

Quick Stats

	Change from Q2 2009
Take-up	↑
Supply	↓
Vacancy	↑
Rents	↓
Yields	↔

Hot Topics

- Take-up in Q3 2009 reached 74,700 sq m.
- Supply of new office stock in 2009 amounted to 224,800 sq m.
- The vacancy rate for Warsaw office space increased to 7.1%.
- Prime headline rents decreased to EUR 21 - 23 /sq m/month in the City Centre.
- Prime office yields are quoted at 6.75% - 7.00%.

GENERAL OVERVIEW

Although the economy downturn had strongly influenced the real estate market, good economic indicators observed in the middle of the year (being ahead of market expectations) has stimulated the property market to improved activity.

Polish economy has been perceived as one of the most stable and developing economies in the CEE region and the only one with positive economic growth. The GDP growth for the second quarter of the year was announced to reach 1.1% with positive growth forecasted for the whole year. Interest rates were cut to the record low level of 3.5%, inflation increase remains restrained, the unemployment rate also seasonally falls. Majority of economic indicators show that Poland looks remarkably resilient to the effect of financial crunch.

Even though the demand for modern office space in Warsaw is still significantly lower than in the last years, every following quarter shows signs of improvement. The total take-up in Warsaw in Q3 amounted to 74,800 sq m what indicates a 28% decrease in comparison to Q3 2008.

As in recent years, most of the space (67%) was leased in Non-Central locations.

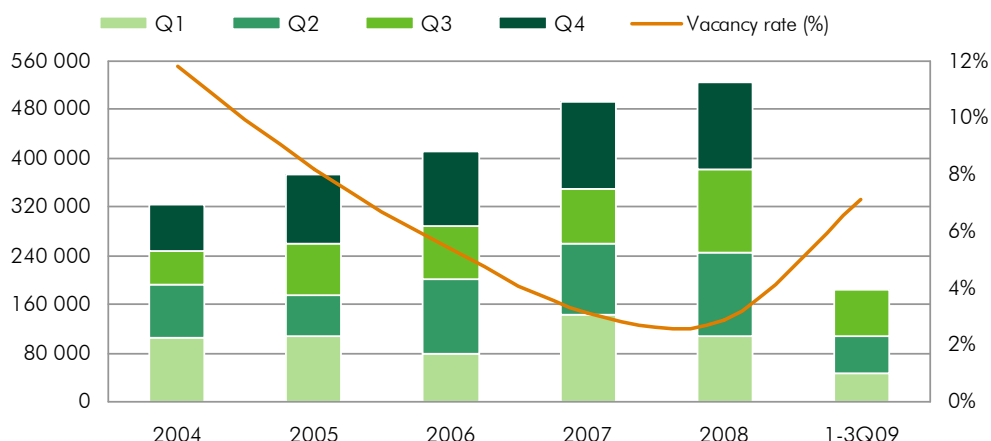
At the same time, since the beginning of the year nearly 230,000 sq m of modern office space was delivered to the market,

bringing total stock to over 3.21 million sq m. The construction of many pipeline projects is conditioned by pre-let agreements. Developers must adapt the pace of completing successive stages to the market demand and tenants interest. On the other hand the trend of subleasing the office space becomes more and more common. We estimate that around 58,000 sq m is being offered by their current tenants to sublease.

The total vacancy rate for Warsaw office space increased over three quarters by 420 bps to 7.1% in comparison to 2.9% recorded at the end of 2008. This increase was particularly noticeable in Non-Central locations where vacancy rate stood at 6.7% whereas in the end of Q1 2008 it was 1.7%. In Central locations the vacancy rate also significantly increased to 7.8%.

As business conditions in Poland remain attractive in comparison to other European countries. The country has been preserved from recession and economic fluctuations. Massive infrastructure investments, supported by large EU funds, have been lessening the consequences of global economic slowdown and should improve the situation on the real estate market, particularly in terms of investments and leasing demand.

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



SUPPLY

Three new projects with a total space of 50,700 sq m were delivered to the market in the third quarter of 2009. None of them was located in Central areas. The largest project was Park Postepu (34,000 sq m) developed by Echo Investment in the Upper South. Around 45% of total office space was delivered on speculative basis.

Fifteen projects of nearly 230,000 sq m were completed since the beginning of 2009. This means only 10% lower supply than in the whole year 2008. The current construction activity in Warsaw is a result of investments commenced last year and secured than financing. Currently around 240,000 sq m in 19 projects is under construction scheduled for completion by the yearend of 2010. The turmoil on the world's financial markets forced investors to be cautious with regard to development of new projects.

Around 21% of currently constructed space has already been pre-leased. Again, Non-Central market register more activity. Only four of abovementioned projects will be located in the City Centre, there are no projects planned in CBD.

LEASING ACTIVITY

Take-up in Warsaw office market in the third quarter of 2009 amounted to 74,700 sq m what is a result better than in previous two quarters of 2009.

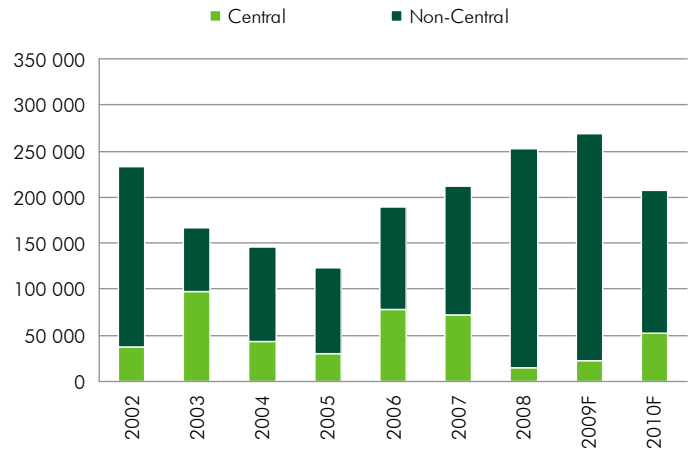
Since the beginning of 2009 the total volume of leasing transactions amounted to 183,600 sq m. This represents a 52% decrease in comparison to the corresponding period of 2008. Also the size of leased space has significantly decreased. The average deal size in Q3 2009 totalled 778 sq m and is 40% lower than in Q3 2008.

Like since the beginning of the year, in Q3 2009 the group generating the largest proportion of demand were companies in the manufacturing, industrial and energy sector (32%) – Sanofi Aventis, Agros, Bosch, Whirlpool, Kone, Colgate. The second most active were companies from business services sector (12%) such as Publicis, Cap Gemini, DEGI.

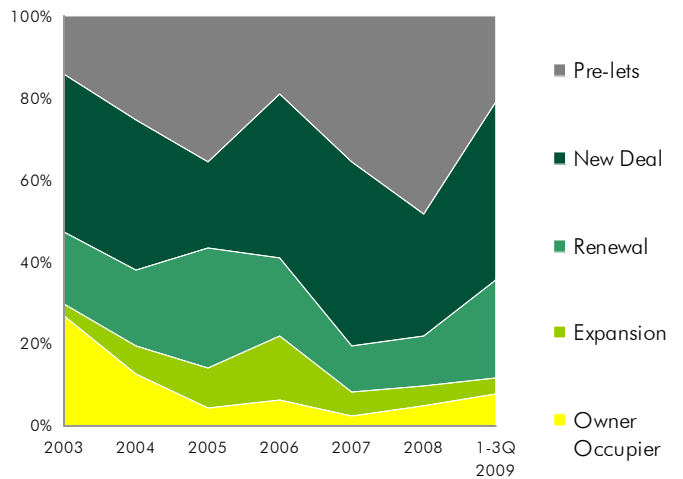
The largest deals in Q3 2009 were pre-let agreements signed by PORR in Poleczki Business Park (4,100 sq m) and Fiat Group in Catalina Office Center (3,100 sq m). The composition of letting activity showed a limited contribution from expansion agreements – only 3%. Owner occupier deals indicated strong increase by 16%. The share of pre-let transactions historically increasing q-o-q this time decreased to only 17%. There is an evidence of more lease renewals signed by companies, which amounted to 25%. Around 38% of the take-up volume was attributable to new deals.

Although the amount of offered space for sublease grows, the interest of tenants for such transactions is still lower than expected.

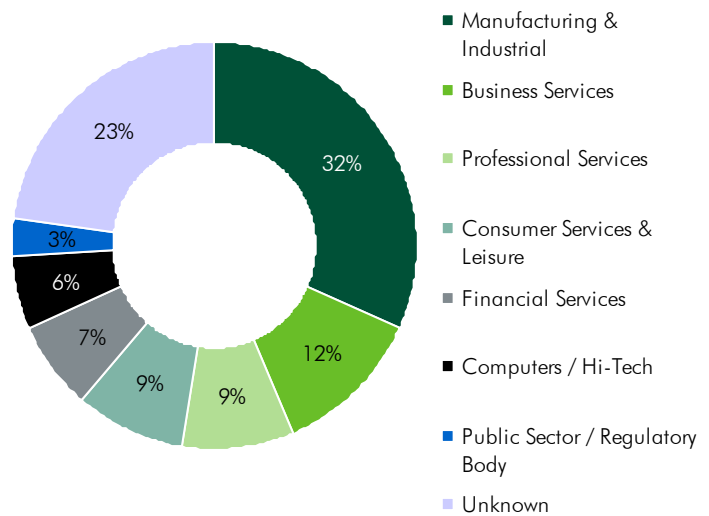
WARSAW OFFICE SUPPLY (sq m)



WARSAW OFFICE TAKE-UP BY TYPE (%)



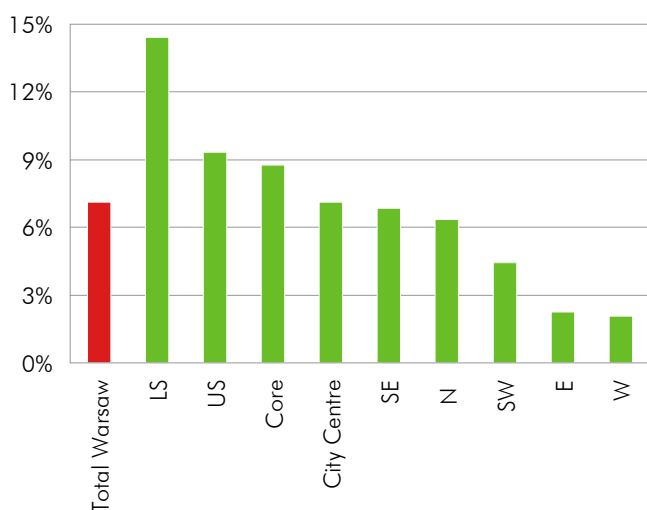
WARSAW OFFICE TAKE-UP BY TENANT SECTOR (%) IN Q3 2009



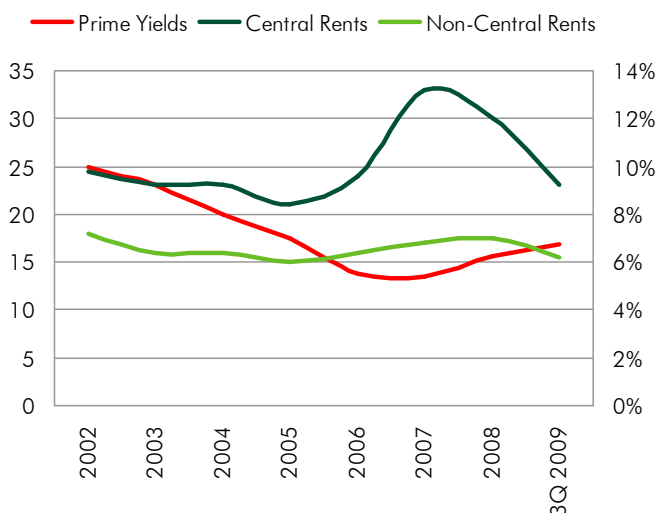
LARGEST BUILDINGS UNDER CONSTRUCTION

BUILDING	ZONE	OFFICE
Poleczki Business Park I	LS	45,000
Mokotow New City	US	34,400
Zebra Tower	CC	17,800
Crown Square	W	17,000
JM Tower	CC	14,000
Radwar Business Park	E	11,800
Wolf Marszalkowska	CC	11,000
BTD	US	10,200
Platinum Business Park III	US	10,100
Mokotowska Square	CC	8,700

OFFICE VACANCY RATE (%) BY SUBMARKETS IN Q3 2009



PRIME OFFICE RENTS (EUR/sq m/month) and YIELDS (%)



VACANCY

As a result of high level of new supply and weakening demand, the overall Warsaw office vacancy rate increased in Q3 2009 to 7.1% in comparison to 2.9% recorded at the end of 2008. The most significant rise of the vacancy rate in the past quarter was observed in the Upper South submarket – where vacancy increased to 9.3%. It surpassed the vacancy rate registered in the CBD, where it stood at the end of Q3 2009 at 8.8%. In Q3 the highest rate was in the Lower South market – 14.4%.

A growing market trend is subleasing the office space. In Q3 2009 around 58,000 sq m was available for sublease. Particularly manufacturing, financial and business services companies experience the negative impact of economy downturn and look for lower costs of rented office space by offering its part to sublease. After including this extra space the availability in Warsaw rises to 9%.

We expect the vacancy rates to remain high in the next months due to high level of completions and lower demand caused by economic slowdown. There is still around 240,000 sq m planned to be delivered to the end of 2010. This, along with weaker demand and availability of subleases may significantly influence the availability levels.

RENTS

Prime headline rents in Warsaw show decreasing trend. In the City Centre they dropped to the level of EUR 21 – 23 /sq m /month. This means return to the rental cycle and levels registered in the end of 2006. The rental decrease is a correction after times of booming market in year 2008.

In Non-Central locations the headline rents for the best projects are oscillating at EUR 14 – 15.50 /sq m /month. Effective rates are around 20% lower.

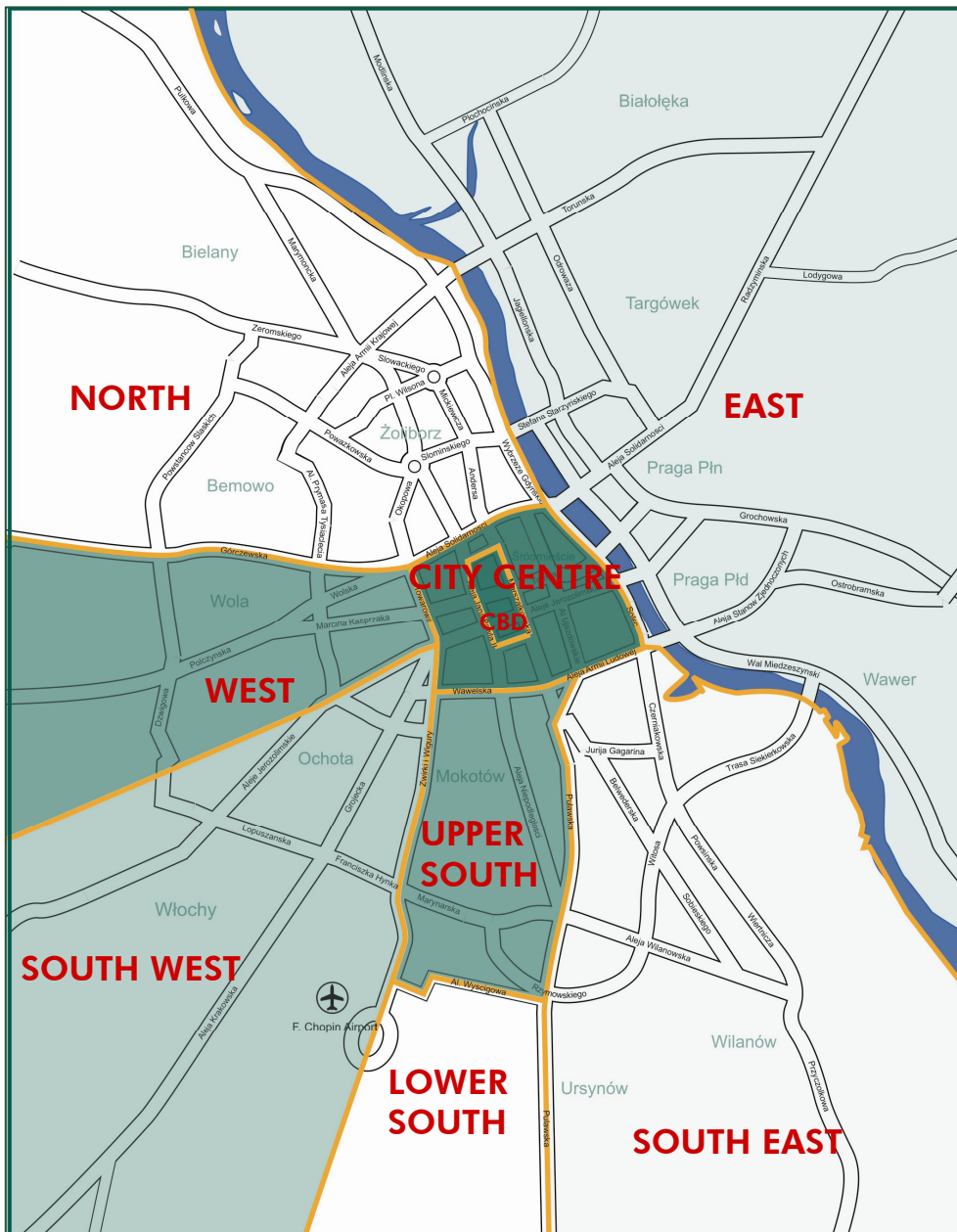
In the near future we may still expect a decrease in average rents. Developers, in the light of lower demand, may offer more incentives.

OFFICE INVESTMENTS

Since the beginning of 2009 only four transactions were concluded on the Warsaw office market. The most significant one was a purchase of Grzybowska Park by DEKA from AIG Lincoln for EUR 70 million with yield oscillating at the level of 7.1%. In the third quarter of 2009 Warsaw office market registered only one transaction. Rodan Office Building was sold to BPH TFI for EUR 3 million with yield oscillating at the level of 9%.

Prime yields for the best buildings are estimated to be around 6.75 - 7.00%. The global financial crisis resulted in a shortage of money supply and increase in interest rates which are the reasons for the yield decompression and significant transaction volume decrease.

MAP OF WARSAW OFFICE MARKET WITH SUBMARKETS



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