

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 so far an impressive level of nearly 440,000 sq m in 2011.
- Regional markets again attract a number of investors, both tenants and developers.
- Warehouse market accelerating in terms of demand.
- 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 three quarters of 2011 confirmed the improvement of the property market conditions. The GDP growth for Q3 2011 is forecasted at 3.8% and should aggregate to almost 4% in the whole year. The strength of economic conditions is reflected in growing industrial output, export as well as outstanding levels of retail sales.

The major concern for the country's economy is the high unemployment rate at over 11.6%, however, indicating a downward trend. Other important issue that could cast a shadow on Poland is the instability of a number of the EU economies. Although inflation remains above the NBP's target, the monetary authorities are unlikely to change the reference interest rate, which currently amounts to 4.5%.

Last year, the foreign direct investments reached EUR 6.7 billion and should be 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 parliamentary elections that were held in September brought the victory of Civic Platform. It is the first time in the history of post-1989 Poland when the ruling party was re-elected in parliamentary polls. The results should neither significantly affect the Polish economy nor change the approach of the foreign investors towards the country.

The new infrastructure improvements in many cities, such as ring-roads, highways, the railway and the new Warsaw metro line create new locations desired by all developers.

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 2011 reached almost EUR 2.1 billion so far, mainly due to the large Europolis portfolio taken over by CA Immo transacted for almost half EUR billion, as well as two retail schemes – 50% of Galeria Mokotow and Magnolia in Wroclaw, sold for almost EUR 240 million and over EUR 220 million respectively. There was also a number of large office transactions (Focus, North Gate and Zebra Tower) sold in Warsaw. However, there was no office investment transaction on institutional quality asset, closed outside of the capital city.

In 2011 the investment volume has already surpassed the result registered 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 regional cities. 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 one of the most attractive markets.

Strong investment demand has already had a direct impact on yields. Prime retail yields registered further compression to the level of 6.25%, catching up the office sector. Logistics yields stabilised at 7.75%. In the regional cities prime assets are valued around 100 b.p. 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 remain at the relatively low level. The total take-up in Warsaw reached the level of over 440,000 sq m in the first three quarters of 2011 with only 27% being renewals and 24% 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 year along with the start of the construction.

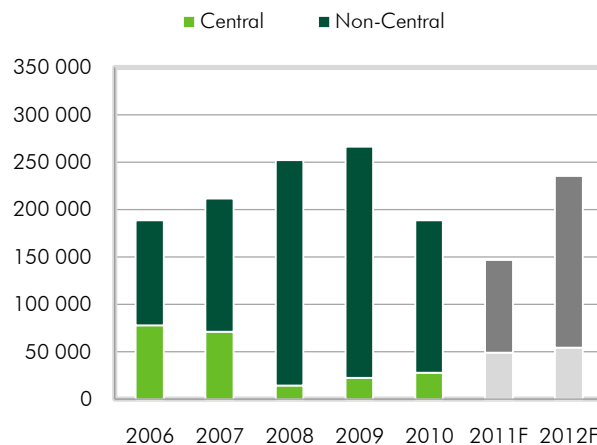
The total modern office stock in 2011 increased by 60,000 sq m to reach almost 3.6 million sq m. The pipeline stock for the next 6 months still remain limited, but a number of bigger projects are planned for completion in the mid-2012. These include the first phase of the Business Garden and Senator. At the moment, there are around 470,000 sq m under construction with 29% 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 vacancy rate increased in the last quarter to the level of 6.7% on average with non-central locations registering 5.2% and central zones over 8%. The increased vacancy rate is caused mainly by a number of office projects that were delivered on speculative basis in the third quarter of 2011. However, due to a growing number of tenants' inquiries, the upward trend in terms of the demand for office space should be sustainable through the next year, which should cause the vacancy rates to compress.

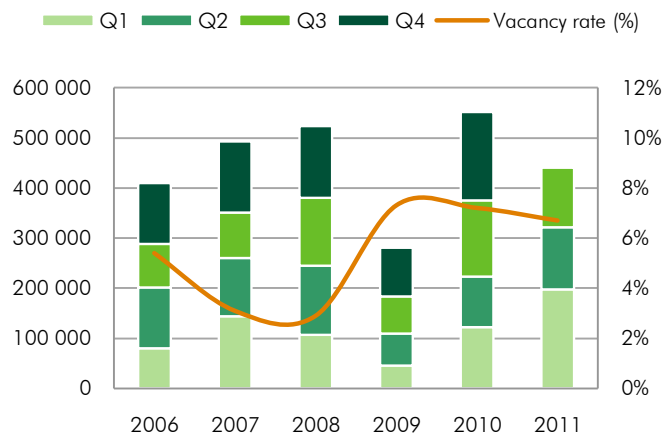
Other large regional markets also perform quite well. A number of foreign investors plan to open or expand their shared services projects. In the first three quarters alone the total regional take-up was estimated at around 225,000 sq m. Since the beginning of the year the most popular locations were Krakow (total take-up at 65,000 sq m) and Poznan (37,000 sq m). This, combined with the slow construction activity translated into low level of vacancy rates, particularly in Wroclaw (4%) and Krakow (8%).

Prime headline rents are slowly increasing in Warsaw, particularly in CBD (now at EUR 25 – 26 /sq m/mth), while in other cities remain stable. Still popular tenants' incentives are now being successively reduced. Decreasing vacancy rates and growing demand should exert a further upward pressure on rental levels in 2011, particularly in the central and established office locations.

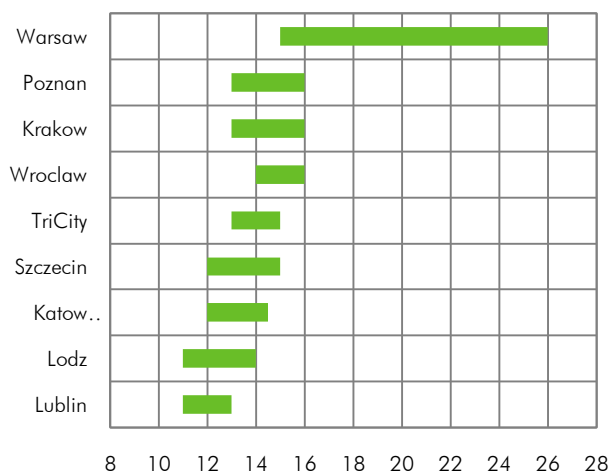
WARSAW OFFICE SUPPLY (sq m)



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



PRIME HEADLINE RENTS IN MAJOR CITIES (EUR/sq m/month)



RETAIL MARKET

The performance of Warsaw retail market remains demand-driven with extremely limited 2011 pipeline in relation to the consistently strong demand, which is leading to negligible vacancies in almost all retail schemes.

A considerable market shift is taking place, as Warsaw is increasingly becoming the prime target both for the mid fashion and luxurious retailers. The entry of GAP to Poland alongside with the numerous store openings of high-end fashion brands is driven by the growing sophistication of the consumers and considerable increase in their spending. Still, the other end of retail spectrum is also widening with the growing number of discount groceries alongside with the revival of the high streets.

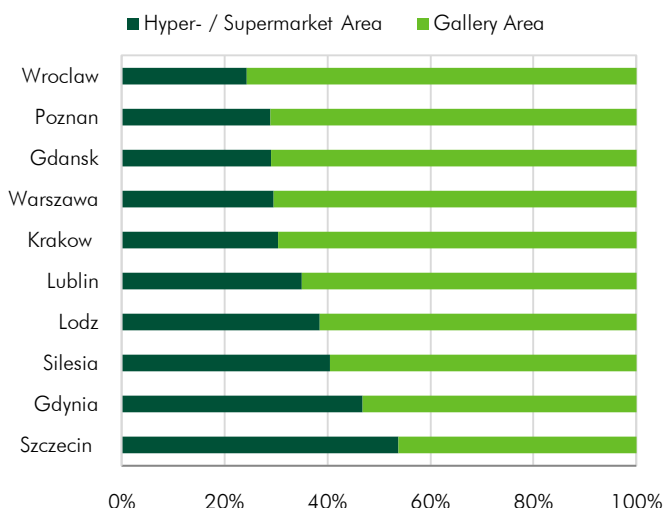
Warsaw remains the leading market in Poland with 1.36 million sq m of modern retail space. 2011 saw the completion of only two retail schemes: Wolf Bracka and Tivoli Park, now both waiting to be fully commercialised. With the first of them being luxurious department store and the latter to become the first in Warsaw strip mall, the range of shopping centre formats in Warsaw is to expand further.

Even though the construction works on Wolf Bracka department store have been finished, the opening date has been further postponed to November 2011. The scheme that provokes controversy around its treatment of immediate urban context and architectural solutions including its dark façade, already became one of Warsaw landmarks.

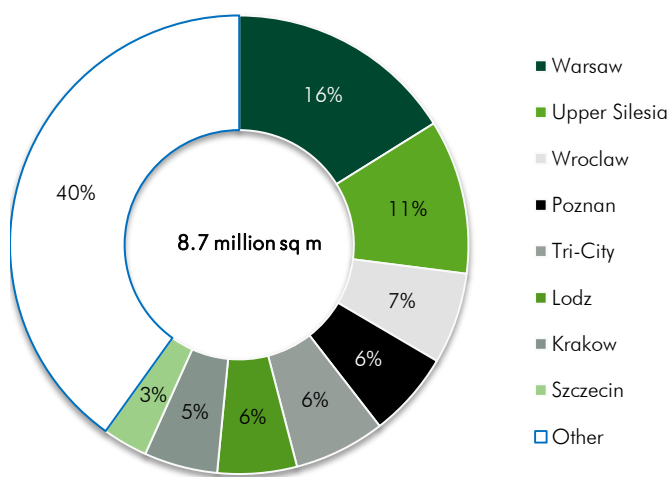
A limited volume of shopping centre space that is currently being constructed includes Plac Unii, a mixed-use structure that is to offer 15,300 sq m of retail GLA. This is a joint project of BBI Development and Liebrecht&wood, to be ready in 2013. Of all other planned retail schemes in Warsaw, 14,000 sq m of GLA Factory Annopol, Neinver's second factory outlet scheme in Warsaw, is the nearest to the construction works commencement, expected to be completed by Q4 2012.

Retail market is further expanding in terms of available formats, with very small (under 5,000 sq m of GLA) neighbourhood schemes planned. Czerwona Torebka strip mall, to be located in the northern Warsaw district of Bialoleka at Glebocka street, scheduled for Q3 2012, is designed as a small, modern convenience space with no common areas of the mall.

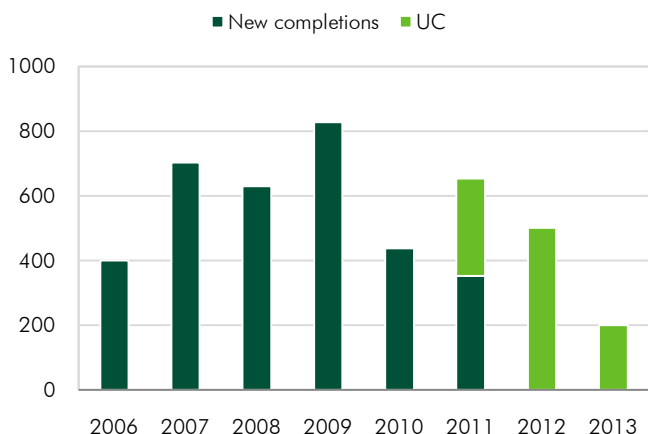
PROPORTION OF THE HYPER- / SUPERMARKET AREA AND OF GALLERY IN TOTAL GLA



RETAIL STOCK DISTRIBUTION IN POLAND



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



RETAIL DEMAND & VACANCY

The vacancy rate continues to remain very low with 0.8% recorded in PRCH's mid-year research. In particular, all prime Warsaw retail schemes have no vacant space. With little addition to the stock in 2011 we expect the vacancy to stay extremely low in the foreseeable future, pushing rents and pricing further up.

Warsaw remains a natural entry point for many fashion retailers offering the best retail market opportunities. An increasing number of top tier brand stores openings in Warsaw, backed up by the growing spending power and retail sales, and with little leasable space available in shopping centres, also translates into the long-awaited revival of Warsaw's high street. An American mid-market fashion retailer GAP, being one of the most-desired fashion companies not present in Poland, on October 20th is to open its first store in Arkadia. Other notable entries include F&F and Yogen Früz in Galeria Mokotow.

Luxury brands such as Max Mara, Carolina Herrera, and Christian Louboutin have already opened their first stores in Warsaw in 2011. They will join a number of top tier retailers already present such as Marc by Marc Jacobs, Isabell Marant, Acne and Missoni Mof, of whom many lease the space in Mokotowska Square building developed by Yareal Polska: Escada, Marc Cain, alongside with multibrand upmarket Chick and Chiara boutiques.

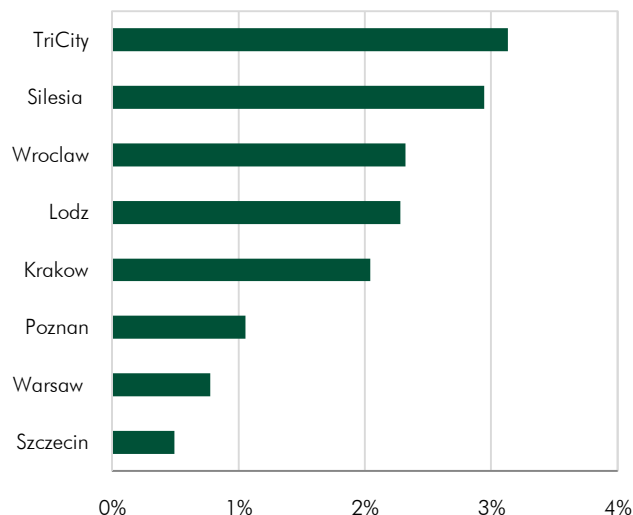
The upmarket tenants rumoured to sign into the Wolf Bracka project include Lanvin and brands from the French Pinault-Printemps-Redoute group, including Gucci, Sergio Rossi, as well as Bottega Veneta.

RETAIL RENTS

Warsaw is the most expensive retail location in Poland with prime rents at about EUR 75 - 90/ sq m/ month (for the best unit of approximately 100 sq m in a prime shopping centre) and average rents at EUR 30 - 45 /sq m/ month. Lack of available retail space increases the upwards pressure on rents.

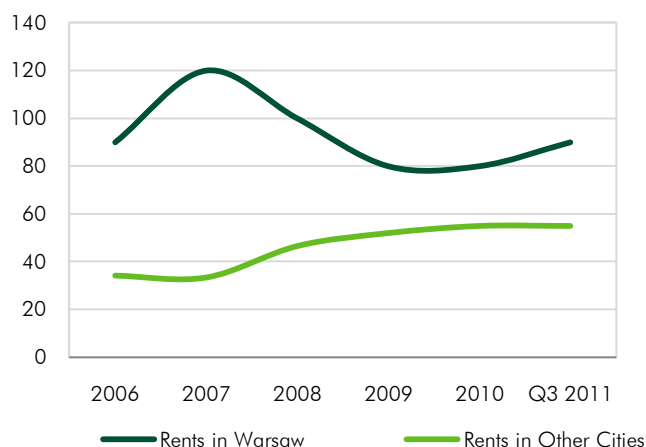
Service charges in the shopping centres are at the level of EUR 7-10/ sq m/ month while in the retail parks rental rates and service charges for units of approx. 1,000 sq m remain in the range of EUR 10 - 12 and EUR 3 - 4 / sq m/ month respectively. High street rents for the best units reach EUR 70 - 90 / sq m/ month.

VACANCY (AS % OF GLA)

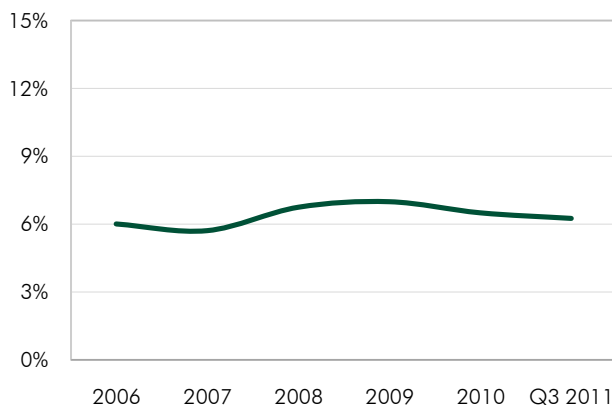


Source: Retail Research Forum

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



SHOPPING CENTRE PRIME YIELDS (%)



WAREHOUSE MARKET

The positive economic performance translated into the growing leasing activity in the industrial sector. The total take-up in Q3 2011 amounted to over 540,000 sq m, with almost 70% share of new deals. The most popular in the last quarter were Silesia and Warsaw II regions, where almost 300,000 sq m were leased in total. The major tenants are mainly retailers, logistic operators as well as manufacturers, mostly from electronic and FMCG branches.

The largest new lease transaction was closed by Segro in Tulipan Park Gliwice, where Decathlon leased over 31,000 sq m. The most significant BTS scheme will be constructed by Goodman in Krapkowice near Opole for Metsa Tissue (27,000 sq m).

The improvement in the warehouse leasing market has been confirmed by the vacancy rate, which dropped down to slightly below 6% in Silesia and about 11% in Warsaw I. The average vacancy rate in Poland decreased to 12%.

The total modern warehouse stock in Poland amounts to 6.8 million sq m, with Prologis and Panattoni managing more than half of the 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.

In Q3 2011 eight schemes were completed with total of almost 130,000 sq m, three of them comprising about 40% of the space were built on BTS basis; the remaining were speculative developments, almost fully leased before completion. The largest build-to-suit project was developed by Pinnacle in Point Park Poznan for PF Concept (23,000 sq m).

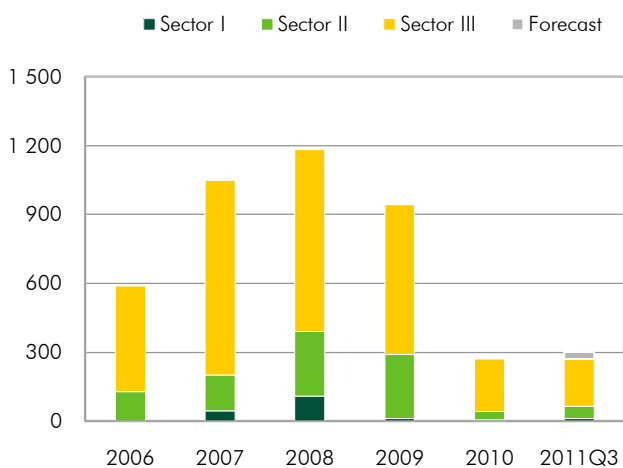
In the last quarter the construction of over 175,000 sq m were started in 11 projects, including three BTS developments in Wroclaw and Poznan regions. Still, there is a limited possibility to build speculatively and the pre-lease transactions are the market's driving force.

There is quite a significant discrepancy between headline and effective warehouse rents. The headline rents in projects located in Warsaw I region are between EUR 4.50-5.00/sq m/month, while rents in Sector II and III range from EUR 3.00 to 4.00 /sq m/month. The effective rates are lower due to incentives offered by landlords. As the demand grows, we expect an upward pressure on the effective rents to return.

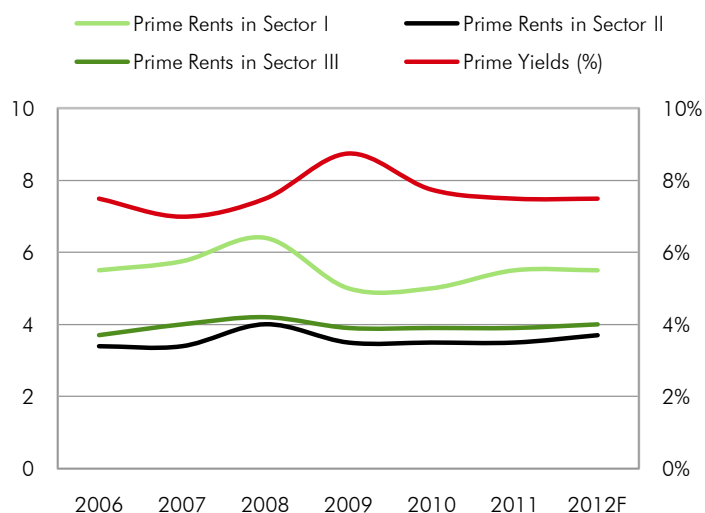
WAREHOUSE LEASING ACTIVITY BY SECTORS



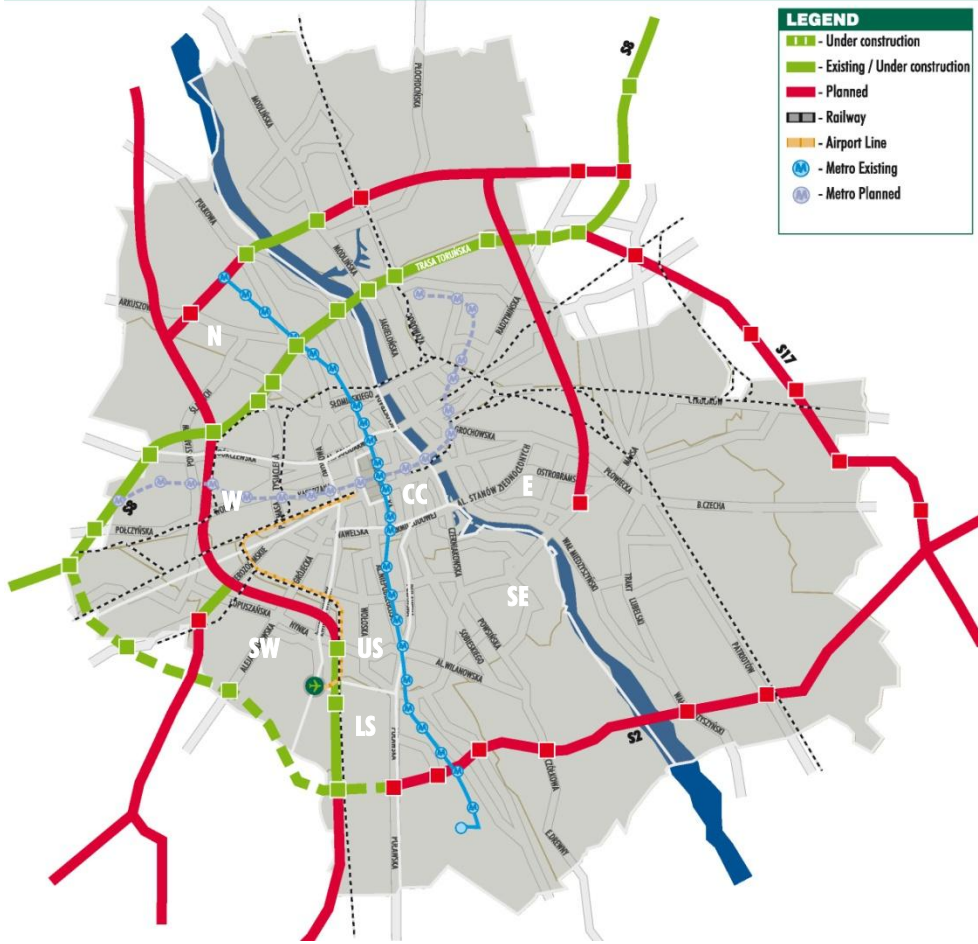
WAREHOUSE NEW COMPLETIONS ('000 sq m)



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



WARSAW - ROAD SYSTEM



POLAND - ROAD SYSTEM



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