

MARKET COMMENTARY

Office space market in the 2nd quarter of 2009 in Poland is characterized by lower demand than in previous years, which is a result of a worse economic situation. The upholding low demand for commercial spaces contributed to real estate owners obtaining lower effective rents by extending rent holidays and increasing their financial participation in adapting the spaces. The decreasing demand and a significant supply of office buildings contributed to the lowering of rents and the growing coefficient of unrented space (as compared to the end of 2008, the number of vacancies increased in Warsaw from 2,7% to 4,6%). Also, a growing number of spaces for subletting is appearing on the market (about 40 000 m²), what significantly raises the number of vacancies to 5,7%.

In the 2nd quarter, we're recording an interest in renting spaces by smaller companies, not so tightly linked to the international situation, which conduct their business on the Polish market.

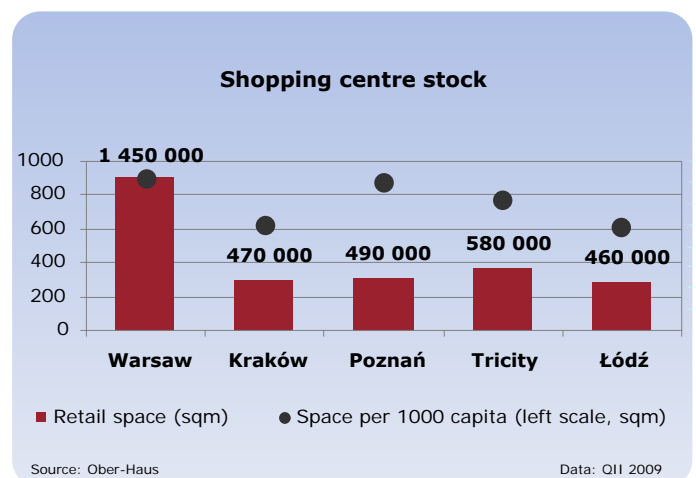
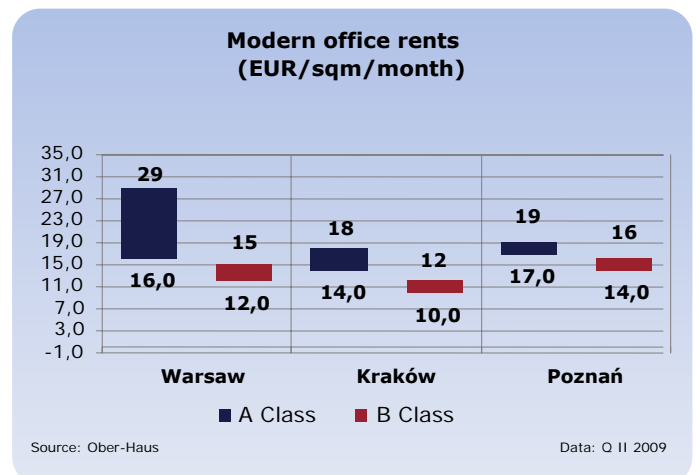
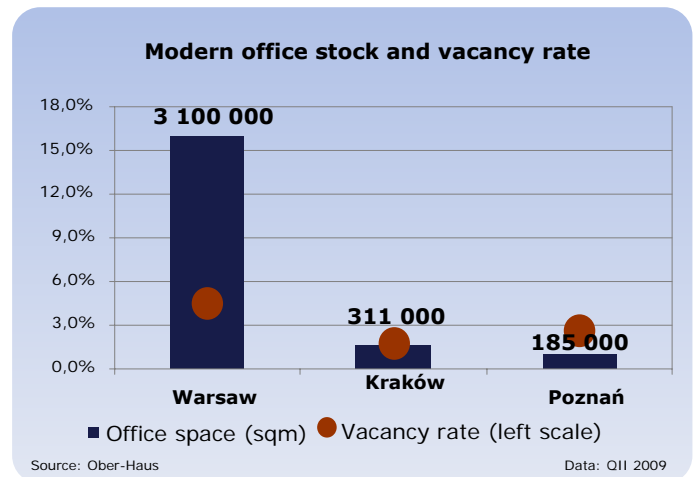
An increasing number of office buildings is accepting smaller tenants, whose needs range from 150 to 300 m²; something that up until recently has been a problematic issue. Most investors preferred to have a few larger tenants than many small ones.

The increasing rates of exchange is having a significant impact on those tenants who pay their rents in Euro. A 50% increase of the Euro to Polish Zloty rate of exchange over the last few months has led to an increase of the fixed costs, such as long-term office space lease. In many cases this brings companies to the decision of subletting a part of the space in order to decrease the costs of office maintenance.

In the 2nd quarter we recorded a decrease of rental prices, but they still remain high. In 2009 in Warsaw, in the Central Business District, they range from 22 to 29 EUR per sqm, as opposed to 28 to 37 EUR per sqm in 2008 and outside of city center, the range is from 14 to 17 EUR per sqm (18 to 20 EUR per sqm last year).

The 2nd quarter of 2009 in Poland is marked by a significant decrease of interest in **retail space** located by high streets in city center. In comparison with 2008, there is a much larger number of vacancies, which causes the real estate owners to realign the prices which had been seriously overvalued by financial institutions. The main reason is the limitation of expansion of banks and financial institutions. This in turn is good news for tenants, who used to face a sure failure in the battle for good locations by main commercial streets against the financial institutions.

Commercial chains choose each new location with utmost care, and more and more lessees expect lowering of rents or suspension of payments for the time it takes to adapt a space.



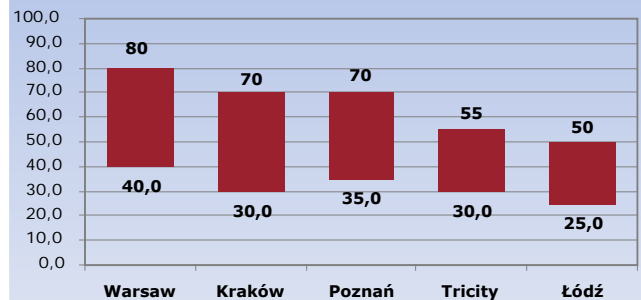
The decrease of rent prices has been recorded in all of Polish cities, in Warsaw by 10%, in Krakow by 15% and in Poznan by 5%. Despite the falling rent prices on main streets, they are still highest in Warsaw, where a space of 100 to 150 sqm costs from 40 to 80 EUR per sqm. Krakow was right behind, with prices ranging from 40 to 70 EUR per sqm. In Poznan monthly rent prices range from 35 to 70 EUR per sqm. Warsaw still remains the major commercial market in Poland, with a bit over 1 400 000 sqm of commercial space. The Silesia Agglomeration comes second (885 000 sqm) and the third position is taken by the Tri-City area (518 000 sqm).

The 1st and 2nd quarters of 2009, in comparison to 2008, was characterized by a deceleration. The main reason of the small number of closed transactions are the difficulties with securing financing, which is a result of the situation on the financial markets in America and in Europe. 2009 is a period of waiting. Investors are more selective about investments and are seeking opportunities to buy real estate cheaply.

One of the factors which contributed to a slowing down on the investment market are the significant differences of expectations of buyers and sellers when it comes to capitalization rates. Currently, the capitalization rate for office sector is from 6,25% to 7%, in the case of commercial sector it ranges from 7% to 8% and in the warehouse sector, from 8% to 8,5%.

Despite all this, the 2nd quarter of 2009 showed some noticeable movement on the investment market, although investors are looking for opportunities, such as undervalued real estate. It is also noteworthy that the process of negotiations and purchase of investment real estate has been extended since due diligence research of real estate undergoes deeper and more inquisitive analysis.

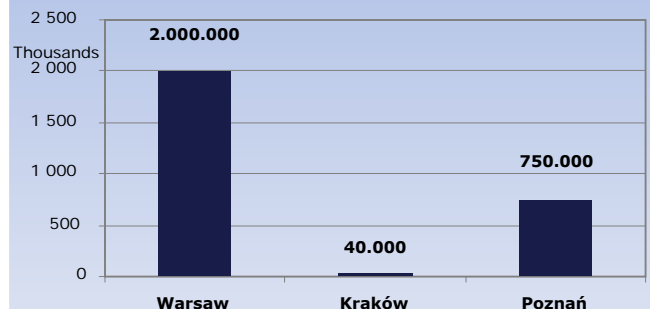
Main retail streets rents (EUR/sqm/month)



Source: Ober-Haus

Data: QII 2009

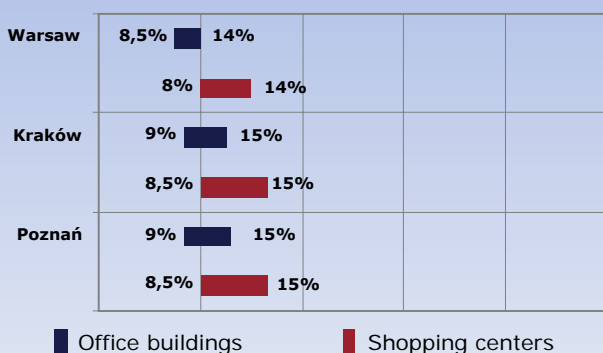
Warehouse stock (sqm)



Source: Ober-Haus

Data: Q II 2009

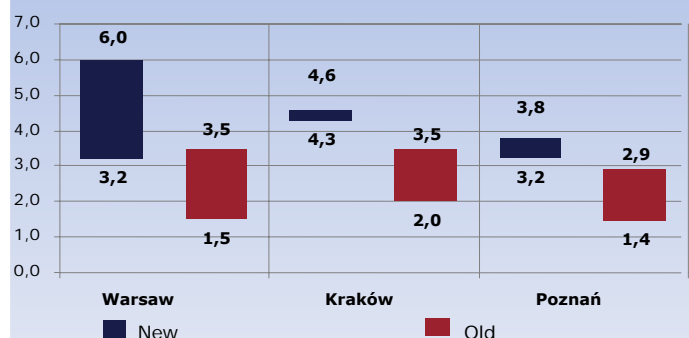
Commercial property yields



Source: Ober-Haus

Data: Q II 2009

Warehouse rents (EUR/sqm/month)



Source: Ober-Haus

Data: Q II 2009

If you wish to receive any additional information about development of the real estate market in Poland, Latvia, Estonia and Lithuania; or you would like to order a special report on the part of the market relevant to you or the market of the project in progress, please contact Ober-Haus Real Estate Advisor market analysts :

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