RESEARCH

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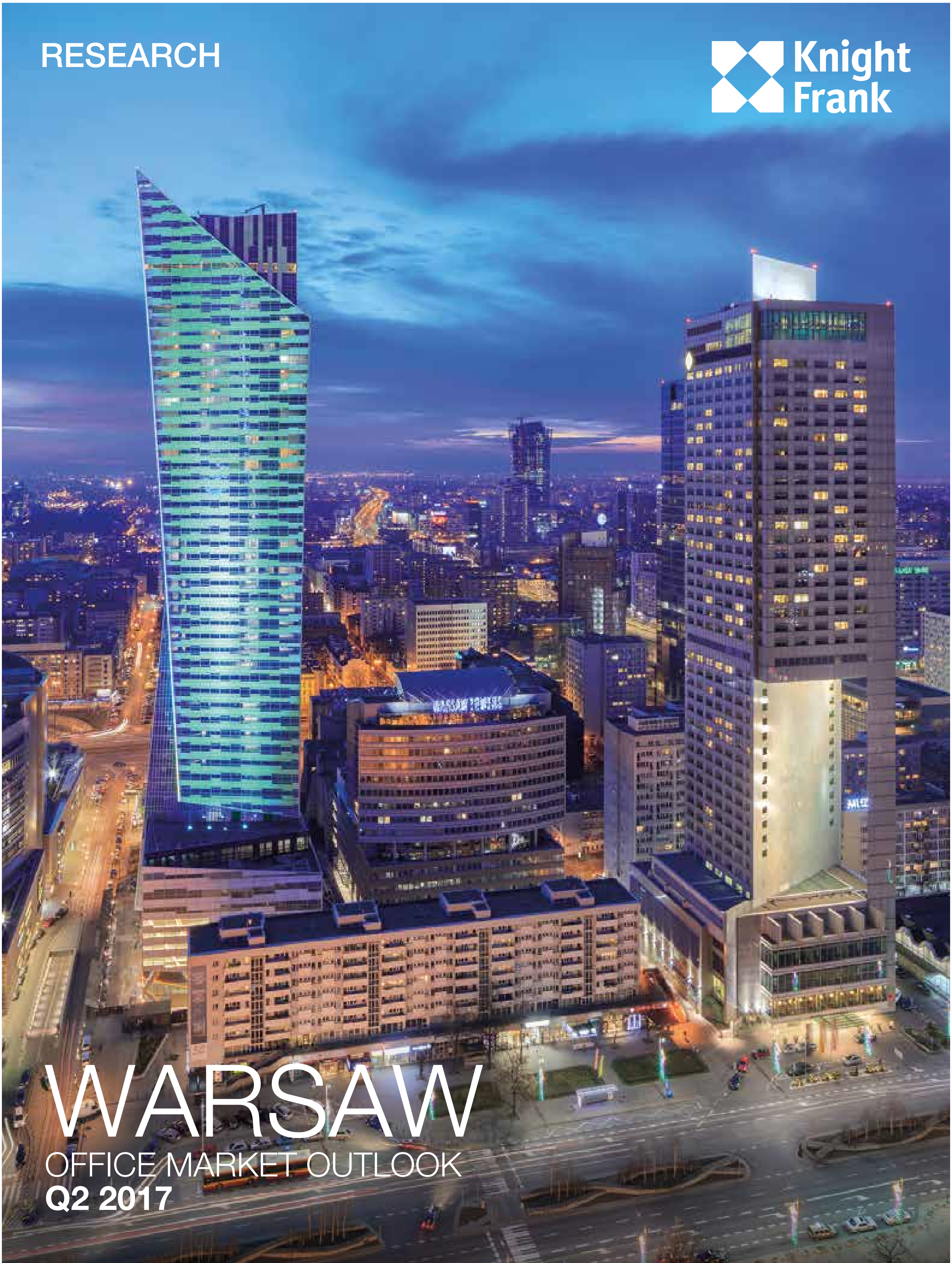


WARSAW

OFFICE MARKET OUTLOOK
Q2 2017

OCCUPIER TRENDS | INVESTMENT TRENDS | MARKET OUTLOOK

KEY FINDINGS

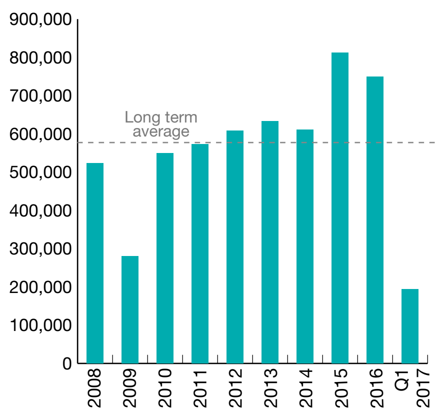
Occupier demand is supported by positive economic growth, with GDP growth forecast to reach 3.5% in 2017 and 3.2% in 2018.

Increased supply has led to downward pressure on rents, prompting occupiers to move to high quality and well-located properties.

Cross-border investors continue to drive investment activity in Warsaw, with office sales reaching €1.2 billion in 2016.

Strong capital flows have led to yield compression of 75 bps over the 12 months to Q1 2017, with prime yields now at an all-time low of 5.25%.

FIGURE 1
Gross office take-up
sq m



Source: Knight Frank Research

OCCUPIER MARKET

Tenant activity has continued to surge in Warsaw's occupational market, with 194,000 sq m of office space leased in Q1 2017.

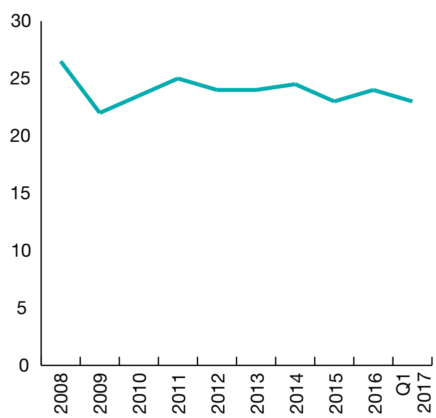
Warsaw's office market has witnessed an unprecedented volume of occupier demand over the last two years. Lease agreements, which included renewals and renegotiations, were signed for a total of 755,000 sq m in 2016. The first quarter of 2017 remained buoyant, with the highest Q1 take-up volume registered (Figure 1).

Occupier activity has been concentrated in the Central locations and Służewiec. Central locations in particular have achieved a remarkable quantum of demand over recent quarters. This has been in part driven by corporates and global brands entering Warsaw's office market due to good transport connections and the availability of premium office buildings in the Central locations. Areas outside of the city centre, particularly Mokotów and the Jerozolimskie corridor, which are the largest office hubs outside of the CBD, have also seen strong occupier demand.

On the back of solid tenant demand, development activity was significant in 2016. Over 407,000 sq m of office space was delivered across 21 projects, surpassing the volume of average new completions in 2011-2015. Warsaw's office market saw the completion of a few new large-scale buildings in 2016, including Warsaw Spire A (59,100 sq m), Gdański Business Centre II (49,000 sq m) and Q22 (46,400 sq m). The successful letting of newly completed tower buildings has encouraged developers to commence new projects in 2016, including Warsaw Hub (76,000 sq m) and Mennica Legacy Tower (66,000 sq m). At the start of 2017, HB Reavis also commenced its flagship project Varso Tower (133,000 sq m).

Despite the record volume of completions, the vacancy rate has stabilised after a period of upward movement. In Q1 2017, it was 14.0% compared to 15.4% in Q2 2016. However, as a significant volume of new space is planned to be delivered, the vacancy rate may begin to rise again. Prime office rents have come under downward pressure, falling from €24 per sq m per month in 2016 to €23 per sq m per month at the end of Q1 2017 (Figure 2).

FIGURE 2
Prime office rents
€ per sq m per annum



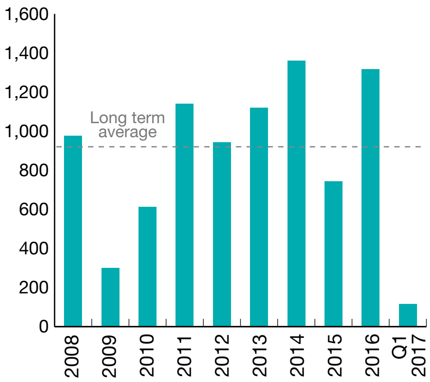
Source: Knight Frank Research

Key recent office leasing transactions

Quarter	District	Property	Tenant	Size (sq m)
Q4 2016	City Centre	Karolkowa/Kasprzaka Yareal	BGŻ BNP Paribas	22,000
Q1 2017	Służewiec	Postępu 14	AstraZeneca	13,200
Q4 2016	Służewiec	Park Postępu	LuxMed	12,300
Q1 2017	Jerozolimskie corridor	West Station II	DIEBOLD NIXDORF	9,800
Q3 2016	Mokotów	X2 Boutique Office	Dentsu Aegis Network	7,500

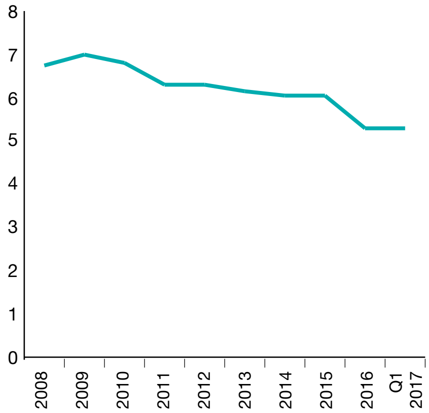
Source: Knight Frank Research

FIGURE 3
Warsaw office investment volumes
€ million



Source: Knight Frank Research

FIGURE 4
Prime office yields
%



Source: Knight Frank Research


Plac Malachowskiego, White Star RE/Europa Capital

INVESTMENT MARKET

Warsaw's capital market has witnessed significant growth in investor activity. It continues to be a magnet for cross-border investors buoyed by its robust national economic growth, real estate market transparency, and sound occupational market dynamics. In 2016, the total office investment volume amounted to €1.2 billion – boosted by a very strong Q4, which accounted for around half of the total office investment volume (Figure 3). Several large-scale transactions closed in the final quarter of 2016, with the largest deal being Invesco's acquisition of Q22 for €273 million. Institutional investors are mainly focussed on assets located in the core city centre. Investor sentiment has remained solid with €116 million transacting in the first three months of 2017. Due to a sizeable supply of ready-to-buy assets and strong investor appetite, the volume of investment is expected to reach last year's levels.

Over recent years, Warsaw has become a viable destination for European investors seeking to diversify their portfolios in Europe. The most attractive office assets in the Warsaw city centre are valued at between 5.25% and 5.50%, while outside of the city centre, yields range between 7.00% and 7.50% (Figure 4). The yield differential between prime and secondary assets has continued to increase, reaching approximately 200-250 bps due to a decline in perceived risk for prime assets and a slight rise in yields in the secondary segment. As prime assets are likely to see further yield compression throughout 2017, the gap is expected to increase further.

Key recent property investment transactions

Quarter	Property	Seller	Buyer	Approximate price (€)
Q4 2016	Q22	Echo Investment	Invesco	273.0
Q4 2016	Gdański BC (A & B)	HB Reavis	Savills IM	183.0
Q3 2016	Konstruktorska BC	HB Reavis	Golden Star	120.0
Q4 2016	Atrium 2	Skanska	Hansa Invest	88.0
Q4 2016	Plac Małachowskiego	KSP	White Star RE/ Europa Capital	57.0
Q1 2017	Prosta Office Building	CBRE Global Investors	Cromwell / Goldman Sachs	45.0
Q4 2016	Ilmet	UBS	Skanska	43.0
Q3 2016	Millennium Plaza	Erste	Private Israeli	39.5
Q1 2017	Trinity Park II	CBRE Global Investors	Cromwell / Goldman Sachs	33.0

Source: Knight Frank Research

KNIGHT FRANK VIEW

Warsaw's office supply pipeline over the coming years will be considerably lower than the completion volume in 2016, which will moderate any oversupply. Even then, occupiers will still have plenty of options, including those companies seeking to consolidate their operations into the one location. Effective rents are however likely to fall as landlords compete to attract occupiers.

Business sentiment is increasingly optimistic which will see investment volumes remain high throughout the year. Cross-border investors will continue to be drawn to Warsaw in view of sound economic fundamentals and the sizeable supply of ready-to-buy assets.

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