

POLAND Office Market Snapshot

First Quarter | 2019



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, especially in Regional Cities, as investor appetite remain high	▲
Supply:	Limited supply for next three years due to postponing of the completion of several large scale projects to 2021 and	▲
Demand:	Stable, strong demand boosted by solid economic growth.	▶

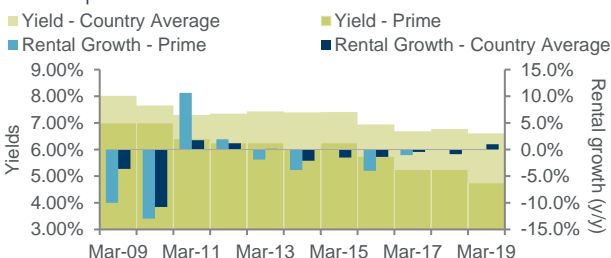
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Warsaw	23.75	285	29.9	0.0	-1.0
Krakow	14.50	174	18.3	0.0	-0.7
Wroclaw	15.00	180	18.9	3.4	-0.7
Gdansk	14.00	168	17.6	0.0	0.0
Katowice	14.00	168	17.6	3.7	0.0
Poznan	14.50	174	18.3	0.0	-0.7
Lodz	13.50	162	17.0	0.0	0.8
Szczecin	13.30	160	16.8	-1.5	-1.0

Prime Office yields – March 2019

LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Warsaw	4.75	4.75	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	8.25	9.25	8.25

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

Polish GDP growth remains strong with 4% forecasted for 2019 according to Oxford Economics. The GDP growth in 2019 is lower than 2018 at 5.1%. However, the decrease in comparison to previous years is mainly caused by large base factor and stabilization of private consumption after boost given by new social programs. Solid economic fundamentals support a strong tenant's activity recorded in Warsaw as well as in regional cities. While supply in Warsaw is stabilizing, stock in regional cities is growing dynamically. Prime rents and yields in certain areas are under pressure – upward and downward, respectively.

Occupier focus

In the first quarter of 2019, the total leasing activity in Warsaw equaled to 140,100 sq. m representing a decrease of 30% in comparison to the same period of 2018. Relatively low tenants' activity in Q1 is a result of postponing of several large-scale transactions of companies from financial and IT sectors. Moreover, lack of available office space forcing tenants to secure pre-lets agreements in under construction projects. According to Cushman & Wakefield data, over 54% of office space being currently under construction with completion date in 2019 is already secured by lease agreements.

Investment focus

Transaction volume in office sector in 2019 Q1 reached EUR 525m, which is almost 4 times the result from 2018 Q1 (EUR 142) and it is representing increase of 370% to the equivalent period of previous year.

2019 Q1 saw 12 office deals of which the largest transaction was ISOC Holding's purchase of Argon, third phase of Alchemia complex, from Torus for EUR 92m.

Outlook

In Q1 2019, new supply was at level of 20,200 sq. m in three buildings. The vacancy rate in Q1 2019 showed a moderated growth to 9.1% (+0.5 pp. q/q). We are expecting that the vacancy rate in Warsaw will return on a decrease path in the following quarters due to limited supply of new office space planned for completion in the next three quarters of 2019 and a number of large-scale tenants finalizing their lease agreements. The availability of office space should increase slightly in 2020 with number of high rise, city center buildings to be completed next year. Additionally, we expect to see a growing share of mixed-use project and the further expansion of co-working spaces.

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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	5,483,300	501,100	9.1%	140,100	140,100	719,300
Kraków	1,303,600	131,800	10.1%	56,100	56,100	332,700
Wrocław	1,065,500	90,400	8.5%	31,900	31,900	219,500
Tricity	790,000	42,900	5.4%	9,100	9,100	238,900
Katowice	680,800	67,000	9.8%	12,100	12,100	79,000
Poznań	525,200	83,100	15.8%	3,800	3,800	103,400
Łódź	471,200	33,100	7.0%	15,100	15,100	117,500
Poland (Overall)	10,319,600	949,400	9.2%	268,100	268,100	1,810,300

Source: Cushman & Wakefield
(f) - forecast

Key Occupier Transactions*

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Business Garden 6	Żwirki i Wigury corridor	Wirtualna Polska Media S.A.	7,000	New
Vector+	North	Confidential	6,950	Pre-let + New
The Park 6	Jerozolimskie corridor	Confidential	5,850	Pre-let + New
Business Garden 2	Żwirki i Wigury corridor	Parexel	3,800	Renewal
Empark Saturn	Mokotów	Henkel	3,600	Renewal

Source: Cushman & Wakefield
*Transactions from Warsaw only

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Argon	Gdańsk	Torus / ISOC Holding	n/a	92
Sheraton Warsaw	Warsaw	Benson Elliot & Waltron Street Capital / Patron Capital	n/a	90+
Brewery Warsaw: Gatehouse bldg	Warsaw	Echo Investment / GLL	n/a	75+

Source: Cushman & Wakefield, Real Capital Analytics

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Jan Szulborski
Consultant, Consulting & Research
Metropolitan, Pl. Piłsudskiego 1, 00-078
Warsaw, Poland
Tel: +48 722 202 933
jan.szulborski@cushwake.com
cushmanwakefield.com