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Warsaw Office Market Profile Q4 2013

Record-breaking take-up levels. Significant construction activity still drives vacancy rate slightly up.

In 2013, the level of demand for office space outperformed the record-breaking volume seen at the end of 2012. Gross take-up for the entire 2013 totalled 633,000 m². The registered high level of net take-up (451,000 m²) has proven that companies are keen to relocate and to lease appropriate office space, both in terms of increased standard and size.

In Q4, pre-letting activity remained in line with previous quarters, with a substantial share of 39% in net take-up volumes. The largest deals from Q4 2013 included pre-let transactions by a confidential client representing the FMCG sector (10,100 m² in Pacific Office Building), advisory company KPMG (8,300 m² in Gdański Business Centre) and IBM (5,500 m² in The Park A2), which also renewed its lease agreement for 5,300 m² in Wiśniowy Business Park. Other significant deals were lease renewals by Budimex (6,200 m² in Stawki 40) and Mondelez (3,600 m² in Trinity Park III), just to name a few.

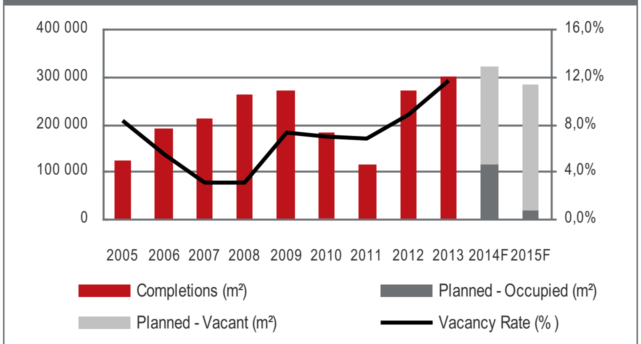
2013 saw a record-breaking level of new completions since the year 2000 (300,000 m²). This will be followed by another 320,000 m² to be delivered over the next 12 months. It is worth mentioning that over 35% of this space has already been secured by pre-lets.

The high construction activity, despite healthy take-up levels, is driving the vacancy rate up slightly. We believe this upward trend will also be sustained in 2014. At the end of 2013, the vacancy rate in Warsaw stood at 11.7% (0.8 pp higher than Q3). This equates to 483,000 m² of vacant space in the entire Warsaw market. Non-central areas registered a vacancy rate above Warsaw's average at 12.2% while Central locations saw a lower vacancy of 10.6% (12.2% in the CBD and 9.6% in the City Centre Fringe).

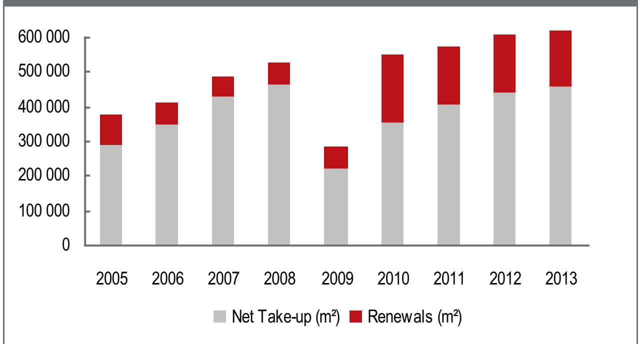
In Q4 2013, prime headline rents remained similar to those in Q3, however, there is still potential for downward movements, especially in terms of effective rents. Prime headline rents ranged between €22 and €24 / m² / month in the City Centre and €14.50 to €14.75 / m² / month in non-central locations, such as Mokotów.

Summary Statistics	Q4 2013 / Q1-Q4 2013	Q-o-Q change	Y-o-Y change	12-Month Outlook
Gross Take-up (m²)	115,000/ 633,000	-69,000	-42,000/ +25,000	→
Net Take-up (m²)	86,000/ 451,000	-50,000	-32,000/ +9,000	→
Vacancy Rate (%)	11.7	+0.8 pp	+2.9 pp	↑
Completions (m²)	52,000/ 300,000	-42,000	-69,000/ +32,000	→
Under Construction (m²)	591,000	+9,000	+46,000	↘
Prime Rent (€ / m² / month)	22-24	0%	-4%	↘
Prime Yield (%)	6.00-6.25	0/-25 bp	0/-25 bp	→

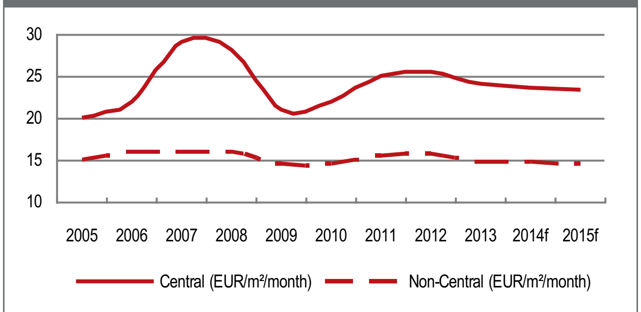
Office Completion, Future Supply and Vacancy Rate



Office Demand – Net Take-up & Renewals



Prime Headline Rents



Source for all charts: Jones Lang LaSalle, WRF

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Office Market Profile Poland Q4 2013

Kraków and Wrocław maintain their lead in terms of construction activity and take-up volumes, followed by Katowice and Tri-City.

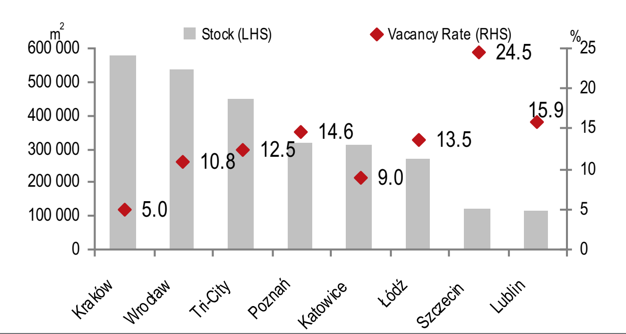
In 2013, take-up in the major office markets in Poland (excluding Warsaw) reached 370,000 m^2, comparable to 2012 (the net take-up of 224,000 m^2 was down by 26.5%). In Q4 2013, alone, leasing agreements for more than 88,000 m^2 were signed. Tri-City, Kraków and Wrocław took a clear lead in respect of occupier activity in Q4; whereas in the entire 2013, Kraków , Wrocław and Katowice recorded the highest take-up levels out of the major office markets in Poland***. Pre-lets still represent a substantial portion of transactions (40% of net take-up in Q4 2013). The largest pre-let of Q4 was signed in Katowice – a confidential tenant in Silesia Business Park A (6,770 m^2). Other pre-lets included: RWE (3,150 m^2 in Bonarka4Business bldg. E, Kraków); Kemira (2,600 m^2 in Alchemia phase I in Tri-City) and Tesco (2,570 m^2 in Kapelanka 42 in Kraków). Other major deals in Q4 were: Thomson Reuters (a renewal of 9,000 m^2 in Baltic Business Center in Tri-City), DHL (a renewal of 3,050 m^2 in Targowa 35 in Łódź) and a new deal by SII (2,700 m^2 in Olivia Business Centre: Point&Tower in Tri-City).

In Q4 2013, 75,000 m^2 of new office space was brought to the market outside Warsaw, of which, 88% was almost evenly delivered in: Wrocław (Aquarius Business House phase II, 10,000 m^2 and Millenium Tower IV, 7,800 m^2); Kraków (mainly in Bonarka 4 Business bldg D, 8,900 m^2 and in Nautilius, 6,000 m^2); Tri-City (Alchemia phase I, 16,300 m^2) and in Lublin (mainly in Nord Office Park B&C, 8,250 m^2 and in JPBC Business Center, 4,400 m^2). Another major new addition to the market was Euro-Centrum VIII (4,330 m^2) in Katowice. In the entire 2013, total new supply increased by 10% compared to the amount recorded in 2012 (280,200 m^2 vs. 257,000 m^2). Lublin with the modern office stock exceeding 100,000 m^2 can now be compared to Szczecin in this respect.

Currently, 493,200 m^2 of office space is under construction in the major cities** in Poland, the majority of which is found in Kraków, Wrocław and Tri-City. Approximately 174,100 m^2 is likely to be completed across Poland (excluding Warsaw) in H1 2014 (47% of which is already secured with pre-let agreements).

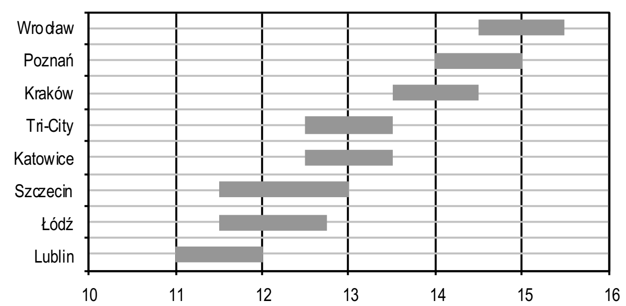
At the end of Q4 2013, quarterly vacancy rates remained stable in six of the eight major office markets in Poland (excluding Warsaw). Slight increases were seen in Lublin and Szczecin. In some markets with extensive construction activity, we may see minor increases in vacancy rates going forward.

Stock and Vacancy Rate



Prime headline rents currently range between €11 and €12 / m^2 / month in Lublin, to €15.5 / m^2 / month in Wrocław. Q4 2013 saw slight downward rental pressures in Łódź and Lublin.

Prime Headline Rents (€ / m^2 / month)



Source all charts: Jones Lang LaSalle ; ** excluding Warsaw
*** Kraków, Wrocław, Tri-City, Katowice, Poznań, Łódź, Szczecin and Lublin

Q4 2013	Warsaw	Kraków	Wrocław	Tri-City	Poznań	Katowice	Łódź	Szczecin	Lublin
Total Stock (m^2)	4,113,100	577,900	535,000	447,800	314,500	308,550	267,100	120,300	110,400
Completions (m^2) Q4 2013 / Q1-Q4 2013	52,000 / 300,000	17,300 / 34,800	17,800 / 72,300	16,300 / 69,000	4,300 / 21,400	4,330 / 16,100	0 / 18,300	0 / 28,400	15,200 / 19,900
Under Construction (m^2)	591,000	109,400	107,600	78,400	53,800	78,250	37,300	13,900	14,550
Vacancy Rate (%)	11.7% ↑	5.0% →	10.8% →	12.5% →	14.6% →	9.0% →	13.5% →	24.5% ↑	15,9% ↑

* The arrows indicate the quarter-on-quarter changes in vacancy level between Q3 and Q4.

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