

RICS Survey and Warsaw Office Market

A couple of weeks ago Royal Institution of Chartered Surveyors (RICS), which is a global organisation associating real estate professionals, issued recently the next quarterly commercial market survey. The survey was focused on showing general trends at commercial propertied market, and presented individual respondents' opinion on main market indicators.

Global Trends

Demand – Availability – Rents

Tenant demand decreased almost all over the world in Q2 2009 – in comparison to Q1, and at the same time available space continued to grow. Both factors influenced other market indicators. Rents declined all over the world – excluding some African and Latin America countries. At the same time incentives offered by landlord to prospective tenants grew – to attract lessees.

Overall economic circumstances, commingled with situations on both financial and real estate markets effected in decrease in pipeline developments. Developers focus on leasing space in existing / under construction projects, and are rather reluctant to undertake new developments. This tendency is strengthened by rent predictions regarding near future – further downward trend in rent levels is predicted in almost all countries, which were surveyed.

Investment

The survey showed, which shall not be a surprise, negative trends all over the world. Investment activity in Q2 2009 in most countries dropped in comparison to Q1, although some countries in Africa, South-East Asia and Latin America noticed growth. In Europe, investment activity grew in the Netherlands, United Kingdom and France.

Due to lesser interests in real estate investments and difficulties in investment financing acquisition, yields continued to rise. Some exclusions from this trend were found in Asia, where government intervention influenced the market.

Regional Insight

Polish economy with 1,1 % economic growth performed outstanding recently, taking into account GDP decline in all except Poland EU members.

According to RICS survey and considering emerging markets in Central Europe, indicators describing Polish real estate market present rather modest negative changes. Rents as well as tenant demand continued to decline, which effected in higher tenant incentives and decreased number of pipeline developments. At the same time, despite modest slowdown in investment activity, yields in Poland slightly declined – contrary to global and regional trends.

Local Focus – Warsaw Office Market

Do Warsaw office market figures fit to RICS survey?

Quarter	Supply (m ²)	Take-up (m ²)	Vacancy (%)	Prime Rents (€/m ² /month)	Prime Yields (%)
1Q 2009	87 600	45 500	4,5	25 – 28	6,75
2Q 2009	86 400	63 500	5,7	23 – 24	6,75 – 7,00

Source: CPRF and WRF

Demand – Availability – Rents

According to above data we can notice a 40 % growth in a tenant demand in 2Q 2009 in comparison to 1Q. This is a significant increase, however take-up in 1Q 2009 was on a very low level. At the same time total take-up in 1H 2009 amounted to 55 % of total demand on the market in a corresponding period in 2008. We can notice the compliance with longer term global

trend indicated by RICS survey, however quarter-to-quarter comparison shows a different short-run trend in Warsaw.

Vacancy / available space increased in Warsaw, placing the rate at the level of 5,7 %. The vacancy rate is partly increased by space offered for a sub-lease – approximately 50 000 m², which constitutes approximately 1,6 % of Warsaw modern office stock estimated at the level of 3,15 mln m². Vacancy grew significantly, as compared to 2,1 % at the end of 2Q 2008, and is a local confirmation of the global trend.

Supply of new space over 1Q and 2Q 2009 remained stable, and was 60 % higher than take-up during 1H 2009 – and more than 20 % higher than supply in a corresponding period of 2008. This may be seen as some discrepancy from the global trend, however it must be mentioned that a very low vacancy rate over recent quarters effected in almost fully pre-leased developments under construction. At the moment developers focus on leasing space in existing buildings and under construction developments, and are ready to start new constructions only on the basis of signed pre-leases, which complies with global trend indicated by RICS.

Increase in a vacancy influenced rents and tenant incentives. Prime rents noticed strong decrease – from the level of 30 – 33 € / m² / month at the end of 1H 2008 to 25 – 28 € / m² / month at the end of 1Q 2009 and 23 – 24 € / m² / month at the end of 1H 2009 – which confirmed global trends.

Investment

Prime yields remained at a comparable level – approximately 6,75 – 7,00 % during 1H 2009, and grew from 5,75 – 6,00 % in corresponding period of 2008. At the same time it is difficult to conclude on trends on the investment market – due to only three transactions, which took place in 1H 2009. Described situation is a confirmation of global trends indicated by RICS.

Future Outlook

Poland is the largest and at the same time the most advanced commercial real estate market in the Central and Eastern Europe region – treated as emerging Europe. With developing commercial real estate markets in Polish regional cities, large market in Warsaw and strongest in the region economy, Polish real estate market shall suffer from current economic circumstances less than countries in the CEE region.

RICS survey was focused on identifying global trends – therefore some indicators describing local markets may vary from indicators describing situation all over the globe. Warsaw office market proves both – global trends and some local exception.

According to RICS survey, downward trend in a rent level may be expected in Q3 2009, as well as other negative trends on the market. Will Polish commercial real estate market follow global trends or copy Polish economy achievements?

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