

MARKETBEAT

POLISH QUARTERLY OFFICE SNAPSHOT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



Q2 2009

OVERVIEW

The effects of economic slowdown, which started at the end of 2008, looked less severe in Q2 2009. Falling rents and increased tenant incentives resulted in a slight upturn in demand compared to Q1. However with difficulties in securing project finance, a number of planned investments were put on hold. The market is seeing an increase in subleased offices space as tenants shed space in an effort to save costs. In the short-term vacancy rate are expected to continue rise albeit at a slow pace, while rents are expected to continue a slower downward trend.

TRENDS IN SUPPLY

With more stringent lending criteria requiring higher equity portion and the lease of 40% to 80% of the area in a project coupled with a difficult economic environment and low demand, a number of projects have been put on hold. Many projects are being redesigned into phased developments in order to reduce risk. Over 86,000 sqm. of modern office space was added to the Warsaw market in Q2 (including Deloitte House, Cristal Park, Trinity Park III). Majority of the facilities were leased much earlier, on a pre-let basis.

TRENDS IN DEMAND

Rental fall have triggered an increase in demand, reflected in higher transaction volumes amounting to over 62,000 sqm. in Warsaw. In fact, a growth of leasing activities was observed as early as in the second part of the first quarter on the back of falling rents and increasing tenant incentives including rent free and lease subsidies. However, this trend was curbed by widespread cost cutting policies, leading to a lower declared demand for office space and growing interest in renegotiations of current leases. Demand is now heavily focused on office parks situated in non central location, where tenants can benefit from considerably lower rental rates.

FORECAST

Most buildings currently being developed are almost fully leased and with a tight development pipeline, the market during the economic recovery period may face a lack of available office space, especially from the second half of 2010, which may lead to rapid rent increases. This may explain the continued interest in pre-lease transactions (especially for tenants whose leases are ending in a couple of years and are looking at reducing their occupational costs) In the short-term perspective vacancy rates appear set to rise (in the Warsaw market they now amount to 5%), with effective rents going down. A fall in supply, therefore, should offset the demand decline. Over the long term though, the reduction in investment activity may result in the reversal in the current market trend.

MARKET OUTLOOK

PRIME RENTS:	Downward trend, a large margin of negotiations for tenants ready to occupy a building in a short - and medium-term.	↘
PRIME YIELDS:	Expected further growth, lack of transactions hampers more detailed forecast.	↗
SUPPLY:	Q2 saw delivery of over 86,000 sqm., but there is clear evidence of developments slowdown or suspension.	→
DEMAND:	Demand decline, withholding leasing decisions, reduction of leased space.	↘

PRIME OFFICE RENTS JUNE 2009

	2 quarter 2009		1 quarter 2009		Trend
	€ m ² /month	€ m ² /year	€ m ² /year	€ m ² /month	
Warsaw	25	300	27	324	↘
Krakow	17	204	18	216	↘
Katowice	16	192	16	192	↘
Poznan	16	192	18	216	↘
Lodz	15	180	15.5	186	↘
Wroclaw	16	192	16	192	↘
Szczecin	16	192	16	192	↘
Gdansk	16	192	16	192	↘

PRIME YIELDS (BY ESTIMATES) JUNE 2009

	2 quarter 2009		1 quarter 2009		Trend
	%		%		
Warsaw	7.00		7.00		↗
Krakow	8.50		8.50		↗
Katowice	8.50		8.50		↗
Poznan	8.50		8.50		↗
Lodz	8.50		8.50		↗
Wroclaw	8.50		8.50		↗
Szczecin	9.00		9.00		↗
Gdansk	8.50		8.50		↗

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 APRIL- JUNE 2009

Tenant	Area / m ²	Building	City
Mazowiecka Sp.	4,300	Blue Office II	Warsaw
Gazownictwa PPD	2,806	Trinity Park III	Warsaw
Bristol Myers Squibb	2,500	Focus	Warsaw
Mazars&Guerrard	2,300	Zaułek Piękna	Warsaw
Teva/ Pliva Kraków	2,300	Trinity Park III	Warsaw
Unicredit	1,984	WFC	Warsaw

For further information, please contact our Advisory Department:

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

www.cushmanwakefield.com

This report has been produced by Cushman & Wakefield LLP for use by those with an interest in commercial property solely for information purposes. It is not intended to be a complete description of the markets or developments to which it refers. The report uses information obtained from public sources which Cushman & Wakefield LLP believe to be reliable, but we have not verified such information and cannot guarantee that it is accurate and complete. No warranty or representation, express or implied, is made as to the accuracy or completeness of any of the information contained herein and Cushman & Wakefield LLP shall not be liable to any reader of this report or any third party in any way whatsoever. All expressions of opinion are subject to change.

Our prior written consent is required before this report can be reproduced in whole or in part.

Should you not wish to receive information from Cushman & Wakefield LLP or any related company, please email unsubscribe@eur.cushmanwake.com with your details in the body of your email as they appear on this communication and head it "Unsubscribe".