CBRE

MarketView
Warsaw Office

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4Q 2011

Quick Stats 2011

	Change from 2010
Take-up	↗
Completions	↘
Vacancy	↘
Rents	↗
Yields	↘

Hot Topics

- In 2011 the total leasing activity in Warsaw reached a record-breaking level of 573,000 sq m.
- Supply of new office stock in 2011 remained limited and totalled around 120,000 sq m.
- The vacancy rate for Warsaw office space amounted to 6.7%, which is considerably lower than at the end of 2010.
- Prime headline rents increased to the level of EUR 25 - 27/sq m/month in the City Centre.
- Prime office yields compressed to 6.25%.

GENERAL OVERVIEW

Although the fiscal problems of many EU economies have spread pessimism among global financial markets, the Polish economy remains sanguine. Its resilience to external uncertainty is achieved mainly by relatively strong levels of domestic trade and robust industrial output. The GDP growth in 3Q 2011 exceeded most of the analysts' expectations and amounted to 4.2%, while the unemployment rate remains slightly above 12%.

The demand for modern office space continues to grow. The total leasing activity in 2011 exceeded the level registered in the previous year and totalled 573,000 sq m with a net take-up share at 71%, translating into the best result ever achieved in the capital city.

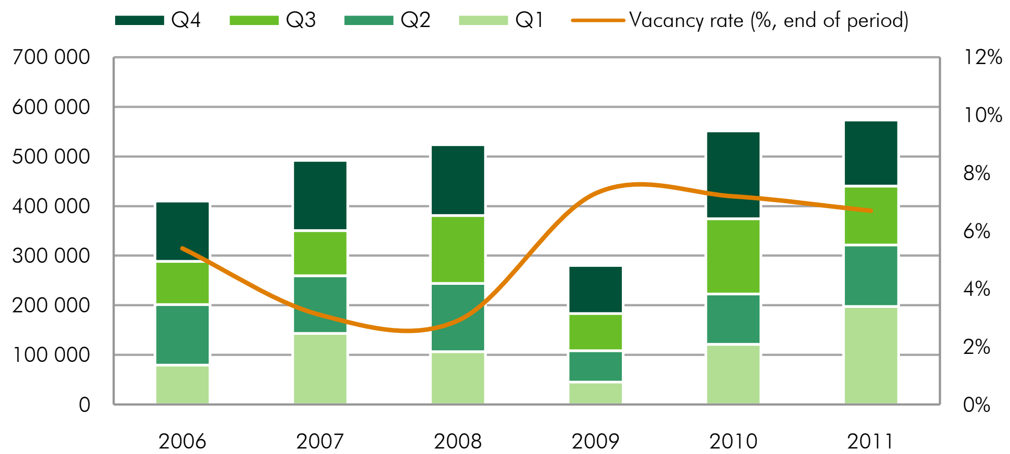
The sudden tightening of credit procedures resulted in a clear slowdown of office supply in 2010 and 2011. After a recovery in demand, supply levels began to rally. Currently, 645,000 sq m is being constructed in Warsaw with almost 300,000 sq m scheduled for delivery by the end of the year.

The average vacancy rate for Warsaw office space amounted to 6.7% at the end of 2011, which means a 50 bps decrease in comparison to the 2010 year end. In total there is 240,000 sq m of available space. Vacancies are relatively high in the Eastern zone (12%) and in the Lower South zone (11%), while the availability of large units remains limited. The vacancy rate should remain stable in the first half of 2012, with a slight increase expected by the end of the year, when a number of speculative projects is scheduled for delivery.

Due to the persistent uncertainty in the EU, the predictions concerning market performance are vague. However, based on the number of enquiries, it can be anticipated that the upward trend in terms of the demand for modern office space in Warsaw should be carried well into 2012.

Nevertheless, due to a clear recovery of modern office space supply and a depreciation of the PLN against the EUR, a rental level increase can be expected only in the CBD, where the supply is relatively limited.

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



SUPPLY

By the end of 2011 modern office stock reached almost 3.6 million sq m, of which 34% is located in the City Centre. Recently completed projects are located mostly in the City Centre, Upper South and South West subzones. The largest projects of 2011 were the first phase of Mokotow Nova (25,000 sq m) by Ghelamco, Equator II (21,300 sq m) by Karimpol and Platinium Business Park IV (13,600 sq m) by GTC.

In response to an upswing of demand, observed especially in pre-let transactions, the amount of modern office space under construction has increased. The largest schemes which are to be completed this year include the first phase of Business Garden (32,100 sq m) by SwedeCentre, Senator (22,200 sq m) by Ghelamco and the second phase of Poleczki Business Park (21,000 sq m) by UBM and CA Immo.

LEASING ACTIVITY

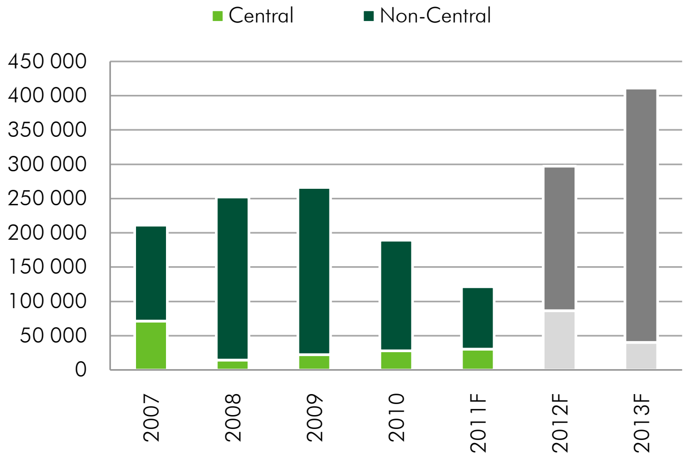
The total volume of leasing transactions in the last quarter of 2011 amounted to almost 133,000 sq m, which translated into the best annual result ever achieved in Warsaw. The gross take-up in 2011 totalled 573,000 sq m, 4.5% higher in comparison to the previous year. The market is still dominated by small leases (below 1,000 sq m).

Throughout 2011 tenants were particularly attracted to office space in the Upper South zone, where almost 30% of the total office space was leased. A significant share of tenants' activity was also registered in the fringe of the City Centre and the South West zone.

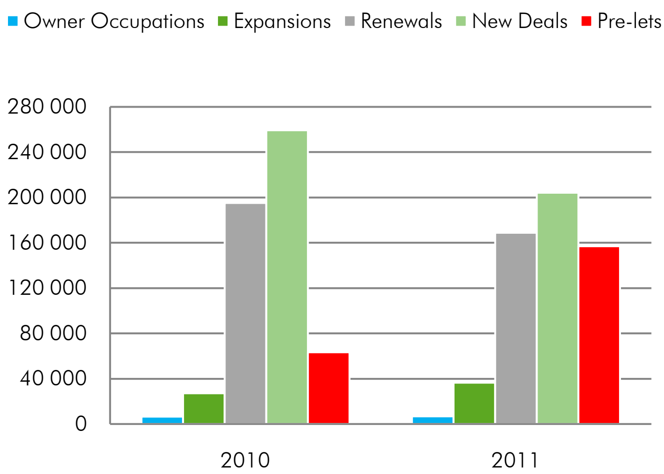
As in previous periods, demand was generated mainly by companies from the Business Services and IT sectors. A large share of leased space was renegotiated (29%), while 43% of the take-up was newly occupied. As much as 21% of the leased space was attributable to pre-lets, indicating a healthy increase in comparison to the previous year.

In 2011 the largest deal was a pre-let transaction signed by TP S.A. in Miasteczko TP (43,700 sq m), registered along with the start of construction works on the project, followed by an Ernst & Young renegotiation (11,000 sq m) in Rondo 1 and a pre-lease agreement by PKN Orlen (9,100 sq m) in Senator.

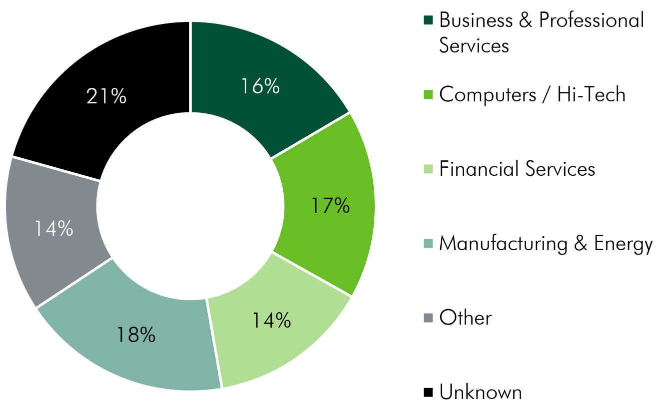
WARSAW OFFICE SUPPLY (sq m)



WARSAW OFFICE TAKE-UP BY TYPE (sq m)



OFFICE TAKE-UP (%) BY SECTOR IN 2011



LARGEST BUILDINGS UNDER CONSTRUCTION

Warsaw Spire (CC)

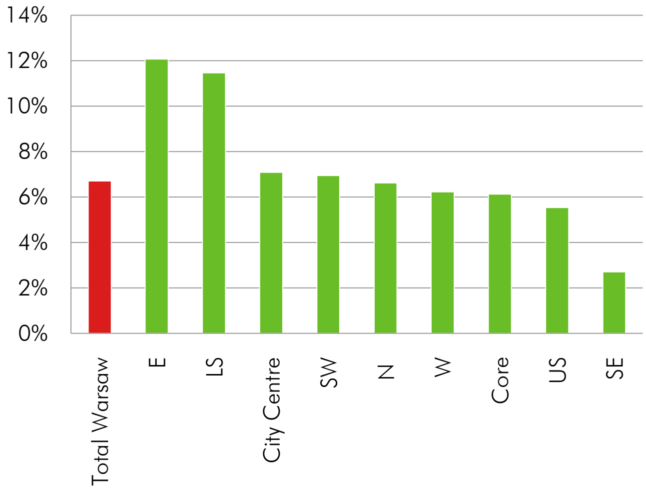
Konstruktorska Business Centre (US)

LARGEST BUILDINGS RECENTLY COMPLETED

Mokotow Nova (US)

Equator II (SW)

OFFICE VACANCY RATE BY SUBMARKETS



LARGEST OFFICE INVESTMENT TRANSACTIONS IN 2011

Building	City	Price (EUR m)	Estimated Yield (%)	Purchaser
Miasteczko Orange	Warsaw	140	6.50%	Qatar IA
Focus	Warsaw	117	6.50%	RREEF
North Gate	Warsaw	103	7.10%	DEKA
Park Postepu	Warsaw	102	6.75%	Immofinanz
Lipowy Office Park	Warsaw	96	7.30%	CA Immo
Zebra Tower	Warsaw	76	6.60%	Union Investment
Warsaw Towers	Warsaw	69	8.10%	CA Immo

VACANCY

The overall Warsaw office vacancy rate amounts to 6.7%. The majority of the available space is located in the Upper South zone (around 53,000 sq m) and in the fringes of the City Centre (around 51,000 sq m). The Nothern zone still suffers from undersupply.

We expect the vacancy rate to remain relatively stable throughout 2012 with a gradual increase expected by the year end. The vacancy rate may face another increase in 2013 when a number of large tenants are expected to move away from their old premises, leaving them vacant.

RENTS

Prime headline rents are estimated at EUR 25 – 27/sq m/month in the City Centre, indicating an upward trend. In non-central locations, the headline rents for the best projects are more stable and amount to EUR 15 – 16.5/sq m/month.

Effective rents are lower by 15% - 20%. Tenant's position is strengthened based on a larger amount of leased space and a longer lease length. A wide range of incentives can be negotiated, particularly in the pipeline buildings. Typical offers include a rent-free period as well as a landlords' contribution to fit-out and other capital costs.

Due to the depreciation of the PLN against the EUR and the recovery in supply, tenants are being put under a greater rental pressure. Therefore, rents might increase only in the CBD, where the supply is relatively limited.

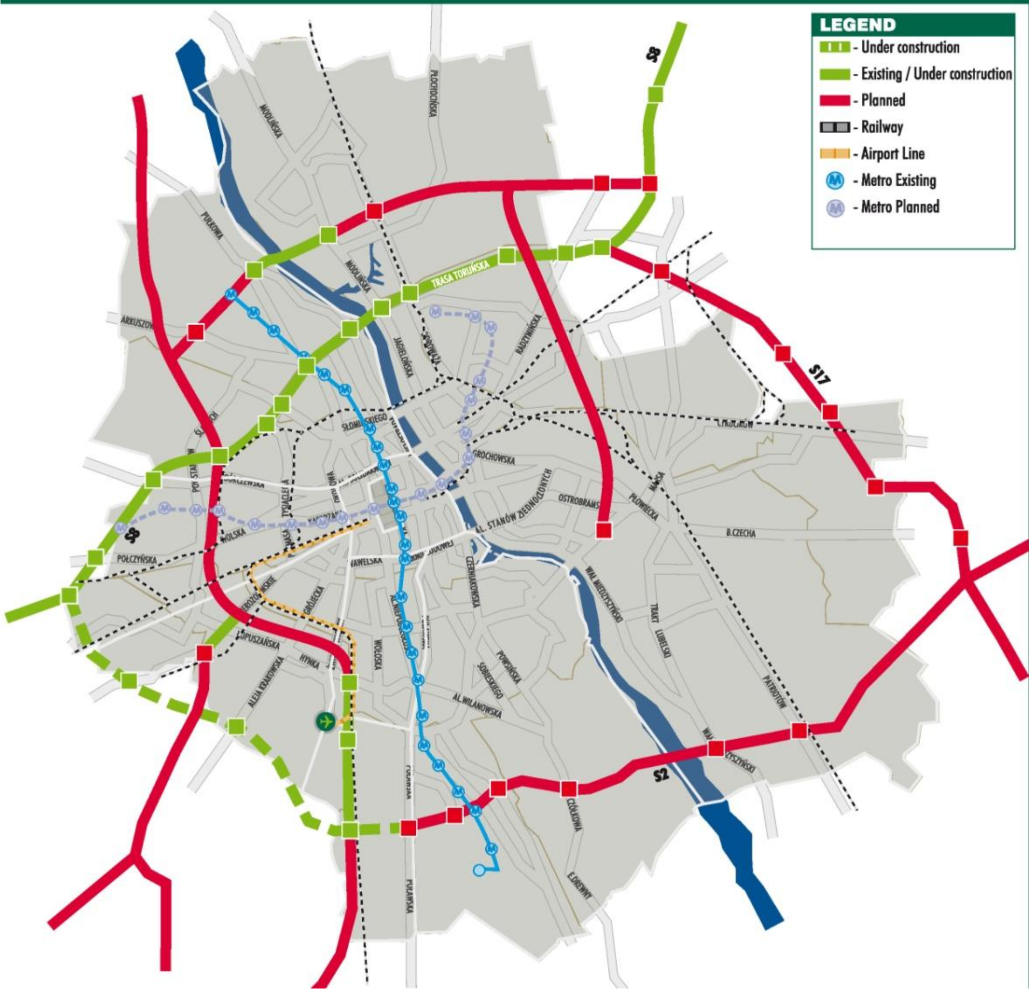
OFFICE INVESTMENTS

Investors' interest in office products improved significantly in 2011. Last year saw 27 office transactions with a total value of EUR 1.22 billion. This volume nearly doubled EUR 642m registered throughout 2010. However, only two deals involved office buildings located outside of Warsaw. The size of an average deal amounted to EUR 45m.

The most important transaction was the purchase of the Europolis portfolio by CA Immo. The largest single deal was the purchase of Miasteczko Orange by Qatar IA for EUR 140m.

The prime office yields are estimated at 6.25%.

WARSAW - ROAD SYSTEM



WARSAW OFFICE ZONES	OFFICE STOCK (sq m)	VACANCY (sq m)
CENTRAL LOCATIONS		
CBD - Central Business District	492,000	30,100
CC - City Centre Fringe	715,000	50,800
NON-CENTRAL LOCATIONS		
E – East (Praga)	167,000	20,100
LS – Lower South (Pulawska)	150,000	17,100
N – North (Zoliborz)	124,000	8,200
SE – South East (Wilanow & Sadyba)	144,000	3,900
SW – South West (Jerozolimskie & Okecie)	589,000	40,900
US – Upper South (Mokotow incl. Sluzewiec)	955,000	52,700
W – West (Wola)	261,000	16,300
TOTAL	3,597,000	240,100

For more information regarding the Warsaw Office Market, please contact:

CBRE RESEARCH & CONSULTANCY

Joanna Mroczek
Director,
CBRE
Rondo ONZ 1,
00-124 Warszawa
tel: +48 22 544 80 61
e: joanna.mroczek@cbre.com

CBRE OFFICE – LANDLORD REP.

Lukasz Kaledkiewicz
Director,
CBRE
Rondo ONZ 1,
00-124 Warszawa
tel: +48 22 544 80 38
e: lukasz.kaledkiewicz@cbre.com

CBRE OFFICE – TENANT REP.

Daniel Bienias
Director,
CBRE
Rondo ONZ 1,
00-124 Warszawa
tel: +48 22 544 80 24
e: daniel.bienias@cbre.com

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