

MARKETBEAT

POLISH OFFICE MARKET QUARTERLY SNAPSHOT

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Q1 2009

OVERVIEW

The Polish office market has long showed resilience to the global financial crisis, although the first quarter of 2009 started to show early signs of cooling. The drop in demand and difficulties in obtaining finance for new projects resulted in the suspension of a number of planned development projects. At the same time there is a growing amount of office space offered for sublease by tenants who, in the pursuit of savings, have been forced to reassess their space needs. Thus, in the short-term a rise in vacancy rates and fall in rents is expected.

TRENDS IN SUPPLY

Due to the financial crisis banks have changed their policies on financing investment projects. They now require higher equity portion and the lease of as much as 40 - 60% of the area in the project. These restrictions coupled with demand decline have led to the suspension of the development of many office schemes. In order to incorporate risk-reduction measures, a large number of investments will be redesigned by increasing the number of phases, thus, limiting the amount of space delivered to the market in each phase. In Q1 2009 86,700 sq. m of modern office space was developed in Warsaw, including the complex of Lipowy Office Park (38, 450 sq. m). Majority of the facilities were leased before completion on a pre-let basis.

TRENDS IN DEMAND

The end of 2008 and the beginning of Q1 2009 saw a significant fall in demand (the volume of transactions in Warsaw amounted to 45,500 sq.m, which represents the decline of 67% compared to the same period in 2008). Companies withdrew their decisions on leasing, waiting for a decrease in rents, which in fact experienced a substantial correction in the most overpriced locations. As early as the second half of Q1 2009, however, a visible revival and a rise in tenant activity was observed driven by widespread cost cutting policies and lease renegotiations.

OUTLOOK

As a result of the above mentioned factors office supply is expected to be substantially lower especially in the 2nd half of 2010. A major part of the office buildings currently being delivered are already pre-leased as a result of the expansions and consolidations during the boom period. Although there is a general decline in demand for new office space, there is still a maintained interest in pre-leases with developers offering aggressive incentive packages and at times offering to reduce relocation CAPEX to a minimum. In the short-term perspective vacancy rates are forecast to rise (in the Warsaw market they have reached the level of 4.5% to date), with effective rents likely to continue falling. In the medium-term perspective the fall in supply should offset the demand decline. In the long-term, though, a dramatic reduction in investments may lead to the reversal in the current market trend.

MARKET OUTLOOK

PRIME RENTS	Downward trend, a large margin of negotiations for tenants ready to occupy the building in a short-term and medium-term	↘
PRIME YIELDS:	Expected further growth, lack of transactions hampers more detailed	↗
SUPPLY:	Q1 saw in Poland the delivery of 100,000 sq.m, but there is clear evidence of a slowdown or development suspension	→
DEMAND:	Demand decline, withdrawal of decisions on the lease, reduction of rented space	↘

PRIME OFFICE RENTS MARCH 2009

	1 quarter 2009		4 quarter 2008		Trend
	€ m ² /month	€ m ² /year	€ m ² /year	€ m ² /year	
Warsaw	27.00	324	29.00	348	↘
Cracow	18.00	216	18.00	216	↘
Katowice	16.00	192	16.00	192	↘
Poznan	18.00	216	18.00	216	↘
Lodz	15.50	186	16.00	192	↘
Wroclaw	16.00	192	17.00	204	↘
Szczecin	16.00	192	17.00	204	↘
Gdansk	16.00	192	17.00	204	↘

PRIME YIELDS (BY ESTIMATION) MARCH 2009

	1 quarter 2009 %	4 quarter 2008 %	Trend
Warsaw	7.00	6.75	↗
Cracow	8.50	7.25	↗
Katowice	8.50	7.25	↗
Poznan	8.50	7.25	↗
Lodz	8.50	7.25	↗
Wroclaw	8.50	7.25	↗
Szczecin	9.00	7.25	↗
Gdansk	8.50	7.25	↗

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many areas of Europe and the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

SELECTED LEASE TRANSACTIONS JANUARY– MARCH 2009

Tenant	Area / m ²	Building	City
Astra Zeneca	3 226	Empark Neptun	Warsaw
G D D K i A	1 876	Brama Zachodnia	Warsaw
Sitel Polska	1 763	Empark Mokotów	Warsaw
TP Internet	1 550	Manhattan B&D	Warsaw
P Z P N	1 450	Bitwy Warszawskiej	Warsaw
Centr.Proj.Europej.	1 378	Horison Plaza	Warsaw
N S N	6 592	Bema Plaza	Wroclaw
Roche Polska	1 200	Malta I	Poznan

Więcej informacji Dział Doradztwa C&W:

Cushman & Wakefield Polska Sp. z o.o.
Metropolitan, Plac Piłsudskiego 1
00-078 Warszawa
+48/ 22/ 820.20.20.

www.cushmanwakefield.com

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