

POLAND Office Market Snapshot

Fourth Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Upward pressure on effective rents in central zones. Other locations likely to remain at current levels.	▼
Prime Yields:	Downward pressure, both in Warsaw and in Regional Cities, as investor appetite remain high	▲
Supply:	Limited new supply for the next four quarters. The new supply in 2020 will return to the level of five-year average.	▲
Demand:	Stable, strong demand boosted by solid economic growth.	▶

Prime Office rents – December 2018

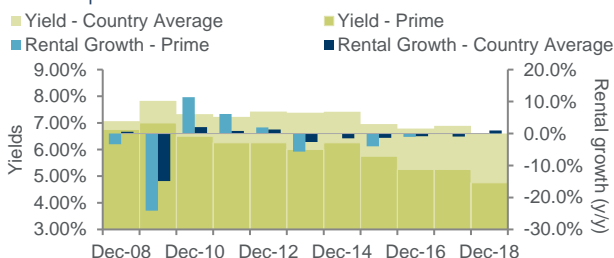
LOCATION	€		US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Warsaw	23.75	285	30.2	0.0	-1.0
Krakow	14.50	174	18.4	0.0	-0.7
Wroclaw	14.75	177	18.7	5.4	-1.0
Gdansk	14.00	168	17.8	-3.4	0.0
Katowice	13.75	165	17.5	1.9	-0.4
Poznan	14.50	174	18.4	3.6	-0.7
Lodz	13.50	162	17.2	0.0	0.8
Szczecin	13.50	162	17.2	0.0	-0.7

Prime Office yields – December 2018

LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Warsaw	4.75	5.00	5.25	7.00	4.75
Krakow	5.75	5.75	6.00	8.50	5.75
Wroclaw	6.00	6.00	6.25	8.50	6.00
Gdansk	7.00	7.00	7.00	8.50	7.00
Katowice	7.25	7.25	7.50	8.80	7.25
Poznan	7.00	7.00	7.00	8.50	7.00
Lodz	7.00	7.00	7.25	8.50	7.00
Szczecin	8.25	8.25	8.50	9.25	7.25

With respect to the yield data provided, in light of 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



Overview

The GDP growth in 2018 reached 5.3% according to Oxford Economics and surpassed the forecast from the beginning of the year. Good economic conditions were clearly visible on the Polish office market which in 2018 remain on the path of growth, driven by strong occupier's activity and relatively stable supply of new office space. Except Warsaw where level of new supply is tightening due to temporary supply gap. Prime rents and yields remained in certain areas under pressure – upward and downward, respectively.

Occupier focus

In 2018 the total leasing activity in Warsaw reached 858,000 sq m representing an increase of 4% in comparison to the same period of 2017, Strong occupiers' activity in 2018 was confirmed by net absorption level at 345,000 sq m, only 8% below the record level registered in 2017. In 2018, the Warsaw office market was facing temporary supply gap with annual supply level of 232,000 sq m. a 70,000 sq m below the five-years average. The annual supply is expected to return to the market average in 2020. The vacancy rate in 2018 stood at 8.7% and was the lowest since 2012. Prime yield in central locations were under pressure and finally compressed to 4.75%.

Investment focus

2018 was a record breaking year in terms of investment volume registered in Poland. The total investment volume in Poland stood at 7.2 billion EUR out of which office sector accounted for 2.6 billion EUR. Moreover, Warsaw office market alone was responsible for 1,7 billion EUR in 28 transactions. The largest deal was Savills IM' purchase of second phase of Gdansk Business Center from HB Reavis in excess of EUR 200m.

Outlook

We are expecting that temporary supply gap in Warsaw will continue in 2019 with approx. 230,000 sq m of office space plan to complete in the next 12 months. Along with limited availability of new office space, the vacancy rate will remain on the decline path due to strong occupier's activity driven by business service sector and coworking operators. Based on our estimation, coworking operators will offer over 150 000 sq m of coworking area by the end of 2020. The growth of regional office markets in 2019 will be further driven by expansion of companies from Business Service Sector entering the Polish market. Additionally, companies which are already in Poland will look for new location also in smaller cities, looking for the best talent pool. In long term perspective it will lead to growth of smaller markets such as Lublin, Szczecin, Bydgoszcz, Gliwice, Opole or Olsztyn.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Warsaw	5,461,700	473,400	8.7%	232,500	858,400	742,000
Kraków	1,257,500	107,900	8.6%	88,200	211,000	239,400
Wrocław	1,054,200	95,900	9.1%	66,400	162,900	202,300
Tricity	775,000	46,900	6.1%	18,200	84,400	149,200
Katowice	519,300	45,700	8.8%	4,700	38,000	73,800
Poznań	479,100	34,700	7.2%	20,900	70,400	110,400
Łódź	468,900	40,700	8.7%	23,500	56,100	116,800
Poland (Overall)	10,015,700	845,200	8.4%	454,400	1,481,200	1,633,900

Source: Cushman & Wakefield
(f) - forecast

Key Occupier Transactions*

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Q22	Central Business District	Deloitte	22,100	Renewal + expansion
Mennica Legacy Tower	City Center West	WeWork	14,200	Pre-let
PLL LOT HQ	Żwirki I Wigury	PLL LOT	11,800	Renewal
Trinity Park III	Mokotow	Ringer Axel Springer	11,600	New lease
Browary Warszawskie – Building K	City Center West	WeWork	10,500	Pre-let
Nestle House	Mokotow	Nestle	9,500	Renewal

Source: Cushman & Wakefield
*Transactions from Warsaw only

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Gdański Business Center II	Warsaw	HB Reavis / Savills IM	n/a	200+
Skylight/Lumen	Warsaw	Unibail Rodamco Westfield / Globalworth	n/a	150+
Warsaw Spire (50%)	Warsaw	Ghelamco / Madison	n/a	150+
Cedet	Warsaw	Immobel / GLL	n/a	100+

Source: Cushman & Wakefield, Real Capital Analytics

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