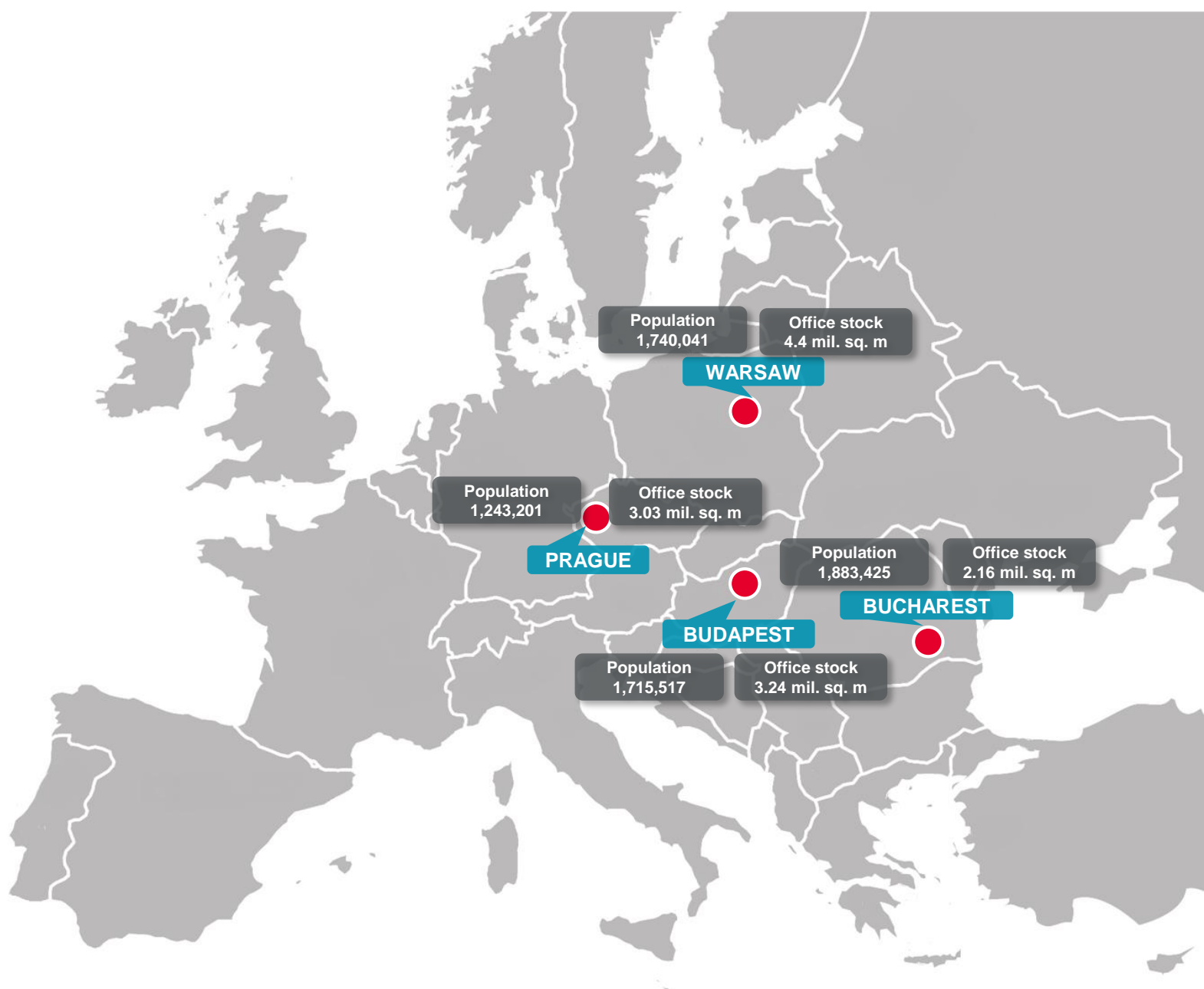


CEE OFFICE MARKET

2014 Snapshot



CEE OFFICE MARKET 2014



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STOCK & COMPLETIONS

The modern office stock in **Warsaw, Prague, Budapest** and **Bucharest** at the end of 2014 was of 12.83 million sq. m. **Warsaw** continues to be the largest office market, with 4.4 million sq. m, followed by **Budapest** with 3.24 million sq. m, **Prague** with 3.03 million sq. m and **Bucharest**, with 2.16 million sq. m of modern office space.

The office stock in CEE's main capitals increased by 5% y-o-y. Between Q1 – Q4 2014 approximately 609,000 sq. m of office space was completed and compared with 2013, new office supply was higher by 16%. The largest office supply was delivered in **Warsaw** – 275,000 sq. m, while in **Budapest** the delivery of office space remained limited – 68,000 sq. m. In **Prague** office completions amounted 149,000 sq. m, whereas in Bucharest throughout 2014 there were ~ 116,000 sq. m of office space delivered.

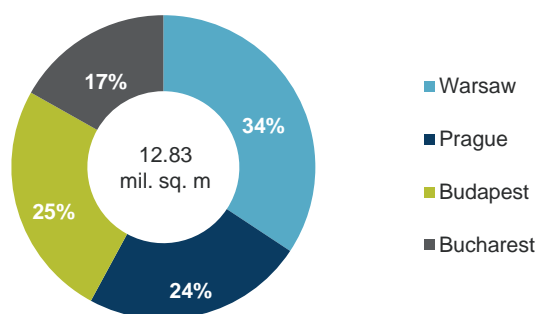
The largest office buildings delivered last year were completed in **Warsaw** – 44,500 sq. m and 38,700 sq. m, being also the only office projects delivered with a rentable area exceeding 30,000 sq. m. Overall, most of the office projects completed in CEE's main capitals in 2014 have rentable areas ranging between 4,000 sq. m - 24,000 sq. m.

Office deliveries scheduled for completion in 2015 in CEE's main capitals are projected to be higher by 15% y-o-y. **Warsaw** and **Prague** will continue to lead in terms of new supply, while in **Budapest** office deliveries will remain limited. In **Bucharest** the level of completions scheduled for 2015 is forecasted to be higher by 32% y-o-y.

In total for 2015 new supply is projected to be around 700,000 sq. m, divided as follows: 46% in **Warsaw**, 26% in **Prague**, 22% in **Bucharest** and 6% in **Budapest**.

Figure 1

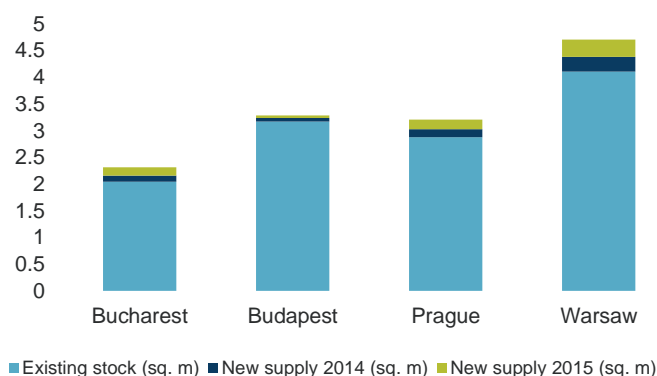
2014 Modern office stock in CEE's main capitals



Source: DTZ Research

Figure 2

Modern office stock evolution in CEE's main capitals



Source: DTZ Research

Table 1

2014 Major deliveries in CEE's main capitals

City	Project	GLA (sq. m)	Submarket	Developer
Warsaw	Gdanski BC 1 (buildings A&B)	44,500	North	HB Reavis
Warsaw	Eurocentrum Office Complex	38,700	South West	Capital Park
Bucharest	Green Gate	27,500	West	S Group Holding
Prague	City West C1+C2	24,500	Prague 5	Finep
Prague	ArtGreen Office Gallery	23,700	Prague 7	PPF RE

Source: DTZ Research

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DEMAND

Last year leasing activity in **Warsaw, Prague, Budapest** and **Bucharest** was of 1.7 million sq. m. Take-up represents 64%, with over 1.08 million sq. m transacted and compared with 2013 it is higher by 13.5%. The largest level of take-up was registered in Warsaw – 40%, while the lowest level was recorded in Prague - 18% from total take-up.

Renegotiation and renewal activity was of 626,000 sq. m. **Budapest** registered the highest level of renewals, with 36% share from total amount, followed by **Warsaw** with 30%. **Bucharest** recorded the lowest level of renewals, with ~ 77,000 sq. m transacted, representing only 12% from 2014's level of renegotiations.

In **Warsaw**, demand resulted less from the expansion of occupied space, being driven by space optimization. Pre-lets were not as common as in previous years, as amount of available office space has been on an upward trend. The most active occupiers were from Technology & Telecom and Professional Services.

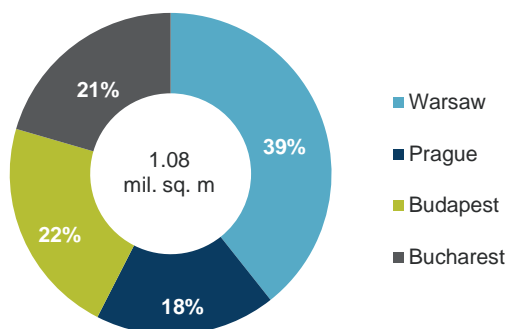
Prague registered the highest level of leasing activity ever recorded. Annual take-up was higher by 32% compared with 2013. Companies from Technology & Telecommunication (T&T) and Professional Services were the most active tenants.

Annual demand in **Budapest** reached record heights in 2014. Deal trends reveal that demand for larger office areas has increased, 15 lease agreements for over 5,000 sq. m being signed last year. The most active office occupiers were from Business Services, followed by T&T and Public Sector.

In **Bucharest** take-up was higher by 38% y-o-y. Tenants have been on expansion mode, new entries and expansions share in total take-up being of ~35%. Renewal and renegotiation activity followed a descendent trend. Technology & Telecommunication companies have been the most active office occupiers.

Figure 3

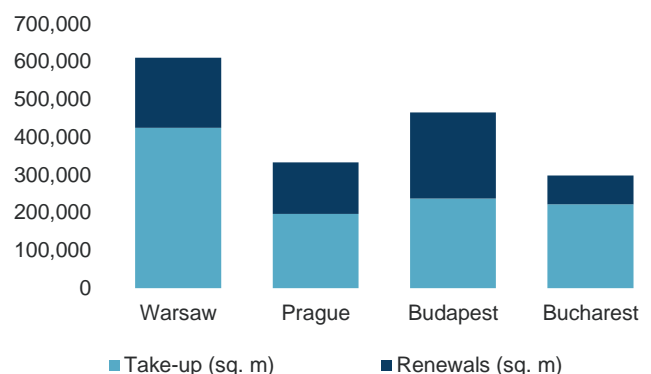
2014 Take-up split in CEE's main capitals



Source: DTZ Research

Figure 4

2014 Leasing activity in CEE's main capitals



Source: DTZ Research

Table 2

2014 Major office transactions in CEE's main capitals

City	Tenant	Leased surface (sq. m)	Transaction Type
Warsaw	Raiffeisen Bank	19,500	Pre-lease
Warsaw	Agencja Restrukturyzacji i Modernizacji Rolnictwa	17,500	Renewal
Prague	Česká Pojišťovna	24,000	Renewal
Prague	HP	18,000	Pre-completion
Budapest	Confidential	29,000	Renewal
Budapest	GE	18,000	Pre-lease
Bucharest	Telekom	25,000	Pre-lease
Bucharest	Renault	20,000	Renewal

Source: DTZ Research

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VACANCY & RENTS

The general vacancy rate at the end of 2014 for CEE's main capitals was of 14.5%. The vacancy rates in **Warsaw** and **Prague** were on an upward trend last year, opposite to **Budapest** and **Bucharest** where the general vacancy rate for class A and B office space decreased over the course of 2014.

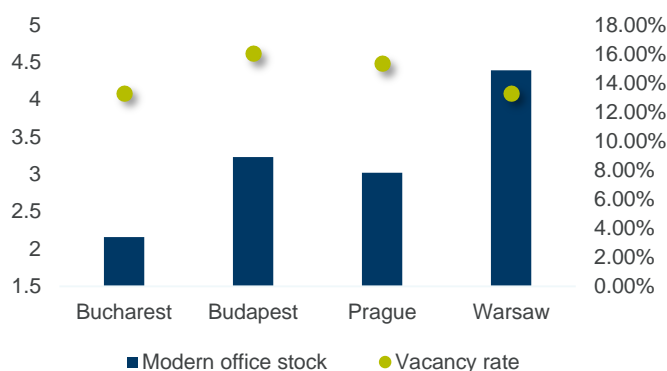
Due to the high level of supply, the vacancy rate in **Warsaw** is constantly growing since 2011. Last year the vacancy rate has increased between Q1 – Q4 with 110 bps. In **Prague**, the intensive development activity has determined an increase in vacancy from 13.6% in Q1 to 15.3% in the last quarter of 2014. In **Budapest** the vacancy rate decreased significantly during the year, mainly due to the minimum level of completions and new demand's high percentage in total take-up (35%). A similar trend was registered in **Bucharest**, the vacancy rate decreasing by 340 bps throughout 2014, standing in Q4 at 13.3%.

Prime headline rents in the central zones of **Warsaw** at the end of 2014 ranged between € 22 – 25 /sq. m/month, while for peripheral locations, prime headline rents were situated at €12 – 14.5/sq. m/month. In **Prague**, prime headline rents in the city center ranged between € 18.5 – 19.5 /sq. m/month, while in non-central locations prime rents are at € 13 – 14.5/sq. m/month. Rents of €14-16/sq. m/month are achievable in prime properties in **Budapest**, the city continuing to be the most affordable capital in CEE when it comes to office buildings situated in central locations. In **Bucharest**, prime headline rents in CBD were between €16 –18.5 / sq. m / month, while in non-central locations office space was transacted between € 9 –12 / sq. m / month.

Net effective rents in CEE continue to be lower by 10 – 20%. As incentives landlords are offering a rent free period and a fit-out contribution.

Figure 5

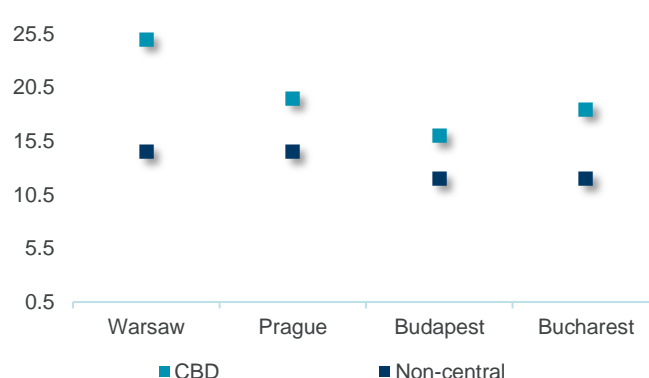
2014 Office stock (mil. sq. m) & Vacancy rate



Source: DTZ Research

Figure 6

2014 Prime headline rents (€/ sq. m/ month)



Source: DTZ Research

Table 3

Key office data in CEE's main capitals

2014	Warsaw	Prague	Budapest	Bucharest
Office stock (sq. m class A & B)	4.4 million	3.03 million	3.24 million	2.16 million
New supply (sq. m)	275,000	149,000	68,000	116,500
Take-up (sq. m)	425,000	196,500	237,500	221,000
Renewals (sq. m)	185,000	136,000	288,000	77,000
Vacancy rate (%)	13.3	15.3	16%	13.3
Prime headline rents (€/sq. m/month)	25	19.5	16	18.5

Source: DTZ Research

DEFINITIONS

Stock:	Total completed or refurbished office space (occupied and vacant), A and B class offices, owner occupied and for lease.
New supply:	Practical completions (obtaining valid occupancy permits) of new developments in a given time period.
Total leasing activity:	The total floor space known to have been let, pre-let, renewed/renegotiated or subleased to tenants over a specified period of time.
Take-up:	Includes new leases, meaning lease transactions within completed office schemes, pre-lease transactions and expansions.
New demand:	Part of take-up and represented by expansions, relocations from noncompetitive stock to class A & B office space, existing tenants opening new operations or new companies entering the market
Vacancy rate:	Ratio of empty/vacant space in existing or newly completed buildings on the total stock.
Prime rent:	Headline rent level achieved in new prime, high specification units of minimum 500 sq. m in prime locations.

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