

MARKETBEAT

POLAND OFFICE SNAPSHOT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



Q1 2011

OVERVIEW

Due to strong economic fundamentals and the upcoming fiscal reforms, the outlook for the Polish economy remains among the most favourable in Europe. In Q1 2011, due to the strengthening economic sentiment and increased foreign investment, the Polish office market experienced a rise in demand for prime space. However, as a result of the financial difficulties faced by developers and tight bank lending, completions remained low, limiting the availability of Grade A space. This resulted in prime rents increasing in Warsaw over the quarter and yields compressing. Regional markets on the other hand, are still considered relatively risky, therefore both occupier and investment activity is subdued with rents holding firm in most locations.

OCCUPIER FOCUS

After a slowdown in 2009, the take-up level significantly increased in 2010 and this continued into Q1 2011 with a record 198,000 sq.m signed. The Warsaw market is seeing growing demand for modern office space and the take-up level consists of both renewals and new leases as occupiers look to secure space as rents have bottomed but are yet to reach their pre-crisis highs. Stock remained stable over the quarter and the majority of 2011 additions are expected in the non-central submarket indicating a trend of decelerating supply of new office space in the CBD. The development pipeline has slowed in Q1 2011 reflected in a decline in the vacancy rate, against strengthening occupier activity.

INVESTMENT FOCUS

In Q1 2011, the volume of office investment transactions totalled €486 million, almost a 400% increase over the previous quarter and accounted for 80% of the total investment in Q1. All the deals were closed in Warsaw by the foreign investors and focused on either core or core plus assets. The largest deal closed in Q1 was the cross-border Europolis acquisition, with five office buildings changing hands in Warsaw. Over the quarter, due to the limited availability of Grade A space yields hardened to 6.40% and given rising rents, better demand and low under-construction and new completions figures, further yield compression is expected.

OUTLOOK

If Poland manages to implement the necessary fiscal and labour market reforms, it will continue to grow by an estimated 3-3.5% in the medium term. Office availability and especially Grade A space is expected to stay constant throughout 2011 and with better demand, vacancy rates are expected to decline. Investor demand will remain strong however the number of transactions may be restrained by the lack of high quality offerings.

MARKET OUTLOOK

PRIME RENTS:	Overall, prime rents will remain stable, however Warsaw will see gradual increases.	↗
PRIME YIELDS:	Increased activity and low availability of Grade A assets will harden prime yields.	↘
SUPPLY:	Supply will remain relatively stable as little new completions are expected in 2011.	→
DEMAND:	Demand will gain further ground with an increasing proportion of new leases.	↗

PRIME OFFICE RENTS – Mar 2011

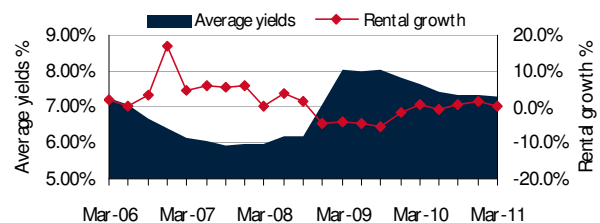
	€	Prime Rent €	US\$	Compound(b.a) % Growth	
	sq.m/mth	sq.m/yr	sq.ft/yr	5yr	1yr
Warsaw	26.00	312	38.9	8.9	10.6
Krakow	15.00	180	22.4	2.9	0.0
Katowice	13.50	162	20.2	4.2	-10.0
Poznan	15.00	180	22.4	2.9	0.0
Lodz	13.00	156	19.4	5.4	-10.3
Wroclaw	15.00	180	22.4	6.4	0.0
Szczecin	14.00	168	20.9	4.9	0.0
Gdansk	14.00	168	20.9	4.9	-6.7

PRIME OFFICE YIELDS (Gross) – Mar 2011

	Prime Yield (%)			10 year	
	Current Quarter	Last Quarter	Last Year	High	Low
Warsaw	6.40	6.50	7.00	13.00	5.25
Krakow	7.25	7.25	7.25	14.50	6.25
Katowice	8.80	8.80	8.80	14.50	6.50
Poznan	7.75	7.75	8.25	13.50	6.25
Lodz	8.50	8.50	8.50	16.00	6.50
Wroclaw	7.00	7.00	7.75	15.00	6.00
Szczecin	9.00	9.00	9.00	16.00	6.75
Gdansk	8.00	8.00	8.25	14.50	6.75

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.

RECENT PERFORMANCE



Source: Cushman & Wakefield LLP, 2011

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