forecasted to grow up to 4.5%. Further economic performance will strongly depend on the recovery on the labour market, consumer confidence as well as the influx of new FDI, which indirectly generates demand for commercial space in the whole country. Last year the foreign direct investments reached over EUR 7 billion and should be much higher in 2011, assessing on the growing number of investment projects managed by Polish Investment Agency. Many of them are shared service centres looking for offices in the regional cities.

The new infrastructure improvements in many cities, such as ring-roads, highways, railway and in Warsaw metro connections create new locations desired by all developers. Polish cities rapidly expand, both economically and physically. Once the new roads are delivered, a number of retail and business parks' locations as well as logistic hubs should appear on the maps.

In 2011 the existing available space for lease should be absorbed and we expect starts of many new constructions in all sectors and different locations.

The constant development of the retail and service market directly influences both warehouse demand as well as the conditions of companies that are looking to expand.

The total investment volume in Q1 2011 reached almost 1 billion EUR, mainly due to the large Europolis portfolio taken over by CA Immo, including seven office buildings in Warsaw and two logistics parks in Blonie and Piotrkow Tryb., transacted for almost half EUR billion. There were also a few large office transactions (North Gate, Crown Square and Zebra Tower) and two retail projects (Promenada and DT Centrum) sold in Warsaw. There was no investment transaction on institutional quality asset, closed outside of the capital city.

In 2011 the investment volume should be higher than in the previous year. As there is a limited number of prime assets, we expect more opportunistic investors to enter the market and generate demand for secondary locations in Warsaw but also in the regional cities that are increasing efforts to attract new investments and real estate projects. According to a recent CBRE survey, investors have shown a clear strategic shift in their investment preferences in Europe in favour of Germany and CEE region, where Poland stands out as a prime destination, as the most attractive markets in which to purchase real estate in 2011.

Strong investment demand has already had a direct impact on yields. At the end of 2010 there has been a rapid yield compression registered – 6.25% for offices, 6.50% for shopping centres and 7.75% for logistics. In the regional cities prime assets are valued around 100 bp. higher.

## OFFICE MARKET

The office market in Poland, and particularly in Warsaw, is clearly speeding up. The demand for office space is growing, while the vacancy rates are rapidly falling in a number of popular locations. The total take-up in Warsaw reached the record quarterly level at almost 200,000 sq m with, only 24% being renewals and 31% pre-lets. However, it needs to be pointed out that the largest, build-to-suit lease transaction by TPSA (43,700 sq m) was officially registered this quarter along with the start of the construction.

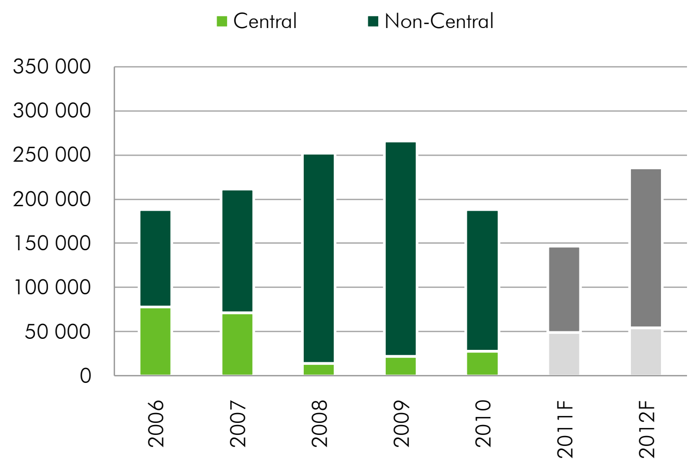
The total modern office stock in Q1 increased only by 5,000 sq m (the renovated Palac Mlodziejowskich) and reached almost 3.5 million sq m. Pipeline projects for the next 12 months still remain limited, but a number of large projects planned for 2013 such as Warsaw Spire (100,000 sq m) should be started this year. At the moment, there are around 405,000 sq m under construction with 32% pre-leased in total. The most popular Warsaw zones, in terms of both take-up and new planned developments, are City Centre Fringe, Mokotow district (US) and Jerozolimskie area (SW).

The Warsaw vacancy rate dropped to 6.6% on average with non-central locations registering below 6% and central zones over 7%. There are a growing number of tenants' inquiries observed on the market and the upward trend in terms of the demand for office space should be sustainable through the current as well as the next year.

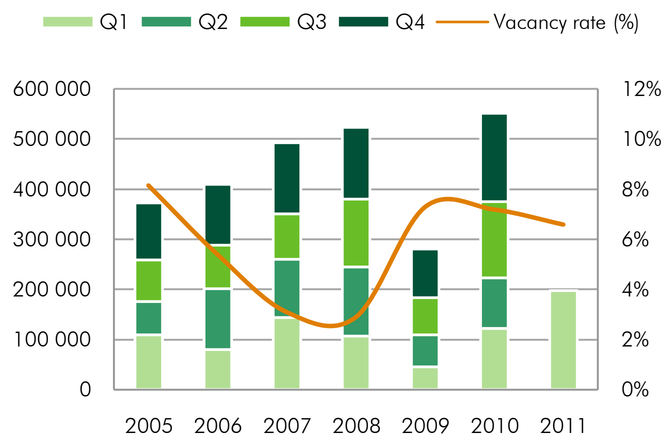
Other large regional markets also perform quite well. A number of foreign investors plan to open or expand their shared services projects. In the first quarter alone the total regional take-up was estimated at 75,000 sq m. The most popular locations were Krakow (total take-up at 18,500 sq m) and Lodz (19,300 sq m). This, combined with the slow construction activity translated into the vacancy rates' decreases, particularly in Wroclaw (3%) and Krakow (9%). In many other locations, the vacancy rates are also constantly falling, although each city experiences a slightly different situation.

Prime headline rents are slowly increasing in Warsaw, particularly in CBD, while in other cities remain stable. Still popular tenants' incentives are now being successively reduced. Decreasing vacancy rates and growing demand will exert a further upward pressure on rental levels in 2011, particularly in the central and established office locations.

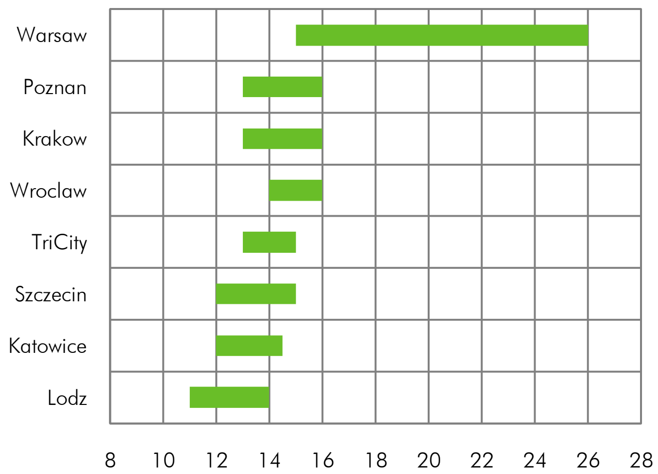
**WARSAW OFFICE SUPPLY (sq m)**




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




**Prime Headline Rents in Major Cities**







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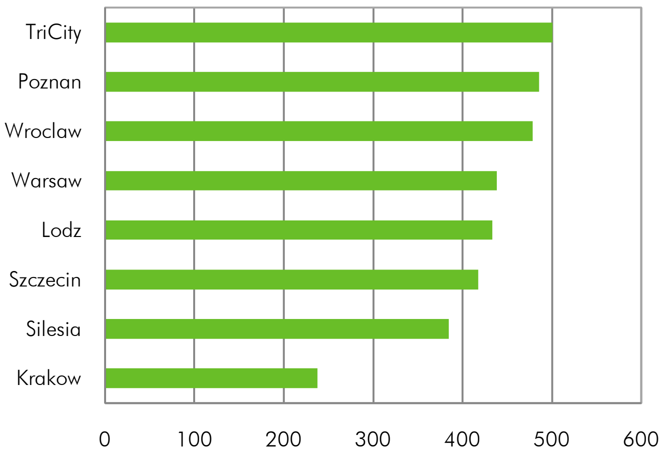
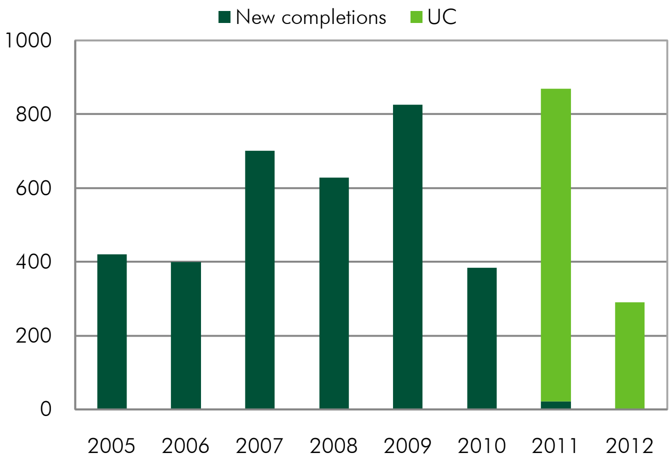
## RETAIL MARKET

### SHOPPING CENTRE DENSITY IN MAJOR AGGLOMERATIONS

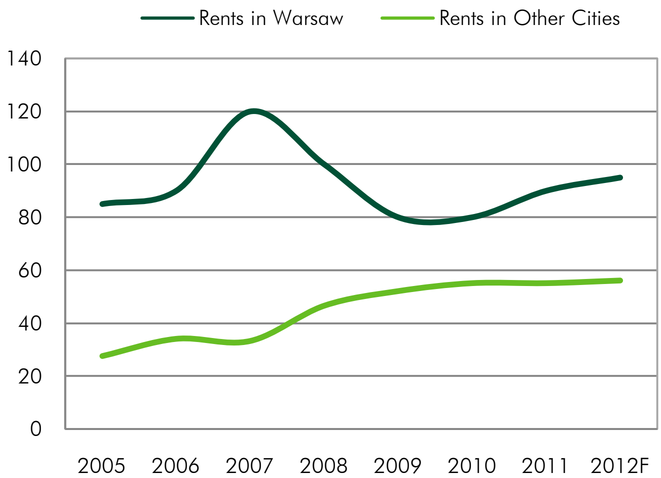



* Including city metropolitan area, in sq m of existing and under construction stock per 1,000 inhabitants.

### SHOPPING CENTRE SUPPLY IN POLAND ('000 sq m of GLA)




### PRIME SHOPPING CENTRE RENTS (EUR/sq m/month)




In Q1 2011 shopping centre stock in Poland amounted to 8.4 million sq m of modern retail space located in 370 modern shopping centres, including 18 retail parks and 6 factory outlets. Over 60% is located in eight major agglomerations (with more than 400,000 inhabitants).

With little over 210 sq m of GLA per 1,000 residents and persistently weak high streets, modern retail network in Poland remains underdeveloped. The density ratios in the largest agglomerations remain below 500 sq m with Krakow being at the last position.

However, the development activity is gradually accelerating and currently there is around 1.2 million sq m of shopping centre space under construction to be delivered within 2011-2013. Over 60% will be delivered in medium and small cities.

Warsaw retail market, although already relatively well developed, is boasting considerable outstanding potential. There are a number of opportunities for different types of developments: city centre mixed-use schemes, ancillary projects in smartening central districts, retail parks to the south-east and north-west of the city, as well as neighbourhood, convenience-type of schemes in a number of residential locations.

Currently the modern retail space in Warsaw agglomeration amounts to 1.37 m sq m, only 440 sq m per every thousand of inhabitants. The only two retail developments to be completed in 2011 are Wolf Bracka (12,000 sq m) and Tivoli Park (7,500 sq m of GLA). Another project under construction is Plac Unii to be delivered in 2013 (16,000 sq m of GLA). Others remain in different stages of planning, including Factory Annopol and Miasteczko Wilanow, but the overall pipeline remains very limited.

Warsaw is the most expensive retail location in Poland with growing prime rents, currently at about EUR 75 - 90/ sq m/ month. Average rents are estimated at EUR 35 – 45 /sq m/ month in the capital city and EUR 20 – 40 in other large agglomerations.

High street rents in Warsaw for the best units range between EUR 65 - 90 / sq m/ month, remaining the highest in the country also the lowest among the high streets in capital cities of Europe.

## WAREHOUSE MARKET

The positive economic performance translated into growing leasing activity in the industrial sector. The total take-up in Q1 2011 amounted to almost 370,000 sq m, with only 19% share of renegotiations. The most popular in the last quarter were Silesia and Warsaw II regions, where over 200,000 sq m were leased in total. The major tenants remain third party logistic operators and manufacturers, mainly from electronic and automotive branches.

However, the largest new lease transaction was closed in Wroclaw, where TJX Europe (owner of TK Maxx stores) decided for a BTS scheme of 26,000 sq m. In Chorzow one of the logistic operators leased over 20,000 sq m in the ProLogis Park.

Confirming improvement in the warehouse leasing market, the vacancy rate dropped down to 8% in Silesia and 22.8% in Warsaw II, while the average vacancy rate in Poland decreased to 15%.

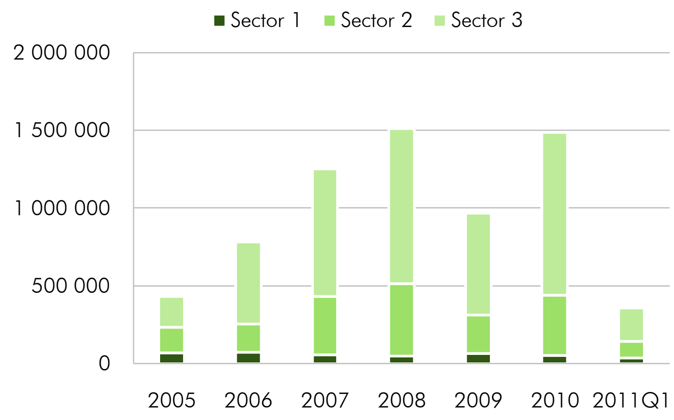
The total modern warehouse stock in Poland amounts to 6.5 million sq m, with ProLogis and Panattoni between them managing 51% of the available space. The share of the Sector III, including all the schemes located outside of the Warsaw area, has been rapidly increasing, particularly next to the new highway junctions. New locations, such as Wiskitki or Emilianow, appear on the logistic map and will develop in line with the progress of the road infrastructure.

In Q1 2011 only 4 buildings were completed with total of 29,400 sq m, all of them were constructed speculatively and delivered 60% vacant in total. The largest single building is the part of Panattoni Park Poznan (over 10,000 sq m).

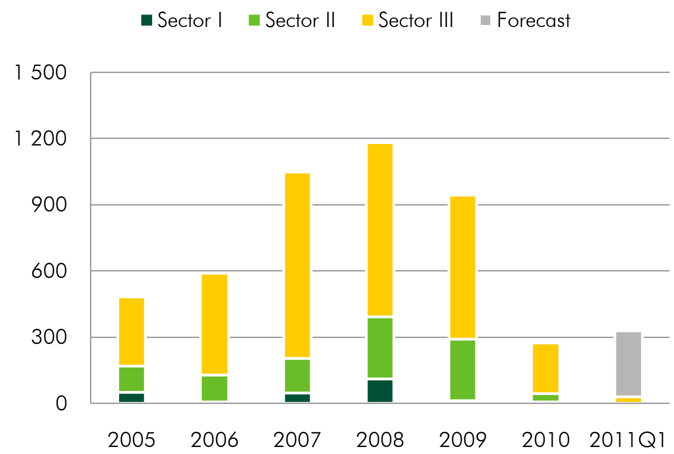
In the last quarter the construction of over 137,000 sq m were started in 9 projects in Silesia, Wroclaw and Poznan. Still, there is a limited possibility to build speculatively and the pre-lease transactions are the market's driving force.

There is quite a significant discrepancy between headline and effective warehouse rents. While the headline rates have been stable for a long time, at around EUR 5.00 within the large cities and 3.00 – 3.90 /sq m/month in logistic hubs, effective rates are much lower and fluctuating, reaching as little as EUR 2.00 /sq m/ month in some cases. As the demand grows, we expect an upward pressure on the effective rents to return.

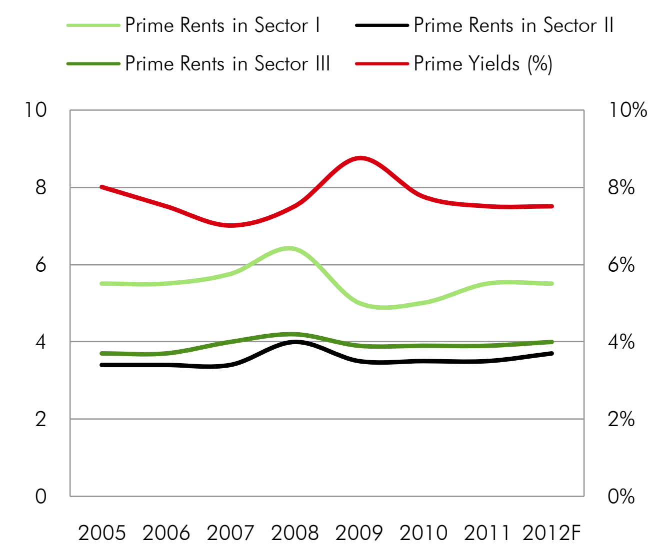
### WAREHOUSE LEASING ACTIVITY BY SECTORS




### WAREHOUSE NEW COMPLETIONS ('000 sq m)




### HEADLINE PRIME RENTS (EUR/sq m/mth) AND YIELDS (%)





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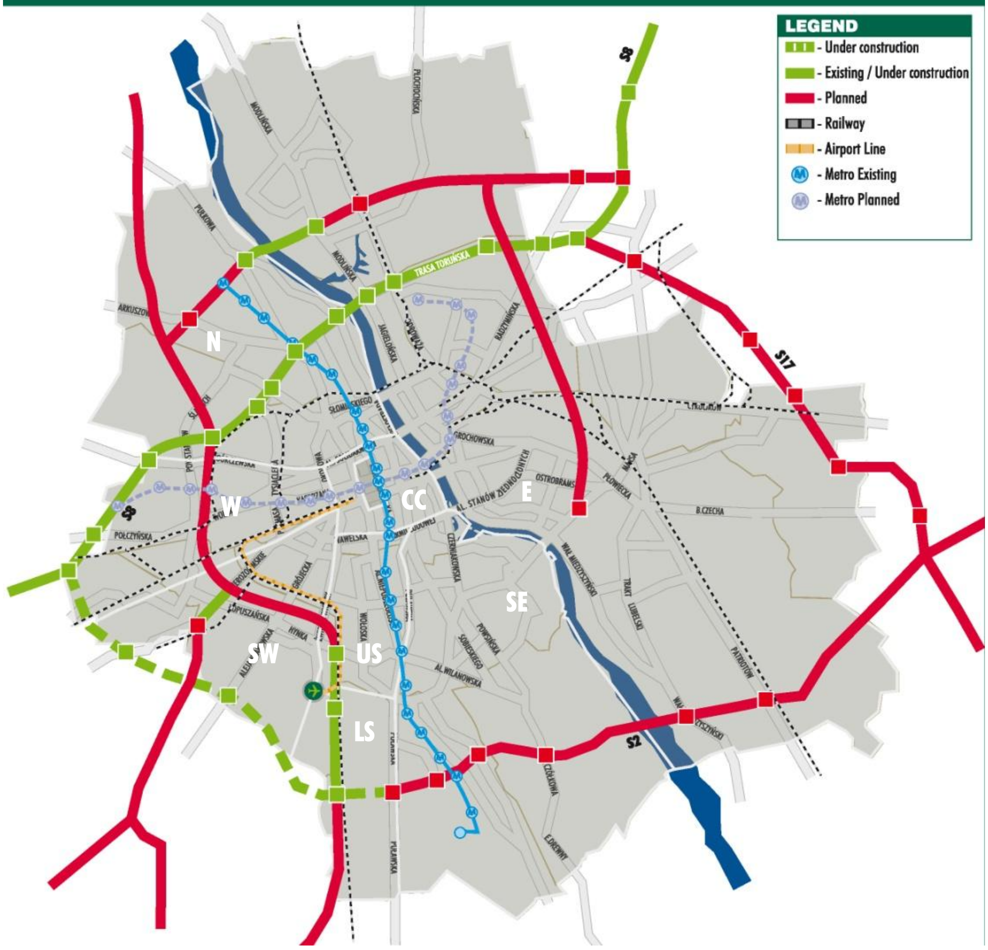
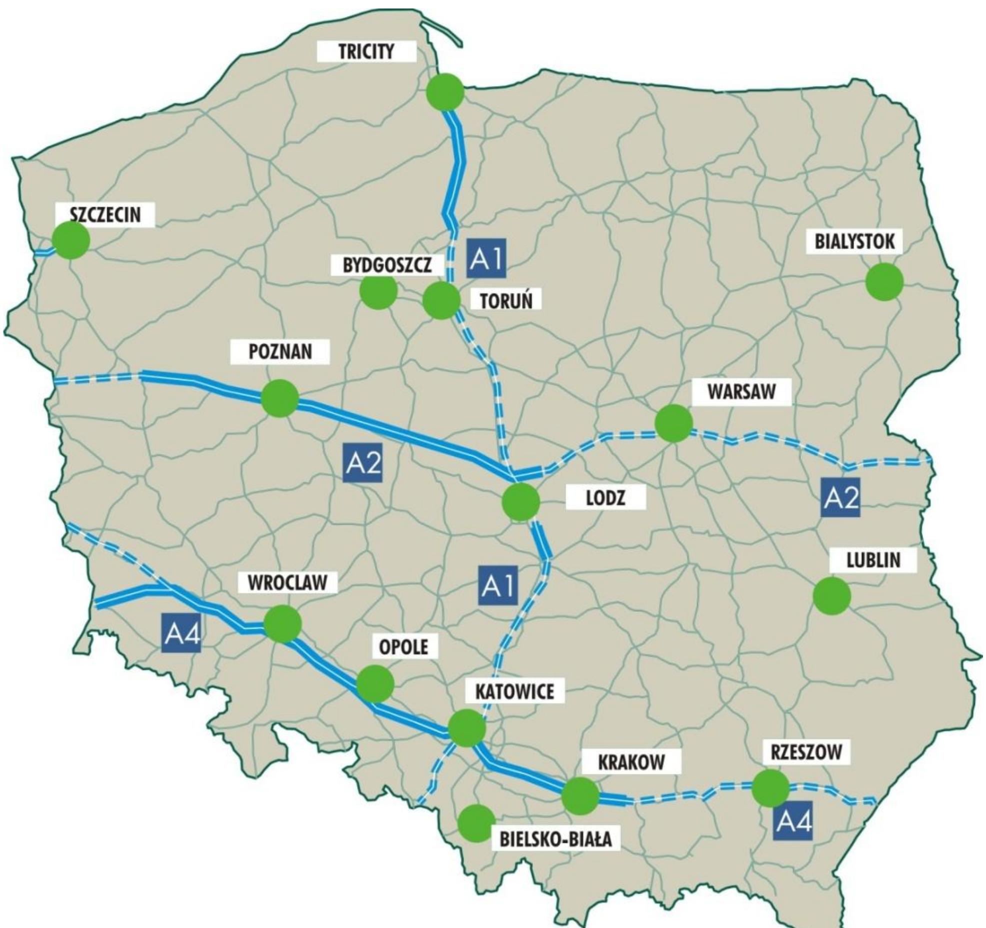
## WARSAW - ROAD SYSTEM




## POLAND – ROAD SYSTEM

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