Research

Warsaw Office Update
Quarter 2 2004

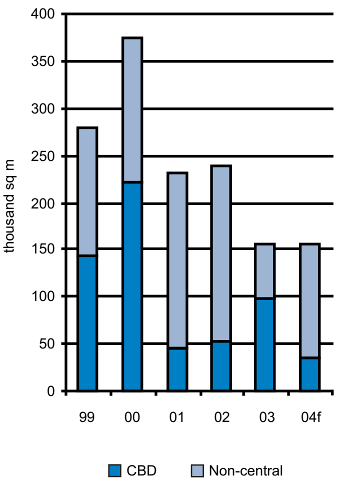
Contents

Liberty Corner

Figure 1

Annual office supply by location

1999-2004



f-forecast

Source: Knight Frank

Supply

New office accommodation delivered in the first half of 2004 increased the total modern office stock in Warsaw by 95,000 sq m to the total of 2.06 million sq m. Leasehold stock accounted for 69% of the new supply.

New office developments completed during this period include among others: Articom Centre (4,900 sq m), Centrum Jasna (5,700 sq m), Centrum Zielna B (1,400 sq m) all in the city centre and Blue City office part (10,800 sq m), Crown Point (10,700 sq m) and headquarters of Metro AG (21,200 sq m) and Daimler Chrysler (approx. 10,000 sq m) outside the city centre.

Approximately 45% of the total modern accommodation is located within the area of the Central Business District (CBD). Nevertheless, the most popular commercial locations beyond the CBD such as Służewiec Przemysłowy, Al. Jerozolimskie, Puławska and Kasprzaka/Towarowa streets experience constant and steady growth.

Increased interest in these locations is a result of less expensive office accommodation available in non-central areas that often represents a very good standard of office space, as evidenced by the fall of non-central vacancy rate over the last six months to a level of 9.9% from 14.6% at the end of 2003. Overall vacancy in Warsaw has also declined from 16.6% in quarter 4 2003 to 13.7% at mid-year. In the CBD, vacancy saw a slight decrease to 18.2% from 18.8% at the end of 2003.

Demand

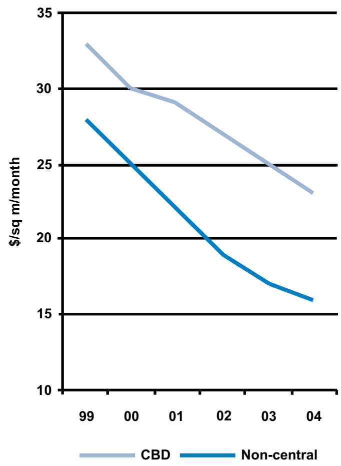
Demand recovery in the first half of the year was evident. The take-up (excluding renegotiations of existing agreements) for the first six months totalled approximately 165,000 sq m while in the whole year 2003 it was approximately 200,000 sq m of office space.

Companies from insurance, banking, advisory services, manufacturing/pharmacy and public sector have dominated the tenants' profile. Lower rental level in the non-central developments contributed to a concentration of the office demand on the areas outside the CBD.

The take-up was buoyed by transactions of up to 500 sq m which accounted for more than a half of the total take-up volume. Larger scale transactions of above 1,000 sq m constituted 27% of the space leased. The largest transactions included a lease of 20,500 sq m by Polkomtel in Postępu 3 office building, some 11,700 sq m by Allianz Group in Topaz building and 11,000 sq m by Ernst & Young in Rondo 1.

Upgrade of the standard of the space leased and relocation to more attractive areas were among the main demand drivers. Additionally, a number of companies have renegotiated existing lease terms.

Figure 2
Office rents by location
1999-2004



Source: Knight Frank

Rents

Following a few years of a decline in rents, this year rents appear to be stabilizing.

Prime asking rents in the city centre fall within the range of $25-27 (€22-23) per sq m per month. Asking rents in older buildings in the CBD vary from $17 to $23 (€15-19) per sq m per month. In case of office buildings located outside the city centre, asking rents are quoted at the level of $16-18 (€14-16) per sq m per month in the developments offering the highest standard.

Transaction rents are 10-15% lower. Additional incentives including rent-free periods of usually one month a year, step rents and contribution to the fit-out costs are market standard.

High diversification in the rental level between the buildings delivered recently and older office developments delivered to the market a few years ago is more and more noticeable, in both CBD and in non-central office developments.

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