

Mokotów is back

on the investment map of Warsaw



In the last few months, we have noted a significant increase in interest on the part of investors with regard to acquiring assets in the Mokotów district. After a year and a half without any major transactions on the radar, the Mokotów Business District is once again proving itself an attractive destination for buyers. This trend is bound to continue as further transactions are expected in the upcoming months

Investment volume

At the end of the first quarter of 2019, the total investment volume amounted to EUR 65 million, consisting of two transactions (Helion & Luminar, acquired by White Stone Development, and Graffit, acquired by Zeus Capital

Management). Moreover, 4 properties with a total volume of ca. EUR 140 million are currently in the advanced sale process, and 8 more with a total worth of ca. EUR 325 million are being actively offered for sale.



EUR 350 million – expected total transaction volume at the end of 2019



Increased cost of land and development leads to value growth



Rising interest in acquiring assets in Mokotów – better liquidity



Source: Avison Young

OFFICE INVESTMENT VOLUME IN MOKOTÓW

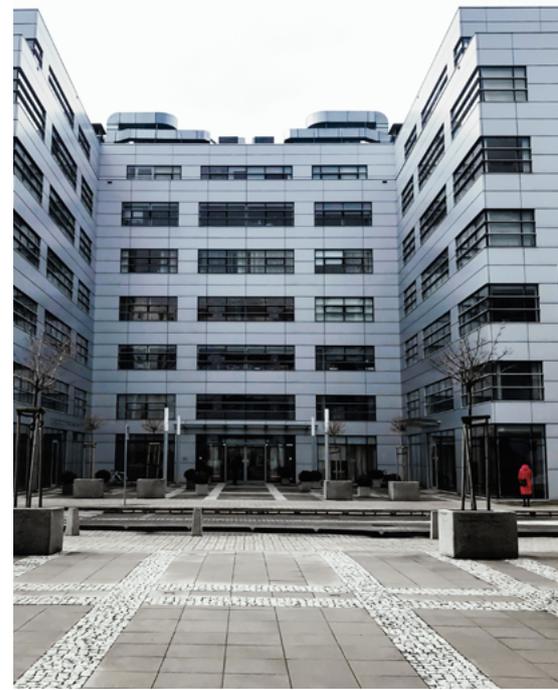
- 2 assets sold in Q1 2019 for EUR 65 million.
- 4 ongoing transactions with total volume of ca. EUR 140 million.
- 8 properties actively offered for sale with total worth of ca. EUR 325 million.

Prime transactions

Over the last 14 years, yields for the prime office properties in Mokotów have risen significantly from a record 5.5-6.0% in the pre-crisis period up to a level of 6.75-7.75%, which has remained stable for the last 10 years - despite Warsaw, Poland and rest of Europe achieving record low yields in that same period.



PRIME OFFICE YIELDS IN MOKOTÓW

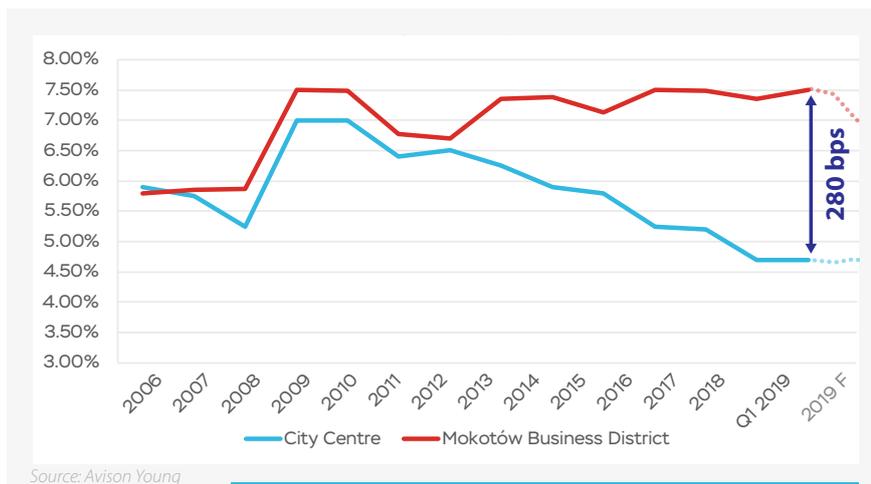


Mokotów vs. City Centre

Compared to the centre of Warsaw, there has been an increasing divergence of yield levels since 2012. The best properties located in the city centre started to achieve lower yields, as low as 4.7%. While the average rates of return in Mokotów Business District have been stable and currently amount to ca. 7.25%. The reason for such high yields in

Mokotów was based on rising vacancy rates caused by the growing supply of office space, competition between new buildings built in i.e. "nearby Wola" offering attractive rents and the loss of tenants escaping the area's traffic issues. At the moment, due to increased demand for office space, vacancy rates are gradually falling from ca. 20% in 2015

to 15.5% in Q4 2018. In addition, rents are at historical lows and are expected to rebound due to the rise of construction costs for new offices and shrinking availability. These factors, combined with relatively low purchase prices, create a great investment potential for the Mokotów Business District.



PRIME YIELD COMPARISON

- The yield gap has been widening consistently year-by-year to as far as 280 bps, which is the largest difference in history.



Mokotów is extremely cost-effective in comparison to the Warsaw city centre



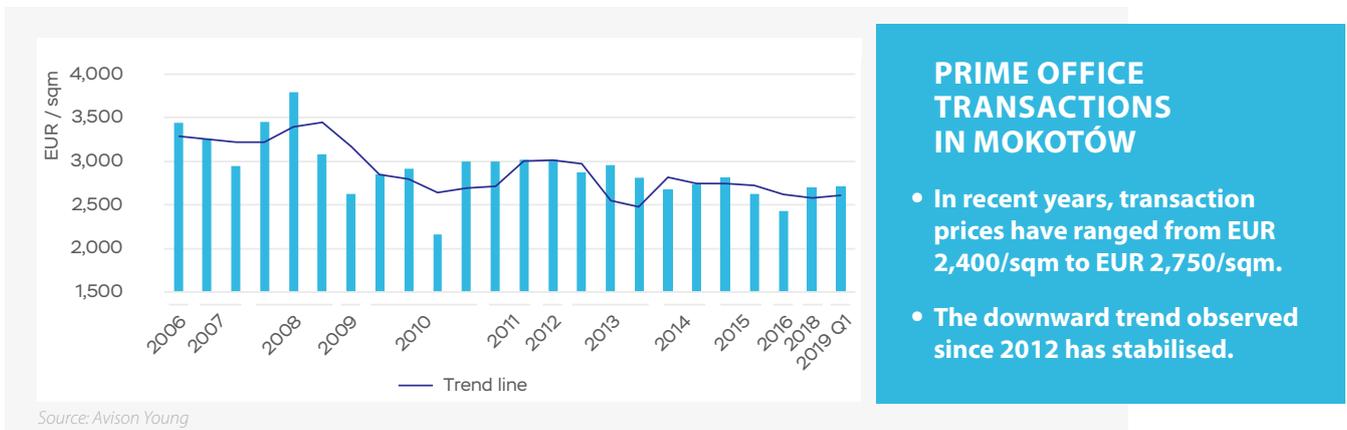
Great investment potential due to high base of yields



Rental levels to bottom out as demand rises

Transaction prices

Currently, transaction prices for prime office properties in Mokotów Business District range from EUR 2,400/sqm to EUR 2,750/sqm. Less well-located properties with greater vacancy levels can be purchased with a significant discount even below construction costs, offering a great value-add potential.



Land Prices and Construction Costs

We are observing a rise in interest in land designated for residential development in Mokotów Business District, which is reflected in a price increase. Only 4 years ago the prices of residential land amounted to PLN 1,000 - 1,500/ sqm of RSA (residential sale area), and today it is already PLN 1,500 - 2,000/sqm

of RSA. Prices of land designated for office development largely depend on exposure and transport accessibility and range from EUR 250/sqm of GLA to EUR 500/ sqm of GLA. Rising costs of labour and construction materials, combined with current land prices, are pushing up total investment costs for new office

properties. The profitability threshold for new projects is approx. EUR 2,800/ sqm of GLA (depending on the price of the land). This has led to an increase in the attractiveness of existing buildings, which can compete effectively with new projects despite the necessity of additional capital expenditures.



- Rising labour costs and prices of construction materials are forcing total construction costs up.
- Existing buildings are a very attractive alternative to new projects, even considering necessary capital expenditures.



Attractiveness of investment opportunities in Mokotów due to relatively low purchase prices per sqm



Limited new supply due to increasing construction costs

Conclusions

Over the last few years, the face of Mokotów's property market has changed. This post-industrial district was developed into the second largest office district after the city centre. It later experienced a painful saturation of office space and a decrease in its attractiveness, resulting in a high

vacancy rate of ca. 20% in 2015. Currently, we are witnessing the next transformation of Mokotów now that plenty of new housing investments are being built, setting the character of the whole district into balance. Road infrastructure is also in development and a new tram connection to the

metro is planned. Thanks to these processes it is expected that Mokotów after working hours will no longer be an uninhabited desert, but it will grow into an integral part of the city, vibrant over all seven days of the week.



Growing interest of investors in the value-add investment products due to relatively low prices per sqm and value-add potential



Expected further decline in vacancy rates as a result of limited supply and growing demand



Expected rebound in rents in comparison to very low levels at present



Increased activity on the part of residential and hotel developers



Increased interest in housing investments for lease

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